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**BRONSTON WATER ASSOCIATION, INC.**

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**Audited Financial Statements  
for the years ended December 31, 2019 and 2018**

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**Barry D. Daulton, CPA, PSC**  
***Certified Public Accountant***  
**423 East Mount Vernon Street**  
**P.O. Box 1424**  
**Somerset, Kentucky 42502**  
**(606) 679-9344**

## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors  
Bronston Water Association, Inc.  
Bronston, KY 42518

I have audited the accompanying financial statements of Bronston Water Association, Inc. (a non-profit organization), which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

My responsibility is to express an opinion on these financial statements based on my audit, I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### **Opinion**

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bronston Water Association, Inc., as of December 31, 2019 and 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

*Barry D. Daulton, CPA, PSC*

Somerset, Kentucky  
November 6, 2020

**Bronston Water Association, Inc.**  
**Statements of Net Assets**  
**December 31, 2019 and 2018**

	<b>2019</b>	<b>2018</b>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 181,730	\$ 174,141
Short-term cash investments	787,562	821,183
Accounts receivable	68,468	72,649
Inventory	61,581	-
Prepaid expenses	2,501	1,975
	1,101,842	1,069,948
<b>Property, Plant and Equipment</b>		
Property, plant and equipment	9,923,267	9,417,036
Accumulated depreciation	(3,407,083)	(3,178,999)
	6,516,184	6,238,037
<b>Other Assets</b>		
Construction period interest	17,402	17,402
Accumulated amortization	(6,960)	(6,525)
Restricted cash accounts	246,031	242,426
	256,473	253,303
<b>Total Assets</b>	\$ 7,874,499	\$ 7,561,288
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 22,958	\$ 28,306
Payroll and related withholdings	3,997	3,739
Accrued interest payable	62,606	63,485
Other accrued liabilities	20,788	18,697
Customer deposits	34,401	33,946
Current portion of long-term debt	44,770	45,510
	189,520	193,683
<b>Long-term Liabilities</b>		
Long-term debt	3,608,637	3,653,407
Net of current portion	(44,770)	(45,510)
	3,563,867	3,607,897
<b>Total Liabilities</b>	3,753,387	3,801,580
<b>Net Assets</b>		
Contributions in aid of construction	4,970,597	4,600,311
Unrestricted net assets	(849,485)	(840,603)
	4,121,112	3,759,708
<b>Total Liabilities and Net Assets</b>	\$ 7,874,499	\$ 7,561,288

See independent auditor's report and notes to financial statements.

**Bronston Water Association, Inc.**  
**Statements of Activities**  
**For the years ended December 31, 2019 and 2018**

	<b>2019</b>	<b>2018</b>
<b>Operating revenues</b>		
Sales to customers	\$ 817,900	\$ 754,023
Other operating revenues	18,049	16,472
Total revenue	835,949	770,495
<b>Cost of water sold</b>		
Water purchases	243,083	243,916
Water testing	4,221	3,994
Salaries and wages	147,368	137,552
Materials and supplies	20,659	52,265
Depreciation	228,084	215,354
Amortization	435	435
Total cost of water sold	643,850	653,516
Operating profit	192,099	116,979
<b>Support and administrative expenses</b>		
Directors' fees	8,000	8,200
Payroll taxes	15,134	10,215
Employee benefits	7,164	-
Professional services	12,350	12,350
Insurance	16,681	16,020
Utilities and telephone	6,407	6,779
Office expense and postage	18,353	18,887
Transportation	9,788	9,040
PSC assessment	1,507	1,492
Other taxes and licenses	1,111	1,111
Merchant fees	9,059	7,561
Bad debts expense	3,842	5,291
Repairs and maintenance	1,775	1,775
Refunds	609	256
Total support and administrative expenses	111,780	98,977
Change in net assets before other income and expenses	80,319	18,002
<b>Other income and (expenses)</b>		
Interest income	6,209	6,913
Interest expense	(95,410)	(96,885)
Total other income and expenses	(89,201)	(89,972)
Change in unrestricted net assets	(8,882)	(71,970)
Unrestricted net assets beginning of year	(840,603)	(768,633)
Unrestricted net assets end of year	\$ (849,485)	\$ (840,603)

See independent auditor's report and notes to financial statements.

**Bronston Water Association, Inc.**  
**Statements of Cash Flows**  
**For the years ended December 31, 2019 and 2018**

	<b>2019</b>	<b>2018</b>
<b>Cash flows from operating activities</b>		
Change in net assets	\$ (8,882)	\$ (71,970)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	228,519	215,789
(Increase) decrease in operating assets		
Accounts receivable	(4,181)	3,197
Prepaid insurance	526	36
Inventory	(61,581)	
Increase (decrease) in operating liabilities		
Accounts payable	(5,348)	8,022
Accrued withholdings	258	937
Accrued interest	(879)	8,041
Other current liabilities	2,091	(1,767)
Customer deposits	455	(3,375)
	150,978	158,910
<b>Cash flows from investing activities</b>		
Short-term cash investments, net	33,621	(19,214)
Payments for property, plan and equipment (net)	(506,231)	(631,106)
	(472,610)	(650,320)
<b>Cash flows from financing activities</b>		
Changes in long-term debt	(44,773)	(2,731)
Contributions in aid of construction	365,599	461,536
Tap-on fees received, net	12,000	9,000
	332,826	467,805
Net increase (decrease) in cash and cash equivalents	11,194	(23,605)
Cash and cash equivalents beginning of year	416,567	440,172
Cash and cash equivalents end of year	\$ 427,761	\$ 416,567
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	\$ 96,289	\$ 88,844

See independent auditor's report and notes to financial statements.

**Bronston Water Association, Inc.**  
**Statement of Functional Expenses**  
**For the year ended December 31, 2019**

	<u>Program</u>	<u>Management and General</u>	<u>Total Expenses</u>
Water purchases	\$ 243,083	\$ -	\$ 243,083
Water testing	4,221	-	4,221
Salaries and wages	103,158	44,210	147,368
Materials and supplies	20,659	-	20,659
Depreciation	228,084	-	228,084
Amortization	435	-	435
Directors' fees	-	8,000	8,000
Payroll taxes	10,594	4,540	15,134
Employee benefits	5,015	2,149	7,164
Professional services	-	12,350	12,350
Insurance	11,677	5,004	16,681
Utilities and telephone	-	6,408	6,408
Office expense and postage	12,847	5,506	18,353
Transportation	9,788	-	9,788
PSC assessment	1,507	-	1,507
Other taxes and licenses	1,111	-	1,111
Merchant fees	9,058	-	9,058
Bad debts expense	3,842	-	3,842
Repairs and maintenance	1,775	-	1,775
Refunds	609	-	609
Interest expense	95,410	-	95,410
	<u>\$ 762,873</u>	<u>\$ 88,167</u>	<u>\$ 851,040</u>
Total functional expenses	<u>\$ 762,873</u>	<u>\$ 88,167</u>	<u>\$ 851,040</u>

See independent auditor's report and notes to financial statements.



**Bronston Water Association, Inc.**  
**Notes to Financial Statements**  
**For the years ended December 31, 2019 and 2018**

**Summary of Significant Accounting Policies**

**Nature of Operations**

Bronston Water Association, Inc. was formed to provide water utility service to the residents of Bronston, Kentucky and the surrounding service area in a safe and economically efficient manner. Operations are funded by billing members for water service provided at rates approved by the Public Service Commission.

**Basis of Accounting**

The Association prepares its financial statements on the accrual basis of accounting under which revenues are recognized when earned and expenses are recognized when incurred. The Association's accounting policies conform to generally accepted accounting principles for a non-profit organization.

**Financial Statement Presentation**

The Association has adopted Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Association is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. The Association also follows ASU 2016-18, which requires restricted cash to be included as a component of total cash and cash equivalents as presented in the statement of cash flows.

**Cash and Cash Equivalents**

For Statement of Cash Flows purposes the Association considers all cash accounts and certificates of deposit with an initial term of 90 days or less as cash and cash equivalents. Restricted cash is also included as a component of cash and cash equivalents.

**Short-term Cash Investments**

Short-term cash investments consist of certificates of deposit with an initial term in excess of ninety days. These investments are stated at face value on December 31, 2019.

**Bronston Water Association, Inc.**  
**Notes to Financial Statements, continued**  
**For the years ended December 31, 2019 and 2018**

**Summary of Significant Accounting Policies, continued**

**Accounts Receivable**

Accounts receivable are stated at the face amount, which approximates the market value. The Association extends credit to substantially all of its members. Late fees are assessed on accounts which are not paid by the due date.

The Association's billing system automatically removes customer accounts when they become 90 days in arrears. Any accounts determined to be uncollectible are recorded as revenue in the event they are eventually paid by the customer. It has not been the Association's policy to maintain a reserve for doubtful accounts based on collection history and the comparatively small balance of accounts in arrears.

**Property, Plant and Equipment**

All fixed assets of the Association with an estimated useful life exceeding one year are recorded at historical cost. Depreciation of fixed assets for the Association is provided using the straight-line method over the estimated useful lives of the assets ranging from seven to forty years.

**Customer Deposits**

Customer deposits represent amounts deposited by members when signing up for water utility service. These amounts are refundable to the customer when they separate service. In the event a customer account becomes uncollectible, the Association will apply the deposit against the outstanding balance.

**Liability for Compensated Absences**

The Association's full-time employees are provided vacation time dependent upon the length of service of the employee. The Association does not compensate employees for unused vacation time. Due to the relatively small size of the staff, any accrual for compensated absences which is not recorded would not be material to the financial statements at December 31, 2019 or 2018.

**Bronston Water Association, Inc.**  
**Notes to Financial Statements, continued**  
**For the years ended December 31, 2019 and 2018**

**Summary of Significant Accounting Policies, concluded**

**Contributions in Aid of Construction**

Contributions in aid of construction represent amounts for grants received, tap-on fees from customers and membership fees received from Association members. These amounts are not refundable.

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates, and those differences could be material.

**Income Taxes**

The Association is a not-for-profit organization that is exempt from income taxes under Section 501(c)(12) of the Internal Revenue Code.

**Comparative Statements**

Certain prior year amounts have been restated to conform to current year classification.

**Collateralization**

At December 31, 2019, the Association had cash and short-term cash investments with a carrying value of \$1,215,323. Of the bank balance, \$250,000 was covered by FDIC insurance. The remaining balance was collateralized by pledged securities held by the bank and pledged to cover the deposits of the Association.

**Depreciation Reserve Account**

The Association is required to deposit \$235, \$375 and \$245 per month into Depreciation Reserve Accounts in accordance with the terms of the RECD financing agreements. The deposits will continue until balances of \$25,900, \$45,000 and \$29,400, respectively, are achieved and maintained. There is an additional Depreciation Reserve requiring quarterly deposits of \$480 until a balance on \$19,200 is achieved and maintained. Withdrawals from the depreciation reserve accounts are restricted as to purpose and may only be made after receiving approval from RECD. At December 31, 2019, all of these accounts were sufficiently funded.

**Bronston Water Association, Inc.**  
**Notes to Financial Statements, continued**  
**For the years ended December 31, 2019 and 2018**

<b>Property, Plant and Equipment</b>	<b>2019</b>	<b>2018</b>
Land and land rights	\$ 132,500	\$ 132,500
Transmission and distribution system	8,888,171	8,510,583
Meters and installations	780,643	658,888
Office building and equipment	<u>121,953</u>	<u>115,065</u>
	9,923,267	9,417,036
Accumulated depreciation	<u>(3,407,083)</u>	<u>(3,178,999)</u>
<b>Total Property, Plant and Equipment</b>	<b><u>\$ 6,516,184</u></b>	<b><u>\$6,238,037</u></b>

**Long-Term Debt**

Long-term debt outstanding consists of bonds issued in 2003 in the original amount of \$418,000 and maturing in 2043; a real estate mortgage issued in 2008 in the original amount of \$850,000 and maturing in 2048; a real estate mortgage issued in 2010 in the original amount of \$462,000 and maturing in 2050; and a mortgage issued in 2014 in the amount of \$787,000 and maturing in 2054; and a real estate mortgage issued in 2017 in the amount of \$1,339,293 (increased by \$40,707 in 2018) maturing in 2057. All mortgages are issued through USDA Rural Utilities Service RECD. Interest is 4.25% for the 2003 issue, 4.125% for the 2008 liability, 2.50% for the 2010 liability, and 1.875% for the 2014 and 2017 liabilities. The liabilities are secured by the continuing operations and revenues of the Association.

Scheduled maturities of long-term debt are as follows:

	<b>Principal</b>
2020	\$ 44,770
2021	74,056
2022	76,027
2023	78,058
2024	80,216
2025 - 2057	<u>3,255,510</u>
<b>Total long term debt</b>	<b><u>\$3,608,637</u></b>

**Bronston Water Association, Inc.**  
**Notes to Financial Statements, concluded**  
**For the years ended December 31, 2019 and 2018**

**Economic Dependency**

The Association purchases 100% of its water under a contract with the Monticello Utility Commission. The loss of this source of water could severely affect the Association's ability to serve its members.

**Subsequent Events**

The Association has evaluated and considered the need to recognize or disclose subsequent events through November 6, 2020, which represents the date that these financial statements were available to be issued. Subsequent events past this date, as they pertain to the year ended December 31, 2019, have not been evaluated by the Association.

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Certified Public Accountant  
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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

To the Board of Directors  
Bronston Water Association, Inc.  
Bronston, KY 42518

I have audited the financial statements of Bronston Water Association, Inc. (a non-profit organization) as of and for the years ended December 31, 2019 and 2018, and have issued my report thereon dated November 6, 2020. I conducted my audits 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 of Bronston Water Association, Inc. is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing my audits, I considered the Association's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Association's internal control over financial reporting.

My 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, I identified certain deficiencies in internal control over financial reporting that I consider to be significant deficiencies.

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 corrected on a timely basis.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. I noted no matters I consider to be a significant deficiency.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Association's financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

I noted certain matters that I reported to management of the Association in a separate letter dated November 6, 2020.

This report is intended solely for the information and use of management, Board members, others within the entity and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

***Barry D. Daulton, CPA, PSC***

Somerset, Kentucky  
November 6, 2020

**Barry D. Daulton, CPA, PSC**  
*Certified Public Accountant*  
423 East Mount Vernon Street  
P.O. Box 1424  
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(606) 679-9344

November 6, 2020

To the Board of Directors  
Bronston Water Association, Inc.  
Bronston, KY 42518

In planning and performing my audit of the financial statements of Bronston Water Association, Inc. for the year ended December 31, 2019, I considered the Association's internal control in order to determine my auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control. Accordingly, I do not express an opinion on the effectiveness of the Association's internal control.

However, during my audit, I became aware of matters that are opportunities for strengthening internal control and operating efficiency. This letter does not affect my report dated November 6, 2020 on the financial statements of the Association.

**Organizational Structure**

The size of the Association's accounting and administrative staff precludes certain internal controls that would be preferred if the staff were large enough to provide optimum segregation of duties. Hiring of additional office staff has provided additional segregation and strengthening of internal controls, however the Board of Directors must remain involved in the financial affairs of the Association to provide oversight and independent review functions.

This report is intended solely for the information and use of the Board, management and others within the entity and is not intended to be and should not be used by anyone other than those specified parties.

***Barry D. Daulton, CPA, PSC***

Somerset, Kentucky 42501



**BARRY D. DAULTON, CPA, PSC**  
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**SOMERSET, KENTUCKY 42502**  
**(606) 679-9344**

November 6, 2020

To the Board of Directors  
Bronston Water Association, Inc.  
Bronston, Kentucky 42518

I have audited the financial statements of the Bronston Water Association, Inc. for the years ended December 31, 2019 and 2018, and have issued my report thereon dated November 6, 2020. Professional standards require that I provide you with information about my responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of my audit. I have communicated such information in my letter to you dated September 7, 2020. Professional standards also require that I communicate to you the following information related to my audit.

**Significant Audit Findings**

**Qualitative Aspects of Accounting Practices**

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Bronston Water Association, Inc. are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2019. I noted no transactions entered into by the Association during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. I am not aware of any sensitive or material estimates affecting the financial statements.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statements users. I am not aware of any sensitive disclosures affecting the financial statements.

### **Difficulties encountered in Performing the Audit**

I encountered no significant difficulties in dealing with management in performing and completing my audit.

### **Corrected and Uncorrected Misstatements**

Professional standards require me to accumulate all misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole. (There were no misstatements noted.)

### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to my satisfaction, that could be significant to the financial statements or the auditor's report. I am pleased to report that no such disagreements arose during the course of my audit.

### **Management Representations**

I have requested certain representations from management that are included in the management representation letter dated November 6, 2020.

### **Management Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Association's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, my professional standards require the consulting accountant to check with me to determine that the consultant has all the relevant facts. To my knowledge, there were no such consultations with other accountants.

### **Other Audit Findings or Issues**

I generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Association's auditors. However, these discussions occurred in the normal course of my professional relationship and responses were not a condition to my retention.

## Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U. S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to my audit of the financial statements. I compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Board and members of management of the Bronston Water Association, Inc. and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in blue ink that reads "Barry D. Daulton, CPA". The signature is written in a cursive style with a large initial "B" and "D".

Barry D. Daulton, CPA