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BRONSTON WATER ASSOCIATION, INC.

**Audited Financial Statements
for the years ended December 31, 2020 and 2019**

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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, 2020 and 2019, 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, 2020 and 2019, 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 8, 2021

Bronston Water Association, Inc.
Statements of Net Assets
December 31, 2020 and 2019

	2020	2019
Assets		
Current Assets		
Cash and cash equivalents	\$ 157,335	\$ 181,730
Short-term cash investments	787,511	787,562
Accounts receivable	71,401	68,468
Inventory	60,196	61,581
Prepaid expenses	1,798	2,501
Total current assets	1,078,241	1,101,842
Property, Plant and Equipment		
Property, plant and equipment	9,959,654	9,923,267
Accumulated depreciation	(3,638,381)	(3,407,083)
Net property, plant and equipment	6,321,273	6,516,184
Other Assets		
Construction period interest	17,402	17,402
Accumulated amortization	(7,395)	(6,960)
Restricted cash accounts	255,916	246,031
Total other assets	265,923	256,473
Total Assets	\$ 7,665,437	\$ 7,874,499
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 24,621	\$ 22,958
Payroll and related withholdings	2,942	3,997
Accrued interest payable	63,828	62,606
Other accrued liabilities	23,115	20,788
Customer deposits	31,591	34,401
Current portion of long-term debt	74,056	44,770
Total current liabilities	220,153	189,520
Long-term Liabilities		
Long-term debt	3,537,246	3,608,637
Net of current portion	(74,056)	(44,770)
Total long-term liabilities	3,463,190	3,563,867
Total Liabilities	3,683,343	3,753,387
Net Assets		
Contributions in aid of construction	4,927,855	4,970,597
Unrestricted net assets	(945,761)	(849,485)
Total net assets	3,982,094	4,121,112
Total Liabilities and Net Assets	\$ 7,665,437	\$ 7,874,499

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

Bronston Water Association, Inc.
Statements of Activities
For the years ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Operating revenues		
Sales to customers	\$ 803,826	\$ 817,900
Other operating revenues	12,668	18,049
Total revenue	<u>816,494</u>	<u>835,949</u>
Cost of water sold		
Water purchases	318,360	243,083
Water testing	6,030	4,221
Salaries and wages	135,276	147,368
Materials and supplies	31,199	20,659
Depreciation	231,298	228,084
Amortization	435	435
Total cost of water sold	<u>722,598</u>	<u>643,850</u>
Operating profit	93,896	192,099
Support and administrative expenses		
Directors' fees	8,050	8,000
Payroll taxes	11,212	15,134
Employee benefits	6,654	7,164
Professional services	13,100	12,350
Insurance	17,867	16,681
Utilities and telephone	5,473	6,407
Office expense and postage	14,198	18,353
Transportation	6,773	9,788
PSC assessment	1,672	1,507
Other taxes and licenses	1,906	1,111
Merchant fees	7,470	9,059
Bad debts expense	2,348	3,842
Repairs and maintenance	1,674	1,775
Refunds	519	609
Total support and administrative expenses	<u>98,916</u>	<u>111,780</u>
Change in net assets before other income and expenses	(5,020)	80,319
Other income and (expenses)		
Interest income	3,928	6,209
Interest expense	<u>(95,184)</u>	<u>(95,410)</u>
Total other income and expenses	<u>(91,256)</u>	<u>(89,201)</u>
Change in unrestricted net assets	(96,276)	(8,882)
Unrestricted net assets beginning of year	<u>(849,485)</u>	<u>(840,603)</u>
Unrestricted net assets end of year	<u>\$ (945,761)</u>	<u>\$ (849,485)</u>

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

Bronston Water Association, Inc.
Statements of Cash Flows
For the years ended December 31, 2020 and 2019

	2020	2019
Cash flows from operating activities		
Change in net assets	\$ (96,276)	\$ (8,882)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	231,733	228,519
(Increase) decrease in operating assets		
Accounts receivable	(2,933)	(4,181)
Prepaid insurance	703	526
Inventory	1,385	(61,581)
Increase (decrease) in operating liabilities		
Accounts payable	1,663	(5,348)
Accrued withholdings	(1,055)	258
Accrued interest	1,222	(879)
Other current liabilities	2,327	2,091
Customer deposits	(2,810)	455
Net cash provided by operating activities	135,959	150,978
Cash flows from investing activities		
Short-term cash investments, net	(51)	33,621
Payments for property, plan and equipment (net)	(36,387)	(506,231)
Net cash provided by investing activities	(36,438)	(472,610)
Cash flows from financing activities		
Changes in long-term debt	(71,391)	(44,773)
Contributions in aid of construction	(61,480)	365,599
Tap-on fees received, net	18,840	12,000
Net cash provided by financing activities	(114,031)	332,826
Net increase (decrease) in cash and cash equivalents	(14,510)	11,194
Cash and cash equivalents beginning of year	427,761	416,567
Cash and cash equivalents end of year	\$ 413,251	\$ 427,761
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	\$ 96,962	\$ 96,289

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

Bronston Water Association, Inc.
Statement of Functional Expenses
For the year ended December 31, 2020

	<u>Program</u>	<u>Management and General</u>	<u>Total Expenses</u>
Water purchases	\$ 318,360	\$ -	\$ 318,360
Water testing	6,030	-	6,030
Salaries and wages	94,693	40,583	135,276
Materials and supplies	31,199	-	31,199
Depreciation	231,298	-	231,298
Amortization	435	-	435
Directors' fees	-	8,050	8,050
Payroll taxes	7,848	3,364	11,212
Employee benefits	4,658	1,996	6,654
Professional services	-	13,100	13,100
Insurance	12,507	5,360	17,867
Utilities and telephone	-	5,473	5,473
Office expense and postage	9,939	4,259	14,198
Transportation	6,773	-	6,773
PSC assessment	1,672	-	1,672
Other taxes and licenses	1,906	-	1,906
Merchant fees	7,470	-	7,470
Bad debts expense	2,348	-	2,348
Repairs and maintenance	1,674	-	1,674
Refunds	519	-	519
Interest expense	95,184	-	95,184
	<u> </u>	<u> </u>	<u> </u>
Total functional expenses	<u>\$ 834,513</u>	<u>\$ 82,185</u>	<u>\$ 916,698</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, 2020 and 2019

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, 2020.

Bronston Water Association, Inc.
Notes to Financial Statements, continued
For the years ended December 31, 2020 and 2019

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, 2020 or 2019.

Bronston Water Association, Inc.
Notes to Financial Statements, continued
For the years ended December 31, 2020 and 2019

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, 2020, the Association had cash and short-term cash investments with a carrying value of \$1,200,762. 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, 2020, all of these accounts were sufficiently funded.

Bronston Water Association, Inc.
Notes to Financial Statements, continued
For the years ended December 31, 2020 and 2019

Property, Plant and Equipment	2020	2019
Land and land rights	\$ 132,500	\$ 132,500
Transmission and distribution system	8,888,171	8,888,171
Meters and installations	812,280	780,643
Office building and equipment	<u>126,703</u>	<u>121,953</u>
	9,959,654	9,923,267
Accumulated depreciation	<u>(3,638,381)</u>	<u>(3,407,083)</u>
Total Property, Plant and Equipment	<u>\$ 6,321,273</u>	<u>\$6,516,184</u>

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:

	Principal
2021	74,056
2022	76,027
2023	78,058
2024	80,216
2025	83,233
2025 - 2057	<u>3,145,656</u>
Total long term debt	<u>\$3,537,246</u>

Bronston Water Association, Inc.
Notes to Financial Statements, concluded
For the years ended December 31, 2020 and 2019

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 8, 2021, 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, 2020, have not been evaluated by the Association.

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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, 2020 and 2019, and have issued my report thereon dated November 8, 2021. 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 8, 2021.

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 8, 2021

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

November 8, 2021

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, 2020, 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 8, 2021 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