

SOUTHERN WATER AND SEWER DISTRICT  
REPORT OF AUDIT OF FINANCIAL STATEMENTS  
AND SUPPORTING DATA  
YEAR ENDED DECEMBER 31, 2021

– CONTENTENTS –

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1 - 2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3 – 7
FINANCIAL STATEMENTS:	
STATEMENTS OF NET POSITION – PROPRIETARY FUND	8 – 9
STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN NET POSITION – PROPRIETARY FUND	10
STATEMENTS OF CASH FLOWS – PROPRIETARY FUND	11 – 12
NOTES TO THE FINANCIAL STATEMENTS	13 – 21
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <b><u>GOVERNMENT AUDITING STANDARDS</u></b>	22 – 23

RICHARD F. PAULMANN CPA, LLC  
301 MOUNT MERCY ROAD  
PEWEE VALLEY, KY 40056  
Ph: (502) 550-1568  
E-mail: [Richardpaulmann@twc.om](mailto:Richardpaulmann@twc.om)

## INDEPENDENT AUDITOR'S REPORT

To the City Board of Commissioners  
Southern Water and Sewer District  
McDowell, Kentucky

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

#### ***Opinions***

We have audited the accompanying financial statements of the business-type activities, of the Southern Water and Sewer District as of and for the years ended June 30, 2021, and 2020, and the related notes to the financial statements, which collectively comprise the Southern Water and Sewer District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, of the Southern Water and Sewer District, as of June 30, 2021, and 2020 the respective changes in financial position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Basis for Opinions***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Southern Water and Sewer District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Southern Water and Sewer 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 opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards 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 Southern Water and Sewer 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 Southern Water and Sewer 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 and budgetary comparison information on pages 3-7 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.

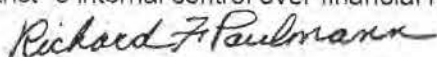
#### ***Other Information***

Management is responsible for the other information included in the annual report. The other information comprises the introductory and statistical sections but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

#### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 15, 2022, on our consideration of the Southern Water and Sewer 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 Southern Water and Sewer 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 Southern Water and Sewer District 's internal control over financial reporting and compliance.



Richard F. Paulmann CPA, LLC

Pewee Valley, KY  
June 15, 2022

**SOUTHERN WATER AND SEWER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Years ended December 31, 2021 and 2020**

This discussion and analysis of the Southern Water and Sewer District's financial performance provides an overview of the District's financial activities for the years ended December 31, 2021 and December 31, 2020. This information is presented in conjunction with the audited financial statements that follow this section.

**FINANCIAL HIGHLIGHTS**

- The District assets exceeded its liabilities at the end of the year by \$16,916,281. This was an increase of \$572,123 from the year ended December 31, 2021.
- At December 31, 2021, the District had \$22,642,021 in assets and \$5,725,740 in liabilities. The investment in capital assets, net of related debt, balance at this date was \$15,086,002. The restricted for capital projects balance was \$193,445. The restricted for maintenance balance was \$209,757. The restricted for debt service balance was \$337,281. The restricted for deposits was \$102,067. The unrestricted balance was \$987,729.
- The District had a net income of \$572,123 for the year ended December 31, 2021. For the year ended December 31, 2020 the net income was \$794,215.
- The District's water sales were \$3,640,328 for the year ended December 31, 2021. For the year ended December 31, 2020 the water sales were \$3,960,251. This represented a decrease of 8% which was a result of factors affecting revenue such as decreased water usage and decreased customers.

**OVERVIEW OF FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise two components: 1) financial statements, and 2) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Financial statements. The 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 balance sheets present information on all of the District's assets and liabilities, in a comparative format showing the balances as of December 31, 2021 and December 31, 2020. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statements of revenues, expenses and changes in retained earnings present information showing the District's net income or (loss) for the years then ended.

The statements of cash flows shows the increase or decrease in the cash and cash equivalents for the years ended by the different types of activities.

The financial statements can be found on pages 8 through 12 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 13 through 21 of this report.



SOUTHERN WATER AND SEWER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Years ended December 31, 2021 and 2020

**FINANCIAL ANALYSIS**

Net assets may serve over time as a useful indicator of the District's financial position. In the case of the District, assets exceeded liabilities by \$16,916,281 at the close of the most recent year.

**Southern Water and Sewer District's Net Assets**

	2021
Current assets	\$ 2,120,050
Restricted assets	1,068,800
Fixed assets	19,403,966
Other assets	49,205
Total assets	<u>22,642,021</u>
Current liabilities	1,592,607
Long-term liabilities	<u>4,133,133</u>
Total liabilities	<u>5,725,740</u>
Net assets:	
Investment in	
Capital Assets	15,086,002
Restricted	842,550
Unrestricted	<u>987,729</u>
Total net assets	<u>\$ 16,916,281</u>

By far the largest portion of the District's net assets reflects its investment in fixed assets (e.g., land, water lines, tanks), less any related debt used to acquire those assets still outstanding.

Grant income was \$411,121 during the year. Grant monies and customer contributions accounted for this increase. These monies were used for water line expansions.

SOUTHERN WATER AND SEWER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Years ended December 31, 2021 and 2020

**Southern Water and Sewer District's Statements of Revenues, Expenses, and Changes in Retained Earnings**

	2021
Revenues:	
Water sales	\$ 3,640,328
Solid waste revenue	876,690
Penalties and service charges	83,003
Surcharge Revenue	352,419
Other	17,465
Total revenues	<u>4,969,816</u>
Expenses:	
Water treatment supplies	209,644
Depreciation and amortization	904,637
Purchased water	342,556
Solid Waste payments	850,389
Power for pumping	400,909
Outside services	81,343
Miscellaneous	35,335
Insurance	83,714
Distribution supplies and expense	256,347
Taxes and other	51,361
Customer accounts expense	76,955
Wages	721,850
PCUC sewer payments	84,247
Employee benefits	224,369
Management Fees	213,438
Pumping supplies and expense	881
Total operating expenses	<u>4,537,975</u>
Net operating income	431,841
Non-operating income (expense)	
Grants income	411,121
Loan Service Fees	(1,072)
Gain/(Loss) on Sale of Assets	
Interest income	23
Interest expense	(163,098)
Provision for bad debts	(106,691)
Total non-operating (expense)	<u>140,283</u>
Net income (loss) before contributions and transfers	572,123
Total net assets, beginning	<u>16,344,158</u>
Total net assets, ending	<u>16,916,281</u>

**Operations.**

The District showed a net income (loss) of \$572,123.

Key elements of this income are as follows:

- Depreciation for the year was \$904,637.
- Grant income of \$411,121 was received during the year.

SOUTHERN WATER AND SEWER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Years ended December 31, 2021 and 2020

**Southern Water and Sewer District Budget Comparison**

Fix budget current year?	Actual Amounts	Original Budget Amounts	Variance Positive (Negative) 2021
	2021	2021	
<b>Revenues:</b>			
Water sales	\$ 3,640,238	\$ 3,559,000	\$ 81,238
Solid waste revenue	876,690	855,842	20,848
Surcharge Revenue	352,419	0	352,419
Penalties and service charges	83,003	60,100	22,903
Other	17,466	0	17,465
Total revenues	<u>4,969,816</u>	<u>4,451,100</u>	<u>518,716</u>
<b>Expenses:</b>			
Water treatment supplies	209,644	205,500	(4,144)
Depreciation and amortization	904,637	749,260	(155,377)
Purchased water	342,556	425,124	82,568
Solid Waste payments	850,389	825,540	(24,849)
Power for pumping	400,909	385,400	(15,509)
Outside services	81,343	88,600	7,257
Miscellaneous	35,335	27,300	(8,035)
Insurance	83,714	85,300	1,586
Distribution supplies expense	256,347	280,000	23,653
Taxes and other	51,361	73,100	21,739
Customer accounts expense	76,955	36,100	(40,855)
Wages	721,850	802,708	80,858
PCUC sewer payments	84,247	0	(84,247)
Employee benefits	224,369	423,060	198,691
Management Fees	213,438	300,000	86,562
Transportation expense	0	115,500	115,500
Pumping supplies expense	881	0	(881)
Total operating expenses	<u>4,537,975</u>	<u>4,822,492</u>	<u>284,517</u>
Net operating income	431,841	(371,392)	803,233
<b>Non-operating income (expense)</b>			
Grant income	411,121	1,791,000	(1,379,879)
Loan Service Fees	(1,072)	0	(1,072)
Gain/(Loss) on Sale of Assets	0	0	0
Interest income	23	4,100	(4,077)
Interest expense	(163,098)	(193,900)	30,802
Provision for Bad Debts	(106,691)	(140,000)	33,309
Total non-operating income	<u>140,283</u>	<u>1,461,200</u>	<u>(1,320,917)</u>
Net income (loss)	572,123	1,089,808	(517,685)
Total net assets, beginning	16,344,158		
Total net assets, ending	<u>\$ 16,916,281</u>	<u>\$</u>	<u>\$</u>

**Budget Comparisons**

- Revenues were \$518,716 more than budgeted as a result of water sales being up, an increase in the number of customers and various other differences. Operating expenses were \$284,517 less than budgeted as a result of decreased employee benefits and transportation cost.



SOUTHERN WATER AND SEWER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Years ended December 31, 2021 and 2020

**FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**

The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

The accrual basis of accounting is utilized by the District. Under this method, revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred.

f

**Capital Assets**

The District's investment in utility plant as of December 31, 2021 amounts to \$19,403,966 (net of accumulated depreciation). The investment in utility plant includes the expansion of the water system. The decrease in the District's investment in utility plant (net of accumulated depreciation) for the current year was 1% percent, before current depreciation.

Additional information on the District's utility plant can be found in Note (5) of the financial statements.

**Debt Administration**

At the end of the current fiscal year, the District had total debt outstanding of \$5,725,740. Additional information on the District's long-term debt can be found in Note (14) of the financial statements.

**Contacting the District's Financial Management**

This financial report is designed to provide our customers, creditors, and other users with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's Manager, at the Southern Water and Sewer District, P.O. Box 610, McDowell, KY 41647, telephone number (606) 377-9296.

SOUTHER WATER AND SEWER DISTRICT  
STATEMENT OF NET POSITION  
DECEMBER 31, 2021 AND 2020  
(with prior year data for comparison purposes only)

	<u>2021</u>	<u>2020</u>
<b>Assets</b>		
<b>Current Assets:</b>		
Cash and Cash Equivalents	\$ 16,706	\$ 6,777
Accounts Receivable (Net of Allowance for Delinquencies of \$314,351 in 2020 and \$235,708 in 2019)	1,989,511	1,717,364
Accounts receivable (Mink Tank)		59,052
Employee Advance	18,890	20,758
Accounts receivable DIT Transfer		3,712
Inventory	<u>94,943</u>	<u>59,825</u>
<b>Total Current Assets</b>	2,120,050	1,867,488
<b>Noncurrent Assets</b>		
Restricted Cash	1,068,800	1,200,868
<b>Capital Assets:</b>		
Land	213,867	213,867
Plumbing and Distribution System	42,546,432	41,079,832
Transportation Equipment	551,048	498,161
Furniture, Fixtures and Equipment	274,887	274,887
Construction in Progress	<u>118,064</u>	<u>964,542</u>
<b>Total Capital Assets</b>	43,704,298	43,031,289
Less: Accumulated Depreciation	<u>(24,300,332)</u>	<u>(23,398,219)</u>
Net Capital Assets	19,403,966	19,633,070
<b>Other Assets</b>		
Prepaid Interest	98,410	98,410
Less Accumulated Amortization	<u>(49,205)</u>	<u>(46,745)</u>
<b>Total Other Assets</b>	49,205	51,665
<b>Total Noncurrent Assets</b>	20,521,971	20,885,603
<b>Total Assets</b>	<u>\$ 22,642,021</u>	<u>\$ 22,753,091</u>

See accompanying notes to the basic financial statements

SOUTHER WATER AND SEWER DISTRICT  
STATEMENT OF NET POSITION  
DECEMBER 31, 2021 AND 2020  
(with prior year data for comparison purposes only)

	<u>2021</u>	<u>2020</u>
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Accounts Payable	\$ 208,313	\$ 239,809
Accounts Payable PCUC Sewer	103,764	132,169
Accounts Payable Solid Waste	476,120	457,618
Accrued Sick and Vacation pay	80,894	77,285
Customer Deposits	84,439	78,269
Note Payable Line of Credit	-	187,365
Note Payable Current	622,331	497,055
Bonds Payable Current	10,500	68,000
Accrued Interest	6,246	57,363
<b>Total Current Liabilities</b>	<u>1,592,607</u>	<u>1,794,933</u>
<b>Noncurrent Liabilities</b>		
Notes Payable-Net of Current Portion	3,695,633	2,136,500
Bonds Payable-Net of Current Portion	437,500	2,477,500
<b>Total Long Term Liabilites</b>	<u>4,133,133</u>	<u>4,614,000</u>
<b>Total Liabilities</b>	<u>5,725,740</u>	<u>6,408,933</u>
<b>Net Position:</b>		
Invested in Capital Assets, Net of Related Debt	15,086,002	14,399,103
Restricted for Capital Projects	193,445	387,572
Restricted for Maintenance	209,757	219,081
Restricted for Debt Service	337,281	498,357
Restricted for Deposits	102,067	96,859
Unrestricted	987,729	743,186
<b>Total Net Position</b>	<u>\$ 16,916,281</u>	<u>\$ 16,344,158</u>

SOUTHERN WATER AND SEWER DISTRICT  
STATEMENT OF REVENUE EXPENDITURE AND CHANGES IN NET POSITION  
For the Years Ended December 31, 2021 and 2020  
(with prior data for comparison purposes only)

	For the Year Ended December 31	
	2021	2020
<b>Operating Revenue:</b>		
Water Sales	\$ 3,640,238	\$ 3,960,251
Solid Waste Revenue	876,690	860,818
Surcharge Revenue	352,419	340,730
Penalties and Service Charges	83,003	13,870
Other	17,465	10,050
<b>Total Operating Revenue</b>	<b>4,969,816</b>	<b>5,185,719</b>
<b>Operating Expenses:</b>		
Water Treatment Supplies	209,644	189,139
Depreciation and Amortization	904,637	913,660
Purchased Water	342,556	535,398
Solid Waste Payments	850,389	825,987
Power for Pumping	400,909	354,396
Outside Services	81,343	115,958
Management Fees	213,438	276,744
Miscellaneous and Commissioners	35,335	93,841
Insurance	83,714	74,627
Distribution Supplies	256,347	336,015
Payroll and Other Taxes	51,361	62,464
Customer Accounts	76,955	71,514
Wages	721,850	654,540
PCUC Sewer Payments	84,247	100,024
Employee Benefits	224,369	235,571
Pumping Supplies	881	3,327
<b>Total Operating Expense</b>	<b>4,537,975</b>	<b>4,843,205</b>
<b>Operating Income (Loss)</b>	<b>431,841</b>	<b>342,514</b>
<b>Non-Operating Revenue (Expense)</b>		
Interest Income	23	83
Interest Expense	(163,098)	(211,283)
Interest and Penalty	-	-
Loan Service Fees	(1,072)	(2,584)
Provisions for Bad Debts	(106,691)	(175,781)
Insurance Recovery	-	5,571
(Loss) Transfer Harold Sewer plant See pg 15	-	-
Gain (Loss) on Sale of Assets	-	7,000
<b>Total Non-Operating Revenue (Expenses)</b>	<b>(270,838)</b>	<b>(376,994)</b>
<b>Income (Loss) Before Capital Contributions</b>	<b>161,003</b>	<b>(34,480)</b>
<b>Capital Contributions</b>		
Grant Income	411,121	828,695
Capital Contributions	-	-
<b>Total Capital Contributions</b>	<b>411,121</b>	<b>828,695</b>
<b>Change in Net Position</b>	<b>572,123</b>	<b>794,215</b>
<b>Total Net Position, Beginning</b>	<b>16,344,158</b>	<b>15,549,943</b>
<b>Total Position Assets, Ending</b>	<b>16,916,281</b>	<b>16,344,158</b>

See accompanying notes to the basic financial statements

SOUTHERN WATER AND SEWER DISTRICT  
Statement of Cash Flows  
For the Years Ended December 31, 2021 and 2020  
(with prior year data for comparison purposes only)

	For the Year Ended December 31	
	2021	2020
<b>Cash flows from operating activity</b>		
Cash received from customers	\$ 4,762,301	\$ 4,677,556
Cash payments to suppliers for goods and services	(3,864,054)	(4,001,840)
Cash received from deposits	6,170	38,420
<b>Net cash provided by operating activities</b>	<u>904,417</u>	<u>714,136</u>
<b>Cash flows from noncapital financing activities</b>		
Subsidy From Federal and State Grant	411,121	828,695
Net Cash Provided (Used) By Noncapital Financing Activities	<u>411,121</u>	<u>828,695</u>
<b>Cash flows from capital and related financing activities</b>		
Loan Proceeds	3,505,728	1,439,460
Deposits from Prestonsburg for the Harold Sewer Plant	-	-
Interest Paid	(211,765)	(211,283)
Principle Payment on Notes	(1,961,154)	(2,111,003)
Principle Payment on Bonds	(2,097,500)	(55,500)
Purchase of Utility Plant in Service	(1,466,600)	(1,654,701)
Purchase of Automotive Equipment	(52,887)	(12,391)
Decrease (Increase) in Construction in progress	846,478	(478,649)
Proceeds from insurance recovery	-	12,571
Proceeds on Sale of Assets	-	1,600,000
Net cash provided by (used for) capital and related financing activities	<u>(1,437,700)</u>	<u>(1,471,496)</u>
<b>Cash flows from investing activities</b>		
Proceeds from earnings on investments	23	83
Net cash provided by (used for) investing activities	<u>23</u>	<u>83</u>
<b>Total increase (decrease) in cash and cash equivalents</b>	(122,139)	71,418
<b>Cash and cash equivalents at beginning of year</b>	<u>1,207,645</u>	<u>1,136,227</u>
<b>Cash and cash equivalents at end of year (Note 2)</b>	<u>\$ 1,085,506</u>	<u>\$ 1,207,645</u>
<b>Reconciliation of Cash</b>		
Cash	16,706	6,777
Restricted Cash	<u>1,068,800</u>	<u>1,200,868</u>
<b>Cash at year end</b>	<u>\$ 1,085,506</u>	<u>\$ 1,207,645</u>

See accompanying notes to the basic financial statements



Statement of Cash Flows  
For the Years Ended December 31, 2021 and 2020  
(with prior year data for comparison purposes only)

	For the Year Ended December 31	
	2021	2020
<b>Reconciliation of Income from operations to net cash provided by operating activities:</b>		
Income from operations	\$ 431,841	\$ 342,514
Provisions for Bad Debt	(106,691)	(175,781)
Adjustment to reconcile income from operations to net cash provided by operating activities:		
Operating Activities:		
Depreciation and amortization	904,637	913,660
Changes in assets and liabilities:		
Decrease (increase) in utility accounts receivable	(207,515)	(508,163)
Decrease (increase) in prepaid expense	-	-
Decrease (increase) in material and supplies inventory	(35,118)	(3,909)
Increase (decrease) in accounts payable and other payables	(37,790)	128,322
Increase (decrease) in customer deposits	6,170	38,420
Increase (decrease) in accrued interest	(51,117)	(20,928)
<b>Net cash provided by operating activities</b>	<b>\$ 904,417</b>	<b>\$ 714,135</b>
<b>Non-cash operating activities</b>		
Acquisition of Property and Equipment Included in accounts payable	\$ 6,844	\$ 30,594

See accompanying notes to the basic financial statements

SOUTHERN WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021 AND 2020

Note 1 – Summary of Significant Accounting Policies

The significant policies of the district are as follows:

**Organization and Business Activities** – The district is a governmental organization with its primary activities consisting of sale of water and sewer services to residents in Floyd County Kentucky, pursuant to Chapter 74 of the Kentucky Revised Statutes to operate a water distribution system.

**Basis of Accounting** – The accounting and reporting policies of the Southern Water and Sewer District relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable for local governments. Generally accepted accounting principles for local Governments includes those principles presented by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publications entitled Audits of State and Local Governments and by the Financial Accounting Standards Board (when applicable). As allowed in section PBO of GASB's Codification of Governmental Accounting and Financial Reporting Standards the District has elected not to apply Financial Accounting Board Statements and Interpretations, Accounting Research Bulletins of the Committee of Accounting Principle Board Opinions, and Accounting Research Bulletins of the Committee of Accounting and Procedures issued after November 30, 1969. The District first applies restricted resources when an expense is incurred for restricted and unrestricted purposes. The more significant policies of the district are described below.

**Basis of Presentation**

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, the district uses Proprietary Fund financial statement reporting including a Statement of Net Assets, Statements of Revenues, Expenditures and Changes in Net Assets, and a Statement of Cash Flows.

The Statement of Net Assets includes the District's assets and liabilities and provides Information about the nature and amounts of investments in resources (assets) and the obligations to the District's creditors (liabilities). The difference between the assets and liabilities is shown as net assets. The statement also provides the basis of evaluating the capital structure of the district and assessing its liquidity and financial flexibility.

The statement of Revenue, Expenditure and Changes in Net Assets accounts for the current year's revenue and expense. This statement measures the success of the district's operations over the past year and determines whether the district has recovered its cost through user fees and other charges.

The final required financial statement is the Statement of Cash Flows. This statement reports cash receipts, cash disbursements, and changes in cash resulting from operations and investments during the reporting period.

SOUTHERN WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021 AND 2020

Note 1 – Summary of Significant Accounting Policies (Continued)

The Notes to the basic financial statements provide a description of the accounting policies used to prepare the financial statements and present disclosures required by generally accepted accounting principles that are not otherwise present in the financial statements.

The District's basic financial statements include the accounts of all district operations. The District's criteria for including organizations as component units with the District's reporting entity, as set forth in Section 2100 of GASB's Codification of Governmental Accounting and Financial Standards includes whether:

- The Organization is legally separate (can sue and be sued in their own name).
- The District holds the corporate powers of the organization.
- The District appoints voting majority of the organization.
- The Organization has the potential to impose a financial benefit/burden on the Association.
- There is fiscal dependency by the organization on the District.

**Component Unit Presentation** – Based on the aforementioned criteria the district has no component units.

**Cash** - For the purpose of the statement of cash flows, the District considers cash to include cash on hand and unrestricted cash in bank.

**Inventory** – Inventory consists primarily of pipes and supplies to be used for future expansion and repairs of existing lines. Inventory is valued at the lower of cost or market under first – in, first- out (FIFO) method.

**Allowance for Doubtful Accounts** – The District utilizes the allowance method for accounting for bad debts. This method is based on historical experience and evaluation of outstanding accounts at year end. The Allowance for Doubtful as of December 31, 2021 and 2020 is \$364,166 and \$314,351.

**Operating and Non – Operating Revenue** – Only water and solid waste revenue and related service charges and penalties are considered as operating revenue.

**Applying Resources** – Restricted resources are applied first for expenses incurred for which both restricted and unrestricted net assets are available.

**Use of Estimates** – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results can differ from those estimates.

SOUTHERN WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021 AND 2020

**Note 2 – Restricted Cash Accounts**

The District had the following restricted cash accounts as of December 31, 2021 and 2020.

	2021	2020
KIA Project	\$ 20,671	\$ 10,956
Repair and Maintenance reserve	209,757	219,081
Construction reserve	193,445	387,572
Bond Depreciation Reserve	138,595	164,509
Debt Service Reserve	190,965	165,907
Deposit Refunds	102,067	96,859
Insurance Reserve	53,544	21,511
Surcharge Account	159,756	134,473
Totals	\$ 1,068,800-	\$ 1,200,868

The amount held were below the required minimum for 2020 and above for 2021 for all restricted requirements.

**Note 3 – Prepaid Items**

Prepaid items include prepayment of service contracts, software rights and insurance. These amounts represent payments made in the current year for which services will be provided in the subsequent fiscal year.

**Note 4 – Deposits with Financial Institutions**

As of December 31, 2021, the company had amounts of \$1,085,506 on deposit with financial institutions with \$250,000 insured by FDIC and \$835,506 insured by pledged US Treasury Bills.

As of December 31, 2020, the company had amounts of \$1,207,645 on deposit with financial institutions with \$250,000 insured by FDIC and \$957,645 insured by pledged US Treasury Bills.

SOUTHERN WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021 AND 2020

**Note 6 – Subsequent Events**

In preparing these financial statements, the District has evaluated events and transactions for the potential recognition or disclosure through June 15, 2022, the date the financial statements were available to be issued.

As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which could negatively impact Net Assets. Other financial impact could occur however such potential impact is unknown at this time.

**Note 7 – Capital and Net Assets**

Changes in contributed capital and net assets during the years ended December 31, 2021 and December 31, 2020.

	Contributed Capital	Reserves	Net Assets (Deficit)	Total
Balance December 31, 2019	\$ 35,689,593	\$ 524,225	\$ (20,693,875)	\$ 15,549,943
Federal Grants and Loans	486,954			486,954
Department of Transportation Grant-in-Aid State Grant Funds				
State Contribution DOT				
Grant-in-Aid FEMA	341,741			341,741
Other				
Transfer		309,701	(309,701)	
Net Income (Loss)			(34,480)	(34,480)
Balance December 31, 2020	\$ 36,518,288	\$ 863,926	\$ (21,038,056)	\$ 16,344,158
Federal Grants and Loans	291,818			291,818
Department of Transportation Grant-in-Aid State Grant Funds				
State Contribution DOT				
Grant-in-Aid FEMA	119,303			119,303
Other				
Transfer		(132,068)	132,068	
Net Income (Loss)			161,002	161,002
Balance December 31, 2021	\$ 36,929,409	\$ 731,858	\$ (20,744,986)	\$ 16,916,281



SOUTHERN WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021 AND 2020

**Note 8 Retirement Plan**

The District maintains a defined contribution retirement plan under the provisions of section 401 (K) of the Internal Revenue Code. The plan is a deferred compensation plan which is available to all employees. The maximum salary deferral is limited to amounts allowed per the Internal Revenue Code, which for 2021 and 2020 was \$19,500 respectively. Normally the District contributes 3% of the employee's basic pay. All contributions are immediately vested. Expenses charged to operations for the retirement plan were \$9,563 and \$10,593 respectively.

**Note 9 – Risk Management**

Significant losses covered by commercial insurance with premiums (based on industry information adjusted for any District Claims) for general liability, vehicles, personal and real property. Settlement amounts have not exceeded insurance coverage for the current year or the prior years.

**Note 10 - Property and Equipment**

Capital assets, which include property, plant, equipment and vehicles, are reported in the applicable governmental column in the government – wide financial statements. All capital assets are valued at their historical cost or estimated historical cost if actual historical is not available. Donated assets are valued at their market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized.

Depreciation has been calculated on each class of depreciable property using the straight – line method. Estimated useful lives are as follows.

Depreciation has been calculated on each class of depreciable property using the straight – line method. Estimated useful lives are as follows:

Buildings	20 - 50 Years
Improvements	20 - 50 Years
Vehicles	5 – 10 Years
Equipment	7 – 20 Years

SOUTHERN WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021 AND 2020

**Note 10 - Property and Equipment (Continued)**

The following summarizes the changes to capital assets for 2021:

	Balance 1/1/2021	Additions	Disposals	Balance 12/31/2021
Land	\$ 213,867	\$	\$	\$ 213,867
Water and Distribution System	41,079,832	1,466,600		42,546,432
Automotive Equipment	498,161	52,887		551,048
Furniture, fixtures and equipment	274,887			274,887
Construction in Progress	964,542	(846,478)		118,064
<b>Total Assets</b>	<b>\$ 43,031,289</b>	<b>\$ 673,009</b>	<b>\$</b>	<b>\$ 43,704,298</b>
Less Accumulated Depreciation:				
Water Distribution System	22,884,007	849,701		23,733,708
Automotive Equipment	373,742	45,350		419,092
Furniture, fixtures and equipment	140,470	7,062		147,532
<b>Total Accumulated Depreciation</b>	<b>23,398,219</b>	<b>902,113</b>		<b>24,300,332</b>
<b>Balance December 31, 2021</b>	<b>\$ 19,633,070</b>	<b>\$ (229,104)</b>	<b>\$</b>	<b>\$ 19,403,966</b>

The following summarizes the changes to capital assets for 2020:

	Balance 1/1/2020	Additions	Disposals	Balance 12/31/2020
Land	\$ 208,285	\$ 5,582	\$	\$ 213,867
Water and Distribution System	39,504,889	1,574,943		41,079,832
Automotive Equipment	485,770	12,391		498,161
Furniture, fixtures and equipment	200,711	74,176		274,887
Construction in Progress	485,893	478,649		964,542
<b>Total Assets</b>	<b>\$ 40,885,548</b>	<b>\$ 2,976,064</b>	<b>\$</b>	<b>\$ 43,031,289</b>

SOUTHERN WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021 AND 2020

**Note 10 - Property and Equipment (Continued)**

Less Accumulated Depreciation:

Water and Distribution System	\$ 22,020,363	\$ 863,644	\$ 22,884,007
Automotive Equipment	319,541	54,201	373,742
Furniture, fixtures and equipment	133,614	6,856	140,470
Total Accumulated Depreciation	<u>22,473,518</u>	<u>924,701</u>	<u>23,398,219</u>
Balance December 31, 2019	\$ <u>18,412,030</u>	\$ <u>1,221,040</u>	\$ <u>19,633,070</u>

**Note 11 – Concentrations of Credit Risk**

Concentrations of credit risk are limited due to the large number of customers comprising the district's customer base.

**Note 12 – Notes and Bonds Payable**

All notes and bonds are secured by the Water Distributions system and related assets unless stated as non – secured:

**Summary of Short Term Line of Credit:**

	<u>2021</u>	<u>2020</u>
6.25% line of credit Peoples Bank interest due monthly, with principal due upon demand	\$ <u>-0-</u>	\$ <u>187,365</u>

SOUTHERN WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021 AND 2020

**Note 13 – Notes and Bonds Payable (Continued)**

**Summary of Notes Payable**

	<u>2021</u>	<u>2020</u>
a) Kentucky Infrastructure Authority 3% installment note, 60 semi-annual payments of \$34,607 including interest due 6-01 and 12-01. Final payment due 2024	\$ 197,168	\$ 259,073
b) Kentucky Infrastructure Authority 3% installment note, 60 semi-annual payments of \$71,898 including interest due 6-01 and 12-01. Final payment due 2027	784,226	901,841
c) Peoples Bank 5% installment note with monthly payments of \$637 including interest maturing May 2022, secured by a truck	30,694	36,612
d) Peoples Bank 4.25% installment note with monthly payments of \$1,990 including interest and a final balloon payment during final year, secured by 5 trucks	46,955	67,015
e) Cobank 2.25% installment note with monthly payments of \$11,842 including interest with a final payment in May of 2041	2,033,686	1,244,848
f) Cobank 2.25% installment note with monthly payments of \$24,745 including interest with a final payment in May of 2025	973,862	0
g) Cobank 2.25% installment note with monthly payments of \$4,002 including interest with a final payment in May of 2025	158,227	0
h) Community Trust Bank 4.571% installment note with monthly payments of \$2,090 including interest with a final payment in August 2026, secured by a truck	<u>103,646</u>	<u>124,165</u>
Total Long-term Notes Payable	\$ 4,328,464	\$ 2,633,554
Less: current maturities	<u>632,831</u>	<u>497,054</u>
Notes Payable less current portion	\$ <u>3,695,633</u>	\$ <u>2,136,500</u>

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021 AND 2020

**Summary of Bonds Payable**

	<u>2021</u>	<u>2020</u>
a) Rural Development Revenue Bonds at 4.5% interest with set principal and interest payments due on the first of each year and an interest payment due each July 1. Final payment due 2042	\$ 0	\$ 1,970,000
b) Rural Development Revenue Bonds at 4.25% interest with set principal and interest payments due on the first of each year and an interest payment due each July 1. Final payment due 2044	0	183,000
c) Rural Development Revenue Bonds at 2.25% interest with set principal and interest payments due on the first of each year and an interest payment due each July 1. Final payment due 2049	<u>437,500</u>	<u>458,000</u>
Total Long-Term Bonds Payable	\$ 437,500	\$ 2,611,000
Less: Current Maturities	<u>10,500</u>	<u>91,000</u>
Bonds Payable less current portion	\$ <u>427,000</u>	\$ <u>2,520,000</u>

**Note**

Following are maturities of long – term debt as of December 31, 2021:

	<b>Principal</b>	<b>Interest</b>
2022	\$ 632,821	\$ 116,737
2023	658,647	98,502
2024	656,600	82,833
2025	404,013	65,452
2026	252,557	54,579
2027 – 2031	682,556	70,551
2032 – 2036	660,025	45,567
2037 – 2041	551,115	30,342
2042– 2046	276,630	13,628
	<u>                    </u>	<u>                    </u>
Total	\$ <u>4,765,964</u>	\$ <u>578,191</u>



RICHARD F. PAULMANN, LLC  
CERTIFIED PUBLIC ACCOUNTANT  
301 MOUNT MERCY ROAD  
PEWEE VALLEY, KY 40056  
(502) 550-1568

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

June 15, 2022

To the Board of Commissioners  
Southern Water and Sewer District  
McDowell, KY

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities, each major fund, and the aggregate remaining fund information of Southern Water and Sewer District, (a Kentucky Special District) as of and for the year ended December 31, 2021, and the related notes to the financial statements; which collectively comprise Southern Water and Sewer District's basic financial statements and have issued my report thereon dated June 15, 2022.

**Internal Control Over Financial Reporting**

In planning and performing my audit of the financial statements, I considered Southern Water and Sewer District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinion on the financial statements; but not for the purpose of expressing an opinion on the effectiveness of Southern Water and Sewer District's internal control. Accordingly, I do not express an opinion on the effectiveness of Southern Water and Sewer 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 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, or a combination of deficiencies in internal control is a deficiency, or 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.

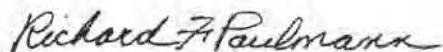
My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Southern Water and Sewer District's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements; noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of my testing on 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 purposes.



Richard F. Paulmann, LLC

June 15, 2022