

**SOUTH LOGAN WATER ASSOCIATION, INC.**  
**FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

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

Commissioners  
South Logan Water Association, Inc.  
Adairville, Kentucky

### Report on the Audit of the Financial Statements

#### Opinion

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, 2021 and 2020, 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.

In our opinion, the financial statements present fairly, in all material respects, the financial position of South Logan Water Association, Inc. as of December 31, 2021 and 2020, 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.

#### Basis for Opinion

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

#### Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 South Logan Water Association, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether these financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our 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 South Logan Water Association, Inc.'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 South Logan Water Association, Inc.'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.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 5, 2022 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 5, 2022

**SOUTH LOGAN WATER ASSOCIATION, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2021 AND 2020**

	<b>DECEMBER 31,</b>	
	<b>2021</b>	<b>2020</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 581,774	\$ 530,363
Restricted cash	530,817	508,594
Accounts receivable, net	91,146	107,224
Inventory	106,137	101,963
Prepaid expenses	7,171	5,165
<b>TOTAL CURRENT ASSETS</b>	<b>1,317,045</b>	<b>1,253,309</b>
<b>PROPERTY, PLANT AND EQUIPMENT</b>		
Utility plant, net of depreciation	4,349,984	4,481,494
Construction in progress	4,314	24,143
<b>NET PROPERTY, PLANT AND EQUIPMENT</b>	<b>4,354,298</b>	<b>4,505,637</b>
<b>OTHER ASSETS</b>	<b>47</b>	<b>45</b>
<b>TOTAL ASSETS</b>	<b>\$ 5,671,390</b>	<b>\$ 5,758,991</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 46,706	\$ 50,734
Current portion of long-term debt	65,737	63,311
Customer deposits	118,984	116,916
Accrued liabilities	14,441	8,392
Accrued interest	45,637	47,044
Unearned revenue	850	850
<b>TOTAL CURRENT LIABILITIES</b>	<b>292,355</b>	<b>287,247</b>
<b>LONG-TERM LIABILITIES</b>		
Long-term debt, net of current portion	2,191,115	2,258,823
<b>TOTAL LONG-TERM LIABILITIES</b>	<b>2,191,115</b>	<b>2,258,823</b>
<b>TOTAL LIABILITIES</b>	<b>2,483,470</b>	<b>2,546,070</b>
<b>NET ASSETS</b>		
With donor restrictions	2,001,987	2,033,270
Without donor restrictions	1,185,933	1,179,651
<b>TOTAL NET ASSETS</b>	<b>3,187,920</b>	<b>3,212,921</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 5,671,390</b>	<b>\$ 5,758,991</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, 2021 AND 2020**

	<b>DECEMBER 31,</b>	
	<b>2021</b>	<b>2020</b>
<b>CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS</b>		
<b>REVENUES, GAINS AND OTHER SUPPORT</b>		
Water service	\$ 1,176,469	\$ 1,190,257
Late charges	15,881	13,342
Other revenues	15,361	17,436
<b>TOTAL REVENUES, GAINS AND OTHER SUPPORT</b>	<u>1,207,711</u>	<u>1,221,035</u>
<b>OPERATING EXPENSES</b>		
Purchased water	503,386	531,512
Payroll	203,952	162,939
Payroll taxes	16,013	12,230
Directors fees	2,100	2,650
Retirement expense	4,239	4,243
Transmission and distribution	70,749	37,409
Repairs and maintenance	11,980	38,439
Vehicle expense	25,874	14,092
Contractual services	6,300	0
Bad debt expense	0	0
Utilities and telephone	17,858	15,114
Professional fees	9,625	9,595
Insurance	32,393	30,685
Taxes and licenses	1,182	2,532
Office supplies	45,104	38,588
Water tests	4,290	4,975
Depreciation expense	161,434	158,163
Miscellaneous expense	2,376	1,593
Advertising	0	296
<b>TOTAL OPERATING EXPENSES</b>	<u>1,118,855</u>	<u>1,065,055</u>
<b>EXCESS OF OPERATING REVENUE OVER EXPENSES</b>	88,856	155,980
<b>NON-OPERATING GAINS (LOSSES)</b>		
Interest income	1,722	1,573
Gain (loss) on sale of fixed assets	2,010	11,000
PSC taxes	(2,442)	(2,510)
Interest expense	(83,863)	(86,476)
Line relocation revenue	0	0
Line relocation expense	0	0
<b>TOTAL NON-OPERATING GAINS (LOSSES)</b>	<u>(82,573)</u>	<u>(76,413)</u>
<b>INCREASE (DECREASE) IN NET ASSETS WITHOUT DONOR RESTRICTIONS</b>	6,283	79,567
<b>CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS</b>		
Capital contributions - Tap on fees	12,600	21,600
Capital contributions - Customers	0	0
Depreciation on assets acquired by grant	(43,884)	(48,598)
<b>INCREASE (DECREASE) IN NET ASSETS WITH DONOR RESTRICTIONS</b>	<u>(31,284)</u>	<u>(26,998)</u>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	(25,001)	52,569
<b>NET ASSETS - BEGINNING OF YEAR</b>	<u>3,212,921</u>	<u>3,160,352</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 3,187,920</u>	<u>\$ 3,212,921</u>

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, 2021 AND 2020**

	<b>DECEMBER 31,</b>	
	<b>2021</b>	<b>2020</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Operating income (loss)	\$ 6,283	\$ 79,567
Adjustments to reconcile net operating income (loss) to net cash provided (used) by operating activities:		
Depreciation expense	161,434	158,163
(Gain) loss on disposition of assets	(2,010)	(11,000)
(Increase) decrease in restricted cash	(22,224)	(40,199)
Net (increase) decrease in accounts receivable	16,077	(8,928)
Net (increase) decrease in inventory	(4,174)	(6,167)
Net (increase) decrease in prepaid expenses	(2,008)	(899)
Net increase (decrease) in accounts payable	(4,027)	(7,024)
Net increase (decrease) in customer deposits	2,068	4,390
Net increase (decrease) in accrued interest	(1,407)	(1,330)
Net increase (decrease) in accrued liabilities	6,050	2,366
Net increase (decrease) in unearned revenue	0	0
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>156,062</b>	<b>168,939</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Payments on long-term debt	(65,283)	(62,749)
Acquisition of utility plant	(53,978)	(93,436)
Proceeds from sale of assets	2,010	0
Contributions in aid of construction from customers and grants	12,600	21,600
Miscellaneous receipts (payments)	0	1
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>	<b>(104,651)</b>	<b>(134,584)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
<b>NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES</b>	<b>0</b>	<b>0</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>51,411</b>	<b>34,355</b>
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	<b>530,363</b>	<b>496,008</b>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<b>\$ 581,774</b>	<b>\$ 530,363</b>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Cash paid during the year for interest	<b>\$ 85,270</b>	<b>\$ 87,806</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, 2021 AND 2020**

**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>2021</u>			<u>2020</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	\$1,185,933	\$ 0	\$1,185,933	\$1,179,651	\$ 0	\$1,179,651
Contributions in aid of construction	0	1,318,847	1,318,847	0	1,362,730	1,362,730
Tap on fees	0	683,140	683,140	0	670,540	670,540
<b>Total</b>	<u>\$1,185,933</u>	<u>\$2,001,987</u>	<u>\$3,187,920</u>	<u>\$1,179,651</u>	<u>\$2,033,270</u>	<u>\$3,212,921</u>

**SOUTH LOGAN WATER ASSOCIATION, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2021 AND 2020**

**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, 2021 AND 2020**

**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 \$1,112,591 and the bank balance was \$1,114,529. Of the total bank balance, \$250,000 was covered by federal depository insurance and the remaining balance of \$864,529 would require collateralization. As of December 31, 2021, \$958,955 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, 2021 and 2020, 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, 2021 and 2020.

**SOUTH LOGAN WATER ASSOCIATION, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2021 AND 2020**

**NOTE B – RESTRICTED CASH**

Restricted cash consists of the following at December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
System improvement project construction funds	\$ 161,110	\$ 160,869
Customer deposits	153,569	152,081
Debt service-Bonds	49,723	51,421
Cash reserves-Bonds	124,714	108,580
Short-lived assets	41,701	35,643
	<u>\$ 530,817</u>	<u>\$ 508,594</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, 2021 and 2020 is as follows:

	<u>2021</u>	<u>2020</u>
Land and land improvements	\$ 61,719	\$ 61,719
Pumping equipment	50,762	50,762
Distribution reservoirs and standpipes	712,841	712,841
Transmission and distribution mains	6,419,172	6,371,522
Services	42,701	42,701
Meters and installations	740,924	723,855
Hydrants	71,684	68,328
Communication equipment	19,341	19,341
Vehicles	221,684	224,986
Building and improvements	94,685	94,685
Office equipment	40,422	36,642
Construction in progress	4,315	24,143
	<u>8,480,250</u>	<u>8,431,525</u>
Less: Accumulated depreciation	<u>(4,125,952)</u>	<u>(3,925,888)</u>
<b>Utility Plant, Net</b>	<u><b>\$4,354,298</b></u>	<u><b>\$4,505,637</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, 2021 AND 2020**

**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	\$ 193,475	\$ 0	\$ 14,981	\$ 178,494	\$ 13,739
Note payable – FmHA, payable in annual installments of \$33,594, interest at 4.875%, maturing February 2038, secured by assignment and pledge of revenue	394,705	0	14,352	380,353	14,963
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	630,627	0	14,992	615,635	15,500
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	1,103,327	0	20,957	1,082,370	21,535
	<u>\$ 2,322,134</u>	<u>\$ 0</u>	<u>\$ 65,282</u>	<u>\$ 2,256,852</u>	<u>\$ 65,737</u>

Annual debt service requirements to maturity are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	77,304	73,474	150,778
2027-2031	435,311	317,576	752,887
2032-2036	415,147	223,161	638,308
2037-2041	385,895	140,870	526,765
2042-2046	341,354	76,127	417,481
2047-2051	224,151	32,349	256,500
2052-2053	98,343	4,258	102,601
	<u>\$ 2,256,852</u>	<u>\$ 1,190,531</u>	<u>\$ 3,447,383</u>

**SOUTH LOGAN WATER ASSOCIATION, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2021 AND 2020**

**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, 2021 AND 2020**

**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 \$4,239 and \$4,243 for 2021 and 2020, 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 5, 2022, which represents the date that these financial statements were available to be issued. Subsequent events past this date, as they pertain to the fiscal year ended December 31, 2021, have not been evaluated by management.

During 2021, 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, 2021. 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 completed the replacement of waterlines on Roy Orndorff Road. The Association used operating revenues to fund this project. The project was completed during 2021.

**SOUTH LOGAN WATER ASSOCIATION, INC.  
NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)  
DECEMBER 31, 2021 AND 2020**

**NOTE J – SUBSEQUENT EVENTS (CONCLUDED)**

The Kentucky Transportation Cabinet is in the beginning stages of replacing and widening a bridge on US Hwy 79. South Logan Water Association will be required to move waterlines. This project is expected to begin in 2022 and expenses are to be reimbursed by Kentucky Transportation Cabinet.

**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, 2021 and 2020, 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 \$0 and \$296 for the years ended December 31, 2021 and 2020, respectively.

**NOTE M – CONTRACT BALANCES**

The following summarizes gross receivables from contracts and contract liabilities for the years ended December 31, 2021 and 2020, respectively:

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Receivables from contracts	\$ 195,026	\$ 208,006
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 \$581,774, receivables of \$91,146, and restricted cash of \$530,817.

Financial assets at year-end	<u>2021</u> \$ 1,203,737
Less those unavailable for general expenditures within one year, due to:	
Contractual- restricted items for specific use only	<u>530,817</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 672,920</u>

# 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, 2021, 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 5, 2022.

### Report on 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) as a basis for designing 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 2021-001 and 2021-002, that we consider to be significant deficiencies.

### **Report on 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**

*Government Auditing Standards* requires the auditor to perform limited procedures on South Logan Water Association, Inc.'s response to the findings identified in our audit and 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 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 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 5, 2022

**SOUTH LOGAN WATER ASSOCIATION, INC.  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED DECEMBER 31, 2021**

**SIGNIFICANT DEFICIENCIES**

<b><u>Reference Number</u></b>	<b><u>Finding</u></b>
<b>2021-001</b>	<p><b>Condition:</b> 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><b>Criteria:</b> Management is responsible for the preparation and fair presentation of the financial statements.</p> <p><b>Effect:</b> 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><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 according to governmental accounting standards in preparing and presenting 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>2021-002</b>	<p><b>Condition:</b> The Association has two office employees, and they have a number of duties, many of which are incompatible.</p> <p><b>Criteria:</b> Separation 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> 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><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>