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M. Todd Osterloh
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March 30, 2023

Linda Bridwell, Executive Director
Public Service Commission
P.O. Box 615
Frankfort, KY 40602-0615

RE: North Manchester Water Association
Case No. 2021-00339

Dear Ms. Bridwell:

The North Manchester Water Association, by counsel, hereby provides its Notice of Filing its 2019 Audited Financial Statements. The undersigned counsel certifies that the document filed electronically is a true, accurate and complete representation of the original document and has been transmitted to the Commission. No party to this case has been excused from participation by electronic means.

Please contact me if you have any questions.

Sincerely,
STURGILL, TURNER, BARKER & MOLONEY, PLLC

A handwritten signature in black ink, appearing to read "M. Todd Osterloh".

M. Todd Osterloh

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC ALLEGED FAILURE OF NORTH)	
MANCHESTER WATER ASSOCIATION, INC., ITS)	
OFFICERS, STEVE DAVIS, BILL HURD, CARL)	CASE NO.
GREGORY HOSKINS, BOBBY WOLFE, HENRY)	2021-00339
SMITH, TED WOODS, CARL DAVID CRAWFORD,)	
AND ITS MANAGER, JERRY RICE, TO COMPLY)	
WITH KRS 278.140, KRS 278.230, 807 KAR 5:006, SEC.)	
4, AND KRS 278.990)	

NOTICE

North Manchester Water Association (“NMWA”), by counsel, hereby provides notice of its filing of the attached 2019 Audited Financial Statements in compliance with the Commission’s Order in this matter dated March 7, 2023.

Respectfully submitted,
STURGILL, TURNER, BARKER & MOLONEY, PLLC

/s/ M. Todd Osterloh _____

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Counsel for North Manchester Water Association

**NORTH MANCHESTER WATER
ASSOCIATION, INC.**

AUDITED FINANCIAL STATEMENTS

FOR THE YEARs ENDED DECEMBER 31, 2019 AND 2018

**NORTH MANCHESTER WATER ASSOCIATION, INC.
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FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

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**NORTH MANCHESTER WATER ASSOCIATION, INC.
BOARD OF DIRECTORS
DECEMBER 31, 2019**

PRESIDENT

Mr. Steve Davis

BOARD OF DIRECTORS

Mr. Bill Hurd, Vice-President

Mr. Bobby Wolfe, Treasurer

Mr. Carl Hoskins, Member

Mr. Henry Smith, Member

Mr. Carl Crawford

Mr. Ted Woods, Member

SK LEE CPAS, P.S.C.
Certified Public Accountants

*208 Pauline Drive, Suite D
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Member of American Institute of CPA's

Member of Kentucky Society of CPA's

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of North Manchester Water Association, Inc., (a non-profit organization) (hereinafter "the Association"), which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities and cash flows for the years 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

Our responsibility is to express an opinion on these financial statements based on my audit. We conducted our audit 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Association's preparation and fair presentation of the financial statements 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 the Association's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Because of the matter described in the Basis for Disclaimer of Opinion paragraph, however, we were 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 our audit. Therefore, we were not able to obtain sufficient appropriate audit evidence about the amounts of property and equipment, and related accumulated depreciation that are recorded in the accompanying statements of financial position as of December 31, 2019 (stated at \$5,038,426 and \$2,472,605 respectively) and 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 statements of financial position as of December 31, 2018 (stated at \$116,424, \$91,892, \$4,978,006, and \$2,372,430 respectively). The amount of depreciation expenses for December 31, 2019 (stated at \$100,175) and 2018 (stated at \$102,476, respectively).

Disclaimer of Opinion

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

Emphasis of Matter

As discussed in Note 1 to the financial statements, during the year ended December 31, 2019, the Association adopted a new Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* and ASU 2016-18- *Statement of Cash Flows (Topic 230): Restricted Cash*. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 29, 2022, on our consideration of Association'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 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 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.

SK LEE CPAS, P.S.C.

Berea, Kentucky
April 29, 2022

NORTH MANCHESTER WATER ASSOCIATION, INC.
STATEMENTS OF FINANCIAL POSITION
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
ASSETS		
Current assets		
Cash and cash equivalents	\$ 81,850	\$ 990
Accounts receivable, net	104,024	116,424
Prepaid expenses	2,445	5,053
Total current assets	188,319	122,467
Capital assets		
Property, plant, and equipment	5,038,426	4,978,006
Less accumulated depreciation	(2,472,605)	(2,372,430)
Total capital assets	2,565,821	2,605,576
Other assets		
Reserve cash	64,966	156,695
TOTAL ASSETS	\$ 2,819,106	\$ 2,884,738
LIABILITIES AND NET ASSETS		
Current liabilities		
Checks written in excess of cash	\$ 26,604	\$ 6,346
Accounts payable	53,664	61,550
Accrued expenses	11,314	13,950
Accrued interest	14,252	11,445
Customer deposits	108,213	91,892
Notes payable	323,168	122,697
Total current liabilities	537,215	307,880
Long-term liabilities		
Notes payable	765,668	1,001,375
TOTAL LIABILITIES	1,302,883	1,309,255
NET ASSETS		
Net assets without donor restrictions	1,516,223	1,575,483
TOTAL NET ASSETS	1,516,223	1,575,483
TOTAL LIABILITIES AND NET ASSETS	\$ 2,819,106	\$ 2,884,738

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

NORTH MANCHESTER WATER ASSOCIATION, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
<u>OPERATING REVENUES</u>		
Water sales	\$ 914,330	\$ 904,707
TOTAL OPERATING REVENUES	<u>914,330</u>	<u>904,707</u>
<u>OPERATING EXPENSES</u>		
Water purchased	402,420	346,991
Personnel costs	164,715	182,577
Insurance	26,674	20,269
Transportation costs	17,602	12,310
Telephone and utilities	38,519	43,265
Advertising	2,910	433
Materials and supplies	93,578	113,521
Contracted services	50,269	31,034
Miscellaneous	41,959	36,476
Depreciation	100,175	102,476
Bad debt	4,572	-
TOTAL OPERATING EXPENSES	<u>943,393</u>	<u>889,352</u>
<u>NON-OPERATING REVENUES (EXPENSES)</u>		
Interest income	5	-
Interest expense	(30,202)	(31,847)
TOTAL NON-OPERATING EXPENSES	<u>(30,197)</u>	<u>(31,847)</u>
CHANGE IN NET ASSETS	(59,260)	(16,492)
NET ASSETS, BEGINNING OF YEAR	<u>1,575,483</u>	<u>1,591,975</u>
NET ASSETS, END OF YEAR	<u>\$ 1,516,223</u>	<u>\$ 1,575,483</u>

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

NORTH MANCHESTER WATER ASSOCIATION, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (59,260)	\$ (16,492)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	100,175	102,476
Provision for bad debt	4,572	-
Changes in assets and liabilities:		
Accounts receivable	7,828	19,866
Accounts receivable - grants		-
Prepaid expenses	2,608	3,939
Checks written in excess of available cash	20,258	1,480
Accounts payable	(7,886)	38,555
Accrued expenses	(2,636)	3,364
Accrued interest	2,807	8,658
Customer deposits	16,321	-
Net cash provided by operating activities	84,787	161,846
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of assets	(60,420)	-
Net cash used in investing activities	(60,420)	-
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal paid on notes	(35,236)	(9,794)
Net cash used in financing activities	(35,236)	(9,794)
Net increase (decrease) in cash and cash equivalents	(10,869)	152,052
Cash and cash equivalents at beginning of year	157,685	5,633
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 146,816	\$ 157,685
 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	\$ 27,323	\$ 31,847

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

NORTH MANCHESTER WATER ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

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 accompanying financial statements have been prepared on accrual basis of accounting. Net assets are classified based upon the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Association are classified as follows:

- **Net Assets without Donor Restrictions** – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Association. These net assets may be used at the discretion of the Association's management and the board of directors.
- **Net Assets with Donor Restrictions** – Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Association or by the passage of time.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities. The Association did not have net assets with donor restrictions at December 31, 2019 and 2018.

Cash and Cash Equivalents

Cash and cash equivalents consist of checking accounts. For purposes of the Statements 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.

At December 31, 2019 the Association recorded allowances for doubtful accounts as \$4,572. There were no allowances for doubtful accounts recorded at December 31, 2018.

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.

NORTH MANCHESTER WATER ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2018 AND 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Property and Equipment

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 Statements 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 net assets without donor restrictions unless the related assets are limited by donor-imposed restrictions. Water charges related to the sale of goods are reported as net assets without donor restrictions. Revenues from penalties and fees, miscellaneous, and other services are recognized in the period in which the association provides the service. Non-operating revenues are reported as net assets without donor restrictions and include interest revenue.

On January 1, 2019, the Association adopted ASU 2014-09, *Revenue from Contracts with Customers* and all subsequent amendments to the ASU (collectively "Topic 606"). Topic 606 creates a single framework for recognizing revenue from contracts with customers that fall within its scope and supersedes nearly all existing GAAP for revenue recognition guidance. The standard's core principle is that an entity will recognize revenue when it transfers promised goods or service to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or service.

The Association's revenue stream that would be impacted under Topic 606 would be water sales which constitutes the majority of the Association's revenue. Water sales are delivered daily as customers use water at which time, ownership, risks, and rewards are transferred. The Association's sales are recognized at the end of the month when the customers usage is measured and billed. Control is transferred as the customer consumes it. The Association has evaluated the income from its revenue streams and determined that no adjustments were required.

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 years ended December 31, 2019 and 2018, the Association did not recognize any interest or penalties.

NORTH MANCHESTER WATER ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2018 AND 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Advertisement Expense

The Statements of Activities reported advertisement expenditures for the years ending December 31, 2019 and 2018 in the amount of \$2,910 and \$433 respectively.

Functional Allocation of Expenses

The costs of providing programs have been summarized on a functional basis in the Statements 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, consisted of the following:

<u>Description</u>	<u>2019</u>	<u>2018</u>
Operating account	-	-
Savings	9,154	-
Revenue	72,696	990
Total	\$ 81,850	\$ 990

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, 2019 and 2018, the carrying amount of the Association's accounts were \$81,850 and \$990 respectively. The bank balances were \$93,523 and \$7,886 respectively. Bank balances were fully covered by FDIC.

NOTE 3 – RESTRICTED CASH

The Association loan 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.

<u>Description</u>	<u>2019</u>	<u>2018</u>
Reserve	\$ 64,966	\$ 156,695
Debt service	-	-
Total	\$ 64,966	\$ 156,695

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, 2019 and 2018, the carrying amount of the Association's restricted cash accounts were \$64,966 and \$156,695 respectively. The bank balances were \$64,966 and \$156,695 respectively. The bank balance was full covered by FDIC.

**NORTH MANCHESTER WATER ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2018 AND 2017**

NOTE 4 – ACCOUNTS RECEIVABLE

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

	<u>2019</u>	<u>2018</u>
Accounts receivable	\$ 78,619	\$ 73,391
Unbilled receivable	29,977	43,033
Gross receivables	108,596	116,424
Less allowance for doubtful accounts	(4,572)	-
Accounts Receivable, Net	<u>\$ 104,024</u>	<u>\$ 116,424</u>

NOTE 5 – PROPERTY, PLANT, AND EQUIPMENT

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

	<u>2019</u>	<u>2018</u>
Building and land	\$ 5,032	\$ 5,032
Equipment	193,052	144,702
Other water system assets	4,839,110	4,827,041
Office furniture & equipment	1,231	1,231
Less accumulated depreciation	(2,472,605)	(2,372,430)
Total	<u>\$ 2,565,821</u>	<u>\$ 2,605,576</u>

Depreciation expense for the year ended December 31, 2019 and 2018 was \$101,175 and \$102,476 respectively.

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, 2019:

	<u>Balance December 31, 2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2019</u>	<u>Due Within One Year</u>
Notes payable	\$ 1,124,072	\$ -	\$ 35,236	\$ 1,088,836	\$ 323,168
Total	<u>\$ 1,124,072</u>	<u>\$ -</u>	<u>\$ 35,236</u>	<u>\$ 1,088,836</u>	<u>\$ 323,168</u>

**NORTH MANCHESTER WATER ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2018 AND 2017**

NOTE 6 – LONG-TERM LIABILITIES - CONTINUED

The following is a summary of debt transactions of the Association for the year ended December 31, 2018:

	<u>Balance December 31, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2018</u>	<u>Due Within One Year</u>
Notes payable	\$ 1,133,866	\$ -	\$ 9,794	\$ 1,124,072	\$ 122,697
Total	\$ 1,133,866	\$ -	\$ 9,794	\$ 1,124,072	\$ 122,697

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 future minimum obligations of the Association at December 31, 2019 are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2020	323,168
2021	130,145
2022	134,037
2023	138,045
2024	142,172
Thereafter	221,269
	<u>\$ 1,088,836</u>

For the year December 31, 2020 the future minimum obligation includes \$196,802 of default principal payments.

NOTE 7 - LIQUIDITY AND AVAILABILITY

The Association monitors its liquidity so that it is able to meet its operating needs and other contractual commitments while maximizing the investment of its excess operating cash. The Association has the following financial assets that could readily be made available within one year of the balance sheet to fund expenses without limitations:

	<u>2019</u>	<u>2018</u>
Cash	\$ 146,816	\$ 157,685
Accounts receivable, net	104,024	116,424
Prepaid expenses	2,445	5,053
Less: restricted by donors with purpose and time restrictions	-	-
	<u>\$ 253,285</u>	<u>\$ 279,162</u>

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.

**NORTH MANCHESTER WATER ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2018 AND 2017**

NOTE 9 – 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, which 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.

NOTE 10 – 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.

In December of 2019, a novel strain of coronavirus (COVID-19) surfaced and has rapidly spread throughout the world. The World Health Organization (WHO) has classified COVID-19 as a pandemic. Due to its uncertainty, international and U.S. financial markets have experienced significant volatility. In addition, travel restrictions, business shutdowns, high levels unemployment, and inventory shortages are several other areas impacted by the pandemic. These impacts have caused multiple jurisdictions within the United States to declare state of emergencies. It is predicted that COVID-19 implications will continue for a long time. Although there has been no immediate impact to the Association's operations, certain operational functions such as service charges and late fees are susceptible to future concerns. Potential economic events are unknown at this time but may include events such as disruptions or restrictions in the District's employee's abilities to work.

NOTE 11 – SUBSEQUENT EVENTS

The Association did not make the required payments to Clay County Fiscal Court. 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 April 29, 2022, which is the date the financial statements were available to be issued.

SK LEE CPAS, P.S.C.
Certified Public Accountants

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Member of Kentucky Society of CPA's

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, 2019, and the related notes to the financial statements, which collectively comprise the Association's basic financial statements and have issued my report thereon dated April 30, 2021. 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 2019-001, 2019-002, 2019-003, 2019-004, and 2019-005.

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 item 2019-003.

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.

SK LEE CPAS, P.S.C.

Berea, Kentucky
April 29, 2022

**NORTH MANCHESTER WATER ASSOCIATION, INC.
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2019**

2019-001 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 and will engage the audit firm to prepare its financial statements including the notes.

2019-002 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:

The Association's Board of Commissioners or member should review, initial, and date the cash collection reports, timecards, invoices, and bank reconciliations as a function of the accounting process and reference the review in the board minutes.

Views of Responsible Officials:

Management agrees with the recommendation.

**NORTH MANCHESTER WATER ASSOCIATION, INC.
SCHEDULE OF FINDINGS AND RESPONSES-CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2019**

2019-003 Cash

Condition:

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

Instances noted included:

- Checks were written in excess of available cash
- Reserve account and debt service account was underfunded

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 as agreed upon to debt agreements.

Cause:

There are no controls in place over cash.

Effect:

Bank accounts were overdrawn and reserve accounts were underfunded.

Recommendation:

Deposits should be made into the reserve funds as required by debt agreements.

Views of Responsible Officials:

Management agrees with the recommendation

2019-004 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 recording 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

**NORTH MANCHESTER WATER ASSOCIATION, INC.
SCHEDULE OF FINDINGS AND RESPONSES-CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2019**

2019-005 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:

- 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 a monthly reconciliation between the billings system and the general ledger and investigate discrepancies.

Views of Responsible Officials:

Management agrees with the recommendation.