

SIMPSON COUNTY WATER DISTRICT

**COMPONENT UNIT OF
SIMPSON COUNTY, KENTUCKY**

FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

SIMPSON COUNTY WATER DISTRICT

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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 the Simpson County Water District (the "District"), a component unit of Simpson County, Kentucky, as of and for the years ended December 31, 2017 and 2016, 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 District'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 District'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 opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Simpson County Water District as of December 31, 2017 and 2016, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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 3 through 8 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 audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming opinions 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. We do not express an opinion or provide any assurance on the schedules of budgetary comparison because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 10, 2018, on our consideration of the 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 the District's internal control over financial reporting and compliance.



Kirby & Moore, LLP
Bowling Green, Kentucky
April 10, 2018

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, 2017 and 2016. 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, 2017:

- In 2017, Total Net Position increased by \$729,002 or 5.5% to \$14,098,657 from \$13,369,655 in 2016 reflecting increases in capital assets. In 2016, Total Net Position increased by \$842,119 or 6.7% to \$13,369,655 from \$12,527,536 in 2015 due to increases in cash and capital assets.
- In 2017, Total Revenue increased by \$77,550 or 3.7% to \$2,175,198 compared to \$2,097,648 in 2016 due to increases in commercial metered water sales. In 2016, Total Revenue increased by \$40,831 or 2.0% to \$2,097,648 compared to \$2,056,817 in 2015 due to increases in residential metered water sales.
- In 2017, Total Expenses increased by \$90,372 or 4.4% to \$2,144,446 compared to \$2,054,074 in 2016 due to increases in operating costs and depreciation of assets. In 2016, Total Expenses increased by \$99,662 or 5.1% to \$2,054,074 compared to \$1,954,412 in 2015 due to decreases in operating costs.
- In 2017, Income Before Capital Contributions decreased by \$12,822 or -29.4% to \$30,752 compared to \$43,574 in 2016 due to increases in operating costs and depreciation of assets. In 2016, Income Before Capital Contributions decreased by \$58,831 or -57.4% to \$43,574 compared to \$102,405 in 2015 due to decreases in operating costs.
- In 2017, Net Utility Plant increased by \$613,449 net of depreciation, or 4.4% to \$14,493,743 from \$13,880,294 in 2016. In 2016, Total Net Assets increased by \$774,938, net of depreciation, or 5.9% to \$13,880,294 from \$13,105,356 in 2015.
- In 2017, total water sold to customers during the year amounted to 322.6 million gallons nearly the same volume sold in year 2016. The peak demand month was August with 31.8 million gallons sold. The peak demand day was July 26th with 1,633,000 gallons pumped.
- New meter applications in year 2017 and year 2016 totaled 42 and 28 respectively and the number of customers at the end of the year totaled 3,418 consisting of 3,046 residential customers and 372 commercial customers.
- The District's water system includes 396 miles of distribution main serving an average of 8.6 customers per mile.
- Average metered water revenue was \$32.70 per residential customer and \$204.83 per commercial customer.
- Projects Completed: *Highway 31W Relocation (I-65 to VFW Road)* consisted of a water line relocation funded by the Kentucky Transportation Cabinet and totaled \$677,899; *Highway 100E Relocation, Phase 2* consisted of a water line relocation funded by the Kentucky Transportation Cabinet and totaled \$1,065,620; And *Salmons Tank Repaint* that painted an existing water storage tank funded by the District and totaled \$220,619.

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, 2017 and 2016 and analysis of net position, revenue and expense, and net utility plant for the fiscal years ended December 31, 2017 and 2016. In some sections year 2015 results are provided for comparison purposes.

Budgetary Analysis for the Year Ended December 31, 2017

Total Revenue was less than budgeted revenue by \$22,002, or -1.0% reflecting lower than expected residential revenue in the fourth quarter. Total metered water revenue was less than budgeted sales by \$26,295, or -1.2%, with residential revenue below budget by \$75,557 and commercial revenue greater than budget by \$49,262.

Total Expenses were lower than budgeted expenses by \$32,744, or -1.5%. *Operating Expenses* related to providing water service and maintaining the District's water distribution system were less than budget by \$40,113 or -2.4%. Operating expenses include: (1) wages and benefits that were under budget by \$14,506; (2) purchased water that was under budget by \$14,306; (3) equipment expense that was under budget by \$3,732; and (4) various other costs which were under budget by a net amount of \$7,569.

Net income totaled \$30,752 for the year which exceed budgeted net income by \$10,742 and *Capital contributions* totaled \$698,250 exceeding expected contributions by \$222,020.

Table 1
COMBINED STATEMENT OF REVENUES AND EXPENSES
Comparison to Budget

	<u>Actual 2017</u>	<u>Budget 2017</u>	<u>Variance</u>	<u>% Change</u>
<u>Revenues:</u>				
Residential Water Revenue	\$ 1,190,443	\$ 1,266,000	(75,557)	-6.0%
Commercial Water Revenue	893,262	844,000	49,262	5.8%
Forfeited Discounts	26,694	27,080	(386)	-1.4%
Interest Income	11,036	13,040	(2,004)	-15.4%
Miscellaneous Service Revenue & Other	53,763	47,080	6,683	14.2%
Total Revenue	<u>2,175,198</u>	<u>2,197,200</u>	<u>(22,002)</u>	<u>-1.0%</u>
<u>Expenses:</u>				
Operating Expenses	1,648,127	1,688,240	(40,113)	-2.4%
Depreciation	404,238	396,990	7,248	1.8%
Interest Expense	83,343	84,190	(847)	-1.0%
Other Expenses	8,738	7,770	968	12.5%
Total Expenses	<u>2,144,446</u>	<u>2,177,190</u>	<u>(32,744)</u>	<u>-1.5%</u>
Net Income	\$ 30,752	\$ 20,010	10,742	53.7%
Capital Contributions	<u>698,250</u>	<u>476,230</u>	<u>222,020</u>	<u>46.6%</u>
Net Income After Contributions	<u>\$ 729,002</u>	<u>\$ 496,240</u>	<u>232,762</u>	<u>46.9%</u>

Budgetary Analysis for the Year Ended December 31, 2016

Total Revenue was higher than budgeted revenue by \$4,958, or 0.2%, due to higher than expected commercial water sales. Total metered water sales were higher than budgeted sales by \$4,099, or 0.2%, with residential sales below budget by \$18,912 and commercial sales greater than budget by \$23,011.

Total Expenses were lower than budgeted expenses by \$36,806, or -1.8%. *Operating Expenses* related to providing water service and maintaining the District's water distribution system were less than budget by \$28,956 or -1.8%. Operating expenses include: (1) wages and benefits that were under budget by \$12,281; (2) purchased water that was under budget by \$7,362; (3) materials and supplies that were under budget by \$4,582; and (4) various other costs which were under budget by a net amount of \$4,731.

Net income totaled \$43,574 for the year or \$41,764 more than budgeted and *Capital contributions* were less than budget by \$201,455.

Table 2
COMBINED STATEMENT OF REVENUES AND EXPENSES
Comparison to Budget

	Actual 2016	Budget 2016	Variance	% Change
<u>Revenues:</u>				
Residential Water Sales	\$ 1,191,088	\$ 1,210,000	(18,912)	-1.6%
Commercial Water Sales	826,011	803,000	23,011	2.9%
Forfeited Discounts	24,506	25,000	(494)	-2.0%
Interest Income	14,251	14,450	(199)	-1.4%
Miscellaneous Service Revenue & Other	<u>41,792</u>	<u>40,240</u>	<u>1,552</u>	3.9%
Total Revenue	<u>2,097,648</u>	<u>2,092,690</u>	<u>4,958</u>	0.2%
<u>Expenses:</u>				
Operating Expenses	1,575,304	1,604,260	(28,956)	-1.8%
Depreciation	389,349	396,350	(7,001)	-1.8%
Interest Expense	86,579	87,410	(831)	-1.0%
Amortized Debt Expense	<u>2,842</u>	<u>2,860</u>	<u>(18)</u>	-0.6%
Total Expenses	<u>2,054,074</u>	<u>2,090,880</u>	<u>(36,806)</u>	-1.8%
Net Income	\$ 43,574	\$ 1,810	41,764	2307.4%
Capital Contributions	<u>798,545</u>	<u>1,000,000</u>	<u>(201,455)</u>	-20.1%
Net Income After Contributions	<u>\$ 842,119</u>	<u>\$ 1,001,810</u>	<u>(159,691)</u>	-15.9%

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 \$14,098,657 for the year ending December 31, 2017.

Total Assets amounted to \$16,547,788 and increased by \$443,409 or 2.8% from last year. *Current and Other Assets* which include funds for general operations, accounts receivable, interest receivable, and prepaid assets decreased by \$200,552 or -15.7% reflecting decreases in short-term investments and accounts receivable. *Non-Current Assets* which include funds for principal & interest payments, funds for future repairs & improvements, and customer deposits increased by \$30,513 or 3.2% reflecting increases in restricted 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 \$14,493,742 and increased by \$613,448 or 4.4%, due to relocation projects on Highway 31W and Highway 100E and the Salmon Tank Repaint that were recorded to utility plant during the year.

Total Liabilities amounted to \$2,459,876 and decreased by \$287,154 or 10.5% from last year. *Current Liabilities* which include accounts payable, interest payable, and long-term debt due within one year decreased by \$181,515 or -38.2%. The decrease in current liabilities is due to a reduction in invoices payable to construction contractors in year 2017. *Non-Current Liabilities* which includes developer rebates payable, customer deposits, unamortized premiums and discounts on refunded bonds, and long-term debt obligations decreased by \$105,639 or -4.7%.

Total Net Position amounted to \$14,098,657 an increase of \$729,002 or 5.5% from last year. *Net Position Invested in Capital Assets* which includes the District's transmission & distribution facilities net of related debt increased by \$741,688 or 6.4%. *Restricted for Depreciation Reserves* which are funds set aside for future system repairs and improvements increased by \$29,640, or 4.8%. *Unrestricted Net Assets* decreased by \$42,326 or -3.9%.

Table 3
CONDENSED STATEMENT OF NET POSITION
December 31, 2017

	<u>Year 2017</u>	<u>Year 2016</u>	<u>Year 2015</u>	<u>Increase (Decrease)</u> <u>Yr. 2016 to Yr. 2017</u>	
Current and Other Assets	\$ 1,080,635	\$ 1,281,187	\$ 1,149,572	\$ (200,552)	15.7%
Non-Current Assets	973,411	942,898	916,668	30,513	3.2%
Capital Assets	<u>14,493,742</u>	<u>13,880,294</u>	<u>13,105,356</u>	<u>613,448</u>	4.4%
Total Assets	<u>\$ 16,547,788</u>	<u>\$ 16,104,379</u>	<u>\$ 15,171,596</u>	<u>443,409</u>	2.8%
Deferred amount on debt refundings	\$ 10,745	\$ 14,040	\$ 15,971	(3,295)	23.5%
Current Liabilities	293,814	475,329	262,877	(181,515)	38.2%
Non-Current Liabilities	<u>2,166,062</u>	<u>2,271,701</u>	<u>2,395,223</u>	<u>(105,639)</u>	-4.7%
Total Liabilities	2,459,876	2,747,030	2,658,100	(287,154)	10.5%
Net position invested in capital assets, net of related debt	\$ 12,408,159	\$ 11,666,471	\$ 10,754,377	741,688	6.4%
Restricted for depreciation reserves	644,670	615,030	585,390	29,640	4.8%
Unrestricted	<u>1,045,828</u>	<u>1,088,154</u>	<u>1,187,769</u>	<u>(42,326)</u>	-3.9%
Total Net Position	<u>14,098,657</u>	<u>13,369,655</u>	<u>12,527,536</u>	<u>729,002</u>	5.5%

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
COMBINED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Year Ended December 31, 2017

	<u>Year 2017</u>	<u>Year 2016</u>	<u>Year 2015</u>	<u>Increase (Decrease)</u> <u>Yr. 2016 to Yr. 2017</u>	
<u>Revenues:</u>					
Residential Water Sales	\$ 1,190,443	\$ 1,191,088	\$ 1,173,480	\$ (645)	-0.1%
Commercial Water Sales	893,262	826,011	802,900	67,251	8.1%
Forfeited Discounts	26,694	24,506	24,767	2,188	8.9%
Interest Income	11,036	14,251	16,715	(3,215)	-22.6%
Miscellaneous Service Revenue	<u>53,763</u>	<u>41,792</u>	<u>38,955</u>	<u>11,971</u>	28.6%
Total Revenue	<u>2,175,198</u>	<u>2,097,648</u>	<u>2,056,817</u>	<u>77,550</u>	3.7%
<u>Expenses:</u>					
Operating Expenses	1,648,127	1,575,302	1,484,130	72,825	4.6%
Depreciation	404,238	389,349	378,284	14,889	3.8%
Interest Expense	83,343	86,579	89,081	(3,236)	-3.7%
Amortized Debt & OPEB Expense	<u>8,738</u>	<u>2,844</u>	<u>2,917</u>	<u>5,894</u>	207.2%
Total Expenses	<u>2,144,446</u>	<u>2,054,074</u>	<u>1,954,412</u>	<u>90,372</u>	4.4%
Income Before Capital Contributions	30,752	43,574	102,405	(12,822)	-29.4%
Capital Contributions	<u>698,250</u>	<u>798,545</u>	<u>660,282</u>	<u>(100,295)</u>	-12.6%
Increase in Net Position	729,002	842,119	762,687	(113,117)	-13.4%
Net Position, Beginning of Year	<u>13,369,655</u>	<u>12,527,536</u>	<u>11,764,849</u>	<u>842,119</u>	6.7%
Net Position, End of Year	<u>\$ 14,098,657</u>	<u>\$ 13,369,655</u>	<u>\$ 12,527,536</u>	<u>729,002</u>	5.5%

Total Revenue increased by \$77,550, or 3.7% from last year. *Residential and Commercial Water Sales* combined increased by \$66,606 or 3.3% reflecting a 2.1% retail rate increase (wholesale water rate pass through). The volume of water sold this year was 322.6 million gallons which was nearly the same volume as last year. *Forfeited Discounts* which are late penalties increased slightly and *Interest Income* decreased by \$3,215 or -22.6% due to lower yields on the District's investments. *Miscellaneous Service Revenue* which includes connection fees, collection fees, and meter tampering fees increased by \$11,971 or 28.6% due to an increase in collection fees on past due accounts.

Total Expenses increased by \$90,372, or 4.4% from last year. *Operating Expenses* increased by \$72,825, or 4.6% and consists of the following: (1) purchased water increase of \$50,957 reflecting a 4% wholesale water rate increase and non-revenue water loss; (2) employee wages and benefits increase of \$21,014 due in part to a greater focus on leak detection; and (3) all other expenses increased by a net total of \$854. *Depreciation* increased by \$14,889 or 3.8% due to depreciation of projects Highway 31W Relocation, Highway 100E Relocation Phase 2, and Salmons Tank Repaint placed into service during the year. *Interest Expense* decreased by \$3,236 due to reductions in outstanding debt. *Amortized Debt & Other Post-Employment Benefits (OPEB)* increased by \$5,894.

Capital Contributions totaled \$698,250 and decreased by \$100,295 compared to last year. Contributions received in year 2017 include the following: the Kentucky Transportation Cabinet for Highway 100E Relocation Phase 2 project totaling \$403,335; line extensions transferred from developers totaling \$166,040; contributions for meter installations & improvements totaling \$128,875. *Net Position* at the end of the year totaled \$14,098,657, an increase of \$729,002, or 5.5% compared to the prior year.

Changes in Utility Plant

The largest portion of the District's assets is invested in utility plant totaling \$14,493,743 on December 31, 2017. Changes by asset category are listed below in Table 5.

Table 5
CHANGES IN UTILITY PLANT
(Net of Depreciation)

	December 31, <u>2017</u>	December 31, <u>2016</u>	December 31, <u>2015</u>	Increase (Decrease) Yr. 2016 to Yr. 2017	
<u>Capital Investment</u>					
Land	\$ 25,549	\$ 25,549	\$ 25,549	\$ -	0.0%
Structures	77	77	77	-	0.0%
Pumping Equipment	1,218,099	966,124	989,620	251,975	26.1%
Storage Tanks	1,455,004	1,292,740	1,347,074	162,264	12.6%
Distribution Mains	9,477,638	8,017,093	8,175,089	1,460,545	18.2%
SCADA Communications	25,574	25,658	25,742	(84)	-0.3%
Meters	1,530,564	1,320,149	1,302,230	210,415	15.9%
Hydrants	503,516	446,325	456,859	57,191	12.8%
Computer Hardware & Software	81,694	80,052	78,300	1,642	2.1%
Furniture & Fixtures	7,877	6,731	902	1,146	17.0%
Vehicles and Equipment	18,216	23,073	-	(4,857)	100.0%
Other	<u>16,230</u>	<u>13,249</u>	<u>15,014</u>	<u>2,981</u>	<u>22.5%</u>
TOTAL Utility Plant	\$ 14,360,038	\$ 12,216,820	\$ 12,416,456	\$ 2,143,218	17.5%
Construction in Progress	<u>133,705</u>	<u>1,663,474</u>	<u>688,900</u>	<u>(1,529,769)</u>	<u>-92.0%</u>
NET Utility Plant	<u>\$ 14,493,743</u>	<u>\$ 13,880,294</u>	<u>\$ 13,105,356</u>	<u>\$ 613,449</u>	<u>4.4%</u>

The District's utility plant includes the following: (1) 396 miles of distribution main, (2) 24 miles of service line, (3) 209 fire hydrants, (4) 7 storage tanks with storage capacity from 150,000 gallons to 500,000 gallons and total system storage capacity of 2.2 million gallons, and (5) 7 pumping stations.

Net Utility Plant increased by \$613,449, or 4.4%, and reflects the net effect of the following: (1) Highway 100E Relocation Phase 2, \$1,063,620; (2) Highway 31W Relocation (I-65 to VFW Rd), \$677,899; (3) Salmons Tank Repaint, \$220,619; (4) meter installations, \$252,961; (5) other asset additions, \$84,348; (5) less reduction in construction in progress, 1,529,768; and (6) less depreciation for the year of \$156,230.

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, 2017, the District had \$2,109,000 in outstanding debt compared to \$2,240,000 in the previous year, a reduction of \$131,000 in principal.

Factors Affecting Next Year's Budget

- In October 2018, a retail rate increase of 2.3% is budgeted. The rate increase is required to fund debt service on a USDA-Rural Development loan for the 2017 Line Replacement Project and the Fritz Winter Capacity Improvements.
- A normal weather year was projected.
- Expenditures required for maintaining existing water distribution 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 2018 at its meeting held in October 2017. Metered water sales are budgeted to increase by 4.0%. Total revenue is budgeted to increase by 4.2% from year 2017, and total expenses are budgeted to increase by 4.0%. Debt service payments are expected to total \$226,700 with a reduction in outstanding debt of \$132,000. Net income for year 2018 is budgeted to total \$94,400. Capital expenditures for the year are budgeted to total \$2,394,500 funded in part with loan proceeds from USDA-Rural Development of \$1,310,000 and contributions from customers & governmental agencies totaling \$898,500.

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, 2017 and 2016

	2017	2016
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Current assets		
Cash and cash equivalents	\$ 756,456	\$ 623,410
Short-term investments	200,299	408,404
Accounts receivable		
Customer accounts receivable, net of allowance for uncollectibles of \$95,160 and \$92,695	61,182	37,392
Accounts receivable - other	51,041	199,804
Interest receivable	59	63
Prepaid expenses	<u>11,598</u>	<u>12,114</u>
Total current assets	<u>1,080,635</u>	<u>1,281,187</u>
Non-current assets		
Restricted cash and cash equivalents	<u>265,638</u>	<u>450,480</u>
Restricted investments	<u>697,043</u>	<u>477,346</u>
Other assets	<u>10,730</u>	<u>15,072</u>
Capital assets		
Utility plant in service	20,149,604	17,850,157
Construction in progress	133,705	1,663,474
Less: accumulated depreciation	(5,789,567)	(5,633,337)
Net capital assets	<u>14,493,742</u>	<u>13,880,294</u>
Total non-current assets	<u>15,467,153</u>	<u>14,823,192</u>
Total assets	16,547,788	16,104,379
Deferred outflows of resources		
Deferred amount on debt refundings	<u>10,745</u>	<u>12,306</u>
Total assets and deferred outflows of resources	<u>\$16,558,533</u>	<u>\$16,116,685</u>

See Notes to Financial Statements

	2017	2016
LIABILITIES AND NET POSITION		
Current liabilities		
Accounts payable	\$ 94,288	\$ 293,615
Accounts payable - WCWD	15,993	3,174
Accrued interest payable	37,201	38,816
Other current liabilities	14,332	8,724
Current portion of long-term debt	<u>132,000</u>	<u>131,000</u>
Total current liabilities	<u>293,814</u>	<u>475,329</u>
Non-current liabilities		
Rebates payable	<u>63,231</u>	<u>42,985</u>
Customer deposits	<u>138,503</u>	<u>133,587</u>
Long-term obligations:		
Bonds and loans payable	2,109,000	2,240,000
Less: net unamortized bond (discount)/premium	(12,672)	(13,871)
Less: current portion of long-term debt	(132,000)	(131,000)
Net long-term obligations	<u>1,964,328</u>	<u>2,095,129</u>
Total non-current liabilities	<u>2,166,062</u>	<u>2,271,701</u>
Total liabilities	<u>2,459,876</u>	<u>2,747,030</u>
Net Position		
Net investment in capital assets	12,408,159	11,666,471
Restricted for depreciation reserves	644,670	615,030
Unrestricted	<u>1,045,828</u>	<u>1,088,154</u>
Total net position	<u>14,098,657</u>	<u>13,369,655</u>
Total liabilities and net position	<u>\$16,558,533</u>	<u>\$16,116,685</u>

SIMPSON COUNTY WATER DISTRICT

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Years Ended December 31, 2017 and 2016

	2017	2016
Operating revenues		
Metered sales		
Residential	\$ 1,216,925	\$ 1,191,088
Commercial	<u>866,780</u>	<u>826,011</u>
Total metered sales	2,083,705	2,017,099
Forfeited discounts	26,694	24,506
Miscellaneous service revenue	<u>25,952</u>	<u>27,387</u>
Total operating revenues	<u>2,136,351</u>	<u>2,068,992</u>
Operating expenses		
Purchased water	<u>1,063,594</u>	<u>1,012,638</u>
Pumping expense		
Purchased power	18,413	16,677
Insurance	1,641	1,554
Miscellaneous	1,133	1,134
Professional services	<u>1,063</u>	<u>1,190</u>
Total pumping expense	<u>22,250</u>	<u>20,555</u>
General distribution expense		
Purchased power	4,533	4,877
Salaries and benefits	106,175	102,901
Materials and supplies	2,726	2,865
Insurance	8,068	7,641
Miscellaneous	16,674	16,508
Contractual services	12,714	13,746
Professional services	<u>1,063</u>	<u>1,190</u>
Total general distribution expense	<u>151,953</u>	<u>149,728</u>
Customer accounts expense		
Uncollectible accounts	2,466	2,571
Salaries and benefits	151,334	143,145
Materials and supplies	136	338
Insurance	1,641	1,554
Miscellaneous	13,360	13,227
Contractual services	42,072	38,041
Professional services	<u>2,125</u>	<u>2,380</u>
Total customer accounts expense	<u>213,134</u>	<u>201,256</u>

See Notes to Financial Statements

SIMPSON COUNTY WATER DISTRICT

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION Years Ended December 31, 2017 and 2016

	2017	2016
Maintenance expense		
Salaries and benefits	\$ 31,256	\$ 28,441
Materials and supplies	20,882	25,823
Miscellaneous	4,253	3,623
Contractual services	34,516	35,428
Professional services	<u>2,125</u>	<u>2,380</u>
Total maintenance expense	<u>93,032</u>	<u>95,695</u>
Administrative and general expense		
Salaries and benefits	49,099	42,362
Other post-employment benefits	5,978	—
Materials and supplies	4,483	3,402
Insurance	3,129	3,006
Miscellaneous	13,128	12,830
Contractual services	28,042	25,090
Professional services	<u>2,125</u>	<u>4,780</u>
Total administrative and general expense	<u>105,984</u>	<u>91,470</u>
Depreciation expense	<u>404,238</u>	<u>389,349</u>
Amortization expense	<u>2,760</u>	<u>2,844</u>
Total operating expenses	<u>2,056,945</u>	<u>1,963,535</u>
Operating income	<u>79,406</u>	<u>105,457</u>
Non-operating revenues (expenses)		
Interest income	11,036	14,251
Rental income	27,811	14,405
Interest expense on long-term debt	(82,469)	(86,110)
Interest expense on customer deposits	(874)	(469)
PSC taxes	<u>(4,158)</u>	<u>(3,960)</u>
Total non-operating revenues (expenses)	<u>(48,654)</u>	<u>(61,883)</u>
Income before capital contributions	30,752	43,574
Capital contributions	<u>698,250</u>	<u>798,545</u>
Change in net position	729,002	842,119
Net position, beginning of year	<u>13,369,655</u>	<u>12,527,536</u>
Net position, end of year	<u>\$ 14,098,657</u>	<u>\$ 13,369,655</u>

See Notes to Financial Statements

SIMPSON COUNTY WATER DISTRICT

STATEMENTS OF CASH FLOWS
Years Ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities		
Receipts from customers and agencies	\$ 2,261,324	\$ 2,082,201
Payments to suppliers for goods and services	(1,439,310)	(1,241,369)
Payments for contractual services	(337,864)	(316,850)
Net cash provided by operating activities	<u>484,150</u>	<u>523,982</u>
Cash flows from noncapital financing activities		
Interest paid on customer deposits	(874)	(469)
Net cash used in noncapital financial activities	<u>(874)</u>	<u>(469)</u>
Cash flows from capital and related financing activities		
Principal repayment on long-term debt	(131,000)	(140,000)
Capital contributions	532,210	845,026
Purchases of capital assets	(851,646)	(989,587)
Interest paid on long-term debt	(84,084)	(87,797)
Net cash used in capital and related financing activities	<u>(534,520)</u>	<u>(372,358)</u>
Cash flows from investing activities		
Purchase of short-term investments	(397,291)	(630,867)
Maturity of short-term investments	385,699	627,015
Interest income	<u>11,040</u>	<u>15,009</u>
Net cash provided by investing activities	<u>(552)</u>	<u>11,157</u>
Net increase (decrease) in cash and cash equivalents	(51,796)	162,312
Cash and cash equivalents, beginning of year	<u>1,073,890</u>	<u>911,578</u>
Cash and cash equivalents, end of year	<u>\$ 1,022,094</u>	<u>\$ 1,073,890</u>

See Notes to Financial Statements

SIMPSON COUNTY WATER DISTRICT

STATEMENTS OF CASH FLOWS Years Ended December 31, 2017 and 2016

	2017	2016
Reconciliation of Operating Income to Net Cash Provided		
by Operating Activities		
Operating income	\$ 79,406	\$ 105,457
Adjustment to reconcile net operating income to net cash provided by operating activities:		
Depreciation	404,238	389,349
Amortization	2,760	2,844
Payment of PSC taxes	(4,158)	(3,960)
Non-utility rental income	27,811	14,405
Changes in assets and liabilities		
Net decrease in accounts receivable, net	124,973	13,204
Net (increase) decrease in prepaid insurance	516	(1,230)
Net (increase) decrease in deferred charges	4,342	(4,415)
Net increase (decrease) in accounts payable	(186,508)	1,219
Net increase (decrease) in rebates payable	20,246	(1,012)
Net increase in other current liabilities	5,608	740
Net increase in customer deposits	<u>4,916</u>	<u>7,381</u>
Net cash provided by operating activities	<u>\$ 484,150</u>	<u>\$ 523,982</u>
Noncash Investing, Capital and Financing Activities		
Construction in progress accounts payable at year-end	<u>\$ —</u>	<u>\$ 174,700</u>
Utility plant additions contributed from developers	<u>\$ 166,040</u>	<u>\$ —</u>

See Notes to Financial Statements

SIMPSON COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

The Simpson County Water District (the "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 financial 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).

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 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.

SIMPSON COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 FINANCIAL STATEMENTS

December 31, 2017 and 2016

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 FINANCIAL STATEMENTS

December 31, 2017 and 2016

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.

SIMPSON COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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 10, 2018, which was the date the financial statements were made available.

SIMPSON COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE 2. CASH AND CASH EQUIVALENTS AND INVESTMENTS

At December 31, 2017 and 2016, the District's deposits consisted of the following:

	2017	2016
Cash and cash equivalents	\$ 756,056	\$ 623,010
Restricted cash and cash equivalents	265,638	450,480
Short-term investments	200,299	408,404
Restricted investments	<u>697,043</u>	<u>477,346</u>
	<u>\$ 1,919,036</u>	<u>\$ 1,959,240</u>

The District maintains its deposits with financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). As of December 31, 2017 and 2016, the carrying amounts of the District's deposits were \$1,919,436 and \$1,959,240, respectively, and the bank balances were \$1,918,015 and \$1,963,133, respectively. Of the bank balances, \$1,918,015 and \$1,963,133 at December 31, 2017 and 2016, respectively, 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, 2017 and 2016, the District's bank balances were 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.

SIMPSON COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE 2. CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

Concentration of Credit Risk

The District places no limit on the amount the District may invest in any one issuer. At December 31, 2017 and 2016, 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.

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 fund is 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 and investments consist of the following at December 31, 2017 and 2016:

	2017	2016
Sinking funds	\$ 178,652	\$ 179,090
Depreciation funds	644,670	615,030
Customer deposits fund	<u>139,359</u>	<u>133,706</u>
	<u>\$ 962,681</u>	<u>\$ 927,826</u>

SIMPSON COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE 3. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2017 is as follows:

	<u>Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>End of Year</u>
Capital assets not being depreciated				
Land and land rights	\$ 25,549	\$ —	\$ —	\$ 25,549
Construction in progress	<u>1,663,474</u>	<u>117,978</u>	<u>(1,647,747)</u>	<u>133,705</u>
Total capital assets not being depreciated	<u>1,689,023</u>	<u>117,978</u>	<u>(1,647,747)</u>	<u>159,254</u>
Capital assets being depreciated				
Utility plant in service	17,824,608	2,547,456	(248,009)	20,124,055
Less: accumulated depreciation	<u>(5,633,337)</u>	<u>(404,239)</u>	<u>248,009</u>	<u>(5,789,567)</u>
Capital assets being depreciated, net	<u>12,191,271</u>	<u>2,143,217</u>	<u>—</u>	<u>14,334,488</u>
Total capital assets, net	<u>\$ 13,880,294</u>	<u>\$ 2,261,195</u>	<u>(\$ 1,647,747)</u>	<u>\$ 14,493,742</u>

Capital asset activity for the year ended December 31, 2016 is as follows:

	<u>Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>End of Year</u>
Capital assets not being depreciated				
Land and land rights	\$ 25,549	\$ —	\$ —	\$ 25,549
Construction in progress	<u>688,900</u>	<u>1,758,364</u>	<u>(783,790)</u>	<u>1,663,474</u>
Total capital assets not being depreciated	<u>714,449</u>	<u>1,758,364</u>	<u>(783,790)</u>	<u>1,689,023</u>
Capital assets being depreciated				
Utility plant in service	17,643,651	189,713	(8,756)	17,824,608
Less: accumulated depreciation	<u>(5,252,744)</u>	<u>(389,349)</u>	<u>8,756</u>	<u>(5,633,337)</u>
Capital assets being depreciated, net	<u>12,390,907</u>	<u>(199,636)</u>	<u>—</u>	<u>12,191,271</u>
Total capital assets, net	<u>\$ 13,105,356</u>	<u>\$ 1,558,728</u>	<u>(\$ 783,790)</u>	<u>\$ 13,880,294</u>

SIMPSON COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

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 contributions in aid of construction.

NOTE 5. LONG-TERM DEBT

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

<u>Original Amount</u>	<u>Funding Agency</u>	<u>Series of</u>	<u>Interest Rate</u>	<u>Balance as of December 31,</u>	
				<u>2017</u>	<u>2016</u>
\$ 1,060,000	RD	1995	4.88%	\$ 719,000	\$ 745,000
1,575,000	KRWFC	2012	2.20%-3.95%	1,280,000	1,340,000
330,000	KRWFC	2013	2.30%	<u>110,000</u>	<u>155,000</u>
				<u>\$ 2,109,000</u>	<u>\$ 2,240,000</u>

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.

Unamortized net premiums and discounts on the KRWFC debt issuances totaled \$12,672 and \$13,871 as of and for the years ended December 31, 2017 and 2016, respectively. Related amortization expenses for the years ended December 31, 2017 and 2016 totaled \$1,199 and \$1,110, respectively.

Deferred outflows resulting from losses on the KRWFC debt refunding totaled \$10,745 and \$12,306 as of and for the years ended December 31, 2017 and 2016, respectively.

SIMPSON COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE 5. LONG-TERM DEBT (Continued)

Long-term debt activity is as follows as of and for year ended December 31, 2017:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Rural Development Bond, 1995	\$ 745,000	\$ —	(\$ 26,000)	\$ 719,000	\$ 27,000
Kentucky Rural Water Finance Corp., 2012	1,340,000	—	(60,000)	1,280,000	65,000
Kentucky Rural Water Finance Corp., 2013	<u>155,000</u>	<u>—</u>	<u>(45,000)</u>	<u>110,000</u>	<u>40,000</u>
	<u>\$ 2,240,000</u>	<u>\$ —</u>	<u>(\$ 131,000)</u>	<u>\$ 2,109,000</u>	<u>\$ 132,000</u>

Long-term debt activity is as follows as of and for year ended December 31, 2016:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Rural Development Bond, 1995	\$ 770,000	\$ —	(\$ 25,000)	\$ 745,000	\$ 26,000
Kentucky Rural Water Finance Corp., 2012	1,400,000	—	(60,000)	1,340,000	60,000
Kentucky Rural Water Finance Corp., 2013	<u>210,000</u>	<u>—</u>	<u>(55,000)</u>	<u>155,000</u>	<u>45,000</u>
	<u>\$ 2,380,000</u>	<u>\$ —</u>	<u>(\$ 140,000)</u>	<u>\$ 2,240,000</u>	<u>\$ 131,000</u>

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:

<u>Year Ended December 31</u>	<u>Principal Amount</u>	<u>Interest Amount</u>
2018	\$ 132,000	\$ 80,114
2019	134,000	75,749
2020	125,000	71,426
2021	102,000	67,409
2022	103,000	63,585
2023-2027	580,000	254,944
2028-2032	712,000	127,020
2033-2034	<u>221,000</u>	<u>7,946</u>
	<u>\$ 2,109,000</u>	<u>\$ 748,193</u>

SIMPSON COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

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, 2017 and 2016:

	2017	2016
Warren County Water District	\$ 71,529	\$ 49,307

During 2017 and 2016, expenses from the WCWD amounted to \$708,099 and \$654,677, respectively, for the following:

	2017	2016
Wages and benefits:		
Operation	\$ 252,672	\$ 240,679
Administrative:		
Supervision and administration	83,371	73,804
Accounting	28,518	33,447
Customer service	53,127	49,847
Engineering	18,266	16,122
Operations - other	92,774	96,138
Additions to plant	119,945	42,397
Special projects	<u>59,426</u>	<u>104,243</u>
	<u>\$ 708,099</u>	<u>\$ 654,677</u>

In addition to the above expenses from WCWD totaling \$708,099 and \$654,677 for the years ending December 31, 2017 and 2016, respectively, the Utility also recognized other post-employment benefits (OPEB) expense of \$5,978 in 2017. WCWD adopted Governmental Accounting Standards Board (GASB) Statement No. 45 in 2016, which requires WCWD to accrue the projected value of retiree healthcare benefits earned during its employees' working lifetime. The OPEB expense of \$5,978 reflected in administrative and general expense in the statement of revenues, expenses and changes in net position for 2017 is the Utility's proportionate share of annual OPEB costs (expense) recorded by WCWD, in accordance with GASB 45 statement accounting and financial reporting standards.

In the ordinary course of business, the Utility 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 Utility.

SIMPSON COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

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 40 years with an option to renew or extend the contract for an additional 20 years.

Construction in progress commitments as of December 31, 2017, consists of the following:

- 2017 Line Replacements - In 2017, the District committed to moving forward with a project to replace several sections of water line that have a history of an excessive number of leaks. The total project is estimated to cost \$645,000. A Rural Development loan will be pursued for the majority of the funding. As of December 31, 2017, the District has incurred approximately \$3,352 of these costs.
- Fritz Winter Capacity Improvements - In 2017, the District committed to moving forward with a project to increase water capacity along the east and north portion of the county to better serve a new industry. The total project is estimated to cost \$1,330,000. An EDA grant was received for \$665,000. A Rural Development loan will be pursued for an additional \$665,000. As of December 31, 2017, the District had incurred approximately \$22,684 of these costs.
- Hwy 100W Spot Improvements Relocation - In 2017, the District signed an agreement totaling approximately \$199,602 for a water line relocation project. As of December 31, 2017, the District had incurred approximately \$17,656 of these costs.

SIMPSON COUNTY WATER DISTRICT

SCHEDULE OF BUDGETARY COMPARISON

Year Ended December 31, 2017

	<u>Budgeted Amounts</u>			<u>Variances Favorable (Unfavorable) Final to Actual</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Metered revenue	\$ 2,025,000	\$ 2,110,000	\$ 2,083,705	(\$ 26,295)
Forfeited discounts	24,080	27,080	26,694	(386)
Miscellaneous service revenue	26,230	26,230	23,905	(2,325)
Other water revenue	1,560	1,560	2,047	487
Interest income	13,040	13,040	11,036	(2,004)
Rental income - utility property	14,790	19,290	27,811	8,521
Contribution-in-aid of construction	<u>313,550</u>	<u>476,230</u>	<u>698,250</u>	<u>222,020</u>
Total revenues	<u>2,418,250</u>	<u>2,673,430</u>	<u>2,873,448</u>	<u>200,018</u>
Expenses				
Salaries and wages	194,000	209,000	200,774	8,226
Commissioner fees	10,800	10,800	10,800	—
Fringe benefits	132,370	143,370	137,090	6,280
Purchased water	1,007,900	1,077,900	1,063,594	14,306
Purchased power	21,000	24,000	22,947	1,053
Materials and supplies	29,800	29,800	28,227	1,573
Contractual services - accounting	8,500	8,500	8,500	—
Contractual services - legal	250	250	—	250
Contractual services - other	95,200	120,200	117,344	2,856
Rental of building and utilities	10,080	10,080	9,912	168
Equipment expense	28,000	28,000	24,268	3,732
Insurance - general liability	14,460	14,460	13,675	785
Insurance - other	800	800	804	(4)
Regulatory expense	4,000	4,000	4,158	(158)
Bad debt expense	2,000	3,000	2,466	534
Miscellaneous expense	4,080	4,080	3,568	512
Depreciation	426,990	396,990	404,238	(7,248)
Interest expense	83,190	84,190	83,343	847
Unamortized debt expense	2,770	2,770	2,760	10
OPEB expense	<u>—</u>	<u>5,000</u>	<u>5,978</u>	<u>(978)</u>
Total expenses	<u>2,076,190</u>	<u>2,177,190</u>	<u>2,144,446</u>	<u>32,744</u>
Change in net position	342,060	496,240	729,002	232,762
Net position, beginning of year	<u>13,369,655</u>	<u>13,369,655</u>	<u>13,369,655</u>	<u>—</u>
Net position, end of year	<u>\$ 13,711,715</u>	<u>\$ 13,865,895</u>	<u>\$ 14,098,657</u>	<u>\$ 232,762</u>

SIMPSON COUNTY WATER DISTRICT
SCHEDULE OF BUDGETARY COMPARISON
Year Ended December 31, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variances</u> <u>Favorable</u> <u>(Unfavorable)</u> <u>Final to Actual</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Metered revenue	\$ 1,967,000	\$ 2,013,000	\$ 2,017,099	\$ 4,099
Forfeited discounts	25,000	25,000	24,506	(494)
Miscellaneous service revenue	25,000	25,000	25,465	465
Other water revenue	1,500	1,500	1,922	422
Interest income	14,450	14,450	14,251	(199)
Rental income - utility property	13,740	13,740	14,405	665
Contribution-in-aid of construction	<u>1,321,000</u>	<u>1,000,000</u>	<u>798,545</u>	<u>(201,455)</u>
Total revenues	<u>3,367,690</u>	<u>3,092,690</u>	<u>2,896,193</u>	<u>(196,497)</u>
Expenses				
Salaries and wages	199,008	197,000	189,870	7,130
Commissioner fees	10,800	10,800	10,800	—
Fringe benefits	142,130	132,130	126,979	5,151
Purchased water	953,000	1,020,000	1,012,638	7,362
Purchased power	27,540	24,540	21,554	2,986
Materials and supplies	23,010	37,010	32,428	4,582
Contractual services - accounting	9,500	9,500	9,520	(20)
Contractual services - legal	4,800	2,800	2,400	400
Contractual services - other	102,410	110,410	112,304	(1,894)
Rental of building and utilities	9,840	9,840	9,926	(86)
Equipment expense	31,530	25,530	23,253	2,277
Insurance - general liability	12,591	12,600	12,952	(352)
Insurance - other	800	800	804	(4)
Regulatory expense	4,000	4,000	3,960	40
Bad debt expense	5,000	3,000	2,571	429
Miscellaneous expense	5,300	4,300	3,343	957
Depreciation	401,350	396,350	389,349	7,001
Interest expense	87,410	87,410	86,579	831
Unamortized debt expense	<u>2,860</u>	<u>2,860</u>	<u>2,844</u>	<u>16</u>
Total expenses	<u>2,032,879</u>	<u>2,090,880</u>	<u>2,054,074</u>	<u>36,806</u>
Change in net position	1,334,811	1,001,810	842,119	(159,691)
Net position, beginning of year	<u>12,527,536</u>	<u>12,527,536</u>	<u>12,527,536</u>	<u>—</u>
Net position, end of year	<u>\$ 13,862,347</u>	<u>\$ 13,529,346</u>	<u>\$ 13,369,655</u>	<u>(\$ 159,691)</u>



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

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 as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise Simpson County Water District's (the "District") basic financial statements, and have issued our report thereon dated April 10, 2018.

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 District'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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Kirby & Moore, LLP".

Kirby & Moore, LLP
Bowling Green, Kentucky
April 10, 2018