NORTH MANCHESTER WATER ASSOCIATION, INC.

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2017

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NORTH MANCHESTER WATER ASSOCIATION, INC.
BOARD OF DIRECTORS
DECEMBER 31, 2017

PRESIDENT

Mr. Steve Davis

BOARD OF DIRECTORS

Mr. Bill Hurd, Vice-President

Mr. Bobby Wolfe, Treasurer

Ms. Josephine Gross, Secretary

Mr. Carl Hoskins, Member

Mr. Wesley Hubbard, Member

Mr. Ted Woods, Member

SAMMY K. LEE, P.S.C.
Certified Public Accountant

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Berea, KY 40403
(859) 986-3756

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INDEPENDENT AUDITOR'S REPORT

To the Chairman and Board of Directors
North Manchester Water Association, Inc.
Manchester, Kentucky 40962

Report on the Financial Statements

I have audited the accompanying financial statements of North Manchester Water Association, Inc., (a non-profit organization) (hereinafter "the Association"), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on conducting the audit in accordance with auditing standards generally accepted in the United States of America. Because of the matter described in the Basis for Disclaimer of Opinion paragraph, however, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

Certain accounting records have not been maintained and certain prior-year records and supporting data were not available for my audit. Therefore, I was not able to obtain sufficient appropriate audit evidence about the amounts at which receivables, customer deposit liabilities, and property and equipment, and related accumulated depreciation are recorded in the accompanying balance sheet at December 31, 2017 (stated at $136,289, $91,892, $2,708,052, and $2,269,954 respectively), and the amount of revenues and deprecation expense for the year then ended (stated at $836,641 and $102,136, respectively).

Disclaimer of Opinion

Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements referred to in the first paragraph.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated June 4, 2019, on my consideration of Association's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Association's internal control over financial reporting and compliance.

Sammy K. Lee, P.S.C.

Berea, Kentucky
June 4, 2019

NORTH MANCHESTER WATER ASSOCIATION, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2017

ASSETS	
Cash and cash equivalents	$ 5,225
Accounts receivable	136,289
Prepaid expenses	8,992
Restricted cash	408
Property and equipment, net	2,708,052
TOTAL ASSETS	**$ 2,858,966**
LIABILITIES AND NET ASSETS	
LIABILITIES	
Checks written in excess of cash	$ 4,866
Accounts payable	36,275
Accrued expenses	10,586
Accrued interest	2,787
Customer deposits	91,892
Notes and lease payable	1,133,866
TOTAL LIABILITIES	**1,280,272**
NET ASSETS	
Unrestricted	1,578,694
TOTAL NET ASSETS	**1,578,694**
TOTAL LIABILITIES AND NET ASSETS	**$ 2,858,966**

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

NORTH MANCHESTER WATER ASSOCIATION, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017

REVENUES	
Water sales	$ 836,641
TOTAL REVENUES	**836,641**
EXPENSES	
Water purchased	276,416
Personnel costs	151,736
Insurance	64,355
Transportation costs	46,099
Telephone and utilities	29,338
Materials and supplies	37,468
Contracted services	24,352
Interest expense	37,702
Miscellaneous	38,019
Depreciation	102,136
Advertising	2,928
TOTAL EXPENSES	**810,549**
CHANGE IN NET ASSETS	**26,092**
NET ASSETS, BEGINNING OF YEAR	**1,583,815**
NET ASSETS, END OF YEAR	**$ 1,609,907**

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

NORTH MANCHESTER WATER ASSOCIATION, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	**$ 26,092**
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation expense	102,136
Changes in assets and liabilities:	
Accounts receivable	18,578
Accounts receivable-grants	54,246
Prepaid expenses	(5,067)
Checks written in excess of available cash	4,866
Accounts payable	(78,625)
Accrued expenses	(2,918)
Accrued interest	(284)
Customer deposits	(600)
Net cash provided by operating activities	**118,424**
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of assets	(7,212)
Net cash used in investing activities	**(7,212)**
CASH FLOWS FROM FINANCING ACTIVITIES	
Deposits into restricted cash	(401)
Principal paid on notes	(115,676)
Net cash used in financing activities	**(116,077)**
Net decrease in cash and cash equivalents	(4,865)
Cash and cash equivalents at beginning of year	10,090
CASH AND CASH EQUIVALENTS AT END OF YEAR	**$ 5,225**

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash paid for interest	$ 37,702

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization and Activities
The Association was incorporated as a non-profit organization in the State of Kentucky. The Association is regulated by the Kentucky Public Service Commission pursuant to KRS 278.040. The Association provides water to the rural sections of northern Manchester.

Basis of Accounting
The Association prepares its financial statements using the accrual basis. The accrual basis recognizes income when earned, regardless of when payment is received, and recognizes expenses when incurred regardless of when paid. This method of accounting is in accordance with Accounting Principles Generally Accepted in the United States of America.

Financial Statement Presentation
The Association is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, the Association is required to present a statement of cash flows. Accordingly, the net assets of the Association and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to any donor-imposed stipulations. At December 31, 2017, the Association reported $1,578,694 in unrestricted net assets.

Temporarily restricted net assets – Net assets subject to donor-imposed restriction on their use that may be met either by actions of the Association or the passage of time. At December 31, 2017, the Association had no temporarily restricted net assets.

Permanently restricted net assets – Net assets subject to donor-imposed or other legal restriction requiring that the principal be maintained permanently by the Association. Generally, the donors permit the Association to use all or part of the income earned for either general or donor-specific purposes. At December 31, 2017, the Association had no permanently restricted net assets.

Cash and Cash Equivalents
Cash and cash equivalents consist of checking accounts. For purposes of the Statement of Cash Flows, the Association considers all highly liquid cash deposits and cash equivalents with a maturity of three months or less when purchased and non-negotiable certificates of deposit to be cash equivalents.

Accounts Receivable
Accounts receivable from water services represent charges for services rendered and which have been billed but not collected at year-end and reported at net of an allowance for doubtful accounts. Management considers an account past due when payments have not been collected by the due date.

There was no allowance for doubtful accounts at December 31, 2017; management considers amounts due from customers fully collectible.

Prepaid Expenses
Payments that will benefit periods beyond the fiscal year are recorded as prepaid items. A current asset for the prepaid amount is recorded at the time of the purchase, and an expenditure/expense is reported in the year in which services are consumed.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Property, Equipment, and Depreciation

Property and equipment are recorded at cost or, if donated, at their estimated fair value at the time of contribution. The sale or disposal of property and equipment is recorded by removing the asset's cost and related accumulated depreciation from the accounts and charging the resulting gain or loss to income. Expenditures for maintenance, repairs, and minor renewals are expensed as incurred. Major expenditures for renewals and betterments are capitalized. Depreciation is provided for using the straight-line method over the estimated useful lives of the asset. The estimated useful lives are as follows:

Water and sewer system utility plants	20-50 years
Trucks and equipment	4-20 years
Office equipment	5-7 years

Accounts Payable

Accounts payable represent expenses incurred in the current year to be paid in the subsequent year. The majority of the Association's payables are to vendors for the purchase of water.

Customer Deposits

The obligation to refund customer deposits is shown as a liability in the Statement of Financial Position. When received, the cash should be deposited in a required, separate bank account in the name of the Association. The deposit is applied to the final water charges upon cancellations of water services and any remainder is refunded to the customer.

Revenue Recognition

Revenues are reported as unrestricted net assets unless the related assets are limited by donor-imposed restrictions. Water charges related to the sale of goods are reported as unrestricted net assets. Grant revenues are recognized in revenues when the conditions on which they depend are substantially met. Revenues from fees, miscellaneous, and other services are recognized in the period in which the association provides the service.

Income Tax Status

The Association is a non-profit corporation and exempt from federal income taxation under Section 501 (c) (12) of the Internal Revenue Code (IRC); therefore, no provisions for income taxes have been made in the financial statements, though it would be subject to tax on income unrelated to its exempt purposes (unless that income is otherwise excluded by the IRC). In accordance with the provision of ASC 740-10, *Accounting for Uncertainty in Income Taxes*, an organization must recognize the tax benefit associated with tax positions taken for tax return purposes when it is more likely than not that the position will be sustained. The Association's management believes there are no material uncertain tax positions and have not recognized any liability for unrecognized tax benefits. For the year ended December 31, 2017, the Association did not recognize any interest or penalties.

Advertisement Expense

The Statement of Activities reported advertisement expenditures for the year ending December 31, 2017, in the amount of $2,928.

Functional Allocation of Expenses

The costs of providing programs have been summarized on a functional basis in the statement of activities. Accordingly, all costs are program costs.

Use of Estimates

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

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents at December 31, 2017 consisted of the following:

Description		Amount
Operating account		(4,866)
Savings	$	880
Revenue		4,345
Total	**$**	**359**

Custodial Credit Risk is the risk that the Association's deposits may not be returned in the event of depository institution failure. The Association is required to maintain its deposits with a depository institution insured by Federal Deposit Insurance Corporation (FDIC) or by securities pledged at market. At December 31, 2017, the carrying amount of the Association's accounts were $359 and the bank balances were $30,855. Bank balances were fully covered by FDIC.

NOTE 3 – RESTRICTED CASH

The Association bond covenants requires certain funds be maintained in order to meet the debt service requirements and to provide for unusual repairs and maintenance to the present system.

Description		Amount
Reserve	$	8
Debt service		400
Total	**$**	**408**

Custodial Credit Risk is the risk that the Association's deposits may not be returned in the event of depository institution failure. The Association is required to maintain its deposits with a depository institution insured by Federal Deposit Insurance Corporation (FDIC) or by securities pledged at market. At December 31, 2017, the carrying amount of the Association's restricted cash account was $408 and the bank balance was $408. The bank balance was covered insurance securities pledged at market in the Association's name.

NOTE 4 – ACCOUNTS RECEIVABLE

As of December 31, 2017, accounts receivable consisted of the following:

Accounts receivable	$	11,254
Unbilled receivable		125,035
Accounts Receivable	**$**	**136,289**

NOTE 5 – PROPERTY, PLANT, AND EQUIPMENT

Major classes of property and equipment and accumulated depreciation are as follows at December 31, 2017:

Land	$ 5,032
Equipment	144,702
Other water system assets	4,827,041
Office furniture & equipment	1,231
Less accumulated depreciation	(2,269,954)
Total	**$ 2,708,052**

Depreciation expense for the year ended December 31, 2017 was $102,136.

NOTE 6 – LONG-TERM LIABILITIES

In 1996, the Clay County Fiscal Court obtained a water resource loan from Kentucky Infrastructure Authority (KIA) on behalf of the Association. As part of the loan agreement, the Clay County Fiscal Court executed a lease agreement with the Association over the same 30-year term as the loan agreement. At the end of the lease, the county will convey title of the assets to the Association. The Association makes payments directly to KIA.

The following is a summary of debt transactions of the Association for the year ended December 31, 2017:

	Balance December 31, 2016	Additions	Deletions	Balance December 31, 2017	Due Within One Year
Notes payable	$ 1,249,542	$ -	$ 115,676	$ 1,133,866	$ 119,341
Total	**$ 1,249,542**	**$ -**	**$ 115,676**	**$ 1,133,866**	**$ 119,341**

Notes Payable

Notes payable consists of notes payable to the Kentucky Infrastructure Authority. The interest rate is 2.95%. Principal and interest payments are made monthly. Assuming the notes are not called prior to maturity, the minimum obligations of the Association's funds at December 31, 2017 for the payment of principal are as follows:

Year Ending December 31,	Amount
2018	$ 119,341
2019	122,697
2020	126,366
2021	130,145
2022	134,037
Thereafter	501,280
	$ 1,133,866

NOTE 8 – RISK MANAGEMENT

The Association is exposed to a variety of accidental losses and has attempted to minimize its risk by carrying commercial insurance. There have been no significant reductions in coverage in the prior year. Therefore, the Association maintains adequate insurance coverage.

NOTE 9 – COMMITMENTS AND CONTINGENCIES

The Association receives funding from Federal, State, and Local government agencies. These funds are to be used for designated purposes only. For government program grants, if based on the grantor's review, the funds are considered not to have been used properly for the intended purpose, the grantors may request a refund of monies advanced, or refuse to reimburse the Association for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the Association's grant programs is predicated upon the grantor's satisfaction that the funds provided are being spent as intended and the grantor's intent to continue their program.

NOTE 10 – RECENTLY ISSUED ACCOUNTING STANDARDS

Accounting Standards Update 2016-14, Not-for-Profit Entities (Topic 958)

In August 2016, the FASB issued ASU No. 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities, that changes how a not-for-profit organization classifies its net assets, as well as the information it presents in the financial statements and notes about its liquidity, financial performance, and cash flows. The ASU includes a reduction in the number of net asset categories from three to two, conforming requirements on releases of capital restrictions, several new requirements related to expense presentation and disclosure (including investment expenses), and new required disclosures communicating information useful in assessing liquidity. The ASU will be effective for the Association for the year ending December 31, 2018. Early adoption is permitted. The Association is currently evaluating the effect that the new standard will have on its financial statements.

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606),* requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods and services to customers. The core principle of ASU 2014-09 is to recognize revenues when a customer obtains control of a good or service, in an amount that reflects the consideration to which an entity is expected to be entitled for those goods or services. The standard will replace most existing revenue recognition guidance in GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14, which deferred the effective date of ASU 2014-09 by one year. The updated standard will be effective for the year ending June 30, 2020, with early adoption permitted. The Organization has not yet selected a transition method and is currently evaluating the effect of the new standard will have on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842),* requiring all leases to be recognized on the Organization's statement of financial position as a right-of-use asset and a lease liability, unless the lease is a short-term lease (generally a lease with a term of twelve months or less). At the commencement date of the lease, the Organization will recognize: 1) a lease liability for the Organization's obligation to make payments under the lease agreement, measured on a discounted basis; and 2) a right-of-use asset that represents the Organization's right to use, or control the use of, the specified asset for the lease term. Upon adopting the ASU, the Organization will be required to recognize and measure its leases at the beginning of the earliest period presented using a modified retrospective approach. ASU 2016-02 will be effective for the Organization for the year ending June 30, 2021, with early adoption permitted. The Organization is currently evaluating the effect that the new standard will have on its consolidated financial statements.

NOTE 11 – SUBSEQUENT EVENTS

The Association did not make the required payments to Kentucky Infrastructure Authority beginning February 2018. The Association is working to receive a water rate increase to help with the debt obligations.

NOTE 12 – DATE OF MANAGEMENT'S REVIEW

Subsequent events were evaluated through June 4, 2019, which is the date the financial statements were available to be issued.

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INDEPENDENT AUDITOR'S 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 Chairman and Board of Directors
North Manchester Water Association, Inc.
Manchester, Kentucky 40962

I was engaged to audit, 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 North Manchester Water Association, Inc.(a non-profit organization) (hereinafter "the Association") as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Association's basic financial statements and have issued my report thereon dated June 4, 2019. My report disclaims an opinion on such financial statements because of the scope limitation matter described in the Basis for Disclaimer of Opinion paragraph of my report.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered the Association's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, I do not express an opinion on the effectiveness of the Association's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the association'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.

My consideration of the 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. I did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that I consider to be material weaknesses as items 2017-001, 2017-002, 2017-003, 2017-004, 2017-005, 2017-006, 2017-007, 2017-008, 2017-009, 2017-011, and 2017-012.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Association's financial statements are free from material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2017-003, 2017-007, and 2017-010.

North Manchester Water Association, Inc.'s Response to Findings

The Association's response to the findings identified in my audit is described in the accompanying Schedule of Findings and Responses. The Association's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Association'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 Association's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Sammy K. Lee, P.S.C.

Berea, Kentucky
June 4, 2019

NORTH MANCHESTER WATER ASSOCIATION, INC.
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2017

2017-001 Internal Control

Condition:
During my audit procedures, I noted management did not prepare financial statements including notes to the financial statements.

Criteria:
A key component of internal control is to ensure that personnel, management, or others within the Association can prepare financial statements, including the notes to the financial statements, in accordance with accounting principles generally accepted in the United States of America (GAAP).

Cause:
Management is responsible for establishing and maintaining internal controls for the fair presentation of the financial position, results of operations, cash flows, and disclosures in the financial statements, in conformity with accounting principles generally accepted in the United States of America. The ability to recognize and implement new authoritative guidance regarding financial reporting is outside the scope of management.

Effect:
The Association did not prepare a complete set of GAAP financial statements and related note disclosures.

Recommendation:
Management should continue to engage the audit firm to prepare a draft of the financial statements including the notes to the financial statements or hire an accountant to perform their services.

Views of Responsible Officials:
Management considers it impractical to correct the deficiency due to the limited resources available.

2017-002 Internal Control

Condition:
While conducting my audit procedures to gain an understanding of internal controls over financial reporting, I noted a lack of segregation of duties which enabled one individual access to authorize transactions, maintain custody of assets, and record and report the Association's transactions.

Criteria:
Segregation of duties is a control in which no person should be given the responsibility to perform more than one related function of an accounting process.

Cause:
Due to the small number of administrative and clerical employees at the Association, there is an inherent limitation in its ability to segregate custodial duties from recordkeeping duties.

Effect:
The lack of internal controls increases the risk that an error, either intentional or unintentional, will go undetected and the financial statements will contain material misstatements.

Recommendation:
Have the Association Board of Commissioners and the President, review, initial, and date the cash collection reports, timecards, invoices, and bank reconciliation as a function of the accounting process and reference the review in the board minutes.

Views of Responsible Officials:
Management agrees with the recommendation.

2017-003 Cash

Condition:
During my audit procedures of cash, I noted a lack in controls.

Instances noted included:

- Bank reconciliations were not performed
- Checks were written in excess of available cash
- Reserve account and debt service account was underfunded
- Checks were written and not recorded in the general ledger

Criteria:
Internal controls should be maintained over cash to ensure all cash deposits and disbursements are recorded properly in the general ledger. In addition, all checks should be issued to vendors with sufficient bank balance. Reserve fund balances should be funded in as agreed upon to debt agreements.

Cause:
There are no controls in place over cash.

Effect:
Bank accounts were overdrawn, reserve accounts were underfunded, and checks were not recorded in the general ledger.

Recommendation:
Bank reconciliations should be performed and reviewed monthly by someone other than the preparer. In addition, deposits should be made in to the reserve funds as required by debt agreements.

Views of Responsible Officials:
Management agrees with the recommendation

2017-004 Cash Receipts

Condition:
While conducting my audit procedures over cash receipts, I noted a lack of documentation that ensures all cash receipts are deposited and are properly substantiated by supporting documentation and properly recorded in the general ledger.

Criteria:
Internal controls should be maintained over cash collections to ensure all cash receipts are deposited timely and are properly substantiated with supporting documentation and recorded in the general ledger.

Cause:
There are no controls in place to ensure cash receipts to be supported by documentation.

Effect:
Could not distinguish cash receipts between customer deposits, late fees, tap on fees, or penalty charges. In addition, Amounts owed to the Association at year end could not be determined.

Recommendation:
All cash receipts should be substantiated by supporting documentation.

Views of Responsible Officials:
Management agrees with the recommendation.

2017-005 Cash Disbursements

Condition:
During my audit procedures of disbursements, I noted a lack in controls over expenditures.

Instances noted included:

- Vendor payments lacked supporting documentation, invoices were missing
- Checks were disbursed with signature stamps, instead of a manual signatures
- Checks were written out of sequential order
- Vendor payments were paid late, paid twice
- Payroll taxes were paid late
- Sales tax and utility taxes paid late

Criteria:
Management is responsible for establishing and maintaining internal controls, including monitoring. This responsibility includes obtaining approval prior to disbursements and maintaining proper documentation to support disbursements.

Cause:
There are no controls in place that require cash disbursements to be substantiated by supporting documentation or paid timely.

Effect:
-The Association incurred late fees and penalties.
-There was no written approval of vendor disbursements
-Could not determine if expenses were for the operations of the Association

Recommendation:
Management should implement controls over cash disbursements.

Views of Responsible Officials:
Management agrees with the recommendation.

2017-006 Accounting Policy

Condition:
During my audit procedures, I noted a lack of accounting policies over key areas.

Instances noted included:

- Purchase order
- Use of signature stamps
- Recording and tracking of inventory
- Capitalization policy over fixed assets
- Employee benefits
- Tracking accounts receivable
- No allowance for doubtful accounts
- Customer deposits maintained in a separate interest-bearing account
- Recording capital leases
- Separate bank accounts

Criteria:
Management is responsible for establishing and monitoring accounting policies.

Effect:
The Association was unable to ensure that transactions entered in the accounting system are accurately recorded, properly classified in the accounts, or recorded in the proper accounting period.

Cause:
Lack of accounting policies.

Recommendation:
Management should create and follow accounting policy manual.

Views of Responsible Officials:
Management agrees with the recommendation

2017-007 Payroll Records

Condition:
There were no payroll records for time cards or vacation accrual. In addition, there was no record of employee and supervisor approval of time worked.

Criteria:
Internal controls should be established over the payroll process to ensure the payroll and the related liabilities were properly recorded.

Cause:
There were no internal controls in place over the payroll process.

Effect:
Payroll disbursements and related liabilities lacked supporting payroll records. I could not determine if payroll was permissible due to the lack of supporting documentation.

Recommendation:
The Association should implement payroll procedures that include record retention of time worked and vacation time used.

Views of Responsible Officials:
Management agrees with the recommendation.

2017-008 Accounting Revenue and Receivable Records

Condition:
While conducting my audit procedures to gain an understanding of controls over revenue and receivables, I noted a lack of records to substantiate revenues and/or receivables.

Instances noted included:
- No accounts receivable report at year end.
- Missing billing registers
- Inability to recognize all potential customers
- No record of charges and receipts of tap-on fees, late charges, penalty charges
- No record of billing adjustments
- No record of sewer collections and payments for third party

Criteria:
Internal controls should be established over revenue process to track revenues and receivables.

Cause:
The Association did not reconcile billings and collections between the billings system and the general ledger.

Effect:
Revenue and receivables lacked supporting documentation. Revenue or accounts receivable could not be determined due unreliable documentation.

Recommendation:
Management should create and maintain written records that detail amounts owed and paid by customers. In addition, the Association should perform am monthly reconciliation between the billings system and the general ledger and investigate discrepancies.

Views of Responsible Officials:
Management agrees with the recommendation.

2017-009 Property and Equipment Records

Condition:
While conducting my audit procedures to gain an understanding of controls over property and equipment, the Association was unable to provide a complete record of property and equipment owned. New additions were not capitalized.

Criteria:
Internal controls should be established over property and equipment process to ensure reliable record of property and equipment owned by the Association.

Cause:
Management did not have controls in place to ensure reliable written records of items owned by the Association.

Effect:
Management could not provide a detailed listing of items owned by the Association.

Recommendation:
Management should regularly perform a physical inventory count of all items owned by the Association.

Views of Responsible Officials:
Management agrees with the recommendation.

2017-010 PSC Report

Condition:
During my review of compliance, I noted the Association did not prepare and submit the 2017 PSC report timely.

Criteria:
The Association should submit the PSC report three months following year-end.

Cause:
Management did not have controls or policies in place to ensure financial information was submitted to PSC within three months following fiscal year end.

Effect:
PSC did not receive the report three months following the year end.

Recommendation:
The Association should implement a process to ensure year end information is presented to PSC within three months of the year end.

Views of Responsible Officials:
Management agrees with the recommendation.

2017-011 Recording of Transaction and Account Balances

Condition:
During my audit procedures, I identified misstatements in the unaudited financial statements that were not initially identified or recorded by management. Some balance sheet accruals were not adjusted from the prior year, and or material transactions or account balances were not recorded.

Criteria:
A key component of internal control over financial reporting is recording and reporting all transactions and account balances.

Cause:
The Association does not have procedures to ensure balance sheet accruals were recorded and reported in the financial statements. In addition, management did not record or report all transactions and account balances.

Effect:
The unaudited financial statements were misstated.

Recommendation:
Management should design internal control over the financial statement process.

Views of Responsible Officials:
Management agrees with the recommendation.

2017-012 Gas Card and Bulk Fuel Usage

Condition:
While conducting my audit procedures of fuel usage, I noted the Association did not reconcile mileage records to vendor fuel purchases. In addition, the Association did not track bulk fuel usage for equipment.

Criteria:
Management is responsible for establishing and maintaining internal controls, including monitoring of gas card and bulk fuel purchased.

Cause:
There were no policies in place over fuel usage.

Effect:
Could not determine if fuel purchased was for the operations of the Association.

Recommendation:
Management should implement and reconcile a mileage log to vendor fuel purchases.

Views of Responsible Officials:
Management agrees with the recommendation.