

LAKE VILLAGE WATER ASSOCIATION, INC.

AUDIT OF FINANCIAL STATEMENTS

---

DECEMBER 31, 2011

**Craig A. Butler, CPA**  
131 North 4th Street  
Danville, Kentucky 40422



LAKE VILLAGE WATER ASSOCIATION, INC.

AUDIT OF FINANCIAL STATEMENTS

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DECEMBER 31, 2011

CRAIG A. BUTLER  
CERTIFIED PUBLIC ACCOUNTANT  
DANVILLE, KENTUCKY

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## INDEPENDENT AUDITOR'S REPORT

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

I have audited the accompanying Statement of Assets, Liabilities, and Members' Equity of Lake Village Water Association, Inc. as of December 31, 2011, and the related Statements of Operations, Equity, Operating Expenses, and Cash Flows for the year then ended. These financial statements are the responsibility of the Association's management. My responsibility is to express an opinion on these financial statements based on my audit.

I have conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and members' equity of Lake Village Water Association, Inc. As of December 31, 2011, and the results of its' operations, cash flows, and operating expenses for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated April 24, 2012, on my consideration of the Association's internal control over financial reporting and my tests of compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

*Craig A. Butler, CPA*

Craig A. Butler  
Certified Public Accountant

Danville, Kentucky  
April 24, 2012

Lake Village Water Association, Inc.  
Statement of Assets, Liabilities, and Members' Equity  
December 31, 2011  
(With comparative Totals for December 31, 2010)

|  | <u>2011</u>         | <u>2010</u>         |
|--|---------------------|---------------------|
| <u>Assets</u>                            |                     |                     |
| Current Assets:                          |                     |                     |
| Cash (Note 3)                            | \$ 170,712          | \$ 241,511          |
| Accounts Receivable (Net of Allowance)   | 91,561              | 104,809             |
| Inventory (Note 2)                       | 21,232              | 18,914              |
| Prepaid Expenses (Note 2)                | <u>21,903</u>       | <u>20,467</u>       |
| Total Current Assets                     | 305,408             | 385,701             |
| Restricted Assets:                       |                     |                     |
| Cash (Note 3)                            | 308,342             | 312,673             |
| Property & Equipment, net (Note 2 and 4) | <u>5,486,212</u>    | <u>5,596,867</u>    |
| Total Assets                             | <u>\$ 6,099,962</u> | <u>\$ 6,295,241</u> |

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

Lake Village Water Association, Inc.  
Statement of Assets, Liabilities, and Members' Equity  
December 31, 2011  
(With comparative Totals for December 31, 2010)

|                                      | <u>2011</u>         | <u>2010</u>         |
|--------------------------------------|---------------------|---------------------|
| <u>Liabilities &amp; Equity</u>      |                     |                     |
| Current Liabilities:                 |                     |                     |
| Current Portion - Debt (Note 5)      | \$ 70,457           | \$ 66,260           |
| Cash Overdraft (Note 3)              | 57,884              | 32,908              |
| Accounts Payable                     | 33,629              | 31,200              |
| Due to Mercer Sanitation District    | 6,361               | 12,187              |
| Accrued Interest                     | 122,494             | 127,498             |
| Other Current Liabilities            | <u>36,630</u>       | <u>35,055</u>       |
| Total Current Liabilities            | 327,455             | 305,108             |
| Long - Term Debt (Note 5)            | <u>3,643,201</u>    | <u>3,711,945</u>    |
| Total Liabilities                    | 3,970,656           | 4,017,053           |
| Members' Equity:                     |                     |                     |
| Memberships                          | 668,301             | 657,128             |
| Contributions in Aid of Construction | 2,565,469           | 2,565,469           |
| Retained Deficit                     | <u>(1,104,464)</u>  | <u>(944,409)</u>    |
| Total Equity                         | <u>2,129,306</u>    | <u>2,278,188</u>    |
| Total Liabilities & Members' Equity  | <u>\$ 6,099,962</u> | <u>\$ 6,295,241</u> |

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

Lake Village Water Association, Inc.  
Statement of Operations  
For the Year Ended December 31, 2011  
(With Comparative Totals for the Year Ended December 31, 2010)

|   | <u>2011</u>             | <u>2010</u>             |
|---|-------------------------|-------------------------|
| Operating Revenue:                              |                         |                         |
| Water Sales                                     | \$ 1,062,315            | \$ 1,052,328            |
| Management Fee Income                           | 25,000                  | 25,000                  |
| Other Operating Revenue                         | <u>31,373</u>           | <u>27,246</u>           |
| <br>Total Operating Revenue                     | <br>1,118,688           | <br>1,104,574           |
| <br>Operating Expenses                          | <br><u>847,077</u>      | <br><u>812,183</u>      |
| <br>Net Operating Income Before<br>Depreciation | <br>271,611             | <br>292,391             |
| <br>Depreciation (Note 2)                       | <br><u>259,592</u>      | <br><u>234,038</u>      |
| <br>Net Operating Income                        | <br>12,019              | <br>58,353              |
| <br>Non-Operating Income (Expenses):            |                         |                         |
| Gain (Loss) on Sale of Assets                   | -                       | 4,000                   |
| Interest Income                                 | 5,636                   | 7,692                   |
| Interest Expense                                | <u>(177,711)</u>        | <u>(179,998)</u>        |
| <br>Total Non-Operating Income (Expenses):      | <br><u>(172,074)</u>    | <br><u>(168,306)</u>    |
| <br>Net Income (Loss)                           | <br><u>\$ (160,055)</u> | <br><u>\$ (109,953)</u> |

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

Lake Village Water Association, Inc.  
Statement of Members' Equity  
For the Years Ended December 31, 2011 and 2010

|                                      | <u>Memberships</u> | <u>Contributions<br/>in Aid of<br/>Construction</u> | <u>Retained<br/>Deficit</u> | <u>Total</u>        |
|--------------------------------------|--------------------|---|-----------------------------|---------------------|
| Balance at January 1, 2010           | \$ 649,928         | \$ 2,565,469  | \$ (834,456)                | \$ 2,380,941        |
| 2010 Net Loss                        | -                  | -   | (109,953)                   | (109,953)           |
| Capital Contribution -<br>Government | -                  | -   | -                           | -                   |
| Memberships                          | <u>7,200</u>       | <u>-</u>  | <u>-</u>                    | <u>7,200</u>        |
| Balance at December 31, 2010         | 657,128            | 2,565,469   | (944,409)                   | 2,278,188           |
| 2011 Net Loss                        | -                  | -   | (160,055)                   | (160,055)           |
| Capital Contribution -<br>Government | -                  | -   | -                           | -                   |
| Memberships                          | <u>11,173</u>      | <u>-</u>  | <u>-</u>                    | <u>11,173</u>       |
| Balance at December 31, 2011         | <u>\$ 668,301</u>  | <u>\$ 2,565,469</u>                                 | <u>\$(1,104,464)</u>        | <u>\$ 2,129,306</u> |

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

Lake Village Water Association, Inc.  
Statement of Operating Expenses  
For the Year Ended December 31, 2011  
(With Comparative Totals for the Year Ended December 31, 2010)

|                                      | <u>2011</u>       | <u>2010</u>       |
|--------------------------------------|-------------------|-------------------|
| Source of Supply Expense:            |                   |                   |
| Water Purchases                      | \$ <u>326,083</u> | \$ <u>301,315</u> |
| Total                                | 326,083           | 301,315           |
| Transmission & Distribution Expense: |                   |                   |
| Maintenance & Repairs                | <u>38,503</u>     | <u>28,060</u>     |
| Total                                | 38,503            | 28,060            |
| Customer Accounts Expense:           |                   |                   |
| Uncollectible Accounts               | -                 | 2,426             |
| Supplies & Postage                   | <u>14,889</u>     | <u>15,572</u>     |
| Total                                | 14,889            | 17,998            |
| Administrative & General:            |                   |                   |
| Salaries                             | 252,816           | 240,625           |
| Insurance                            | 21,561            | 31,226            |
| Utilities                            | 22,497            | 23,325            |
| Office Supplies & Expense            | 16,844            | 13,228            |
| Transportation Expense               | 17,789            | 15,279            |
| Payroll Taxes                        | 20,192            | 19,155            |
| Staff Benefits                       | 67,114            | 56,427            |
| Legal Expense                        | 3,000             | 3,424             |
| Audit & Accounting                   | 4,950             | 5,600             |
| Commissioners' Fees                  | 18,000            | 18,000            |
| Engineering Fees                     | 2,384             | 8,106             |
| Miscellaneous General Expense        | 18,766            | 28,710            |
| Other Licenses & Taxes               | <u>1,689</u>      | <u>1,705</u>      |
| Total Administrative & General       | <u>467,602</u>    | <u>464,810</u>    |
| Total Operating Expenses             | <u>\$ 847,077</u> | <u>\$ 812,183</u> |

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

Lake Village Water Association, Inc.  
Statement of Cash Flows  
For the Year Ended December 31, 2011  
(With Comparative Totals for the Year Ended December 31, 2010)

|  | <u>2011</u>       | <u>2010</u>       |
|--|-------------------|-------------------|
| Cash Flows From Operating Activities   |                   |                   |
| Net Loss   | \$ (160,055)      | \$ (109,953)      |
| Adjustments to Reconcile Net Loss to Net Cash Provided<br>by Operating Activities: |                   |                   |
| Depreciation   | 259,592           | 234,038           |
| Decrease (Increase) in Accounts Receivable   | 13,248            | (1,898)           |
| Decrease in Due From Other Government  | -                 | 28,845            |
| Decrease (Increase) in Inventory   | (2,318)           | (289)             |
| Decrease (Increase) in Prepaid Expenses  | (1,436)           | 781               |
| Increase (Decrease) in Accounts Payable  | 2,430             | 7,321             |
| Increase (Decrease) in Due to Sanitation District                                  | (5,826)           | 1,325             |
| Increase (Decrease) in Contractors Payable   | -                 | (86,275)          |
| Increase (Decrease) in Other Current Liabilities                                   | 1,575             | 3,101             |
| Increase (Decrease) in Accrued Interest  | <u>(5,004)</u>    | <u>37,272</u>     |
| Net Cash Provided By (Used In) Operating Activities                                | <u>102,206</u>    | <u>114,268</u>    |
| Cash Flows From Investing Activities   |                   |                   |
| Construction/Acquisition of Property & Equipment                                   | <u>(148,937)</u>  | <u>(449,559)</u>  |
| Net Cash Used in Investing Activities  | <u>(148,937)</u>  | <u>(449,559)</u>  |
| Cash Flows From Financing Activities   |                   |                   |
| Memberships (Tap Fees)   | 11,173            | 7,200             |
| Proceeds of USDA Loan  | -                 | 1,544,000         |
| Repayments of Notes Payable  | -                 | (992,501)         |
| Repayments of RD Loans   | <u>(64,547)</u>   | <u>(64,314)</u>   |
| Net Cash Provided By (Used In) Financing Activities                                | <u>(53,374)</u>   | <u>494,385</u>    |
| Net Increase (Decrease) in Cash  | (100,106)         | 159,094           |
| Cash at Beginning of Year  | <u>521,276</u>    | <u>362,182</u>    |
| Cash at End of Year  | <u>\$ 421,170</u> | <u>\$ 521,276</u> |

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

Lake Village Water Association, Inc.  
Notes to Financial Statements  
December 31, 2011

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 receivables, payables, and other liabilities. Certain disclosures have been included in this report to conform with Rural Development Agency (RD) requirements.
- 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 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. 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.
- E. 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.
- F. Material inventory is stated at cost using the first-in, first-out (fifo) method.
- G. Prepaid items include payments made to vendors that will benefit future periods.
- H. Restricted assets represent cash for which use is limited by applicable loan covenants.
- G. Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform to the presentation in the current-year financial statements.

3. Cash

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

|                                   |   | 2011              | 2010              |
|-----------------------------------|---|-------------------|-------------------|
| Cash on Hand                      |   | \$ 50             | \$ 50             |
| Cash on Deposit-Operating Account | A | (57,884)          | (32,908)          |
| Cash on Deposit-Revenue Account   | B | 32,308            | 15,817            |
| Cash on Deposit-Customer Deposits | C | 13,225            | 11,870            |
| Savings Accounts:                 |   |                   |                   |
| Debt Service Account              | D | 240,312           | 236,497           |
| Depreciation Account              | E | 138,354           | 225,644           |
| Reserve Account                   | F | 54,805            | 43,887            |
| Lake Village Construction Account | G | -                 | 20,419            |
| TOTAL                             |   | <u>\$ 421,170</u> | <u>\$ 521,276</u> |

Lake Village Water Association, Inc.  
Notes to Financial Statements  
December 31, 2011

The Association maintains cash in one local bank and is required by Rural Development loan agreements to have the financial institution(s) pledge securities having a current quoted market value at least equal to the uninsured deposits. At year end, the carrying amount of the Association's cash was \$421,120 and the bank balance was \$482,313. At December 31, 2011, all bank balances were covered by federal depository insurance, or by collateral held by the pledging bank's trust department on behalf of the Association.

- (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 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) 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.
- (E) The depreciation account is used by the Association to maintain excess unrestricted funds so that they will earn interest.
- (F) The Association is required to transfer funds monthly to the reserve account in amounts specified by Rural Development. 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.
- (G) 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.

4. Property and Equipment

Property and equipment consists of the following as of December 31:

|                                | <u>2011</u>         | <u>2010</u>         |
|--------------------------------|---------------------|---------------------|
| Land                           | \$ 62,409           | \$ 62,409           |
| Buildings & Improvements       | 42,324              | 42,324              |
| Supply Mains                   | 15,500              | 15,500              |
| Pump Station                   | 50,800              | 50,800              |
| Standpipes & Storage Tanks     | 560,946             | 560,946             |
| Water Lines                    | 7,083,677           | 7,004,892           |
| Customer Services              | 189,926             | 189,926             |
| Meters                         | 451,797             | 416,202             |
| Hydrants                       | 1,960               | 1,960               |
| Office Furniture               | 65,160              | 65,160              |
| Transportation Equipment       | 142,032             | 142,032             |
| Other Equipment                | 75,768              | 41,908              |
| Other Tangible Plant           | 220,435             | 220,435             |
| Construction in Process        | <u>69,661</u>       | <u>68,963</u>       |
| Total                          | 9,032,395           | 8,883,457           |
| Less: Accumulated Depreciation | <u>3,546,183</u>    | <u>3,286,592</u>    |
| Property & Equipment, net      | <u>\$ 5,486,212</u> | <u>\$ 5,596,865</u> |

Lake Village Water Association, Inc.  
Notes to Financial Statements  
December 31, 2011

5. Long-Term Debt

|  |                           |
|--|---------------------------|
| A. Loan 91-05<br>8.375% promissory note payable to the Department of Agriculture, Rural Development,<br>due in annual installments of \$45,703, including principal and interest.  | \$ 194,201                |
| B. Loan 91-06<br>5.50% promissory note payable to the Department of Agriculture, Rural Development,<br>due in annual installments of \$52,206, including principal and interest.   | 670,422                   |
| C. Loan 91-07<br>5.375% promissory note payable to the Department of Agriculture, Rural Development,<br>due in annual installments of \$21,484, including principal and interest.  | 196,995                   |
| D. Loan 91-08<br>5% promissory note payable to the Department of Agriculture, Rural Development,<br>due in annual installments of \$16,839, including principal and interest.  | 245,045                   |
| E. Loan 91-09<br>4.5% promissory note payable to the Department of Agriculture, Rural Development, due<br>in annual installments of \$49,038, including principal and interest.  | 862,995                   |
| F. Loan 91-10<br>4.0% promissory note payable to the Department of Agriculture, Rural Development.<br>Interest only installments are due in January 2011 and 2012, then, annual installments of<br>\$79,733, including principal and interest begin in 2013. | <u>1,544,000</u>          |
| Total Outstanding Debt   | <u><u>\$3,713,658</u></u> |

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

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

| <u>Year Ending December 31,</u> | <u>Amount</u>              |
|---------------------------------|----------------------------|
| 2012                            | \$ 70,457                  |
| 2013                            | 93,013                     |
| 2014                            | 98,631                     |
| 2015                            | 104,618                    |
| 2016                            | 110,998                    |
| Thereafter                      | <u>3,235,941</u>           |
| Total                           | <u><u>\$ 3,713,658</u></u> |

6. Income Taxes

During 1973, the Association applied for and obtained tax exempt status from the Internal Revenue Service under Section 501(C) (12) of the Internal Revenue Code.

Lake Village Water Association, Inc.  
Notes to Financial Statements  
December 31, 2011

7. Other Matters

(A) The Association has not been assessed or paid any property, intangible or franchise tax in prior years. Since there is some uncertainty about the taxability of a "water association", the financial statements do not reflect any liability for unpaid taxes, if any.

|   | <u>2011</u>        | <u>2010</u>        |
|---|--------------------|--------------------|
| (B) Active Meter Customers - December 31, | 2060               | 2055               |
| (C) Water Loss:                           |                    |                    |
| Water Purchases – Gallons                 | 170,320,344        | 171,600,108        |
| Water sold and Used in Operations         | <u>159,677,682</u> | <u>161,369,071</u> |
| Line Loss                                 | 10,642,662         | 10,231,037         |
| Percentage of Line Loss                   | 6.25%              | 5.96%              |

(D) Accounts receivable aging at December 31, 2011:

|                         |           |                |
|-------------------------|-----------|----------------|
| Current                 | \$        | 80,968         |
| 30-59 Days              |           | 8,119          |
| 60-89 Days              |           | 2,474          |
| Over 90 Days            |           | 6,479          |
| Less: Allowance         |           | <u>(6,479)</u> |
| Net Accounts Receivable | <u>\$</u> | <u>91,561</u>  |

All accounts receivable 90 days and older have been included in the allowance for uncollectible accounts.

8. 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.

9. Capital Projects Planned and in Process

On March 3, 2009, the Association was awarded a grant of \$350,000 from the Kentucky Infrastructure Authority for the purpose of constructing a 150,000 gallon water tank in the Adams Lane area of Mercer County. As of December 31, 2011, \$69,661 has been spent in relation to this project

Lake Village Water Association, Inc.  
Notes to Financial Statements  
December 31, 2011

10. Contract with Mercer County Sanitation District

On February 1, 2009, 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 \$25,000 payable in equal monthly installments of \$2,083.33. The contract term is five years and is cancelable by either party upon 60 days written notice.

11. Related Party Transactions

During the year ended December 31, 2011, the Association paid \$3,049 to an individual who is related to an employee of the Association. The services performed were in conjunction with on-going projects.

**COMPLIANCE SECTION**

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**CRAIG A. BUTLER, CPA**

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**INDEPENDENT AUDITOR'S REPORT ON  
COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING 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

I have audited the financial statements of the Lake Village Water Association, Inc. as of and for the year ended December 31, 2011, and have issued my report thereon dated April 24, 2012. I conducted my 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.

Internal control over financial reporting

In planning and performing my audit, I considered the Association's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Association's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described below, I identified certain deficiencies in internal control over financial reporting that I consider to be material weaknesses.

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 misstatements on a timely basis. A material weakness is a deficiency, or 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.

1. As is common within the system of internal control of most small organizations, the accounting function of Lake Village Water Association, Inc. does not prepare the financial statements complete with footnotes in accordance with accounting principles generally accepted in the United States of America. Accordingly, the Association has not established internal controls over the preparation of its financial statements. This condition is considered to be a significant deficiency in the Association's system of internal control over financial reporting.

During the course of performing an audit, it is not unusual for the auditor to prepare various journal entries to present the financial statements in accordance with generally accepted accounting principles. This reliance on the auditor to detect and make these necessary adjustments is considered to be a significant deficiency in the system of internal control. SAS no. 115 does not make exceptions for reporting deficiencies that are adequately mitigated with non-audit services rendered by the auditor or deficiencies for which the remedy would be cost prohibitive.

Communication of the control deficiency above helps to emphasize that the responsibility for financial reporting rests entirely with the Organization and not the auditor. Stated another way, if an organization is unable to issue, without the auditor's involvement, complete financial statements with footnotes in accordance with generally accepted accounting principles and free of material misstatement, that inability is a symptom of a significant deficiency in the system of internal control.

#### Management's response

The Association engages consultants who possess industry knowledge and expertise to provide financial services, as well as legal, engineering, and other professional services. Based on the auditor's unqualified opinion and after reading the financial statements, management believes the financial statements to be materially correct. Management does not think that the addition of an employee or consultant to oversee the annual financial reporting process is necessary nor would it be cost effective.

#### Compliance and other matters

As part of obtaining reasonable assurance about whether the Association's financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the chairman, commissioners, and applicable regulatory agencies, and is not intended to be and should not be used by anyone other than these specified parties.

*Craig A. Butler, CPA*

Craig A. Butler  
Certified Public Accountant

Danville, Kentucky  
March 23, 2012

## Cline, Jeff D (PSC)

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**From:** Cline, Jeff D (PSC)  
**Sent:** Thursday, April 12, 2012 3:33 PM  
**To:** 'lvwa2@yahoo.com'  
**Subject:** Lake Village Water Association - 2011 Annual Report Past Due

**Follow Up Flag:** Follow up  
**Due By:** Friday, April 13, 2012 9:00 AM  
**Flag Status:** Flagged

**Categories:** Waiting on Utility, Annual Report

Dear Mr. Sanford:

We received your 2011 Report of Gross Operating Revenues for Lake Village Water Association on March 30, 2012 but have not yet received the signed/notarized hard copy of the Annual Report. Can you please advise when the Annual Report hard copy will be filed?

Jeff Cline  
Annual Report Branch Manager  
Kentucky Public Service Commission  
211 Sower Boulevard  
PO Box 615  
Frankfort, KY 40602

Phone: 502.564.3940 X 218 | Fax: 502.564.3460 | Web: [www.psc.ky.gov](http://www.psc.ky.gov)