

Southeastern Water Association, Inc.

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

CONTENTS

	Pages
Independent Auditor's Report	1-2
Financial Statements:	
Statements of Financial Position	3
Statements of Activities	4
Statements of Changes in Net Assets	5
Statement of Functional Expenses-2019	6
Statement of Functional Expenses-2018	7
Statements of Cash Flows	8
Notes to Financial Statements	7-16
Supplemental Information:	
Independent Auditor's Report On Internal Control Over Financial Reporting and On Compliance And Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	17-18

Phone: 606-451-1550
Fax: 606-451-0194
Email: rdt1869@aol.com

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Southeastern Water Association, Inc.
Somerset, KY 42503

I have audited the accompanying financial statements of Southeastern 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, changes in net assets, 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 audits. 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. Those standards require that I plan and perform the audits 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.

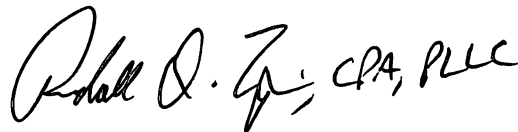
I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated August 28, 2020, on my consideration of Southeastern Water Association, Inc.'s internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Southeastern Water Association, Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Southeastern Water Association, Inc.'s internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Roland D. Zepher, CPA, PLLC". The signature is written in a cursive, flowing style.

August 28, 2020
Somerset, Kentucky

Southeastern Water Association, Inc.
Statements of Financial Position
December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 2,035,198	\$ 1,673,728
Certificates of deposit	2,977,397	2,903,449
Accounts receivable	322,987	361,341
Inventory	118,766	100,904
Prepaid expenses	38,724	57,417
Total current assets	<u>5,493,072</u>	<u>5,096,839</u>
Property, Plant and Equipment		
Property, plant and equipment	36,468,890	36,280,902
Accumulated depreciation	<u>(15,730,235)</u>	<u>(14,746,721)</u>
Net property, plant and equipment	20,738,655	21,534,181
Other Assets		
Restricted cash accounts	<u>1,128,033</u>	<u>1,088,210</u>
Total other assets	<u>1,128,033</u>	<u>1,088,210</u>
 Total Assets	 <u><u>\$ 27,359,760</u></u>	 <u><u>\$ 27,719,230</u></u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 156,253	\$ 178,983
Accrued liabilities	16,608	30,172
Accrued interest payable	56,228	53,369
Customer deposits	118,335	108,896
Advance tap-on fees	8,235	2,595
Current portion of long-term debt	<u>323,500</u>	<u>316,900</u>
Total current liabilities	679,159	690,915
Long-term Liabilities		
Long-term debt	10,228,085	10,544,585
Net of current portion	<u>(323,500)</u>	<u>(316,900)</u>
Total long-term liabilities	<u>9,904,585</u>	<u>10,227,685</u>
 Total Liabilities	 10,583,744	 10,918,600
Net Assets, Without Donor Restrictions		
Reserved by contract	1,128,033	1,088,210
Reserved by board	1,120,000	1,120,000
Membership fees	143,846	139,936
Tap-on fees	3,177,538	3,131,723
Unrestricted, other	<u>11,206,599</u>	<u>11,320,761</u>
 Total net assets	 <u>16,776,016</u>	 <u>16,800,630</u>
 Total Liabilities and Net Assets	 <u><u>\$ 27,359,760</u></u>	 <u><u>\$ 27,719,230</u></u>

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

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

	<u>2019</u>	<u>2018</u>
Operating increases in net assets without donor restrictions		
Water sales	\$ 4,099,805	\$ 4,065,548
Service charges/reconnect fees	35,136	32,261
Other income	28,202	6,594
Total	<u>4,163,143</u>	<u>4,104,403</u>
Operating decreases in net assets without donor restrictions		
Cost of water sold	1,452,694	1,508,658
Depreciation	986,238	980,038
Wages	449,520	439,245
Maintenance	180,060	98,442
Supplies	98,614	148,642
Insurance	263,669	252,141
Other general and administrative	32,565	30,366
Auto and truck	48,632	50,049
Pension plan expense	13,944	24,673
Bank charges	1,162	2,191
PSC fees	16,353	9,310
Utilities	91,668	103,439
Telephone	6,100	6,000
Testing and analysis	15,136	12,810
Meter reading	108,023	108,170
Customer billing	35,059	29,984
Directors' fees	41,500	36,000
Office expense	25,201	25,742
Bad debt	18,065	8,503
Professional services	51,065	52,151
Tax and license	40,237	39,679
Total	<u>3,975,505</u>	<u>3,966,233</u>
Operating increase in net assets without donor restrictions	<u>187,638</u>	<u>138,170</u>
Non-operating increases (decreases) in net assets without donor restrictions		
Capital contributions - federal grants	30,467	-
Gain(Loss) on sale of assets	-	(22,232)
Membership fees collected	3,910	4,575
Tap-on fees collected, net of amounts refunded	45,815	48,925
Interest income	67,199	68,012
Interest expense	(359,643)	(367,808)
Total	<u>(212,252)</u>	<u>(268,528)</u>
Change in net assets without donor restrictions	<u>\$ (24,614)</u>	<u>\$ (130,358)</u>

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

Southeastern Water Association, Inc.
Statements of Changes in Net Assets
For the years ended December 31, 2019 and 2018

	Without Donor Restrictions					
	Reserved by Contract	Reserved by board	Membership Fees	Tap-on Fees	Other	Total
Balances, January 1, 2018	\$ 1,020,030	\$ 120,000	\$ 135,361	\$ 3,082,798	\$ 12,572,799	\$ 16,930,988
2018 change in net assets	-	-	4,575	48,925	(183,858)	(130,358)
Transfers	68,180	1,000,000	-	-	(1,068,180)	-
Balances, December 31, 2018	<u>\$ 1,088,210</u>	<u>\$ 1,120,000</u>	<u>\$ 139,936</u>	<u>\$ 3,131,723</u>	<u>\$ 11,320,761</u>	<u>\$ 16,800,630</u>
2019 change in net assets	-	-	3,910	45,815	(74,339)	(24,614)
Transfers	39,823	-	-	-	(39,823)	-
Balances, December 31, 2019	<u>\$ 1,128,033</u>	<u>\$ 1,120,000</u>	<u>\$ 143,846</u>	<u>\$ 3,177,538</u>	<u>\$ 11,206,599</u>	<u>\$ 16,776,016</u>

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

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

	<u>Program</u>	<u>General and Administrative</u>	<u>Total</u>
Cost of water sold	\$ 1,452,694	\$ -	\$ 1,452,694
Depreciation	970,457	15,781	986,238
Wages	389,360	60,160	449,520
Maintenance	180,060	-	180,060
Supplies	98,614	-	98,614
Insurance	139,450	124,219	263,669
Other general and administrative	-	32,565	32,565
Auto and truck	48,632	-	48,632
Pension plan expense	12,078	1,866	13,944
Bank charges	-	1,162	1,162
PSC fees	16,353	-	16,353
Utilities	81,260	10,408	91,668
Telephone	-	6,100	6,100
Testing and analysis	15,136	-	15,136
Meter reading	108,023	-	108,023
Customer billing	35,059	-	35,059
Directors' fees	-	41,500	41,500
Office expense	-	25,201	25,201
Bad debt	18,065	-	18,065
Professional services	-	51,065	51,065
Tax and license	34,424	5,813	40,237
	<u>\$ 3,599,665</u>	<u>\$ 375,840</u>	<u>\$ 3,975,505</u>

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

Southeastern Water Association, Inc.
Statement of Functional Expenses
For the year ended December 31, 2018

	<u>Program</u>	<u>General and Administrative</u>	<u>Total</u>
Cost of water sold	\$ 1,508,658	\$ -	\$ 1,508,658
Depreciation	965,315	14,723	980,038
Wages	380,589	58,656	439,245
Maintenance	98,442	-	98,442
Supplies	148,642	-	148,642
Insurance	152,220	99,921	252,141
Other general and administrative	-	30,366	30,366
Auto and truck	50,049	-	50,049
Pension plan expense	21,884	2,789	24,673
Bank charges	-	2,191	2,191
PSC fees	9,310	-	9,310
Utilities	94,122	9,317	103,439
Telephone	-	6,000	6,000
Testing and analysis	12,810	-	12,810
Meter reading	108,170	-	108,170
Customer billing	29,984	-	29,984
Directors' fees	-	36,000	36,000
Office expense	-	25,742	25,742
Bad debt	8,503	-	8,503
Professional services	-	52,151	52,151
Tax and license	35,739	3,940	39,679
	<u>\$ 3,624,437</u>	<u>\$ 341,796</u>	<u>\$ 3,966,233</u>

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

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

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities		
Operating income/loss	\$ 187,638	\$ 138,170
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	986,238	980,038
Bad debts	18,065	8,503
(Increase) decrease in operating assets		
Inventory	(17,862)	55,994
Accounts receivable	20,289	(27,892)
Prepaid expenses	18,693	(5,589)
Increase (decrease) in operating liabilities		
Accounts payable	(22,730)	3,162
Accrued liabilities	(13,564)	16,739
Accrued interest	2,859	(1,840)
Advance tap on fees	5,640	-
Net cash provided by operating activities	1,185,266	1,167,285
Cash flows from investing activities		
Interest income	67,199	68,012
Redemption of (investment in) certificates of deposits	(73,948)	(728,719)
Proceeds from sale of assets	-	-
Cash payments for the purchase and construction of fixed assets	(190,712)	(381,468)
Net cash used by investing activities	(197,461)	(1,042,175)
Cash flows from financing activities		
Interest expense	(359,643)	(367,808)
Proceeds from federal grants	30,467	-
Increase in customer deposits	9,439	11,897
Proceeds from tap-on and membership fees	49,725	53,500
Principal payment on long-term debt	(316,500)	(305,370)
Net cash provided by financing activities	(586,512)	(607,781)
Net increase (decrease) in cash, cash equivalents, and restricted cash	401,293	(482,671)
Cash, cash equivalents, and restricted cash beginning of year	2,761,938	3,244,609
Cash, cash equivalents, and restricted cash end of year	<u>\$ 3,163,231</u>	<u>\$ 2,761,938</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	<u>\$ 356,784</u>	<u>\$ 369,648</u>

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

Southeastern Water Association, Inc.
Notes to Financial Statements
For the Years Ended December 31, 2019 and 2018

1. Summary of Significant Accounting Policies

Organization and Nature of Activities

Southeastern Water Association, Inc. (the Association) was formed as a result of an order by the Public Service Commission of Kentucky which required the merger of Nelson Valley Water Association, Inc., Tateville Water Association, Inc., Elihu-Rush Branch Water Association, Inc., and Barnesburg Water Association, Inc. The Association purchases water from the City of Somerset Water Service and distributes the water to residents of the Nelson Valley, Tateville, Elihu-Rush Branch, and Barnesburg areas of Pulaski County, Kentucky. The Association falls under the oversight and regulations of the Kentucky Public Service commission and accordingly follows their prescribed uniform System of Accounts.

Method of Accounting

The Association prepares its financial statements on the accrual method of accounting in accordance with accounting principles generally accepted in the United States of America. Under this method, revenues are recognized when earned, rather than when received and expenses are recognized when incurred rather than when paid.

Financial Statement Presentation

The Association prepares its financial statements in accordance with FASB ASC 958, *Not for Profit Entities*. Under FASB ASC 958, the Association is required to report information regarding its financial position and activities based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Association and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor-imposed stipulation, even though their use may be limited in other respects, such as by contract or by board designation.

Net Assets With Donor Restrictions – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. There were no donor-imposed restrictions of a temporary or perpetual nature at December 31, 2019 or 2018. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Southeastern Water Association, Inc.
Notes to Financial Statements
For the Years Ended December 31, 2019 and 2018

1. Summary of Significant Accounting Policies, continued

Revenue Recognition

The Association considers revenues earned when substantially all requirements have been met to entitle them to receive the funds, which is when the meters have been read and the bills prepared. Fees collected from new members and for meter sets and tap-on fees are generally recognized as revenue when they are received or when considered non-refundable.

Change in Accounting Principle

On January 1, 2019, the Organization adopted ASU 2016-18, the new accounting standard for restricted cash presentation on the statement of cash flows, which requires restricted cash to be included as components of total cash and cash equivalents as presented in the statement of cash flows. The adoption of this guidance did not result in any change to beginning total cash, cash equivalents, and restricted cash on the statement of cash flows for the year ended December 31, 2018.

Credit risk

Financial instruments which potentially subject the Association to concentrations of credit risk consist principally of cash, cash equivalents and trade receivables. The Association places its cash deposits with high credit quality financial institutions and generally limits the amount of credit exposure by using multiple institutions and requiring collateral pledges. Concentrations of credit risk with respect to trade receivables are limited due to the Association's large number of customers with individually small, immaterial balances.

Cash, Cash Equivalents, and Restricted Cash

The statement of cash flows classifies changes in cash, cash equivalents and restricted cash according to operating, investing or financing activities. The Association considers cash on hand, cash in banks and certificates of deposit with an original maturity of three months or less, both restricted and unrestricted, to be cash and cash equivalents. Cash and cash equivalents on the statement of cash flows includes amounts classified as cash and cash equivalents and restricted cash on the statement of financial position.

Accounts Receivable

The Association extends credit to substantially all of its customers. Accounts receivable are stated at the face amount of the water bills, which approximates fair market value. Specific accounts deemed uncollectible are charged to bad debt upon evaluation by management. Evaluation factors include familiarity with the customer, credit history and the age of the unpaid bill.

Southeastern Water Association, Inc.
Notes to Financial Statements
For the Years Ended December 31, 2019 and 2018

1. Summary of Significant Accounting Policies, continued

Allowance for Doubtful Accounts

The Association maintains an allowance for doubtful accounts based on percentages applied to the various aging periods of accounts receivable. The accounts receivable balance at December 31, 2019 and 2018 is stated net of the allowance balance of \$24,311 and \$25,858, respectively.

Inventory

Inventory of the Association consists of supplies and materials for Association use. This inventory is valued at first-in, first-out cost, which approximates market.

Property and Equipment

Property and equipment with useful lives of more than one year are stated at historical cost. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Depreciation is computed using straight line over estimated useful lives ranging from 5 to 40 years. Depreciation is calculated on construction projects once completed and placed in service.

Advance Tap-On Fees

The Association allows potential customers to pay tap-on fees in advance of construction of lines. Amounts paid in advance remain payable back to the customer until they receive water service. Upon receipt of water service, the tap-on fee is reclassified to Net Assets – Tap-On-Fees.

Membership Fees

The Association requires all customers to be members of the Association by paying a one-time nonrefundable fee of \$10.

Grants

Grants received by the Association that are used to offset the acquisition, improvement or construction costs of the Associations' property, facilities, water distribution system, or equipment used to provide utility services to the public are recorded as non-operating revenue. Grant revenues are transferred at year end to the equity account Net Assets – Other.

Functional Expenses

The Association's functional expense policy is to allocate all direct costs of providing water as well as a portion of salaries and related payroll expenses to program services. The salaries and related payroll costs attributed to program services are allocated using a percentage based on the relative time spent by the affected employees on each function. The Association incurs no fund raising expense.

Southeastern Water Association, Inc.
Notes to Financial Statements
For the Years Ended December 31, 2019 and 2018

1. Summary of Significant Accounting Policies, concluded

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect reported amount of assets, liabilities, net position and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Comparability

Certain prior year amounts have been restated to conform to current year presentation. The restatements had no effect on the change in net assets for either period.

Income Tax Status

The Association is a nonprofit organization, exempt under Internal Revenue Section 501(c)(12). No income tax is applicable due to the Association's tax exempt status. The Association is not aware of any uncertain income tax positions as of December 31, 2019 for any open tax years.

2. Cash, Cash Equivalents and Restricted Cash

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the statement of financial position that sum to the total of the same such amounts shown in the statement of cash flows:

Cash and cash equivalents	\$ 2,035,198
Restricted cash accounts included in other assets	<u>1,128,033</u>
Total cash, cash equivalents and restricted cash	<u>3,163,231</u>

Amounts included in restricted cash represent those required to be set aside by covenants of various debt agreements with Rural Development.

3. Concentration of Credit Risk

The Association held deposits at multiple banks. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. Cash at two institutions exceeded FDIC insured limits. The amounts in excess of the FDIC limit totaled \$3,186,992 and \$2,771,759 at December 31, 2019 and 2018 respectively. At December 31, 2019 and 2018, all of the excess amount is collateralized with securities held in the name of the financial institution and pledged to the Association. Securities cannot be moved or redeemed without prior approval of the Association.

Southeastern Water Association, Inc.
Notes to Financial Statements
For the Years Ended December 31, 2019 and 2018

4. Property and Equipment

The cost of property and equipment at December 31, 2019 and 2018 is as follows:

	<u>2019</u>	<u>2018</u>
Transmission and distribution system	\$ 34,955,303	\$ 34,896,869
Construction work in process	109,382	26,151
Equipment	1,197,845	1,151,522
Land and land rights (nondepreciable)	<u>206,360</u>	<u>206,360</u>
Property and equipment	36,468,890	36,280,902
Less accumulated depreciation	<u>(15,730,235)</u>	<u>(14,746,721)</u>
Property and equipment, net	<u>\$ 20,738,655</u>	<u>\$ 21,534,181</u>

5. Long-Term Liabilities

Loans Payable Rural Development

Loans from Rural Development (RD) financed installation of distribution mains and water lines. Real estate and revenue sufficient to fund the annual debt service secure the loans.

During 2015, a group of these loans were refinanced through Kentucky Rural Water Finance Corporation into a 2015 Series Revenue Bonds at an interest savings.

The balances on the Association's loans are as follows:

	<u>2019</u>	<u>2018</u>
Interest variable revenue bonds dated March 8, 2015, payable in annual installments, including interest through February, 2041.	\$ 2,450,000	\$ 2,590,000
2.375% loan dated February 2, 2011 payable in annual installments of \$160,799, including interest, through February 2, 2051.	3,506,099	3,582,642
4.375% loan dated November 8, 2006, payable in annual installments of \$149,956, including interest through November 8, 2046.	2,330,410	2,377,304
4.5% loan dated September 17, 2004, payable in annual installments of \$101,567, including interest, through September 17, 2044.	1,479,926	1,514,226

Southeastern Water Association, Inc.
Notes to Financial Statements
For the Years Ended December 31, 2019 and 2018

5. Long-Term Liabilities, continued

4.5% loan dated February 12, 1997, payable in annual installments of \$13,853, including interest, through February 12, 2039.	150,720	156,433
4.5% loan dated February 12, 1997, payable in annual installments of \$9,159, including interest, through February 12, 2037.	95,972	99,663
4.5% loan dated September 14, 1995, payable in annual installments of \$7,536, including interest, through September 9, 2035.	73,902	77,099
4.5% loan dated September 14, 1995, payable in annual installments of \$13,133, including interest, through September 9, 2035.	\$ 141,056	\$ 147,218
	\$ 10,228,085	\$ 10,544,585
Less current portion	<u>(323,500)</u>	<u>(316,900)</u>
	<u>\$ 9,904,685</u>	<u>\$ 10,227,685</u>

The Association has a supplementary agreement with RD in which payments are made in monthly installments at an amount that is adequate to cover the annual requirements of all outstanding loans.

The following table shows estimated maturities of all long-term debt:

2020	\$ 323,500
2021	334,700
2022	346,600
2023	358,200
2024	370,700
Later years	<u>8,494,385</u>
	<u>\$ 10,228,085</u>

The Association capitalizes interest incurred during construction projects as a component on construction costs. No interest was capitalized during the years ended December 31, 2019 and 2018.

Interest incurred on all debt during the years ended December 31, 2019 and 2018 totaled \$359,643 and \$367,808, respectively.

Southeastern Water Association, Inc.
Notes to Financial Statements
For the Years Ended December 31, 2019 and 2018

6. Special Funds and Restrictions

The debt agreements with Rural Development require the following accounts be maintained by the Association as long as any outstanding debt remains;

General account – All operating funds received shall be deposited in this account. Funds will be used for operating and maintenance expenses and will be transferred to other accounts as needed.

Funded depreciation reserve account – The Association is required to make monthly deposits into this account as provided by the letter of conditions from RD. Ten percent of each loan is required to be deposited into this account over a period of ten years. These funds may be used for debt service or for unusual repairs or improvements if proper approvals are obtained and no funds are available in the general account. The balance as of December 31, 2019 and 2018 was \$653,776 and \$622,542, respectively, which met all required RD covenants.

Debt service reserve account – Monthly deposits are required to be made into this account. Funds are to be used to make payments on Rural Development loans. The account was established per Rural Development loan requirements. The balance as of December 31, 2019 and 2018 was \$65,149 and \$65,005, respectively.

Short lived assets reserve account – Monthly deposits are required to commence in January 2014 into this account as provided by the letter of conditions for loan 26. These funds may be used to replace short lived assets used in the normal course of business at the discretion of the Association. The balance as of December 31, 2019 and 2018 was \$61,612 and \$43,559, respectively, which met all required RD covenants.

7. Related-Party Transactions

The Association paid \$41,500 and \$36,000 in 2019 and 2018, respectively, for director's fees. The board paid an employee \$3,000 during the year to provide contract cleaning service for their office. The Association purchases insurance from a company. A board member's brother owns stock in the insurance company.

8. Retirement Plan

The Association adopted a simple employee pension plan (SEP) in 1999. This discretionary plan covers substantially all employees. The Association contributes 3% of gross wages for qualifying employees, plus additional amounts as periodically approved by the Board. During 2019 and 2018 the Association made plan contributions of \$13,944 and \$24,673, respectively.

Southeastern Water Association, Inc.
Notes to Financial Statements
For the Years Ended December 31, 2019 and 2018

9. Liquidity and Availability

The Association has not adopted a formal liquidity management plan. The Association continually reviews its financial assets and assesses if these assets are sufficient to meet cash needs for general expenditures. Financial assets available for general expenditures, that is, without donor restrictions limiting their use, within one year of the statement of financial position date, are comprised of the following:

	<u>2019</u>	<u>2018</u>
Financial assets, at December 31, 2019		
Cash and cash equivalents	\$ 3,163,231	\$2,761,938
Certificates of deposit	2,977,397	2,903,449
Accounts receivable, net	<u>322,987</u>	<u>361,241</u>
 Total financial assets	 6,463,615	 6,026,728
Less: amounts restricted for certain purposes	<u>(1,128,033)</u>	<u>(1,088,210)</u>
 Total	 <u>\$ 5,335,582</u>	 <u>\$4,938,518</u>

Normal operating expenses per month are, on average, approximately \$250,000 for the years ended December 31, 2019 and December 31, 2018.

10. Subsequent Events

The Association has evaluated and considered the need to recognize or disclose subsequent events through August 28, 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.

SUPPLEMENTAL INFORMATION

Phone: 606-451-1550
Fax: 606-451-0194
Email: rdt1869@aol.com

INDEPENDENT AUDITOR'S 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
Southeastern Water Association, Inc.
Somerset, KY 42503

I have audited, in accordance with the 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, the financial statements of Southeastern Water Association, Inc. (a non-profit organization), which comprise the statement of financial position as of December 31, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued my report thereon dated August 28, 2020.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered Southeastern Water Association, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Southeastern Water Association, Inc.'s internal control. Accordingly, I do not express an opinion on the effectiveness of the Association's internal control.

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.

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Southeastern Water Association, Inc.'s financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Association's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

August 28, 2020
Somerset, Kentucky

Handwritten signature of Russell D. G. CPA, PLLC in black ink.