

Levee Road Water Association, Inc.

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Financial Statements and  
Independent Auditor's Report  
December 31, 2020

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Independent Auditor's Report

To the Board of Directors  
Levee Road Water Association

***Report on the Financial Statements***

We have audited the accompanying financial statements of Levee Road Water Association, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2020, and the related statements of activities, functional expenses, changes in net assets and cash flows for the year then ended, and the related notes to the financial statements.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's

internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Levee Road Water Association, Inc. as of December 31, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2021 on our consideration of Levee Road Water Association, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 Levee Road Water Association, Inc.'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 Levee Road Water Association, Inc.'s internal control over financial reporting and compliance.

***Faulkner, King & Wenz, PSC***

October 15, 2021

**LEVEE ROAD WATER ASSOCIATION  
STATEMENT OF FINANCIAL POSITION  
DECEMBER 31, 2020**

**ASSETS**

	<b>2020</b>
<b>CURRENT ASSETS</b>	
Cash and cash equivalents	\$ 539
Unbilled water revenue	5,496
Accounts receivable, net of allowance for doubtful accounts of \$44,761	22,475
Prepaid expenses	2,632
TOTAL CURRENT ASSETS	31,142
<b>OTHER ASSETS</b>	
Cash restricted due to loan covenants	35,725
Prepaid expenses	2,500
TOTAL OTHER ASSETS	38,225
<b>PROPERTY AND EQUIPMENT</b>	
Water system	2,457,192
Vehicles	20,984
Equipment	32,787
	2,510,963
Less accumulated depreciation	(1,475,391)
Net property and equipment	1,035,572
 <b>TOTAL ASSETS</b>	 <b>\$ 1,104,939</b>

## LIABILITIES AND NET ASSETS

	<u>2020</u>
<b>CURRENT LIABILITIES</b>	
Accounts payable	\$ 17,084
Taxes and benefits payable	1,129
Water deposits payable	10,304
Accrued interest payable	1,685
Current portion of long-term debt	<u>6,643</u>
TOTAL CURRENT LIABILITIES	<u>36,845</u>
<b>LONG-TERM LIABILITIES</b>	
Long-term debt	<u>55,401</u>
<b>TOTAL LIABILITIES</b>	<u>92,246</u>
<b>NET ASSETS</b>	
Without donor restrictions - general	(1,080,847)
Without donor restrictions - contributed capital	2,057,815
With donor restrictions	<u>35,725</u>
TOTAL NET ASSETS	<u>1,012,693</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 1,104,939</u></u>

**LEVEE ROAD WATER ASSOCIATION  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2020**

	<b>2020</b>
<b>OPERATING INCREASES IN NET ASSETS WITHOUT DONOR RESTRICTIONS</b>	
Water sales	\$ 261,973
Meter sets	14,116
Miscellaneous income	10,717
	<b>286,806</b>
<b>OPERATING DECREASES IN NET ASSETS WITHOUT DONOR RESTRICTIONS</b>	
Water purchased	176,143
Supplies	11,962
Salaries and payroll taxes	49,381
Directors fees	5,900
Office supplies	1,273
Data processing fees	201
Testing and lab fees	2,193
Insurance	1,914
Telephone and utilities	5,216
Professional services	2,650
General expense	300
Dues and subscriptions	1,320
Repairs and maintenance	19,494
Rent	6,990
Postage	2,922
Provision for bad debts	5,757
<b>TOTAL OPERATING DECREASES IN NET ASSETS WITHOUT DONOR RESTRICTIONS</b>	<b>293,616</b>
<b>OPERATING DECREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS BEFORE DEPRECIATION</b>	<b>(6,810)</b>
Depreciation	<b>(65,420)</b>
<b>OPERATING DECREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS</b>	<b>(72,230)</b>
<b>NONOPERATING INCREASES (DECREASES) IN NET ASSETS WITHOUT DONOR RESTRICTIONS</b>	
Interest income	144
Interest expense	<b>(3,631)</b>
	<b>(3,487)</b>
<b>NET DECREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS</b>	<b>\$ (75,717)</b>

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

**LEVEE ROAD WATER ASSOCIATION  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2020**

<b>EXPENSES</b>	<b>Program Services</b>	<b>Management &amp; General</b>	<b>Total</b>
Water purchased	\$ 176,143	\$ -	\$ 176,143
Supplies	11,962		11,962
Salaries and payroll taxes	18,481	30,900	49,381
Directors fees		5,900	5,900
Office supplies	636	637	1,273
Data processing fees	201		201
Testing	2,193		2,193
Insurance	957	957	1,914
Telephone and utilities	2,608	2,608	5,216
Professional services		2,650	2,650
General expense	150	150	300
Dues and subscriptions	660	660	1,320
Repairs and maintenance	19,494		19,494
Rent	3,495	3,495	6,990
Postage	2,922		2,922
Provision for bad debts	5,757		5,757
Depreciation	65,420		65,420
Interest expense	3,631		3,631
<b>TOTAL EXPENSES</b>	<b>\$ 314,710</b>	<b>\$ 47,957</b>	<b>\$ 362,667</b>

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



**LEVEE ROAD WATER ASSOCIATION  
STATEMENT OF CHANGES IN NET ASSETS  
FOR THE YEAR ENDED DECEMBER 31, 2020**

	Net Assets Without Donor Restrictions - General	Net Assets Without Donor Restrictions - Contributed Capital Members	Net Assets Without Donor Restrictions - Contributed Capital Projects	Net Assets With Donor Restrictions	Total
<b>Balances, January 1, 2020</b>	<b>\$ (1,008,455)</b>	<b>\$ 473,495</b>	<b>\$ 1,570,204</b>	<b>\$ 53,166</b>	<b>\$ 1,088,410</b>
Net change in net assets without donor restrictions	(75,717)	-	-	-	(75,717)
Transfer to net assets without donor restrictions- contributed capital members	(14,116)	14,116	-	-	-
Transfer to net assets without donor restrictions	17,441	-	-	(17,441)	-
Contributions	-	-	-	-	-
<b>Balances, December 31, 2020</b>	<b><u>\$ (1,080,847)</u></b>	<b><u>\$ 487,611</u></b>	<b><u>\$ 1,570,204</u></b>	<b><u>\$ 35,725</u></b>	<b><u>\$ 1,012,693</u></b>

The accompanying notes are an integral part of the financial statements

**LEVEE ROAD WATER ASSOCIATION  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2020**

	<b>2020</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Operating decrease in net assets without donor restrictions	\$ (72,230)
Adjustments to reconcile operating change in net assets without donor restrictions to net cash provided by operating activities:	
Depreciation expense	65,420
Provision for bad debts	5,757
Changes in operating assets and liabilities:	
Accounts receivable	(6,587)
Unbilled receivable	647
Prepaid expenses and other current assets	(2,132)
Accounts payable	(477)
Taxes and benefits payable	(734)
Water deposits payable	2,360
	<b>(7,976)</b>
<b>CASH USED FOR OPERATING ACTIVITIES</b>	
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Acquisition and construction of capital assets	-
Interest paid on RD loans	(4,282)
Principal payments on borrowings	(6,222)
	<b>(10,504)</b>
<b>CASH USED FOR FINANCING ACTIVITIES</b>	
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest income received	144
	<b>144</b>
<b>CASH PROVIDED BY INVESTING ACTIVITIES</b>	
<b>NET DECREASE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH</b>	<b>(18,336)</b>
<b>CASH, CASH EQUIVALENTS, AND RESTRICTED CASH AT BEGINNING OF YEAR</b>	<b>54,600</b>
<b>CASH, CASH EQUIVALENTS, AND RESTRICTED CASH AT END OF YEAR</b>	<b>\$ 36,264</b>
<b>TOTAL CASH, CASH EQUIVALENTS, AND RESTRICTED CASH CONSISTS OF:</b>	
Cash and cash equivalents	\$ 539
Cash restricted due to loan covenants	35,725
	<b>\$ 36,264</b>

**LEVEE ROAD WATER ASSOCIATION, INC**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020**

**Note 1 - Significant Accounting Policies**

**Introduction:**

Levee Road Water Association, Inc. (the Association) is a water utility which operates in Montgomery County, Kentucky, and its sales are primarily to residential customers. The Association was incorporated July 20, 1970 as a nonstock, nonprofit corporation formed under the provisions of Chapter 273 of the Kentucky Revised Statutes (KRS).

**Regulation Requirements:**

The Association is subject to the regulatory authority of the Kentucky Public Service Commission (PSC) pursuant to KRS 278.040.

**Basis of Accounting:**

The accrual basis of accounting is used for financial statement reporting purposes.

**Basis of presentation:**

Financial statement presentation follows the recommendations of the ASU 2016-14, (formerly Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-for-Profit Organizations" and later known as ASC 958-205-05). Under ASU 2016-14, the Association is required to report information regarding its financial position and activities according to two classes of net assets: net assets with donor restrictions or net assets without donor restrictions.

**Cash and Cash Equivalents:**

For purposes of the statement of cash flows, the Association considers all highly liquid debt instruments purchased with a maturity of one year or less to be cash equivalents.

The Association's deposits at December 31, 2020 were entirely covered by federal depository insurance.

**Property, plant and equipment:**

Property, plant and equipment are stated at original cost. The cost of repairs and maintenance is charged to the proper expense account as incurred. Property replacements are capitalized and retirements are charged to the proper plant account and depreciation provision.

The thresholds for capitalization are:

Buildings and grounds	\$5,000
Building improvements	\$2,000
Water systems	\$3,000
Land	\$5,000
Vehicles and equipment	\$1,000

**LEVEE ROAD WATER ASSOCIATION, INC**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020**

**Note 1 - Significant Accounting Policies (Continued)**

**Purchased Water Costs:**

Water purchases are charged to expense as delivered to the distribution system. The Association is economically dependent on Mt. Sterling Water and Sewer System as the sole supplier of water.

**Depreciation:**

Depreciation is applied on the straight-line method over the estimated useful life of the asset and is recognized in accordance with ASC 958-360-05 (formerly SFAS No. 93, "Recognition of Depreciation by Not-for-Profit Organizations"). The range of useful lives used in computing depreciation is:

<u>Classification</u>	<u>Range of lives</u>
Buildings and grounds	20-40 years
Building improvements	20-40 years
Water systems	10-30 years
Office equipment	7-10 years
Other equipment	7 years
Vehicles	5 years

Total depreciation expense was \$65,420 for the year ended December 31, 2020.

**Contributed Capital:**

Water tap-on fees, donated water lines and grant proceeds are recognized as revenue in the periods received and then reflected as contributed capital in the Statements of Net Assets. Such funds are used in financing capital additions and improvements to the water system.

**Estimates:**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Account Receivable:**

Accounts receivable are stated at the amounts management expects to collect from outstanding charges for water sales less an allowance for doubtful accounts of \$44,761 in 2020.

**LEVEE ROAD WATER ASSOCIATION, INC**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020**

**Note 1 - Significant Accounting Policies (Continued)**

The following table presents the balance in the allowance for doubtful accounts as of December 31, 2020:

	2020
Allowance for Doubtful Accounts:	
Beginning balance	\$39,004
Net Charge-offs	(0)
Provision	5,757
Ending balance	\$44,761
Accounts receivable balances before allowance for doubtful accounts:	
Beginning of year	\$ 55,722
End of year	\$ 67,236

**Revenue Recognition:**

Revenue from sales of water and from tap-on fees for new service addresses are exchange transactions and are recognized in the period in which the water is provided to the customer or meters are installed, similar to accounting policies for business enterprises. Customers are billed monthly and payment is expected within 30 days. Revenue from exchange transactions should be recorded as deferred revenue to the extent that it has not been earned, although such instances would be rare for the Association.

**Capitalized interest:**

The Association follows the policy of capitalizing interest as a component of construction cost.

**Income Tax Status:**

The Association is a nonprofit tax-exempt organization as prescribed by Internal Revenue Code, Section 501 c (12). Accordingly, the financial statements include no provision for income taxes.

The Accounting Standards Codification (ASC) 740-10-50, (formerly the Financial Accounting Standards Board Interpretation (FIN 48), *Accounting for Uncertainty in Income Taxes*) requires entities to disclose known or anticipated positions of income tax uncertainty. The Association is not aware of any uncertain income tax positions as of October 15, 2021. The Association has never been audited by the Internal Revenue Service (IRS). However, the tax years of 2017 forward could be subject to examination by the IRS or other applicable tax jurisdictions.

**LEVEE ROAD WATER ASSOCIATION, INC**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020**

**Note 2 - Utility Plant in Service**

The cost of Water System assets is summarized below by major categories:

Water towers	\$ <u>2020</u> 642,111
Transmission and distribution mains	1,265,634
Meters and meter installations	<u>549,447</u>
Total cost	<u>\$2,457,192</u>

**Note 3 - Long-Term Debt**

Long-term debt at December 31, 2020 consists of the following:

	<u>2020</u>	
	<u>Current</u>	<u>Noncurrent</u>
Rural Development, dated November 6, 1985, annual payment due each November, with interest rate of 7%, interest and principal payment of \$7,808, final payment due November 6, 2025	\$5,373	\$29,506
Rural Development, dated January 30, 1995, annual payment due each January, with interest rate of 5.25%, interest and principal payment of \$2,696, final payment due January, 2035	<u>1,270</u>	<u>25,895</u>
Total	<u>\$6,643</u>	<u>\$ 55,401</u>

The loans are secured by statutory mortgage liens on the water supply and distribution system as well as all present and future contract rights, accounts receivable, and general intangibles of the Association and is subject to early redemption by the Association prior to maturity. The loan agreements also outline various compliance requirements.

**LEVEE ROAD WATER ASSOCIATION, INC**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020**

**Note 3 - Long-Term Debt (Continued)**

Installments due for principal and interest for each of the next five years and in total are as follows:

Years ended December 31	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021 (included in current liabilities)	\$ 6,643	\$ 3,861	\$ 10,504
2022	7,080	3,424	10,504
2023	7,552	2,952	10,504
2024	8,055	2,449	10,504
2025	8,593	1,911	10,504
Later years	<u>24,121</u>	<u>6,370</u>	<u>30,491</u>
Total	<u>\$ 62,044</u>	<u>\$ 20,967</u>	<u>\$ 83,011</u>

**Note 4 - Special Funds and Restrictions**

The debt agreements with Rural Development require the following accounts be maintained by the utility as long as any outstanding debt remains:

General account - All operating funds received shall be deposited in this account. Funds will be used for operating and maintenance expenses and will be transferred to other accounts as needed.

Funded depreciation reserve account - The Association is required to deposit \$150 monthly into this account. These funds may be used for debt service or for unusual repairs or improvements if proper approvals are obtained and no funds are available in the general account. The balance as of December 31, 2020 was \$24,507.

Debt service reserve account - Required deposits of \$1,500 are to be made monthly into this account. Funds are to be used to make payments on Rural Development notes payable. The balance in this reserve account was \$11,218 as of December 31, 2020.

**Note 5 - Liquidity and Availability of Financial Assets**

The following reflects the Association's financial assets as of December 31, 2020, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the balance sheet date.

	<u>2020</u>
Financial assets at year-end	\$64,235
Less those unavailable for general expenditures within one year, due to:	
Donor-restricted due to payment of long-term debt	<u>(35,725)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$28,510</u>

**LEVEE ROAD WATER ASSOCIATION, INC**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020**

**Note 6 - Commitments and Contingencies**

The Association has received grants from Rural Development, Appalachian Regional Commission, Housing and Urban Development, and Kentucky Infrastructure Authority in connection with the construction of water lines and towers. These grants require the fulfillment of certain conditions as set forth in the terms of the grant. Management is not aware of any violations of these conditions.

**Note 7 - Concentration of Credit Risk**

The Association sells water to residential, agricultural, and commercial customers in much of rural Montgomery County, Kentucky, and is subject to the credit risks associated with serving an agricultural based area.

**Note 8 - Risk Management**

The Association is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In addition to its general liability insurance, the Association also carries commercial insurance for all other risks of losses such as workers compensation. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past five fiscal years.

**Note 9 - Cost Allocation**

The statement of functional expenses report certain categories of expenses that are partially attributable to Program Services (water sales and distribution) as well as the Management and General function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include compensation and benefits for management and some office personnel, which are allocated based on estimates of time expended for each function. Additionally, some office and general expenses and cell phone expenses are allocated based on management's estimates.

**Note 10 - Payroll Protection Program Funds**

On April 29, 2020, Levee Road Water Association, Inc. received a loan in the amount of \$9,200 under the Payroll Protection Program (PPP Loan). The PPP Loan has a 2 year term and bears interest at an annual interest rate of 1%. Monthly principal and interest payments are deferred for 10 months, and the maturity date is April 29, 2022.



**LEVEE ROAD WATER ASSOCIATION, INC**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020**

**Note 10 - Payroll Protection Program Funds (Continued)**

Under the terms of the CARES Act, PPP Loan recipients can apply for, and be granted forgiveness for, all or a portion of the PPP Loan and accrued interest. Such forgiveness will be determined, subject to limitations, based on the use of the PPP Loan proceeds for payment of payroll costs and any payments of mortgage interest, rent, utilities, and retention of employees and maintaining salary levels. However, no assurance is provided that forgiveness for any portion of the PPP Loan will be obtained.

As of October 14, 2020, Levee Road Water Association, Inc. had used the full amount received to fund eligible payroll expenses under the terms of the PPP Loan. On May 5, 2021, the Association received notice from the SBA approving full forgiveness of this loan along with forgiveness of all accrued interest to date. The forgiveness of the PPP Loan proceeds as of December 31, 2020 has been recognized as miscellaneous income on the statement of activities.

**Note 11 - Subsequent Events**

On March 11, 2020, the World Health Organization declared the coronavirus (COVID-19) outbreak to be a global pandemic. COVID-19 continues to spread across the globe and is impacting worldwide economic activity. The continued spread of the disease represents a significant risk that operations could be disrupted in the near future. The extent to which COVID-19 impacts Levee Road Water Association, Inc. will depend upon future developments, which are uncertain and cannot be predicted. As a result, Levee Road Water Association, Inc. has not yet determined the impact this disruption may have on its financial statements for the year ending December 31, 2021.

On March 26, 2021, Levee Road Water Association, Inc. requested a draw of \$230,305 from the United States Department of Agriculture Rural Development loan. The loan was made for expenses related to the purchase of land and building for a new office building and new water lines and meters. Through the date of this report, October 15, 2021, Levee Road Water Association, Inc. has requested an additional \$528,156. The total loan commitment is for \$1,050,000.

Subsequent events for Levee Road Water Association, Inc. have been evaluated through October 15, 2021, which is the date the financial statements were available to be issued.

**FAULKNER, KING & WENZ, PSC**  
**CERTIFIED PUBLIC ACCOUNTANTS**

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON  
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors  
Levee Road Water Association

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Levee Road Water Association, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2020, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 15, 2021.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Levee Road Water Association, Inc.'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Levee Road Water Association, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Levee Road Water Association, Inc.'s internal control.

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

Our consideration of 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.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Levee Road Water Association, Inc.'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*

**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 result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

***Faulkner, King & Wenz, PSC***

October 15, 2021