

**WESTERN ROCKCASTLE WATER
ASSOCIATION, INC.**

AUDITED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2023 and 2022

**WESTERN ROCKCASTLE WATER ASSOCIATION, INC.
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FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

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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 Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the business-type activity of the Western Rockcastle Water Association, Inc. (hereinafter called the "Association"), as of and for the year ended December 31, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the Association's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activity of the Association, as of December 31, 2023 and 2022, and the respective changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Management has omitted the Management Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by the missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 24, 2024, on our consideration of the 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
May 24, 2024

WESTERN ROCKCASTLE WATER ASSOCIATION, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2023 AND 2022

	2023	2022
ASSETS		
Current assets		
Cash and cash equivalents	\$ 981,282	\$ 988,969
Accounts receivable, net	352,169	524,175
Prepaid expenses	37,114	12,442
Materials and supply inventory	115,905	18,535
Total current assets	1,486,470	1,544,121
Capital assets		
Property, plant, and equipment	11,624,766	11,578,208
Less accumulated depreciation	(7,278,041)	(6,998,914)
Total capital assets	4,346,725	4,579,294
Other assets		
Restricted cash	214,258	250,752
TOTAL ASSETS	\$ 6,047,453	\$ 6,374,167
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 96,615	\$ 104,090
Accrued expenses	14,364	5,920
Accrued interest	73,184	63,513
Customer deposits	67,799	58,349
Notes payable	83,595	80,413
Total current liabilities	335,557	312,285
Long-term liabilities		
Notes payable	2,362,855	2,446,450
TOTAL LIABILITIES	2,698,412	2,758,735
NET ASSETS		
Net assets without donor restrictions		
Debt reserves	214,258	250,752
Unappropriated	3,134,783	3,364,680
TOTAL NET ASSETS	3,349,041	3,615,432
TOTAL LIABILITIES AND NET ASSETS	\$ 6,047,453	\$ 6,374,167

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, 2023 AND 2022

	2023	2022
OPERATING REVENUES		
Water sales	\$ 1,971,227	\$ 2,462,044
Warranty reimbursement	\$ 204,381	\$ -
Penalties and fees	6,986	2,528
Miscellaneous	1,983	63,465
	2,184,577	2,528,037
OPERATING EXPENSES		
Water purchased	936,927	907,541
Personnel costs	625,195	647,212
Directors fee	36,000	33,600
Office expense	80,372	75,984
Insurance	14,822	38,177
Transportation costs	42,087	48,206
Telephone and utilities	93,046	106,899
Materials and supplies	73,206	92,105
Professional services	34,000	20,600
Repairs and maintenance	37,540	46,458
Miscellaneous	49,300	45,817
Depreciation	326,274	330,741
Bad debt	20,701	21,997
	2,369,470	2,415,337
NON-OPERATING REVENUES (EXPENSES)		
Gain on sale of equipment	22,000	26,000
Interest income	2,708	2,592
Interest expense	(106,206)	(83,967)
	(81,498)	(55,375)
CHANGE IN NET ASSETS	(266,391)	57,325
NET ASSETS, BEGINNING OF YEAR	3,615,432	3,558,107
NET ASSETS, END OF YEAR	\$ 3,349,041	\$ 3,615,432

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, 2023 AND 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (266,391)	\$ 57,325
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	326,274	330,741
Bad debt	20,701	21,997
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	172,006	(292,398)
(Increase) decrease in prepaid expenses	(24,672)	6,359
(Increase) decrease in materials and supply inventory	(97,370)	-
Increase (decrease) in accounts payable	(7,475)	12,935
Increase (decrease) in accrued expenses	8,444	(4,838)
Increase (decrease) in accrued interest	9,671	(15,663)
Increase (decrease) in customer deposits	9,450	23,888
Net cash provided by operating activities	129,937	140,346
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of assets	(93,705)	(59,850)
Net cash used in investing activities	(93,705)	(59,850)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal paid on notes and lease	(80,413)	(77,355)
Net cash used in financing activities	(80,413)	(77,355)
Net increase (decrease) in cash and cash equivalents, and restricted cash	(44,181)	3,140
Cash and cash equivalents, and restricted cash, at beginning of year	1,239,721	1,236,581
CASH AND CASH EQUIVALENTS, AND RESTRICTED CASH, AT END OF YEAR	\$ 1,195,540	\$ 1,239,721
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	\$ 96,572	\$ 99,630
End of year cash consists of:		
Cash and cash equivalents	\$ 981,282	\$ 988,969
Restricted cash	214,258	250,752
	\$ 1,195,540	\$ 1,239,721

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, 2023 AND 2022

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, 2023 and 2022.

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, 2023 AND 2022**

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, 2023 and 2022, 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, 2023 AND 2022**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Advertisement Expense

During the year ended December 31, 2023 and 2022, the Association paid \$1,752 and \$0 in advertising costs, respectfully.

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>2023</u>	<u>2022</u>
Expansion project	\$ 66	\$ 56
Customer deposit	45,589	45,105
Operating account	43,956	77,080
Construction	575,477	712,640
Revenue	316,194	154,088
Total	\$ 981,282	\$ 988,969

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

<u>Description</u>	<u>2023</u>	<u>2022</u>
Reserve	\$ 173,314	\$ 172,882
Debt service	40,944	77,870
Total	\$ 214,258	\$ 250,752

**WESTERN ROCKCASTLE WATER ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

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, 2023 and 2022, the carrying amount of the Association's account was \$1,195,540 and \$1,239,721, respectively. The bank balances were \$1,211,253 and \$1,187,986, 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 \$973,676 and \$250,000 and \$831,374, respectively. For the year ended December 31, 2023, and 2022 the Association 's bank accounts were fully collateralized.

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>2023</u>	<u>2022</u>
Reserve	\$ 173,314	\$ 172,882
Debt service	40,944	77,870
Total	\$ 214,258	\$ 250,752

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>2023</u>	<u>2022</u>
Accounts receivable	\$ 820,350	\$ 872,355
Unbilled receivable	163,000	262,300
Less allowance for doubtful accounts	(631,181)	(610,480)
Net Accounts Receivable	\$ 352,169	\$ 524,175

NOTE 5 – PROPERTY, PLANT, AND EQUIPMENT

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

	<u>2023</u>	<u>2022</u>
Land	\$ 13,500	\$ 13,500
Building	1,753,124	1,753,124
Equipment	642,894	596,336
Other water system assets	9,101,852	9,101,852
Office furniture & equipment	113,396	113,396
Less accumulated depreciation	(7,278,041)	(6,998,914)
Total	\$ 4,346,725	\$ 4,579,294

Depreciation expense for the year ended December 31, 2023 and 2022 is \$326,274 and \$330,741, respectively.

**WESTERN ROCKCASTLE WATER ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

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, 2023 and 2022 compensated absences were \$522 and \$1,775, 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, 2023:

	<u>Balance January 1, 2023</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2023</u>	<u>Due Within One Year</u>
Notes payable	\$ 2,526,863	\$ -	\$ 80,413	\$ 2,446,450	\$ 83,595
Total	<u>\$ 2,526,863</u>	<u>\$ -</u>	<u>\$ 80,413</u>	<u>\$ 2,446,450</u>	<u>\$ 83,595</u>

The following is a summary of debt transactions of the Association for the year ended December 31, 2022:

	<u>Balance January 1, 2022</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2022</u>	<u>Due Within One Year</u>
Notes payable	\$ 2,604,218	\$ -	\$ 77,355	\$ 2,526,863	\$ 80,413
Total	<u>\$ 2,604,218</u>	<u>\$ -</u>	<u>\$ 77,355</u>	<u>\$ 2,526,863</u>	<u>\$ 80,413</u>

**WESTERN ROCKCASTLE WATER ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

NOTE 7 – LONG-TERM LIABILITIES- CONTINUED

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 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%	\$ 194,329	\$ 21,610
3/30/1999	2039	4.500%	452,744	41,835
1/19/2001	2041	3.250%	358,870	27,126
3/4/2004	2044	4.500%	305,836	23,195
11/14/2006	2046	4.375%	97,419	6,807
1/26/2010	2050	4.000%	484,736	29,693
3/11/2014	2054	2.750%	552,516	26,719
			<u>\$ 2,446,450</u>	<u>\$ 176,985</u>

Assuming the notes are not called prior to maturity, the minimum obligations of the Association's funds at December 31, 2023 and 2022 for the payment of principal are as follows:

<u>Year Ending December 31,</u>	<u>2023</u>	<u>2022</u>
2023	83,595	80,413
2024	86,907	83,595
2025	90,354	86,907
2026	93,942	90,354
2027	97,696	93,942
2028-2032	528,875	97,696
2033-2037	594,116	528,875
2038-2042	443,085	594,116
2043-2047	275,576	443,085
2048-2052	100,986	275,576
2053-2054	51,318	152,304
	<u>\$ 2,446,450</u>	<u>\$ 2,526,863</u>

NOTE 8 – RISK MANAGEMENT

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

**WESTERN ROCKCASTLE WATER ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

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:

	2023	2022
Cash	\$ 981,282	\$ 988,969
Accounts receivable, net	352,169	524,175
Prepaid expenses	37,114	12,442
Inventory	115,905	18,535
Less: restricted by donors with purpose and time restrictions	-	-
	\$ 1,486,470	\$ 1,544,121

NOTE 11 – CORONAVIRUS PANDEMIC

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 Association's employee's abilities to work.

NOTE 12 – DATE OF MANAGEMENT'S REVIEW

Subsequent events were evaluated through May 24, 2024, 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. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2023, 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 24, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Western Rockcastle Water Association, Inc.'s (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.

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. 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 identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2023-001 and 2023-002 that we consider 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 an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2023-003.

The Association'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 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
May 24, 2024

WESTERN ROCKCASTLE WATER ASSOCIATION, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2023

MATERIAL WEAKNESS

2023-001 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, 2023

MATERIAL WEAKNESS

2023-002 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.

WESTERN ROCKCASTLE WATER ASSOCIATION, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED
DECEMBER 31, 2023

NON-COMPLIANCE

2023-003 Payroll Taxes Not Paid Timely

Condition:

As a result of current year auditing procedures, the Association did not remit payment for their payroll taxes filed on Form 941 to the IRS timely.

Criteria:

Per the IRS guidelines the Association is required to pay their 941 taxes weekly due to reporting more than \$50,000 in taxes during the lookback period.

Cause:

Management did not follow IRS guidelines and did not pay timely.

Effect:

The Association could be subject to late filing penalties.

Recommendation:

The Association should review IRS guidelines and implement procedures to ensure 941s are paid and submitted timely.

Views of Responsible Officials:

Management agrees with the recommendation.