

Southeastern 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
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, 2020 and 2019, 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

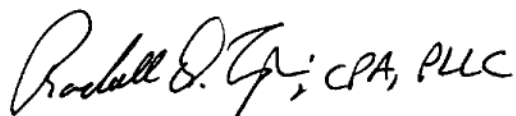
In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Southeastern Water Association, Inc., as of December 31, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

My audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated July 29, 2021, 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.



July 29, 2021
Somerset, Kentucky

Southeastern Water Association, Inc.
Statements of Financial Position
December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 2,580,800	\$ 2,035,198
Certificates of deposit	2,500,118	2,977,397
Accounts receivable	389,832	322,987
Inventory	157,733	118,766
Prepaid expenses	56,015	38,724
Total current assets	<u>5,684,498</u>	<u>5,493,072</u>
Property, Plant and Equipment		
Property, plant and equipment	38,133,439	36,468,890
Accumulated depreciation	<u>(16,629,438)</u>	<u>(15,730,235)</u>
Net property, plant and equipment	<u>21,504,001</u>	<u>20,738,655</u>
Other Assets		
Restricted cash accounts	<u>1,153,808</u>	<u>1,128,033</u>
Total other assets	<u>1,153,808</u>	<u>1,128,033</u>
Total Assets	<u><u>\$ 28,342,307</u></u>	<u><u>\$ 27,359,760</u></u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 136,459	\$ 156,253
Accrued liabilities	15,594	16,608
Accrued interest payable	57,113	56,228
Customer deposits	122,361	118,335
Advance tap-on fees	8,235	8,235
Current portion of long-term debt	<u>367,301</u>	<u>323,500</u>
Total current liabilities	<u>707,063</u>	<u>679,159</u>
Long-term Liabilities		
Long-term debt	10,372,365	10,228,085
Net of current portion	<u>(367,301)</u>	<u>(323,500)</u>
Total long-term liabilities	<u>10,005,064</u>	<u>9,904,585</u>
Total Liabilities	<u>10,712,127</u>	<u>10,583,744</u>
Net Assets, Without Donor Restrictions		
Reserved by contract	1,153,808	1,128,033
Reserved by board	1,120,000	1,120,000
Membership fees	148,966	143,846
Tap-on fees	3,268,123	3,177,538
Unrestricted, other	<u>11,939,283</u>	<u>11,206,599</u>
Total net assets	<u>17,630,180</u>	<u>16,776,016</u>
Total Liabilities and Net Assets	<u><u>\$ 28,342,307</u></u>	<u><u>\$ 27,359,760</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, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Operating increases in net assets without donor restrictions		
Water sales	\$ 4,156,230	\$ 4,099,805
Service charges/reconnect fees	24,229	35,136
Other income	8,051	28,202
Total	<u>4,188,510</u>	<u>4,163,143</u>
Operating decreases in net assets without donor restrictions		
Cost of water sold	1,313,081	1,452,694
Depreciation	1,006,192	986,238
Wages	497,425	449,520
Maintenance	149,548	180,060
Supplies	38,702	98,614
Insurance	144,677	263,669
Other general and administrative	11,957	24,271
Auto and truck	46,011	48,632
Pension plan expense	48,531	13,944
Bank charges	50	1,162
PSC fees	4,361	16,353
Utilities	93,253	91,668
Telephone	8,242	6,100
Testing and analysis	15,884	15,136
Meter reading	98,530	108,023
Customer billing	35,503	35,059
Directors' fees	44,200	41,500
Office expense	22,250	25,201
Bad debt	1,946	18,065
Uniforms/laundry	12,669	8,294
Professional services	59,241	51,065
Tax and license	47,184	40,237
Total	<u>3,699,437</u>	<u>3,975,505</u>
Operating increase in net assets without donor restrictions	<u>489,073</u>	<u>187,638</u>
Non-operating increases (decreases) in net assets without donor restrictions		
Capital contributions - federal grants	600	30,467
Capital contributions - other grants	517,286	-
Gain(Loss) on sale of assets	25,491	-
Membership fees collected	5,120	3,910
Tap-on fees collected, net of amounts refunded	90,585	45,815
Interest income	79,391	67,199
Interest expense	(353,382)	(359,643)
Total	<u>365,091</u>	<u>(212,252)</u>
Change in net assets without donor restrictions	<u>\$ 854,164</u>	<u>\$ (24,614)</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, 2020 and 2019

	Without Donor Restrictions					
	Reserved by Contract	Reserved by board	Membership Fees	Tap-on Fees	Other	Total
Balances, January 1, 2019	\$ 1,088,210	\$ 1,120,000	\$ 139,936	\$ 3,131,723	\$ 11,320,761	\$ 16,800,630
2019 change in net assets	-	-	3,910	45,815	(74,339)	(24,614)
Transfers	39,823	-	-	-	(39,823)	-
Balances, December 31, 2019	\$ 1,128,033	\$ 1,120,000	\$ 143,846	\$ 3,177,538	\$ 11,206,599	\$ 16,776,016
2020 change in net assets	-	-	5,120	90,585	758,459	854,164
Transfers	25,775	-	-	-	(25,775)	-
Balances, December 31, 2020	\$ 1,153,808	\$ 1,120,000	\$ 148,966	\$ 3,268,123	\$ 11,939,283	\$ 17,630,180

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, 2020

	<u>Program</u>	<u>General and Administrative</u>	<u>Total</u>
Cost of water sold	\$ 1,313,081	\$ -	\$ 1,313,081
Depreciation	992,579	13,613	1,006,192
Wages	384,552	112,873	497,425
Maintenance	149,548	-	149,548
Supplies	38,702	-	38,702
Insurance	89,975	54,702	144,677
Other general and administrative	-	11,957	11,957
Auto and truck	46,011	-	46,011
Pension plan expense	37,519	11,012	48,531
Bank charges	-	50	50
PSC fees	4,361	-	4,361
Utilities	84,789	8,464	93,253
Telephone	-	8,242	8,242
Testing and analysis	15,884	-	15,884
Meter reading	98,530	-	98,530
Customer billing	35,503	-	35,503
Directors' fees	-	44,200	44,200
Office expense	-	22,250	22,250
Bad debt	1,946	-	1,946
Uniforms/laundry	12,669	-	12,669
Professional services	-	59,241	59,241
Tax and license	31,746	15,438	47,184
	<u>\$ 3,337,395</u>	<u>\$ 362,042</u>	<u>\$ 3,699,437</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	-	24,271	24,271
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
Uniforms/laundry	8,294	-	8,294
Professional services	-	51,065	51,065
Tax and license	34,424	5,813	40,237
	<u>\$ 3,607,959</u>	<u>\$ 367,546</u>	<u>\$ 3,975,505</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, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities		
Operating income/loss	\$ 489,073	\$ 187,638
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	1,006,192	986,238
Bad debts	1,946	18,065
(Increase) decrease in operating assets		
Inventory	(38,967)	(17,862)
Accounts receivable	(66,845)	20,289
Prepaid expenses	(17,291)	18,693
Increase (decrease) in operating liabilities		
Accounts payable	(19,794)	(22,730)
Accrued liabilities	(1,014)	(13,564)
Accrued interest	885	2,859
Advance tap on fees	-	5,640
Net cash provided by operating activities	1,354,185	1,185,266
Cash flows from investing activities		
Interest income	79,391	67,199
Redemption of (investment in) certificates of deposits	477,279	(73,948)
Proceeds from sale of assets	36,500	-
Cash payments for the purchase and construction of fixed assets	(1,784,493)	(190,712)
Net cash used by investing activities	(1,191,323)	(197,461)
Cash flows from financing activities		
Interest expense	(353,382)	(359,643)
Proceeds from federal grants	600	30,467
Proceeds from other grants	517,286	-
Increase in customer deposits	4,026	9,439
Proceeds from tap-on and membership fees	95,705	49,725
Proceeds from issuance of long-term debt	909,173	-
Principal payment on long-term debt	(764,893)	(316,500)
Net cash provided by financing activities	408,515	(586,512)
Net increase (decrease) in cash, cash equivalents, and restricted cash	571,377	401,293
Cash, cash equivalents, and restricted cash beginning of year	3,163,231	2,761,938
Cash, cash equivalents, and restricted cash end of year	<u>\$ 3,734,608</u>	<u>\$ 3,163,231</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	<u>\$ 352,497</u>	<u>\$ 356,784</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, 2020 and 2019

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, 2020 or 2019. 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, 2020 and 2019

1. Summary of Significant Accounting Policies, continued

Revenue Recognition

Revenues from sales of water, service charges/reconnect fees, and tap-on fees for new service addresses are exchange transactions and are recognized in the period in which the water is provided to the customer or meters installed. The Association's sales are delivered daily as customers use water at which time ownership, risks, and rewards transfer. At the end of the month, customer usage is measured and billed. Control of water transfers to the customer as they consume it. In 2020 and 2019, the Association recognized revenue from sales to customers totaling \$4,156,230 and \$4,099,805, respectively. Grant income is recognized as revenues as various conditions are met, and then reflected as contributed capital in the Statement of Net Assets. This revenue recognition did not change based upon ASC Topic 606.

Change in Accounting Principle

On January 1, 2019, the Association 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, 2019.

On January 1, 2020, The Association adopted ASU 2014-09, the new standard for revenue recognition and all related amendments. The new standard requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The core principle of ASU 2014-09 is to recognize revenues when a customer obtains control of a good or service, in an amount that reflects the consideration to which an entity is expected to be entitled for those goods or services. There was no adjustment necessary to the opening balance of net assets as a result of adopting the new revenue standard. The Association has determined that there is no significant difference between the amounts reported for revenue and contract assets and liabilities using Topic 605 (the previous revenue standard) and the accounting treatment used in accordance with the new revenue standard.

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.

Southeastern Water Association, Inc.
Notes to Financial Statements
For the Years Ended December 31, 2020 and 2019

1. Summary of Significant Accounting Policies, continued

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.

Contract Accounts Receivable and Allowance for Doubtful Accounts

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. The timing of revenue recognition, billings, and cash collections results in billed accounts receivable on the statement of financial position. Amounts are billed at the end of every month based on customer usage. Total usage determines the rate at which a customer is billed per unit. Payment is due within 10 days. Penalties are imposed 10 days after the payment due date on unpaid balances.

Customers may request adjustment for leaks, up to a maximum of 90 days, once per year, or to correct errors from meter reading. The Association recognizes revenue sales in the amount it expects to be entitled, that is, net of estimated adjustments. Based on past experience, the Association does not anticipate a significant amount of adjustments and, therefore, has not accrued an adjustment liability.

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. 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, 2020 and 2019 is stated net of the allowance balance of \$29,342 and \$24,311, 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.

Southeastern Water Association, Inc.
Notes to Financial Statements
For the Years Ended December 31, 2020 and 2019

1. Summary of Significant Accounting Policies, concluded

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 Association's 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.

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, 2020 for any open tax years.

Southeastern Water Association, Inc.
Notes to Financial Statements
For the Years Ended December 31, 2020 and 2019

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	\$ 2,580,800
Restricted cash accounts included in other assets	<u>1,153,808</u>
Total cash, cash equivalents and restricted cash	<u>\$ 3,734,608</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 three institutions exceeded FDIC insured limits. The amounts in excess of the FDIC limit totaled \$2,258,969 and \$3,186,992 at December 31, 2020 and 2019 respectively. At December 31, 2020 and 2019, 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.

4. Contract Balances

The beginning and ending contract balances were as follows as of December 31,

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Accounts receivable	<u>\$389,832</u>	<u>\$322,987</u>	<u>\$361,341</u>

5. Property and Equipment

The cost of property and equipment at December 31, 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Transmission and distribution system	\$ 35,122,390	\$ 34,955,303
Construction work in process	1,465,843	109,382
Equipment	1,325,784	1,197,845
Land and land rights (nondepreciable)	<u>219,422</u>	<u>206,360</u>
Property and equipment	38,133,439	36,468,890
Less accumulated depreciation	<u>(16,629,438)</u>	<u>(15,730,235)</u>
Property and equipment, net	<u>\$ 21,504,001</u>	<u>\$ 20,738,655</u>

Southeastern Water Association, Inc.
Notes to Financial Statements
For the Years Ended December 31, 2020 and 2019

5. Property and Equipment, continued

The Association began a project in 2020 to replace and extend water lines and construct/rehab pump stations in the KY192/KY1003 area. The total expected project cost is \$3,355,000. The project will be funded by two Rural Development loans at a total of \$2,696,000 and two Rural Development grants at a total of \$659,000. At December 31, 2020, \$909,173 had been expended on the project.

6. 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>2020</u>	<u>2019</u>
Interest variable revenue bonds dated March 8, 2015, payable in annual installments, including interest through February, 2041.	\$ 2,310,000	\$ 2,450,000
2.375% loan dated February 2, 2011 payable in annual installments of \$160,799, including interest, through February 2, 2051.	3,427,718	3,506,099
4.375% loan dated November 8, 2006, payable in annual installments of \$149,956, including interest through November 8, 2046.	2,281,424	2,330,410
4.5% loan dated September 17, 2004, payable in annual installments of \$101,567, including interest, through September 17, 2044.	1,444,050	1,479,926
1.875% loan dated May 14, 2020, payable in annual installments of \$78,529, including interest, through April, 2060.	909,173	-
4.5% loan dated February 12, 1997, payable in annual installments of \$13,853, including interest, through February 12, 2039.	-	150,720

Southeastern Water Association, Inc.
Notes to Financial Statements
For the Years Ended December 31, 2020 and 2019

6. Long-Term Liabilities, continued

4.5% loan dated February 12, 1997, payable in annual installments of \$9,159, including interest, through February 12, 2037.	-	95,972
4.5% loan dated September 14, 1995, payable in annual installments of \$7,536, including interest, through September 9, 2035.	-	73,902
4.5% loan dated September 14, 1995, payable in annual installments of \$13,133, including interest, through September 9, 2035.	\$ -	\$ 141,056
	\$ 10,372,365	\$ 10,228,085
Less current portion	<u>(367,301)</u>	<u>(323,500)</u>
	<u>\$ 10,005,064</u>	<u>\$ 9,904,685</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:

2021	\$ 367,301
2022	362,076
2023	373,695
2024	385,622
2025	397,973
Later years	<u>8,485,698</u>
	<u>\$ 10,372,365</u>

The Association paid off a group of four RD loans in October, 2020 at a total cash outlay of \$445,348 with excess funds available at the Association.

The Association began a construction project during 2020 (see Note 5). The project is to be paid for by a combination of Rural Development loans and grants. The total expected loan amount is \$2.696,000. At December 31, 2020, the balance on loans related to this project was \$909,173.

The Association capitalizes interest incurred during construction projects as a component on construction costs at the end of the construction project. No interest was capitalized during the years ended December 31, 2020 and 2019.

Interest incurred on all debt during the years ended December 31, 2020 and 2019 totaled \$353,382 and \$359,643, respectively.

Southeastern Water Association, Inc.
Notes to Financial Statements
For the Years Ended December 31, 2020 and 2019

7. 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.

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, 2020 and 2019 was \$686,188 and \$653,776, 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, 2020 and 2019 was \$10,007 and \$65,149, 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, 2020 and 2019 was \$79,683 and \$61,612, respectively, which met all required RD covenants.

The bond agreement with Regions Bank requires monthly deposits to be made into a sinking account. These deposits are to set aside funds for the semi-annual payments on the 2015 bond issue. The balance as of December 31, 2020 and 2019 was \$195,573 and \$192,100, respectively.

Customer deposits received by the Association are required to be set aside in an account to be used for final billing amounts with any excess, including interest earned, returned to customers when they terminate service. The balance as of December 31, 2020 and 2019 was \$182,256 and \$155,296, respectively.

8. Related-Party Transactions

The Association paid \$44,200 and \$41,500 in 2020 and 2019, respectively, for director's fees. The Association purchases insurance from a company. A board member's brother owns stock in the insurance company.

Southeastern Water Association, Inc.
Notes to Financial Statements
For the Years Ended December 31, 2020 and 2019

9. 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 2020 and 2019 the Association made plan contributions of \$48,531 and \$13,944, respectively.

10. 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>2020</u>	<u>2019</u>
Financial assets, at December 31,		
Cash and cash equivalents	\$ 3,734,608	\$3,163,231
Certificates of deposit	2,500,118	2,977,397
Accounts receivable, net	<u>389,832</u>	<u>322,987</u>
 Total financial assets	 6,624,558	 6,463,615
Less: amounts restricted for certain purposes	<u>(1,153,808)</u>	<u>(1,128,033)</u>
 Total	 <u>\$ 5,470,750</u>	 <u>\$5,335,582</u>

Normal operating expenses per month are, on average, approximately \$250,000 for the years ended December 31, 2020 and December 31, 2019.

11. COVID-19 Uncertainty

During 2020 and 2021, various restrictions were placed on utilities in the state of Kentucky in response to the COVID-19 pandemic. The PSC issued an order on May 16, 2020, suspending until further notice the ability of utilities to shut off service due to nonpayment and the assessment of late payment fees. On September 21, 2020, the PSC lifted the moratorium on disconnects for nonpayment beginning October 20, 2020, subject to certain conditions, and continued the moratorium on the assessment of late payment charges for residential customers only until December 31, 2020. Under the terms of the October 20, 2020 order, utilities were required to create payment plans for all residential customers with respect to arrearages accumulated from service rendered on or after March 16, 2020 and before October 1, 2020, to the extent that past due balances exist. The term of the default payment plans shall be no less than six months and no longer than two years. As a result of these orders, service fees decreased, and accounts receivable collections may be delayed when compared to previous years.

Southeastern Water Association, Inc.
Notes to Financial Statements
For the Years Ended December 31, 2020 and 2019

12. Subsequent Events

The Association has evaluated and considered the need to recognize or disclose subsequent events through July 29, 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.

SUPPLEMENTAL INFORMATION

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF 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, 2020, 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 July 29, 2021.

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) as a basis for designing 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.

To the Board of Directors
Southeastern Water Association, Inc.
Page 2

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 financial statement. 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.

July 29, 2021
Somerset, Kentucky

 Rodall D. G. J., CPA, PLLC

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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

Report on Compliance for Each Major Federal Program

I have audited Southeastern Water Association, Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Southeastern Water Association, Inc.'s major federal programs for the year ended December 31, 2020. Southeastern Water Association, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

My responsibility is to express an opinion on compliance for each of Southeastern Water Association, Inc.'s major federal programs based on my audit of the types of compliance requirements referred to above. I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal awards program occurred. An audit includes examining, on a test basis, evidence about Southeastern Water Association, Inc.'s compliance with those requirements and performing such other procedures as I considered necessary in the circumstances.

I believe that my audit provides a reasonable basis for my opinion on compliance for each major federal program. However, my audit does not provide a legal determination of Southeastern Water Association, Inc.'s compliance.

To the Board of Directors
Southeastern Water Association, Inc.
Page 2

Opinion on Each Major Federal Program

In my opinion, Southeastern Water Association, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2020.

Report on Internal Control Over Compliance

Management of Southeastern Water Association, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing my audit of compliance, I considered Southeastern Water Association, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of Southeastern Water Association, Inc.'s internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of my testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Rodall D. Jr., CPA, PLLC

July 29, 2021
Somerset, Kentucky

Southeastern Water Association, Inc.
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2020

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Contract Number</u>	<u>Program or Award Amount</u>	<u>Passed Through to Subrecipients</u>	<u>Expenditures</u>
U.S. Department of Agriculture					
Passed through Rural Economic and Community Development					
Water and Waste Disposal Systems for Rural Communities					
RUS Loan	10.760	2016173	\$2,696,000	\$ -	\$909,173
RUS Grant	10.760	2016173	\$659,000	\$ -	\$ -
Total U.S. Department of Agriculture				\$ -	\$909,173
Total federal awards expended				\$ -	\$909,173

Southeastern Water Association, Inc.
Notes to Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2020

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal award activity of Southeastern Water Association, Inc. under programs of the federal government for the year ended December 31, 2020. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of Southeastern Water Association, Inc., it is not intended to and does not present the financial position, changes in net position, or cash flows of Southeastern Water Association, Inc.

2. Summary of Significant Accounting Policies

Expenditures are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. Indirect Cost Rates

The Association did not elect to use the 10 percent de minimis cost rate as allowed under the Uniform Guidance.

4. Outstanding Loan Balance

Southeastern Water Association, Inc.'s federal awards consist of grant and loan funds which were used for construction projects. Current year expenditures are included in the federal expenditures presented in the schedule as required by the Compliance Supplement issued by the Office of Management and Budget. As of December 31, 2020 and 2019, the outstanding balance of the loans associated with the projects was \$10,372,365 and \$10,228,085, respectively.

Southeastern Water Association, Inc.
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2020

A. Summary of Auditor's Results

1. The auditor's report expresses an unmodified opinion on whether the financial statements of Southeastern Water Association, Inc. were prepared in accordance with GAAP.
2. No significant deficiencies or material weaknesses in internal control over financial reporting were identified during the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of Southeastern Water Association, Inc. were disclosed during the audit of the financial statements.
4. No significant deficiencies or material weaknesses in internal control over major federal awards programs were identified during the audit.
5. The auditor's report on compliance for the major federal award programs for Southeastern Water Association, Inc. expresses an unmodified opinion on all major federal programs.
6. There were no audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a).
7. The programs tested as major are as follows:

<u>Program Name</u>	<u>CFDA Number</u>
Water and Waste Disposal Systems for Rural Communities	10.760

8. The threshold for distinguishing Type A and Type B programs was \$750,000.
9. Southeastern Water Association, Inc. was determined not to be a low-risk auditee.

B. Findings Related to the Financial Statements

1. None

C. Findings and Questioned Costs for Federal Awards

1. None

D. Prior Audit Findings

1. None