

PUBLIC SERVICE COMMISSION
ANNUAL REPORTS

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

**FINANCIAL STATEMENTS
December 31, 2018 and 2017**

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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), which comprise the statements of financial position as of December 31, 2018 and 2017, the related statements of activities, changes in net assets and cash flows for the years then ended, the related statement of functional expenses for the year ended December 31, 2018, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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, 2018 and 2017, 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 26, 2019, 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 26, 2019

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

	2018	2017
ASSETS		
Current assets		
Cash	\$ 739,427	\$ 502,981
Cash - construction	127,710	12,853
Accounts receivable customers	227,590	218,034
Accrued interest receivable	5,539	4,031
Grant receivable	34,209	-
Prepaid expenses	16,637	15,943
Inventory	52,033	26,999
Total current assets	<u>1,203,145</u>	<u>780,841</u>
Other assets		
Cash-debt service reserves	20,095	59,319
Certificates of deposit-debt service reserves	1,266,694	1,254,867
Total other assets	<u>1,286,789</u>	<u>1,314,186</u>
Capital assets		
Property and equipment	22,217,562	21,665,879
Less accumulated depreciation	(12,591,445)	(12,203,054)
Construction in progress	-	66,038
Total capital assets	<u>9,626,117</u>	<u>9,528,863</u>
Total assets	<u>\$ 12,116,051</u>	<u>\$ 11,623,890</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 213,952	\$ 124,128
Taxes payable	15,049	9,604
Customer deposits payable	136,723	132,782
Accrued interest payable	4,739	3,027
Accrued sick pay	21,434	17,721
Current portion of loans payable	22,606	20,806
Total current liabilities	<u>414,503</u>	<u>308,068</u>
Long-term debt		
Loans payable	<u>1,234,088</u>	<u>1,032,781</u>
Net assets		
Without donor restrictions		
Customer contributions	2,723,140	2,666,865
Grants in aid of construction	9,096,330	9,042,455
Debt service reserves	1,286,789	1,314,186
Appropriated	278,308	450,654
Unappropriated (deficit)	(2,917,107)	(3,191,119)
Total net assets	<u>10,467,460</u>	<u>10,283,041</u>
Total liabilities and net assets	<u>\$ 12,116,051</u>	<u>\$ 11,623,890</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,

	2018	2017
OPERATING REVENUE		
Water sales	\$ 2,690,764	\$ 2,680,736
Late charges	53,328	49,928
Other service	11,956	14,198
Other revenue	<u>6,399</u>	<u>8,821</u>
Total operating revenue	<u>2,762,447</u>	<u>2,753,683</u>
OPERATING EXPENSES		
Purchased water	1,176,427	1,233,791
Salaries	449,409	419,999
Payroll taxes	35,602	34,178
Employee benefits	149,322	171,432
Utilities	77,933	81,388
Material and supplies	50,866	44,842
Office supplies	37,973	45,067
Transportation	53,804	44,557
Repairs	73,186	79,988
Insurance	34,087	31,161
Billing	31,391	30,476
Accounting	18,200	18,100
Legal	8,881	7,644
Other contractual services	30,934	10,132
Bad debt expense	14,481	13,213
Telephone	4,427	7,038
Miscellaneous	16	2,604
Regulatory assessment fee	<u>5,526</u>	<u>5,384</u>
Total operating expense	<u>2,252,465</u>	<u>2,280,994</u>
Operating income before depreciation	509,982	472,689
Depreciation expense	<u>(423,179)</u>	<u>(428,983)</u>
OPERATING INCOME (LOSS)	86,803	43,706
Non-operating income (expenses)		
Gain on disposal of capital assets	1,200	9,461
Interest income	21,426	9,608
Interest expense	<u>(35,160)</u>	<u>(57,320)</u>
NET INCOME (LOSS)	74,269	5,455
Net assets (deficit), beginning	(3,191,119)	(3,325,051)
Transfer from (to) reserves	<u>199,743</u>	<u>128,477</u>
NET ASSETS (DEFICIT), ENDING	<u>\$ (2,917,107)</u>	<u>\$ (3,191,119)</u>

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

HARRISON COUNTY WATER ASSOCIATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
for the year ended December 31, 2018

	Operating	General and Administrative	Total
Purchased water	\$ 1,176,427	\$ -	\$ 1,176,427
Salaries	301,918	147,491	449,409
Payroll taxes	18,210	17,392	35,602
Employee benefits	76,376	72,946	149,322
Utilities	77,933	-	77,933
Material and supplies	50,866	-	50,866
Office supplies	-	37,973	37,973
Transportation	53,804	-	53,804
Repairs	72,522	664	73,186
Insurance	34,087	-	34,087
Billing	-	31,391	31,391
Accounting	-	18,200	18,200
Legal	-	8,881	8,881
Other contractual services	30,934	-	30,934
Bad debt expense	-	14,481	14,481
Telephone	-	4,427	4,427
Miscellaneous	-	16	16
Regulatory assessment fee	-	5,526	5,526
Depreciation	<u>423,179</u>	<u>-</u>	<u>423,179</u>
 Total expenses	 <u>\$ 2,316,256</u>	 <u>\$ 359,388</u>	 <u>\$ 2,675,644</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, 2018 and 2017

	Customer Contributions	Grants in Aid of Construction	Debt Service Reserves	Appropriated	Unappropriated
Balances, December 31, 2016	\$ 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
Contributions	<u>51,080</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in net assets without donor restrictions	<u>51,080</u>	<u>-</u>	<u>(41,022)</u>	<u>(87,455)</u>	<u>133,932</u>
Balances, December 31, 2017	2,666,865	9,042,455	1,314,186	450,654	(3,191,119)
Net change in unappropriated net assets	-	-	-	-	74,269
Transfer to (from) reserves	-	-	(27,397)	(172,346)	199,743
Contributions	<u>56,275</u>	<u>53,875</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in net assets without donor restrictions	<u>56,275</u>	<u>53,875</u>	<u>(27,397)</u>	<u>(172,346)</u>	<u>274,012</u>
Balances, December 31, 2018	<u>\$ 2,723,140</u>	<u>\$ 9,096,330</u>	<u>\$ 1,286,789</u>	<u>\$ 278,308</u>	<u>\$ (2,917,107)</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,

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 2,751,383	\$ 2,753,719
Payments to suppliers	(1,550,095)	(1,669,166)
Payments for employee services and benefits	<u>(625,175)</u>	<u>(628,506)</u>
Net cash provided by (used in) operating activities	<u>576,113</u>	<u>456,047</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Retirement of note principal	(265,893)	(444,527)
Interest paid	(33,448)	(72,237)
Purchase of capital assets	(520,433)	(127,438)
Customer contributions	56,275	51,080
Proceeds from grantor	19,666	-
Proceeds from notes payable	469,000	-
Proceeds from disposal of capital assets	<u>1,200</u>	<u>9,461</u>
Net cash provided by (used in) capital and related financing activities	<u>(273,633)</u>	<u>(583,661)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Redemption (purchase) of certificates of deposit	(11,827)	97,536
Interest income	<u>21,426</u>	<u>9,608</u>
Net cash provided by (used in) by investing activities	<u>9,599</u>	<u>107,144</u>
NET INCREASE (DECREASE) IN CASH	312,079	(20,470)
Cash, beginning of year	<u>575,153</u>	<u>595,623</u>
CASH, END OF YEAR	<u>\$ 887,232</u>	<u>\$ 575,153</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$ 86,803	\$ 43,706
Non-cash items included in operating income (loss)		
Depreciation	423,179	428,983
Changes in assets and liabilities		
(Increase) decrease in accounts receivables	(9,556)	-
(Increase) decrease in interest receivable	(1,508)	36
(Increase) decrease in inventory	(25,034)	7,180
(Increase) decrease in prepaid expenses	(694)	(726)
Increase (decrease) in accounts payable	89,824	(23,088)
Increase (decrease) in other payables	9,158	(2,897)
Increase (decrease) in customer deposits	<u>3,941</u>	<u>2,853</u>
Net cash provided by (used in) operating activities	<u>\$ 576,113</u>	<u>\$ 456,047</u>

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

HARRISON COUNTY WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

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 2015. The 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.

New Accounting Pronouncement

On August 18, 2016, the FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The Association has adjusted the presentation of its financial statements accordingly, applying the changes retrospectively to the comparative period presented. The new standards change the following aspects of the Association's financial statements:

- The unrestricted net asset class has been renamed net assets without donor restrictions.
- The financial statements include a new disclosure about liquidity and availability of resources (Note 3).
- The statement of functional expenses for the year ended December 31, 2018, is now reported as a financial statement. The Association has elected to omit the statement of functional expenses for the year ended December 31, 2017, as permitted by ASU 2016-14.

Basis of Presentation

The Association is required to report information regarding its financial position and activities according to the two classes of net assets; net assets without donor restrictions and net assets with donor restrictions.

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.

Investments

The Association's investments are certificates of deposit that are valued at cost, which approximates fair value.

HARRISON COUNTY WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

1. ORGANIZATION AND ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable

The Association charges all uncollected accounts directly against current earnings when the determination is made the account is uncollectible. Therefore, there is no allowance for doubtful accounts.

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 when purchased, or fair value when contributed. 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 26, 2019, 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, 2018, 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, 2018 and 2017, were substantially covered by Federal Depository Insurance or by collateral held by the custodial banks in the Association's name. At December 31, 2018 and 2017, the bank balances of the Association's deposits totaled \$2,263,033 and \$1,907,189 respectively. At December 31, 2018, cash balances were covered by the following:

FDIC insurance	\$ 1,472,121
Collateralized by securities held by the pledging financial institution	782,511
Uninsured and uncollateralized	<u>8,401</u>
Total	<u>\$ 2,263,033</u>

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

	2018	2017
Cash	\$ 739,427	\$ 502,981
Cash - construction	127,710	12,853
Cash - restricted	<u>20,095</u>	<u>59,319</u>
Total	<u>\$ 887,232</u>	<u>\$ 575,153</u>

HARRISON COUNTY WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

3. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The Association has not adopted a formal liquidity management plan. The Association continually reviews its financial assets and assesses if these financial assets are sufficient to meet cash needs for general expenditures. Financial assets generally are current or liquid assets such as cash and cash equivalents, certificates of deposit and accounts receivable. As of December 31, 2018, the Association's financial assets available to meet cash needs for general expenditures within one year are as follows:

Financial assets, at December 31, 2018	\$ 2,387,055
Less those unavailable for general expenditures within one year, due to:	
Board designations:	
Debt service reserves	(1,286,789)
Amounts set aside for use on construction projects	<u>(127,710)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 972,556</u>

As of December 31, 2017, the Association's financial assets available to meet cash needs for general expenditures within one year are as follows:

Financial assets, at December 31, 2017	\$ 2,052,085
Less those unavailable for general expenditures within one year, due to:	
Board designations:	
Debt service reserves	(1,314,186)
Amounts set aside for use on construction projects	<u>(12,853)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 725,046</u>

4. CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2018 is as follows:

	Balance 12/31/2017	Additions	Disposals	Balance 12/31/2018
Capital assets not depreciated:				
Land	\$ 32,709	\$ -	\$ -	\$ 32,709
Construction in progress	<u>66,038</u>	<u>452,836</u>	<u>(518,874)</u>	<u>-</u>
Total assets not depreciated	<u>98,747</u>	<u>452,836</u>	<u>(518,874)</u>	<u>32,709</u>
Capital assets being depreciated:				
Property and equipment	21,633,170	586,471	(34,788)	22,184,853
Less: accumulated depreciation	<u>(12,203,054)</u>	<u>(423,179)</u>	<u>34,788</u>	<u>(12,591,445)</u>
Net depreciable assets	<u>9,430,116</u>	<u>163,292</u>	<u>-</u>	<u>9,593,408</u>
Total capital assets, net	<u>\$ 9,528,863</u>	<u>\$ 616,128</u>	<u>\$(518,874)</u>	<u>\$ 9,626,117</u>

HARRISON COUNTY WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

4. CAPITAL ASSETS (CONTINUED)

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

	Balance 12/31/2016	Additions	Disposals	Balance 12/31/2017
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>

5. CONSTRUCTION IN PROGRESS

Construction in progress totaled \$0 at December 31, 2018 as the Kelat tank was placed in service in October of 2018. Construction in progress totaled \$66,038 at December 31, 2017, which related to the Kelat tank construction project.

6. LONG-TERM DEBT

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

Loans - U.S. Department of Agriculture	2018	2017
Loan - \$469,000		
Dated 3/16/16, due in annual installments of \$18,685 through 2056.		
Bearing interest at a rate of 2.50%.	\$ 454,580	\$ -
Loan - \$300,000		
Dated 11/25/03, due in annual installments of \$16,912 through 2043.		
Bearing interest at a rate of 4.63%.	-	236,633
Loan - \$885,000		
Dated 12/02/10, due in annual installments of \$39,348 starting in 2014 through 2050.		
Bearing interest at a rate of 3.00%.	<u>802,114</u>	<u>816,954</u>
Less: current portion	<u>(22,606)</u>	<u>(20,806)</u>
Long-term portion of loans payable	<u>\$ 1,234,088</u>	<u>\$1,032,781</u>

HARRISON COUNTY WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

6. LONG-TERM DEBT (CONTINUED)

The following is a summary of changes in long-term debt for the year ended December 31, 2018:

	December 31, 2017	Additions	Retirements	December 31, 2018	Due Within One Year
Loans payable	<u>\$ 1,053,587</u>	<u>\$ 469,000</u>	<u>\$ (265,893)</u>	<u>\$ 1,256,694</u>	<u>\$ 22,606</u>

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

	December 31, 2016	Additions	Retirements	December 31, 2017	Due Within One Year
Loans payable	<u>\$ 1,498,114</u>	<u>\$ -</u>	<u>\$ (444,527)</u>	<u>\$ 1,053,587</u>	<u>\$ 20,806</u>

The annual requirements to amortize all loans outstanding as of December 31, 2018 are as follows:

Year Ending December 31,	Principle	Interest	Total
2019	\$ 22,606	\$ 35,427	\$ 58,033
2020	23,247	34,786	58,033
2021	23,907	34,126	58,033
2022	24,585	33,448	58,033
2023	25,283	32,750	58,033
2024-2028	137,608	152,557	290,165
2029-2033	158,312	131,853	290,165
2034-2038	182,155	108,010	290,165
2039-2043	209,615	80,550	290,165
2044-2048	241,244	48,921	290,165
2049-2053	155,657	16,096	171,753
2054-2056	<u>52,475</u>	<u>2,623</u>	<u>55,098</u>
	<u>\$ 1,256,694</u>	<u>\$ 711,147</u>	<u>\$ 1,967,841</u>

7. 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, 2018 totaled \$58,033. The balance of investments as of December 31, 2018 and 2017, totaled \$20,095 and \$59,319, respectively.

Depreciation reserve – This account is required to maintain a reserve for unusual repairs. The required balance at December 31, 2018 totaled \$40,712. The balance of investments as of December 31, 2018 and 2017, totaled \$95,000.

8. 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, 2018 and 2017, employee contributions totaled \$30,500 and \$30,500, and employer contributions totaled \$30,500 and \$30,500, respectively.

HARRISON COUNTY WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

9. COST ALLOCATION

Certain categories of expenses are attributable to more than one program or supporting function and are allocated on a reasonable basis that is consistently applied. The expenses that are allocated are salaries, payroll taxes and benefits, which are allocated on the basis of estimates of time and effort.

10. 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.

11. APPROPRIATIONS OF NET ASSETS WITHOUT DONOR RESTRICTIONS

The Association has appropriated \$278,308 and \$450,654 at December 31, 2018 and 2017, respectively, of net assets without donor restrictions to cover security deposits, meet debt service requirements and to establish a debt service reserve.

12. DEFICIT UNAPPROPRIATED NET ASSETS

The Association carried a deficit in unappropriated net assets at December 31, 2018 and 2017 of \$2,917,107 and \$3,191,119, respectively. The deficit is primarily a result of user charges insufficient to provide for depreciation on contributed assets. Accumulated depreciation on contributed assets totaled \$7,097,799 and \$6,875,759 at December 31, 2018 and 2017, 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, 2018, 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 26, 2019.

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
Lexington, Kentucky
March 26, 2019