Boyle - Skene Water Association, Inc.

Audited Financial Statements

and

Supplemental Information

Years Ended December 31, 2011 and 2010

with

Report of Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Boyle - Skene Water Association, Inc.
Cleveland, Mississippi

We have audited the accompanying financial statements of Boyle - Skene Water Association, Inc., as of and for the years ended December 31, 2011 and 2010. These financial statements are the responsibility of the Water Association's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis of designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control over financial reporting. Accordingly, we express no such opinion. Our audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements,assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above, present fairly, in all material respects, the respective financial position of Boyle - Skene Water Association, Inc., as of December 31, 2011, and 2010, and the respective changes in financial position and cash flows, thereof and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Governmental Auditing Standards*, we have also issued our report dated October 31, 2013, on our consideration of Boyle - Skene Water Association, Inc's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

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Boyle - Skene Water Association, Inc., has not presented Management's Discussion and Analysis and the Budget Comparison Report, which is not a required part of the financial statements, but is supplemental information required by the Governmental Accounting Standards Board.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Boyle - Skene Water Association Inc.'s financial statements. The additional information section, which includes the Schedule of Information Required by Rural Development / Rural Utilities Service and the Lists of Officers and Directors, are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Bridgers & Goodman, PLLC

Bridgers & Goodman, PLLC
Certified Public Accountants
Vicksburg, Mississippi

October 31, 2013

FINANCIAL STATEMENTS

LIABILITIES AND NET ASSETS	2011	2,010
CURRENT LIABILITIES		
Accounts payable	$ 2,693	$ 4,970
Accrued expense	5,504	5,634
Other accrued liabilities	791	1,718
Meter deposits	40,188	40,246
Current portion of long-term debt	45,562	37,982
Total Current Liabilities	94,738	90,550
LONG TERM DEBT, net of current portion	1,763,684	1,815,688
NET ASSETS		
Invested in capital assets net of related debt	2,072,580	2,159,706
Unrestricted	209,253	159,810
Restricted	48,016	47,904
Total Net Assets	2,329,849	2,367,420
Total Liabilities and Net Assets	$ 4,188,271	$ 4,273,658

BOYLE - SKENE WATER ASSOCIATION, INC.
STATEMENT OF INCOME AND EXPENSE
DECEMBER 31, 2011 and 2010

	2011	2010
REVENUES		
Water sales, repairs, penalties & late charges	$ 637,168	$ 660,584
Interest income	477	1,361
Total Revenue	637,645	661,945
EXPENSES		
Water purchases	0	2,322
Salaries & fringes	189,825	208,514
Repairs and maintenance	44,983	35,847
Utilities	27,936	33,911
Depreciation	131,550	133,800
Interest	95,995	98,037
Insurance	40,990	29,855
Professional fees	4,560	11,320
Office expense	17,467	26,598
Contract labor	56,150	13,464
Miscellaneous	9,692	4,500
Building rent	8,400	8,400
Tax & licenses	15,284	24,264
Travel	3,057	3,124
Truck expense	25,077	13,948
Water analysis fee	4,250	4,462
	675,216	652,366
Net Income or (Loss)	$ (37,571)	$ 9,579

The accompanying notes are an integral part of these financial statements.

BOYLE - SKENE WATER ASSOCIATION, INC.
STATEMENT OF CHANGES IN NET ASSETS
YEARS ENDED DECMEBER 31, 2011 and 2010

BALANCE, December 31, 2009	$ 2,357,841
Net income (loss)	9,579
BALANCE, December 31, 2010	2,367,420
Net incone (loss)	-37,571
BALANCE, December 31, 2011	$ 2,329,849

The accompanying notes are an integral part of these financial statements.

BOYLE - SKENE WATER ASSOCIATION, INC.
STATEMENT OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2011 and 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ (37,571)	$ 9,579
Adjustments to reconciled net income to net cash provided by operating activities:		
Depreciation	131,550	133,800
Accounts receivable - customers	1,327	6,887
Other current assets	(808)	870
Accounts payable	(2,277)	0
Accrued expenses	(1,057)	(58,956)
Customer meter deposits	(58)	(1,803)
NET CASH PROVIDED BY OPERATING ACTIVITIES	91,106	90,377
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital assets purchased	0	0
	0	0
CASH FLOWS FROM FINANCING ACTIVITIES		
Retirement of debt	(44,424)	(41,753)
CASH FLOWS FROM EQUITY ACTIVITIES		
(Increase) decrease in restricted cash	(112)	(27,664)
NET INCREASE (DECREASE) IN CASH	46,570	20,960
CASH AT BEGINNING OF YEAR	146,826	125,866
CASH AT END OF YEAR	$ 193,396	$ 146,826
CASH PAID DURING THE YEAR FOR:		
Interest	$ 95,995	$ 98,037

The accompanying notes are an integral part of these financial statements.

BOYLE - SKENE WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2011 and 2010

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Operation

Boyle - Skene Water Association, Inc., is a Mississippi corporation formed for the purpose of producing and distributing water on a fee basis to its approximately 1481 members.

B. Capital Assets

Property and equipment are recorded at cost or donated value and are depreciated using the straight - line method over the estimated useful lives of the assets, which range from 5 to 40 years.

C. Member Deposits

As provided in the standard membership agreement for water users, member deposits are refundable and are included in current liabilities.

D. Income Taxes

The Water District is recognized for income tax purposes as a non - profit organization exempt from income taxes under Section 501 © (12) of the Internal Revenue Code.

E. Cash and Cash Equivalents

For purposes of the statement of cash flows, the Water Association considers all highly liquid investment instruments purchased with a maturity of one year or less to be cash equivalents. Restricted cash is excluded from this definition.

F. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

NOTE 2. ACCOUNTS RECEIVABLE

At December 31, 2011 and 2010, accounts receivable consisted of:

	2011	2010
Current	$ 39,004	$ 41,622
30 days	5,191	6,832
60 days	15,398	12,466
Total	$ 59,593	$ 60,920

NOTE 3. RESTRICTED DEPOSITS and FUNDED RESERVES

In accordance with the Rural Development loan agreement, the corporation is required to make monthly deposits into a reserve account. The reserve account is for the purpose of meeting loan obligations, major repairs and improvements when other funds are not adequate. The following is a summary of reserve account activity for 2011 and 2010.

	2011	2010
Beginning balance	$ 47,904	$ 20,162
Transfers to reserve	0	27,664
Interest earned	112	78
Withdrawals from reserve	0	0
Ending balance	$ 48,016	$ 47,904

NOTE 4. CAPITAL ASSETS

The following is a summary of capital asset activity for the year ended December 31, 2011.

	Balance 12-31-10	Additions	Deletions	Balance 12-31-11
Depreciable capital assets:				
Wells, pressure tanks and water system	5,548,329			5,548,329
Equipment & vehicles	53,613			53,613
Total depreciable capital assets	5,601,942	0	0	5,601,942
Less accumulated depreciation for:				
Wells, pressure tanks and water system	1,547,431	129,085		1,676,516
Equipment & vehicles	41,135	2,465		43,600
Total accumulated depreciation	1,588,566	131,550	0	1,720,116
Capital Assets, net $	4,013,376	-131,550	0	3,881,826

BOYLE - SKENE WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2011 and 2010

NOTE 5. LONG-TERM DEBT

Long - term debt includes the following loans, as of December 31, 2011.

	Balance 12-31-11
A. USDA loan # - RD 91-01, dated October 1, 1987, for $252,500, 6.375% interest per annum, principal and interest payable in monthly installments of $1,475.	$ 172,278
Less current portion of long-term debt	6,918
	165,360

Current maturities over the next five years and thereafter are as follows:

Year	Amount
2012	7,017
2013	7,592
2014	8,217
2015	8,867
2016	9,517
Thereafter	124,150
	$ 165,360

B. USDA loan # - RD 91-03, dated December 16, 1992, for $865,300, 6.0% interest per annum, principal and interest payable in monthly installments of $4,829.	$ 686,578
Less current portion of long-term debt	17,224
	669,355

Current maturities over the next five years and thereafter are as follows:

Year	Amount
2012	16,371
2013	17,021
2014	17,736
2015	18,336
2016	18,961
Thereafter	580,930
	$ 669,355

	Balance 12/31/2011
C. USDA loan # - RD 91-05, dated July 2, 2001, for $866,900, 4.50% interest per annum, principal and interest payable in monthly installments of $3,980.	$ 777,608
Less current portion of long-term debt	13,036
	764,572

Current maturities over the next five years and thereafter are as follows:

Year	Amount
2012	12,951
2013	13,501
2014	14,116
2015	14,796
2016	15,421
Thereafter	693,787
	764,572

D. USDA loan # -RD 91-07, dated May 24, 2006, for $149,000, 4.25% interest per annum, principal and interest payable in monthly installments of $653.	141,428
Less current portion of long-term debt	1,861
	139,567

Current maturities over the next five years and thereafter are as follows:

Year	Amount
2012	2,800
2013	3,425
2014	4,085
2015	4,785
2016	5,385
Thereafter	119,087
	139,567

BOYLE - SKENE WATER DISTRICTASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2011 and 2010

	Balance 12/31/2011
E. Cleveland State Bank loan #9071891 dated July 27, 2010, for $6157.63, 7.0% interest per annum, principal and interest payable in monthly installments of $275.37.	1,891
Less current portion of long-term debt	1,891
	$ 0

F. Cleveland State Bank loan #325670 dated July 27, 2010, for $35,642.35, 5.0% interest per annum, principal and interest payable in monthly installments of $500.	$ 29,463
Less current portion of long-term debt	4,632
	24,831

Current maturities over the next five years and thereafter are as follows:

Year	Amount
2012	4,632
2013	20,199
	$ 24,831

The following is a summary of changes in long-term liabilities and obligations for the year ended December 31, 2011:

		Balance 12-31-10	Additions	Reductions	Balance 12-31-11	Amount due within one year
USDA #-RD91-01	$	178,769		6,492	172,278	6,918
USDA #-RD91-03		702,802		16,223	686,578	17,224
USDA #-RD91-05		790,069		12,163	777,606	13,036
USDA #-RD91-07		143,213		1,784	141,428	1,861
CSU #9071891		4,946		3,055	1,891	1,891
CSU #325670		33,870		4,405	29,465	4,632
	$	1,853,669	0	44,122	1,809,246	45,562

NOTE 6: CONCENTRATION OF CREDIT RISKS.

Boyle - Skene Water Association, Inc., derives the majority of its income from it's members. The financial condition of Boyle -Skene Water Association, Inc., could be adversely affected by local economic conditions or catastrophic equipment failure.

NOTE 7: CUSTODIAL CREDIT RISK - DEPOSITS

Custodial credit risk is the risk that in the event of the failure of a financial institution, the association will not be able to recover deposits or collateral securities that are in the possession of an outside party. Boyle - Skene Water Association, Inc., does not have a formal policy for custodial credit risk. The current coverage offered by the FDIC is generally $250,000, per financial institution.

SUPPLEMENTAL INFORMATION

BOYLE - SKENE WATER ASSOCIATION, INC.
SCHEDULE OF ADDITIONAL INFORMATION
REQUIRED BY RURAL DEVELOPMENT / RURAL
UTILITIES SERVICE
YEARS ENDED DECEMBER 31, 2011 and 2010

Insurance Coverage

Insurance policies in force as of December 31, 2011, are as follows:

Type	Insurance Agency	Coverage	Expiration
Commercial - Multi - peril	Koonce Agency	1,000,000	7/9/2012
Workers Comp	Koonce Agency	1,000,000	7/9/2012
Auto	Koonce Agency	1,000,000	6/28/2012
Directors & Officers Liability	Koonce Agency	3,000,000	7/14/2012

Present Water Rates

The most commonly used water rates as of December 31, 2011 are as follows:

Residential	Commercial
0 - 2,000 gallons - $18.00	0 - 2,000 gallons - $18.00
over 2,000 gallons - $3.00/1,000 gal.	over 2,000 gallons - $3.00/1,000 gal.

Number of Active Residential and Commercial Users

Residential and commercial water users at December 31, 2011 are as follows:

Residential	1,452
Commercial	29
	1,481

BOYLE - SKENE WATER ASSOCIATION, INC.
OFFICERS AND DIRECTORS
YEARS ENDED DECEMBER 31, 2011 and 2010

	Term
(b) (6), (b) (7)(C) [redacted]	5/11 - 5/14
	6/09 - 6/12
	5/10 - 5/13
(b) (6), (b) (7)(C) [redacted]	5/11 - 5/14
	5/10 - 5/13

SPECIAL REPORTS

BRIDGERS & GOODMAN, PLLC
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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Boyle - Skene Water Association, Inc.
Cleveland, Mississippi

We have audited the financial statements of Boyle - Skene Water Association, Inc., as of and for the years ended December 31, 2011 and 2010, and have issued our report dated October 31, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Boyle - Skene Water Association, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Boyle - Skene Water Association, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and rrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as 11-1 and 11-2, to be material weaknesses.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether Boyle - Skene Water Association, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Organization's management and it is not intended to be and should not be used by anyone other than these specified parties.

Bridgers & Goodman, PLLC
Certified Public Accountants
Vicksburg, Mississippi
October 31, 2013

BOYLE - SKENE WATER ASSOCIATION, INC.
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 30, 2011

1-11 **FINDING**

The well meters are not being read on a monthly basis. These readings are the starting point of the internnal control system relating to water usage, water loss peercentage, accuracy of billings and water sales. The computer system has a series of reports that deal with the aforementioned, but they cannot be used as a management tool, unless the association has acurate well readings each month.

Recommendation

That the Board require that the meters on each well be read on a monthly basis and that applicable reports be provided at each monthly board meeting.

Response

We will follow the recommendation that the well meters be read each month. The readings will be entered into the computer on a monthly basis.

2-11 **FINDING**

The association does not have a written policy relating to the usage of debit cards. Currently, two employees have been issued debit cards. We requested receipts on 50 transactions for testing and received 12. We performed tests of allowable cost on the 12 receipts and all qualiified as allowable cost.

Recommendation

That the Board draft and approve a policy relating to the usage of debit cards, including a requirement relating to maintaining receipts on file.

Response

We will draft and approve a policy relating to the usage of debit cards.