

SOUTH LOGAN WATER ASSOCIATION, INC.
FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

**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, 2020 and 2019, 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, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2021, 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 22, 2021

SOUTH LOGAN WATER ASSOCIATION, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2020 AND 2019

	DECEMBER 31,	
	2020	2019
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 530,363	\$ 496,008
Restricted cash	508,594	468,393
Accounts receivable, net	107,224	98,295
Inventory	101,963	95,796
Prepaid expenses	5,165	4,268
TOTAL CURRENT ASSETS	1,253,309	1,162,760
PROPERTY, PLANT AND EQUIPMENT		
Utility plant, net of depreciation	4,481,494	4,607,962
Construction in progress	24,143	0
NET PROPERTY, PLANT AND EQUIPMENT	4,505,637	4,607,962
OTHER ASSETS	45	47
TOTAL ASSETS	\$ 5,758,991	\$ 5,770,769
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 50,734	\$ 57,758
Current portion of long-term debt	63,311	60,964
Customer deposits	116,916	112,526
Accrued liabilities	8,392	6,026
Accrued interest	47,044	48,374
Unearned revenue	850	850
TOTAL CURRENT LIABILITIES	287,247	286,498
LONG-TERM LIABILITIES		
Long-term debt, net of current portion	2,258,823	2,323,919
TOTAL LONG-TERM LIABILITIES	2,258,823	2,323,919
TOTAL LIABILITIES	2,546,070	2,610,417
NET ASSETS		
With donor restrictions	2,033,270	2,060,268
Without donor restrictions	1,179,651	1,100,084
TOTAL NET ASSETS	3,212,921	3,160,352
TOTAL LIABILITIES AND NET ASSETS	\$ 5,758,991	\$ 5,770,769

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, 2020 AND 2019

	DECEMBER 31,	
	2020	2019
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
REVENUES, GAINS AND OTHER SUPPORT		
Water service	\$ 1,190,257	\$ 1,221,472
Late charges	13,342	19,991
Other revenues	17,436	13,355
TOTAL REVENUES, GAINS AND OTHER SUPPORT	1,221,035	1,254,818
OPERATING EXPENSES		
Purchased water	531,512	580,866
Payroll	162,939	154,000
Payroll taxes	12,230	12,952
Directors fees	2,650	2,500
Retirement expense	4,243	3,248
Transmission and distribution	37,409	55,084
Repairs and maintenance	38,439	8,260
Vehicle expense	14,092	19,901
Bad debt expense	0	2,474
Utilities and telephone	15,114	12,198
Professional fees	9,595	10,375
Insurance	30,685	27,315
Taxes and licenses	2,532	764
Office supplies	38,588	37,840
Water tests	4,975	4,393
Depreciation expense	158,163	149,771
Miscellaneous expense	1,593	3,318
Advertising	296	342
TOTAL OPERATING EXPENSES	1,065,055	1,085,601
EXCESS OF OPERATING REVENUE OVER EXPENSES	155,980	169,217
NON-OPERATING GAINS (LOSSES)		
Interest income	1,573	1,419
Gain (loss) on sale of fixed assets	11,000	0
PSC taxes	(2,510)	(2,400)
Interest expense	(86,476)	(88,933)
Line relocation revenue	0	0
Line relocation expense	0	0
TOTAL NON-OPERATING GAINS (LOSSES)	(76,413)	(89,914)
INCREASE (DECREASE) IN NET ASSETS WITHOUT DONOR RESTRICTIONS	79,567	79,303
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS		
Capital contributions - Tap on fees	21,600	21,900
Capital contributions - Customers	0	0
Depreciation on assets acquired by grant	(48,598)	(53,100)
INCREASE (DECREASE) IN NET ASSETS WITH DONOR RESTRICTIONS	(26,998)	(31,200)
INCREASE (DECREASE) IN NET ASSETS	52,569	48,103
NET ASSETS - BEGINNING OF YEAR	3,160,352	3,112,249
NET ASSETS - END OF YEAR	\$ 3,212,921	\$ 3,160,352

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, 2020 AND 2019

	DECEMBER 31,	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income (loss)	\$ 79,567	\$ 79,303
Adjustments to reconcile net operating income (loss) to net cash provided (used) by operating activities:		
Depreciation expense	158,163	149,771
(Gain) loss on disposition of assets	(11,000)	0
(Increase) decrease in restricted cash	(40,199)	(25,012)
Net (increase) decrease in accounts receivable	(8,928)	(1,459)
Net (increase) decrease in inventory	(6,167)	(10,713)
Net (increase) decrease in prepaid expenses	(899)	642
Net increase (decrease) in accounts payable	(7,024)	3,846
Net increase (decrease) in customer deposits	4,390	3,007
Net increase (decrease) in accrued interest	(1,330)	(1,304)
Net increase (decrease) in accrued liabilities	2,366	455
Net increase (decrease) in unearned revenue	0	0
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	168,939	198,536
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments on long-term debt	(62,749)	(60,316)
Acquisition of utility plant	(93,436)	(38,260)
Proceeds from sale of assets	0	0
Contributions in aid of construction from customers and grants	21,600	21,900
Miscellaneous receipts (payments)	1	(1)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(134,584)	(76,677)
CASH FLOWS FROM FINANCING ACTIVITIES		
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	0	0
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	34,355	121,859
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	496,008	374,149
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 530,363	\$ 496,008
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for interest	\$ 87,806	\$ 90,237

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, 2020 AND 2019**

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>2020</u>			<u>2019</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	\$1,179,651	\$ 0	\$1,179,651	\$ 1,100,084	\$ 0	\$1,100,084
Contributions in aid of construction	0	1,362,730	1,362,730	0	1,411,328	1,411,328
Tap on fees	0	670,540	670,540	0	648,940	648,940
Total	<u>\$1,179,651</u>	<u>\$2,033,270</u>	<u>\$3,212,921</u>	<u>\$ 1,100,084</u>	<u>\$2,060,268</u>	<u>\$3,160,352</u>

SOUTH LOGAN WATER ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2020 AND 2019

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 20th of each month. Accounts unpaid 10 days after the due date are considered delinquent and service is disconnected. An allowance is established for delinquent receivables and they are written off when deemed uncollectible. New service is denied until all outstanding balances have been settled.

5. Inventory

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

6. Utility Plant

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

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, 2020 AND 2019

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 \$1,038,957 and the bank balance was \$1,041,051. Of the total bank balance, \$250,000 was covered by federal depository insurance and the remaining balance of \$791,051 would require collateralization. As of December 31, 2020, \$1,162,738 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. Unearned Revenue

At December 31, 2020 and 2019, the Association held \$850 and \$850, respectively, in unearned revenue for water meters paid in advance prior to installation.

12. 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, 2020 and 2019.

SOUTH LOGAN WATER ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2020 AND 2019

NOTE B – RESTRICTED CASH

Restricted cash consists of the following at December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
System improvement project construction funds	\$ 160,869	\$ 160,627
Customer deposits	152,081	147,562
Debt service-Bonds	51,421	38,134
Cash reserves-Bonds	108,580	92,477
Short-lived assets	35,643	29,593
	<u>\$ 508,594</u>	<u>\$ 468,393</u>

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

NOTE C – UTILITY PLANT

A summary of utility plant activity at December 31, 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Land and land improvements	\$ 61,719	\$ 36,719
Pumping equipment	50,762	50,762
Distribution reservoirs and standpipes	712,841	712,841
Transmission and distribution mains	6,371,522	6,371,522
Services	42,701	42,701
Meters and installations	723,855	723,855
Hydrants	68,328	68,328
Communication equipment	19,341	19,341
Vehicles	224,986	195,100
Building and improvements	94,685	94,685
Office equipment	36,642	36,642
Construction in progress	24,143	0
	<u>8,431,525</u>	<u>8,352,496</u>
Less: Accumulated depreciation	<u>(3,925,888)</u>	<u>(3,744,534)</u>
Utility Plant, Net	<u>\$4,505,637</u>	<u>\$4,607,962</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, 2020 AND 2019

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	\$ 207,743	\$ 0	\$ 14,268	\$ 193,475	\$ 13,085
Note payable – FmHA, payable in annual installments of \$33,594, interest at 4.875%, maturing February 2038, secured by assignment and pledge of revenue	408,390	0	13,685	394,705	14,267
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	645,025	0	14,398	630,627	15,000
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	1,123,725	0	20,398	1,103,327	20,959
	<u>\$ 2,384,883</u>	<u>\$ 0</u>	<u>\$ 62,749</u>	<u>\$ 2,322,134</u>	<u>\$ 63,311</u>

Annual debt service requirements to maturity are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 63,311	\$ 87,309	\$ 150,620
2022	65,737	84,764	150,501
2023	68,245	82,116	150,361
2024	71,340	79,361	150,701
2025	74,025	76,475	150,500
2026-2030	418,347	334,644	752,991
2031-2035	423,193	241,719	664,912
2036-2040	404,542	156,028	560,570
2041-2045	369,607	88,812	458,419
2046-2050	218,152	38,348	256,500
2051-2053	145,635	8,263	153,898
	<u>\$ 2,322,134</u>	<u>\$ 1,277,839</u>	<u>\$ 3,599,973</u>

SOUTH LOGAN WATER ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2020 AND 2019

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

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. |

SOUTH LOGAN WATER ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2020 AND 2019

NOTE H – FAIR VALUE OF FINANCIAL INSTRUMENTS (CONCLUDED)

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.

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.

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 \$4,243 and \$3,248 for 2020 and 2019, 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 22, 2021, 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, 2020, have not been evaluated by management.

During 2020, South Logan Water Association was in the beginning stages of constructing a new office and shop building. Long-term financing will be secured through USDA Rural Development and additional funding will be provided by grants received.

Waterlines will be extended through the area around the By-Pass. This project was in the beginning stages as of December 31, 2020. Long-term financing and grants received for this project will be included in funds received for the new office and shop building previously mentioned. There have been no expenditures for this project at year end.

South Logan Water Association is currently replacing waterlines on Roy Orndorff Road. The Association is using operating revenues to fund this project. The project is expected to be completed during 2021.

**SOUTH LOGAN WATER ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)
DECEMBER 31, 2020 AND 2019**

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 \$229 for the years ended December 31, 2020 and 2019, respectively.

NOTE L – ADVERTISING COSTS

The Association uses advertising to post meeting information and customer notices. Advertising costs are expensed as incurred. Total advertising expenses were \$296 and \$342 for the years ended December 31, 2020 and 2019, respectively.

NOTE M – CONTRACT BALANCES

The following summarizes gross receivables from contracts and contract liabilities for the years ended December 31, 2020 and 2019, respectively:

	December 31, 2020	December 31, 2019
Receivables from contracts	\$ 208,006	\$ 215,608
Contract liabilities	\$ 850	\$ 850

NOTE N – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The following reflects the Association’s financial assets as of the statement of financial position date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the statement of financial position date. Financial assets at year-end consist of cash and cash equivalents of \$530,363, receivables of \$107,224, and restricted cash of \$508,594.

Financial assets at year-end	\$ 1,146,181
Less those unavailable for general expenditures within one year, due to:	
Contractual- restricted items for specific use only	508,594
Financial assets available to meet cash needs for general expenditures within one year	\$ 637,587

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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, 2020, 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 22, 2021.

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 2020-001 and 2020-002, 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 22, 2021

**SOUTH LOGAN WATER ASSOCIATION, INC.
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2020**

SIGNIFICANT DEFICIENCIES

<u>Reference Number</u>	<u>Finding</u>
2020-001	<p>Condition: Whereas management has the suitable skills, knowledge and expertise concerning financial activities of the Association, they lack the professional training to apply generally accepted accounting principles in the preparation of the Association'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 Association'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 Association should consider obtaining the professional training and expertise to apply generally accepted accounting principles according to governmental accounting standards in preparing and presenting the Association's financial statements.</p> <p>Response: The Association concurs with the recommendation; however, it is not feasible to obtain the training and expertise at this time.</p>
2020-002	<p>Condition: The Association has two office employees, and they have a number of duties, many of which are incompatible.</p> <p>Criteria: Separation of duties is an essential element of proper internal control.</p> <p>Effect: Significant controls over transaction processing were absent.</p> <p>Cause: Budgetary constraints limit hiring the number of employees sufficient to permit assignment of accounting functions to various individuals.</p> <p>Recommendation: With only two employees, controls are difficult to establish in this area. Where practical, staff should have extensive documentation of approval from the Association and its officers.</p> <p>Response: The Association believes that there will always be a risk involved in a small business with limited personnel. Policy whereby employees check each other could possibly be restricted and monitored more extensively, but they also feel that they have enough backup to prevent fraud or theft where deposits are concerned. The Association has implemented measures for the bank statements and reconciliations to be reviewed by the treasurer.</p>