

BRONSTON WATER ASSOCIATION, INC.

**Audited Financial Statements
for the years ended December 31, 2023 and 2022**

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Barry D. Daulton, CPA, PSC

MEMBER AICPA

MEMBER KSCPA

INDEPENDENT AUDITOR'S REPORT

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

Opinion

I have audited the accompanying financial statements of Bronston Water Association, Inc (a nonprofit organization), which is comprised of the statement of financial position as of December 31, 2023 and 2022, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

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, 2023 and 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

I conducted my audits in accordance with auditing standards generally accepted in the United States of America. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am required to be independent of Bronston Water Association, Inc. and to meet my other ethical responsibilities in accordance with the relevant ethical requirements relating to my audit. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Bronston Water Association, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing

423 East Mount Vernon Street
P.O. Box 1424
Somerset, Kentucky 42502
(606) 679-9344

213 Highway 3106
P.O. Box 787
Monticello, Kentucky 42633
(606)348-9316

standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, I:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Bronston Water Association, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in my judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Bronston Water Association, Inc.'s ability to continue as a going concern for a reasonable period of time.

I am required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that I identified during the audit.

Supplemental Information

My audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedule of functional expenses is presented for purposes of additional analysis and is not a required part of the basic 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 records and other procedures in accordance with GAAS. In my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Barry D. Daulton, CPA

Barry D. Daulton, CPA, PSC
Somerset, Kentucky
April 21, 2025

Bronston Water Association, Inc.
Statements of Net Assets
December 31, 2023 and 2022

	2023	2022
Assets		
Current Assets		
Cash and cash equivalents	\$ 260,319	\$ 256,533
Short-term cash investments	1,095,522	844,863
Accounts receivable	65,328	151,497
Inventory	79,549	89,858
Prepaid expenses	-	1,543
	1,500,718	1,344,294
Property, Plant and Equipment		
Property, plant and equipment	10,658,214	10,638,914
Accumulated depreciation	(4,450,977)	(4,159,930)
	6,207,237	6,478,984
Other Assets		
Construction period interest	17,402	17,402
Accumulated amortization	(9,135)	(8,265)
Restricted cash accounts	313,629	299,828
	321,896	308,965
Total Assets	\$ 8,029,851	\$ 8,132,243
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 48,581	\$ 23,556
Payroll and related withholdings	3,658	2,347
Accrued interest payable	62,752	64,199
Other accrued liabilities	2,484	25,003
Customer deposits	19,596	20,857
Current portion of long-term debt	121,269	77,211
	258,340	213,173
Long-term Liabilities		
Long-term debt	3,843,333	3,931,541
Net of current portion	(121,269)	(77,211)
	3,722,064	3,854,330
Total Liabilities	3,980,404	4,067,503
Net Assets		
Contributions in aid of construction	5,167,212	5,047,915
Unrestricted net assets	(1,117,765)	(983,175)
	4,049,447	4,064,740
Total Liabilities and Net Assets	\$ 8,029,851	\$ 8,132,243

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

Bronston Water Association, Inc.
Statements of Activities
For the years ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Operating revenues		
Sales to customers	\$ 916,796	\$ 949,144
Other operating revenues	17,174	29,020
Total revenue	<u>933,970</u>	<u>978,164</u>
Cost of water sold		
Water purchases	260,422	244,304
Water testing	6,505	5,441
Salaries and wages	120,767	131,580
Materials and supplies	67,165	91,611
Depreciation	291,047	290,404
Amortization	870	435
Total cost of water sold	<u>746,776</u>	<u>763,775</u>
Operating profit	187,194	214,389
Support and administrative expenses		
Directors' fees	8,300	8,200
Payroll taxes	9,369	10,012
Employee benefits	42,516	19,267
Professional services	14,400	13,900
Insurance	24,576	19,760
Utilities and telephone	11,107	9,859
Office expense and postage	28,271	26,136
Transportation	8,931	11,118
Regulatory assessments	1,132	-
Other taxes and licenses	30	1,674
Merchant fees	10,809	12,156
Bad debts expense	36,302	1,804
Repairs and maintenance	<u>50,917</u>	<u>34,284</u>
Total support and administrative expenses	<u>246,660</u>	<u>168,170</u>
Change in net assets before other income and expenses	(59,466)	46,219
Other income and (expenses)		
Interest income	19,241	1,362
Interest expense	<u>(94,365)</u>	<u>(96,565)</u>
Total other income and expenses	<u>(75,124)</u>	<u>(95,203)</u>
Change in unrestricted net assets	(134,590)	(48,984)
Unrestricted net assets beginning of year	<u>(983,175)</u>	<u>(934,191)</u>
Unrestricted net assets end of year	<u>\$ (1,117,765)</u>	<u>\$ (983,175)</u>

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

Bronston Water Association, Inc.
Statements of Cash Flows
For the years ended December 31, 2023 and 2022

	2023	2022
Cash flows from operating activities		
Change in net assets	\$ (134,590)	\$ (48,984)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	291,917	290,839
(Increase) decrease in operating assets		
Accounts receivable	86,169	(82,245)
Prepaid expenses	1,543	1,037
Inventory	10,309	(5,158)
Increase (decrease) in operating liabilities		
Accounts payable	25,025	741
Accrued withholdings	1,311	(3,402)
Accrued interest	(1,447)	(43)
Other current liabilities	21,537	(615)
Customer deposits	(1,261)	(1,359)
	300,513	150,811
Cash flows from investing activities		
Short-term cash investments, net	(250,659)	(32,989)
Payments for property, plan and equipment (net)	(19,300)	(29,995)
	(269,959)	(62,984)
Cash flows from financing activities		
Payments on long-term debt	(132,266)	(90,024)
Proceeds from long-term debt	-	-
Contributions in aid of construction	119,299	-
Tap-on fees received, net	-	20,510
	(12,967)	(69,514)
Net increase (decrease) in cash and cash equivalents	17,587	18,313
Cash and cash equivalents beginning of year	556,361	538,048
Cash and cash equivalents end of year	\$ 573,948	\$ 556,361
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	\$ 95,812	\$ 96,608

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

Bronston Water Association, Inc.
Statement of Functional Expenses
For the year ended December 31, 2023

	<u>Program</u>	<u>Management and General</u>	<u>Total Expenses</u>
Water purchases	\$ 260,422	\$ -	\$ 260,422
Water testing	6,505	-	6,505
Salaries and wages	84,537	36,230	120,767
Materials and supplies	67,165	-	67,165
Depreciation	291,047	-	291,047
Amortization	870	-	870
Directors' fees	-	8,300	8,300
Payroll taxes	6,558	2,811	9,369
Employee benefits	29,761	12,755	42,516
Professional services	-	14,400	14,400
Insurance	17,203	7,373	24,576
Utilities and telephone	7,775	3,332	11,107
Office expense and postage	19,790	8,481	28,271
Transportation	8,931	-	8,931
Regulatory assessments	-	1,132	1,132
Other taxes and licenses	-	30	30
Bad debts expense	36,302	-	36,302
Merchant fees	10,809	-	10,809
Repairs and maintenance	50,917	-	50,917
Interest expense	94,365	-	94,365
Total functional expenses	\$ 992,957	\$ 94,844	\$ 1,087,801

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

Bronston Water Association, Inc.
Notes to Financial Statements
For the years ended December 31, 2023 and 2022

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 did not implement 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. Restricted cash is not readily available to meet day-to-day cash flow needs of the Association.

Cash and Cash Equivalents

For Statement of Cash Flows purposes the Association considers all unrestricted cash accounts and certificates of deposit with an initial term of twelve months or less as cash and cash equivalents.

Liquidity and Availability

Financial assets available for general expenditure, without restrictions limiting their use, within one year of the balances sheet date include cash and certificates of deposit totaling \$1,355,841.

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, 2023.

Inventory

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

Bronston Water Association, Inc.
Notes to Financial Statements, continued
For the years ended December 31, 2023 and 2022

Summary of Significant Accounting Policies, continued

Accounts Receivable

Accounts receivable are stated at the face amount, which approximates the market value. The Association extends credit to substantially all of its members. Late fees are assessed on accounts which are not paid by the due date.

The Association's billing system automatically removes customer accounts when they become 90 days in arrears. Any accounts determined to be uncollectible are recorded as revenue in the event they are eventually paid by the customer. It has not been the Association's policy to maintain a reserve for doubtful accounts based on collection history and the comparatively small balance of accounts in arrears.

Property, Plant and Equipment

All fixed assets of the Association with an estimated useful life exceeding one year are recorded at historical cost. Depreciation of fixed assets for the Association is provided using the straight-line method over the estimated useful lives of the assets ranging from seven to forty years.

Customer Deposits

Customer deposits represent amounts deposited by members when signing up for water utility service. These amounts are refundable to the customer when they separate service. In the event a customer account becomes uncollectible, the Association will apply the deposit against the outstanding balance.

Liability for Compensated Absences

The Association's full-time employees are provided vacation time dependent upon the length of service of the employee. The Association does not compensate employees for unused vacation time. Due to the relatively small size of the staff, any accrual for compensated absences which is not recorded would not be material to the financial statements at December 31, 2023 or 2022.

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.

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.

Bronston Water Association, Inc.
Notes to Financial Statements, continued
For the years ended December 31, 2023 and 2022

Summary of Significant Accounting Policies, continued

Functional Expenses

Expenses have been classified as program services or management and general expenses based on actual direct expenditures and cost allocations based upon actual time and effort.

Collateralization

At December 31, 2023, the Association had cash and short-term cash investments with a carrying value of \$1,669,470. 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, 2023, this account was sufficiently funded.

Property, Plant and Equipment	2023	2022
Land and land rights	\$ 132,500	\$ 132,500
Transmission and distribution system	9,496,756	9,496,756
Meters and installations	854,228	854,228
Office building and equipment	<u>174,730</u>	<u>155,430</u>
	10,658,214	10,638,914
Accumulated depreciation	<u>(4,450,977)</u>	<u>(4,159,930)</u>
Total Property, Plant and Equipment	<u>\$ 6,207,237</u>	<u>\$6,478,984</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.

Bronston Water Association, Inc.
Notes to Financial Statements, continued
For the years ended December 31, 2023 and 2022

Summary of Significant Accounting Policies, continued

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
2024	121,269
2025	123,675
2026	126,293
2027	128,911
2028	131,529
2028 – 2061	<u>3,211,656</u>
Total long term debt	<u>\$ 3,843,333</u>

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.

Leases

FASB ASC 842 – Leases requires that leases with a term of more than 12 months be classified as either finance or operating leases. Leases are classified as finance leases when the lessee expects to consume a major part of the economic benefits of the leased assets over the remaining lease term. Leases are classified as operating leases when the lessee does not expect to consume a major part of the economic benefits. Bronston Water Association, Inc. has neither operating nor finance leases.

Bronston Water Association, Inc.
Notes to Financial Statements, concluded
For the years ended December 31, 2023 and 2022

Summary of Significant Accounting Policies, continued

Subsequent Events

The Association has evaluated and considered the need to recognize or disclose subsequent events through April 21, 2025 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, 2023, have not been evaluated by the Association.



Barry D. Daulton, CPA, PSC

MEMBER AICPA

MEMBER KSCPA

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
Bronston Water Association, Inc.
Bronston, Kentucky 42518

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 Bronston Water Association, Inc. (a non-profit organization) as of and for the year ended December 31, 2023, which collectively comprise the Association's basic financial statements and have issued my report thereon dated April 21, 2025.

Internal Control over Financial Reporting

In planning and performing my audit of the financial statements, I considered the Association'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association'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 the Association's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 that are required to be reported under *Government Auditing Standards*. In addition, the results of my tests disclosed no instances of material noncompliance of specific state statutes or regulations. There were additional matters communicated to the auditee in the management letter.

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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Barry D. Daulton, CPA, P&C

Somerset, Kentucky

April 21, 2025



Barry D. Daulton, CPA, PSC

MEMBER AICPA

MEMBER KSCPA

April 21, 2025

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, 2023, 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 April 21, 2025 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