

LAKE VILLAGE WATER ASSOCIATION, INC.

AUDIT OF FINANCIAL STATEMENTS

DECEMBER 31, 2016

KERBAUGH, RODES & BUTLER, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

DANVILLE, KENTUCKY

CONTENTS

	<u>PAGE</u>
Independent Auditor's Report	1
Financial Statements:	
Statement of Assets, Liabilities, and Members' Equity-Statutory Basis	3
Statement of Operations-Statutory Basis	5
Statement of Members' Equity-Statutory Basis	6
Statement of Operating Expenses-Statutory Basis	7
Statement of Cash Flows-Statutory Basis	8
Notes to Financial Statements	9
Compliance Section:	
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 <u>Government Auditing Standards</u>	14

KERBAUGH, RODES & BUTLER, PLLC

132 N 2ND STREET
DANVILLE, KY 40422
Phone: (859) 236-3924
Fax: (859) 236-6435

INDEPENDENT AUDITOR'S REPORT

Chairman and Commissioners
Lake Village Water Association, Inc.
Burgin, Kentucky 40310

Report on the Financial Statements

We have audited the accompanying financial statements of Lake Village Water Association, Inc. (a nonprofit organization) (the Association), which comprise the Statement of Assets, Liabilities, and Members' Equity-Statutory Basis as of December 31, 2016, and the related Statements of Operations-Statutory Basis, Equity-Statutory Basis, Operating Expenses-Statutory Basis, and Cash Flows-Statutory Basis 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 the statutory basis of accounting as described in Note 2; this includes determining that the statutory basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible 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.

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 entity'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 assets, liabilities, and members' equity of the Association as of December 31, 2016, and the results of its' operations, cash flows, and operating expenses for the year then ended in accordance with the statutory basis of accounting as described in Note 2.

Basis of Accounting

I draw attention to Note 2 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the statutory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2017, on our consideration of the Association's internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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.

Kerbaugh, Rodes & Butler, PLLC

Kerbaugh, Rodes & Butler, PLLC
Certified Public Accountants

Danville, Kentucky
March 29, 2017

LAKE VILLAGE WATER ASSOCIATION, INC.
STATEMENT OF ASSETS, LIABILITIES, AND MEMBERS' EQUITY-STATUTORY BASIS
DECEMBER 31, 2016
(With comparative Totals for December 31, 2015)

	2016	2015
<u>Assets</u>		
Current Assets:		
Cash (Note 3)	\$ 13,740	\$ 47,545
Accounts Receivable (Net of Allowance)	124,222	138,893
Due from Kentucky Transportation Cabinet	97,116	-
Inventory (Note 2)	28,839	32,260
Prepaid Expenses (Note 2)	17,288	16,624
Total Current Assets	281,205	235,322
Restricted Assets:		
Cash (Note 3)	277,947	306,258
Property & Equipment, Net (Note 2 and 4)	6,025,870	5,729,685
Total Assets	\$ 6,585,022	\$ 6,271,265

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

LAKE VILLAGE WATER ASSOCIATION, INC.
STATEMENT OF ASSETS, LIABILITIES, AND MEMBERS' EQUITY-STATUTORY BASIS
DECEMBER 31, 2016
(With comparative Totals for December 31, 2015)

	<u>2016</u>	<u>2015</u>
<u>Liabilities & Equity</u>		
Current Liabilities:		
Current Portion - Debt (Note 5)	\$ 88,497	\$ 57,247
Cash Overdraft (Note 3)	59,786	50,227
Accounts Payable	138,848	62,376
Accounts Payable - Contractors	-	14,055
Due to Mercer Sanitation District	15,945	16,170
Accrued Interest	86,203	83,411
Other Current Liabilities	<u>69,868</u>	<u>70,845</u>
Total Current Liabilities	459,147	354,331
Long - Term Debt (Note 5)	<u>3,829,776</u>	<u>3,413,050</u>
Total Liabilities	4,288,923	3,767,381
Members' Equity:		
Memberships	705,440	697,101
Contributions in Aid of Construction	3,665,469	3,665,469
Retained Deficit	<u>(2,074,810)</u>	<u>(1,858,686)</u>
Total Equity	<u>2,296,099</u>	<u>2,503,884</u>
Total Liabilities & Members' Equity	<u>\$ 6,585,022</u>	<u>\$ 6,271,265</u>

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

LAKE VILLAGE WATER ASSOCIATION, INC.
STATEMENT OF OPERATIONS-STATUTORY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2016
(With Comparative Totals for the Year Ended December 31, 2015)

	2016	2015
Operating Revenue:		
Water Sales	\$ 1,362,128	\$ 1,305,943
Management Fee Income	29,167	25,000
Other Operating Revenue	32,418	63,743
Total Operating Revenue	1,423,713	1,394,686
Operating Expenses	1,207,757	1,155,434
Net Operating Income Before Depreciation	215,956	239,252
Depreciation (Note 2)	292,770	286,349
Net Operating Income	(76,814)	(47,097)
Non-Operating Income (Expenses):		
Interest Income	863	1,057
Other Expenses	(711)	-
Debt Issuance Costs	-	(36,612)
Interest Expense	(139,462)	(144,989)
Total Non-Operating Income (Expenses):	(139,310)	(180,544)
Net Income (Loss)	\$ (216,124)	\$ (227,641)

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

LAKE VILLAGE WATER ASSOCIATION, INC.
STATEMENT OF MEMBERS' EQUITY-STATUTORY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Memberships</u>	<u>Contributions in Aid of Construction</u>	<u>Retained Deficit</u>	<u>Total</u>
Balance at January 1, 2015	\$ 685,851	\$ 3,665,469	\$ (1,631,045)	\$ 2,720,275
2015 Net Loss			(227,641)	(227,641)
Memberships	<u>11,250</u>	<u>-</u>	<u>-</u>	<u>11,250</u>
Balance at December 31, 2015	697,101	3,665,469	(1,858,686)	2,503,884
2016 Net Loss			(216,124)	(216,124)
Memberships	<u>8,339</u>	<u>-</u>	<u>-</u>	<u>8,339</u>
Balance at December 31, 2016	<u>\$ 705,440</u>	<u>\$ 3,665,469</u>	<u>\$ (2,074,810)</u>	<u>\$ 2,296,099</u>

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

LAKE VILLAGE WATER ASSOCIATION, INC.
STATEMENT OF OPERATING EXPENSES-STATUTORY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2016
(With Comparative Totals for the Year Ended December 31, 2015)

	2016	2015
Source of Supply Expense:		
Water Purchases	\$ <u>505,307</u>	\$ <u>528,496</u>
Total	505,307	528,496
Transmission & Distribution Expense:		
Maintenance & Repairs	<u>81,370</u>	<u>32,370</u>
Total	81,370	32,370
Customer Accounts Expense:		
Uncollectible Accounts	-	7,183
Supplies & Postage	<u>15,650</u>	<u>15,073</u>
Total	15,650	22,256
Administrative & General:		
Salaries	326,161	323,634
Insurance	33,856	33,690
Utilities	34,511	31,675
Office Supplies & Expense	35,463	25,564
Transportation Expense	12,804	16,456
Payroll Taxes	25,175	25,002
Staff Benefits	76,499	71,644
Legal Expense	3,000	3,000
Audit & Accounting	4,950	4,900
Commissioners' Fees	24,000	24,000
Engineering Fees	4,004	3,822
Miscellaneous General Expense	22,171	6,350
Other Licenses & Taxes	<u>2,836</u>	<u>2,575</u>
Total Administrative & General	<u>605,430</u>	<u>572,312</u>
Total Operating Expenses	<u>\$ 1,207,757</u>	<u>\$ 1,155,434</u>

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

LAKE VILLAGE WATER ASSOCIATION, INC.
STATEMENT OF CASH FLOWS-STATUTORY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2016
(With Comparative Totals for the Year Ended December 31, 2015)

	<u>2016</u>	<u>2015</u>
Cash Flows From Operating Activities		
Net Loss	\$ (216,124)	\$ (227,641)
Adjustments to Reconcile Net Loss to Net Cash Provided by Operating Activities:		
Depreciation	292,770	286,349
Decrease (Increase) in Accounts Receivable	14,671	(25,890)
Decrease in Due From Other Government	(97,116)	-
Decrease (Increase) in Inventory	3,421	(16,095)
Decrease (Increase) in Prepaid Expenses	(664)	(235)
Increase (Decrease) in Accounts Payable	76,472	39,233
Increase (Decrease) in Due to Sanitation District	(225)	4,024
Increase (Decrease) in Accrued Interest	2,792	(21,092)
Increase (Decrease) in Other Current Liabilities	<u>(977)</u>	<u>11,063</u>
Net Cash Provided By (Used In) Operating Activities	<u>75,020</u>	<u>49,716</u>
Cash Flows From Investing Activities		
Construction/Acquisition of Property & Equipment	<u>(603,010)</u>	<u>(55,782)</u>
Net Cash Used in Investing Activities	<u>(603,010)</u>	<u>(55,782)</u>
Cash Flows From Financing Activities		
Memberships (Tap Fees)	8,339	11,250
New Borrowings on Debt	505,222	1,205,621
Principal Payments on Debt	<u>(57,246)</u>	<u>(1,192,789)</u>
Net Cash Provided By (Used In) Financing Activities	<u>456,315</u>	<u>24,082</u>
Net Increase (Decrease) in Cash	(71,675)	18,016
Cash at Beginning of Year	<u>303,576</u>	<u>285,560</u>
Cash at End of Year	<u>\$ 231,901</u>	<u>\$ 303,576</u>

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

LAKE VILLAGE WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

1. General

Lake Village Water Association, Inc., (the "Association") is a not-for-profit corporation. The Association provides water services to the rural sections of Boyle and Mercer counties.

2. Summary of Significant Accounting Policies

- A. The Association uses the accrual method of accounting, and accordingly reflects all significant prepaids, receivables, payables, and other liabilities. Certain disclosures have been included in this report to conform to Rural Development Agency (RD) requirements. Also, the Association's financial statements differ from financial statements prepared in accordance with accounting principles generally accepted in the United States of America in that the statements include a statement of assets, liabilities, and members' equity, statement of operations, statement of members' equity, statement of operating expenses, and statement of cash flows.
- B. For purposes of the statement of cash flows, the Association considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.
- C. Management uses estimates and assumptions in preparing the financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.
- D. Property and equipment are stated at cost, and are depreciated over the estimated useful life of the asset using the straight-line method of depreciation. Transmission lines and standpipes are being depreciated over a 33 year life; office furniture and equipment over a 5 to 10 year life; buildings and improvements over a 20 year life.
- E. A statutory mortgage lien exists on the utility plant in favor of the Rural Development Agency (RD), with loans being collateralized by and payable from gross revenues of the Association including all assets of the Association.
- F. Material inventory is stated at cost using the first-in, first-out (FIFO) method.
- G. Prepaid items include payments made to vendors that will benefit future periods.
- H. Restricted assets represent cash for which use is limited by applicable loan covenants.
- I. Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform to the presentation in the current-year financial statements.

LAKE VILLAGE WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

3. Cash

Cash is composed of the following with restriction for use noted:

Cash on Hand		\$	50
Cash on Deposit-Operating Account	A		(59,786)
Cash on Deposit-Revenue Account	B		2,006
Cash on Deposit-Customer Deposits	C		15,367
Cash on Deposit-Northpoint Training Center Tank Project	D		100
Savings Accounts:			
Debt Service Account	E		139,151
Sinking Fund	F		74,800
Depreciation Account	G		11,684
Reserve Account	H		48,529
TOTAL			\$ 231,901

The Association maintains cash in one local bank and is required by Rural Development loan agreements to have the financial institution(s) pledge securities having a current quoted market value at least equal to the uninsured deposits. At year end, the carrying amount of the Association's cash was \$231,901 and the bank balance was \$329,303. At December 31, 2016, all bank balances were covered by federal depository insurance, or by collateral held by the pledging bank's trust department on behalf of the Association.

- (A) The operating and maintenance account is the primary operating account of the Association. It is funded by transfers from the revenue account and is used to pay all operating expenses of the Association. The operating account operates on an imprest basis; thus, the overdraft in this account represents outstanding checks at year-end.
- (B) The revenue account, required by RD loan agreements, is used for the deposit of all funds collected and for the disbursement of funds to the proper bank accounts.
- (C) The customer deposit account is used to handle required deposits by new customers.
- (D) This account is maintained by the Association to account for the cash receipts and disbursements related to certain water system improvement project undertaken during the year.
- (E) The Association is required to transfer funds monthly to the debt service account to meet the monthly installments for principal and interest on the RD loans outstanding.
- (F) The Association is required to transfer funds monthly to the sinking fund account to meet the monthly installments for principal and interest on the KRWFC loans outstanding.
- (G) The depreciation account is used by the Association to maintain excess unrestricted funds so that they will earn interest.
- (H) The Association is required to transfer funds monthly to the reserve account in amounts specified by Rural Development. The use of this fund is restricted to paying the cost of repairing or replacing, making extensions or improvements, or when necessary for payment of principal and interest.

LAKE VILLAGE WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

4. Property and Equipment

Property and equipment consists of the following as of December 31:

Land	\$ 62,409
Buildings & Improvements	141,085
Supply Mains	15,500
Pump Station	55,101
Standpipes & Storage Tanks	1,849,946
Water Lines	7,083,677
Customer Services	189,926
Meters	476,532
Hydrants	1,960
Office Furniture	79,021
Transportation Equipment	192,809
Other Equipment	83,968
Other Tangible Plant	223,235
Construction in Process	<u>522,019</u>
Total	10,977,188
Less: Accumulated Depreciation	<u>4,951,318</u>
Property & Equipment, net	<u><u>\$ 6,025,870</u></u>

5. Long-Term Debt

The following debt obligations were outstanding as of December 31, 2016:

Loan 91-09 - 4.5% promissory note payable to the Department of Agriculture, Rural Development, due in annual installments of \$49,038, including principal and interest.	\$ 810,475
Loan 91-10 - 4.0% promissory note payable to the Department of Agriculture, Rural Development, due in annual installments of \$79,733, including principal and interest.	1,467,576
Note payable - Kentucky Rural Water Finance Corporation Public Projects Taxable Refunding Revenue Bonds (Flexible Term Program), Series 2016C. Fixed interest rate ranging from 3.0% to 4.25%. Interest payments are due semi-annually. Principal payments are due annually in amounts ranging from \$25,00 to \$70,000.	1,135,000
Loan 91-11 - 2.75%, \$656,000 promissory note to the Department of Agriculture, Rural Development, due in annual installments ranging from \$27,940 to \$28,044 beginning July 11, 2019 through 2056, including principal and interest.	<u>505,222</u>
Total Outstanding Bonds	3,918,273
LESS: Current Portion	<u>(88,497)</u>
Long-Term Debt	<u><u>\$ 3,829,776</u></u>

The above notes are secured by all property and equipment of the Association.

LAKE VILLAGE WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

A schedule of maturities on the above debt is as follows:

Year Ending December 31,	Amount
2017	\$ 88,497
2018	89,901
2019	91,364
2020	92,889
2021	99,477
2022-2026	543,655
2027-2031	569,688
2032-2036	552,413
2037-2041	439,519
2042-2046	509,317
2047-2050	336,331
Total	\$ 3,413,051

The above schedule of maturities does not include Loan 91-11. The project is in the construction phase. The loan will begin amortizing in 2019. The loan requires set interest payments during the construction period.

6. Income Taxes

During 1973, the Association applied for and obtained tax exempt status from the Internal Revenue Service under Section 501(C) (12) of the Internal Revenue Code.

7. Other Matters

(A) The Association has not been assessed or paid any property, intangible or franchise tax in prior years. Since there is some uncertainty about the taxability of a "water association", the financial statements do not reflect any liability for unpaid taxes, if any.

(B) Active Meter Customers - December 31, 2,195

(C) Water Loss (Gallons):

Water Purchases 205,417,066

Water Sold and Used in Operations 193,236,859

Line loss 12,180,207

Percentage of Line Loss 5.93%

(D) Accounts receivable aging at December 31, 2016:

Current	\$ 116,884
30-59 Days	13,369
60-89 Days	3,279
Over 90 Days	2,682
Less: Allowance	(11,992)
Net Accounts Receivable	\$ 124,222

LAKE VILLAGE WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

All accounts receivable 90 days and older have been included in the allowance for uncollectible accounts.

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 from coverage in the prior year.

9. Capital Projects Planned and in Process

On July 11, 2016, the Association entered into a loan agreement for \$656,000 from the United States Department of Agriculture, Rural Development Division to refurbish the Northpoint Training Center Elevated Storage Tank. As of December 31, 2016, \$519,851 had been spent related to this project.

10. Contract with Mercer County Sanitation District

On August 1, 2016, the Association entered into an agreement with the Mercer County Sanitation District whereby the Association provides management, secretarial, billing, bookkeeping, budgeting, office space, and various other services to the Sanitation District for an annual fee of \$35,000 payable in equal monthly installments of \$2,916.67. The contract term is five years and is cancelable by either party upon 60 days written notice.

COMPLIANCE SECTION

**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***

Chairman and Commissioners
Lake Village Water Association, Inc.
Burgin, Kentucky 40310

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 the Lake Village Water Association, Inc. (the Association), which comprise the statement of assets, liabilities, and members' equity-statutory basis as of December 31, 2016, and the related statements of operations-statutory basis, members' equity-statutory basis, operating expenses-statutory basis, and cash flows-statutory basis for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 29, 2017.

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 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. However, as described below, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

1. As is common within the system of internal control of most small organizations, the accounting function of the Association does not prepare the financial statements complete with footnotes in accordance with the statutory basis of accounting described in Note 2 to the financial statements. Accordingly, the Association has not established internal controls over the preparation of its financial statements. This condition is considered to be a material weakness in the Association's system of internal control over financial reporting.

During the course of performing an audit, it is not unusual for the auditor to prepare various journal entries to present the financial statements in accordance with generally accepted accounting principles. This reliance on the auditor to detect and make these necessary adjustments is considered to be a material weakness in the system of internal control. SAS no. 115 does not make exceptions for reporting deficiencies that are adequately mitigated with non-audit services rendered by the auditor or deficiencies for which the remedy would be cost prohibitive.

Communication of the material weakness above helps to emphasize that the responsibility for financial reporting rests entirely with the Association and not the auditor. Stated another way, if an Association is unable to issue, without the auditor's involvement, complete financial statements with footnotes in accordance with the statutory basis of accounting and free of material misstatement, that inability is a symptom of a material weakness in the system of internal control.

Management's Response

The Association engages consultants who possess industry knowledge and expertise to provide financial services, as well as legal, engineering, and other professional services. Based on the auditor's unqualified opinion and after reading the financial statements, management believes the financial statements to be materially correct. Management does not think that the addition of an employee or consultant to oversee the annual financial reporting process is necessary nor would it be cost effective.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Association's financial statements are free of 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 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 that are required to be reported under *Government Auditing Standards*.

The Association's Response to Findings

The Association's response to the findings identified in our audit is described above. 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 entity'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.

Kerbaugh, Rodes & Butler, PLLC

Kerbaugh, Rodes & Butler, PLLC
Certified Public Accountants

Danville, Kentucky
March 29, 2017