

LAKE VILLAGE WATER ASSOCIATION, INC.  
AUDIT OF FINANCIAL STATEMENTS

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DECEMBER 31, 2015

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

### **Report on the Financial Statements**

I have audited the accompanying financial statements of Lake Village Water Association, Inc. (a nonprofit organization), which comprise the Statement of Assets, Liabilities, and Members' Equity-Statutory Basis as of December 31, 2015, and the related Statements of Operations-Statutory Basis, Equity-Statutory Basis, Operating Expenses-Statutory Basis, and Cash Flows-Statutory Basis 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 the statutory basis of accounting as described in Note 2; this includes determining that the statutory basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

My responsibility is to express an opinion on these financial statements based on my audit. 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. Those standards require that I 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

## **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, 2015, and the results of its' operations, cash flows, and operating expenses for the year then ended in accordance with the statutory basis of accounting as described in Note 2.

## **Basis of Accounting**

I draw attention to Note 2 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the statutory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. My opinion is not modified with respect to that matter.

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

In accordance with *Government Auditing Standards*, I have also issued my report dated March 19, 2016, 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* in considering Lake Village Water Association Inc.'s internal control over financial reporting and compliance.

*Craig A. Butler, CPA*

Craig A. Butler  
Certified Public Accountant

Danville, Kentucky  
March 19, 2016

Lake Village Water Association, Inc.  
Statement of Assets, Liabilities, and Members' Equity-Statutory Basis  
December 31, 2015  
(With comparative Totals for December 31, 2014)

	2015	2014
<u>Assets</u>		
Current Assets:		
Cash (Note 3)	\$ 47,545	\$ 66,326
Accounts Receivable (Net of Allowance)	138,893	113,003
Inventory (Note 2)	32,260	16,165
Prepaid Expenses (Note 2)	16,624	16,389
Total Current Assets	235,322	211,883
Restricted Assets:		
Cash (Note 3)	306,258	262,401
Property & Equipment, net (Note 2 and 4)	5,729,685	5,960,252
 Total Assets	 \$ 6,271,265	 \$ 6,434,536

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

Lake Village Water Association, Inc.  
Statement of Assets, Liabilities, and Members' Equity-Statutory Basis  
December 31, 2015  
(With comparative Totals for December 31, 2014)

	<u>2015</u>	<u>2014</u>
<u>Liabilities &amp; Equity</u>		
Current Liabilities:		
Current Portion - Debt (Note 5)	\$ 57,247	\$ 104,288
Cash Overdraft (Note 3)	50,227	43,167
Accounts Payable	62,376	37,198
Accounts Payable - Contractors	14,055	-
Due to Mercer Sanitation District	16,170	12,146
Accrued Interest	83,411	104,503
Other Current Liabilities	<u>70,845</u>	<u>59,782</u>
Total Current Liabilities	354,331	361,084
Long - Term Debt (Note 5)	<u>3,413,050</u>	<u>3,353,177</u>
Total Liabilities	3,767,381	3,714,261
Members' Equity:		
Memberships	697,101	685,851
Contributions in Aid of Construction	3,665,469	3,665,469
Retained Deficit	<u>(1,858,686)</u>	<u>(1,631,045)</u>
Total Equity	<u>2,503,884</u>	<u>2,720,275</u>
Total Liabilities & Members' Equity	<u>\$ 6,271,265</u>	<u>\$ 6,434,536</u>

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

Lake Village Water Association, Inc.  
Statement of Operations-Statutory Basis  
For the Year Ended December 31, 2015  
(With Comparative Totals for the Year Ended December 31, 2014)

	<u>2015</u>	<u>2014</u>
Operating Revenue:		
Water Sales	\$ 1,305,943	\$ 1,239,293
Management Fee Income	25,000	25,000
Other Operating Revenue	<u>63,743</u>	<u>24,582</u>
 Total Operating Revenue	 1,394,686	 1,288,875
 Operating Expenses	 <u>1,155,434</u>	 <u>1,038,437</u>
 Net Operating Income Before Depreciation	 239,252	 250,438
 Depreciation (Note 2)	 <u>286,349</u>	 <u>296,630</u>
 Net Operating Income	 (47,097)	 (46,192)
Non-Operating Income (Expenses):		
Interest Income	1,057	994
Debt Issuance Costs	(36,612)	-
Interest Expense	<u>(144,989)</u>	<u>(162,246)</u>
 Total Non-Operating Income (Expenses):	 <u>(180,544)</u>	 <u>(161,252)</u>
 Net Income (Loss)	 <u>\$ (227,641)</u>	 <u>\$ (207,444)</u>

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

Lake Village Water Association, Inc.  
Statement of Members' Equity-Statutory Basis  
For the Years Ended December 31, 2015 and 2014

	<u>Memberships</u>	<u>Contributions in Aid of Construction</u>	<u>Retained Deficit</u>	<u>Total</u>
Balance at January 1, 2014	\$ 679,551	\$ 3,665,469	\$(1,423,601)	\$ 2,921,419
2014 Net Loss			(207,444)	(207,444)
Capital Contribution - Government		-		-
Customers		-		-
Memberships	<u>6,300</u>	<u>-</u>	<u>-</u>	<u>6,300</u>
Balance at December 31, 2014	685,851	3,665,469	(1,631,045)	2,720,275
2015 Net Loss			(227,641)	(227,641)
Capital Contribution - Government		-		-
Customers		-		-
Memberships	<u>11,250</u>	<u>-</u>	<u>-</u>	<u>11,250</u>
Balance at December 31, 2015	<u>\$ 697,101</u>	<u>\$ 3,665,469</u>	<u>\$(1,858,686)</u>	<u>\$ 2,503,884</u>

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



Lake Village Water Association, Inc.  
Statement of Operating Expenses-Statutory Basis  
For the Year Ended December 31, 2015  
(With Comparative Totals for the Year Ended December 31, 2014)

	<u>2015</u>	<u>2014</u>
Source of Supply Expense:		
Water Purchases	\$ <u>528,496</u>	\$ <u>440,200</u>
Total	528,496	440,200
Transmission & Distribution Expense:		
Maintenance & Repairs	<u>32,370</u>	<u>24,494</u>
Total	32,370	24,494
Customer Accounts Expense:		
Uncollectible Accounts	7,183	917
Supplies & Postage	<u>15,073</u>	<u>14,245</u>
Total	22,256	15,162
Administrative & General:		
Salaries	323,634	305,006
Insurance	33,690	36,273
Utilities	31,675	28,550
Office Supplies & Expense	25,564	26,547
Transportation Expense	16,456	17,333
Payroll Taxes	25,002	24,369
Staff Benefits	71,644	66,359
Legal Expense	3,000	3,000
Audit & Accounting	4,900	4,900
Commissioners' Fees	24,000	24,000
Engineering Fees	3,822	4,812
Miscellaneous General Expense	6,350	14,967
Other Licenses & Taxes	<u>2,575</u>	<u>2,465</u>
Total Administrative & General	<u>572,312</u>	<u>558,581</u>
Total Operating Expenses	<u>\$ 1,155,434</u>	<u>\$ 1,038,437</u>

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

Lake Village Water Association, Inc.  
Statement of Cash Flows-Statutory Basis  
For the Year Ended December 31, 2015  
(With Comparative Totals for the Year Ended December 31, 2014)

	2015	2014
Cash Flows From Operating Activities		
Net Loss	\$ (227,641)	\$ (207,444)
Adjustments to Reconcile Net Loss to Net Cash Provided by Operating Activities:		
Depreciation	286,349	296,630
Decrease (Increase) in Accounts Receivable	(25,890)	301
Decrease (Increase) in Inventory	(16,095)	2,749
Decrease (Increase) in Prepaid Expenses	(235)	1,862
Increase (Decrease) in Accounts Payable	25,178	(3,170)
Increase (Decrease) in Due to Sanitation District	4,024	684
Increase (Decrease) in Contractors Payable	14,055	-
Increase (Decrease) in Other Current Liabilities	11,063	21,105
Increase (Decrease) in Accrued Interest	<u>(21,092)</u>	<u>(4,531)</u>
Net Cash Provided By (Used In) Operating Activities	<u>49,716</u>	<u>108,186</u>
Cash Flows From Investing Activities		
Construction/Acquisition of Property & Equipment	<u>(55,782)</u>	<u>(29,789)</u>
Net Cash Used in Investing Activities	<u>(55,782)</u>	<u>(29,789)</u>
Cash Flows From Financing Activities		
Memberships (Tap Fees)	11,250	6,300
New Borrowings on Debt	1,205,621	-
Principal Payments on Debt	<u>(1,192,789)</u>	<u>(98,320)</u>
Net Cash Provided By (Used In) Financing Activities	<u>24,082</u>	<u>(92,020)</u>
Net Increase (Decrease) in Cash	18,016	(13,623)
Cash at Beginning of Year	<u>285,560</u>	<u>299,183</u>
Cash at End of Year	<u>\$ 303,576</u>	<u>\$ 285,560</u>

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

Lake Village Water Association, Inc.  
Notes to Financial Statements  
December 31, 2015

1. General

Lake Village Water Association, Inc., (the "Association") is a not-for-profit corporation. The Association provides water services to the rural sections of Boyle and Mercer counties.

2. Summary of Significant Accounting Policies

- A. The Association uses the accrual method of accounting, and accordingly reflects all significant prepaids, receivables, payables, and other liabilities. Certain disclosures have been included in this report to conform to Rural Development Agency (RD) requirements. Also, the Association's financial statements differ from financial statements prepared in accordance with accounting principles generally accepted in the United States of America in that the statements include a statement of assets, liabilities, and members' equity, statement of operations, statement of members' equity, statement of operating expenses, and statement of cash flows.
- B. For purposes of the statement of cash flows, the Association considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.
- C. Management uses estimates and assumptions in preparing 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.
- I. 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.

Lake Village Water Association, Inc.  
Notes to Financial Statements  
December 31, 2015

3. Cash

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

		2015	2014
Cash on Hand		\$ 50	\$ 50
Cash on Deposit-Operating Account	A	(50,226)	(43,167)
Cash on Deposit-Revenue Account	B	5,469	5,039
Cash on Deposit-Customer Deposits	C	15,356	15,799
Cash on Deposit-Northpoint Training Center Tank Project	D	100	-
Savings Accounts:			
Debt Service Account	E	160,253	171,421
Sinking Fund	F	45,131	-
Depreciation Account	G	42,026	61,236
Reserve Account	H	85,417	75,182
TOTAL		\$ 303,576	\$ 285,560

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 \$303,576 and the bank balance was \$358,702. At December 31, 2015, 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) This account is maintained by the Association to account for the cash receipts and disbursements related to certain water system improvement project undertaken during the year.
- (E) The Association is required to transfer funds monthly to the debt service account to meet the monthly installments for principal and interest on the RD loans outstanding.
- (F) The Association is required to transfer funds monthly to the sinking fund account to meet the monthly installments for principal and interest on the KRWFC loans outstanding.
- (G) The depreciation account is used by the Association to maintain excess unrestricted funds so that they will earn interest.
- (H) The Association is required to transfer funds monthly to the reserve account in amounts specified by 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.

Lake Village Water Association, Inc.  
Notes to Financial Statements  
December 31, 2015

4. Property and Equipment

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

	<u>2015</u>	<u>2014</u>
Land	\$ 62,409	\$ 62,409
Buildings & Improvements	75,074	75,074
Supply Mains	15,500	15,500
Pump Station	55,101	50,800
Standpipes & Storage Tanks	1,824,636	1,824,636
Water Lines	7,083,677	7,083,677
Customer Services	189,926	189,926
Meters	476,532	468,035
Hydrants	1,960	1,960
Office Furniture	79,021	77,250
Transportation Equipment	142,032	142,032
Other Equipment	83,968	75,768
Other Tangible Plant	223,235	223,235
Construction in Process	<u>75,162</u>	<u>42,148</u>
Total	10,388,233	10,332,450
Less: Accumulated Depreciation	<u>4,658,548</u>	<u>4,372,198</u>
Property & Equipment, net	<u>\$ 5,729,685</u>	<u>\$ 5,960,252</u>

5. Long-Term Debt

The following debt obligations were outstanding as of December 31, 2015:

A. Loan 91-09

4.5% promissory note payable to the Department of Agriculture, Rural Development, due in annual installments of \$49,038, including principal and interest. \$ 822,500

B. Loan 91-10

4.0% promissory note payable to the Department of Agriculture, Rural Development, due in annual installments of \$79,733 including principal and interest. 1,487,797

G. KRWFC

Note payable - Kentucky Rural Water Finance Corporation Public Projects Taxable Refunding Revenue Bonds (Flexible Term Program), Series 2015C. Interest rates range from 3.0% to 4.25%. Interest payments are due semi-annually. Principal payments are due annually in amounts ranging from \$25,000 to \$70,000. 1,160,000

Total Outstanding Debt \$ 3,470,297

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

Lake Village Water Association, Inc.  
Notes to Financial Statements  
December 31, 2015

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

Year Ending December 31,	Amount
2016	\$ 57,247
2017	88,597
2018	90,003
2019	91,469
2020	92,996
2021-2025	525,236
2026-2030	564,288
2031-2035	599,565
2036-2040	423,641
2041-2045	494,695
2046-2050	442,560
Total	\$ 3,470,297

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.

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.

	2015	2014
(B) Active Meter Customers - December 31,	2,176	2,134
(C) Water Loss:		
Water Purchases – Gallons	229,714,362	234,526,102
Water sold and Used in Operations	214,384,783	222,432,599
Line Loss	15,329,579	12,093,503
Percentage of Line Loss	6.67%	5.16%

(D) Accounts receivable aging at December 31, 2015:

Current	\$ 126,179
30-59 Days	18,106
60-89 Days	3,482
Over 90 Days	3,118
Less: Allowance	(11,992)
Net Accounts Receivable	\$ 138,893

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

Lake Village Water Association, Inc.  
Notes to Financial Statements  
December 31, 2015

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 January 26, 2015, the Association applied for a \$650,000 grant from the United States Department of Agriculture, Rural Development Division to refurbish the Northpoint Training Center Elevated Storage Tank. As of December 31, 2015, \$58,902 had been spent related to this project. However, the grant has not been finalized and, therefore, no receivables have been recorded on the financial statements related to this grant.

In August 2015, the Association was informed of the KYTC Shaker Creek Bridge Replacement Project which will affect 4 customers. The Commonwealth of Kentucky Transportation Cabinet agrees to reimburse the Association for \$64,119 related to replacing water lines around the Shaker Creek Bridge. As of December 31, 2015, \$14,055 of expenses had been incurred related to this project.

10. Contract with Mercer County Sanitation District

On March 1, 2015, 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.

COMPLIANCE SECTION



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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, 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 the Lake Village Water Association, Inc. as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Lake Village Water Association's financial statements and have issued my report thereon dated March 19, 2016.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered the Association's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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.

My consideration of the internal control was for the limited purpose described in the preceding paragraph 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. 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 and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. I consider the following deficiency to be a material weakness.

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*.

#### The Association's Response to Findings

The Association's response to the findings identified in my audit is described above. I did not audit the Association's response and, accordingly, express no opinion on it.

#### Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results 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.

*Craig A. Butler, CPA*

Craig A. Butler  
Certified Public Accountant

Danville, Kentucky  
March 19, 2016