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May 8, 2022

To the Board of Directors
Bronston Water Association, Inc.
Bronston, KY 42018

BRONSTON WATER ASSOCIATION, INC.

For the year ended December 31, 2021 and 2020

Balance Sheet, Statement of Income, Statement of Retained Earnings, and Statement of Cash Flows

and the accompanying notes to the financial statements

for the years ended December 31, 2021 and 2020

and the accompanying notes to the financial statements

for the years ended December 31, 2021 and 2020

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for the years ended December 31, 2021 and 2020

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Association, Inc. for the year ended Dec

ember 31, 2021 and 2020

in order to determine my opinion

on the financial statements and not to pr

opinion on the effectiveness of the internal

controls, however, during my audit, I became aw

are of a material weakness in the internal

controls that could be considered a

material weakness in the internal controls

of the Association, Inc. for the year ended

December 31, 2021 and 2020

and the accompanying notes to the financial

statements for the years ended December 31,

2021 and 2020

and the accompanying notes to the financial

statements for the years ended December 31,

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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, 2021 and 2020, 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.

Bronston Water Association, Inc.
Notes to Financial Statements, continued
For the years ended December 31, 2021 and 2020

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.

Inventory

Inventory is valued at cost and consists of common items for water line repair; pipes, valves, couplings, meters, etc.

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, 2021 or 2020.

Bronston Water Association, Inc.
Notes to Financial Statements
For the years ended December 31, 2021 and 2020

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, 2021.

Bronston Water Association, Inc.
Statement of Functional Expenses
For the year ended December 31, 2021

	<u>Program</u>	<u>Management and General</u>	<u>Total Expenses</u>
Water purchases	\$ 260,699	\$ -	\$ 260,699
Water testing	4,203	-	4,203
Salaries and wages	92,133	39,486	131,619
Materials and supplies	25,823	-	25,823
Depreciation	231,145	-	231,145
Amortization	435	-	435
Directors' fees	-	8,700	8,700
Payroll taxes	7,048	3,021	10,069
Employee benefits	-	5,942	5,942
Professional services	-	12,650	12,650
Insurance	12,622	5,410	18,032
Utilities and telephone	6,240	2,674	8,914
Office expense and postage	13,581	5,821	19,402
Transportation	6,927	-	6,927
PSC assessment	2,744	-	2,744
Other taxes and licenses	928	-	928
Bad debts expense	4,471	-	4,471
Refunds	360	-	360
Interest expense	87,404	-	87,404
	<u>\$ 758,170</u>	<u>\$ 83,704</u>	<u>\$ 840,467</u>
Total functional expenses	<u>\$ 758,170</u>	<u>\$ 83,704</u>	<u>\$ 840,467</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, 2021 and 2020

	2021	2020
Cash flows from operating activities		
Change in net assets	\$ 11,570	\$ (96,276)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	231,580	231,733
(Increase) decrease in operating assets		
Accounts receivable	2,149	(2,933)
Prepaid insurance	(782)	703
Inventory	(24,504)	1,385
Increase (decrease) in operating liabilities		
Accounts payable	(1,806)	1,663
Accrued withholdings	3,257	(1,055)
Accrued interest	414	1,222
Other current liabilities	2,055	2,327
Customer deposits	(9,375)	(2,810)
Net cash provided by operating activities	214,558	135,959
Cash flows from investing activities		
Short-term cash investments, net	(24,363)	(51)
Payments for property, plan and equipment (net)	(649,265)	(36,387)
Net cash provided by investing activities	(673,628)	(36,438)
Cash flows from financing activities		
Payments on long-term debt	(74,700)	(71,391)
Proceeds from long-term debt	555,000	
Contributions in aid of construction	76,625	(61,480)
Tap-on fees received, net	26,942	18,840
Net cash provided by financing activities	583,867	(114,031)
Net increase (decrease) in cash and cash equivalents	124,797	(14,510)
Cash and cash equivalents beginning of year	413,251	427,761
Cash and cash equivalents end of year	\$ 538,048	\$ 413,251
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	\$ 86,990	\$ 96,962

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

Bronston Water Association, Inc.
Statements of Activities
For the years ended December 31, 2021 and 2020

	2021	2020
Operating revenues		
Sales to customers	\$ 843,201	\$ 803,826
Other operating revenues	6,659	12,668
Total revenue	849,860	816,494
Cost of water sold		
Water purchases	260,699	318,360
Water testing	4,203	6,030
Salaries and wages	131,619	135,276
Materials and supplies	25,823	31,199
Depreciation	231,145	231,298
Amortization	435	435
Total cost of water sold	653,924	722,598
Operating profit	195,936	93,896
Support and administrative expenses		
Directors' fees	8,700	8,050
Payroll taxes	10,069	11,212
Employee benefits	5,942	6,654
Professional services	12,650	13,100
Insurance	18,032	17,867
Utilities and telephone	8,914	5,473
Office expense and postage	19,402	14,198
Transportation	6,927	6,773
Regulatory assessments	2,744	1,672
Other taxes and licenses	928	1,906
Merchant fees	-	7,470
Bad debts expense	4,471	2,348
Repairs and maintenance	-	1,674
Refunds	360	519
Total support and administrative expenses	99,139	98,916
Change in net assets before other income and expenses	96,797	(5,020)
Other income and (expenses)		
Interest income	2,177	3,928
Interest expense	(87,404)	(95,184)
Total other income and expenses	(85,227)	(91,256)
Change in unrestricted net assets	11,570	(96,276)
Unrestricted net assets beginning of year	(945,761)	(849,485)
Unrestricted net assets end of year	\$ (934,191)	\$ (945,761)

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

Bronston Water Association, Inc.
Statements of Net Assets
December 31, 2021 and 2020

	2021	2020
Assets		
Current Assets		
Cash and cash equivalents	\$ 250,518	\$ 157,335
Short-term cash investments	811,874	787,511
Accounts receivable	69,252	71,401
Inventory	84,700	60,196
Prepaid expenses	2,580	1,798
Total current assets	1,218,924	1,078,241
Property, Plant and Equipment		
Property, plant and equipment	10,608,919	9,959,654
Accumulated depreciation	(3,869,526)	(3,638,381)
Net property, plant and equipment	6,739,393	6,321,273
Other Assets		
Construction period interest	17,402	17,402
Accumulated amortization	(7,830)	(7,395)
Restricted cash accounts	287,530	255,916
Total other assets	297,102	265,923
Total Assets	\$ 8,255,419	\$ 7,665,437
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 22,815	\$ 24,621
Payroll and related withholdings	5,749	2,942
Accrued interest payable	64,242	63,828
Other accrued liabilities	25,618	23,115
Customer deposits	22,216	31,591
Current portion of long-term debt	75,193	74,056
Total current liabilities	215,833	220,153
Long-term Liabilities		
Long-term debt	4,019,547	3,537,246
Net of current portion	(75,193)	(74,056)
Total long-term liabilities	3,944,354	3,463,190
Total Liabilities	4,160,187	3,683,343
Net Assets		
Contributions in aid of construction	5,029,423	4,927,855
Unrestricted net assets	(934,191)	(945,761)
Total net assets	4,095,232	3,982,094
Total Liabilities and Net Assets	\$ 8,255,419	\$ 7,665,437

See independent auditor's report and notes to 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, 2021 and 2020, 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
July 8, 2022

Bronston Water Association, Inc.
Notes to Financial Statements, continued
For the years ended December 31, 2021 and 2020

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, 2021, the Association had cash and short-term cash investments with a carrying value of \$1,349,922. 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, 2021, all of these accounts were sufficiently funded.

Bronston Water Association, Inc.
Notes to Financial Statements, continued
For the years ended December 31, 2021 and 2020

Property, Plant and Equipment	2021	2020
Land and land rights	\$ 132,500	\$ 132,500
Transmission and distribution system	9,496,756	8,888,171
Meters and installations	824,233	812,280
Office building and equipment	<u>155,430</u>	<u>126,703</u>
	10,608,919	9,959,654
Accumulated depreciation	<u>(3,869,526)</u>	<u>(3,638,381)</u>
 Total Property, Plant and Equipment	 <u>\$ 6,739,393</u>	 <u>\$6,321,273</u>

Property, plant and equipment is depreciated over the estimated useful life of each category of asset in accordance with guidance from the Public Service Commission, which varies from five to 40 years.

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; a real estate mortgage issued in 2017 in the amount of \$1,339,293 (increased by \$40,707 in 2018) maturing in 2057; and a real estate mortgage issued in 2021 in the amount of \$550,000. 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, 1.875% for the 2014 and 2017 liabilities, and 1.25% for the 2021 issue. The liabilities are secured by the continuing operations and revenues of the Association.

Scheduled maturities of long-term debt are as follows:

	Principal
2022	75,193
2023	77,211
2024	89,697
2025	92,025
2026	94,422
2027 - 2061	<u>3,590,999</u>
 Total long term debt	 <u>\$4,019,547</u>

Bronston Water Association, Inc.
Notes to Financial Statements, concluded
For the years ended December 31, 2021 and 2020

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 July 8, 2022 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, 2021, 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, 2021 and 2020, and have issued my report thereon dated June 16, 2022. 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 July 8, 2022.

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
July 8, 2022

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

July 8, 2022

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, 2021, 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 June 16, 2022 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