

**FLEMING COUNTY  
WATER ASSOCIATION, INC.**

**AUDIT OF FINANCIAL STATEMENTS**

**For The Year Ended December 31, 2023**

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# *Morgan and Associates, LLC*

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## **Independent Auditor's Report**

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

### **Report on the Audit of the Financial Statements**

#### ***Opinion***

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, 2023, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Fleming County Water Association, Inc. as of December 31, 2023, 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***

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Fleming County Water Association, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### ***Responsibilities of Management 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, 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 Fleming County 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.

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

***Auditor's Responsibilities for the Audit of the Financial Statements***

Our 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 our opinion. 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 standards and *Government Auditing 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 and *Government Auditing Standards*, we:

- 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 Fleming County 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 our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Fleming County Water Association's ability to continue as a going concern for a reasonable period of time.

We are 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 we identified during the audit.

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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 21, 2024, 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 solely 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 the effectiveness of Fleming County 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 Fleming County Water Association, Inc.'s internal control over financial reporting and compliance.

*Morgan and Associates, LLC*

Morgan and Associates, LLC  
West Liberty, Kentucky

February 21, 2024

**FLEMING COUNTY WATER ASSOCIATION, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
**December 31, 2023**

**ASSETS**

**CURRENT ASSETS**

Cash - Unrestricted	\$ 623,392
Cash - Restricted	291,486
Accounts Receivable	159,332
Unbilled Receivables	88,055
Inventory	109,151
Prepaid Insurance	<u>9,965</u>
 Total Current Assets	 1,281,381

**NONCURRENT ASSETS**

Cash - Restricted	<u>208,370</u>
 Total Noncurrent Assets	 208,370

**PROPERTY AND EQUIPMENT**

(Net of Accumulated Depreciation)

Land	129,823
Land Improvements	27,254
Buildings and Building Improvements	168,669
Machinery and Equipment	34,886
Vehicles	52,190
Tools, Shop and Garage Equipment	5,665
Communication Equipment	17,240
Office Furniture and Equipment	17,667
Water Lines	6,064,557
Tanks and Pumping Equipment	<u>823,340</u>
 Total Property and Equipment	 <u>7,341,291</u>

<b>TOTAL ASSETS</b>	<b><u><u>\$ 8,831,042</u></u></b>
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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, 2023**

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accrued Payroll Taxes	\$	3,315
Accounts Payable		99,066
Accrued Wages		2,979
Accrued Retirement Expense		2,674
Unearned Revenues		25,473
Accrued School and Sales Tax		8,706
Accrued Interest		32,440
Loan Payable		79,839
		79,839

Total Current Liabilities		254,492
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LONG-TERM LIABILITIES

Compensated Absences		90,750
Loan Payable		1,929,316
Loan Origination Fees (Net of Accumulated Amortization of \$12,844)		(19,449)
		(19,449)

Total Long-Term Liabilities		2,000,617
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OTHER LIABILITIES

Customer Deposits		166,249
		166,249

TOTAL LIABILITIES		2,421,358
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NET ASSETS

Without Donor Restrictions - General		5,909,828
With Donor Restrictions		499,856
		499,856

TOTAL NET ASSETS		6,409,684
		6,409,684

TOTAL LIABILITIES AND NET ASSETS	\$	8,831,042
		8,831,042

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, 2023**

<b>OPERATING INCREASES IN NET ASSETS</b>	
<b>WITHOUT DONOR RESTRICTIONS</b>	
Water Collection	\$ 2,029,740
Late Penalties	30,181
Member Dues	2,850
Tap-On Fees	102,691
Miscellaneous Services	62,630
	2,228,092
<b>OPERATING DECREASES IN NET ASSETS</b>	
<b>WITHOUT DONOR RESTRICTIONS</b>	
Salaries and Wages - Employees	507,815
Directors Fees	14,000
Employee Benefits	216,850
Purchased Water	652,253
Purchased Power	16,108
Taxes Other Than Income	5,794
Materials and Supplies	294,944
Contracted Services	72,573
Transportation Expense	63,051
Insurance	29,198
Advertising	647
Miscellaneous Expenses	19,793
	1,893,026
<b>OPERATING INCREASE IN NET ASSETS WITHOUT</b>	
<b>DONOR RESTRICTIONS BEFORE DEPRECIATION</b>	
	335,066
Depreciation	(353,115)
<b>OPERATING INCREASE (DECREASE) IN NET ASSETS</b>	
<b>WITHOUT DONOR RESTRICTIONS</b>	
	(18,049)
<b>NONOPERATING INCREASES (DECREASES) IN</b>	
<b>NET ASSETS WITHOUT DONOR RESTRICTIONS</b>	
Interest Expense	(78,712)
Interest Income	3,614
	(75,098)
<b>NET INCREASE (DECREASE) IN</b>	
<b>NET ASSETS WITHOUT DONOR RESTRICTIONS</b>	
	(93,147)

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, 2023**

<b>NONOPERATING INCREASE (DECREASE) IN NET ASSETS WITH DONOR RESTRICTIONS</b>	
Interest Income	<u>12,832</u>
<b>NET INCREASE (DECREASE) IN NET ASSETS WITH DONOR RESTRICTIONS</b>	
	<u>12,832</u>
<b>CHANGE IN NET ASSETS</b>	
	(80,315)
Net Assets- Beginning	<u>6,489,999</u>
Total Net Assets - Ending	<u><u>\$ 6,409,684</u></u>

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

**FLEMING COUNTY WATER ASSOCIATION, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**For The Year Ended December 31, 2023**

<b>EXPENSES</b>	<u>Program Services</u>	<u>Management &amp; General</u>	<u>Total</u>
Advertising	\$ 317	\$ 330	\$ 647
Contracted Services	35,561	37,012	72,573
Depreciation	353,115		353,115
Employee Benefits	106,256	110,594	216,850
Insurance	14,307	14,891	29,198
Interest Expense	78,712		78,712
Materials and Supplies	256,500	38,444	294,944
Miscellaneous Expenses	9,699	10,094	19,793
Purchased Power	13,584	2,524	16,108
Purchased Water	652,253		652,253
Directors Fees		14,000	14,000
Salaries and Wages - Employees	248,829	258,986	507,815
Taxes Other Than Income	2,839	2,955	5,794
Transportation Expense	30,895	32,156	63,051
<b>TOTAL EXPENSES</b>	<u>\$ 1,802,867</u>	<u>\$ 521,986</u>	<u>\$ 2,324,853</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, 2023**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Operating Increase (Decrease) in Net Assets Without Donor Restrictions	\$ (18,049)
Adjustments to Reconcile Operating Change in Net Assets Without Donor Restrictions to Net Cash Provided by Operating Activities:	
Depreciation Expense	353,115
Changes in Operating Assets and Liabilities:	
Accounts Receivable	14,661
Inventory	168,625
Accounts Payable	(57,434)
Accrued Payroll Expenses	(366)
Accrued Retirement Expense	(647)
Unearned Revenues	(4,358)
Accrued School and Sales Tax	(4,526)
Customer Deposits	14,375
	14,375

**CASH PROVIDED BY OPERATING ACTIVITIES** 465,396

**CASH FLOWS FROM FINANCING ACTIVITIES**

Additions to Capital Assets	(102,832)
Interest Paid on Capital Debt	(77,244)
Reduction in Notes Payable	(78,534)
	(78,534)

**CASH USED FOR FINANCING ACTIVITIES** (258,610)

**CASH FLOWS FROM INVESTING ACTIVITIES**

Interest Income	16,446
	16,446

**CASH PROVIDED BY INVESTING ACTIVITIES** 16,446

**NET INCREASE IN CASH, CASH EQUIVALENTS,  
AND RESTRICTED CASH** 223,232

**CASH, CASH EQUIVALENTS, AND RESTRICTED CASH  
AT BEGINNING OF YEAR** 900,016

**CASH, CASH EQUIVALENTS, AND RESTRICTED CASH  
AT END OF YEAR** \$ 1,123,248

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, 2023**

**TOTAL CASH, CASH EQUIVALENTS, AND RESTRICTED CASH CONSIST OF:**

Cash and Cash Equivalents	\$ 623,392
Cash Restricted for Depreciation Reserve	208,370
Cash Restricted Due to Loan Covenants	<u>291,486</u>
	<u><u>\$ 1,123,248</u></u>

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

**FLEMING COUNTY WATER ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2023**

**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, 2023 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 non-operating 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 non-operating revenues and expenses.

**FLEMING COUNTY WATER ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2023**

**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: net assets without donor restrictions – general; net assets without donor restrictions – contributed capital; and, net assets with donor restrictions.

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.

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 in December 2023 was for customer usage from approximately November 15 through December 15, 2023. The entire amount is considered accounts receivable as of December 31, 2023. The billing mailed in January 2024 was for usage from approximately December 15, 2023 through January 15, 2024. Fifty percent of this billing is considered unbilled receivables at December 31, 2023.

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

Advertising Costs

The Association expenses advertising costs as incurred.

**FLEMING COUNTY WATER ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2023**

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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. Donated capital assets are recorded at acquisition value.

	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	5-10
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

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, 2023 is \$353,115.

Cash, Cash Equivalents and Liquidity

The Association considers all restricted and unrestricted monies in banks and highly liquid investments with a maturity of three months or less to be cash equivalents. The Association normally maintains sufficient cash and cash equivalents to meet its working capital needs. Deposits are carried at cost, which approximates market value.

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.

**FLEMING COUNTY WATER ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2023**

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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.

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.

**NOTE B – RESTRICTIONS ON CASH**

Sinking Funds

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, 2023, \$148,731 was required to be on deposit to meet payments of interest and principal due on loans for 2024. The balance in these accounts at December 31, 2023 was \$290,985.

Depreciation Reserve

The Depreciation Reserve Account is being maintained as required in various loan documents. The Association was required to deposit \$400 per month into the account. At December 31, 2023, \$87,060 was the required balance of the Depreciation Reserve account. The Association had \$208,370 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, 2023 was \$501.

**NOTE C – CASH DEPOSITS WITH FINANCIAL INSTITUTIONS**

The Association's funds are on deposit at a local financial institution. At December 31, 2023, the carrying amount of the Association's cash was \$1,123,248 and the bank balances were \$1,123,640. The difference between the carrying amount and the bank balances results from deposits in transit and outstanding checks. As of December 31, 2023, the bank balances were either insured by FDIC or covered by pledged collateral.



**FLEMING COUNTY WATER ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2023**

**NOTE C – CASH DEPOSITS WITH FINANCIAL INSTITUTIONS (Continued)**

Deposits Covered by Federal Insurance	\$ 99,414
Deposits Collateralized with Repurchase Agreement	<u>1,024,226</u>
Total Bank Balance	<u>\$ 1,123,640</u>

**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, 2023. The liability for compensated absences at December 31, 2023 was \$90,750.

**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, 2023, 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 the current year or three prior years.

**NOTE F – FAIR VALUE MEASUREMENT**

The carrying amount of the following financial instruments approximate fair value because of the short maturity of the instruments: cash equivalents and accounts receivable.

**NOTE G – 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 \$49,397 during 2023 by employees due to retirement. As of December 31, 2023, the plan had a balance of \$504,774 including \$17,456 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, 2023 was \$47,346.

**FLEMING COUNTY WATER ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2023**

**NOTE H – PROPERTY, PLANT AND EQUIPMENT**

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

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets Not Being Depreciated:				
Land	\$ 129,823	\$	\$	\$ 129,823
Total Capital Assets Not Being Depreciated	129,823			129,823
Capital Assets, Being Depreciated:				
Land Improvements	58,215			58,215
Buildings and Improvements	341,835			341,835
Machinery and Equipment	232,062	18,414		250,476
Vehicles	242,596			242,596
Tools, Shop & Garage Equipment	37,537			37,537
Communication Equipment	55,341		(8,041)	47,300
Office Furniture and Equipment	164,710	5,170	(107,835)	62,045
Water Lines	10,972,102	57,677		11,029,779
Tanks and Pumping Equipment	1,211,478	21,571		1,233,049
Total Capital Assets Being Depreciated	13,315,876	102,832	(115,876)	13,302,832
Less Accumulated Depreciation for:				
Land Improvements	(27,916)	(3,045)		(30,961)
Buildings and Improvements	(164,021)	(9,145)		(173,166)
Machinery and Equipment	(203,743)	(11,847)		(215,590)
Vehicles	(168,748)	(21,658)		(190,406)
Tools, Shop & Garage Equipment	(31,133)	(739)		(31,872)
Communication Equipment	(32,884)	(5,217)	8,041	(30,060)
Office Furniture and Equipment	(146,379)	(5,834)	107,835	(44,378)
Water Lines	(4,700,378)	(264,844)		(4,965,222)
Tanks and Pumping Equipment	(378,923)	(30,786)		(409,709)
Total Accumulated Depreciation	(5,854,125)	(353,115)	115,876	(6,091,364)
Total Capital Assets, Being Depreciated, Net	7,461,751	(250,283)		7,211,468
Business-Type Activities Capital Assets, Net	\$ 7,591,574	\$ (250,283)	\$ 0	\$ 7,341,291

**FLEMING COUNTY WATER ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2023**

**NOTE I – LONG-TERM DEBT**

1. 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. Upon default, the Government at its option may declare all or any part of any such indebtedness immediately due and payable. As of December 31, 2023, the principal balance outstanding was \$349,034. Debt service requirements for the year ending December 31, 2023, and thereafter are as follows:

<u>Year Ended</u> <u>December 31</u>	<u>Scheduled</u> <u>Principal</u>	<u>Scheduled</u> <u>Interest</u>
2024	\$ 14,991	\$ 15,707
2025	15,666	15,032
2026	16,371	14,327
2027	17,108	13,590
2028	17,877	12,821
2029-2033	102,205	51,285
2034-2038	127,365	26,125
2039-2040	37,451	2,066
Totals	<u>\$ 349,034</u>	<u>\$ 150,953</u>

2. 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 each year. Upon default, the Government at its option may declare all or any part of any such indebtedness immediately due and payable. As of December 31, 2023, the principal balance outstanding was \$305,286. Debt service requirements for the year ending December 31, 2023, and thereafter are as follows:

<u>Year Ended</u> <u>December 31</u>	<u>Scheduled</u> <u>Principal</u>	<u>Scheduled</u> <u>Interest</u>
2024	\$ 7,267	\$ 11,067
2025	7,531	10,803
2026	7,804	10,530
2027	8,087	10,247
2028	8,379	9,955
2029-2033	46,682	44,988
2034-2038	55,779	35,891
2039-2043	66,649	25,021
2044-2048	79,637	12,033
2049	17,471	633
Totals	<u>\$ 305,286</u>	<u>\$ 171,168</u>

**FLEMING COUNTY WATER ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2023**

**NOTE I – LONG-TERM DEBT (CONTINUED)**

3. 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. Upon default, the Government at its option may declare all or any part of any such indebtedness immediately due and payable. As of December 31, 2023, the principal balance outstanding was \$845,985. Debt service requirements for the year ending December 31, 2023, and thereafter are as follows:

Year Ended December 31	Scheduled Principal	Scheduled Interest
2024	\$ 17,581	\$ 23,331
2025	18,128	22,784
2026	18,627	22,285
2027	19,139	21,773
2028	19,607	21,305
2029-2033	106,679	97,881
2034-2038	122,183	82,377
2039-2043	139,938	64,621
2044-2048	160,258	44,302
2049-2053	184,043	20,979
2054	39,802	1,110
Totals	\$ 845,985	\$ 422,748

4. 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 an outstanding Promissory Note, dated July 14, 1992 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. 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. Upon the occurrence of an Event of Default, the Issuer or the Trustee on its behalf, as owner of the Obligations, may enforce and compel the performance of all duties and obligations of the Borrower as set forth herein. Upon the occurrence of an Event of Default, then, upon the filing of suit by the Trustee or the Issuer, any court having jurisdiction of the action may appoint a receiver to administer the System on behalf of the Borrower, with power to charge and collect rates sufficient to provide for the payment of the principal of and interest on the Obligations, and for the payment of operation and maintenance expenses of the System, and to provide and apply the income and revenues in conformity with this Assistance Agreement and with the laws of the Commonwealth of Kentucky. In addition to and apart from the foregoing, upon the occurrence of an Event of Default, the owner of any of the Obligations may require the Borrower by demand, court order, injunction, or otherwise, to raise all applicable rates charged for services of the System a reasonable amount, consistent with the requirements of this Assistance Agreement. As of December 31, 2023, the principal balance outstanding was \$508,850. Debt service requirements for the year ending December 31, 2023, and thereafter are as follows:

**FLEMING COUNTY WATER ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2023**

**NOTE I – LONG-TERM DEBT (CONTINUED)**

4. (Continued)

Year Ended December 31	Scheduled Principal	Scheduled Interest
2024	\$ 40,000	\$ 18,748
2025	40,000	17,548
2026	40,000	16,178
2027	40,000	14,638
2028	45,000	13,002
2029-2033	210,000	38,731
2034-2037	93,850	12,736
Totals	<u>\$ 508,850</u>	<u>\$ 131,581</u>

**NOTE J – LONG TERM DEBT IN THE AGGREGATE**

Year Ended December 31	Scheduled Principal	Scheduled Interest
2024	\$ 79,839	\$ 68,853
2025	81,325	66,167
2026	82,802	63,320
2027	84,334	60,248
2028	90,863	57,083
2028-2032	465,566	232,885
2033-2037	399,177	157,129
2038-2042	244,038	91,708
2043-2047	239,895	56,335
2048-2052	201,514	21,612
2053-2054	39,802	1,110
Totals	<u>\$ 2,009,155</u>	<u>\$ 876,450</u>

**FLEMING COUNTY WATER ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2023**

**NOTE K – CHANGES IN LONG-TERM DEBT**

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Business-type Activities:</u>					
Refunding Note	\$ 548,850	\$	\$ 40,000	\$ 508,850	\$ 39,839
Promissory Notes	1,538,839		38,534	1,500,305	40,000
<u>Business-type Activities</u>					
Long-term Liabilities	<u>\$ 2,087,689</u>	<u>\$ 0</u>	<u>\$ 78,534</u>	<u>\$ 2,009,155</u>	<u>\$ 79,839</u>

**NOTE L – SUBSEQUENT EVENTS**

Subsequent events have been evaluated through February 21, 2024, which is the date the financial statements were available to be issued.

**NOTE M - RELATED PARTY TRANSACTIONS**

Two board members are directors of the depository where the Association's cash and investments are held.

**NOTE N – LIQUIDITY OF FINANCIAL ASSETS**

The Association's financial assets available within one year of the balance sheet date for general expenditures are as follows:

Cash – Unrestricted	\$623,392
Accounts Receivable	159,332
Unbilled Receivables	<u>88,055</u>
	<u>\$870,779</u>

**NOTE O – COST ALLOCATION**

The statement of functional expenses reports certain categories of expenses that are partially attributable to Program Services (water sales and distribution) as well as the Management and General function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include compensation and benefits for management and some office personnel, which are allocated based on estimates of time expended for each function. Additionally, some office and general expenses and cell phone expenses are allocated based on management's estimates.

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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 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, 2023, 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 our report thereon dated February 21, 2024.

### Report on 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) as a basis for designing 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 or significant deficiencies may exist that have not been identified.

**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***

**Report on 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 financial statements. 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 and Associates, LLC*

Morgan and Associates, LLC  
West Liberty, Kentucky  
February 21, 2024