

**EAST LOGAN WATER DISTRICT**

**A COMPONENT UNIT OF  
LOGAN COUNTY, KENTUCKY**

**BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

**EAST LOGAN WATER DISTRICT  
A COMPONENT UNIT OF LOGAN COUNTY, KENTUCKY  
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FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

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## INDEPENDENT AUDITORS' REPORT

Commissioners  
East Logan Water District  
Auburn, Kentucky

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

We have audited the accompanying financial statements of the business-type activities of the East Logan Water District as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### ***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 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 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, 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 opinions.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of East Logan Water District, as of December 31, 2016 and 2015, and the respective changes in financial position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2017, on our consideration of the East Logan Water District'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 East Logan Water District's internal control over financial reporting and compliance.

Respectfully submitted,

***Buckles, Travis & Hart, PLLC***

Buckles, Travis & Hart, PLLC  
Certified Public Accountants  
Leitchfield, Kentucky  
March 27, 2017

**EAST LOGAN WATER DISTRICT  
AUBURN, KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

As management of the East Logan Water District (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the years ended December 31, 2016 and 2015. Management's Discussion and Analysis (MD&A) is intended to serve as an introduction to the District's basic financial statements. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

The information in this MD&A is presented under the following headings:

- Organization and Business
- Financial Highlights
- Overview of the Financial Statements
- Financial Analysis of the District
- Capital Assets and Debt Administration
- Budget Analysis
- Factors Impacting Future Periods
- Request for Information

***ORGANIZATION AND BUSINESS***

East Logan Water District is a component unit of county government of Logan County, Kentucky. The District currently maintains approximately 284.47 miles of distribution lines and provides water distribution services for approximately 3,014 users in eastern and northern Logan County, Kentucky. The water district purchases 100% of its water from the Logan Todd Regional Water Commission, a state of the art regional provider of high-quality water. The District in turn distributes and resells the water to industrial, commercial and residential users.

***FINANCIAL HIGHLIGHTS***

- The total assets of the District exceeded the total liabilities by \$7,562,487 for 2016 and \$7,323,967 for 2015.
- Based on the GASB 34 model of measuring net position, the total net position of the District increased \$238,520 for 2016 and increased \$124,605 for 2015.
- The operating revenues and operating expenses were stable in the current year resulting in amounts comparable to the prior year.
- The District purchases all water from the Logan Todd Regional Water Commission. The District maintained a cost of water percentage relative to water sales of 48% for 2016 and 43% for 2015.

***OVERVIEW OF THE FINANCIAL STATEMENTS***

The discussion and analysis is intended to serve as an introduction to the East Logan Water District's basic financial statements. The District's basic financial statements are comprised of two components: (1) Basic Financial Statements and (2) Notes to the Financial Statements. The report also contains other required supplementary information in addition to the basic financial statements.

The Financial Statements of the District report information utilizing the full accrual basis of accounting. This method of accounting recognizes revenues when earned instead of when received and recognizes expenses when incurred rather than when paid. The Financial Statements conform to accounting principles, which are generally accepted in the United States of America.

The Statement of Net Position includes information on the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

While the Statement of Net Position provides information about the nature and amount of resources and obligations at year-end, the Statement of Revenues, Expenses, and Changes in Fund Net Position presents the results of the District's operations over the course of the operating cycle. This statement can be used to determine whether the District has successfully recovered all of its actual cost including depreciation through user fees and other charges. All changes in net position are reported during the period in which the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods, such as delayed collection of operating revenues and delayed payment of current year expenses.

The third financial statement is the Statement of Cash Flows. This statement provides information on the District's cash receipts, cash payments and changes in cash resulting from operations, investments and financing activities. From the Statement of Cash Flows, the reader can obtain information on the source and use of cash and the change in the cash balance for the operating cycle.

***FINANCIAL ANALYSIS OF THE DISTRICT***

Net position at December 31, 2016 and 2015:

	<b>2016</b>	<b>2015</b>
Current and other assets	\$ 2,532,604	\$ 2,831,208
Capital assets	7,504,339	7,862,607
<b>Total Assets</b>	<b>10,036,943</b>	<b>10,693,815</b>
Long-term obligations	2,051,000	3,001,000
Other liabilities	423,456	368,848
<b>Total Liabilities</b>	<b>2,474,456</b>	<b>3,369,848</b>
Net position		
Net investment in capital assets	5,393,339	4,826,607
Restricted	746,862	1,074,111
Unrestricted	1,422,286	1,423,249
<b>Total Net Position</b>	<b>\$ 7,562,487</b>	<b>\$ 7,323,967</b>

Changes in Net Position for the years ended December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Revenues		
Water service revenues	\$ 1,936,725	\$ 1,761,054
Other revenues	56,348	54,012
<b>Total Operating Revenues</b>	<u>1,993,073</u>	<u>1,815,066</u>
Expenses		
Water operations	1,688,992	1,643,036
<b>Total Operating Expenses</b>	<u>1,688,992</u>	<u>1,643,036</u>
<b>Net Operating Income</b>	304,081	172,030
Non-operating expenses, net	<u>(94,261)</u>	<u>(110,292)</u>
<b>Income (Loss) Before Capital Contributions</b>	209,820	61,738
Capital contributions	<u>28,700</u>	<u>62,867</u>
<b>Increase (Decrease) in Net Position</b>	<u>\$ 238,520</u>	<u>\$ 124,605</u>

The District's total operating revenues increased \$178,007 with an increase of \$45,956 in operating expenses resulting in an increase of \$132,051 in operating income. Non-operating expenses, net of revenues, decreased \$16,031. Net position for the year increased \$238,520. Net position at December 31, 2016 was \$7,562,487.

***CAPITAL ASSETS AND DEBT ADMINISTRATION***

The District had \$7,504,339 (net of accumulated depreciation) invested in a variety of utility capital assets. The investment in capital assets includes land, distribution reservoirs, distribution mains, meters and equipment.

	<u>2015</u>	<u>Additions</u>	<u>Disposals</u>	<u>2016</u>
Land and land improvements	\$ 24,904	\$ 0	\$ (1,320)	\$ 23,584
Structures and improvements	213,991	3,198	0	217,189
Distribution reservoirs	507,320	0	0	507,320
Distribution mains	11,837,187	0	0	11,837,187
Meters and services	223,385	0	0	223,385
Equipment	234,382	12,437	0	246,819
	<u>\$ 13,041,169</u>	<u>\$ 15,635</u>	<u>\$ (1,320)</u>	<u>\$13,055,484</u>

***LONG-TERM DEBT***

At December 31, 2016, the District had \$2,111,000 in revenue bonds and notes payable outstanding. The District’s principal amount had a net decrease of \$925,000 for the year.

<u>Type</u>	<u>Maturity</u>	<u>2016</u>	<u>2015</u>	<u>Increase (Decrease)</u>
Revenue Bonds	January 2042	\$ 0	\$ 640,000	\$ (640,000)
Loan Payable	January 2035	790,000	825,000	(35,000)
Revenue Bonds	January 2048	1,321,000	1,571,000	(250,000)
		<u>\$ 2,111,000</u>	<u>\$ 3,036,000</u>	<u>\$ (925,000)</u>

***BUDGET ANALYSIS***

- There was no change from the original budget to the final budget.
- The District’s O & M budget was prepared by analyzing historical results and current trends.

***FACTORS IMPACTING FUTURE PERIODS***

- The District has looked into the future of the system and requested McGhee Engineering to explore expansion projects and service upgrades. Preliminary studies identified the following projects that would be of major benefit to the District:
  - Miscellaneous line upgrades
- We are in the preliminary stages of looking at a new SCADA system

No action has been taken on these projects at this time.

***REQUEST FOR INFORMATION***

This financial report is designed to provide our customers and creditors with a general overview of the District’s finances and demonstrate the District’s accountability for the monies it receives. If you have any questions about this report or need additional information, please contact: Harris Dockins, Chairman of the Board, 217 Circle Dr., Russellville, KY 42276 or Linda Alexander, Manager, 333 S. Franklin Street, Russellville, KY 42276.

**EAST LOGAN WATER DISTRICT  
A COMPONENT UNIT OF LOGAN COUNTY, KENTUCKY  
STATEMENTS OF NET POSITION  
DECEMBER 31, 2016 AND 2015**

	<b>DECEMBER 31,</b>	
	<b>2016</b>	<b>2015</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 677,550	\$ 356,050
Accounts receivable-Trade, less allowance for doubtful accounts of \$104,847 and \$103,178	151,971	171,576
Inventory	22,717	20,144
Prepaid expenses	8,604	6,909
Accrued interest receivable	1,671	1,952
<b>TOTAL CURRENT ASSETS</b>	<b>862,513</b>	<b>556,631</b>
<b>NON-CURRENT ASSETS</b>		
Investments	0	393,561
Customer deposits	241,319	265,686
Depreciation reserve	746,861	1,074,111
Debt sinking fund reserves	352,188	215,772
Future technology	328,723	325,447
Health reimbursement account	1,000	0
Capital assets		
Land and land rights	23,584	24,904
Utility plant in service	13,031,900	13,016,265
Less: Accumulated depreciation	(5,551,145)	(5,178,562)
Total capital assets	7,504,339	7,862,607
<b>TOTAL NON-CURRENT ASSETS</b>	<b>9,174,430</b>	<b>10,137,184</b>
<b>TOTAL ASSETS</b>	<b>\$ 10,036,943</b>	<b>\$ 10,693,815</b>

(CONTINUED)

	<b>DECEMBER 31,</b>	
	<b>2016</b>	<b>2015</b>
<b>LIABILITIES AND NET POSITION</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 76,908	\$ 85,087
Accrued liabilities	12,531	10,331
Accrued interest payable	55,654	25,817
Customer deposits	217,513	210,913
Unearned revenue	850	1,700
Current portion of long-term debt	60,000	35,000
<b>TOTAL CURRENT LIABILITIES</b>	<b>423,456</b>	<b>368,848</b>
<b>NON-CURRENT LIABILITIES</b>		
Long-term debt, net of current portion	2,051,000	3,001,000
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>2,051,000</b>	<b>3,001,000</b>
<b>TOTAL LIABILITIES</b>	<b>2,474,456</b>	<b>3,369,848</b>
<b>NET POSITION</b>		
Net investment in capital assets	5,393,339	4,826,607
Restricted for depreciation reserves (nonexpendable)	746,862	1,074,111
Unrestricted	1,422,286	1,423,249
<b>TOTAL NET POSITION</b>	<b>7,562,487</b>	<b>7,323,967</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 10,036,943</b>	<b>\$ 10,693,815</b>

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

**EAST LOGAN WATER DISTRICT  
A COMPONENT UNIT OF LOGAN COUNTY, KENTUCKY  
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN  
FUND NET POSITION  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

	<b>DECEMBER 31,</b>	
	<b>2016</b>	<b>2015</b>
<b>OPERATING REVENUES</b>		
Water service	\$ 1,936,725	\$ 1,761,054
Late charges	40,464	41,415
Other	15,884	12,597
<b>TOTAL OPERATING REVENUES</b>	<b>1,993,073</b>	<b>1,815,066</b>
<b>OPERATING EXPENSES</b>		
Purchased water	930,318	761,915
Management fees	0	184,274
Training and meetings	5,976	10,085
Depreciation	372,583	352,317
Salaries and wages	146,665	53,314
Payroll taxes	16,455	7,747
Employee benefits	4,885	0
Supplies	12,207	3,217
Utilities and telephone	12,584	15,804
Transmission expense	105,956	150,252
Professional fees	11,406	11,959
Insurance	21,983	24,808
Commissioners fees	10,800	10,800
Office expense	24,853	35,716
Miscellaneous	10,652	17,691
Bad debt expense	1,669	3,137
<b>TOTAL OPERATING EXPENSES</b>	<b>1,688,992</b>	<b>1,643,036</b>
<b>OPERATING INCOME (LOSS)</b>	<b>304,081</b>	<b>172,030</b>
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Gain (loss) on disposal of assets	0	(1,167)
Interest income	15,874	16,374
Interest expense	(106,262)	(121,837)
PSC taxes	(3,523)	(3,312)
Loan fees	(350)	(350)
<b>TOTAL NON-OPERATING REVENUES (EXPENSES)</b>	<b>(94,261)</b>	<b>(110,292)</b>
<b>INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS</b>	<b>209,820</b>	<b>61,738</b>
<b>CAPITAL CONTRIBUTIONS</b>		
Contributions in aid of construction	28,700	62,867
<b>TOTAL CAPITAL CONTRIBUTIONS</b>	<b>28,700</b>	<b>62,867</b>
<b>CHANGE IN NET POSITION</b>	<b>238,520</b>	<b>124,605</b>
<b>TOTAL NET POSITION-BEGINNING</b>	<b>7,323,967</b>	<b>7,199,362</b>
<b>TOTAL NET POSITION-ENDING</b>	<b>\$ 7,562,487</b>	<b>\$ 7,323,967</b>

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

**EAST LOGAN WATER DISTRICT  
A COMPONENT UNIT OF LOGAN COUNTY, KENTUCKY  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

	<b>DECEMBER 31,</b>	
	<b>2016</b>	<b>2015</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 2,011,828	\$ 1,795,720
Payments to suppliers for goods and services	(1,160,851)	(1,215,350)
Payments to employees for services	(165,805)	(50,730)
Other receipts (payments)	(3,523)	(3,312)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>681,649</b>	<b>526,328</b>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
Increase in customer deposits	6,600	7,460
<b>NET CASH PROVIDED (USED) BY NON-CAPITAL FINANCING ACTIVITIES</b>	<b>6,600</b>	<b>7,460</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Loan fees	(350)	(350)
Principal repayment of debt	(925,000)	(71,000)
Capital contributions	28,700	62,867
Purchases of capital assets	(14,315)	(227,413)
Interest paid on debt	(76,425)	(123,023)
<b>NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>(987,390)</b>	<b>(358,919)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
(Increase) decrease in restricted cash/investments	604,486	(36,866)
Interest on cash deposits	16,155	16,604
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>	<b>620,641</b>	<b>(20,262)</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>321,500</b>	<b>154,607</b>
<b>BALANCES-BEGINNING OF YEAR</b>	<b>356,050</b>	<b>201,443</b>
<b>BALANCES-END OF YEAR</b>	<b>\$ 677,550</b>	<b>\$ 356,050</b>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
Operating income (loss)	\$ 304,081	\$ 172,030
Adjustments to reconcile net operating income (loss) to net cash provided (used) by operating activities:		
Depreciation expense	372,583	352,317
Payment of PSC taxes	(3,523)	(3,312)
Changes in assets and liabilities:		
Net (increase) decrease in accounts receivable	19,605	(21,046)
Net (increase) decrease in inventory	(2,573)	15,963
Net (increase) decrease in prepaid expenses	(1,695)	1,017
Net increase (decrease) in accounts payable	(8,179)	(2,672)
Net increase (decrease) in accrued liabilities	2,200	10,331
Net increase (decrease) in unearned revenues	(850)	1,700
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>\$ 681,649</b>	<b>\$ 526,328</b>

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

**EAST LOGAN WATER DISTRICT  
A COMPONENT UNIT OF LOGAN COUNTY, KENTUCKY  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015**

**NOTE A – DESCRIPTION OF SIGNIFICANT ACCOUNTING POLICIES**

The East Logan Water District (the “District”) was chartered in 1972. It is a distributor of water under the authority of the Public Service Commission of Kentucky. The District provides service to customers in a sector of Logan County, Kentucky.

The accounting policies of the District conform to generally accepted accounting principles (GAAP) as applicable to governments. The following is a summary of the more significant policies:

**1. Financial Reporting Entity**

The District is governed by a three-member board (the “Board”). The criteria for determining the District as a component unit of Logan County, Kentucky, the primary government, as set forth in GASB No. 14, *The Financial Reporting Entity*, is financial accountability. The members of the Board are appointed by the Logan County Judge Executive subject to the approval of the Logan County Fiscal Court. The District can provide a financial benefit to or impose a financial burden on the primary government. The Board has the power and authority to acquire, construct, maintain and operate the waterworks system.

**2. Basis of Presentation**

The records of the District are maintained on the accrual method of accounting. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations).

All activities of the District are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (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.

Proprietary Fund Financial Statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Fund Net Position, and a Statement of Cash Flows.

**EAST LOGAN WATER DISTRICT  
A COMPONENT UNIT OF LOGAN COUNTY, KENTUCKY  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2016 AND 2015**

**NOTE A – DESCRIPTION OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**2. Basis of Presentation (Concluded)**

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. Proprietary funds are accounted for using the “economic resources” measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Fund Net Position presents increases (revenues) and decreases (expenses) in total net position.

Operating revenues within the proprietary fund are those revenues that are generated from the primary operations of the District. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the District. All other expenses are reported as non-operating expenses.

GASB No. 34 requires the classification of net position into three components: invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- *Net Investment in Capital Assets* – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.
- *Restricted* – This component of net position consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted Net Assets* – The component of net position consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt”.

**3. Investments**

Investments consist of certificates of deposit and are recorded at cost. The cost of investments approximates their fair value. KRS 66.480 permits the District to invest in U.S. Treasury obligations, certain federal instruments, repurchase agreements, commercial bank certificates of deposit and the Commonwealth of Kentucky investment pool.

**EAST LOGAN WATER DISTRICT  
A COMPONENT UNIT OF LOGAN COUNTY, KENTUCKY  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2016 AND 2015**

**NOTE A – DESCRIPTION OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**4. 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.

**5. Accounts Receivable**

Accounts receivable are stated at the amount billed to customers. The District's operating revenues are recognized on the basis of cycle billings rendered monthly. Accounts receivable are due on the 20<sup>th</sup> of each month. Accounts unpaid on the last day of each month are considered delinquent and service is disconnected. Delinquent receivables are reviewed and an allowance for doubtful accounts is established, if needed. Based on historical experience, accounts are written off when amounts are deemed uncollectible. New service is denied until all outstanding balances have been settled.

**6. 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.

**7. Utility Plant**

Expenditures for utility plant with an original cost of \$1,500 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 life. Interest costs for fixed asset construction are capitalized.

**8. Contributions in Aid of Construction/Capital Contributions**

Contributions in aid of construction consists of tap on fees, contributions from customers and grants. For year 2000 and prior years, the changes in these accounts were reflected in the fund equity section of the financial statements. However, on January 1, 2001, the District adopted GASB No. 33, which requires activity in these accounts to be reflected in the statement of revenues and expenses as a separate revenue line item.

**9. Income Taxes**

The District is exempt from federal and state income taxes under Section 501 of the Internal Revenue Code.

**EAST LOGAN WATER DISTRICT  
A COMPONENT UNIT OF LOGAN COUNTY, KENTUCKY  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2016 AND 2015**

**NOTE A – DESCRIPTION OF SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)**

**10. Non-exchange Transactions**

The District receives various grants from federal and state agencies, which are considered voluntary non-exchange transactions. Eligibility requirements have been met at the time the funds are received; therefore, the asset/revenue is recognized when it is received.

**11. Impairment of Long-Lived Assets**

The District 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, 2016 and 2015.

**12. Bond Premium, Discounts and Issuance Costs**

Bond premium and discounts for proprietary funds are deferred and amortized over the term of the bonds using the bonds-outstanding method, which approximates the effective interest method. Bond premium/discounts are presented as an addition/reduction of the face amount of bonds payable. Bond issuance costs are expensed in the period incurred.

**NOTE B – CASH DEPOSITS AND INVESTMENTS**

**1. Cash Deposits**

At year-end, the carrying amount of the District's cash and investments was \$2,347,641 and the bank balance was \$2,353,832. Of the total bank balance, \$500,000 was covered by federal depository insurance, \$50,380 was invested in 100% federally guaranteed securities and the remaining balance of \$1,803,452 would require collateralization. As of December 31, 2016, \$3,385,047 was pledged with securities held by the pledging banks' trust departments but not in the name of the District.

Kentucky Revised Statutes provide for investment of governmental funds into certain investment types including obligations of the U.S. Treasury and U.S. agencies, repurchase agreements, obligations of the Commonwealth of Kentucky and its agencies, insured savings and loans, or interest bearing deposits of insured national or state banks. The deposits in excess of insurance coverage must be fully collateralized. All balances held are considered acceptable and compliant per Kentucky Revised Statutes, however, to be considered fully collateralized by Governmental Accounting Standards, any securities held in a pledging financial institution must be held in the District's name.

**EAST LOGAN WATER DISTRICT  
A COMPONENT UNIT OF LOGAN COUNTY, KENTUCKY  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2016 AND 2015**

**NOTE B – CASH DEPOSITS AND INVESTMENTS (CONCLUDED)**

**2. Restricted Cash and Investments**

Restricted cash and investments consist of the following at December 31, 2016:

Health reimbursement account	\$ 1,000
Customer deposits	241,319
Depreciation reserve	746,861
Debt sinking fund reserves	352,188
Future technology	328,723
	<u>\$ 1,670,091</u>

The District's bond agreements require certain capital replacement and debt sinking reserves. Also, customers are required to pay a deposit upon receiving water services. Deposits are refundable or applied to any unpaid balance upon termination of service.

**3. Interest Rate Risk**

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**NOTE C – RISK MANAGEMENT**

The District 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 District 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 D – MANAGEMENT AGREEMENT**

The District entered into a management agreement with a company to provide meter installation, maintenance, clerical and administrative services for the District. The owner of the company, which provided these services, also served as manager for the District. Fees under this agreement amounted to \$0 and \$333,658 for the years ended December 31, 2016 and 2015, respectively. Management fees, included in the above totals, amounted to \$0 and \$184,274 for the years ended December 31, 2016 and 2015, respectively. This management agreement was effectively terminated on September 30, 2015.

**EAST LOGAN WATER DISTRICT  
A COMPONENT UNIT OF LOGAN COUNTY, KENTUCKY  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2016 AND 2015**

**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>
USDA Rural Development revenue bonds payable, payable in annual principal installments, plus interest at 4.250%, maturing in January 2042, secured by system revenues, this bond was repaid in full during the current year	\$ 640,000	\$ 0	\$ 640,000	\$ 0	\$ 0
Loan payable to KRWFC, payable in annual principal installments, plus variable interest at 2.2% - 4.2%, maturing January 2035, secured by system revenues	825,000	0	35,000	790,000	35,000
USDA Rural Development revenue bonds payable, payable in annual principal installments, plus interest at 4.125%, maturing in January 2048, secured by system revenues	<u>1,571,000</u>	<u>0</u>	<u>250,000</u>	<u>1,321,000</u>	<u>25,000</u>
	<u>\$ 3,036,000</u>	<u>\$ 0</u>	<u>\$ 925,000</u>	<u>\$ 2,111,000</u>	<u>\$ 60,000</u>

During 2012, the District received a loan from Kentucky Rural Water Finance Corporation (KRWFC) in the amount of \$910,000. The loan was received as part of a 2012D series revenue bond. This loan bears interest at a variable rate ranging from 2.2% to 4.2% and is secured by revenues of the District. This loan has principal and interest sinking fund requirements. The proceeds of this loan were used to satisfy amounts outstanding on previously issued USDA Rural Development (RD) bonds. The District refunded the USDA RD bonds to reduce its total debt service payments by approximately \$92,192 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$71,392.

**EAST LOGAN WATER DISTRICT  
A COMPONENT UNIT OF LOGAN COUNTY, KENTUCKY  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2016 AND 2015**

**NOTE E – LONG-TERM DEBT (CONCLUDED)**

Annual debt service requirements to maturity are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 60,000	\$ 92,084
2018	61,000	90,108
2019	62,000	87,915
2020	68,000	85,602
2021	69,000	83,217
2022-2026	393,000	375,858
2027-2031	450,000	293,667
2032-2036	370,000	212,092
2037-2041	299,000	147,140
2042-2045	279,000	70,086
	<u>\$ 2,111,000</u>	<u>\$ 1,537,769</u>

**NOTE F – CONCENTRATIONS OF CREDIT RISK**

The District extends credit to all citizens who live within the geographic location of the District and who utilize the utility system. Credit losses may be minimal and are generally within management's expectations.

**NOTE G – WATER AGREEMENT**

The District 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 District and the rates the District 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 District. Under terms of the agreement, the District may not produce or resell water to any other water system or water seller, nor may the District add any customer to its system that would increase average daily water demand or peak water demand within the District 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 District began purchasing water from the Commission in April 2003; therefore, the Commission is the sole provider of water to the District. The agreement does require the District to purchase minimum levels of water from the Commission. If minimum levels are not met, the Commission may charge the District for the shortages.

**EAST LOGAN WATER DISTRICT  
A COMPONENT UNIT OF LOGAN COUNTY, KENTUCKY  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2016 AND 2015**

**NOTE H – CAPITAL ASSETS**

A summary of utility plant activity for the year ended December 31, 2016 is as follows:

	<u>Beginning</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u>
Capital assets not being depreciated				
Land and land rights	\$ 24,904	\$ 0	\$ (1,320)	\$ 23,584
Construction in progress	0	0	0	0
Total capital assets not being depreciated	24,904	0	(1,320)	23,584
Other capital assets				
Utility plant in service	13,016,265	15,635	0	13,031,900
Total other capital assets at historical cost	13,016,265	15,635	0	13,031,900
Less: Accumulated depreciation	(5,178,562)	(372,583)	0	(5,551,145)
Capital assets, net	<u>\$ 7,862,607</u>	<u>\$ (356,948)</u>	<u>\$ (1,320)</u>	<u>\$ 7,504,339</u>

**NOTE I – SUBSEQUENT EVENTS**

East Logan Water District’s management has evaluated and considered the need to recognize or disclose subsequent events through March 27, 2017, 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, 2016, have not been evaluated by management.

**NOTE J – CHANGE IN ACCOUNTING PRINCIPLE**

In June 2012, the Governmental Accounting Standards Board (GASB) issued Statement No. 68, “Accounting and Financial Reporting for Pensions” (GASB 68). GASB 68 replaced the requirements of GASB 27, “Accounting for Pensions by State and Local Governmental Employers” and GASB 50, “Pension Disclosures,” as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. GASB 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability to more comprehensively and comparably measure the annual costs of pension benefits. This statement was adopted during the fiscal year ended December 31, 2015 and did not have an impact on the District’s financial statements.

In April 2013, the GASB issued Statement No. 70, “Accounting and Financial Reporting for Nonexchange Financial Guarantees.” GASB 70 requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. This statement was adopted during the fiscal year ended December 31, 2015 and did not have an impact on the District’s financial statements.

**EAST LOGAN WATER DISTRICT  
A COMPONENT UNIT OF LOGAN COUNTY, KENTUCKY  
NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)  
DECEMBER 31, 2016 AND 2015**

**NOTE J – CHANGE IN ACCOUNTING PRINCIPLE (CONCLUDED)**

In January 2013, the GASB issued Statement No. 69, “Government Combinations and Disposals of Government Operations.” GASB 69 establishes accounting and financial reporting standards related to government combinations and disposals of government operations. This statement is effective for periods beginning after December 15, 2014. This statement was adopted during the fiscal year ended December 31, 2015 and did not have an impact on the District’s financial statements.

In February 2015, the GASB issued Statement No. 72, “Fair Value Measurement and Application.” GASB 72 establishes accounting and financial reporting standards related to fair value measurements. This statement is effective for periods beginning after June 15, 2015. Management is currently evaluating the impact of the adoption of this statement on the District’s financial statements.

**NOTE K – FAIR VALUE**

In compliance with GASB 31, the District’s investments are stated at fair value, except for short-term investments. Short-term investments are carried at cost, which approximates fair value. Market value is used for those securities for which market quotations are readily available. For securities that lack readily available market quotations, reasonable estimates of fair value are used based on the market value of similar investments. The District generally holds all investments until maturity or until market values equal or exceed cost.

**SUPPLEMENTARY INFORMATION**

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**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  
East Logan Water District  
Auburn, 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 the business-type activities of East Logan Water District, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise East Logan Water District's basic financial statements and have issued our report thereon dated March 27, 2017.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered East Logan Water District'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of East Logan Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of East Logan Water District'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 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 16-1 and 16-2 that we consider to be significant deficiencies.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether East Logan Water District'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*.

### **East Logan Water District's Response to Findings**

East Logan Water District's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. East Logan Water District'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 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.

Respectfully submitted,

***Buckles, Travis & Hart, PLLC***

Buckles, Travis & Hart, PLLC  
Certified Public Accountants  
Leitchfield, Kentucky  
March 27, 2017

**EAST LOGAN WATER DISTRICT  
A COMPONENT UNIT OF LOGAN COUNTY, KENTUCKY  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED DECEMBER 31, 2016**

**SIGNIFICANT DEFICIENCIES**

<b>Reference Number</b>	<b>Finding</b>
<b>16-1</b>	<p><b>Condition:</b> 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 District’s financial statements.</p> <p><b>Criteria:</b> Deficiencies in the design of controls include the above mentioned condition.</p> <p><b>Effect:</b> The District is unable to prepare and present properly adjusted financial statements with full note disclosures throughout the fiscal year and at year-end.</p> <p><b>Cause:</b> Budgetary constraints limit hiring individuals possessing the required technical knowledge.</p> <p><b>Recommendation:</b> The District should consider obtaining the professional training and expertise to apply generally accepted accounting principles in preparing the District’s financial statements.</p> <p><b>Response:</b> The District concurs with the recommendation; however, it is not feasible to obtain the training and expertise at this time.</p>
<b>16-2</b>	<p><b>Condition:</b> The District does not have proper segregation of duties in place.</p> <p><b>Criteria:</b> Separation of duties is the basic premise of a good internal control structure.</p> <p><b>Effect:</b> One or two employees perform essentially all accounting functions. This includes maintenance of journals, ledgers, check preparation and cash receipt and disbursement. Many of these duties are incompatible from a control perspective because they allow one person to initiate, record and disburse the same transactions.</p> <p><b>Cause:</b> Bookkeeping responsibilities are not adequately assigned to various personnel.</p> <p><b>Recommendation:</b> We understand that it is not practical to increase the accounting staff; however, more segregation of duties among personnel would provide a better internal control environment.</p> <p><b>Response:</b> We will work diligently to spread out the accounting functions with the office personnel we have, as well as our Board of Directors and having our Chairman of the Board review and approve all disbursements. Also, due to PSC requirements, the District has elected a treasurer from the Board of Directors. As part of their required services, they will also review and approve disbursements, subsequent to payment.</p>