

SOUTHERN WATER AND SEWER DISTRICT

REPORT OF AUDIT OF FINANCIAL STATEMENTS

AND SUPPORTING DATA

YEAR ENDED DECEMBER 31, 2023

- CONTENTS -

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1 - 3
MANAGEMENT'S DISCUSSION AND ANALYSIS	4 - 8
FINANCIAL STATEMENTS:	
STATEMENTS OF NET POSITION – PROPRIETARY FUND	9 – 10
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION – PROPRIETARY FUND	11
STATEMENTS OF CASH FLOWS – PROPRIETARY FUND	12 – 13
NOTES TO THE FINANCIAL STATEMENTS	14 – 22
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	23
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	24
INDEPENDENT AUDITORS'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 <u>GOVERNMENT AUDITING STANDARDS</u>	25 – 26
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE	27 – 28
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	29
SUMMARY OF PRIOR AUDIT FINDINGS	30
CORRECTIVE ACTION PLAN	31
REQUIRED SUPPLEMENTARY INFORMATION	32

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

INDEPENDENT AUDITOR'S REPORT

To the 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, each major fund, and the aggregate remaining fund information of the Southern Water and Sewer District, Kentucky as of and for the years ended December 31, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the Southern Water and Sewer District, Kentucky'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, each major fund, and the aggregate remaining fund information of the Southern Water and Sewer District, Kentucky, as of December 31, 2023 and 2022, 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 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:

- 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 4–8 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Southern Water and Sewer District's basic financial statements. The accompanying combining and individual nonmajor fund financial statements and schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

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 September 17, 2024, on our consideration of the Southern Water and Sewer District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Southern Water and Sewer District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Southern Water and Sewer District's internal control over financial reporting and compliance.

Richard F. Paulmann CPA, LLC

Pewee Valley, Kentucky

September 17, 2024

Richard F. Paulmann

SOUTHERN WATER AND SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years ended December 31, 2023 and 2022

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, 2023 and December 31, 2022. 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 \$16,793,165. This was an increase of \$199,753 from the year ended December 31, 2022.
- At December 31, 2023, the District had \$22,367,914 in assets and \$5,583,749 in liabilities. The investment in capital assets, net of related debt, balance at this date was \$14,721,945. The restricted for capital projects balance was \$257,430. The restricted for maintenance balance was \$209,757. The restricted for debt service balance was \$181,979. The restricted for deposits was \$16,746. The unrestricted balance was \$1,405,308.
- The District had a net income of \$199,753 for the year ended December 31, 2023. For the year ended December 31, 2022 the net income was \$(322,870).
- The District's water sales were \$3,572,021 for the year ended December 31, 2023. For the year ended December 31, 2022 the water sales were \$3,681,598. This represented a decrease of 3% which was a result of factors affecting revenue such as increased 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, 2023 and December 31, 2022. 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, 2023 and 2022

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 \$16,793,165 at the close of the most recent year.

Southern Water and Sewer District's Net Assets

		2023
Current assets		
Restricted assets	\$	488,917
Fixed assets		2,152,855
Other assets		19,690,857
		44,285
 Total assets		 22,376,914
 Current liabilities		
Long-term liabilities		1,269,735
		4,314,014
 Total liabilities		 5,583,749
 Net assets:		
Investment in		
Capital Assets		14,721,945
Restricted		665,912
Unrestricted		1,405,308
 Total net assets	\$	 16,793,165

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 \$1,388,776 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, 2023 and 2022

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

	2023
Revenues:	
Water sales	\$ 3,572,021
Solid waste revenue	851,249
Penalties and service charges	89,107
Surcharge Revenue	329,962
Other	33,943
Total revenues	4,876,282
Expenses:	
Water treatment supplies	263,527
Depreciation and amortization	866,605
Purchased water	401,919
Solid Waste payments	825,712
Power for pumping	372,395
Outside services	110,336
Miscellaneous	40,625
Insurance	74,535
Distribution supplies and expense	209,055
Taxes and other	60,562
Customer accounts expense	188,619
Wages	757,852
PCUC sewer payments	111,085
Employee benefits	291,464
Management Fees	229,148
Pumping supplies and expense	4,336
Total operating expenses	4,807,775
Net operating income	68,507
Non-operating income (expense)	
Grants income	1,388,776
Loan Service Fees	(255)
Gain/(Loss) on Sale of Assets	
Interest income	6,450
Interest expense	(121,268)
Provision for bad debts	(1,142,457)
Total non-operating (expense)	131,246
Net income (loss) before contributions and transfers	199,753
Total net assets, beginning	16,593,412
Total net assets, ending	16,793,165

Operations.

The District showed a net income of \$199,753.

Key elements of this income are as follows:

- Depreciation for the year was \$866,605.
- Grant income of \$1,388,776 was received during the year.

SOUTHERN WATER AND SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years ended December 31, 2023 and 2022
Southern Water and Sewer District Budget Comparison

Fix budget current year?	Actual Amounts	Original Budget Amounts	Variance Positive (Negative) 2023
	2023	2023	
Revenues:			
Water sales	\$ 3,572,021	\$ 4,105,528	\$ (533,507)
Solid waste revenue	851,249	878,000	(26,751)
Surcharge Revenue	329,962	341,000	(11,038)
Penalties and service charges	89,107	99,868	(10,761)
Other	33,943	34,000	(57)
Total revenues	<u>4,876,282</u>	<u>5,458,396</u>	<u>(582,114)</u>
Expenses:			
Water treatment supplies	263,527	200,400	(63,127)
Depreciation and amortization	866,605	925,973	(59,368)
Purchased water	401,919	310,200	(91,719)
Solid Waste payments	825,712	851,660	25,948
Power for pumping	372,395	485,883	113,488
Outside services	110,336	111,123	787
Miscellaneous	40,625	144,000	103,375
Insurance	74,535	80,000	5,465
Distribution supplies expense	209,055	110,680	(98,375)
Taxes and other	60,562	86,410	25,848
Customer accounts expense	188,619	190,000	1,381
Wages	757,852	778,000	20,148
PCUC sewer payments	111,085	0	(111,085)
Employee benefits	291,464	342,451	50,987
Management Fees	229,148	230,400	1,252
Transportation expense	0	81,500	81,500
Pumping supplies expense	4,336	0	(4,336)
Total operating expenses	<u>4,807,775</u>	<u>4,928,680</u>	<u>120,905</u>
Net operating income	68,507	529,716	(461,209)
Non-operating income (expense)			
Grant income	1,388,776	1,315,000	73,776
Loan Service Fees	(255)	0	(255)
Gain/(Loss) on Sale of Assets	0	0	0
Allowance for Construction	0	(1,315,000)	1,315,000
Interest income	6,450	3,260	3,190
Interest expense	(121,268)	(134,200)	12,932
Provision for Bad Debts	(1,142,457)	(275,000)	(867,457)
Total non-operating income	<u>131,246</u>	<u>(405,940)</u>	<u>537,186</u>
Net income (loss)	199,753	123,766	75,987
Total net assets, beginning	16,593,412		
Total net assets, ending	<u>\$ 16,793,165</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, 2023 and 2022

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, 2023 amounts to \$19,690,957 (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% 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 \$5,583,749. 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, 2023 AND 2022
(with prior year data for comparison purposes only)

	2023	2022
Assets		
Current Assets:		
Cash and Cash Equivalents	\$ 9,269	\$ 15,275
Accounts Receivable (Net of Allowance for Delinquencies of \$301,272 in 2023 and \$307,258 in 2022)	430,257	1,088,644
Inventory	49,391	92,241
Total Current Assets	488,917	1,196,160
Noncurrent Assets		
Restricted Cash	2,152,855	816,762
Capital Assets:		
Land	213,867	213,867
Plumbing and Distribution System	43,266,518	42,476,417
Transportation Equipment	551,048	551,048
Furniture, Fixtures and Equipment	274,887	274,887
Construction in Progress	1,435,516	312,597
Total Capital Assets	45,741,836	43,828,816
Less: Accumulated Depreciation	(26,050,979)	(25,186,854)
Net Capital Assets	19,690,857	18,641,962
Other Assets		
Prepaid Interest	98,410	98,410
Less Accumulated Amortization	(54,125)	(51,665)
Total Other Assets	44,285	46,745
Total Noncurrent Assets	21,887,997	19,505,469
Total Assets	\$ 22,376,914	\$ 20,701,629

See accompanying notes to the basic financial statements

SOUTHER WATER AND SEWER DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2023 AND 2022
(with prior year data for comparison purposes only)

	2023	2022
Liabilities		
Current Liabilities		
Accounts Payable	\$ 264,498	\$ 292,194
Accounts Payable PCUC Sewer	43,075	70,837
Accounts Payable Solid Waste	121,602	443,656
Accrued Sick and Vacation pay	75,417	86,470
Customer Deposits	104,050	84,760
Note Payable Current	643,898	637,646
Bonds Payable Current	11,000	11,000
Accrued Interest	6,195	6,795
Total Current Liabilities	1,269,735	1,633,358
Noncurrent Liabilities		
Notes Payable-Net of Current Portion	3,908,514	3,040,359
Bonds Payable-Net of Current Portion	405,500	416,500
Total Long Term Liabilites	4,314,014	3,456,859
Total Liabilities	5,583,749	5,090,217
Net Position:		
Invested in Capital Assets, Net of Related Debt	14,721,945	15,233,957
Restricted for Capital Projects	257,430	109,760
Restricted for Maintenance	209,757	207,861
Restricted for Debt Service	181,979	167,734
Restricted for Deposits	16,746	60,539
Unrestricted	1,405,308	813,561
Total Net Position	\$ 16,793,165	\$ 16,593,412

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, 2023 and 2022
 (with prior data for comparison purposes only)

	For the Year Ended December 31	
	2023	2022
Operating Revenue:		
Water Sales	\$ 3,572,021	\$ 3,681,598
Solid Waste Revenue	851,249	862,683
Penalties and Service Charges	89,107	93,257
Other	363,905	366,762
Total Operating Revenue	4,876,282	5,004,300
Operating Expenses:		
Water Treatment Supplies	263,527	197,611
Depreciation and Amortization	866,605	888,962
Purchased Water	401,919	348,147
Solid Waste Payments	825,712	836,803
Power for Pumping	372,395	443,378
Outside Services	110,336	117,376
Miscellaneous and Commissioners	40,625	63,460
Insurance	74,535	77,923
Distribution Supplies	209,055	192,997
Payroll and Other Taxes	60,562	58,600
Customer Accounts	188,619	113,376
Wages	757,852	848,941
PCUC Sewer Payments	111,085	113,411
Management fee	229,148	227,968
Transportation		136
Employee Benefits	291,464	279,639
Pumping Supplies	4,336	6,408
Total Operating Expense	4,807,775	4,815,136
Operating Income (Loss)	68,507	189,164
Non-Operating Revenue (Expense)		
Interest Income	6,450	1,700
Interest Expense	(121,268)	(132,073)
Interest and Penalty	-	-
Loan Service Fees	(255)	(1,871)
Provisions for Bad Debts	(1,142,457)	(611,639)
Insurance Recovery	-	-
Gain (Loss) on Sale of Assets	-	-
Total Non-Operating Revenue (Expenses)	(1,257,530)	(743,883)
Income (Loss) Before Capital Contributions	(1,189,023)	(554,719)
Capital Contributions		
Grant Income	1,388,776	231,849
Capital Contributions	-	-
Total Capital Contributions	1,388,776	231,849
Change in Net Position	199,753	(322,870)
Total Net Position, Beginning	16,593,412	16,916,282
Total Position Assets, Ending	16,793,165	16,593,412

See accompanying notes to the basic financial statements

SOUTHERN WATER AND SEWER DISTRICT
Statement of Cash Flows
For the Years Ended December 31, 2023 and 2022
(with prior year data for comparison purposes only)

	For the Year Ended December 31	
	2023	2022
Cash flows from operating activity		
Cash received from customers	\$ 5,046,835	\$ 5,212,057
Cash payments to suppliers for goods and services	(4,276,432)	(4,508,999)
Cash received from deposits	19,290	321
Net cash provided by operating activities	789,693	703,379
Cash flows from noncapital financing activities		
Subsidy From Federal and State Grant	1,388,776	231,849
Net Cash Provided (Used) By Noncapital	1,388,776	231,849
Financing Activities		
Cash flows from capital and related financing activities		
Loan Proceeds	1,500,000	983,734
Interest Paid	(121,268)	(132,073)
Principle Payment on Notes	(569,546)	(1,209,540)
Principle Payment on Bonds	(11,000)	(448,000)
Purchase of Utility Plant in Service	(520,100)	(199,985)
Purchase of Automotive Equipment		
Decrease (Increase) in Consturction in progress	(1,122,918)	(194,533)
Proceeds from insurance recovery	-	-
Proceeds on Sale of Assets	-	-
Net cash provided by (used for) capital and related financing activities	(844,832)	(1,200,397)
Cash flows from investing activities		
Proceeds from earnings on investments	6,450	1,700
Net cash provided by (used for) investing activities	6,450	1,700
Total increase (decrease) in cash and cash equivalents	1,340,087	(263,469)
Cash and cash equivalents at beginning of year	822,037	1,085,506
Cash and cash equivalents at end of year (Note 2)	\$ 2,162,124	\$ 822,037
Reconciliation of Cash		
Cash	9,269	15,275
Restricted Cash	2,152,855	806,762
Cash at year end	2,162,124	822,037

See accompanying notes to the basic financial statements

SOUTHERN WATER AND SEWER DISTRICT
Statement of Cash Flows
For the Years Ended December 31, 2023 and 2022
(with prior year data for comparison purposes only)

	For the Year Ended December 31	
	2023	2022
Reconciliation of Income from operations to net cash provided by operated activities:		
Income from operations	\$ 68,507	\$ 189,164
Provisions for Bad Debt	(487,834)	(611,639)
Adjustment to reconcile income from operations to net cash provided by operating activities:		
Operating Activities:		
Depreciation and amortization	866,605	888,962
Changes in assets and liabilities:		
Decrease (increase) in utility accounts receivable	658,387	207,757
Decrease (increase) in prepaid expense	-	-
Decrease (increase) in material and supplies inventory	42,850	2,702
Increase (decrease) in accounts payable and other payable	(377,512)	24,066
Increase (decrease) in customer deposits	19,290	321
Increase (decrease) in un-earned tap fees	-	-
Increase (decrease) in accrued interest	(600)	549
Net cash provided by operating activities	\$ 789,693	\$ 701,882
 Non-cash operating activities		
Acquisition of Property and Equipment Included in accounts payable	\$ -	\$ -

SOUTHERN WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

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, 2023 AND 2022

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, 2023 and 2022 is \$301,272 and \$307,258.

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, 2023 AND 2022

Note 2 – Restricted Cash Accounts

The District had the following restricted cash accounts as of December 31, 2023 and 2022.

		2023		2022
KIA Project	\$	4,779	\$	7,788
Repair and Maintenance reserve		209,757		207,861
Construction reserve		1,358,759		109,760
Bond Depreciation Reserve		0		0
Debt Service Reserve		341,119		202,700
Deposit Refunds		120,796		60,539
Insurance Reserve		42,450		9,502
Surcharge Account		75,195		218,612
Totals	\$	2,152,855	\$	816,762

The amount held were above the required minimum for 2022 and for 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, 2022, the company had amounts of \$1,085,506 on deposit with financial institutions with \$250,000 insured by FDIC and no pledged collateral agreements.

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 no pledged collateral agreements.

SOUTHERN WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

Note 6 – Subsequent Events

In preparing these financial statements, the District has evaluated events and transactions for the potential recognition or disclosure through September 17, 2024, 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, 2023 and December 31, 2022.

	Contributed Capital	Reserves	Net Assets (Deficit)	Total
Balance December 31, 2021	\$ 36,929,409	\$ 731,858	\$ (21,774,986)	\$ 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	\$ <u>37,161,258</u>	\$ <u>479,820</u>	\$ <u>(21,047,666)</u>	\$ <u>16,593,412</u>
Federal Grants and Loans	1,388,766		(1,388,776)	
Department of Transportation Grant-in-Aid State Grant Funds 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>

SOUTHERN WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

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 2023 and 2022 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 \$6,180 and \$9,364 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, 2023 AND 2022

Note 10 - Property and Equipment (Continued)

The following summarizes the changes to capital assets for 2023:

	Balance 1/1/2023	Additions	Disposals	Balance 12/31/2023
Land	\$ 213,867	\$	\$	\$ 213,867
Water and Distribution System	42,476,417	790,101		43,746,417
Automotive Equipment	551,048			551,048
Furniture, fixtures and equipment	274,887			274,887
Construction in Progress	312,597	1,122,919		1,435,516
Total Assets	\$ 43,828,816	\$ 1,913,020	\$	\$ 45,741,836
 Less Accumulated Depreciation:				
Water Distribution System	24,568,044	835,578		25,403,622
Automotive Equipment	463,414	20,957		484,371
Furniture, fixtures and equipment	155,396	7,590		162,986
Total Accumulated Depreciation	25,186,854	864,125		26,050,979
Balance December 31, 2023	\$ 18,641,962	\$ 1,048,895	\$	\$ 19,690,857

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	42,476,432	-0-		42,476,417
Automotive Equipment	551,048			551,048
Furniture, fixtures and equipment	274,887			274,887
Construction in Progress	312,597	-0-		312,597
Total Assets	\$ 43,828,816	\$ -0-	\$	\$ 43,828,816

SOUTHERN WATER AND SEWER DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2023 AND 2022

Note 10 - Property and Equipment (Continued)

Less Accumulated Depreciation:

Water and Distribution System	\$ 23,773,708	\$ 834,336	\$ 24,568,044
Automotive Equipment	419,092	44,322	463,414
Furniture, fixtures and equipment	<u>147,532</u>	<u>7,864</u>	<u>155,396</u>
Total Accumulated Depreciation	<u>24,300,332</u>	<u>886,522</u>	<u>28,186,854</u>
Balance December 31, 2022	\$ <u>19,403,966</u>	\$ <u>(492,004)</u>	\$ <u>18,641,962</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>2023</u>	<u>2022</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, 2023 AND 2022

Note 13 – Notes and Bonds Payable (Continued)

	2023	2022
Kentucky Infrastructure Authority 3% installment note, 60 semi - annual payments of \$34,607 including interest due 06/01 and 12/1. Final payment 2024	\$ 66,190	\$133,392
Trinity Repair Service 5% installment note with monthly payments of \$388 including interest maturing July 2025, secured by a BBA Water Pump	\$ 7,436	0.00
Note Payable EKSAFE State Funding for Emergencies. \$1,500,000 has been received as of Dec. 31, 2023	1,500,000	0.00
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	538,221	663,055
Peoples Bank 5% installment note with monthly payments of \$637 including interest maturing May 2022, secured by a truck	17,912	24,464
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	0.00	22,928
Cobank 2.25% installment note with monthly payments of \$24,745 including interest with a final payment in May of 2025	413,005	679,396
Cobank 2.25% installment note with monthly payments of \$11,842 including interest with a final payment in May of 2025	1,878,960	1,957,595
Cobank 2.25% installment note with monthly payments of \$4,002 including interest with a final payment in May of 2025	67,936	113,044
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	62,752	84,131
Total Long-term Notes Payable	\$ 4,552,412	\$ 3,678,005
Less: current maturities	643,898	637,646
Notes Payable less current portion	\$ 3,908,514	\$ 3,040,359

SOUTHERN WATER AND SEWER DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2023 AND 2022

Summary of Bonds Payable

	2023	2022
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	416,500	427,000
Total Long-Term Bonds Payable	\$ 416,500	\$ 427,000
Less: Current Maturities	11,000	11,000
Bonds Payable less current portion	\$ 405,500	\$ 416,000

Note

Following are maturities of long – term debt as of December 31, 2023:

	Principal	Interest
2025	\$ 654,898	\$ 93,213
2026	403,033	63,927
2027	253,057	32,016
2028	243,687	16,017
2029	108,789	7,150
2030 – 2034	562,986	42,571
2035 – 2039	661,533	28,050
2040 – 2044	532,155	12,288
2045 – 2049	48,274	
2050-2055	1,500,000	
Total	\$ 4,968,412	\$ 294,232

SOUTHERN WATER AND SEWER
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2023

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
Abandoned Mine Land Reclamation (AMLR) Grant:		
Plant Improvement Program	15.252	<u>\$ 976,428</u>
Total expenditures of Federal awards		<u>\$ 976,428</u>

Reconciling items to the Financial Statements

Construction in Progress (Pg 8)	<u>\$ 976,428</u>
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SOUTHER WATER AND SEWER
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2023

NOTE A—BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards include the federal grant and loan activity of Southern Water and Sewer under the programs of the federal government for the year ended December 31, 2023. The information in this schedule is presented in accordance with the requirements of title 2 U. S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the schedule presents only a selected portion of the operations of Southern Water and Sewer, it is not intended to and does not present the financial position, changes in net position, or cash flows of Southern Water and Sewer.

NOTE B—FEDERAL FINANCIAL ASSISTANCE

Pursuant to the Single Audit Act and Uniform Guidance, federal financial assistance is defined as assistance provided by a federal agency, either directly or indirectly, in the form of grants, contracts, cooperative agreements, loans, loan guarantees, property, interest subsidies, insurance or direct appropriations. Accordingly, nonmonetary federal assistance, including federal surplus property, is included in federal financial assistance and, therefore, is reported on the Schedule, if applicable. Federal financial assistance does not include direct federal cash assistance to individuals. Solicited contracts between the Association and the federal government for which the federal government procures tangible goods or services are not considered to be federal.

NOTE C—MAJOR PROGRAMS

The Single Audit Act and Uniform Guidance establish criteria to be used in defining major programs. Major programs for the Association are those programs selected for testing by the auditor using a risk-assessment model, as well as certain minimum expenditure requirements, as outlined in Uniform Guidance. Programs with similar requirements may be grouped into a cluster for testing purposes.

NOTE D—SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, Cost Principles for State and Local Governments, or the cost principles contained in Title 2 U.S. Code of Federal Awards, wherein certain types of expenditures are not allowed or are limited as to reimbursement.

NOTE E—INDIRECT COST RATE

The Association has not elected to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

NOTE F—LOAN BALANCES

The balance of loans included on the schedule at Federal Expenditures as of December 31, 2023 was \$ 1,500 000.

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

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

September 17, 2024

the Board of Commissioners
Southern Water and Sewer District
Dowell, 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, 2023, 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 17, 2024.

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 report 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 17, 2024

RICHARD F. PAULMANN CPA, LLC
CERTIFIED PUBLIC ACCOUNTANT
301 MOUNT MERCY ROAD
PEWEE VALLEY, KY 40056

E-mail: Richardpaulmann@twc.com
Ph: (502) 550-1568

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Directors of
Southern Water and Sewer
245 Kentucky Route 680
McDowell, KY 41647

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Southern Water and Sewer's compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of Southern Water and Sewer's major federal programs for the year ended December 31, 2023. Southern Water and Sewer's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Southern Water and Sewer complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).¹ Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Southern Water and Sewer. Audit of Compliance section of our report.

We are required to be independent of Southern Water and Sewer and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for each major federal program. Our audit does not provide a legal determination of Southern Water and Sewer's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Southern Water and Sewer's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Southern Water and Sewer's compliance based on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there

is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Southern Water and Sewer's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

Identify and assess the risks of material noncompliance, 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 Southern Water and Sewer's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.

Obtain an understanding Southern Water and Sewer's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Southern Water and Sewer's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Richard F. Paulmann CPA, LLC
Richard F. Paulmann

Pewee Valley, KY
September 17, 2024

SOUTHERN WATER AND SEWER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2023

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unmodified opinion on the financial statements of Southern Water and Sewer.
2. No material weaknesses were identified on internal control over financial reporting. No significant deficiencies were reported.
3. No instances of noncompliance material to the financial statements of Southern Water and Sewer's were disclosed during the audit.
4. No material weakness over internal control over major programs were identified during the audit of the major federal award programs. No significant deficiencies were reported.
5. The auditor's report on compliance for the major federal award programs for Southern Water and Sewer expresses an unmodified opinion.
6. Audit findings, if any, relative to the major federal award programs for Southern Water and Sewer are reported on Part C of this Schedule. No audit findings are required to be reported in accordance with 2CFR 200.516(a).
7. The program tested as major programs included:
 - a. 15.252 Abandoned Mine Land Reclamation (AMLR) Grant
8. The threshold for distinguishing Types A and B programs was \$750,000.
9. Southern Water and Sewer was determined to be a High-risk auditee.

B. FINDINGS AND QUESTIONED COSTS – FINANCIAL STATEMENT AUDIT

None

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

None

SIMMONS COLLEGE OF KENTUCKY, INC.
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2023

ABANDONED MINE LAND RECLAMATION (AMLR) GRANT

Prior year audit findings

A. FINDINGS - FINANCIAL STATEMENTS AUDIT

None

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS
AUDIT

None

SOUTHERN WATER AND SEWER

**CORRECTIVE ACTION
PLAN**

Year Ended December 31, 2023

Southern Water and Sewer of Kentucky, Inc. respectfully submits the following corrective action plan for the year ended December 31, 2023.

Independent public accounting firm: Richard F. Paulmann CPA, LLC
301 Mount Mercy Road
Pewee Valley, Kentucky 40256

Audit Period: Year ended December 31, 2023

The finding from the December 31, 2023 audit is discussed below. The finding is numbered consistently with the number assigned on the Independent Auditors' 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*.

SECTION I- FINANCIAL STATEMENT AUDIT

A. COMMENTS ON FINDINGS AND RECOMMENDATIONS

There were no findings noted in the current years audit report.

B. ACTIONS TAKEN OR PLANNED

There were no findings noted in the current years audit report.

C. STATUS OF CORRECTIVE ACTIONS ON PRIOR FINDINGS

There were no findings noted in the current years audit report.

SECTION II- MAJOR FEDERAL AWARD PROGRAMS AUDIT

A. COMMENTS ON FINDINGS AND RECOMMENDATIONS

There were no findings noted in the current years audit report.

B. ACTIONS TAKEN OR PLANNED

There were no findings noted in the current years audit report.

C. STATUS OF CORRECTIVE ACTIONS ON PRIOR FINDINGS

There were no findings noted in the current years audit report.