

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

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**FINANCIAL STATEMENTS  
December 31, 2025 and 2024**

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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, 2025 and 2024, 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, 2025 and 2024, 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 12, 2026, 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 12, 2026

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

	<b>2025</b>	<b>2024</b>
<b>ASSETS</b>		
Current assets		
Cash	\$ 170,929	\$ 409,004
Cash - construction	182,665	222,045
Accounts receivable customers, net of an allowance of \$0 for 2025 and 2024	313,549	309,351
Accrued interest receivable	10,580	11,424
Prepaid expenses	29,981	28,814
Inventory	<u>241,741</u>	<u>351,865</u>
Total current assets	<u>949,445</u>	<u>1,332,503</u>
Other assets		
Cash - reserves	9,968	9,689
Cash - water loss surcharge	119,304	86,956
Certificates of deposit - reserves	1,015,005	1,090,000
PSC rate case accumulated costs	47,781	59,181
Less: accumulated amortization	<u>(47,781)</u>	<u>(35,654)</u>
Total other assets	<u>1,144,277</u>	<u>1,210,172</u>
Fixed assets		
Construction in progress	72,270	23,450
Property and equipment	24,410,843	23,895,313
Less accumulated depreciation	<u>(15,299,567)</u>	<u>(14,784,155)</u>
Total fixed assets	<u>9,183,546</u>	<u>9,134,608</u>
Total assets	<u>\$ 11,277,268</u>	<u>\$ 11,677,283</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities		
Accounts payable	\$ 297,340	\$ 374,870
Taxes payable	61,355	41,188
Retirement payable	2,952	2,947
Customer deposits payable	28,011	37,450
Accrued interest payable	4,122	4,218
Accrued sick pay	40,386	34,871
Current portion of loans payable	<u>27,391</u>	<u>26,541</u>
Total current liabilities	<u>461,557</u>	<u>522,085</u>
Long-term debt		
Loans payable, net of current portion	<u>1,056,896</u>	<u>1,084,734</u>
Net assets		
Without donor restrictions		
Customer contributions	3,417,130	3,298,509
Grants in aid of construction	9,325,735	9,291,865
Debt service reserves	820,518	895,663
Appropriated	323,759	290,982
Unappropriated (deficit)	<u>(4,128,327)</u>	<u>(3,706,555)</u>
Total net assets	<u>9,758,815</u>	<u>10,070,464</u>
Total liabilities and net assets	<u>\$ 11,277,268</u>	<u>\$ 11,677,283</u>

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

**HARRISON COUNTY WATER ASSOCIATION, INC.**  
**STATEMENTS OF ACTIVITIES**  
for the years ended December 31,

	<b>2025</b>	<b>2024</b>
<b>NET ASSETS WITHOUT DONOR RESTRICTIONS</b>		
<b>OPERATING REVENUE</b>		
Water sales	\$ 3,567,132	\$ 3,509,639
Water loss surcharge	109,494	99,472
Late charges	45,798	44,623
Other service	10,555	9,678
Other revenue	<u>78,838</u>	<u>42,073</u>
Total operating revenue	<u>3,811,817</u>	<u>3,705,485</u>
<b>OPERATING EXPENSES</b>		
Salaries and wages - employees	714,955	748,323
Salaries and wages - directors	21,000	20,775
Pension and employee benefits	223,776	217,664
Payroll taxes	57,850	57,965
Purchased water	1,981,613	1,898,234
Purchased power	99,596	112,294
Material and supplies	24,634	17,690
Maintenance and repairs	239,865	124,151
Office expenses	93,596	85,998
Contractual services - accounting	27,363	23,263
Contractual services - legal	28,165	23,709
Contractual services - other	20,557	29,818
Transportation	56,925	74,353
Insurance - general liability	44,650	39,796
Insurance - worker's compensation	13,948	17,362
Credit loss expense	15,372	8,436
Miscellaneous	61,700	74,914
Regulatory assessment fee	<u>5,910</u>	<u>5,107</u>
Total operating expenses	<u>3,731,475</u>	<u>3,579,852</u>
Operating income before depreciation and amortization	80,342	125,633
Depreciation expense	(532,129)	(490,766)
Amortization expense	<u>(15,927)</u>	<u>(19,727)</u>
<b>OPERATING (LOSS)</b>	(467,714)	(384,860)
Non-operating income (expenses)		
Gain (loss) on disposal of capital assets	(9,529)	13,457
Customer contributions, tap fees	118,621	123,269
Grant revenue	33,870	92,840
Dividend income	429	2,161
Interest income	45,148	59,865
Interest expense	<u>(32,474)</u>	<u>(35,266)</u>
<b>CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS</b>	(311,649)	(128,534)
Net assets, beginning of year	<u>10,070,464</u>	<u>10,198,998</u>
<b>NET ASSETS, ENDING</b>	<u>\$ 9,758,815</u>	<u>\$ 10,070,464</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, 2025

	<b>System Operations</b>	<b>General and Administrative</b>	<b>Total</b>
Salaries and wages	\$ 536,216	\$ 199,739	\$ 735,955
Employee benefits	163,007	60,769	223,776
Payroll taxes	42,140	15,710	57,850
Purchased water	1,981,613	-	1,981,613
Purchased power	99,596	-	99,596
Material and supplies	24,634	-	24,634
Maintenance and repairs	239,865	-	239,865
Office expenses	-	93,596	93,596
Contractual services - accounting	-	27,363	27,363
Contractual services - legal	-	28,165	28,165
Contractual services - other	20,557	-	20,557
Transportation	56,925	-	56,925
Insurance - general liability	44,650	-	44,650
Insurance - worker's compensation	13,948	-	13,948
Credit loss expense	-	15,372	15,372
Miscellaneous	34,401	27,299	61,700
Regulatory assessment fee	-	5,910	5,910
	<u>3,257,552</u>	<u>473,923</u>	<u>3,731,475</u>
Operating expense before depreciation and amortization			
Depreciation expense	532,129	-	532,129
Amortization expense	15,927	-	15,927
	<u>548,056</u>	<u>-</u>	<u>548,056</u>
Total operating expenses	<u>\$ 3,805,608</u>	<u>\$ 473,923</u>	<u>\$ 4,279,531</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, 2024

	<b>System Operations</b>	<b>General and Administrative</b>	<b>Total</b>
Salaries	\$ 561,242	\$ 207,856	\$ 769,098
Employee benefits	158,838	58,826	217,664
Payroll taxes	42,299	15,666	57,965
Purchased water	1,898,234	-	1,898,234
Purchased power	112,294	-	112,294
Material and supplies	17,690	-	17,690
Maintenance and repairs	124,151	-	124,151
Office expenses	-	85,998	85,998
Contractual services - accounting	-	23,263	23,263
Contractual services - legal	-	23,709	23,709
Contractual services - other	29,818	-	29,818
Transportation	74,353	-	74,353
Insurance - general liability	39,796	-	39,796
Insurance - worker's compensation	17,362	-	17,362
Credit loss expense	-	8,436	8,436
Miscellaneous	48,347	26,567	74,914
Regulatory assessment fee	-	5,107	5,107
	<u>3,124,424</u>	<u>455,428</u>	<u>3,579,852</u>
Operating expense before depreciation and amortization			
Depreciation expense	490,766	-	490,766
Amortization expense	19,727	-	19,727
	<u>500,493</u>	<u>-</u>	<u>500,493</u>
Total operating expenses	<u>\$ 3,634,917</u>	<u>\$ 455,428</u>	<u>\$ 4,090,345</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, 2025 and 2024

	Customer Contributions	Grants in Aid of Construction	Debt Service Reserves	Appropriated	Unappropriated	Total
<b>Balances, December 31, 2023</b>	<b>\$ 3,175,240</b>	<b>\$ 9,199,025</b>	<b>\$ 982,605</b>	<b>\$ 166,185</b>	<b>\$ (3,324,057)</b>	<b>\$ 10,198,998</b>
Change in net assets	123,269	92,840	-	-	(344,643)	(128,534)
Transfer to (from) reserves	<u>-</u>	<u>-</u>	<u>(86,942)</u>	<u>124,797</u>	<u>(37,855)</u>	<u>-</u>
Change in net assets without donor restrictions	<u>123,269</u>	<u>92,840</u>	<u>(86,942)</u>	<u>124,797</u>	<u>(382,498)</u>	<u>(128,534)</u>
<b>Balances, December 31, 2024</b>	<b>3,298,509</b>	<b>9,291,865</b>	<b>895,663</b>	<b>290,982</b>	<b>(3,706,555)</b>	<b>10,070,464</b>
Change in net assets	118,621	33,870	-	-	(464,140)	(311,649)
Transfer to (from) reserves	<u>-</u>	<u>-</u>	<u>(75,145)</u>	<u>32,777</u>	<u>42,368</u>	<u>-</u>
Change in net assets without donor restrictions	<u>118,621</u>	<u>33,870</u>	<u>(75,145)</u>	<u>32,777</u>	<u>(421,772)</u>	<u>(311,649)</u>
<b>Balances, December 31, 2025</b>	<b><u>\$ 3,417,130</u></b>	<b><u>\$ 9,325,735</u></b>	<b><u>\$ 820,518</u></b>	<b><u>\$ 323,759</u></b>	<b><u>\$ (4,128,327)</u></b>	<b><u>\$ 9,758,815</u></b>

The accompanying notes are an integral  
part of the financial statements

**HARRISON COUNTY WATER ASSOCIATION, INC.**  
**STATEMENTS OF CASH FLOWS**  
for the years ended December 31,

	<b>2025</b>	<b>2024</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 3,798,180	\$ 3,564,187
Payments to suppliers	(2,491,615)	(2,673,586)
Payments for employee services and benefits	<u>(991,894)</u>	<u>(1,009,305)</u>
Net cash provided by (used in) operating activities	<u>314,671</u>	<u>(118,704)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Retirement of note principal	(26,988)	(25,893)
Interest paid	(32,570)	(35,635)
Purchase of capital assets	(773,848)	(381,479)
Proceeds from sale of capital assets	-	16,832
Customer contributions, tap fees	118,621	123,269
Grants	<u>33,870</u>	<u>92,840</u>
Net cash provided by (used in) capital and related financing activities	<u>(680,915)</u>	<u>(210,066)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds (purchase) - certificates of deposit	74,995	50,000
Interest and dividend income	<u>46,421</u>	<u>58,256</u>
Net cash provided by (used in) by investing activities	<u>121,416</u>	<u>108,256</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	(244,828)	(220,514)
Cash, beginning of year	<u>727,694</u>	<u>948,208</u>
<b>CASH, END OF YEAR</b>	<u>\$ 482,866</u>	<u>\$ 727,694</u>
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:</b>		
Operating income (loss)	\$ (467,714)	\$ (384,860)
Non-cash items included in operating income (loss)		
Depreciation	532,129	490,766
Amortization	15,927	19,727
Changes in assets and liabilities		
(Increase) decrease in accounts receivables	(4,198)	(38,456)
(Increase) decrease in inventory	110,124	(148,684)
(Increase) decrease in prepaid expenses	(1,167)	(4,570)
Increase (decrease) in accounts payable	113,322	14,793
Increase (decrease) in other payables	25,687	35,422
Increase (decrease) in customer deposits	<u>(9,439)</u>	<u>(102,842)</u>
Net cash provided by (used in) operating activities	<u>\$ 314,671</u>	<u>\$ (118,704)</u>
<b>Supplemental disclosure of cash flow information</b>		
Non-cash capital and related financing activities		
Capital assets in accounts payable	<u>\$ -</u>	<u>\$ 190,852</u>

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

**HARRISON COUNTY WATER ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2025 and 2024**

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**1. ORGANIZATION AND ACCOUNTING POLICIES**

Harrison County Water Association, Inc. (the Association) distributes and sells water to approximately 6,000 members. The Association serves primarily Harrison County outside the City of Cynthiana and parts of the adjacent counties. Its suppliers of water are the City of Cynthiana, Kentucky American Water, the City of Paris, and the Nicholas County Water District.

**Reporting Entity**

Harrison County Water Association, Inc. was created and organized as a non-profit association under Section 501(c)12 of the Internal Revenue Code. No income tax is applicable due to the Association's tax-exempt status.

The Association files an income tax return in the U.S. federal jurisdiction and the state of Kentucky. The Association is generally no longer subject to income tax examinations by tax authorities for years before 2022. 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 and dividend income, grants restricted for the purchase of capital assets, 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. Credit loss expense for the years ending December 31, 2025 and 2024, totaled \$15,372 and \$8,436, respectively.

**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, 2025 and 2024**

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

**Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

**Management’s Review of Subsequent Events**

The Association has evaluated and considered the need to recognize or disclose subsequent events through March 12, 2026, 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, 2025, 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 2025 and 2024, the Association recognized revenue from sales to customers totaling \$3,676,626 and \$3,609,111, 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 17<sup>th</sup> 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,:

	2025	2024	2023
Accounts receivable	<u>\$ 313,549</u>	<u>\$ 309,351</u>	<u>\$ 270,895</u>

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, 2025, were fully covered by Federal Depository Insurance or by collateral held by the custodial banks in the Association’s name. At December 31, 2025 and 2024, the bank balances of the Association’s deposits totaled \$1,551,423 and \$1,830,192 respectively. At December 31, 2025, cash and investment balances were covered by the following:

FDIC insurance	\$ 1,276,441
Collateralized by standby letter of credit	<u>274,982</u>
Total	<u>\$ 1,551,423</u>

**HARRISON COUNTY WATER ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2025 and 2024**

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

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

	<b>2025</b>	<b>2024</b>
Cash - unrestricted	\$ 170,929	\$ 409,004
Cash - construction	182,665	222,045
Cash - reserves	9,968	222,045
Cash - water loss surcharge	<u>119,304</u>	<u>96,645</u>
 Total	 <u>\$ 482,866</u>	 <u>\$ 727,694</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 and interest receivable. As of December 31, 2025, the Association's financial assets available to meet cash needs for general expenditures within one year were as follows:

Financial assets, at December 31, 2025	\$ 1,822,000
Less those unavailable for general expenditures within one year, due to:	
Board designations:	
Debt service reserves	(820,518)
Appropriated	(323,759)
Amounts set aside for use on construction projects	<u>(182,665)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 495,058</u>

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	\$ 2,138,469
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>\$ 729,779</u>

**HARRISON COUNTY WATER ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2025 and 2024**

**5. FIXED ASSETS**

Fixed assets activity for the year ended December 31, 2025 is as follows:

	<b>Balance 12/31/2024</b>	<b>Additions</b>	<b>Disposals</b>	<b>Balance 12/31/2025</b>
Assets not depreciated:				
Land	\$ 112,759	\$ -	\$ -	\$ 112,759
Construction in progress	<u>23,450</u>	<u>74,956</u>	<u>(26,136)</u>	<u>72,270</u>
Total assets not depreciated	<u>136,209</u>	<u>74,956</u>	<u>(26,136)</u>	<u>185,029</u>
Assets being depreciated:				
Property and equipment	23,782,554	541,776	(26,246)	24,298,084
Less: accumulated depreciation	<u>(14,784,155)</u>	<u>(532,129)</u>	<u>16,717</u>	<u>(15,299,567)</u>
Net depreciable assets	<u>8,998,399</u>	<u>9,647</u>	<u>(9,529)</u>	<u>8,998,517</u>
Total fixed assets, net	<u>\$ 9,134,608</u>	<u>\$ 84,603</u>	<u>\$ (35,665)</u>	<u>\$ 9,183,546</u>

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

	<b>Balance 12/31/2023</b>	<b>Additions</b>	<b>Disposals</b>	<b>Balance 12/31/2024</b>
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>

Depreciation expense totaled \$532,129 and \$490,766 for the years ended December 31, 2025 and 2024, respectively.

**HARRISON COUNTY WATER ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2025 and 2024**

**6. LONG-TERM DEBT**

The following is a summary of the loans outstanding for the Association for the years ended December 31,:

<b>Loans - U.S. Department of Agriculture</b>	<b>2025</b>	<b>2024</b>
Loan - \$469,000 Dated 3/16/16, due in annual installments of \$18,685 starting in 2017 through 2056. Bearing interest at a rate of 2.50%.	\$ 399,313	\$ 408,009
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>684,974</u>	<u>703,266</u>
	1,084,287	1,111,275
Less: current portion	<u>(27,391)</u>	<u>(26,541)</u>
Long-term portion of loans payable	<u>\$ 1,056,896</u>	<u>\$1,084,734</u>

The following is a summary of changes in long-term debt for the year ended December 31, 2025:

	<b>December 31, 2024</b>	<b>Additions</b>	<b>Retirements</b>	<b>December 31, 2025</b>	<b>Due Within One Year</b>
Loans payable	<u>\$ 1,111,275</u>	<u>\$ -</u>	<u>\$ (26,988)</u>	<u>\$ 1,084,287</u>	<u>\$ 27,391</u>

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

	<b>December 31, 2023</b>	<b>Additions</b>	<b>Retirements</b>	<b>December 31, 2024</b>	<b>Due Within One Year</b>
Loans payable	<u>\$ 1,137,168</u>	<u>\$ -</u>	<u>\$ (25,893)</u>	<u>\$ 1,111,275</u>	<u>\$ 26,541</u>

The annual requirements to amortize all loans outstanding as of December 31, 2025, are as follows:

<b>Year Ending December 31,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
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	30,674	27,359	58,033
2031-2035	167,316	122,849	290,165
2036-2040	192,627	97,538	290,165
2041-2045	221,737	68,428	290,165
2046-2050	255,184	34,981	290,165
2051-2055	84,799	8,626	93,425
2055-2056	<u>18,054</u>	<u>631</u>	<u>18,685</u>
	<u>\$ 1,084,734</u>	<u>\$ 478,201</u>	<u>\$ 1,562,935</u>

**HARRISON COUNTY WATER ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2025 and 2024**

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**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, 2025 and 2024, totaled \$58,033. The Association maintained investment balances to fully satisfy this reserve as of December 31, 2025 and 2024.

**Depreciation reserve** – This account is required to maintain a reserve for unusual repairs. The required balance at December 31, 2025 and 2024, totaled \$61,868 and \$59,971, respectively. The Association maintained investment balances to fully satisfy this reserve as of December 31, 2025 and 2024.

**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, 2025 and 2024, employee contributions totaled \$32,937 and \$34,469, respectively, and employer contributions totaled \$20,688 and \$21,361, 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 \$323,759 and \$290,982 at December 31, 2025 and 2024, respectively, of net assets without donor restrictions. Of these amounts, \$119,304 and \$86,956, 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, 2025 and 2024, of \$4,128,327 and \$3,706,555, respectively. The deficit is primarily a result of user charges insufficient to provide for depreciation on contributed assets. Accumulated depreciation on contributed assets totaled \$8,916,348 and \$8,624,105 at December 31, 2025 and 2024, respectively.

**13. RECLASSIFICATIONS**

Certain items in the statements of activities and functional expenses for the year ended December 31, 2024, have been reclassified to fit the current year presentation. These reclassifications did not have any effect on previously stated net assets.



**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, 2025, 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 12, 2026.

**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 12, 2026