

SOUTH LOGAN WATER ASSOCIATION, INC.
FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

**SOUTH LOGAN WATER ASSOCIATION, INC.
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INDEPENDENT AUDITORS' REPORT

Commissioners
South Logan Water Association, Inc.
Adairville, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of South Logan Water Association, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2014 and 2013, and the related statements of activities and cash flows for the years 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 accounting principles generally accepted in the United States of America; this includes 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we 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 auditors' 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, we 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of South Logan Water Association, Inc. as of December 31, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 23, 2015, on our consideration of South Logan Water Association, Inc.'s internal control over financial reporting and on 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 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 South Logan Water Association, Inc.'s internal control over financial reporting and compliance.

Respectfully submitted,



Buckles, Travis, VanMeter & Hart, PLLC
Certified Public Accountants
Leitchfield, Kentucky
March 23, 2015

**SOUTH LOGAN WATER ASSOCIATION, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2014 AND 2013**

	DECEMBER 31,	
	2014	2013
ASSETS		
CURRENT ASSETS		
Cash	\$ 105,809	\$ 63,148
Restricted cash	581,825	812,595
Accounts receivable (net of allowance of \$38,482 for 2014 and \$38,432 for 2013)	118,653	122,086
Inventory	64,180	61,323
Prepaid expenses	5,207	5,936
TOTAL CURRENT ASSETS	875,674	1,065,088
 UTILITY PLANT, net	 5,152,433	 4,593,423
 OTHER ASSETS	 45	 45
TOTAL ASSETS	\$ 6,028,152	\$ 5,658,556
 LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 5,800	\$ 72,298
Current portion of long-term debt	31,987	31,023
Customer deposits	99,099	96,375
Accrued liabilities	10,738	18,481
Accrued interest	54,079	46,014
TOTAL CURRENT LIABILITIES	201,703	264,191
 LONG-TERM DEBT, net of current portion	 2,614,269	 2,525,209
TOTAL LIABILITIES	2,815,972	2,789,400
 NET ASSETS		
Contributions in aid of construction	2,169,764	1,818,188
Net assets	1,042,416	1,050,968
TOTAL NET ASSETS	3,212,180	2,869,156
TOTAL LIABILITIES AND NET ASSETS	\$ 6,028,152	\$ 5,658,556

Accompanying notes to the financial statements are an integral part of this statement.

**SOUTH LOGAN WATER ASSOCIATION, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

	DECEMBER 31,	
	2014	2013
UNRESTRICTED REVENUES, GAINS AND OTHER SUPPORT		
Water service	\$1,166,684	\$1,067,973
Late charges	16,174	17,209
Other	12,194	11,799
TOTAL UNRESTRICTED REVENUES, GAINS AND OTHER SUPPORT	1,195,052	1,096,981
OPERATING EXPENSES		
Purchased water	611,790	565,492
Payroll	157,877	143,115
Payroll taxes	14,381	13,134
Directors fees	1,450	1,250
Retirement expense	3,268	3,422
Transmission and distribution	46,701	49,051
Repairs and maintenance	470	47,947
Vehicle expense	23,609	21,497
Contractual services	1,525	4,025
Utilities and telephone	15,697	13,269
Professional fees	8,161	12,013
Insurance	32,402	21,464
Taxes and licenses	2,085	387
Office supplies	33,855	33,965
Water tests	4,232	2,435
Depreciation	133,582	119,068
Bad debt	0	4,670
Miscellaneous	10,619	5,336
Advertising	2,322	2,219
TOTAL OPERATING EXPENSES	1,104,026	1,063,759
INCOME (LOSS) FROM OPERATIONS	91,026	33,222
NON-OPERATING GAINS (LOSSES)		
Interest income	1,446	2,039
Gain (loss) on sale of assets	0	4,925
PSC taxes	(2,151)	(1,962)
Interest expense	(98,873)	(67,591)
TOTAL NON-OPERATING GAINS (LOSSES)	(99,578)	(62,589)
EXCESS OF REVENUES OVER EXPENSES AND INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	\$ (8,552)	\$ (29,367)

Accompanying notes to the financial statements are an integral part of this statement.

**SOUTH LOGAN WATER ASSOCIATION, INC.
STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

	<u>NET ASSETS</u>	<u>CONTRIBUTIONS IN AID OF CONSTRUCTION</u>	<u>TOTAL</u>
BALANCE, JANUARY 1, 2013	\$ 1,080,335	\$ 1,862,251	\$ 2,942,586
Net income	(29,367)	0	(29,367)
Capital contributions – KIA and Rural			
Development grants	0	0	0
Depreciation on assets acquired by grant	0	(48,863)	(48,863)
Capital contributions – Tap on fees	0	4,800	4,800
BALANCE, DECEMBER 31, 2013	1,050,968	1,818,188	2,869,156
Net income	(8,552)	0	(8,552)
Capital contributions – KIA and Rural			
Development grants	0	391,544	391,544
Depreciation on assets acquired by grant	0	(50,168)	(50,168)
Capital contributions – Tap on fees	0	10,200	10,200
BALANCE, DECEMBER 31, 2014	<u>\$ 1,042,416</u>	<u>\$ 2,169,764</u>	<u>\$ 3,212,180</u>

Accompanying notes to the financial statements are an integral part of this statement.

**SOUTH LOGAN WATER ASSOCIATION, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

	DECEMBER 31,	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income (loss)	\$ (8,552)	\$ (29,367)
Adjustments to reconcile net operating income (loss) to net cash provided (used) by operating activities:		
Depreciation expense	133,582	119,068
(Gain) loss on sale of assets	0	(4,925)
(Increase) decrease in restricted cash	230,770	(81,259)
Net (increase) decrease in accounts receivable	3,433	(9,932)
Net (increase) decrease in inventory	(2,857)	(28,757)
Net (increase) decrease in prepaid expenses	729	(296)
Net increase (decrease) in accounts payable	(66,498)	11,507
Net increase (decrease) in customer deposits	2,724	1,552
Net increase (decrease) in accrued interest	8,065	6,165
Net increase (decrease) in accrued liabilities	(7,743)	(13,527)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	293,653	(29,771)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term debt	122,253	1,077,747
Payments on long-term debt	(32,229)	(30,983)
Acquisition of utility plant	(742,760)	(1,135,455)
Proceeds from sale of assets	0	13,000
Contributions in aid of construction from customers and grants	401,744	4,800
Miscellaneous receipts	0	1
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	(250,992)	(70,890)
CASH FLOWS FROM INVESTING ACTIVITIES		
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	0	0
NET INCREASE (DECREASE) IN CASH	42,661	(100,661)
BALANCES – BEGINNING OF YEAR	63,148	163,809
BALANCES – END OF YEAR	\$ 105,809	\$ 63,148
SUPPLEMENTAL DISCLOSURE		
Interest paid	\$ 90,808	\$ 61,426

Accompanying notes to the financial statements are an integral part of this statement.

**SOUTH LOGAN WATER ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

NOTE A – DESCRIPTION OF SIGNIFICANT ACCOUNTING POLICIES

1. Nature of Operations

The South Logan Water Association, Inc. (the “Association”) was chartered on October 6, 1971. It is a distributor of water under the authority of the Public Service Commission of Kentucky. The Association provides water service to customers in a sector of Logan County, Kentucky.

2. Basis of Presentation

The accompanying financial statements of the Association are presented on the accrual basis of accounting.

3. Use of Estimates

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

4. Accounts Receivable and Other Receivables

Customer accounts receivable and other receivables are stated at the amount billed to customers. The Association’s operating revenues are recognized on the basis of cycle billings rendered monthly. Accounts receivable are due on the 20th of each month. Accounts unpaid 10 days after the due date are considered delinquent and service is disconnected. An allowance is established for delinquent receivables and they are written off when deemed uncollectible. New service is denied until all outstanding balances have been settled.

5. Inventory

Inventory consists of operating supplies and is stated at the lower of cost or market. Cost is determined by the first-in, first-out method.

6. Utility Plant

Expenditures for utility plant with an original cost of \$500 or more are capitalized at cost, while maintenance and repairs are charged to operations when incurred. Depreciation is recorded on the straight-line method over the estimated useful lives of the assets. Interest costs for fixed asset construction are capitalized.

SOUTH LOGAN WATER ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014 AND 2013

NOTE A – DESCRIPTION OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

7. Contributions in Aid of Construction

Beginning January 1, 1997, the Association changed its method of accounting for tap on fees. Prior to 1997, tap on fees were recorded as other revenue. Effective January 1, 1997, tap on fees are recorded as contributions in aid of construction. The cumulative effect on retained earnings at the beginning of 1997 is undeterminable.

Federal and state capital grants and construction contributions are recorded as capital contributions when received.

8. Income Taxes

The Association may qualify for an exemption from federal income tax under the Internal Revenue Code as a not-for-profit organization. The Association has not filed for an exempt status with the Internal Revenue Service. See Note D.

9. Concentrations of Credit Risk

At year-end, the carrying amount of the Association's cash and investments was \$687,634 and the bank balance was \$744,080. Of the total bank balance, \$250,000 was covered by federal depository insurance and the remaining balance of \$494,080 would require collateralization. As of December 31, 2014, \$832,839 was pledged with securities held by the pledging banks' trust department but not in the Association's name.

10. Cash and Cash Equivalents

The Association has defined cash and cash equivalents to include all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

11. Impairment of Long-Lived Assets

The Association reviews its property for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. For assets held and used, if the undiscounted cash flows estimated to be generated by those assets are less than the carrying amounts of the asset, an impairment loss has occurred. The amount of the impairment loss is equal to the excess of the asset's carrying value over its estimated fair value. No impairment loss has been recognized during the years ended December 31, 2014 and 2013.

**SOUTH LOGAN WATER ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014 AND 2013**

NOTE B – RESTRICTED CASH

Restricted cash consists of the following at December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
System improvement project construction funds	\$ 271,089	\$ 512,408
Customer deposits	132,883	130,354
Debt service – bonds	59,428	60,489
Cash reserves – bonds	118,425	109,344
	<u>\$ 581,825</u>	<u>\$ 812,595</u>

The Association’s bond agreements require certain debt and capital reserves. Capital project funds are restricted for the expansion project. Customer deposits are refundable after service has been terminated.

NOTE C – UTILITY PLANT

A summary of utility plant activity at December 31, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
Land and land improvements	\$ 36,719	\$ 36,719
Pumping equipment	44,627	44,627
Distribution reservoirs and standpipes	630,077	630,077
Transmission and distribution mains	6,221,216	4,484,691
Services	42,701	42,701
Meters and installations	702,283	682,234
Hydrants	59,624	57,359
Communication equipment	19,341	19,341
Vehicles	169,376	160,292
Building and improvements	94,685	94,685
Office equipment	37,176	37,176
Construction in progress	0	1,041,485
	<u>8,057,825</u>	<u>7,331,387</u>
Less accumulated depreciation	<u>(2,905,392)</u>	<u>(2,737,964)</u>
Utility Plant, Net	<u>\$5,152,433</u>	<u>\$4,593,423</u>

NOTE D – CONTINGENCY

The Association has been operating as a tax exempt, not-for-profit organization since its inception. However, no formal application has been made with the Internal Revenue Service to receive official tax exempt status. No provision has been made in the accompanying financial statements to reflect any uncertainty of this status, including potential income taxes.

SOUTH LOGAN WATER ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014 AND 2013

NOTE E – LONG-TERM DEBT

Current year long-term debt activity is as follows:

<u>Description</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Note payable – FmHA, payable in annual installments of principal and interest of \$24,655, interest at 5.00%, maturing May 2033, secured by assignment and pledge of revenue	\$ 280,162	\$ 0	\$ 10,647	\$ 269,515	\$ 9,764
Note payable – FmHA, payable in annual installments of \$33,594, interest at 4.875%, maturing February 2038, secured by assignment and pledge of revenue	478,129	0	10,285	467,844	10,723
Note payable – Rural Development, payable in annual installments of principal and interest, interest at 4.125%, maturing September 2045, secured by substantially all assets and revenues of the Association	720,194	0	11,297	708,897	11,500
Note Payable – Rural Development, payable in annual installments of \$51,300 principal and interest, interest at 2.75%, maturing September 2053, secured by assignment and pledge of revenue	1,077,747	122,253	0	1,200,000	0
	<u>\$ 2,556,232</u>	<u>\$ 122,253</u>	<u>\$ 32,229</u>	<u>\$ 2,646,256</u>	<u>\$ 31,987</u>

Annual debt service requirements to maturity are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 31,987	\$ 100,029	\$ 132,016
2016	51,797	98,545	150,342
2017	53,862	96,486	150,348
2018	55,992	94,340	150,332
2019	58,691	92,084	150,775
2020-2024	329,596	423,304	752,900
2025-2029	401,921	351,009	752,930
2030-2034	438,347	260,693	699,040
2035-2039	422,804	172,192	594,996
2040-2044	360,382	101,129	461,511
2045-2049	249,210	45,734	294,944
2050-2053	191,667	13,533	205,200
	<u>\$ 2,646,256</u>	<u>\$ 1,849,078</u>	<u>\$ 4,495,334</u>

SOUTH LOGAN WATER ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014 AND 2013

NOTE F – RISK MANAGEMENT

The Association is exposed to various risks of loss related torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The Association carries insurance for all risks of loss, including worker's compensation, general liability and property loss insurance. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three years.

NOTE G – WATER AGREEMENT

The Association has entered into a water purchase contract with the Logan-Todd Regional Water Commission, whereas the contract requires the Commission to provide water to the Association and the rates the Association will be charged for the expected water usage are defined therein. The contract will extend for a term of 50 years beginning January 1, 2003. The agreement may be renewed or extended for such term or terms as may be agreed by the Commission and the Association. Under terms of the agreement, the Association may not produce or resell water to any other water system or water seller, nor may the Association add any customer to its system that would increase average daily water demand or peak water demand within the Association by over 25% without prior written approval from the Commission. The agreement was originally signed to begin from the earlier date of initial availability of water for delivery by the Commission or January 1, 2003. The Association began purchasing water from the Commission in April 2003; therefore, the Commission is the sole provider of water to the Association. The agreement does require the Association to purchase minimum levels of water from the Commission. If minimum levels are not met, the Commission may charge the Association for shortages.

NOTE H – FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used by the Association in estimating the fair value of its financial instruments:

Cash and cash equivalents – The carrying amount reported in the statement of financial position approximates fair value because of the short maturity of those instruments.

Accounts payable and accrued expenses – The carrying value amount reported in the statement of financial position approximates its fair value.

Long-term debt – Fair value of the Association's debt is based on current traded value.

**SOUTH LOGAN WATER ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)
DECEMBER 31, 2014 AND 2013**

NOTE I – RETIREMENT PLAN

The Association began a SIMPLE IRA retirement plan in 2007 that covers all employees who meet the eligibility requirements. The Association's contributions to the plan have been determined by the Board of Commissioners. Contributions to the plan were \$3,268 and \$3,422 for 2014 and 2013, respectively.

NOTE J – SUBSEQUENT EVENTS

South Logan Water Association, Inc.'s management has evaluated and considered the need to recognize or disclose subsequent events through March 23, 2015, which represents the date that these financial statements were available to be issued. Subsequent events past this date, as they pertain to the fiscal year ended December 31, 2014, have not been evaluated by management.

NOTE K – RELATED PARTY TRANSACTIONS

During the year ended December 31, 2014, the Association contracted for a equipment rental in the amount of \$725 with a company whose principal is the spouse of the Association's office manager.

A substantial amount of the Association's insurance is purchased through a local agency, the principal of which is a commissioner. The total payments to the agency or to represented companies were \$15,212 and \$20,905 for the years ended December 31, 2014 and 2013, respectively.

NOTE L – LITIGATION

A claim has been assessed against the Association for alleged home damages suffered due to high water pressure in the Association's water main lines. The claim is being disputed by the Association's liability insurance provider. The potential liability is uncertain as of December 31, 2014.

SUPPLEMENTARY INFORMATION

**SOUTH LOGAN WATER ASSOCIATION, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Agency or Pass-through Number</u>	<u>Federal Expenditures</u>
United States Department of Agriculture			
Water and Waste Disposal Systems for Rural Communities	10.760	*	N/A
Total expenditures of federal awards			<u>\$ 647,376</u>

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards is prepared on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B – MAJOR PROGRAM

The major program is identified by an asterisk (*).

**INDEPENDENT AUDITORS' 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**

Commissioners
South Logan Water Association, Inc.
Adairville, Kentucky

We 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 South Logan Water Association, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2014, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 23, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered South Logan Water Association, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of South Logan Water Association, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of South Logan Water Association, Inc.'s internal control.

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

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as 14-1 and 14-2, that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether South Logan Water Association, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

South Logan Water Association, Inc.'s Response to Findings

South Logan Water Association, Inc.'s response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. South Logan Water Association, Inc.'s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,



Buckles, Travis, VanMeter & Hart, PLLC
Certified Public Accountants
Leitchfield, Kentucky
March 23, 2015

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Commissioners
South Logan Water Association, Inc.
Adairville, Kentucky

Report on Compliance for Each Major Federal Program

We have audited South Logan Water Association, Inc.'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of South Logan Water Association, Inc.'s major federal programs for the year ended December 31, 2014. South Logan Water Association, Inc.'s major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of South Logan Water Association, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about South Logan Water Association, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of South Logan Water Association, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, South Logan Water Association, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014.

Report on Internal Control over Compliance

Management of South Logan Water Association, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered South Logan Water Association, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of South Logan Water Association, Inc.'s internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Respectfully Submitted,



Buckles, Travis, VanMeter & Hart, PLLC
Certified Public Accountants
Leitchfield, Kentucky
March 23, 2015

**SOUTH LOGAN WATER ASSOCIATION, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2014**

A. SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unmodified opinion on the financial statements of South Logan Water Association, Inc.
2. Significant deficiencies relating to the audit of the financial statements are reported in the Report on Internal Control over Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of South Logan Water Association, Inc. were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.
5. The auditors' report on compliance for the major federal award programs for South Logan Water Association, Inc. expresses an unmodified opinion on all major federal programs.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule.
7. The programs tested as major programs include:

United States Department of Agriculture
Water and Waste Disposal Systems for Rural Communities
10.760
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. South Logan Water Association, Inc. did not qualify as a low-risk auditee.

**SOUTH LOGAN WATER ASSOCIATION, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COST (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2014**

B. FINDINGS – FINANCIAL STATEMENT AUDIT

Reference Number Significant Deficiencies	<u>Finding</u>	Questioned Costs
14-1	<p>Condition: Accounting personnel responsible for the accounting and reporting function lacks the professional training and professional experience to apply generally accepted accounting principles in preparing the Association’s financial statements.</p> <p>Criteria: Deficiencies in the design of controls include the above mentioned condition.</p> <p>Effect: The Association is unable to prepare and present properly adjusted financial statements with full note disclosures throughout the fiscal year and at year-end.</p> <p>Cause: Budgetary constraints limit hiring individuals possessing the required technical knowledge.</p> <p>Recommendation: The Association should consider obtaining the professional training and expertise to apply generally accepted accounting principles in preparing the Association’s financial statements.</p> <p>Response: The Association concurs with the recommendation; however, it is not feasible to obtain the training and expertise at this time.</p>	None
14-2	<p>Condition: Due to the small staff size, the Association’s bookkeeping lacks adequate segregation of duties. Two of its employees perform essentially all accounting functions, including maintenance of journals, ledgers, check preparation, and cash receipts and disbursements.</p> <p>Criteria: Segregation of duties is an essential element of proper internal control.</p> <p>Effect: Significant controls over transaction processing were absent.</p> <p>Cause: Budgetary constraints limit hiring the number of employees sufficient to permit assignment of accounting functions to various individuals.</p> <p>Recommendation: The Association should continue its efforts to distribute the accounting procedures over as many different individuals as practical, also considering realignment of duties.</p> <p>Response: The Association believes that there will always be a risk involved in a small business with limited personnel. Policy whereby employees check each other could possibly be restricted and monitored more extensively, but they also feel that they have enough backup to prevent fraud or theft where deposits are concerned. The Association has implemented measures for the bank statements and reconciliations to be reviewed by the treasurer.</p>	None

**SOUTH LOGAN WATER ASSOCIATION, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COST (CONCLUDED)
FOR THE YEAR ENDED DECEMBER 31, 2014**

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

Noncompliance

None

Significant Deficiencies

None

**SOUTH LOGAN WATER ASSOCIATION, INC.
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2013**

B. FINDINGS – FINANCIAL STATEMENT AUDIT

Reference Number Significant Deficiencies	<u>Finding</u>	Questioned Costs
13-1	<p>Condition: Accounting personnel responsible for the accounting and reporting function lacks the professional training and professional experience to apply generally accepted accounting principles in preparing the Association’s financial statements.</p> <p>Criteria: Deficiencies in the design of controls include the above mentioned condition.</p> <p>Effect: The Association is unable to prepare and present properly adjusted financial statements with full note disclosures throughout the fiscal year and at year-end.</p> <p>Cause: Budgetary constraints limit hiring individuals possessing the required technical knowledge.</p> <p>Recommendation: The Association should consider obtaining the professional training and expertise to apply generally accepted accounting principles in preparing the Association’s financial statements.</p> <p>Response: The Association has engaged a CPA firm to compile their annual financial statements and note disclosures to aid in remedying this deficiency.</p>	None
13-2	<p>Condition: Due to the small staff size, the Association’s bookkeeping lacks adequate segregation of duties. Two of its employees perform essentially all accounting functions, including maintenance of journals, ledgers, check preparation, and cash receipts and disbursements.</p> <p>Criteria: Segregation of duties is an essential element of proper internal control.</p> <p>Effect: Significant controls over transaction processing were absent.</p> <p>Cause: Budgetary constraints limit hiring the number of employees sufficient to permit assignment of accounting functions to various individuals.</p> <p>Recommendation: The Association should continue its efforts to distribute the accounting procedures over as many different individuals as practical, also considering realignment of duties.</p> <p>Response: The Association believes that there will always be a risk involved in a small business with limited personnel. Policy whereby employees check each other could possibly be restricted and monitored more extensively, but they also feel that they have enough backup to prevent fraud or theft where deposits are concerned. The Association has implemented measures for the bank statements and reconciliations to be reviewed by the treasurer.</p>	None

**SOUTH LOGAN WATER ASSOCIATION, INC.
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2013**

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

Noncompliance

None

Significant Deficiencies

None