

**CAWOOD WATER DISTRICT**  
**AUDITED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2023 and 2022**

**CAWOOD WATER DISTRICT  
TABLE OF CONTENTS  
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

	<u>PAGE</u>
<b>DISTRICT COMMISSION MEMBERS</b>	1
<b>INDEPENDENT AUDITOR'S REPORT</b>	2-3
<b>MANAGEMENT'S DISCUSSION &amp; ANALYSIS</b>	4-6
<b>FINANCIAL STATEMENTS</b>	
Statements of Financial Position	7
Statements of Activities	8
Statements of Cash Flows	9
Notes to the Financial Statements	10-18
<b>INDEPENDENT AUDITOR'S 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></b>	19-20

**CAWOOD WATER DISTRICT  
BOARD OF COMMISSIONERS  
DECEMBER 31, 2023**

**DISTRICT COMMISSION MEMBERS**

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**INDEPENDENT AUDITOR'S REPORT**

To the Board of Commissioners  
Cawood Water District  
Cawood, Kentucky 40815

**Report on the Audit of the Financial Statements**

***Opinion***

We have audited the accompanying financial statements of the business-type activity of the Cawood Water District (hereinafter called the "District") as of and for the years ended December 31, 2023, 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 activity of the District, as of December 31, 2023, and the respective changes in financial position, and cash flows thereof 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 Auditor's 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 opinion.

***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.

***Auditor's 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 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 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, as listed in the table of contents, 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 responses 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 Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated May 27, 2025 on our consideration of the 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 District's internal control over financial reporting and compliance.

#### ***Other Information***

Cawood Water District's December 31, 2022 financial statements were audited by other auditors that expressed an unmodified audit opinion on those audited financial statements in their report dated May 25, 2023. Our audit of the December 31, 2023 financial statements is intended to provide a basis for our opinion which is consistent, in all material respects, with the audited financial statements from which it has been derived.

***SK LEE CPAs, P.S.C.***

Berea, Kentucky  
May 27, 2025

**CAWOOD WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
AS OF DECEMBER 31, 2023**

As Management of the Cawood Water District (the "District"), we offer readers of these financial statements this overview and analysis of the financial activities of the District for the fiscal year ended December 31, 2023. We encourage readers to consider the information presented here in conjunction with the District's financial statements as presented elsewhere in this report.

For accounting purposes, the District is classified as an enterprise fund. Enterprise funds account for activities, where the determination of net income is necessary or useful to sound financial administration. Enterprise funds are reported using the full accrual method of accounting. The focus of enterprise funds is on income measurement, which, together with the maintenance of equity is an important financial indicator.

**A. Financial Highlights**

1. The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$7,306,408 (net position) as opposed to \$7,490,894 for the prior fiscal year.
2. As of the close of the current fiscal year, the District reported ending Net Position of \$7,306,408.
3. The District's cash and cash equivalent and investment balance on December 31, 2023 was \$433,506 representing a decrease of \$149,910 over the prior fiscal year.
4. The District had total operating revenues of \$1,032,790 and total operating expenses of \$1,185,941 for the fiscal year ended December 31, 2023.

**B. Overview of the Financial Statements**

**1. Management's Discussion and Analysis**

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.

**2. 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 District's basic financial statements are the statement of net position, statement of revenues and expenses and changes in net position, and the statement of cash flows. The statement of net position provides a summary of the District's assets and liabilities as of the close of business on December 31, 2023, with the difference between assets and liabilities reported as net position. The statement of revenues and expenses and changes in net position summarizes the revenues and expenses for the year ended December 31, 2023, and how the 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.

**3. Notes to Financial Statements**

The Notes to Financial Statements provide additional information that is essential to a full understanding of the data in the financial statements. The Notes to Financial Statements can be found in this Report after the financial statements.

**CAWOOD WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED  
AS OF DECEMBER 31, 2023**

**C. Financial Analysis**

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. Increases to assets without a corresponding increase to liabilities results in increased net position which indicates an improved financial position. Net position increases when revenues exceed expenses. In 2023, the District's assets exceeded liabilities by \$7,306,408 (net position) as opposed to \$7,490,494 for the prior fiscal year. The District's Net Position decreased during the fiscal year as detailed in the following schedule.

Computations of Net Position are as follows:

	<b>2023</b>	<b>2022</b>	<b>Change</b>
Current assets	\$ 446,363	\$ 597,070	\$ (150,707)
Capital assets, net	7,835,732	7,930,054	(94,322)
Restricted assets	132,030	130,921	1,109
<b>Total Assets</b>	<b>8,414,125</b>	<b>8,658,045</b>	<b>(243,920)</b>
Current liabilities	176,717	161,751	14,966
Non-current liabilities	931,000	1,005,400	(74,400)
<b>Total Liabilities</b>	<b>1,107,717</b>	<b>1,167,151</b>	<b>(59,434)</b>
Net investment in capital assets	7,835,732	6,854,754	980,978
Restricted	132,030	130,921	1,109
Unrestricted	(661,354)	505,219	(1,166,573)
<b>Total Net Position</b>	<b>\$ 7,306,408</b>	<b>\$ 7,490,894</b>	<b>\$ (184,486)</b>

Computations of Changes in Net Position as follows:

	<b>2023</b>	<b>2022</b>	<b>Change</b>
Operating revenues	\$ 1,032,790	\$ 1,059,379	\$ (26,589)
Operating expenses	1,185,941	1,099,599	86,342
<b>Income (loss) from operations</b>	<b>(153,151)</b>	<b>(40,220)</b>	<b>(112,931)</b>
Non-operating revenues (expenses):			
Interest income	195	165	30
Interest (expense)	(43,030)	(46,222)	3,192
Capital contributions	11,500	341,876	(330,376)
<b>Total non-operating revenues (expenses)</b>	<b>(31,335)</b>	<b>295,819</b>	<b>(330,376)</b>
<b>Change in Net Position</b>	<b>(184,486)</b>	<b>255,599</b>	<b>(440,085)</b>
<b>Net Position, Beginning of Year</b>	<b>7,490,894</b>	<b>7,235,295</b>	<b>255,599</b>
<b>Net Position, End of Year</b>	<b>\$ 7,306,408</b>	<b>\$ 7,490,894</b>	<b>\$ (184,486)</b>

**CAWOOD WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED  
AS OF DECEMBER 31, 2023**

**D. Capital Assets and Debt Administration**

**1. Capital Assets**

As of December 31, 2023, the District's net investment in capital assets was \$7,835,732 (net of accumulated depreciation). The investment in capital assets included land, utility plant, equipment, and vehicles.

There were \$168,927 worth of capital assets purchased during the fiscal year.

**2. Long Term Debt**

The District had long-term debt in the amount of \$931,000 as of December 31, 2023, with a decrease of \$74,400 from the prior year.

**E. Economic Factors and Next Year's Budgets and Rates**

The following factors were considered in preparing the District's budget for the Fiscal year ending December 31, 2023:

1. The state of the local economy and state and local regulations.
2. The District provides water to the businesses and residents of southern Harlan County, which generates virtually all of the District's operating revenue. This revenue is dependent on the District's water rates. Major capital projects are usually funded by state grants.

**F. Contacting the District's Financial Management**

The financial report is designed to provide a general overview of the District's finances for all those with an interest. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Finance Officer, Cawood Water District, 54 Plant Road, Cawood, KY 40815 or call (606) 573-3744.

**CAWOOD WATER DISTRICT  
STATEMENTS OF NET POSITION  
DECEMBER 31, 2023 AND 2022**

	<b>2023</b>	<b>2022</b>
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 301,476	\$ 452,495
Customer accounts receivable, net	107,873	109,149
Prepaid expenses	37,014	35,426
Total Current Assets	446,363	597,070
Capital assets		
Utility plant, equipment, and vehicles	13,033,045	12,864,118
Land	28,750	28,750
Less accumulated depreciation	(5,226,063)	(4,962,814)
Total Capital Assets	7,835,732	7,930,054
Other Assets		
Restricted cash	132,030	130,921
<b>TOTAL ASSETS</b>	<b>\$ 8,414,125</b>	<b>\$ 8,658,045</b>
<b>LIABILITIES AND NET POSITION</b>		
Current liabilities		
Accounts payable	\$ 57,358	\$ 47,322
Customer deposits	36,000	33,900
Accrued expenses	8,959	10,629
Current portion of long-term debt	74,400	69,900
Total current liabilities	176,717	161,751
Long-term liabilities		
Notes payable	931,000	1,005,400
<b>TOTAL LIABILITIES</b>	<b>1,107,717</b>	<b>1,167,151</b>
<b>NET POSITION</b>		
Net investment in capital assets	7,835,732	6,854,754
Restricted	132,030	130,921
Unrestricted	(661,354)	505,219
<b>TOTAL NET POSITION</b>	<b>7,306,408</b>	<b>7,490,894</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 8,414,125</b>	<b>\$ 8,658,045</b>

The accompanying notes are an integral part of these financial statements.

**CAWOOD WATER DISTRICT**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

	<b>2023</b>	<b>2022</b>
<b>OPERATING REVENUES</b>		
Water sales - residential	\$ 865,459	\$ 931,401
Water sales - commercial	79,259	47,602
Other operating revenue	88,072	80,376
<b>TOTAL OPERATING REVENUES</b>	<b>1,032,790</b>	<b>1,059,379</b>
<b>OPERATING EXPENSES</b>		
Salaries & wages	312,334	285,951
Payroll taxes	25,953	29,612
Employee benefits	35,004	42,030
Chemicals	87,280	43,703
Materials and supplies	35,012	4,921
Contractual services	25,745	16,218
Insurance	38,656	32,874
Office expense	29,593	18,885
Utilities	78,189	81,779
Repair and maintenance	115,435	160,036
Professional fees	27,075	7,500
Purchased water for distribution	61,375	44,287
Depreciation expense	263,249	252,530
Bad debt expense	24,075	45,213
Other operating expenses	26,966	34,060
<b>TOTAL OPERATING EXPENSES</b>	<b>1,185,941</b>	<b>1,099,599</b>
<b>NET OPERATING LOSS</b>	<b>(153,151)</b>	<b>(40,220)</b>
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Interest income	195	165
Interest expense	(43,030)	(46,222)
<b>TOTAL NON-OPERATING REVENUES (EXPENSE)</b>	<b>(42,835)</b>	<b>(46,057)</b>
<b>CAPITAL CONTRIBUTIONS</b>		
Grants	-	327,450
Tap fees	11,500	14,426
<b>TOTAL CAPITAL CONTRIBUTIONS</b>	<b>11,500</b>	<b>341,876</b>
<b>CHANGE IN NET POSITION</b>	<b>(184,486)</b>	<b>255,599</b>
<b>NET POSITION, BEGINNING OF YEAR</b>	<b>7,490,894</b>	<b>7,235,295</b>
<b>NET POSITION, END OF YEAR</b>	<b>\$ 7,306,408</b>	<b>\$ 7,490,894</b>

The accompanying notes are an integral part of these financial statements.

**CAWOOD WATER DISTRICT  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

	<b>2023</b>	<b>2022</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers	\$ 924,019	\$ 999,563
Cash received from other sources	88,072	80,376
Cash paid for goods and services	(579,505)	(510,890)
Cash paid to employees	(312,334)	(283,073)
<b>Net cash provided by Operating Activities</b>	<b>120,252</b>	<b>285,976</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Principal paid on notes payable	(69,900)	(66,900)
Interest paid on debt service	(43,030)	(46,022)
Proceeds from grants and tap fees	11,500	341,703
Purchase of Capital assets	(168,927)	(332,825)
<b>Net cash used by Capital and Related Financing Activities</b>	<b>(270,357)</b>	<b>(104,044)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest income	195	165
<b>Net increase (decrease) in cash and cash equivalents, and restricted cash</b>	<b>(149,910)</b>	<b>182,097</b>
<b>Cash and cash equivalents, and restricted cash, at beginning of year</b>	<b>583,416</b>	<b>401,319</b>
<b>CASH AND CASH EQUIVALENTS, AND RESTRICTED CASH, AT END OF YEAR</b>	<b>\$ 433,506</b>	<b>\$ 583,416</b>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
<b>Operating Loss:</b>	(153,151)	(40,220)
<b>Adjustments to reconcile net (loss) from operations to net cash provided by operating activities:</b>		
Depreciation expense	263,249	252,530
Bad Debt	24,075	45,213
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(22,799)	20,560
(Increase) decrease in prepaid expenses	(1,588)	(15,266)
Increase (decrease) in accounts payable	10,036	18,934
Increase (decrease) in customer deposits	2,100	2,350
Increase (decrease) in accrued wages	(1,670)	2,878
Increase (decrease) in other current liabilities	-	(1,003)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>120,252</b>	<b>285,976</b>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Cash paid for interest	\$ 43,030	\$ 46,022
End of year cash consists of:		
Cash and cash equivalents	\$ 301,476	\$ 452,495
Restricted cash	132,030	130,921
	<b>\$ 433,506</b>	<b>\$ 583,416</b>

The accompanying notes are an integral part of these financial statements.

**CAWOOD WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

**NOTE 1 – 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 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 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 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 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 flow.

**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 and Allowance for Doubtful Accounts**

The District accounts for the billings to customers as accounts receivable. Management considers accounts receivable to be fully collectible/ accordingly no allowance for doubtful accounts is required. If accounts receivable becomes uncollectible, they will be charged-off when that determination is made.

**Prepaid Expenses**

Payments that will benefit from periods beyond the fiscal year are recorded as prepaid items. A current asset for the prepaid amount is recorded at the time of the purchase, and an expenditure/expense is reported in the year in which services are consumed. Prepaid expenses consist of amounts paid on advances 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 estimate useful lives of the respective assets, ranging from five to six year. Property replacements with costs 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/

**CAWOOD WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**Accounts Payable**

Customers' accounts receivable consists of fee for services for water charges due from individuals, business, and other governments. Customer accounts receivable are presented in 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 2023, and 2022 was \$179,137 and \$133,924, respectively.

**Customer Deposits**

Deposits are required by the District for each customer to receive services. The deposits are maintained by the District and returned when serviced are no longer used or other qualifying event by the Districts policy.

**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.

**Bad Debt**

The District uses the allowance method for recording bad debt. The District's bad debt expense amounted to \$24,075 and \$42,213 for the years ended December 31, 2023 and 2022, respectively.

**Operating Revenues and Expenses**

The District distinguished operating revenues and expenses from non-operating items. Operating revenues consist of charges for water service and other related fees and charges. Operating expenses consist of costs related to providing 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 revenue 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 non-operating 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 consist 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 position 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 outflow 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.

**CAWOOD WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**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.

**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.

**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 liabilities at the date of the financial statements and reported amounts or revenues and expenses during the reporting period. Actual results could differ from those 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, 2023, and 2022, Cawood Water District has total cash on deposit with financial institution that exceeded the FDIC insured limits by \$171,165 and \$331,876 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, 2023 and 2022.

**CAWOOD WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

**NOTE 2 – CASH AND CASH EQUIVALENTS**

Cash and cash equivalents at December 31 consisted of the following:

<u>Description</u>	<u>2023</u>	<u>2022</u>
Petty cash	\$ 500	\$ 500
Postage	4,490	1,040
Operation and maintenance	13,598	14,816
Revenue	212,691	387,883
Surcharge	57,034	35,097
Replacement reserve	13,163	13,159
<b>Total</b>	<b>\$ 301,476</b>	<b>\$ 452,495</b>

Restricted cash and cash equivalents at December 31 consisted of the following:

<u>Description</u>	<u>2023</u>	<u>2022</u>
Reserve	\$ 126,975	\$ 126,936
Debt service	5,055	3,985
<b>Total</b>	<b>\$ 132,030</b>	<b>\$ 130,921</b>

Custodial Credit Risk is the risk that the District's deposits may not be returned in the event of depository institution failure. The District is required to maintain its deposits with a depository institution insured by Federal Deposit Insurance Corporation (FDIC) or by securities pledged at market. Deposits at the bank are insured by the FDIC insurance of \$250,000. At December 31, 2023 and 2022, the carrying amount of the District's account was \$433,506 and \$583,416, respectively. The bank balances were \$521,165 and \$462,797, respectively. Bank balances were covered by FDIC insurance and securities pledged at market value in the Districts name in the amount of \$250,000 and \$183,506 and \$250,000 and \$333,416, respectively. For the year ended December 31, 2023, and 2022 the District 's bank accounts were fully collateralized.

**NOTE 4 – ACCOUNTS RECEIVABLE AND ALLOWANCE FOR DOUBTFUL ACCOUNTS**

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 receivable are reduced by the corresponding payables, as follows:

	<u>2023</u>	<u>2022</u>
Accounts receivable	\$ 608,361	\$ 534,200
Less garbage fees payable	(264,497)	(227,809)
Less sewer fees payable	(32,778)	(18,105)
Less allowance for doubtful accounts	(203,213)	(179,137)
<b>Net Accounts Receivable</b>	<b>\$ 107,873</b>	<b>\$ 109,149</b>

**CAWOOD WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

**NOTE 5 – CAPITAL ASSETS**

Major classes of Capital Assets and accumulated depreciation are as follows at December 31:

	<u>Beginning Balance 12/31/2022</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance 12/31/2023</u>
<b>Capital assets, not being depreciated:</b>				
Land	\$ 28,750	\$ -	\$ -	\$ 28,750
<b>Total capital assets, not being depreciated:</b>	<u>28,750</u>	<u>-</u>	<u>-</u>	<u>28,750</u>
<b>Capital assets, being depreciated:</b>				
Water Plant	1,309,857	-	-	1,309,857
Distribution Lines	10,276,587	-	-	10,276,587
Meters & Hydrants	754,971	-	-	754,971
Office Equipment	53,429	-	-	53,429
Plant Equipment	305,686	78,686	-	384,372
Vehicles	163,588	90,241	-	253,829
<b>Total capital assets, being depreciated:</b>	<u>12,864,118</u>	<u>168,927</u>	<u>-</u>	<u>13,033,045</u>
<b>Less: accumulated depreciation for:</b>				
Water Plant	743,028	36,208	-	779,236
Distribution Lines	3,149,071	171,052	-	3,320,123
Meters & Hydrants	586,299	15,886	-	602,185
Office Equipment	47,760	793	-	48,553
Plant Equipment	282,814	24,941	-	307,755
Vehicles	153,841	14,370	-	168,211
<b>Total accumulated depreciation:</b>	<u>4,962,813</u>	<u>263,250</u>	<u>-</u>	<u>5,226,063</u>
	<b>7,901,305</b>			<b>7,806,982</b>
<b>Capital assets, net</b>	<u><b>\$ 7,930,054</b></u>			<u><b>\$ 7,835,732</b></u>

**CAWOOD WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

**NOTE 5 – CAPITAL ASSETS – CONTINUED**

	<u>Beginning Balance 12/31/2021</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance 12/31/2022</u>
<b>Capital assets, not being depreciated:</b>				
Land	\$ 28,750	\$ -	\$ -	\$ 28,750
<b>Total capital assets, not being depreciated:</b>	<u>28,750</u>	<u>-</u>	<u>-</u>	<u>28,750</u>
<b>Capital assets, being depreciated:</b>				
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
<b>Total capital assets, being depreciated:</b>	<u>12,531,293</u>	<u>332,825</u>	<u>-</u>	<u>12,864,118</u>
<b>Less: accumulated depreciation for:</b>				
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	-	153,842
<b>Total accumulated depreciation:</b>	<u>4,710,284</u>	<u>252,530</u>	<u>-</u>	<u>4,962,814</u>
	<b>7,821,009</b>			<b>7,901,304</b>
<b>Capital assets, net</b>	<u><b>\$ 7,849,759</b></u>			<u><b>\$ 7,930,054</b></u>

Depreciation expense for the year ended December 31, 2023 and 2022 is \$263,249 and \$252,530, respectively.

**NOTE 6 – LONG-TERM LIABILITIES**

The district currently has outstanding revenue bonds from four 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 1<sup>st</sup>, and maturing principal amounts payable January 1<sup>st</sup> of each year through 2028 and 2027, respectively. The principal balance on these bond issuances was \$124,000 and \$39,000, respectively, as of December 31, 2023, 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 1<sup>st</sup>, and maturing principal amounts payable on January 1<sup>st</sup> of each year through 2034. The principal balance on each of these bond issuances was \$162,200 as of December 31, 2023, and \$11,200 principal due on each next year.

**CAWOOD WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

**NOTE 6 – LONG-TERM LIABILITIES - CONTINUED**

- In 2004, the District issues USDA RD Water Revenue Bonds, Series 2004, in the aggregate principal amount of \$350,000. This bond issuance carries an annual interest rate of 4.50%, with interest payable each January and July 1<sup>st</sup>, and maturing principal amounts payable on January 1<sup>st</sup> of each year through 2043. The principal balance on this bond issuance was \$244,000 as of December 31, 2023, 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 1<sup>st</sup>, and maturing principal amounts payable on January 1<sup>st</sup> 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 purchases of two vehicles., in the aggregate principal amount of \$43,256. This note payable issued carried 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, 2023 is as follows:

<u>Debt Issuance</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Principal Outstanding</u>	<u>Annual Payment Principal and Interest</u>
Series 1989 A	2036	5.000%	\$ 124,000	\$ 30,350
Series 1989 B	2039	5.000%	39,000	11,400
Series 1995 A	2041	4.500%	162,200	19,003
Series 1995 B	2044	4.500%	162,200	19,003
Series 2004	2046	4.500%	244,000	19,340
Series 2010	2050	2.250%	274,000	13,834
			<u>\$ 1,005,400</u>	<u>\$ 112,930</u>

Assuming the notes are not called prior to maturity, the minimum obligations of the District's funds at December 31, 2023, and 2022 for the payment of principal are as follows:

<u>Year Ending December 31,</u>	<u>2023</u>	<u>2022</u>
2023	\$ -	\$ 69,900
2024	72,900	72,900
2025	78,400	78,400
2026	82,600	82,600
2027	87,100	87,100
2028-2032	262,300	262,300
2033-2037	191,600	191,600
2038-2042	141,500	141,500
2043-2047	72,500	72,500
2048-2052	16,500	16,500
	<u>\$ 1,005,400</u>	<u>\$ 1,075,300</u>

**CAWOOD WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

**NOTE 6 – LONG-TERM LIABILITIES – CONTINUED**

<u>Year Ending December 31,</u>	<u>2022</u>	<u>2021</u>
2022	\$ -	\$ 66,900
2023	69,900	69,900
2024	72,900	72,900
2025	78,400	78,400
2026	82,600	82,600
2027	87,100	87,100
2028-2032	262,300	262,300
2033-2037	191,600	191,600
2038-2042	141,500	141,500
2043-2047	72,500	72,500
2048-2052	16,500	16,500
	<u>\$ 1,075,300</u>	<u>\$ 1,142,200</u>

**NOTE 7 – BOND FUNDING REQUIREMENT**

The Districts bond resolutions require the creation and maintenance of a Revenue Fund, a Sinking Funds, 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 20<sup>th</sup> day of each month as required by bond resolutions, for payments of interest and principal on the outstanding bonds. The monthly amount shall equal the total of 1 1/6<sup>th</sup> of the next two (2) succeeding six-month interest payments to become due on the bonds, plus 2 1/12<sup>th</sup> of any bonds maturing on the succeeding January 1<sup>st</sup>. Based on the preceding formula, monthly deposits of \$9,081 are required for the upcoming year. As of December 31, 2023 and 2022, the balance of the Sinking Fund was \$5,055 and \$3,985 respectively.

**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 re 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, 2023, and 2022 the balance for the Depreciation Reserve Fund was \$126,975 and \$126,937, respectively resulting in a surplus of \$3,915 and \$3,877, respectively.

**NOTE 9 – RISK MANAGEMENT**

The District is exposed to a variety of accidental losses and has attempted to minimize its risk by carrying commercial insurance. There have been no significant reductions in coverage in the prior year. Therefore, the District maintains adequate insurance coverage.

**CAWOOD WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

**NOTE 10 – COMMITMENTS AND CONTINGENCIES**

The bond issuances of 1990 and 1996 referred to in Note 7 above, are secured by a statutory mortgage lien against the Districts system, The bond issuance in 2004 and 2010 have been secured by a revenue pledge, [payable on a first lien basis out for the gross revenues of the District, on parity with the prior bonds, and by lien on all contracts of the District.

**NOTE 11 – 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 4 pertaining to accounts receivable. Harlan County Fiscal Court appoints commissioners to serve on the Districts 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 12 – GRANT RECEIVED**

During the year ending December 31, 2022, 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.

**NOTE 13 – DATE OF MANAGEMENT'S REVIEW**

Subsequent events were evaluated through May 27, 2025, which is the date the financial statements were available to be issued.

# **SK LEE CPAS, P.S.C.**

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## **INDEPENDENT AUDITOR'S 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 40815

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 activity of the Cawood Water District (hereinafter called the "District"), as of and for the year ended December 31, 2023, 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 27, 2025.

### **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 opinions 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control that we consider to be a material weakness.

### **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District'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 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 instance 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, this communication is not suitable for any other purpose.

***SK LEE CPAs, P.S.C.***

Berea, Kentucky  
May 27, 2025