



BIG SANDY
WATER DISTRICT

REPORT ON EXAMINATION OF BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION
for the year ended December 31, 2011

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INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Big Sandy Water District
Catlettsburg, Kentucky

We have audited the accompanying financial statements listed in the Table of Contents of the business-type activities of the Big Sandy Water District as of and for the year ended December 31, 2011 which comprises the District's basic financial statements. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the respective financial statements referred to above present fairly in all material respects, the financial position of the business-type activities of the Big Sandy Water District, as of December 31, 2011, and the respective changes in financial position and cash flows thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated May 22, 2012 on our consideration of the Big Sandy Water District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 our audit.

Management has prepared the Management Discussion and Analysis which is supplemental information required by the Governmental Accounting Standards Board, however certain required items have not been included. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Big Sandy Water District's basic financial statements. The Comparative Statement of Revenues and Expenses is not a required part of the basic financial statements but is supplemental information required by Rural Development. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

John T. Lane & Associates, LLC

May 22, 2012

This report contains 18 pages.

Management's Discussion and Analysis

In June, 1999, the Governmental Accounting Standards Board (GASB) adopted Statement 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments. The standard requires that a "Management Discussion and Analysis" be included in the annual report along with annual audited financial statements.

Our discussion and analysis of the Big Sandy Water District's Financial performance provided an overview of the Company's financial activities for the year ended December 31, 2011. This information is presented in conjunction with the audited financial statements that follow this section.

Financial Highlights

In 2011, Big Sandy Water District had two significant activities that affected our financial status.

Contract DD—Lawrence County Line Extensions & Improvements was started in 2010 and was completed in 2011. This project was financed with Kentucky Infrastructure Authority Grant for \$1,000,000 (bond funds). In this project we received State Coal Severance Grant Money from Lawrence County Fiscal Court for Raven Rock (80,000) and Slone Farm Road (26,478).

In December 2011, Big Sandy purchased a 2011 Caterpillar 4-wheel drive Backhoe Loader for \$77,786.00. We are making 59 monthly payments of \$1430.18 and one payment of \$1431.18.

Required Financial Statements

The financial statements of Big Sandy Water District (BSWD) reports information of BSWD using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information and its activities. The Statement of New Assets included all of Big Sandy Water District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to BSWD creditors (liabilities). It also provides the basis for evaluating the capital structure of BSWD and assessing the liquidity and financial flexibility of BSWD.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Assets. This statement measures the success of Big Sandy Water District's operations over the past year and can be used to determine whether BSWD has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness.

The final required financial statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities and provides answers to such questions as where did the cash come from, what was the cash used for, and what was the change in cash balance during the reporting period.

Financial Analysis

Total assets to total liabilities for 2011 show a ratio of 2.74 to 1 meaning BSWD has \$2.74 worth of assets to each \$1.00 worth of liabilities. This compares to 2010 at 2.79 to 1 and 2009 at 2.53 to 1.

The Operating Revenue decreased 6% in 2011 to \$1,984,420 from \$2,104,849. Forty-four percent of the revenue goes to purchase water. Hourly employees and benefits received 27%, principle and interest took 14%.

Charge-off accounts that were deemed not collectable were \$10,698 in 2011 compared to \$8,680 in 2010. This is .54% of revenue. That amount is covered by the \$42,927 collected as late payment penalties.

Request for Information

This financial report is designed to provide our customers and creditors with a general overview of Big Sandy Water District's Finances and to demonstrate Big Sandy Water District's accountability for the funds it receives. If you have any questions about this report or need any additional information, please contact James Blanton or Teresa Brown at (606) 928-2075 or 1-800-354-2933.

Big Sandy Water District
Statement of Net Assets
Proprietary Fund Type
December 31, 2011

ASSETS

Current Assets	
Cash and cash equivalents - unrestricted	\$ 120,336
Cash and cash equivalents - restricted (note 7)	889,908
Accounts receivable - net of allowance for doubtful accounts (note 1)	179,656
Inventory	64,951
Prepaid expenses	<u>11,268</u>
Total Current Assets	<u>1,266,119</u>
Noncurrent Assets	
Capital assets: (note 1)	
Work in progress	177,150
Plant, equipment and lines	17,900,091
Less accumulated depreciation	<u>(5,904,969)</u>
Total Noncurrent Assets	<u>12,172,272</u>
Total Assets	<u><u>\$13,438,391</u></u>

LIABILITIES

Current Liabilities	
Accrued expenses	\$ 217,788
Bonds payable (note 2)	324,799
Payable from restricted assets	<u>107,112</u>
Total Current Liabilities	<u>649,699</u>
Noncurrent Liabilities	
Bonds payable (note 2)	<u>4,250,956</u>
Total Noncurrent Liabilities	<u>4,250,956</u>
Total Liabilities	<u>4,900,655</u>

NET ASSETS

Invested in capital assets, net of related debt	7,596,517
Restricted net assets	782,796
Unrestricted net assets	<u>158,423</u>
Total Net Assets	<u><u>\$ 8,537,736</u></u>

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

Big Sandy Water District
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Fund Type
For the year ended December 31, 2011

Revenues	
User fees	\$ 1,956,223
Other water revenue	<u>28,197</u>
Total Revenues	<u>1,984,420</u>
Expenses	
Wages	352,871
Commissioners expense	3,229
Taxes & benefits	171,165
Purchased water & power	865,436
Materials & supplies	111,630
Contractual services	34,511
Trasnsporation expense	35,399
Equipment expense	22,436
Insurance	26,135
Postage	15,910
Bad debt	10,698
Other expense	10,435
Telephone	6,524
Depreciation	<u>422,615</u>
Total Operating Expenses	<u>2,088,994</u>
Operating Income (Loss)	<u>(104,574)</u>
Nonoperating Revenues (Expenses)	
Grants	272,958
Tap fees	50,125
Interest income	2,134
Other non opetating revenues	1,109
Interest expense	<u>(215,022)</u>
Net Nonoperating Revenues (Expenses)	<u>111,304</u>
Net Income (Loss)	6,730
Total Net Assets - beginning	<u>8,531,006</u>
Total Net Assets - ending	<u><u>\$ 8,537,736</u></u>

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

Big Sandy Water District
Statement of Cash Flows
Proprietary Fund Type
December 31, 2011

CASH FLOWS FROM OPERATING ACTIVITIES:	
Operating revenues	\$ 1,994,098
Cash paid to employees	(352,871)
Cash paid for general and administrative expenses	<u>(1,203,467)</u>
Net Cash provided by operating activities	<u>437,760</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest earned	2,134
Customer deposits	<u>(2,304)</u>
Net Cash provided by investing activities	<u>(170)</u>
CASH FLOWS FROM CAPITAL AND FINANCING ACTIVITIES:	
Grants	272,958
Note/bond payments	(107,381)
Note/bond proceeds	78,136
Tap fees	50,125
Purchase of assets	(507,460)
Other nonoperating revenues	1,109
Interest paid	<u>(173,755)</u>
Net Cash used in capital and financing activities	<u>(386,268)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	51,322
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>958,922</u>
CASH AND CASH EQUIVALENTS - END OF THE YEAR	<u><u>\$ 1,010,244</u></u>
RECONCILIATION OF NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Net Operating Income	\$ (104,574)
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:	
(Increase) in inventory	(9,184)
Depreciation	422,615
Decrease in accounts receivable	9,678
Decrease in prepaid expenses	2,775
Increase in accounts payable	<u>116,450</u>
Net cash provided by operating activities	<u><u>\$ 437,760</u></u>

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

BIG SANDY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

Note 1 - Summary of Significant Accounting Policies

The Big Sandy Water District is a water utility which services areas of Boyd, Carter, Johnson and Lawrence Counties. Its sales are primarily to residential customers. The District is a corporate body set forth in Kentucky Revised Statutes (KRS) 74.070 which was created November, 1961. The District is subject to the regulatory District of the Kentucky Public Service Commission pursuant to KRS 278.040.

The accounting policies of the District conform to accounting principles generally accepted in the United States of America as applicable to governments. The following is a summary of the more significant policies.

The Reporting Entity

The District, for financial purposes, includes all of the funds relevant to the operations of the District. The financial statements presented herein do not include agencies which have been formed under applicable state laws or separate and distinct units of government apart from the Big Sandy Water District.

The financial statements of the District would include those of separately administered organizations that are controlled by or dependent on the District. Control or dependence is determined on the basis of financial interdependency, selection of governing District, designation of management, ability to significantly influence operations, accountability of fiscal matters, scope of public service, and financing relations.

Based on the foregoing criteria there are not other organizations included in these financial statements.

The District, presented as an enterprise fund, does not apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or after November 30, 1989.

Depreciation Reserve Fund - Monthly transfers are required to be made into this fund until it reaches the fully funded level of \$129,600. Only expenditures for capital improvements or extraordinary expenses are permitted to be paid from this fund. The District had set aside \$130,328 into this fund at December 31, 2011. The required balance at December 31, 2011 is \$129,600,

Bond and Interest Sinking Fund - Monthly transfers are required to be made into this account in an amount equal to one-sixth (1/6) of the interest becoming due on the next succeeding interest due date for all outstanding bonds and one-twelfth (1/12) of the principal of all such bonds maturing on the next succeeding due date. The required balance of the fund at December 31, 2011 was \$81,990. The District had set aside \$141,442.

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The transactions of the District are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the balance sheet. Net assets (i.e., total assets net of total liabilities) are segmented into invested in capital assets, net of related debt, restricted and unrestricted components. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, and then unrestricted resources as they are needed.

Enterprise Funds

Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprise where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Basis of Accounting

The records of the District are maintained and the budgetary process is based on the accrual method of accounting.

Inventory

The cost of inventory is recorded as a disbursement at the time of payment for the purchase. Materials on hand are inventoried at year end and recorded as an asset at that time. They are recorded at lower of cost or market valued on the FIFO method.

Cash

At December 31, 2011, the carrying amount of the District's deposits was \$1,010,244 and the bank balance was \$1,074,079. Of the bank balance 100% was covered by federal deposit insurance or collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name. The District considers all investments with a maturity of three months or less from date of purchase to be cash equivalents. Certificates of deposit that are redeemable immediately with little or no penalty are considered cash equivalents.

Fixed Assets

Fixed assets purchased are capitalized at the time of purchase. Such assets are recorded at cost. Donated assets are recorded at fair market value at the date of donation.

Depreciation of property and equipment is computed by the straight-line method based upon the estimated useful lives of the assets as follows:

<u>Class</u>	<u>Life</u>
Lines and tanks	50 years
Hydrants	30 years
Meters	20 years
Equipment	10 years
Vehicles	5 years

The District's capitalization policy is as follows: expenditures costing more than \$5,000 with an estimated useful life greater than one year are capitalized; all others are expensed.

Net Assets

Net assets represents the difference between assets and liabilities. Net assets invested in capital assets- net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are recorded as restricted when there are limitations imposed on their use by external restrictions.

Investments

Investments are carried at cost which is the lower of cost or fair market value.

Accounts Receivable

The receivable reflected in the statements in the amount of \$179,656 are net of allowance for uncollectible in the amount of \$-0-.

Use of Estimates

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

Note 2 - Notes Payable

The amount shown in the accompanying financial statements as notes payable represents the District's future obligation to make loan payments from future revenues. At December 31, 2011, eight separate loans had outstanding balances. Details of each of these issues are summarized as follows:

Note A

Lender – Rural Development

Balance of loan - \$947,500

Rate – 4.5%

Principal due January 1

Interest due January and July 1

Prepayment provision - subject to payment prior to its stated maturity without penalty or premium, at any time upon ten (10) days notice.

Note B

Lender – USDA
Balance of loan - \$476,000
Rate – 4.5%
Principal due January 1
Interest due January and July 1
Prepayment provision - subject to payment prior to its stated maturity without penalty or premium, at any time upon ten (10) days notice.

Note C

Lender – Ky Infrastructure District
Balance of loan - \$740,000
Rate – 4.60%
Principal due January 1
Interest due January 1 and July 1
Prepayment provision - subject to payment prior to its stated maturity without penalty or premium, at any time upon ten (10) days notice.

Note D

Lender – USDA
Balance of loan - \$420,500
Rate – 4.5%
Principal due January 1
Interest due January 1 and July 1
Prepayment provision – subject to payment prior to its stated maturity without penalty or premium, at any time upon ten (10) days notice.

Note E

Lender – KRWFC
Balance of loan - \$554,000
Rate – 4.15%
Principal due January 1
Interest due January 1 and July 1
Prepayment provision – subject to payments prior to its state maturity without penalty or premium, at any time upon ten (10) days notice.

Note F

Lender – KRWFC
Balance of loan - \$569,000
Rate – Variable
Payment due January 1 and July 1

Note G

Lender – KRWFC
Balance of loan - \$799,000
Rate – Variable
Payment due – January 1
Interest due January 1 and July 1

Note H

Lender – Caterpillar Financial Services

Balance of loan - \$69,756

Rate – 3.75%

Principal and interest due – monthly, payment of \$1,431

Five-Year Maturities

2012	324,799
2013	527,864
2014	365,950
2015	174,058
Thereafter	<u>3,011,500</u>
	<u>\$4,575,756</u>

Schedule of Bonds Payable	balance			balance Current	
	<u>12/31/2010</u>	<u>Additions</u>	<u>Payments</u>	<u>12/31/2011</u>	<u>Portion</u>
USDA 91-07	\$947,500	\$-	\$-	\$947,500	\$24,500
USDA 91-10	420,500	-	-	420,500	8,500
USDA 91-11	476,000	-	-	476,000	7,500
Kentucky Infrstructure C89-16	750,000	-	10,000	740,000	172,500
Kentucky Rural Water 2001	585,000	-	31,000	554,000	37,000
Kentucky Rural Water 2004	592,000	-	23,000	569,000	24,000
Kentucky Rural Water 2007	834,000	-	35,000	799,000	36,000
Caterpillar	<u>-</u>	<u>78,136</u>	<u>8,380</u>	<u>69,756</u>	<u>14,799</u>
	<u>\$ 4,605,000</u>	<u>\$ 78,136</u>	<u>\$ 107,380</u>	<u>\$ 4,575,756</u>	<u>\$ 324,799</u>

Note 3- Pension Plan

The District provides pension benefits for its employees through the County Employees Retirement System (CERS). In this type of plan, the monthly retirement benefit is base upon several factors, primarily of which is the length of service, the systems benefit factor (2.5%), and the average of the five highest fiscal year wages from all public employee's retirement system participation (CERS, KERS, & SPRS). All full time employees who work an average of 100 hours per month over a fiscal year must participate with CERS.

The plan currently requires the District to contribute an amount equal to 16.93/18.96% of the employee's base salary each month, with employees required to contribute 5%. The District's contribution will vary, depending on the dictates of the management of the county plan. The required employer's contribution is usually reviewed at least annually.

The District's total payroll in year 2011 was \$354,117 and its contributions were calculated using the base salary amount of \$317,271. Contributions to the plan were \$15,864 and \$56,961 by the employees and the District, respectively.

Note 4 - Leave Policies

The District's employees are covered by leave policies as follow:

- a) sick leave – one day per month to a maximum accumulation of sixty days;
 - b) annual leave – five days per annum with 1-2 years employment; ten days per annum with 3-9 years employment; fifteen days per annum after 10 years employment. One week of annual leave may be carried forward to the next year, but must be taken by March 31st of that year.
- Accumulated leave not paid on termination.

Note 5 - Changes in Fixed Assets

The following is a summary of changes in the fixed assets for the fiscal year:

	balance <u>12/31/10</u>	Transfer/ <u>Additions</u>	<u>Deletions</u>	balance <u>12/31/11</u>
Land	\$25,529	\$-	\$-	\$25,529
Structure & improvements	121,531	-	-	121,531
Distribution system	14,448,821	1,245,960	-	15,694,781
Vehicles	184,275	-	(27,650)	156,625
Equipment	1,823,489	78,136	-	1,901,625
Construction in process	<u>993,786</u>	<u>(816,636)</u>	<u>-</u>	<u>177,150</u>
	<u>17,597,431</u>	<u>507,460</u>	<u>(27,650)</u>	<u>18,077,241</u>
Accumulated depreciation	<u>5,510,004</u>	<u>422,615</u>	<u>(27,650)</u>	<u>5,904,969</u>
Net fixed assets	<u>12,087,427</u>			<u>12,172,272</u>

Note 6 - Revenue Bonds

Water and Revenue Bonds constitute special obligations of the District solely secured by a lien on and pledge of the net revenues of the water system. The revenue bonds are collateralized by the revenue of the water system and the various special funds established by the bond ordinances. The ordinances provide that the revenue of the system is to be used first to pay operating and maintenance expenses of the system and second to establish and maintain the revenue bond funds. Any remaining revenues may then be used for any lawful purpose. The ordinances also contain certain provisions, which require the District to maintain pledged revenues. The District must transfer monthly 1/6 of the next succeeding interest payment and 1/12 of the next succeeding principal payment from the operations and maintenance account into the bond and interest sinking account.

Note 7 - Restricted Cash

Restricted cash is composed of the following:

Deposit account	\$64,360
Depreciation reserve fund	130,328
Debt reserve fund Regions (KRWFC)	146,116
Debt reserve fund (KIA)	407,662
Debt reserve fund (USDA)	<u>141,442</u>
	<u>\$889,908</u>

Note 8 - Contingencies

The District is subject to possible examinations made by Federal and State authorities who determine compliance with terms, conditions, laws, and regulations governing other grants given to the District in the current and prior years. There were no examinations for the year ended December 31, 2011. Areas of noncompliance, if any, as a result of examinations would be included as a part of the "Findings and Questioned Costs" section of this report.

Note 9 - Risk Management

The District is exposed to various risks of losses related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District carries commercial insurance coverage for the risks to the extent deemed prudent by District management.

Note 10 - Investments

The District's investment policy is governed by the Kentucky Statutes. These requirements authorize the District to invest in obligations backed by full faith and credit of the United States and obligations of any corporation of the United States government. The policy requires that amounts on deposit with financial institutions be collateralized at a rate of 100% of amounts in excess of deposit insurance coverage.

SUPPLEMENTAL INFORMATION

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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

We have audited the financial statements of the Big Sandy Water District as of and for the year ended December 31, 2011, and have issued our report thereon dated May 22, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Big Sandy Water District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Big Sandy Water District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Big Sandy Water District's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider to be a significant deficiency in internal control over financial reporting. (11-01). 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Big Sandy Water District's financial statements are free of 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*.

The Big Sandy Water District's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit Big Sandy Water District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the audit committee, management, others within the organization and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

John T. Lane & Associates, LLC

May 22, 2012

Big Sandy Water District
 COMPARATIVE STATEMENT OF REVENUES AND EXPENSES
 for the years ended December 31, 2011 and 2010

	2011	2010
Revenues		
User fees	\$ 1,956,223	\$ 2,076,173
Other water revenue	28,197	28,676
Total Revenues	1,984,420	2,104,849
Total Operating Expenses	2,088,994	2,005,988
Operating Income (Loss)	(104,574)	98,861
Nonoperating Revenues (Expenses)		
Grants	272,958	941,681
Tap fees	50,125	83,545
Interest income	2,134	3,409
Other nonoperating revenues	1,109	7,100
Interest expense	(215,022)	(223,537)
Net Nonoperating Revenues (Expenses)	111,304	812,198
Net Income (Loss)	\$ 6,730	\$ 911,059

BIG SANDY WATER DISTRICT
FINDINGS AND RESPONSES
December 31, 2011

Prior Findings

10-01 Budget Review- Repeated as 11-01

Current Findings

11-01 Budget Review

Condition: The District prepares a detailed annual budget. However, actual performance is not measured against the annual budget.

Criteria: A more frequent review of operating results and budget variations will enable management to more actively run the business by recognizing unusual trends that may indicate fraud, unwise use of resources, operational inefficiencies, poor decision making or missed business opportunities.

Cause: Unknown

Recommendation: We recommend a budget review that includes participation of appropriate employees no less frequent than quarterly.

Response: We will start reviewing our budget quarterly at our monthly board meetings.