

**FLEMING COUNTY
WATER ASSOCIATION, INC.**

AUDIT OF FINANCIAL STATEMENTS

For The Year Ended December 31, 2025

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TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1
Statement of Financial Position	4
Statement of Activities	6
Statement of Functional Expenses	8
Statement of Cash Flows	9
Notes to the Financial Statements	11
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 <i>Government Auditing Standards</i>	21

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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, 2025, 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, 2025, 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 March 12, 2026 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

March 12, 2026

FLEMING COUNTY WATER ASSOCIATION, INC.
STATEMENT OF FINANCIAL POSITION
December 31, 2025

ASSETS

CURRENT ASSETS

Cash - Unrestricted	\$ 987,095
Cash - Restricted	314,094
Accounts Receivable	208,203
Unbilled Receivables	104,364
Inventory	174,643
Prepaid Insurance	<u>9,965</u>
 Total Current Assets	 1,798,364

NONCURRENT ASSETS

Cash - Restricted	<u>226,398</u>
 Total Noncurrent Assets	 226,398

PROPERTY AND EQUIPMENT

(Net of Accumulated Depreciation)

Land	129,823
Land Improvements	21,163
Buildings and Building Improvements	150,379
Machinery and Equipment	87,523
Vehicles	114,000
Tools, Shop and Garage Equipment	4,186
Communication Equipment	17,413
Office Furniture and Equipment	18,027
Water Lines	5,832,008
Tanks and Pumping Equipment	<u>761,031</u>
 Total Property and Equipment	 <u>7,135,553</u>

TOTAL ASSETS	\$ <u>9,160,315</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, 2025

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accrued Payroll Taxes	\$	4,470
Accounts Payable		114,953
Accrued Wages		2,979
Accrued Retirement Expense		898
Unearned Revenues		25,473
Accrued School and Sales Tax		7,790
Accrued Interest		27,172
Loan Payable		<u>82,802</u>
 Total Current Liabilities		 266,537

LONG-TERM LIABILITIES

Compensated Absences	71,829
Loan Payable	1,765,558
Loan Origination Fees (Net of Accumulated Amortization of \$15,780)	<u>(16,514)</u>
 Total Long-Term Liabilities	 1,820,873

OTHER LIABILITIES

Customer Deposits	<u>191,976</u>
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TOTAL LIABILITIES 2,279,386

NET ASSETS

Without Donor Restrictions - General	6,359,175
With Donor Restrictions	<u>521,754</u>

TOTAL NET ASSETS 6,880,929

TOTAL LIABILITIES AND NET ASSETS \$ 9,160,315

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, 2025

OPERATING INCREASES IN NET ASSETS

WITHOUT DONOR RESTRICTIONS

Water Collection	\$ 2,391,151
Late Penalties	26,525
Member Dues	2,920
Tap-On Fees	103,422
Miscellaneous Services	118,660
	2,642,678

TOTAL OPERATING INCREASES IN NET ASSETS

WITHOUT DONOR RESTRICTIONS 2,642,678

OPERATING DECREASES IN NET ASSETS

WITHOUT DONOR RESTRICTIONS

Salaries and Wages - Employees	505,943
Directors Fees	14,400
Employee Benefits	209,066
Purchased Water	812,185
Purchased Power	19,924
Taxes Other Than Income	6,973
Materials and Supplies	214,607
Contracted Services	159,232
Transportation Expense	46,412
Insurance	34,513
Advertising	744
Miscellaneous Expenses	59,414
	2,083,413

TOTAL OPERATING DECREASES IN NET ASSETS

WITHOUT DONOR RESTRICTIONS 2,083,413

**OPERATING INCREASE IN NET ASSETS WITHOUT
DONOR RESTRICTIONS BEFORE DEPRECIATION**

	559,265
Depreciation	(421,430)
	137,835

**OPERATING INCREASE (DECREASE) IN NET ASSETS
WITHOUT DONOR RESTRICTIONS**

137,835

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, 2025

NONOPERATING INCREASES (DECREASES) IN	
NET ASSETS WITHOUT DONOR RESTRICTIONS	
Interest Expense	(74,358)
Loss on Disposal	(25,169)
Interest Income	<u>30,539</u>
NET INCREASE (DECREASE) IN	
NET ASSETS WITHOUT DONOR RESTRICTIONS	(68,988)
NONOPERATING INCREASE (DECREASE) IN NET ASSETS	
WITH DONOR RESTRICTIONS	
Interest Income	<u>17,691</u>
NET INCREASE (DECREASE) IN	
NET ASSETS WITH DONOR RESTRICTIONS	<u>17,691</u>
CHANGE IN NET ASSETS	86,538
Net Assets- Beginning	<u>6,794,391</u>
Total Net Assets - Ending	<u><u>\$ 6,880,929</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, 2025

EXPENSES	<u>Program Services</u>	<u>Management & General</u>	<u>Total</u>
Advertising	\$ 350	\$ 394	\$ 744
Contracted Services	132,989	26,243	159,232
Depreciation	421,430		421,430
Employee Benefits	98,261	110,805	209,066
Insurance	16,221	18,292	34,513
Interest Expense	74,358		74,358
Materials and Supplies	201,536	13,071	214,607
Miscellaneous Expenses	27,925	31,489	59,414
Purchased Power	11,763	8,161	19,924
Purchased Water	812,185		812,185
Directors Fees		14,400	14,400
Salaries and Wages - Employees	237,793	268,150	505,943
Taxes Other Than Income	3,277	3,696	6,973
Transportation Expense	46,412		46,412
TOTAL EXPENSES	<u>\$ 2,084,500</u>	<u>\$ 494,701</u>	<u>\$ 2,579,201</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, 2025

CASH FLOWS FROM OPERATING ACTIVITIES

Operating Increase (Decrease) in Net Assets Without Donor Restrictions	\$ 137,835
Adjustments to Reconcile Operating Change in Net Assets Without Donor Restrictions to Net Cash Provided by Operating Activities:	
Depreciation and Amortization Expense	419,961
Changes in Operating Assets and Liabilities:	
Accounts Receivable	(50,648)
Inventory	53
Accounts Payable	(93)
Accrued Payroll Expenses	(819)
Accrued Retirement Expense	(832)
Accrued School and Sales Tax	(5,392)
Customer Deposits	12,052
	12,052

CASH PROVIDED BY OPERATING ACTIVITIES 512,117

CASH FLOWS FROM FINANCING ACTIVITIES

Additions to Capital Assets	(41,764)
Interest Paid on Customer Deposits	(7,359)
Interest Paid on Capital Debt	(64,063)
Reduction in Notes Payable	(81,361)
	(81,361)

CASH USED FOR FINANCING ACTIVITIES (194,547)

CASH FLOWS FROM INVESTING ACTIVITIES

Interest Income	48,230
	48,230

CASH PROVIDED BY INVESTING ACTIVITIES 48,230

**NET INCREASE IN CASH, CASH EQUIVALENTS,
AND RESTRICTED CASH** 365,800

**CASH, CASH EQUIVALENTS, AND RESTRICTED CASH
AT BEGINNING OF YEAR** 1,161,787

**CASH, CASH EQUIVALENTS, AND RESTRICTED CASH
AT END OF YEAR** \$ 1,527,587

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, 2025

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

Cash and Cash Equivalents	\$ 987,095
Cash Restricted for Depreciation Reserve	226,398
Cash Restricted Due to Loan Covenants	314,094
	<u>\$ 1,527,587</u>

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

FLEMING COUNTY WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2025

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, 2025 the Association served approximately 4,600 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, 2025

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 2025 was for customer usage from approximately November 15 through December 15, 2025. The entire amount is considered accounts receivable as of December 31, 2025. The billing mailed in January 2026 was for usage from approximately December 15, 2025 through January 15, 2026. Fifty percent of this billing is considered unbilled receivables at December 31, 2025.

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, 2025

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, 2025 is \$421,430.

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, 2025

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 principal and interest. At December 31, 2025, \$147,165 was required to be on deposit to meet payments of interest and principal due on loans for 2026. The balance in these accounts at December 31, 2025 was \$313,589.

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, 2025, \$91,200 was the required balance of the Depreciation Reserve account. The Association had \$226,398 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, 2025 was \$505.

NOTE C – CASH DEPOSITS WITH FINANCIAL INSTITUTIONS

The Association's funds are on deposit at a local financial institution. At December 31, 2025, the carrying amount of the Association's cash was \$1,527,587 and the bank balances were \$1,540,371. The difference between the carrying amount and the bank balances results from deposits in transit and outstanding checks. As of December 31, 2025, the bank balances were either insured by FDIC or covered by pledged collateral.

FLEMING COUNTY WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2025

NOTE C – CASH DEPOSITS WITH FINANCIAL INSTITUTIONS (Continued)

Deposits Covered by Federal Insurance	\$ 123,628
Deposits Collateralized with Repurchase Agreement	<u>1,416,743</u>
Total Bank Balance	<u><u>\$ 1,540,371</u></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, 2025. The liability for compensated absences at December 31, 2025 was \$71,829.

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, 2025, 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 \$41,327 during 2025 by employees due to retirement. As of December 31, 2025, the plan had a balance of \$486,020 including \$16,887 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, 2025 was \$40,236.

FLEMING COUNTY WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2025

NOTE H – 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	\$ 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	295,367			295,367
Vehicles	269,284			269,284
Tools, Shop & Garage Equipment	33,537			33,537
Communication Equipment	58,190			58,190
Office Furniture and Equipment	67,766	5,300		73,066
Water Lines	11,301,371	36,464	(79,942)	11,257,893
Tanks and Pumping Equipment	1,233,049			1,233,049
Total Capital Assets Being Depreciated	13,658,614	41,764	(79,942)	13,620,436
Less Accumulated Depreciation for:				
Land Improvements	(34,006)	(3,045)		(37,051)
Buildings and Improvements	(182,311)	(9,145)		(191,456)
Machinery and Equipment	(189,972)	(17,870)		(207,842)
Vehicles	(116,916)	(38,368)		(155,284)
Tools, Shop & Garage Equipment	(28,611)	(739)		(29,350)
Communication Equipment	(35,640)	(5,138)		(40,778)
Office Furniture and Equipment	(49,476)	(5,565)		(55,041)
Water Lines	(5,170,253)	(310,405)	54,773	(5,425,885)
Tanks and Pumping Equipment	(440,864)	(31,155)		(472,019)
Total Accumulated Depreciation	(6,248,049)	(421,430)	54,773	(6,614,706)
Total Capital Assets, Being Depreciated, Net	7,410,565	(379,666)	(25,169)	7,005,730
Business-Type Activities Capital Assets, Net	\$ 7,540,388	\$ (379,666)	\$ (25,169)	\$ 7,135,553

FLEMING COUNTY WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2025

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, 2025, the principal balance outstanding was \$318,362. Debt service requirements for the year ending December 31, 2025, 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>
2026	\$ 16,371	\$ 14,327
2027	17,108	13,590
2028	17,877	12,821
2029	18,682	12,016
2030	19,523	11,175
2031-2035	111,610	41,880
2036-2040	<u>117,191</u>	<u>14,405</u>
Totals	<u>\$ 318,362</u>	<u>\$ 120,214</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, 2025, the principal balance outstanding was \$290,488. Debt service requirements for the year ending December 31, 2025, 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>
2026	\$ 7,804	\$ 10,530
2027	8,087	10,247
2028	8,379	9,955
2029	8,684	9,650
2030	8,998	9,336
2031-2035	50,128	41,542
2036-2040	59,896	31,774
2041-2045	71,569	20,101
2046-2049	<u>66,943</u>	<u>6,163</u>
Totals	<u>\$ 290,488</u>	<u>\$ 149,298</u>

FLEMING COUNTY WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2025

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, 2025, the principal balance outstanding was \$810,660. Debt service requirements for the year ending December 31, 2025, and thereafter are as follows:

Year Ended December 31	Scheduled Principal	Scheduled Interest
2026	\$ 18,627	\$ 22,285
2027	19,139	21,773
2028	19,607	21,305
2029	20,204	20,708
2030	20,760	20,152
2031-2035	112,627	91,933
2036-2040	128,958	75,602
2041-2045	147,749	56,811
2046-2050	169,223	35,337
2051-2054	153,766	10,727
Totals	\$ 810,660	\$ 376,633

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, 2025, the principal balance outstanding was \$428,850. Debt service requirements for the year ending December 31, 2025, and thereafter are as follows:

FLEMING COUNTY WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2025

NOTE I – LONG-TERM DEBT (CONTINUED)

4. (Continued)

<u>Year Ended December 31</u>	<u>Scheduled Principal</u>	<u>Scheduled Interest</u>
2026	\$ 40,000	\$ 16,178
2027	40,000	13,772
2028	45,000	14,638
2029	45,000	11,269
2030	45,000	9,536
2031-2035	170,000	24,102
2036-2037	<u>43,850</u>	<u>2,125</u>
Totals	<u>\$ 428,850</u>	<u>\$ 91,620</u>

NOTE J – LONG TERM DEBT IN THE AGGREGATE

<u>Year Ended December 31</u>	<u>Scheduled Principal</u>	<u>Scheduled Interest</u>
2026	\$ 82,802	\$ 63,320
2027	84,334	59,382
2028	90,863	58,719
2029	92,570	53,643
2030	94,281	50,199
2031-2035	444,365	199,457
2036-2040	349,895	123,906
2041-2045	219,318	76,912
2046-2050	236,166	41,500
2051-2054	<u>153,766</u>	<u>10,727</u>
Totals	<u>\$ 1,848,360</u>	<u>\$ 737,765</u>

FLEMING COUNTY WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2025

NOTE K – CHANGES IN LONG-TERM DEBT

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Business-type Activities:</u>					
Refunding Note	\$ 468,850	\$	\$ (40,000)	\$ 428,850	\$ 42,802
Promissory Notes	<u>1,460,871</u>		<u>(41,361)</u>	<u>1,419,510</u>	<u>40,000</u>
Business-type Activities					
Long-term Liabilities	<u>\$ 1,929,721</u>	<u>\$ 0</u>	<u>\$ (81,361)</u>	<u>\$ 1,848,360</u>	<u>\$ 82,802</u>

NOTE L – SUBSEQUENT EVENTS

Subsequent events have been evaluated through March 12, 2026, 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	\$ 987,095
Accounts Receivable	208,203
Unbilled Receivables	<u>104,364</u>
	<u>\$1,299,662</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, 2025, 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 March 12, 2026.

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
March 12, 2026