

SOUTH LOGAN WATER ASSOCIATION, INC.
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

**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 statement of financial position as of December 31, 2022, and the related statement of activities and changes in net assets and cash flows for the year 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, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of 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 opinion.

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.

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the

auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

Prior-Year Comparative Information

We have previously audited South Logan Water Association, Inc.'s financial statements, and we expressed an unmodified opinion on the respective financial statements in our report dated March 5, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2021 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 23, 2023 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 23, 2023

SOUTH LOGAN WATER ASSOCIATION, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2022

	DECEMBER 31, 2022	DECEMBER 31, 2021 SUMMARY
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 652,455	\$ 581,774
Restricted cash	557,968	530,817
Accounts receivable, net	101,097	91,146
Inventory	124,588	106,137
Prepaid expenses	9,529	7,171
TOTAL CURRENT ASSETS	1,445,637	1,317,045
PROPERTY, PLANT AND EQUIPMENT		
Utility plant, net of depreciation	5,040,539	4,349,984
Construction in progress	30,000	4,314
NET PROPERTY, PLANT AND EQUIPMENT	5,070,539	4,354,298
OTHER ASSETS	45	47
TOTAL ASSETS	\$ 6,516,221	\$ 5,671,390
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 53,373	\$ 46,706
Current portion of long-term debt	82,951	65,737
Customer deposits	122,973	118,984
Accrued liabilities	14,352	14,441
Accrued interest	44,483	45,637
Unearned revenue	2,000	850
TOTAL CURRENT LIABILITIES	320,132	292,355
LONG-TERM LIABILITIES		
Long-term debt, net of current portion	2,903,974	2,191,115
TOTAL LONG-TERM LIABILITIES	2,903,974	2,191,115
TOTAL LIABILITIES	3,224,106	2,483,470
NET ASSETS		
With donor restrictions	2,018,992	2,001,987
Without donor restrictions	1,273,123	1,185,933
TOTAL NET ASSETS	3,292,115	3,187,920
TOTAL LIABILITIES AND NET ASSETS	\$ 6,516,221	\$ 5,671,390

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

SOUTH LOGAN WATER ASSOCIATION, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2022

	DECEMBER 31, 2022	DECEMBER 31, 2021 SUMMARY
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
REVENUES, GAINS AND OTHER SUPPORT		
Water service	\$ 1,244,827	\$ 1,176,469
Late charges	19,474	15,881
Other revenues	16,933	15,361
TOTAL REVENUES, GAINS AND OTHER SUPPORT	1,281,234	1,207,711
OPERATING EXPENSES		
Purchased water	513,569	503,386
Payroll	207,017	203,952
Payroll taxes	19,874	16,013
Directors fees	2,500	2,100
Retirement expense	4,303	4,239
Transmission and distribution	45,870	70,749
Repairs and maintenance	12,420	11,980
Vehicle expense	32,464	25,874
Contractual services	0	6,300
Bad debt expense	0	0
Utilities and telephone	17,421	17,858
Professional fees	10,200	9,625
Insurance	37,778	32,393
Taxes and licenses	1,073	1,182
Office supplies	43,272	45,104
Water tests	4,218	4,290
Depreciation expense	164,537	161,434
Miscellaneous expense	2,925	2,376
Advertising	1,020	0
TOTAL OPERATING EXPENSES	1,120,461	1,118,855
EXCESS OF OPERATING REVENUE OVER EXPENSES	160,773	88,856
NON-OPERATING GAINS (LOSSES)		
Interest income	2,193	1,722
Gain (loss) on sale of fixed assets	7,500	2,010
PSC taxes	(1,803)	(2,442)
Interest expense	(81,473)	(83,863)
Line relocation revenue	0	0
Line relocation expense	0	0
TOTAL NON-OPERATING GAINS (LOSSES)	(73,583)	(82,573)
INCREASE (DECREASE) IN NET ASSETS WITHOUT DONOR RESTRICTIONS	87,190	6,283
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS		
Capital contributions - Tap on fees	25,700	12,600
Capital contributions - Grants	35,544	0
Depreciation on assets acquired by grant	(44,239)	(43,884)
INCREASE (DECREASE) IN NET ASSETS WITH DONOR RESTRICTIONS	17,005	(31,284)
INCREASE (DECREASE) IN NET ASSETS	104,195	(25,001)
NET ASSETS - BEGINNING OF YEAR	3,187,920	3,212,921
NET ASSETS - END OF YEAR	\$ 3,292,115	\$ 3,187,920

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

SOUTH LOGAN WATER ASSOCIATION, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2022

	DECEMBER 31, 2022	DECEMBER 31, 2021 SUMMARY
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income (loss)	\$ 87,190	\$ 6,283
Adjustments to reconcile net operating income (loss) to net cash provided (used) by operating activities:		
Depreciation expense	164,537	161,434
(Gain) loss on disposition of assets	(7,500)	(2,010)
(Increase) decrease in restricted cash	(27,151)	(22,224)
Net (increase) decrease in accounts receivable	(9,951)	16,077
Net (increase) decrease in inventory	(18,451)	(4,174)
Net (increase) decrease in prepaid expenses	(2,358)	(2,008)
Net increase (decrease) in accounts payable	6,667	(4,027)
Net increase (decrease) in customer deposits	3,989	2,068
Net increase (decrease) in accrued interest	(1,154)	(1,407)
Net increase (decrease) in accrued liabilities	(89)	6,050
Net increase (decrease) in unearned revenue	1,150	0
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	196,879	156,062
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments on long-term debt	(67,927)	(65,283)
Proceeds from issuance of debt	798,000	0
Acquisition of utility plant	(937,515)	(53,978)
Proceeds from sale of assets	20,000	2,010
Contributions in aid of construction from customers and grants	61,244	12,600
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(126,198)	(104,651)
CASH FLOWS FROM FINANCING ACTIVITIES		
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	0	0
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	70,681	51,411
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	581,774	530,363
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 652,455	\$ 581,774
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for interest	\$ 82,627	\$ 85,270

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, 2022**

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>2022</u>		<u>Total</u>
	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	
Water service:			
Operating	\$ 1,273,123	\$ 0	\$ 1,273,123
Contributions in aid of construction	0	1,310,152	1,310,152
Tap on fees	0	708,840	708,840
Total	<u>\$ 1,273,123</u>	<u>\$ 2,018,992</u>	<u>\$ 3,292,115</u>

SOUTH LOGAN WATER ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2022

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, 2022

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 \$1,210,423 and the bank balance was \$1,201,303. Of the total bank balance, \$250,000 was covered by federal depository insurance and the remaining balance of \$951,303 would require collateralization. As of December 31, 2022, \$1,443,252 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, 2022, the Association held \$2,000 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 year ended December 31, 2022.

SOUTH LOGAN WATER ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2022

NOTE B – RESTRICTED CASH

Restricted cash consists of the following at December 31, 2022:

	2022
System improvement project construction funds	\$ 1,785
Customer deposits	158,221
Debt service-Bonds	48,040
Cash reserves-Bonds	173,556
Short-lived assets	176,366
	\$ 557,968

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, 2022 is as follows:

	2022
Land and land improvements	\$ 49,219
Pumping equipment	57,210
Distribution reservoirs and standpipes	720,578
Transmission and distribution mains	7,270,865
Services	42,701
Meters and installations	769,308
Hydrants	71,684
Communication equipment	19,341
Vehicles	239,245
Building and improvements	94,685
Office equipment	40,422
Construction in progress	30,000
	9,405,258
Less: Accumulated depreciation	(4,334,719)
Utility Plant, Net	\$5,070,539

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, 2022

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	\$ 178,494	\$ 0	\$ 15,730	\$ 162,764	\$ 14,427
Note payable – FmHA, payable in annual installments of \$33,594, interest at 4.875%, maturing February 2038, secured by assignment and pledge of revenue	380,353	0	15,052	365,301	15,692
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	615,635	0	15,610	600,025	16,000
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	1,082,370	0	21,535	1,060,835	22,127
Note payable – Rural Development, payable in annual installments of \$26,675 principal and interest, interest at 1.50%, maturing December 2062, secured by substantially all assets and revenues of the Association	0	798,000	0	798,000	14,705
	<u>\$ 2,256,852</u>	<u>\$ 798,000</u>	<u>\$ 67,927</u>	<u>\$ 2,986,925</u>	<u>\$ 82,951</u>

Annual debt service requirements to maturity are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 82,951	\$ 94,086	\$ 177,037
2024	86,265	91,111	177,376
2025	89,174	88,001	177,175
2026	92,681	84,772	177,453
2027	95,788	81,401	177,189
2028-2032	516,272	351,534	867,806
2033-2037	512,963	250,499	763,462
2038-2042	461,173	165,411	626,584
2043-2047	413,668	96,013	509,681
2048-2052	340,244	49,631	389,875
2053-2057	168,170	16,504	184,674
2058-2062	127,576	5,798	133,374
	<u>\$ 2,986,925</u>	<u>\$ 1,374,761</u>	<u>\$ 4,361,686</u>

SOUTH LOGAN WATER ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2022

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, 2022

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 \$4,303 for 2022.

NOTE J – KENTUCKY CLEANER WATER PROGRAM

The Association has been awarded grant funds totaling approximately \$120,000 from the Kentucky Cleaner Water Program (CWP), which are funds provided through the American Rescue Plan Act of 2021, Coronavirus State Fiscal Recovery Fund. These funds have been designated to be used towards the rehabilitation of the Schochoh water tank. No funds have been received as of December 31, 2022.

NOTE K – SUBSEQUENT EVENTS

South Logan Water Association, Inc.’s management has evaluated and considered the need to recognize or disclose subsequent events through March 23, 2023, 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, 2022, have not been evaluated by management.

Beginning in 2022, South Logan Water Association was in the early stages of renovating the office building. This project is ongoing subsequent to year end. Funding will be provided by grants received from USDA Rural Development.

**SOUTH LOGAN WATER ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)
DECEMBER 31, 2022**

NOTE L – CONTRACT BALANCES

The following summarizes gross receivables from contracts and contract liabilities for the year ended December 31, 2022:

	Receivables From Contracts		Contract Liabilities
Beginning balance at January 1, 2022	\$ 195,026		\$ 850
Ending balance at December 31, 2022	\$ 154,677		\$ 2,000

NOTE M – 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 payment to the agency or to represented companies was \$229 for the year ended December 31, 2022.

NOTE N – ADVERTISING COSTS

The Association uses advertising to post meeting information and customer notices. Advertising costs are expensed as incurred. Total advertising expense was \$1,020 for the year ended December 31, 2022.

NOTE O – 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 \$652,455, receivables of \$101,097, and restricted cash of \$557,968.

Financial assets at year-end	2022 \$ 1,311,520
Less those unavailable for general expenditures within one year, due to:	
Contractually-restricted items for specific use only	557,968
Financial assets available to meet cash needs for general expenditures within one year	\$ 753,552

**SOUTH LOGAN WATER ASSOCIATION, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2022**

<i>Federal Grantor/Program or Cluster Title</i>	<i>Federal Assistance Listing Number</i>	<i>Federal Expenditures(\$)</i>
Subawards Passed Through From Kentucky Highway Transportation Cabinet		
Project No. FD52 071 1221701U		
Highway Planning and Construction Program		
Department of Transportation		
Highway Planning and Construction (Federal-Aid Highway Program)	20.205	\$ 28,435
Total Highway Planning and Construction (Federal-Aid Highway Program)		28,435
<i>Total Highway Planning and Construction Program</i>		28,435
Direct Federal Funds		
Other Programs		
United States Department of Agriculture		
*Water and Waste Disposal Systems for Rural Communities	10.760	796,417
Total Water and Waste Disposal Systems for Rural Communities		796,417
<i>Total Other Programs</i>		796,417
Total Expenditures of Federal Awards		\$ 824,852

The accompanying notes are an integral part of this schedule.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards (the Schedule) is prepared on the accrual basis of accounting and includes the federal award activity of South Logan Water Association, Inc. under programs of the federal government for the year ended December 31, 2022. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements. The Organization has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

NOTE B – MAJOR PROGRAM

The major program is identified by an asterisk (*).

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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, 2022, 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 23, 2023.

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 questioned costs as 2022-001 and 2022-002, 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 questioned costs. 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 23, 2023

Buckles, Travis & Hart, PLLC

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Commissioners
South Logan Water Association, Inc.
Adairville, Kentucky

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited South Logan Water Association, Inc.'s compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of South Logan Water Association, Inc.'s major federal programs for the year ended December 31, 2022. South Logan Water Association, Inc.'s major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, South Logan Water Association, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance 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 relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of South Logan Water Association, Inc.'s compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to South Logan Water Association, Inc.'s federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on South Logan Water Association, Inc.'s compliance based on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about South Logan Water Association, Inc.'s compliance with the requirements of each major federal program as a whole.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 South Logan Water Association, Inc.'s compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of South Logan Water Association, Inc.'s internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of South Logan Water Association, Inc.'s internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,

Buckles, Travis & Hart, PLLC

Buckles, Travis & Hart, PLLC
Certified Public Accountants
Leitchfield, Kentucky
March 23, 2023

**SOUTH LOGAN WATER ASSOCIATION, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2022**

A. SUMMARY OF AUDITORS' RESULTS

Financial Statements

1. The auditors' report expresses an unmodified opinion on the financial statements of South Logan Water Association, Inc.
2. Two significant deficiencies (2022-001 and 2022-002) were reported in the independent auditors' report on internal control over financial reporting. No material weaknesses were reported.
3. No instances of noncompliance material to the financial statements of South Logan Water Association, Inc., which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.

Federal Awards

4. No significant deficiencies or material weaknesses relating to the audit of the major federal award programs are reported in the independent auditors' report on internal control over compliance for major federal awards programs.
5. The auditors' report on compliance for major federal award programs for South Logan Water Association, Inc. expresses an unmodified opinion on all major programs.
6. The audit disclosed no findings required to be reported by 2 CFR 200.516(a).
7. The program tested as a major program include:
 - a. US Department of Agriculture
Water and Waste Disposal Systems for Rural Communities:
AL 10.760 – Unmodified
8. The threshold for distinguishing Types A and B programs was \$750,000.
9. South Logan Water Association, Inc. was determined to be a high-risk auditee.

**SOUTH LOGAN WATER ASSOCIATION, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONCLUDED)
FOR THE YEAR ENDED DECEMBER 31, 2022**

B. FINDINGS AND QUESTIONED COSTS – FINANCIAL STATEMENT AUDIT

SIGNIFICANT DEFICIENCIES

**Reference
Number**

Finding

2022-001

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.

Criteria: Management is responsible for the preparation and fair presentation of the financial statements.

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.

Cause: Budgetary constraints limit hiring individuals possessing the required technical knowledge.

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.

Response: The Association concurs with the recommendation; however, it is not feasible to obtain the training and expertise at this time.

2022-002

Condition: The Association has two office employees, and they have a number of duties, many of which are incompatible.

Criteria: Separation of duties is an essential element of proper internal control.

Effect: Significant controls over transaction processing were absent.

Cause: Budgetary constraints limit hiring the number of employees sufficient to permit assignment of accounting functions to various individuals.

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.

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.

**C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS
AUDIT**

Our audit disclosed no findings that are required to be reported herein under the Uniform Guidance.