

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

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**FINANCIAL STATEMENTS  
December 31, 2020 and 2019**

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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, 2020 and 2019, 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, 2020 and 2019 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.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2021, 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 22, 2021

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

	<b>2020</b>	<b>2019</b>
<b>ASSETS</b>		
Current assets		
Cash	\$ 1,145,866	\$ 626,623
Cash - construction	121,136	36,735
Accounts receivable customers	279,111	265,180
Accrued interest receivable	3,110	4,336
Prepaid expenses	18,855	16,637
Inventory	<u>57,972</u>	<u>51,430</u>
Total current assets	<u>1,626,050</u>	<u>1,000,941</u>
Other assets		
Cash-debt service reserves	3,350	9,342
Certificates of deposit-debt service reserves	<u>1,442,453</u>	<u>1,782,979</u>
Total other assets	<u>1,445,803</u>	<u>1,792,321</u>
Capital assets		
Property and equipment	22,474,476	22,331,226
Less accumulated depreciation	<u>(13,431,180)</u>	<u>(13,031,320)</u>
Total capital assets	<u>9,043,296</u>	<u>9,299,906</u>
Total assets	<u>\$ 12,115,149</u>	<u>\$ 12,093,168</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities		
Accounts payable	\$ 144,734	\$ 126,199
Taxes payable	11,503	10,768
Customer deposits payable	154,029	139,279
Accrued interest payable	4,579	4,663
Accrued sick pay	23,328	34,842
Current portion of loans payable	<u>23,906</u>	<u>23,247</u>
Total current liabilities	<u>362,079</u>	<u>338,998</u>
Long-term debt		
Loans payable, net of current position	<u>1,186,928</u>	<u>1,210,836</u>
Net assets		
Without donor restrictions		
Customer contributions	2,899,090	2,791,340
Grants in aid of construction	9,199,025	9,114,198
Debt service reserves	1,445,803	1,792,321
Appropriated	309,074	291,011
Unappropriated (deficit)	<u>(3,286,850)</u>	<u>(3,445,536)</u>
Total net assets	<u>10,566,142</u>	<u>10,543,334</u>
Total liabilities and net assets	<u>\$ 12,115,149</u>	<u>\$ 12,093,168</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>2020</b>	<b>2019</b>
<b>NET ASSETS WITHOUT DONOR RESTRICTIONS</b>		
<b>OPERATING REVENUE</b>		
Water sales	\$ 2,859,050	\$ 2,756,951
Late charges	11,312	47,309
Other service	5,772	11,972
Other revenue	<u>9,801</u>	<u>10,329</u>
Total operating revenue	<u>2,885,935</u>	<u>2,826,561</u>
<b>OPERATING EXPENSES</b>		
Purchased water	1,446,862	1,314,939
Salaries	491,712	472,545
Payroll taxes	40,644	36,736
Employee benefits	162,875	151,409
Utilities	59,683	70,564
Material and supplies	162,771	67,557
Office supplies	43,287	38,394
Transportation	34,594	45,328
Repairs	60,819	54,241
Insurance	38,214	36,325
Billing	31,427	31,200
Accounting	19,500	19,500
Legal	8,250	58
Other contractual services	11,175	15,823
Bad debt expense	10,434	25,750
Telephone	5,008	4,075
Miscellaneous	19	-
Regulatory assessment fee	<u>5,529</u>	<u>5,403</u>
Total operating expense	<u>2,632,803</u>	<u>2,389,847</u>
Operating income before depreciation	253,132	436,714
Depreciation expense	<u>(411,445)</u>	<u>(437,605)</u>
<b>OPERATING (LOSS)</b>	<b>(158,313)</b>	<b>(891)</b>
Non-operating income (expenses)		
Grants in aid of construction	84,827	17,868
Customer contributions, tap fees	107,750	68,200
Interest income	27,017	29,563
Interest expense	<u>(38,473)</u>	<u>(38,866)</u>
<b>NET INCOME</b>	<b>22,808</b>	<b>75,874</b>
Net assets, beginning of year	<u>10,543,334</u>	<u>10,467,460</u>
<b>NET ASSETS, ENDING</b>	<b><u>\$ 10,566,142</u></b>	<b><u>\$ 10,543,334</u></b>

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, 2020

	<b>System Operations</b>	<b>General and Administrative</b>	<b>Total</b>
Purchased water	\$ 1,446,862	\$ -	\$ 1,446,862
Salaries	320,773	170,939	491,712
Payroll taxes	18,985	21,659	40,644
Employee benefits	76,079	86,796	162,875
Utilities	59,683	-	59,683
Material and supplies	162,771	-	162,771
Office supplies	-	43,287	43,287
Transportation	34,594	-	34,594
Repairs	58,147	2,672	60,819
Insurance	38,214	-	38,214
Billing	-	31,427	31,427
Accounting	-	19,500	19,500
Legal	-	8,250	8,250
Other contractual services	11,175	-	11,175
Bad debt expense	-	10,434	10,434
Telephone	-	5,008	5,008
Miscellaneous	-	19	19
Regulatory assessment fee	-	5,529	5,529
Depreciation	<u>411,445</u>	<u>-</u>	<u>411,445</u>
 Total operating expenses	 <u>\$ 2,638,728</u>	 <u>\$ 405,520</u>	 <u>\$ 3,044,248</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

	<b>System Operations</b>	<b>General and Administrative</b>	<b>Total</b>
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>

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, 2020 and 2019

	Customer Contributions	Grants in Aid of Construction	Debt Service Reserves	Appropriated	Unappropriated	Total
<b>Balances, December 31, 2018</b>	<b>\$ 2,723,140</b>	<b>\$ 9,096,330</b>	<b>\$ 1,286,789</b>	<b>\$ 278,308</b>	<b>\$ (2,917,107)</b>	<b>\$ 10,467,460</b>
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>
<b>Balances, December 31, 2019</b>	<b>2,791,340</b>	<b>9,114,198</b>	<b>1,792,321</b>	<b>291,011</b>	<b>(3,445,536)</b>	<b>10,543,334</b>
Change in net assets	107,750	84,827	-	-	(169,769)	22,808
Transfer to (from) reserves	-	-	(346,518)	18,063	328,455	-
Change in net assets without donor restrictions	<u>107,750</u>	<u>84,827</u>	<u>(346,518)</u>	<u>18,063</u>	<u>158,686</u>	<u>22,808</u>
<b>Balances, December 31, 2020</b>	<b><u>\$ 2,899,090</u></b>	<b><u>\$ 9,199,025</u></b>	<b><u>\$ 1,445,803</u></b>	<b><u>\$ 309,074</u></b>	<b><u>\$ (3,286,850)</u></b>	<b><u>\$ 10,566,142</u></b>

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>2020</b>	<b>2019</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 2,873,230	\$ 2,790,174
Payments to suppliers	(1,913,047)	(1,813,751)
Payments for employee services and benefits	<u>(706,010)</u>	<u>(651,563)</u>
Net cash provided by (used in) operating activities	<u>254,173</u>	<u>324,860</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Retirement of note principal	(23,249)	(22,611)
Interest paid	(38,557)	(38,942)
Purchase of capital assets	(154,835)	(75,340)
Customer contributions, tap fees	107,750	68,200
Proceeds from grantor	<u>84,827</u>	<u>17,868</u>
Net cash provided by (used in) capital and related financing activities	<u>(24,064)</u>	<u>(50,825)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Redemption (purchase) of certificates of deposit	340,526	(516,285)
Interest income	<u>27,017</u>	<u>27,718</u>
Net cash provided by (used in) by investing activities	<u>367,543</u>	<u>(488,567)</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	597,652	(214,532)
Cash, beginning of year	<u>672,700</u>	<u>887,232</u>
<b>CASH, END OF YEAR</b>	<u>\$ 1,270,352</u>	<u>\$ 672,700</u>
<b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>		
Operating income (loss)	\$ (158,313)	\$ (891)
Non-cash items included in operating income (loss)		
Depreciation	411,445	437,605
Changes in assets and liabilities		
(Increase) decrease in accounts receivables	(13,931)	(37,590)
(Increase) decrease in interest receivable	1,226	1,203
(Increase) decrease in inventory	(6,542)	603
(Increase) decrease in prepaid expenses	(2,218)	-
Increase (decrease) in accounts payable	18,535	(87,753)
Increase (decrease) in other payables	(10,779)	9,127
Increase (decrease) in customer deposits	<u>14,750</u>	<u>2,556</u>
Net cash provided by (used in) operating activities	<u>\$ 254,173</u>	<u>\$ 324,860</u>

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

**HARRISON COUNTY WATER ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2020 and 2019**

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**1. ORGANIZATION AND ACCOUNTING POLICIES**

Harrison County Water Association, Inc. (the Association) distributes and sells water to approximately 6,000 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 2017. 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.

**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.

**HARRISON COUNTY WATER ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2020 and 2019**

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

**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 22, 2021 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, 2020, have not been evaluated by the Association.

**2. REVENUE RECOGNITION**

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 2020 and 2019, the Association recognized revenue from sales to customers totaling \$2,859,050 and \$2,756,951, respectively. This revenue recognition did not change based upon ASC Topic 606.

Water tap-on fees for new services and various grants are recognized as revenue as various conditions are met, and then reflected as contributed capital in the Statement of Net Assets.

**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 on 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,:

	<b>2020</b>	<b>2019</b>	<b>2018</b>
Accounts receivable	<u>\$ 279,111</u>	<u>\$ 265,180</u>	<u>\$ 227,590</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.

**3. 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, 2020 and 2019**

**3. CASH AND INVESTMENTS (CONTINUED)**

The Association's deposits and investments at December 31, 2020 and 2019, were substantially covered by Federal Depository Insurance or by collateral held by the custodial banks in the Association's name. At December 31, 2020 and 2019, the bank balances of the Association's deposits totaled \$2,777,278 and \$2,527,551 respectively. At December 31, 2020, cash balances were covered by the following:

FDIC insurance	\$ 1,632,508
Collateralized by securities held by the pledging financial institution	1,107,096
Uninsured and uncollateralized	<u>38,835</u>
Total	<u>\$ 2,778,442</u>

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

	<b>2020</b>	<b>2019</b>
Cash - unrestricted	\$ 1,145,866	\$ 626,623
Cash - construction	121,126	36,735
Cash - restricted	<u>3,350</u>	<u>9,342</u>
Total	<u>\$ 1,270,352</u>	<u>\$ 672,700</u>

**4. 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, 2020, the Association's financial assets available to meet cash needs for general expenditures within one year are as follows:

Financial assets, at December 31, 2020	\$ 2,991,916
Less those unavailable for general expenditures within one year, due to:	
Board designations:	
Debt service reserves	(1,445,803)
Appropriated	(309,074)
Amounts set aside for use on construction projects	<u>(121,136)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 1,115,903</u>

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>

**HARRISON COUNTY WATER ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2020 and 2019**

**5. CAPITAL ASSETS**

Capital assets activity for the year ended December 31, 2020 is as follows:

	<b>Balance 12/31/2019</b>	<b>Additions</b>	<b>Disposals</b>	<b>Balance 12/31/2020</b>
Capital assets not depreciated:				
Land	\$ 32,709	\$ 100,050	\$ -	\$ 132,759
Construction in progress	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets not depreciated	<u>32,709</u>	<u>100,050</u>	<u>-</u>	<u>132,759</u>
Capital assets being depreciated:				
Property and equipment	22,298,517	54,785	(11,585)	22,341,717
Less: accumulated depreciation	<u>(13,031,320)</u>	<u>(411,445)</u>	<u>11,585</u>	<u>(13,431,180)</u>
Net depreciable assets	<u>9,267,197</u>	<u>(356,660)</u>	<u>-</u>	<u>8,910,537</u>
Total capital assets, net	<u>\$ 9,299,906</u>	<u>\$ (256,610)</u>	<u>\$ -</u>	<u>\$ 9,043,296</u>

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

	<b>Balance 12/31/2018</b>	<b>Additions</b>	<b>Disposals</b>	<b>Balance 12/31/2019</b>
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>

Depreciation expense totaled \$441,445 and \$437,605 for the years ended December 2020 and 2019, respectively.

**HARRISON COUNTY WATER ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2020 and 2019**

**6. 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>2020</b>	<b>2019</b>
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%.	\$ 439,748	\$ 447,253
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>771,086</u>	<u>786,830</u>
	1,210,834	1,234,083
Less: current portion	<u>(23,906)</u>	<u>(23,247)</u>
Long-term portion of loans payable	<u>\$ 1,186,928</u>	<u>\$ 1,210,836</u>

The following is a summary of changes in long-term debt for the year ended December 31, 2020:

	<b>December 31, 2019</b>	<b>Additions</b>	<b>Retirements</b>	<b>December 31, 2020</b>	<b>Due Within One Year</b>
Loans payable	<u>\$ 1,234,083</u>	<u>\$ -</u>	<u>\$ (23,249)</u>	<u>\$ 1,210,834</u>	<u>\$ 23,906</u>

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

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

The annual requirements to amortize all loans outstanding as of December 31, 2020 are as follows:

<b>Year Ending December 31,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2021	\$ 23,906	\$ 34,127	\$ 58,033
2022	24,476	33,557	58,033
2023	25,174	32,859	58,033
2024	25,893	32,140	58,033
2025	26,541	31,492	58,033
2026-2030	145,017	145,148	290,165
2031-2035	167,316	122,849	290,165
2036-2040	192,627	97,538	290,165
2041-2045	221,627	68,538	290,165
2046-2050	255,203	34,962	290,165
2051-2055	84,799	8,626	93,425
2056	<u>18,255</u>	<u>430</u>	<u>18,685</u>
	<u>\$ 1,210,834</u>	<u>\$ 642,266</u>	<u>\$ 1,853,100</u>

**HARRISON COUNTY WATER ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2020 and 2019**

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**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, 2020 totaled \$86,826. The Association maintained investment balances to fully satisfy this reserve as of December 31, 2020 and 2019.

**Depreciation reserve** – This account is required to maintain a reserve for unusual repairs. The required balance at December 31, 2020 totaled \$53,283. The Association maintained investment balances to fully satisfy this reserve as of December 31, 2020 and 2019.

**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, 2020 and 2019, employee contributions totaled \$31,133 and \$30,150, and employer contributions totaled \$31,133 and \$30,150, 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 \$309,074 and \$291,011 at December 31, 2020 and 2019, 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, 2020 and 2019 of \$3,286,850 and \$3,445,536, respectively. The deficit is primarily a result of user charges insufficient to provide for depreciation on contributed assets. Accumulated depreciation on contributed assets totaled \$7,543,291 and \$7,327,408 at December 31, 2020 and 2019, respectively.

**13. COVID-19 PANDEMIC**

During 2020 and 2021, various restrictions were placed on utilities in the state of Kentucky in response to the COVID-19 pandemic. These restrictions included the cessation of utility shutoffs and the charging of penalties due to nonpayment of bills. As a result of these orders and the impact of COVID-19 on the Association's customers, there has been an increase in delinquent billings as of December 31, 2020. The Association is working to establish payment plans with customers who have delinquent bills in an attempt to ensure continuous service and the collection of past due balances.





**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, 2020, 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 22, 2021.

**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 22, 2021