

LAKE VILLAGE WATER ASSOCIATION, INC.
AUDIT OF FINANCIAL STATEMENTS

DECEMBER 31, 2014

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, 2014, 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, 2014, 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 27, 2015, 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 27, 2015

Lake Village Water Association, Inc.
Statement of Assets, Liabilities, and Members' Equity-Statutory Basis
December 31, 2014
(With comparative Totals for December 31, 2013)

	<u>2014</u>	<u>2013</u>
<u>Assets</u>		
Current Assets:		
Cash (Note 3)	\$ 66,326	\$ 93,582
Accounts Receivable (Net of Allowance)	113,003	113,304
Inventory (Note 2)	16,165	18,914
Prepaid Expenses (Note 2)	<u>16,389</u>	<u>18,251</u>
Total Current Assets	211,883	244,051
Restricted Assets:		
Cash (Note 3)	262,401	273,555
Property & Equipment, net (Note 2 and 4)	<u>5,960,252</u>	<u>6,227,093</u>
 Total Assets	 <u>\$ 6,434,536</u>	 <u>\$ 6,744,699</u>

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, 2014
(With comparative Totals for December 31, 2013)

	<u>2014</u>	<u>2013</u>
<u>Liabilities & Equity</u>		
Current Liabilities:		
Current Portion - Debt (Note 5)	\$ 104,288	\$ 98,723
Cash Overdraft (Note 3)	43,167	67,954
Accounts Payable	37,198	40,368
Due to Mercer Sanitation District	12,146	11,462
Accrued Interest	104,503	109,034
Other Current Liabilities	<u>59,782</u>	<u>38,677</u>
Total Current Liabilities	361,084	366,218
Long - Term Debt (Note 5)	<u>3,353,177</u>	<u>3,457,062</u>
Total Liabilities	3,714,261	3,823,280
Members' Equity:		
Memberships	685,851	679,551
Contributions in Aid of Construction	3,665,469	3,665,469
Retained Deficit	<u>(1,631,045)</u>	<u>(1,423,601)</u>
Total Equity	<u>2,720,275</u>	<u>2,921,419</u>
Total Liabilities & Members' Equity	<u>\$ 6,434,536</u>	<u>\$ 6,744,699</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, 2014
(With Comparative Totals for the Year Ended December 31, 2013)

	<u>2014</u>	<u>2013</u>
Operating Revenue:		
Water Sales	\$ 1,239,293	\$ 1,219,580
Management Fee Income	25,000	25,000
Other Operating Revenue	<u>24,582</u>	<u>18,239</u>
 Total Operating Revenue	 1,288,875	 1,262,819
 Operating Expenses	 <u>1,038,437</u>	 <u>993,926</u>
 Net Operating Income Before Depreciation	 250,438	 268,893
 Depreciation (Note 2)	 <u>296,630</u>	 <u>267,332</u>
 Net Operating Income	 (46,192)	 1,561
Non-Operating Income (Expenses):		
Interest Income	994	1,126
Interest Expense	<u>(162,246)</u>	<u>(168,264)</u>
 Total Non-Operating Income (Expenses):	 <u>(161,252)</u>	 <u>(167,138)</u>
 Net Income (Loss)	 <u>\$ (207,444)</u>	 <u>\$ (165,577)</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, 2014 and 2013

	<u>Memberships</u>	<u>Contributions in Aid of Construction</u>	<u>Retained Deficit</u>	<u>Total</u>
Balance at January 1, 2013	\$ 675,951	\$ 2,598,369	\$(1,258,024)	\$ 2,016,296
2013 Net Loss			(165,577)	(165,577)
Capital Contribution -				
Government		317,100		317,100
Customers		750,000		750,000
Memberships	<u>3,600</u>	<u>-</u>	<u>-</u>	<u>3,600</u>
Balance at December 31, 2013	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	<u>\$ 685,851</u>	<u>\$ 3,665,469</u>	<u>\$(1,631,045)</u>	<u>\$ 2,720,275</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, 2014
(With Comparative Totals for the Year Ended December 31, 2013)

	<u>2014</u>	<u>2013</u>
Source of Supply Expense:		
Water Purchases	<u>\$ 440,200</u>	<u>\$ 421,605</u>
Total	440,200	421,605
Transmission & Distribution Expense:		
Maintenance & Repairs	<u>24,494</u>	<u>28,483</u>
Total	24,494	28,483
Customer Accounts Expense:		
Uncollectible Accounts	917	100
Supplies & Postage	<u>14,245</u>	<u>14,902</u>
Total	15,162	15,002
Administrative & General:		
Salaries	305,006	288,839
Insurance	36,273	26,598
Utilities	28,550	24,205
Office Supplies & Expense	26,547	26,898
Transportation Expense	17,333	17,436
Payroll Taxes	24,369	23,591
Staff Benefits	66,359	73,242
Legal Expense	3,000	3,225
Audit & Accounting	4,900	4,850
Commissioners' Fees	24,000	24,000
Engineering Fees	4,812	2,201
Miscellaneous General Expense	14,967	11,635
Other Licenses & Taxes	<u>2,465</u>	<u>2,116</u>
Total Administrative & General	<u>558,581</u>	<u>528,836</u>
Total Operating Expenses	<u>\$ 1,038,437</u>	<u>\$ 993,926</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, 2014
(With Comparative Totals for the Year Ended December 31, 2013)

	<u>2014</u>	<u>2013</u>
Cash Flows From Operating Activities		
Net Loss	\$ (207,444)	\$ (165,577)
Adjustments to Reconcile Net Loss to Net Cash Provided by Operating Activities:		
Depreciation	296,630	267,332
Decrease (Increase) in Accounts Receivable	301	(3,662)
Decrease (Increase) in Inventory	2,749	1,014
Decrease (Increase) in Prepaid Expenses	1,862	(156)
Increase (Decrease) in Accounts Payable	(3,170)	(4,202)
Increase (Decrease) in Due to Sanitation District	684	(1,673)
Increase (Decrease) in Contractors Payable	-	2,206
Increase (Decrease) in Other Current Liabilities	21,105	1,594
Increase (Decrease) in Accrued Interest	<u>(4,531)</u>	<u>(11,234)</u>
Net Cash Provided By (Used In) Operating Activities	<u>108,186</u>	<u>85,642</u>
Cash Flows From Investing Activities		
Construction/Acquisition of Property & Equipment	<u>(29,789)</u>	<u>(443,294)</u>
Net Cash Used in Investing Activities	<u>(29,789)</u>	<u>(443,294)</u>
Cash Flows From Financing Activities		
Memberships (Tap Fees)	6,300	3,600
Cash Contributions - Government	-	317,100
Repayments of RD Loans	<u>(98,320)</u>	<u>(85,797)</u>
Net Cash Provided By (Used In) Financing Activities	<u>(92,020)</u>	<u>234,903</u>
Net Increase (Decrease) in Cash	(13,623)	(122,749)
Cash at Beginning of Year	<u>299,183</u>	<u>421,932</u>
Cash at End of Year	<u>\$ 285,560</u>	<u>\$ 299,183</u>

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

Lake Village Water Association, Inc.
Notes to Financial Statements
December 31, 2014

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.
- 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.

Lake Village Water Association, Inc.
Notes to Financial Statements
December 31, 2014

3. Cash

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

		2014	2013
Cash on Hand		\$ 50	\$ 50
Cash on Deposit-Operating Account	A	(43,167)	(67,954)
Cash on Deposit-Revenue Account	B	5,039	9,513
Cash on Deposit-Customer Deposits	C	15,799	15,537
Cash on Deposit-Adams Lane Construction	D	-	20
Savings Accounts:			
Debt Service Account	E	171,421	192,999
Depreciation Account	F	61,236	84,019
Reserve Account	G	75,182	64,999
TOTAL		\$ 285,560	\$ 299,183

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 \$285,560 and the bank balance was \$372,015. At December 31, 2014, 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 depreciation account is used by the Association to maintain excess unrestricted funds so that they will earn interest.
- (G) 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, 2014

4. Property and Equipment

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

	2014	2013
Land	\$ 62,409	\$ 62,409
Buildings & Improvements	75,074	75,074
Supply Mains	15,500	15,500
Pump Station	50,800	50,800
Standpipes & Storage Tanks	1,824,636	1,822,305
Water Lines	7,083,677	7,083,677
Customer Services	189,926	189,926
Meters	468,035	458,822
Hydrants	1,960	1,960
Office Furniture	77,250	77,250
Transportation Equipment	142,032	142,032
Other Equipment	75,768	75,768
Other Tangible Plant	223,235	223,235
Construction in Process	42,148	23,903
Total	10,332,450	10,302,661
Less: Accumulated Depreciation	4,372,198	4,075,568
Property & Equipment, net	\$ 5,960,252	\$ 6,227,093

5. Long-Term Debt

A. Loan 91-05

8.375% promissory note payable to the Department of Agriculture, Rural Development, due in annual installments of \$45,703, including principal and interest. \$ 99,594

B. Loan 91-06

5.50% promissory note payable to the Department of Agriculture, Rural Development, due in annual installments of \$52,206, including principal and interest. 622,478

C. Loan 91-07

5.375% promissory note payable to the Department of Agriculture, Rural Development, due in annual installments of \$21,484, including principal and interest. 162,671

D. Loan 91-08

5% promissory note payable to the Department of Agriculture, Rural Development, due in annual installments of \$16,839, including principal and interest. 231,474

E. 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. 834,008

F. Loan 91-10

4.0% promissory note payable to the Department of Agriculture, Rural Development, due annual installments of \$79,733, including principal and interest. 1,507,240

Total Outstanding Debt \$ 3,457,465

Lake Village Water Association, Inc.
Notes to Financial Statements
December 31, 2014

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

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

Year Ending December 31,	Amount
2015	\$ 104,288
2016	110,650
2017	95,290
2018	77,107
2019	80,839
Thereafter	2,989,291
Total	\$ 3,457,465

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.

	2014	2013
(B) Active Meter Customers - December 31,	2,134	2,135
(C) Water Loss:		
Water Purchases – Gallons	234,526,102	231,142,934
Water sold and Used in Operations	222,432,599	214,840,184
Line Loss	12,093,503	16,302,750
Percentage of Line Loss	5.16%	7.05%

(D) Accounts receivable aging at December 31, 2014:

Current	\$ 105,188
30-59 Days	6,318
60-89 Days	1,497
Over 90 Days	4,810
Less: Allowance	(4,810)
Net Accounts Receivable	\$ 113,003

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, 2014

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, 2014, all funds from this grant had been spent in relation to this project.

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, 2014, \$42,148 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.

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. This contract was renewed for an additional five year term in March of 2014.

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, 2014, 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 27, 2015.

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 27, 2015