

Simpson County Water District

**Audited Financial Statements and
Supplementary Information**

December 31, 2021 and 2020

Jones & Associates CPAs, PSC
Certified Public Accountants



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

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

Independent Auditor's Report

Opinion

We have audited the accompanying financial statements of the business-type activities of the Simpson County Water District, a component unit of the Simpson County Fiscal Court, as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the Simpson County Water District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Simpson County Water District, as of December 31, 2021 and 2020, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Simpson County Water District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 Simpson County Water District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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

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 opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Simpson County Water District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Simpson County Water District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis 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

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

Required Supplementary Information *(Continued)*

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 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. 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. 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2022, 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 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

March 30, 2022

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, 2021 and 2020. 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, 2021:

- *Total Net Position* increased by \$464,182, or 3.0%, to \$16,048,029 from \$15,583,847 in 2020 reflecting increases in capital assets related to Automated Meter Reading (AMR) system and Small Line Replacement projects.
- *Total Operating Revenues* increased by \$232,181, or 9.9%, to \$2,585,327 compared to \$2,353,146 in 2020 due to increases in metered water revenue and forfeited discounts.
- *Total Operating Expenses* increased by \$213,483, or 10.0%, to \$2,341,789 compared to \$2,128,306 in 2020 reflecting an increase in purchased water, depreciation, and amortization expenses.
- The net amount of *Total Non-Operating Revenues and Expenses* decreased by \$8,792, or 30.7%, to \$37,419 due to an increase in long-term debt interest expense.
- *Net Income* totaled \$206,119, an increase of \$9,906 compared to the prior year's *Net Income* of \$196,213.
- *Contributions in Aid of Construction* totaled \$258,063, a decrease of \$575,692 compared to the prior year's contributions of \$833,755, reflecting the completion of the Fritz Winter Capacity improvement project funded in part by Economic Development Administration grant funds.
- In 2021, *Net Utility Plant* increased by \$557,490 net of depreciation, or 3.4%, to \$16,999,874 from \$16,442,384 in 2020, reflecting the Small Line Replacement project, and the continued installation of endpoints in the AMR System.
- Total water sold to customers during the year amounted to 345.3 million gallons compared to 308.2 million gallons in year 2020, an increase of 37.1 million gallons. The peak demand day was June 17th with 1,799,000 gallons pumped.
- New meter applications in year 2021 and year 2020 totaled 43 and 45, respectively, and the number of customers at the end of the year totaled 3,563, consisting of 3,164 residential customers and 399 commercial customers.
- The District's water system includes 403 miles of distribution main serving an average of 8.8 customers per mile.
- The average monthly revenue from a residential and commercial customer was \$36.34 and \$247.38, respectively. The average monthly usage by a residential and commercial customer was 4,583 gallons and 36,628 gallons, respectively.
- Projects placed into service during the year included the Small Line Replacement Project totaling \$382,016, additions to the AMR System totaling \$237,426, and remaining costs of the of the Fritz Winter Capacity Improvement Project totaling \$205,730.

Financial Analysis (Continued)

Overview of the Financial Statements

This annual report includes the District's management discussion and analysis report (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

Budgetary Analysis for the Year Ended December 31, 2021

Total Operating Revenues was below budgeted revenue by \$12,873 reflecting slightly lower than expected metered water revenue. *Total Operating Expenses* related to providing water service and maintaining the District's water distribution system were below budget by \$69,611. Total operating expenses include: (1) purchased water that was under budget by \$32,353, (2) wages and benefits that were under budget by \$11,500 and \$7,822, respectively; and (3) various other costs which were under budget by a net amount of \$17,936. *Non-Operating Revenues (Expenses)* were over the budget amount by \$20,619 due to an increase in interest expense. *Net income* totaled \$206,119 for the year which exceeded budgeted net income by \$36,119 and *Contributions in Aid of Construction* totaled \$258,063 which was below budgeted contributions by \$141,937.

Table 1
TABLE OF BUDGETARY COMPARISON

	Budget Year 2021	Actual Year 2021	Variances Favorable \ (Unfavorable)
Operating Revenues:			
Metered Water Revenue	\$2,538,000	\$2,529,710	(\$8,290)
Forfeited Discounts	33,300	32,285	(1,015)
Miscellaneous Service Revenue	26,900	23,332	(3,568)
Total Operating Revenues	2,598,200	2,585,327	(12,873)
Operating Expenses:			
Operating Expenses	1,800,700	1,736,191	64,509
Depreciation	562,400	561,671	729
Amortization	48,300	43,927	4,373
Total Operating Expenses	2,411,400	2,341,789	69,611
Non-Operating Revenues (Expenses):			
Interest Income	21,200	22,426	1,226
Rental	36,800	37,643	843
Regulatory Commission Tax	(5,000)	(4,764)	236
Interest Expense	(69,800)	(91,982)	(22,182)
Gain (Loss) on Disposal of Assets		(742)	(742)
Total Non-Operating Revenues (Expenses)	(16,800)	(37,419)	(20,619)
Total Net Expenses	2,428,200	2,379,208	48,992
Net Income	170,000	206,119	36,119
Contributions in Aid of Construction	400,000	258,063	(141,937)
Change in Net Position	\$570,000	\$464,182	(\$105,818)

Financial Analysis (Continued)

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 and 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 *Contributions in Aid of Construction* 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 2
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	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
Contributions in Aid of Construction	1,206,600	833,755	(372,845)
Change in Net Position	\$1,344,200	\$1,029,968	(\$314,232)

Financial Analysis (Continued)

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 \$16,048,029 for the year ending December 31, 2021.

Table 3
CONDENSED STATEMENT OF NET POSITION

	December 31,			
Assets	2021	2020	Variance	
Current and Non-Current Assets	\$2,681,693	\$3,134,518	(\$452,825)	(14.4)%
Net Capital Assets and CIP	16,999,874	16,442,384	557,490	3.4%
Total Assets	19,681,567	19,576,902	104,665	0.5%
Liabilities				
Current and Non-Current Liabilities	612,088	889,317	(277,229)	(31.2)%
Net Bonds and Notes Payable	3,021,450	3,103,738	(82,288)	(2.7)%
Total Liabilities	3,633,538	3,993,055	(359,517)	(9.0)%
Net Position				
Net Investment in Capital Assets	13,913,424	13,210,646	702,778	5.3%
Restricted for Debt Service	1,157,409	912,609	244,800	26.8%
Restricted for Construction		353,457	(353,457)	100.0%
Unrestricted	977,196	1,107,135	(129,939)	(11.7)%
Total Net Position	16,048,029	15,583,847	464,182	3.0%
Total Liabilities and Net Position	\$19,681,567	\$19,576,902	\$104,665	0.5%

Total Assets amounted to \$19,681,567 and increased by \$104,665, or 0.5%, 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 decreased by \$452,825. The decrease in *Current and Non-Current Assets* reflects the reduction in construction funds used to complete capital projects. *Net Capital Assets and Construction in Progress (CIP)* include the District's investment in land, distribution mains, pump stations, service lines, and storage tanks. Capital assets totaled \$16,999,874 and increased by \$557,490 reflecting projects completed during the year such as the Small Line Replacement and AMR System installation projects.

Total Liabilities amounted to \$3,633,538 and decreased by \$359,517 or 9.0% 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 post-employment benefits decreased by \$277,229 due to decreases in accounts payables and long-term debt. *Net Bonds and Notes Payable* which includes debt obligations beyond a year and unamortized premiums and discounts on refunded bonds decreased by \$82,288 reflecting the refunding of the USDA Series 1993 bonds and the KRWFC Series 2012 loan. These debt obligations were refunded with the KRWFC Series 2021A loan issued in June 2021.

Total Net Position amounted to \$16,048,029 an increase of \$464,182 or 3.0% from last year. *Net Investment in Capital Assets* which includes the District's transmission and distribution facilities net of related debt increased by \$702,778. *Restricted for Debt Service* which are funds set aside as required by bond and loan assistance agreements increased by \$244,800. *Restricted for Construction* decreased by \$353,457 due to the use of these funds to complete the Fritz Winter Capacity Improvement Project and *Unrestricted* decreased by \$129,939.

Financial Analysis (Continued)

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.

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

	2021	2020	Variance	
Operating Revenues				
Metered Water Revenue	\$2,529,710	\$2,319,994	\$209,716	9.0%
Forfeited Discounts	32,285	8,908	23,377	262.4%
Miscellaneous Service Revenue	23,332	24,244	(912)	(3.8)%
Total Operating Revenues	<u>2,585,327</u>	<u>2,353,146</u>	<u>232,181</u>	<u>9.9%</u>
Operating Expenses				
Wages and Benefits	311,378	351,295	(39,917)	(11.4)%
Commissioner Fees	10,800	10,800		0.0%
Purchased Water	1,168,647	1,021,595	147,052	14.4%
Purchased Power	29,385	26,502	2,883	10.9%
Materials and Chemicals	33,881	42,943	(9,062)	(21.1)%
Contractual Services	120,085	118,142	1,943	1.6%
Rental of Building	9,912	10,472	(560)	(5.3)%
Equipment	26,288	26,899	(611)	(2.3)%
Depreciation	561,671	504,509	57,162	11.3%
Amortization	43,927	(3,438)	47,365	(1377.7)%
Other Operating Expenses	25,815	18,587	7,228	38.9%
Total Operating Expenses	<u>2,341,789</u>	<u>2,128,306</u>	<u>213,483</u>	<u>10.0%</u>
Non-Operating Revenues (Expenses)				
Interest Income	22,426	19,013	3,413	18.0%
Rental Income	37,643	36,697	946	2.6%
Public Service Commission Tax	(4,764)	(4,562)	(202)	4.4%
Interest Expense	(91,982)	(79,775)	(12,207)	15.3%
Gain (Loss) on Disposal of Assets	(742)		(742)	(100.0)%
Total Non-Operating Revenues (Expenses)	<u>(37,419)</u>	<u>(28,627)</u>	<u>(8,792)</u>	<u>30.7%</u>
Income Before Capital Contributions	206,119	196,213	9,906	5.0%
Capital Contributions	258,063	833,755	(575,692)	(69.0)%
Change in Net Position	464,182	1,029,968	(565,786)	(54.9)%
Net Position, Beginning of Year	<u>15,583,847</u>	<u>14,553,879</u>	<u>1,029,968</u>	<u>7.1%</u>
Net Position, End of Year	<u><u>16,048,029</u></u>	<u><u>15,583,847</u></u>	<u><u>\$464,182</u></u>	<u><u>3.0%</u></u>

Total Operating Revenues increased by \$232,181 or 9.9% from last year reflecting an increase in both *Metered Water Revenue* and *Forfeited Discounts*. *Metered Water Revenue* was impacted by a 2.9% retail rate increase and an increase in customer demand. Commercial, industrial, and agricultural revenue

Financial Analysis (Continued)

increased by \$199,749 and residential revenue by \$9,967. The volume of water sold this year was 345.3 million gallons compared to 308.2 million gallons in the previous year, a 12% increase totaling 37.1 million gallons. *Forfeited Discounts* which are late penalties increased by \$23,377 due to the lifting of the Kentucky Public Service Commission moratorium on late penalties issued in year 2020.

Total Operating Expenses increased by \$213,483 or 10% and consists of the following: (1) *Purchased Water* increased by \$147,052 reflecting a wholesale rate increase and greater customer demand, (2) *Depreciation* increased by \$57,162 due to projects placed into service during the year, (3) *Amortization* of \$47,365 increased due to costs associated with the KRWFC Series 2021A Refunding, (4) *Wages and Benefits* decreased by \$39,917, and (5) all other expenses increased by a net amount of \$1,821.

Total Non-Operating Revenues and Expenses decreased by \$8,792 reflecting a greater amount of interest expense recorded in year 2021 than the prior year when a portion of interest costs were capitalized.

Capital Contributions totaled \$258,063 and decreased by \$575,692 compared to last year. In year 2021, contributions were received for the following: fire protection and line extensions, \$88,582; EDA grant funds for the Fritz-Winter Capacity Improvement project, \$102,087; line extensions and relocations, \$44,073; and new meter installations, \$23,321. *Net Position, End of Year* totaled \$16,048,029, an increase of \$464,182.

Changes in Utility Plant

The largest portion of the district's assets is invested in utility plant totaling \$16,999,874 on December 31, 2021. Changes by asset category are listed below in Table 5.

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

Capital Investment	Year 2021	Year 2020	Variance	
Land	\$ 25,549	\$ 25,549	\$	0.0%
Structures	77	77		0.0%
Pumping Equipment	1,348,264	1,380,232	(31,968)	(2.3)%
Storage Tanks	1,406,121	1,371,064	35,057	2.6%
Distribution Mains	11,180,890	10,831,437	349,453	3.2%
SCADA Communications	44,704	25,454	19,250	75.6%
Meters	2,380,252	2,096,040	284,212	13.6%
Hydrants	501,672	502,338	(666)	(0.1)%
Computer Hardware and Software	77,870	99,822	(21,952)	(22.0)%
Furniture and Fixtures	4,539	5,449	(910)	(16.7)%
Vehicles and Equipment		3,644	(3,644)	100.0%
Other	21,574	19,117	2,457	12.9%
Total Capital Investment	\$ 16,991,512	\$ 16,360,223	\$ 631,289	3.9%
Construction in Progress	8,362	82,161	(73,799)	(89.8)%
Net Utility Plant	\$ 16,999,874	\$ 16,442,384	\$ 557,490	3.4%

The District's utility plant includes the following: (1) 403 miles of distribution main, (2) 25 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) 8 pumping stations. *Distribution Mains* increased by \$349,453 reflecting the additions from the Small Line Replacement Project and *Meters*

Financial Analysis (Continued)

increased by \$284,212 reflecting the installation of additional endpoints in the AMR system. *Net Utility Plant* increased by \$557,490, or 3.4%.

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 June 2021, the District issued the KRWFC Series 2021A loan refunding two debt obligations: the USDA, Series 1995 bonds and the KRWFC Series 2012B loan. The refunding resulted in principal and interest savings of \$300,290. As of December 31, 2021, the District had \$2,972,000 in outstanding principal compared to \$3,247,500 in the previous year, a decrease of \$275,500 in debt obligations.

Factors Affecting Budget Year 2022

- The inflationary impact on the cost of materials, equipment, and services.
- The final phase of the AMR system that will install 830 endpoints and will be internally funded.
- The East Side Pump Station and Transmission Project will begin construction during the budget year and will be funded externally. The project will provide a connection and transmission from an alternate water supplier.
- The District budgeted a line replacement project that will be funded by proceeds from the American Rescue Plan Act (ARPA).
- 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 2022 at its meeting held in October 2021. Metered water sales are budgeted to increase by 1.01%. Total revenue is budgeted to increase by 0.93% from year 2021, and total expenses are budgeted to increase by 3.41%. Debt service payments are expected to total \$208,300 with a reduction in outstanding debt of \$132,000. Net income for the budget year is \$218,100. Capital expenditures for the year are budgeted to total \$3,624,200 with funding from internal funds of \$994,700, funding from external sources of \$2,180,000, and contributions from customers and governmental agencies totaling \$449,500.

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, 2021 and 2020

	2021	2020
Assets		
Current assets		
Cash and cash equivalents	\$ 1,032,147	\$ 1,234,091
Restricted cash and cash equivalents	1,319,309	752,016
Restricted investments		665,290
Investments		2,999
Customer accounts receivable, net	63,006	64,387
Accounts receivable - Other	41,608	197,619
Unbilled receivables	191,724	197,518
Prepaid assets	10,252	10,055
Other current assets	23,647	10,543
Total current assets	\$ 2,681,693	\$ 3,134,518
Noncurrent assets		
Capital assets, net	\$ 16,991,512	\$ 16,360,223
Construction in progress	8,362	82,161
Total noncurrent assets	\$ 16,999,874	\$ 16,442,384
Total assets	\$ 19,681,567	\$ 19,576,902
Liabilities and net position		
Liabilities		
Current liabilities		
Accounts payable	\$ 112,518	\$ 302,141
Accounts payable - WCWD	70,618	91,994
Customer deposits	156,954	152,564
Bonds and notes payable	65,000	128,000
Interest payable	33,227	39,200
Other current liabilities	17,382	16,828
Total current liabilities	\$ 455,699	\$ 730,727
Noncurrent liabilities		
Bonds and notes payable, net	\$ 3,021,450	\$ 3,103,738
Other postemployment benefits	115,855	108,606
Rebates payable	40,534	49,984
Total noncurrent liabilities	\$ 3,177,839	\$ 3,262,328
Total liabilities	\$ 3,633,538	\$ 3,993,055
Net position		
Net investment in capital assets	\$ 13,913,424	\$ 13,210,646
Restricted		
Debt service	1,157,409	912,609
Construction		353,457
Unrestricted	977,196	1,107,135
Total net position	\$ 16,048,029	\$ 15,583,847
Total liabilities and net position	\$ 19,681,567	\$ 19,576,902

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 Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Operating revenues		
Residential metered sales	\$ 1,366,886	\$ 1,356,920
Commercial metered sales	801,271	707,379
Industrial metered sales	332,633	255,695
Agricultural metered sales	28,920	
Forfeited discounts	32,285	8,908
Miscellaneous service revenue	<u>23,332</u>	<u>24,244</u>
Total operating revenues	\$ <u>2,585,327</u>	\$ <u>2,353,146</u>
Operating expenses		
Purchased water	<u>\$ 1,168,647</u>	<u>\$ 1,021,595</u>
Pumping		
Salaries and benefits	\$ 244	\$
Purchased power	24,823	21,790
Insurance	1,396	1,465
Professional services	1,287	1,125
Miscellaneous	<u>1,203</u>	<u>1,197</u>
Total pumping	<u>\$ 28,953</u>	<u>\$ 25,577</u>
General distribution		
Salaries and benefits	\$ 64,628	\$ 81,162
Purchased power	4,562	4,712
Materials and supplies	5,430	3,478
Insurance	6,863	7,202
Contractual services	12,318	13,226
Professional services	1,287	1,125
Miscellaneous	<u>13,252</u>	<u>14,783</u>
Total general distribution	<u>\$ 108,340</u>	<u>\$ 125,688</u>
Customer accounts		
Salaries and benefits	\$ 128,524	\$ 130,215
Materials and supplies	1,083	2,158
Insurance	1,396	1,465
Contractual services	33,187	35,322
Professional services	2,575	2,250
Uncollectible accounts	4,298	1,844
Miscellaneous	<u>15,369</u>	<u>14,109</u>
Total customer accounts	<u>\$ 186,432</u>	<u>\$ 187,363</u>
Maintenance		
Salaries and benefits	\$ 59,011	\$ 84,889
Materials and supplies	23,576	33,450
Contractual services	33,568	35,199
Professional services	2,574	2,250
Miscellaneous	<u>9,393</u>	<u>8,951</u>

Simpson County Water District
Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Fund
For the Years Ended December 31, 2021 and 2020
(Continued)

	<u>2021</u>	<u>2020</u>
Operating expenses <i>(Continued)</i>		
Total maintenance	\$ 128,122	\$ 164,739
Administrative and general		
Salaries and benefits	\$ 69,771	\$ 65,829
Other postemployment benefits	4,350	(5,881)
Materials and supplies	3,792	3,857
Insurance	2,817	2,879
Contractual services	30,714	25,395
Professional services	2,575	2,250
Miscellaneous	1,678	2,063
Total administrative and general	\$ 115,697	\$ 96,392
Depreciation	\$ 561,671	\$ 504,509
Amortization	\$ 43,927	\$ 2,443
Total operating expenses	<u>\$ 2,341,789</u>	<u>\$ 2,128,306</u>
Total operating revenues (expenses)	<u>\$ 243,538</u>	<u>\$ 224,840</u>
Non-operating revenues (expenses)		
Interest revenue	\$ 22,426	\$ 19,013
Rental revenue	37,643	36,697
Regulatory commission tax	(4,764)	(4,562)
Interest expense	(91,982)	(79,775)
Gain (loss) on disposal of assets	(742)	
Total non-operating revenues (expenses)	<u>\$ (37,419)</u>	<u>\$ (28,627)</u>
Excess (deficiency) of revenues over expenses	<u>\$ 206,119</u>	<u>\$ 196,213</u>
Capital contributions		
Contributions in aid of construction	\$ 258,063	\$ 833,755
Total capital contributions	<u>\$ 258,063</u>	<u>\$ 833,755</u>
Change in net position	\$ 464,182	\$ 1,029,968
Net position - Beginning of year	<u>15,583,847</u>	<u>14,553,879</u>
Net position - End of year	<u>\$ 16,048,029</u>	<u>\$ 15,583,847</u>

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

Simpson County Water District
Statement of Cash Flows - Proprietary Fund
For the Years Ended December 31, 2021 and 2020

	2021	2020
Cash flows from operating activities		
Cash received from customers	\$ 2,605,470	\$ 2,275,711
Cash payments to suppliers for goods and services	(1,545,737)	(1,334,179)
Cash payments to employees for services	(322,178)	(362,095)
	<u>\$ 737,555</u>	<u>\$ 579,437</u>
Net cash flows from operating activities		
Cash flows from capital and related financing activities		
Cash received from contributions in aid of construction	\$ 363,223	\$ 683,397
Cash received from loan proceeds		2,659,343
Cash paid for capital assets	(1,177,667)	(1,899,076)
Cash paid for bond and note principal	(188,165)	(1,254,843)
Cash paid for interest on long-term debt	(97,955)	(100,945)
	<u>\$ (1,100,564)</u>	<u>\$ 87,876</u>
Net cash flows from capital and related financing activities		
Cash flows from investing activities		
Cash received from matured investments	\$ 668,289	\$
Rental revenue	37,643	36,697
Interest received	22,426	15,299
	<u>\$ 728,358</u>	<u>\$ 51,996</u>
Net cash flows from investing activities		
Net increase (decrease) in cash and cash equivalents	\$ 365,349	\$ 719,309
Cash and cash equivalents - Beginning	<u>1,986,107</u>	<u>1,266,798</u>
Cash and cash equivalents - Ending	<u>\$ 2,351,456</u>	<u>\$ 1,986,107</u>
Cash and cash equivalents reported in the Statement of Net Position		
Cash and cash equivalents	\$ 1,032,147	\$ 1,234,091
Restricted cash and cash equivalents	1,319,309	752,016
	<u>\$ 2,351,456</u>	<u>\$ 1,986,107</u>
Total cash and cash equivalents reported in the Statement of Net Position		
Reconciliation of cash flows from operating activities		
Operating income	\$ 243,538	\$ 224,840
Adjustments to reconcile income (loss) from operation to cash used in operating activities		
Depreciation	561,671	504,509
Amortization	43,927	2,443
Regulatory commission tax	(4,764)	(4,562)
Changes in assets and liabilities		
Customer accounts receivable, net	1,381	(7,336)
Accounts receivable - Other	8,578	(25,768)
Unbilled receivables	5,794	(52,244)
Prepaid assets	(197)	(1,474)
Other current assets	(13,104)	252
Accounts payable	(97,187)	72,551
Accounts payable - WCWD	(21,376)	(127,868)
Customer deposits	4,390	7,913
Other postemployment benefits	4,350	(5,881)
Other current liabilities	554	(7,938)
	<u>\$ 737,555</u>	<u>\$ 579,437</u>
Net cash flows from operating activities		

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

Simpson County Water District
Notes to the Financial Statements
For the Years Ended December 31, 2021 and 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 Kentucky Revised Statutes Section 74.010 which provides a public water system to citizens located primarily in Simpson County, Kentucky. The District is governed by a 3-member board (Board), 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 are generally minimal and within management's expectations.

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

Simpson County Water District
Notes to the Financial Statements
For the Years Ended December 31, 2021 and 2020
(Continued)

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

E. Exchange and Non-Exchange Transactions *(Continued)*

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 3 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.

I. 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

Simpson County Water District
Notes to the Financial Statements
For the Years Ended December 31, 2021 and 2020
(Continued)

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

I. Capital Contributions *(Continued)*

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.

J. Debt

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

K. 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.”

L. 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

The Governmental Accounting Standards Board (GASB) issued Statement No. 87, *Leases*, which requires recognition of certain assets and liabilities for leases that were previously classified as operating leases and recognized as inflows or outflows of resources based on the payment provisions of the contract. GASB Statement No. 87 establishes a single model for lease accounting based on the foundational principles that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. GASB Statement No. 87 will be effective for governmental entities with fiscal years beginning after June 15, 2021. At this time, the District is still determining the impact of this update on its financial statements.

Simpson County Water District
Notes to the Financial Statements
For the Years Ended December 31, 2021 and 2020
(Continued)

Note 3. Deposits, Restricted Cash and Cash Equivalents, 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 Kentucky Revised Statutes Section 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 has a formal deposit policy addressing custodial credit risk which requires their depository institutions to pledge sufficient collateral to secure their deposits in excess of FDIC insurance. At December 31, 2021 and 2020, the District’s deposits were fully covered by federal depository insurance or by collateral held by depository institutions totaling \$2,506,543 and \$2,742,936, respectively.

B. Restricted Cash and Cash Equivalents

Restricted cash consists of the following:

	<u>2021</u>	<u>2020</u>
Construction fund	\$ 353,457	\$ 353,457
Sinking funds	98,232	175,259
Depreciation fund	1,059,177	218,300
Customer deposits fund	161,900	5,000
Total restricted cash	<u>\$ 1,319,309</u>	<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 obligations of the United States government or its agencies. Investing is performed in accordance with these state statutes. The District did not hold any investments at December 31, 2021. The District held \$668,289 in certificates of deposit at December 31, 2020, all of which were categorized as current investments.

Note 4. 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.

Simpson County Water District
Notes to the Financial Statements
For the Years Ended December 31, 2021 and 2020
(Continued)

Note 5. 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.

Construction in progress commitments as of December 31, 2021, consist of the following:

AMR/AMI Project – Phase 3: The District has budgeted the final installation of its automated meter reading (AMR) system. Metering improvements will be installed at approximately 800 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 3 in 2022 is \$195,300.

Note 6. Long-Term Debt

A. Other Debt

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. Bonds in the amount of \$601,000 were refunded during the year with no balance remaining at December 31, 2021. Bonds outstanding as of December 31, 2020 were \$633,000.

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. Loans in the amount of \$1,015,000 were repaid during the year with no balance remaining at December 31, 2021. Loans outstanding as of December 31, 2020 were \$1,085,000.

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.

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, 2021 and 2020 were \$1,477,000 and \$1,529,500, respectively.

Kentucky Rural Water Finance Corporation Series 2021A – Refunding Loan

On June 8, 2021, the District received a \$1,495,000 of loan to refund a prior revenue bond and refunding loan. The loan matures serially through February 1, 2034 and requires annual principal payments

Simpson County Water District
Notes to the Financial Statements
For the Years Ended December 31, 2021 and 2020
(Continued)

Note 6. Long-Term Debt *(Continued)*

A. Other Debt *(Continued)*

Kentucky Rural Water Finance Corporation Series 2021A – Refunding Loan *(Continued)*

on February 1 and semi-annual interest payments on February 1 and August 1 at interest rates ranging from 2.25% to 4.25%. The loan is collateralized with service revenue. Loans outstanding as of December 31, 2021 were \$1,495,000.

Principal and interest at December 31, 2021 were due as follows:

<u>Year Ending December 31,</u>	<u>Interest</u>	<u>Principal</u>
2022	\$ 71,361	\$ 65,000
2023	73,784	132,000
2024	68,705	137,500
2025	63,509	138,000
2026	58,198	143,500
2027 – 2031	208,477	805,500
2032 – 2036	115,364	500,500
2037 – 2041	90,052	181,500
2042 – 2046	72,211	199,500
2047 – 2051	52,636	218,500
2052 – 2056	31,172	240,000
2057 – 2060	8,058	210,500
Total	<u>\$ 913,527</u>	<u>\$ 2,972,000</u>

Principal and interest at December 31, 2020 were due as follows:

<u>Year Ending December 31,</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>

Simpson County Water District
Notes to the Financial Statements
For the Years Ended December 31, 2021 and 2020
(Continued)

Note 6. Long-Term Debt *(Continued)*

B. Changes in Long-term Debt

The following reflects the long-term debt activity for the year ended December 31, 2021:

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>Balance</u>	<u>Due Within</u> <u>One Year</u>
Other debt	\$ 3,247,500	\$ 1,495,000	\$ 1,770,500	\$ 2,972,000	\$ 65,000
Total	<u>\$ 3,247,500</u>	<u>\$ 1,495,000</u>	<u>\$ 1,770,500</u>	<u>\$ 2,972,000</u>	<u>\$ 65,000</u>

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

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>Balance</u>	<u>Due Within</u> <u>One Year</u>
Other debt	\$ 1,843,000	\$ 1,529,500	\$ 125,000	\$ 3,247,500	\$ 128,000
Total	<u>\$ 1,843,000</u>	<u>\$ 1,529,500</u>	<u>\$ 125,000</u>	<u>\$ 3,247,500</u>	<u>\$ 128,000</u>

Note 7. 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 8. Capital Assets

Capital assets at December 31, 2021 consists of the following:

	<u>Beginning</u> <u>Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending</u> <u>Balance</u>
Assets not being depreciated:				
Land and land rights	\$ 25,549	\$	\$	\$ 25,549
Construction in progress	82,161	1,094,926	1,168,725	8,362
Assets being depreciated:				
Utility plant in service	23,530,241	1,193,702	1,279	24,722,664
Total capital assets	\$ 23,637,951	\$ 2,288,628	\$ 1,170,004	\$ 24,756,575
Less: Accumulated depreciation	7,195,567	561,671	537	7,756,701
Capital assets, net	<u>\$ 16,442,384</u>	<u>\$ 1,726,957</u>	<u>\$ 1,169,467</u>	<u>\$ 16,999,874</u>

Capital assets at December 31, 2020 consists of the following:

Simpson County Water District
Notes to the Financial Statements
For the Years Ended December 31, 2021 and 2020
(Continued)

Note 8. Capital Assets (Continued)

	<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 9. Restatement of Net Position

Net position at December 31, 2019 was restated as follows:

		<u>Restricted</u>		<u>Unrestricted</u>
Net position - December 31, 2019	\$	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 - December 31, 2019 (Restated)	\$	<u>870,420</u>	\$	<u>576,620</u>

Note 10. Related Parties

The Warren County Water District (Warren) provides management, engineering, and repair and maintenance services to the District. The District included \$70,618 and \$91,994 in accounts payable at December 31, 2021 and 2020, respectively. During 2021 and 2020, expenses from Warren amounted to \$717,620 and \$704,105, respectively, for the following:

		<u>2021</u>		<u>2020</u>
Wages and benefits				
Operation	\$	210,590	\$	234,106
Administrative				
Supervision and administration		92,358		90,346
Accounting		27,259		24,932
Customer service		60,912		52,141
Engineering		23,255		13,649
Operations – Other		120,184		96,141
Additions to plant		142,895		179,614
Special projects		<u>40,167</u>		<u>13,176</u>
Total	\$	<u>717,620</u>	\$	<u>704,105</u>

Simpson County Water District
Notes to the Financial Statements
For the Years Ended December 31, 2021 and 2020
(Continued)

Note 10. Related Parties *(Continued)*

In addition to the previously identified expenses from Warren, the District also recognized other postemployment benefits (OPEB) expense of \$4,350 in 2021 and \$(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 standards. The District's portion of the OPEB liability, included in the Statement of Net Position, totaled \$115,855 and \$108,606 at December 31, 2021 and 2020, respectively.

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 11. Adoption of New Accounting Standards

GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, which 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 has adopted this statement effective January 1, 2021. As a result of the adoption there was no effect on interest expense.

Note 12. Subsequent Events

The District has evaluated and considered the need to recognize or disclose subsequent events through March 30, 2022, 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, 2021, have not been evaluated by the District.

Supplementary Information

**Simpson County Water District
Schedule of Budgetary Comparison
For the Year Ended December 31, 2021**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Metered water revenue	\$ 2,481,000	\$ 2,538,000	\$ 2,529,710	\$ (8,290)
Forfeited discounts	31,300	33,300	32,285	(1,015)
Miscellaneous service revenue	26,900	26,900	23,332	(3,568)
Interest	14,200	21,200	22,426	1,226
Rental	36,800	36,800	37,643	843
Total revenues	\$ 2,590,200	\$ 2,656,200	\$ 2,645,396	\$ (10,804)
Expenses				
Salaries and wages	\$ 248,700	\$ 205,700	\$ 194,200	\$ 11,500
Commissioner fees	10,800	10,800	10,800	
Employee overhead	153,000	125,000	117,178	7,822
Purchased water	1,203,000	1,201,000	1,168,647	32,353
Purchased power	31,200	31,200	29,385	1,815
Materials and supplies	34,400	36,400	33,881	2,519
Contractual services - Accounting	15,000	11,000	10,298	702
Contractual services - Legal	800	800	113	687
Contractual services - Other	110,900	110,900	109,674	1,226
Rental of building and property	10,100	10,100	9,912	188
Equipment	31,800	27,800	26,288	1,512
Insurance - Liability and property	13,200	12,200	11,633	567
Insurance - Treasury bond	800	800	839	(39)
Regulatory commission tax	5,000	5,000	4,764	236
Bad debts expense	6,000	6,000	4,298	1,702
Miscellaneous expense	4,200	6,200	4,695	1,505
Depreciation	554,400	562,400	561,671	729
Amortization	2,300	48,300	43,927	4,373
Interest	96,800	69,800	91,982	(22,182)
OPEB	3,800	4,800	4,350	450
Loss on disposal of asset			742	(742)
Total expenses	\$ 2,536,200	\$ 2,486,200	\$ 2,439,277	\$ 46,923
Excess (deficiency) of revenues over expenses	\$ 54,000	\$ 170,000	\$ 206,119	\$ 36,119
Contributions in aid of construction	40,400	400,000	258,063	(141,937)
Net change in net position	\$ 94,400	\$ 570,000	\$ 464,182	\$ (105,818)
Net position - Beginning of year	16,450,238	16,450,238	15,583,847	(866,391)
Net position - End of year	\$ 16,544,638	\$ 17,020,238	\$ 16,048,029	\$ (972,209)

Jones & Associates CPAs, PSC

Certified Public Accountants



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

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, 2021, 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, and have issued our report thereon dated March 30, 2022.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Simpson County Water District's internal control over financial reporting (internal control) as a basis for designing 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 the Simpson County Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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.

Report on 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

**To the Board of Commissioners of
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)**

Report on Compliance and Other Matters (Continued)

direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not 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 organization'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 organization'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

March 30, 2022