

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

**FINANCIAL STATEMENTS
December 31, 2023 and 2022**

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
of 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, 2023 and 2022, 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, 2023 and 2022, 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 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, 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 4, 2024, 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 4, 2024

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

| | 2023 | 2022 |
|--------------------------------------------------------------------------------|----------------------|----------------------|
| ASSETS | | |
| Current assets | | |
| Cash | \$ 591,100 | \$ 597,658 |
| Cash - construction | 348,318 | 339,708 |
| Accounts receivable customers, net of an allowance of \$0 for 2023 and 2022 | 270,895 | 276,102 |
| Accrued interest receivable | 7,654 | 7,654 |
| Prepaid expenses | 24,244 | 21,015 |
| Inventory | <u>203,181</u> | <u>116,949</u> |
| Total current assets | <u>1,445,392</u> | <u>1,359,086</u> |
| Other assets | | |
| Cash-reserves | 8,790 | 6,254 |
| Certificates of deposit-reserves | 1,140,000 | 1,580,005 |
| PSC rate case accumulated costs | 47,781 | - |
| Less: accumulated amortization | <u>(15,927)</u> | <u>-</u> |
| Total other assets | <u>1,180,644</u> | <u>1,586,259</u> |
| Fixed assets | | |
| Construction in progress | 8,230 | 8,230 |
| Property and equipment | 23,384,597 | 23,638,087 |
| Less accumulated depreciation | <u>(14,325,009)</u> | <u>(14,392,703)</u> |
| Total fixed assets | <u>9,067,818</u> | <u>9,253,614</u> |
| Total assets | <u>\$ 11,693,854</u> | <u>\$ 12,198,959</u> |
| LIABILITIES AND NET ASSETS | | |
| Current liabilities | | |
| Accounts payable | \$ 169,225 | \$ 195,519 |
| Taxes payable | 37,328 | 33,294 |
| Retirement payable | 6,256 | 61,740 |
| Customer deposits payable | 140,292 | 158,559 |
| Accrued interest payable | 4,587 | 4,587 |
| Accrued sick pay | - | 43,098 |
| Current portion of loans payable | <u>25,893</u> | <u>25,174</u> |
| Total current liabilities | <u>383,581</u> | <u>521,971</u> |
| Long-term debt | | |
| Loans payable, net of current portion | <u>1,111,275</u> | <u>1,137,168</u> |
| Net assets | | |
| Without donor restrictions | | |
| Customer contributions | 3,175,240 | 3,095,290 |
| Grants in aid of construction | 9,199,025 | 9,199,025 |
| Debt service reserves | 982,605 | 1,043,241 |
| Appropriated | 166,185 | 543,018 |
| Unappropriated (deficit) | <u>(3,324,057)</u> | <u>(3,340,754)</u> |
| Total net assets | <u>10,198,998</u> | <u>10,539,820</u> |
| Total liabilities and net assets | <u>\$ 11,693,854</u> | <u>\$ 12,198,959</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,

| | 2023 | 2022 |
|---------------------------------------------------------|-----------------------------|-----------------------------|
| NET ASSETS WITHOUT DONOR RESTRICTIONS | | |
| OPERATING REVENUE | | |
| Water sales | \$ 3,192,634 | \$ 2,981,501 |
| Late charges | 42,115 | 43,893 |
| Other service | 16,617 | 12,752 |
| Other revenue | <u>35,219</u> | <u>6,300</u> |
| Total operating revenue | <u>3,286,585</u> | <u>3,044,446</u> |
| OPERATING EXPENSES | | |
| Salaries and wages - employees | 670,110 | 526,540 |
| Salaries and wages - directors | 23,825 | 31,025 |
| Pension and employee benefits | 246,720 | 223,832 |
| Purchased water | 1,697,895 | 1,522,156 |
| Purchased power | 84,516 | 89,246 |
| Material and supplies | 99,242 | 93,263 |
| Contractual services - accounting | 24,924 | 22,937 |
| Contractual services - legal | 2,369 | 22,080 |
| Contractual services - other | 15,433 | 11,223 |
| Transportation expenses | 54,423 | 81,090 |
| Insurance - general liability | 33,623 | 28,330 |
| Insurance - worker's comp | 11,839 | 10,611 |
| Bad debt expense | 11,401 | 10,760 |
| Miscellaneous | 156,562 | 83,431 |
| Regulatory assessment fee | 6,861 | 8,279 |
| Payroll taxes | <u>54,647</u> | <u>43,460</u> |
| Total operating expense | <u>3,194,390</u> | <u>2,808,263</u> |
| Operating income before depreciation and amortization | 92,195 | 236,183 |
| Depreciation expense | (515,700) | (515,698) |
| Amortization expense | <u>(15,927)</u> | <u>-</u> |
| OPERATING (LOSS) | (439,432) | (279,515) |
| Non-operating income (expenses) | | |
| Gain on disposal of capital assets | - | 209,905 |
| Customer contributions, tap fees | 79,950 | 102,950 |
| Dividend income | 1,537 | - |
| Interest income | 55,833 | 11,548 |
| Interest expense | <u>(38,710)</u> | <u>(33,721)</u> |
| CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS | (340,822) | 11,167 |
| Net assets, beginning of year | <u>10,539,820</u> | <u>10,528,653</u> |
| NET ASSETS, ENDING | <u>\$ 10,198,998</u> | <u>\$ 10,539,820</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, 2023

| | System Operations | General and Administrative | Total |
|---------------------------------------|------------------------------|---------------------------------------|------------------|
| Salaries and wages | \$ 494,063 | \$ 199,872 | \$ 693,935 |
| Employee benefits | 178,056 | 68,664 | 246,720 |
| Purchased water | 1,697,895 | - | 1,697,895 |
| Purchased power | 84,516 | - | 84,516 |
| Material and supplies | 15,663 | 83,579 | 99,242 |
| Accounting | - | 24,924 | 24,924 |
| Legal | - | 2,369 | 2,369 |
| Other contractual services | 15,433 | - | 15,433 |
| Transportation | 54,423 | - | 54,423 |
| Insurance - general liability | 33,623 | - | 33,623 |
| Insurance - worker's comp | 11,839 | - | 11,839 |
| Bad debt expense | - | 11,401 | 11,401 |
| Miscellaneous | 39,659 | 116,903 | 156,562 |
| Regulatory assessment fee | - | 6,861 | 6,861 |
| Payroll taxes | 39,438 | 15,209 | 54,647 |
| | <u>2,664,608</u> | <u>529,782</u> | <u>3,194,390</u> |
| Operating expense before depreciation | | | |
| Depreciation | 515,700 | - | 515,700 |
| Amortization expense | 15,927 | - | 15,927 |
| | <u>5,350,853</u> | <u>859,692</u> | <u>3,726,017</u> |
| Total operating expenses | | | |

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 |
|-------------------------------------------|------------------------------|---------------------------------------|-------------------------|
| Salaries | \$ 385,102 | \$ 172,463 | \$ 557,565 |
| Employee benefits | 154,597 | 69,235 | 223,832 |
| Purchased water | 1,522,156 | - | 1,522,156 |
| Purchased power | 89,246 | - | 89,246 |
| Material and supplies | 15,604 | 77,659 | 93,263 |
| Accounting | - | 22,937 | 22,937 |
| Legal | - | 22,080 | 22,080 |
| Other contractual services | 11,223 | - | 11,223 |
| Transportation | 81,090 | - | 81,090 |
| Insurance - general liability | 28,330 | - | 28,330 |
| Insurance - worker's comp | 10,611 | - | 10,611 |
| Bad debt expense | - | 10,760 | 10,760 |
| Miscellaneous | 67,272 | 16,150 | 83,431 |
| Regulatory assessment fee | - | 8,279 | 8,279 |
| Payroll taxes | <u>30,017</u> | <u>13,443</u> | <u>43,460</u> |
| Operating expense before depreciation | 2,395,248 | 413,006 | 2,808,263 |
| Depreciation | <u>515,698</u> | <u>-</u> | <u>515,698</u> |
| Total operating expenses | <u>\$ 4,766,495</u> | <u>\$ 584,314</u> | <u>\$ 3,323,961</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, 2023 and 2022

| | Customer Contributions | Grants in Aid of Construction | Debt Service Reserves | Appropriated | Unappropriated | Total |
|----------------------------------------------------|----------------------------|-------------------------------------|--------------------------|--------------------------|------------------------------|-----------------------------|
| 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 | <u>-</u> | <u>-</u> | <u>(411,912)</u> | <u>302,945</u> | <u>108,967</u> | <u>-</u> |
| Change in net assets without donor restrictions | <u>102,950</u> | <u>-</u> | <u>(411,912)</u> | <u>302,945</u> | <u>17,184</u> | <u>11,167</u> |
| Balances, December 31, 2022 | 3,095,290 | 9,199,025 | 1,043,241 | 543,018 | (3,340,754) | 10,539,820 |
| Change in net assets | 79,950 | - | - | - | (420,772) | (340,822) |
| Transfer to (from) reserves | <u>-</u> | <u>-</u> | <u>(60,636)</u> | <u>(376,833)</u> | <u>437,469</u> | <u>-</u> |
| Change in net assets without donor restrictions | <u>79,950</u> | <u>-</u> | <u>(60,636)</u> | <u>(376,833)</u> | <u>16,697</u> | <u>(340,822)</u> |
| Balances, December 31, 2023 | <u>\$ 3,175,240</u> | <u>\$ 9,199,025</u> | <u>\$ 982,605</u> | <u>\$ 166,185</u> | <u>\$ (3,324,057)</u> | <u>\$ 10,198,998</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,

| | 2023 | 2022 |
|-----------------------------------------------------------------------------------------|---------------------|-------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Receipts from customers | \$ 3,291,792 | \$ 3,014,375 |
| Payments to suppliers | (2,356,935) | (2,021,202) |
| Payments for employee services and benefits | <u>(1,066,025)</u> | <u>(801,880)</u> |
| Net cash provided by (used in) operating activities | <u>(131,168)</u> | <u>191,293</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Retirement of note principal | (25,174) | (24,586) |
| Interest paid | (38,710) | (33,626) |
| Purchase of capital assets | (377,685) | (646,422) |
| Proceeds from sale of capital assets | - | 229,905 |
| Customer contributions, tap fees | <u>79,950</u> | <u>102,950</u> |
| Net cash provided by (used in) capital and related financing activities | <u>(361,619)</u> | <u>(371,779)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds (purchase) - certificates of deposit | 440,005 | (130,489) |
| Interest income | <u>57,370</u> | <u>11,548</u> |
| Net cash provided by (used in) by investing activities | <u>497,375</u> | <u>(118,941)</u> |
| NET INCREASE (DECREASE) IN CASH | 4,588 | (299,427) |
| Cash, beginning of year | <u>943,620</u> | <u>1,243,047</u> |
| CASH, END OF YEAR | <u>\$ 948,208</u> | <u>\$ 943,620</u> |
| Reconciliation of operating (loss) to net cash provided by operating activities: | | |
| Operating (loss) | \$ (439,432) | \$ (279,515) |
| Non-cash items included in operating (loss) | | |
| Depreciation | 515,700 | 515,698 |
| Amortization | 15,927 | - |
| Changes in assets and liabilities | | |
| (Increase) decrease in accounts receivables | 5,207 | (24,109) |
| (Increase) decrease in interest receivable | - | (5,962) |
| (Increase) decrease in inventory | (86,232) | (59,791) |
| (Increase) decrease in prepaid expenses | (3,229) | (1,499) |
| Increase (decrease) in accounts payable | (26,294) | 22,642 |
| Increase (decrease) in other payables | (94,548) | 22,977 |
| Increase (decrease) in customer deposits | <u>(18,267)</u> | <u>852</u> |
| Net cash provided by (used in) operating activities | <u>\$ (131,168)</u> | <u>\$ 191,293</u> |

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

HARRISON COUNTY WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2023 and 2022

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 2020. 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 traditional certificates of deposit and brokered 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.

HARRISON COUNTY WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2023 and 2022

1. ORGANIZATION AND ACCOUNTING POLICIES (CONTINUED)

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 adoption did not result in a significant effect on net assets as of December 31, 2023 and 2022.

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13" or "ASC 326"). ASU 2016-13 revises the accounting requirements related to the measurement of credit losses and requires organizations to measure all expected credit losses for financial assets based on historical experience, current conditions, and reasonable and supportable forecasts about collectability. Assets must be presented in the financial statements at the net amount expected to be collected. The FASB has subsequently issued additional ASUs amending certain aspects of ASU 2016-13.

The Association adopted the new CECL guidance in 2023. The implementation had no significant impact on the financial statements. An allowance for credit losses was not established due to several factors. (1) The extreme short-term nature of the accounts receivable (approximately 30 days). (2) The collection rate, including penalties, is approximately 100%. (3) All accounts are secured by a deposit. Management has considered historical experience, current conditions and reasonable future assumptions in making this determination. Bad debt for the years ending June 30, 2023 and 2022, totaled \$11,401 and \$10,760, respectively.

Management’s Review of Subsequent Events

The Association has evaluated and considered the need to recognize or disclose subsequent events through March 4, 2024, 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, 2023, 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 2023 and 2022, the Association recognized revenue from sales to customers totaling \$3,257,661 and \$2,981,501, 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,:

| | 2023 | 2022 | 2021 |
|---------------------|-------------------|-------------------|-------------------|
| Accounts receivable | <u>\$ 270,895</u> | <u>\$ 276,102</u> | <u>\$ 251,993</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, 2023 and 2022

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, 2023, were covered by Federal Depository Insurance or by collateral held by the custodial banks in the Association's name. At December 31, 2023 and 2022, the bank balances of the Association's deposits totaled \$2,102,429 and \$2,570,307 respectively. At December 31, 2023, cash balances were covered by the following:

| | |
|--------------------------------------------|---------------------|
| FDIC insurance | \$ 1,741,119 |
| Collateralized by standby letter of credit | <u>361,310</u> |
| Total | <u>\$ 2,102,429</u> |

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

| | 2023 | 2022 |
|---------------------|-------------------|-------------------|
| Cash - unrestricted | \$ 591,100 | \$ 597,658 |
| Cash - construction | 348,318 | 339,708 |
| Cash - restricted | <u>8,790</u> | <u>6,254</u> |
| Total | <u>\$ 948,208</u> | <u>\$ 943,620</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, 2023, the Association's financial assets available to meet cash needs for general expenditures within one year are as follows:

| | |
|----------------------------------------------------------------------------------------|-------------------|
| Financial assets, at December 31, 2023 | \$ 2,359,103 |
| Less those unavailable for general expenditures within one year, due to: | |
| Board designations: | |
| Debt service reserves | (982,605) |
| Appropriated | (166,185) |
| Amounts set aside for use on construction projects | <u>(348,318)</u> |
| Financial assets available to meet cash needs for general expenditures within one year | <u>\$ 861,995</u> |

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> |

HARRISON COUNTY WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2023 and 2022

5. FIXED ASSETS

Fixed assets activity for the year ended December 31, 2023 is as follows:

| | Balance 12/31/2022 | Additions | Disposals | Balance 12/31/2023 |
|--------------------------------|-------------------------------|---------------------|------------------|-------------------------------|
| Assets not depreciated: | | | | |
| Land | \$ 112,759 | \$ - | \$ - | \$ 112,759 |
| Construction in progress | <u>8,230</u> | <u>-</u> | <u>-</u> | <u>8,230</u> |
| Total assets not depreciated | <u>120,989</u> | <u>-</u> | <u>-</u> | <u>120,989</u> |
| Assets being depreciated: | | | | |
| Property and equipment | 23,525,328 | 329,904 | (583,394) | 23,271,838 |
| Less: accumulated depreciation | <u>(14,392,703)</u> | <u>(515,700)</u> | <u>583,394</u> | <u>(14,325,009)</u> |
| Net depreciable assets | <u>9,132,625</u> | <u>(185,796)</u> | <u>-</u> | <u>8,946,829</u> |
| Total fixed assets, net | <u>\$ 9,253,614</u> | <u>\$ (185,796)</u> | <u>\$ -</u> | <u>\$ 9,067,818</u> |

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> |

Depreciation expense totaled \$515,700 and \$515,698 for the years ended December 2023 and 2022, respectively.

HARRISON COUNTY WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2023 and 2022

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 | 2023 | 2022 |
|------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|--------------------|
| 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%. | \$ 416,192 | \$ 424,173 |
| 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>720,976</u> | <u>738,169</u> |
| | 1,137,168 | 1,162,342 |
| Less: current portion | <u>(25,893)</u> | <u>(25,174)</u> |
| Long-term portion of loans payable | <u>\$ 1,111,275</u> | <u>\$1,137,168</u> |

The following is a summary of changes in long-term debt for the year ended December 31, 2023:

| | December 31, 2022 | Additions | Retirements | December 31, 2023 | Due Within One Year |
|---------------|------------------------------|------------------|--------------------|------------------------------|------------------------------------|
| Loans payable | <u>\$ 1,162,342</u> | <u>\$ -</u> | <u>\$ (25,174)</u> | <u>\$ 1,137,168</u> | <u>\$ 25,893</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 annual requirements to amortize all loans outstanding as of December 31, 2023 are as follows:

| Year Ending December 31, | Principal | Interest | Total |
|-------------------------------------|---------------------|-------------------|---------------------|
| 2024 | \$ 25,893 | \$ 32,140 | \$ 58,033 |
| 2025 | 26,541 | 31,492 | 58,033 |
| 2026 | 27,391 | 30,642 | 58,033 |
| 2027 | 28,172 | 29,681 | 58,033 |
| 2028 | 28,976 | 29,057 | 58,033 |
| 2029-2033 | 158,004 | 132,161 | 290,165 |
| 2034-2038 | 182,105 | 108,060 | 290,165 |
| 2039-2043 | 209,598 | 80,567 | 290,165 |
| 2044-2048 | 241,248 | 48,917 | 290,165 |
| 2049-2053 | 156,005 | 16,116 | 172,121 |
| 2054-2056 | <u>53,235</u> | <u>2,820</u> | <u>56,055</u> |
| | <u>\$ 1,137,168</u> | <u>\$ 541,833</u> | <u>\$ 1,679,001</u> |

HARRISON COUNTY WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2023 and 2022

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, 2023 and 2022 totaled \$58,033. The Association maintained investment balances to fully satisfy this reserve as of December 31, 2023 and 2022.

Depreciation reserve – This account is required to maintain a reserve for unusual repairs. The required balance at December 31, 2023 and 2022 totaled \$58,069 and \$54,276, respectively. The Association maintained investment balances to fully satisfy this reserve as of December 31, 2023 and 2022.

8. DEFINED CONTRIBUTION PLAN

In 2023, the Association instituted a new Simple IRA plan where the company provides up to a 3% match to the employee contribution. For the year ended December 31, 2023, employee contributions totaled \$33,665 employer contributions totaled \$20,962.

In 2022, the Association made contributions directly to employee's IRA accounts for all full-time employees. The plan funded matching contributions up to \$3,500 per employee for the year. For the year ended December 31, 2022, employee contributions totaled \$29,752 and the employer contributed \$29,752.

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 \$166,185 and \$543,018 at December 31, 2023 and 2022, 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, 2023 and 2022 of \$3,324,057 and \$3,340,754, respectively. The deficit is primarily a result of user charges insufficient to provide for depreciation on contributed assets. Accumulated depreciation on contributed assets totaled \$8,354,578 and \$8,071,357 at December 31, 2023 and 2022, respectively.



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Harrison County Water Association, Inc. (the Association), as of December 31, 2023, and the related notes to the financial statements, and have issued our report thereon dated March 4, 2024.

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 4, 2024