

DAVISS COUNTY WATER DISTRICT

**FINANCIAL STATEMENTS
AND
SUPPLEMENTAL INFORMATION**

DECEMBER 31, 2021

DAVIESS COUNTY WATER DISTRICT
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December 31, 2021

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INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners
Daviness County Water District

Opinion

We have audited the accompanying financial statements of the of the Daviness County Water District, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise Daviness 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 respective financial position of the Daviness County Water District, as of December 31, 2021, and the respective changes in financial position and cash flows thereof for the year 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 Daviness 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 Daviness 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.

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Daviess 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 Daviess 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 on pages 4 - 8 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Daviess County Water District's basic financial statements. The Budgetary Comparison Schedule is presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Budgetary Comparison Schedule is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report March 18, 2022, on our consideration of the Daviess 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Daviess 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 the Daviess County Water District's internal control over financial reporting and compliance.

Altaden & Company CPAs PSC

Owensboro, Kentucky
March 18, 2022

MANGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the District's financial performance provides an overview of the District's financial activities for the year ended December 31, 2021. Please read it in conjunction with the District's financial statements, which begin on page 9.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts: Management's Discussion and Analysis, the Financial Statements, and Supplementary Information.

Management's Discussion and Analysis (MD&A) serves an introduction to the basic financial statements. The MD&A represents management's examination and analysis of the District's financial condition and performance.

The financial statements report information using accounting methods similar to those used by private sector companies. The financial statements include a Statement of Net Position; a Statement of Revenues, Expenses, and Changes in Net Position; a Statement of Cash Flows; and Notes to the Financial Statements.

The Statement of Net Position presents the financial position of the District and thus provides information about the nature and amount of resources and obligations at year-end.

The Statement of Revenues, Expenses, and Changes in Net Position presents the results of the business activities over the course of the year and information as to how the net position changed during the year. All changes in net position are reported as soon as the underlying event occurs, regardless of the timing of the related cash flow.

The Statement of Cash Flows present changes in cash and cash equivalents resulting from operational, financing, and investing activities. This statement presents cash receipts and cash disbursements information, without consideration of the earnings event or when an obligation arises.

The Notes to the Financial Statements provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the District's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies, and subsequent events, if any.

The Supplementary Information includes the District's budget to actual comparison schedule.

FINANCIAL SUMMARY

The following table summarizes the financial condition of the District as of December 31, 2021 and January 1, 2021:

	<u>12/31/2021</u>	<u>1/01/2021</u>	<u>\$ Change</u>	<u>% Change</u>
ASSETS				
CURRENT ASSETS				
Current assets	\$ 7,227,141	\$ 6,484,365	\$ 742,776	11.45%
Restricted assets	1,065,002	1,005,351	59,651	5.93%
Net capital assets	<u>15,474,393</u>	<u>15,453,215</u>	21,178	0.14%
Total assets	<u>\$ 23,766,536</u>	<u>\$ 22,942,931</u>	823,605	3.59%
LIABILITIES AND NET ASSETS				
Current liabilities	\$ 797,135	\$ 761,644	\$ 35,491	4.66%
Noncurrent liabilities	<u>311,284</u>	<u>288,424</u>	22,860	7.93%
Total liabilities	<u>1,108,419</u>	<u>1,050,068</u>	58,351	5.56%
NET POSITION				
Net investment in capital assets	15,474,393	15,453,215	21,178	0.14%
Unrestricted	<u>7,183,724</u>	<u>6,439,648</u>	744,076	11.55%
Total net position	<u>22,658,117</u>	<u>21,892,863</u>	765,254	3.50%
Total liabilities and net position	<u>\$ 23,766,536</u>	<u>\$ 22,942,931</u>	\$ 823,605	3.59%

The following table summarizes the revenues, expenses, and changes in net position of the District for the year ended December 31, 2021:

	<u>2021</u>		Favorable (Unfavorable) Variance
	<u>Final Budget</u>	<u>Actual</u>	
Operating revenues	\$ 6,011,600	\$ 6,229,262	\$ 217,662
Operating expenses	<u>5,487,800</u>	<u>5,743,613</u>	<u>255,813</u>
Income from operations	<u>523,800</u>	<u>485,649</u>	<u>(38,151)</u>
Interest income	50,000	43,958	(6,042)
Interest expense	(3,500)	(395)	3,105
Gain on disposal of assets	-	1,231	1,231
Net nonoperating expenses	<u>46,500</u>	<u>44,794</u>	<u>(1,706)</u>
Income before capital contributions	570,300	530,443	(39,857)
Capital contributions	<u>130,000</u>	<u>234,811</u>	<u>104,811</u>
Change in net position	700,300	765,254	64,954
Net position, beginning of year	<u>21,892,863</u>	<u>21,892,863</u>	<u>-</u>
Net position, end of year	<u>\$ 22,593,163</u>	<u>\$ 22,658,117</u>	<u>\$ 64,954</u>

FINANCIAL HIGHLIGHTS

Effective January 1, 2021, the District was formed from the merger of Southeast Daviess County Water District and the West Daviess County Water District. The below financial highlights include references to 2020 financial information for the Southeast and West Daviess County Water District as if they were combined in 2020. Readers should be aware that the Southeast and West Daviess County Water Districts were separate entities for 2020 and the combined information presented for 2020 is for the purpose of analyzing the District's 2021 results from operations.

- In 2021, the District's net position increased by \$765,254. The increase in net position was comprised of income from operations of \$530,443 and capital contributions of \$234,811.
- In 2021, the District's operating revenues were \$6,229,262. In 2020, the Southeast and West Daviess County Water Districts' operating revenues were \$5,033,241. Therefore, the District's operating revenues increased \$1,196,021 or 23.76%. An increase in water sales comprised substantially all of the increase in operating revenue. The increase in water sales is primarily attributable to an increase in customer rates. Customer rates were increased to reflect purchased water adjustments from the District's supplier. The customer rate adjustments went into effect for water sales after December 30, 2020 and as of June 1, 2021. In 2021, the District's total gallons sold to customers were 975,028,540. In 2020, the Southeast and West Daviess County Water Districts' total gallons sold to customers were 962,969,110. Therefore, the District's total gallons sold to customers increased 12,059,430 or 1.25%
- In 2021, the District's operating expenses were \$5,743,613. In 2020, the Southeast and West Daviess County Water Districts' operating expenses were \$5,211,503. Therefore, the District's operating expenses increased \$532,110 or 10.21%. The most significant increases and decreases in operating expenses during 2021 when compared to 2020 were as follows:
 - Water purchased increased \$620,955 or 24.56%
 - Audit, accounting, and legal decreased \$83,696 or 68.76%

Water purchased increased due to an increase in purchased water rates. The customer rate adjustments went into effect for water sales after December 30, 2020 and as of June 1, 2021. In 2021, the District's total gallons purchased were 1,142,746,341. In 2020, the Southeast and West Daviess County Water Districts' total gallons purchased were 1,087,508,802. Therefore, the District's total gallons purchased increased 55,237,539 or 5.08%.

In 2021, the District did not incur as many expenses for audit, accounting, and legal fees. In 2020, the Southeast and West Daviess County Water Districts' audit, accounting and legal fees were substantially higher due to the Districts' attorney consulting on the Southeast and West Water District's merger plans.

CAPITAL ASSETS

As of December 31, 2021, the District had \$15.5 million of net capital assets. The following table summarizes the District's capital asset activity during 2021.

	Balance 1/1/2021	Additions	Deletions	Balance 12/31/2021
Capital assets not depreciated:				
Land	\$ 94,582	\$ -	\$ -	\$ 94,582
Construction in progress	53,945	52,463	46,408	60,000
Total capital assets not depreciated:	<u>148,527</u>	<u>52,463</u>	<u>46,408</u>	<u>154,582</u>
Capital assets depreciated:				
Buildings	326,593	-	-	326,593
Pumping stations	1,651,961	23,072	-	1,675,033
Equipment	2,702,687	206,009	77,452	2,831,244
Tanks, lines, meters and hydrants	21,862,759	554,809	28,987	22,388,581
Total capital assets depreciated	<u>26,544,000</u>	<u>783,890</u>	<u>106,439</u>	<u>27,221,451</u>
Less accumulated depreciation:				
Buildings	283,686	5,821	-	289,507
Pumping stations	891,999	50,984	-	942,983
Equipment	625,456	143,816	77,453	691,819
Tanks, lines, meters and hydrants	9,438,170	554,380	15,219	9,977,331
Total accumulated depreciation	<u>11,239,311</u>	<u>755,001</u>	<u>92,672</u>	<u>11,901,640</u>
Total capital assets depreciated, net	<u>15,304,689</u>	<u>28,889</u>	<u>13,767</u>	<u>15,319,811</u>
Total capital assets, net	<u>\$ 15,453,216</u>	<u>\$ 81,352</u>	<u>\$ 60,175</u>	<u>\$ 15,474,393</u>

Capital Asset Additions

Significant capital asset additions were as follows:

- Pleasant Grove Road interior tank refurbishments (2 tanks) \$55,351
- Deer Valley, DCPS, Turnberry Estates, and Keeneland Trace waterlines \$125,335
- Deer Valley, DCPS, Turnberry Estates, and Keeneland Trace hydrants \$53,000
- Meters and meter installations placed into service \$266,530
- Purchase of four 2021 Ford F150s \$119,852

Construction in Progress

At December 31, 2021, the District had \$60,000 in construction in progress derived from design engineering associated with the waterline relocation on Highway 54 planned by the Kentucky Department of Transportation in 2022 and betterment costs incurred from upsizing the waterline from 12" to 16". The project is expected to have total cost of \$1,137,700, however, the District will only be responsible for betterment costs of \$423,301. At December 31, 2021, the District is expected to have a remaining commitment for the project of \$363,301. As of December 31, 2021, the Kentucky Department of Transportation did not have an expected start date for the project.

OUTLOOK

General Manager

The Water District will replace William Higdon on January 1, 2023 due to his retirement. Brent Wigginton has been hired as his replacement and is expected to begin work on March 1, 2022 serving as a co-manager until Mr. Higdon's retirement date.

Rate Unification

As a condition of Case No. 2020-287 of the Public Service Commission merging of the Southeast Daviess County Water District and the West Daviess County Water District, the Water District has operated in 2021 by charging each respective customer base the rates and charges of each district pre-merger. However, the Water District is required as a condition of Case No. 2020-287 to perform a Cost-of-Service Study for both retail and wholesale customers in order to submit a unified rate and charges for all customer by June 30, 2022. Until a unified rate and charges declaration is made by the Public Service Commission, the Water District will continue to operate by charging the separate rate structure for each respective customer base. A decision by the Public Service Commission is expected in late 2022. We expect the 2022 revenue to increase 7.85% due to an increase in overall customer demand, the residual effect of a purchased water adjustment on June 1, 2021, and a projected June 1, 2022 increase in purchased water costs. Operating expenses are mainly expected to stabilize except for purchased water expense derived from the before-mentioned increase from Owensboro Municipal Utilities. Also, increases in salary and wage expense, employee benefits, and payroll taxes is expected to increase due to the addition of the replacement general manager hired effective March 1, 2022 while the current General Manager fulfills his obligation until December 31, 2022.

ARPA Funds / Projects

The Water District has applied to receive funds administered by the Kentucky Infrastructure Authority for certain projects as provided by the American Rescue Plan Act of 2021. The following projects and allocation amounts are listed below:

- Highway 54 Widening Betterment \$ 275,000
- Highway 54 Line Replacement \$ 1,310,000
- Carter Road Pump Station Upgrade \$ 165,000
- Reid Road Pump Station Upgrade \$ 165,000
- Master Meter Program for Leak Detection \$ 200,000

DAVISS COUNTY WATER DISTRICT
Statement of Net Position
December 31, 2021

	2021
Assets	
CURRENT ASSETS	
Cash	\$ 755,834
Accounts receivable	815,796
Other receivable	4,514
Investments	5,253,250
Interest receivable	933
Prepaid insurance	22,657
Inventory	374,157
TOTAL CURRENT ASSETS	7,227,141
RESTRICTED ASSETS	
Cash - Meter Setting Fund	232,052
Cash - Medical Reimbursement Fund	136,118
Investments - customer deposits	311,284
Investments - medical reimbursement	385,417
Interest receivable	131
TOTAL RESTRICTED ASSETS	1,065,002
CAPITAL ASSETS	
Land	94,582
Water plant	27,221,451
Construction in progress	60,000
	27,376,033
Less accumulated depreciation	(11,901,640)
NET CAPITAL ASSETS	15,474,393
TOTAL ASSETS	\$ 23,766,536

See accompanying notes.

DAVISS COUNTY WATER DISTRICT
Statement of Net Position
December 31, 2021

	2021
Liabilities and Net Assets	
CURRENT LIABILITIES	
Accounts payable	\$ 668,499
Accrued pension	43,197
Accrued school and sales taxes	16,841
Payroll taxes and withholding	16,246
Accrued payroll	23,103
Current liabilities payable from restricted assets:	
Accounts payable	29,249
TOTAL CURRENT LIABILITIES	797,135
NONCURRENT LIABILITIES	
Customer deposits payable from restricted assets	311,284
TOTAL LIABILITIES	1,108,419
NET POSITION	
Net investment in capital assets	15,474,393
Unrestricted	7,183,724
TOTAL NET POSITION	22,658,117
TOTAL LIABILITIES AND NET POSITION	\$ 23,766,536

See accompanying notes.

DAVIESS COUNTY WATER DISTRICT
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended December 31, 2021

	2021
OPERATING REVENUES	
Water sales	\$ 5,767,800
Tap on fees	288,118
Miscellaneous service revenues	173,344
TOTAL OPERATING REVENUES	6,229,262
OPERATING EXPENSES	
Advertising	4,390
Audit, accounting, and legal	38,022
Bad debts	6,870
Depreciation	755,001
Education and seminars	945
Employee benefits	362,229
Insurance	45,800
Materials, supplies, and repairs	178,083
Miscellaneous	12,588
Office supplies and expense	134,754
Payroll taxes	60,869
Phone and communication	16,161
PSC assessment	5,471
Rent of real estate	11,692
Salaries and wages	767,184
Transportation	55,652
Uniforms	7,354
Utilities	113,592
Water purchased	3,149,551
Water tests and meter service	17,405
TOTAL OPERATING EXPENSES	5,743,613
INCOME FROM OPERATIONS	485,649
NONOPERATING REVENUES (EXPENSES)	
Interest income	43,958
Interest expense	(395)
Gain on disposal of assets	1,231
TOTAL NONOPERATING REVENUES (EXPENSES)	44,794
INCOME BEFORE CONTRIBUTIONS	530,443

See accompanying notes.

DAVISS COUNTY WATER DISTRICT
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended December 31, 2021

	<u>2021</u>
CONTRIBUTED CAPITAL REVENUE	
Contributions in aid of construction	<u>\$ 234,811</u>
TOTAL CONTRIBUTED CAPITAL REVENUE	<u>234,811</u>
CHANGE IN NET POSITION	765,254
NET POSITION, BEGINNING OF YEAR	<u>21,892,863</u>
NET POSITION, END OF YEAR	<u><u>\$ 22,658,117</u></u>

See accompanying notes.

DAVISS COUNTY WATER DISTRICT
Statement of Cash Flows
For the Year Ended December 31, 2021

	2021
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 6,233,223
Cash payments to employees for services	(1,127,077)
Cash payments for goods and services	(3,862,409)
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,243,737
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of capital assets	(610,614)
Proceeds from disposals	15,000
Interest paid	(395)
Capital contributions	55,477
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	(540,532)
CASH FLOWS FROM INVESTING ACTIVITIES	
Change in investments - net	(544,281)
Interest on investments	46,285
NET CASH USED IN INVESTING ACTIVITIES	(497,996)
NET INCREASE IN CASH	205,209
CASH AT BEGINNING OF YEAR	918,795
CASH AT END OF YEAR	\$ 1,124,004

See accompanying notes.

DAVISS COUNTY WATER DISTRICT
Statement of Cash Flows
For the Year Ended December 31, 2021

	2021
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Net income from operations	\$ 485,649
Adjustments to reconcile net income from operations to net cash provided by operating activities:	
Depreciation	755,001
(Increase) decrease in:	
Accounts receivable	(38,893)
Other receivable	19,994
Prepaid insurance	(16,026)
Inventory	(20,339)
Increase (decrease) in:	
Accounts payable	30,793
Accrued pension	1,353
Accrued school and sales tax	2,362
Accrued payroll	39
Payroll taxes and withholding	944
Customer deposits	22,860
Total adjustments	758,088
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 1,243,737

See accompanying notes.

DAVIESS COUNTY WATER DISTRICT
Notes to the Financial Statements
December 31, 2021

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

The Daviess County Water District (District) was the surviving entity from a merger of the Southeast Daviess County Water District and the West Daviess County Water Districts effective January 1, 2021. The Daviess County Water District is a component unit of the Daviess County Fiscal Court, Kentucky and, therefore, is part of the financial reporting entity of the Daviess County Fiscal Court. The District is a water utility which operates in the rural section of Southeast and West Daviess County, Kentucky, and its sales are primarily to residential customers.

Proprietary Fund

The District is classified as a proprietary fund type. Proprietary funds are accounted for using the economic resources measurement focus; the accounting objectives are the determination of net income, financial position, and cash flows. All assets and liabilities associated with a proprietary funds' activities are included on its statement of net position.

Basis of Accounting

The District's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The District applies all relevant Government Accounting Standards Board (GASB) pronouncements.

The accrual basis of accounting is used for proprietary fund types. The accrual basis of accounting recognizes revenues when earned. Expenses are recorded when incurred.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as needed.

Regulation

The District's utility operations are subject to regulation with respect to rates, service, maintenance of accounting records and various other matters by the Commonwealth of Kentucky, Public Service Commission. The District's accounting policies recognize the financial effects of the rate making and accounting practices and policies of the Public Service Commission.

Management Estimates

Management uses estimates and assumptions in preparing these financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

Cash Flows Information

For the purposes of the Statements of Cash Flows, the District considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Noncash financing activities for 2021, representing water lines donated to the District were \$179,334.

Accounts Receivable

The District follows a monthly billing cycle. When meter reading is delayed, estimated bills are rendered based on the average of the three previous bills in order to promote consistency of water revenue. The District considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts has been established. If an account becomes more than sixty days overdue, it's charged to operations using the direct write-off method.

DAVIESS COUNTY WATER DISTRICT
Notes to the Financial Statements
December 31, 2021

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventory

Inventory consists of materials and supplies and is stated at lower of cost (determined on the first-in, first-out basis) or net realizable value.

Water Plant

Water plant is stated at original cost (cost of the property to whoever first devoted it to public service). The cost of labor for additions to the water plant constructed by the District's employees is not capitalized.

Capital Assets

Utility plant assets are stated at cost. The cost of current repairs and maintenance is charged to expense, while the cost of replacements or betterments is capitalized. Depreciation is provided on the basis of the estimated useful lives of assets using the straight-line method. Depreciation expense was \$755,001 for 2021. Estimated useful lives of major class of the water plant in service are as follows:

Land improvements	10-25
Buildings	10-40
Building Improvements	10-40
Machinery and Equipment	5-20
Infrastructure	10-75
Pump Stations / Tanks	35-40
Water Lines	50-75
Meter Installations	40-50
Meters	15-20
Hydrants	40-60

Operating Revenue

Operating revenue is recognized upon completion of monthly meter readings. At the end of each month, water service which has been rendered from the latest meter reading to the end of the month is unbilled.

Nonoperating Revenues and Expenses

The District distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and delivering water in connection with the District's principal ongoing operations. The principal operating revenues of the District are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

NOTE B – CASH DEPOSITS AND INVESTMENTS

Cash at year-end consists was as follows:

	<u>2021</u>
Cash	\$ 755,834
Cash - Meter Setting Fund	232,052
Cash - Medical Reimbursement Fund	<u>136,118</u>
	<u>\$ 1,124,004</u>

DAVIESS COUNTY WATER DISTRICT
Notes to the Financial Statements
December 31, 2021

NOTE B – CASH DEPOSITS AND INVESTMENTS (continued)

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District’s deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. At December 31, 2021, the amount of insured and uninsured deposits not covered by federal deposit insurance or collateralized by securities was as follows:

	2021
Bank balances	\$ 7,073,271
FDIC insured	(250,000)
Collateralized by pledged securities	(6,823,271)
Uninsured and not covered by collateral	-
Total custodial credit risk	\$ -

Investments

Investments at year-end was as follows:

	2021		
<u>Investments:</u>	Balance	Matures	Interest Rate
Certificate of deposit	\$ 1,122,192	2/13/2022	0.50%
Certificate of deposit	487,565	3/4/2022	0.50%
Certificate of deposit	425,859	4/20/2022	0.60%
Certificate of deposit	1,017,155	5/20/2022	0.50%
Certificate of deposit	606,093	6/1/2022	0.50%
Certificate of deposit	1,152,133	7/19/2022	0.50%
Certificate of deposit	753,537	11/1/2022	0.40%
Certificate of deposit	385,417	11/2/2022	0.40%
Total investments	\$ 5,949,951		

Investments are shown on the Statement of Net Position was as follows:

	2021
Investments	\$ 5,253,250
Investments - customer deposits	311,284
Investments - medical reimbursements	385,417
	\$ 5,949,951

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. Under Kentucky Revised Statutes Section 66.480, the District is authorized to invest in obligations of the United States and its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States or of its agencies, obligations of any corporation of the United State government, certificates of deposit, commercial paper rated in one of the three highest categories by nationally recognized rating agencies and shares in mutual funds. The District’s investment policy only allows investment choices that are in

DAVISS COUNTY WATER DISTRICT
Notes to the Financial Statements
December 31, 2021

NOTE B – CASH DEPOSITS AND INVESTMENTS (continued)

Credit Risk (continued)

compliance with the state statues. At December 31, 2021, all investments held by the District were insured or collateralized with securities held by the District or by its agent in the District's name.

Concentration of Credit Risk

The District's investment policy places no limit on the amount the District may invest in any one issuer. The District's investments consist of collateralized certificate of deposits at a local bank. The District does not have a deposit policy for credit risk.

NOTE C – CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2021 was as follows:

	Balance Jan. 1, 2021	Additions	Deletions	Balance Dec. 31, 2021
Capital assets not depreciated:				
Land	\$ 94,582	\$ -	\$ -	\$ 94,582
Construction in progress	53,945	52,463	46,408	60,000
Total capital assets not depreciated:	<u>148,527</u>	<u>52,463</u>	<u>46,408</u>	<u>154,582</u>
Capital assets depreciated:				
Buildings	326,593	-	-	326,593
Pumping stations	1,651,961	23,072	-	1,675,033
Equipment	2,702,687	206,009	77,452	2,831,244
Tanks, lines, meters and hydrants	21,862,759	554,809	28,987	22,388,581
Total capital assets depreciated	<u>26,544,000</u>	<u>783,890</u>	<u>106,439</u>	<u>27,221,451</u>
Less accumulated depreciation:				
Buildings	283,686	5,821	-	289,507
Pumping stations	891,999	50,984	-	942,983
Equipment	625,456	143,816	77,453	691,819
Tanks, lines, meters and hydrants	9,438,170	554,380	15,219	9,977,331
Total accumulated depreciation	<u>11,239,311</u>	<u>755,001</u>	<u>92,672</u>	<u>11,901,640</u>
Total capital assets depreciated, net	<u>15,304,689</u>	<u>28,889</u>	<u>13,767</u>	<u>15,319,811</u>
Total capital assets, net	<u>\$ 15,453,216</u>	<u>\$ 81,352</u>	<u>\$ 60,175</u>	<u>\$ 15,474,393</u>

Construction in Progress

At December 31, 2021, the District had \$60,000 in construction in progress derived from design engineering associated with the waterline relocation on Highway 54 planned by the Kentucky Department of Transportation. The project is expected to have total cost of \$1,137,700, with the District responsible for betterment costs of \$423,301. At December 31, 2021, the District has a remaining commitment for the project of \$363,301. As of December 31, 2021, the Kentucky Department of Transportation did not have an expected start date for the project.

NOTE D – RETIREMENT PLANS

The District has a money-purchase retirement plan (Plan) covering all full-time employees that is a Defined Contribution plan. The fair value of investments is determined by the quoted market prices for

DAVIESS COUNTY WATER DISTRICT
Notes to the Financial Statements
December 31, 2021

NOTE D – RETIREMENT PLANS (continued)

each investment at the close of the market. The District makes a contribution equal to eleven percent of the employee's earned annual base salary. Employees become eligible after reaching the age of twenty and a half and after six months of full time employment. Employees become fully vested after five years of service from enrollment date. Employer contributions to the Plan for 2021 was \$83,947. Accrued pension expense for the Plan as of December 31, 2021 was \$43,197. Pentegra Services, Inc. is the administrator of the funds. Mass Mutual Financial Group is the custodian of the funds.

During 2021, there were no forfeitures under this plan.

In addition to the Plan, the District's employees are also eligible to participate in a deferred compensation plan. The plan is organized as a Section 457(b) plan under the Internal Revenue Code. The plan permits employees to defer a portion of their salary until future years. Deferred compensation is not available to employees until termination, retirement, age sixty-two if still working or financial hardship. The District's policy is to match the employee's contribution up to three percent of the employee's gross salary.

Employer contribution to the deferred compensation plan for 2021 was \$18,442. Pentegra Services, Inc. is the administrator of this retirement plan. Mass Mutual Financial Group is the custodian of the fund.

NOTE E – RESTRICTED ASSETS

Cash and investments held for the purpose of medical reimbursement and meter setting deposits are classified as restricted funds and liabilities to be paid by the District are classified as liabilities payable from restricted funds.

NOTE F – RWRA ACCOUNTS RECEIVABLE AND ACCOUNTS PAYABLE

The District bills and performs collections for sewer charges on behalf of the Regional Water Resource Agency (RWRA), a regional provider of comprehensive wastewater services for Daviess County, Kentucky.

Accounts receivable and accounts payable related to RWRA as of December 31, 2021 was as follows:

	2021
Accounts receivable - RWRA	\$ 375,608
Accounts receivable - District	440,188
Total accounts receivable	\$ 815,796
	2021
Accounts payable - RWRA	\$ 367,027
Accounts payable - District	301,472
Total accounts payable	\$ 668,499

NOTE G – CONTRIBUTIONS IN AID OF CONSTRUCTION

Contributions in aid of construction represent additions to the water plant through extensions of the water distribution system. These additions are funded by individual users through payments made directly to the District or to independent contractors. Contributions to the water distribution system amounted to \$234,811 for 2021.

DAVIESS COUNTY WATER DISTRICT
Notes to the Financial Statements
December 31, 2021

NOTE H – INCOME TAX STATUS

The District is exempt from federal and state income taxes and, accordingly, no provision for such taxes has been made.

NOTE I – LEASING ARRANGEMENTS

The District conducts its operations from facilities which are constructed upon land leased for a period of five years commencing March 1, 2017. The lease provides that the lessee shall have the right to extend this lease for additional five-year periods. Unless notice is given to cancel this lease sixty (60) days before the end of the original period or any extension thereof, then such extension shall be automatic. Rent of \$974 is due monthly. Rental expense was \$11,692 for 2021.

The following is a schedule of future minimum rental payments required under the above lease as of December 31, 2021:

<u>Year Ended December 31</u>	<u>Amount</u>
2022	\$ 1,948

NOTE J – SUPPLIER

The District purchases all of its water for resale from the City Utility Commission of the City of Owensboro, Kentucky operating as Owensboro Municipal Utilities (OMU). The purchases from OMU for 2021 were \$3,131,708. Amounts payable to OMU at year-end for 2021 were \$251,791.

NOTE K – COMPENSATED ABSENCES

Employees are entitled to paid vacation and paid sick days, depending on job classification, length of service, and other factors. It is impracticable to estimate the amount of compensation for future absences, and accordingly, no liability has been recorded in the accompanying financial statements. The District does not accrue compensation for paid vacation because the amount is considered immaterial. The District's policy is to record compensated absences when actually paid to employees.

NOTE L – NET POSITION

Net position comprises the various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net position is classified in the following three components: invested in capital assets; restricted and unrestricted net assets. Invested in capital assets consists of all capital assets, net of accumulated depreciation. Restricted net position consists of net position for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates. Unrestricted net position consists of all other net assets not included in the above categories.

Included in restricted net position at December 31,

	2021
Investments - Customer Deposits	\$ 311,284
Less: Restricted Liabilities	(311,284)
Restricted Net Position	\$ -

DAVISS COUNTY WATER DISTRICT
Notes to the Financial Statements
December 31, 2021

NOTE M – COMMITMENTS AND CONTINGENCIES

Medical Expense Reimbursement Plan

The District provides a medical reimbursement plan (MERP) to its employees. The plan reimburses employees for medical and hospital expenses incurred by themselves and their dependents from December 1 to November 30 in any calendar year, but not to exceed \$3,000 for single employee or \$6,000 for family plan (or current health plan's out-of-pocket maximum less \$1,000 for single plan and \$2,000 for family plan) per plan year. The reimbursements exclude insurable and eligible medical and hospital expenses available to employees under the District's group insured health plan. This plan also excludes employee dental expenses and expenses for prescription and non-prescription drugs. The District has established a reserve consisting of cash and cash equivalents to cover future medical reimbursements which as of December 31, 2021, totaled \$385,417. For the year ended December 31, 2021, medical reimbursements paid to employees were \$26,339. There were no significant outstanding medical reimbursements to employees as of December 31, 2021.

Water Purchases

The District purchases water monthly from Owensboro Municipal Utilities. The amount OMU charges the District for water purchases is based on an estimated rate. The supplier will retroactively compare the actual cost and estimated costs charged to the District and the difference (either the amount overpaid or underpaid) is communicated to the District. The District has the option to request a rate change or otherwise the rate remains unchanged. As of May 31, 2021, the total amount underpaid by the District was \$375,739. The District has not recognized a contingency on their records since this amount cannot be reasonably estimated as of December 31, 2021.

NOTE N - MERGER

Effective January 1, 2021 the Southeast Daviess County Water District and West Daviess County Water District merged to form the Daviess County Water District. The primary reason for the merger was for the interest of the general public and increased operational efficiencies. The initial opening balances of the District's assets, liabilities, and net position, as of the beginning of the period were determined based on the carrying values reported in the separate financial statements of Southeast and West Water Districts as of December 31, 2020. The Southeast Daviess County Water District and West Daviess County Water District entered into a merger agreement on August 18, 2020. The Daviess County Fiscal Court approved the combining of the Districts' territories on December 3, 2020 (Executive Order 08-2020). The Public Service Commission approved the merger December 15, 2020 (Case No. 2020-287).

As of January 1, 2021, the impact of the merger was as follows:

DAVISS COUNTY WATER DISTRICT
Combined Statements of Net Position
January 1, 2021

	Southeast Water District	West Water District	Daviess County Water District
ASSETS			
Current assets	\$ 3,603,924	\$ 2,868,272	\$ 6,472,196
Restricted assets	547,881	469,639	1,017,520
Net capital assets	8,361,641	7,091,574	15,453,215
Total assets	\$ 12,513,446	\$ 10,429,485	\$ 22,942,931

(table continued on next page)

DAVISS COUNTY WATER DISTRICT
Notes to the Financial Statements
December 31, 2021

NOTE N – MERGER (continued)

DAVISS COUNTY WATER DISTRICT
Combined Statements of Net Position
January 1, 2021

	<u>Southeast Water District</u>	<u>West Water District</u>	<u>Daviess County Water District</u>
LIABILITIES AND NET ASSETS			
Current liabilities	\$ 504,824	\$ 256,820	\$ 761,644
Noncurrent liabilities	<u>173,584</u>	<u>114,840</u>	<u>288,424</u>
Total liabilities	<u>678,408</u>	<u>371,660</u>	<u>1,050,068</u>
NET POSITION			
Net investment in capital assets	8,361,641	7,091,574	15,453,215
Unrestricted	<u>3,473,397</u>	<u>2,966,251</u>	<u>6,439,648</u>
Total net position	<u>11,835,038</u>	<u>10,057,825</u>	<u>21,892,863</u>
Total liabilities and net position	<u>\$ 12,513,446</u>	<u>\$ 10,429,485</u>	<u>\$ 22,942,931</u>

Prior to merging, the Southeast Daviess County Water District and West Daviess County Water District used the same accounting policies and the same management team for operations. Therefore, there were no significant adjustments related to bring accounting policies into conformity or adjustments related to the impairment of capital assets resulting from the merger.

NOTE O – COVID-19 CONSIDERATIONS

COVID-19 Pandemic

Management believes the District is in sound financial condition to handle any negative effects caused by the ongoing public health crisis.

NOTE P – SUBSEQUENT EVENTS

The District renewed the lease discussed in Note I. Monthly rent payments beginning March 1, 2022 will be \$1,072 and the lease will continued to be renewed every 5 years with a 10% adjustment to the monthly rent.

The District did not have any other subsequent events through March 18, 2022, which is the date the financial statements were available to be issued, for events requiring recording or disclosure in the financial statements for the year ended December 31, 2021.

SUPPLEMENTARY INFORMATION

DAVISS COUNTY WATER DISTRICT
Budgetary Comparison Schedule
Year Ended December 31, 2021

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
OPERATING REVENUES	<u>\$ 6,011,600</u>	<u>\$ 6,011,600</u>	<u>\$ 6,229,262</u>	<u>\$ 217,662</u>
OPERATING EXPENSES				
Operation and maintenance expense	4,728,300	4,728,300	4,981,211	(252,911)
Depreciation expense	750,000	750,000	755,001	(5,001)
Taxes other than income	<u>9,500</u>	<u>9,500</u>	<u>7,401</u>	<u>2,099</u>
TOTAL OPERATING EXPENSES	<u>5,487,800</u>	<u>5,487,800</u>	<u>5,743,613</u>	<u>(255,813)</u>
INCOME FROM OPERATIONS	<u>523,800</u>	<u>523,800</u>	<u>485,649</u>	<u>(38,151)</u>
NONOPERATING REVENUES (EXPENSES)				
Interest income	50,000	50,000	43,958	(6,042)
Interest expense	(3,500)	(3,500)	(395)	3,105
Gain on disposal of assets	<u>-</u>	<u>-</u>	<u>1,231</u>	<u>1,231</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>46,500</u>	<u>46,500</u>	<u>44,794</u>	<u>(1,706)</u>
INCOME BEFORE CONTRIBUTIONS	570,300	570,300	530,443	(39,857)
CONTRIBUTED CAPITAL REVENUE	<u>130,000</u>	<u>130,000</u>	<u>234,811</u>	<u>104,811</u>
CHANGE IN NET POSITION	<u>\$ 700,300</u>	<u>\$ 700,300</u>	<u>\$ 765,254</u>	<u>\$ 64,954</u>



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

To the Board of Commissioners
Daviness County Water District

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 Daviness County Water District, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise Daviness County Water District's basic financial statements, and have issued our report thereon dated March 18, 2022.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Daviness 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Daviness County Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of Daviness 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 or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Daviness County Water District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Altadena & Company CPAS PSC

Owensboro, Kentucky
March 18, 2022

**DAVISS COUNTY WATER DISTRICT
Schedule of Findings and Responses
Year Ended December 31, 2021**

FINDINGS – FINANCIAL STATEMENT AUDIT

NONE