

CAWOOD WATER DISTRICT
Cawood, Kentucky

Financial Statements and Supplemental Information
For the Years Ended December 31, 2020 and 2019

CAWOOD WATER DISTRICT

Table of Contents

	<u>Page</u>
Introductory Section	
District Commission Members and Management	1
Financial Section	
Independent Auditors' Report	2-3
Management's Discussion and Analysis	4-6
Statements of Net Position	7-8
Statements of Revenue, Expenses, and Changes in Net Position	9
Statements of Cash Flows	10-11
Notes to Financial Statements	12-19
Internal Control and Compliance Section	
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 <i>Government Auditing Standards</i>	20-21
Schedule of Prior Year Findings	22

**CAWOOD WATER DISTRICT
District Commission Members and Management
December 31, 2020**

District Commission Members

Howard Farmer, Jr.	Chairperson
Timothy Rice	Commissioner
George Thomas	Commissioner
Harold Sellers	Treasurer
Timothy Engle	Secretary

Management

Ronnie Williams	Plant Manager
-----------------	---------------



Phone: (423) 239-5700
Fax: (423) 239-0329

141 Wendover Drive
Kingsport, TN 37663

admin@kptcpa.com
www.kptcpa.com

INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners
Cawood Water District
Cawood, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Cawood Water District (the "District"), as of and for the years ended December 31, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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 audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 the business-type activities of Cawood Water District as of December 31, 2020 and 2019, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4-6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's response to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Cawood Water District's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 14, 2021, on our consideration of Cawood Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Cawood Water District's internal control over financial reporting and compliance.

Kingsport CPA, PC

Kingsport, Tennessee

September 14, 2021

CAWOOD WATER DISTRICT
Management's Discussion and Analysis
For Year Ended December 31, 2020

As financial management of the Cawood Water District (the "District"), we offer readers of these financial statements this narrative overview and analysis of the financial activities of the District for the year ended December 31, 2020. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position. We encourage readers to consider the information presented here in conjunction with the financial statements taken as a whole.

Financial Highlights

The District recognized an operating loss of \$179,827 for 2020 compared to an operating loss of \$203,319 for 2019. Operating revenue was \$842,408 in 2020, compared to 2019 operating revenue of \$848,193, a .6% decrease, while total operating expenses decreased \$29,277, down 2.7% from the prior year. Preventing, detecting, and repairing line breaks continue to be the area of greatest concern and opportunity for improvement. However, extensive repairs were performed in 2019 in an attempt to decrease water loss. The District is continuing to report significantly lower water losses in 2020 and feels confident that the trend will continue. Capital contributions were received in the form of tap fees in the amounts of \$11,250 and \$14,050 for the years 2020 and 2019, respectively. Net losses produced a decrease in net position of \$203,439 in 2020 compared to a decrease in net position of \$154,128 in 2019. The term "net position" refers to the difference between assets and liabilities. As of December 31, 2020, the District had net position of \$7,126,668, a decrease of 2.8% from \$7,330,107 at the close of 2019.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's financial statements, which are comprised of the basic financial statements and the notes to the financial statements. Since the District consists of a single enterprise fund, no fund level financial statements are shown. In addition, the District has no infrastructure assets and is therefore exempt from required infrastructure disclosures.

Basic financial statements: The basic financial statements are designed to provide readers with a broad overview of the District's finances in a manner similar to a private-sector business.

The statement of net position presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. Net position increases when revenues exceed expenses. Increases to assets without a corresponding increase to liabilities results in increased net position which indicates an improved financial position.

The statement of revenue, expenses, and changes in net position presents information showing how the District's net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The statement of cash flows present cash flows broken down into four categories: cash flows from operating activities, noncapital financing activities, capital and related financing activities, and investing activities. The statement of cash flows relates these amounts to changes in cash balances from the beginning of the year to the end of the year.

Notes to the financial statements: The notes provide additional information that is essential to a full understanding of the information provided in the basic financial statements.

CAWOOD WATER DISTRICT
Management's Discussion and Analysis (continued)
For Year Ended December 31, 2020

Financial Analysis

Net position may serve, over time, as a useful indicator of an entity's financial position. In the case of the District, assets exceeded liabilities by \$7,126,668 as of December 31, 2020. This represents a decrease of \$203,439 (2.8%) from the prior year. The unrestricted net position was \$137,892.

The largest portion of the District's net position has historically been its capital assets.

The District's net position was as follows as of December 31, 2020 and 2019:

	2020	2019
Current assets	\$ 281,935	\$ 318,080
Capital assets	8,077,492	8,295,608
Restricted assets	213,505	216,915
Total assets	8,572,932	8,830,603
Current liabilities	232,898	216,497
Long-term liabilities	1,213,366	1,283,999
Total liabilities	1,446,264	1,500,496
Net position:		
Net investment in capital assets	6,775,272	6,918,588
Restricted	213,504	216,914
Unrestricted	137,892	194,605
Total net position	\$ 7,126,668	\$ 7,330,107

The District's changes in net position were as follows for the years ended December 31, 2020 and 2019:

	2020	2019
Operating revenues	\$ 842,408	\$ 848,193
Operating expenses	1,022,235	1,051,512
Income (loss) from operations	(179,827)	(203,319)
Non-operating revenues (expenses):		
Interest income	144	87
Interest (expense)	(52,516)	(55,197)
Capital Contributions	28,760	104,301
Total non-operating revenues (expenses)	(23,612)	49,191
Increase (decrease) in net position	(203,439)	(154,128)
Net position, beginning of year	7,330,107	7,484,235
Net position, end of year	\$ 7,126,668	\$ 7,330,107

CAWOOD WATER DISTRICT
Management's Discussion and Analysis (continued)
For Year Ended December 31, 2020

Cash Flows

Net cash provided by operating activities for the year ended December 31, 2020 was \$50,713 a decrease of \$41,113 from 2019 operating cash flows. There was no net cash from noncapital financing activities during the year ended December 31, 2020. Net cash from capital and related financing activities resulted in cash outlays of \$116,745 for 2020, a decrease of \$21,091 from the prior year. Interest earned on savings account in the amount of \$143 provided net cash from investing activities.

Capital Assets and Debt Administration

Capital Assets: The District's investment in capital assets amounted to \$8,077,492 as of December 31, 2020, a decrease of \$218,116 due to depreciation. Capital assets include the water plant, distribution line, meters and hydrants, along with related office and operating equipment.

Long-term Debt: The District had long-term debt in the amount of 1,213,366 as of December 31, 2020, a decrease of \$70,633 from the prior year.

Summary of Organization and Business

Cawood Water District was created on January 27, 1965 by the Harlan County Fiscal Court under the provisions of Chapter 74 of the Kentucky Revised Statutes and is subject to the regulatory authority of the Kentucky Public Service Commission. The governing board is comprised of five commissioners appointed by the Harlan County Fiscal Court.

The District provides water to the businesses and residents of southern Harlan County, which generates virtually all of the District's operating revenue. Major capital projects are usually funded by state grants.

Final Comments

The District continues to strive to provide adequate and efficient water service to its customers, increase revenue streams, and decrease water loss.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all interested parties. Questions concerning this report or requests for additional information should be directed to Finance Officer, Cawood Water District, P.O. Box 429, Cawood, Kentucky, 40815.

CAWOOD WATER DISTRICT
 Statements of Net Position
 December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<u>ASSETS</u>		
Current Assets:		
Cash and cash equivalents	\$ 115,453	181,342
Customer accounts receivable, net	146,197	114,376
Prepaid expenses	20,285	22,362
Total Current Assets	281,935	318,080
Capital Assets:		
Utility plant, equipment, and vehicles	12,539,590	12,510,457
Accumulated depreciation	(4,462,098)	(4,214,849)
Total Capital Assets	8,077,492	8,295,608
Restricted Assets:		
Depreciation reserve accounts	126,860	126,820
Debt service account	86,645	90,095
Total Restricted Assets	213,505	216,915
TOTAL ASSETS	\$ 8,572,932	\$ 8,830,603

See accompanying notes

CAWOOD WATER DISTRICT
 Statements of Net Position
 December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<u>LIABILITIES AND NET POSITION</u>		
Current Liabilities:		
Accounts payable	\$ 100,148	\$ 85,203
Customer deposits	30,650	28,050
Accrued interest payable	25,713	27,052
Accrued wages	3,376	6,787
Other current liabilities	2,333	3,434
Current portion of long-term debt	<u>70,678</u>	<u>65,971</u>
Total Current Liabilities	<u>232,898</u>	<u>216,497</u>
Long-Term Debt:		
Long-term debt, net of current portion	<u>1,213,366</u>	<u>1,283,999</u>
Total Long-Term Debt	<u>1,213,366</u>	<u>1,283,999</u>
Net Position:		
Net investment in capital assets	6,775,272	6,918,588
Restricted for:		
Depreciation reserve	126,860	126,820
Debt service	86,644	90,094
Unrestricted	<u>137,892</u>	<u>194,605</u>
Total Net Position	<u>7,126,668</u>	<u>7,330,107</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 8,572,932</u>	<u>\$ 8,830,603</u>

See accompanying notes

CAWOOD WATER DISTRICT
 Statements of Revenue, Expenses, and Changes in Net Position
 For the Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Operating Revenue:		
Water sales - residential	\$ 762,333	\$ 754,716
Water sales - commercial	37,420	42,773
Other operating revenue	42,655	50,704
Total Operating Revenue	<u>842,408</u>	<u>848,193</u>
Operating Expenses		
Salaries & wages	259,747	236,862
Payroll taxes	19,374	19,675
Employee benefits	54,874	53,845
Chemicals	31,785	41,745
Materials and supplies	45,252	43,530
Contractual services	20,296	14,177
Insurance	25,897	25,870
Office expense	27,946	24,138
Utilities	76,230	71,819
Repairs and maintenance	99,172	153,996
Professional fees	44,084	60,697
Purchased water for distribution	32,931	28,727
Depreciation expense	247,249	242,118
Other operating expenses	37,398	34,313
Total Operating Expenses	<u>1,022,235</u>	<u>1,051,512</u>
Net Operating Income (Loss)	(179,827)	(203,319)
Other Income (Expenses)		
Interest income	144	87
Interest expense	(52,516)	(55,197)
Total Other Income (Expenses)	<u>(52,372)</u>	<u>(55,110)</u>
Capital Contributions:		
Grants	17,510	90,251
Tap fees	11,250	14,050
Total Capital Contributions	<u>28,760</u>	<u>104,301</u>
Change in Net Position	(203,439)	(154,128)
Net Position - beginning of year	<u>7,330,107</u>	<u>7,484,235</u>
Net Position - end of year	<u>\$ 7,126,668</u>	<u>\$ 7,330,107</u>

See accompanying notes

CAWOOD WATER DISTRICT
 Statements of Cash Flows
 For the Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash Flows from Operating Activities		
Cash received from customers	\$ 810,589	\$ 845,867
Cash paid for goods and services	(496,718)	(518,204)
Cash paid to employees	<u>(263,158)</u>	<u>(235,837)</u>
Net Cash Provided by Operating Activities	<u>50,713</u>	<u>91,826</u>
Cash Flows from Capital and Related Financing Activities		
Net (deposits into) withdrawals from restricted accounts	3,410	(6,498)
Principal paid on notes payable	(66,000)	(62,998)
Interest paid on debt service	(53,782)	(56,242)
Proceeds from grants and tap fees	28,760	104,301
Proceeds from issuance of debt	-	41,760
Purchase of capital assets	<u>(29,133)</u>	<u>(158,159)</u>
Net Cash Used by Capital and Related Financing Activities	<u>(116,745)</u>	<u>(137,836)</u>
Cash Flows from Investing Activities		
Interest income	<u>143</u>	<u>86</u>
Net Cash Provided by Investing Activities	<u>143</u>	<u>86</u>
Net Increase in Cash	(65,889)	(45,924)
Cash - beginning of year	<u>181,342</u>	<u>227,266</u>
Cash - end of year	<u><u>\$ 115,453</u></u>	<u><u>\$ 181,342</u></u>

See accompanying notes

CAWOOD WATER DISTRICT
 Statements of Cash Flows
 For the Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating (loss)	\$ (179,827)	\$ (203,319)
Adjustments to reconcile net (loss) from operations to net cash provided by operating activities:		
Depreciation expense	247,249	242,119
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(31,819)	(2,325)
(Increase) decrease in prepaid expenses	2,077	(73)
Increase (decrease) in accounts payable	14,945	51,675
Increase (decrease) in customer deposits	2,600	3,150
Increase (decrease) in accrued wages	(3,411)	1,025
Increase (decrease) in other current liabilities	<u>(1,101)</u>	<u>(426)</u>
Net Cash Provided by Operating Activities	<u>\$ 50,713</u>	<u>\$ 91,826</u>

See accompanying notes

CAWOOD WATER DISTRICT
Notes to the Financial Statements
For Years Ended December 31, 2020 and 2019

Note 1 – Reporting Entity and Summary of Significant Accounting Policies

Reporting Entity

Cawood Water District is a water utility which provides services to residential and commercial customers in Harlan County, Kentucky. The district was created on January 27, 1965, by the Harlan County Court under the provisions of Chapter 74 of the Kentucky Revised Statutes (KRS) and is subject to the regulatory authority of the Kentucky Public Service Commission (PSC) pursuant to KRS 278.040.

Basis of Presentation

As a special purpose government, the District’s financial statements are prepared in conformity with accounting principles generally accepted in the United States as set forth by the Governmental Accounting Standards Board (GASB). The operations of the District are accounted for in a proprietary fund. Proprietary funds are reported using a flow of economic resources measurement focus and the accrual basis of accounting. This is the same measurement focus and basis of accounting used by private business enterprises.

Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe how transactions are recorded with the financial statements. Basis of accounting refers to when transactions are recorded regardless of the measurement focus applied.

The accompanying financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Accordingly, all assets, deferred outflows of resources, liabilities, and deferred inflows of resources (whether current or noncurrent) are included in the statement of net position. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

Cash and Cash Equivalents

For purposes of presenting the statement of cash flows, the District considers all unrestricted cash, certificates of deposits, and short-term investments to be cash and cash equivalents.

Accounts Receivable

Customer accounts receivable consist of fees for services for water charges due from individuals, businesses, and other governments. Customer accounts receivable are presented on the statement of net position net of an allowance for expected uncollectible accounts, which is based on historical performance and projected future collections. The allowance for uncollectible accounts as of December 31, 2020 and 2019 was \$120,120 and \$109,758, respectively.

The District bills and collects garbage fees and sewer fees on behalf of Harlan County Fiscal Court and the City of Harlan, respectively. The fees are collected by the District and remitted to the appropriate facility, less a collection fee of 6.5% of fees, which is earned when collected. Since the District simply acts as a billing and collecting agent for Harlan County and the City of Harlan, the net receivables are reduced by the corresponding payables, as follows:

	<u>2020</u>	<u>2019</u>
Total Accounts Receivable	\$465,649	\$ 388,510
Less: Garbage Fees Payable	(180,877)	(148,796)
Less: Sewer Fees Payable	(18,455)	(15,580)
Less: Allowance for Uncollectible Accounts	<u>(120,120)</u>	<u>(109,758)</u>
Customer Accounts Receivable, Net	<u>\$ 146,197</u>	<u>\$ 114,376</u>

CAWOOD WATER DISTRICT
Notes to the Financial Statements
For Years Ended December 31, 2020 and 2019

Note 1 – Reporting Entity and Summary of Significant Accounting Policies (continued)

Prepaid Expenses

Prepaid expenses consist of amounts paid in advance for insurance premiums, water treatment chemicals, and PSC assessments and dues.

Capital Assets

Capital assets are stated at original cost. The cost of repairs and maintenance that does not result in an extension of the life of an asset is charged to the proper expense account as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets, ranging from five to sixty years. Property replacements with a cost of \$1,500 or greater are capitalized. When assets are retired or otherwise disposed of, the related asset and accumulated depreciation is written off and any related gain or loss recorded.

Bad Debts

The District uses the allowance method for recording bad debts. The District's bad debt expense amounted to \$0 and \$20,525 for the years ended December 31, 2020 and 2019, respectively.

Income Recognition

Income from sales of water to residential and commercial customers is recognized in the month the services are provided and is based on actual and/or estimated water meter readings. All customers are billed on a monthly basis.

Operating Revenues and Expenses

The District distinguishes *operating* revenues and expenses from *non-operating* items. Operating revenues consist of charges for water services and other related fees and charges. Operating expenses consist of costs related to providing water services to customers as well as administrative expenses and depreciation of capital assets. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses or capital contributions.

Income Tax Status

The District, which was organized and exists pursuant to the provisions of Kentucky Revised Statutes Chapter 74, is exempt from federal income taxes pursuant to 26 USC 115 relating to the income of states, municipalities, etc.

Net Position

Net position comprises the various net earnings from operating and nonoperating revenues, expenses, and contributions of capital. Net position is classified in the following three components as applicable: investment in capital assets, restricted net position, and unrestricted net position. Investment in capital assets consists of all capital assets, net of accumulated depreciation, and, if applicable, deferred outflows of resources, reduced by any outstanding debt attributable to the acquisition, construction, and improvement of those assets. Debt or deferred inflow of resources attributable to unspent proceeds or other restricted cash and investments are excluded from the determination. Restricted net position consists of net positions for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations, and enabling legislation, including self-imposed legal mandates. The unrestricted component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted components of net position.

Net Position Flow Assumption

Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. When both restricted and unrestricted resources are available for use, it is the District's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

CAWOOD WATER DISTRICT
Notes to the Financial Statements
For Years Ended December 31, 2020 and 2019

Note 1 – Reporting Entity and Summary of Significant Accounting Policies (continued)

Budgetary Accounting

The District Commission reviews and adopts an annual operating budget prepared by management. The budget is prepared on a basis consistent with the basis used in preparing the District's financial statements.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States require management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual notes could differ from these estimates.

Financial Instruments – Concentration of Credit Risk

Financial instruments which potentially subject the District to significant concentrations of credit risk consist primarily of cash and accounts receivable.

As of December 31, 2020 and 2019, Cawood Water District had total cash on deposit with a financial institution that exceeded the FDIC insured limits by \$0 and \$22,239, respectively. However, the Monticello Banking Company has pledged securities to Cawood Water District in an amount at least the amount of this risk in accordance with KRS 41.240 (the "Public Funds Law").

Accounting for Impairment or Disposal of Long-Lived Assets

The District evaluates events or changes in circumstances for indications that the carrying amount of an asset may not be recoverable and makes adjustments accordingly. There were no such adjustments for the years ended December 31, 2020 and 2019.

Date of Management's Review

The District's management has evaluated events and transactions occurring after the statement of net position date for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through the date of the report which is the date these financial statements were available to be issued.

CAWOOD WATER DISTRICT
Notes to the Financial Statements
For Years Ended December 31, 2020 and 2019

Note 2 – Capital Assets

Capital asset activity for the year ended December 31, 2020 was as follows:

	Balance 1/1/20	Additions	Retirements/ Transfers	Balance 12/31/20
Capital assets not being depreciated:				
Land	\$ 28,750	\$ -	\$ -	\$ 28,750
Construction in progress	-	-	-	-
Total capital assets not being depreciated	28,750	-	-	28,750
Capital assets being depreciated:				
Water Plant	1,309,857	-	-	1,309,857
Distribution Lines	9,926,693	10,186	-	9,936,879
Meters & Hydrants	735,505	7,465	-	742,970
Office Equipment	48,096	5,333	-	53,429
Plant Equipment	297,968	6,149	-	304,117
Vehicles	163,588	-	-	163,588
Total capital assets being depreciated	12,481,707	29,133	-	12,510,840
Accumulated depreciation:				
Water Plant	(634,403)	(36,209)	-	(670,612)
Distribution Lines	(2,643,038)	(167,070)	-	(2,810,108)
Meters & Hydrants	(538,628)	(15,532)	-	(554,160)
Office Equipment	(45,284)	(817)	-	(46,101)
Plant Equipment	(224,714)	(19,268)	-	(243,982)
Vehicles	(128,782)	(8,353)	-	(137,135)
Total accumulated depreciation	(4,214,849)	(247,249)	-	(4,462,098)
Net capital assets being depreciated	8,266,858	(247,249)	-	8,048,742
Capital assets, net	\$ 8,295,608	\$ (218,116)	\$ -	\$ 8,077,492

CAWOOD WATER DISTRICT
Notes to the Financial Statements
For Years Ended December 31, 2020 and 2019

Note 2 – Capital Assets (continued)

Capital asset activity for the year ended December 31, 2019 was as follows:

	Balance 1/1/19	Additions	Retirements/ Transfers	Balance 12/31/19
Capital assets not being depreciated:				
Land	\$ 28,750	\$ -	\$ -	\$ 28,750
Construction in progress	-	-	-	-
Total capital assets not being depreciated	28,750	-	-	28,750
Capital assets being depreciated:				
Water Plant	1,309,856	-	-	1,309,856
Distribution Lines	9,836,442	90,251	-	9,926,693
Meters & Hydrants	720,505	15,000	-	735,505
Office Equipment	45,191	2,905	-	48,096
Plant Equipment	289,733	8,235	-	297,968
Vehicles	121,820	41,768	-	163,588
Total capital assets being depreciated	12,323,547	158,159	-	12,481,707
Accumulated depreciation:				
Water Plant	(598,194)	(36,209)	-	(634,403)
Distribution Lines	(2,477,346)	(165,692)	-	(2,643,038)
Meters & Hydrants	(523,447)	(15,181)	-	(538,628)
Office Equipment	(44,875)	(409)	-	(45,284)
Plant Equipment	(207,048)	(17,666)	-	(224,714)
Vehicles	(121,820)	(6,962)	-	(128,782)
Total accumulated depreciation	(3,972,730)	(242,119)	-	(4,214,849)
Net capital assets being depreciated	8,350,817	(83,959)	-	8,266,858
Capital assets, net	<u>\$ 8,379,567</u>	<u>\$ (83,959)</u>	<u>\$ -</u>	<u>\$ 8,295,608</u>

Depreciation expense for the years ended December 31, 2020 and 2019 was \$247,249 and \$242,118 respectively.

CAWOOD WATER DISTRICT
Notes to the Financial Statements
For Years Ended December 31, 2020 and 2019

Note 3 – Long-Term Debts/Bonds

The District currently has outstanding revenue bonds from four (4) separate issuances and one note payable for the purchase of vehicles. A summary of each series is as follows:

- In 1990, the District issued Farmers Home Administration (FmHA) Water Revenue Bonds, Series 1989 A and B, in the aggregate principal amounts of \$383,000 and \$191,000, respectively. Both issuances carry an annual interest rate of 5.00%, with interest payable each January and July 1st, and maturing principal amounts payable on January 1st of each year through 2028 and 2027, respectively. The principal balance on these bond issuances was \$205,000 and \$73,000, respectively, as of December 31, 2020, with \$18,000 and \$8,000 principal due next year, respectively.
- In 1996, the District issued U. S. Department of Agriculture (USDA) Rural Development (RD) Water Revenue Bonds, Series 1995 A and B, in the aggregate principal amounts of \$343,000 and \$343,000, respectively. Both issuances carry an annual interest rate of 4.50%, with interest payable each January and July 1st, and maturing principal amounts payable on January 1st of each year through 2034. The principal balance on each of these bond issuances was \$204,200 as of December 31, 2020, with \$9,800 principal due on each next year.
- In 2004, the District issued USDA RD Water Revenue Bonds, Series 2004, in the aggregate principal amount of \$350,000. This bond issuance carries an annual interest rate of 4.5%, with interest payable each January and July 1st, and maturing principal amounts payable on January 1st of each year through 2043. The principal balance on these bond issuances was \$274,000 as of December 31, 2020, with \$7,000 principal due next year.
- In 2010, the District issued USDA RD Water Revenue Bonds, Series 2010, in the aggregate principal amount of \$357,000. This bond issue carries an annual interest rate of 2.25%, with interest payable on January and July 1st, and maturing principal amounts payable on January 1st of each year through 2050. The principal balance on this bond issuance was \$303,000 as of December 31, 2019, with \$7,000 principal due next year.
- In 2019, the District issued debt from the Monticello Banking Company for the purchase of two vehicles, in the aggregate principal amount of \$43,256. This note payable issue carries an annual interest rate of 3.768%, with interest payable monthly, and maturing principal amounts payable monthly each year through 2021. The principal balance on this bond issuance was \$20,644 as of December 31, 2019, with \$11,078 principal due next year.

Long-term debt activity for the year ended December 31, 2020 is as follows:

<u>Debt Issuance</u>	Balance, <u>1/1/2020</u>	Principal <u>Payments</u>	Balance, <u>12/31/2020</u>
Series 1989 A	\$ 221,000	\$ 16,000	\$ 205,000
Series 1989 B	80,000	7,000	73,000
Series 1995 A	213,600	9,400	204,200
Series 1995 B	213,600	9,400	204,200
Series 2004	281,000	7,000	274,000
Series 2010	309,500	6,500	303,000
Loan 0408	<u>31,270</u>	<u>10,626</u>	<u>20,644</u>
Totals	<u>\$ 1,349,970</u>	<u>\$ 65,926</u>	<u>\$ 1,284,044</u>

CAWOOD WATER DISTRICT
Notes to the Financial Statements
For Years Ended December 31, 2020 and 2019

Note 3 – Long-Term Debts/Bonds (continued)

Bond principal and notes payable amounts to be retired and the total interest due for the next five (5) years and thereafter in five (5) year increments until maturity are as follows:

<u>Year(s)</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	70,678	49,359	120,037
2022	71,166	46,188	117,354
2023	66,900	43,030	109,930
2024	69,900	39,893	109,793
2025	72,900	36,611	109,511
2026-2030	352,800	131,860	484,660
2031-2035	274,200	72,392	346,592
2036-2040	130,000	35,381	165,381
2041-2045	117,000	12,206	129,206
2046-2050	<u>58,500</u>	<u>2,081</u>	<u>60,581</u>
Totals	<u>\$ 1,284,044</u>	<u>\$ 469,001</u>	<u>\$ 1,753,045</u>

Note 4—Bond Funding Requirement

The District’s bond resolutions require the creation and maintenance of a Revenue Fund, a Sinking Fund, a Depreciation Reserve Fund, and an Operation and Maintenance Fund.

Revenue Fund

The District deposits all collections into the Revenue Fund account in accordance with its bond resolutions and funds all other fund accounts from this account in order of priorities in the bond resolutions.

Sinking Fund

Monthly deposits to the Sinking Fund (identified with the name “Debt Service Account”) are to be made on or before the 20th day of each month as required by bond resolutions, for payment of interest and principal on the outstanding bonds. The monthly amount shall equal the total of 1) 1/6th of the next two (2) succeeding six-month interest payments to become due on the bonds, plus 2) 1/12th of the principal of any bonds maturing on the next succeeding January 1st. Based on the preceding formula, monthly deposits of \$9,102 are required for the upcoming year.

CAWOOD WATER DISTRICT
Notes to the Financial Statements
For Years Ended December 31, 2020 and 2019

Note 4—Bond Funding Requirement (continued)

As of December 31, 2019, the balance of the Sinking Fund was \$90,095. A summary of the yearly activity is presented below:

Bond Sinking Fund

Beginning balance on January 1, 2020	\$ 90,095
Deposits made during the year	104,500
Interest income earned	4
Principal and interest payments	<u>(107,954)</u>
Ending balance on December 31, 2020	<u>\$ 86,645</u>

Depreciation Reserve Fund

Deposits of all proceeds from connection fees in excess of related costs are to be made to the Depreciation Reserve Fund until the current outstanding bonds are paid in full. The required reserve account balance was \$117,540. Monies in the Depreciation Reserve Fund are restricted in their withdrawal and use by the prior and current bond resolutions. As of December 31, 2020, the balance of the Depreciation Reserve Fund was \$126,860, resulting in a surplus of \$9,320.

Note 5 – Commitments

The bond issuances of 1990 and 1996, referred to in Note 3 above, are secured by a statutory mortgage lien against the District's system. The bond issues in 2004 and 2010 have been secured by a revenue pledge, payable on a first lien basis out of the gross revenues of the District, on parity with the prior bonds, and by a lien on all contracts of the District.

Note 6—Related Party Transaction

The District collects garbage fees on behalf of, and receives income based upon collections from, Harlan County Fiscal Court as described in Note 1 pertaining to accounts receivable. Harlan County Fiscal Court appoints commissioners to serve on the District's governing board. Total other operating revenue received from Harlan County Fiscal Court for collection fees was \$24,707 and \$24,944 for the years ended December 31, 2020 and 2019, respectively.

Note 7 – Capital Grants Awarded

The District has been awarded the following cost reimbursement grant contracts from the Commonwealth of Kentucky for capital improvements. The District submits receipts of the capital improvements to the Commonwealth of Kentucky and the Kentucky Transportation Cabinet prior to receiving any disbursements from the grant. As of December 31, 2020, the following grants remain open and are available for future capital expenditures:

- The N177 Harlan CFC – Cawood Water District Rehabilitation – HB200 grant was awarded June 24, 2019 and expires June 30, 2021. The total grant is in the amount of \$75,000. For the years ended December 31, 2020, and 2019 the District recognized revenue of \$17,510 and \$49,800 respectively. As of December 31, 2020, grant funds in the amount of \$7,690 remain available for future expenditures.



Phone: (423) 239-5700

141 Wendover Drive

admin@kptcpa.com

Fax: (423) 239-0329

Kingsport, TN 37663

www.kptcpa.com

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*

To the Board of Commissioners
Cawood Water District
Cawood, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Cawood Water District (the "District") as of and for the years ended December 31, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated September 14, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District'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 the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatements, 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*.

Purpose of this Report

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

Kingsport CPA, PC

Kingsport, Tennessee

September 14, 2021

CAWOOD WATER DISTRICT

**Schedule of Prior Year Findings
For the Year Ended December 31, 2020**

Finding Number	Finding Title	Status
No Findings		