

**WESTERN ROCKCASTLE WATER
ASSOCIATION, INC.**

AUDITED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2021 and 2020

**WESTERN ROCKCASTLE WATER ASSOCIATION, INC.
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FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

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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

We have audited the accompanying financial statements of Western Rockcastle Water Association, Inc., (a non-profit organization, hereinafter "the Association"), which comprise the statements 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.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Association's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Association as of December 31, 2021 and 2020 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, during the year ended December 31, 2021, 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 June 14, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Association's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Association's internal control over financial reporting and compliance.

SK LEE CPAS, P.S.C.

Berea, Kentucky
June 14, 2023

WESTERN ROCKCASTLE WATER ASSOCIATION, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2021 AND 2020

	2021	2020
ASSETS		
Current assets		
Cash and cash equivalents	\$ 969,365	\$ 1,023,148
Accounts receivable, net	253,772	263,333
Prepaid expenses	18,801	19,850
Materials and supply inventory	18,535	8,179
Total current assets	1,260,473	1,314,510
Capital assets		
Property, plant, and equipment	11,595,070	11,512,914
Less accumulated depreciation	(6,744,885)	(6,417,824)
Total capital assets	4,850,185	5,095,090
Other assets		
Restricted cash	267,216	338,599
TOTAL ASSETS	\$ 6,377,874	\$ 6,748,199
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 91,155	\$ 128,135
Accrued expenses	10,758	37,248
Accrued interest	79,176	81,470
Customer deposits	34,461	67,930
Notes payable	77,355	74,416
Total current liabilities	292,905	389,199
Long-term liabilities		
Notes payable	2,526,862	2,604,217
TOTAL LIABILITIES	2,819,767	2,993,416
NET ASSETS		
Net assets without donor restrictions		
Debt reserves	267,216	338,599
Unappropriated	3,290,891	3,416,184
TOTAL NET ASSETS	3,558,107	3,754,783
TOTAL LIABILITIES AND NET ASSETS	\$ 6,377,874	\$ 6,748,199

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

WESTERN ROCKCASTLE WATER ASSOCIATION, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021	2020
<u>OPERATING REVENUES</u>		
Water sales	\$ 2,135,719	\$ 1,986,128
Penalties and fees	2,505	3,341
Miscellaneous	30,362	37,708
	2,168,586	2,027,177
<u>OPERATING EXPENSES</u>		
Water purchased	878,473	847,615
Personnel costs	640,603	644,349
Directors fee	30,600	36,000
Office expense	72,563	59,007
Insurance	36,836	32,152
Transportation costs	35,203	21,152
Telephone and utilities	84,182	82,943
Materials and supplies	90,151	102,172
Professional services	7,052	24,870
Repairs and maintenance	17,519	21,164
Miscellaneous	26,556	94,374
Depreciation	327,061	327,840
Bad debt	21,361	19,861
	2,268,160	2,313,499
<u>NON-OPERATING REVENUES (EXPENSES)</u>		
Interest income	3,173	3,129
Interest expense	(100,275)	(103,167)
	(97,102)	(100,038)
CHANGE IN NET ASSETS	(196,676)	(386,364)
NET ASSETS, BEGINNING OF YEAR	3,754,783	4,141,147
NET ASSETS, END OF YEAR	\$ 3,558,107	\$ 3,754,783

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

WESTERN ROCKCASTLE 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	\$ (196,676)	\$ (386,364)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	327,061	327,840
Bad debt	21,357	19,861
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(11,795)	25,889
(Increase) decrease in prepaid expenses	1,049	741
(Increase) decrease in materials and supply inventory	(10,356)	40,772
Increase (decrease) in accounts payable	(36,980)	6,596
Increase (decrease) in accrued expenses	(26,490)	21,018
Increase (decrease) in accrued interest	(2,294)	(2,205)
Increase (decrease) in customer deposits	(33,469)	13,482
Net cash provided by operating activities	31,407	67,630
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of assets	(82,156)	(7,851)
Net cash used in investing activities	(82,156)	(7,851)
 CASH FLOWS FROM FINANCING ACTIVITIES		
Principal paid on notes and lease	(74,416)	(71,592)
Net cash used in financing activities	(74,416)	(71,592)
 Net decrease in cash and cash equivalents, and restricted cash	(125,166)	(11,814)
 Cash and cash equivalents, and restricted cash, at beginning of year	1,361,747	1,373,561
 CASH AND CASH EQUIVALENTS, AND RESTRICTED CASH, AT END OF YEAR	\$ 1,236,581	\$ 1,361,747
 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
 Cash paid for interest	\$ 102,569	\$ 105,372

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

**WESTERN ROCKCASTLE WATER ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED 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 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 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 statement of activities. The Association did not have net assets with donor restrictions at December 31, 2021 and 2020.

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.

**WESTERN ROCKCASTLE WATER ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Inventory

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

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.

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.

**WESTERN ROCKCASTLE WATER ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Advertisement Expense

During the year ended December 31, 2021 and 2020, the Association paid no advertising 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.

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.

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>
Expansion project	\$ 56	\$ 56
Customer deposit	45,101	37,452
Operating account	1,036	32,542
Construction	709,988	730,401
Revenue	213,184	222,697
Total	\$ 969,365	\$ 1,023,148

Restricted cash and cash equivalents at December 31 consisted of the following:

<u>Description</u>	<u>2021</u>	<u>2020</u>
Reserve	\$ 172,451	\$ 172,020
Debt service	94,765	166,579
Total	\$ 267,216	\$ 338,599

**WESTERN ROCKCASTLE WATER ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

NOTE 2 – CASH AND CASH EQUIVALENTS – CONTINUED

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. Deposits at the bank are insured by the FDIC insurance of \$250,000. At December 31, 2021 and 2020, the carrying amount of the Association's account was \$1,236,581 and \$1,361,747 respectively. The bank balances were \$1,240,518 and \$1,111,747, respectively. Bank balances were covered by FDIC insurance and securities pledged at market value in the Associations name in the amount of \$250,000 and \$990,518 and \$250,000 and \$861,747, 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. Restricted cash at December 31 consisted of the following:

<u>Description</u>	<u>2021</u>	<u>2020</u>
Reserve	\$ 172,451	\$ 172,020
Debt service	94,765	166,579
Total	<u>\$ 267,216</u>	<u>\$ 338,599</u>

NOTE 4 – ACCOUNTS RECEIVABLE AND ALLOWANCE FOR DOUBTFUL ACCOUNTS

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

	<u>2021</u>	<u>2020</u>
Accounts receivable	\$ 683,770	\$ 711,369
Unbilled receivable	158,485	119,090
Less allowance for doubtful accounts	<u>(588,483)</u>	<u>(567,125)</u>
Net Accounts Receivable	<u>\$ 253,772</u>	<u>\$ 263,333</u>

NOTE 5 – PROPERTY, PLANT, AND EQUIPMENT

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

	<u>2021</u>	<u>2020</u>
Land	\$ 13,500	\$ 13,500
Building	1,753,124	1,753,124
Equipment	613,198	531,043
Other water system assets	9,101,852	9,101,852
Office furniture & equipment	113,396	113,396
Less accumulated depreciation	<u>(6,744,885)</u>	<u>(6,417,824)</u>
Total	<u>\$ 4,850,185</u>	<u>\$ 5,095,090</u>

Depreciation expense for the year ended December 31, 2021 and 2020 is \$327,061 and \$327,838, respectively.

**WESTERN ROCKCASTLE WATER ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

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, 2021 and 2020 compensated absences were \$1,775 and \$2,944, respectively.

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.

The following is a summary of debt transactions of the Association for the year ended December 31, 2021:

	<u>Balance</u> <u>January 1, 2021</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>December 31, 2021</u>	<u>Due Within</u> <u>One Year</u>
Notes payable	\$ 2,678,633	\$ -	\$ 74,416	\$ 2,604,217	\$ 77,355
Total	\$ 2,678,633	\$ -	\$ 74,416	\$ 2,604,217	\$ 77,355

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

	<u>Balance</u> <u>January 1, 2020</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>December 31, 2020</u>	<u>Due Within</u> <u>One Year</u>
Notes payable	\$ 2,750,226	\$ -	\$ 71,592	\$ 2,678,633	\$ 74,416
Total	\$ 2,750,226	\$ -	\$ 71,592	\$ 2,678,633	\$ 74,416

Notes Payable

Notes payable consists of notes payable to the United States Department of Agriculture and Rural Development. The interest rates range from 2.75-4.5%. Principal and interest payments are made annually. Outstanding balances are as follows:

<u>Original</u> <u>Purchase Date</u>	<u>Maturity</u> <u>Date</u>	<u>Interest Rate</u>	<u>Principal</u> <u>Outstanding</u>	<u>Annual Payment</u> <u>Principal and Interest</u>
5/15/1996	2036	4.500%	\$ 218,421	\$ 21,610
3/30/1999	2039	4.500%	492,934	41,835
1/19/2001	2041	3.250%	388,350	27,126
3/4/2004	2044	4.500%	323,500	23,195
11/14/2006	2046	4.375%	102,194	6,807
1/26/2010	2050	4.000%	504,170	29,693
3/11/2014	2054	2.750%	574,648	26,719
			\$ 2,604,217	\$ 176,985

**WESTERN ROCKCASTLE WATER ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

NOTE 7 – LONG-TERM LIABILITIES – CONTINUED

Notes Payable

Assuming the notes are not called prior to maturity, the minimum obligations of the Association's funds at December 31, 2021 and 2020 for the payment of principal are as follows:

Year Ending December 31,	2021	2020
2021	77,355	74,416
2022	80,413	77,355
2023	79,070	80,413
2024	86,907	79,070
2025	90,354	86,907
Thereafter	2,190,118	2,280,472
	\$ 2,604,217	\$ 2,678,633

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 – 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:

	2021	2020
Cash	\$ 969,365	\$ 1,023,148
Accounts receivable, net	253,772	263,333
Prepaid expenses	18,801	19,850
Inventory	18,535	8,179
Less: restricted by donors with purpose and time restrictions	-	-
	\$ 1,260,473	\$ 1,314,510

**WESTERN ROCKCASTLE WATER ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

NOTE 11 – CORONAVIRUS PANDEMIC

In December 2019, an outbreak of a novel coronavirus (COVID-19) originated in Wuhan, China and has since spread to other countries, including the U.S. On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. In addition, multiple jurisdictions in the U.S. have declared a state of emergency. It is anticipated that these impacts will continue for some time. There has been no immediate impact to the Project's operations. Future potential impacts may include disruptions or restrictions on our employees' ability to work or the tenants' ability to pay the required monthly rent. The Project receives rental assistance, and thus the potential for significant rental loss could be mitigated. Operation functions that may be changed include intake, recertifications and maintenance. Changes to the operating environment may increase operating costs. Additional impacts may include the ability of tenants to continue making rental payments as a result of job loss or other pandemic related issues. The future effects of these issues are unknown.

NOTE 12 – DATE OF MANAGEMENT'S REVIEW

Subsequent events were evaluated through June 14, 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
Western Rockcastle Water Association, Inc.
Mt. Vernon, Kentucky 40456

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 Western Rockcastle Water Association, Inc. (hereinafter "the Association") as of December 31, 2021, and the related notes to the financial statements, which comprise the Association's basic financial statements, and have issued our report thereon dated June 14, 2023.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we 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 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.

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.

Our 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be material weaknesses as items 2021-001 and 2021-002.

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, 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 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*.

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

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

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 Association's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Association's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

SK LEE CPAS, P.S.C.

Berea, Kentucky
June 14, 2023

WESTERN ROCKCASTLE WATER ASSOCIATION, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2021

2021-001 Financial Statement Preparation

Condition:

During our audit procedures, we 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 QUESTIONED COSTS – CONTINUED
DECEMBER 31, 2021

2021-002 Segregation of Duties

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 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.