

**WESTERN ROCKCASTLE WATER
ASSOCIATION, INC.**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

WESTERN ROCKCASTLE WATER ASSOCIATION, INC.
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FOR THE YEAR ENDED DECEMBER 31, 2018

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**WESTERN ROCKCASTLE WATER ASSOCIATION, INC.
BOARD OF DIRECTORS
DECEMBER 31, 2018**

EXECUTIVE DIRECTOR

Ms. Paula Deborde

BOARD OF DIRECTORS

Mr. Eddie J. Hamm

Mr. Albert Martin

Ms. Julie Pigg

Mr. Darrell Whitaker

Mr. Jerry Woodall

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

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Berea, KY 40403
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Member of American Institute of CPA's

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INDEPENDENT AUDITOR'S REPORT

To the Chairman and Board of Directors
Western Rockcastle Water Association, Inc.
Mt. Vernon, Kentucky 40456

Report on the Financial Statements

I have audited the accompanying financial statements of Western Rockcastle Water Association, Inc., (a non-profit organization) (hereinafter "the Association"), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my 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 I 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Association as of December 31, 2018 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 10 to the financial statements, during the year ended December 31, 2018, the Association adopted Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. My opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated November 27, 2019, on my consideration of Association's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Association's internal control over financial reporting and compliance.

Sammy K. Lee, P.S.C.

Berea, Kentucky
November 27, 2019

WESTERN ROCKCASTLE WATER ASSOCIATION, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2018

ASSETS

Cash and cash equivalents	\$ 851,220
Accounts receivable, net	295,768
Prepaid expenses	21,203
Materials and supply inventory	68,467
Restricted cash	488,650
Property, plant, and equipment, net	5,722,422
TOTAL ASSETS	<u>\$ 7,447,730</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable	\$ 143,109
Accrued expenses	13,889
Accrued interest	79,763
Customer deposits	56,189
Notes payable	2,819,104
TOTAL LIABILITIES	<u>3,112,054</u>

NET ASSETS

Net assets without donor restrictions	4,335,676
TOTAL NET ASSETS	<u>4,335,676</u>

TOTAL LIABILITIES AND NET ASSETS	<u>\$ 7,447,730</u>
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WESTERN ROCKCASTLE WATER ASSOCIATION, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018

OPERATING REVENUES

Water sales	\$ 2,076,733
Penalties and fees	7,573
Miscellaneous	26,737

TOTAL OPERATING REVENUES	2,111,043
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OPERATING EXPENSES

Water purchased	740,615
Personnel costs	607,908
Director's fee	36,000
Office expense	64,601
Insurance	33,126
Transportation costs	30,934
Telephone and utilities	80,095
Materials and supplies	68,320
Professional services	28,539
Repairs and maintenance	19,806
Miscellaneous	49,491
Depreciation	336,985
Bad debt	20,767
Advertising	71

TOTAL OPERATING EXPENSES	2,117,258
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NON-OPERATING REVENUES (EXPENSES)

Interest income	3,135
Interest expense	(102,643)
TOTAL NON-OPERATING REVENUES (EXPENSES)	(99,508)

CHANGE IN NET ASSETS	(105,723)
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NET ASSETS, BEGINNING OF YEAR	4,441,399
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NET ASSETS, END OF YEAR	\$ 4,335,676
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The accompanying notes are an integral part of these financial statements.

WESTERN ROCKCASTLE WATER ASSOCIATION, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	<u>\$ (105,723)</u>
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	336,985
Bad debt	20,767
Changes in assets and liabilities:	
Accounts receivable	(63,323)
Prepaid expenses	(795)
Materials and supply inventory	(32,371)
Accounts payable	29,442
Accrued expenses	(14,449)
Accrued interest	(8,072)
Customer deposits	2,354
Net cash provided by operating activities	<u>164,815</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of assets	(82,516)
Net cash used in investing activities	<u>(82,516)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Increase in restricted cash	(4,113)
Principal paid on notes and lease	(66,270)
Net cash used in financing activities	<u>(70,383)</u>

Net increase in cash and cash equivalents	11,916
Cash and cash equivalents at beginning of year	<u>839,304</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 851,220</u>

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash paid for interest	\$ 102,643
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WESTERN ROCKCASTLE WATER ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 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 Rockcastle, Garrard, Lincoln Counties, and surrounding areas.

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 Organization 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 Organization. These net assets may be used at the discretion of the Organization'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 Organization 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 statement of activities. The Association did not have net assets with donor restrictions at December 31, 2018.

Cash and Cash Equivalents

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

Accounts Receivable

Accounts receivable from water services represent charges for services rendered and which have been billed but not collected at year-end and reported at net of an allowance for doubtful accounts. The receivables are reviewed periodically to establish or update the provision for uncollectable amounts. These provisions are estimated based on an analysis of the age of the various accounts. Uncollectible accounts are recognized as additions to the allowance for doubtful accounts and is based on management's evaluation of the collectability of the receivables, including the nature of the receivables, trends in historical loss experience, payment patterns from the customers, and general economic conditions.

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.

Inventory

The Association maintains an inventory of tools, supplies, meters, and other water service materials. Inventory is stated at cost.

WESTERN ROCKCASTLE WATER ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Property, Equipment, and Depreciation

Property and equipment are recorded at cost or, if donated, at their estimated fair value at the time of contribution. Property and equipment additions costing less than \$500 are charged to expense as purchases are made. 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 - 40 years
Buildings and improvements	10 - 20 years
Trucks and equipment	5 - 10 years
Office equipment	5 - 7 years

Accounts Payable

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

Customer Deposits

The obligation to refund customer deposits is shown as a liability in the Statement of Financial Position. When received, the cash is deposited in a required, separate bank account in the name of the Association and is held until eighteen months of timely remittances have been acquired or the customer must pay final water charges upon cancellations of water services.

Compensated Absences

Compensated absences are those absences for which employees will be paid, such as vacation. A liability for compensated absences that is attributable to services already rendered and that are not contingent on a specific event that is outside the control of the Association and its employees, is accrued as employees earn the rights to the benefits. Compensated absences that relate to future services or that are contingent on a specific event that is outside the control of the Association and its employees are accounted for in the period in which such services are rendered or in which such events take place.

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.

Income Tax Status

The Association is a non-profit corporation and exempt from federal income taxation under Section 501 (c) (12) of the Internal Revenue Code (IRC); therefore, no provisions for income taxes have been made in the financial statements, though it would be subject to tax on income unrelated to its exempt purposes (unless that income is otherwise excluded by the IRC). In accordance with the provision of ASC 740-10, *Accounting for Uncertainty in Income Taxes*, an organization must recognize the tax benefit associated with tax positions taken for tax return purposes when it is more likely than not that the position will be sustained. The Association's management believes there are no material uncertain tax positions and have not recognized any liability for unrecognized tax benefits. For the year ended December 31, 2018, the Association did not recognize any interest or penalties.

**WESTERN ROCKCASTLE WATER ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2018**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Advertisement Expense

The Statement of Activities reported advertisement expenditure ending December 31, 2018, in the amount of \$71.

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, 2018 consisted of the following:

Description	Amount
Expansion project	\$ 56
Customer deposit	30,720
Operating account	39,719
Construction	532,031
Revenue	248,694
Total	\$ 851,220

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, 2018, the carrying amount of the Association's accounts were \$851,220 and the bank balances were \$859,225. Bank balances were covered by FDIC insurance securities pledged at market in the Association's name in the amount of \$250,000 and \$609,225, respectively.

NOTE 3 – RESTRICTED CASH

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

Description	Amount
Reserve	\$ 164,280
Debt service	324,370
Total	\$ 488,650

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, 2018, the carrying amount of the Association's restricted cash account was \$488,650 and the bank balance was \$488,650. The bank balance was covered insurance securities pledged at market in the Association's name.

WESTERN ROCKCASTLE WATER ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2018

NOTE 4 – ACCOUNTS RECEIVABLE AND ALLOWANCE FOR DOUBTFUL ACCOUNTS

As of December 31, 2018, accounts receivable and allowance for doubtful accounts consisted of the following:

Accounts receivable	\$ 643,624
Unbilled receivable	179,146
Less allowance for doubtful accounts	<u>(527,002)</u>
Net Accounts Receivable	<u>\$ 295,768</u>

NOTE 5 – PROPERTY, PLANT, AND EQUIPMENT

Major classes of property and equipment and accumulated depreciation are as follows at December 31, 2018:

Land	\$ 13,500
Building	1,747,084
Equipment	512,391
Other water system assets	9,098,600
Office furniture & equipment	110,396
Less accumulated depreciation	<u>(5,759,549)</u>
Total	<u>\$ 5,722,422</u>

Depreciation expense for the year ended December 31, 2018 was \$336,985.

NOTE 6 – COMPENSATED ABSENCES

All full-time employees shall be entitled to vacation at the rate of one week for one full year of continuous service through two years; two weeks for two full years of continuous service through five years; three full weeks for five years of continuous service through fourteen years; and four weeks for fifteen full years of continuous service and over. Vacation days shall not be carried forward from one year to the next without approval, active employees will normally not receive pay for unused vacation. Full-time employees shall be granted five days of sick leave credit with pay for each completed calendar month of continuous. Sick leave may not accumulate. At December 31, 2018 compensated absences were \$5,770.

NOTE 7 – LONG-TERM LIABILITIES

Long-term liabilities consist of obligations to the United States Department of Agriculture Rural Development and Kentucky Infrastructure Authority. During the year amounts owed to Kentucky Infrastructure Authority were retired. United States Department of Agriculture Rural Development collateralized by a first lien on the net revenues and a mortgage on the utility plant and water distribution system. The notes are payable in annual scheduled installments of principal and interest. The Association has entered into capital leases for equipment.

**WESTERN ROCKCASTLE WATER ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2018**

NOTE 7 – LONG-TERM LIABILITIES- CONTINUED

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

	<u>Balance January 1, 2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2018</u>	<u>Due Within One Year</u>
Notes payable	\$ 2,885,374	\$ -	\$ 66,270	\$ 2,819,104	\$ 68,878
Total	\$ 2,885,374	\$ -	\$ 66,270	\$ 2,819,104	\$ 68,878

Notes payable

Notes payable consists of notes payable to the United States Department of Agriculture and Rural Development. The interest rates range from 3.25-5%. Principal and interest payments are made annually. Outstanding balances are as follows:

<u>Original Purchase Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Principal Outstanding</u>	<u>Annual Payment Principal and Interest</u>
5/15/1996	2036	4.500%	\$ 250,807	\$ 21,610
3/30/1999	2039	4.500%	546,960	41,835
1/19/2001	2041	3.250%	429,182	27,126
3/4/2004	2044	4.500%	347,244	23,195
11/14/2006	2046	4.375%	108,630	6,807
1/26/2010	2050	4.000%	530,605	29,693
3/11/2014	2054	2.750%	605,676	26,719
			\$ 2,819,104	\$ 176,985

Notes payable

Assuming the notes are not called prior to maturity, the minimum obligations of the Association's funds at December 31, 2018 for the payment of principal are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2019	\$ 68,878
2020	71,592
2021	74,416
2022	77,355
2023	80,413
Thereafter	2,446,450
	\$ 2,819,104

WESTERN ROCKCASTLE WATER ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2018

NOTE 8 – RISK MANAGEMENT

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

NOTE 9 – COMMITMENTS AND CONTINGENCIES

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

NOTE 10 – CHANGE IN ACCOUNTING PRINCIPLE

New Accounting Pronouncement: In 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14. Presentation of Financial Statements for Not-for-Profit Entities. The Organization adopted the provisions of this new standard during the year ended December 31, 2018. In addition to changes in terminology used to describe categories of net assets throughout the financial statements, new disclosures were added regarding liquidity and availability of resources.

The following information from the 2017 financial statements has been restated to conform to the 2018 presentations and disclosure requirements of ASU 2016-14.

<u>Statement of Financial Position</u>	<u>As previously stated January 1, 2018</u>	<u>Adjustment</u>	<u>As restated January 1, 2018</u>
Unrestricted	\$ 4,441,399	\$ (4,441,399)	\$ -
Without donor restrictions	-	4,441,399	4,441,399
Total net assets	\$ 4,441,399	\$ -	\$ 4,441,399

NOTE 11 – 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:

Cash	\$ 851,220
Accounts receivable	295,768
Prepaid expenses	21,203
Inventory	68,467
Less: restricted by donors with purpose and time restrictions	-
	\$ 1,236,658

NOTE 12 – DATE OF MANAGEMENT'S REVIEW

Subsequent events were evaluated through November 27, 2019, which is the date the financial statements were available to be issued.

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

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Berea, Kentucky 40403
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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
Western Rockcastle Water Association, Inc.
Mt. Vernon, Kentucky 40456

I 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 Western Rockcastle Water Association, Inc. (a non-profit organization) (hereinafter "the Association") which comprise the statement of financial position as of December 31, 2018, 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 my report thereon dated November 27, 2019.

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 2018-001 and 2018-002.

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Western Rockcastle Water Association, Inc.'s Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Association's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Association's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Sammy K. Lee, P.S.C.

Berea, Kentucky
November 27, 2019

WESTERN ROCKCASTLE WATER ASSOCIATION, INC.
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 13, 2018

2018-001 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 activities, 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.

WESTERN ROCKCASTLE WATER ASSOCIATION, INC.
SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED
DECEMBER 31, 2018

2018-002 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 in cash receipts, cash disbursements, and payroll process.

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 lack of segregation of duties is a common deficiency in Associations the size of Western Rockcastle Water Association. The Board of Directors should be aware of the increased risk and develop policies and procedures to reduce the effect of the internal control deficiency.

Views of Responsible Officials:

Management agrees with the recommendation.