

CAWOOD WATER DISTRICT
AUDITED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2024 and 2023

**CAWOOD WATER DISTRICT
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**CAWOOD WATER DISTRICT
BOARD OF COMISSIONERS
DECEMBER 31, 2024**

DISTRICT COMMISSION MEMBERS

Eugene Enix

Harold Sellers

Tim Engle

Howard Farmer, Jr.

Todd Hensley

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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, 2024 and 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, 2024 and 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 February 11, 2026 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.

SK LEE CPAs, P.S.C.

Berea, Kentucky
February 11, 2026

**CAWOOD WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF DECEMBER 31, 2024**

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, 2024. 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 \$7,062,997 (net position) as opposed to \$7,306,408 for the prior fiscal year.
2. As of the close of the current fiscal year, the District reported ending Net Position of \$7,062,997.
3. The District's cash and cash equivalent and investment balance on December 31, 2024 was \$482,053 representing an increase of \$48,547 over the prior fiscal year.
4. The District had total operating revenues of \$1,007,361 and total operating expenses of \$1,230,224 for the fiscal year ended December 31, 2024.

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, 2024, 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, 2024, 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, 2024**

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 2024, the District's assets exceeded liabilities by \$7,062,997 (net position) as opposed to \$7,306,408 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:

	2024	2023	Change
Current assets	\$ 387,923	\$ 446,363	\$ (58,440)
Capital assets, net	7,604,162	7,835,732	(231,570)
Restricted assets	232,043	132,030	100,013
Total Assets	8,224,128	8,414,125	(189,997)
Current liabilities	228,631	175,217	53,414
Non-current liabilities	932,500	932,500	-
Total Liabilities	1,161,131	1,107,717	53,414
Net investment in capital assets	6,598,762	6,830,332	(231,570)
Restricted	232,043	132,030	100,013
Unrestricted	232,192	344,046	(111,854)
Total Net Position	\$ 7,062,997	\$ 7,306,408	\$ (243,411)

Computations of Changes in Net Position as follows:

	2024	2023	Change
Operating revenues	\$ 1,007,361	\$ 1,032,790	\$ (25,429)
Operating expenses	1,230,224	1,185,941	44,283
Income (loss) from operations	(222,863)	(153,151)	(69,712)
Non-operating revenues (expenses):			
Interest income	197	195	2
Interest (expense)	(39,893)	(43,030)	3,137
Capital contributions	19,148	11,500	7,648
Total non-operating revenues (expenses)	(20,548)	(31,335)	7,648
Change in Net Position	(243,411)	(184,486)	(58,925)
Net Position, Beginning of Year	7,306,408	7,490,894	(184,486)
Net Position, End of Year	\$ 7,062,997	\$ 7,306,408	\$ (243,411)

**CAWOOD WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED
AS OF DECEMBER 31, 2024**

D. Capital Assets and Debt Administration

1. Capital Assets

As of December 31, 2024, the District's net investment in capital assets was \$7,604,162 (net of accumulated depreciation). The investment in capital assets included land, utility plant, equipment, and vehicles.

There were \$22,483 worth of capital assets purchased during the fiscal year.

2. Long Term Debt

The District had long-term debt in the amount of \$1,005,400 as of December 31, 2024, with a decrease of \$0 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, 2024:

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, 2024 AND 2023**

	2024	2023
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 250,010	\$ 301,476
Customer accounts receivable, net	100,388	107,873
Prepaid expenses	29,031	17,264
Inventory	8,494	19,750
Total Current Assets	387,923	446,363
Capital assets		
Utility plant, equipment, and vehicles	13,055,528	13,033,045
Land	28,750	28,750
Less accumulated depreciation	(5,480,116)	(5,226,063)
Total Capital Assets	7,604,162	7,835,732
Other Assets		
Restricted cash	232,043	132,030
TOTAL ASSETS	\$ 8,224,128	\$ 8,414,125
LIABILITIES AND NET POSITION		
Current liabilities		
Accounts payable	\$ 91,643	\$ 57,358
Customer deposits	36,000	36,000
Accrued expenses	8,141	8,959
Accrued interest	19,947	-
Current portion of notes payable	72,900	72,900
Total current liabilities	228,631	175,217
Non-current liabilities		
Notes payable	932,500	932,500
TOTAL LIABILITIES	1,161,131	1,107,717
NET POSITION		
Net investment in capital assets	6,598,762	6,830,332
Restricted	232,043	132,030
Unrestricted	232,192	344,046
TOTAL NET POSITION	7,062,997	7,306,408
TOTAL LIABILITIES AND NET POSITION	\$ 8,224,128	\$ 8,414,125

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, 2024 AND 2023

	2024	2023
OPERATING REVENUES		
Water sales - residential	\$ 871,862	\$ 865,459
Water sales - commercial	69,920	79,259
Other operating revenue	65,579	88,072
	1,007,361	1,032,790
OPERATING EXPENSES		
Salaries & wages	355,924	312,334
Payroll taxes	26,200	25,953
Employee benefits	31,121	35,004
Chemicals	86,233	87,280
Materials and supplies	34,090	35,012
Contractual services	27,045	25,745
Insurance	35,154	38,656
Office expense	32,341	29,593
Utilities	65,872	78,189
Repair and maintenance	154,808	115,435
Professional fees	6,610	27,075
Purchased water for distribution	73,704	61,375
Depreciation expense	254,053	263,250
Bad debt expense	17,161	24,075
Other operating expenses	29,908	26,965
	1,230,224	1,185,941
OPERATING LOSS	(222,863)	(153,151)
NON-OPERATING REVENUES (EXPENSES)		
Interest income	197	195
Interest expense	(39,893)	(43,030)
	(39,696)	(42,835)
CAPITAL CONTRIBUTIONS		
Tap fees	19,148	11,500
	19,148	11,500
CHANGE IN NET POSITION	(243,411)	(184,486)
NET POSITION, BEGINNING OF YEAR	7,306,408	7,490,894
NET POSITION, END OF YEAR	\$ 7,062,997	\$ 7,306,408

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

**CAWOOD WATER DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2024 AND 2023**

	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 841,340	\$ 924,019
Cash received from other sources	65,579	88,072
Cash paid for goods and services	(477,137)	(579,505)
Cash paid to employees	(359,051)	(312,334)
	70,731	120,252
NET CASH PROVIDED BY OPERATING ACTIVITIES		
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal paid on notes payable	-	(69,900)
Interest paid on debt service	(19,046)	(43,030)
Proceeds from grants and tap fees	19,148	11,500
Purchase of Capital assets	(22,483)	(168,927)
	(22,381)	(270,357)
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	197	195
	197	195
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS, AND RESTRICTED CASH	48,547	(149,910)
CASH AND CASH EQUIVALENTS, AND RESTRICTED CASH, AT BEGINNING OF YEAR	433,506	583,416
CASH AND CASH EQUIVALENTS, AND RESTRICTED CASH, AT END OF YEAR	\$ 482,053	\$ 433,506
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
OPERATING LOSS:	(222,863)	(153,151)
ADJUSTMENTS TO RECONCILE OPERATING LOSS FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Depreciation expense	254,053	263,250
Bad Debt	17,161	24,075
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(30,523)	(22,800)
(Increase) decrease in prepaid expenses	(11,767)	(1,563)
(Increase) decrease in inventory	11,256	(25)
Increase (decrease) in accounts payable	34,285	10,036
Increase (decrease) in customer deposits	-	2,100
Increase (decrease) in accrued wages	(818)	(1,670)
Increase (decrease) in other current liabilities	19,947	-
	70,731	120,252
NET CASH PROVIDED BY OPERATING ACTIVITIES		
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	\$ 19,946	\$ 43,030
End of year cash consists of:		
Cash and cash equivalents	\$ 250,010	\$ 301,476
Restricted cash	232,043	132,030
	\$ 482,053	\$ 433,506

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, 2024 AND 2023**

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. The District evaluates receivables for expected credit losses in accordance with ASC 326 using a combination of historical collection experience and current economic conditions relevant to the District's service area in Kentucky and reasonable and supportable forecasts. Receivables are written off when they are determined to be uncollectible after all collection efforts have been exhausted. Changes in the allowance for expected credit losses are recorded in operating expense.

Prepaid Expenses

Payments that will benefit for 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 and water.

Inventory

The District maintains a detailed inventory of chemicals needed to maintain the water safety. Inventory is stated at the lower of cost or market. Cost is determined principally by the first-in, first-out method.

**CAWOOD WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2024 AND 2023**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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 life of the respective assets, ranging from five to six years. 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.

Accounts Receivable

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 2024, and 2023 was \$220,373 and \$203,313, 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 District's 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 \$17,161 and \$24,075 for the years ended December 31, 2024 and 2023, 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.

**CAWOOD WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2024 AND 2023**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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 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.

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, 2024, and 2023, Cawood Water District has total cash on deposit with financial institution that exceeded the FDIC insured limits by \$261,939 and \$183,506 respectively. However, The Monticello Banking Company has pledged securities to Cawood Water District to cover 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, 2024 and 2023.

**CAWOOD WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2024 AND 2023**

NOTE 2 – CASH AND CASH EQUIVALENTS

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

<u>Description</u>	<u>2024</u>	<u>2023</u>
Petty cash	\$ 500	\$ 500
Postage	1,507	4,490
Operation and maintenance	(12,556)	13,598
Revenue	168,401	212,691
Surcharge	78,990	57,034
Replacement reserve	13,168	13,163
Total	\$ 250,010	\$ 301,476

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

<u>Description</u>	<u>2024</u>	<u>2023</u>
Reserve	\$ 127,014	\$ 126,975
Debt service	105,029	5,055
Total	\$ 232,043	\$ 132,030

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, 2024 and 2023, the carrying amount of the District's accounts were \$482,053 and \$433,506, respectively. The bank balances were \$511,939 and \$521,165, 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 \$261,939 and \$250,000 and \$183,506, respectively. For the year ended December 31, 2024, and 2023 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>2024</u>	<u>2023</u>
Accounts receivable	\$ 666,719	\$ 608,361
Less garbage fees payable	(301,641)	(264,497)
Less sewer fees payable	(44,317)	(32,778)
Less allowance for doubtful accounts	(220,373)	(203,213)
Net Accounts Receivable	\$ 100,388	\$ 107,873

**CAWOOD WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2024 AND 2023**

NOTE 5 – CAPITAL ASSETS

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

	Beginning Balance 12/31/2023	Increases	Decreases	Ending Balance 12/31/2024
Capital assets, not being depreciated:				
Land	\$ 28,750	\$ -	\$ -	\$ 28,750
Total capital assets, not being depreciated:	28,750	-	-	28,750
Capital assets, being depreciated:				
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	384,372	22,483	-	406,855
Vehicles	253,829	-	-	253,829
Total capital assets, being depreciated:	13,033,045	22,483	-	13,055,528
Less: accumulated depreciation for:				
Water Plant	779,236	36,208	-	815,444
Distribution Lines	3,320,123	171,269	-	3,491,392
Meters & Hydrants	602,185	15,077	-	617,262
Office Equipment	48,553	505	-	49,058
Plant Equipment	307,755	11,553	-	319,308
Vehicles	168,211	19,441	-	187,652
Total accumulated depreciation:	5,226,063	254,053	-	5,480,116
Total capital assets being depreciated, net:	7,806,982			7,575,412
Capital assets, net:	\$ 7,835,732			\$ 7,604,162

**CAWOOD WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2024 AND 2023**

NOTE 5 – CAPITAL ASSETS – CONTINUED

	Beginning Balance <u>12/31/2022</u>	Increases	Decreases	Ending Balance <u>12/31/2023</u>
Capital assets, not being depreciated:				
Land	\$ 28,750	\$ -	\$ -	\$ 28,750
Total capital assets, not being depreciated:	<u>28,750</u>	<u>-</u>	<u>-</u>	<u>28,750</u>
Capital assets, being depreciated:				
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
Total capital assets, being depreciated:	<u>12,864,118</u>	<u>168,927</u>	<u>-</u>	<u>13,033,045</u>
Less: accumulated depreciation for:				
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
Total accumulated depreciation:	<u>4,962,813</u>	<u>263,250</u>	<u>-</u>	<u>5,226,063</u>
Total capital assets being depreciated, net:	<u>7,901,305</u>			<u>7,806,982</u>
Capital assets, net:	<u>\$ 7,930,054</u>			<u>\$ 7,835,732</u>

Depreciation expense for the year ended December 31, 2024 and 2023 is \$254,053 and \$263,250, 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 1st, and maturing principal amounts payable January 1st 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 1st, and maturing principal amounts payable on January 1st of each year through 2034. The principal balance on each of these bond issuances was \$162,200 as of December 31, 2024, and \$11,200 principal due on each next year.

**CAWOOD WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2024 AND 2023**

NOTE 6 – LONG-TERM LIABILITIES – CONTINUED

- 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 4.50%, 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 this bond issuance was \$244,000 as of December 31, 2024, 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, 2024, with \$7,500 principal due next year.

Long-term debt activity for the year ended December 31, 2024 and 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><u>\$ 1,005,400</u></u>	<u><u>\$ 112,930</u></u>

Assuming the notes are not called prior to maturity, the minimum obligations of the District's funds at December 31, 2024, and 2023 for the payment of principal are as follows:

<u>Year Ending December 31,</u>	<u>2024</u>
2025	\$ 72,900
2026	78,400
2027	82,600
2028	87,100
2029	56,500
2030-2034	262,600
2035-2039	162,300
2040-2044	131,000
2045-2049	72,000
	<u><u>\$ 1,005,400</u></u>

**CAWOOD WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2024 AND 2023**

NOTE 6 – LONG-TERM LIABILITIES – CONTINUED

Year Ending December 31,	2023
2024	\$ 72,900
2025	78,400
2026	82,600
2027	87,100
2028	56,500
2029-2033	262,600
2034-2038	162,300
2039-2043	131,000
2044-2048	72,000
	\$ 1,005,400

NOTE 7 – BOND FUNDING REQUIREMENT

The District’s 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 20th 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 1/6th of the next two (2) succeeding six-moth interest payments to become due on the bonds, plus 2 1/12th of any bonds maturing on the succeeding January 1st. Based on the preceding formula, monthly deposits of \$9,081 are required for the upcoming year. As of December 31, 2024 and 2023, the balance of the Sinking Fund was \$105,029 and \$5,055 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 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, 2024, and 2023 the balance for the Depreciation Reserve Fund was \$127,014 and \$126,975, respectively resulting in a surplus of \$3,954 and \$3,915, 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.

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.

**CAWOOD WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2024 AND 2023**

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 \$28,232 and \$27,058 for the years ended December 31, 2024, and 2023, respectively.

NOTE 12 – SUBSEQUENT EVENTS

Subsequent events were evaluated through February 11, 2026, 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, 2024, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 11, 2026.

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 identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2024-001 and 2024-002 that we consider to be material weaknesses.

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*.

The District's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the District's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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
February 11, 2026

**CAWOOD WATER DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2024**

MATERIAL WEAKNESS

2024-001 FAILURE TO FOLLOW ESTABLISHED INTERNAL CONTROLS OVER DISBURSEMENTS

Condition:

While conducting our audit procedures to test credit card disbursements, we noted that there were no invoices for the disbursements on the credit card statements. The District's internal control policy requires the Board to approve purchases and retain invoices.

Criteria:

Complete supporting documentation should be maintained for all payments for credit card purchases.

Cause:

Invoices were destroyed, disposed, or not maintained once payments were made.

Effect:

The lack of following internal controls increases the risk that an error, either intentional or unintentional, will go undetected and the financial statements will contain material misstatements.

Recommendation:

The District should review and approve all credit card disbursements for proper supporting documentation throughout the year.

Views of Responsible Officials:

Management concurs with the finding and recommendation, and will take preventive steps to ensure all disbursements are supported by original invoices.

**CAWOOD WATER DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2024**

MATERIAL WEAKNESS

2024-002 INADEQUATE INVOICE SUPPORT

Condition:

During our review of the District's check disbursements, it was noted that there were incomplete or missing invoices to substantiate payments to vendors. The District's internal control policy requires the Board to approve purchases and retain invoices.

Criteria:

Complete supporting documentation should be maintained for all payments to vendors.

Cause:

Invoices were destroyed, disposed, or not maintained once payments were made.

Effect:

The lack of following internal controls increases the risk that an error, either intentional or unintentional, will go undetected and the financial statements will contain material misstatements.

Recommendation:

The District should follow implemented internal controls requiring complete supporting documentation to be maintained for all payments. The District's Board should review and approve invoices for all transactions for check disbursements and petty cash.

Views of Responsible Officials:

Management concurs with the finding and recommendation, and will take preventive steps to ensure all disbursements are supported by original invoices.

**CAWOOD WATER DISTRICT
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2024**

PRIOR YEAR AUDIT FINDINGS:

There were no findings for the prior year ended December 31, 2023.