

Simpson County Water District

**Component Unit of Simpson
County, Kentucky**

Financial Statements

**For the Years Ended
December 31, 2013 and 2012**



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Independent Auditor's Report

Board of Commissioners
Simpson County Water District
Franklin, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of Simpson County Water District (the "District"), a component unit of Simpson County, Kentucky, as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the District's financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation

and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Simpson County Water District as of December 31, 2013 and 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 1 to the financial statements, the District adopted new accounting guidance, GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 7 through 12 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audits of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's financial statements. The schedules of budgetary comparison are presented for purposes of additional analysis and are not a required part of the financial statements.

The schedules of budgetary comparison are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of budgetary comparison are fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 9, 2014 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 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.

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

Carr, Riggs & Ingram, LLC
Bowling Green, Kentucky
April 9, 2014

**Required Supplementary
Information**

**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, 2013 and 2012. 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, 2013:

- In 2013, Total Net Position increased by \$1,024,052 or 9.7% to \$11,614,917 from \$10,590,865 in 2012 due to increases in Capital Assets. In 2012, Total Net Position increased by \$429,498 or 4.2% to \$10,590,865 from \$10,161,367 in 2011 due to increases in Capital Assets and decreases in Current and Non-Current Liabilities.
- In 2013, Total Revenue increased by \$103,844 or 5.6% to \$1,965,181 compared to \$1,861,337 in 2012 due to increases in metered water sales resulting from a retail rate increase effective in January 2013. In 2012, Total Revenue increased by \$42,018 or 2.3% to \$1,861,337 compared to \$1,819,319 in 2011 due to increases in metered water sales.
- In 2013, Total Expenses increased by \$135,863 or 7.7% to \$1,908,352 compared to \$1,772,489 in 2012 mainly due to an increase in purchased water costs resulting from a wholesale rate increase from White House Utility District. In 2012, Total Expenses decreased by \$2,926 or -0.2% to \$1,772,489 compared to \$1,775,415 in 2011 due a decrease in interest expense.
- In 2013, Income Before Capital Contributions decreased by \$32,019 or -36.0% to \$56,829 compared to \$88,848 in 2012 due to suppressed water sales from unusually cool temperatures and wet conditions throughout the year. In 2012, Income Before Capital Contributions increased by \$44,944 or 102.4% to \$88,848 compared to \$43,904 in 2011 due to increases in metered water sales and a decrease in interest expense.
- In 2013, Capital Assets increased by \$1,023,833, net of depreciation, or 8.8% to \$12,670,879 from \$11,647,046 in 2012 due the completion of the Highway 31W Relocations. In 2012, Capital Assets increased by \$148,043, net of depreciation, or 1.3% to \$11,647,046 from \$11,499,003 in 2011 due the completion of the Highway 100 East Relocation and other projects.
- Total water sold to customers during the year amounted to 298.1 million gallons. The peak demand month was August with 29.3 million gallons sold.
- The District installed 29 additional 5/8" size meters, 3 installations of 1", and 1 installation 1.5". The number of customers at the end of the year totaled 3,386 consisting of 3,055 residential customers and 331 commercial customers.
- The District's water system includes 396 miles of distribution main serving an average of 8.6 customers per mile.
- Projects completed: *Highway 31W Relocations* consists of relocating approximately 4 miles of existing 6", 8", 10", 12", and 16" water line from Highway 1008 to VFW Road and from Interstate 65 to the Tennessee state line. *GIS Implementation – Phase 3* consists of collecting GPS and other data in the field on all system facilities to complete the conversion of the District's maps to a fully functional geographic information system.

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

The following sections include a budgetary analysis for fiscal years ended December 31, 2013 and 2012 and analysis of net position, revenue and expense, and capital assets for the fiscal years ended December 31, 2013 and 2012. In some sections year 2011 results are provided for comparison purposes.

Budgetary Analysis for the Year Ended December 31, 2013

Total Revenue was less than budgeted revenue by 4.7% or -\$97,079 due to unusually cool weather and wet conditions during the year. Total metered water sales were less than budgeted by 5.0%, or -\$98,585 with residential sales below budget by \$157,574 and commercial sales above budget by \$58,989.

Total Expenses were lower than budgeted expenses by 3% or -\$58,083. *Operating Expenses* related to providing water service and maintaining the District's water distribution system were lower than budget by 4.7%, or -\$69,846. Operating expenses include: (1) purchased water that was under budget by \$80,084; (2) wages and benefits that was over budget by \$6,622; and (3) various other costs which were over budget by a net amount of \$3,616. *Interest Expense* was under budget by 7.6% or -\$8,042 due to the refinancing of the KRWFC, Series 2003A loan that was not budgeted.

Net income totaled \$56,829 for the year or -40.7% less than budgeted.

Table 1
SIMPSON COUNTY WATER DISTRICT
Combined Statement of Revenues, Expenses, and Changes in Net Position
Comparison to Budget

	<u>Actual 2013</u>	<u>Budget 2013</u>	<u>Variance</u>	<u>% Change</u>
Revenues:				
Residential Water Sales	\$ 1,116,426	\$ 1,274,000	(157,574)	-12.4%
Commercial Water Sales	769,989	711,000	58,989	8.3%
Forfeited Discounts	23,814	26,200	(2,386)	-9.1%
Interest Income	13,783	13,680	103	0.8%
Miscellaneous Service Revenue & Other	<u>41,169</u>	<u>37,380</u>	<u>3,789</u>	10.1%
Total Revenue	<u>1,965,181</u>	<u>2,062,260</u>	<u>(97,079)</u>	-4.7%
Expenses:				
Operating Expenses	1,430,174	1,500,020	(69,846)	-4.7%
Depreciation	354,383	355,110	(727)	-0.2%
Interest Expense	97,703	105,745	(8,042)	-7.6%
Amortized Debt Expense	<u>26,092</u>	<u>5,560</u>	<u>20,532</u>	369.3%
Total Expenses	<u>1,908,352</u>	<u>1,966,435</u>	<u>(58,083)</u>	-3.0%
Net Income	\$ 56,829	\$ 95,825	(38,996)	-40.7%
Capital Contributions	<u>967,223</u>	<u>1,168,180</u>	<u>(200,957)</u>	-17.2%
Net Income After Contributions	<u>\$ 1,024,052</u>	<u>\$ 1,264,005</u>	<u>(239,953)</u>	-19.0%

Budgetary Analysis for the Year Ended December 31, 2012

Total Revenue was greater than budgeted revenue by 1.1% or \$21,067 due to unusually hot weather and near drought conditions during the year. Total metered water sales were greater than budgeted by 1.1%, or \$18,862 with residential sales below budget by \$58,713 and commercial sales above budget by \$77,575. *Interest Income* was near budget and totaled \$11,409.

Total Expenses were lower than budgeted expenses by 2.4% or \$-43,266. *Operating Expenses* related to providing water service and maintaining the District's water distribution system were lower than budget by 3.8%, or -\$51,998. Operating expenses include: (1) wages and benefits that were under budget by \$31,949; (2) purchased water that was under budget by \$20,127; (3) equipment expense that was under budget by \$4,806; and (4) various other costs which were over budget by a net amount of \$4,884. *Depreciation Expense* was under budget by 2.6% and *Interest Expense* was greater than budgeted by 16.5% or \$16,458 due to the refinancing of the USDA, Series 1993 bonds occurring later than budgeted.

Net income totaled \$88,848 for the year or 262.4% higher than budgeted.

Table 2
SIMPSON COUNTY WATER DISTRICT
Combined Statement of Revenues, Expenses, and Changes in Net Position
Comparison to Budget

	<u>Actual 2012</u>	<u>Budget 2012</u>	<u>Variance</u>	<u>% Change</u>
Revenues:				
Residential Water Sales	\$ 1,086,987	\$ 1,145,700	(58,713)	-5.1%
Commercial Water Sales	707,175	629,600	77,575	12.3%
Forfeited Discounts	22,188	22,890	(702)	-3.1%
Interest Income	11,409	11,485	(76)	-0.7%
Miscellaneous Service Revenue & Other	<u>33,578</u>	<u>30,595</u>	<u>2,983</u>	9.7%
Total Revenue	<u>1,861,337</u>	<u>1,840,270</u>	<u>21,067</u>	1.1%
Expenses:				
Operating Expenses	1,310,802	1,362,800	(51,998)	-3.8%
Depreciation	340,761	349,680	(8,919)	-2.6%
Interest Expense	116,173	99,715	16,458	16.5%
Amortized Debt Expense	<u>4,753</u>	<u>3,560</u>	<u>1,193</u>	33.5%
Total Expenses	<u>1,772,489</u>	<u>1,815,755</u>	<u>(43,266)</u>	-2.4%
Net Income	\$ 88,848	\$ 24,515	64,333	262.4%
Capital Contributions	<u>340,650</u>	<u>403,600</u>	<u>(62,950)</u>	-15.6%
Net Income After Contributions	<u>\$ 429,498</u>	<u>\$ 428,115</u>	<u>1,383</u>	0.3%

Statement of Net Position

A summary of the District's Statement of Net Position is presented in Table 3. The District's assets and deferred outflows exceeded liabilities by \$11,614,917 for the year ending December 31, 2013.

Total Assets amounted to \$14,543,934 and increased by \$925,527 or 6.8% from last year. *Current and Other Assets* which include funds for general operations, accounts receivable, interest receivable, and prepaid assets decreased by \$271,260 or -30.6% due to a decrease in cash used to fund the Highway 31W Relocation. *Non-Current Assets* which include funds for principal & interest payments, funds for future repairs & improvements, and customer deposits increased by \$172,954 or 15.9% due to increases in investments. *Capital Assets* include the District's investment in land, distribution mains, pump stations, service lines, storage tanks, and construction in progress. Capital assets increased by \$1,023,833 or 8.8%, and totaled \$12,670,879 at the end of the year.

Total Liabilities amounted to \$2,947,129 and decreased by \$97,939 or -3.2% from last year. *Current Liabilities* which include accounts payable, interest payable, and long-term debt due within one year increased slightly by \$1,886 or 0.7%. *Non-Current Liabilities* which includes developer rebates payable, customer deposits, unamortized premiums and discounts on refunded bonds, and long term debt obligations decreased by \$99,825 or -3.6%.

Total Net Position amounted to \$11,614,917, an increase of \$1,024,052 or 9.7% from last year. *Net Position Invested in Capital Assets* which includes the District's transmission & distribution facilities net of related debt increased by \$1,144,459 or 12.9%. *Restricted Net Position* for the payment of principal & interest decreased by \$4,319, and restricted for future system repairs and improvements increased by \$29,640. *Unrestricted Net Position* decreased by \$145,728 or -14.6%.

Table 3
SIMPSON COUNTY WATER DISTRICT
Condensed Statement of Net Position
December 31, 2013

	<u>Year 2013</u>	<u>Year 2012</u>	<u>Year 2011</u>	<u>Increase (Decrease)</u> <u>Yr. 2012 to Yr. 2013</u>	
Current and Other Assets	\$ 614,975	\$ 886,235	\$ 795,399	\$ (271,260)	-30.6%
Non-Current Assets	1,258,080	1,085,126	1,150,187	172,954	15.9%
Capital Assets	<u>12,670,879</u>	<u>11,647,046</u>	<u>11,499,003</u>	<u>1,023,833</u>	8.8%
Total Assets	<u>\$ 14,543,934</u>	<u>\$ 13,618,407</u>	<u>\$ 13,444,589</u>	<u>925,527</u>	6.8%
Deferred amount on debt refunding's	<u>\$ 18,112</u>	<u>\$ 17,526</u>	<u>\$ 0</u>	<u>586</u>	3.3%
Current Liabilities	271,480	269,594	392,548	1,886	0.7%
Non-Current Liabilities	<u>2,675,649</u>	<u>2,775,474</u>	<u>2,890,674</u>	<u>(99,825)</u>	-3.6%
Total Liabilities	2,947,129	3,045,068	3,283,222	(97,939)	-3.2%
Net position invested in capital assets, net of related debt	\$ 10,040,801	\$ 8,896,342	\$ 8,627,037	1,144,459	12.9%
Restricted for debt service	194,097	198,416	216,494	(4,319)	-2.2%
Restricted for depreciation reserves	526,110	496,470	807,199	29,640	6.0%
Unrestricted	<u>853,909</u>	<u>999,637</u>	<u>510,637</u>	<u>(145,728)</u>	-14.6%
Total Net Position	<u>11,614,917</u>	<u>10,590,865</u>	<u>10,161,367</u>	<u>1,024,052</u>	9.7%

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
SIMPSON COUNTY WATER DISTRICT
Combined Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended December 31, 2013

	<u>Year 2013</u>	<u>Year 2012</u>	<u>Year 2011</u>	<u>Increase (Decrease)</u> <u>Yr. 2012 to Yr. 2013</u>	
<u>Revenues:</u>					
Residential Water Sales	\$ 1,116,426	\$ 1,086,987	\$ 1,059,910	\$ 29,439	2.7%
Commercial Water Sales	769,989	707,175	690,762	62,814	8.9%
Forfeited Discounts	23,814	22,188	24,128	1,626	7.3%
Interest Income	13,783	11,409	15,035	2,374	20.8%
Miscellaneous Service Revenue	<u>41,169</u>	<u>33,578</u>	<u>29,484</u>	<u>7,591</u>	22.6%
Total Revenue	<u>1,965,181</u>	<u>1,861,337</u>	<u>1,819,319</u>	<u>103,844</u>	5.6%
<u>Expenses:</u>					
Operating Expenses	1,430,174	1,310,802	1,296,180	119,372	9.1%
Depreciation	354,383	340,761	337,978	13,622	4.0%
Interest Expense	97,703	116,173	139,726	(18,470)	-15.9%
Amortized Debt Expense	<u>26,092</u>	<u>4,753</u>	<u>1,531</u>	<u>21,339</u>	449.0%
Total Expenses	<u>1,908,352</u>	<u>1,772,489</u>	<u>1,775,415</u>	<u>135,863</u>	7.7%
Income Before Capital Contributions	56,829	88,848	43,904	(32,019)	-36.0%
Capital Contributions	<u>967,223</u>	<u>340,650</u>	<u>552,904</u>	<u>626,573</u>	183.9%
Increase in Net Position	1,024,052	429,498	596,808	594,554	138.4%
Net Position, Beginning of Year	<u>10,590,865</u>	<u>10,161,367</u>	<u>9,564,559</u>	<u>429,498</u>	4.2%
Net Position, End of Year	<u>\$ 11,614,917</u>	<u>\$ 10,590,865</u>	<u>\$ 10,161,367</u>	<u>1,024,052</u>	9.7%

Total Revenue increased by \$103,844, or 5.6% from last year. *Residential and Commercial Water Sales* combined increased by \$92,253 or 5.1% resulting from a general retail rate increase effective in January 2013. In addition, fewer gallons were sold to the District's customers due to unusually cool weather and wet conditions. The volume of water sold during the year totaled 298.1 million gallons versus 306.7 million gallons last year, a 2.8% decrease of 8.6 million gallons. *Forfeited Discounts* which are late penalties increased by \$1,626 or 7.3% and *Interest Income* increased by \$2,374 or 20.8%. *Miscellaneous Service Revenue* which includes connection fees, collection fees, and meter tampering fees increased by \$7,591 or 22.6%.

Total Expenses increased by \$135,863, or 7.7% from last year. *Operating Expenses* increased by \$119,372, or 9.1% and consists of the following: (1) purchased water increase of \$97,773 due to a wholesale rate increase from the District's supplier, White House Utility District (WHUD); (2) employee wages and benefits increase of \$21,476; and (3) all other expenses which increased by a total of \$123. *Depreciation* increased by \$13,622 or 4% due the completion of the Highway 100 East and Highway 31W South relocations. *Interest Expense* decreased by \$18,470 or -15.9% due to principal payments throughout the year and refinancing of the KRWFC, Series 2003A loan in February 2013. *Amortized Debt Expense* increased by \$21,339 and includes the expensing of debt issuance costs for KRWFC, Series 2012B and Series 2013B loans as required by the recently implemented Governmental Accounting Standards Board Pronouncement (GASB) 65.

Capital Contributions totaled \$967,223 and decreased by \$626,573 compared to last year and includes contributions from the Kentucky Department of Transportation (KDOT) of \$922,474 for relocation projects, contributions for hydrant installations totaling \$24,430, and contributions for meter installations totaling \$20,319.

Changes in Capital Assets

The largest portion of the District's assets is invested in the transmission & distribution facilities totaling \$12,645,485 on December 31, 2013. Changes by asset category are listed below in Table 5.

Table 5
SIMPSON COUNTY WATER DISTRICT
Changes in Capital Assets
(Net of Depreciation)

<u>Capital Investment</u>	December 31, <u>2013</u>	December 31, <u>2012</u>	December 31, <u>2011</u>	Increase (Decrease) Yr. 2012 to Yr. 2013	
Land	\$ 25,549	\$ 25,549	\$ 25,799	\$ -	0.0%
Structures	77	77	77	-	0.0%
Pumping Equipment	1,036,612	754,653	775,353	281,959	37.4%
Storage Tanks	1,301,986	1,347,826	1,393,666	(45,840)	-3.4%
Distribution Mains	8,431,821	7,435,919	7,224,503	995,902	13.4%
SCADA Communications	26,789	27,918	35,700	(1,129)	-4.0%
Meters	1,287,177	1,238,365	1,242,545	48,812	3.9%
Hydrants	432,329	397,410	403,240	34,919	8.8%
Computer Hardware & Software	89,449	87,295	4,621	2,154	2.5%
Furniture & Fixtures	657	798	856	(141)	-17.7%
Vehicles and Equipment	5,803	9,468	16,431	(3,665)	-38.7%
Other	<u>7,236</u>	<u>7,935</u>	<u>2,129</u>	<u>(699)</u>	<u>-8.8%</u>
TOTAL Capital Investment	<u>\$ 12,645,485</u>	<u>\$ 11,333,213</u>	<u>\$ 11,124,920</u>	<u>\$ 1,312,272</u>	<u>11.6%</u>

The District's capital assets include the following: (1) 396 miles of distribution main, (2) 23 miles of service line, (3) 185 fire hydrants, size 4 ½ inch and 5 ¼ inch, (4) 7 storage tanks with storage capacity from 150,000 gallons to 500,000 gallons and total system storage capacity of 2.2 million gallons, and (5) 7 pumping stations.

Total Capital Investment increased by \$1,312,272, or 11.6%, and reflects the net effect of the following: (1) Highway 31W South Relocations totaling \$1,516,182; (2) meter installations totaling \$95,219; (3) fire hydrant installations totaling \$44,184; (4) other assets additions totaling \$11,070; (5) less retirements of pump stations, distribution mains, and other assets totaling \$464,119; and (6) plus net change in accumulated depreciation of \$109,736.

The above table does not include *Construction In Progress* totaling \$25,394.

Long-Term Debt

The District's debt obligations include United States Department of Agriculture (USDA) bonds and Kentucky Rural Water Finance Corporation (KRWFC) loans. In February 2013, the District refinanced the KRWF, Series 2003A loan to reduce interest costs in the current and future years. As of December 31, 2013, the District had \$2,665,000 in outstanding debt compared to \$2,805,300 in the previous year, a reduction of \$140,300 in principal.

Factors Affecting Next Year's Budget

- Stability of the economy and the corresponding impact on residential and commercial growth.
- Weather trends.
- Expenditures required for maintaining existing distribution system.
- The impact of regulatory changes forthcoming from the Kentucky Division of Water and the Environmental Protection Agency.

The District's Board of Commissioners adopted the budget for year 2014 at its meeting held in October 2013. Metered residential and commercial sales combined are budgeted to increase by 0.45% from last year. Total revenue is budgeted to increase by 0.49% from year 2013, and total expenses are budgeted to increase by 1.33%. Debt service payments are expected to total \$237,405 which includes principal payments that will reduce outstanding debt by \$143,000. Capital expenditures of \$2,412,318 are budgeted for the year.

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

Simpson County Water District
Statements of Net Position

December 31,	2013	2012
Assets		
Current Assets		
Cash and cash equivalents	\$ 502,819	\$ 485,939
Short-term investments	-	250,000
Accounts receivable:		
Customer accounts receivable, net of allowance for uncollectibles of \$81,702 and \$75,246	56,387	43,641
Accounts receivable – other	44,052	96,856
Interest receivable	532	348
Prepaid insurance	11,185	9,451
Total current assets	614,975	886,235
Non-Current Assets		
Restricted cash and cash equivalents	375,207	459,886
Restricted investments	470,357	365,343
Investments	400,000	250,000
Other assets	12,516	9,897
Capital assets:		
Utility plant in service	17,308,922	16,106,386
Construction in progress	25,394	313,833
Less: accumulated depreciation	(4,663,437)	(4,773,173)
Net capital assets	12,670,879	11,647,046
Total non-current assets	13,928,959	12,732,172
Total assets	14,543,934	13,618,407
Deferred Outflows of Resources		
Deferred amount on debt refundings	18,112	17,526
Total deferred outflows of resources	18,112	17,526

December 31,	2013	2012
Liabilities		
Current liabilities		
Accounts payable	\$ 14,690	\$ 21,929
Accounts payable – WCWD	48,184	52,814
Accrued interest payable	43,850	48,758
Other current liabilities	22,756	14,893
Current portion of long-term debt	142,000	131,200
Total current liabilities	271,480	269,594
Non-current liabilities		
Rebates payable	47,823	22,500
Customer deposits	121,636	115,944
Long-term obligations:		
Bonds and loans payable	2,665,000	2,805,300
Less: unamortized bond discount / premium	(16,810)	(37,070)
Less: current portion of long-term debt	(142,000)	(131,200)
Net long-term obligations	2,506,190	2,637,030
Total non-current liabilities	2,675,649	2,775,474
Total liabilities	2,947,129	3,045,068
Net Position		
Invested in capital assets, net of related debt	10,040,801	8,896,342
Restricted for debt service	194,097	198,416
Restricted for depreciation reserves	526,110	496,470
Unrestricted	853,909	999,637
Total Net Position	\$ 11,614,917	\$ 10,590,865

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

Simpson County Water District
Statements of Revenues, Expenses and Changes in Net Position

Years Ended December 31,	2013	2012
Operating Revenues		
Metered sales:		
Residential	\$ 1,116,426	\$ 1,086,987
Commercial	769,989	707,175
Total metered sales	1,886,415	1,794,162
Forfeited discounts	23,814	22,188
Miscellaneous service revenue	22,803	23,183
Total operating revenues	1,933,032	1,839,533
Operating Expenses		
Purchased water	867,316	769,543
Pumping expense:		
Purchased power	22,724	22,306
Insurance	1,424	1,328
Miscellaneous	1,123	1,119
Professional services	1,000	961
Total pumping expense	26,271	25,714
General distribution expense:		
Purchased power	4,514	4,567
Salaries and benefits	87,676	73,723
Materials and supplies	3,907	1,702
Insurance	6,999	6,528
Miscellaneous	17,907	19,029
Contractual services	20,936	16,342
Professional services	1,000	961
Total general distribution expense	142,939	122,852
Customer accounts expense:		
Uncollectible accounts	6,456	3,943
Salaries and benefits	151,905	145,140
Materials and supplies	1,253	477
Insurance	1,424	1,328
Miscellaneous	17,619	19,097
Contractual services	34,162	29,960
Professional services	2,000	1,923
Total customer accounts expense	214,819	201,868

Years Ended December 31,	2013	2012
Maintenance expense:		
Salaries and benefits	34,036	36,874
Materials and supplies	14,989	19,702
Miscellaneous	4,253	3,715
Contractual services	26,897	39,335
Professional services	2,000	1,922
Total maintenance expense	82,175	101,548
Administrative and general expense:		
Salaries and benefits	44,994	41,399
Materials and supplies	3,257	3,055
Insurance	2,821	2,734
Miscellaneous	13,287	12,641
Contractual services	20,847	19,560
Professional services	8,146	6,723
Total administrative and general expense	93,352	86,112
Depreciation expense	354,383	340,761
Amortization expense	26,092	4,753
Total operating expenses	1,807,347	1,653,151
Operating income	125,685	186,382
Non-Operating Revenues (Expenses)		
Other income	5,454	-
Interest income	13,783	11,409
Rental income	12,912	10,395
Interest expense on long-term debt	(97,502)	(115,449)
Interest expense on customer deposits	(201)	(724)
PSC taxes	(3,302)	(3,165)
Total non-operating revenues (expenses)	(68,856)	(97,534)
Income before capital contributions	56,829	88,848
Capital Contributions	967,223	340,650
Change in Net Position	1,024,052	429,498
Total Net Position – Beginning of Year	10,590,865	10,161,367
Total Net Position – End of Year	11,614,917	10,590,865

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

Simpson County Water District
Statements of Cash Flows

Years Ended December 31,	2013	2012
Cash Flows from Operating Activities		
Receipts from customers and agencies	\$ 1,973,090	\$ 1,965,476
Payments to suppliers for goods and services	(1,069,285)	(1,117,755)
Payments for contractual services	(318,611)	(297,136)
Net cash provided by operating activities	585,194	550,585
Cash Flows from Noncapital Financing Activities		
Interest paid on customer deposits	(201)	(724)
Net cash used in noncapital financing activities	(201)	(724)
Cash Flows from Capital and Related Financing Activities		
Principal repayment on long-term debt	(470,300)	(1,647,100)
Proceeds from issuance of long-term debt	330,000	1,575,000
Debt issuance costs	(7,675)	(53,915)
Capital contributions	967,223	340,650
Purchases of capital assets	(1,378,215)	(488,804)
Interest paid on long-term debt	(102,410)	(134,819)
Net cash used in capital and related financing activities	(661,377)	(408,988)
Cash Flows from Investing Activities		
Purchase of short-term investments	(370,357)	(865,343)
Maturity of short-term investments	365,343	602,044
Interest income	13,599	11,106
Net cash provided by (used in) by investing activities	8,585	(252,193)
Net Increase (Decrease) in Cash and Cash Equivalents	(67,799)	(111,320)
Balances – Beginning of Year	945,825	1,057,145
Balances – End of Year	\$ 878,026	\$ 945,825

Years Ended December 31,	2013	2012
By Operating Activities		
Operating income	\$ 125,685	\$ 186,382
Adjustment to reconcile net operating income to net cash provided by operating activities:		
Depreciation expense	354,383	340,761
Amortization expense	27,348	4,753
Payment of PSC taxes	(3,302)	(3,165)
Non-utility rental income	12,912	10,395
Other non-utility income	5,454	-
Changes in assets and liabilities:		
Net decrease in accounts receivable, net	40,058	125,943
Net increase in prepaid insurance	(1,734)	(554)
Net (increase) decrease in deferred charges	(2,619)	1,118
Net decrease in accounts payable	(11,869)	(114,799)
Net increase (decrease) in rebates payable	25,323	(15,300)
Net increase in other current liabilities	7,863	8,115
Net increase in customer deposits	5,692	6,936
Net cash provided by operating activities	\$ 585,194	\$ 550,585

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

Note 1: Summary of Significant Accounting Policies

• Nature of Business

The Simpson County Water District (“District”) is a tax-exempt division of Simpson County, Kentucky organized under KRS 74.010. The District provides a public water system to primarily citizens located in Simpson County, Kentucky.

The accounting policies of the District conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

▶ Reporting Entity

The District is governed by a three-member board (the “Board”). The criteria for determining the District as a component unit of Simpson County, Kentucky, the primary government, is financial accountability. As set forth in GASB No. 14, *The Financial Reporting Entity*, a primary government is financially accountable for legally separate organizations if its officials appoint a voting majority of an organization’s governing body and it is able to impose its will on that organization. The commissioners of the Board are appointed by the Simpson County Judge Executive subject to the approval of the Simpson County Fiscal Court. Simpson County is able to impose its will on the District through the ability to remove appointed members of the Board at will.

▶ Basis of Presentation

The District’s financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements.

The District’s basic financial statements include only proprietary fund financial statements because the District engages only in a single business-type activity.

The focus of proprietary fund measurement is upon determination of net position; a statement of revenues, expenses, and changes in net position; and a statement of cash flows. The generally accepted accounting principles applicable are similar to those businesses in the private sector. Amounts recorded as operating revenues are those revenues generated from general water service operations and all other

Note 1: Summary of Significant Accounting Policies

(Continued)

revenues are recorded as non-operating revenues or capital contributions. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

Net position is classified into three components: invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- *Invested in Capital Assets, Net of Related Debt* — This component of net position consists of the District's total investment in capital assets, including restricted capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.
- *Restricted* — This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted* — This component of net position consists of the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment of capital assets or the restricted component of net position.

► Basis of Accounting

Basis of accounting refers to the point at which revenues or expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

Note 1: Summary of Significant Accounting Policies
(Continued)

- *Accrual* — The proprietary fund financial statements are presented on the accrual basis of accounting. The District follows the practice of recording metered sales when billed to the customers and recording related expenses when billed to the water district. This results in a lag of recording revenue and related expenses. However, it does provide approximate matching of revenue and expenses and does not have a material effect between years.

Operating revenues are revenues generated from general water operations (water sales, forfeited discounts and miscellaneous service revenue) and all other non-water revenues are considered non-operating revenues.

▶ **Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles 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 amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

▶ **Cash and Cash Equivalents**

The District has defined cash and cash equivalents to include all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

▶ **Accounts Receivable**

Customer accounts receivable amounts arise from monthly water usage. Based on District policy, water meters are read monthly, with billings occurring approximately ten 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 two to four day grace period 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 places calls to facilitate collection; if no payment is received, collection trips are made to the service location. If collection does not occur, the meter is shut off. If collection is considered unlikely, the balances are charged off as a bad debt expense in the period in which they were deemed uncollectible.

Note 1: Summary of Significant Accounting Policies
(Continued)

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.

▶ **Concentration of Credit Risk**

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

▶ **Investments**

Investments consist of certificates of deposit and are recorded at cost. The cost of investments approximates their fair value. KRS 66.480 permits the District to invest in U.S. Treasury obligations, certain federal instruments, repurchase agreements, commercial bank certificates of deposit and the Commonwealth of Kentucky investment pool.

▶ **Capital Assets**

The District has an ongoing activity of assessing the feasibility of installing additional lines to new service areas. Once an extension is considered feasible, there are additional engineering studies, applications to various funding agencies and project administrative costs. The District defers the ongoing activity and capitalizes these costs as part of the utility plant upon completion of the project.

Management's capitalization policy is based upon the assets' estimated future benefit. Depreciation is computed using the straight-line method over the estimated useful lives of the utility plant. The estimated useful lives range from 5 to 50 years for utility plant assets. Upon retirement, the cost of the asset, less any proceeds, is charged to accumulated depreciation.

The District capitalizes construction period interest on loans that were obtained to finance construction.

Note 1: Summary of Significant Accounting Policies
(Continued)

▶ **Non-Exchange Transactions**

The recognition of assets and revenues resulting in non-exchange transactions of the District are as follows:

- *Voluntary Non-Exchange Transactions* — The District receives various grants from federal and state agencies. Eligibility requirements have been met at the time the funds are received; therefore, the asset/revenue is recognized when it is received.

▶ **Capital Contributions**

Contributions are recognized in the statements of revenues, expenses and changes in net position when earned. Contributions may include connect fees, developer contributed utility systems, capital grants and other supplemental support by other utilities and industrial customers and federal, state and local grants in support of system improvements.

● **Subsequent Events**

The District has evaluated any recognized or unrecognized subsequent events for consideration in the accompanying financial statements through April 9, 2014 which was the date the financial statements were made available.

● **New Accounting Pronouncements**

Recently Issued and Adopted Accounting Pronouncements

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements*, incorporates into GASB's authoritative literature certain accounting and financial reporting guidance included in Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the American Institute of Certified Public Accountants (AICPA) Committee on Accounting Procedure, which do not conflict with or contradict GASB pronouncements.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, establishes a new statement of net position format that reports separately all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position (which is the net residual

Note 1: Summary of Significant Accounting Policies
(Continued)

amount of the other elements). The Statement requires deferred outflows of resources and deferred inflows of resources to be reported separately from assets and liabilities. The financial reporting impact resulting from the implementation of GASB 63 in the District's financial statements was the renaming of "Net Assets" to "Net Position", including changing the name of the financial statement from "Statement of Net Assets" to "Statement of Net Position".

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, amends or supersedes the accounting and financial reporting guidance for certain items previously required to be reported as assets or liabilities. The objective is to either properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses) or inflows of resources (revenues). The District has implemented the new requirements of this statement for the year ended December 31, 2013. The effect of adoption of GASB 65 had no significant impact on the District's beginning net position.

• **Reclassifications**

Amounts in the 2012 financial statements have been reclassified to be comparable with the presentation of the 2013 financial statements. The reclassification had no impact on the change in net position for 2012.

Note 2: Cash and Cash Equivalents and Investments

• **Deposits**

At December 31, 2013 and 2012, the District's deposits consisted of the following:

December 31,	2013	2012
Cash and cash equivalents	\$ 502,594	\$ 485,539
Restricted cash and cash equivalents	375,207	459,886
Short-term investments	-	250,000
Investments	400,000	250,000
Restricted investments	470,357	365,343
	\$ 1,748,158	\$ 1,810,768

Note 2: Cash and Cash Equivalents and Investments *(Continued)*

The District maintains its deposits with financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). As of December 31, 2013 and 2012, respectively, the carrying amounts of the District's deposits were \$1,748,158 and \$1,810,768 and the bank balances were \$1,752,694 and \$1,899,959. Of the bank balances, \$1,752,694 and \$1,899,959 were covered by FDIC insurance or by collateral held by an institution for the pledging Bank, in the District's name.

• ***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's formal deposit policy for custodial credit risk requires deposits in banks which are in excess of the FDIC insurance coverage to be secured by the bank pledging securities in direct obligations of the United States of America or by approved security bonds. As of December 31, 2013 and 2012, the District's bank balance was not exposed to custodial credit risk.

• ***Credit Risk***

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 States government, certificates of deposit, commercial paper rated in one of the three highest categories by nationally recognized rating agencies and securities in mutual funds shall be eligible investments pursuant to this section. However, the District's bond agreement further limits its investment choices.

• ***Concentration of Credit Risk***

The District places no limit on the amount the District may invest in any one issuer. At December 31, 2013 and 2012, there are no investments in any one issuer that represents 5% or more of the total investments.

• ***Interest Rate Risk***

The District's investment policy limits investment maturities of less than three years as a means of managing its exposure to fair value losses arising from increasing interest rates.

Simpson County Water District
Notes to the Financial Statements (Continued)

Note 2: Cash and Cash Equivalents and Investments *(Continued)*

• **Restricted Cash and Cash Equivalents and Investments**

The sinking funds are restricted to the payment of principal and interest on long-term debt.

The depreciation funds are restricted to payment for improvements and approved repairs.

The customer deposits fund is restricted to hold customer deposits until service is terminated.

Restricted cash and cash equivalents consisted of the following at December 31, 2013 and 2012:

December 31,	2013	2012
Sinking funds	\$ 194,097	\$ 198,416
Depreciation funds	526,110	496,470
Customer deposits fund	125,357	130,343
	\$ 845,564	\$ 825,229

Note 3: Capital Assets

Capital asset activity for the year ended December 31, 2013 is as follows:

As of and Year Ended December 31, 2013				
Description	Beginning	Increases	Decreases	Ending
Capital assets not being depreciated:				
Land and land rights	\$ 25,549	\$ -	\$ -	\$ 25,549
Construction in progress	313,833	74,016	362,455	25,394
Total capital assets not being depreciated	339,382	74,016	362,455	50,943

Simpson County Water District
Notes to the Financial Statements (Continued)

Note 3: Capital Assets (Continued)

Description	Beginning	Increases	Decreases	Ending
Other capital assets:				
Utility plant in service	16,080,837	1,666,654	464,118	17,283,373
Total other capital assets at historical cost	16,080,837	1,666,654	464,118	17,283,373
Less: accumulated depreciation	(4,773,173)	(354,383)	(464,119)	(4,663,437)
Capital Assets, Net	\$ 11,647,046	\$ 1,386,287	\$ 362,454	\$ 12,670,879

Capital asset activity for the year ended December 31, 2012 is as follows:

As of and Year Ended December 31, 2012

Description	Beginning	Increases	Decreases	Ending
Capital assets not being depreciated:				
Land and land rights	\$ 25,799	\$ -	\$ 250	\$ 25,549
Construction in progress	374,083	689,280	749,530	313,833
Total capital assets not being depreciated	399,882	689,280	749,780	339,382
Other capital assets:				
Utility plant in service	15,690,515	549,304	158,982	16,080,837
Total other capital assets at historical cost	15,690,515	549,304	158,982	16,080,837
Less: accumulated depreciation	(4,591,394)	(340,761)	(158,982)	(4,773,173)
Capital Assets, Net	\$ 11,499,003	\$ 897,823	\$ 749,780	\$ 11,647,046

Note 4: Rebates Payable

These amounts are partially made up of private developers' unrecovered costs in installing water lines. Utility plant was increased for a like amount when the facilities were donated to the water 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 ten years or up to the value of facilities constructed. The remaining balance in this account was obtained from subscriptions of prospective users of the water district. When a meter is installed, the subscribed amount is transferred to capital contributions.

Simpson County Water District
Notes to the Financial Statements (Continued)

Note 5: Long-Term Debt

The following bonds and loans were issued through USDA, Rural Development (RD) and Kentucky Rural Water Finance Corporation (KRWFC):

Original Amount	Funding Agency	Series of	Interest Rate	Balance as of December 31,	
				2013	2012
\$ 1,060,000	RD	1995	4.88%	\$ 815,000	\$ 836,000
913,300	KRWFC	2003	2.06%-5.06%	-	394,300
1,575,000	KRWFC	2012	2.20%-3.95%	1,520,000	1,575,000
330,000	KRWFC	2013	2.30%	330,000	-
				\$ 2,665,000	\$ 2,805,300

These bonds are secured by an exclusive pledge of a fixed portion of the income and revenues derived from the operation of the District's water distribution system and each has principal and interest sinking fund requirements along with depreciation reserves.

- **2012 KRWFC Refunding**

On March 28, 2012, the District received a loan from the Kentucky Rural Water Finance Corporation in the amount of \$1,575,000 with an interest rate ranging from 2.20%-3.95% maturing in 2033 to refund \$1,560,000 of outstanding series 1993 bonds with an interest rate of 5.00%. The net proceeds of \$1,537,722 (after payment of \$37,278 in underwriting fees, insurance and other issuance costs) were transferred to an escrow agent to provide debt service payments on the series 1993 bonds, thereby retiring the outstanding bond issues.

The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$18,722. This loss on refunding, reported in the accompanying financial statements as a deferred outflow, is being charged to operations through the year 2033 using the effective-interest method.

The new loan was issued at a net discount of \$23,252, reported in the accompanying financial statements as a deduction from debt payable, which is being charged to operations through the year 2033 using the effective-interest method.

The District completed the refunding to reduce its total debt service payments over the next 21 years by \$242,466 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$174,512.

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

- **2013 KRWFC Refunding**

On February 27, 2013, the District received a loan from the Kentucky Rural Water Finance Corporation in the amount of \$330,000 with an interest rate of 2.30% maturing in 2020 to refund \$339,100 of outstanding series 2003C loan with an interest rate ranging from 2.06% to 5.06%. The net proceeds of \$341,907 (after payment of \$12,919 in underwriting fees, insurance and other issuance costs) were transferred to an escrow agent to provide debt service payments on the series 2003C bonds, thereby retiring the outstanding bond issues.

The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$2,807. This loss on refunding, reported in the accompanying financial statements as a deferred outflow, is being charged to operations through the year 2020 using the effective-interest method.

The new loan was issued at a net premium of \$4,065, reported in the accompanying financial statements as an addition to debt payable, which is being charged to operations through the year 2020 using the effective-interest method.

The District completed the refunding to reduce its total debt service payments over the next 8 years by \$39,580 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$35,530.

Unamortized net premiums and discounts on the KRWFC debt issuances noted previously totaled \$16,810 and \$37,070 as of and for the years ended December 31, 2013 and 2012, respectively. Related amortization expenses for the years ended December 31, 2013 and 2012 totaled \$5,018 and \$4,753, respectively. An additional \$30,547 of unamortized debt costs were reclassified as of December 31, 2013 to either deferred outflows or expenses in accordance with the implementation of GASB 63 and GASB 65.

Deferred outflows resulting from losses on the KRWFC debt refundings noted previously totaled \$18,112 and \$17,526 as of and for the years ended December 31, 2013 and 2012, respectively.

Simpson County Water District
Notes to the Financial Statements (Continued)

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

Long-term debt activity is as follows:

As of and Year Ended December 31, 2013					
Description	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Rural Development Bond, 1995 Kentucky Rural Water Finance Corp., 2003	\$ 836,000	\$ -	\$ 21,000	\$ 815,000	\$ 22,000
Kentucky Rural Water Finance Corp., 2012	394,300	-	394,300	-	-
Kentucky Rural Water Finance Corp., 2013	1,575,000	-	55,000	1,520,000	60,000
	-	330,000	-	330,000	60,000
	\$ 2,805,300	\$ 330,000	\$ 470,300	\$ 2,665,000	\$ 142,000

As of and Year Ended December 31, 2012					
Description	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Rural Development Bond, 1993	\$ 1,560,000	\$ -	\$ 1,560,000	\$ -	\$ -
Rural Development Bond, 1995	856,000	-	20,000	836,000	21,000
Kentucky Rural Water Finance Corp., 2003	461,400	-	67,100	394,300	55,200
Kentucky Rural Water Finance Corp., 2012	-	1,575,000	-	1,575,000	55,000
	\$ 2,877,400	\$ 1,575,000	\$ 1,647,100	\$ 2,805,300	\$ 131,200

Simpson County Water District
Notes to the Financial Statements (Continued)

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

Principal and interest of various amounts are due at least annually in each of the years through 2034. The principal and interest due for each of the next five years and thereafter is as follows:

Year	Principal Amount	Interest Amount
2014	\$ 142,000	\$ 95,406
2015	143,000	91,609
2016	140,000	87,797
2017	131,000	84,083
2018	132,000	80,114
2019-2023	574,000	337,778
2024-2028	600,000	232,256
2029-2033	741,000	96,536
2034	62,000	1,511
	\$ 2,665,000	\$ 1,107,090

Note 6: Related Parties

The Warren County Water District (WCWD) provides management, engineering, and repair and maintenance services to the District. The following related party amounts were included in accounts payable at December 31, 2013 and 2012:

Description	2013	2012
Warren County Water District	\$ 48,184	\$ 52,814

Note 6: Related Parties *(Continued)*

During 2013 and 2012, expenses from the WCWD amounted to \$608,171 and \$616,939, respectively, for the following expenses:

Description	2013	2012
Wages and benefits:		
Operation	\$ 235,372	\$ 208,927
Administrative:		
Supervision and administration	76,841	74,753
Accounting	29,454	25,888
Customer service	45,283	53,397
Engineering	16,921	16,172
Operations - other	52,310	59,472
Additions to plant	21,598	21,697
Special projects	130,392	156,633
Totals	\$ 608,171	\$ 616,939

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

Note 7: Risks of Loss

The District's risks of loss are addressed by the purchase of commercial insurance. These areas include employee dishonesty bonds, property coverage, vehicle coverage and a public entity liability policy which includes errors and omission. Coverage is reviewed for adequacy by management and agents on an annual basis.

Note 8: Commitments

The District has a water purchase agreement with the White House Utility District of Robertson and Sumner Counties, Tennessee ("WHUD"). The agreement provides WHUD will be the primary provider of water to the District. The contract shall extend for a term of forty years with an option to renew or extend the contract for an additional twenty years.

Supplementary Information

Simpson County Water District
A Component Unit of Simpson County, Kentucky
Schedules of Budgetary Comparison

For the Year Ended December 31, 2013

	Budgeted Amounts		Actual (GAAP Basis)	Variances Favorable (Unfavorable)
	Original	Final		Final to Actual
Revenues				
Metered revenue	\$ 1,985,000	\$ 1,985,000	1,886,415	\$ (98,585)
Forfeited discounts	26,200	26,200	23,814	(2,386)
Miscellaneous service revenue	21,140	21,140	20,995	(145)
Other water revenue	1,480	1,480	1,808	328
Interest income	13,680	13,680	13,783	103
Rental income - utility property	14,760	14,760	12,912	(1,848)
Other income	-	-	5,454	5,454
Contribution-in-Aid of Construction	1,168,180	1,168,180	967,223	(200,957)
Total revenues	3,230,440	3,230,440	2,932,404	(298,036)
Expenses				
Salaries and wages	195,325	195,325	193,147	2,178
Commissioner fees	10,800	10,800	10,800	-
Fringe benefits	116,665	116,665	125,464	(8,799)
Purchased water	947,400	947,400	867,316	80,084
Purchased power	28,100	28,100	27,238	862
Materials and supplies	26,200	26,200	23,406	2,794
Contractual services - Accounting	7,700	7,700	8,000	(300)
Contractual services - Legal	4,800	4,800	6,146	(1,346)
Contractual services - Other	98,410	98,410	102,842	(4,432)
Rental of building and utilities	9,660	9,660	9,827	(167)
Equipment expense	35,020	35,020	30,982	4,038
Insurance - general liability	11,460	11,460	11,864	(404)
Insurance - other	805	805	804	1
Regulatory expense	3,145	3,145	3,302	(157)
Bad debt expense	2,220	2,220	6,456	(4,236)
Miscellaneous expense	2,310	2,310	2,580	(270)
Debt issuance costs	-	-	18,853	(18,853)
Depreciation	355,110	355,110	354,383	727
Interest expense	105,745	105,745	97,703	8,042
Unamortized debt expense	5,560	5,560	7,239	(1,679)
Total expenses	1,966,435	1,966,435	1,908,352	58,083
Net Change in Net Position	1,264,005	1,264,005	1,024,052	(239,953)
Net Position - Beginning of Year	10,590,865	10,590,865	10,590,865	-
Net Position - End of Year	\$ 11,854,870	\$ 11,854,870	\$ 11,614,917	\$ (239,953)

For the Year Ended December 31, 2012

	Budgeted Amounts		Actual (GAAP Basis)	Variances Favorable (Unfavorable)
	Original	Final		Final to Actual
Revenues				
Metered revenue	\$ 1,775,300	\$ 1,775,300	\$ 1,794,162	\$ 18,862
Forfeited discounts	22,890	22,890	22,188	(702)
Miscellaneous service revenue	19,845	19,845	21,620	1,775
Other water revenue	1,290	1,290	1,563	273
Interest income	11,485	11,485	11,409	(76)
Rental income - utility property	9,460	9,460	10,395	935
Contribution-in-Aid of Construction	403,600	403,600	340,650	(62,950)
Total revenues	2,243,870	2,243,870	2,201,987	(41,883)
Expenses				
Salaries and wages	208,675	208,675	184,455	24,220
Commissioner fees	10,800	10,800	10,800	-
Fringe benefits	120,410	120,410	112,681	7,729
Purchased water	789,670	789,670	769,543	20,127
Purchased power	29,060	29,060	26,873	2,187
Materials and supplies	28,990	28,990	24,936	4,054
Contractual services - Accounting	7,500	7,500	7,690	(190)
Contractual services - Legal	4,800	4,800	4,800	-
Contractual services - Other	93,300	93,300	105,197	(11,897)
Rental of building and utilities	9,660	9,660	9,790	(130)
Equipment expense	36,770	36,770	31,964	4,806
Insurance - general liability	10,700	10,700	11,065	(365)
Insurance - other	915	915	853	62
Regulatory expense	2,730	2,730	3,165	(435)
Bad debt expense	5,910	5,910	3,943	1,967
Miscellaneous expense	2,910	2,910	3,047	(137)
Depreciation	349,680	349,680	340,761	8,919
Interest expense	99,715	99,715	116,173	(16,458)
Unamortized debt expense	3,560	3,560	4,753	(1,193)
Total expenses	1,815,755	1,815,755	1,772,489	43,266
Net Change in Net Position	428,115	428,115	429,498	1,383
Net Position - Beginning of Year	10,161,367	10,161,367	10,161,367	-
Net Position - End of Year	\$ 10,589,482	\$ 10,589,482	\$ 10,590,865	\$ 1,383



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**Independent Auditor's 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***

Board of Commissioners
Simpson County Water District
Franklin, Kentucky

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 Simpson County Water District (the "District"), a component unit of Simpson County, Kentucky, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated April 9, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an 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.

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