

**LAKE VILLAGE WATER ASSOCIATION, INC.**

**AUDITED FINANCIAL STATEMENTS**

---

**DECEMBER 31, 2021 AND 2020**

**KERBAUGH, RODES & BUTLER, PLLC**

**CERTIFIED PUBLIC ACCOUNTANTS**

**DANVILLE, KENTUCKY**

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## INDEPENDENT AUDITOR'S REPORT

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

### Opinion

We have audited the accompanying financial statements of Lake Village Water Association, Inc. (a nonprofit organization), which comprise the Statement of Assets, Liabilities, and Members' Equity-Statutory Basis as of December 31, 2021 and 2020, and the related Statements of Operations, Members' Equity, Operating Expenses, and Cash Flows-Statutory Basis for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and members' equity-statutory basis of the Association as of December 31, 2021 and 2020, and the results of its operations-statutory basis and its cash flows-statutory basis for the years then ended, in accordance with the financial reporting practices prescribed or permitted by the U.S. Department of Agriculture, Rural Development Agency and the Commonwealth of Kentucky Public Service Commission (statutory basis) as described in Note 2.

### Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (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.

### Basis of Accounting

We draw attention to Note 2 of the financial statements, which describes the basis of accounting. As described in Note 2 to the financial statements, the financial statements are prepared by the Association in accordance with the financial reporting practices prescribed or permitted by the U.S. Department of Agriculture, Rural Development Agency and the Commonwealth of Kentucky Public Service Commission (statutory basis), which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of the Commonwealth of Kentucky Public Service Commission. As a result, the financial statements may not be suitable for another purpose. Our opinion is not modified with respect to this matter.

### Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting practices prescribed or permitted by the U.S. Department of Agriculture, Rural Development Agency and the Commonwealth of Kentucky Public Service Commission (statutory basis). 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

### **Auditor's Responsibilities for the 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 GAAS 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, including omissions, 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 GAAS 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.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2022, 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, 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 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.

*Kerbaugh, Rodes & Butler, PLLC*

Kerbaugh, Rodes & Butler, PLLC  
Certified Public Accountants

Danville, Kentucky  
March 30, 2022

**LAKE VILLAGE WATER ASSOCIATION, INC.**  
**STATEMENT OF ASSETS, LIABILITIES, AND MEMBERS' EQUITY-STATUTORY BASIS**  
**DECEMBER 31, 2021 AND 2020**

	2021	2020
<u>Assets</u>		
Current Assets:		
Cash (Note 3)	\$ 13,692	\$ 13,743
Accounts Receivable, Net (Note 2 and 7)	112,495	128,620
Inventory (Note 2)	34,824	34,824
Prepaid Expenses (Note 2)	12,451	12,821
Total Current Assets	173,462	190,008
Restricted Assets:		
Cash (Note 3)	173,308	100,193
Property & Equipment, Net (Note 2 and 4)	4,968,894	5,216,037
Total Assets	\$ 5,315,664	\$ 5,506,238

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, 2021 AND 2020**

	2021	2020
<u>Liabilities &amp; Members' Equity</u>		
Current Liabilities:		
Current Portion - Debt (Note 5)	\$ 243,717	\$ 214,039
Cash Overdraft (Note 3)	70,275	107,679
Accounts Payable	54,452	49,113
Accounts Payable - Contractors	-	1,861
Due to Mercer Sanitation District	15,985	22,636
Accrued Interest	54,116	83,958
Other Current Liabilities	84,151	90,291
Total Current Liabilities	522,696	569,577
Long - Term Debt (Note 5)	3,571,681	3,575,663
Total Liabilities	4,094,377	4,145,240
Members' Equity:		
Memberships	765,368	749,168
Contributions in Aid of Construction	3,665,469	3,665,469
Retained Deficit	(3,209,550)	(3,053,639)
Total Equity	1,221,287	1,360,998
Total Liabilities & Members' Equity	\$ 5,315,664	\$ 5,506,238

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

**LAKE VILLAGE WATER ASSOCIATION, INC.**  
**STATEMENT OF OPERATIONS-STATUTORY BASIS**  
**FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

	<u>2021</u>	<u>2020</u>
Operating Revenue:		
Water Sales	\$ 1,436,582	\$ 1,444,027
Management Fee Income	37,500	35,000
Other Operating Revenue	<u>23,009</u>	<u>8,776</u>
Total Operating Revenue	1,497,091	1,487,803
Operating Expenses	<u>1,219,687</u>	<u>1,257,340</u>
Net Operating Income Before Depreciation	277,404	230,463
Depreciation (Note 2)	<u>305,813</u>	<u>311,352</u>
Net Operating Income (Loss)	(28,409)	(80,889)
Non-Operating Income (Expenses):		
Gain (Loss) on Sale of Assets	2,700	-
Interest Income	20	827
Interest Expense	<u>(130,222)</u>	<u>(143,663)</u>
Total Non-Operating Income (Expenses):	<u>(127,502)</u>	<u>(142,836)</u>
Net Income (Loss)	<u>\$ (155,911)</u>	<u>\$ (223,725)</u>

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

**LAKE VILLAGE WATER ASSOCIATION, INC.**  
**STATEMENT OF MEMBERS' EQUITY-STATUTORY BASIS**  
**FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

	<u>Memberships</u>	<u>Contributions in Aid of Construction</u>	<u>Retained Deficit</u>	<u>Total</u>
Balance at January 1, 2020	\$ 738,368	\$ 3,665,469	\$ (2,829,914)	\$ 1,573,923
2020 Net Loss	-	-	(223,725)	(223,725)
Memberships	<u>10,800</u>	<u>-</u>	<u>-</u>	<u>10,800</u>
Balance at December 31, 2020	749,168	3,665,469	(3,053,639)	1,360,998
2021 Net Loss	-	-	(155,911)	(155,911)
Memberships	<u>16,200</u>	<u>-</u>	<u>-</u>	<u>16,200</u>
Balance at December 31, 2021	<u>\$ 765,368</u>	<u>\$ 3,665,469</u>	<u>\$ (3,209,550)</u>	<u>\$ 1,221,287</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 YEARS ENDED DECEMBER 31, 2021 AND 2020**

	2021	2020
Source of Supply Expense:		
Water Purchases	<u>\$ 512,295</u>	<u>\$ 552,238</u>
Total	512,295	552,238
Transmission & Distribution Expense:		
Maintenance & Repairs	<u>51,467</u>	<u>53,772</u>
Total	51,467	53,772
Customer Accounts Expense:		
Uncollectible Accounts	-	4,577
Supplies & Postage	<u>17,170</u>	<u>16,678</u>
Total	17,170	21,255
Administrative & General:		
Salaries	370,248	363,454
Insurance	32,193	35,336
Utilities	27,681	30,358
Office Supplies & Expense	19,578	20,195
Transportation Expense	16,514	11,619
Payroll Taxes	27,687	27,024
Staff Benefits	65,708	74,829
Legal Expense	3,783	3,775
Audit & Accounting	6,300	6,300
Commissioners' Fees	27,000	23,850
Engineering Fees	4,060	4,886
Miscellaneous General Expense	34,426	25,510
Other Licenses & Taxes	<u>3,577</u>	<u>2,939</u>
Total Administrative & General	<u>638,755</u>	<u>630,075</u>
Total Operating Expenses	<u>\$ 1,219,687</u>	<u>\$ 1,257,340</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 YEARS ENDED DECEMBER 31, 2021 AND 2020**

	<u>2021</u>	<u>2020</u>
Cash Flows From Operating Activities		
Net Income (Loss)	\$ (155,911)	\$ (223,725)
Adjustments to Reconcile Net Loss to Net Cash Provided by Operating Activities:		
Depreciation	305,813	311,352
Amortization of Bond Premium and Discount	720	-
(Gain) Loss From Sale of Property & Equipment	(2,700)	-
Decrease (Increase) in Accounts Receivable	16,125	16,374
Decrease (Increase) in Inventory	-	2,545
Decrease (Increase) in Prepaid Expenses	370	8,851
Increase (Decrease) in Accounts Payable	5,339	(1,341)
Increase (Decrease) in Due to Sanitation District	(6,651)	278
Increase (Decrease) in Accrued Interest	(29,842)	(2,698)
Increase (Decrease) in Other Current Liabilities	<u>(6,140)</u>	<u>20,310</u>
Net Cash Provided By (Used In) Operating Activities	<u>127,123</u>	<u>131,946</u>
Cash Flows From Investing Activities		
Proceeds From Sale of Property & Equipment	2,700	
Construction/Acquisition of Property & Equipment	<u>(60,531)</u>	<u>(86,840)</u>
Net Cash Provided By (Used In) Investing Activities	<u>(57,831)</u>	<u>(86,840)</u>
Cash Flows From Financing Activities		
Memberships (Tap Fees)	16,200	10,800
New Borrowings on Debt	2,327,752	106,431
Payment of Bond Issuance Costs	(83,510)	-
Principal Payments on Debt	<u>(2,219,266)</u>	<u>(204,276)</u>
Net Cash Provided By (Used In) Financing Activities	<u>41,176</u>	<u>(87,045)</u>
Net Increase (Decrease) in Cash	110,468	(41,939)
Cash at Beginning of Year	<u>6,257</u>	<u>48,196</u>
Cash at End of Year	<u>\$ 116,725</u>	<u>\$ 6,257</u>
Supplemental Disclosure of Cash Flow Information:		
Cash Paid During the Year for Interest	<u>\$ 159,344</u>	<u>\$ 146,361</u>
Supplemental Disclosure of Non-Cash Investing Activities:		
Property & Equipment Acquired and Included in Accounts Payable - Contractors	<u>\$ -</u>	<u>\$ 1,861</u>

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

**LAKE VILLAGE WATER ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2021 AND 2020**

**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. Receivables for water sales are recorded monthly following reading of meters. Receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. All receivables in excess of 90 days old comprise the allowance for uncollectibles.
- E. 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.
- F. 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.
- G. Material inventory is stated at cost using the first-in, first-out (FIFO) method.
- H. Prepaid items include payments made to vendors that will benefit future periods.
- I. Restricted assets represent cash for which use is limited by applicable loan covenants.
- J. Management has evaluated subsequent events through March 30, 2022, the date the financial statements were issued, and has determined that there are no items requiring disclosure.

**3. Cash**

The Association maintains cash in two local banks and is required by Rural Development (RD) loan agreements to have the financial institutions pledge securities having a current quoted market value at least equal to the uninsured deposits. At December 31, 2021, the carrying amount of the Association's cash was \$116,725 and the bank balance was \$131,588. At December 31, 2020, the carrying amount of the Association's cash was \$6,257 and the bank balance was \$115,921. At December 31, 2021 and 2020, all bank balances were covered by federal depository insurance.

**LAKE VILLAGE WATER ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2021 AND 2020**

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

		<u>2021</u>	<u>2020</u>
Cash on Hand		\$ 50	\$ 50
Cash on Deposit-Operating Account	A	(70,275)	(107,679)
Cash on Deposit-Revenue Account	B	9,663	13,594
Cash on Deposit-Customer Deposits	C	12,582	7,021
Cash on Deposit-Construction Project	D	2,320	2,678
Savings Accounts:			
Debt Service Account	E	17,085	7,028
Sinking Fund	F	134,334	78,433
Depreciation Account	G	979	99
Reserve Account	H	9,987	5,033
TOTAL		<u>\$ 116,725</u>	<u>\$ 6,257</u>

- (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 and maintenance 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 projects 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 Kentucky Rural Water Finance Corporation 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 RD. 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.

During the year ended December 31, 2020, the association did not make the required monthly transfers to the reserve accounts in the amounts specified by RD. The required transfers were made during the year ended December 31, 2021.

**LAKE VILLAGE WATER ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2021 AND 2020**

**4. Accounts Receivable**

Accounts receivable aging at December 31, 2021 and 2020 was as follows:

	2021	2020
Current	\$ 118,939	\$ 122,842
30-59 Days	5,489	11,960
60-89 Days	(561)	874
Over 90 Days	(745)	9,160
Less: Allowance	(10,627)	(16,216)
Accounts Receivable, Net	\$ 112,495	\$ 128,620

Accounts receivable at December 31, 2019, was \$144,463.

**5. Property and Equipment**

Property and equipment consists of the following at December 31:

	2021	2020
Land	\$ 62,409	\$ 62,409
Buildings & Improvements	141,085	141,085
Supply Mains	22,085	15,500
Pump Station	200,431	200,431
Standpipes & Storage Tanks	2,450,633	2,450,633
Water Lines	7,083,677	7,083,677
Customer Services	189,926	189,926
Meters	485,298	485,298
Hydrants	1,960	1,960
Office Furniture	79,021	79,021
Transportation Equipment	200,880	195,609
Other Equipment	83,968	83,968
Other Tangible Plant	223,235	223,235
Construction in Process	212,910	197,738
Total	11,437,518	11,410,490
Less: Accumulated Depreciation	(6,468,624)	(6,194,453)
Property & Equipment, Net	\$ 4,968,894	\$ 5,216,037

**6. Long-Term Debt**

In January 2021, the Association failed to make the debt payment due January 12, 2021 for RD Loan 91-10 in the amount of \$79,733. The Association entered into a Workout Agreement with RD on March 18, 2021, which required the payment to be made in three monthly installments beginning April 1, 2021. The agreement stated that as long as the Association meets the terms of the Workout Agreement, the debt will not be accelerated. In July 2021, the Association refinanced RD Loan 91-10 and RD Loan 91-09 by issuing \$2,250,000 Kentucky Rural Water Finance Corporation Taxable Public Projects Refunding Revenue Bonds, Series 2021B. The Bonds bear interest ranging from 2.2% to 3.2%. The net present value of the savings resulting from the refinancing are \$253,766.

The note payable to Kentucky Rural Water Finance Corporation in the amount of \$101,000 was refinanced in 2020 in the amount of \$104,000 and again in 2021. The balance is expected to be refinanced through Rural Development with the Contract 14 Project (See Note 10) funding that has not yet been finalized. Subsequent to year-end this note was renewed again with the entire principal balance due on February 1, 2024. As a result, this loan has not been included in the current portion of long-term debt.

**LAKE VILLAGE WATER ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2021 AND 2020**

The following debt obligations were outstanding at December 31, 2021 and 2020:

	2021	2020
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.	\$ -	\$ 756,712
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.	-	1,378,273
Note payable - Kentucky Rural Water Finance Corporation Public Projects Taxable Refunding Revenue Bonds (Flexible Term Program), Series 2015C. 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 \$25,000 to \$70,000.	855,000	915,000
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.	625,155	635,717
Note payable - Kentucky Rural Water Finance Corporation Flexible Term Finance Program, \$104,000. Fixed interest rate at 1.16%. Interest payments are due semi-annually. Balloon principal payment is due at maturity, which is August 1, 2022.	104,000	104,000
Kentucky Rural Water Finance Corporation Taxable Public Projects Refunding Revenue Bonds, Series 2021B, \$2,250,000. Fixed interest rates ranging from 2.2% to 3.2%. Annual principal payments and semi-annual interest payments through maturity, which is December 31, 2050.	2,250,000	-
Truck Note Payable - Farmer's National Bank, \$37,382. Fixed interest rate at 3.5% due in monthly installments of \$1,616, including principal and interest through March 31, 2023.	23,663	-
Total Outstanding Bonds	3,857,818	3,789,702
Bond issuance costs	(82,118)	-
Bond Premium	39,698	-
LESS: Current Portion	(139,717)	(214,039)
Long-Term Debt	\$ 3,675,681	\$ 3,575,663

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

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

Year Ending December 31,	Amount
2022	\$ 139,717
2023	135,949
2024	240,457
2025	136,772
2026	147,096
2027-2031	710,658
2032-2036	675,195
2037-2041	541,119
2042-2046	593,630
2047-2050	407,959
2051-2055	129,266
Total	\$ 3,857,818

**LAKE VILLAGE WATER ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2021 AND 2020**

**7. 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.

**8. 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.

	<u>2021</u>	<u>2020</u>
(B) Active Meter Customers - December 31,	2,328	2,275
(C) Water Loss (Gallons):		
Water Purchases	190,093,244	209,499,130
Water Sold and Used in Operations	<u>153,350,100</u>	<u>162,258,000</u>
Line loss	36,743,144	47,241,130
Percentage of Line Loss	19.33%	22.55%

**9. 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.

**10. Capital Projects Planned and in Process**

On October 11, 2018, the Association entered into a loan agreement for \$101,000 from the Kentucky Rural Water Finance Corporation Flexible Term Program to finance preliminary and design engineering for the Contract 14 Project, which is a systemwide rehabilitation project. This loan was refinanced in 2020 in the amount of \$104,000. As of December 31, 2021, there were no remaining funds to be drawn down on this loan. As of December 31, 2021, \$192,376, had been spent related to this project for the preliminary and design engineering related to this project. The Association has received a letter of conditions for a loan in the amount of \$2,089,290 for funding construction of the project. The interest rate on the loan will be 2.375% with a term of 40 years. The total Contract 14 Project cost was originally estimated to be \$2,089,290. Rising cost of materials has caused this project to be delayed. As of December 31, 2021, no funds have been drawn on the loan and the loan funds expire 36 months from the date the funds were obligated, which was May 2020.

**11. 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. Effective July 1, 2021, the agreement was amended to increase the annual fee to \$40,000, paid in monthly installments. The fee will also increase annually at the rate of 3.5% through March 31, 2026. The contract cancelable by either party upon 60 days written notice.

**12. Retirement Plan**

The Association sponsors a Simple Employee Pension IRA for all qualifying employees. Under the terms of the plan, the Association makes a discretionary contribution up to 10% of the employee's salary. For the years ended December 31, 2021 and 2020, the Association contributed \$36,200 and \$30,000, respectively, to the plan.

## **COMPLIANCE SECTION**

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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*

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

We have audited, 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, the financial statements of the Lake Village Water Association, Inc. (a nonprofit organization), which comprise the statement of assets, liabilities, and members' equity-statutory basis as of December 31, 2021, and the related statements of operations, members' equity, operating expenses, 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 30, 2022.

### 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) 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 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 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 the following deficiency in internal control 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.

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 the statutory basis of accounting. 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. AU-C Section 265 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 unmodified 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 from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matter that is required to be reported under *Government Auditing Standards*.

#### **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. 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.

*Kerbaugh, Rodes & Butler, PLLC*

Kerbaugh, Rodes & Butler, PLLC  
Certified Public Accountants

Danville, Kentucky  
March 30, 2022