

Southeastern Water Association, Inc.

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

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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 <i>Government Auditing Standards</i>	20-21

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Southeastern Water Association, Inc.
Somerset, KY 42503

Report on the Audit of the Financial Statements

Opinion

I have audited the accompanying financial statements of Southeastern Water Association, Inc. (a non-profit organization), which comprise the statements of financial position as of December 31, 2023 and 2022, and the related statements of activities, changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In my opinion, the financial statements present fairly, in all material respects, the financial position of Southeastern Water Association, Inc., as of December 31, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

To the Board of Directors

Southeastern Water Association, Inc.

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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 Southeastern Water Association, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my 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* I:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Southeastern Water Association, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in my judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Southeastern Water Association, Inc.'s ability to continue as a going concern for a reasonable period of time.

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

To the Board of Directors

Southeastern Water Association, Inc.

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Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated July 5, 2024, on my consideration of Southeastern Water Association, Inc.'s internal control over financial reporting and on my 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 my 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 Southeastern 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 Southeastern Water Association, Inc.'s internal control over financial reporting and compliance.

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July 5, 2024

Somerset, Kentucky

Southeastern Water Association, Inc.
Statements of Financial Position
December 31, 2023 and 2022

Assets	2023	2022
Current Assets		
Cash and cash equivalents	\$ 382,914	\$ 1,906,882
Certificates of deposit	1,761,707	1,027,308
Accounts receivable (net of allowance of \$27,801 and \$26,211 at December 31, 2023 and 2022, respectively)	369,350	348,234
Inventory	370,087	144,829
Prepaid expenses	75,907	80,967
Total current assets	2,959,965	3,508,220
Property, Plant and Equipment		
Property, plant and equipment	47,481,195	45,266,259
Accumulated depreciation	(20,009,553)	(18,825,067)
Net property, plant and equipment	27,471,642	26,441,192
Other Assets		
Restricted cash accounts	1,352,881	1,321,955
Total other assets	1,352,881	1,321,955
Total Assets	\$ 31,784,488	\$ 31,271,367
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 320,317	\$ 349,680
Accrued liabilities	39,840	22,253
Accrued interest payable	47,989	58,698
Customer deposits	157,006	135,125
Advance tap-on fees	8,235	8,235
Current portion of long-term debt	394,387	382,195
Total current liabilities	967,774	956,186
Long-term Liabilities		
Long-term debt	10,966,029	11,351,547
Net of current portion	(394,387)	(382,195)
Total long-term liabilities	10,571,642	10,969,352
Total Liabilities	11,539,416	11,925,538
Net Assets, Without Donor Restrictions		
Reserved by contract	1,352,881	1,321,955
Reserved by board	1,120,000	1,120,000
Membership fees	163,536	159,076
Tap-on fees	3,620,703	3,459,303
Unrestricted, other	13,987,952	13,285,495
Total net assets	20,245,072	19,345,829
Total Liabilities and Net Assets	\$ 31,784,488	\$ 31,271,367

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

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

	<u>2023</u>	<u>2022</u>
Operating increases in net assets without donor restrictions		
Water sales	\$ 4,713,362	\$ 4,613,098
Service charges/reconnect fees	20,211	21,731
Other income	23,526	31,250
Total	<u>4,757,099</u>	<u>4,666,079</u>
Operating decreases in net assets without donor restrictions		
Cost of water sold	1,460,185	1,476,814
Depreciation	1,216,498	1,138,309
Wages	615,025	623,362
Maintenance	69,384	159,674
Supplies	108,892	140,108
Insurance	226,619	221,503
Other general and administrative	14,628	16,820
Auto and truck	74,035	99,452
Pension plan expense	42,670	40,444
Bank charges	-	90
PSC fees	8,007	7,135
Utilities	119,433	110,446
Telephone	8,158	7,769
Testing and analysis	16,530	13,266
Customer billing	47,870	44,378
Directors' fees	42,000	37,000
Office expense	28,275	33,749
Bad debt	21,017	10,857
Uniforms/laundry	10,062	10,188
Professional services	64,285	60,211
Tax and license	55,898	57,297
Total	<u>4,249,471</u>	<u>4,308,872</u>
Operating increase in net assets without donor restrictions	<u>507,628</u>	<u>357,207</u>
Non-operating increases (decreases) in net assets without donor restrictions		
Capital contributions - federal grants	163,131	495,869
Capital contributions - other grants	-	-
Gain(Loss) on sale of assets	21,607	-
Employee retention credit received	260,294	-
Membership fees collected	4,460	4,850
Tap-on fees collected, net of amounts refunded	161,400	101,545
Interest income	94,683	15,105
Interest expense	(313,960)	(292,251)
Total	<u>391,615</u>	<u>325,118</u>
Change in net assets without donor restrictions	<u>\$ 899,243</u>	<u>\$ 682,325</u>

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

Southeastern Water Association, Inc.
Statements of Changes in Net Assets
For the years ended December 31, 2023 and 2022

	Without Donor Restrictions					
	Reserved by Contract	Reserved by board	Membership Fees	Tap-on Fees	Other	Total
Balances, January 1, 2022	\$ 1,477,956	\$ 1,120,000	\$ 154,226	\$ 3,357,758	\$ 12,553,564	\$ 18,663,504
2022 change in net assets	-	-	4,850	101,545	575,930	682,325
Transfers	(156,001)	-	-	-	156,001	-
Balances, December 31, 2022	\$ 1,321,955	\$ 1,120,000	\$ 159,076	\$ 3,459,303	\$ 13,285,495	\$ 19,345,829
2023 change in net assets	-	-	4,460	161,400	733,383	899,243
Transfers	30,926	-	-	-	(30,926)	-
Balances, December 31, 2023	\$ 1,352,881	\$ 1,120,000	\$ 163,536	\$ 3,620,703	\$ 13,987,952	\$ 20,245,072

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

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

	<u>Program</u>	<u>General and Administrative</u>	<u>Total</u>
Cost of water sold	\$ 1,460,185	\$ -	\$ 1,460,185
Depreciation	1,198,990	17,508	1,216,498
Wages	491,430	123,595	615,025
Maintenance	69,384	-	69,384
Supplies	108,892	-	108,892
Insurance	203,484	23,135	226,619
Other general and administrative	-	14,628	14,628
Auto and truck	74,035	-	74,035
Pension plan expense	34,095	8,575	42,670
Bank charges	-	-	-
PSC fees	8,007	-	8,007
Utilities	110,849	8,584	119,433
Telephone	-	8,158	8,158
Testing and analysis	16,530	-	16,530
Customer billing	47,870	-	47,870
Directors' fees	-	42,000	42,000
Office expense	-	28,275	28,275
Bad debt	21,017	-	21,017
Uniforms/laundry	10,062	-	10,062
Professional services	-	64,285	64,285
Tax and license	45,907	9,991	55,898
	<u>\$ 3,900,737</u>	<u>\$ 348,734</u>	<u>\$ 4,249,471</u>

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

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

	<u>Program</u>	<u>General and Administrative</u>	<u>Total</u>
Cost of water sold	\$ 1,476,814	\$ -	\$ 1,476,814
Depreciation	1,124,443	13,866	1,138,309
Wages	501,105	122,257	623,362
Maintenance	159,674	-	159,674
Supplies	140,108	-	140,108
Insurance	178,061	43,442	221,503
Other general and administrative	-	16,820	16,820
Auto and truck	99,452	-	99,452
Pension plan expense	32,512	7,932	40,444
Bank charges	-	90	90
PSC fees	7,135	-	7,135
Utilities	102,161	8,285	110,446
Telephone	-	7,769	7,769
Testing and analysis	13,266	-	13,266
Customer billing	44,378	-	44,378
Directors' fees	-	37,000	37,000
Office expense	-	33,749	33,749
Bad debt	10,857	-	10,857
Uniforms/laundry	10,188	-	10,188
Professional services	-	60,211	60,211
Tax and license	40,572	16,725	57,297
	<u>\$ 3,940,726</u>	<u>\$ 368,146</u>	<u>\$ 4,308,872</u>

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

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

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities		
Operating income/loss	\$ 507,628	\$ 357,207
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	1,216,498	1,138,309
Bad debts	21,017	10,857
(Increase) decrease in operating assets		
Inventory	(225,258)	44,602
Accounts receivable	(42,133)	(272)
Prepaid expenses	5,060	1,897,099
Increase (decrease) in operating liabilities		
Accounts payable	(29,363)	(179,637)
Accrued liabilities	17,587	4,446
Accrued interest	(10,709)	-
Advance tap on fees	-	-
Net cash provided by operating activities	<u>1,460,327</u>	<u>3,272,611</u>
Cash flows from investing activities		
Interest income	94,683	15,105
Redemption of (investment in) certificates of deposits	(734,399)	(1,027,308)
Proceeds from sale of assets	25,000	-
Cash payments for the purchase and construction of fixed assets	<u>(2,250,341)</u>	<u>(3,816,899)</u>
Net cash used by investing activities	<u>(2,865,057)</u>	<u>(4,829,102)</u>
Cash flows from financing activities		
Interest expense	(313,960)	(292,251)
Proceeds from federal grants	163,131	495,869
Proceeds from other grants	-	-
Employee retention credit received	260,294	-
Increase in customer deposits	21,881	230
Proceeds from tap-on and membership fees	165,860	106,395
Proceeds from issuance of long-term debt	-	-
Principal payment on long-term debt	<u>(385,518)</u>	<u>(239,317)</u>
Net cash provided by financing activities	<u>(88,312)</u>	<u>70,926</u>
Net increase (decrease) in cash, cash equivalents, and restricted cash	(1,493,042)	(1,485,565)
Cash, cash equivalents, and restricted cash beginning of year	3,228,837	4,714,402
Cash, cash equivalents, and restricted cash end of year	<u>\$ 1,735,795</u>	<u>\$ 3,228,837</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	<u>\$ 348,149</u>	<u>\$ 339,929</u>

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

Southeastern Water Association, Inc.
Notes to Financial Statements
For the Years Ended December 31, 2023 and 2022

1. **Summary of Significant Accounting Policies**

Organization and Nature of Activities

Southeastern Water Association, Inc. (the Association) was formed as a result of an order by the Public Service Commission of Kentucky which required the merger of Nelson Valley Water Association, Inc., Tateville Water Association, Inc., Elihu-Rush Branch Water Association, Inc., and Barnesburg Water Association, Inc. The Association purchases water from the City of Somerset Water Service and distributes the water to residents of the Nelson Valley, Tateville, Elihu-Rush Branch, and Barnesburg areas of Pulaski County, Kentucky. The Association falls under the oversight and regulations of the Kentucky Public Service commission and accordingly follows their prescribed uniform System of Accounts.

Method of Accounting

The Association prepares its financial statements on the accrual method of accounting in accordance with accounting principles generally accepted in the United States of America. Under this method, revenues are recognized when earned, rather than when received and expenses are recognized when incurred rather than when paid.

Financial Statement Presentation

The Association prepares its financial statements in accordance with FASB ASC 958, *Not for Profit Entities*. Under FASB ASC 958, the Association is required to report information regarding its financial position and activities based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Association and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor-imposed stipulation, even though their use may be limited in other respects, such as by contract or by board designation.

Net Assets With Donor Restrictions – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. There were no donor-imposed restrictions of a temporary or perpetual nature at December 31, 2023 or 2022. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Southeastern Water Association, Inc.
Notes to Financial Statements
For the Years Ended December 31, 2023 and 2022

1. Summary of Significant Accounting Policies, continued

Revenue Recognition

Revenues from sales of water, service charges/reconnect fees, and tap-on fees for new service addresses are exchange transactions and are recognized in the period in which the water is provided to the customer or meters installed. The Association's sales are delivered daily as customers use water at which time ownership, risks, and rewards transfer. At the end of the month, customer usage is measured and billed. Control of water transfers to the customer as they consume it. In 2023 and 2022, the Association recognized revenue from sales to customers, net of sales and utility taxes and refunds/adjustments, totaling \$4,713,362 and \$4,613,098, respectively. Grant income is recognized as revenues as various conditions are met, and then reflected as contributed capital in the Statement of Net Assets.

Adoption of New Accounting Standards

In February, 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*, which replaced existing lease accounting guidance. The new standard is intended to provide enhanced transparency and comparability by requiring lessees to record right-of-use (ROU) assets and corresponding lease liabilities on the balance sheet. ROU assets represent the Association's right to use an underlying asset for the lease term and lease liabilities represent the Association's obligation to make lease payments arising from the lease. The new guidance requires the Association to classify leases as either an operating or finance lease, with classification affecting the pattern of expense recognition in the income statement. In addition, the new standard requires enhanced disclosure surrounding the amount, timing and uncertainty of cash flows arising from leasing arrangements. The Association evaluated its leasing arrangements and determined there were no leases that the new accounting standard was applicable to as all leases of the Association for 2023 and 2022 were short term leases of 12 months or less.

In June, 2016, the Financial Accounting Standards Board (FASB) issued guidance (FASB ASC 326) which significantly changed how entities will measure credit losses for most financial assets and certain other instruments that aren't measured at fair value through net income. The most significant change in this standard is a shift from the incurred loss model to the expected loss model. Under the standards, disclosures are required to provide users of the financial statements with useful information in analyzing an entity's exposure to credit risk and the measurement of credit losses. Financial assets held by the company that are subject to the guidance in FASB ASC 326 were trade accounts receivable.

The Association adopted the standard effective January 1, 2023. The impact of the adoption was not considered material to the financial statements and primarily resulted in new/enhanced disclosures only.

Southeastern Water Association, Inc.
Notes to Financial Statements
For the Years Ended December 31, 2023 and 2022

1. Summary of Significant Accounting Policies, continued

Credit risk

Financial instruments which potentially subject the Association to concentrations of credit risk consist principally of cash, cash equivalents and trade receivables. The Association places its cash deposits with high credit quality financial institutions and generally limits the amount of credit exposure by using multiple institutions and requiring collateral pledges. Concentrations of credit risk with respect to trade receivables are limited due to the Association's large number of customers with individually small, immaterial balances.

Cash, Cash Equivalents, and Restricted Cash

The statement of cash flows classifies changes in cash, cash equivalents and restricted cash according to operating, investing or financing activities. The Association considers cash on hand, cash in banks and certificates of deposit with an original maturity of three months or less, both restricted and unrestricted, to be cash and cash equivalents. Cash and cash equivalents on the statement of cash flows includes amounts classified as cash and cash equivalents and restricted cash on the statement of financial position.

Contract Accounts Receivable and Allowance for Doubtful Accounts

The Association extends credit to substantially all of its customers. Accounts receivable are stated at the face amount of the water bills, which approximates fair market value. The timing of revenue recognition, billings, and cash collections results in billed accounts receivable on the statement of financial position. Amounts are billed at the end of every month based on customer usage. Total usage determines the rate at which a customer is billed per unit. Payment is due within 10 days. Penalties are imposed 10 days after the payment due date on unpaid balances.

Customers may request adjustment for leaks, up to a maximum of 90 days, once per year, or to correct errors from meter reading. The Association recognizes revenue sales in the amount it expects to be entitled, that is, net of estimated adjustments. Based on past experience, the Association does not anticipate a significant amount of adjustments and, therefore, has not accrued an adjustment liability.

Specific accounts deemed uncollectible are charged to bad debt upon evaluation by management. Evaluation factors include familiarity with the customer, credit history and the age of the unpaid bill. If any recoveries are made from any accounts previously written off, they will be recognized in income or an offset to bad debt expense in the year of the recovery, in accordance with the Association's accounting policy. The total amount of write-offs was immaterial to the financial statements as a whole for the years ended December 31, 2023 and 2022.

Southeastern Water Association, Inc.
Notes to Financial Statements
For the Years Ended December 31, 2023 and 2022

1. Summary of Significant Accounting Policies, continued

Inventory

Inventory of the Association consists of supplies and materials for Association use. This inventory is valued at first-in, first-out cost, which approximates market.

Property and Equipment

Property and equipment with useful lives of more than one year are stated at historical cost. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Depreciation is computed using straight line over estimated useful lives ranging from 5 to 40 years. Depreciation is calculated on construction projects once completed and placed in service.

Advance Tap-On Fees

The Association allows potential customers to pay tap-on fees in advance of construction of lines. Amounts paid in advance remain payable back to the customer until they receive water service. Upon receipt of water service, the tap-on fee is reclassified to Net Assets – Tap-On-Fees.

Membership Fees

The Association requires all customers to be members of the Association by paying a one-time nonrefundable fee of \$10.

Grants

Grants received by the Association that are used to offset the acquisition, improvement or construction costs of the Association's property, facilities, water distribution system, or equipment used to provide utility services to the public are recorded as non-operating revenue. Grant revenues are transferred at year end to the equity account Net Assets, Without Donor Restrictions – Other.

Functional Expenses

The Association's functional expense policy is to allocate all direct costs of providing water as well as a portion of salaries and related payroll expenses to program services. The salaries and related payroll costs attributed to program services are allocated using a percentage based on the relative time spent by the affected employees on each function. The Association incurs no fund raising expense.

Southeastern Water Association, Inc.
Notes to Financial Statements
For the Years Ended December 31, 2023 and 2022

1. Summary of Significant Accounting Policies, concluded

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect reported amount of assets, liabilities, net position and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Comparability

Certain prior year amounts have been restated to conform to current year presentation. The restatements had no effect on the change in net assets for either period.

Income Tax Status

The Association is a nonprofit organization, exempt under Internal Revenue Section 501(c)(12). No income tax is applicable due to the Association's tax exempt status. The Association is not aware of any uncertain income tax positions as of December 31, 2023 for any open tax years.

2. Cash, Cash Equivalents and Restricted Cash

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the statement of financial position that sum to the total of the same such amounts shown in the statement of cash flows:

Cash and cash equivalents	\$ 382,914
Restricted cash accounts included in other assets	<u>1,352,881</u>
Total cash, cash equivalents and restricted cash	<u>\$ 1,735,795</u>

Amounts included in restricted cash represent those required to be set aside by covenants of various debt agreements with Rural Development as well as customer deposits held.

3. Concentration of Credit Risk

The Association held deposits at multiple banks. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. Cash at two institutions exceeded FDIC insured limits. The amounts in excess of the FDIC limit totaled \$550,911 and \$3,362,807 at December 31, 2023 and 2022 respectively. At December 31, 2023, all of the excess amount, and, at December 31, 2022, all of the excess amount, except for \$527,324 was collateralized with securities held in the name of the financial institution and pledged to the Association. Securities cannot be moved or redeemed without prior approval of the Association.

Southeastern Water Association, Inc.
Notes to Financial Statements
For the Years Ended December 31, 2023 and 2022

4. Contract Balances

The beginning and ending contract balances were as follows as of December 31,

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Accounts receivable	<u>\$369,350</u>	<u>\$348,234</u>	<u>\$358,819</u>

5. Property and Equipment

The cost of property and equipment at December 31, 2023 and 2022 is as follows:

	<u>2023</u>	<u>2022</u>
Transmission and distribution system	\$ 42,855,285	\$ 38,010,380
Construction work in process	2,451,089	5,168,294
Equipment	1,943,749	1,857,163
Land and land rights (nondepreciable)	<u>231,072</u>	<u>230,422</u>
Property and equipment	47,481,195	45,266,259
Less accumulated depreciation	<u>(20,009,553)</u>	<u>(18,825,067)</u>
Property and equipment, net	<u>\$ 27,471,642</u>	<u>\$ 26,441,192</u>

The Association completed a project in 2023 to replace and extend water lines and construct/rehab pump stations in the KY192/KY1003 area. The project was funded by two Rural Development loans at a total of \$2,696,000 and two Rural Development grants at a total of \$659,000. \$3,459,699 was expended on the project in total, including capitalized interest.

The Association began a project in 2022 to replace pump stations in the Rush Branch and Tateville areas. The total expected project cost is \$728,000. The project will be funded in house with funds available. At December 31, 2023, \$722,389 had been expended on the project.

The Association began a project in 2022 to build a new office. The total expected project cost is \$2,296,279. The project will be funded in house with funds available. At December 31, 2023, \$1,638,203 had been expended on the project.

6. Line of Credit

The Association obtained a line of credit from a local bank for an upcoming project. The total amount of the line of credit is \$622,000. The line of credit matures in November, 2025 and bears interest initially at 6.5% which can vary depending on fluctuations in the prime rate. The line of credit is secured by a certificate of deposit.

Southeastern Water Association, Inc.
Notes to Financial Statements
For the Years Ended December 31, 2023 and 2022

7. Long-Term Liabilities

Loans Payable Rural Development

Loans from Rural Development (RD) financed installation of distribution mains and water lines. Real estate and revenue sufficient to fund the annual debt service secure the loans. During 2015, a group of these loans were refinanced through Kentucky Rural Water Finance Corporation into a 2015 Series Revenue Bonds at an interest savings.

The balances on the Association's loans/bonds are as follows:

	<u>2023</u>	<u>2022</u>
Interest variable revenue bonds dated March 8, 2015, payable in annual installments, including interest through February, 2041.	\$ 1,860,000	\$ 2,015,000
2.375% loan dated February 2, 2011 payable in annual installments of \$160,799, including interest, through February 2, 2051.	3,181,102	3,265,265
4.375% loan dated November 8, 2006, payable in annual installments of \$149,956, including interest through November 8, 2046.	2,120,948	2,176,792
4.5% loan dated September 17, 2004, payable in annual installments of \$101,567, including interest, through September 17, 2044.	1,326,227	1,367,278
1.875% loan dated May 14, 2020, payable in annual installments of \$78,529, including interest, through May 14, 2060.	2,024,647	2,064,817
1.875% loan dated May 14, 2020, payable in annual installments of \$17,880, including interest, through May 14, 2060.	453,105	462,395
	\$ 10,966,029	\$ 11,351,547
Less current portion	(394,387)	(382,195)
	<u>\$ 10,571,642</u>	<u>\$ 10,969,352</u>

The Association executed a supplementary agreement with RD in which payments are made in monthly installments at an amount that is adequate to cover the annual requirements of all outstanding loans.

Southeastern Water Association, Inc.
Notes to Financial Statements
For the Years Ended December 31, 2023 and 2022

7. Long-Term Liabilities, continued

The following table shows estimated maturities of all long-term debt:

2024	\$ 394,387
2025	406,796
2026	419,423
2027	432,366
2028	445,527
Later years	<u>8,867,530</u>
	<u>\$10,966,029</u>

The Association capitalizes interest incurred during construction projects as a component on construction costs at the end of the construction project. Interest in the amount of \$23,480 and \$47,678 was capitalized during the years ended December 31, 2023 and December 31, 2022, respectively.

Interest incurred on all debt during the years ended December 31, 2023 and 2022 totaled \$348,149 and \$339,929, respectively.

8. Special Funds and Restrictions

The debt agreements with Rural Development require the following accounts be maintained by the Association as long as any outstanding debt remains;

General account – All operating funds received shall be deposited in this account. Funds will be used for operating and maintenance expenses and will be transferred to other accounts as needed.

Depreciation reserve account – The Association is required to make monthly deposits into this account as provided by the letter of conditions from RD. Ten percent of each loan is required to be deposited into this account over a period of ten years. These funds may be used for debt service or for unusual repairs or improvements if proper approvals are obtained and no funds are available in the general account. The balance as of December 31, 2023 and 2022 was \$845,412 and \$750,418, respectively, which met all required RD covenants.

Debt service reserve account – Monthly deposits are required to be made into this account. Funds are to be used to make payments on Rural Development loans. The account was established per Rural Development loan requirements. The balance as of December 31, 2023 and 2022 was \$4,714 and \$4,907, respectively.

Southeastern Water Association, Inc.
Notes to Financial Statements
For the Years Ended December 31, 2023 and 2022

8. Special Funds and Restrictions, concluded

Short lived assets reserve account – Monthly deposits are required to commence in January 2014 into this account as provided by the letter of conditions for loan 26. These funds may be used to replace short lived assets used in the normal course of business at the discretion of the Association. The balance as of December 31, 2023 and 2022 was \$133,848 and \$115,785, respectively, which met all required RD covenants.

The bond agreement with Regions Bank requires monthly deposits to be made into a sinking account. These deposits are to set aside funds for the semi-annual payments on the 2015 bond issue. The balance as of December 31, 2023 and 2022 was \$211,439 and \$201,695, respectively.

Customer deposits received by the Association are required to be set aside in an account to be used for final billing amounts with any excess, including interest earned, returned to customers when they terminate service. The balance as of December 31, 2023 and 2022 was \$156,969 and \$249,051, respectively.

9. Related-Party Transactions

The Association paid \$42,000 and \$37,000 in 2023 and 2022, respectively, for board of director's fees. The Association purchases insurance from a company in which a board member's brother is a stockholder.

10. Retirement Plan

The Association adopted a simple employee pension plan (SEP) in 1999. This discretionary plan covers substantially all employees. The Association contributes 3% of gross wages for qualifying employees, plus additional amounts as periodically approved by the Board. During 2023 and 2022 the Association made plan contributions of \$42,670 and \$40,444, respectively.

Southeastern Water Association, Inc.
Notes to Financial Statements
For the Years Ended December 31, 2023 and 2022

11. Liquidity and Availability

The Association has not adopted a formal liquidity management plan. The Association continually reviews its financial assets and assesses if these assets are sufficient to meet cash needs for general expenditures. Financial assets available for general expenditures, that is, without donor restrictions limiting their use, within one year of the statement of financial position date, are comprised of the following:

	<u>2023</u>	<u>2022</u>
Financial assets, at December 31,		
Cash and cash equivalents	\$ 1,735,795	\$3,228,837
Certificates of deposit	1,761,707	1,027,308
Accounts receivable, net	<u>369,350</u>	<u>344,234</u>
 Total financial assets	 3,866,852	 5,073,221
Less: amounts restricted for certain purposes	<u>(1,352,881)</u>	<u>(1,477,956)</u>
 Total	 <u>\$ 2,513,971</u>	 <u>\$3,595,265</u>

Normal operating expenses per month are, on average, approximately \$360,000 to \$375,000 for the years ended December 31, 2023 and December 31, 2022.

12. Subsequent Events

The Association has evaluated and considered the need to recognize or disclose subsequent events through July 5, 2024, which represents the date that these financial statements were available to be issued. Subsequent events past this date, as they pertain to the year ended December 31, 2023, have not been evaluated by the Association.

SUPPLEMENTAL INFORMATION

DRAFT

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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
Southeastern Water Association, Inc.
Somerset, KY 42503

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Southeastern Water Association, Inc. (a non-profit 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 my report thereon dated July 5, 2024.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered Southeastern Water Association, Inc.'s internal control over financial reporting (internal control) as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Southeastern Water Association, Inc.'s internal control. Accordingly, I do not express an opinion on the effectiveness of the Association's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

To the Board of Directors
Southeastern Water Association, Inc.
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My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Southeastern Water Association, Inc.'s financial statements are free from material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Association's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

July 5, 2024
Somerset, Kentucky