



2023

LYON & SIOUX RURAL WATER SYSTEM, INC.

Independent Auditor's Reports
Basic Financial Statements
Supplementary Information
Schedule of Findings

December 31, 2023

Prepared By:

De Noble, Austin & Company PC
121 South Story Street
Rock Rapids, Iowa 51246

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LYON & SIOUX RURAL WATER SYSTEM, INC.

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De Noble, Austin & Company PC

CERTIFIED PUBLIC ACCOUNTANTS



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Independent Auditor's Report

To the Board of Directors of the
Lyon & Sioux Rural Water System, Inc.:

Opinion

We have audited the accompanying financial statements of Lyon & Sioux Rural Water System, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2023 and December 31, 2022, and the related statements of activities and cash flows for the calendar 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 financial position of Lyon & Sioux Rural Water System, Inc. as of December 31, 2023 and December 31, 2022, and the changes in its net assets and its cash flows for the calendar years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits 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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of Financial Statements section of our report. We are required to be independent of Lyon & Sioux Rural Water System, Inc. 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.

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, and 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 Lyon & Sioux Rural Water System, Inc.'s ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibility 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 generally accepted auditing standards 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 are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

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

- Exercise professional judgement 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 Lyon & Sioux Rural Water System Inc.'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 judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about Lyon & Sioux Rural Water System, Inc.'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.

Report of Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of operating expenses 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 audits 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 information 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 April 24, 2024, on our consideration of Lyon & Sioux Rural Water System, Inc.'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 Lyon & Sioux Rural Water System, 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 Lyon & Sioux Rural Water System, Inc.'s internal control over financial reporting and compliance.

De Noble, Austin & Company PC

Certified Public Accountants
Rock Rapids, Iowa
April 24, 2024

Basic Financial Statements

Lyon & Sioux Rural Water System, Inc.

Exhibit A – Statements of Financial Position

December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
<u>Assets</u>		
Current Assets:		
Cash	\$ 54,176	\$ 1,003,322
Investments and Certificates of Deposit	1,778,449	938,228
Accounts Receivable	327,103	318,535
Notes Receivable – Current Portion	39,436	33,555
Accrued Interest Receivable	30,942	11,838
Inventory	197,725	272,460
Prepaid Expenses	58,067	61,291
Total Current Assets	<u>2,485,898</u>	<u>2,639,229</u>
Fixed Assets (Net):		
Fixed Assets	50,493,322	49,079,557
Less Accumulated Depreciation	<u>(18,337,980)</u>	<u>(17,445,306)</u>
Total Fixed Assets (Net)	<u>32,155,342</u>	<u>31,634,251</u>
Other Assets:		
Investments – Debt Covenants	598,440	598,440
Investments – Capital Improvements Reserve	750,000	750,000
CoBank Stock	151,430	102,553
Notes Receivable – Net of Current Portion	621,634	661,071
Total Other Assets	<u>2,121,504</u>	<u>2,112,064</u>
Total Assets	<u>\$ 36,762,744</u>	<u>\$ 36,385,544</u>

LYON & SIOUX RURAL WATER SYSTEM, INC.

Exhibit A – Statements of Financial Position

December 31, 2023 and 2022

	2023	2022
<u>Liabilities and Net Assets</u>		
Current Liabilities:		
Accounts Payable	\$ 408,660	\$ 464,250
Accrued Liabilities:		
Payroll Liabilities	16,705	17,552
Water Excise Tax	5,613	5,076
Interest	56,766	57,922
Notes Payable – Current Portion	392,922	378,993
Total Current Liabilities	880,666	923,793
Long-Term Liabilities:		
Notes Payable – Net of Current Portion	17,754,435	18,146,041
Total Liabilities	18,635,101	19,069,834
Net Assets:		
Membership Certificates	711,340	706,010
Contributed Capital	6,061,051	6,061,051
Without Restrictions	11,355,252	10,548,649
Total Net Assets	18,127,643	17,315,710
 Total Liabilities and Net Assets	 \$ 36,762,744	 \$ 36,385,544

See Notes to Financial Statements.

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LYON & SIOUX RURAL WATER SYSTEM, INC.

Exhibit B – Statements of Activities
For the Calendar Years Ending December 31, 2023 and 2022

	Unrestricted			
	2023		2022	
Water Sales	\$ 4,332,633	100.0%	\$ 4,006,975	100.0%
Cost of Water Purchased	(659,973)	(15.2)%	(573,562)	(14.3)%
Gross Profit on Sales	3,672,660	84.8%	3,433,413	85.7%
Operating Expenses	(2,747,352)	(63.4)%	(2,643,222)	(65.9)%
Net Income From Operations	925,308	21.4%	790,191	19.8%
Other Income (Expense):				
Interest Income	132,554	3.1%	77,755	1.9%
Finance Charges	22,478	0.5%	21,117	0.5%
Patronage Dividends	153,831	3.5%	103,426	2.6%
Gain on Trade-In of Fixed Assets	66,641	1.5%	33,340	0.8%
Miscellaneous Income	186,324	4.3%	54,653	1.4%
Interest Expense	(680,533)	(15.7)%	(687,788)	(17.2)%
Total Other Income (Expense)	(118,705)	(2.8)%	(397,497)	(10.0)%
Changes in Net Assets	806,603	18.6%	392,694	9.8%
Net Assets Beginning of Year	10,548,649		10,155,955	
Net Assets End of Year	<u>\$ 11,355,252</u>		<u>\$ 10,548,649</u>	

See Notes to Financial Statements.

Exhibit C – Statements of Cash Flows

For the Calendar Years Ending December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Cash Flows From (Used By) Operating Activities:		
Changes in Net Assets	\$ 806,603	\$ 392,694
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided From Operating Activities:		
Depreciation	968,549	881,185
Gain on Trade-In of Fixed Assets	(66,641)	(33,340)
Net (Increase) in Accounts Receivable	(8,568)	(22,126)
Net (Increase) in Accrued Interest Receivable	(19,104)	(7,269)
Net (Increase) Decrease in Inventory	74,735	(87,078)
Net (Increase) Decrease in Prepaid Expenses	3,224	(9,566)
Net (Decrease) in Accounts Payable	(55,590)	(318,483)
Net Increase (Decrease) in Accrued Payroll Liabilities	(847)	1,609
Net Increase in Accrued Water Excise Tax	537	116
Net Increase (Decrease) in Accrued Interest	(1,156)	5,684
Net Cash Flow Provided From Operating Activities	<u>1,701,742</u>	<u>803,426</u>
Cash Flows From (Used By) Investing Activities:		
Purchases of Fixed Assets	(1,422,999)	(4,684,569)
Net (Increase) Decrease in Investments	(840,221)	5,176,797
Issuance of Notes Receivable	0	(752,726)
Payments Received on Notes Receivable	33,556	184,621
(Increase) in Investments – Debt Covenants	0	(275,000)
(Increase) of CoBank Stock	(48,877)	(32,296)
Net Cash Flow Used By Investing Activities	<u>(2,278,541)</u>	<u>(383,173)</u>
Cash Flows From (Used By) Financing Activities:		
Payments on Notes Payable	(377,677)	(359,573)
Membership Certificates Issued/Retired	5,330	4,700
Contributed Capital Received	0	752,726
Net Cash Used By/Provided From Financing Activities	<u>(372,347)</u>	<u>397,853</u>

LYON & SIOUX RURAL WATER SYSTEM, INC.

Exhibit C – Statements of Cash Flows
For the Calendar Years Ending December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(949,146)	818,106
Cash and Cash Equivalents Balance - Beginning of Year	<u>1,003,322</u>	<u>185,216</u>
Cash and Cash Equivalents Balance - End of Year	<u>\$ 54,176</u>	<u>\$ 1,003,322</u>
Supplemental Disclosures of Cash Flow Information:		
Cash Payments for Interest Expense	<u>\$ 681,660</u>	<u>\$ 682,104</u>

See Notes to Financial Statements.

LYON & SIOUX RURAL WATER SYSTEM, INC.

Notes to Financial Statements

December 31, 2023 and 2022

Note 1: Nature of Operations and Economic Dependency (Concentration)

Lyon & Sioux Rural Water System, Inc. (hereafter – Organization) is organized and operates as an Iowa non-profit corporation whose mission is to provide high quality water and service to the members of the Organization at the lowest possible cost, consistent with sound business practices.

The Organization distributes water to rural residents in Lyon & Sioux Counties of Iowa, as well as the Cities of Alford, Boyden, Doon, Inwood, Lester, Matlock and Larchwood, Iowa. The Organization purchases water from the City of Rock Rapids, the Rock Valley Rural Water System, and the Lewis and Clark Water System. Water purchased from the Lewis and Clark Water System is included in the contract with the City of Rock Rapids. The contract with the City of Rock Rapids expires on January 18, 2033. The connection with Rock Valley Rural Water System is considered an emergency interconnect and does not have an expiration date. Water purchases from the City of Rock Rapids for the years ending December 31, 2023 and 2022 were \$216,648 and \$174,719 respectively; and \$416,174 and \$369,055 from the Lewis and Clark Water System in 2023 and 2022, respectively. Accordingly, the Organization is dependent upon these entities and economic/drought conditions within this limited geographical area.

Note 2: Income Tax Status / Uncertain Tax Positions

In 1978, the Organization received final approval for recognition as a tax-exempt organization under Internal Revenue Code Section 501(c)(12). This exemption is contingent upon the Organization maintaining water sales to members of at least 85% of total revenue. For both the 2023 and 2022 calendar years, the 85% requirement has been satisfied and the Organization did not conduct any unrelated business activities. Accordingly, no provision for Federal or state income taxes is reported in the accompanying financial statements.

The Organization has evaluated for uncertain tax positions and management has expressed there are no uncertain tax positions as of December 31, 2023. Tax returns for the past three tax years remain open for examination by tax jurisdictions (calendar years 2022, 2021 and 2020 as of the audit report date).

Note 3: Summary of Significant Accounting Policies

This summary of significant accounting policies is presented to assist in understanding the Organization's financial statements. The financial statements and notes are representations of the Organization's management who is responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the financial statements.

Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The general accounting records are kept and the accompanying financial statements have been prepared on the accrual basis of accounting. Under this method of accounting, income is recognized when earned and expenses are recognized when incurred.

Cash and Cash Equivalents

The cash account in the statements of financial position represents money held in checking accounts, a money market and petty cash. For purposes of the statements of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash. Certificates of deposit maturing within a year are classified as current assets and certificates of deposit with a maturity longer than a year, if any, would be classified as other assets. The Organization does not consider the assets held as current investments to be cash equivalents. Current investments consist of brokerage and annuity investments not restricted for debt covenants.

Income Recognition/Accounts Receivable

The Organization recognizes revenue in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which applies to exchange transactions with customers that are bound by contracts or similar arrangements and establishes a performance obligation approach to revenue recognition. The Organization sells water to rural customers and cities, and revenue is recognized as the performance obligations are satisfied, which is generally at a point in time when the water is delivered. Amounts determined to be completed are billed to a customer and are included in accounts receivable.

Water sales are determined through a computerized system. Meter readings are taken near the end of each month and the computer determines the customer's charge based on the gallons of water used and the rate schedule in effect. Remittances are to be made on or before the fifteenth of each month. Amounts that have been billed are generally deemed due (current) within thirty days of the invoice date. Accounts receivable balances outstanding over 30 days are considered past due.

At the end of the calendar year, accounts receivable is recorded at the amount the Organization expects to collect on the outstanding balances. As disclosed above, the Organization has major concentrations of clientele located in Lyon & Sioux Counties. The Organization does not require collateral or other security to support the amounts recognized in the statements of financial position for accounts receivable. Management closely monitors outstanding balances and determines the need for write-offs. As of December 31, 2023, and 2022, all balances are deemed to be collectible as all deemed uncollectible accounts have been written-off by management.

The following details the aging of accounts receivable as of December 31, 2023 and 2022:

Aged Balances (From Date of Invoices)	December 31, 2023		December 31, 2022	
	Amount	Percentage	Amount	Percentage
0 to 30 Days	\$ 319,180	97.58%	\$ 311,612	97.83%
31 to 60 Days	7,391	2.26%	6,628	2.08%
61 to 90 Days	513	0.16%	294	0.09%
Over 90 Days	19	0.00%	1	0.00%
Total	\$ 327,103	100.00%	\$ 318,535	100.00%

Water Excise Tax

Water excise tax required to be charged on customer billings and remitted to the appropriate state are reported in the statements of financial position as part of the accounts - accounts receivable and accrued liabilities: water excise tax. These water excise tax charges and remittances do not affect the revenues/other income and expenses reported in the statements of activities.

Inventory

Inventory is valued at the lower of cost or market using the first-in, first-out method for pipe, meters, regulators, etc. on hand at December 31, 2023 and 2022. The inventory is used for repairs on the water distribution system and is expensed when used.

Fixed Assets

Fixed assets are recorded at the cost of acquisition and, if purchased, or the total cost of construction, if built/constructed. Depreciation is expensed using a 40-year life for the fixed components of the water distribution system, 27 to 30-year life for the building components and 15-year life for the parking lot and five to ten years for vehicles, office furniture/fixtures and equipment. The straight-line method of depreciation is used on all assets. When assets are sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any gain or loss on disposal is recognized in operations for the period.

Construction work in progress consists of costs incurred for construction of new water distribution systems. Interest costs have not been capitalized since it is the Organization's policy to not capitalize interest costs on assets constructed.

Fixed assets/accumulated depreciation of the Organization as follows as of December 31, 2023 and 2022 and the related depreciation expense for the calendar year then ended by category/classification are as follows:

December 31, 2023	Cost	Accumulated Depreciation	Depreciation Expense
Land	\$ 3,200,660	0	0
Building / Parking Lot	320,652	216,152	11,234
Water Distribution System	38,912,086	17,239,352	817,621
Vehicles	347,215	115,398	69,299
Office Furniture & Fixtures	107,040	103,577	2,144
Equipment	831,544	663,502	68,251
Construction in Progress	6,774,125	0	0
Total	\$ 50,493,322	18,337,981	968,549

December 31, 2022	Cost	Accumulated Depreciation	Depreciation Expense
Land	\$ 3,200,660	0	0
Building / Parking Lot	320,652	204,918	11,118
Water Distribution System	38,215,404	16,421,731	744,618
Vehicles	293,742	121,974	58,488
Office Furniture & Fixtures	107,040	101,433	3,270
Equipment	831,544	595,250	63,691
Construction in Progress	6,110,515	0	0
Total	\$ 49,079,557	17,445,306	881,185

Compensated Absences

The Organization policy allows for employees to accumulate a limited amount of earned but unused vacation benefits. The Organization also allows employees to earn one day of sick leave per month, which can be accumulated to a maximum of twenty-four days. These benefits are allowed for illness only, and upon termination of employment, any accumulated days are forfeited. No amounts have been included in the accompanying financial statements for accumulated sick pay.

Capital Structure - Membership Equity and Contributed Capital

The Organization's capital structure consists of membership certificates. When a customer initially joins the system, a \$430 membership fee is charged to the customer. When the system was originally organized, the membership fee was \$230. During 2023, the Organization received \$5,330 in new memberships. If a customer becomes delinquent on their water bill, the amount due can be deducted from their membership fee.

Contributed capital represents the total amount that the Organization has received from governmental entities as contributions toward capital costs.

Use of Estimates

The Organization's financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. Accordingly, the Organization is required to make estimates, judgments, and assumptions that are believed to be reasonable based on contract terms, observance of known trends and information available from outside sources. The Organization's estimates affect the reported amounts of assets, liabilities, revenues/other income and expenses. The Organization's estimates are evaluated on a regular basis. Actual results may differ from those estimates.

Collateralization of Assets

Please see "Note to Financial Statements 8" for details as to which assets have been pledged and the extent those assets have been pledged as collateral for notes payable.

Financial Instruments

Organization financial instruments consist of cash, investments and notes receivable for which the carrying amounts approximate reported in the statements of financial position fair values. The net increase (decrease) in fair value for the calendar year on all financial instruments is reported in the statements of activities. The estimated fair value amounts have been determined using available market information and appropriate valuation methodologies. Considerable judgment is often necessary in interpreting market data to develop the estimates of fair value. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

Note 4: Liquidity and Availability of Financial Assets

As of December 31, 2023, the Organization has \$2,199,164 of financial assets available within one year of the balance sheet date to meet cash needs for general expenditures and fixed asset purchases. The financial assets consist of cash accounts of \$54,176, investments (certificates of deposit) of \$1,778,449, accounts receivable of \$327,103, and current portion of notes receivable of \$39,436. None of the financial assets are subject to donor, contractual, or debt service restrictions that make them unavailable for general expenditures and fixed asset purchases within one year of the balance sheet date. The Organization has a policy to structure its financial assets to be available as its general expenditures; fixed asset purchases; liabilities; and other obligations come due. The Organization invests cash in excess of daily requirements in various investments.

Note 5: Notes Receivable

City of Doon

The Organization has entered into a water sales agreement with the City of Doon, Iowa. As part of this agreement, the City of Doon has contributed \$423,751 for the capital cost of providing water to the City. A note receivable was issued for the entire amount of the contribution. The note accrues interest at a rate of 4.25% and is due in monthly payments of principal and interest of \$2,474. This note began in January 2008 and is scheduled to go until 2026. As of December 31, 2023, and 2022, the outstanding balance was \$74,270 and \$100,950, respectively.

City of Inwood

In December 2023, the Organization entered into two loan agreements with the City of Inwood, Iowa for a combined amount of \$593,676. Proceeds were used for costs of improvements and extension to the municipal water utility, including the construction of a new water tower. The notes accrue interest at rates of 4.05% and 4.10%, and are due in semiannual payments of principal and interest, beginning June 2023 through June 2051. As of December 31, 2023, and 2022, the outstanding balance was \$586,800 and \$593,676, respectively.

Anticipated annual principal receipts on these notes receivable as of December 31, 2023 are as follows:

Calendar Year	Principal Receipts
2024	\$ 39,436
2025	41,142
2026	29,992
2027	13,100
2028	13,600
Thereafter	523,800
Total	\$ 661,070

Note 6: Concentrations of Credit Risk of Financial Instruments

The Organization maintains bank accounts at various local financial institutions that are members of the Federal Deposit Insurance Corporation (FDIC) which provides \$250,000 in insurance coverage. Any amount invested in a financial institution in excess of the FDIC coverage is at risk should a financial institution fail. The notes receivable with the Cities explained in “Note to the Financial Statements 4” are all essentially unsecured and at risk.

Note 7: Investments – Debt Covenants

The Organization has three loan resolutions with CoBank, which are included on the statements of financial position as investments – debt covenants. Under one resolution, the Organization was required to set aside 10% of its monthly principal and interest payments until the restricted balance reached \$175,000 (as amended through a new loan agreement in 2020). Additionally, the Organization entered into two loan resolutions in 2021 which require additional reserves to be set aside of \$185,000 and \$90,000, respectively. As of December 31, 2023, the reserves were each fully funded in accordance with the loan resolutions.

The Organization also has one loan resolution with the United States Department of Agriculture – Rural Development (RDA) requiring monthly set asides, which are also included in the investments – debt covenants. Under the resolution, the Organization is required to set aside monthly for the loan until it has accumulated the required reserve of \$148,440. As of December 31, 2023, the reserve balance was fully funded.

If the Organization should ever reduce these restricted balances, annual restrictions would again be required until the reserve is replenished.

Note 8: Notes Payable

Notes payable consisted of the following at December 31, 2023 and 2022:

	2023	2022
A note payable to CoBank with a 4.05% interest rate; due in monthly installments of principal and interest through August 2051. This note is collateralized by substantially all assets of the Organization.	\$ 5,751,134	\$ 5,860,812
A note payable to CoBank with a 4.10% interest rate; due in monthly installments of principal and interest through July 2051. This note is collateralized by substantially all assets of the Organization.	1,436,087	1,463,381
A note payable to CoBank with a 4.05% interest rate; due in monthly installments of principal and interest through August 2051. This note is collateralized by substantially all assets of the Organization.	1,437,783	1,465,203

A note payable to RDA with a 2.625% interest rate; due in monthly installments of principal and interest of \$12,112 through November 2055. This note is collateralized by substantially all assets of the Organization.

3,135,138 3,197,323

A note payable to IFA with a 1.75% interest rate; payments of interest due semiannually on June 1 and December 1 of each year; annual payments of principal due through June 1, 2032. This note is secured by State Revolving Loan Revenue Bonds issued by the State of Iowa.

182,000 200,000

A note payable to CoBank with a 3.70% interest rate as of December 31, 2023; due in monthly installments of principal and interest of \$30,738 through August 20, 2050. This note is collateralized by substantially all assets of the Organization.

6,205,185 6,338,315

Total Notes Payable (Calendar Year End)

18,147,357 18,884,607

Less Current Portion of Notes Payable

392,922 365,911

Long-Term Notes Payable

\$ 17,754,435 \$ 18,518,696

The combined aggregate amount of principal maturities as of December 31, 2023, for all of the long-term notes payable, for each of the next five years and thereafter is as follows:

Calendar Year	Principal Balance
2024	\$ 392,922
2025	407,656
2026	422,302
2027	438,508
2028	440,342
Thereafter	16,045,627
Total	\$ 18,147,357

Note 9: Pension Plans

The Organization has a pension plan which covers all of the Organization's employees. The plan is designed as an Individual Retirement Account for each employee whereby the Organization contributes 6% of each employee's annual salary to the plan. The plan is 100% vested immediately to the employee and withdrawal of benefits can be made at any time at the employee's discretion. Pension plan expense for the Organization for the years ended December 31, 2023 and 2022, was \$27,934 and \$31,017, respectively.

Note 10: Subsequent Events

There were no material subsequent events noted from January 1, 2024 to April 24, 2024 (audit report date and financial statement issuance date).

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Supplementary Information

Lyon & Sioux Rural Water System, Inc.

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LYON & SIOUX RURAL WATER SYSTEM, INC.

Schedule 1 – Schedules of Operating Expenses
For the Calendar Years Ending December 31, 2023 and 2022

	2023	2022	Increase (Decrease)
Salaries and Benefits	\$ 628,464	\$ 712,576	\$ (84,112)
Payroll Taxes	39,195	44,347	(5,152)
Pension Expense	27,934	31,017	(3,083)
Depreciation	968,549	881,185	87,364
Utilities	394,717	344,565	50,152
Office Expenses	38,332	38,651	(319)
Telephone / Internet	16,963	15,507	1,456
Supplies	13,837	11,388	2,449
Repairs and Maintenance	259,867	206,866	53,001
Vehicle Expenses	48,442	52,527	(4,085)
Meals and Travel	7,958	7,493	465
Water Testing and Treatment	71,170	83,852	(12,682)
Construction Permits	6,240	3,428	2,812
Generator Expense	52,259	66,329	(14,070)
Professional Fees	32,683	32,104	579
Directors' Fees	12,675	9,875	2,800
Insurance	80,378	50,936	29,442
Licenses and Dues	7,556	7,625	(69)
Meetings and Education	2,496	1,962	534
Miscellaneous	2,362	2,865	(503)
Advertising	15,724	16,465	(741)
Engineering	15,599	17,513	(1,914)
Property Tax (Land)	3,952	4,146	(194)
Total	\$ 2,747,352	\$ 2,643,222	\$ 104,130

See Independent Auditor's Report.

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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
Statement Performed in Accordance with
Government Auditing Standards
Lyon & Sioux Rural Water System, Inc.



De Noble, Austin & Company PC

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 of
Lyon & Sioux Rural Water System, Inc.:

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 Lyon & Sioux Rural Water System, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2023 and December 31, 2022, and the related statements of activities and cash flows for the calendar years then ended, and the related notes to the financial statements, and have issued our report thereon dated April 24, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audits of the financial statements, we considered Lyon & Sioux Rural Water System, 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Lyon & Sioux Rural Water System, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Lyon & Sioux Rural Water System, 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 Lyon & Sioux Rural Water System, Inc.'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 a certain deficiency in internal control, described in the accompanying schedule of findings as item 23-1 that we consider to be a material weakness.

MEMBERS

American Institute - Certified Public Accountants | Private Companies Practice Section | Iowa Society - Certified Public Accountants

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lyon & Sioux Rural Water System, 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Lyon & Sioux Rural Water System, Inc's Responses to Findings

Lyon & Sioux Rural Water System, Inc.'s responses to the findings identified in our audit are described in the accompanying schedule of findings. Lyon & Sioux Rural Water System, Inc.'s responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

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 Lyon & Sioux Rural Water System, Inc.'s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Lyon & Sioux Rural Water System, Inc.'s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

De Noble, Austin & Company PC

De Noble, Austin & Company PC
Certified Public Accountants
Rock Rapids, Iowa

April 24, 2024

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Schedule of Findings

Lyon & Sioux Rural Water System, Inc.

Schedule of Findings and Questioned Costs
For the Calendar Year Ending December 31, 2023

Findings – Financial Statement Audit:

INTERNAL CONTROL DEFICIENCIES:

23-1 Segregation of Duties

Criteria – Management is responsible for establishing and maintaining internal control. A good system of internal control provides for adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so the authorization, custody and recording of transactions are not under the control of the same employee. This segregation of duties helps prevent losses from employee error or dishonesty and maximizes the accuracy of the Organization’s financial information.

Condition – Incompatible duties are performed by employees including:

- Check preparation and signing should be independent of an individual who: initiates purchases, reviews/approves disbursements, or participates in any cash receipts or recordkeeping function.
- Billing should be independent from the accounts receivable and collections function. Noncash credits and write-offs should be independent of the accounts receivable bookkeeping function.
- Bank deposits should be made by a person who does not reconcile bank accounts, maintain the cash receipts journal or can make journal entries to the general ledger.
- Bank reconciliations should be reconciled by a person who is independent from any of the revenue and expense functions.

Cause – The Organization has a limited number of employees which limits the ability to adequately segregate duties or provide compensating controls through additional oversight of transactions and processes.

Effect – Inadequate segregation of duties could adversely affect the Organization’s ability to prevent or detect and correct misstatements, errors or misappropriation on a timely basis by employees in the normal course of performing their assigned functions.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, operating procedures should be reviewed to obtain the maximum internal control possible under the circumstances. Current personnel should be utilized to provide additional control through review of financial transactions, reconciliations, and reports. Such reviews should be performed by independent persons to the extent possible and should be evidenced by initials or signature of the reviewer and the date of the review.

Response – We will evaluate our operating procedures and consider changes within economic constraints.

Conclusion – Response acknowledged. The Organization should segregate duties to the extent possible and utilize existing personnel to provide additional control through approval and review of financial transactions and reports. It is very important that you attempt to segregate duties as completely as possible.

INSTANCES OF NON-COMPLIANCE: No matters were reported.