

**FLEMING COUNTY
WATER ASSOCIATION, INC.**

AUDIT OF FINANCIAL STATEMENTS

For The Year Ended December 31, 2015

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Independent Auditors' Report

To the Board of Directors of
Fleming County Water Association, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Fleming County Water Association, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2015, and the related statements of activities and cash flows for the year 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 auditors consider 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, we 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

To the Board of Directors of
Fleming County Water Association, Inc.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Fleming County Water Association, Inc., as of December 31, 2015, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 2016, on our consideration of Fleming County Water Association, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Fleming County Water Association, Inc.'s internal control over financial reporting and compliance.

Morgan - Franklin, LLC

Morgan-Franklin, LLC
West Liberty, Kentucky

March 25, 2016

FLEMING COUNTY WATER ASSOCIATION, INC.
STATEMENT OF FINANCIAL POSITION
December 31, 2015

ASSETS

CURRENT ASSETS

Cash - Unrestricted	\$ 624,911
Cash - Restricted	227,637
Accounts Receivable	140,464
Unbilled Receivables	75,925
Inventory	104,144
Prepaid Insurance	<u>9,965</u>
 Total Current Assets	 1,183,046

NONCURRENT ASSETS

Cash - Restricted	<u>203,893</u>
 Total Noncurrent Assets	 203,893

PROPERTY AND EQUIPMENT

(Net of Accumulated Depreciation)

Land	54,273
Land Improvements	43,608
Buildings and Building Improvements	131,552
Machinery and Equipment	168,471
Vehicles	37,715
Tools, Shop and Garage Equipment	7,177
Communication Equipment	10,104
Office Furniture and Equipment	16,279
Water Lines	8,134,044
Tanks and Pumping Equipment	<u>463,701</u>
 Total Property and Equipment	 9,066,924

OTHER ASSETS

Loan Arrangement Fees (Net of Accumulated Amortization of \$1,101)	<u>31,192</u>
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TOTAL ASSETS	<u><u>\$ 10,485,055</u></u>
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The accompanying notes are an integral part of the financial statements.

FLEMING COUNTY WATER ASSOCIATION, INC.
STATEMENT OF FINANCIAL POSITION
December 31, 2015

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accrued Payroll Taxes	\$	3,364
Accounts Payable		56,025
Accrued Retirement Expense		1,301
Unearned Revenues		10,129
Accrued School and Sales Tax		9,020
Accrued Interest		47,014
Notes Payable		<u>72,230</u>
 Total Current Liabilities		 199,083

LONG-TERM LIABILITIES

Compensated Absences		53,904
Notes Payable		<u>3,283,783</u>
 Total Long-Term Liabilities		 3,337,687

OTHER LIABILITIES

Customer Deposits		<u>88,027</u>
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TOTAL LIABILITIES 3,624,797

NET ASSETS

Temporarily Restricted		431,530
Unrestricted		<u>6,428,728</u>

TOTAL NET ASSETS 6,860,258

TOTAL LIABILITIES AND NET ASSETS \$ 10,485,055

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

FLEMING COUNTY WATER ASSOCIATION, INC.
STATEMENT OF ACTIVITIES
For The Year Ended December 31, 2015

CHANGE IN UNRESTRICTED NET ASSETS:

OPERATING REVENUES

Water Collection	\$ 1,754,364
Utility Relocation Proceeds	9,591
Late Penalties	38,532
Member Dues	3,090
Tap-On Fees	40,341
Bad Debt Recovery	196
Miscellaneous Services	<u>49,560</u>
 Net Operating Revenues	 1,895,674

OPERATING EXPENSES

Salaries and Wages - Employees	376,752
Salaries and Wages - Directors	14,400
Employee Benefits	145,568
Purchased Water	618,209
Purchased Power	16,713
Taxes Other Than Income	30,828
Materials and Supplies	94,356
Contracted Services	58,403
Transportation Expense	40,877
Insurance	22,394
Advertising	1,160
Depreciation	275,763
Waterline Relocation Expenses	9,591
Miscellaneous Expenses	<u>18,818</u>
 Total Operating Expenses	 <u>1,723,832</u>

NET OPERATING INCOME 171,842

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

FLEMING COUNTY WATER ASSOCIATION, INC.
STATEMENT OF ACTIVITIES
For The Year Ended December 31, 2015

NON OPERATING REVENUES (EXPENSES)

Amortization Expense	(1,101)
Interest Expense	(134,429)
Interest Income	<u>822</u>
Total Non Operating Revenues (Expenses)	<u>(134,708)</u>

Income (Loss) Before Contributions	
In Aid Of Construction	37,134

CONTRIBUTIONS IN AID OF CONSTRUCTION

Construction Grant	319,000
Refunds - Tap On Fees	<u>(853)</u>
Change in Unrestricted Net Assets:	355,281

CHANGE IN TEMPORARILY RESTRICTED NET ASSETS:

REVENUE

Interest Income	<u>856</u>
Change in Temporarily Restricted Net Assets:	856
Net Assets- Beginning	<u>6,504,121</u>
Total Net Assets - Ending	<u><u>\$ 6,860,258</u></u>

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

FLEMING COUNTY WATER ASSOCIATION, INC.
STATEMENT OF CASH FLOWS
For The Year Ended December 31, 2015

CASH FLOWS FROM OPERATING ACTIVITIES

Payments from Customers	\$ 1,900,729
Utility Relocation Proceeds	9,591
Payments to Vendors	(935,819)
Payments for Payroll and Related Expenses	<u>(539,354)</u>
 Net Cash Provided/(Used) by Operating Activities:	 435,147

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Additions to Capital Assets	(638,825)
Net (Deposits)/Withdrawals into or from Dep. Reserve Fund	(403)
Net (Deposits)/Withdrawals into or from Debt Service Fund	(456)
Interest Paid on Capital Debt	(135,570)
Proceeds from Debt Issued	1,078,866
Loan Origination Fees	(32,293)
Grant Proceeds	319,000
Refund of Tap On Fees	812
Reduction in Notes Payable	<u>(842,010)</u>
 Net Cash Provided/(Used) by Capital and Related Financing Activities	 (250,879)

CASH FLOWS FROM INVESTING ACTIVITIES

Cash Received From Interest	<u>1,140</u>
 Net Cash Provided/(Used) by Investing Activities	 <u>1,140</u>
 INCREASE/(DECREASE) IN CASH	 185,408
 CASH AT BEGINNING OF YEAR	 <u>439,503</u>
 CASH AT END OF YEAR	 <u><u>\$ 624,911</u></u>

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

FLEMING COUNTY WATER ASSOCIATION, INC.
STATEMENT OF CASH FLOWS
For The Year Ended December 31, 2015

Reconciliation of Net Operating Income to Net Cash Provided by Operating Activities:

Net Operating Income	\$ 171,842
Adjustments to Reconcile Net Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	275,763
Changes in Assets/Liabilities:	
Accounts Receivable	639
Inventory	(13,079)
Accounts Payable	(13,135)
Accrued Payroll Taxes	(2,589)
Other Withholding Payables	(44)
Accrued School and Sales Tax	1,743
Customer Deposits	14,007
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Net Cash Provided/Used by Operating Activities	<u><u>\$ 435,147</u></u>

Supplementary Information

Total Interest Cost Charged to Expenses	\$ 135,570
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The accompanying notes are an integral part of the financial statements.

FLEMING COUNTY WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of the Fleming County Water Association, Inc. (the Association) is presented to assist in understanding the Association's financial statements. The financial statements and notes are representations of the Association's management, who are responsible for their integrity and objectivity. These accounting policies, as applied to the aforementioned financial statements, conform to generally accepted accounting principles.

Organization & Activity

The Association was incorporated in the Commonwealth of Kentucky as a nonprofit corporation in 1969. The Association operates a public water distribution system serving residential, commercial and agricultural customers. As of December 31, 2015 the Association served approximately 4,000 customers. The Kentucky Public Service Commission regulates the Association.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The basic financial statements provide information about the Association's activities.

"Measurement Focus" is an accounting term used to describe which transaction and types of balances are recorded within the various financial statements. The expression, "Basis of Accounting", refers to when transactions or events are recorded regardless of measurement focus applied.

Because of the "businesslike" characteristics of the Association's operations, the accompanying financial statements report uses the economic resources measurement focus and the accrual basis of accounting. The accounting objective of the "economic resources" measurement focus is the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported.

Under full accrual accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred or economic asset used, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As the means for delivering services to its customers, the Association utilizes an office building, infrastructure, office equipment, equipment and vehicles. To provide the resources that are necessary to pay for water services and the related support functions, the Association charges its customers monthly user fees, which are based on the specific level of services that they are receiving. Because the operations of the Association closely mirror those of a typical, commercial company, its accounting records reflect a similar approach for measuring its business activity.

The Association distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with the Association's ongoing operations. The principal operating revenues are charges to customers for sales and services that are provided to them. The Association also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the water and sewer systems. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

FLEMING COUNTY WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

When both restricted and unrestricted resources are available for use, it is the Association's policy to use restricted resources first, and then unrestricted resources as they are needed.

The Association has presented its financial statements in accordance with generally accepted accounting principles for not-for-profit organizations. Under this guidance, 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.

A summary of the net asset categories included in the accompanying financial statements is as follows:

Unrestricted Net Assets

Unrestricted, undesignated net assets are available for the various programs and administration of the Association.

Temporarily Restricted Net Assets

The Association is required to maintain special deposit accounts for long-term debt obligations. Restricted Accounts are made up of the Debt Service Account of \$227,136, the Depreciation Reserve Account in the amount of \$203,893, and the Construction Account in the amount of \$501 for a total of \$431,530.

Permanently Restricted Net Assets

Permanently restricted net assets consist of donor-restricted contributions, which are required to be held in perpetuity, and income from the assets held is available for either general operations or specific purposes, in accordance with donor stipulations. There are no permanently restricted net assets at December 31, 2015.

Budgeting

The Association prepares annual operating budgets for the managerial control of expenditures and for the monitoring of cash flows during the fiscal year. Project-length budgets, which generally encompass more than one fiscal year, are also prepared for major construction projects. Both the operating and project-length expenditure plans are prepared on the cash basis of accounting, which significantly differs from the accrual basis of accounting that the Association uses in the preparation of its financial statements.

These managerial budgets that are prepared for operations each year or at the inception of a major construction project are not adopted by the Board as legally imposed restrictions on expenditures. Basically, the operating budgets provide management with a tool for estimating and monitoring cash flows in each fiscal period. Accordingly, budgetary comparisons are not presented in the accompanying financial statements.

FLEMING COUNTY WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Doubtful Accounts

No allowance for doubtful accounts has been established. The Association considers all receivables to be fully collectible based on their strict cut-off policy. If amounts become uncollectible, the amounts due are offset by any customer deposit held and the balance charged to operations when that determination is made.

Accounts and Unbilled Receivables

Accounts receivable are stated at face amount. Unbilled receivables represent income earned during the current year, but not yet billed to the customer. The billing mailed on December 26, 2015 was for customer usage from approximately November 15 through December 15, 2015. The entire amount is considered accounts receivable as of December 31, 2015. The billing mailed on January 30, 2016 was for usage from approximately December 15, 2015 through January 15, 2016. Fifty percent of this billing is considered unbilled receivables at December 31, 2015.

Customer receivables are used as collateral for outstanding Rural Development debt.

Advertising Costs

The Association expenses advertising costs as incurred.

Property, Plant and Equipment

Capital assets, which include, property, plant, equipment, and infrastructure assets (e.g., water distribution systems, sewer collection systems and similar items) are reported as a component of noncurrent assets in the basic financial statement. Capital assets are generally defined by the Association as being those assets with an initial individual cost of more than \$750 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 5,000	20-50
Buildings and Building Improvements	\$ 5,000	35-40
Machinery and Equipment	\$ 4,000	7-10
Vehicles/Trailers	\$ 5,000	5-7
Tools, Shop & Garage Equipment	\$ 750	7-10
Communication Equipment	\$ 1,000	10-15
Office Furniture and Equipment	\$ 1,000	5-10
Water Lines - Meters/Mains/System Lines/ Plant/Radio Read	\$ 5,000	10-50
Tanks and Pumping Equipment	\$ 5,000	20-50

FLEMING COUNTY WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, Plant and Equipment (Continued)

The reported value excludes the costs of normal maintenance and repairs that are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate.

Depreciation is charged as an expense against operations. Capital assets of the Association are depreciated using the straight-line method over their estimated useful lives in years.

The depreciation expense during the period ended December 31, 2015 is \$275,763.

Cash and Cash Equivalents

For the purpose of these financial statements, cash and cash equivalents consist of unrestricted cash on hand, demand and savings deposits and certificates of deposit.

Inventory and Prepaid Items

Included in inventory are materials and supplies to support maintenance work on the Association's infrastructure. All inventories maintained by the Association are valued at cost.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. An example of a prepaid item for the Association is property and liability insurance premiums.

Federal Income Tax

Income of the Association is exempt from tax under Internal Revenue Code Section 501(c)(12). Accordingly, the financial statements include no provision for income taxes.

All significant tax positions have been considered by management. It has been determined that it is more likely than not that all tax positions would be sustained upon examination by taxing authorities. Federal tax returns are subject to examination by taxing authorities generally for three years after they are filed.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates that effect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE B – RESTRICTIONS ON CASH

Sinking Fund

Deposits into Sinking Funds are required to be made monthly in order to accumulate funds for payment of loan principle and interest. At December 31, 2015, \$172,650 was required to be on deposit to meet payments of interest and principal due on loans for 2016. The balance in this account at December 31, 2015 was \$227,136.

FLEMING COUNTY WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE B – RESTRICTIONS ON CASH (Continued)

Depreciation Reserve

The Depreciation Reserve Account is being maintained as required in various loan documents. The Association was required to deposit \$415 per month into the account. At December 31, 2015, \$142,500 was the required balance of the Depreciation Reserve account. The Association had \$203,893 in this account for the purpose of maintaining the water system.

Construction

The Construction Account is being maintained to record revenues and expenses associated with the 2012 Waterline Extension project. The balance in this account at December 31, 2015 was \$501.

NOTE C – CASH DEPOSITS WITH FINANCIAL INSTITUTIONS

The Association’s funds are on deposit at a local financial institution. At December 31, 2015, the carrying amount of the Association’s cash was \$1,056,441 and the bank balances were \$1,062,148. The difference between the carrying amount and the bank balances results from deposits in transit and outstanding checks. As of December 31, 2015, the bank balances were either insured by FDIC or covered by pledged collateral.

Deposits Covered by Federal Insurance	\$	294,968
Deposits Collateralized		767,180
Total Bank Balance		\$ 1,062,148

NOTE D – COMPENSATED ABSENCES

It is the Association’s policy to permit its employees to accumulate earned but unused vacation and sick pay benefits. The unused vacation or annual leave is considered a vested employee benefit.

In recognition of the resulting obligation, the Association has accrued a liability for earned but unused vacation and sick leave, having determined that payment of such compensation is probable and having developed a reasonable estimate based upon current salary costs and annual leave balances as of December 31, 2015. The liability for compensated absences at December 31, 2015 was \$53,904.

NOTE E – INSURANCE COVERAGE

The Association is exposed to various risks of loss. The Association carries commercial insurance for risks of loss. As of December 31, 2015, there were no known losses for which an accrual was considered necessary and no estimated claims that have been incurred, but not reported. There have been no settlements that have exceeded insurance coverage for each of the past three fiscal years.

FLEMING COUNTY WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE F – PROPERTY, PLANT AND EQUIPMENT

The Association’s major classes of utility capital assets and accumulated depreciation are shown below:

	Reporting Entity			Ending Balance
	Beginning Balance	Increases	Decreases	
Capital Assets Not Being Depreciated:				
Land	\$ 54,273	\$	\$	\$ 54,273
Construction In Progress	777,111	387,787	1,164,898	0
Total Capital Assets Not Being Depreciated	831,384	387,787	1,164,898	54,273
Capital Assets, Being Depreciated:				
Land Improvements	53,767			53,767
Buildings and Improvements	235,944			235,944
Machinery and Equipment	126,852	105,209		232,061
Vehicles	187,995			187,995
Tools, Shop & Garage Equipment	23,926	6,222		30,148
Communication Equipment	8,041	10,942		18,983
Office Furniture and Equipment	121,932	4,245		126,177
Water Lines	10,406,984	1,180,498		11,587,482
Tanks and Pumping Equipment	680,590			680,590
Total Capital Assets Being Depreciated	11,846,031	1,307,116		13,153,147
Less Accumulated Depreciation for:				
Land Improvements	(7,751)	(2,408)		(10,159)
Buildings and Improvements	(98,493)	(5,899)		(104,392)
Machinery and Equipment	(48,113)	(15,477)		(63,590)
Vehicles	(134,114)	(16,166)		(150,280)
Tools, Shop & Garage Equipment	(22,093)	(878)		(22,971)
Communication Equipment	(8,030)	(849)		(8,879)
Office Furniture and Equipment	(103,533)	(6,364)		(109,897)
Water Lines	(3,239,973)	(213,465)		(3,453,438)
Tanks and Pumping Equipment	(202,642)	(14,247)		(216,889)
Total Accumulated Depreciation	(3,864,742)	(275,753)		(4,140,495)
Total Capital Assets, Being Depreciated, Net	7,981,289	1,031,363		9,012,652
Business-Type Activities Capital Assets, Net	\$ 8,812,673	\$ 1,419,150	\$ 1,164,898	\$ 9,066,925

FLEMING COUNTY WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE G – LONG-TERM DEBT

1. On July 14, 1992 the Association entered into a promissory note agreement with Rural Development in the amount of \$504,000 for the purpose of providing a water distribution system in Fleming County, Kentucky. Annual principal and interest payments at a rate of 5% are required on July 14. In March 2015, the Association entered into an assistance agreement with Kentucky Rural Water Finance Corporation to refund this debt. As of December 31, 2015, the principal balance outstanding was \$0. (See Long-Term Debt #9.)

2. On October 13, 1994 the Association entered into a promissory note agreement with Rural Development in the amount of \$185,600 for the purpose of providing a water distribution system. Annual principal and interest payments at a rate of 4.5% are required on October 13. As of December 31, 2015, the principal balance outstanding was \$129,208. Debt service requirements for year ending December 31, 2015, and thereafter are as follows:

<u>Year Ended December 31</u>	<u>Scheduled Principal</u>	<u>Scheduled Interest</u>
2016	\$ 4,461	\$ 5,824
2017	4,662	5,623
2018	4,871	5,414
2019	5,091	5,194
2020	5,320	4,965
2021-2025	30,414	21,011
2026-2030	37,900	13,525
2031-2034	36,489	4,204
Totals	<u>\$ 129,208</u>	<u>\$ 65,760</u>

3. On October 13, 1994 the Association entered into a promissory note agreement with Rural Development in the amount of \$700,000 for the purpose of providing a water distribution system. Annual principal and interest payments at a rate of 4.5% are required on October 13. As of December 31, 2015, the principal balance outstanding was \$487,415. Debt service requirements for the year ending December 31, 2015, and thereafter are as follows:

FLEMING COUNTY WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE G – LONG-TERM DEBT (CONTINUED)

3. (Continued)

<u>Year Ended December 31</u>	<u>Scheduled Principal</u>	<u>Scheduled Interest</u>
2016	\$ 16,818	\$ 21,969
2017	17,574	21,213
2018	18,365	20,422
2019	19,191	19,596
2020	20,055	18,732
2021-2025	114,653	79,282
2026-2030	142,878	51,057
2031-2034	<u>137,881</u>	<u>16,366</u>
Totals	<u>\$ 487,415</u>	<u>\$ 248,637</u>

4. On April 23, 1997 the Association entered into a promissory note agreement with Rural Development in the amount of \$529,000 for the purpose of providing a water distribution system. Annual principal and interest payments at a rate of 5% are required on April 23. In March 2015, the Association entered into an assistance agreement with Kentucky Rural Water Finance Corporation to refund this debt. As of December 31, 2015, the principal balance outstanding was \$0. (See Long-Term Debt #9.)
5. On November 22, 2000 the Association entered into a promissory note agreement with Rural Development in the amount of \$267,980 for the purpose of providing a water distribution system. Annual principal and interest payments at a rate of 4.5% are required on November 22. As of December 31, 2015, the principal balance outstanding was \$219,923. Debt service requirements for the year ending December 31, 2015, and thereafter are as follows:

<u>Year Ended December 31</u>	<u>Scheduled Principal</u>	<u>Scheduled Interest</u>
2016	\$ 4,944	\$ 9,905
2017	5,167	9,682
2018	5,399	9,450
2019	5,642	9,207
2020	5,896	8,953
2021-2025	33,707	40,538
2026-2030	42,005	32,240
2031-2035	52,347	21,898
2036-2040	<u>64,816</u>	<u>9,012</u>
Totals	<u>\$ 219,923</u>	<u>\$ 150,885</u>

FLEMING COUNTY WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE G – LONG-TERM DEBT (CONTINUED)

6. On August 18, 2004 the Association entered into a promissory note agreement with Rural Development in the amount of \$554,000 for the purpose of providing water lines. Annual principal and interest payments at a rate of 4.5% are required on August 18. As of December 31, 2015, the principal balance outstanding was \$447,916. Debt service requirements for the year ending December 31, 2015, and thereafter are as follows:

<u>Year Ended December 31</u>	<u>Scheduled Principal</u>	<u>Scheduled Interest</u>
2016	\$ 10,541	\$ 20,157
2017	11,017	19,681
2018	11,511	19,187
2019	12,030	18,668
2020	12,572	18,126
2021-2025	71,868	95,819
2026-2030	89,561	81,622
2031-2035	111,610	41,880
2036-2040	117,206	14,405
Totals	<u>\$ 447,916</u>	<u>\$ 329,545</u>

7. On May 28, 2009 the Association entered into a promissory note agreement with Rural Development in the amount of \$375,000 for the purpose of providing potable water to rural areas of Fleming County, Kentucky. Annual principal and interest payments at a rate of 3.265% are required on May 28. As of December 31, 2015, the principal balance outstanding was \$354,983. Debt service requirements for the year ending December 31, 2015, and thereafter are as follows:

<u>Year Ended December 31</u>	<u>Scheduled Principal</u>	<u>Scheduled Interest</u>
2016	\$ 5,466	\$ 12,868
2017	5,664	12,670
2018	5,869	12,465
2019	6,082	12,252
2020	6,303	12,031
2021-2025	35,110	56,560
2026-2030	41,952	49,718
2031-2035	50,128	41,542
2036-2040	59,896	31,774
2041-2045	71,569	20,101
2046-2049	66,944	6,163
Totals	<u>\$ 354,983</u>	<u>\$ 268,144</u>

FLEMING COUNTY WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE G – LONG-TERM DEBT (CONTINUED)

8. On November 7, 2012, the Association entered in a promissory note agreement with Rural Development in the amount of \$957,000 for the purpose of providing a portion of the cost of acquiring and constructing a water facility. The principal and interest shall be paid over 40 years with an interest rate not to exceed 2.75% with an interest only payment due in 2016 and principal and interest payment beginning in 2017. As of December 31, 2015, the principal balance outstanding was \$956,568. Debt service requirements for the year ending December 31, 2015, and thereafter are as follows:

Year Ended December 31	Scheduled Principal	Scheduled Interest
2016	\$	\$ 26,318
2017	14,595	26,318
2018	14,956	25,916
2019	15,408	25,504
2020	15,763	25,149
2021-2025	86,399	118,701
2026-2030	98,337	106,223
2031-2035	112,627	91,933
2036-2040	128,958	78,602
2041-2045	147,750	56,810
2046-2050	169,223	35,337
2051-2055	152,552	10,727
Totals	\$ 956,568	\$ 627,538

9. On March 10, 2015, the Association entered into an assistance agreement with Kentucky Rural Water Finance Corporation in the amount of \$790,000 for the purpose of refunding outstanding Promissory Note, dated July 14, 1992 (See #1 in Long-term Debt Note) in the original authorized principal amount of \$504,000 and Promissory Note, dated April 23, 1997, in the original authorized principal amount of \$529,000 (See #4 in Long-term Debt Note). The notes are being refunded in order to affect substantial debt service savings. Principal and interest payments are made monthly with a variable interest rate of 3.0% to 4.25% to be paid in full by January 2037. As of December 31, 2015, the principal balance outstanding was \$760,000. Debt service requirements for the year ending December 31, 2015, and thereafter are as follows:

FLEMING COUNTY WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE G – LONG-TERM DEBT (CONTINUED)

9. (Continued)

<u>Year Ended December 31</u>	<u>Scheduled Principal</u>	<u>Scheduled Interest</u>
2016	\$ 30,000	\$ 26,697
2017	35,000	25,797
2018	35,000	24,747
2019	35,000	23,697
2020	35,000	22,647
2021-2025	195,000	96,587
2026-2030	225,000	60,483
2031-2035	145,000	20,827
2036-2037	25,000	1,064
Totals	<u>\$ 760,000</u>	<u>\$ 302,546</u>

NOTE H – LONG TERM DEBT IN THE AGGREGATE

<u>Year Ended December 31</u>	<u>Scheduled Principal</u>	<u>Scheduled Interest</u>
2016	\$ 72,230	\$ 123,738
2017	93,679	120,984
2018	95,971	117,601
2019	98,444	114,118
2020	100,909	110,603
2021-2025	567,151	508,498
2026-2030	677,633	394,868
2031-2035	646,082	238,650
2036-2040	395,876	134,857
2041-2045	219,319	76,911
2046-2050	236,167	41,500
2051-2055	152,552	10,727
Totals	<u>\$ 3,356,013</u>	<u>\$ 1,993,055</u>

FLEMING COUNTY WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE I – CHANGES IN LONG-TERM DEBT

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Business-type Activities:</u>					
Refunding Note	\$	\$ 790,000	\$ 30,000	\$ 760,000	\$ 30,000
Promissory Notes	3,119,157	288,866	812,010	2,596,013	42,230
<u>Business-type Activities</u>					
Long-term Liabilities	\$ 3,119,157	\$ 1,078,866	\$ 842,010	\$ 3,356,013	\$ 72,230

NOTE J – RETIREMENT

401K

In July 1992, the Association elected to participate in a 457 Prototype Plan. The Association established the plan open to all eligible employees and later discovered that it was not a money purchase plan but was in fact an eligible deferred compensation plan under section 457(b) of the Code which could not include all its rank and file employees. The Association now holds all of the deferred compensation contributed by itself and its employees to the plan in trust for their exclusive benefit, in violation of the requirements of section 457(b)(6) that a plan be unfunded and that its assets remain part of the employer's general assets. To correct this violation the Association froze the plan on December 31, 2007 when it had \$633,446 in assets. There were withdrawals of \$33,360 during 2015 by employees due to retirement. As of December 31, 2015, the plan had a balance of \$799,756 including \$31,648 in earnings for the year.

In January 2008, the Association elected to participate in a 401(K) Retirement Saving Plan. The Association contributes 10% of the employees' salary to the plan. Employees may elect to contribute a portion of their compensation to the plan. Employees are eligible to participate in the plan when they attain the age of 21 and have completed 180 days of service to the Association. Benefits generally occur at an employee's normal (age 65) or early retirement date (age 55), unless they postpone their actual retirement. Upon termination employees will only be entitled to receive the vested percentage of their account balance.

The Association's contribution for the year ended December 31, 2015 was \$36,021.

NOTE K – SUBSEQUENT EVENTS

Subsequent events have been evaluated through March 25, 2016, which is the date the financial statements were available to be issued.

Morgan-Franklin, LLC

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INDEPENDENT AUDITORS' 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 of
Fleming County Water Association, Inc.

We 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 Fleming County Water Association, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2015, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 25, 2016.

Internal Control Over Financial Reporting

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

Our 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 our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Independent Auditors' 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*

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Fleming County Water Association, Inc.'s financial statements are free from material misstatement, we 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 our audit, and accordingly, we do not express such an opinion. The results of our 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 our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization'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.

Morgan - Franklin, LLC

Morgan-Franklin, LLC
West Liberty, Kentucky
March 25, 2016