

**LAKE VILLAGE WATER ASSOCIATION, INC.**

**AUDITED FINANCIAL STATEMENTS**

---

**DECEMBER 31, 2022 AND 2021**

**KERBAUGH, RODES & BUTLER, PLLC**

**CERTIFIED PUBLIC ACCOUNTANTS**

**DANVILLE, KENTUCKY**

## CONTENTS

	<u>PAGE</u>
Independent Auditor's Report	1-2
Financial Statements:	
Statements of Assets, Liabilities, and Members' Equity-Statutory Basis	3
Statements of Operations-Statutory Basis	4
Statements of Members' Equity-Statutory Basis	5
Statements of Operating Expenses-Statutory Basis	6
Statements of Cash Flows-Statutory Basis	7
Notes to Financial Statements	8-12
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 <i>Government Auditing Standards</i>	13-14

# Kerbaugh, Rodes & Butler, PLLC

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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, 2022 and 2021, 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, 2022 and 2021, 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*, 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 29, 2023, 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 29, 2023

**LAKE VILLAGE WATER ASSOCIATION, INC.**  
**STATEMENTS OF ASSETS, LIABILITIES, AND MEMBERS' EQUITY-STATUTORY BASIS**  
**DECEMBER 31, 2022 AND 2021**

	2022	2021
<u>Assets</u>		
Current Assets:		
Cash (Note 3)	\$ 8,556	\$ 13,692
Accounts Receivable, Net (Note 2 and 4)	134,750	112,495
Inventory (Note 2)	29,359	34,824
Prepaid Expenses (Note 2)	14,687	12,451
Total Current Assets	187,352	173,462
Restricted Assets:		
Cash (Note 3)	152,919	173,308
Property & Equipment, Net (Note 2 and 5)	4,677,144	4,968,894
Total Assets	\$ 5,017,415	\$ 5,315,664
<u>Liabilities &amp; Members' Equity</u>		
Current Liabilities:		
Current Portion - Debt (Note 6)	\$ 135,949	\$ 139,717
Cash Overdraft (Note 3)	76,291	70,275
Accounts Payable	54,882	54,452
Due to Mercer Sanitation District	19,145	15,985
Accrued Interest	49,309	54,116
Other Current Liabilities	94,875	84,151
Total Current Liabilities	430,451	418,696
Long - Term Debt (Note 6)	3,543,300	3,675,681
Total Liabilities	3,973,751	4,094,377
Members' Equity:		
Memberships	783,363	765,368
Contributions in Aid of Construction	3,672,807	3,665,469
Retained Deficit	(3,412,506)	(3,209,550)
Total Equity	1,043,664	1,221,287
Total Liabilities & Members' Equity	\$ 5,017,415	\$ 5,315,664

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

**LAKE VILLAGE WATER ASSOCIATION, INC.**  
**STATEMENTS OF OPERATIONS-STATUTORY BASIS**  
**FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**

	<u>2022</u>	<u>2021</u>
Operating Revenue:		
Water Sales	\$ 1,520,436	\$ 1,436,582
Management Fee Income	40,000	37,500
Other Operating Revenue	<u>20,587</u>	<u>23,009</u>
Total Operating Revenue	1,581,023	1,497,091
Operating Expenses	<u>1,373,277</u>	<u>1,219,687</u>
Net Operating Income Before Depreciation	207,746	277,404
Depreciation (Note 2)	<u>293,520</u>	<u>305,813</u>
Net Operating Income (Loss)	(85,774)	(28,409)
Non-Operating Income (Expenses):		
Gain (Loss) on Sale of Assets	-	2,700
Interest Income	676	20
Debt Issuance Costs	(1,000)	-
Interest Expense	<u>(116,858)</u>	<u>(130,222)</u>
Total Non-Operating Income (Expenses):	<u>(117,182)</u>	<u>(127,502)</u>
Net Income (Loss)	<u>\$ (202,956)</u>	<u>\$ (155,911)</u>

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

**LAKE VILLAGE WATER ASSOCIATION, INC.**  
**STATEMENTS OF MEMBERS' EQUITY-STATUTORY BASIS**  
**FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**

	<u>Memberships</u>	<u>Contributions in Aid of Construction</u>	<u>Retained Deficit</u>	<u>Total</u>
Balance at January 1, 2021	\$ 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	765,368	3,665,469	(3,209,550)	1,221,287
2022 Net Loss	-	-	(202,956)	(202,956)
Capital Contribution - Water Loss Surcharge		7,338		7,338
Memberships	<u>17,995</u>	<u>-</u>	<u>-</u>	<u>17,995</u>
Balance at December 31, 2022	<u>\$ 783,363</u>	<u>\$ 3,672,807</u>	<u>\$ (3,412,506)</u>	<u>\$ 1,043,664</u>

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

**LAKE VILLAGE WATER ASSOCIATION, INC.**  
**STATEMENTS OF OPERATING EXPENSES-STATUTORY BASIS**  
**FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**

	<u>2022</u>	<u>2021</u>
Source of Supply Expense:		
Water Purchases	\$ 614,980	\$ 512,295
Total	614,980	512,295
Transmission & Distribution Expense:		
Maintenance & Repairs	<u>74,966</u>	<u>51,467</u>
Total	74,966	51,467
Customer Accounts Expense:		
Supplies & Postage	<u>17,521</u>	<u>17,170</u>
Total	17,521	17,170
Administrative & General:		
Salaries	405,868	370,248
Insurance	36,765	32,193
Utilities	35,417	27,681
Office Supplies & Expense	17,610	19,578
Transportation Expense	19,025	16,514
Payroll Taxes	30,588	27,687
Staff Benefits	44,843	65,708
Legal Expense	3,278	3,783
Audit & Accounting	8,000	6,300
Commissioners' Fees	27,000	27,000
Engineering Fees	3,920	4,060
Miscellaneous General Expense	31,261	34,426
Other Licenses & Taxes	<u>2,235</u>	<u>3,577</u>
Total Administrative & General	<u>665,810</u>	<u>638,755</u>
Total Operating Expenses	<u>\$ 1,373,277</u>	<u>\$ 1,219,687</u>

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



**LAKE VILLAGE WATER ASSOCIATION, INC.**  
**STATEMENTS OF CASH FLOWS-STATUTORY BASIS**  
**FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**

	<u>2022</u>	<u>2021</u>
Cash Flows From Operating Activities		
Net Income (Loss)	\$ (202,956)	\$ (155,911)
Adjustments to Reconcile Net Loss to Net Cash Provided by Operating Activities:		
Depreciation	293,520	305,813
Amortization of Bond Premium and Discount	2,438	720
(Gain) Loss From Sale of Property & Equipment	-	(2,700)
Decrease (Increase) in Accounts Receivable	(22,255)	16,125
Decrease (Increase) in Inventory	5,465	-
Decrease (Increase) in Prepaid Expenses	(2,236)	370
Increase (Decrease) in Accounts Payable	430	5,339
Increase (Decrease) in Due to Sanitation District	3,160	(6,651)
Increase (Decrease) in Accrued Interest	(4,807)	(29,842)
Increase (Decrease) in Other Current Liabilities	<u>10,724</u>	<u>(6,140)</u>
Net Cash Provided By (Used In) Operating Activities	<u>83,483</u>	<u>127,123</u>
Cash Flows From Investing Activities		
Proceeds From Sale of Property & Equipment	-	2,700
Construction/Acquisition of Property & Equipment	<u>(1,770)</u>	<u>(60,531)</u>
Net Cash Provided By (Used In) Investing Activities	<u>(1,770)</u>	<u>(57,831)</u>
Cash Flows From Financing Activities		
Memberships (Tap Fees)	17,995	16,200
Water Loss Surcharge	7,338	-
New Borrowings on Debt	1,000	2,327,752
Payment of Bond Issuance Costs	(1,000)	(83,510)
Principal Payments on Debt	<u>(138,587)</u>	<u>(2,219,266)</u>
Net Cash Provided By (Used In) Financing Activities	<u>(113,254)</u>	<u>41,176</u>
Net Increase (Decrease) in Cash	(31,541)	110,468
Cash at Beginning of Year	<u>116,725</u>	<u>6,257</u>
Cash at End of Year	<u>\$ 85,184</u>	<u>\$ 116,725</u>
Supplemental Disclosure of Cash Flow Information:		
Cash Paid During the Year for Interest	<u>\$ 120,227</u>	<u>\$ 159,344</u>

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

**LAKE VILLAGE WATER ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022 AND 2021**

**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 29, 2023, 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, 2022, the carrying amount of the Association's cash was \$85,184 and the bank balance was \$167,738. 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, 2022 and 2021, all bank balances were covered by federal depository insurance.

**LAKE VILLAGE WATER ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022 AND 2021**

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

		<u>2022</u>	<u>2021</u>
Cash on Hand		\$ 50	\$ 50
Cash on Deposit-Operating Account	A	(76,291)	(70,275)
Cash on Deposit-Revenue Account	B	7,656	9,663
Cash on Deposit-Customer Deposits	C	6,442	12,582
Cash on Deposit-Construction Project	D	1,118	2,320
Savings Accounts:			
Debt Service Account	E	144	17,085
Sinking Fund	F	138,529	134,334
Depreciation Account	G	850	979
Reserve Account	H	3,454	9,987
Water Loss Surcharge	I	3,232	-
<b>TOTAL</b>		<u>\$ 85,184</u>	<u>\$ 116,725</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.
- (I) In accordance with the Association's rate increase in 2022, the Association is required to charge a water loss surcharge of \$1.61 per active meter per month for 48 months to recover the cost of its effort in water leak detection and repair. The funds may not be expended without authorization by the Public Service Commission.

During the year ended December 31, 2021, 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, 2022, but were transferred out to fund operations.

**LAKE VILLAGE WATER ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022 AND 2021**

**4. Accounts Receivable**

Accounts receivable aging at December 31, 2022 and 2021 was as follows:

	2022	2021
Current	\$ 134,454	\$ 118,939
30-59 Days	7,717	5,489
60-89 Days	2,298	(561)
Over 90 Days	(1,586)	(745)
Less: Allowance	(8,133)	(10,627)
Accounts Receivable, Net	\$ 134,750	\$ 112,495

Accounts receivable at December 31, 2020, was \$128,620.

**5. Property and Equipment**

Property and equipment consists of the following at December 31:

	2022	2021
Land	\$ 62,409	\$ 62,409
Buildings & Improvements	141,085	141,085
Supply Mains	22,085	22,085
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	200,880
Other Equipment	83,968	83,968
Other Tangible Plant	223,235	223,235
Construction in Process	214,680	212,910
Total	11,439,288	11,437,518
Less: Accumulated Depreciation	(6,762,144)	(6,468,624)
Property & Equipment, Net	\$ 4,677,144	\$ 4,968,894

**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. This note was renewed again in the amount of \$105,000 with the entire principal balance due on February 1, 2024. 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.

**LAKE VILLAGE WATER ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022 AND 2021**

The following debt obligations were outstanding at December 31, 2022 and 2021:

	2022	2021
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.	\$ 795,000	\$ 855,000
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.	615,433	625,155
Note payable - Kentucky Rural Water Finance Corporation Flexible Term Finance Program, \$105,000. Fixed interest rate at 2.25%. Interest payments are due semi-annually. Balloon principal payment is due at maturity, which is February 1, 2024.	105,000	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.	2,200,000	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.	4,798	23,663
Total Outstanding Bonds	3,720,231	3,857,818
Bond issuance costs	(79,334)	(82,118)
Bond Premium	38,352	39,698
LESS: Current Portion	(135,949)	(139,717)
Long-Term Debt	\$ 3,543,300	\$ 3,675,681

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
2023	\$ 135,949
2024	241,457
2025	136,772
2026	147,096
2027	132,429
2028-2032	732,463
2033-2037	622,263
2038-2042	553,487
2043-2047	606,343
2048-2051	306,065
2052-2056	105,907
Total	\$ 3,720,231

## **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.

**LAKE VILLAGE WATER ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022 AND 2021**

**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.

	2022	2021
(B) Active Meter Customers - December 31,	2,344	2,328
(C) Water Loss (Gallons):		
Water Purchases	227,413,273	190,093,244
Water Sold and Used in Operations	154,613,100	153,350,100
Line loss	72,800,173	36,743,144
Percentage of Line Loss	32.01%	19.33%

**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 and again in 2022 in the amount of \$105,000. As of December 31, 2022, there were no remaining funds to be drawn down on this loan. As of December 31, 2022, \$194,146, 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, 2022, 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. In November 2022, the Association received a conditional commitment letter from Kentucky Infrastructure Authority for grant funds in the amount of \$350,000 awarded for the Contract 14 project. As of the date of this report, the project scope was reduced to meet the funding estimates of the project and the application for approval with the Public Service Commission is in process. Construction is expected to commence in May 2023 and be completed in January 2024.

**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 year ended December 31, 2022, the Association approved an eight percent contribution, totaling approximately \$32,500. For the year ended December 31, 2021, the Association did not approve a discretionary contribution 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, 2022, 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 29, 2023.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Association's internal control over financial reporting (internal control) 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 matters that are 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 29, 2023