

SOUTHERN WATER AND SEWER DISTRICT  
REPORT OF AUDIT OF FINANCIAL STATEMENTS  
AND SUPPORTING DATA  
YEAR ENDED DECEMBER 31, 2020

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## **INDEPENDENT AUDITOR'S REPORT**

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

### **Report on the Financial Statements**

I have audited the accompanying financial statements of the business-type activities of Southern Water and Sewer District, as of and for the years ended December 31, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Southern Water and Sewer District's basic financial statement listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

### **Auditor's Responsibility**

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentations of the financial statements 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 entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the evidence I obtained is sufficient and appropriate to provide a basis for my audit opinions.

### **Opinions**

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Southern Water and Sewer District, as of December 31, 2020 and 2019, and the respective changes in financial position and where applicable, cash flows thereof for the year ended in accordance with accounting principles generally accepted in the United States of America.

### **Emphasis of Matter**

During 2019 Southern Water and Sewer is involved with transfer of the Harold Sewer Plant to the City Of Prestonsburg, Kentucky. See note 5 page 15 for details.

### **Other Matters**

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and budgetary comparison information on pages 3-7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board, who considers it to be an essential part of financial statements in an appropriate operational, economic, or historical context. I 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 methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide assurance.

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

In accordance with Governmental Auditing Standards, I have also issued my report dated December 3, 2021, on my consideration of Southern Water and Sewer District's internal control over financial reporting and on tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Governmental 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  
December 3, 2021

SOUTHERN WATER AND SEWER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Years ended December 31, 2020 and 2019

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, 2020 and December 31, 2019. 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 \$16,344,158. This was an increase of \$794,215 from the year ended December 31, 2019.
- At December 31, 2020, the District had \$22,753,091 in assets and \$6,408,933 in liabilities. The investment in capital assets, net of related debt, balance at this date was \$14,399,103. The restricted for capital projects balance was \$387,572. The restricted for maintenance balance was \$219,081. The restricted for debt service balance was \$498,357. The restricted for deposits was \$96,859. The unrestricted balance was \$743,186.
- The District had a net income of \$794,215 for the year ended December 31, 2020. For the year ended December 31, 2019 the net loss was \$2,166,759.
- The District's water sales were \$3,960,251 for the year ended December 31, 2020. For the year ended December 31, 2019 the water sales were \$4,014,408. This represented a decrease of 1.35% 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, 2020 and December 31, 2019. 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, 2020 and 2019

**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 \$16,344,158 at the close of the most recent year.

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

		2020
Current assets	\$	1,867,488
Restricted assets		1,200,868
Fixed assets		19,633,070
Other assets		51,665
Total assets		22,753,091
Current liabilities		1,794,933
Long-term liabilities		4,614,000
Total liabilities		6,408,933
Net assets:		
Investment in		
Capital Assets		14,399,103
Restricted		1,201,869
Unrestricted		743,186
Total net assets	\$	16,344,158

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 \$828,695 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, 2020 and 2019

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

	2020
Revenues:	
Water sales	\$ 3,960,251
Solid waste revenue	860,818
Penalties and service charges	13,870
Surcharge Revenue	340,730
Other	10,050
Total revenues	5,185,719
Expenses:	
Water treatment supplies	189,139
Depreciation and amortization	913,660
Purchased water	535,398
Solid Waste payments	825,987
Power for pumping	354,396
Outside services	115,958
Miscellaneous	93,841
Insurance	74,627
Distribution supplies and expense	336,015
Taxes and other	62,464
Customer accounts expense	71,514
Wages	654,540
PCUC sewer payments	100,024
Employee benefits	235,571
Management Fees	276,744
Pumping supplies and expense	3,327
Total operating expenses	4,843,205
Net operating income	325,514
Non-operating income (expense)	
Grants income	828,695
Loan Service Fees	(2,584)
Gain/(Loss) on Sale of Assets	12,571
Interest income	83
Interest expense	(211,283)
Provision for bad debts	(175,781)
Total non-operating (expense)	451,701
Net income (loss) before contributions and transfers	794,215
Total net assets, beginning	15,549,943
Total net assets, ending	16,344,158

**Operations.**

The District showed a net income (loss) of \$794,215.

Key elements of this income are as follows:

- Depreciation for the year was \$913,660.
- Grant income of \$828,695 was received during the year.

SOUTHERN WATER AND SEWER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Years ended December 31, 2020 and 2019

**Southern Water and Sewer District Budget Comparison**

	Actual Amounts	Original Budget Amounts	Variance Positive (Negative) 2020
	2020	2020	
<b>Revenues:</b>			
Water sales	\$ 3,960,251	\$ 3,616,600	\$ 343,651
Solid waste revenue	860,818	855,842	4,976
Surcharge Revenue	340,730	0	340,730
Penalties and service charges	13,870	60,100	(46,230)
Other	10,050	0	10,050
Total revenues	<u>5,185,719</u>	<u>4,532,542</u>	<u>653,177</u>
<b>Expenses:</b>			
Water treatment supplies	189,139	176,230	(12,909)
Depreciation and amortization	913,660	846,411	(67,249)
Purchased water	535,398	395,956	(139,442)
Solid Waste payments	825,987	830,167	4,180
Power for pumping	354,396	351,309	(3,087)
Outside services	115,958	94,365	(21,593)
Miscellaneous	93,841	25,410	(68,431)
Insurance	74,627	130,600	55,973
Distribution supplies expense	336,015	280,500	(55,515)
Taxes and other	62,464	68,545	6,081
Customer accounts expense	71,514	28,500	(43,014)
Wages	654,540	734,758	80,218
PCUC sewer payments	100,024	0	(100,024)
Employee benefits	235,571	285,998	50,427
Management Fees	276,744	288,000	11,256
Transportation expense	0	72,600	72,600
Pumping supplies expense	3,327	0	(3,327)
Total operating expenses	<u>4,843,205</u>	<u>4,609,349</u>	<u>(233,856)</u>
Net operating income	342,514	(76,807)	419,321
<b>Non-operating income (expense)</b>			
Grant income	828,695	720,000	108,695
Loan Service Fees	(2,584)	0	(2,584)
Gain/(Loss) on Sale of Assets	12,571	0	12,571
Interest income	83	4,005	(3,922)
Interest expense	(211,283)	(203,917)	(7,366)
Provision for Bad Debts	(175,781)	(120,000)	(55,781)
Total non-operating income	<u>451,701</u>	<u>400,088</u>	<u>51,613</u>
Net income (loss)	794,215	323,281	470,934
Total net assets, beginning	15,549,943		
Total net assets, ending	<u>\$ 16,344,158</u>	<u>\$</u>	<u>\$</u>

**Budget Comparisons**

- Revenues were \$313,404 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 \$233,856 more than budgeted as a result of increased costs and various other expenses.



SOUTHERN WATER AND SEWER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Years ended December 31, 2020 and 2019

**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, 2020 amounts to \$19,633,070 (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 6.63% 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 \$6,408,933. 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, 2020 AND 2019  
(with prior year data for comparison purposes only)

	<u>2020</u>	<u>2019</u>
<b>Assets</b>		
<b>Current Assets:</b>		
Cash and Cash Equivalents	\$ 6,777	\$ 245,060
Accounts Receivable (Net of Allowance for Delinquencies of \$314,351 in 2020 and \$235,708 in 2019)	1,717,364	1,292,723
Receivable Sale Pride on River	-	1,600,000
A/R - CIP (Mink Tank)	59,052	
A/R - February Payroll	20,758	
A/R - DIT Transfer	3,712	
Inventory	<u>59,825</u>	<u>55,916</u>
<b>Total Current Assets</b>	<b>1,867,488</b>	<b>3,193,699</b>
<b>Noncurrent Assets</b>		
Restricted Cash	1,200,868	891,167
<b>Capital Assets:</b>		
Land	213,867	208,285
Plumbing and Distribution System	41,079,832	39,504,889
Transportation Equipment	498,161	485,770
Furniture, Fixtures and Equipment	274,887	200,711
Construction in Progress	<u>964,542</u>	<u>485,893</u>
<b>Total Capital Assets</b>	<b>43,031,289</b>	<b>40,885,548</b>
Less: Accumulated Depreciation	<u>(23,398,219)</u>	<u>(22,473,518)</u>
Net Capital Assets	19,633,070	18,412,030
<b>Other Assets</b>		
Prepaid Interest	98,410	98,410
Less Accumulated Amortization	<u>(46,745)</u>	<u>(44,284)</u>
<b>Total Other Assets</b>	<b>51,665</b>	<b>54,126</b>
<b>Total Noncurrent Assets</b>	<b>20,885,603</b>	<b>19,357,323</b>
<b>Total Assets</b>	<b>\$ <u>22,753,091</u></b>	<b>\$ <u>22,551,022</u></b>

See accompanying notes to the basic financial statements

SOUTHER WATER AND SEWER DISTRICT  
STATEMENT OF NET POSITION  
DECEMBER 31, 2020 AND 2019  
(with prior year data for comparison purposes only)

	<u>2020</u>	<u>2019</u>
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Accounts Payable	\$ 183,208	\$ 296,636
Accounts Payable Solid Waste	457,618	401,821
Accrued Sick and Vacation pay	77,285	73,473
Customer Deposits	78,269	39,849
Accounts Payable - PCUC Sewer Revenue	132,169	-
Note Payable Line of Credit	187,365	225,788
Note Payable Current	497,054	213,786
Bonds Payable Current	68,000	91,000
Accounts Payable Construction in Progress	59,052	9,080
Accrued Interest	54,913	75,841
<b>Total Current Liabilities</b>	<u>1,794,933</u>	<u>1,427,274</u>
<b>Noncurrent Liabilities</b>		
Notes Payable-Net of Current Portion	2,136,500	3,053,805
Bonds Payable-Net of Current Portion	2,477,500	2,520,000
<b>Total Long Term Liabilites</b>	<u>4,614,000</u>	<u>5,573,805</u>
<b>Total Liabilities</b>	<u>6,408,933</u>	<u>7,001,079</u>
<b>Net Position:</b>		
Invested in Capital Assets, Net of Related Debt	14,399,103	12,231,810
Restricted for Capital Projects	387,572	190,444
Restricted for Maintenance	219,081	228,281
Restricted for Debt Service	498,357	288,087
Restricted for Deposits	96,859	184,354
Unrestricted	743,186	2,426,967
<b>Total Net Position</b>	<u>\$ 16,344,158</u>	<u>\$ 15,549,943</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, 2020 and 2019  
(with prior data for comparison purposes only)

	For the Year Ended December 31	
	<u>2020</u>	<u>2019</u>
<b>Operating Revenue:</b>		
Water Sales	\$ 3,960,251	\$ 4,014,408
Solid Waste Revenue	860,818	857,465
Surcharge Revenue	340,730	
Penalties and Service Charges	13,870	68,530
Other	10,050	-
<b>Total Operating Revenue</b>	<u>5,185,719</u>	<u>4,940,403</u>
<b>Operating Expenses:</b>		
Water Treatment Supplies	189,139	163,217
Depreciation and Amortization	913,660	903,793
Purchased Water	535,398	390,442
Solid Waste Payments	825,987	831,720
Power for Pumping	354,396	325,201
Outside Services	115,958	81,005
Management Fees	276,744	207,637
Miscellaneous and Commissioners	93,841	46,029
Insurance	74,627	89,335
Distribution Supplies	336,015	329,341
Payroll and Other Taxes	62,464	67,130
Customer Accounts	71,514	133,887
Wages	654,540	625,154
PCUC Sewer Payments	100,024	-
Employee Benefits	235,571	290,004
Pumping Supplies	3,327	37,519
<b>Total Operating Expense</b>	<u>4,843,205</u>	<u>4,521,414</u>
<b>Operating Income (Loss)</b>	<u>342,514</u>	<u>418,989</u>
<b>Non-Operating Revenue (Expense)</b>		
Interest Income	83	238
Interest Expense	(211,283)	(208,192)
Interest and Penalty	-	(122)
Loan Service Fees	(2,584)	(3,325)
Provisions for Bad Debts	(175,781)	(141,221)
Insurance Recovery	5,571	-
(Loss) Transfer Harold Sewer plant See pg 15	-	(2,398,810)
Gain (Loss) on Sale of Assets	7,000	(63,851)
<b>Total Non-Operating Revenue (Expenses)</b>	<u>(376,993)</u>	<u>(2,815,283)</u>
<b>Income (Loss) Before Capital Contributions</b>	<u>(34,479)</u>	<u>(2,396,294)</u>
<b>Capital Contributions</b>		
Grant Income	828,695	229,535
Capital Contributions	-	-
<b>Total Capital Contributions</b>	<u>828,695</u>	<u>229,535</u>
<b>Change in Net Position</b>	794,215	(2,166,759)
<b>Total Net Position, Beginning</b>	<u>15,549,943</u>	<u>17,716,702</u>
<b>Total Position Assets, Ending</b>	<u>16,344,158</u>	<u>15,549,943</u>

See accompanying notes to the basic financial statements

SOUTHERN WATER AND SEWER DISTRICT  
Statement of Cash Flows  
For the Years Ended December 31, 2020 and 2019  
(with prior year data for comparison purposes only)

	For the Year Ended December 31	
	2020	2019
<b>Cash flows from operating activity</b>		
Cash received from customers	\$ 4,677,556	\$ 4,603,603
Cash payments to suppliers for goods and services	(4,001,840)	(3,731,855)
Cash received from deposits	38,420	(178,815)
<b>Net cash provided by operating activities</b>	<b>714,136</b>	<b>692,933</b>
<b>Cash flows from noncapital financing activities</b>		
Subsidy From Federal and State Grant	828,695	229,535
Net Cash Provided (Used) By Noncapital <b>Financing Activities</b>	<b>828,695</b>	<b>229,535</b>
<b>Cash flows from capital and related financing activities</b>		
Loan Proceeds	1,439,460	150,000
Deposits from Prestonsburg for the Harold Sewer Plant	-	483,035
Interest Paid	(211,283)	(210,319)
Principle Payment on Notes	(2,111,003)	(518,997)
Principle Payment on Bonds	(55,500)	(63,000)
Purchase of Utility Plant in Service	(1,654,701)	(2,976,064)
Purchase of Automotive Equipment	(12,391)	-
Decrease (Increase) in Construction in progress	(478,649)	2,675,011
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	<b>(1,471,496)</b>	<b>(460,334)</b>
<b>Cash flows from investing activities</b>		
Proceeds from earnings on investments	83	238
Net cash provided by (used for) investing activities	<b>83</b>	<b>238</b>
<b>Total increase (decrease) in cash and cash equivalents</b>	<b>71,418</b>	<b>462,372</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>1,136,227</b>	<b>673,855</b>
<b>Cash and cash equivalents at end of year (Note 2)</b>	<b>\$ 1,207,645</b>	<b>\$ 1,136,227</b>
Reconciliation of Cash		
Cash	6,777	245,060
Restricted Cash	1,200,868	891,167
Cash at year end	<b>\$ 1,207,645</b>	<b>\$ 1,136,227</b>

See accompanying notes to the basic financial statements

SOUTHERN WATER AND SEWER DISTRICT  
Statement of Cash Flows  
For the Years Ended December 31, 2020 and 2019  
(with prior year data for comparison purposes only)

	For the Year Ended December 31	
	2020	2019
<b>Reconciliation of Income from operations to net cash provided by operating activities:</b>		
Income from operations	\$ 342,514	\$ 418,989
Provisions for Bad Debt	(175,781)	(141,221)
Adjustment to reconcile Income from operations to net cash provided by operating activities:		
Operating Activities:		
Depreciation and amortization	913,660	903,793
Changes in assets and liabilities:		
Decrease (increase) in utility accounts receivable	(508,163)	(195,579)
Decrease (increase) in prepaid expense	-	-
Decrease (increase) in material and supplies inventory	(3,909)	(16,413)
Increase (decrease) in accounts payable and other payables	128,322	(95,816)
Increase (decrease) in customer deposits	38,420	(178,815)
Increase (decrease) in accrued interest	(20,928)	(2,005)
<b>Net cash provided by operating activities</b>	<b>\$ 714,136</b>	<b>\$ 692,933</b>
 <b>Non-cash operating activities</b>		
Acquisition of Property and Equipment Included in accounts payable	\$ 30,594	\$ 11,536

See accompanying notes to the basic financial statements

SOUTHERN WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2020 AND 2019

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 polices 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, 2020 AND 2019

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, 2020 and 2019 is \$314,351 and \$235,708.

**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.



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**Note 2 – Restricted Cash Accounts**

The District had the following restricted cash accounts as of December 31, 2020 and 2019.

	2020	2019
KIA Project	\$ 10,956	\$ 23,051
Repair and Maintenance reserve	219,081	228,282
Construction reserve	387,572	190,444
Bond Depreciation Reserve	164,509	190,906
Debt Service Reserve	165,907	0
Deposit Refunds	96,859	184,354
Insurance Reserve	21,511	74,130
Surcharge Account	134,473	0
Totals	\$ <u>1,200,868-</u>	\$ <u>891,167</u>

The amounts held were below the required minimum for 2020 and 2019 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, 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.

As of December 31, 2019, the company had amounts of \$1,136,227 on deposit with financial institutions with \$250,000 insured by FDIC and \$886,227 insured by pledged US Treasury Bills.

**Note 5 – Transfer of Pride on River Extraordinary Event**

Southern Water and Sewer District and the Prestonsburg City's Utilities Commission entered into an agreement for Prestonsburg City's Utilities Commission to purchase the sewer operations and assets from the District. Prestonsburg City's Utilities Commission took over the operations on July 1, 2017. After appraisal and completion of the transfer, Southern Water and sewer recognized realized loss of \$2,398,810.

SOUTHERN WATER AND SEWER DISTRICT  
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**Note 6 – Subsequent Events**

In preparing these financial statements, the District has evaluated events and transactions for the potential recognition or disclosure through December 3, 2021, 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, 2020 and December 31, 2019.

	Contributed Capital	Reserves	Net Assets (Deficit)	Total
Balance December 31, 2018	\$ 35,460,058	\$ 300,438	\$ (18,043,794)	\$ 17,716,702
Federal Grants and Loans Department of Transportation Grant-in-Aid State Grant Funds State Contribution DOT	115,705			115,705
Grant-in-Aid FEMA Other Transfer	113,830	253,787	(253,787)	113,830
Net Income (Loss)			(2,396,294)	(2,396,294)
Balance December 31, 2019	\$ 35,689,593	\$ 554,225	\$ (20,693,875)	\$ 15,549,943
Federal Grants and Loans Department of Transportation Grant-in-Aid State Grant Funds State Contribution DOT	486,954			486,954
Grant-in-Aid FEMA Other Transfer	341,741	309,701	(309,701)	341,741
Net Income (Loss)			(34,480)	(34,480)
Balance December 31, 2020	\$ 36,518,288	\$ 863,926	\$ (21,038,056)	\$ 16,344,158

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**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 2020 and 2019 was \$19,500 and \$19,000 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 \$10,593 and \$12,847 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, 2020 AND 2019

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

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>\$ 2,145,741</b>	<b>\$</b>	<b>\$ 43,031,289</b>
 Less Accumulated Depreciation:				
Water 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
<b>Total Accumulated Depreciation</b>	<b>22,473,518</b>	<b>924,701</b>		<b>23,398,219</b>
<b>Balance December 31, 2020</b>	<b>\$ 18,412,030</b>	<b>\$ 1,221,040</b>	<b>\$</b>	<b>\$ 19,633,070</b>

The following summarizes the changes to capital assets for 2019:

	Balance 1/1/2019	Additions	Disposals	Balance 12/31/2019
Land	\$ 208,285	\$ 0	\$ 0	\$ 208,285
Water and Distribution System	44,699,222	2,863,879	8,058,212	39,504,889
Automotive Equipment	551,048	4,995	70,273	485,770
Furniture, fixtures and equipment	200,711	0	0	200,711
Construction in Progress	3,160,904	107,190	2,782,201	485,893
<b>Total Assets</b>	<b>\$ 48,820,170</b>	<b>\$ 2,976,064</b>	<b>\$ 10,910,686</b>	<b>\$ 40,885,548</b>

SOUTHERN WATER AND SEWER DISTRICT  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2020 AND 2019

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

Less Accumulated Depreciation:

Water and Distribution System	\$ 23,073,150	\$ 837,633	\$ 1,890,420	\$ 22,020,363
Automotive Equipment	333,740	56,074	70,273	319,541
Furniture, fixtures and equipment	<u>125,988</u>	<u>7,626</u>	<u>0</u>	<u>133,614</u>
 Total Accumulated Depreciation	 <u>23,532,878</u>	 <u>901,333</u>	 <u>1,960,693</u>	 <u>22,473,518</u>
 Balance December 31, 2019	 \$ <u>25,287,292</u>	 \$ <u>          </u>	 \$ <u>          </u>	 \$ <u>18,412,030</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>2020</u>	<u>2019</u>
6.25% line of credit Peoples Bank interest due monthly, with principal due upon demand	\$ <u>187,365</u>	\$ <u>225,788</u>

SOUTHERN WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2020 AND 2019

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

**Summary of Notes Payable**

	<u>2020</u>	<u>2019</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	\$ 259,073	\$ 319,161
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	901,841	1,016,007
c) Peoples Bank 5% installment note with monthly payments of \$637 including interest maturing May 2022, secured by a truck	36,612	0
d) Peoples Bank 4.25% installment note with monthly payments of \$1,990 including interest and a final balloon payment during November 2019, secured by 5 trucks	67,015	87,518
e) Cobank 2.25% installment note with monthly payments of \$24,741 including interest with a final payment in May of 2025	1,244,848	0
f) Regions Bank 2.6% installment note to convert to RD installment note with payments of \$45,188 principal January 1 plus interest and interest only payment each July 1 with a maturity of January 2056	0	1,701,000
g) 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>124,165</u>	<u>143,905</u>
Total Long-term Notes Payable	\$ 2,633,554	\$ 3,267,591
Less: current maturities	<u>497,054</u>	<u>213,786</u>
Notes Payable less current portion	<u>\$ 2,136,500</u>	<u>\$ 3,053,805</u>

SOUTHERN WATER AND SEWER DISTRICT  
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**Summary of Bonds Payable**

	2020	2019
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	\$ 1,919,000	\$ 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	178,500	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	448,000	458,000
Total Long-Term Bonds Payable	\$ 2,545,500	\$ 2,611,000
Less: Current Maturities	68,000	91,000
Bonds Payable less current portion	\$ 2,477,500	\$ 2,520,000

**Note**

Following are maturities of long – term debt as of December 31, 2020:

	Principal		Interest
2021	\$ 752,419	\$	173,331
2022	581,648		156,558
2023	597,403		139,267
2024	593,458		121,960
2025	368,409		104,866
2026 – 2030	748,582		421,679
2031 – 2035	558,000		303,633
2036 – 2040	689,000		175,614
2041 – 2045	395,500		36,731
2046 – 2051	82,000		2,953
Total	\$ 5,366,419	\$	1,636,592

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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

December 3, 2021

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, 2020, 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 December 3, 2021.

**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

December 3, 2021