

EAST LOGAN WATER DISTRICT

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

**BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

FOR THE YEAR ENDED DECEMBER 31, 2023

**EAST LOGAN WATER DISTRICT
A COMPONENT UNIT OF LOGAN COUNTY, KENTUCKY
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FOR THE YEAR ENDED DECEMBER 31, 2023**

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Buckles, Travis & Hart, PLLC

Certified Public Accountants

DENNIS R. BUCKLES, CPA
BRAD K. TRAVIS, CPA/PFS
ROBIN G. HART, CPA

www.graysoncpas.com

211 West White Oak Street
Post Office Box 4069
Leitchfield, KY 42755-4069
Phone 270-259-5604
Fax 270-259-5603

INDEPENDENT AUDITORS' REPORT

Commissioners
East Logan Water District
Russellville, Kentucky

Opinion

We have audited the accompanying financial statements of the business-type activities of the East Logan Water District as of and for the year ended December 31, 2023 and the related notes to the financial statements, which collectively comprise the District'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, 2023, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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 Auditors' 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 opinion.

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.

Auditors' 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 auditors' report that includes our opinion. 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.

Prior-Year Comparative Information

We have previously audited East Logan Water District's financial statements, and we expressed an unmodified opinion on the respective financial statements in our report dated March 11, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2022 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 11, 2024, 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 11, 2024

**EAST LOGAN WATER DISTRICT
RUSSELLVILLE, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND DECEMBER 31, 2022**

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, 2023 and 2022. 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 \$10,017,695 for 2023 and \$9,526,951 for 2022.
- Based on the GASB 34 model of measuring net position, the total net position of the District increased \$490,744 for 2023 and increased \$316,501 for 2022.
- 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 2023 and 48% for 2022.

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, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Current and other assets	\$ 4,584,807	\$ 4,366,708
Capital assets	6,147,042	5,822,712
Total Assets	<u>10,731,849</u>	<u>10,189,420</u>
Long-term obligations	192,000	225,000
Other liabilities	522,154	437,469
Total Liabilities	<u>714,154</u>	<u>662,469</u>
Net position		
Net investment in capital assets	5,922,042	5,566,712
Restricted	2,037,919	953,413
Unrestricted	2,057,734	3,006,826
Total Net Position	<u>\$10,017,695</u>	<u>\$ 9,526,951</u>

Changes in Net Position for the years ended December 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Revenues		
Water service revenues	\$ 2,185,992	\$ 2,125,312
Other revenues	26,622	48,595
Total Operating Revenues	<u>2,212,614</u>	<u>2,173,907</u>
Expenses		
Water operations	2,169,383	1,948,251
Total Operating Expenses	<u>2,169,383</u>	<u>1,948,251</u>
Net Operating Income	43,231	225,656
Non-operating revenues (expenses), net	<u>73,900</u>	<u>2,113</u>
Income (Loss) Before Capital Contributions	117,131	227,769
Capital contributions	<u>373,613</u>	<u>88,732</u>
Increase (Decrease) in Net Position	<u>\$ 490,744</u>	<u>\$ 316,501</u>

The District's total operating revenues increased \$38,707, with an increase of \$221,132 in operating expenses, resulting in a decrease of \$182,425 in operating income. Non-operating revenues, net of expenses, increased \$71,787. Net position for the year increased \$490,744. Net position at December 31, 2023 was \$10,017,695.

CAPITAL ASSETS AND DEBT ADMINISTRATION

The District had \$6,147,042 (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>2022</u>	<u>Additions</u>	<u>Disposals</u>	<u>2023</u>
Land and land improvements	\$ 23,583	\$ 0	\$ 0	\$ 23,583
Construction in progress	0	30,510	0	30,510
Structures and improvements	237,327	0	0	237,327
Distribution reservoirs	507,320	0	0	507,320
Distribution mains	11,866,164	471,833	0	12,337,997
Meters and services	463,331	210,958	(73,098)	601,191
Equipment	418,982	66,634	(22,430)	463,186
	<u>\$13,516,707</u>	<u>\$ 779,935</u>	<u>\$ (95,528)</u>	<u>\$14,201,114</u>

LONG-TERM DEBT

At December 31, 2023, the District had \$225,000 in revenue bonds outstanding. The District’s principal amount had a net decrease of \$31,000 for the year.

<u>Type</u>	<u>Maturity</u>	<u>2023</u>	<u>2022</u>	<u>Increase (Decrease)</u>
Revenue Bonds	January 2048	\$ 225,000	\$ 256,000	\$ (31,000)
		<u>\$ 225,000</u>	<u>\$ 256,000</u>	<u>\$ (31,000)</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 as of December 31, 2022 of approximately \$954,525 from the Kentucky Cleaner Water Program, which are funds provided through the American Rescue Plan Act of 2021, to aid in project expenses. Grant funds totaling \$313,049 have been received as of December 31, 2023. This project is ongoing as of December 31, 2023.

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 Earn Brown, Office Manager, 333 S. Franklin Street, Russellville, KY 42276.

**EAST LOGAN WATER DISTRICT
A COMPONENT UNIT OF LOGAN COUNTY, KENTUCKY
STATEMENT OF NET POSITION
DECEMBER 31, 2023**

	DECEMBER 31, 2023	DECEMBER 31, 2022 SUMMARY
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,198,075	\$ 2,091,549
Accounts receivable, net	175,332	197,862
Accounts receivable - Logan Telephone Company	0	42,551
Investments	1,049,607	0
Inventory	97,106	94,035
Prepaid insurance	12,189	13,846
Accrued interest receivable	14,579	1,115
TOTAL CURRENT ASSETS	2,546,888	2,440,958
NONCURRENT ASSETS		
Customer deposits	306,282	286,141
Depreciation reserve	1,035,041	480,254
Investments	0	473,159
Debt sinking fund reserves	326,102	323,184
Future technology	368,348	361,233
Health reimbursement account	2,146	1,779
Capital assets not being depreciated	54,093	23,583
Other capital assets, net of depreciation	6,092,949	5,799,129
TOTAL NONCURRENT ASSETS	8,184,961	7,748,462
TOTAL ASSETS	\$ 10,731,849	\$ 10,189,420
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable	\$ 184,924	\$ 110,698
Accrued liabilities	7,782	6,470
Accrued interest payable	16,863	17,836
Customer deposits	273,585	264,715
Unearned revenue	6,000	6,750
Current portion of long-term debt	33,000	31,000
TOTAL CURRENT LIABILITIES	522,154	437,469
NONCURRENT LIABILITIES		
Long-term debt, net of current portion	192,000	225,000
TOTAL NONCURRENT LIABILITIES	192,000	225,000
TOTAL LIABILITIES	714,154	662,469
NET POSITION		
Net investment in capital assets	5,922,042	5,566,712
Restricted	2,037,919	953,413
Unrestricted	2,057,734	3,006,826
TOTAL NET POSITION	10,017,695	9,526,951
TOTAL LIABILITIES AND NET POSITION	\$ 10,731,849	\$ 10,189,420

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

**EAST LOGAN WATER DISTRICT
A COMPONENT UNIT OF LOGAN COUNTY, KENTUCKY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2023**

	DECEMBER 31, 2023	DECEMBER 31, 2022 SUMMARY
OPERATING REVENUES		
Charges for services	\$ 2,185,992	\$ 2,125,312
Late charges	26,306	31,352
Miscellaneous revenues	316	17,243
TOTAL OPERATING REVENUES	2,212,614	2,173,907
OPERATING EXPENSES		
Water purchases	1,033,319	1,012,586
Training and meetings	15,681	6,083
Depreciation	417,041	384,574
Salaries and benefits	306,617	254,318
Payroll tax expense	23,969	19,167
Supplies	36,668	26,348
Utilities	20,571	17,626
Dues and subscriptions	3,325	2,051
Transmission expense	172,444	119,486
Professional services	27,097	20,648
Consultant fees	653	0
Insurance	21,043	20,257
Commissioners fees	10,500	10,800
Office supplies and postage	28,575	25,279
Miscellaneous operating expenses	48,616	20,520
Bad debt expense	3,264	8,508
TOTAL OPERATING EXPENSES	2,169,383	1,948,251
OPERATING INCOME (LOSS)	43,231	225,656
NON-OPERATING REVENUES (EXPENSES)		
Gain (loss) on disposal of assets	(24,279)	3,704
Interest income	96,704	11,273
Investment income	14,727	512
Interest expense	(10,422)	(10,282)
PSC taxes	(2,830)	(3,094)
Loan fees	0	0
TOTAL NON-OPERATING REVENUES (EXPENSES)	73,900	2,113
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	117,131	227,769
CAPITAL CONTRIBUTIONS		
Contributions in aid of construction	373,613	88,732
TOTAL CAPITAL CONTRIBUTIONS	373,613	88,732
CHANGE IN NET POSITION	490,744	316,501
TOTAL NET POSITION-BEGINNING	9,526,951	9,210,450
TOTAL NET POSITION-ENDING	\$ 10,017,695	\$ 9,526,951

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

**EAST LOGAN WATER DISTRICT
A COMPONENT UNIT OF LOGAN COUNTY, KENTUCKY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2023**

	DECEMBER 31, 2023	DECEMBER 31, 2022 SUMMARY
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 2,276,945	\$ 2,139,136
Payments to suppliers for goods and services	(1,348,944)	(1,260,785)
Payments to employees for services	(329,274)	(278,861)
Other receipts (payments)	(2,830)	(3,094)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	595,897	596,396
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES		
Increase in customer deposits	8,870	8,215
NET CASH PROVIDED (USED) BY NONCAPITAL AND RELATED FINANCING ACTIVITIES	8,870	8,215
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Loan fees	0	0
Principal payments on debt	(31,000)	(30,000)
Capital contributions	373,613	88,732
Proceeds from sale of capital assets	0	3,941
Insurance proceeds	14,285	0
Purchases of capital assets	(779,935)	(212,132)
Interest paid on debt	(11,395)	(11,209)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(434,432)	(160,668)
CASH FLOWS FROM INVESTING ACTIVITIES		
(Increase) decrease in restricted cash/investments	(112,169)	(69,739)
(Increase) decrease in unrestricted investments	(1,049,607)	0
Interest on cash deposits	97,967	12,517
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(1,063,809)	(57,222)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(893,474)	386,721
BALANCES-BEGINNING OF YEAR	2,091,549	1,704,828
BALANCES-END OF YEAR	\$ 1,198,075	\$ 2,091,549
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income (loss)	\$ 43,231	\$ 225,656
Adjustments to reconcile net operating income to net cash provided (used) by operating activities		
Depreciation Expense	417,041	384,574
Payment of PSC taxes	(2,830)	(3,094)
Changes in assets and liabilities		
Net (increase) decrease in accounts receivable	65,081	(40,021)
Net (increase) decrease in inventory	(3,071)	32,000
Net (increase) decrease in prepaid expenses	1,657	(3,065)
Net increase (decrease) in accounts payable	74,226	472
Net increase (decrease) in accrued liabilities	1,312	(5,376)
Net increase (decrease) in unearned revenues	(750)	5,250
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 595,897	\$ 596,396

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, 2023**

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, 2023**

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, investment securities, 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, 2023**

NOTE A – DESCRIPTION OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4. Investments

The District's investments consist of certificates of deposit and investment securities. Certificates of deposit are recorded at cost, which approximates their fair value. Investments in marketable securities with readily determinable fair values are reported at their fair values based on quoted prices in active markets at the statement of financial position date. 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.

**EAST LOGAN WATER DISTRICT
A COMPONENT UNIT OF LOGAN COUNTY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2023**

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 year ended December 31, 2023.

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, 2023**

NOTE B – CASH DEPOSITS AND INVESTMENTS

1. Cash Deposits

At year-end, the carrying amount of the District’s cash and investments was \$4,285,601 and the bank balance was \$4,287,491. Of the total bank balance, \$3,486,379 was covered by federal depository insurance and the remaining balance of \$801,112 would require collateralization. As of December 31, 2023, \$2,813,181 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. Investments

Investment securities are carried at fair value based on quoted prices in active markets (all Level 1 Measurements) and consist of the following at December 31, 2023:

	<u>Cost</u>	<u>Fair Value</u>
Cash	\$ 47,620	\$ 48,820
Taxable Bond Funds	1,000,000	1,000,787
Total Investment Securities	<u>\$ 1,047,620</u>	<u>\$ 1,049,607</u>

Net investment return consists of the following:

Interest income	\$ 1,200
Unrealized gain (loss)	787
Total Net Investment Return	<u>\$ 1,987</u>

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, 2023**

NOTE B – CASH DEPOSITS AND INVESTMENTS (CONCLUDED)

4. Restricted Cash and Investments

Restricted cash and investments consist of the following at December 31, 2023:

Health reimbursement account	\$ 2,146
Customer deposits	306,282
Depreciation reserve	1,035,041
Debt sinking fund reserves	326,102
Future technology	368,348
	<u>\$ 2,037,919</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.

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>
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	\$ 256,000	\$ 0	\$ 31,000	\$ 225,000	\$ 33,000
	<u>\$ 256,000</u>	<u>\$ 0</u>	<u>\$ 31,000</u>	<u>\$ 225,000</u>	<u>\$ 33,000</u>

**EAST LOGAN WATER DISTRICT
A COMPONENT UNIT OF LOGAN COUNTY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2023**

NOTE D – LONG-TERM DEBT (CONCLUDED)

The District has outstanding general revenue bonds from USDA Rural Development with a balance of \$225,000 at December 31, 2023. 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
2024	\$ 33,000	\$ 56,719
2025	34,000	55,358
2026	35,000	53,955
2027	37,000	52,512
2028	38,000	50,985
2029-2031	48,000	97,186
	\$ 225,000	\$ 366,715

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; 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, 2023**

NOTE G – CAPITAL ASSETS

A summary of utility plant activity for the year ended December 31, 2023 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	30,510	0	30,510
Total capital assets not being depreciated	23,583	30,510	0	54,093
Other capital assets				
Utility plant in service	13,493,124	749,425	(95,528)	14,147,021
Total other capital assets at historical cost	13,493,124	749,425	(95,528)	14,147,021
Less: Accumulated depreciation	(7,693,995)	(417,041)	56,964	(8,054,072)
Capital assets, net	<u>\$ 5,822,712</u>	<u>\$ 362,894</u>	<u>\$ (38,564)</u>	<u>\$ 6,147,042</u>

NOTE H – FAIR VALUE OF FINANCIAL INSTRUMENTS

SFAS 157, *Fair Value Measurements* (ASC Topic 820-10) defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is determined based on a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value which are as follows:

- Level 1 Quoted prices in active markets for identical assets or liabilities

- Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets.

- Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets. Level 3 assets include investments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgement or estimation.

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.

**EAST LOGAN WATER DISTRICT
A COMPONENT UNIT OF LOGAN COUNTY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)
DECEMBER 31, 2023**

NOTE I – LITIGATION

As of December 31, 2023, East Logan Water District settled the litigation matter with Logan Telephone Company (LTC) that was initiated during 2021.

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 \$2,084 for 2023.

NOTE K – KENTUCKY CLEANER WATER PROGRAM

The District has been awarded grant funds totaling approximately \$954,525 from the Kentucky Cleaner Water Program, which are funds provided through the American Rescue Plan Act of 2021. Grant funds totaling \$313,049 have been received as of December 31, 2023.

NOTE L – SUBSEQUENT EVENTS

East Logan Water District's management has evaluated and considered the need to recognize or disclose subsequent events through March 11, 2024, 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, 2023, 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 plans to fund this project with the Kentucky Cleaner Water Program grant funds, discussed in Note K. This project is ongoing as of December 31, 2023.

Buckles, Travis & Hart, PLLC

Certified Public Accountants

DENNIS R. BUCKLES, CPA
BRAD K. TRAVIS, CPA/PFS
ROBIN G. HART, CPA

www.graysoncpas.com

211 West White Oak Street
Post Office Box 4069
Leitchfield, KY 42755-4069
Phone 270-259-5604
Fax 270-259-5603

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, 2023, 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 11, 2024.

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 2023-001 and 2023-002 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 11, 2024

**EAST LOGAN WATER DISTRICT
A COMPONENT UNIT OF LOGAN COUNTY, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2023**

SIGNIFICANT DEFICIENCIES

Reference Number	Finding
2023-001	<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>
2023-002	<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>