

Simpson County Water District

**Component Unit of Simpson
County, Kentucky**

FINANCIAL STATEMENTS


**For the Years Ended
December 31, 2014 and 2013**



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**Simpson County Water District
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December 31, 2014 and 2013**

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REPORT





Carr, Riggs & Ingram, LLC

927 College Street
Bowling Green, Kentucky 42101
PO Box 104
Bowling Green, Kentucky 42102-0104
(270) 782-0700
(270) 782-0932 (fax)

167 South Main Street
Russellville, Kentucky 42276
(270) 726-7151
(270) 726-3155 (fax)

www.cricpa.com

INDEPENDENT AUDITORS' 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, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the District's basic 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.

Auditors' 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 auditors' 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, 2014 and 2013, 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. 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 6 through 13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The schedules of budgetary comparison are presented for purposes of additional analysis and are not a required part of the basic 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 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 14, 2015 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.

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, 2014 and 2013. 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, 2014:

- In 2014, Total Net Position increased by \$149,932 or 1.3% to \$11,764,849 from \$11,614,917 in 2013 due to increases in short-term investments. 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 2014, Total Revenue increased by \$102,155 or 5.2% to \$2,067,334 compared to \$1,965,179 in 2013 due to increases in metered water sales during the winter and summer months. In 2013, Total Revenue increased by \$103,842 or 5.6% to \$1,965,179 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 2014, Total Expenses increased by \$85,318 or 4.5% to \$1,993,668 compared to \$1,908,350 in 2013 mainly due to an increase in purchased water costs to meet customer demand during the winter and summer months. In 2013, Total Expenses increased by \$135,861 or 7.7% to \$1,908,350 compared to \$1,772,489 in 2012 due an increase in purchased water costs resulting from a wholesale rate increase from White House Utility District.
- In 2014, Income Before Capital Contributions increased by \$16,837 or 29.6% to \$73,666 compared to \$56,829 in 2013 due to an increase in metered water sales. 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 2014, Total Capital Investment decreased by \$144,484, net of depreciation, or -1.1% to \$12,501,001 from \$12,645,485 in 2013 due to the net impact of fewer projects reduced by accumulated depreciation for the year. In 2013, Total Capital Investment increased by \$1,312,272, net of depreciation, or 11.6% to \$12,645,485 from \$11,333,213 in 2012 due the completion of the Highway 31W Relocation project.
- Total water sold to customers during the year amounted to 319 million gallons. The peak demand month was August with 35.6 million gallons sold. The peak demand day in August totaled 1.5 million gallons sold.
- New meter applications in year 2014 and year 2013 totaled 20 and 34 respectively, a decrease of 14 meter applications. The number of customers at the end of the year totaled 3,345 consisting of 3,010 residential customers and 335 commercial customers.

- The District's water system includes 397 miles of distribution main serving an average of 8.4 customers per mile.
- Average metered water revenue was \$32.88 per residential customer and \$200.18 per commercial customer.

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, 2014 and 2013 and analysis of net assets, revenue and expense, and capital assets for the fiscal years ended December 31, 2014 and 2013. In some sections year 2012 results are provided for comparison purposes.

Budgetary Analysis for the Year Ended December 31, 2014

Total Revenue was greater than budgeted revenue by 4.8% or \$95,219 due to higher than anticipated metered water sales in the winter and summer months. Total metered water sales were greater than budgeted sales by 4.6%, or \$86,571 with residential sales below budget by \$31,757 and commercial sales above budget by \$118,328.

Total Expenses were higher than budgeted expenses by 4.7% or \$89,103. *Operating Expenses* related to providing water service and maintaining the District's water distribution system were higher than budget by 6.6%, or \$94,545. Operating expenses include: (1) purchased water that was over budget by \$55,950; (2) wages and benefits that were over budget by \$23,736; and (3) various other costs which were over budget by a net amount of \$14,859.

Net income totaled \$73,666 for the year or 9.1% more than budgeted. *Capital contributions* were below budget by \$1,667,834 due to construction on a highway relocation project that was delayed until Fall 2015. The project will be fully funded by the Kentucky Department of Transportation.

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

	<u>Actual 2014</u>	<u>Budget 2014</u>	<u>Variance</u>	<u>% Change</u>
<u>Revenues:</u>				
Residential Water Sales	\$ 1,186,343	\$ 1,218,100	(31,757)	-2.6%
Commercial Water Sales	797,728	679,400	118,328	17.4%
Forfeited Discounts	24,220	24,530	(310)	-1.3%
Interest Income	15,223	14,665	558	3.8%
Miscellaneous Service Revenue & Other	<u>43,820</u>	<u>35,420</u>	<u>8,400</u>	23.7%
Total Revenue	<u>2,067,334</u>	<u>1,972,115</u>	<u>95,219</u>	4.8%
<u>Expenses:</u>				
Operating Expenses	1,521,705	1,427,160	94,545	6.6%
Depreciation	374,530	376,190	(1,660)	-0.4%
Interest Expense	94,449	94,770	(321)	-0.3%
Amortized Debt Expense	<u>2,984</u>	<u>6,445</u>	<u>(3,461)</u>	-53.7%
Total Expenses	<u>1,993,668</u>	<u>1,904,565</u>	<u>89,103</u>	4.7%
Net Income	\$ 73,666	\$ 67,550	6,116	9.1%
Capital Contributions	<u>76,266</u>	<u>1,744,100</u>	<u>(1,667,834)</u>	-95.6%
Net Income After Contributions	<u>\$ 149,932</u>	<u>\$ 1,811,650</u>	<u>(1,661,718)</u>	-91.7%

Budgetary Analysis for the Year Ended December 31, 2013

Total Revenue was less than budgeted revenue by 4.7% or -\$97,081 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 \$-58,085. *Operating Expenses* related to providing water service and maintaining the District's water distribution system were lower than budget by 4.7%, or -\$69,848. 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 \$3,614. *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 2
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>
<u>Revenues:</u>				
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>41,167</u>	<u>37,380</u>	<u>3,787</u>	10.1%
Total Revenue	<u>1,965,179</u>	<u>2,062,260</u>	<u>(97,081)</u>	-4.7%
<u>Expenses:</u>				
Operating Expenses	1,430,172	1,500,020	(69,848)	-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>1,908,350</u>	<u>1,966,435</u>	<u>(58,085)</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%

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 \$11,764,849 for the year ending December 31, 2014.

Total Assets amounted to \$14,590,336 and increased by \$46,402 or 0.3% from last year. *Current and Other Assets* which include funds for general operations, accounts receivable, interest receivable, and prepaid assets increased by \$232,026 or 37.7% due to increases in cash and short-term investments. *Non-Current Assets* which include funds for principal & interest payments, funds for future repairs & improvements, and customer deposits decreased by \$115,231 or -9.2% due to decreases 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 totaled \$12,600,486 and decreased by \$70,393 or -0.6%, due to net reductions for accumulated depreciation.

Total Liabilities amounted to \$2,841,458 and decreased by \$105,671 or -3.6% from last year. *Current Liabilities* which include accounts payable, interest payable, and long-term debt due within one year increased by \$34,953 or 12.9%. *Non-Current Liabilities* which includes developer rebates payable, customer deposits, unamortized premiums and discounts on refunded bonds, and long term debt obligations decreased by \$140,624 or -5.3%.

Total Net Position amounted to \$11,764,849 an increase of \$149,932 or 1.3% from last year. *Net Position Invested in Capital Assets* which includes the District's transmission & distribution facilities net of related debt increased by \$68,623 or 0.7%. *Restricted for Depreciation Reserves* which are funds set aside for future system repairs and improvements increased by \$29,640. *Unrestricted Net Assets* increased by \$51,669 or 4.9%.

Table 3
 SIMPSON COUNTY WATER DISTRICT
 Condensed Statement of Net Position
 December 31, 2014

	<u>Year 2014</u>	<u>Year 2013</u>	<u>Year 2012</u>	<u>Increase (Decrease)</u> <u>Yr. 2013 to Yr. 2014</u>	
Current and Other Assets	\$ 847,001	\$ 614,975	\$ 886,235	\$ 232,026	37.7%
Non-Current Assets	1,142,849	1,258,080	1,085,126	(115,231)	-9.2%
Capital Assets	<u>12,600,486</u>	<u>12,670,879</u>	<u>11,647,046</u>	<u>(70,393)</u>	-0.6%
Total Assets	<u>14,590,336</u>	<u>14,543,934</u>	<u>13,618,407</u>	<u>46,402</u>	0.3%
Deferred amount on debt refundings	<u>15,971</u>	<u>18,112</u>	<u>17,526</u>	<u>(2,141)</u>	-11.8%
Current Liabilities	306,433	271,480	269,594	34,953	12.9%
Non-Current Liabilities	<u>2,535,025</u>	<u>2,675,649</u>	<u>2,775,474</u>	<u>(140,624)</u>	-5.3%
Total Liabilities	2,841,458	2,947,129	3,045,068	(105,671)	-3.6%
Net position invested in capital assets, net of related debt	10,109,424	10,040,801	8,896,342	68,623	0.7%
Restricted for depreciation reserves	555,750	526,110	496,470	29,640	
Unrestricted	<u>1,099,675</u>	<u>1,048,006</u>	<u>1,198,053</u>	<u>51,669</u>	4.9%
Total Net Position	<u>11,764,849</u>	<u>11,614,917</u>	<u>10,590,865</u>	<u>149,932</u>	1.3%

Statement of Revenues, Expenses and Changes in Net Assets

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, 2014

	<u>Year 2014</u>	<u>Year 2013</u>	<u>Year 2012</u>	<u>Increase (Decrease)</u> <u>Yr. 2013 to Yr. 2014</u>	
Revenues:					
Residential Water Sales	\$ 1,186,343	\$ 1,116,426	\$ 1,086,987	\$ 69,917	6.3%
Commercial Water Sales	797,728	769,989	707,175	27,739	3.6%
Forfeited Discounts	24,220	23,814	22,188	406	1.7%
Interest Income	15,223	13,783	11,409	1,440	10.4%
Miscellaneous Service Revenue	<u>43,820</u>	<u>41,167</u>	<u>33,578</u>	<u>2,653</u>	6.4%
Total Revenue	<u>2,067,334</u>	<u>1,965,179</u>	<u>1,861,337</u>	<u>102,155</u>	5.2%
Expenses:					
Operating Expenses	1,521,705	1,430,172	1,310,802	91,533	6.4%
Depreciation	374,530	354,383	340,761	20,147	5.7%
Interest Expense	94,449	97,703	116,173	(3,254)	-3.3%
Amortized Debt Expense	<u>2,984</u>	<u>26,092</u>	<u>4,753</u>	<u>(23,108)</u>	-88.6%
Total Expenses	<u>1,993,668</u>	<u>1,908,350</u>	<u>1,772,489</u>	<u>85,318</u>	4.5%
Income Before Capital Contributions	73,666	56,829	88,848	16,837	29.6%
Capital Contributions	<u>76,266</u>	<u>967,223</u>	<u>340,650</u>	<u>(890,957)</u>	-92.1%
Increase in Net Position	149,932	1,024,052	429,498	(874,120)	-85.4%
Net Position, Beginning of Year	<u>11,614,917</u>	<u>10,590,865</u>	<u>10,161,397</u>	<u>1,024,052</u>	9.7%
Net Position, End of Year	<u>\$ 11,764,849</u>	<u>\$ 11,614,917</u>	<u>\$ 10,590,895</u>	<u>149,932</u>	1.3%

Total Revenue increased by \$102,155, or 5.2% from last year. *Residential and Commercial Water Sales* combined increased by \$97,656 or 5.2% due to increases in water consumption during the winter and summer months. The volume of water sold during the year totaled 319 million gallons versus 298.1 million gallons last year, a 7% increase of 20.9 million gallons. *Forfeited Discounts* which are late penalties increased slightly and *Interest Income* increased by \$1,440 or 10.4%. *Miscellaneous Service Revenue* which includes connection fees, collection fees, and meter tampering fees increased by \$2,653 or 6.4%.

Total Expenses increased by \$85,318, or 4.5% from last year. *Operating Expenses* increased by \$91,533, or 6.4% and consists of the following: (1) purchased water increase of \$75,024 due to a customer demand in the winter and summer months; (2) employee wages and benefits increase of \$7,083 due to flushing and leak detection activities; and (3) all other expenses which increased by a total of \$9,426. *Depreciation* increased by \$20,147 or 5.7% due a full year of depreciation on the Highway 31W South relocation project recorded in October 2013. *Interest Expense* decreased by \$3,254 or -3.3% due to reductions in outstanding debt. *Amortized Debt Expense*

decreased by \$23,108 and includes the expensing of debt issuance costs for KRWFC, Series 2012B and Series 2013B loans in Year 2013 as required by the Governmental Accounting Standards Board Pronouncement (GASB) 65.

Capital Contributions totaled \$73,666 and decreased by \$890,957 compared to last year which included contributions from the Kentucky Department of Transportation for relocation projects.

Changes in Capital Assets

The largest portion of the District's assets is invested in the transmission & distribution facilities totaling \$12,501,001 on December 31, 2014. 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>2014</u>	December 31, <u>2013</u>	December 31, <u>2012</u>	Increase (Decrease) <u>Yr. 2013 to Yr. 2014</u>	
Land	\$ 25,549	\$ 25,549	\$ 25,549	\$ -	0.0%
Structures	77	77	77	-	0.0%
Pumping Equipment	1,013,116	1,036,612	754,653	(23,496)	-2.3%
Storage Tanks	1,256,146	1,301,986	1,347,826	(45,840)	-3.5%
Distribution Mains	8,348,089	8,431,821	7,435,919	(83,732)	-1.0%
SCADA Communications	26,204	26,789	27,918	(585)	-2.2%
Meters	1,300,518	1,287,177	1,238,365	13,341	1.0%
Hydrants	437,256	432,329	397,410	4,927	1.1%
Computer Hardware & Software	84,549	89,449	87,295	(4,900)	-5.5%
Furniture & Fixtures	986	657	798	329	50.1%
Vehicles and Equipment	2,139	5,803	9,468	(3,664)	-63.1%
Other	<u>6,372</u>	<u>7,236</u>	<u>7,935</u>	<u>(864)</u>	11.9%
TOTAL Capital Investment	<u>\$ 12,501,001</u>	<u>\$ 12,645,485</u>	<u>\$ 11,333,213</u>	<u>\$ (144,484)</u>	-1.1%

The District's capital assets include the following: (1) 397 miles of distribution main, (2) 23 miles of service line, (3) 188 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 decreased by \$144,484, or -1.1%, and reflects the net effect of the following: (1) Garvin Lane Extension, \$86,285; (2) relocation projects, \$41,498; (3) service line and meter assembly upgrades, \$21,824; (4) other distribution mains, and other assets, \$80,440; (5) less retirements, \$14,224; and (6) less depreciation for the year of \$360,306.

The above table does not include *Construction In Progress* totaling \$99,485.

Long-Term Debt

The District's debt obligations include United States Department of Agriculture (USDA) bonds and Kentucky Rural Water Finance Corporation (KRWFC) loans. As of December 31, 2014, the District had \$2,523,000 in outstanding debt compared to \$2,665,000 in the previous year, a reduction of \$142,000 in principal.

Factors Affecting Next Year's Budget

- Growth within the District's service area is expected to add 17 new water connections.
- In January 2015, retail rate increases of 1.1% is budgeted. The rate increase is a pass through of a wholesale rate increase from the District's supplier, White House Utility District.
- A normal weather year was projected.
- Expenditures required for maintaining existing water distribution and sewer collection systems.
- 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 2015 at its meeting held in October 2014. Metered water sales are budgeted to increase by 1.64%. Total revenue is budgeted to increase by 1.68% from year 2014, and total expenses are budgeted to increase by 2.13%. Debt service payments are expected to total \$230,350 with a reduction in outstanding debt of \$140,420. Net income for year 2015 is budgeted to total \$55,580. Capital expenditures budgeted for the year totaled \$1,200,000.

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,	2014	2013
Assets		
Current Assets		
Cash and cash equivalents	\$ 596,910	\$ 502,819
Short-term investments	152,982	-
Accounts receivable:		
Customer accounts receivable, net of allowance for uncollectibles of \$86,069 and \$81,702	36,919	56,387
Accounts receivable – other	48,832	44,052
Interest receivable	117	532
Prepaid insurance	11,241	11,185
Total current assets	847,001	614,975
Non-Current Assets		
Restricted cash and cash equivalents	404,160	375,207
Restricted investments	475,988	470,357
Investments	250,000	400,000
Other assets	12,701	12,516
Capital assets:		
Utility plant in service	17,524,744	17,308,922
Construction in progress	99,485	25,394
Less: accumulated depreciation	(5,023,743)	(4,663,437)
Net capital assets	12,600,486	12,670,879
Total non-current assets	13,743,335	13,928,959
Total assets	14,590,336	14,543,934
Deferred Outflows of Resources		
Deferred amount on debt refundings	15,971	18,112
Total deferred outflows of resources	15,971	18,112

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

**Simpson County Water District
Statements of Net Position**

December 31,	2014	2013
Liabilities		
Current liabilities		
Accounts payable	22,750	14,690
Accounts payable – WCWD	73,827	48,184
Accrued interest payable	43,188	43,850
Other current liabilities	23,668	22,756
Current portion of long-term debt	143,000	142,000
Total current liabilities	306,433	271,480
Non-current liabilities		
Rebates payable	46,472	47,823
Customer deposits	124,520	121,636
Long-term obligations:		
Bonds and loans payable	2,523,000	2,665,000
Less: unamortized bond discount / premium	(15,967)	(16,810)
Less: current portion of long-term debt	(143,000)	(142,000)
Net long-term obligations	2,364,033	2,506,190
Total non-current liabilities	2,535,025	2,675,649
Total liabilities	2,841,458	2,947,129
Net Position		
Net investment in capital assets	10,109,424	10,040,801
Restricted for depreciation reserves	555,750	526,110
Unrestricted	1,099,675	1,048,006
Total Net Position	\$ 11,764,849	\$ 11,614,917

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,	2014	2013
Operating Revenues		
Metered sales:		
Residential	\$ 1,186,341	\$ 1,116,426
Commercial	797,727	769,989
Total metered sales	1,984,068	1,886,415
Forfeited discounts	24,220	23,814
Miscellaneous service revenue	29,956	22,803
Total operating revenues	2,038,244	1,933,032
Operating Expenses		
Purchased water	942,340	867,316
Pumping expense:		
Purchased power	25,478	22,724
Insurance	1,481	1,424
Miscellaneous	1,123	1,123
Professional services	1,153	1,000
Total pumping expense	29,235	26,271
General distribution expense:		
Purchased power	4,728	4,514
Salaries and benefits	107,995	87,676
Materials and supplies	1,064	3,907
Insurance	7,282	6,999
Miscellaneous	22,717	17,907
Contractual services	13,797	20,936
Professional services	1,153	1,000
Total general distribution expense	158,736	142,939
Customer accounts expense:		
Uncollectible accounts	4,367	6,456
Salaries and benefits	141,191	151,905
Materials and supplies	506	1,253
Insurance	1,481	1,424
Miscellaneous	16,260	17,619
Contractual services	36,052	34,162
Professional services	2,306	2,000
Total customer accounts expense	202,163	214,819

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,	2014	2013
Maintenance expense:		
Salaries and benefits	32,920	34,036
Materials and supplies	21,912	14,989
Miscellaneous	4,647	4,253
Contractual services	28,712	26,897
Professional services	2,306	2,000
Total maintenance expense	90,497	82,175
Administrative and general expense:		
Salaries and benefits	43,586	44,994
Materials and supplies	3,709	3,257
Insurance	2,902	2,821
Miscellaneous	13,332	13,287
Contractual services	24,026	20,847
Professional services	7,378	8,146
Total administrative and general expense	94,933	93,352
Depreciation expense	374,530	354,383
Amortization expense	2,984	26,092
Total operating expenses	1,895,418	1,807,347
Operating income	142,826	125,685
Non-Operating Revenues (Expenses)		
Other income	-	5,454
Interest income	15,223	13,783
Rental income	13,864	12,912
Interest expense on long-term debt	(94,295)	(97,502)
Interest expense on customer deposits	(154)	(201)
PSC taxes	(3,798)	(3,302)
Total non-operating revenues (expenses)	(69,160)	(68,856)
Income before capital contributions	73,666	56,829
Capital Contributions	76,266	967,223
Change in Net Position	149,932	1,024,052
Total Net Position – Beginning of Year	11,614,917	10,590,865
Total Net Position – End of Year	\$ 11,764,849	\$ 11,614,917

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,	2014	2013
Cash Flows from Operating Activities		
Receipts from customers and agencies	\$ 2,052,932	\$ 1,973,090
Payments to suppliers for goods and services	(1,146,239)	(1,069,285)
Payments for contractual services	(325,692)	(318,611)
Net cash provided by operating activities	581,001	585,194
Cash Flows from Noncapital Financing Activities		
Interest paid on customer deposits	(154)	(201)
Net cash used in noncapital financing activities	(154)	(201)
Cash Flows from Capital and Related Financing Activities		
Principal repayment on long-term debt	(142,000)	(470,300)
Proceeds from issuance of long-term debt	-	330,000
Debt issuance costs	-	(7,675)
Capital contributions	76,266	967,223
Purchases of capital assets	(304,137)	(1,378,215)
Interest paid on long-term debt	(94,957)	(102,410)
Net cash used in capital and related financing activities	(464,828)	(661,377)
Cash Flows from Investing Activities		
Purchase of short-term investments	(375,987)	(370,357)
Maturity of short-term investments	367,374	365,343
Interest income	15,638	13,599
Net cash provided by investing activities	7,025	8,585
Net Increase (Decrease) in Cash and Cash Equivalents	123,044	(67,799)
Balances – Beginning of Year	878,026	945,825
Balances – End of Year	\$ 1,001,070	\$ 878,026

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,	2014	2013
Reconciliation of Operating Income to Net Cash Provided By		
Operating income	\$ 142,826	\$ 125,685
Adjustment to reconcile net operating income to net cash provided by operating activities:		
Depreciation expense	374,530	354,383
Amortization expense	2,984	27,348
Payment of PSC taxes	(3,798)	(3,302)
Non-utility rental income	13,864	12,912
Other non-utility income	-	5,454
Changes in assets and liabilities:		
Net decrease in accounts receivable, net	14,688	40,058
Net increase in prepaid insurance	(56)	(1,734)
Net increase in deferred charges	(185)	(2,619)
Net increase (decrease) in accounts payable	33,703	(11,869)
Net increase (decrease) in rebates payable	(1,351)	25,323
Net increase in other current liabilities	912	7,863
Net increase in customer deposits	2,884	5,692
Net cash provided by operating activities	\$ 581,001	\$ 585,194

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

Simpson County Water District

Notes to the 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 revenues are recorded as non-operating

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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: net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

- *Net Investment in Capital Assets* — This component of net position consists of the District's net 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 net investment in capital assets. 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.

Simpson County Water District Notes to the Financial Statements

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.

Simpson County Water District Notes to the Financial Statements

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.

Simpson County Water District Notes to the Financial Statements

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 14, 2015 which was the date the financial statements were made available.

New Accounting Pronouncements

Recently Issued and Adopted Accounting Pronouncements

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.

**Simpson County Water District
Notes to the Financial Statements**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reclassifications

Amounts in the 2013 financial statements have been reclassified to be comparable with the presentation of the 2014 financial statements. The reclassification had no impact on the change in net position for 2013.

NOTE 2: CASH AND CASH EQUIVALENT AND INVESTMENTS

Deposits

At December 31, 2014 and 2013, the District's deposits consisted of the following:

December 31,	2014	2013
Cash and cash equivalents	\$ 596,510	\$ 502,594
Restricted cash and cash equivalents	404,160	375,207
Short-term investments	152,982	-
Investments	250,000	400,000
Restricted investments	475,988	470,357
	\$ 1,879,640	\$ 1,748,158

Simpson County Water District Notes to the Financial Statements

NOTE 2: CASH AND CASH EQUIVALENT AND INVESTMENTS (CONTINUED)

The District maintains its deposits with financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). As of December 31, 2014 and 2013, respectively, the carrying amounts of the District's deposits were \$1,879,640 and \$1,748,158 and the bank balances were \$1,881,358 and \$1,752,694. Of the bank balances, \$1,876,402 and \$1,752,694 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, 2014 and 2013, \$4,956 and \$0, respectively, of the District's bank balance was 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, 2014 and 2013, 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**

NOTE 2: CASH AND CASH EQUIVALENT 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, 2014 and 2013:

December 31,	2014	2013
Sinking funds	\$ 193,410	\$ 194,097
Depreciation funds	555,750	526,110
Customer deposits fund	130,988	125,357
	\$ 880,148	\$ 845,564

NOTE 3: CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2014 is as follows:

As of and Year Ended December 31, 2014				
Description	Beginning	Increases	Decreases	Ending
Capital assets not being depreciated:				
Land and land rights	\$ 25,549	\$ -	\$ -	\$ 25,549
Construction in progress	25,394	390,041	315,950	99,485
Total capital assets not being depreciated	50,943	390,041	315,950	125,034

**Simpson County Water District
Notes to the Financial Statements**

NOTE 3: CAPITAL ASSETS (CONTINUED)

Description	Beginning	Increases	Decreases	Ending
Other capital assets:				
Utility plant in service	17,283,373	230,046	14,224	17,499,195
Total other capital assets at historical cost	17,283,373	230,046	14,224	17,499,195
Less: accumulated depreciation	(4,663,437)	(374,530)	(14,224)	(5,023,743)
Capital Assets, Net	\$ 12,670,879	\$ 245,557	\$ 315,950	\$ 12,600,486

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
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

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 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 District. When a meter is installed, the subscribed amount is transferred to capital contributions.

**Simpson County Water District
Notes to the Financial Statements**

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	2014	2013
\$ 1,060,000	RD	1995	4.88%	\$ 793,000	\$ 815,000
1,575,000	KRWFC	2012	2.20%-3.95%	1,460,000	1,520,000
330,000	KRWFC	2013	2.30%	270,000	330,000
				\$ 2,523,000	\$ 2,665,000

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.

- **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.

**Simpson County Water District
Notes to the Financial Statements**

NOTE 5: LONG-TERM DEBT (CONTINUED)

Unamortized net premiums and discounts on the KRWFC debt issuances noted previously totaled \$15,967 and \$16,810 as of and for the years ended December 31, 2014 and 2013, respectively. Related amortization expenses for the years ended December 31, 2014 and 2013 totaled \$843 and \$5,018, 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 \$15,971 and \$18,112 as of and for the years ended December 31, 2014 and 2013, respectively.

Long-term debt activity is as follows:

As of and Year Ended December 31, 2014					
Description	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Rural Development Bond, 1995 Kentucky Rural Water Finance Corp., 2012	\$ 815,000	\$ -	\$ 22,000	\$ 793,000	\$ 23,000
Kentucky Rural Water Finance Corp., 2012	1,520,000	-	60,000	1,460,000	60,000
Kentucky Rural Water Finance Corp., 2013	330,000	-	60,000	270,000	60,000
	\$ 2,665,000	\$ -	\$ 142,000	\$ 2,523,000	\$ 143,000

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

**Simpson County Water District
Notes to the Financial Statements**

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
2015	\$ 143,000	\$ 91,609
2016	140,000	87,797
2017	131,000	84,083
2018	132,000	80,114
2019	134,000	75,749
2020-2024	552,000	317,482
2025-2029	626,000	208,270
2030-2034	665,000	66,581
	\$ 2,523,000	\$ 1,011,685

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, 2014 and 2013:

Description	2014	2013
Warren County Water District	\$ 73,827	\$ 48,184

**Simpson County Water District
Notes to the Financial Statements**

NOTE 6: RELATED PARTIES (CONTINUED)

During 2014 and 2013, expenses from the WCWD amounted to \$560,098 and \$608,171, respectively, for the following expenses:

Description	2014	2013
Wages and benefits:		
Operation	\$ 241,783	\$ 235,372
Administrative:		
Supervision and administration	75,563	76,841
Accounting	31,118	29,454
Customer service	43,315	45,283
Engineering	11,686	16,921
Operations - other	68,340	52,310
Additions to plant	17,527	21,598
Special projects	70,766	130,392
Totals	\$ 560,098	\$ 608,171

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

On March 6, 1992, the District signed 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.

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

For the Year Ended December 31, 2014

	<u>Budgeted Amounts</u>		<u>Actual</u> (GAAP Basis)	<u>Variances</u> <u>Favorable</u> <u>(Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		<u>Final to Actual</u>
Revenues				
Metered revenue	\$ 1,897,500	\$ 1,897,500	\$ 1,984,068	\$ 86,568
Forfeited discounts	24,530	24,530	24,220	(310)
Miscellaneous service revenue	20,510	20,510	28,148	7,638
Other water revenue	1,760	1,760	1,808	48
Interest income	14,665	14,665	15,223	558
Rental income - utility property	13,150	13,150	13,864	714
Contribution-in-Aid of Construction	1,744,100	1,744,100	76,266	(1,667,834)
Total revenues	3,716,215	3,716,215	2,143,597	(1,572,618)
Expenses				
Salaries and wages	185,475	185,475	198,765	(13,290)
Commissioner fees	10,800	10,800	10,800	-
Fringe benefits	116,480	116,480	126,927	(10,447)
Purchased water	886,390	886,390	942,340	(55,950)
Purchased power	27,500	27,500	30,206	(2,706)
Materials and supplies	24,155	24,155	27,191	(3,036)
Contractual services - accounting	8,350	8,350	9,224	(874)
Contractual services - legal	5,300	5,300	5,072	228
Contractual services - other	100,495	100,495	102,587	(2,092)
Rental of building and utilities	9,660	9,660	9,827	(167)
Equipment expense	32,225	32,225	33,297	(1,072)
Insurance - general liability	12,330	12,330	12,342	(12)
Insurance - other	805	805	804	1
Regulatory expense	3,250	3,250	3,798	(548)
Bad debt expense	1,845	1,845	4,367	(2,522)
Miscellaneous expense	2,100	2,100	4,155	(2,055)
Depreciation	376,190	376,190	374,530	1,660
Interest expense	94,770	94,770	94,449	321
Unamortized debt expense	6,445	6,445	2,984	3,461
Total expenses	1,904,565	1,904,565	1,993,665	(89,100)
Net Change in Net Position	1,811,650	1,811,650	149,932	(1,661,718)
Net Position - Beginning of Year	11,614,917	11,614,917	11,614,917	-
Net Position - End of Year	\$ 13,426,567	\$ 13,426,567	\$11,764,849	\$ (1,661,718)

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
	Original	Final		Favorable (Unfavorable) 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

**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
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)



Carr, Riggs & Ingram, LLC

927 College Street
Bowling Green, Kentucky 42101
PO Box 104
Bowling Green, Kentucky 42102-0104
(270) 782-0700
(270) 782-0932 (fax)

167 South Main Street
Russellville, Kentucky 42276
(270) 726-7151
(270) 726-3155 (fax)

www.cricpa.com

**Independent Auditors' Report on Internal Control over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards***

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, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated April 14, 2015.

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.

CARR, RIGGS & INGRAM, LLC
Bowling Green, Kentucky
April 14, 2015



THOUGHT LEADERSHIP



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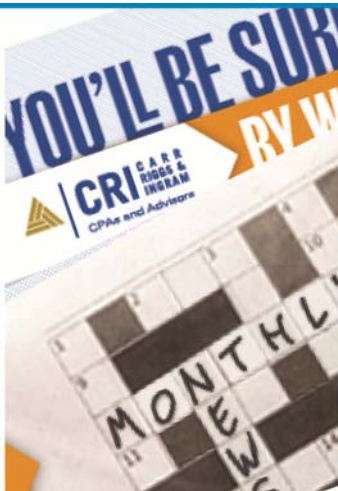
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