

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 2020 and 2021 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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**NORTH MANCHESTER WATER
ASSOCIATION, INC.**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020 AND 2019

**NORTH MANCHESTER WATER ASSOCIATION, INC.
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FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

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INDEPENDENT AUDITOR'S REPORT

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

Disclaimer of Opinion

We were engaged to audit the financial statements of North Manchester Water Association, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2020 and 2019, and the related statements of activities, and cash flows for the years then ended, and the related notes to the financial statements.

We do not express an opinion on the accompanying financial statements of North Manchester Water Association, Inc. (hereinafter called the "Association". Because of the significance of the matter described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements.

Basis for Disclaimer of Opinion

We were unable 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, 2020 (stated at \$5,088,623 and \$2,583,320 respectively) and December 31, 2019 (stated at \$5,038,426 and \$2,472,605 respectively). The amount of depreciation expenses for December 31, 2020 and 2019 (stated at \$111,615 and \$100,175, respectively).

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 the Association's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Financial Statements

Our responsibility is to conduct an audit of the Association's financial statements 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 and to issue an auditor's report. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. However, because of the matter described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

We are required to be independent of the Association and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit.

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 May 23, 2023, 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
May 23, 2023

NORTH MANCHESTER WATER ASSOCIATION, INC.
STATEMENTS OF FINANCIAL POSITION
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
ASSETS		
Current assets		
Cash and cash equivalents	\$ 90,961	\$ 81,850
Accounts receivable, net	151,339	104,024
Prepaid expenses	10,810	2,445
Total current assets	253,110	188,319
Capital assets		
Property, plant, and equipment	5,088,623	5,038,426
Less accumulated depreciation	(2,583,320)	(2,472,605)
Total capital assets	2,505,303	2,565,821
Other assets		
Reserve cash	68,442	64,966
TOTAL ASSETS	\$ 2,826,855	\$ 2,819,106
LIABILITIES AND NET ASSETS		
Current liabilities		
Checks written in excess of cash	\$ -	\$ 26,604
Accounts payable	54,971	53,664
Accrued expenses	10,150	11,314
Accrued interest	2,193	14,252
Customer deposits	18,695	9,805
Notes payable	403,961	323,168
Total current liabilities	489,970	438,807
Long-term liabilities		
Notes payable	635,523	765,668
TOTAL LIABILITIES	1,125,493	1,204,475
NET ASSETS		
Net assets without donor restrictions	1,701,362	1,614,631
TOTAL NET ASSETS	1,701,362	1,614,631
TOTAL LIABILITIES AND NET ASSETS	\$ 2,826,855	\$ 2,819,106

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, 2020 AND 2019

	2020	2019
<u>OPERATING REVENUES</u>		
Water sales	\$ 965,657	\$ 914,330
TOTAL OPERATING REVENUES	965,657	914,330
<u>OPERATING EXPENSES</u>		
Water purchased	337,889	402,420
Personnel costs	176,533	164,715
Insurance	18,496	26,674
Transportation costs	11,889	17,602
Telephone and utilities	39,867	38,519
Advertising	-	2,910
Materials and supplies	79,963	93,578
Contracted services	38,130	50,269
Miscellaneous	39,047	41,959
Depreciation	111,615	100,175
Bad debt	4,746	4,572
TOTAL OPERATING EXPENSES	858,175	943,393
<u>NON-OPERATING REVENUES (EXPENSES)</u>		
Interest income	21	5
Interest expense	(20,772)	(30,202)
TOTAL NON-OPERATING EXPENSES	(20,751)	(30,197)
CHANGE IN NET ASSETS	86,731	(59,260)
NET ASSETS, BEGINNING OF YEAR	1,614,631	1,575,483
PRIOR PERIOD ADJUSTMENT	-	98,408
NET ASSETS BEGINNING OF YEAR, AS RESTATED	1,614,631	1,673,891
NET ASSETS, END OF YEAR	\$ 1,701,362	\$ 1,614,631

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, 2020 AND 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 86,731	\$ (59,260)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	111,615	100,175
Provision for bad debt	4,746	4,572
Changes in assets and liabilities:		
Accounts receivable	(47,314)	7,828
Prepaid expenses	(8,365)	2,608
Checks written in excess of available cash	(26,604)	20,258
Accounts payable	1,307	(7,886)
Accrued expenses	(1,164)	(2,636)
Accrued interest	(12,059)	2,807
Customer deposits	3,243	16,321
Net cash provided by operating activities	112,136	84,787
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of assets	(50,197)	(60,420)
Net cash used in investing activities	(50,197)	(60,420)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal paid on notes	(49,352)	(35,236)
Net cash used in financing activities	(49,352)	(35,236)
Net increase (decrease) in cash and cash equivalents	12,587	(10,869)
Cash and cash equivalents at beginning of year	146,816	157,685
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 159,403	\$ 146,816
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	\$ 20,772	\$ 27,323
⁽¹⁾ Cash and cash equivalents consist of:		
Cash and cash equivalents	\$ 90,961	\$ 81,850
Reserve cash	68,442	64,966
	\$ 159,403	\$ 146,816

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

NORTH MANCHESTER WATER ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

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, 2020 and 2019.

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.

The Association recorded allowances for doubtful accounts at December 31, 2020 and 2019 in the amount of \$4,746 and \$4,572 respectively.

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, 2020 AND 2019

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, 2020 and 2019, the Association did not recognize any interest or penalties.

**NORTH MANCHESTER WATER ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2020 AND 2019**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Advertisement Expense

The Statements of Activities reported advertisement expenditures for the years ending December 31, 2020 and 2019 in the amount of \$0 and \$2,910 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>2020</u>	<u>2019</u>
Operating account	9,863	-
Savings	18,695	9,154
Revenue	62,403	72,696
Total	\$ 90,961	\$ 81,850

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, 2020 and 2019, the carrying amount of the Association's accounts were \$90,961 and \$81,850 respectively. The bank balances were \$93,554 and \$93,523 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>2020</u>	<u>2019</u>
Reserve	\$ 68,442	\$ 64,966
Debt service	-	-
Total	\$ 68,442	\$ 64,966

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, 2020 and 2019, the carrying amount of the Association's restricted cash accounts were \$68,442 and \$64,966 respectively. The bank balances were \$68,442 and \$64,966 respectively. The bank balance was full covered by FDIC.

**NORTH MANCHESTER WATER ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2020 AND 2019**

NOTE 4 – ACCOUNTS RECEIVABLE

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

	<u>2020</u>	<u>2019</u>
Accounts receivable	\$ 126,818	\$ 78,619
Unbilled receivable	33,838	29,977
Gross receivables	<u>160,656</u>	<u>108,596</u>
Less allowance for doubtful accounts	<u>(9,317)</u>	<u>(4,572)</u>
Accounts Receivable, Net	<u>\$ 151,339</u>	<u>\$ 104,024</u>

NOTE 5 – PROPERTY, PLANT, AND EQUIPMENT

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

	<u>2020</u>	<u>2019</u>
Building and land	\$ 5,032	\$ 5,032
Construction in progress	39,169	-
Equipment	224,054	193,052
Other water system assets	4,819,136	4,839,110
Office furniture & equipment	1,231	1,231
Less accumulated depreciation	<u>(2,583,320)</u>	<u>(2,472,605)</u>
Total	<u>\$ 2,505,303</u>	<u>\$ 2,565,821</u>

Depreciation expense for the year ended December 31, 2020 and 2019 was \$111,615 and \$101,175 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, 2020:

	<u>Balance December 31, 2019</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2020</u>	<u>Due Within One Year</u>
Notes payable	\$ 1,088,836	\$ -	\$ 49,352	\$ 1,039,484	\$ 403,961
Total	<u>\$ 1,088,836</u>	<u>\$ -</u>	<u>\$ 49,352</u>	<u>\$ 1,039,484</u>	<u>\$ 403,961</u>

NORTH MANCHESTER WATER ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2020 AND 2019

NOTE 6 – LONG-TERM LIABILITIES - CONTINUED

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	\$ 1,124,072	\$ -	\$ 35,236	\$ 1,088,836	\$ 323,168

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, 2020 are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Annual Requirements</u>
2018-2020 Default	273,816	-	273,816
2021	130,145	20,837	150,982
2022	134,037	16,945	150,982
2023	138,045	12,937	150,982
2024	142,172	8,809	150,981
2025	146,423	4,558	150,981
2026	74,846	646	75,492
	\$ 1,039,484	\$ 64,732	\$ 1,104,216

For the year December 31, 2020 the future minimum obligation includes \$273,816 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>2020</u>	<u>2019</u>
Cash	\$ 159,403	\$ 146,816
Accounts receivable, net	155,910	104,024
Prepaid expenses	10,810	2,445
Less: restricted by donors with purpose and time restrictions	-	-
	\$ 326,123	\$ 253,285

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, 2020 AND 2019**

NOTE 9 – COMMITMENTS AND CONTINGENCIES

The Association occasionally 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 10 – SUBSEQUENT EVENTS

In 2021, Clay County Fiscal Court filed a breach-of-contract claim against the Association for failure to make the required payments to the Fiscal Court for the KIA loan the County obtained to benefit the Association. Because this matter was filed in 2021, it would not have been pending as of December 31, 2020 and 2019.

NOTE 11 – PRIOR PERIOD ADJUSTMENT

The prior period adjustment consists of adjusting customer deposits to match the bank account in which the Association receives deposits. The Association has no records of the prior customer deposits.

NOTE 12 – DATE OF MANAGEMENT'S REVIEW

Subsequent events were evaluated through May 23, 2023, 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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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

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 North Manchester Water Association, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2020, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 23, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered North Manchester Water Association, Inc. (hereinafter called the "Association") 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 the Association's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2020-001, 2020-002, and 2020-003 to be material weaknesses.

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*.

ABC Organization's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Association's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The Association's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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.

SK LEE CPAS, P.S.C.

Berea, Kentucky
May 23, 2023

**NORTH MANCHESTER WATER ASSOCIATION, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2020 AND 2019**

2020-001 Internal Control

Condition:

During our audit procedures, we noted management did not prepare a complete set of 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.

**NORTH MANCHESTER WATER ASSOCIATION, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS-CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2020 AND 2019**

2020-002 Internal Control

Condition:

While conducting our audit procedures to gain an understanding of internal controls over financial reporting, we 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 QUESTIONED COSTS-CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2020 AND 2019**

2020-003 Property and Equipment Records

Condition:

While conducting OUR 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.

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 sufficient appropriate audit evidence for amounts recorded on the prior years schedule of fixed assets. Also, no audits were conducted during this time.

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 QUESTIONED COSTS-CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2020 AND 2019**

PRIOR YEAR AUDIT FINDINGS

- 2019-001 – Internal Control – Continued Finding
- 2019-002 – Internal Control – Continued Finding
- 2019-003 – Cash – Resolved
- 2019-004 – Property and Equipment Records – Continued Finding
- 2019-005 – Accounting Revenue and Receivable Records – Resolved

**NORTH MANCHESTER WATER
ASSOCIATION, INC.**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2021 AND 2020

**NORTH MANCHESTER WATER ASSOCIATION, INC.
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FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

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SK LEE CPAS, P.S.C.
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INDEPENDENT AUDITOR'S REPORT

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

Disclaimer of Opinion

We were engaged to audit the financial statements of North Manchester Water Association, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2021 and 2020, and the related statements of activities, and cash flows for the years then ended, and the related notes to the financial statements.

We do not express an opinion on the accompanying financial statements of North Manchester Water Association, Inc. (hereinafter called the "Association". Because of the significance of the matter described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements.

Basis for Disclaimer of Opinion

We were unable 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, 2021 (stated at \$5,107,310 and \$2,695,716 respectively) and December 31, 2020 (stated at \$5,088,623 and \$2,583,320 respectively). The amount of depreciation expenses for December 31, 2021 and 2020 (stated at \$112,396 and \$111,615, respectively).

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 the Association's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Financial Statements

Our responsibility is to conduct an audit of the Association's financial statements 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 and to issue an auditor's report. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. However, because of the matter described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

We are required to be independent of the Association and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 26, 2023, 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
May 26, 2023

NORTH MANCHESTER WATER ASSOCIATION, INC.
STATEMENTS OF FINANCIAL POSITION
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021	2020
ASSETS		
Current assets		
Cash and cash equivalents	\$ 48,703	\$ 90,961
Accounts receivable, net	190,758	151,339
Prepaid expenses	10,694	10,810
Total current assets	250,155	253,110
Capital assets		
Property, plant, and equipment	5,107,310	5,088,623
Less accumulated depreciation	(2,695,716)	(2,583,320)
Total capital assets	2,411,594	2,505,303
Other assets		
Reserve cash	40,918	68,442
TOTAL ASSETS	\$ 2,702,667	\$ 2,826,855
LIABILITIES AND NET ASSETS		
Current liabilities		
Checks written in excess of cash	\$ 13,215	\$ -
Accounts payable	59,348	54,971
Accrued expenses	10,545	10,150
Accrued interest	24,680	2,193
Customer deposits	27,360	18,695
Notes payable	467,999	403,961
Total current liabilities	603,147	489,970
Long-term liabilities		
Notes payable	501,485	635,523
TOTAL LIABILITIES	1,104,632	1,125,493
NET ASSETS		
Net assets without donor restrictions	1,598,035	1,701,362
TOTAL NET ASSETS	1,598,035	1,701,362
TOTAL LIABILITIES AND NET ASSETS	\$ 2,702,667	\$ 2,826,855

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, 2021 AND 2020

	2021	2020
<u>OPERATING REVENUES</u>		
Water sales	\$ 1,041,546	\$ 965,657
TOTAL OPERATING REVENUES	1,041,546	965,657
<u>OPERATING EXPENSES</u>		
Water purchased	402,356	337,889
Personnel costs	225,889	176,533
Insurance	21,503	18,496
Transportation costs	19,713	11,889
Telephone and utilities	47,528	39,867
Advertising	168	-
Materials and supplies	188,816	79,963
Contracted services	42,319	38,130
Miscellaneous	41,311	39,047
Depreciation	112,396	111,615
Bad debt	5,014	4,746
TOTAL OPERATING EXPENSES	1,107,013	858,175
<u>NON-OPERATING REVENUES (EXPENSES)</u>		
Interest income	35	21
Interest expense	(37,895)	(20,772)
TOTAL NON-OPERATING EXPENSES	(37,860)	(20,751)
CHANGE IN NET ASSETS	(103,327)	86,731
NET ASSETS, BEGINNING OF YEAR	1,701,362	1,614,631
NET ASSETS, END OF YEAR	\$ 1,598,035	\$ 1,701,362

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, 2021 AND 2020

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (103,327)	\$ 86,731
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	112,396	111,615
Provison for bad debt	5,014	4,746
Changes in assets and liabilities:		
Accounts receivable	(44,433)	(47,314)
Prepaid expenses	116	(8,365)
Checks written in excess of available cash	13,215	(26,604)
Accounts payable	4,377	1,307
Accrued expenses	395	(1,164)
Accrued interest	22,487	(12,059)
Customer deposits	8,665	3,243
Total Adjustments	122,232	25,405
Net cash provided by operating activities	18,905	112,136
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of assets	(18,687)	(50,197)
Net cash used in investing activities	(18,687)	(50,197)
 CASH FLOWS FROM FINANCING ACTIVITIES		
Principal paid on notes	(70,000)	(49,352)
Net cash used in financing activities	(70,000)	(49,352)
 Net increase (decrease) in cash and cash equivalents	(69,782)	12,587
 Cash and cash equivalents at beginning of year	159,403	146,816
 CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 89,621	\$ 159,403
 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
 Cash paid for interest	\$ 22,487	\$ 20,772
 ⁽¹⁾ Cash and cash equivalents consist of:		
Cash and cash equivalents	\$ 48,703	\$ 90,961
Reserve cash	40,918	68,442
	\$ 89,621	\$ 159,403

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

NORTH MANCHESTER WATER ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

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, 2020 and 2019.

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.

The Association recorded allowances for doubtful accounts at December 31, 2021 and 2020 in the amount of \$14,331 and \$9,317 respectively.

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, 2021 AND 2020

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, 2021 and 2020, the Association did not recognize any interest or penalties.

**NORTH MANCHESTER WATER ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2021 AND 2020**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Advertisement Expense

The Statements of Activities reported advertisement expenditures for the years ending December 31, 2021 and 2020 in the amount of \$168 and \$0 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>2021</u>	<u>2020</u>
Operating account	-	9,863
Savings	27,360	18,695
Revenue	21,343	62,403
Total	\$ 48,703	\$ 90,961

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, 2020 and 2019, the carrying amount of the Association's accounts were \$48,703 and \$90,961 respectively. The bank balances were \$95,719 and \$93,554 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>2021</u>	<u>2020</u>
Reserve	\$ 40,918	\$ 68,442
Debt service	-	-
Total	\$ 40,918	\$ 68,442

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, 2020 and 2020, the carrying amount of the Association's restricted cash accounts were \$40,918 and \$68,442 respectively. The bank balances were \$68,442 and \$68,442 respectively. The bank balance was full covered by FDIC.

NORTH MANCHESTER WATER ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2021 AND 2020

NOTE 4 – ACCOUNTS RECEIVABLE

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

	2021	2020
Accounts receivable	\$ 150,106	\$ 126,818
Unbilled receivable	54,984	33,838
Gross receivables	205,090	160,656
Less allowance for doubtful accounts	(14,332)	(9,317)
Accounts Receivable, Net	\$ 190,758	\$ 151,339

NOTE 5 – PROPERTY, PLANT, AND EQUIPMENT

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

	2021	2020
Building and land	\$ 5,032	\$ 5,032
Construction in progress	-	39,169
Equipment	233,616	224,054
Other water system assets	4,867,430	4,819,136
Office furniture & equipment	1,231	1,231
Less accumulated depreciation	(2,695,716)	(2,583,320)
Total	\$ 2,411,594	\$ 2,505,303

Depreciation expense for the year ended December 31, 2021 and 2020 was \$112,396 and \$111,615 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, 2021:

	Balance December 31, 2020	Additions	Deletions	Balance December 31, 2021	Due Within One Year
Notes payable	\$ 1,039,484	\$ -	\$ 70,000	\$ 969,484	\$ 467,999
Total	\$ 1,039,484	\$ -	\$ 70,000	\$ 969,484	\$ 467,999

NORTH MANCHESTER WATER ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2021 AND 2020

NOTE 6 – LONG-TERM LIABILITIES - CONTINUED

The following is a summary of debt transactions of the Association for the year ended December 31, 2020:

	<u>Balance December 31, 2019</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2020</u>	<u>Due Within One Year</u>
Notes payable	\$ 1,088,836	\$ -	\$ 49,352	\$ 1,039,484	\$ 403,961
Total	\$ 1,088,836	\$ -	\$ 49,352	\$ 1,039,484	\$ 403,961

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, 2021 are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Annual Requirements</u>
2018-2021 Default	\$ 333,962	\$ -	\$ 333,962
2022	134,037	16,945	150,982
2023	138,045	12,937	150,982
2024	142,172	8,809	150,982
2025	146,423	4,558	150,982
2026	74,846	645	150,981
	\$ 969,484	\$ 43,895	\$ 1,088,870

For the year December 31, 2021 the future minimum obligation includes \$333,962 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>2020</u>	<u>2019</u>
Cash	\$ 159,403	\$ 146,816
Accounts receivable, net	155,910	104,024
Prepaid expenses	10,810	2,445
Less: restricted by donors with purpose and time restrictions	-	-
	\$ 326,123	\$ 253,285

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, 2021 AND 2020

NOTE 9 – COMMITMENTS AND CONTINGENCIES

The Association occasionally 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.

In 2021, Clay County Fiscal Court filed a breach-of-contract claim against the Association for failure to make the required payments to the Fiscal Court for the KIA loan the County obtained to benefit the Association. No action has been taken at this time nor any liability has been recorded due to the nature of the claim.

NOTE 9 – DATE OF MANAGEMENT'S REVIEW

Subsequent events were evaluated through May 26, 2023, 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

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 North Manchester Water Association, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2021, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 26, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered North Manchester Water Association, Inc. (hereinafter called the "Association") 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 the Association's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2021-001, 2021-002, and 2021-003 to be material weaknesses.

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*.

ABC Organization's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Association's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The Association's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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.

SK LEE CPAS, P.S.C.

Berea, Kentucky
May 26, 2023

**NORTH MANCHESTER WATER ASSOCIATION, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2021 AND 2020**

2021-001 Internal Control

Condition:

During our audit procedures, we noted management did not prepare a complete set of 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.

**NORTH MANCHESTER WATER ASSOCIATION, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS-CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2021 AND 2020**

2021-002 Internal Control

Condition:

While conducting our audit procedures to gain an understanding of internal controls over financial reporting, we 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 QUESTIONED COSTS-CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2021 AND 2020**

2021-003 Property and Equipment Records

Condition:

While conducting our 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.

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 sufficient appropriate audit evidence for amounts recorded on the prior years schedule of fixed assets. Also, no audits were conducted during this time.

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 QUESTIONED COSTS-CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2021 AND 2020**

PRIOR YEAR AUDIT FINDINGS

2020-001 – Internal Control – Continued Finding

2020-002 – Internal Control – Continued Finding

2020-003 – Property and Equipment Records – Continued Finding