

**HARRISON COUNTY  
WATER ASSOCIATION, INC.  
Cynthiana, Kentucky**

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**FINANCIAL STATEMENTS  
December 31, 2017 and 2016**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Harrison County Water Association, Inc.  
Cynthiana, Kentucky

### Report on the Financial Statements

We have audited the accompanying financial statements of Harrison County Water Association, Inc. (the Association) as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Association's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Harrison County Water Association, Inc., as of December 31, 2017 and 2016, and the changes in its net assets, and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2018, on our consideration of the Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Association's internal control over financial reporting and compliance.

**RFH**

RFH, PLLC  
Lexington, Kentucky  
March 28, 2018

**HARRISON COUNTY WATER ASSOCIATION, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**December 31,**

	<b>2017</b>	<b>2016</b>
<b>ASSETS</b>		
Current assets		
Cash	\$ 502,981	\$ 579,981
Cash - construction	12,853	12,837
Accounts receivable customers	218,034	218,034
Accrued interest receivable	4,031	4,067
Prepaid expenses	15,943	15,217
Inventory	<u>26,999</u>	<u>34,179</u>
Total current assets	<u>780,841</u>	<u>864,315</u>
Other assets		
Cash-debt service reserves	59,319	2,805
Certificates of deposit-debt service reserves	<u>1,254,867</u>	<u>1,352,403</u>
Total other assets	<u>1,314,186</u>	<u>1,355,208</u>
Capital assets		
Property and equipment	21,665,879	21,612,368
Less accumulated depreciation	(12,203,054)	(11,833,265)
Construction in progress	<u>66,038</u>	<u>51,305</u>
Total capital assets	<u>9,528,863</u>	<u>9,830,408</u>
Total assets	<u>\$ 11,623,890</u>	<u>\$ 12,049,931</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities		
Accounts payable	\$ 124,128	\$ 147,216
Taxes payable	9,604	11,247
Customer deposits payable	132,782	129,929
Accrued interest payable	3,027	17,944
Accrued sick pay	17,721	18,975
Current portion of loans payable	<u>20,806</u>	<u>37,561</u>
Total current liabilities	<u>308,068</u>	<u>362,872</u>
Long-term debt		
Loans payable	<u>1,032,781</u>	<u>1,460,553</u>
Net assets		
Unrestricted		
Customer contributions	2,666,865	2,615,785
Grants in aid of construction	9,042,455	9,042,455
Debt service reserves	1,314,186	1,355,208
Appropriated	450,654	538,109
Unappropriated (deficit)	<u>(3,191,119)</u>	<u>(3,325,051)</u>
Total net assets	<u>10,283,041</u>	<u>10,226,506</u>
Total liabilities and net assets	<u>\$ 11,623,890</u>	<u>\$ 12,049,931</u>

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

**HARRISON COUNTY WATER ASSOCIATION, INC.**  
**STATEMENTS OF ACTIVITIES**  
for the years ended December 31,

	<b>2017</b>	<b>2016</b>
<b>OPERATING INCOME</b>		
Water sales	\$ 2,680,736	\$ 2,628,101
Late charges	49,928	47,729
Other service	14,198	14,079
Other revenue	<u>8,821</u>	<u>7,433</u>
Total operating income	<u>2,753,683</u>	<u>2,697,342</u>
<b>OPERATING EXPENSES</b>		
Purchased water	1,233,791	1,342,725
Salaries	419,999	399,794
Payroll taxes	34,178	32,749
Employee benefits	171,432	198,072
Utilities	81,388	86,025
Material and supplies	44,842	44,387
Office supplies	45,067	39,857
Transportation	44,557	31,069
Repairs	79,988	68,755
Insurance	31,161	30,600
Billing	30,476	32,378
Accounting	18,100	18,100
Legal	7,644	3,700
Other contractual services	10,132	11,301
Bad debt expense	13,213	13,373
Telephone	7,038	9,337
Miscellaneous	2,604	19
Regulatory assessment fee	<u>5,384</u>	<u>4,629</u>
Total operating expense	<u>2,280,994</u>	<u>2,366,870</u>
Operating income before depreciation	472,689	330,472
Depreciation expense	<u>(428,983)</u>	<u>(466,298)</u>
<b>OPERATING INCOME (LOSS)</b>	43,706	(135,826)
Non-operating income (expenses)		
Gain on disposal of capital assets	9,461	-
Interest income	9,608	20,140
Interest expense	<u>(57,320)</u>	<u>(57,418)</u>
<b>NET INCOME (LOSS)</b>	5,455	(173,104)
Net assets (deficit), beginning	(3,325,051)	(3,271,446)
Transfer from (to) reserves	<u>128,477</u>	<u>119,499</u>
<b>NET ASSETS (DEFICIT), ENDING</b>	<u>\$ (3,191,119)</u>	<u>\$ (3,325,051)</u>

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

**HARRISON COUNTY WATER ASSOCIATION, INC.**  
**STATEMENTS OF CHANGES IN NET ASSETS**  
**for the years ended December 31, 2016 and 2017**

	<b>Customer Contributions</b>	<b>Grants in Aid of Construction</b>	<b>Debt Service Reserves</b>	<b>Appropriated</b>	<b>Unappropriated</b>
<b>Balances, December 31, 2015</b>	\$ 2,564,785	\$ 9,042,455	\$ 1,521,783	\$ 491,033	\$ (3,271,446)
Net change in unappropriated net assets	-	-	-	-	(173,104)
Transfer to (from) reserves	-	-	(166,575)	47,076	119,499
Customer contributions	<u>51,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Balances, December 31, 2016</b>	2,615,785	9,042,455	1,355,208	538,109	(3,325,051)
Net change in unappropriated net assets	-	-	-	-	5,455
Transfer to (from) reserves	-	-	(41,022)	(87,455)	128,477
Customer contributions	<u>51,080</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Balances, December 31, 2017</b>	<u>\$ 2,666,865</u>	<u>\$ 9,042,455</u>	<u>\$ 1,314,186</u>	<u>\$ 450,654</u>	<u>\$ (3,191,119)</u>

The accompanying notes are an integral  
part of the financial statements

**HARRISON COUNTY WATER ASSOCIATION, INC.**  
**STATEMENTS OF CASH FLOWS**  
for the years ended December 31,

	<b>2017</b>	<b>2016</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 2,753,719	\$ 2,649,068
Payments to suppliers	(1,669,166)	(1,705,618)
Payments for employee services and benefits	<u>(628,506)</u>	<u>(620,121)</u>
Net cash provided by operating activities	<u>456,047</u>	<u>323,329</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Retirement of note principal	(444,527)	(36,098)
Interest paid	(72,237)	(58,672)
Purchase of capital assets	(127,438)	(100,517)
Customer contributions	51,080	51,000
Proceeds from disposal of capital assets	<u>9,461</u>	<u>-</u>
Net cash (used in) capital and related financing activities	<u>(583,661)</u>	<u>(144,287)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Redemption of certificates of deposit	97,536	166,680
Interest income	<u>9,608</u>	<u>20,140</u>
Net cash provided by investing activities	<u>107,144</u>	<u>186,820</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	(20,470)	365,862
Cash, beginning of year	<u>595,623</u>	<u>229,761</u>
<b>CASH, END OF YEAR</b>	<u>\$ 575,153</u>	<u>\$ 595,623</u>
<b>Reconciliation of operating (loss) to net cash provided by operating activities:</b>		
Operating income (loss)	\$ 43,706	\$ (135,826)
Non-cash items included in operating (loss)		
Depreciation	428,983	466,298
Changes in assets and liabilities		
(Increase) decrease in accounts receivables	-	(47,906)
(Increase) decrease in interest receivable	36	(368)
(Increase) decrease in inventory	7,180	3,215
(Increase) decrease in prepaid expenses	(726)	166
Increase (decrease) in accounts payable	(23,088)	23,885
Increase (decrease) in other payables	(2,897)	10,494
Increase (decrease) in customer deposits	<u>2,853</u>	<u>3,371</u>
Net cash provided by operating activities	<u>\$ 456,047</u>	<u>\$ 323,329</u>

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



**HARRISON COUNTY WATER ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2017 and 2016**

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**1. ORGANIZATION AND ACCOUNTING POLICIES**

Harrison County Water Association, Inc. (the Association) distributes and sells water to approximately 5,600 members. The Association serves primarily Harrison County outside the City of Cynthiana and parts of the adjacent counties. Its suppliers of water are the City of Cynthiana, Kentucky American Water, the City of Paris, and the Nicholas County Water District.

**Reporting Entity**

Harrison County Water Association, Inc. was created and organized as a non-profit association under Section 501(c)12 of the Internal Revenue Code. No income tax is applicable due to the Association's tax exempt status.

The Association files an income tax return in the U.S. federal jurisdiction and the state of Kentucky. The Association is generally no longer subject to income tax examinations by tax authorities for years before 2013. Association believes there are no tax positions that meet the more likely than not threshold for disclosure in these financial statements.

**Basis of Accounting**

The Association maintains its accounting records on the cash basis during the year. Adjustments are made to the accrual basis from memorandum records at year end.

The Board makes a determination whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted funds are available.

Interest income and interest expense are considered non-operating. Generally, all other income and expense is considered operating.

**Basis of Presentation**

The Association is required to report information regarding its financial position and activities according to the three classes of net assets; unrestricted, temporarily restricted, and permanently restricted.

**Unrestricted** - These assets generally result from revenues from providing services, receiving unrestricted contributions and receiving dividends and interest from income-producing assets, less expense incurred in providing services, raising contributions and performing administrative functions. The only limits on unrestricted net assets are the board limits resulting from the nature of the Organization, the environment in which it operates and the purposes specified in its articles of incorporation.

**Temporarily restricted** - These assets result from receiving contributions that may be expended only for specific purposes or in specific future periods. There were no temporarily restricted net assets for the years ended December 31, 2017 or 2016.

**Permanently restricted** - These assets represent funds that are permanently restricted by the donor with income and appreciation available to support the general operations of the Association. There were no permanently restricted net assets for the years ended December 31, 2017 or 2016.

**Cash and Cash Equivalents**

The Association considers all highly liquid investments with a maturity of 90 days or less when purchased to be cash equivalents. Cash and cash equivalents for purposes of the statement of cash flows include restricted and unrestricted accounts.

**Accounts Receivable**

The Association charges all uncollected accounts directly against current earnings.

**HARRISON COUNTY WATER ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2017 and 2016**

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**1. ORGANIZATION AND ACCOUNTING POLICIES (CONTINUED)**

**Inventory**

The Association's inventory is stated at the lower of cost (first-in, first-out method) or market.

**Property and Equipment**

Fixed assets are recorded at cost. Depreciation has been provided using the straight-line method over the estimated useful life of an asset, which ranges from 5 to 50 years. Land and construction in progress are not subject to depreciation. Interest costs during construction of fixed assets are capitalized as a part of the cost.

**Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

**Management's Review of Subsequent Events**

The Association has evaluated and considered the need to recognize or disclose subsequent events through March 28, 2018, 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, 2017, have not been evaluated by the Association.

**2. CASH AND INVESTMENTS**

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Association will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. In order to anticipate market changes and provide a level of security for all funds, the collateralization level should be one hundred percent of the market value of the principal, plus accrued interest.

The Association's deposits and investments at December 31, 2017 and 2016, were substantially covered by Federal Depository Insurance or by collateral held by the custodial banks in the Association's name. At December 31, 2017 and 2016, the bank balances of the Association's deposits totaled \$1,907,189 and \$2,086,459 respectively. At December 31, 2017, cash balances were covered by the following:

FDIC insurance	\$ 1,508,292
Collateralized by securities held by the pledging financial institution	393,569
Uninsured and uncollateralized	<u>5,328</u>
<b>Total</b>	<b><u>\$ 1,907,189</u></b>

For purposes of the statement of cash flows, the Association includes cash with the following restrictions:

	<b>2017</b>	<b>2016</b>
Cash	\$ 502,981	\$ 579,981
Cash - construction	12,853	12,837
Cash - restricted	<u>59,319</u>	<u>2,805</u>
<b>Total</b>	<b><u>\$ 575,153</u></b>	<b><u>\$ 595,623</u></b>

**HARRISON COUNTY WATER ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2017 and 2016**

**3. CAPITAL ASSETS**

Capital assets activity for the year ended December 31, 2017 is as follows:

	<b>Balance 12/31/2016</b>	<b>Additions</b>	<b>Disposals</b>	<b>Balance 12/31/2017</b>
Capital assets not depreciated:				
Land	\$ 32,709	\$ -	\$ -	\$ 32,709
Construction in progress	<u>51,305</u>	<u>14,733</u>	<u>-</u>	<u>66,038</u>
Total assets not depreciated	<u>84,014</u>	<u>14,733</u>	<u>-</u>	<u>98,747</u>
Capital assets being depreciated:				
Property and equipment	21,579,659	112,705	(59,194)	21,633,170
Less: accumulated depreciation	<u>(11,833,265)</u>	<u>(428,983)</u>	<u>59,194</u>	<u>(12,203,054)</u>
Net depreciable assets	<u>9,746,394</u>	<u>(316,278)</u>	<u>-</u>	<u>9,430,116</u>
Total capital assets, net	<u>\$ 9,830,408</u>	<u>\$ (301,545)</u>	<u>\$ -</u>	<u>\$ 9,528,863</u>

Capital assets activity for the year ended December 31, 2016 is as follows:

	<b>Balance 12/31/2015</b>	<b>Additions</b>	<b>Disposals</b>	<b>Balance 12/31/2016</b>
Capital assets not depreciated:				
Land	\$ 32,709	\$ -	\$ -	\$ 32,709
Construction in progress	<u>264,366</u>	<u>51,449</u>	<u>(264,510)</u>	<u>51,305</u>
Total assets not depreciated	<u>297,075</u>	<u>51,449</u>	<u>(264,510)</u>	<u>84,014</u>
Capital assets being depreciated:				
Property and equipment	21,266,081	313,578	-	21,579,659
Less: accumulated depreciation	<u>(11,366,967)</u>	<u>(466,298)</u>	<u>-</u>	<u>(11,833,265)</u>
Net depreciable assets	<u>9,899,114</u>	<u>(152,720)</u>	<u>-</u>	<u>9,746,394</u>
Total capital assets, net	<u>\$ 10,196,189</u>	<u>\$ (101,271)</u>	<u>\$ (264,510)</u>	<u>\$ 9,830,408</u>

**4. CONSTRUCTION IN PROGRESS**

Construction in progress totaled \$66,038 at December 31, 2017 which relates to the Kelat tank construction project. Construction in progress totaled \$51,305 at December 31, 2016, which related to the Kelat tank construction project.

**HARRISON COUNTY WATER ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2017 and 2016**

**5. LONG-TERM DEBT**

The following is a summary of the loans outstanding for the Association for the years ended December 31,

<b>Loans - U.S. Department of Agriculture</b>	<b>2017</b>	<b>2016</b>
Loan - \$656,000 Date 9/21/95 in annual installments of \$37,609 through 2041. Interest at 4.75%.	\$ -	\$ 424,386
Loan - \$300,000 Date 11/25/03 in annual installments of \$16,912 through 2043. Interest at 4.63%.	236,634	242,338
Loan - \$885,000 Date 12/02/2010 in annual installments of \$39,348 starting in 2014 through 2050. Interest at 3.00%.	<u>816,954</u>	<u>831,390</u>
Less: current portion	<u>(20,806)</u>	<u>(37,561)</u>
Long-term portion of loans payable	<u>\$ 1,032,782</u>	<u>\$ 1,460,553</u>

The following is a summary of changes in long-term debt for the year ended December 31, 2017:

	<b>December 31, 2016</b>	<b>Additions</b>	<b>Retirements</b>	<b>December 31, 2017</b>	<b>Due Within One Year</b>
Loans payable	<u>\$ 1,498,114</u>	<u>\$ -</u>	<u>\$ (444,526)</u>	<u>\$ 1,053,588</u>	<u>\$ 20,806</u>

The following is a summary of changes in long-term debt for the year ended December 31, 2016:

	<b>December 31, 2015</b>	<b>Additions</b>	<b>Retirements</b>	<b>December 31, 2016</b>	<b>Due Within One Year</b>
Loans payable	<u>\$ 1,534,212</u>	<u>\$ -</u>	<u>\$ (36,098)</u>	<u>\$ 1,498,114</u>	<u>\$ 37,561</u>

In March 2016, the Association entered into a loan agreement to fund the Kelat Water Tower project. This loan is through the U.S. Department of Agriculture with a principal amount of \$469,000 and an interest rate not to exceed 2.5%. As of December 31, 2017, no draws have been made on the loan.

**HARRISON COUNTY WATER ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2017 and 2016**

**5. LONG-TERM DEBT (CONTINUED)**

The annual requirements to amortize all loans outstanding as of December 31, 2017 are as follows:

Year Ending December 31,	Principle	Interest	Total
2018	\$ 20,806	\$ 35,453	\$ 56,259
2019	21,528	34,732	56,260
2020	22,276	33,984	56,260
2021	23,050	33,210	56,260
2022	23,853	32,407	56,260
2023-2027	132,363	148,937	281,300
2028-2032	157,318	123,982	281,300
2033-2037	187,229	94,071	281,300
2038-2042	189,243	58,914	248,157
2043-2047	164,957	31,783	196,740
2048-2050	<u>110,965</u>	<u>6,713</u>	<u>117,678</u>
	<u>\$ 1,053,588</u>	<u>\$ 634,186</u>	<u>\$ 1,687,774</u>

**6. COMPLIANCE WITH LOAN AGREEMENT**

The loan agreement between Rural Development (U.S. Department of Agriculture) concerning the various loans requires certain reserves be created and maintained as follows:

**Principal and interest reserve** – This account is required to accumulate a balance sufficient to retire the next installment payment on the loans. The required balance at December 31, 2017 totaled \$56,259. The balance of investments as of December 31, 2017 and 2016, totaled \$59,319 and \$106,996, respectively.

**Depreciation reserve** – This account is required to maintain a reserve for unusual repairs. The required balance at December 31, 2017 totaled \$34,436. The balance of investments as of December 31, 2017 and 2016, totaled \$95,000.

**7. DEFINED CONTRIBUTION PLAN**

The Association has contributed to the employees' IRA accounts, a defined contribution plan, annually for all full-time employees. The plan is funded by contributions from employees of up to \$3,250 per employee and the Association matches these contributions. For the years ended December 31, 2017 and 2016, employee contributions totaled \$30,500 and \$27,063, and employer contributions totaled \$30,500 and \$27,063, respectively.

**8. RISK MANAGEMENT**

The Association is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In addition to its general liability insurance, the Association also carries commercial insurance for all other risks of loss such as worker's compensation and employee health and accident coverage. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**9. DEFICIT RETAINED EARNINGS**

The Association carried a deficit in unappropriated net assets at December 31, 2017 and 2016 of \$3,191,119 and \$3,325,051, respectively. The deficit is primarily a result of user charges insufficient to provide for depreciation on contributed assets. Accumulated depreciation on contributed assets totaled \$6,875,759 and \$6,650,674 at December 31, 2017 and 2016, respectively.



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors  
Harrison County Water Association, Inc.  
Cynthiana, Kentucky

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 Harrison County Water Association, Inc. (the Association), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Association's basic financial statements, and have issued our report thereon dated March 28, 2018.

**Internal Control over Financial Reporting**

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

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

**Purpose of this Report**

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

**RFH**

RFH, PLLC  
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