

SOUTHERN WATER AND SEWER DISTRICT
REPORT OF AUDIT OF FINANCIAL STATEMENTS
AND SUPPORTING DATA
YEAR ENDED DECEMBER 31, 2024

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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Southern Water 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 District as of and for the year ended December 31, 2024, and the related notes to the financial statements, which collectively comprise the Southern Water 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 governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Southern Water District, as of December 31, 2024 and the respective changes in financial position, and, where applicable, cash flows thereof for the year 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 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 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.

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- 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 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 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2025, on our consideration of the Southern Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Southern Water 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 District's internal control over financial reporting and compliance.

The financial statements for the year ended December 31, 2023 are being presented for comparison purposes only.

Richard F. Paulmann, CPA, LLC



Pewee Valley, KY
September 30, 2025

SOUTHERN WATER AND SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years ended December 31, 2024 and 2023

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, 2024 and December 31, 2023. 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 \$16,778,759. This was a decrease of \$14,406 from the year ended December 31, 2024.
- At December 31, 2024, the District had \$21,571,970 in assets and \$4,793,211 in liabilities. The investment in capital assets, net of related debt, balance at this date was \$15,114,463. The restricted for capital projects balance was \$50,267. The restricted for maintenance balance was \$15,665. The restricted for debt service balance was \$259,999. The restricted for deposits was \$11,536. The unrestricted balance was \$1,167,333.
- The District had a net loss of \$14,406 for the year ended December 31, 2024. For the year ended December 31, 2023 the net income was \$199,753.
- The District's water sales were \$3,658,451 for the year ended December 31, 2024. For the year ended December 31, 2023 the water sales were \$3,572,021. This represented a decrease of 2% 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, 2024 and December 31, 2023. 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, 2024 and 2023

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 \$16,778,759 at the close of the most recent year.

Southern Water and Sewer District's Net Assets

	2024	2023
Current assets	\$ 578,154	\$ 488,917
Restricted assets	1,541,529	2,152,855
Fixed assets	19,410,463	19,690,857
Other assets	41,824	44,285
Total assets	<u>21,993,970</u>	<u>22,376,914</u>
Current liabilities	891,764	1,269,735
Long-term liabilities	<u>3,901,447</u>	<u>405,500</u>
Total liabilities	<u>4,793,211</u>	<u>5,583,749</u>
Net assets:		
Investment in		
Capital Assets	15,114,463	14,721,945
Restricted	496,963	
Unrestricted	<u>1,167,333</u>	<u>1,405,308</u>
Total net assets	<u><u>16,778,759</u></u>	<u><u>16,793,165</u></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 \$261,687 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, 2024 and 2023

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

	2024	2023
Water sales	3,658,451	3,572,021
Solid waste revenue	850,454	851,249
Penalties and service charges	86,127	89,107
Other	332,470	363,905
Total revenues	<u>4,927,502</u>	<u>4,876,282</u>
Expenses:		
Water treatment supplies	271,301	263,527
Depreciation and amortization	904,640	866,605
Purchased water	368,571	401,919
Solid Waste payments	824,941	825,712
Power for pumping	465,681	372,395
Outside services	170,400	110,336
Miscellaneous	47,892	40,625
Insurance	77,012	74,535
Distribution supplies and expense	364,646	209,055
Taxes and other	65,915	60,562
Customer accounts expense	141,950	188,619
Wages	785,165	757,852
PCUC Sewer Payments	99,585	111,085
Management Fee	197,493	229,148
Employee benefits	256,196	291,464
Pumping supplies and expense	62,618	4,336
Total operating expenses	<u>5,045,660</u>	<u>4,807,775</u>
Net operating income	(118,158)	68,507
Non-operating income (expense)		
Grants income	261,687	1,388,776
Loan Service Fees	(1,080)	(255)
Interest income	26,394	6,450
Interest expense	(97,859)	(121,268)
Provision for bad debts	(85,390)	(1,142,457)
Total non-operating (expense)	<u>103,752</u>	<u>131,246</u>
Net income (loss) before	(14,406)	199,753
Total net assets, beginning	<u>16,739,165</u>	<u>16,593,412</u>
Total net assets, ending	<u>16,778,759</u>	<u>16,739,165</u>

Operations.

The District showed a net income (loss) of (\$14,406).

Key elements of this income are as follows:

- Depreciation and Amortization for the year was \$904,640.
- Grant income of \$261,687 was received during the year.

SOUTHERN WATER AND SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years ended December 31, 2024 and 2023

Southern Water and Sewer District Budget Comparison

	Actual Amounts	Original Budget Amounts	Variance Positive (Negative) 2024
	2024	2024	
Revenues:			
Water sales	\$ 3,658,451	\$ 3,266,641	\$ (300,200)
Solid waste revenue	850,454	989,596	(119,910)
Penalties and service charges	86,127	99,044	(42,279)
Other	332,470	0	0
Total revenues	<u>4,927,502</u>	<u>4,355,281</u>	<u>(462,389)</u>
Expenses:			
Water treatment supplies	271,301	115,405	(34,375)
Depreciation and amortization	904,640	651,659	(240,639)
Purchased water	368,571	407,140	54,787
Solid Waste payments	824,941	959,524	115,929
Power for pumping	465,681	411,959	46,647
Outside services	170,400	75,511	27,731
Miscellaneous	47,892	93,277	33,817
Insurance	77,012	110,875	(13,350)
Distribution supplies expense	364,646	362,635	(38,146)
Taxes and other	65,915	97,136	20,064
Customer accounts expense	141,950	28,627	(120,460)
Wages	785,165	838,678	(10,263)
PCUC Sewer Payments	99,585	0	(11,321)
Management Fee	197,493		
Employee benefits	256,196	333,953	(9,450)
Pumping supplies expense	62,618	0	(62,618)
Total operating expenses	<u>5,045,660</u>	<u>4,613,421</u>	<u>(114,605)</u>
Net operating income	(118,158)	(258,140)	(576,994)
Non-operating income (expense)			
Grant income	261,687	381,527	211,120
Loan Service Fees	(1,080)	0	(1,669)
Interest income	26,394	5,287	(4,763)
Interest expense	(97,859)	(262,518)	47,323
Provision for Bad Debts	(85,390)	(145,000)	122,829
Total non-operating income	<u>103,752</u>	<u>(3,780,185)</u>	<u>4,153,621</u>
Net income (loss)	(14,406)	(4,038,325)	3,576,627
Total net assets, beginning	16,739,165		
Total net assets, ending	<u>\$ 16,778,759</u>	\$	\$

Budget Comparisons

- Revenues were \$462,389 less than budgeted as a result of water sales being down, a decrease in the number of customers and various other differences. Operating expenses were \$114,605 more than budgeted as a result of decreased costs and various other expenses.

SOUTHERN WATER AND SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years ended December 31, 2024 and 2023

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.

Capital Assets

The District's investment in utility plant as of December 31, 2024 amounts to \$15,114,463 (net of accumulated depreciation). The investment in utility plant includes the expansion of the water system. The increase in the District's investment in utility plant (net of accumulated depreciation) for the current year was 1.0% 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 \$3,901,447. 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, 2024 AND 2023
(with prior year data for comparison purposes only)

	<u>2024</u>	<u>2023</u>
Assets		
Current Assets:		
Cash and Cash Equivalents	\$ 53,613	\$ 9,269
Accounts Receivable (Net of Allowance for Delinquencies of \$264,960 in 2024 and \$301,272 in 2023)	378,400	430,257
Prepaid Expense	-	-
Inventory	<u>146,141</u>	<u>49,391</u>
Total Current Assets	578,154	488,917
Noncurrent Assets		
Restricted Cash	1,541,529	2,152,855
Capital Assets:		
Land	215,495	213,867
Plumbing and Distribution System	45,115,038	43,266,518
Transportation Equipment	592,603	551,048
Furniture, Fixtures and Equipment	274,887	274,887
Construction in Progress	<u>165,598</u>	<u>1,435,516</u>
Total Capital Assets	46,363,621	45,741,836
Less: Accumulated Depreciation	<u>(26,953,158)</u>	<u>(26,050,979)</u>
Net Capital Assets	19,410,463	19,690,857
Other Assets		
Prepaid Interest	98,410	98,410
Less Accumulated Amortization	<u>(56,586)</u>	<u>(54,125)</u>
Total Other Assets	41,824	44,285
Total Noncurrent Assets	20,993,816	21,887,997
Total Assets	<u>\$ 21,571,970</u>	<u>\$ 22,376,914</u>

SOUTHER WATER AND SEWER DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2024 AND 2023
(with prior year data for comparison purposes only)

	<u>2024</u>	<u>2023</u>
Liabilities		
Current Liabilities		
Accounts Payable	\$ 254,013	\$ 332,398
Accounts Payable Solid Waste	39,282	121,602
Accounts Payable PCUC Sewer	15,010	43,075
Accrued Sick and Vacation pay	72,505	7,517
Customer Deposits	110,821	104,050
Note Payable Current	383,053	643,898
Bonds Payable Current	11,500	11,000
Accrued Interest	5,580	6,195
Total Current Liabilities	<u>891,764</u>	<u>1,269,735</u>
Noncurrent Liabilities		
Notes Payable-Net of Current Portion	3,496,447	3,908,514
Bonds Payable-Net of Current Portion	405,000	405,500
Total Long Term Liabilities	<u>3,901,447</u>	<u>4,314,014</u>
Total Liabilities	<u>4,793,211</u>	<u>5,583,749</u>
Net Position:		
Invested in Capital Assets, Net of Related Debt	15,114,463	14,721,945
Restricted for Capital Projects	15,665	257,430
Restricted for Maintenance	209,763	209,757
Restricted for Debt Service	259,999	181,979
Restricted for Deposits	11,536	16,746
Unrestricted	1,167,333	1,405,308
Total Net Position	<u>\$ 16,778,759</u>	<u>\$ 16,793,165</u>

See accompanying notes to the basic financial statements

SOUTHERN WATER AND SEWER DISTRICT
STATEMENT OF REVENUE EXPENDITURE AND CHANGES IN NET POSITION
For the Years Ended December 31, 2024 and 2023
(with prior data for comparison purposes only)

	For the Year Ended December 31	
	2024	2023
Operating Revenue:		
Water Sales	\$ 3,658,451	\$ 3,572,021
Solid Waste Revenue	850,454	851,249
Penalties and Service Charges	86,127	89,107
Other	332,470	363,905
Total Operating Revenue	<u>4,927,502</u>	<u>4,876,282</u>
Operating Expenses:		
Water Treatment Supplies	271,301	263,527
Depreciation and Amortization	904,640	866,605
Purchased Water	368,571	401,919
Solid Waste Payments	824,941	825,712
Power for Pumping	465,681	372,395
Outside Services	170,400	110,336
Miscellaneous and Commissioners	47,892	40,625
Insurance	77,012	74,535
Distribution Supplies	364,646	209,055
Payroll and Other Taxes	65,915	60,562
Customer Accounts	141,950	188,619
Wages	785,165	757,852
PCUC Sewer Payments	99,585	111,085
Management Fee	197,493	229,148
Transportation	-	-
Employee Benefits	256,196	291,464
Pumping Supplies	4,272	4,336
Total Operating Expense	<u>5,045,660</u>	<u>4,807,775</u>
Operating Income (Loss)	<u>(118,158)</u>	<u>68,507</u>
Non-Operating Revenue (Expense)		
Interest Income	26,394	6,450
Interest Expense	(97,859)	(121,268)
Interest and Penalty	-	-
Loan Service Fees	(1,080)	(255)
Provisions for Bad Debts	(85,390)	(1,142,457)
Insurance Recovery	-	-
Gain (Loss) on Sale of Assets	-	-
Total Non-Operating Revenue (Expenses)	<u>(157,935)</u>	<u>(1,257,530)</u>
Income (Loss) Before Capital Contributions	<u>(276,093)</u>	<u>(1,189,023)</u>
Capital Contributions		
Grant Income	261,687	1,388,776
Capital Contributions	-	-
Total Capital Contributions	<u>261,687</u>	<u>1,388,776</u>
Change in Net Position	<u>(14,406)</u>	<u>199,753</u>
Total Net Position, Beginning	<u>16,793,165</u>	<u>16,593,412</u>
Total Position Assets, Ending	<u><u>16,778,759</u></u>	<u><u>16,793,165</u></u>

See accompanying notes to the basic financial statements

SOUTHERN WATER AND SEWER DISTRICT
Statement of Cash Flows
For the Years Ended December 31, 2024 and 2023
(with prior year data for comparison purposes only)

	For the Year Ended December 31	
	2024	2023
Cash flows from operating activity		
Cash received from customers	\$ 4,979,621	\$ 5,046,835
Cash payments to suppliers for goods and services	(4,448,899)	(4,276,432)
Cash received from deposits	6,771	19,290
Net cash provided by operating activities	537,493	789,693
Cash flows from noncapital financing activities		
Subsidy From Federal and State Grant	261,687	1,388,776
Net Cash Provided (Used) By Noncapital	261,687	1,388,776
Financing Activities		
Cash flows from capital and related financing activities		
Loan Proceeds	-	1,500,000
Interest Paid	(97,859)	(121,268)
Principle Payment on Notes	(672,912)	(569,546)
Principle Payment on Bonds		(11,000)
Purchase of Utility Plant in Service	(1,850,148)	(520,100)
Purchase of Automotive Equipment	(41,555)	
Decrease (Increase) in Consturction in progress	1,269,918	(1,122,918)
Proceeds from insurance recovery	-	-
Proceeds on Sale of Assets	-	-
Net cash provided by (used for) capital and related financing activities	(1,392,556)	(844,832)
Cash flows from investing activities		
Proceeds from earnings on investments	26,394	6,450
Net cash provided by (used for) investing activities	26,394	6,450
Total increase (decrease) in cash and cash equivalents	(566,982)	1,340,087
Cash and cash equivalents at beginning of year	2,162,124	822,037
Cash and cash equivalents at end of year (Note 2)	\$ 1,595,142	\$ 2,162,124
Reconciliation of Cash	\$ 53,613	\$ 9,269
Cash	1,541,529	2,152,855
Restricted Cash	\$ 1,595,142	\$ 2,162,124
Cash at year end		

See accompanying notes to the basic financial statements

SOUTHERN WATER AND SEWER DISTRICT
Statement of Cash Flows
For the Years Ended December 31, 2024 and 2023
(with prior year data for comparison purposes only)

	For the Year Ended December 31	
	2024	2023
Reconciliation of Income from operations to net cash provided by operated activities:		
Income from operations	\$ (118,158)	\$ 68,507
Provisions for Bad Debt	(85,390)	(487,834)
Adjustment to reconcile income from operations to net cash provided by operating activities:		
Operating Activities:		
Depreciation and amortization	904,640	866,605
Changes in assets and liabilities:		
Decrease (increase) in utility accounts receivable	51,857	658,387
Decrease (increase) in prepaid expense	-	-
Decrease (increase) in material and supplies inventory	(96,750)	42,850
Increase (decrease) in accounts payable and other payable	(124,862)	(377,512)
Increase (decrease) in customer deposits	6,771	19,290
Increase (decrease) in un-earned tap fees	-	-
Increase (decrease) in accrued interest	(615)	(600)
Net cash provided by operating activities	\$ 537,493	\$ 789,693
Non-cash operating activities		
Acquisition of Property and Equipment Included in accounts payable	\$ -	\$ -

See accompanying notes to the basic financial statements

SOUTHERN WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

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, 2024 AND 2023

Note 2 – Restricted Cash Accounts

The District had the following restricted cash accounts as of December 31, 2024 and 2023.

	<u>2024</u>	<u>2023</u>
KIA Project	\$ 17,653	\$ 4,779
Repair and Maintenance reserve	209,763	209,757
Construction reserve	805,822	1,358,759
Surcharge Account	-0-	75,195
Debt Service	313,278	341,119
Deposit Refunds	122,357	120,796
Insurance Reserve	<u>72,656</u>	<u>42,450</u>
Totals	<u>\$ 1,541,529</u>	<u>\$ 2,152,855</u>

The amounts held were above the required minimum for 2024 and 2023 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, 2024, the company had amounts of \$1,595,142 on deposit with financial institutions with \$250,000 insured by FDIC and \$958,879 insured by pledged US Treasury Bills.

As of December 31, 2023, the company had amounts of \$2,162,124 on deposit with financial institutions with \$250,000 insured by FDIC and \$1,345,142 insured by pledged US Treasury Bills.

SOUTHERN WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

Note 5 – Subsequent Events

In preparing these financial statements, the District has evaluated events and transactions for the potential recognition or disclosure through September 30, 2025, the date the financial statements were available to be issued.

Note 6 – Capital and Net Assets

Changes in contributed capital and net assets during the years ended December 31, 2024 and December 31, 2023.

	<u>Contributed Capital</u>	<u>Reserves</u>	<u>Net Assets (Deficit)</u>	<u>Total</u>
Balance December 31, 2022	<u>\$37,161,258</u>	<u>\$ 479,820</u>	<u>\$(21,047,666)</u>	<u>\$16,593,412</u>
Local Contribution - Floyd County Fiscal				
Federal Grants and Loans	1,388,766		(1,388,766)	
Department of transportation				
State Contribution DOT				
Grant in Aid – Fema				
Other				
Transfer		1,336,093	(1,336,093)	
Net Income (Loss)			199,753	199,753
Balance December 31, 2023	<u>\$38,550,024</u>	<u>\$1,815,913</u>	<u>\$(23,572,782)</u>	<u>\$16,793,165</u>
Local Contribution - Floyd County Fiscal				
Federal Grants and Loans	261,687		(261,687)	
Department of transportation				
Grant in aid-State Grant Funds				
State Contribution DOT				
Grant in Aid – Fema				
Other				
Transfer		(274,384)	274,384	
Net Income (Loss)			(14,406)	(14,406)
Balance December 31, 2024	<u>\$8,811,711</u>	<u>\$1,541,529</u>	<u>\$(23,574,491)</u>	<u>\$16,778,759</u>

Note 7 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 2024 and 2023 was \$23,000 and \$22,500 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 \$8,270 and \$6,180 respectively.

SOUTHERN WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

Note 8 – 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 9- 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

The following summarizes the changes to capital assets for 2024:

	Balance 01/01/24	Additions	Disposals	Balance 12/31/18
Land	\$ 213,867	\$ 1,628	\$ -0-	\$ 215,495
Water and Distribution System	43,746,417	1,844,146	-0-	45,590,563
Automotive Equipment	551,048	41,555	-0-	592,603
Furniture, fixtures and Equipment:	274,887	4,375	-0-	279,262
Construction in Progress	<u>1,435,516</u>	<u>-0-</u>	<u>1,269,918</u>	<u>165,598</u>
OTAL ASSETS	\$ 45,741,836	\$ 1,891,704	\$ 1,269,918	\$ 46,363,622
Less				
Accumulated Depreciation				
Water Distribution System	25,403,622	883,766	-0-	26,287,388
Automotive Equipment	484,371	16,751	-0-	501,122
Furniture, fixtures and Equipment:	<u>162,986</u>	<u>1,663</u>	<u>-0-</u>	<u>164,649</u>
Total Accumulated	26,050,979	902,180	-0-	26,953,159
Balance – December 31	<u>\$ 19,690,857</u>	<u>989,524</u>	<u>1,269,918</u>	<u>\$ 19,410,463</u>

SOUTHERN WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

Note 9 - Property and Equipment (Continued)

The following summarizes the changes to capital assets for 2023:

	Balance <u>01/01/23</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>12/31/23</u>
Land	\$ 213,867	\$ -0-	\$ -0-	\$ 213,867
Water and Distribution System	42,476,417	790,101	-0-	43,746,417
Automotive Equipment	551,048	-0-	-0-	551,048
Furniture, fixtures and Equipment:	274,887	-0-	-0-	274,887
Construction in Progress	<u>312,597</u>	<u>1,122,919</u>	<u>-0-</u>	<u>1,435,516</u>
TOTAL ASSETS	\$ 43,828,816	\$1,913,020	\$ -0-	\$ 45,741,836
Less				
Accumulated Depreciation				
Water Distribution System	24,568,044	835,578	-0-	25,403,622
Automotive Equipment	463,414	20,957	-0-	484,371
Furniture, fixtures and Equipment:	<u>155,396</u>	<u>7,590</u>	<u>-0-</u>	<u>162,986</u>
Total Accumulated	25,186,854	<u>864,125</u>	-0-	26,050,979
Balance – December 31	<u>\$ 18,641,962</u>	<u>1,048,895</u>		<u>\$ 19,690,857</u>

Note 10 – Concentrations of Credit Risk

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

Note 11 – Notes and Bonds Payable

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

	<u>2024</u>	<u>2023</u>
Summary of Short term line of Credit		
6.25% line of credit First Guaranty		
National Bank interest due monthly.		
With principal due upon demand	\$ -0-	\$ -0-

SOUTHERN WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

Note 13 – Notes and Bonds Payable (Continued)

	<u>2024</u>	<u>2023</u>
Summary of Notes Payable		
Kentucky Infrastructure Authority 3% installment note, 60 semi - annual payments of \$34,607 including interest due 06/01 and 12/1. Final payment 2024	\$ 19,888	\$ 66,190
Note Payable EKSAFE State Funding for emergencies. \$1,500,000 has been received as of Dec 31, 2023	1,500,000	1,500,000
Kentucky Infrastructure Authority 3% installment note, 60 semi – annual payments of \$71,898 including interest due 06/01 and 12/1. Final payment 2027	409,615	538,221
Peoples Bank 5% installment note with monthly payments Of \$637 including interest maturing May 2022, secured by A Truck	-0-	17,915
Cobank 2.25% installment note with monthly payments Of \$24,745 including interest with final payment in May 2025 122,866		413,005
Cobank 2.25% installment note with monthly payments Of \$11,842 including interest with final payment in May 2025 1,797,867		1,878,960
Cobank 2.25% installment note with monthly payments Of \$4,002 including interest with final payment in May 2025	-0-	67,936
Community Trust Bank, 4.571% installment note with monthly payments of \$2,090 including interest final payment 2026. Secured by a truck, 17,226	40,763	62,751
Total long – term Notes Payable	<u>\$ 3,890,999</u>	<u>\$ 4,552,412</u>
Less Current maturities	<u>394,553</u>	<u>643,898</u>
Notes Payable less current portion	<u>\$ 3,496,447</u>	<u>\$ 3,908,514</u>

SOUTHERN WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

Summary of Bonds Payable

Rural Development Revenue Bonds 2.25% installments, with set principal and interest payment due on the first of each year and an interest payment due each July 1. Final payment 2049.	<u>\$ 405,000</u>	<u>\$ 416,000</u>
Total Long – Term Bonds Payable	<u>\$ 405,000</u>	<u>\$ 416,000</u>
Less Current maturities	<u>500</u>	<u>15,500</u>
Notes Payable less current portion	<u>\$ 405,000</u>	<u>\$ 400,500</u>

Note

Following are maturities of long – term debt as of December 31, 2024:

	<u>Principal</u>	<u>Interest</u>
2025	\$ 394,551	\$ 66,952
2026	1,749,714	55,765
2027	244,826	48,306
2028	105,051	42,765
2029	108,788	40,395
2030-2034	598,598	214,459
2035-2039	703,762	237,188
2040-2044	288,708	83,382
2045-2049	<u>102,000</u>	<u>5,718</u>
Total	<u>\$ 4,295,999</u>	<u>\$ 794,931</u>

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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

September 30, 2025

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, 2024, 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 September 30, 2025.

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

Richard F. Paulmann, LLC

September 30, 2025