

BRONSTON WATER ASSOCIATION, INC.

**Audited Financial Statements
for the years ended December 31, 2022 and 2021**

Contents	<u>Pages</u>
Independent Auditor's Report	1-2
Financial Statements:	
Statements of Net Assets	3
Statements of Activities	4
Statements of Cash Flows	5
Statement of Functional Expenses	6
Notes to Financial Statements	7-11
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>	12-13
Management Letter	14

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

INDEPENDENT AUDITOR'S REPORT

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

I have audited the accompanying financial statements of Bronston Water Association, Inc. (a non-profit organization), which comprise the statements of financial position as of December 31, 2022 and 2021, 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 audits. I conducted my audits in accordance with auditing standards generally accepted in the United States of America. 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 opinions.

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, 2022 and 2021, 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.

Barry D. Daulton, CPA, PSC

Somerset, Kentucky
January 12, 2024

Bronston Water Association, Inc.
Statements of Net Assets
December 31, 2022 and 2021

	2022	2021
Assets		
Current Assets		
Cash and cash equivalents	\$ 256,533	\$ 250,518
Short-term cash investments	844,863	811,874
Accounts receivable	151,497	69,252
Inventory	89,858	84,700
Prepaid expenses	1,543	2,580
Total current assets	1,344,294	1,218,924
Property, Plant and Equipment		
Property, plant and equipment	10,638,914	10,608,919
Accumulated depreciation	(4,159,930)	(3,869,526)
Net property, plant and equipment	6,478,984	6,739,393
Other Assets		
Construction period interest	17,402	17,402
Accumulated amortization	(8,265)	(7,830)
Restricted cash accounts	299,828	287,530
Total other assets	308,965	297,102
Total Assets	\$ 8,132,243	\$ 8,255,419
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 23,556	\$ 22,815
Payroll and related withholdings	2,347	5,749
Accrued interest payable	64,199	64,242
Other accrued liabilities	25,003	25,618
Customer deposits	20,857	22,216
Current portion of long-term debt	77,211	75,193
Total current liabilities	213,173	215,833
Long-term Liabilities		
Long-term debt	3,931,541	4,019,547
Net of current portion	(77,211)	(75,193)
Total long-term liabilities	3,854,330	3,944,354
Total Liabilities	4,067,503	4,160,187
Net Assets		
Contributions in aid of construction	5,047,915	5,029,423
Unrestricted net assets	(983,175)	(934,191)
Total net assets	4,064,740	4,095,232
Total Liabilities and Net Assets	\$ 8,132,243	\$ 8,255,419

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

Bronston Water Association, Inc.
Statements of Activities
For the years ended December 31, 2022 and 2021

	2022	2021
Operating revenues		
Sales to customers	\$ 949,144	\$ 843,201
Other operating revenues	29,020	6,659
Total revenue	978,164	849,860
Cost of water sold		
Water purchases	244,304	260,699
Water testing	5,441	4,203
Salaries and wages	131,580	131,619
Materials and supplies	91,611	25,823
Depreciation	290,404	231,145
Amortization	435	435
Total cost of water sold	763,775	653,924
Operating profit	214,389	195,936
Support and administrative expenses		
Directors' fees	8,200	8,700
Payroll taxes	10,012	10,069
Employee benefits	19,267	5,942
Professional services	13,900	12,650
Insurance	19,760	18,032
Utilities and telephone	9,859	8,914
Office expense and postage	26,136	19,402
Transportation	11,118	6,927
Regulatory assessments	-	2,744
Other taxes and licenses	1,674	928
Merchant fees	12,156	-
Bad debts expense	1,804	4,471
Repairs and maintenance	34,284	-
Refunds	-	360
Total support and administrative expenses	168,170	99,139
Change in net assets before other income and expenses	46,219	96,797
Other income and (expenses)		
Interest income	1,362	2,177
Interest expense	(96,565)	(87,404)
Total other income and expenses	(95,203)	(85,227)
Change in unrestricted net assets	(48,984)	11,570
Unrestricted net assets beginning of year	(934,191)	(945,761)
Unrestricted net assets end of year	\$ (983,175)	\$ (934,191)

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

Bronston Water Association, Inc.
Statements of Cash Flows
For the years ended December 31, 2022 and 2021

	2022	2021
Cash flows from operating activities		
Change in net assets	\$ (48,984)	\$ 11,570
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	290,839	231,580
(Increase) decrease in operating assets		
Accounts receivable	(82,245)	2,149
Prepaid expenses	1,037	(782)
Inventory	(5,158)	(24,504)
Increase (decrease) in operating liabilities		
Accounts payable	741	(1,806)
Accrued withholdings	(3,402)	3,257
Accrued interest	(43)	414
Other current liabilities	(615)	2,055
Customer deposits	(1,359)	(9,375)
Net cash provided by operating activities	150,811	214,558
Cash flows from investing activities		
Short-term cash investments, net	(32,989)	(24,363)
Payments for property, plan and equipment (net)	(29,995)	(649,265)
Net cash provided by investing activities	(62,984)	(673,628)
Cash flows from financing activities		
Payments on long-term debt	(90,024)	(74,700)
Proceeds from long-term debt	-	555,000
Contributions in aid of construction	-	76,625
Tap-on fees received, net	20,510	26,942
Net cash provided by financing activities	(69,514)	583,867
Net increase (decrease) in cash and cash equivalents	18,313	124,797
Cash and cash equivalents beginning of year	538,048	413,251
Cash and cash equivalents end of year	\$ 556,361	\$ 538,048
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	\$ 96,608	\$ 86,990

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

Bronston Water Association, Inc.
Statement of Functional Expenses
For the year ended December 31, 2022

	<u>Program</u>	<u>Management and General</u>	<u>Total Expenses</u>
Water purchases	\$ 244,304	\$ -	\$ 244,304
Water testing	5,441	-	5,441
Salaries and wages	92,106	39,474	131,580
Materials and supplies	91,611	-	91,611
Depreciation	290,404	-	290,404
Amortization	435	-	435
Directors' fees	-	8,200	8,200
Payroll taxes	7,008	3,003	10,011
Employee benefits	13,325	5,942	19,267
Professional services	1,250	12,650	13,900
Insurance	13,832	5,928	19,760
Utilities and telephone	6,901	2,958	9,859
Office expense and postage	18,295	7,841	26,136
Transportation	11,118	-	11,118
Other taxes and licenses	1,674	-	1,674
Bad debts expense	1,804	-	1,804
Merchant fees	12,156	-	12,156
Repairs and maintenance	34,285	-	34,285
Interest expense	96,565	-	96,565
	<u>942,514</u>	<u>85,996</u>	<u>\$ 1,028,510</u>
Total functional expenses	<u>\$ 942,514</u>	<u>\$ 85,996</u>	<u>\$ 1,028,510</u>

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

Bronston Water Association, Inc.
Notes to Financial Statements
For the years ended December 31, 2022 and 2021

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, as well as various interest-bearing demand accounts. These investments are stated at face value on December 31, 2022.

Bronston Water Association, Inc.
Notes to Financial Statements, continued
For the years ended December 31, 2022 and 2021

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, 2022 or 2021.

Bronston Water Association, Inc.
Notes to Financial Statements, continued
For the years ended December 31, 2022 and 2021

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, 2022, the Association had cash and short-term cash investments with a carrying value of \$1,401,224. 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 various amounts monthly into a Depreciation Reserve Account in accordance with the terms of the RECD financing agreements. The deposits will continue until a balance of \$185,100 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, 2022, this account was sufficiently funded.

Bronston Water Association, Inc.
Notes to Financial Statements, continued
For the years ended December 31, 2022 and 2021

Property, Plant and Equipment	2022	2021
Land and land rights	\$ 132,500	\$ 132,500
Transmission and distribution system	9,496,756	9,496,756
Meters and installations	854,228	824,233
Office building and equipment	<u>155,430</u>	<u>155,430</u>
	10,638,914	10,608,919
Accumulated depreciation	<u>(4,159,930)</u>	<u>(3,869,526)</u>
Total Property, Plant and Equipment	<u>\$ 6,478,984</u>	<u>\$6,739,393</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 \$555,000. 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
2023	77,211
2024	89,697
2025	92,025
2026	94,422
2027	96,890
2028 – 2061	<u>3,481,296</u>
Total long term debt	<u>\$3,931,541</u>

Bronston Water Association, Inc.
Notes to Financial Statements, concluded
For the years ended December 31, 2022 and 2021

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 January 12, 2024 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, 2022, have not been evaluated by the Association.

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

**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, 2022 and 2021, and have issued my report thereon dated January 12, 2024. 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 no 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 January 12, 2024.

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
January 12, 2024

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

January 12, 2024

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, 2022, 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 January 12, 2024 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