

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

**FINANCIAL STATEMENTS
December 31, 2022 and 2021**

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INDEPENDENT AUDITORS' REPORT

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

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Harrison County Water Association, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2022 and 2021, and 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.

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, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Harrison County Water Association, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Harrison County Water Association, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2023, on our consideration of Harrison County Water Association, Inc.'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 solely 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 the effectiveness of Harrison County Water Association, Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Harrison County Water Association, Inc.'s internal control over financial reporting and compliance.

RFH

RFH, PLLC
Lexington, Kentucky
March 30, 2023

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

	2022	2021
ASSETS		
Current assets		
Cash	\$ 597,658	\$ 1,111,581
Cash - construction	339,708	125,829
Accounts receivable customers	276,102	251,993
Accrued interest receivable	7,654	1,692
Prepaid expenses	21,015	19,516
Inventory	116,949	57,158
Total current assets	<u>1,359,086</u>	<u>1,567,769</u>
Other assets		
Cash-reserves	6,254	5,637
Certificates of deposit-reserves	1,580,005	1,449,516
Total other assets	<u>1,586,259</u>	<u>1,455,153</u>
Fixed assets		
Construction in progress	8,230	416,406
Property and equipment	23,638,087	22,603,489
Less accumulated depreciation	<u>(14,392,703)</u>	<u>(13,877,005)</u>
Total fixed assets	<u>9,253,614</u>	<u>9,142,890</u>
Total assets	<u>\$ 12,198,959</u>	<u>\$ 12,165,812</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 195,519	\$ 172,877
Taxes payable	33,294	30,520
Retirement payable	61,740	60,400
Customer deposits payable	158,559	157,707
Accrued interest payable	4,587	4,492
Accrued sick pay	43,098	24,235
Current portion of loans payable	25,174	24,476
Total current liabilities	<u>521,971</u>	<u>474,707</u>
Long-term debt		
Loans payable, net of current position	<u>1,137,168</u>	<u>1,162,452</u>
Net assets		
Without donor restrictions		
Customer contributions	3,095,290	2,992,340
Grants in aid of construction	9,199,025	9,199,025
Debt service reserves	1,043,241	1,455,153
Appropriated	543,018	240,073
Unappropriated (deficit)	<u>(3,340,754)</u>	<u>(3,357,938)</u>
Total net assets	<u>10,539,820</u>	<u>10,528,653</u>
Total liabilities and net assets	<u>\$ 12,198,959</u>	<u>\$ 12,165,812</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,

	2022	2021
NET ASSETS WITHOUT DONOR RESTRICTIONS		
OPERATING REVENUE		
Water sales	\$ 2,981,501	\$ 2,829,163
Late charges	43,893	37,804
Other service	12,752	14,524
Other revenue	<u>6,300</u>	<u>17,886</u>
Total operating revenue	<u>3,044,446</u>	<u>2,899,377</u>
OPERATING EXPENSES		
Purchased water	1,522,156	1,462,631
Salaries	557,565	486,006
Payroll taxes	43,460	38,767
Employee benefits	223,832	197,863
Utilities	89,246	63,937
Material and supplies	15,604	12,879
Office supplies	77,659	51,554
Transportation	67,129	61,336
Repairs	81,233	39,097
Insurance	38,941	39,357
Accounting	22,937	50,936
Legal	22,080	9,424
Other contractual services	11,223	10,526
Bad debt expense	10,760	18,306
Telephone	14,220	6,348
Miscellaneous	1,939	1,652
Regulatory assessment fee	<u>8,279</u>	<u>11,786</u>
Total operating expense	<u>2,808,263</u>	<u>2,562,405</u>
Operating income before depreciation	236,183	336,972
Depreciation expense	<u>(515,698)</u>	<u>(445,825)</u>
OPERATING (LOSS)	(279,515)	(108,853)
Non-operating income (expenses)		
Gain on disposal of capital assets	209,905	-
Customer contributions, tap fees	102,950	93,250
Interest income	11,548	12,154
Interest expense	<u>(33,721)</u>	<u>(34,040)</u>
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS	11,167	(37,489)
Net assets, beginning of year, as restated	<u>10,528,653</u>	<u>10,566,142</u>
NET ASSETS, ENDING	<u>\$ 10,539,820</u>	<u>\$ 10,528,653</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, 2022

	System Operations	General and Administrative	Total
Purchased water	\$ 1,522,156	\$ -	\$ 1,522,156
Salaries	385,102	172,463	557,565
Payroll taxes	30,017	13,443	43,460
Employee benefits	154,597	69,235	223,832
Utilities	89,246	-	89,246
Material and supplies	15,604	-	15,604
Office supplies	-	77,659	77,659
Transportation	67,129	-	67,129
Repairs	81,233	-	81,233
Insurance	38,941	-	38,941
Accounting	-	22,937	22,937
Legal	-	22,080	22,080
Other contractual services	11,223	-	11,223
Bad debt expense	-	10,760	10,760
Telephone	-	14,220	14,220
Miscellaneous	-	1,939	1,939
Regulatory assessment fee	-	8,279	8,279
Depreciation	<u>515,698</u>	<u>-</u>	<u>515,698</u>
 Total operating expenses	 <u>\$ 2,910,946</u>	 <u>\$ 413,015</u>	 <u>\$ 3,323,961</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, 2021

	System Operations	General and Administrative	Total
Purchased water	\$ 1,462,631	\$ -	\$ 1,462,631
Salaries	312,095	173,911	486,006
Payroll taxes	17,108	21,659	38,767
Employee benefits	87,606	110,257	197,863
Utilities	63,937	-	63,937
Material and supplies	12,879	-	12,879
Office supplies	-	51,554	51,554
Transportation	61,336	-	61,336
Repairs	38,810	287	39,097
Insurance	39,357	-	39,357
Accounting	-	50,936	50,936
Legal	-	9,424	9,424
Other contractual services	10,526	-	10,526
Bad debt expense	-	18,306	18,306
Telephone	-	6,348	6,348
Miscellaneous	-	1,652	1,652
Regulatory assessment fee	-	11,786	11,786
Depreciation	<u>445,825</u>	<u>-</u>	<u>445,825</u>
 Total operating expenses	 <u>\$ 2,552,110</u>	 <u>\$ 456,120</u>	 <u>\$ 3,008,230</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, 2022 and 2021

	Customer Contributions	Grants in Aid of Construction	Debt Service Reserves	Appropriated	Unappropriated	Total
Balances, December 31, 2020	\$ 2,899,090	\$ 9,199,025	\$ 1,445,803	\$ 309,074	\$ (3,286,850)	\$ 10,566,142
Change in net assets	93,250	-	-	-	(130,739)	(37,489)
Transfer to (from) reserves	-	-	9,350	(69,001)	59,651	-
Change in net assets without donor restrictions	93,250	-	9,350	(69,001)	(71,088)	(37,489)
Balances, December 31, 2021	2,992,340	9,199,025	1,455,153	240,073	(3,357,938)	10,528,653
Change in net assets	102,950	-	-	-	(91,783)	11,167
Transfer to (from) reserves	-	-	(411,912)	302,945	108,967	-
Change in net assets without donor restrictions	102,950	-	(411,912)	302,945	17,184	11,167
Balances, December 31, 2022	\$ 3,095,290	\$ 9,199,025	\$ 1,043,241	\$ 543,018	\$ (3,340,754)	\$ 10,539,820

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,

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 3,014,375	\$ 2,927,913
Payments to suppliers	(2,021,202)	(1,807,795)
Payments for employee services and benefits	<u>(801,880)</u>	<u>(642,312)</u>
Net cash provided by operating activities	<u>191,293</u>	<u>477,806</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Retirement of note principal	(24,586)	(23,906)
Interest paid	(33,626)	(34,127)
Purchase of capital assets	(646,422)	(545,419)
Proceeds from sale of capital assets	229,905	-
Customer contributions, tap fees	<u>102,950</u>	<u>93,250</u>
Net cash (used in) capital and related financing activities	<u>(371,779)</u>	<u>(510,202)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
(Purchase) of certificates of deposit	(130,489)	(7,063)
Interest income	<u>11,548</u>	<u>12,154</u>
Net cash provided by (used in) by investing activities	<u>(118,941)</u>	<u>5,091</u>
NET INCREASE (DECREASE) IN CASH	(299,427)	(27,305)
Cash, beginning of year	<u>1,243,047</u>	<u>1,270,352</u>
CASH, END OF YEAR	<u>\$ 943,620</u>	<u>\$ 1,243,047</u>
Reconciliation of operating (loss) to net cash provided by operating activities:		
Operating (loss)	\$ (279,515)	\$ (108,853)
Non-cash items included in operating (loss)		
Depreciation	515,698	445,825
Changes in assets and liabilities		
(Increase) decrease in accounts receivables	(24,109)	27,118
(Increase) decrease in interest receivable	(5,962)	1,418
(Increase) decrease in inventory	(59,791)	814
(Increase) decrease in prepaid expenses	(1,499)	(661)
Increase (decrease) in accounts payable	22,642	28,143
Increase (decrease) in other payables	22,977	80,324
Increase (decrease) in customer deposits	<u>852</u>	<u>3,678</u>
Net cash provided by operating activities	<u>\$ 191,293</u>	<u>\$ 477,806</u>

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

HARRISON COUNTY WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

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 2019. 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, gains or losses on disposals of capital assets, and capital contributions are considered non-operating. Generally, all other income and expenses are 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, 2022 and 2021

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.

Change in Accounting Policy

In 2022, the Association adopted Accounting Standards Update (ASU) No. 2016-02, *Leases*, which requires lessees to recognize leases on the balance sheet and disclose key information about leasing arrangements. The Association elected not to reassess at adoption (i) expired or existing contracts to determine whether they are or contain a lease, (ii) the lease classification of any existing leases, or (iii) initial direct costs for existing leases. After implementing ASU No. 2016-02, the Association did not recognize any right-of-use assets or lease liabilities due to the nature of their current lease agreements. The adoption did not result in a significant effect on net assets as of December 31, 2022 and 2021.

Management's Review of Subsequent Events

The Association has evaluated and considered the need to recognize or disclose subsequent events through March 30, 2023, 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, 2022, 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 customer's usage is measured and billed. Control of water transfers to the customer as they consume it. In 2022 and 2021, the Association recognized revenue from sales to customers totaling \$2,981,501 and \$2,829,163, respectively.

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 financial position.

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.:

	2022	2021	2020
Accounts receivable	<u>\$ 276,102</u>	<u>\$ 251,993</u>	<u>\$ 279,111</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, 2022 and 2021

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.

The Association's deposits and investments at December 31, 2022, were covered by Federal Depository Insurance or by collateral held by the custodial banks in the Association's name. At December 31, 2022 and 2021, the bank balances of the Association's deposits totaled \$2,570,307 and \$2,706,069 respectively. At December 31, 2022, cash balances were covered by the following:

FDIC insurance	\$ 1,836,355
Collateralized by securities held by the pledging financial institution	1,331,391
Over insured and overcollateralized	<u>(597,439)</u>
Total	<u>\$ 2,570,307</u>

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

	2022	2021
Cash - unrestricted	\$ 597,658	\$ 1,111,581
Cash - construction	339,708	125,829
Cash - restricted	<u>6,254</u>	<u>5,637</u>
Total	<u>\$ 943,620</u>	<u>\$ 1,243,047</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, 2022, the Association's financial assets available to meet cash needs for general expenditures within one year are as follows:

Financial assets, at December 31, 2022	\$ 2,799,727
Less those unavailable for general expenditures within one year, due to:	
Board designations:	
Debt service reserves	(1,043,241)
Appropriated	(543,018)
Amounts set aside for use on construction projects	<u>(339,708)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 873,760</u>

As of December 31, 2021, the Association's financial assets available to meet cash needs for general expenditures within one year are as follows:

Financial assets, at December 31, 2021	\$ 2,944,556
Less those unavailable for general expenditures within one year, due to:	
Board designations:	
Debt service reserves	(1,455,153)
Appropriated	(240,073)
Amounts set aside for use on construction projects	<u>(125,829)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 1,123,501</u>

HARRISON COUNTY WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

5. FIXED ASSETS

Fixed assets activity for the year ended December 31, 2022 is as follows:

	Balance 12/31/2021	Additions	Disposals	Balance 12/31/2022
Assets not depreciated:				
Land	\$ 132,759	\$ -	\$ (20,000)	\$ 112,759
Construction in progress	<u>416,406</u>	<u>8,230</u>	<u>(416,406)</u>	<u>8,230</u>
Total assets not depreciated	<u>549,165</u>	<u>8,230</u>	<u>(436,406)</u>	<u>120,989</u>
Assets being depreciated:				
Property and equipment	22,470,730	1,054,598	-	23,525,328
Less: accumulated depreciation	<u>(13,877,005)</u>	<u>(515,698)</u>	<u>-</u>	<u>(14,392,703)</u>
Net depreciable assets	<u>8,593,725</u>	<u>538,900</u>	<u>-</u>	<u>9,132,625</u>
Total fixed assets, net	<u>\$ 9,142,890</u>	<u>\$ 547,130</u>	<u>\$ (436,406)</u>	<u>\$ 9,253,614</u>

Fixed assets activity for the year ended December 31, 2021 is as follows:

	Balance 12/31/2020	Additions	Disposals	Balance 12/31/2021
Assets not depreciated:				
Land	\$ 132,759	\$ -	\$ -	\$ 132,759
Construction in progress	<u>-</u>	<u>416,406</u>	<u>-</u>	<u>416,406</u>
Total assets not depreciated	<u>132,759</u>	<u>-</u>	<u>-</u>	<u>549,165</u>
Assets being depreciated:				
Property and equipment	22,341,717	129,013	-	22,470,730
Less: accumulated depreciation	<u>(13,431,180)</u>	<u>(445,825)</u>	<u>-</u>	<u>(13,877,005)</u>
Net depreciable assets	<u>8,910,537</u>	<u>(316,812)</u>	<u>-</u>	<u>8,593,725</u>
Total fixed assets, net	<u>\$ 9,043,296</u>	<u>\$ 99,594</u>	<u>\$ -</u>	<u>\$ 9,142,890</u>

Depreciation expense totaled \$515,698 and \$445,825 for the years ended December 2022 and 2021, respectively.

HARRISON COUNTY WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

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	2022	2021
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%.	\$ 424,173	\$ 432,057
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>738,169</u>	<u>754,871</u>
	1,162,342	1,186,928
Less: current portion	<u>(25,174)</u>	<u>(24,476)</u>
Long-term portion of loans payable	<u>\$ 1,137,168</u>	<u>\$1,162,452</u>

The following is a summary of changes in long-term debt for the year ended December 31, 2022:

	December 31, 2021	Additions	Retirements	December 31, 2022	Due Within One Year
Loans payable	<u>\$ 1,186,928</u>	<u>\$ -</u>	<u>\$(24,586)</u>	<u>\$ 1,162,342</u>	<u>\$ 25,174</u>

The following is a summary of changes in long-term debt for the year ended December 31, 2021:

	December 31, 2020	Additions	Retirements	December 31, 2021	Due Within One Year
Loans payable	<u>\$ 1,210,834</u>	<u>\$ -</u>	<u>\$(23,906)</u>	<u>\$ 1,186,928</u>	<u>\$ 24,476</u>

The annual requirements to amortize all loans outstanding as of December 31, 2022 are as follows:

Year Ending December 31,	Principal	Interest	Total
2023	\$ 25,174	\$ 32,859	\$ 58,033
2024	25,893	32,140	58,033
2025	26,541	31,492	58,033
2026	27,391	30,642	58,033
2027	28,172	29,861	58,033
2028-2032	153,526	136,639	290,165
2033-2037	177,064	113,101	290,165
2038-2042	203,781	86,384	290,165
2043-2047	234,560	55,605	290,165
2048-2052	190,056	21,413	211,469
2053-2056	<u>70,184</u>	<u>4,556</u>	<u>74,740</u>
	<u>\$ 1,162,342</u>	<u>\$ 574,692</u>	<u>\$ 1,737,034</u>

HARRISON COUNTY WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
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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, 2022 and 2021 totaled \$58,033. The Association maintained investment balances to fully satisfy this reserve as of December 31, 2022 and 2021.

Depreciation reserve – This account is required to maintain a reserve for unusual repairs. The required balance at December 31, 2022 and 2021 totaled \$56,173 and \$54,276, respectively. The Association maintained investment balances to fully satisfy this reserve as of December 31, 2022 and 2021.

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, 2022 and 2021, employee contributions totaled \$29,752 and \$30,200, and employer contributions totaled \$29,752 and \$30,200, 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 \$543,018 and \$240,073 at December 31, 2022 and 2021, 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, 2022 and 2021 of \$3,340,754 and \$3,357,938, respectively. The deficit is primarily a result of user charges insufficient to provide for depreciation on contributed assets. Accumulated depreciation on contributed assets totaled \$8,071,357 and \$7,788,137 at December 31, 2022 and 2021, respectively.

13. RESTATEMENT OF PRIOR YEAR FINANCIAL STATEMENTS

The Association restated financial statements for the year ended December 31, 2021, to record expense for the employer portion of retirement contributions that were earned prior to the end of the year but were not paid until after yearend. The restatement resulted in an increase of \$30,200 in employee benefit expense and retirement payable as of December 31, 2021. The restatement also resulted in a decrease in the unappropriated deficit of \$30,200, reducing net assets without donor restrictions as of December 31, 2021, to \$10,528,653.

HARRISON COUNTY WATER ASSOCIATION, INC.
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14. COVID-19 PANDEMIC

Since early 2020, 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 until early 2021. Starting March 2021, the District was able to resume performing shutoffs. As a result of these orders and the impact of COVID-19 on the Association's customers, there had been an increase in delinquent billings as of December 31, 2021. The Association has established 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 December 31, 2022, and the related notes to the financial statements, and have issued our report thereon dated March 30, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Harrison County Water Association, Inc.'s internal control over financial reporting (internal control) as a basis for designing 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 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 or significant deficiencies may exist that were not identified.

Report on 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 financial statements. 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 organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RFH

RFH, PLLC
Lexington, Kentucky
March 30, 2023