

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

**FINANCIAL STATEMENTS
December 31, 2024 and 2023**

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Members American Institute of Certified Public Accountants
and Kentucky Society of Certified Public Accountants

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, 2024 and 2023, 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, 2024 and 2023, 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 audits. 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 17, 2025, 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 17, 2025

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

	2024	2023
ASSETS		
Current assets		
Cash	\$ 409,004	\$ 591,100
Cash - construction	222,045	348,318
Accounts receivable customers, net of an allowance of \$0 for 2024 and 2023	309,351	270,895
Accrued interest receivable	11,424	7,654
Prepaid expenses	28,814	24,244
Inventory	351,865	203,181
Total current assets	<u>1,332,503</u>	<u>1,445,392</u>
Other assets		
Cash - reserves	9,689	8,790
Cash - water loss surcharge	86,956	-
Certificates of deposit - reserves	1,090,000	1,140,000
PSC rate case accumulated costs	59,181	47,781
Less: accumulated amortization	<u>(35,654)</u>	<u>(15,927)</u>
Total other assets	<u>1,210,172</u>	<u>1,180,644</u>
Fixed assets		
Construction in progress	23,450	8,230
Property and equipment	23,895,313	23,384,597
Less accumulated depreciation	<u>(14,784,155)</u>	<u>(14,325,009)</u>
Total fixed assets	<u>9,134,608</u>	<u>9,067,818</u>
Total assets	<u>\$ 11,677,283</u>	<u>\$ 11,693,854</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 374,870	\$ 169,225
Taxes payable	41,188	37,328
Retirement payable	2,947	6,256
Customer deposits payable	37,450	140,292
Accrued interest payable	4,218	4,587
Accrued sick pay	34,871	-
Current portion of loans payable	<u>26,541</u>	<u>25,893</u>
Total current liabilities	<u>522,085</u>	<u>383,581</u>
Long-term debt		
Loans payable, net of current portion	<u>1,084,734</u>	<u>1,111,275</u>
Net assets		
Without donor restrictions		
Customer contributions	3,298,509	3,175,240
Grants in aid of construction	9,291,865	9,199,025
Debt service reserves	895,663	982,605
Appropriated	290,982	166,185
Unappropriated (deficit)	<u>(3,706,555)</u>	<u>(3,324,057)</u>
Total net assets	<u>10,070,464</u>	<u>10,198,998</u>
Total liabilities and net assets	<u>\$ 11,677,283</u>	<u>\$ 11,693,854</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,

	2024	2023
NET ASSETS WITHOUT DONOR RESTRICTIONS		
OPERATING REVENUE		
Water sales	\$ 3,509,639	\$ 3,192,634
Late charges	44,623	42,115
Other service	9,678	16,617
Other revenue	<u>141,545</u>	<u>35,219</u>
Total operating revenue	<u>3,705,485</u>	<u>3,286,585</u>
OPERATING EXPENSES		
Salaries and wages - employees	748,323	670,110
Salaries and wages - directors	20,775	23,825
Pension and employee benefits	217,664	246,720
Purchased water	1,898,234	1,697,895
Purchased power	112,294	84,516
Material and supplies	103,688	99,242
Contractual services - accounting	23,263	24,924
Contractual services - legal	23,709	2,369
Contractual services - other	29,818	15,433
Transportation expenses	74,353	54,423
Insurance - general liability	39,796	33,623
Insurance - worker's comp	17,362	11,839
Credit loss expense	8,436	11,401
Miscellaneous	199,065	156,562
Regulatory assessment fee	5,107	6,861
Payroll taxes	<u>57,965</u>	<u>54,647</u>
Total operating expenses	<u>3,579,852</u>	<u>3,194,390</u>
Operating income before depreciation and amortization	125,633	92,195
Depreciation expense	(490,766)	(515,700)
Amortization expense	<u>(19,727)</u>	<u>(15,927)</u>
OPERATING (LOSS)	(384,860)	(439,432)
Non-operating income (expenses)		
Gain on disposal of capital assets	13,457	-
Customer contributions, tap fees	123,269	79,950
Grant revenue	92,840	-
Dividend income	2,161	1,537
Interest income	59,865	55,833
Interest expense	<u>(35,266)</u>	<u>(38,710)</u>
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS	(128,534)	(340,822)
Net assets, beginning of year	<u>10,198,998</u>	<u>10,539,820</u>
NET ASSETS, ENDING	<u>\$ 10,070,464</u>	<u>\$ 10,198,998</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, 2024

	System Operations	General and Administrative	Total
Salaries and wages	\$ 561,242	\$ 207,856	\$ 769,098
Employee benefits	158,838	58,826	217,664
Purchased water	1,898,234	-	1,898,234
Purchased power	112,294	-	112,294
Material and supplies	17,690	85,998	103,688
Accounting	-	23,263	23,263
Legal	-	23,709	23,709
Other contractual services	29,818	-	29,818
Transportation	74,353	-	74,353
Insurance - general liability	39,796	-	39,796
Insurance - worker's comp	17,362	-	17,362
Credit loss expense	-	8,436	8,436
Miscellaneous	168,982	30,083	199,065
Regulatory assessment fee	-	5,107	5,107
Payroll taxes	42,299	15,666	57,965
	<hr/>	<hr/>	<hr/>
Operating expense before depreciation and amortization	3,120,908	458,944	3,579,852
	<hr/>	<hr/>	<hr/>
Depreciation expense	490,766	-	490,766
Amortization expense	19,727	-	19,727
	<hr/>	<hr/>	<hr/>
Total operating expenses	\$ 3,631,401	\$ 458,944	\$ 4,090,345

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	\$ 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
Credit loss expense	-	11,401	11,401
Miscellaneous	131,822	24,740	156,562
Regulatory assessment fee	-	6,861	6,861
Payroll taxes	<u>39,438</u>	<u>15,209</u>	<u>54,647</u>
Operating expense before depreciation and amortization	<u>2,756,771</u>	<u>437,619</u>	<u>3,194,390</u>
Depreciation expense	515,700	-	515,700
Amortization expense	<u>15,927</u>	<u>-</u>	<u>15,927</u>
Total operating expenses	<u><u>\$ 3,288,398</u></u>	<u><u>\$ 437,619</u></u>	<u><u>\$ 3,726,017</u></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, 2024 and 2023

	Customer Contributions	Grants in Aid of Construction	Debt Service Reserves	Appropriated	Unappropriated	Total
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	-	-	(60,636)	(376,833)	437,469	-
Change in net assets without donor restrictions	79,950	-	(60,636)	(376,833)	16,697	(340,822)
Balances, December 31, 2023	3,175,240	9,199,025	982,605	166,185	(3,324,057)	10,198,998
Change in net assets	123,269	92,840	-	-	(344,643)	(128,534)
Transfer to (from) reserves	-	-	(86,942)	124,797	(37,855)	-
Change in net assets without donor restrictions	123,269	92,840	(86,942)	124,797	(382,498)	(128,534)
Balances, December 31, 2024	\$ 3,298,509	\$ 9,291,865	\$ 895,663	\$ 290,982	\$ (3,706,555)	\$ 10,070,464

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,

	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 3,564,187	\$ 3,291,792
Payments to suppliers	(2,673,586)	(2,356,935)
Payments for employee services and benefits	<u>(1,009,305)</u>	<u>(1,066,025)</u>
Net cash provided by (used in) operating activities	<u>(118,704)</u>	<u>(131,168)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Retirement of note principal	(25,893)	(25,174)
Interest paid	(35,635)	(38,710)
Purchase of capital assets	(381,479)	(377,685)
Proceeds from sale of capital assets	16,832	-
Customer contributions, tap fees	123,269	79,950
Grants	<u>92,840</u>	<u>-</u>
Net cash provided by (used in) capital and related financing activities	<u>(210,066)</u>	<u>(361,619)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds (purchase) - certificates of deposit	50,000	440,005
Interest income	<u>58,256</u>	<u>57,370</u>
Net cash provided by (used in) by investing activities	<u>108,256</u>	<u>497,375</u>
NET INCREASE (DECREASE) IN CASH	(220,514)	4,588
Cash, beginning of year	<u>948,208</u>	<u>943,620</u>
CASH, END OF YEAR	<u>\$ 727,694</u>	<u>\$ 948,208</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:		
Operating income (loss)	\$ (384,860)	\$ (439,432)
Non-cash items included in operating income (loss)		
Depreciation	490,766	515,700
Amortization	19,727	15,927
Changes in assets and liabilities		
(Increase) decrease in accounts receivables	(38,456)	5,207
(Increase) decrease in inventory	(148,684)	(86,232)
(Increase) decrease in prepaid expenses	(4,570)	(3,229)
Increase (decrease) in accounts payable	14,793	(26,294)
Increase (decrease) in other payables	35,422	(94,548)
Increase (decrease) in customer deposits	<u>(102,842)</u>	<u>(18,267)</u>
Net cash provided by (used in) operating activities	<u>\$ (118,704)</u>	<u>\$ (131,168)</u>
Supplemental disclosure of cash flow information		
Non-cash capital and related financing activities		
Capital assets in accounts payable	<u>\$ 190,852</u>	<u>\$ -</u>

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

HARRISON COUNTY WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2024 and 2023

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 2021. 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 and 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 credit losses.

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 part of the cost.

HARRISON COUNTY WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2024 and 2023

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.

Recently Adopted Accounting Standards

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 December 31, 2024 and 2023, totaled \$8,436 and \$11,401, respectively.

Management's Review of Subsequent Events

The Association has evaluated and considered the need to recognize or disclose subsequent events through March 17, 2025, 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, 2024, 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 2024 and 2023, the Association recognized revenue from sales to customers totaling \$3,509,639 and \$3,192,634, 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 by the 1st of every month based on customer usage. Total usage determines the rate at which a customer is billed per unit. Payment is due by the 17th of the month, but water is not shut off until 10 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,:

	2024	2023	2022
Accounts receivable	<u>\$ 309,351</u>	<u>\$ 270,895</u>	<u>\$ 276,102</u>

HARRISON COUNTY WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2024 and 2023

2. REVENUE RECOGNITION (CONTINUED)

Contract Balances (continued)

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

The Association's deposits and investments at December 31, 2024, were fully covered by Federal Depository Insurance or by collateral held by the custodial banks in the Association's name. At December 31, 2024 and 2023, the bank balances of the Association's deposits totaled \$1,830,192 and \$2,102,429 respectively. At December 31, 2024, cash balances were covered by the following:

FDIC insurance	\$ 1,371,306
Collateralized by standby letter of credit	<u>458,886</u>
Total	<u>\$ 1,830,192</u>

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

	2024	2023
Cash - unrestricted	\$ 409,004	\$ 591,100
Cash - construction	222,045	348,318
Cash - restricted	<u>96,645</u>	<u>8,790</u>
Total	<u>\$ 727,694</u>	<u>\$ 948,208</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, 2024, the Association's financial assets available to meet cash needs for general expenditures within one year were as follows:

Financial assets, at December 31, 2024	\$ 2,127,045
Less those unavailable for general expenditures within one year, due to:	
Board designations:	
Debt service reserves	(895,663)
Appropriated	(290,982)
Amounts set aside for use on construction projects	<u>(222,045)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 718,355</u>

HARRISON COUNTY WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2024 and 2023

4. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS (CONTINUED)

As of December 31, 2023, the Association's financial assets available to meet cash needs for general expenditures within one year were 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>

5. FIXED ASSETS

Fixed assets activity for the year ended December 31, 2024 is as follows:

	Balance 12/31/2023	Additions	Disposals	Balance 12/31/2024
Assets not depreciated:				
Land	\$ 112,759	\$ -	\$ -	\$ 112,759
Construction in progress	<u>8,230</u>	<u>22,610</u>	<u>(7,390)</u>	<u>23,450</u>
Total assets not depreciated	<u>120,989</u>	<u>22,610</u>	<u>(7,390)</u>	<u>136,209</u>
Assets being depreciated:				
Property and equipment	23,271,838	545,711	(34,995)	23,782,554
Less: accumulated depreciation	<u>(14,325,009)</u>	<u>(490,766)</u>	<u>31,620</u>	<u>(14,784,155)</u>
Net depreciable assets	<u>8,946,829</u>	<u>54,945</u>	<u>(3,375)</u>	<u>8,998,399</u>
Total fixed assets, net	<u>\$ 9,067,818</u>	<u>\$ 77,555</u>	<u>\$ (10,765)</u>	<u>\$ 9,134,608</u>

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>

Depreciation expense totaled \$490,766 and \$515,700 for the years ended December 31, 2024 and 2023, respectively.

HARRISON COUNTY WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2024 and 2023

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	2024	2023
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%.	\$ 408,009	\$ 416,192
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>703,266</u>	<u>720,976</u>
	1,111,275	1,137,168
Less: current portion	<u>(26,541)</u>	<u>(25,893)</u>
Long-term portion of loans payable	<u>\$ 1,084,734</u>	<u>\$1,111,275</u>

The following is a summary of changes in long-term debt for the year ended December 31, 2024:

	December 31, 2023	Additions	Retirements	December 31, 2024	Due Within One Year
Loans payable	<u>\$ 1,137,168</u>	<u>\$ -</u>	<u>\$ (25,893)</u>	<u>\$ 1,111,275</u>	<u>\$ 26,541</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 annual requirements to amortize all loans outstanding as of December 31, 2024, are as follows:

Year Ending December 31,	Principal	Interest	Total
2025	\$ 26,541	\$ 31,492	\$ 58,033
2026	27,391	30,642	58,033
2027	28,172	29,861	58,033
2028	28,976	29,057	58,033
2029	29,804	28,229	58,033
2030-2034	162,606	127,559	290,165
2035-2039	187,290	102,875	290,165
2040-2044	215,583	74,582	290,165
2045-2049	248,128	42,037	290,165
2050-2054	120,922	11,851	132,773
2055-2056	<u>35,862</u>	<u>1,508</u>	<u>37,370</u>
	<u>\$ 1,111,275</u>	<u>\$ 509,693</u>	<u>\$ 1,620,968</u>

HARRISON COUNTY WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2024 and 2023

7. COMPLIANCE WITH LOAN AGREEMENT

The loan agreement with 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, 2024 and 2023, totaled \$58,033. The Association maintained investment balances to fully satisfy this reserve as of December 31, 2024 and 2023.

Depreciation reserve – This account is required to maintain a reserve for unusual repairs. The required balance at December 31, 2024 and 2023, totaled \$59,971 and \$58,069, respectively. The Association maintained investment balances to fully satisfy this reserve as of December 31, 2024 and 2023.

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 years ended December 31, 2024 and 2023, employee contributions totaled \$34,469 and \$33,665, respectively, and employer contributions totaled \$21,361 and \$20,962, 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 \$290,982 and \$166,185 at December 31, 2024 and 2023, respectively, of net assets without donor restrictions. Of these amounts, \$86,956 and \$0, respectively, are water loss surcharge collections, expenditures of which must be approved by the Kentucky Public Service Commission. The remaining amounts are appropriated 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, 2024 and 2023, of \$3,706,555 and \$3,324,057, respectively. The deficit is primarily a result of user charges insufficient to provide for depreciation on contributed assets. Accumulated depreciation on contributed assets totaled \$8,624,105 and \$8,354,578 at December 31, 2024 and 2023, respectively.



Members American Institute of Certified Public Accountants
and Kentucky Society of Certified Public Accountants

**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), which comprise the statement of financial position as of December 31, 2024, and the related statements of activities, functional expenses, changes in nets assets, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 17, 2025.

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 17, 2025