

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

**FINANCIAL STATEMENTS
December 31, 2019 and 2018**

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INDEPENDENT AUDITORS' REPORT

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, 2019 and 2018, the related statements of activities, functional expenses, changes in net assets and cash flows for the years then ended 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, 2019 and 2018 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.

Emphasis of a Matter – Implementation of New FASB Accounting Standard

As discussed in Note 2, effective January 1, 2019, the Association adopted Financial Accounting Standards Board (FASB) Accounting Standards Update 2016-10, Topic 606: Revenue from Contracts with Customers. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 16, 2020, 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
July 16, 2020

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

	2019	2018
ASSETS		
Current assets		
Cash	\$ 626,623	\$ 739,427
Cash - construction	36,735	127,710
Accounts receivable customers	265,180	227,590
Accrued interest receivable	4,336	5,539
Grant receivable	-	34,209
Prepaid expenses	16,637	16,637
Inventory	<u>51,430</u>	<u>52,033</u>
Total current assets	<u>1,000,941</u>	<u>1,203,145</u>
Other assets		
Cash-debt service reserves	9,342	20,095
Certificates of deposit-debt service reserves	<u>1,782,979</u>	<u>1,266,694</u>
Total other assets	<u>1,792,321</u>	<u>1,286,789</u>
Capital assets		
Property and equipment	22,331,226	22,217,562
Less accumulated depreciation	<u>(13,031,320)</u>	<u>(12,591,445)</u>
Total capital assets	<u>9,299,906</u>	<u>9,626,117</u>
Total assets	<u>\$ 12,093,168</u>	<u>\$ 12,116,051</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 126,199	\$ 213,952
Taxes payable	10,768	15,049
Customer deposits payable	139,279	136,723
Accrued interest payable	4,663	4,739
Accrued sick pay	34,842	21,434
Current portion of loans payable	<u>23,247</u>	<u>22,606</u>
Total current liabilities	<u>338,998</u>	<u>414,503</u>
Long-term debt		
Loans payable	<u>1,210,836</u>	<u>1,234,088</u>
Net assets		
Without donor restrictions		
Customer contributions	2,791,340	2,723,140
Grants in aid of construction	9,114,198	9,096,330
Debt service reserves	1,792,321	1,286,789
Appropriated	291,011	278,308
Unappropriated (deficit)	<u>(3,445,536)</u>	<u>(2,917,107)</u>
Total net assets	<u>10,543,334</u>	<u>10,467,460</u>
Total liabilities and net assets	<u>\$ 12,093,168</u>	<u>\$ 12,116,051</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,

	2019	2018
OPERATING REVENUE		
Water sales	\$ 2,756,951	\$ 2,690,764
Late charges	47,309	53,328
Other service	11,972	11,956
Other revenue	<u>10,329</u>	<u>6,399</u>
Total operating revenue	<u>2,826,561</u>	<u>2,762,447</u>
OPERATING EXPENSES		
Purchased water	1,314,939	1,176,427
Salaries	472,545	449,409
Payroll taxes	36,736	35,602
Employee benefits	151,409	149,322
Utilities	70,564	77,933
Material and supplies	67,557	50,866
Office supplies	38,394	37,973
Transportation	45,328	53,804
Repairs	54,241	73,186
Insurance	36,325	34,087
Billing	31,200	31,391
Accounting	19,500	18,200
Legal	58	8,881
Other contractual services	15,823	30,934
Bad debt expense	25,750	14,481
Telephone	4,075	4,427
Miscellaneous	-	16
Regulatory assessment fee	<u>5,403</u>	<u>5,526</u>
Total operating expense	<u>2,389,847</u>	<u>2,252,465</u>
Operating income before depreciation	436,714	509,982
Depreciation expense	<u>(437,605)</u>	<u>(423,179)</u>
OPERATING INCOME (LOSS)	(891)	86,803
Non-operating income (expenses)		
Gain on disposal of capital assets	-	1,200
Grants in aid of construction	17,868	53,875
Customer contributions, tap fees	68,200	56,275
Interest income	29,563	21,426
Interest expense	<u>(38,866)</u>	<u>(35,160)</u>
NET INCOME (LOSS)	75,874	184,419
Net assets, beginning of year	<u>10,467,460</u>	<u>10,283,041</u>
NET ASSETS, ENDING	<u>\$ 10,543,334</u>	<u>\$ 10,467,460</u>

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part of the financial statements.

HARRISON COUNTY WATER ASSOCIATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
for the year ended December 31, 2019

	Operating	General and Administrative	Total
Purchased water	\$ 1,314,939	\$ -	\$ 1,314,939
Salaries	315,993	156,552	472,545
Payroll taxes	18,536	18,200	36,736
Employee benefits	76,397	75,012	151,409
Utilities	70,564	-	70,564
Material and supplies	67,557	-	67,557
Office supplies	-	38,394	38,394
Transportation	45,328	-	45,328
Repairs	50,414	3,827	54,241
Insurance	36,325	-	36,325
Billing	-	31,200	31,200
Accounting	-	19,500	19,500
Legal	-	58	58
Other contractual services	15,823	-	15,823
Bad debt expense	-	25,750	25,750
Telephone	-	4,075	4,075
Miscellaneous	-	-	-
Regulatory assessment fee	-	5,403	5,403
Depreciation	<u>437,605</u>	<u>-</u>	<u>437,605</u>
 Total operating expenses	 <u>\$ 2,449,481</u>	 <u>\$ 377,971</u>	 <u>\$ 2,827,452</u>

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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 operating 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, 2019 and 2018

	Customer Contributions	Grants in Aid of Construction	Debt Service Reserves	Appropriated	Unappropriated	Total
Balances, December 31, 2017	\$ 2,666,865	\$ 9,042,455	\$ 1,314,186	\$ 450,654	\$ (3,191,119)	\$ 10,283,041
Net change in net assets	56,275	53,875	-	-	74,269	184,419
Transfer to (from) reserves	-	-	(27,397)	(172,346)	199,743	-
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>	<u>184,419</u>
Balances, December 31, 2018	2,723,140	9,096,330	1,286,789	278,308	(2,917,107)	10,467,460
Net change in net assets	68,200	17,868	-	-	(10,194)	75,874
Transfer to (from) reserves	-	-	505,532	12,703	(518,235)	-
Change in net assets without donor restrictions	<u>68,200</u>	<u>17,868</u>	<u>505,532</u>	<u>12,703</u>	<u>(528,429)</u>	<u>75,874</u>
Balances, December 31, 2019	<u>\$ 2,791,340</u>	<u>\$ 9,114,198</u>	<u>\$ 1,792,321</u>	<u>\$ 291,011</u>	<u>\$ (3,445,536)</u>	<u>\$ 10,543,334</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,

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 2,790,174	\$ 2,751,383
Payments to suppliers	(1,813,751)	(1,550,095)
Payments for employee services and benefits	<u>(651,563)</u>	<u>(625,175)</u>
Net cash provided by (used in) operating activities	<u>324,860</u>	<u>576,113</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Retirement of note principal	(22,611)	(265,893)
Interest paid	(38,942)	(33,448)
Purchase of capital assets	(75,340)	(520,433)
Customer contributions, tap fees	68,200	56,275
Proceeds from grantor	17,868	19,666
Proceeds from notes payable	-	469,000
Proceeds from disposal of capital assets	<u>-</u>	<u>1,200</u>
Net cash provided by (used in) capital and related financing activities	<u>(50,825)</u>	<u>(273,633)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Redemption (purchase) of certificates of deposit	(516,285)	(11,827)
Interest income	<u>27,718</u>	<u>21,426</u>
Net cash provided by (used in) by investing activities	<u>(488,567)</u>	<u>9,599</u>
NET INCREASE (DECREASE) IN CASH	(214,532)	312,079
Cash, beginning of year	<u>887,232</u>	<u>575,153</u>
CASH, END OF YEAR	<u>\$ 672,700</u>	<u>\$ 887,232</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$ (891)	\$ 86,803
Non-cash items included in operating income (loss)		
Depreciation	437,605	423,179
Changes in assets and liabilities		
(Increase) decrease in accounts receivables	(37,590)	(9,556)
(Increase) decrease in interest receivable	1,203	(1,508)
(Increase) decrease in inventory	603	(25,034)
(Increase) decrease in prepaid expenses	-	(694)
Increase (decrease) in accounts payable	(87,753)	89,824
Increase (decrease) in other payables	9,127	9,158
Increase (decrease) in customer deposits	<u>2,556</u>	<u>3,941</u>
Net cash provided by (used in) operating activities	<u>\$ 324,860</u>	<u>\$ 576,113</u>

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

HARRISON COUNTY WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

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 2016. 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, interest expense and capital contributions are considered non-operating. Generally, all other income and expense is considered operating.

New Accounting Pronouncement

On January 1, 2019, the Association adopted ASC Topic 606, *Revenue from Contracts with Customers*. The standard was applied retrospectively for the year ended December 31, 2018. The Association has analyzed the provisions of ASC Topic 606 and have concluded that certain changes are necessary to conform with the new standard. The Association is now including customer contributions (tap fees and donated lines) in the statement of activities at the time service is connected. Grants in aid of construction are also shown in the statement of activities and are typically a conditional grant; that is the Association must meet certain conditions in order to receive the grant. Grant amounts receivable totaling \$0 and \$34,209 were outstanding at December 31, 2019 and 2018, respectively. These items were previously shown only on the statements of changes in net assets.

The Association's sales are delivered daily as customers use water at which time ownership, risks, and rewards transfer. Revenue is recognized at the end of the month when the customers usage is measured and billed. Control of water transfers to the customer as they consume it. In 2019 and 2018, the Association recognized revenue from sales to customers of \$2,756,951 and \$2,690,764, respectively. This revenue recognition did not change based upon ASC Topic 606.

Contract Balances

The timing of revenue recognition, billings and cash collections results in billed accounts receivable on the statements of financial position. Amounts are billed at the 15th 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, but penalties are not imposed until 10 additional days past the due date. The association receives bill payments, on average, every 34 days.

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

	2019	2018	2017
Accounts receivable	<u>\$ 265,180</u>	<u>\$ 227,590</u>	<u>\$ 218,034</u>

Customers have the right to claim adjustments for leaks, once per year, or to correct errors from meter reading. The Association recognized revenue sales in the amount it expected 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.

HARRISON COUNTY WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

1. ORGANIZATION AND ACCOUNTING POLICIES (CONTINUED)

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.

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 July 16, 2020, 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, 2019, 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.

HARRISON COUNTY WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

2. CASH AND INVESTMENTS (CONTINUED)

The Association's deposits and investments at December 31, 2019 and 2018, were substantially covered by Federal Depository Insurance or by collateral held by the custodial banks in the Association's name. At December 31, 2019 and 2018, the bank balances of the Association's deposits totaled \$2,527,551 and \$2,263,033 respectively. At December 31, 2019, cash balances were covered by the following:

FDIC insurance	\$ 1,971,602
Collateralized by securities held by the pledging financial institution	157,606
Uninsured and uncollateralized	<u>398,343</u>
Total	<u>\$ 2,527,551</u>

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

	2019	2018
Cash	\$ 626,623	\$ 739,427
Cash - construction	36,735	127,710
Cash - restricted	<u>9,342</u>	<u>20,095</u>
Total	<u>\$ 672,700</u>	<u>\$ 887,232</u>

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, 2019, the Association's financial assets available to meet cash needs for general expenditures within one year are as follows:

Financial assets, at December 31, 2019	\$ 2,725,195
Less those unavailable for general expenditures within one year, due to:	
Board designations:	
Debt service reserves	(1,792,321)
Appropriated	(291,011)
Amounts set aside for use on construction projects	<u>(36,735)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 605,128</u>

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)
Appropriated	(278,308)
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>\$ 694,248</u>

HARRISON COUNTY WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

4. CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2019 is as follows:

	Balance 12/31/2018	Additions	Disposals	Balance 12/31/2019
Capital assets not depreciated:				
Land	\$ 32,709	\$ -	\$ -	\$ 32,709
Construction in progress	<u>-</u>	<u>38,324</u>	<u>(38,324)</u>	<u>-</u>
Total assets not depreciated	<u>32,709</u>	<u>38,324</u>	<u>(38,324)</u>	<u>32,709</u>
Capital assets being depreciated:				
Property and equipment	22,184,853	113,664	-	22,298,517
Less: accumulated depreciation	<u>(12,591,445)</u>	<u>(437,605)</u>	<u>(2,270)</u>	<u>(13,031,320)</u>
Net depreciable assets	<u>9,593,408</u>	<u>(323,941)</u>	<u>(2,270)</u>	<u>9,267,197</u>
Total capital assets, net	<u>\$ 9,626,117</u>	<u>\$ (285,617)</u>	<u>\$ (40,594)</u>	<u>\$ 9,299,906</u>

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>

5. CONSTRUCTION IN PROGRESS

Construction in progress totaled \$0 at December 31, 2019 as the Kelat tank was placed in service in October of 2018.

HARRISON COUNTY WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

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	2019	2018
Loan - \$469,000 Dated 3/16/16, due in annual installments of \$18,685 starting in 2017 through 2056. Bearing interest at a rate of 2.50%.	\$ 447,254	\$ 454,580
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>786,829</u>	<u>802,114</u>
Less: current portion	<u>(23,247)</u>	<u>(22,606)</u>
Long-term portion of loans payable	<u>\$ 1,210,836</u>	<u>\$ 1,234,088</u>

The following is a summary of changes in long-term debt for the year ended December 31, 2019:

	December 31, 2018	Additions	Retirements	December 31, 2019	Due Within One Year
Loans payable	<u>\$ 1,256,694</u>	<u>\$ -</u>	<u>\$ (22,611)</u>	<u>\$ 1,234,083</u>	<u>\$ 23,247</u>

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 annual requirements to amortize all loans outstanding as of December 31, 2019 are as follows:

Year Ending December 31,	Principle	Interest	Total
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	26,002	32,031	58,033
2025-2029	141,519	148,646	290,165
2030-2034	162,816	127,349	290,165
2035-2039	187,341	102,824	290,165
2040-2044	215,587	74,577	290,164
2045-2049	248,124	42,040	290,164
2050-2054	120,572	11,830	132,402
2055-2056	<u>35,100</u>	<u>1,310</u>	<u>36,410</u>
	<u>\$ 1,234,083</u>	<u>\$ 675,717</u>	<u>\$ 1,909,800</u>

HARRISON COUNTY WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

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, 2019 totaled \$58,033. The Association maintained investment balances to fully satisfy this reserve as of December 31, 2019 and 2018.

Depreciation reserve – This account is required to maintain a reserve for unusual repairs. The required balance at December 31, 2019 totaled \$46,989. The Association maintained investment balances to fully satisfy this reserve as of December 31, 2019 and 2018.

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 \$3,500 per employee and the Association matches these contributions. For the years ended December 31, 2019 and 2018, employee contributions totaled \$30,150 and \$30,500, and employer contributions totaled \$30,150 and \$30,500, respectively.

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 \$291,011 and \$278,308 at December 31, 2019 and 2018, respectively, of net assets without donor restrictions to cover security deposits and meet current debt service requirements.

12. DEFICIT UNAPPROPRIATED NET ASSETS

The Association carried a deficit in unappropriated net assets at December 31, 2019 and 2018 of \$3,445,536 and \$2,917,107, respectively. The deficit is primarily a result of user charges insufficient to provide for depreciation on contributed assets. Accumulated depreciation on contributed assets totaled \$7,327,408 and \$7,097,799 at December 31, 2019 and 2018, respectively.

13. FASB TOPIC 606

In order to implement ASC Topic 606, customer and capital contributions were added to the statement of activities for the year ended December 31, 2018. Additionally, total net assets were added to the statement of activities replacing unappropriated net assets. This had no effect on previously stated net assets.

14. SUBSEQUENT EVENT

In early 2020, various restrictions have been placed on business and travel across the United States in response to the COVID-19 pandemic. The duration and impact of these restrictions are uncertain as of the date of these financial statements. Management of the Association is evaluating the impact of COVID-19 and related responses on the operations and finances of the Association. The Association is evaluating any potential impact, however a specific estimate of the impact could not reasonably be determined due to a number of unknown factors regarding the severity and duration of the event.



**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**

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, 2019, and the related notes to the financial statements, which collectively comprise the Association's basic financial statements, and have issued our report thereon dated July 16, 2020.

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
July 16, 2020