

CAWOOD WATER DISTRICT
Cawood, Kentucky

Financial Statements and Supplemental Information
For the Years Ended 2022 and 2021

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

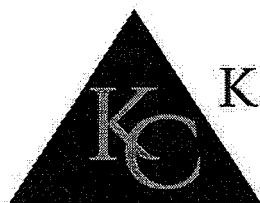
CAWOOD WATER DISTRICT
District Commission Members and Management
December 31, 2022

District Commission Members

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

Management

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



KINGSPORT
CPA, PC

Phone: (423) 239-5700

141 Wendover Drive

admin@kptcpa.com

Fax: (423) 239-0329

Kingsport, TN 37663

www.kptcpa.com

INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners
Cawood Water District
Cawood, Kentucky

Opinions

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, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Cawood Water District as of December 31, 2022 and 2021, and the respective 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.

Basis for Opinions

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 the District, and to meet our other ethical responsibilities, in accordance with the 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 audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. 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 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, 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 the District'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 the District'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.

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 is the responsibility of management and, 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.

Supplementary 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 May 25, 2023, 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

May 25, 2023

CAWOOD WATER DISTRICT
Management's Discussion and Analysis
For Year Ended December 31, 2022

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, 2022. 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 \$40,220 for 2022 compared to an operating income of \$85,103 for 2021. Operating revenue was \$1,059,379 in 2022, compared to 2021 operating revenue of \$1,025,859, a 4% increase, while total operating expenses increased \$158,843, up 17% from the prior year. Preventing, detecting, and repairing line breaks continue to be the area of greatest concern and opportunity for improvement. Extensive repairs were performed in 2019 in an attempt to decrease water loss. The District is continuing to report lower water losses in 2022 and feels confident that the trend will continue. Capital contributions were received in the form of tap fees in the amounts of \$14,426 and \$12,000 for the years 2022 and 2021, respectively. Net income produced an increase in net position of \$255,599 in 2022 compared to an increase in net position of \$108,627 in 2021. The term "net position" refers to the difference between assets and liabilities. As of December 31, 2022, the District had net position of \$7,490,894, an increase of 3.5% from \$7,235,295 at the close of 2021.

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, 2022

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 \$7,490,894 as of December 31, 2022. This represents an increase of \$255,299 (3.5%) from the prior year. The unrestricted net position was \$654,968.

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, 2022 and 2021:

	2022	2021
Current assets	\$ 597,070	\$ 468,063
Capital assets	7,930,054	7,849,757
Restricted assets	130,921	128,367
Total assets	<u>8,658,045</u>	<u>8,446,187</u>
Current liabilities	161,751	135,592
Long-term liabilities	1,005,400	1,075,300
Total liabilities	<u>1,167,151</u>	<u>1,210,892</u>
Net position:		
Net investment in capital assets	6,854,754	6,707,559
Restricted	130,921	128,367
Unrestricted	505,219	399,369
Total net position	<u>\$ 7,490,894</u>	<u>\$ 7,235,295</u>

The District's changes in net position were as follows for the years ended December 31, 2022 and 2021:

	2022	2021
Operating revenues	\$ 1,059,379	\$ 1,025,859
Operating expenses	1,099,599	940,756
Income (loss) from operations	<u>(40,220)</u>	<u>85,103</u>
Non-operating revenues (expenses):		
Interest income	165	434
Interest (expense)	(46,222)	(49,625)
Capital Contributions	341,876	72,715
Total non-operating revenues (expenses)	<u>295,819</u>	<u>23,524</u>
Increase (decrease) in net position	255,599	108,627
Net position, beginning of year	7,235,295	7,126,668
Net position, end of year	<u>\$ 7,490,894</u>	<u>\$ 7,235,295</u>

CAWOOD WATER DISTRICT
Management's Discussion and Analysis (continued)
For Year Ended December 31, 2022

Cash Flows

Net cash provided by operating activities for the year ended December 31, 2022 was \$240,763 a decrease of \$41,320 from 2021 operating cash flows. There was no net cash from noncapital financing activities during the year ended December 31, 2022. Net cash from capital and related financing activities resulted in cash outlays of \$106,624 for 2022, an increase of \$26,845 from the prior year. Interest earned on savings account in the amount of \$165 provided net cash from investing activities.

Capital Assets and Debt Administration

Capital Assets: The District's investment in capital assets amounted to \$7,930,054 as of December 31, 2022, an increase of \$80,297 due to asset additions and 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 1,005,400 as of December 31, 2022, a decrease of \$69,900 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, 2022 and 2021

	<u>2022</u>	<u>2021</u>
<u>ASSETS</u>		
Current Assets:		
Cash and cash equivalents	\$ 452,495	\$ 318,191
Customer accounts receivable, net	109,149	129,712
Prepaid expenses	<u>35,426</u>	<u>20,160</u>
Total Current Assets	<u>597,070</u>	<u>468,063</u>
Capital Assets:		
Utility plant, equipment, and vehicles	12,864,118	12,531,293
Land	28,750	28,750
Accumulated depreciation	<u>(4,962,814)</u>	<u>(4,710,286)</u>
Total Capital Assets	<u>7,930,054</u>	<u>7,849,757</u>
Restricted Assets:		
Depreciation reserve accounts	\$ 126,936	\$ 126,898
Debt service account	<u>3,985</u>	<u>1,469</u>
Total Restricted Assets	<u>130,921</u>	<u>128,367</u>
 TOTAL ASSETS	 <u><u>\$ 8,658,045</u></u>	 <u><u>\$ 8,446,187</u></u>

See accompanying notes

CAWOOD WATER DISTRICT
Statements of Net Position
December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
<u>LIABILITIES AND NET POSITION</u>		
Current Liabilities:		
Accounts payable	\$ 47,322	\$ 28,388
Customer deposits	33,900	31,550
Accrued wages	6,906	4,028
Other current liabilities	3,723	4,726
Current portion of long-term debt	69,900	66,900
Total Current Liabilities	<u>161,751</u>	<u>135,592</u>
Long-Term Debt:		
Long-term debt, net of current portion	<u>1,005,400</u>	<u>1,075,300</u>
Total Long-Term Debt	<u>1,005,400</u>	<u>1,075,300</u>
Net Position:		
Net investment in capital assets	6,854,754	6,707,559
Restricted for:		
Depreciation reserve	126,936	126,898
Debt service	3,985	1,469
Unrestricted	505,219	399,369
Total Net Position	<u>7,490,894</u>	<u>7,235,295</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 8,658,045</u>	<u>\$ 8,446,187</u>

See accompanying notes

CAWOOD WATER DISTRICT
Statements of Revenue, Expenses, and Changes in Net Position
For the Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Operating Revenue:		
Water sales - residential	\$ 931,401	\$ 877,885
Water sales - commercial	47,602	53,279
Other operating revenue	80,376	94,695
Total Operating Revenue	<u>1,059,379</u>	<u>1,025,859</u>
Operating Expenses		
Salaries & wages	285,951	265,634
Payroll taxes	29,612	24,301
Employee benefits	42,030	37,427
Chemicals	43,703	27,699
Materials and supplies	4,921	28,660
Contractual services	16,218	15,236
Insurance	32,874	29,893
Office expense	18,885	18,489
Utilities	81,779	76,464
Repairs and maintenance	160,036	61,504
Professional fees	7,500	29,143
Purchased water for distribution	44,287	26,308
Depreciation expense	252,530	248,186
Bad debt expense	45,213	13,804
Other operating expenses	34,060	38,008
Utilities		
Total Operating Expenses	<u>1,099,599</u>	<u>940,756</u>
Net Operating Income (Loss)	(40,220)	85,103
Other Income (Expenses)		
Interest income	165	434
Interest expense	(46,222)	(49,625)
Total Other Income (Expenses)	(46,057)	(49,191)
Capital Contributions:		
Grants	327,450	60,715
Tap fees	14,426	12,000
Total Capital Contributions	<u>341,876</u>	<u>72,715</u>
Change in Net Position	255,599	108,627
Net Position - beginning of year	<u>7,235,295</u>	<u>7,126,668</u>
Net Position - end of year	<u>\$ 7,490,894</u>	<u>\$ 7,235,295</u>

See accompanying notes

CAWOOD WATER DISTRICT
Statements of Cash Flows
For the Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash Flows from Operating Activities		
Cash received from customers	\$ 1,079,939	\$ 1,042,344
Cash paid for goods and services	(556,103)	(495,279)
Cash paid to employees	<u>(283,073)</u>	<u>(264,982)</u>
Net Cash Provided by Operating Activities	<u>240,763</u>	<u>282,083</u>
Cash Flows from Capital and Related Financing Activities		
Net (deposits into) withdrawals from restricted accounts	(2,580)	85,142
Principal paid on notes payable	(66,900)	(141,844)
Interest paid on debt service	(46,022)	(75,338)
Proceeds from grants and tap fees	341,703	72,715
Proceeds from issuance of debt	-	-
Purchase of capital assets	<u>(332,825)</u>	<u>(20,454)</u>
Net Cash Used by Capital and Related Financing Activities	<u>(106,624)</u>	<u>(79,779)</u>
Cash Flows from Investing Activities		
Interest income	<u>165</u>	<u>434</u>
Net Cash Provided by Investing Activities	<u>165</u>	<u>434</u>
Net Increase (Decrease) in Cash	134,304	202,738
Cash - beginning of year	<u>318,191</u>	<u>115,453</u>
Cash - end of year	<u><u>\$ 452,495</u></u>	<u><u>\$ 318,191</u></u>

See accompanying notes

CAWOOD WATER DISTRICT
Statements of Cash Flows
For the Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating (loss)	\$ (40,220)	\$ 85,103
Adjustments to reconcile net (loss) from operations to net cash provided by operating activities:		
Depreciation expense	252,530	248,186
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	20,560	16,484
(Increase) decrease in prepaid expenses	(15,266)	125
Increase (decrease) in accounts payable	18,934	(71,760)
Increase (decrease) in customer deposits	2,350	900
Increase (decrease) in accrued wages	2,878	652
Increase (decrease) in other current liabilities	(1,003)	2,393
Net Cash Provided by Operating Activities	<u>\$ 240,763</u>	<u>\$ 282,083</u>

See accompanying notes

CAWOOD WATER DISTRICT
Notes to the Financial Statements
For Years Ended December 31, 2022 and 2021

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, 2022 and 2021 was \$179,137 and \$133,924, 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>2022</u>	<u>2021</u>
Total Accounts Receivable	\$ 534,200	\$ 473,382
Less: Garbage Fees Payable	(227,809)	(194,979)
Less: Sewer Fees Payable	(18,105)	(14,769)
Less: Allowance for Uncollectible Accounts	<u>(179,137)</u>	<u>(133,924)</u>
Customer Accounts Receivable, Net	<u>\$ 109,149</u>	<u>\$ 129,710</u>

CAWOOD WATER DISTRICT
Notes to the Financial Statements
For Years Ended December 31, 2022 and 2021

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 \$13,804 and \$45,213 for the years ended December 31, 2022 and 2021, 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, 2022 and 2021

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, 2022, and 2021, Cawood Water District had total cash on deposit with a financial institution that exceeded the FDIC insured limits by \$331,876 and \$189,780 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, 2022 and 2021.

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, 2022 and 2021

Note 2 – Capital Assets

Capital asset activity for the year ended December 31, 2022 was as follows:

	Balance 1/1/22	Additions	Retirements/ Transfers	Balance 12/31/22
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	9,945,331	331,256	-	10,276,587
Meters & Hydrants	754,971	-	-	754,971
Office Equipment	53,429	-	-	53,429
Plant Equipment	304,117	1,569	-	305,686
Vehicles	163,588	-	-	163,588
Total capital assets being depreciated	12,531,293	332,825	-	12,864,118
Accumulated depreciation:				
Water Plant	(706,820)	(36,208)	-	(743,028)
Distribution Lines	(2,977,453)	(171,618)	-	(3,149,071)
Meters & Hydrants	(569,989)	(16,310)	-	(586,299)
Office Equipment	(46,967)	(793)	-	(47,760)
Plant Equipment	(263,567)	(19,247)	-	(282,814)
Vehicles	(145,488)	(8,354)	-	(152,842)
Total accumulated depreciation	(4,710,284)	(252,530)	-	(4,962,814)
Net capital assets being depreciated	7,821,009	80,295	-	7,901,304
Capital assets, net	\$ 7,849,759	\$ 80,295	\$ -	\$ 7,930,054

CAWOOD WATER DISTRICT
Notes to the Financial Statements
For Years Ended December 31, 2022 and 2021

Note 2 – Capital Assets (continued)

Capital asset activity for the year ended December 31, 2021 was as follows:

	Balance 1/1/21	Additions	Retirements/ Transfers	Balance 12/31/21
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	9,936,879	8,452	-	9,945,331
Meters & Hydrants	742,970	12,001	-	754,971
Office Equipment	53,429	5,333	-	53,429
Plant Equipment	304,117	6,149	-	304,117
Vehicles	163,588	-	-	163,588
Total capital assets being depreciated	12,510,840	20,453	-	12,531,293
Accumulated depreciation:				
Water Plant	(670,612)	(36,208)	-	(706,820)
Distribution Lines	(2,810,108)	(167,345)	-	(2,977,453)
Meters & Hydrants	(554,160)	(15,829)	-	(569,989)
Office Equipment	(46,101)	(866)	-	(46,967)
Plant Equipment	(243,982)	(19,585)	-	(263,567)
Vehicles	(137,135)	(8,353)	-	(145,488)
Total accumulated depreciation	(4,462,098)	(248,186)	-	(4,710,284)
Net capital assets being depreciated	8,048,742	(227,733)	-	7,821,009
Capital assets, net	\$ 8,077,492	\$ (227,733)	\$ -	\$ 7,849,759

Depreciation expense for the years ended December 31, 2022 and 2021 was \$252,530 and \$248,186 respectively.

CAWOOD WATER DISTRICT
Notes to the Financial Statements
For Years Ended December 31, 2022 and 2021

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 \$147,000 and \$48,000, respectively, as of December 31, 2022, with \$23,000 and \$9,000 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 \$173,400 as of December 31, 2022, with \$11,200 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 \$252,000 as of December 31, 2022, with \$8,000 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 \$281,500 as of December 31, 2022, with \$7,500 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 paid in full during the year.

Long-term debt activity for the year ended December 31, 2022 is as follows:

	Balance, 1/1/2022	Principal Payments	Balance, 12/31/2022
<u>Debt Issuance</u>			
Series 1989 A	\$ 168,000	\$ 21,000	\$ 147,000
Series 1989 B	57,000	9,000	48,000
Series 1995 A	184,100	10,700	173,400
Series 1995 B	184,100	10,700	173,400
Series 2004	260,000	8,000	252,000
Series 2010	<u>289,000</u>	<u>7,500</u>	<u>281,500</u>
Totals	<u>\$ 1,142,200</u>	<u>\$ 66,900</u>	<u>\$ 1,075,300</u>

CAWOOD WATER DISTRICT
Notes to the Financial Statements
For Years Ended December 31, 2022 and 2021

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>
2023	69,900	43,030	112,930
2024	72,900	39,893	112,793
2025	78,400	36,611	115,011
2026	82,600	33,078	115,678
2027	87,100	29,341	116,441
2028-2032	262,300	105,240	367,540
2033-2037	191,600	53,546	245,146
2038-2042	141,500	25,605	167,105
2043-2047	72,500	6,739	79,239
2048-2052	<u>16,500</u>	<u>371</u>	<u>16,871</u>
Totals	<u>\$ 1,075,300</u>	<u>\$ 373,454</u>	<u>\$ 1,448,754</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 \$9,081 are required for the upcoming year.

CAWOOD WATER DISTRICT
Notes to the Financial Statements
For Years Ended December 31, 2022 and 2021

Note 4—Bond Funding Requirement (continued)

As of December 31, 2022, the balance of the Sinking Fund was \$3,984. A summary of the yearly activity is presented below:

Bond Sinking Fund

Beginning balance on January 1, 2022	\$ 1,441
Deposits made during the year	115,465
Interest income earned	-
Principal and interest payments	<u>(112,922)</u>
Ending balance on December 31, 2022	<u>\$ 3,984</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 \$123,060. Monies in the Depreciation Reserve Fund are restricted in their withdrawal and use by the prior and current bond resolutions. As of December 31, 2021, the balance of the Depreciation Reserve Fund was \$126,937, resulting in a surplus of \$3,877.

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 \$29,120 and \$26,559 for the years ended December 31, 2022 and 2021, respectively.

Note 7—Grant Received

The District received a grant in the amount of \$327,450 from the Kentucky Transportation Cabinet for the US Highway 421 Waterline Replacement Project. The project began on February 16, 2022 and was completed on April 1, 2022.



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

141 Wendover Drive
Kingsport, TN 37663

admin@kptcpa.com
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, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated May 25, 2023.

Report on 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) 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 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.

Report on 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 financial statements. 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

May 25, 2023

CAWOOD WATER DISTRICT
Schedule of Findings and Responses
For the Year Ended December 31, 2022

No prior year findings.