



White House Water System, Inc.

FINANCIAL STATEMENTS

December 31, 2022 and 2021

	Page
REPORT	
Independent Auditors' Report	1
FINANCIAL STATEMENTS	
Statements of Financial Position	3
Statements of Activities	4
Statements of Functional Expenses	5
Statements of Cash Flows	6
Notes to Financial Statements	8



REPORT





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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
White House Water System, Inc.
11120 Whitehouse Fork Rd,
Bay Minette, AL 36507

Opinion

We have audited the accompanying financial statements of White House Water System, Inc. (a nonprofit Organization), which comprise the statement of financial position as of December 31, 2022, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of White House Water System, Inc. as of December 31, 2022, and the changes in its net assets and its cash flows 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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of White House Water System, Inc. 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.

Prior Period Financial Statements

The financial statements of White House Water System, Inc. as of December 31, 2021 were audited by other auditors whose report dated August 29, 2022 expressed an unmodified opinion on those statements.

Report on Summarized Comparative Information

In our opinion, the summarized comparative information presented herein for the year ended December 31, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

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 White House Water System, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

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 auditors' 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 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, 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 White House Water System, Inc.'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 White House Water System, Inc.'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.

Carr, Riggs & Ingram, L.L.C.

CARR, RIGGS & INGRAM, LLC

Mobile, Alabama
July 31, 2023



FINANCIAL STATEMENTS



White House Water System, Inc.
Statements of Financial Position

<i>December 31,</i>	2022	2021
Assets		
Current assets		
Cash and cash equivalents	\$ 751,026	\$ 737,428
Accounts receivable, net	88,204	111,328
Unbilled water services	70,900	53,116
Prepaid expenses and other assets	16,647	14,190
Annuities - cash surrender value	295,370	284,560
Total current assets	1,222,147	1,200,622
Non-current assets		
Restricted cash	74,015	33,816
Property and equipment, net	2,432,169	2,522,305
Total non-current assets	2,506,184	2,556,121
Total assets	\$ 3,728,331	\$ 3,756,743
Liabilities and Net Assets		
Current liabilities		
Accounts payable	\$ 24,921	\$ 32,371
Accrued expenses	9,980	9,469
Member prepayments	14,173	14,078
Current portion of note payable	5,309	7,868
Total current liabilities	54,383	63,786
Long-term liabilities		
Members' refundable meter deposits	57,880	63,843
Note payable, less current portion	307,580	312,889
Total long-term liabilities	365,460	376,732
Total liabilities	419,843	440,518
Net assets		
Without donor restrictions	3,308,488	3,316,225
Total net assets	3,308,488	3,316,225
Total liabilities and net assets	\$ 3,728,331	\$ 3,756,743

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

White House Water System, Inc.
Statements of Activities

<i>For the years ended December 31,</i>	2022	2021
Change in Net Assets without Donor Restrictions		
Revenues		
Water sales	\$ 1,376,922	\$ 1,303,346
Connection, fire line and meter fees	55,244	69,603
Late charges and reconnect fees	22,700	37,066
Gain (loss) on sale of property and equipment	-	1,000
Total revenues	1,454,866	1,411,015
Expenses		
<i>Program services</i>		
Member services	1,286,192	1,019,638
Total program services	1,286,192	1,019,638
<i>Supporting services</i>		
General and administrative	214,233	156,277
Total supporting services	214,233	156,277
Total expenses	1,500,425	1,175,915
Other income (expense)		
Interest income	14,160	8,461
Operating lease income, fines and miscellaneous	23,662	22,973
Total non-operating revenues (expenses)	37,822	31,434
Change in net assets	(7,737)	266,534
Net assets at beginning of year	3,316,225	3,049,691
Net assets at end of year	\$ 3,308,488	\$ 3,316,225

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

White House Water System, Inc.
Statements of Functional Expenses (Continued)

For the year ended December 31, 2022

	Program Services	Supporting Services	2022 Total	Summarized Total for the Year Ended December 31, 2021
	Member Services	General and Administrative		
Accounting and audit	\$ 20,750	\$ -	\$ 20,750	\$ 17,747
Advertising	8,187	-	8,187	-
Bad debts	8,896	-	8,896	-
Billing service	10,116	-	10,116	7,603
Board related expenses	-	10,700	10,700	10,800
Depreciation	131,479	-	131,479	132,556
Dues and subscriptions	3,934	-	3,934	7,985
Employee expense	3,164	-	3,164	-
Engineering fees	4,290	-	4,290	-
Insurance - employee	22,427	16,918	39,345	31,002
Insurance - general	23,386	4,127	27,513	29,527
Interest expense	10,580	-	10,580	10,753
Legal	31,940	-	31,940	750
Meetings and meals	2,259	-	2,259	136
Miscellaneous	2,353	-	2,353	800
Office supplies	-	38,548	38,548	29,601
Postage	18,196	-	18,196	11,896
Repairs and maintenance	283,475	1,120	284,595	251,134
Retirement plan	-	-	-	2,338
Salaries	135,249	142,820	278,069	221,993
Telephone and Utilities	10,992	-	10,992	15,485
Truck and tractor	13,232	-	13,232	27,855
Uniforms	3,944	-	3,944	5,715
Water purchases	392,455	-	392,455	275,255
Well expenses	144,888	-	144,888	84,984
Total	\$ 1,286,192	\$ 214,233	\$ 1,500,425	\$ 1,175,915

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

White House Water System, Inc.
Statements of Cash Flows

<i>For the years ended December 31,</i>	2022	2021
Operating Activities		
Change in net assets	\$ (7,737)	\$ 266,534
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Bad debt	8,896	-
Depreciation	131,479	132,556
Interest income on annuities	(10,810)	(8,353)
Gain (loss) on sale of property and equipment	-	(1,000)
Changes in operating assets and liabilities		
Accounts receivable, net	14,228	9,587
Unbilled water services	(17,784)	424
Prepaid expenses	(2,457)	-
Accounts payable	(7,450)	4,963
Accrued expenses	511	(2,712)
Member prepayments	95	(1,978)
Members' refundable meter deposits	(5,963)	(1,397)
Net cash provided by (used in) operating activities	103,008	398,624
Investing Activities		
Purchase of property and equipment	(41,343)	(95,080)
Net cash provided by (used in) investing activities	(41,343)	(95,080)
Financing Activities		
Payments on long-term debt	(7,868)	(8,324)
Net cash provided by (used in) financing activities	(7,868)	(8,324)
Net change in cash, cash equivalents and restricted cash	53,797	295,220
Cash, cash equivalents and restricted cash at beginning of year	771,244	476,024
Cash, cash equivalents and restricted cash at end of year	\$ 825,041	\$ 771,244

(continued)

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

White House Water System, Inc.
Statements of Cash Flows (Continued)

<i>December 31,</i>	2022	2021
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Presented on Statement of Financial Position as:

Cash and cash equivalents	\$	751,026	\$	737,428
Restricted cash		74,015		33,816
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Cash and cash equivalents, at end of year	\$	825,041	\$	771,244
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<i>For the years ended December 31,</i>	2022	2021
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Schedule of Certain Cash Flow Information

Cash paid for interest	\$	10,913	\$	10,753
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The accompanying notes are an integral part of these financial statements.

White House Water System, Inc. Notes to Financial Statements

Note 1: DESCRIPTION OF THE SYSTEM

White House Water System, Inc. (the System), is organized as a not-for-profit corporation under the laws of the State of Alabama. The System exists to install, maintain, and operate a potable water distribution system, which provides water service to the rural White House Forks, Baldwin County community. Management rests with the Board of Directors (the Board), which are elected by the members. The Board controls the issuance of contracts, payment of funds, investment decisions and establishment of accounting guidelines.

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). The Financial Accounting Standards Board (FASB) provides authoritative guidance regarding U.S. GAAP through the Accounting Standards Codification (ASC) and related Accounting Standards Updates (ASUs).

Use of Estimates

The preparation of U.S. GAAP financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and changes therein and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Estimates that are particularly susceptible to significant change in the near term are related to allowance for doubtful accounts, depreciable lives of property and equipment, and functional allocation of expenses.

Comparative Financial Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the System's financial statements for the year ended December 31, 2021, from which the summarized information was derived.

Program Services

The System's program services consist of the following:

Member services: The System distributes potable water to residents and businesses in its service area.

Cash and Cash Equivalents

Cash and cash equivalents include cash and all highly liquid investments with an original maturity of 90 days or less.

White House Water System, Inc. Notes to Financial Statements

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted Cash

Restricted cash included in non-current assets on the statement of financial position represents amounts required under the terms of a loan agreement between the System and the United States Department of Agriculture (USDA), to be held as reserves for debt service and repair or replacement of major systems assets. The loan agreement is discussed further in Note 6.

Accounts Receivable

Accounts receivable are stated at unpaid balances, less an allowance for doubtful accounts. The System provides for losses on accounts receivable using the allowance method. The allowance is based on experience, third-party contracts, and other circumstances, which may affect the ability of members to meet their obligations.

Receivables are considered impaired if full principal payments are not received in accordance with the contractual terms. It is the System's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected.

Property and Equipment

All acquisitions of property and equipment in excess of \$1,500 and all expenditures for maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized. Repairs and maintenance are expensed as incurred. Property and equipment are carried at cost. Depreciation is computed using the straight-line method.

Leases

The System leases space on a water tower to a cellular service provider under an operating lease agreement. Management determines if an arrangement is a lease at inception. Leasing activities are discussed further in Note 10.

Impairment of Long-Lived Assets

The System reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. If the future undiscounted cash flows expected to result from the use of the asset and its eventual disposition are less than the carrying amount of the asset, an impairment loss is recognized. Long-lived assets and certain intangible assets to be disposed of are reported at the lower of carrying amount or fair value less costs to sell.

Annuities – Cash Surrender Value

Investments in annuities provide life benefits, and are reported at contract value, which is based on cash surrender value plus any surrender charges. Changes in value are reported in earnings.

White House Water System, Inc. Notes to Financial Statements

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets

The System reports information regarding its financial position and activities according to two classes of net assets that are based upon the existence or absence of restrictions on use that are placed by its donors: net assets without donor restrictions and net assets with donor restrictions.

Net assets without donor restrictions are resources available to support operations and not subject to donor restrictions. The only limits on the use of net assets without donor restrictions are the broad limits resulting from the nature of the System, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations. The governing board has designated, from net assets without donor restrictions, net assets for debt service and repair or replacement of major system assets.

Net assets with donor restrictions are resources that are subject to donor-imposed restrictions. Some restrictions are temporary in nature, such as those that are restricted by a donor for use for a particular purpose or in a particular future period. Other restrictions may be perpetual in nature, such as those that are restricted by a donor that the resources be maintained in perpetuity.

When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the financial statements by reclassifying the net assets from net assets with donor restrictions to net assets without donor restrictions.

Revenue Recognition

Revenue from water sales, connection fees, fire line fees, meter fees, and payments under various contracts are accounted for under ASC Topic 606, *Revenue from Contracts with Customers* (ASC 606), recognizing revenue when performance obligations under the terms of the contracts with members are satisfied. Revenue received in advance is deferred and recognized over the periods to which the dates and fees relate. These amounts are included in performance obligation liabilities within the statements of financial position.

Functional Allocation of Expenses

Directly identifiable expenses are charged to programs and supporting services. The System's only program is to provide water service to its members. Expenses related to payroll, payroll taxes, and employee benefits are allocated based on specific identification. All others are allocated based on a percentage of usage.

Advertising

The System uses advertising to promote its programs among the audiences it serves. The production costs of advertising are expensed as incurred. During the years ended December 31, 2022 and 2021, advertising costs totaled \$8,187 and \$0, respectively.

White House Water System, Inc. Notes to Financial Statements

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

Under section 501(c)(12) of the Internal Revenue Code, the System is exempt from taxes on income other than unrelated business income. Unrelated business income results from rent.

The System utilizes the accounting requirements associated with uncertainty in income taxes using the provisions of FASB ASC 740, *Income Taxes*. Using that guidance, tax positions initially need to be recognized in the financial statements when it is more-likely-than-not the positions will be sustained upon examination by the tax authorities. It also provides guidance for derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. As of December 31, 2022 and 2021, the System has no uncertain tax provisions that qualify for recognition or disclosure in the financial statements.

Reclassifications

Certain reclassifications were made to prior year balances to conform with current year presentation.

Compensated Absences

Employees of the System are entitled to paid vacation, paid sick days and personal days off, depending on length of service. It is impractical to estimate the amount of compensation for future absences and, accordingly, no liability has been recorded in the accompanying financial statements. The System's policy is to recognize the costs of compensated absences when actually paid to employees.

Subsequent Events

Management has evaluated subsequent events through the date that the financial statements were available to be issued, July 31, 2023, and determined there were no events that occurred that required disclosure. No subsequent events occurring after this date have been evaluated for inclusion in these financial statements.

Recent Accounting Pronouncements

In February 2016, the FASB issued guidance (ASC 842, *Leases*) to increase transparency and comparability among organizations by requiring the recognition of right-of-use (ROU) assets and lease liabilities on the balance sheet. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. The System adopted the standard effective January 1, 2022, and there were no material changes to the System's financial statements.

White House Water System, Inc.
Notes to Financial Statements

Note 3: LIQUIDITY AND FINANCIAL ASSET AVAILABILITY

The System maintains its financial assets primarily in cash and cash equivalents to provide liquidity to ensure funds are available as the System's expenditures come due. The following reflects the System's financial assets as of the statement of financial position date, reduced by amounts not available for general use within one year of the statement of financial position date because of contractual restrictions.

<i>December 31,</i>	2022	2021
Total assets at year end	\$ 3,728,331	\$ 3,756,743
Less non-financial assets		
Prepaid expenses and other assets	(16,647)	(14,190)
Property and equipment, net	(2,432,169)	(2,522,305)
Financial assets available to meet cash needs for general expenditures within one year	\$ 1,279,515	\$ 1,220,248

The System is principally supported by its fees charged for the services it provides. The goal of the System is to structure its financial assets to be available as general expenditures, liabilities, and other obligations become due.

Note 4: ACCOUNTS RECEIVABLE

Accounts receivable consist of the following:

<i>December 31,</i>	2022	2021
Member service fees	\$ 91,353	\$ 132,028
Total accounts receivable	91,353	132,028
Less allowance for doubtful accounts	3,149	20,700
Accounts receivable, net	\$ 88,204	\$ 111,328

Bad debt expense totaled \$8,896 and \$0 for the years ended December 31, 2022 and 2021, respectively.

White House Water System, Inc.
Notes to Financial Statements

Note 5: PROPERTY AND EQUIPMENT

The components of property and equipment at December 31, 2022 and 2021, are as follows:

<i>December 31,</i>	Estimated Useful Lives (in years)	2022	2021
Building and related improvements	7-40	\$ 162,700	\$ 159,600
Furniture, fixtures and equipment	4-10	356,877	345,260
Trucks and tractors	5	121,911	121,911
Water distribution system	5-40	4,643,050	4,616,424
Total depreciable property and equipment		5,284,538	5,243,195
Less accumulated depreciation		(2,870,093)	(2,738,614)
Total depreciable property and equipment, net		2,414,445	2,504,581
Construction in progress		4,185	4,185
Land		13,539	13,539
Total property and equipment, net		\$ 2,432,169	\$ 2,522,305

Depreciation expense for the years ended December 31, 2022 and 2021, amounted to \$131,479 and \$132,556, respectively.

Note 6: LONG-TERM DEBT

Long-term debt at December 31, 2022 and 2021, consists of the following:

<i>December 31,</i>	2022	2021
USDA, \$345,503, loan issued February 12, 2015, interest of 3.38% per annum, monthly payments of \$15,869 maturity of January 12, 2055. This loan is secured by the revenues of the System.	\$ 312,889	\$ 318,025
Installment note, secured by Kubota Tractor	-	2,732
Less current portion	(5,309)	(7,868)
Long-term debt, less current portion	\$ 307,580	\$ 312,889

Interest expense related to the loan was \$10,580 and \$10,753 for the years ended December 31, 2022 and 2021, respectively.

White House Water System, Inc.
Notes to Financial Statements

Note 6: LONG-TERM DEBT (Continued)

The notes payable agreements contain certain financial covenants to include a debt service reserve and major system asset reserve. See note 7.

Maturities of long-term debt subsequent to December 31, 2022, are as follows:

For the years ending December 31,

2023	\$	5,309
2024		5,488
2025		5,673
2026		5,865
2027		6,063
Thereafter		284,491
Total	\$	312,889

Note 7: NET ASSETS

A summary of net assets without donor restrictions follows:

<i>December 31,</i>	2022	2021
Undesignated	\$ 3,234,479	\$ 3,282,409
Designated for:		
USDA debt service reserve	15,869	7,670
USDA major asset repair reserve	58,140	26,145
Total net assets without donor restrictions	\$ 3,308,488	\$ 3,316,224

Note 8: REVENUE

The System derives its revenue primarily from water sales by providing potable water to residential and commercial properties. Members are charged a fee for water services based on the usage during the service period. The System is recognizing revenue over time for its water sales as the member simultaneously receives and consumes all the benefits of the System, who remain ready to provide the water service. This service is billed monthly and an accounts receivable and associated revenue is recorded for the current month's service. The timing of revenue recognition, billings and cash collections for water services results in billed accounts receivable, unbilled water services (contract assets), and member prepayments (contract liabilities) on the statement of financial position.

White House Water System, Inc.
Notes to Financial Statements

Note 8: REVENUE (Continued)

During the course of business, the System installs access to the System's water supply lines at the member site for a set fee. The System recognizes connection, fire line and meter fee revenue at the point in time when installation is complete. Payment for the service is required up front. At the time the installation fees are paid, the System records deferred revenue as a performance obligation. When the System installs the member's equipment, the obligation is reversed, and revenue is recognized. As of December 31, 2022 and 2021, there are no performance obligations to be satisfied for these fees.

The System assesses impact fees to members when the member first connects into the System's water supply lines. These impact fees are billed and recognized as revenue at the point in time when the member first comes on the line and gives the System right to such payment. No performance obligations are associated with the impact fee and revenue is recognized upon billing. These fees are non-refundable.

Contract Balances

<i>December 31,</i>	2022	2021
Contract assets, beginning of year	\$ 53,116	\$ 53,540
Contract assets, end of year	\$ 70,900	\$ 53,116
Contract liabilities, beginning of year	\$ 14,078	\$ 16,056
Contract liabilities, end of year	\$ 14,173	\$ 14,078
Receivable from contracts, beginning of year	\$ 132,028	\$ 158,399
Receivable from contracts, end of year	\$ 91,353	\$ 132,028

Note 9: CONCENTRATIONS OF CREDIT RISK

Financial instruments that subject the System to concentrations of credit risk consist principally of cash and cash equivalents. The cash deposits that exceeded FDIC insured limits at December 31, 2022 and 2021, were \$253,447 and \$400,973, respectively.

White House Water System, Inc.
Notes to Financial Statements

Note 10: OPERATING LEASE

In August 2012, the System entered into a five-year lease to rent space on its water tower for cellular antenna purposes. The lease included a monthly rental amount of \$1,500 with a 3% annual increase. Under the lease agreement, unless cancelled by either party, the lease automatically renews for five additional five-year terms. Total lease income for the years ended December 31, 2022 and 2021, was \$23,662 and \$22,973 respectively. Future minimum lease income as of December 31, 2022 for the remaining term is as follows:

For the years ending December 31,

2023	\$	24,372
2024		25,103
2025		25,856
2026		26,632
2027		20,420
Total future minimum lease income		\$ 122,383

Note 11: EMPLOYEE BENEFIT PLAN

The System has established a Simple IRA and a Roth IRA plan through Modern Woodmen of America. An employee may voluntarily contribute to the Simple IRA plan on a before-tax basis or if electing to participate in the Roth IRA on an after-tax basis. The System will match a total of 6% of the employee's contribution. The retirement plan expense for the years ended December 31, 2022 and 2021, was \$0 and \$2,338, respectively.