

**SOUTH LOGAN WATER ASSOCIATION, INC.**  
**FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

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

Commissioners  
South Logan Water Association, Inc.  
Adairville, Kentucky

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

We have audited the accompanying financial statements of South Logan Water Association, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of

significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of South Logan Water Association, Inc. as of December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As discussed in Note L to the financial statements, in 2018, the Association adopted Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 20, 2019, on our consideration of South Logan Water Association, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 South Logan Water Association, Inc.'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 South Logan Water Association, Inc.'s internal control over financial reporting and compliance.

Respectfully submitted,

*Buckles, Travis & Hart, PLLC*

Buckles, Travis & Hart, PLLC  
Certified Public Accountants  
Leitchfield, Kentucky  
March 20, 2019

**SOUTH LOGAN WATER ASSOCIATION, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2018 AND 2017**

	<b>DECEMBER 31,</b>	
	<b>2018</b>	<b>2017</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 374,149	\$ 267,442
Restricted cash	443,382	501,388
Accounts receivable (net of allowance of \$56,183 for 2018 and \$40,048 for 2017)	96,836	136,523
Inventory	85,082	68,364
Prepaid expenses	4,910	4,870
<b>TOTAL CURRENT ASSETS</b>	<b>1,004,359</b>	<b>978,587</b>
 <b>UTILITY PLANT, net</b>	 4,772,574	 4,838,595
 <b>OTHER ASSETS</b>	 45	 45
<b>TOTAL ASSETS</b>	<b>\$ 5,776,978</b>	<b>\$ 5,817,227</b>
 <b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 53,912	\$ 44,643
Current portion of long-term debt	58,691	55,992
Customer deposits	109,519	107,546
Accrued liabilities	5,571	5,992
Accrued interest	49,678	50,917
Unearned revenue	850	2,799
<b>TOTAL CURRENT LIABILITIES</b>	<b>278,221</b>	<b>267,889</b>
 <b>LONG-TERM DEBT, net of current portion</b>	 2,386,508	 2,447,191
<b>TOTAL LIABILITIES</b>	<b>2,664,729</b>	<b>2,715,080</b>
 <b>NET ASSETS</b>		
With donor restrictions	2,091,469	2,134,718
Without donor restrictions	1,020,780	967,429
<b>TOTAL NET ASSETS</b>	<b>3,112,249</b>	<b>3,102,147</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 5,776,978</b>	<b>\$ 5,817,227</b>

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

**SOUTH LOGAN WATER ASSOCIATION, INC.**  
**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

	<b>DECEMBER 31,</b>	
	<b>2018</b>	<b>2017</b>
<b>CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS</b>		
<b>OPERATING REVENUE</b>		
Water service	\$1,190,265	\$1,180,242
Late charges	20,146	18,478
Other	16,398	12,899
<b>TOTAL OPERATING REVENUE</b>	<b>1,226,809</b>	<b>1,211,619</b>
<b>OPERATING EXPENSES</b>		
Purchased water	559,568	553,081
Payroll	157,509	182,724
Payroll taxes	13,922	13,453
Directors fees	3,838	3,561
Retirement expense	1,143	0
Transmission and distribution	62,722	51,077
Repairs and maintenance	6,752	3,792
Vehicle expense	17,827	15,853
Contractual services	0	1,666
Utilities and telephone	12,382	13,226
Professional fees	8,370	8,170
Insurance	28,631	27,751
Taxes and licenses	1,209	1,090
Office supplies	36,638	35,474
Water tests	3,754	5,010
Depreciation	159,836	164,624
Miscellaneous	3,323	6,805
Advertising	3,614	401
<b>TOTAL OPERATING EXPENSES</b>	<b>1,081,038</b>	<b>1,087,758</b>
<b>EXCESS OF OPERATING REVENUE OVER EXPENSES</b>	<b>145,771</b>	<b>123,861</b>
<b>NON-OPERATING GAINS (LOSSES)</b>		
Interest income	1,335	1,210
Gain (loss) on sale of assets	0	(506)
PSC taxes	(2,423)	(2,430)
Interest expense	(91,332)	(93,630)
Line relocation revenue	0	0
Line relocation expense	0	0
<b>TOTAL NON-OPERATING GAINS (LOSSES)</b>	<b>(92,420)</b>	<b>(95,356)</b>
<b>INCREASE (DECREASE) IN NET ASSETS WITHOUT DONOR RESTRICTIONS</b>	<b>53,351</b>	<b>28,505</b>

(CONTINUED)

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

**SOUTH LOGAN WATER ASSOCIATION, INC.**  
**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS (CONCLUDED)**  
**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

	<b>DECEMBER 31,</b>	
	<b>2018</b>	<b>2017</b>
<b>CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS</b>		
Capital contributions – Tap on fees	\$ 13,600	\$ 18,200
Capital contributions – Customers	0	2,714
Depreciation on assets acquired by grant	(56,849)	(61,090)
<b>INCREASE (DECREASE) IN NET ASSETS WITH DONOR RESTRICTIONS</b>	<b>(43,249)</b>	<b>(40,176)</b>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	10,102	(11,671)
<b>NET ASSETS AT BEGINNING OF YEAR</b>	<b>3,102,147</b>	<b>3,113,818</b>
<b>NET ASSETS AT END OF YEAR</b>	<b>\$3,112,249</b>	<b>\$3,102,147</b>

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

**SOUTH LOGAN WATER ASSOCIATION, INC.**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

	<b>DECEMBER 31,</b> <b>2018</b>	<b>2017</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Operating income (loss)	\$ 53,351	\$ 28,505
Adjustments to reconcile net operating income (loss) to net cash provided (used) by operating activities:		
Depreciation expense	159,836	164,624
(Gain) loss on sale of assets	0	506
(Increase) decrease in restricted cash	58,006	(8,680)
Net (increase) decrease in accounts receivable	39,687	(5,898)
Net (increase) decrease in inventory	(16,718)	5,148
Net (increase) decrease in prepaid expenses	(40)	(747)
Net increase (decrease) in accounts payable	9,269	(20,274)
Net increase (decrease) in customer deposits	1,973	3,514
Net increase (decrease) in accrued interest	(1,239)	(1,179)
Net increase (decrease) in accrued liabilities	(421)	(115)
Net increase (decrease) in unearned revenue	(1,949)	1,866
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>301,755</b>	<b>167,270</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on long-term debt	(57,984)	(55,745)
Acquisition of utility plant	(150,665)	(107,135)
Proceeds from sale of assets	0	0
Contributions in aid of construction from customers and grants	13,600	20,914
Miscellaneous receipts (payments)	1	(1)
<b>NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES</b>	<b>(195,048)</b>	<b>(141,967)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>	<b>0</b>	<b>0</b>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>106,707</b>	<b>25,303</b>
<b>BALANCES-BEGINNING OF YEAR</b>	<b>267,442</b>	<b>242,139</b>
<b>BALANCES-END OF YEAR</b>	<b>\$ 374,149</b>	<b>\$ 267,442</b>
<b>SUPPLEMENTAL DISCLOSURE</b>		
Interest paid	<b>\$ 92,571</b>	<b>\$ 94,809</b>

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



**SOUTH LOGAN WATER ASSOCIATION, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018 AND 2017**

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

**1. Nature of Operations**

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

**2. Basis of Presentation**

The accompanying financial statements of the Association are presented on the accrual basis of accounting. The Association follows the reporting requirements of generally accepted accounting principles (GAAP), which requires that resources be classified for reporting purposes based on the existence or absence of donor-imposed restrictions. This is accomplished by classification of fund balances into two classes of net assets: without donor restrictions and with donor restrictions. Descriptions of the two net asset categories and the types of transactions affecting each category follow:

- Without Donor Restrictions – Net assets that are not subject to donor-imposed restrictions. Items that affect this net asset category principally consist of fees for service and related expenses associated with the core activities of the Association: water services.
- With Donor Restrictions – Net assets subject to donor-imposed restrictions that will be met either by actions of the Association or the passage of time. Items that affect this net asset category are contributions in aid of construction for which donor-imposed restrictions have not been met in the year of receipt. Depreciation for capital assets acquired via contributions in aid of construction is applied to this component of net assets rather than operating expenses.

<u>Detail of net assets</u>	<u>2018</u>			<u>2017</u>		
	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Water service:						
Operating	\$1,020,780	\$ 0	\$1,020,780	\$ 967,429	\$ 0	\$ 967,429
Contributions in aid of construction	0	1,464,429	1,464,429	0	1,521,278	1,521,278
Tap on fees	0	627,040	627,040	0	613,440	613,440
Total	<u>\$1,020,780</u>	<u>\$2,091,469</u>	<u>\$3,112,249</u>	<u>\$ 967,429</u>	<u>\$2,134,718</u>	<u>\$3,102,147</u>

**SOUTH LOGAN WATER ASSOCIATION, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2018 AND 2017**

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

**3. Use of Estimates**

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

**4. Accounts Receivable and Other Receivables**

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

**5. Inventory**

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

**6. Utility Plant**

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

**7. Contributions in Aid of Construction**

Beginning January 1, 1997, the Association changed its method of accounting for tap on fees. Prior to 1997, tap on fees were recorded as other revenue. Effective January 1, 1997, tap on fees are recorded as contributions in aid of construction. The cumulative effect on retained earnings at the beginning of 1997 is undeterminable. Effective January 1, 2018, this is presented as a component of net assets with donor restrictions.

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

**SOUTH LOGAN WATER ASSOCIATION, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2018 AND 2017**

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

**8. Income Taxes**

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

**9. Concentrations of Credit Risk**

At year-end, the carrying amount of the Association’s cash and investments was \$817,531 and the bank balance was \$824,744. Of the total bank balance, \$250,000 was covered by federal depository insurance and the remaining balance of \$574,744 would require collateralization. As of December 31, 2018, \$881,861 was pledged with securities held by the pledging banks’ trust department but not in the Association’s name.

**10. Cash and Cash Equivalents**

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

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

The Association reviews its property for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. For assets held and used, if the undiscounted cash flows estimated to be generated by those assets are less than the carrying amounts of the asset, an impairment loss has occurred. The amount of the impairment loss is equal to the excess of the asset’s carrying value over its estimated fair value. No impairment loss has been recognized during the years ended December 31, 2018 and 2017.

**NOTE B – RESTRICTED CASH**

Restricted cash consists of the following at December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
System improvement project construction funds	\$ 160,386	\$ 160,145
Customer deposits	144,178	143,167
Debt service-Bonds	38,858	37,583
Cash reserves-Bonds	76,407	142,971
Short-lived assets	23,553	17,522
	<u>\$ 443,382</u>	<u>\$ 501,388</u>

**SOUTH LOGAN WATER ASSOCIATION, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2018 AND 2017**

**NOTE B – RESTRICTED CASH (CONCLUDED)**

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

**NOTE C – UTILITY PLANT**

A summary of utility plant activity at December 31, 2018 and 2017 is as follows:

	<u>2018</u>	<u>2017</u>
Land and land improvements	\$ 36,719	\$ 36,719
Pumping equipment	50,762	44,627
Distribution reservoirs and standpipes	712,841	630,077
Transmission and distribution mains	6,363,772	6,363,772
Services	42,701	42,701
Meters and installations	698,486	645,984
Hydrants	68,328	68,328
Communication equipment	19,341	19,341
Vehicles	189,959	180,695
Building and improvements	94,685	94,685
Office equipment	38,995	38,995
Construction in progress	0	0
	<u>8,316,589</u>	<u>8,165,924</u>
Less: Accumulated depreciation	<u>(3,544,015)</u>	<u>(3,327,329)</u>
<b>Utility Plant, Net</b>	<u><b>\$4,772,574</b></u>	<u><b>\$4,838,595</b></u>

**NOTE D – CONTINGENCY**

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

**SOUTH LOGAN WATER ASSOCIATION, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2018 AND 2017**

**NOTE E – LONG-TERM DEBT**

Current year long-term debt activity is as follows:

<u>Description</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Note payable – FmHA, payable in annual installments of principal and interest of \$24,655, interest at 5.00%, maturing May 2033, secured by assignment and pledge of revenue	\$ 234,273	\$ 0	\$ 12,942	\$ 221,331	\$ 11,868
Note payable – FmHA, payable in annual installments of \$33,594, interest at 4.875%, maturing February 2038, secured by assignment and pledge of revenue	433,881	0	12,442	421,439	12,971
Note payable – Rural Development, payable in annual installments of principal and interest, interest at 4.125%, maturing September 2045, secured by substantially all assets and revenues of the Association	672,132	0	13,280	658,852	14,000
Note payable – Rural Development, payable in annual installments of \$51,300 principal and interest, interest at 2.75%, maturing September 2053, secured by assignment and pledge of revenue	1,162,897	0	19,320	1,143,577	19,852
	<u>\$ 2,503,183</u>	<u>\$ 0</u>	<u>\$ 57,984</u>	<u>\$ 2,445,199</u>	<u>\$ 58,691</u>

Annual debt service requirements to maturity are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 58,691	\$ 92,084	\$ 150,775
2020	60,964	89,754	150,718
2021	63,311	87,309	150,620
2022	65,737	84,764	150,501
2023	68,245	82,116	150,361
2024-2028	386,511	366,714	753,225
2029-2033	437,186	280,049	717,235
2034-2038	439,187	189,301	628,488
2039-2043	348,421	113,020	461,441
2044-2048	280,483	54,531	335,014
2049-2053	236,463	20,037	256,500
	<u>\$ 2,445,199</u>	<u>\$ 1,459,679</u>	<u>\$ 3,904,878</u>

**SOUTH LOGAN WATER ASSOCIATION, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2018 AND 2017**

**NOTE F – RISK MANAGEMENT**

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

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

**NOTE G – WATER AGREEMENT**

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

**NOTE H – FAIR VALUE OF FINANCIAL INSTRUMENTS**

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

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

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

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

**SOUTH LOGAN WATER ASSOCIATION, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)**  
**DECEMBER 31, 2018 AND 2017**

**NOTE I – RETIREMENT PLAN**

The Association began a SIMPLE IRA retirement plan in 2007 that covers all employees who meet the eligibility requirements. The Association's contributions to the plan have been determined by the Board of Commissioners. Contributions to the plan were \$1,143 and \$0 for 2018 and 2017, respectively.

**NOTE J – SUBSEQUENT EVENTS**

South Logan Water Association, Inc.'s management has evaluated and considered the need to recognize or disclose subsequent events through March 20, 2019, 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, 2018, have not been evaluated by management.

**NOTE K – RELATED PARTY TRANSACTIONS**

A portion of the Association's insurance is purchased through a local agency, the principal of which is a commissioner. The total payments to the agency or to represented companies were \$229 and \$458 for the years ended December 31, 2018 and 2017, respectively.

**NOTE L – RECENT ACCOUNTING PRONOUNCEMENTS**

During 2018, the Association adopted ASU No. 2016-14 – *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This guidance is intended to improve the net asset classification requirements and the information presented in the financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. Main provisions of this guidance include: presentation of two classes of net assets versus the previously required three; recognition of capital gifts for construction as a net asset without donor restrictions when the associated long-lived asset is placed in service; and recognition of underwater endowment funds as a reduction in net assets with donor restrictions. The guidance also enhances disclosures for board designated amounts, composition of net assets without donor restrictions, liquidity, and expenses by both their natural and functional classification.

# Buckles, Travis & Hart, PLLC

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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  
South Logan Water Association, Inc.  
Adairville, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of South Logan Water Association, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 20, 2019.

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

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

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



Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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 2018-001 and 2018-002, that we consider to be significant deficiencies.

### **Compliance and Other Matters**

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

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

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

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

*Buckles, Travis & Hart, PLLC*

Buckles, Travis & Hart, PLLC  
Certified Public Accountants  
Leitchfield, Kentucky  
March 20, 2019

**SOUTH LOGAN WATER ASSOCIATION, INC.  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED DECEMBER 31, 2018**

**SIGNIFICANT DEFICIENCIES**

<b><u>Reference Number</u></b>	<b><u>Finding</u></b>
<b>2018-001</b>	<p><b>Condition:</b> Accounting personnel responsible for the accounting and reporting function lacks the professional training and professional experience to apply generally accepted accounting principles in preparing the Association's financial statements.</p> <p><b>Criteria:</b> Deficiencies in the design of controls include the above mentioned condition.</p> <p><b>Effect:</b> The Association is unable to prepare and present properly adjusted financial statements with full note disclosures throughout the fiscal year and at year-end.</p> <p><b>Cause:</b> Budgetary constraints limit hiring individuals possessing the required technical knowledge.</p> <p><b>Recommendation:</b> The Association should consider obtaining the professional training and expertise to apply generally accepted accounting principles in preparing the Association's financial statements.</p> <p><b>Response:</b> The Association concurs with the recommendation; however, it is not feasible to obtain the training and expertise at this time.</p>
<b>2018-002</b>	<p><b>Condition:</b> Due to the small staff size, the Association's bookkeeping lacks adequate segregation of duties. Two of its employees perform essentially all accounting functions, including maintenance of journals, ledgers, check preparation, and cash receipts and disbursements.</p> <p><b>Criteria:</b> Segregation of duties is an essential element of proper internal control.</p> <p><b>Effect:</b> Significant controls over transaction processing were absent.</p> <p><b>Cause:</b> Budgetary constraints limit hiring the number of employees sufficient to permit assignment of accounting functions to various individuals.</p> <p><b>Recommendation:</b> The Association should continue its efforts to distribute the accounting procedures over as many different individuals as practical, also considering realignment of duties.</p> <p><b>Response:</b> The Association believes that there will always be a risk involved in a small business with limited personnel. Policy whereby employees check each other could possibly be restricted and monitored more extensively, but they also feel that they have enough backup to prevent fraud or theft where deposits are concerned. The Association has implemented measures for the bank statements and reconciliations to be reviewed by the treasurer.</p>