

EAST LOGAN WATER DISTRICT

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

**BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

**EAST LOGAN WATER DISTRICT
A COMPONENT UNIT OF LOGAN COUNTY, KENTUCKY
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INDEPENDENT AUDITORS' REPORT

Commissioners
East Logan Water District
Russellville, Kentucky

Opinions

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, 2021 and 2020 and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

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, 2021 and 2020, 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.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of East Logan Water District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about East Logan Water District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 East Logan Water District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about East Logan Water District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 7 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 19, 2022, on our consideration of 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of East Logan Water District's 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 19, 2022

**EAST LOGAN WATER DISTRICT
RUSSELLVILLE, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

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, 2021 and 2020. 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 300.00 miles of distribution lines and provides water distribution services for approximately 3,300 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 \$9,210,450 for 2021 and \$8,841,169 for 2020.
- Based on the GASB 34 model of measuring net position, the total net position of the District increased \$369,281 for 2021 and increased \$356,426 for 2020.
- 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 47% for 2021 and 47% for 2020.

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 Statements of Net Position include 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 Statements of Net Position provide information about the nature and amount of resources and obligations at year-end, the Statements of Revenues, Expenses, and Changes in Net Position present the results of the District's operations over the course of the operating cycle. These statements 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 these statements 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 statements are the Statements of Cash Flows. These statements provide information on the District's cash receipts, cash payments and changes in cash resulting from operations, investments and financing activities. From the Statements 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, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Current and other assets	\$ 3,899,896	\$ 3,949,151
Capital assets	5,995,389	6,243,297
Total Assets	<u>9,895,285</u>	<u>10,192,448</u>
Long-term obligations	256,000	891,000
Other liabilities	428,835	460,279
Total Liabilities	<u>684,835</u>	<u>1,351,279</u>
Net position		
Net investment in capital assets	5,709,389	5,283,297
Restricted	878,671	873,505
Unrestricted	2,622,390	2,684,367
Total Net Position	<u>\$ 9,210,450</u>	<u>\$ 8,841,169</u>

Changes in Net Position for the years ended December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Revenues		
Water service revenues	\$ 1,988,376	\$ 2,064,245
Other revenues	83,942	27,116
Total Operating Revenues	<u>2,072,318</u>	<u>2,091,361</u>
Expenses		
Water operations	1,729,379	1,761,875
Total Operating Expenses	<u>1,729,379</u>	<u>1,761,875</u>
Net Operating Income	342,939	329,486
Non-operating expenses, net	<u>(21,261)</u>	<u>(14,360)</u>
Income (Loss) Before Capital Contributions	321,678	315,126
Capital contributions	<u>47,603</u>	<u>41,300</u>
Increase (Decrease) in Net Position	<u>\$ 369,281</u>	<u>\$ 356,426</u>

The District's total operating revenues decreased \$19,043, with a decrease of \$32,496 in operating expenses, resulting in an increase of \$13,453 in operating income. Non-operating expenses, net of revenues, increased \$6,901. Net position for the year increased \$369,281. Net position at December 31, 2021 was \$9,210,450.

CAPITAL ASSETS AND DEBT ADMINISTRATION

The District had \$5,995,389 (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>2020</u>	<u>Additions</u>	<u>Disposals</u>	<u>2021</u>
Land and land improvements	\$ 23,583	\$ 0	\$ 0	\$ 23,583
Structures and improvements	237,327	0	0	237,327
Distribution reservoirs	507,320	0	0	507,320
Distribution mains	11,837,187	8,768	(14,873)	11,831,082
Meters and services	302,703	90,848	0	393,551
Equipment	354,168	21,975	(1,097)	375,046
	<u>\$13,262,288</u>	<u>\$ 121,591</u>	<u>\$ (15,970)</u>	<u>\$13,367,909</u>

LONG-TERM DEBT

At December 31, 2021, the District had \$286,000 in revenue bonds and notes payable outstanding. The District’s principal amount had a net decrease of \$674,000 for the year.

<u>Type</u>	<u>Maturity</u>	<u>2021</u>	<u>2020</u>	<u>Increase (Decrease)</u>
Loan Payable	January 2035	\$ 0	\$ 645,000	\$ (645,000)
Revenue Bonds	January 2048	286,000	315,000	(29,000)
		<u>\$ 286,000</u>	<u>\$ 960,000</u>	<u>\$ (674,000)</u>

BUDGET ANALYSIS

- The District’s O & M budget was prepared by analyzing historical results and current trends.

FACTORS IMPACTING FUTURE PERIODS

- The Public Service Commission (PSC) required the District to submit a Capital Improvement Plan in 2021, which calls for the replacement of all meters, setters, boxes and service tubing for their meter taps in an effort to reduce water loss. The PSC is requiring the District to repair and upgrade many of their service lines. The District has been awarded grant funds subsequent to year end of approximately \$144,375 from the Kentucky Cleaner Water Program, which are funds provided through the American Rescue Plan Act of 2021, to aid in project expenses. This project is due to commence in 2022.

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, 333 S. Franklin Street, 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, 2021 AND 2020

	DECEMBER 31,	
	2021	2020
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,704,828	\$ 1,823,498
Accounts receivable	157,841	158,336
Accounts receivable - Logan Telephone Company	42,551	0
Inventory	126,035	70,954
Prepaid insurance	10,781	9,835
Accrued interest receivable	1,849	3,461
TOTAL CURRENT ASSETS	2,043,885	2,066,084
NONCURRENT ASSETS		
Customer deposits	275,427	265,291
Depreciation reserve	878,671	873,505
Debt sinking fund reserves	339,369	390,137
Future technology	360,151	353,134
Health reimbursement account	2,393	1,000
Capital assets not being depreciated	23,583	23,583
Other capital assets, net of depreciation	5,971,806	6,219,714
TOTAL NONCURRENT ASSETS	7,851,400	8,126,364
TOTAL ASSETS	\$ 9,895,285	\$ 10,192,448
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable	\$ 110,226	\$ 98,997
Accrued liabilities	11,846	11,516
Accrued interest payable	18,763	31,361
Customer deposits	256,500	247,155
Unearned revenue	1,500	2,250
Current portion of long-term debt	30,000	69,000
TOTAL CURRENT LIABILITIES	428,835	460,279
NONCURRENT LIABILITIES		
Long-term debt, net of current portion	256,000	891,000
TOTAL NONCURRENT LIABILITIES	256,000	891,000
TOTAL LIABILITIES	684,835	1,351,279
NET POSITION		
Net investment in capital assets	5,709,389	5,283,297
Restricted for depreciation reserves (nonexpendable)	878,671	873,505
Unrestricted	2,622,390	2,684,367
TOTAL NET POSITION	9,210,450	8,841,169
TOTAL LIABILITIES AND NET POSITION	\$ 9,895,285	\$ 10,192,448

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 NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	DECEMBER 31,	
	2021	2020
OPERATING REVENUES		
Charges for services	\$ 1,988,376	\$ 2,064,245
Late charges	23,910	9,144
Miscellaneous revenues	60,032	17,972
TOTAL OPERATING REVENUES	2,072,318	2,091,361
OPERATING EXPENSES		
Water purchases	932,247	966,195
Training and meetings	5,388	1,426
Depreciation	365,491	372,980
Salaries and benefits	247,104	229,173
Payroll tax expense	15,394	17,276
Supplies	18,928	13,555
Utilities	13,910	13,134
Dues and subscriptions	2,423	1,828
Transmission expense	43,822	62,857
Professional services	20,909	18,619
Consultant fees	0	604
Insurance	16,835	16,795
Commissioners fees	10,800	10,800
Office supplies and postage	16,504	17,288
Miscellaneous operating expenses	18,774	12,750
Bad debt expense	850	6,595
TOTAL OPERATING EXPENSES	1,729,379	1,761,875
OPERATING INCOME (LOSS)	342,939	329,486
NON-OPERATING REVENUES (EXPENSES)		
Gain (loss) on disposal of assets	(4,008)	0
Interest income	18,123	26,320
Interest expense	(30,393)	(36,084)
PSC taxes	(4,183)	(4,246)
Loan fees	(800)	(350)
TOTAL NON-OPERATING REVENUES (EXPENSES)	(21,261)	(14,360)
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	321,678	315,126
CAPITAL CONTRIBUTIONS		
Contributions in aid of construction	47,603	41,300
TOTAL CAPITAL CONTRIBUTIONS	47,603	41,300
CHANGE IN NET POSITION	369,281	356,426
TOTAL NET POSITION-BEGINNING	8,841,169	8,484,743
TOTAL NET POSITION-ENDING	\$ 9,210,450	\$ 8,841,169

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, 2021 AND 2020**

	DECEMBER 31,	
	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 2,029,512	\$ 2,114,326
Payments to suppliers for goods and services	(1,146,188)	(1,169,708)
Payments to employees for services	(262,168)	(242,181)
Other receipts (payments)	(4,183)	(4,246)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	616,973	698,191
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES		
Increase in customer deposits	9,347	10,167
NET CASH PROVIDED (USED) BY NONCAPITAL AND RELATED FINANCING ACTIVITIES	9,347	10,167
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Loan fees	(800)	(350)
Principal payments on debt	(674,000)	(68,000)
Capital contributions	47,603	41,300
Purchases of capital assets	(121,593)	(49,170)
Interest paid on debt	(42,991)	(37,587)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(791,781)	(113,807)
CASH FLOWS FROM INVESTING ACTIVITIES		
(Increase) decrease in restricted cash/investments	27,055	(36,831)
Interest on cash deposits	19,736	27,945
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	46,791	(8,886)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(118,670)	585,665
BALANCES-BEGINNING OF YEAR	1,823,498	1,237,833
BALANCES-END OF YEAR	\$ 1,704,828	\$ 1,823,498
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income (loss)	\$ 342,939	\$ 329,489
Adjustments to reconcile net operating income to net cash provided (used) by operating activities		
Depreciation Expense	365,491	372,980
Payment of PSC taxes	(4,183)	(4,246)
Changes in assets and liabilities		
Net (increase) decrease in accounts receivable	(42,056)	22,115
Net (increase) decrease in inventory	(55,081)	(17,191)
Net (increase) decrease in prepaid expenses	(946)	(535)
Net increase (decrease) in accounts payable	11,229	(9,536)
Net increase (decrease) in accrued liabilities	330	4,268
Net increase (decrease) in unearned revenues	(750)	850
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 616,973	\$ 698,194

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, 2021 AND 2020**

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 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, 2021 AND 2020**

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 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: net investment in capital assets; 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 net investment in capital assets. 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 “net investment in capital assets”.

3. Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits, certificates of deposit and other highly liquid debt instruments with maturities of less than 90 days that are not restricted.

**EAST LOGAN WATER DISTRICT
A COMPONENT UNIT OF LOGAN COUNTY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2021 AND 2020**

NOTE A – DESCRIPTION OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4. 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.

5. 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.

6. 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 20th 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.

7. 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.

8. 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.

**EAST LOGAN WATER DISTRICT
A COMPONENT UNIT OF LOGAN COUNTY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2021 AND 2020**

NOTE A – DESCRIPTION OF SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

9. 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.

10. Income Taxes

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

11. 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.

12. 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, 2021 and 2020.

13. 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.

**EAST LOGAN WATER DISTRICT
A COMPONENT UNIT OF LOGAN COUNTY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2021 AND 2020**

NOTE B – CASH DEPOSITS AND INVESTMENTS

1. Cash Deposits

At year-end, the carrying amount of the District's cash and investments was \$3,560,839 and the bank balance was \$3,576,169. Of the total bank balance, \$500,000 was covered by federal depository insurance, \$293 was invested in 100% federally guaranteed securities and the remaining balance of \$3,075,876 would require collateralization. As of December 31, 2021, \$4,760,480 was pledged with securities held by the pledging banks' trust departments but not in the name of the District.

Kentucky Revised Statues 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.

2. Restricted Cash and Investments

Restricted cash and investments consist of the following at December 31, 2021:

Health reimbursement account	\$ 2,393
Customer deposits	275,427
Depreciation reserve	878,671
Debt sinking fund reserves	339,369
Future technology	360,151
	<u>\$ 1,856,011</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.

**EAST LOGAN WATER DISTRICT
A COMPONENT UNIT OF LOGAN COUNTY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2021 AND 2020**

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 – 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>
KRWFC general revenue bond payable, Series 2012D, payable in annual principal installments, plus variable interest at 2.2% - 4.2%, maturing January 2035, secured by system revenues	\$ 645,000	\$ 0	\$ 645,000	\$ 0	\$ 0
USDA Rural Development general revenue bonds payable, payable in annual principal installments, plus interest at 4.125%, maturing in January 2048, secured by system revenues	315,000	0	29,000	286,000	30,000
	<u>\$ 960,000</u>	<u>\$ 0</u>	<u>\$ 674,000</u>	<u>\$ 286,000</u>	<u>\$ 30,000</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. In the event of default, a court appointed receiver shall administer the system on behalf of the District with the power to charge and collect rates sufficient to provide for the payment of operating and maintenance expenses and for the payment of principal and interest on the outstanding bond. This loan was paid in full as of December 31, 2021.

**EAST LOGAN WATER DISTRICT
A COMPONENT UNIT OF LOGAN COUNTY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2021 AND 2020**

NOTE D – LONG-TERM DEBT (CONCLUDED)

The District has outstanding general revenue bonds from USDA Rural Development with a balance of \$286,000 at December 31, 2021. System revenues of the District are pledged as collateral for this debt and bears interest at 4.125%. In the event of default, a court appointed receiver shall administer the system on behalf of the District with the power to charge and collect rates sufficient to provide for the payment of operating and maintenance expenses and for the payment of principal and interest on the outstanding bonds.

The District does not have any unused lines of credit. None of the debt is considered to be direct borrowings nor direct placements of debt.

Annual debt service requirements to maturity are as follows:

Year	Principal	Interest
2022	\$ 30,000	\$ 59,235
2023	31,000	57,998
2024	33,000	56,719
2025	34,000	55,358
2026	35,000	53,955
2027-2031	123,000	200,683
	\$ 286,000	\$ 483,948

NOTE E – 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 F – 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;

**EAST LOGAN WATER DISTRICT
A COMPONENT UNIT OF LOGAN COUNTY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2021 AND 2020**

NOTE F – WATER AGREEMENT (CONCLUDED)

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.

NOTE G – CAPITAL ASSETS

A summary of utility plant activity for the year ended December 31, 2021 is as follows:

	<u>Beginning</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u>
Capital assets not being depreciated				
Land and land rights	\$ 23,583	\$ 0	\$ 0	\$ 23,583
Construction in progress	0	0	0	0
Total capital assets not being depreciated	23,583	0	0	23,583
Other capital assets				
Utility plant in service	13,238,705	121,591	(15,970)	13,344,326
Total other capital assets at historical cost	13,238,705	121,591	(15,970)	13,344,326
Less: Accumulated depreciation	(7,018,991)	(365,491)	11,962	(7,372,520)
Capital assets, net	<u>\$ 6,243,297</u>	<u>\$ (243,900)</u>	<u>\$ (4,008)</u>	<u>\$ 5,995,389</u>

NOTE H – 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.

NOTE I – LITIGATION

As of December 31, 2021, East Logan Water District is a party in a civil suit litigation matter with Logan Telephone Company (LTC). Potential loss cannot be determined, and litigation is continuing subsequent to year end.

NOTE J – RETIREMENT PLAN

The District has a SIMPLE IRA retirement plan that covers all employees who meet the eligibility requirements. The District’s contributions to the plan have been determined by the Board of Commissioners. Contributions to the plan were \$4,880 and \$2,622 for 2021 and 2020, respectively.

**EAST LOGAN WATER DISTRICT
A COMPONENT UNIT OF LOGAN COUNTY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)
DECEMBER 31, 2021 AND 2020**

NOTE K – SUBSEQUENT EVENTS

East Logan Water District's management has evaluated and considered the need to recognize or disclose subsequent events through March 19, 2022, 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, 2021, have not been evaluated by management.

In order to reduce water loss, the Public Service Commission is requiring East Logan Water District to repair and upgrade many of their service lines. East Logan Water District has been awarded grant funds subsequent to year end of approximately \$144,375 from the Kentucky Cleaner Water Program, which are funds provided through the American Rescue Plan Act of 2021, to aid in project expenses. This project is due to commence in 2022.

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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
Russellville, 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, 2021, 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 19, 2022.

Report on 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) as a basis for designing 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 21-1 and 21-2 that we consider to be significant deficiencies.

Report on 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 financial statements. 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

Government Auditing Standards requires the auditor to perform limited procedures on East Logan Water District's response to the findings identified in our audit and 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 the response.

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 19, 2022

**EAST LOGAN WATER DISTRICT
A COMPONENT UNIT OF LOGAN COUNTY, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2021**

SIGNIFICANT DEFICIENCIES

Reference Number	Finding
21-1	<p>Condition: Whereas management has the suitable skills, knowledge and expertise concerning financial activities of the District, they lack the professional training to apply generally accepted accounting principles in the preparation of the District's financial statements.</p> <p>Criteria: Management is responsible for the preparation and fair presentation of the financial statements.</p> <p>Effect: Management is unable to assemble the District's financial information in the form of adjusted financial statements with full disclosures without oversight and direction.</p> <p>Cause: Budgetary constraints limit hiring individuals possessing the required technical knowledge.</p> <p>Recommendation: The District should consider obtaining the professional training and expertise to apply generally accepted accounting principles according to governmental accounting standards in preparing and presenting the District's financial statements.</p> <p>Response: The District concurs with the recommendation; however, it is not feasible to obtain the training and expertise at this time.</p>
21-2	<p>Condition: The District has two office employees, and they have a number of duties, many of which are incompatible.</p> <p>Criteria: Separation of duties is the basic premise of a good internal control structure.</p> <p>Effect: Significant controls over transaction processing are absent.</p> <p>Cause: Due to the size of the District, it is not feasible to hire more than two people.</p> <p>Recommendation: With only two employees, controls are difficult to establish in this area. Where practical, staff should have extensive documentation of approval from the District and its officers.</p> <p>Response: 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>