

SOUTHERN WATER AND SEWER DISTRICT
REPORT OF AUDIT OF FINANCIAL STATEMENTS
AND SUPPORTING DATA
YEAR ENDED DECEMBER 31, 2022

- 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 <u>GOVERNMENT AUDITING STANDARDS</u>	22 - 23

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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 December 31, 2022, and 2021, 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 December 31, 2022, and 2021 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 November 25, 2023, 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.

SOUTHERN WATER AND SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years ended December 31, 2022 and 2021

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, 2022 and December 31, 2021. 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 \$16,593,412. This was a decrease of \$322,869 from the year ended December 31, 2022.
- At December 31, 2022, the District had \$21,683,629 in assets and \$5,090,217 in liabilities. The investment in capital assets, net of related debt, balance at this date was \$14,807,954. The restricted for capital projects balance was \$109,760. The restricted for maintenance balance was \$207,861. The restricted for debt service balance was \$167,734. The restricted for deposits was \$60,539. The unrestricted balance was \$1,239,564.
- The District had a net Loss of \$322,870 for the year ended December 31, 2022. For the year ended December 31, 2021 the net income was \$572,124.
- The District's water sales were \$3,681,598 for the year ended December 31, 2022. For the year ended December 31, 2021 the water sales were \$3,640,328. This represented an increase of 1% 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, 2022 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, 2022 and 2021

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 \$16,593,412 at the close of the most recent year.

Southern Water and Sewer District's Net Assets

		2022
Current assets	\$	1,908,160
Restricted assets		816,762
Fixed assets		18,911,962
Other assets		46,745
Total assets		21,683,629
Current liabilities		1,634,356
Long-term liabilities		3,455,861
Total liabilities		5,090,217
Net assets:		
Investment in		
Capital Assets		14,807,954
Restricted		545,894
Unrestricted		1,239,564
Total net assets	\$	16,593,412

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 \$231,849 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, 2022 and 2021

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

	2022
Revenues:	
Water sales	\$ 3,681,598
Solid waste revenue	862,683
Penalties and service charges	93,257
Surcharge Revenue	363,548
Other	3,214
Total revenues	5,004,300
Expenses:	
Water treatment supplies	197,611
Depreciation and amortization	888,962
Purchased water	348,147
Solid Waste payments	836,803
Power for pumping	443,378
Outside services	117,376
Miscellaneous	63,460
Insurance	77,923
Distribution supplies and expense	192,997
Taxes and other	58,600
Customer accounts expense	113,376
Wages	848,941
PCUC sewer payments	113,411
Employee benefits	279,639
Management Fees	227,968
Pumping supplies and expense	6,408
Total operating expenses	4,815,136
Net operating income	189,164
Non-operating income (expense)	
Grants income	231,849
Loan Service Fees	(1,871)
Gain/(Loss) on Sale of Assets	
Interest income	1,700
Interest expense	(132,073)
Provision for bad debts	(611,639)
Total non-operating (expense)	(512,034)
Net income (loss) before contributions and transfers	(322,870)
Total net assets, beginning	16,916,282
Total net assets, ending	16,593,412

Operations.

The District showed a net (loss) of \$322,870.

Key elements of this income are as follows:

- Depreciation for the year was \$888,962.
- Grant income of \$231,849 was received during the year.

SOUTHERN WATER AND SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years ended December 31, 2022 and 2021
Southern Water and Sewer District Budget Comparison

Fix budget current year?	Actual Amounts	Original Budget Amounts	Variance Positive (Negative) 2022
	2022	2022	
Revenues:			
Water sales	\$ 3,681,598	\$ 3,923,812	\$ (242,214)
Solid waste revenue	862,683	877,889	(15,206)
Surcharge Revenue	363,548	0	363,548
Penalties and service charges	93,257	83,395	9,862
Other	3,214	0	3,214
Total revenues	<u>5,004,300</u>	<u>4,885,096</u>	<u>119,204</u>
Expenses:			
Water treatment supplies	197,611	210,355	12,744
Depreciation and amortization	888,962	790,830	(98,132)
Purchased water	348,147	300,400	(47,747)
Solid Waste payments	836,803	851,553	14,750
Power for pumping	443,378	426,500	(16,888)
Outside services	117,376	85,900	(31,476)
Miscellaneous	63,596	96,008	32,412
Insurance	77,923	84,300	6,377
Distribution supplies expense	192,997	273,331	80,334
Taxes and other	58,600	11,250	(47,350)
Customer accounts expense	113,376	21,800	(91,576)
Wages	848,941	744,532	(104,409)
PCUC sewer payments	113,411	0	(113,411)
Employee benefits	279,639	286,010	6,641
Management Fees	227,968	210,355	(17,613)
Transportation expense	0	74,900	74,900
Pumping supplies expense	6,408	0	(6,408)
Total operating expenses	<u>4,815,136</u>	<u>4,468,024</u>	<u>57,888</u>
Net operating income	189,164	417,072	(347,112)
Non-operating income (expense)			
Grant income	231,849	405,000	(173,151)
Loan Service Fees	(1,871)	0	(1,871)
Gain/(Loss) on Sale of Assets	0	0	0
Interest income	1,700	3,600	(1,900)
Interest expense	(132,073)	(133,059)	986
Provision for Bad Debts	(611,639)	(134,000)	(477,639)
Total non-operating income	<u>(512,034)</u>	<u>141,541</u>	<u>(653,575)</u>
Net income (loss)	<u>(322,870)</u>	<u>558,613</u>	<u>(881,483)</u>
Total net assets, beginning	16,916,282		
Total net assets, ending	<u>\$ 16,593,412</u>	\$ _____	\$ _____

Budget Comparisons

- Revenues were \$119,204 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, 2022 and 2021

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.

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Capital Assets

The District's investment in utility plant as of December 31, 2022 amounts to \$18,911,962 (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 2.54% 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 \$5,090,217. 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, 2022 AND 2021
(with prior year data for comparison purposes only)

	2022	2021
Assets		
Current Assets:		
Cash and Cash Equivalents	\$ 15,275	\$ 16,706
Accounts Receivable (Net of Allowance for Delinquencies of \$307,258 in 2021 and \$314,351 in 2021)	1,800,644	1,989,511
Employee Advance		18,890
Inventory	92,241	94,943
Total Current Assets	1,908,160	2,120,050
Noncurrent Assets		
Restricted Cash	816,762	1,068,800
Capital Assets:		
Land	213,867	213,867
Plumbing and Distribution System	42,746,417	42,546,432
Transportation Equipment	551,048	551,048
Furniture, Fixtures and Equipment	274,887	274,887
Construction in Progress	312,597	118,064
Total Capital Assets	44,098,816	43,704,298
Less: Accumulated Depreciation	(25,186,854)	(24,300,332)
Net Capital Assets	18,911,962	19,403,966
Other Assets		
Prepaid Interest	98,410	98,410
Less Accumulated Amortization	(51,665)	(49,205)
Total Other Assets	46,745	49,205
Total Noncurrent Assets	19,775,469	20,521,971
Total Assets	\$ 21,683,629	\$ 22,642,021

See accompanying notes to the basic financial statements

SOUTHER WATER AND SEWER DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2022 AND 2021
(with prior year data for comparison purposes only)

Liabilities	<u>2022</u>	<u>2021</u>
Current Liabilities		
Accounts Payable	\$ 292,194	\$ 208,313
Accounts Payable PCUC Sewer	70,837	103,764
Accounts Payable Solid Waste	443,656	476,120
Accrued Sick and Vacation pay	86,470	80,894
Customer Deposits	84,760	84,439
Note Payable Line of Credit		
Note Payable Current	637,646	622,331
Bonds Payable Current	11,000	10,500
Accrued Interest	6,795	6,246
Total Current Liabilities	<u>1,633,358</u>	<u>1,592,607</u>
Noncurrent Liabilities		
Notes Payable-Net of Current Portion	3,040,359	3,695,633
Bonds Payable-Net of Current Portion	416,500	437,500
Total Long Term Liabilites	<u>3,456,859</u>	<u>4,133,133</u>
Total Liabilities	<u>5,090,217</u>	<u>5,725,740</u>
Net Position:		
Invested in Capital Assets, Net of Related Debt	15,233,957	15,086,002
Restricted for Capital Projects	109,760	193,445
Restricted for Maintenance	207,861	209,757
Restricted for Debt Service	167,734	337,281
Restricted for Deposits	60,539	102,067
Unrestricted	813,561	987,729
Total Net Position	<u>\$ 16,593,412</u>	<u>\$ 16,916,281</u>

SOUTHERN WATER AND SEWER DISTRICT
 STATEMENT OF REVENUE EXPENDITURE AND CHANGES IN NET POSITION
 For the Years Ended December 31, 2022 and 2021
 (with prior data for comparison purposes only)

	For the Year Ended December 31	
	2022	2021
Operating Revenue:		
Water Sales	\$ 3,681,598	\$ 3,640,328
Solid Waste Revenue	862,683	876,690
Penalties and Service Charges	93,257	83,003
Other	366,762	369,795
Total Operating Revenue	5,004,300	4,969,816
Operating Expenses:		
Water Treatment Supplies	197,611	209,644
Depreciation and Amortization	888,962	904,637
Purchased Water	348,147	342,556
Solid Waste Payments	836,803	850,389
Power for Pumping	443,378	400,909
Outside Services	117,376	81,343
Miscellaneous and Commissioners	63,460	35,335
Insurance	77,923	83,714
Distribution Supplies	192,997	256,347
Payroll and Other Taxes	58,600	51,361
Customer Accounts	113,376	76,955
Wages	848,941	721,850
PCUC Sewer Payments	113,411	84,247
Management fee	227,968	213,438
Transportation	136	-
Sewer Supplies		
Employee Benefits	279,639	224,369
Pumping Supplies	6,408	881
Total Operating Expense	4,815,136	4,537,975
Operating Income (Loss)	189,164	431,841
Non-Operating Revenue (Expense)		
Interest Income	1,700	23
Interest Expense	(132,073)	(163,098)
Interest and Penalty	-	-
Loan Service Fees	(1,871)	(1,072)
Provisions for Bad Debts	(611,639)	(106,691)
Insurance Recovery	-	-
Gain (Loss) on Sale of Assets	-	-
Total Non-Operating Revenue (Expenses)	(743,883)	(270,838)
Income (Loss) Before Capital Contributions	(554,719)	161,003
Capital Contributions		
Grant Income	231,849	411,121
Capital Contributions	-	-
Total Capital Contributions	231,849	411,121
Change in Net Position	(322,870)	572,124
Total Net Position, Beginning	16,916,282	16,344,158
Total Position Assets, Ending	16,593,412	16,916,282

See accompanying notes to the basic financial statements

SOUTHERN WATER AND SEWER DISTRICT
Statement of Cash Flows
For the Years Ended December 31, 2022 and 2021
(with prior year data for comparison purposes only)

	For the Year Ended December 31	
	2022	2021
Cash flows from operating activity		
Cash received from customers	\$ 5,212,057	\$ 4,762,301
Cash payments to suppliers for goods and services	(4,508,999)	(3,864,054)
Cash received from deposits	321	6,170
Net cash provided by operating activities	703,379	904,417
Cash flows from noncapital financing activities		
Subsidy From Federal and State Grant	231,849	411,121
Net Cash Provided (Used) By Noncapital Financing Activities	231,849	411,121
Cash flows from capital and related financing activities		
Loan Proceeds	983,734	3,505,728
Interest Paid	(132,073)	(211,765)
Principle Payment on Notes	(1,209,540)	(1,961,154)
Principle Payment on Bonds	(448,000)	(2,097,500)
Purchase of Utility Plant in Service	(199,985)	(1,466,600)
Purchase of Automotive Equipment		(52,887)
Decrease (Increase) in Consturction in progress	(194,533)	846,478
Proceeds from insurance recovery	-	-
Proceeds on Sale of Assets	-	-
Net cash provided by (used for) capital and related financing activities	(1,200,397)	(1,437,700)
Cash flows from investing activities		
Proceeds from earnings on investments	1,700	23
Net cash provided by (used for) investing activities	1,700	23
Total increase (decrease) in cash and cash equivalents	(263,469)	(122,139)
Cash and cash equivalents at beginning of year	1,085,506	1,207,645
Cash and cash equivalents at end of year (Note 2)	\$ 822,037	\$ 1,085,506
Reconciliation of Cash		
Cash	15,275	16,706
Restricted Cash	816,762	1,068,800
Cash at year end	832,037	1,085,506

See accompanying notes to the basic financial statements

SOUTHERN WATER AND SEWER DISTRICT
Statement of Cash Flows
For the Years Ended December 31, 2022 and 2021
(with prior year data for comparison purposes only)

	For the Year Ended December 31	
	2022	2021
Reconciliation of Income from operations to net cash provided by operated activities:		
Income from operations	\$ 189,164	\$ 431,841
Provisions for Bad Debt	(611,639)	(106,691)
Adjustment to reconcile income from operations to net cash provided by operating activities:		
Operating Activities:		
Depreciation and amortization	888,962	904,637
Changes in assets and liabilities:		
Decrease (increase) in utility accounts receivable	207,757	(207,515)
Decrease (increase) in prepaid expense	-	-
Decrease (increase) in material and supplies inventory	2,702	(35,118)
Increase (decrease) in accounts payable and other payable	25,563	(37,790)
Increase (decrease) in customer deposits	321	6,170
Increase (decrease) in un-earned tap fees	-	-
Increase (decrease) in accrued interest	549	(51,117)
Net cash provided by operating activities	\$ 703,379	\$ 904,417
Non-cash operating activities		
Acquisition of Property and Equipment Included in accounts payable	\$ -	\$ 6,844

SOUTHERN WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

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, 2022 AND 2021

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, 2022 and 2021 is \$307,258 and \$364,166.

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, 2022 AND 2021

Note 2 – Restricted Cash Accounts

The District had the following restricted cash accounts as of December 31, 2022 and 2021.

	2022	2021
KIA Project	\$ 7,788	\$ 20,671
Repair and Maintenance reserve	207,861	209,757
Construction reserve	109,760	193,445
Bond Depreciation Reserve	0	138,595
Debt Service Reserve	202,700	190,965
Deposit Refunds	60,539	102,067
Insurance Reserve	9,502	53,544
Surcharge Account	218,612	159,756
Totals	\$ <u>816,762</u>	\$ <u>1,068,800</u>

The amount held were above the required minimum for 2021 and for 2022 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, 2022, the company had amounts of \$832,037 on deposit with financial institutions with \$250,000 insured by FDIC and no uninsured.

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 no uninsured.

SOUTHERN WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

Note 6 – Subsequent Events

In preparing these financial statements, the District has evaluated events and transactions for the potential recognition or disclosure through November 25, 2023, 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, 2022 and December 31, 2021.

	Contributed Capital	Reserves	Net Assets (Deficit)	Total
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
Federal Grants and Loans	231,849		(231,849)	
Department of Transportation Grant-in-Aid State Grant Funds State Contribution DOT				
Grant-in-Aid FEMA				
Other				
Transfer		(252,038)	252,038	
Net Income (Loss)			(322,870)	(322,870)
Balance December 31, 2022	\$ 37,161,258	\$ 479,820	\$ (21,047,666)	\$ 16,593,412

SOUTHERN WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

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 2022 and 2021 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 \$9,634 and \$9,563 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, 2022 AND 2021

Note 10 - Property and Equipment (Continued)

The following summarizes the changes to capital assets for 2022:

	Balance 1/1/2022	Additions	Disposals	Balance 12/31/2022
Land	\$ 213,867	\$	\$	\$ 213,867
Water and Distribution System	42,546,432	199,985		42,746,417
Automotive Equipment	551,048			551,048
Furniture, fixtures and equipment	274,887			274,887
Construction in Progress	118,064	194,533		312,597
Total Assets	\$ 43,704,298	\$ 394,518	\$	\$ 44,098,816
 Less Accumulated Depreciation:				
Water Distribution System	23,733,708	834,336		24,568,044
Automotive Equipment	419,092	44,322		463,414
Furniture, fixtures and equipment	147,532	7,864		155,396
Total Accumulated Depreciation	24,300,332	886,522		25,186,854
Balance December 31, 2022	\$ 19,403,966	\$ (492,004)	\$	\$ 18,911,962

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
Total Assets	\$ 43,031,289	\$ 673,009	\$	\$ 43,704,298

SOUTHERN WATER AND SEWER DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2022 AND 2021

Note 10 - Property and Equipment (Continued)

Less Accumulated Depreciation:

Water and Distribution System	\$ 22,884,007	\$ 849,201	\$ 23,733,708
Automotive Equipment	373,742	45,350	419,092
Furniture, fixtures and equipment	<u>140,470</u>	<u>7,062</u>	<u>147,532</u>
Total Accumulated Depreciation	<u>23,398,219</u>	<u>902,613</u>	<u>24,300,332</u>
Balance December 31, 2021	\$ <u>19,663,040</u>	\$ <u>(229,104)</u>	\$ <u>19,403,966</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>2022</u>	<u>2021</u>
6.25% line of credit Peoples Bank interest due monthly, with principal due upon demand	\$ <u>-0-</u>	\$ <u>-0-</u>

SOUTHERN WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

Note 13 – Notes and Bonds Payable (Continued)

Summary of Notes Payable

	<u>2022</u>	<u>2021</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	\$ 133,392	\$ 197,168
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	663,055	784,226
c) Peoples Bank 5% installment note with monthly payments of \$637 including interest maturing May 2022, secured by a truck	24,464	30,694
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	22,928	43,955
e) Cobank 2.25% installment note with monthly payments of \$24,745 including interest with a final payment in May of 2025	679,396	2,033,686
f) Cobank 2.25% installment note with monthly payments of \$11,842 including interest with a final payment in May of 2025	1,957,595	966,363
g) Cobank 2.25% installment note with monthly payments of \$4,002 including interest with a final payment in May of 2025	114,044	158,227
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>83,131</u>	<u>103,645</u>
Total Long-term Notes Payable	\$ 3,678,005	\$ 4,317,964
Less: current maturities	<u>637,646</u>	<u>622,331</u>
Notes Payable less current portion	<u>\$ 3,040,359</u>	<u>\$ 3,695,633</u>

SOUTHERN WATER AND SEWER DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2022 AND 2021

Summary of Bonds Payable

	2022	2021
a) 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	427,000	437,500
Total Long-Term Bonds Payable	\$ 427,000	\$ 437,500
Less: Current Maturities	11,000	10,500
Bonds Payable less current portion	\$ 416,000	\$ 427,000

Note

Following are maturities of long – term debt as of December 31, 2022:

	Principal	Interest
2023	\$ 659,147	\$ 116,737
2024	656,907	93,213
2025	403,033	63,927
2026	253,057	32,016
2027	243,687	16,017
2028 – 2032	562,986	42,571
2033 – 2037	661,533	28,050
2038 – 2042	532,155	12,288
2043– 2047	102,500	
2048-2053	30,000	
	\$ 4,105,005	\$ 406,159

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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

November 25, 2023

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, 2022, 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 November 25, 2023.

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.

Southern Water and Sewer District

November 25, 2023

Page 2

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

November 25, 2023