

Simpson County Water District

**Audited Financial Statements and
Supplementary Information**

December 31, 2022 and 2021

Jones & Associates CPAs, PSC
Certified Public Accountants



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To the Board of Commissioners of
Simpson County Water District

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, 2022 and 2021, 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, 2022 and 2021, 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 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.

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

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 April 3, 2023, 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

April 3, 2023

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, 2022, and 2021. 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, 2022:

- Total Net Position increased by \$353,732, or 1.8%, to \$16,401,761 from \$16,048,029 in 2021 reflecting the accumulation of cash and the recording of lease receivables.
- Total Operating Revenue increased by \$125,076, or 4.8%, to \$2,710,403 compared to \$2,585,327 in 2021 due to increases in metered water revenue and forfeited discounts.
- Total Operating Expenses increased by \$188,649, or 8.1%, to \$2,530,438 compared to \$2,341,789 in 2021 consisting of increases in depreciation, wage & benefits, and purchased water.
- The net amount of Total Non-Operating Revenues and Expenses decreased by \$19,388 or 51.8% to \$18,031 due to decreases in long-term debt interest expense.
- Income Before Capital Contributions totaled \$161,934, a decrease of \$44,185, compared to the prior year's Income Before Capital Contributions of \$206,119.
- Net Utility Plant decreased by \$13,195 net of depreciation to \$16,986,679 from \$16,999,874 in 2021 reflecting an accounting adjustment to the estimated useful life of the District's assets.
- Total water sold to customers during the year amounted to 352.6 million gallons compared to 345.3 million gallons in year 2021, an increase of 7.3 million gallons. The peak demand day was June 15th with 1,960,000 gallons pumped.
- New meter applications in year 2022 and 2021 totaled 50 and 43, respectively, and the number of customers at the end of the year totaled 3,596 consisting of 3,191 residential customers and 405 commercial customers.
- The District's water system includes 403 miles of distribution main serving an average of 8.9 customers per mile.
- The average monthly revenue from a residential and commercial customer was \$37.09 and \$247.51, respectively. The average monthly usage by a residential and commercial customer was 4,693 gallons and 35,930 gallons, respectively.
- Projects placed into service during the year included the AMR/AMI System totaling \$169,747 and the Pilot Knob tank repainting totaling \$88,267.

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, 2022

Total Revenue exceeded budgeted revenue by \$35,703 reflecting higher 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 \$78,762. Total operating expenses that were under budget include: (1) other post employee benefits (OPEB), \$22,093; (2) amortization, \$15,700; (3) wages & benefits, \$8,844 and \$3,552, respectively; (4) miscellaneous expense, \$7,177; (5) contractual other expenses, \$5,187; (6) bad debt expense, \$4,141; (7) material & supplies, \$3,940; and (8) various other costs were \$8,128. *Non-Operating Revenues (Expenses)* were over the budget amount by \$20,231 reflecting a decrease in lease revenue from cell providers for use of water tanks and an increase in interest expense. *Net Income* totaled \$161,934 for the year, which exceeded budgeted net income by \$94,234 and *Capital Contributions* totaled \$191,798 which was below budgeted contributions by \$57,702.

Table 1
TABLE OF BUDGETARY COMPARISON

	Budget Year 2022	Actual Year 2022	Variances Favorable \ (Unfavorable)
Revenues:			
Metered Water Revenue	\$2,617,700	\$2,653,442	\$35,742
Forfeited Discounts	37,200	37,943	743
Miscellaneous Service Revenue	19,800	19,018	(782)
Total Revenues	\$2,674,700	\$2,710,403	\$35,703
Operating Expenses:			
Operating Expenses	\$1,902,800	\$1,842,434	\$60,366
Depreciation	703,400	700,704	2,696
Amortization	3,000	(12,700)	15,700
Total Operating Expenses	\$2,609,200	\$2,530,438	\$78,762
Non-Operating Revenues (Expenses):			
Interest Income	\$26,300	\$34,448	\$8,148
Lease	39,900	29,968	(9,932)
Regulatory Commission Tax	(5,300)	(3,916)	1,384
Interest Expense	(58,700)	(73,554)	(14,854)
Gain (Loss) on Disposal of Assets		(4,977)	(4,977)
Total Non-Operating Revenues (Expenses)	\$2,200	\$(18,031)	\$(20,231)
Total Net Expenses	\$2,607,000	\$2,548,469	\$58,531
Net Income	\$67,700	\$161,934	\$94,234
Contribution in Aid of Construction	249,500	191,798	(57,702)
Net Change in Net Position	\$317,200	\$353,732	\$36,532

Budgetary Analysis for the Year Ended December 31, 2021

Total Revenue 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

Financial Analysis (Continued)

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 *Capital contributions* totaled \$258,063 which was below budgeted contributions by \$141,937.

Table 2
TABLE OF BUDGETARY COMPARISON

	Budget Year 2021	Actual Year 2021	Variances Favorable \ (Unfavorable)
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 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
Contribution in Aid of Construction	400,000	258,063	(141,937)
Net Change in Net Position	\$570,000	\$464,182	(\$105,818)

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 \$16,401,761 for the year ending December 31, 2022.

Financial Analysis (Continued)

Table 3
CONDENSED STATEMENT OF NET POSITION
December 31, 2022

Assets	Year 2022	Year 2021	Variance	
Current & Non-Current Assets	\$3,162,079	\$2,681,693	\$480,386	17.9%
Net Capital Assets & CIP	16,986,679	16,999,874	(13,195)	-0.1%
Total Assets	<u>\$20,148,758</u>	<u>\$19,681,567</u>	<u>\$467,191</u>	<u>2.4%</u>
Liabilities & Deferred Inflows				
Current & Non-Current Liabilities	\$758,675	\$612,088	\$146,587	23.9%
Non-Current Net Bonds & Notes Payable	2,871,917	3,021,450	(149,533)	-4.9%
Deferred Inflows – Leases	116,405	-	116,405	100.0%
Total Liabilities & Deferred Inflows	<u>\$3,746,997</u>	<u>\$3,633,538</u>	<u>\$113,459</u>	<u>3.1%</u>
Net Position				
Net Investment in Capital Assets	\$13,982,762	\$13,913,424	\$69,338	0.5%
Restricted for Debt Service	443,361	1,157,409	(714,048)	-61.7%
Unrestricted	1,975,638	977,196	998,442	102.2%
Total Net Position	<u>\$16,401,761</u>	<u>\$16,048,029</u>	<u>\$353,732</u>	<u>2.2%</u>
Total Liabilities & Net Position	<u>\$20,148,758</u>	<u>\$19,681,567</u>	<u>\$467,191</u>	<u>2.4%</u>

Total Assets amounted to \$20,148,758 and increased by \$467,191, or 2.4%, from last year. *Current & 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 \$480,386. The increase in current and non-current assets reflects the accumulation of cash and the recording of lease receivables from cell service providers in accordance with the District's adoption of GASB 87. *Net Capital Assets & Construction in Progress (CIP)* include the District's investment in land, distribution mains, pump stations, service lines, and storage tanks. Capital assets totaled \$16,986,679 and decreased by \$13,195 reflects an adjustment to the useful lives of utility plant in accordance with National Association of Regulatory Utility Commissioners guidelines for depreciable assets.

Total Liabilities & Deferred Inflows amounted to \$3,746,997 and increased by \$113,459, or 3.1%, from last year. *Current & Non -Current Liabilities* which include accounts payable, customer deposits, interest payable, long-term debt due within one year, lease payable, and other post-employment benefits increased by \$146,587. *Net Bonds & Notes Payable*, which includes debt obligations beyond a year and unamortized premiums and discounts bonds decreased by \$149,533. *Deferred Inflows – Leases* represents deferred future revenue from cell providers totaling \$116,405 for use of the district's facilities to mount their equipment.

Total Net Position amounted to \$16,401,761, an increase of \$353,732 from last year. *Net Position Invested in Capital Assets*, which includes the District's transmission & distribution facilities net of related debt, increased by \$69,338. *Restricted For Debt Service* are funds set aside for principal and interest payments decreased by \$714,048 due to last year's KRWFC, Series 2021A loan which refunded two debt obligations and released funds set aside for their debt service. *Unrestricted* funds that do not have a specific use increased by \$998,442.

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, 2022

	Year 2022	Year 2021	Increase (Decrease)	
Operating Revenues				
Metered Water Revenue	\$2,653,442	\$2,529,710	\$123,732	4.9%
Forfeited Discounts	37,943	32,285	5,658	17.5%
Miscellaneous Service Revenue	19,018	23,332	(4,314)	-18.5%
Total Operating Revenues	2,710,403	2,585,327	125,076	4.8%
Operating Expenses				
Wages & Benefits	360,602	311,378	49,224	15.8%
Commissioner Fees	10,800	10,800	-	0.0%
Purchased Water	1,216,129	1,168,647	47,482	4.1%
Purchased Power	30,953	29,385	1,568	5.3%
Materials & Chemicals	38,960	33,881	5,079	15.0%
Contractual Services	140,055	120,085	19,970	16.6%
Rental of Building	9,912	9,912	-	0.0%
Equipment	38,682	26,288	12,394	47.1%
Depreciation	700,704	561,671	139,033	24.8%
Amortization	(12,700)	43,927	(56,627)	-128.9%
Other Operating Expenses	(3,659)	25,815	(29,474)	-114.2%
Total Operating Expenses	2,530,438	2,341,789	188,649	8.1%
Non-Operating Revenues (Expenses)				
Interest Income	34,448	22,426	12,022	53.6%
Rental Income	29,968	37,643	(7,675)	-20.4%
Public Service Commission Tax	(3,916)	(4,764)	848	-17.8%
Interest Expense	(73,554)	(91,982)	18,428	-20.0%
Gain (Loss) on Disposal of Assets	(4,977)	(742)	(4,235)	-100.0%
Total Non-Oper Revenues (Expenses)	(18,031)	(37,419)	19,388	-51.8%
Income Before Capital Contributions	161,934	206,119	(44,185)	-21.4%
Capital Contributions	191,798	258,063	(66,265)	-25.7%
Change in Net Position	353,732	464,182	(110,450)	-23.8%
Net Position, Beginning of Year	16,048,029	15,583,847	464,182	3.0%
Net Position, End of Year	16,401,761	16,048,029	\$353,732	2.2%

Total Operating Revenues increased by \$125,076 or 4.8% from last year reflecting increases 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. Residential revenue increased by \$70,619 and

Financial Analysis (*Continued*)

commercial, industrial, and agricultural revenue increased by \$53,113. The volume of water sold this year was 352.6 million gallons compared to 345.3 million gallons last year, an increase of 2.1% totaling 7.3 million gallons. *Forfeited Discounts*, which are late penalties increased by \$5,658 and *Miscellaneous Service Revenue* which includes connection fees, collection fees, and meter tampering fees, decreased by \$4,314.

Total Operating Expenses increased by \$188,649 or 8.1% and consists of the following: (1) depreciation which increased by \$139,033 reflecting an accounting adjustment of \$116,052 which revised the useful lives of utility plant; (2) wages & benefits increased by \$49,226 due to a higher volume of line locates for contractors, maintenance to the system, and meter testing; (3) purchased water increased by \$47,482 due to a wholesale supplier rate increase and customer demand; (4) amortization which decreased by \$56,627 due to KRWFC, Series 2021A refunding loan costs fully expensed in year 2022; (5) all other expenses which increased by a net amount of \$9,535. *Non-Operating Expense* decreased by \$19,388 reflecting interest savings on long-term debt after the KRWFC, Series 2021A refunding in year 2021.

Capital Contributions totaled \$191,798 and decreased by \$66,265 compared to last year. In year 2022, contributions were received for the following: new meter installations, \$73,250; line extensions, \$62,110; and, fire protection, \$56,438. *Net Position* at the end of the year totaled \$16,401,761, an increase of \$353,732.

Changes in Utility Plant

The largest portion of the district's assets is invested in utility plant totaling \$16,986,679 on December 31, 2022. Changes by asset category are listed below in Table 5.

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

Capital Investment	Year 2022	Year 2021	Increase (Decrease)	
Land	\$ 25,549	\$ 25,549	\$ -	0.0%
Structures	21	77	(56)	-72.7%
Pumping Equipment	1,256,815	1,348,264	(91,449)	-6.8%
Storage Tanks	1,389,041	1,406,121	(17,080)	-1.2%
Distribution Mains	11,178,853	11,180,890	(2,037)	0.0%
SCADA Communications	17,528	44,704	(27,176)	-60.8%
Meters	2,467,999	2,380,252	87,747	3.7%
Hydrants	500,691	501,672	(981)	-0.2%
Computer Hardware & Software	56,463	77,870	(21,407)	-27.5%
Furniture & Fixtures	4,283	4,539	(256)	-5.6%
Other	19,632	21,574	(1,942)	-9.0%
TOTAL Capital Investment	16,916,875	16,991,512	(74,637)	-0.4%
Construction in Progress	69,804	8,362	61,442	734.8%
NET Utility Plant	\$ 16,986,679	\$ 16,999,874	\$ (13,195)	-0.1%

The District's utility plant includes the following: (1) 403 miles of distribution main, (2) 25 miles of service line, (3) 229 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. The following was

Financial Analysis (*Continued*)

recorded to utility plant during the year: (1) AMR/AMI meter reading system, \$169,747; (2) customer meter installations, \$113,548; (3) Pilot Knob tank repainting, \$88,267; (4) Ronnie Clark Road line extension, \$56,200; (5) GIS system mapping, \$21,632; (6) other asset additions, \$168,448; (7) an increase in construction in progress, \$61,442; and (8) reduction of \$692,479 for accumulated depreciation which includes the accounting adjustment for useful lives of utility plant.

The adoption of NARUC guidelines for depreciable assets resulted in reduced useful lives for many asset classes and extended lives for others. The useful life of pumping equipment was reduced from 50 years to 20 years; however, distribution mains useful life was extended from 50 years to 62.5 years. The District's replacement history has found asset lives outlined by NARUC accurately reflect the life expectancy of assets in service.

Long-Term Debt

The District's debt obligations include United States Department of Agriculture (USDA) bonds and Kentucky Rural Water Finance Corporation (KRWFC) loans. As of December 31, 2022, the District had \$2,907,000 in outstanding principal compared to \$2,972,000 in the previous year, a decrease of \$65,000 in debt obligations.

Factors Affecting Next Year's Budget

- The inflationary impact on the cost of materials, equipment, and services.
- The ability to procure materials and equipment in a timely and cost-effective manner. The current supply chain environment impacts the District's ability to acquire sufficient resources to operate, maintain, and extend its water system to meet current and future needs.
- The East Side Pump Station & Transmission Project was budgeted 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 2023 at its meeting held in October 2022. Metered water sales are budgeted to increase by 4.1%. Total revenue is budgeted to increase by 4.43% from year 2022, and total expenses are budgeted to increase by 1.77%. Debt service payments are expected to total \$217,500 with a reduction in outstanding debt of \$132,000. Net income for the budget year is \$247,500. Capital expenditures for the year are budgeted to total \$4,189,820 using internal funds of \$1,318,825, proceeds from financing \$2,350,000, and contributions from customers & governmental agencies totaling \$520,995.

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, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 2,063,526	\$ 1,032,147
Restricted cash and cash equivalents	608,262	1,319,309
Customer accounts receivable, net	67,247	63,006
Accounts receivable - Other	10,546	41,608
Unbilled receivables	234,645	191,724
Prepaid assets	10,510	10,252
Lease receivable	31,067	
Other current assets	<u>13,795</u>	<u>23,647</u>
Total current assets	\$ <u>3,039,598</u>	\$ <u>2,681,693</u>
Noncurrent assets		
Capital assets, net	\$ 16,916,875	\$ 16,991,512
Lease receivable	85,746	
Construction in progress	69,804	8,362
Right-of-use asset, net	<u>36,735</u>	
Total noncurrent assets	\$ <u>17,109,160</u>	\$ <u>16,999,874</u>
Total assets	<u>\$ 20,148,758</u>	<u>\$ 19,681,567</u>
Liabilities, deferred inflows of resources, and net position		
Liabilities		
Current liabilities		
Accounts payable	\$ 221,213	\$ 112,518
Accounts payable - WCWD	31,176	70,618
Customer deposits	158,687	156,954
Bonds and notes payable	132,000	65,000
Interest payable	34,086	33,227
Lease payable	7,923	
Other current liabilities	<u>18,308</u>	<u>17,382</u>
Total current liabilities	\$ <u>603,393</u>	\$ <u>455,699</u>
Noncurrent liabilities		
Bonds and notes payable, net	\$ 2,871,917	\$ 3,021,450
Other postemployment benefits	85,528	115,855
Rebates payable	40,534	40,534
Lease payable	<u>29,220</u>	
Total noncurrent liabilities	\$ <u>3,027,199</u>	\$ <u>3,177,839</u>
Total liabilities	<u>\$ 3,630,592</u>	<u>\$ 3,633,538</u>

Simpson County Water District
Statement of Net Position - Proprietary Fund
For the Years Ended December 31, 2022 and 2021
(Continued)

Liabilities, deferred inflows of resources, and net position
(Continued)

Deferred inflows of resources		
Leases	\$ <u>116,405</u>	\$ <u> </u>
Total deferred inflows of resources	\$ <u>116,405</u>	\$ <u> </u>
Net position		
Net investment in capital assets	\$ 13,982,762	\$ 13,913,424
Restricted		
Debt service	443,361	1,157,409
Unrestricted	<u>1,975,638</u>	<u>977,196</u>
Total net position	\$ <u>16,401,761</u>	\$ <u>16,048,029</u>
Total liabilities, deferred inflows of resources, and net position	\$ <u><u>20,148,758</u></u>	\$ <u><u>19,681,567</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 Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Operating revenues		
Residential metered sales	\$ 1,437,505	\$ 1,366,886
Commercial metered sales	888,936	801,271
Industrial metered sales	299,090	332,633
Agricultural metered sales	27,911	28,920
Forfeited discounts	37,943	32,285
Miscellaneous service revenue	<u>19,018</u>	<u>23,332</u>
Total operating revenues	\$ <u>2,710,403</u>	\$ <u>2,585,327</u>
Operating expenses		
Purchased water	\$ <u>1,216,129</u>	\$ <u>1,168,647</u>
Pumping		
Salaries and benefits	\$	\$ 244
Purchased power	26,841	24,823
Insurance	1,433	1,396
Professional services	750	1,287
Miscellaneous	<u>496</u>	<u>1,203</u>
Total pumping	\$ <u>29,520</u>	\$ <u>28,953</u>
General distribution		
Salaries and benefits	\$ 101,529	\$ 64,628
Purchased power	4,112	4,562
Materials and supplies	5,650	5,430
Insurance	7,048	6,863
Contractual services	18,438	12,318
Professional services	750	1,287
Miscellaneous	<u>18,592</u>	<u>13,252</u>
Total general distribution	\$ <u>156,119</u>	\$ <u>108,340</u>
Customer accounts		
Salaries and benefits	\$ 135,799	\$ 128,524
Materials and supplies	2,258	1,083
Insurance	1,433	1,396
Contractual services	36,432	33,187
Professional services	1,500	2,575
Uncollectible accounts	1,859	4,298
Miscellaneous	<u>16,383</u>	<u>15,369</u>
Total customer accounts	\$ <u>195,664</u>	\$ <u>186,432</u>
Maintenance		
Salaries and benefits	\$ 61,315	\$ 59,011
Materials and supplies	27,386	23,576
Contractual services	39,555	33,568
Professional services	1,500	2,574
Miscellaneous	<u>11,386</u>	<u>9,393</u>

Simpson County Water District
Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Fund
For the Years Ended December 31, 2022 and 2021
(Continued)

	<u>2022</u>	<u>2021</u>
Operating expenses <i>(Continued)</i>		
Total maintenance	\$ 141,142	\$ 128,122
Administrative and general		
Salaries and benefits	\$ 61,959	\$ 69,771
Other postemployment benefits	(17,893)	4,350
Materials and supplies	3,666	3,792
Insurance	2,835	2,817
Contractual services	39,488	30,714
Professional services	1,642	2,575
Miscellaneous	12,163	1,678
Total administrative and general	\$ 103,860	\$ 115,697
Depreciation	\$ 700,704	\$ 561,671
Amortization	\$ (12,700)	\$ 43,927
Total operating expenses	\$ 2,530,438	\$ 2,341,789
Total operating revenues (expenses)	\$ 179,965	\$ 243,538
Non-operating revenues (expenses)		
Interest revenue	\$ 34,448	\$ 22,426
Lease revenue	29,968	37,643
Regulatory commission tax	(3,916)	(4,764)
Interest expense	(73,554)	(91,982)
Gain (loss) on disposal of assets	(4,977)	(742)
Total non-operating revenues (expenses)	\$ (18,031)	\$ (37,419)
Excess (deficiency) of revenues over expenses	\$ 161,934	\$ 206,119
Capital contributions		
Contributions in aid of construction	\$ 191,798	\$ 258,063
Total capital contributions	\$ 191,798	\$ 258,063
Change in net position	\$ 353,732	\$ 464,182
Net position - Beginning of year	16,048,029	15,583,847
Net position - End of year	<u>\$ 16,401,761</u>	<u>\$ 16,048,029</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, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities		
Cash received from customers	\$ 2,696,036	\$ 2,605,470
Cash payments to suppliers for goods and services	(1,429,468)	(1,545,737)
Cash payments to employees for services	<u>(360,602)</u>	<u>(322,178)</u>
Net cash flows from operating activities	<u>\$ 905,966</u>	<u>\$ 737,555</u>
Cash flows from capital and related financing activities		
Cash received from contributions in aid of construction	\$ 30,700	\$ 363,223
Cash paid for capital assets	(543,981)	(1,177,667)
Cash paid for bond and note principal	(65,000)	(188,165)
Cash paid for interest on long-term debt	<u>(71,361)</u>	<u>(97,955)</u>
Net cash flows from capital and related financing activities	<u>\$ (649,642)</u>	<u>\$ (1,100,564)</u>
Cash flows from investing activities		
Cash received from matured investments	\$	\$ 668,289
Lease revenue	31,702	37,643
Interest received	<u>32,306</u>	<u>22,426</u>
Net cash flows from investing activities	<u>\$ 64,008</u>	<u>\$ 728,358</u>
Net increase (decrease) in cash and cash equivalents	<u>\$ 320,332</u>	<u>\$ 365,349</u>
Cash and cash equivalents - Beginning	<u>2,351,456</u>	<u>1,986,107</u>
Cash and cash equivalents - Ending	<u><u>\$ 2,671,788</u></u>	<u><u>\$ 2,351,456</u></u>
Cash and cash equivalents reported in the Statement of Net Position		
Cash and cash equivalents	\$ 2,063,526	\$ 1,032,147
Restricted cash and cash equivalents	<u>608,262</u>	<u>1,319,309</u>
Total cash and cash equivalents reported in the Statement of Net Position	<u><u>\$ 2,671,788</u></u>	<u><u>\$ 2,351,456</u></u>
Reconciliation of cash flows from operating activities		
Operating income	\$ 179,965	\$ 243,538
Adjustments to reconcile income (loss) from operation to cash used in operating activities		
Depreciation	700,704	561,671
Amortization	(12,700)	43,927
Regulatory commission tax	(3,916)	(4,764)
Lease payments	(5,600)	
Changes in assets and liabilities		
Customer accounts receivable, net	(4,241)	1,381
Accounts receivable - Other	31,062	8,578
Unbilled receivables	(42,921)	5,794
Prepaid assets	(258)	(197)
Other current assets	9,852	(13,104)
Accounts payable	108,695	(97,187)
Accounts payable - WCWD	(39,442)	(21,376)
Customer deposits	1,733	4,390
Other postemployment benefits	(17,893)	4,350
Other current liabilities	<u>926</u>	<u>554</u>
Net cash flows from operating activities	<u><u>\$ 905,966</u></u>	<u><u>\$ 737,555</u></u>

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, 2022 and 2021

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, 2022 and 2021
(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.

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 62.5 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, 2022 and 2021
(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.

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. Changes to Useful Lives of Capital Assets

On August 31, 2022, the District made an adjustment to the depreciable lives of their property, plant, and equipment in order to comply with the National Association of Regulatory Utility Commissioner's guidelines. This change in depreciable lives was applied on a prospective basis and resulted in no change to the beginning net assets of the District. The change in depreciable lives resulted in an increase in depreciation expense for the year ended December 31, 2022 of \$116,052.

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.

Simpson County Water District
Notes to the Financial Statements
For the Years Ended December 31, 2022 and 2021
(Continued)

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

A. Deposits *(Continued)*

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, 2022 and 2021, the District's deposits were fully covered by federal depository insurance or by collateral held by depository institutions totaling \$2,626,887 and \$2,506,543, respectively.

B. Restricted Cash and Cash Equivalents

Restricted cash consists of the following:

	<u>2022</u>	<u>2021</u>
Sinking funds	\$ 170,721	\$ 98,232
Depreciation fund	272,640	1,059,177
Customer deposits fund	164,901	161,900
Total restricted cash	<u>\$ 608,262</u>	<u>\$ 1,319,309</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 holding customer deposits until service is terminated.

Note 4. 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.

The District received a grant award of \$180,174 from the State of Kentucky as part of the Cleaner Water Program (CWP) Round 1. These funds are to be allocated to the Simpson County Water Line Replacements – Phase 2 project. A grant award of \$314,221 from the State of Kentucky was also received as part of the CWP Round 2, which is also to be allocated to the Simpson County Water Line Replacements – Phase 2 project. This project is currently in the final stages of design. Both grants are provided through the American Rescue Plan Act of 2021.

The District has committed to an upgrade of its system-wide Supervisory Control And Data Acquisition system. The system consists of remote terminal unit's which provide telemetry, control, and alarming for 22 pump stations, storage tanks, and metering sites. The estimated cost of the project is \$609,687 and will be funded internally. Total costs incurred as of December 31, 2022 are \$71.

Simpson County Water District
Notes to the Financial Statements
For the Years Ended December 31, 2022 and 2021
(Continued)

Note 5. Long-Term Debt

A. Changes in Long-term Debt

The following reflects the long-term debt activity for the year ended December 31, 2022:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds and notes payable	\$ 1,477,000	\$	\$	\$ 1,477,000	\$ 27,000
Other debt	1,495,000		65,000	1,430,000	105,000
Total	<u>\$ 2,972,000</u>	<u>\$</u>	<u>\$ 65,000</u>	<u>\$ 2,907,000</u>	<u>\$ 132,000</u>

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds and notes payable	\$ 2,162,500	\$	\$ 685,500	\$ 1,477,000	\$
Other debt	1,085,000	1,495,000	1,085,000	1,495,000	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>

B. Bonds and Notes Payable

Bonds and notes payable consists of the following as of December 31, 2022:

USDA Rural Development 91-09 Series 2020 – Revenue Bonds, interest at 1.875% with a maturity date of January 1, 2060.	1,477,000
Total bonds and notes payable	\$ 1,477,000
Less: Current maturities	27,000
Total long-term bonds and notes payable	<u>\$ 1,450,000</u>

Bonds and notes payable consists of the following as of December 31, 2021:

USDA Rural Development 91-09 Series 2020 – Revenue Bonds, interest at 1.875% with a maturity date of January 1, 2060.	1,477,000
Total long-term bonds and notes payable	<u>\$ 1,477,000</u>

Principal and interest due at December 31, 2022 follows:

Simpson County Water District
Notes to the Financial Statements
For the Years Ended December 31, 2022 and 2021
(Continued)

Note 5. Long-Term Debt *(Continued)*

B. Bonds and Notes Payable *(Continued)*

<u>Year Ending December 31,</u>	<u>Interest</u>	<u>Principal</u>
2023	\$ 27,441	\$ 27,000
2024	26,930	27,500
2025	26,409	28,000
2026	25,880	28,500
2027	25,341	29,000
2028 – 2032	118,270	153,500
2033 – 2037	103,177	168,500
2038 – 2042	86,616	185,000
2043 – 2047	68,438	203,000
2048 – 2052	48,502	222,500
2053 – 2057	26,630	244,500
2058 – 2060	4,584	160,000
Total	<u>\$ 588,218</u>	<u>\$ 1,477,000</u>

Principal and interest due at December 31, 2021 follows:

<u>Year Ending December 31,</u>	<u>Interest</u>	<u>Principal</u>
2022	\$ 13,847	\$
2023	27,441	27,000
2024	26,930	27,500
2025	26,409	28,000
2026	25,880	28,500
2027 – 2031	121,120	150,500
2032 – 2036	106,308	165,500
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>\$ 602,064</u>	<u>\$ 1,477,000</u>

Bond Collateralization and Event of Default Consequence

According to bond documents, the bonds shall be payable solely out of the gross revenues of the District. Upon the occurrence of an Event of Default, and upon the filing of a suit by any Owner of said bonds, any court having jurisdiction of the action may appoint a receiver to administer said District with power to charge

Simpson County Water District
Notes to the Financial Statements
For the Years Ended December 31, 2022 and 2021
(Continued)

Note 5. Long-Term Debt *(Continued)*

B. Bonds and Notes Payable *(Continued)*

Bond Collateralization and Event of Default Consequence *(Continued)*

and collect rates sufficient to provide for the payment of operating and maintenance expenses, for payment of principal of and interest on the prior bonds and current bonds, and apply the income and revenues in conformity with the Resolution and with the laws of the Commonwealth of Kentucky.

C. Other Debt

Other debt consists of the following as of December 31, 2022:

Kentucky Rural Water Finance Corporation Series 2021A – Refunding Loan, interest at 2.25% - 4.25% with a maturity date of February 1, 2034.		1,430,000
Total bonds and notes payable	\$	1,430,000
Less: Current maturities		105,000
Total long-term bonds and notes payable	\$	<u>1,325,000</u>

Other debt consists of the following as of December 31, 2021:

Kentucky Rural Water Finance Corporation Series 2021A – Refunding Loan, interest at 2.25% - 4.25% with a maturity date of February 1, 2034.		1,495,000
Total bonds and notes payable	\$	1,495,000
Less: Current maturities		65,000
Total long-term bonds and notes payable	\$	<u>1,430,000</u>

Principal and interest due at December 31, 2022 follows:

<u>Year Ending December 31,</u>	<u>Interest</u>	<u>Principal</u>
2023	\$ 46,344	\$ 105,000
2024	41,775	110,000
2025	37,100	110,000
2026	32,319	115,000
2027	27,325	120,000
2028 – 2032	65,938	680,000
2033 – 2034	3,150	190,000
Total	<u>\$ 253,951</u>	<u>\$ 1,430,000</u>

Principal and interest due at December 31, 2021 follows:

Simpson County Water District
Notes to the Financial Statements
For the Years Ended December 31, 2022 and 2021
(Continued)

Note 5. Long-Term Debt *(Continued)*

C. Other Debt *(Continued)*

<u>Year Ending December 31,</u>		<u>Interest</u>	<u>Principal</u>
2022	\$	57,514	\$ 65,000
2023		46,344	105,000
2024		41,775	110,000
2025		37,100	110,000
2026		32,319	115,000
2027 – 2031		87,356	655,000
2032 – 2034		9,056	335,000
Total	\$	<u>311,464</u>	<u>\$ 1,495,000</u>

Note 6. Capital Assets

Capital assets at December 31, 2022 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	8,362	554,531	493,089	69,804
Assets being depreciated:				
Utility plant in service	<u>24,722,664</u>	<u>631,044</u>	<u>13,202</u>	<u>25,340,506</u>
Total capital assets	\$ <u>24,756,575</u>	\$ <u>1,185,575</u>	\$ <u>506,291</u>	\$ <u>25,435,859</u>
Less: Accumulated depreciation	<u>7,756,701</u>	<u>700,704</u>	<u>8,225</u>	<u>8,449,180</u>
Capital assets, net	\$ <u><u>16,999,874</u></u>	\$ <u><u>484,871</u></u>	\$ <u><u>498,066</u></u>	\$ <u><u>16,986,679</u></u>

Capital assets at December 31, 2021 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	82,161	1,094,926	1,168,725	8,362
Assets being depreciated:				
Utility plant in service	<u>23,530,241</u>	<u>1,193,702</u>	<u>1,279</u>	<u>24,722,664</u>
Total capital assets	\$ <u>23,637,951</u>	\$ <u>2,288,628</u>	\$ <u>1,170,004</u>	\$ <u>24,756,575</u>
Less: Accumulated depreciation	<u>7,195,567</u>	<u>561,671</u>	<u>537</u>	<u>7,756,701</u>
Capital assets, net	\$ <u><u>16,442,384</u></u>	\$ <u><u>1,726,957</u></u>	\$ <u><u>1,169,467</u></u>	\$ <u><u>16,999,874</u></u>

Simpson County Water District
Notes to the Financial Statements
For the Years Ended December 31, 2022 and 2021
(Continued)

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. Related Parties

The Warren County Water District (Warren) provides management, engineering, and repair and maintenance services to the District. The District included \$31,176 and \$70,618, respectively, in accounts payable at December 31, 2022 and 2021. During 2022 and 2021, expenses from Warren amounted to \$866,447 and \$717,620, respectively, for the following:

	<u>2022</u>	<u>2021</u>
Wages and benefits		
Operation	\$ 258,392	\$ 210,590
Administrative		
Supervision and administration	99,205	92,358
Accounting	32,092	27,259
Customer service	63,599	60,912
Engineering	22,889	23,255
Operations – Other	155,387	120,184
Additions to plant	174,379	142,895
Special projects	60,504	40,167
Total	<u>\$ 866,447</u>	<u>\$ 717,620</u>

In addition to the previously identified expenses from Warren, the District also recognized other postemployment benefits (OPEB) expense of (\$17,893) in 2022 and \$4,350 in 2021. 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 \$85,528 and \$115,855, respectively, at December 31, 2022 and 2021. 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 9. Adoption of New Accounting Standards

The District implemented GASB Statement No. 87, *Leases*, which enhances the relevance and consistency of information on the entity's leasing activities. It establishes requirements for lease accounting based on

Simpson County Water District
Notes to the Financial Statements
For the Years Ended December 31, 2022 and 2021
(Continued)

Note 9. Adoption of New Accounting Standards (Continued)

the principle that leases are financing of the right to use an underlying asset. 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. These changes were incorporated into the District's financial statements as of January 1, 2022 and had no impact on the beginning net position of the entity nor the change in net position for the year ended December 31, 2022.

Note 10. Leases

Leases Payable

The District leases office space under leases whose terms are greater than 1 year. Amortization expenses for those leases totaled \$4,852 for the year ended December 31, 2022. Future minimum commitments for these leases are as follows:

<u>Year Ending June 30,</u>	<u>Interest</u>	<u>Principal</u>
2023	\$ 1,677	\$ 7,923
2024	1,272	8,328
2025	846	8,754
2026	398	9,202
2027	29	2,936
Total	<u>\$ 4,222</u>	<u>\$ 37,143</u>

Leases Receivable

The District leases water tank space to technology companies under leases whose terms are greater than 1 year. Lease revenue for those leases totaled \$31,702 for the year ended December 31, 2022. Future minimum commitments for these leases are as follows:

<u>Year Ending June 30,</u>	<u>Interest</u>	<u>Principal</u>
2023	\$ 5,135	\$ 31,067
2024	3,546	32,656
2025	1,969	26,238
2026	872	20,708
2027	58	6,144
Total	<u>\$ 11,580</u>	<u>\$ 116,813</u>

Note 11. Subsequent Events

The District has evaluated and considered the need to recognize or disclose subsequent events through April 3, 2023, 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, 2022, have not been evaluated by the District.

Supplementary Information

**Simpson County Water District
Schedule of Budgetary Comparison
For the Year Ended December 31, 2022**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Metered water revenue	\$ 2,597,700	\$ 2,617,700	\$ 2,653,442	\$ 35,742
Forfeited discounts	33,700	37,200	37,943	743
Miscellaneous service revenue	24,800	19,800	19,018	(782)
Interest	19,300	26,300	34,448	8,148
Lease	38,400	39,900	29,968	(9,932)
Total revenues	\$ 2,713,900	\$ 2,740,900	\$ 2,774,819	\$ 33,919
Expenses				
Salaries and wages	\$ 222,500	\$ 237,500	\$ 228,656	\$ 8,844
Commissioner fees	10,800	10,800	10,800	
Employee overhead	129,500	135,500	131,948	3,552
Purchased water	1,241,100	1,216,100	1,216,129	(29)
Purchased power	32,700	32,700	30,953	1,747
Materials and supplies	32,900	42,900	38,960	3,940
Contractual services - Accounting	6,000	6,500	6,029	471
Contractual services - Legal	500	500	113	387
Contractual services - Other	114,100	139,100	133,913	5,187
Rental of building and property	10,100	10,100	9,912	188
Equipment	26,200	41,200	38,682	2,518
Insurance - Liability and property	12,000	12,000	11,946	54
Insurance - Treasury bond	900	900	804	96
Regulatory commission tax	5,300	5,300	3,916	1,384
Bad debts expense	6,000	6,000	1,859	4,141
Miscellaneous expense	5,300	6,800	(377)	7,177
Depreciation	573,000	703,400	700,704	2,696
Amortization	6,000	3,000	(12,700)	15,700
Interest	56,700	58,700	73,554	(14,854)
OPEB	4,200	4,200	(17,893)	22,093
Loss on disposal of asset			4,977	(4,977)
Total expenses	\$ 2,495,800	\$ 2,673,200	\$ 2,612,885	\$ 60,315
Excess (deficiency) of revenues over expenses	\$ 218,100	\$ 67,700	\$ 161,934	\$ 94,234
Contributions in aid of construction	249,500	249,500	191,798	(57,702)
Net change in net position	\$ 467,600	\$ 317,200	\$ 353,732	\$ 36,532
Net position - Beginning of year	17,020,238	17,020,238	16,048,029	(972,209)
Net position - End of year	\$ 17,487,838	\$ 17,337,438	\$ 16,401,761	\$ (935,677)

Jones & Associates CPAs, PSC

Certified Public Accountants



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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

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, 2022, 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 April 3, 2023.

Report on 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) 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 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.

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

April 3, 2023