

Simpson County Water District

Audited Financial Statements and Required Supplementary Information

December 31, 2020

Jones & Associates CPAs, PSC
Certified Public Accountants



121 Prosperous Place, Suite 2A, Lexington, KY 40509 (859) 687- 0303

Table of Contents

	Page
Independent Auditor's Report	1 – 3
Management's Discussion and Analysis.....	4 – 13
Financial Statements – Proprietary Fund.....	14
Statement of Net Position	15 – 16
Statement of Revenues, Expenses, and Changes in Net Position.....	17 – 18
Statement of Cash Flows	19 – 20
Notes to the Financial Statements	21 – 29
Supplementary Information	30
Schedule of Budgetary Comparison	31
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	32 – 33
Reports Required by the <i>Uniform Guidance</i>	34
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the <i>Uniform Guidance</i>	35 – 36
Schedule of Findings and Questioned Costs.....	37
Schedule of Expenditures of Federal Awards.....	38
Notes to the Schedule of Expenditures of Federal Awards	39

JONES & ASSOCIATES CPAs, PSC

121 PROSPEROUS PLACE, SUITE 2A, LEXINGTON, KY 40509 (859) 687-0303

CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Commissioners of
Simpson County Water District
Franklin, Kentucky

Independent Auditor's Report

Report on the Financial Statements

We have audited the accompanying financial statements of Simpson County Water District, a component unit of Simpson County, Kentucky, as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise Simpson County Water District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Simpson County Water District as of December 31, 2020, and the changes in its financial

**Board of Commissioners
Simpson County Water District
Independent Auditor's Report
(Continued)**

Opinion (Continued)

position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, 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 for the current year information but have applied no procedures to the prior year information. The procedures consisted of inquires 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

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Simpson County Water District's basic financial statements. The accompanying Schedule of Budgetary Comparison is presented for purposes of additional analysis and is not a required part of the financial statements. We do not express an opinion or provide any assurance on the Schedule of Budgetary Comparison because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is 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 Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 8, 2021, on our consideration of Simpson County Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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

**Board of Commissioners
Simpson County Water District
Independent Auditor's Report
(Continued)**

Other Matters (Continued)

Other Reporting Required by Government Auditing Standards (Continued)

effectiveness of Simpson County Water District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Simpson County Water District's internal control over financial reporting and compliance.

Respectfully submitted,

Jones & Associates CPAs, PSC

Jones & Associates CPAs, PSC
Certified Public Accountants
Lexington, KY

April 8, 2021

Management's Discussion and Analysis

Management's Discussion and Analysis

This section of Simpson County Water District's annual financial report presents an analysis of the District's financial performance during the fiscal years ended December 31, 2020 and 2019. This information is presented in conjunction with the audited basic financial statements, which follow this section.

Financial Highlights

The following are highlights of Simpson County Water District for the year ending December 31, 2020:

- Total Net Position increased by \$1,029,968, or 7.1%, to \$15,583,847 from \$14,553,879 in 2019 reflecting increases in capital assets related to the Fritz-Winter Capacity Improvement project and Small Line Replacement project.
- Total Operating Revenue increased by \$105,659, or 4.7%, to \$2,353,146 compared to \$2,247,487 in 2019 with increases in metered water revenue and decreases in forfeited discounts and miscellaneous service revenue.
- Total Operating Expenses decreased by \$49,027, or 2.3%, to \$2,128,306 compared to \$2,177,333 in 2019 reflecting a decrease in purchased water costs.
- The net amount of Total Non-operating Revenues and Expenses increased by \$7,005, or 32.4%, to \$28,627 due to debt interest costs on the Fritz-Winter Capacity Improvement and Small Line Replacement projects and a decrease in interest income.
- Income Before Capital Contributions totaled \$196,213, an increase of \$147,681 compared to the prior year's Income Before Capital Contributions of \$48,532.
- Capital Contributions totaled \$833,755, an increase of \$692,638 compared to the prior year's contributions of \$141,117 reflecting EDA grant funds received for the Fritz-Winter Capacity Improvement project.
- In 2020, Net Utility Plant increased by \$1,510,750 net of depreciation, or 10.1%, to \$16,442,384 from \$14,931,634 in 2019 reflecting the completion of the Fritz Winter Capacity Improvement project, the Small Line Replacement project, and the installation of additional endpoints in the automated meter reading (AMR) system.
- In 2020, total water sold to customers during the year amounted to 308.2 million gallons compared to 337.7 million gallons in year 2019 reflecting the impact of the COVID 19 pandemic on commercial and industrial usage. The peak demand month was July with 32.2 million gallons sold. The peak demand day was July 16th with 1,290,000 gallons pumped.
- New meter applications in year 2020 and year 2019 totaled 45 and 47, respectively and the number of customers at the end of the year totaled 3,535, consisting of 3,148 residential customers and 387 commercial customers.
- The District's water system includes 402 miles of distribution main serving an average of 8.8 customers per mile.
- The average monthly revenue from a residential and commercial customer was \$35.40 and \$205.16, respectively. The average monthly usage by a residential and commercial customer was 4,591 gallons and 29,704 gallons, respectively.
- *Projects placed into service* during the year included the Fritz-Winter Capacity Improvement project totaling \$1,112,827, the 2017 Small Line Replacement Project totaling \$771,081, and additions to the automated meter reading (AMR) system totaling \$100,979.

Overview of the Financial Statements

This annual report includes the District's Management Discussion and Analysis (MD&A), the Independent Auditor's Report, and the basic financial statements of Simpson County Water District. The basic financial statements also include notes that explain in more detail some of the information presented in the financial statements.

Financial Analysis

The following sections include a budgetary analysis for fiscal years ended December 31, 2020 and 2019 and an analysis of net position, revenue and expense, and net utility plant for the fiscal years ended December 31, 2020 and 2019.

Budgetary Analysis for the Year Ended December 31, 2020

Total Revenue exceeded budgeted revenue by \$20,946 reflecting an increase in metered water revenue. The increase in metered revenue is the net effect of lower-than-expected water sales of \$34,251 and the recording of unbilled meter revenue which increased revenue by \$52,245. The recording of unbilled revenue captured customer usage in December 2020 that was not billed as part of the normal billing cycle until January 2021. This accounting practice of revenue recognition was adopted in year 2020. *Total Operating Expenses* related to providing water service and maintaining the District's water distribution system were lower than budget by \$36,094. Operating expense activities include: (1) wages & benefits that were under budget by \$12,505; (2) amortization which includes debt costs and Other Post-Employment Benefits (OPEB) was under budget by \$9,638; (3) purchased water that was under budget by \$6,405; (4) depreciation was under budget by \$2,691; and (5) various other costs which were under budget by a net amount of \$4,855.

Net income totaled \$196,213 for the year which exceeded budgeted net income by \$58,613 and *Capital contributions* totaled \$833,755 which was below budgeted contributions by \$372,845. Budgeted capital contributions included a \$508,000 CDBG grant to provide service to an industry who withdrew its commitment to locate in the District's service area.

Table 1
TABLE OF BUDGETARY COMPARISON

	Budget Year 2020	Actual Year 2020	Variances Favorable \ (Unfavorable)
Revenues			
Metered Water Revenue	\$2,302,000	\$2,319,994	\$17,994
Forfeited Discounts	7,000	8,908	1,908
Miscellaneous Service Revenue	23,200	24,244	1,044
Total Revenues	2,332,200	2,353,146	20,946
Operating Expenses			
Operating Expenses Activities	1,651,000	1,627,235	23,765
Depreciation	507,200	504,509	2,691
Amortization	6,200	(3,438)	9,638
Total Operating Expenses	2,164,400	2,128,306	36,094
Non-operating Revenues (Expenses)			
Interest Income	18,100	19,013	913
Rental	37,100	36,697	(403)
Regulatory Commission Tax	(5,000)	(4,562)	438
Interest Expense	(80,400)	(79,775)	625
Total Non-operating Revenues (Expenses)	(30,200)	(28,627)	1,573
Total Net Expenses	2,194,600	2,156,933	37,667
Net Income	137,600	196,213	58,613
Contribution in Aid of Construction	1,206,600	833,755	(372,845)
Net Change in Net Position	\$1,344,200	\$1,029,968	(\$314,232)

Budgetary Analysis for the Year Ended December 31, 2019

Total Revenue was below budgeted revenue by \$8,013 lower than expected residential water sales and higher than expected commercial water sales. *Total Operating Expenses* related to providing water service and maintaining the District's water distribution system were lower than budget by \$45,567. Operating expenses include: (1) purchased water that was under budget by \$29,584; (2) wages and benefits that were under budget by \$7,583; and (3) various other costs which were under budget by a net amount of \$8,400.

Net income totaled \$48,532 for the year which exceeded budgeted net income by \$38,532 and *Contributions in Aid of Construction* totaled \$141,117 which was below budgeted contributions by \$564,583. Budgeted capital contributions included an Economic Development Authority grant of \$665,000 that was not received in year 2019 for the Fritz Winter Capacity Improvements Project which was delayed until year 2020.

Table 2
TABLE OF BUDGETARY COMPARISON

	Budget Year 2019	Actual Year 2019	Variances Favorable \ (Unfavorable)
Revenues			
Metered Water Revenue	\$2,196,500	\$2,186,446	(\$10,054)
Forfeited Discounts	31,800	31,556	(244)
Miscellaneous Service Revenue	27,200	29,485	2,285
Total Revenues	2,255,500	2,247,487	(8,013)
Operating Expenses			
Operating Expense Activities	1,749,200	1,705,016	44,184
Depreciation	468,500	467,117	1,383
Amortization	5,200	5,200	0
Total Operating Expenses	2,222,900	2,177,333	45,567
Non-operating Revenues (Expenses)			
Interest Income	24,500	24,765	265
Rental	35,600	35,664	64
Regulatory Commission Tax	(4,800)	(4,453)	347
Interest Expense	(77,900)	(77,598)	302
Total Non-operating Revenues (Expenses)	(22,600)	(21,622)	978
Total Net Expenses	2,245,500	2,198,955	46,545
Net Income	10,000	48,532	38,532
Contribution in Aid of Construction	705,700	141,117	(564,583)
Net Change in Net Position	\$715,700	\$189,649	(\$526,051)

Statement of Net Position

A summary of the District's Statement of Net Position is presented in Table 3. The District's assets exceeded liabilities by \$15,583,847 for the year ending December 31, 2020.

Table 3
CONDENSED STATEMENT OF NET POSITION
December 31, 2020

Assets	Year 2020	Year 2019	Variance	
Current and Non-Current Assets	\$3,134,518	\$2,032,852	\$1,101,666	54.2%
Net Capital Assets and Construction in Progress	16,442,384	14,931,634	1,510,750	10.1%
Total Assets	<u>\$19,576,902</u>	<u>\$16,964,486</u>	<u>\$2,612,416</u>	15.4%
Liabilities				
Current and Non-Current Liabilities	\$889,317	\$784,704	\$104,613	13.3%
Net Bonds and Notes Payable	3,103,738	1,707,915	1,395,823	81.7%
Total Liabilities	<u>\$3,993,055</u>	<u>\$2,492,619</u>	<u>\$1,500,436</u>	60.2%
Net Position				
Net Investment in Capital Assets	\$13,128,485	\$13,106,839	\$21,646	0.2%
Restricted for Depreciation Reserves	912,609	703,950	208,659	29.6%
Restricted for Construction	353,457		353,457	100.0%
Unrestricted	1,189,296	669,198	520,098	77.7%
Total Net Position	<u>\$15,583,847</u>	<u>\$14,479,987</u>	<u>\$1,103,860</u>	7.6%
Prior Period Adjustment – Unbilled Revenue	-	73,892	(73,892)	
Total Net Position Restated	<u>15,583,847</u>	<u>14,553,879</u>	<u>1,029,968</u>	7.1%
Total Liabilities and Net Position	<u>\$19,576,902</u>	<u>\$16,972,606</u>	<u>\$2,604,296</u>	15.3%

Total Assets amounted to \$19,576,902 and increased by \$2,612,416, or 15.4%, from last year. *Current and Non-Current Assets* which include funds for general operations, funds for capital improvements, funds for debt service, accounts receivable, interest receivable, and prepaid assets increased by \$1,101,666. The significant increases in current and non-current assets includes the following: (1) remaining balance of the USDA, Rural Development loan of \$353,456 that will be expended in year 2021; (2) a receivable for EDA grant funds of \$147,433; and (3) a receivable for unbilled revenue of \$197,518. *Net Capital Assets and Construction in Progress* include the District's investment in land, distribution mains, pump stations, service lines, and storage tanks. Capital assets totaled \$16,442,384 and increased by \$1,510,750 reflecting projects that were placed into service during the year such as the Fritz Winter Capacity Improvement project, Small Line Replacement project, and the additions to the AMR system.

Total Liabilities amounted to \$3,993,055 and increased by \$1,500,436, or 60.2%, from last year. *Current and Non-Current Liabilities* which include accounts payable, customer deposits, interest payable, long-term debt due within one year, and other postemployment benefits increased by \$104,613 due to an increase in accounts payable. *Net Bonds and Notes Payable* which includes debt obligations beyond a year and unamortized premiums and discounts on refunded bonds increased by \$1,395,823 reflecting the addition of the USDA Rural Development (Series 2020) loan of \$1,529,500 that funded the Fritz Winter Capacity Improvement and Small Line Replacement projects.

Total Net Position Restated amounted to \$15,583,847 an increase of \$1,029,968 or 7.1% from last year. *Net Position Invested in Capital Assets* which includes the District's transmission & distribution facilities net of related debt increased by \$21,646. *Restricted for Depreciation Reserves* which are funds set aside for future system repairs and improvements increased by \$208,659. *Restricted for Construction* increased by \$353,457 which USDA, Rural Development (Series 2020) funds that will be expended in year 2021. and *Unrestricted Net Assets* increased by \$520,098.

Statement of Revenues, Expenses, and Changes in Net Position

This statement identifies various revenue and expense items which impact the change in net position. A summary of this statement is presented in Table 4 below.

Table 4
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Year Ended December 31, 2020

	Year 2020	Year 2019	Increase (Decrease)	
Operating Revenues				
Metered Water Revenue	\$2,319,994	\$2,186,445	\$133,549	6.1%
Forfeited Discounts	8,908	31,557	(22,649)	-71.8%
Miscellaneous Service Revenue	24,244	29,485	(5,241)	-17.8%
Total Operating Revenues	<u>\$2,353,146</u>	<u>\$2,247,487</u>	<u>\$105,659</u>	<u>4.7%</u>
Operating Expenses				
Wages and Benefits	\$351,295	\$334,417	\$16,878	5.0%
Commissioner Fees	10,800	10,800	-	0.0%
Purchased Water	1,021,595	1,113,417	(91,822)	-8.2%
Purchased Power	26,502	27,870	(1,368)	-4.9%
Materials and Chemicals	42,943	37,247	5,696	15.3%
Contractual Services	118,142	117,784	358	0.3%
Rental of Building	10,472	10,231	241	2.4%
Equipment	26,899	30,368	(3,469)	-11.4%
Depreciation	504,509	467,117	37,392	8.0%
Amortization	(3,438)	5,199	(8,637)	-66.1%
Other Operating Expenses	18,587	22,883	(4,296)	-18.8%
Total Operating Expenses	<u>\$2,128,306</u>	<u>\$2,177,333</u>	<u>(\$49,027)</u>	<u>-2.3%</u>
Non-Operating Revenues (Expenses)				
Interest Income	\$19,013	\$24,765	(\$5,752)	-23.2%
Rental Income	36,697	35,664	1,033	2.9%
Public Service Commission Tax	(4,562)	(4,453)	(109)	2.4%
Interest Expense	(79,775)	(77,598)	(2,177)	2.8%
Total Non-Operating Revenues (Expenses)	<u>(\$28,627)</u>	<u>(\$21,622)</u>	<u>(7,005)</u>	<u>32.4%</u>
Income Before Capital Contributions	\$196,213	\$48,532	\$147,681	304.3%
Capital Contributions	833,755	141,117	692,638	490.8%
Change in Net Position	<u>\$1,029,968</u>	<u>\$189,649</u>	<u>\$840,319</u>	<u>443.1%</u>
Net Position, Beginning of Year	\$14,553,879	\$14,290,338	\$263,541	1.8%
Prior Period Adjustment - Unbilled Revenue	-	73,892	(73,892)	
Net Position, Beginning of Year Restated	<u>\$14,553,879</u>	<u>\$14,364,230</u>	<u>\$189,649</u>	<u>1.3%</u>
Total Net Position, End of Year	<u>\$15,583,847</u>	<u>\$14,553,879</u>	<u>\$1,029,968</u>	<u>7.1%</u>

Total Revenue increased by \$105,659, or 4.7%, from last year reflecting an increase in *Metered Water Revenue* of \$133,549 and decreases in forfeited discounts and miscellaneous service revenue combined.

Financial Analysis (Continued)

Customer demand was down for the year but was offset by a retail rate increase of 9.5% implemented to support the Fritz Winter Capacity Improvement and Line Replacement projects; and the recording of unbilled revenue totaling \$52,245. The recording of unbilled revenue captured customer usage in December 2020 that was not billed as part of the normal billing cycle until January 2021. This accounting practice of revenue recognition was adopted in year 2020. The volume of water sold this year was 308.2 million gallons compared to 337.7 million gallons last year, an 8.7% decrease totaling 29.4 million gallons. The impact of the COVID-19 pandemic adversely impacted commercial and industrial water sales resulting in a decrease of 17.4%, or 28.5 million gallons, compared to last year. *Forfeited Discounts*, which are late penalties, decreased by \$22,649 and *Miscellaneous Service Revenue*, which includes connection fees, collection fees, meter tampering fees, and billing services, decreased by \$5,241 due to the COVID-19 pandemic. In March 2020, the Kentucky Public Service Commission issued a moratorium on the assessment of penalties for late payments and on performing disconnection for non-payment. In October, the moratorium for late payment penalties on commercial accounts was lifted as well as disconnects for non-payment. The moratorium on late payment penalties on residential customers remained in effect through the end of the year.

Total Operating Expenses decreased by \$49,027, or 2.3%, and consists of the following: (1) purchased water decreased by \$91,822 reflecting a reduction in customer demand; (2) depreciation increased by \$37,392 due to large projects placed into service during the year; (3) wages and benefits increased by \$16,878 due to wages paid in accordance with the District's COVID-19 operations protocol; and (4) all other expenses decreased by a net total of \$11,475.

Non-Operating Expense increased by \$7,005 which includes a decrease in interest income of \$5,752 due to declining interest rates and an increase in interest expense of \$2,177 related to financing costs on the Fritz Winter Capacity Improvement and Line Replacement projects.

Capital Contributions totaled \$833,755 and increased by \$692,638 compared to last year. In year 2020, contributions included contributions received for the following: EDA grant funds for the Fritz-Winter Capacity Improvement projects, \$538,260; line relocations, \$160,760; new meter installations, \$91,001; and other contributions totaling \$43,734. *Net Position* at the end of the year totaled \$15,583,847, an increase of \$1,029,968.

Changes in Utility Plant

The largest portion of the District's assets is invested in utility plant totaling \$16,442,384 on December 31, 2020. Changes by asset category are listed below in Table 5.

TABLE 5
CHANGES IN NET UTILITY PLANT
(Net of Depreciation)

Capital Investment	Year 2020	Year 2019	Increase (Decrease)	
Land	\$25,549	\$25,549	\$ -	0.0%
Structures	77	77	-	0.0%
Pumping Equipment	1,380,232	1,163,949	216,283	18.6%
Storage Tanks	1,371,064	1,449,184	(78,120)	-5.4%
Distribution Mains	10,831,437	9,302,528	1,528,909	16.4%
SCADA Communications	25,454	25,466	(12)	0.0%
Meters	2,096,040	1,977,886	118,154	6.0%
Hydrants	502,338	504,303	(1,965)	-0.4%
Computer Hardware and Software	99,822	111,787	(11,965)	-10.7%
Furniture and Fixtures	5,449	6,364	(915)	-14.4%
Vehicles and Equipment	3,644	8,501	(4,857)	-57.1%
Other	19,117	18,191	926	5.1%
TOTAL Capital Investment	\$16,360,223	\$14,593,785	\$1,766,438	12.1%
Construction in Progress	82,161	337,849	(255,688)	-75.7%
NET Utility Plant	\$16,442,384	\$14,931,634	\$1,510,750	10.1%

The District's utility plant includes the following: (1) 402 miles of distribution main, (2) 24 miles of service line, (3) 219 fire hydrants, (4) 7 storage tanks with storage capacity from 150,000 gallons to 500,000 gallons and total system storage capacity of 2.2 million gallons, and (5) 7 pumping stations. Pumping equipment and distribution mains increased by \$216,283 and \$1,528,909, respectively, reflecting the Fritz-Winter Capacity Improvement and Line Replacement projects that were placed into service during the year. Meters increased by \$118,154 reflecting the installation of additional endpoints in the AMR system. *Net Utility Plant* increased by \$1,510,750, or 10.1%.

Long-Term Debt

The District's debt obligations include United States Department of Agriculture (USDA) bonds and Kentucky Rural Water Finance Corporation (KRWFC) loans. In September 2020, the District received funding of \$1,529,500 from USDA Rural Development (Series 2020) bonds to fund the Fritz-Winter Capacity Improvement project. As of December 31, 2020, the District had \$3,247,500 in outstanding debt compared to \$1,843,000 in the previous year, an increase of \$1,404,500 in debt obligations.

Factors Affecting Budget Year 2021

- On January 1, 2021, a retail rate increase of 2.92% is budgeted and is a pass through of a wholesale rate increase from the District's purchased water supplier.
- The installation of an additional 1,000 AMR units and acoustic leak sensors using internal funding.
- The full year impact of the Fritz-Winter Capacity Improvement and Line Replacement projects on depreciation and interest expense.
- The impact of regulatory changes forthcoming from the Kentucky Division of Water, the Environmental Protection Agency, and the Kentucky Public Service Commission.

The District's Board of Commissioners adopted the budget for year 2021 at its meeting held in October 2020. Metered water sales are budgeted to increase by 9.30%. Total revenue is budgeted to increase by

Financial Analysis (Continued)

9.8% from year 2020, and total expenses are budgeted to increase by 13.76%. Debt service payments are expected to total \$224,100 with a reduction in outstanding debt of \$128,500. Net income for year 2021 is budgeted to total \$54,000. Capital expenditures for the year are budgeted to total \$1,056,000 funded by inhouse funds of \$662,144, the proceeds remaining from the USDA-Rural Development, Series 2020 loan of \$353,456, and contributions from customers and governmental agencies totaling \$40,400.

Request for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the General Manager, Simpson County Water District, P.O. Box 10180, Bowling Green, KY 42102-4780. General information regarding the District can be found on our website located at www.simpsonwater.com.

Financial Statements
Proprietary Fund

**Simpson County Water District
Statement of Net Position - Proprietary Fund
December 31, 2020**

Assets

Current assets

Cash and cash equivalents	\$ 1,234,091
Restricted cash and cash equivalents	752,016
Restricted investments	665,290
Investments	2,999
Customer accounts receivable, net	64,387
Accounts receivable - Other	197,619
Unbilled receivables	197,518
Prepaid assets	10,055
Other current assets	<u>10,543</u>

Total current assets \$ 3,134,518

Noncurrent assets

Capital assets, net	\$ 16,360,223
Construction in progress	<u>82,161</u>

Total noncurrent assets \$ 16,442,384

Total assets **\$ 19,576,902**

Liabilities and net position

Liabilities

Current liabilities

Accounts payable	\$ 302,141
Accounts payable - WCWD	91,994
Customer deposits	152,564
Bonds and notes payable	128,000
Interest payable	39,200
Other current liabilities	<u>16,828</u>

Total current liabilities \$ 730,727

Noncurrent liabilities

Bonds and notes payable, net	\$ 3,103,738
Other postemployment benefits	108,606
Rebates payable	<u>49,984</u>

Total noncurrent liabilities \$ 3,262,328

Total liabilities \$ 3,993,055

Simpson County Water District
Statement of Net Position - Proprietary Fund
December 31, 2020
(Continued)

Liabilities and net position *(Continued)*

Net position	
Net investment in capital assets	\$ 13,210,646
Restricted	
Debt service	912,609
Construction	353,457
Unrestricted	<u>1,107,135</u>
Total net position	\$ <u>15,583,847</u>
Total liabilities and net position	\$ <u><u>19,576,902</u></u>

The accompanying notes are an integral part of the financial statements.

Simpson County Water District
Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Fund
For the Year Ended December 31, 2020

Operating revenues	
Residential metered sales	\$ 1,356,920
Commercial metered sales	707,379
Industrial metered sales	255,695
Forfeited discounts	8,908
Miscellaneous service revenue	<u>24,244</u>
Total operating revenues	\$ <u>2,353,146</u>
Operating expenses	
Purchased water	\$ <u>1,021,595</u>
Pumping	
Purchased power	\$ 21,790
Insurance	1,465
Professional services	1,125
Miscellaneous	<u>1,197</u>
Total pumping	\$ <u>25,577</u>
General distribution	
Salaries and benefits	\$ 81,162
Purchased power	4,712
Materials and supplies	3,478
Insurance	7,202
Contractual services	13,226
Professional services	1,125
Miscellaneous	<u>14,783</u>
Total general distribution	\$ <u>125,688</u>
Customer accounts	
Salaries and benefits	\$ 130,215
Materials and supplies	2,158
Insurance	1,465
Contractual services	35,322
Professional services	2,250
Uncollectible accounts	1,844
Miscellaneous	<u>14,109</u>
Total customer accounts	\$ <u>187,363</u>
Maintenance	
Salaries and benefits	\$ 84,889
Materials and supplies	33,450
Contractual services	35,199
Professional services	2,250

Simpson County Water District
Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Fund
For the Year Ended December 31, 2020
(Continued)

Operating expenses *(Continued)*

Maintenance <i>(Continued)</i>	
Miscellaneous	\$ <u>8,951</u>
Total maintenance	\$ <u>164,739</u>
Administrative and general	
Salaries and benefits	\$ 65,829
Other postemployment benefits	(5,881)
Materials and supplies	3,857
Insurance	2,879
Contractual services	25,395
Professional services	2,250
Miscellaneous	<u>2,063</u>
Total administrative and general	\$ <u>96,392</u>
Depreciation	\$ <u>504,509</u>
Amortization	\$ <u>2,443</u>
Total operating expenses	\$ <u>2,128,306</u>
Total operating revenues (expenses)	\$ <u>224,840</u>
Non-operating revenues (expenses)	
Interest revenue	\$ 19,013
Rental revenue	36,697
Regulatory commission tax	(4,562)
Interest expense	<u>(79,775)</u>
Total non-operating revenues (expenses)	\$ <u>(28,627)</u>
Excess (deficiency) of revenues over expenses	\$ <u>196,213</u>
Capital contributions	
Contributions in aid of construction	\$ <u>833,755</u>
Total capital contributions	\$ <u>833,755</u>
Change in net position	\$ 1,029,968
Net position - Beginning of year (restated)	<u>14,553,879</u>
Net position - End of year	\$ <u><u>15,583,847</u></u>

The accompanying notes are an integral part of the financial statements.

**Simpson County Water District
Statement of Cash Flows - Proprietary Fund
For the Year Ended December 31, 2020**

Cash flows from operating activities	
Cash received from customers	\$ 2,312,408
Cash payments to suppliers for goods and services	(1,334,179)
Cash payments to employees for services	<u>(362,095)</u>
Net cash flows from operating activities	\$ <u>616,134</u>
Cash flows from capital and related financing activities	
Cash received from contributions in aid of construction	\$ 683,397
Cash received from loan proceeds	2,659,343
Cash paid for capital assets	(1,899,076)
Cash paid for bond and note principal	(1,254,843)
Cash paid for interest on long-term debt	<u>(100,945)</u>
Net cash flows from capital and related financing activities	\$ <u>87,876</u>
Cash flows from investing activities	
Interest received	<u>\$ 15,299</u>
Net cash flows from investing activities	\$ <u>15,299</u>
Net increase (decrease) in cash and cash equivalents	\$ 719,309
Cash and cash equivalents - Beginning	<u>1,266,798</u>
Cash and cash equivalents - Ending	\$ <u><u>1,986,107</u></u>
Cash and cash equivalents reported in the Statement of Net Position	
Cash and cash equivalents	\$ 1,234,091
Restricted cash and cash equivalents	<u>752,016</u>
Total cash and cash equivalents reported in the Statement of Net Position	\$ <u><u>1,986,107</u></u>

Simpson County Water District
Statement of Cash Flows - Proprietary Fund
For the Year Ended December 31, 2020
(Continued)

Reconciliation of cash flows from operating activities

Operating income	\$ 224,840
Adjustments to reconcile income (loss) from operation to cash used in operating activities	
Depreciation	504,509
Amortization	2,443
Other postemployment benefits	(5,881)
Rental revenue	36,697
Regulatory commission tax	(4,562)
Changes in assets and liabilities	
Customer accounts receivable, net	(7,336)
Accounts receivable - Other	(25,768)
Unbilled receivables	(52,244)
Prepaid assets	(1,474)
Other current assets	252
Accounts payable	72,551
Accounts payable - WCWD	(127,868)
Customer deposits	7,913
Other current liabilities	<u>(7,938)</u>
Net cash flows from operating activities	\$ <u>616,134</u>

The accompanying notes are an integral part of the financial statements.

**Simpson County Water District
Notes to the Financial Statements
December 31, 2020**

Note 1. Description of Entity and Summary of Significant Accounting Policies

A. Description of Entity

The Simpson County Water District (District) is a tax-exempt entity organized under KRS 74.010 which provides a public water system to citizens located primarily in Simpson County, Kentucky. The District is governed by a three-member board (Board), which are appointed by the Simpson County Judge Executive, and is a legally separate entity that is a component unit of the Simpson County Fiscal Court.

B. Basis of Presentation and Accounting

The financial statements are presented in accordance with the provisions of the Governmental Accounting Standards Board (GASB). The accounting policies conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. All of the activities are accounted for as an enterprise fund (a proprietary fund) for financial reporting purposes.

C. Proprietary Fund

The District is a single-enterprise proprietary fund that operates in a manner similar to a private business enterprise and for which a periodic determination of revenues earned, expenses incurred, and/or change in net position is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. District activities are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recognized as soon as they result in liabilities for the benefits provided.

Proprietary funds distinguish operating revenues and expenses from non-operating items as follows:

- Operating revenues generally result from providing services in connection with the proprietary funds' principal ongoing operations;
- Operating expenses include the cost of sales and services, administrative expenses, and depreciation and amortization of capital assets; and
- Federal, state, and local assistance used to finance operations and expenses not related to the provision of water services are reported as non-operating revenues and expenses.

It is the District's policy to apply restricted resources when an obligation is incurred for which both restricted and unrestricted net position are available for use.

D. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; general liability claims; and natural disasters. The District manages these risks through the purchase of insurance.

The District extends credit to all citizens who live within the geographic service area of the District and who utilize the utility system. Credit losses may be minimal and are generally within management's expectations.

Simpson County Water District
Notes to the Financial Statements
December 31, 2020
(Continued)

Note 1. Description of Entity and Summary of Significant Accounting Policies *(Continued)*

E. Exchange and Non-Exchange Transactions

Revenues resulting from exchange transactions, in which each party receives essentially equal value, are recorded on the accrual basis when the exchange takes place. Non-exchange transactions are transactions in which the District receives value without directly giving equal value in return. Revenue from grants and contributions are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Eligibility requirements include the following: (1) timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; (2) matching requirements, in which the District must provide local resources to be used for a specified purpose; and (3) expenditure requirements, in which resources are provided to the District on a reimbursement basis.

F. Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, cash and cash equivalents include amounts in demand deposits as well as short-term investments with an initial maturity date within three months or less of the date acquired by the District.

G. Accounts Receivable

Customer accounts receivable amounts arise from monthly water usage. Based on District policy, water meters are read monthly with billings occurring approximately 10 days subsequent to the reading. Once billed, the customer has 16 days to pay the amount due. If payment is not made by the due date, a late notice is sent to the customer and a grace period of up to 4 days is granted. If payment is not made at the expiration of the grace period, a late penalty is assessed to water charges and delinquent notices are sent. Customers are given 14 days from the date of the delinquent notice to render payment. Customer service may call customers to facilitate collection; if no payment is received, collection trips are made to the service location. If collection does not occur, the meter is shut off. If collection is considered unlikely, the balances are charged off as a bad debt expense in the period in which they were deemed uncollectible.

Management's periodic evaluation of the adequacy of the allowance for doubtful accounts is based on past loss experience, known and other risks inherent to the specific amount, adverse situations that may affect the customer's ability to render payment, and current economic conditions. Management considers many factors in determining whether a receivable is impaired, such as payment history and changes in employment.

H. Capital Assets

The District has an ongoing activity of assessing the feasibility of installing additional lines to new service areas. Once an extension is considered feasible, there are additional engineering studies, applications to various funding agencies, and project administrative costs. The District defers the ongoing activity and capitalizes these costs as part of the utility plant upon completion of the project. Management's capitalization policy is based upon the assets' estimated future benefit. Depreciation is computed using the straight-line method over the estimated useful lives of the utility plant. The estimated useful lives range from 5 to 50 years for utility plant assets.

Simpson County Water District
Notes to the Financial Statements
December 31, 2020
(Continued)

Note 1. Description of Entity and Summary of Significant Accounting Policies *(Continued)*

I. Investments

Current investments consist of certificates of deposit that mature or are available for withdrawal in one year or less. Noncurrent investments consist of certificates of deposit that mature or are available for withdrawal within a period longer than one year. Investments are valued at fair market value which approximates cost.

J. Capital Contributions

Contributions are recognized in the Statement of Revenues, Expenses, and Changes in Net Position when earned. Contributions may include connect fees, developer contributed utility systems, and other supplemental support by other utilities and industrial customers and federal, state, and local grants in support of system improvements. The District capitalizes construction period interest on loans that were obtained to finance construction.

K. Debt

Long-term debt is reported at face value, net of any premium or discount on the bond issuance and net of bond issue costs. Bond premiums, bond discounts, and bond issue costs are amortized as interest expense over the life of the bonds.

L. Net Position

The net position classifications are defined as follows:

- *Net investment in capital assets*: This component consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those capital assets;
- *Restricted*: This component consists of funds with external constraints placed on net position imposed by creditors (such as through debt covenants), contributors, laws, or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation; and
- *Unrestricted net position*: This component of net position consists of net position that does not meet the definition of “restricted” or “net investment in capital assets.”

M. Use of Estimates in Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reported period. Actual results could differ from those estimates.

Note 2. New Accounting Pronouncements

In 2016, FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which is intended to improve financial reporting on leasing transactions. ASU No. 2016-02 will require lessees to recognize right of use assets and lease obligations for operating and financing leases under terms greater than 12 months. ASU No. 2016-02 is effective for fiscal years beginning after December 15, 2020, with early adoption permitted. The District is currently evaluating the impact of the provisions of ASU Topic 842.

Simpson County Water District
Notes to the Financial Statements
December 31, 2020
(Continued)

Note 2. New Accounting Pronouncements *(Continued)*

GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, is effective for periods beginning after December 15, 2020. This statement establishes accounting requirements for interest cost incurred before the end of a construction period. The objectives of this statement are to enhance the relevance and comparability of information about capital assets and the cost of borrowing and to simplify accounting for interest cost incurred before the end of the construction period. This statement requires that the interest cost incurred before the end of the construction period be recognized as an expense in the period in which the cost is incurred and no longer included in the historical cost of a capital asset. The District is currently evaluating the impact of this statement.

Note 3. Deposits, Restricted Cash, Investments, and Restricted Investments

A. Deposits

The District maintains deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by Kentucky Revised Statutes. According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution's failure, the District's deposits may not be returned. The District does not have a formal deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). At December 31, 2020, the District's deposits were fully covered by federal depository insurance or by collateral held by depository institutions.

B. Restricted Cash and Cash Equivalents

Restricted cash consists of the following:

Construction fund	\$	353,457
Sinking funds		175,259
Depreciation fund		218,300
Customer deposits fund		5,000
Total restricted cash	\$	<u>752,016</u>

The construction fund consists of borrowed money to be used for a water line replacement project and a water capacity improvement project. The sinking funds are restricted to the payment of principal and interest on long-term debt. The depreciation fund is restricted to payment for improvements and approved repairs. The customer deposits fund is restricted to hold customer deposits until service is terminated.

C. Investments and Restricted Investments

Kentucky Revised Statutes authorize local governmental units to invest in obligations of the United States and its agencies, obligations of the Commonwealth of Kentucky and its agencies, shares in savings and loan associations insured by federal agencies, deposits in national or state-chartered banks insured by federal agencies, and larger amounts in such institutions providing such banks pledge as security

Simpson County Water District
Notes to the Financial Statements
December 31, 2020
(Continued)

Note 3. Deposits, Restricted Cash, Investments, and Restricted Investments *(Continued)*

C. Investments and Restricted Investments *(Continued)*

obligations of the United States government or its agencies. Investing is performed in accordance with these state statutes. The District held \$668,289 in certificates of deposit at December 31, 2020, all of which are categorized as current investments.

Note 4. Rebates Payable

These amounts are partially made up of private developers' unrecovered costs in installing water lines. Capital assets were increased for a like amount when the facilities were donated to the District. As meters are placed in the development, the developer receives half of the new customers' contribution for meters connected directly to the extension over the next 10 years or up to the value of facilities constructed. The remaining balance in this account was obtained from subscriptions of prospective users of the District. When a meter is installed, the subscribed amount is transferred to contributions in aid of construction.

Note 5. Capital Assets

Capital assets consists of the following:

	<u>Beginning Balance</u>		<u>Increase</u>		<u>Decrease</u>		<u>Ending Balance</u>
Assets not being depreciated:							
Land and land rights	\$ 25,549	\$		\$		\$	25,549
Construction in progress	337,849		1,987,591		2,243,279		82,161
Assets being depreciated:							
Utility plant in service	<u>21,260,092</u>		<u>2,270,947</u>		<u>798</u>		<u>23,530,241</u>
Total capital assets	\$ 21,623,490	\$	4,258,538	\$	2,244,077	\$	23,637,951
Less: Accumulated depreciation	<u>6,691,856</u>		<u>504,509</u>		<u>798</u>		<u>7,195,567</u>
Capital assets, net	<u>\$ 14,931,634</u>	\$	<u>3,754,029</u>	\$	<u>2,243,279</u>	\$	<u>16,442,384</u>

Note 6. Coronavirus

In March 2020, the outbreak of Covid-19 (coronavirus) was recognized as a pandemic by the World Health Organization. The outbreak has had a notable impact on general economic conditions with many unknown effects. The District continues to closely monitor the impact of the coronavirus outbreak. The extent to which this will continue to impact its operations or financial results is still uncertain; however, management believes that the District will remain stable.

Note 7. Commitments

On March 6, 1992, the District signed a water purchase agreement with the White House Utility District of Robertson and Sumner Counties, Tennessee (Utility). The agreement provides that the Utility will be the primary provider of water to the District. The contract shall extend for a term of 40 years with an option to renew or extend the contract for an additional 20 years.

Simpson County Water District
Notes to the Financial Statements
December 31, 2020
(Continued)

Note 7. Commitments *(Continued)*

Construction in progress commitments as of December 31, 2020, consists of the following:

- *Steel Road Capacity Improvement:* In 2020, the District received loan proceeds from USDA-Rural Development in the amount of \$1,529,500. The majority of these funds were expended during the year on 2 construction contracts. These contracts were for the Fritz-Winter Capacity Improvements project and the Water Line Replacements and Extensions project. The residual funds are committed to finance the Steele Road Capacity Improvement project in the amount of \$373,910 during 2021.
- *Highway 100 East Tank Painting:* The District has budgeted for a project to re-paint the 100 East water storage tank. This project was subsequently bid, and the lowest bidder was accepted in the amount of \$89,320. This project is to be completed during the spring of 2021.
- *AMR/AMI Project – Phase 2:* The District has budgeted for Phase 2 of the installation of its automated meter reading (AMR) system. Metering improvements will be installed at approximately 1,000 service locations and will allow the District to collect consumption data through a radio transmission. The project includes the installation of acoustic leak detection capabilities that will continuously monitor mains and service lines for water leaks. The amount budgeted for Phase 2 in 2021 is \$235,000.

Note 8. Long-Term Debt

The following reflects the long-term debt activity for the year ended December 31, 2020:

	<u>Beginning</u>		<u>Additions</u>		<u>Reductions</u>		<u>Ending</u>		<u>Due Within</u>
	<u>Balance</u>						<u>Balance</u>		<u>One Year</u>
USDA-RD 1995	\$ 663,000	\$		\$	30,000	\$	633,000	\$	32,000
KRWFC 2012B	1,150,000				65,000		1,085,000		70,000
KRWFC 2013B	30,000				30,000				
USDA-RD 2020			1,529,500				1,529,500		26,000
Total	\$ 1,843,000	\$	1,529,500	\$	125,000	\$	3,247,500	\$	128,000

Principal and interest are due as follows:

Simpson County Water District
Notes to the Financial Statements
December 31, 2020
(Continued)

Note 8. Long-Term Debt *(Continued)*

<u>Year Ending June 30,</u>	<u>Interest</u>	<u>Principal</u>
2021	\$ 89,205	\$ 128,000
2022	91,528	129,500
2023	87,049	137,000
2024	82,383	139,500
2025	77,610	142,000
2026 – 2030	306,733	799,500
2031 – 2035	150,215	687,500
2036 – 2040	93,427	178,500
2041 – 2045	75,914	195,500
2046 – 2050	56,695	214,500
2051 – 2055	35,630	235,500
2056 – 2060	12,473	260,500
Total	<u>\$ 1,158,862</u>	<u>\$ 3,247,500</u>

A. USDA Rural Development 91-08 Series 1995 – Revenue Bonds

On June 11, 1996, the District issued \$1,060,000 of water revenue bonds for the construction and improvement of the District’s distribution system. The bonds mature serially through January 1, 2034 and require semi-annual interest and principal payments on January 1 and July 1 at an interest rate of 4.875%. The bonds are collateralized with service revenue. Bonds outstanding as of December 31, 2020 are \$633,000.

B. Kentucky Rural Water Finance Corporation Series 2012B – Refunding Loan

On February 27, 2013, the District received a \$1,575,000 loan to refund a prior revenue bond. The loan matures February 1, 2033 and requires semi-annual interest and principal payments on January 1 and July 1 at interest rates ranging from 2.2% to 3.95%. The loan is collateralized with service revenue. The outstanding balance as of December 31, 2020 is \$1,085,000.

C. Kentucky Rural Water Finance Corporation Series 2013B – Refunding Loan

On February 27, 2013, the District received a \$330,000 loan to refund a prior revenue bond. As of December 31, 2020, this loan, with a maturity date of January 1, 2020, had been repaid and no principal was outstanding.

D. USDA Rural Development 91-09 Series 2020 – Revenue Bonds

On September 25, 2020, the District issued \$1,529,500 of revenue bonds to finance the construction water extensions, additions, and improvements. The bonds mature serially through January 1, 2060 and require annual principal payments on January 1 and semi-annual interest payments on January 1 and July 1 at an interest rate of 1.875%. The bonds are collateralized with service revenue. Bonds outstanding as of December 31, 2020 are \$1,529,000.

Simpson County Water District
Notes to the Financial Statements
December 31, 2020
(Continued)

Note 9. Interim Financing

A loan in the amount of \$1,129,843 was obtained during 2020 to finance construction. The balance was paid off prior to December 31, 2020.

Note 10. Restatement of Net Position

Beginning net position was restated as follows to reflect the correction of an error in account balances at December 31, 2019 due to a change in accounting policy of recording unbilled revenue and purchased water:

	<u>Restricted</u>	<u>Unrestricted</u>
Net position - Beginning of year	\$ 703,950	\$ 669,198
Understatement of unbilled receivable		145,274
Adjustment for funds restricted to debt service	166,470	(166,470)
Understatement of accounts payable		(71,382)
Net position - Beginning of year, restated	<u>\$ 870,420</u>	<u>\$ 576,620</u>

Liabilities were understated by \$71,382 and assets were understated by \$145,274. As a result, net position was understated by \$73,892.

Note 11. Related Parties

The Warren County Water District (Warren) provides management, engineering, and repair and maintenance services to the District. The District included \$91,994 in accounts payable at December 31, 2020. During 2020, expenses from Warren amounted to \$704,105 for the following:

Wages and benefits	
Operation	\$ 234,106
Administrative	
Supervision and administration	90,346
Accounting	24,932
Customer service	52,141
Engineering	13,649
Operations – Other	96,141
Additions to plant	179,614
Special projects	13,176
Total	<u>\$ 704,105</u>

In addition to the above expenses from Warren, the District also recognized other postemployment benefits (OPEB) expense of \$(5,881) in 2020. Warren adopted GASB Statement No. 45 in 2016 and GASB Statement No. 75 in 2019, which requires Warren to accrue the projected value of retiree healthcare benefits earned during its employees' working lifetime. The OPEB expense reflected in the Statement of Revenues, Expenses, and Changes in Net Position is the District's proportionate share of annual OPEB costs (expense) recorded by Warren, in accordance with relevant accounting and financial reporting

Simpson County Water District
Notes to the Financial Statements
December 31, 2020
(Continued)

Note 11. Related Parties *(Continued)*

standards. The District's portion of the OPEB liability, included in the Statement of Net Position, totaled \$108,606 at December 31, 2020.

In the ordinary course of business, the District has and expects to continue to have transactions with Warren. In the opinion of management, such transactions were on substantially the same terms as those prevailing at the time of comparable transactions with other entities and did not involve more than a normal risk of collectability or present any other unfavorable features to the District.

Note 12. Subsequent Events

The District has evaluated and considered the need to recognize or disclose subsequent events through April 8, 2021, the date which the financial statements were available to be issued. Subsequent events past this date, as they pertain to the year ended December 31, 2020, have not been evaluated by the District.

Supplementary Information

**Simpson County Water District
Schedule of Budgetary Comparison
For the Year Ended December 31, 2020**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Metered water revenue	\$ 2,402,000	\$ 2,302,000	\$ 2,319,994	\$ 17,994
Forfeited discounts	36,200	7,000	8,908	1,908
Miscellaneous service revenue	27,200	23,200	24,244	1,044
Interest	26,100	18,100	19,013	913
Rental	35,100	37,100	36,697	(403)
Total revenues	\$ 2,526,600	\$ 2,387,400	\$ 2,408,856	\$ 21,456
Expenses				
Salaries and wages	\$ 217,200	\$ 227,200	\$ 220,929	\$ 6,271
Commissioner fees	10,800	10,800	10,800	
Employee overhead	134,600	136,600	130,366	6,234
Purchased water	1,128,000	1,028,000	1,021,595	6,405
Purchased power	28,600	26,600	26,502	98
Materials and supplies	37,500	37,500	42,943	(5,443)
Contractual services - Accounting	9,000	9,000	9,000	
Contractual services - Legal	1,000	1,000	524	476
Contractual services - Other	113,600	111,600	108,618	2,982
Rental of building and property	10,100	10,100	10,472	(372)
Equipment	32,400	30,400	26,899	3,501
Insurance - Liability and property	13,000	13,000	12,207	793
Insurance - Treasury bond	800	800	804	(4)
Regulatory commission tax	5,000	5,000	4,562	438
Bad debts expense	5,300	3,300	1,844	1,456
Miscellaneous expense	5,100	5,100	3,732	1,368
Depreciation	502,200	507,200	504,509	2,691
Amortization	2,500	2,500	2,443	57
Interest	81,400	80,400	79,775	625
OPEB	3,700	3,700	(5,881)	9,581
Total expenses	\$ 2,341,800	\$ 2,249,800	\$ 2,212,643	\$ 37,157
Excess (deficiency) of revenues over expenses	\$ 184,800	\$ 137,600	\$ 196,213	\$ 58,613
Contributions in aid of construction	1,206,600	1,206,600	833,755	(372,845)
Net change in net position	\$ 1,391,400	\$ 1,344,200	\$ 1,029,968	\$ (314,232)
Net position - Beginning of year	15,106,038	15,106,038	14,553,879	(552,159)
Net position - End of year	\$ 16,497,438	\$ 16,450,238	\$ 15,583,847	\$ (866,391)

JONES & ASSOCIATES CPAs, PSC

121 PROSPEROUS PLACE, SUITE 2A, LEXINGTON, KY 40509 (859) 687-0303

CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Commissioners of
Simpson County Water District
Franklin, Kentucky

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*

We 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 of Simpson County Water District, as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise Simpson County Water District's basic financial statements, and have issued our report thereon dated April 8, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Simpson County Water 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 our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Simpson County Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of Simpson County Water 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 a 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* is a deficiency, or a 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.

Our 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 our audit, we did not identify any deficiencies in internal control that we 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 Simpson County Water District's financial statements are free from material misstatement, we 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

**Board of Commissioners
Simpson County Water District
Independent Auditor's Report on Internal Control over Financial Reporting and
on Compliance and Other Matters Based on an Audit of the Financial Statements
Performed in Accordance with *Government Auditing Standards*
(Continued)**

Compliance and Other Matters (Continued)

opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do express such an opinion. The results of our 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 our testing of 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 purpose.

Respectfully submitted,

Jones & Associates CPAs, PSC

Jones & Associates CPAs, PSC
Certified Public Accountants
Lexington, KY

April 8, 2021

Reports Required by the *Uniform Guidance*

JONES & ASSOCIATES CPAs, PSC

121 PROSPEROUS PLACE, SUITE 2A, LEXINGTON, KY 40509 (859) 687-0303

CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Commissioners of
Simpson County Water District
Franklin, Kentucky

Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the *Uniform Guidance*

Report on Compliance for Each Major Federal Program

We have audited Simpson County Water District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on Simpson County Water District's major federal program for the year ended December 31, 2020. Simpson County Water District's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Simpson County Water District's major federal program based on our audit of the types of compliance requirements referred to above. 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). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Simpson County Water District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of Simpson County Water District's compliance.

Opinion on Each Major Federal Program

In our opinion, Simpson County Water District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2020.

**Board of Commissioners
Simpson County Water District
Independent Auditor's Report on Compliance for Each Major Program and
on Internal Control over Compliance Required by the *Uniform Guidance*
(Continued)**

Report on Internal Control over Compliance

Management of Simpson County Water District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Simpson County Water District's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program 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 internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Simpson County Water District's 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 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 first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.

Respectfully submitted,

Jones & Associates CPAs, PSC

Jones & Associates CPAs, PSC
Certified Public Accountants
Lexington, KY

April 8, 2021

**Simpson County Water District
Schedule of Findings and Questioned Costs
December 31, 2020**

Summary of Results

1. The auditor's report expresses an unmodified opinion on the financial statements of Simpson County Water District.
2. No significant deficiencies or material weaknesses are reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of Simpson County Water District were disclosed during the audit.
4. No significant deficiencies or material weaknesses relating to the audit of the major federal award program are reported in the Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the *Uniform Guidance*.
5. The auditor's report on compliance for the major federal award program for Simpson County Water District expresses an unmodified opinion on the major program.
6. There are no audit findings required to be reported in accordance with the Uniform Guidance.
7. The following was tested as a major program: Water and Waste Disposal Systems for Rural Communities (10.760).
8. The dollar threshold used to distinguish between Type A and Type B programs was \$750,000.
9. Simpson County Water District does not qualify as a low-risk auditee.

Findings – Financial Statement

There were no financial statement findings.

Findings and Questioned Costs – Major Federal Award Programs

There were no federal award findings and questioned costs.

Summary Schedule of Prior Audit Findings

There were no prior year audit findings.

**Simpson County Water District
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2020**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Grantors Number</u>	<u>Passed Through to Subrecipients</u>	<u>Federal Award Expenditures</u>	<u>Federal Program and/or Cluster Total</u>
<u>U.S. Department of Commerce</u>					
Investments for Public Works and Economic Development Public Works Grant	11.300	04-01-07240	\$ _____	\$ 538,260	\$ 538,260
Total U.S. Department of Commerce			\$ _____		\$ 538,260
<u>U.S. Department of Agriculture</u>					
Passed through Rural Development Water and Waste Disposal Systems for Rural Communities	10.760	91-09	\$ _____	\$ 1,176,043	\$ 1,176,043 *
Total U.S. Department of Agriculture			\$ _____		\$ 1,176,043
Total Federal Awards			\$ _____		\$ 1,714,303

* Tested as a major program.

See the accompanying Notes to the Schedule of Expenditures of Federal Awards.

Simpson County Water District
Notes to the Schedule of Expenditures of Federal Awards
December 31, 2020

Note 1. Basis of Presentation

The Schedule of Expenditures of Federal Awards (Schedule) includes the federal grant activity of Simpson County Water District and is presented on the accrual basis of accounting. 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). Therefore, some amounts presented on this Schedule may differ from amounts presented or used in the preparation of the financial statements.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3. Subrecipients

There were no awards passed through to subrecipients for the year ended June 30, 2020.

Note 4. Indirect Cost Rate

Simpson County Water District has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

Note 5. Other

There were no federal awards expended for loan guarantee programs or for other noncash awards. However, \$1,176,043 was expended from loan proceeds.