

LAKE VILLAGE WATER ASSOCIATION, INC.

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2023 AND 2022

KERBAUGH, RODES & BUTLER, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

DANVILLE, KENTUCKY

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Kerbaugh, Rodes & Butler, PLLC

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

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, 2023 and 2022, 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, 2023 and 2022, 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. 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2024, on our consideration of the Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 28, 2024

LAKE VILLAGE WATER ASSOCIATION, INC.
STATEMENTS OF ASSETS, LIABILITIES, AND MEMBERS' EQUITY-STATUTORY BASIS
DECEMBER 31, 2023 AND 2022

	2023	2022
<u>Assets</u>		
Current Assets:		
Cash (Note 3)	\$ 82,134	\$ 8,556
Accounts Receivable, Net (Note 2 and 4)	167,940	134,750
Grant Receivable	302,840	-
Inventory (Note 2)	51,329	29,359
Prepaid Expenses (Note 2)	9,212	14,687
Total Current Assets	613,455	187,352
Restricted Assets:		
Cash (Note 3)	255,007	152,919
Property & Equipment, Net (Note 2 and 5)	6,224,921	4,677,144
Total Assets	\$ 7,093,383	\$ 5,017,415
<u>Liabilities & Members' Equity</u>		
Current Liabilities:		
Current Portion - Debt (Note 6)	\$ 151,134	\$ 135,949
Cash Overdraft (Note 3)	62,392	76,291
Accounts Payable	64,210	54,882
Accounts Payable - Contractors	580,043	-
Due to Mercer Sanitation District	21,878	19,145
Accrued Interest	57,902	49,309
Other Current Liabilities	105,506	94,875
Total Current Liabilities	1,043,065	430,451
Long - Term Debt (Note 6)	4,635,371	3,543,300
Total Liabilities	5,678,436	3,973,751
Members' Equity:		
Memberships	803,053	783,363
Contributions in Aid of Construction	4,049,477	3,672,807
Retained Deficit	(3,437,583)	(3,412,506)
Total Equity	1,414,947	1,043,664
Total Liabilities & Members' Equity	\$ 7,093,383	\$ 5,017,415

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, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
Operating Revenue:		
Water Sales	\$ 1,731,017	\$ 1,520,436
Management Fee Income	40,350	40,000
Other Operating Revenue	<u>22,509</u>	<u>20,587</u>
Total Operating Revenue	1,793,876	1,581,023
Operating Expenses	<u>1,427,458</u>	<u>1,373,277</u>
Net Operating Income Before Depreciation	366,418	207,746
Depreciation (Note 2)	<u>287,682</u>	<u>293,520</u>
Net Operating Income (Loss)	78,736	(85,774)
Non-Operating Income (Expenses):		
Interest Income	7,051	676
Other Income (Expenses)	12,301	-
Debt Issuance Costs	-	(1,000)
Interest Expense	<u>(123,165)</u>	<u>(116,858)</u>
Total Non-Operating Income (Expenses):	<u>(103,813)</u>	<u>(117,182)</u>
Net Income (Loss)	<u>\$ (25,077)</u>	<u>\$ (202,956)</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, 2023 AND 2022

	Memberships	Contributions in Aid of Construction	Retained Deficit	Total
Balance at January 1, 2022	\$ 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	17,995	-	-	17,995
Balance at December 31, 2022	783,363	3,672,807	(3,412,506)	1,043,664
2023 Net Loss	-	-	(25,077)	(25,077)
Capital Contribution - Government		332,500		332,500
Water Loss Surcharge		44,170		44,170
Memberships	19,690	-	-	19,690
Balance at December 31, 2023	\$ 803,053	\$ 4,049,477	\$ (3,437,583)	\$ 1,414,947

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, 2023 AND 2022

	2023	2022
Source of Supply Expense:		
Water Purchases	\$ 612,597	\$ 614,980
Total	612,597	614,980
Transmission & Distribution Expense:		
Maintenance & Repairs	46,594	74,966
Total	46,594	74,966
Customer Accounts Expense:		
Supplies & Postage	20,629	17,521
Total	20,629	17,521
Administrative & General:		
Salaries	448,324	405,868
Insurance	40,800	36,765
Utilities	31,416	35,417
Office Supplies & Expense	15,525	17,610
Transportation Expense	17,578	19,025
Payroll Taxes	34,110	30,588
Staff Benefits	78,028	44,843
Legal Expense	3,743	3,278
Audit & Accounting	8,350	8,000
Commissioners' Fees	27,000	27,000
Engineering Fees	4,550	3,920
Miscellaneous General Expense	36,156	31,261
Other Licenses & Taxes	2,058	2,235
Total Administrative & General	747,638	665,810
Total Operating Expenses	\$ 1,427,458	\$ 1,373,277

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, 2023 AND 2022

	2023	2022
Cash Flows From Operating Activities		
Net Income (Loss)	\$ (25,077)	\$ (202,956)
Adjustments to Reconcile Net Loss to Net Cash Provided by Operating Activities:		
Depreciation	287,682	293,520
Amortization of Bond Premium and Discount	1,438	2,438
Decrease (Increase) in Accounts Receivable	(33,190)	(22,255)
(Increase) Decrease in Grant receivable	(302,840)	-
Decrease (Increase) in Inventory	(21,970)	5,465
Decrease (Increase) in Prepaid Expenses	5,475	(2,236)
Increase (Decrease) in Accounts Payable	9,328	430
Increase (Decrease) in Due to Sanitation District	2,733	3,160
Increase (Decrease) in Accrued Interest	8,593	(4,807)
Increase (Decrease) in Other Current Liabilities	10,631	10,724
Net Cash Provided By (Used In) Operating Activities	(57,197)	83,483
Cash Flows From Investing Activities		
Construction/Acquisition of Property & Equipment	(1,255,416)	(1,770)
Net Cash Provided By (Used In) Investing Activities	(1,255,416)	(1,770)
Cash Flows From Financing Activities		
Memberships (Tap Fees)	19,690	17,995
Water Loss Surcharge	44,170	7,338
New Borrowings on Debt	1,351,271	1,000
Capital Grants Received	332,500	-
Payment of Bond Issuance Costs	-	(1,000)
Principal Payments on Debt	(245,453)	(138,587)
Net Cash Provided By (Used In) Financing Activities	1,502,178	(113,254)
Net Increase (Decrease) in Cash	189,565	(31,541)
Cash at Beginning of Year	85,184	116,725
Cash at End of Year	\$ 274,749	\$ 85,184
Reconciliation of Cash to the Statements of Assets, Liabilities, and Members' Equity:		
Unrestricted cash	\$ 82,134	\$ 8,556
Restricted cash	255,007	152,919
Cash overdraft	(62,392)	(76,291)
Total Cash	\$ 274,749	\$ 85,184
Supplemental Disclosure of Cash Flow Information:		
Cash Paid During the Year for Interest	\$ 113,134	\$ 120,227
Supplemental Disclosure of Non-Cash Investing Activities:		
Property & Equipment Acquired and Included in Accounts Payable - Contractors	\$ 580,043	\$ -
Supplemental Disclosure of Non-Cash Non-Capital Financing and Investing Activities:		
Amortization of bond issuance costs	\$ 2,784	\$ 2,784
Amortization of bond premium	\$ 1,346	\$ 1,346

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

LAKE VILLAGE WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

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 28, 2024, 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, 2023, the carrying amount of the Association's cash was \$274,749 and the bank balance was \$344,125. 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, 2023 and 2022, all bank balances were covered by federal depository insurance.

LAKE VILLAGE WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

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

		<u>2023</u>	<u>2022</u>
Cash on Hand		\$ 50	\$ 50
Cash on Deposit-Operating Account	A	(62,392)	(76,291)
Cash on Deposit-Revenue Account	B	7,579	7,656
Cash on Deposit-Customer Deposits	C	10,403	6,442
Cash on Deposit-Construction Project	D	95	1,118
Savings Accounts:			
Debt Service Account	E	32,932	144
Sinking Fund	F	147,502	138,529
Depreciation Account	G	74,505	850
Reserve Account	H	17,136	3,454
Water Loss Surcharge	I	46,939	3,232
TOTAL		<u>\$ 274,749</u>	<u>\$ 85,184</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, 2022, the required transfers were made during the year ended December 31, 2023, but were transferred out to fund operations. The required transfers were made during the year ended December 31, 2023.

LAKE VILLAGE WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

4. Accounts Receivable

Accounts receivable aging at December 31, 2023 and 2022 was as follows:

	2023	2022
Current	\$ 167,731	\$ 134,454
30-59 Days	8,711	7,717
60-89 Days	639	2,298
Over 90 Days	(1,008)	(1,586)
Less: Allowance	(8,133)	(8,133)
Accounts Receivable, Net	\$ 167,940	\$ 134,750

Accounts receivable at December 31, 2021, was \$112,495.

5. Property and Equipment

Property and equipment consists of the following at December 31:

	2023	2022
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	240,241	200,880
Other Equipment	83,968	83,968
Other Tangible Plant	223,235	223,235
Construction in Process	2,010,778	214,680
Total	13,274,747	11,439,288
Less: Accumulated Depreciation	(7,049,826)	(6,762,144)
Property & Equipment, Net	\$ 6,224,921	\$ 4,677,144

6. Long-Term Debt

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 was \$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 was paid off during the year ended December 31, 2023.

LAKE VILLAGE WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

The following debt obligations were outstanding at December 31, 2023 and 2022:

	2023	2022
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.	\$ 735,000	\$ 795,000
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.	603,294	615,433
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. The loan was paid in full during the year ended December 31, 2023.	-	105,000
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.	2,140,000	2,200,000
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
Loan 91-12 - 2.375% promissory note payable to the Department of Agriculture, Rural Development. The loan is in the draw phase so principal and interest payments have not yet been amortized.	1,321,429	-
Truck Note Payable - Farmer's National Bank, \$29,842. Fixed interest rate at 6.85% due in monthly installments of \$1,335, including principal and interest through September 19, 2025.	26,327	-
Total Outstanding Bonds	4,826,050	3,720,231
Bond issuance costs	(76,551)	(79,334)
Bond Premium	37,006	38,352
LESS: Current Portion	(151,134)	(135,949)
Long-Term Debt	\$ 4,635,371	\$ 3,543,300

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

During 2023, the Association began making draws on the RD Loan 91-12. The loan is for an amount not to exceed \$2,089,290, bearing interest at 2.375% with a term of 40 years. The loan is still in the draw phase and therefore is not included in the schedule of maturities below.

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

Year Ending December 31,	Amount
2024	\$ 151,134
2025	148,422
2026	147,096
2027	132,429
2028	137,771
2029-2033	754,318
2034-2038	569,388
2039-2043	560,920
2044-2048	574,130
2049-2052	224,094
2053-2057	104,919
Total	\$ 3,504,621

LAKE VILLAGE WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

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.

	2023	2022
(B) Active Meter Customers - December 31,	2,341	2,344
(C) Water Loss (Gallons):		
Water Purchases	212,280,008	227,413,273
Water Sold and Used in Operations	164,305,000	154,613,100
Line loss	47,975,008	72,800,173
Percentage of Line Loss	22.60%	32.01%

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

Construction on the Association's Contract 14 Project began during the year ended December 31, 2023. The total Contract 14 Project cost was originally estimated to be \$2,089,290. Rising cost of materials caused this project to be delayed and the scope modified. The total estimated costs of the project are now \$2,551,174. The funding sources and project costs through December 31, 2023 are as follows:

	Funding Source	Total Costs through December 31, 2023
Rural Development Loan	\$ 2,089,290	\$ 1,598,632
KIA CWP Grant	147,525	140,149
KIA CWP Grant	237,475	192,351
Association Funds	77,424	35,386
Total	\$ 2,551,714	\$ 1,966,518

\$277,203 of the costs funded by the Rural Development Loan had not been drawn down on the loan as of December 31, 2023.

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.

LAKE VILLAGE WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

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, 2023, the Association approved an eight percent contribution, totaling approximately \$35,900. For the year ended December 31, 2022, the Association approved an eight percent contribution, totaling approximately \$32,500.

COMPLIANCE SECTION

LAKE VILLAGE WATER ASSOCIATION, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2023

<u>Grant/Program Title</u>	<u>Federal Assistance Listing Number</u>	<u>Contract Number</u>	<u>Expenditures</u>	<u>Passed Through To Subrecipients</u>
A. U.S. Department of Agriculture Rural Development:				
Direct:				
RUS Loan	10.760		\$ 1,420,205	\$ -
			<u>1,420,205</u>	<u>-</u>
B. U.S. Department of the Treasury:				
Passed through Commonwealth of Kentucky,				
Kentucky Infrastructure Authority:				
COVID 19 - Coronavirus State and Local Fiscal Recovery Funds	21.027	21CWW149	140,149	-
COVID 19 - Coronavirus State and Local Fiscal Recovery Funds	21.027	21CWW003	192,351	-
			<u>332,500</u>	<u>-</u>
			<u>\$ 1,752,705</u>	<u>\$ -</u>

See accompanying notes to schedule of expenditures of federal awards.

LAKE VILLAGE WATER ASSOCIATION, INC.
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2023

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (schedule) includes the federal award activity of the Association and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operation of the Association, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Association.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Association has elected not to use the 10 percent de-minimis indirect cost rate as allowed under the Uniform Guidance.

Kerbaugh, Rodes & Butler, PLLC

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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, 2023, 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 28, 2024.

Report on 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 identified a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as items 2023-001 that we consider to be a material weakness.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Association's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and

accordingly, we do not express such an opinion. The results of our tests disclosed 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 28, 2024

Kerbaugh, Rodes & Butler, PLLC

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors
Lake Village Water Association, Inc.

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Lake Village Water Association's (the Association's) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the Association's major federal programs for the year ended December 31, 2023. The Association's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Association complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Association and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Association's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Association's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Association's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material

noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Association's compliance with the requirements of each major federal program as a whole.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 Association's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Association's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Kerbaugh, Rodes & Butler, PLLC

Kerbaugh, Rodes & Butler, PLLC
Certified Public Accountants

Danville, Kentucky
March 28, 2024

**LAKE VILLAGE WATER ASSOCIATION, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2023**

Section I-Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes
- Significant deficiency(ies) identified that are not considered to be material weaknesses? None reported

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? None reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.760	U.S. Department of Agriculture Water and Waste Disposal Systems for Rural Communities

Dollar threshold used to distinguish Between type A and type B programs: \$ 750,000

Auditee qualified as low-risk auditee? No

**LAKE VILLAGE WATER ASSOCIATION, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2023**

Section II – Financial Statement Findings

2023-001 - The Association should have internal controls in place that enable it to prepare complete financial statements (recurring)

Criteria: The Association is required to have internal controls in place that enable it to prepare complete financial statements, including note disclosures, in accordance with the statutory basis of accounting described in Note 2 to the financial statements.

Condition: Management engaged the auditor to prepare draft financial statements, including the related notes to the financial statements.

Cause: The Association lacks personnel with the expertise to draft the financial statements, including the related note disclosures, in accordance with the statutory basis of accounting described in Note 2 to the financial statements.

Effect: The auditor prepared draft financial statements, including the related notes to the financial statements. Management reviewed, approved and accepted responsibility for the financial statements prior to their issuance.

Recommendation: We recommend management review the costs and benefits involved to retain a consultant with the required expertise to prepare the financial statements.

Response: Management has determined that it is more cost effective to continue to engage the auditor to draft the financial statements and related notes. Management has reviewed and accepts responsibility for the financial statements.

Section III – Federal Award Findings and Questioned Costs

No matters were reported.

Section IV – Prior Year Audit Findings

Prior year financial statement finding related to preparation of financial statements in accordance with the statutory basis of accounting described in Note 2 to the financial statements. Management has determined that the addition of an employee to prepare its year-end financial statements would not be cost effective. Therefore, the finding related to preparing financial statements was repeated in the current year as finding 2023-001.