

SIMPSON COUNTY WATER DISTRICT

**COMPONENT UNIT OF
SIMPSON COUNTY, KENTUCKY**

FINANCIAL STATEMENTS

DECEMBER 31, 2018 and 2017

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, 2018 and 2017, 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, 2018 and 2017, 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

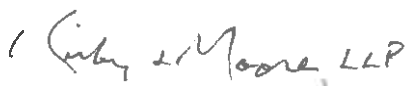
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental 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 12, 2019, 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.



Bowling Green, Kentucky
April 12, 2019

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, 2018 and 2017. 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, 2018:

- In 2018, Total Net Position increased by \$191,681 or 1.4% to \$14,290,338 from \$14,098,657 in 2017 reflecting increases in capital assets. 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 2018, Total Revenue increased by \$120,306 or 5.5% to \$2,295,504 compared to \$2,175,198 in 2017 due to increases in residential and commercial metered water sales. 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 2018, Total Expenses increased by \$131,999 or 6.2% to \$2,276,445 compared to \$2,144,446 in 2017 due to increases in operating costs, depreciation, and other post-employment benefit (OPEB) expense. 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 2018, Income Before Capital Contributions decreased by \$11,693 or -38.0% to \$19,059 compared to \$30,752 in 2017 reflecting increases in total expenses. 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 2018, Net Utility Plant increased by \$65,660 net of depreciation, or 0.5% to \$14,559,402 from \$14,493,742 in 2017. In 2017, Net Utility Plant increased by \$613,449 net of depreciation, or 4.4% to \$14,493,742 from \$13,880,293 in 2016.
- In 2018, total water sold to customers during the year amounted to 340.6 million gallons compared to 322.6 million gallons in year 2017. The peak demand month was August with 35.1 million gallons sold. The peak demand day was in October 18th with 1,682,000 gallons pumped.
- New meter applications in year 2018 and year 2017 totaled 42 in each year and the number of customers at the end of the year totaled 3,438 consisting of 3,067 residential customers and 371 commercial customers.
- The District's water system includes 397 miles of distribution main serving an average of 8.7 customers per mile.
- Average metered water revenue was \$33.21 per residential customer and \$217.18 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, 2018 and 2017 and analysis of net position, revenue and expense, and net utility plant for the fiscal years ended December 31, 2018 and 2017. In some sections year 2016 results are provided for comparison purposes.

Budgetary Analysis for the Year Ended December 31, 2018

Total Revenue exceeded budgeted revenue by \$7,204, or 0.3% reflecting higher than expected commercial water sales and lower than expected residential water sales. *Total Expenses* were higher than budgeted expenses by \$14,145, or -0.6%. *Operating Expenses* related to providing water service and maintaining the District's water distribution system were less than budget by \$42,487 or 2.5%. Operating expenses include: (1) purchased water that was under budget by \$25,333; (2) wages and benefits that were under budget by \$11,331; and (3) various other costs which were under budget by a net amount of \$5,823. *Other Expenses* includes post-employment benefit expense that was over budget by \$58,182 (see Note 6. Related Parties).

Net income totaled \$19,059 for the year which was below budgeted net income by \$6,941 and *Capital contributions* totaled \$172,622 which was below expected contributions by \$725,878. Budgeted capital contributions included an Economic Development Authority grant of \$665,000 that was not received in year 2018 for the Fritz Winter Capacity Improvements Project which was delayed until year 2019.

Table 1
COMBINED STATEMENT OF REVENUES AND EXPENSES
Comparison to Budget

	<u>Actual 2018</u>	<u>Budget 2018</u>	Variances	
			<u>(Unfavorable)</u>	<u>% Change</u>
Revenues:				
Residential Water Sales	\$ 1,218,828	\$ 1,313,100	(94,272)	-7.2%
Commercial Water Sales	965,139	865,900	99,239	11.5%
Forfeited Discounts	29,957	29,000	957	3.3%
Interest Income	18,974	18,500	474	2.6%
Miscellaneous Service Revenue & Other	<u>62,606</u>	<u>61,800</u>	<u>806</u>	1.3%
Total Revenue	<u>2,295,504</u>	<u>2,288,300</u>	<u>7,204</u>	0.3%
Expenses:				
Operating Expenses	1,674,013	1,716,500	42,487	2.5%
Depreciation	455,008	455,900	892	0.2%
Interest Expense	80,184	80,900	716	0.9%
Other Expenses	<u>67,240</u>	<u>9,000</u>	<u>(58,240)</u>	-647.1%
Total Expenses	<u>2,276,445</u>	<u>2,262,300</u>	<u>(14,145)</u>	-0.6%
Net Income	\$ 19,059	\$ 26,000	(6,941)	-26.7%
Capital Contributions	<u>172,622</u>	<u>898,500</u>	<u>(725,878)</u>	-80.8%
Net Income After Contributions	<u>\$ 191,681</u>	<u>\$ 924,500</u>	<u>(732,819)</u>	-79.3%

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 2
COMBINED STATEMENT OF REVENUES AND EXPENSES
Comparison to Budget

	<u>Actual 2017</u>	<u>Budget 2017</u>	Variances Favorable (Unfavorable)	% Change
Revenues:				
Residential Water Sales	\$ 1,190,443	\$ 1,266,000	(75,557)	-6.0%
Commercial Water Sales	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	<u>53,763</u>	<u>47,080</u>	<u>6,683</u>	14.2%
Total Revenue	<u>2,175,198</u>	<u>2,197,200</u>	<u>(22,002)</u>	-1.0%
Expenses:				
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	<u>8,738</u>	<u>7,770</u>	<u>(968)</u>	-12.5%
Total Expenses	<u>2,144,446</u>	<u>2,177,190</u>	<u>32,744</u>	1.5%
Net Income	\$ 30,752	\$ 20,010	10,742	53.7%
Capital Contributions	<u>698,250</u>	<u>476,230</u>	<u>222,020</u>	46.6%
Net Income After Contributions	<u>\$ 729,002</u>	<u>\$ 496,240</u>	<u>232,762</u>	46.9%

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 \$14,290,338 for the year ending December 31, 2018.

Total Assets amounted to \$16,721,222, and increased by \$173,434 or 1.0% from last year. *Current and Other Assets* which include funds for general operations, accounts receivable, interest receivable, and prepaid assets increased by \$117,615 or 13.4% reflecting increases in cash and cash equivalents. *Non-Current Assets* which include funds for principal & interest payments, funds for future repairs & improvements, and customer deposits decreased by \$9,841 or -0.8%. *Capital Assets* include the District's investment in land, distribution mains, pump stations, service lines, storage tanks, and construction in progress. Capital assets totaled \$14,559,402 and increased by \$65,660, or 0.5%, reflecting the Neosho Tank Repaint that was recorded to utility plant during the year.

Total Liabilities amounted to \$2,440,234 and decreased by \$19,642 or -0.8% from last year. *Current Liabilities* which include accounts payable, interest payable, and long-term debt due within one year increased by \$19,228 or 6.8%. *Non-Current Liabilities* which includes developer rebates payable, customer deposits, other post-employment benefits payable, unamortized premiums and discounts on refunded bonds, and long-term debt obligations decreased by \$38,870 or -1.8%.

Total Net Position amounted to \$14,290,338 an increase of \$191,681 or 1.4% from last year. *Net Position Invested in Capital Assets* which includes the District's transmission & distribution facilities net of related debt increased by \$195,002 or 1.6%. *Restricted for Depreciation Reserves* which are funds set aside for future system repairs and improvements increased by \$29,640, or 4.6%. *Unrestricted Net Assets* decreased by \$32,961 or -3.2%.

Table 3
CONDENSED STATEMENT OF NET POSITION
December 31, 2018

	<u>Year 2018</u>	<u>Year 2017</u>	<u>Year 2016</u>	<u>Increase (Decrease)</u> <u>Yr. 2017 to Yr. 2018</u>	
Current and Other Assets	\$ 997,951	\$ 880,336	\$ 1,281,187	\$ 117,615	13.4%
Non-Current Assets	1,163,869	1,173,710	942,898	(9,841)	-0.8%
Capital Assets	<u>14,559,402</u>	<u>14,493,742</u>	<u>13,880,294</u>	<u>65,660</u>	<u>0.5%</u>
Total Assets	<u>\$ 16,721,222</u>	<u>\$ 16,547,788</u>	<u>\$ 16,104,379</u>	<u>173,434</u>	<u>1.0%</u>
Deferred amount on debt refunding	<u>\$ 9,350</u>	<u>\$ 10,745</u>	<u>\$ 12,306</u>	<u>(1,395)</u>	<u>-13.0%</u>
Current Liabilities	303,061	283,833	475,329	19,228	6.8%
Non-Current Liabilities	<u>2,137,173</u>	<u>2,176,043</u>	<u>2,271,701</u>	<u>(38,870)</u>	<u>-1.8%</u>
Total Liabilities	<u>2,440,234</u>	<u>2,459,876</u>	<u>2,747,030</u>	<u>(19,642)</u>	<u>-0.8%</u>
Net position invested in capital assets, net of related debt	\$ 12,603,161	\$ 12,408,159	\$ 11,666,471	195,002	1.6%
Restricted for depreciation reserves	674,310	644,670	615,030	29,640	4.6%
Unrestricted	<u>1,012,867</u>	<u>1,045,828</u>	<u>1,088,154</u>	<u>(32,961)</u>	<u>-3.2%</u>
Total Net Position	<u>14,290,338</u>	<u>14,098,657</u>	<u>13,369,655</u>	<u>191,681</u>	<u>1.4%</u>

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, 2018

	<u>Year 2018</u>	<u>Year 2017</u>	<u>Year 2016</u>	<u>Increase (Decrease)</u> <u>Yr. 2017 to Yr. 2018</u>	
<u>Revenues:</u>					
Residential Water Sales	\$ 1,218,828	\$ 1,190,443	\$ 1,191,088	\$ 28,385	2.4%
Commercial Water Sales	965,139	893,262	826,011	71,877	8.0%
Forfeited Discounts	29,957	26,694	24,506	3,263	12.2%
Interest Income	18,974	11,036	14,251	7,938	71.9%
Miscellaneous Service Revenue	<u>62,606</u>	<u>53,763</u>	<u>41,792</u>	<u>8,843</u>	<u>16.4%</u>
Total Revenue	<u>2,295,504</u>	<u>2,175,198</u>	<u>2,097,648</u>	<u>120,306</u>	<u>5.5%</u>
<u>Expenses:</u>					
Operating Expenses	1,674,013	1,648,127	1,575,302	25,886	1.6%
Depreciation	455,008	404,238	389,349	50,770	12.6%
Interest Expense	80,184	83,343	86,579	(3,159)	-3.8%
Other Expenses	<u>67,240</u>	<u>8,738</u>	<u>2,844</u>	<u>58,502</u>	<u>669.5%</u>
Total Expenses	<u>2,276,445</u>	<u>2,144,446</u>	<u>2,054,074</u>	<u>131,999</u>	<u>6.2%</u>
Income Before Capital Contributions	19,059	30,752	43,574	(11,693)	-38.0%
Capital Contributions	<u>172,622</u>	<u>698,250</u>	<u>798,545</u>	<u>(525,628)</u>	<u>-75.3%</u>
Increase in Net Position	<u>191,681</u>	<u>729,002</u>	<u>842,119</u>	<u>(537,321)</u>	<u>-73.7%</u>
Net Position, Beginning of Year	<u>14,098,657</u>	<u>13,369,655</u>	<u>12,527,536</u>	<u>729,002</u>	<u>5.5%</u>
Net Position, End of Year	<u>\$ 14,290,338</u>	<u>\$ 14,098,657</u>	<u>\$ 13,369,655</u>	<u>191,681</u>	<u>1.4%</u>

Total Revenue increased by \$120,306, or 5.5% from last year. *Residential and Commercial Water Sales* combined increased by \$100,262 or 4.8%. The volume of water sold this year was 340.6 million gallons compared to 322.6 million gallons last year, a 5.6% increase of 18 million gallons. *Forfeited Discounts* which are late penalties increased by \$3,263 and *Interest Income* increased by \$7,938 or 71.9% due to higher yields on the District's investments. *Miscellaneous Service Revenue* which includes connection fees, collection fees, and meter tampering fees increased by \$8,843 or 16.4%.

Total Expenses increased by \$131,999, or 6.2% from last year. *Operating Expenses* increased by \$25,886, or 1.6% and consists of the following: (1) purchased water increase of \$40,073 to support customer demand; (2) employee wages and benefits decrease of \$4,895 due to lower employee benefit costs; (3) contractual services decrease of \$13,526; and (4) all other expenses increased by a net total of \$4,234. *Depreciation* increased by \$50,770 or 12.6% due to full year depreciation of projects Highway 100E Relocation Phase 2, Highway 31W & I-65 Relocation, Salmons Tank Repaint placed into service last year. *Interest Expense* decreased by \$3,159 due to reductions in outstanding debt. Other Expenses which includes amortized debt and other post-employment benefits increased by \$58,502. The District recorded an allocated share of other post-employment benefit expense of \$64,582 which reflects the impact of GASB 75 adopted by Warren County Water District in year 2018 (see Note 6. Related Parties).

Capital Contributions totaled \$172,622 and decreased by \$525,628 compared to last year. In year 2017, contributions received in year 2017 included contributions from the Kentucky Transportation Cabinet for Highway 100E Relocation Phase 2 project totaling \$403,335 and line extensions transferred from developers totaling \$166,040. *Net Position* at the end of the year totaled \$14,290,338, an increase of \$191,681, or 1.4% compared to the prior year.

Changes in Utility Plant

The largest portion of the District's assets is invested in utility plant totaling \$14,522,753,743 on December 31, 2018. Changes by asset category are listed below in Table 5.

Table 5
CHANGES IN NET UTILITY PLANT
(Net of Depreciation)

<u>Capital Investment</u>	December 31, <u>2018</u>	December 31, <u>2017</u>	December 31, <u>2016</u>	Increase (Decrease) Yr. 2017 to Yr. 2018	
Land	\$ 25,549	\$ 25,549	\$ 25,549	\$ -	0.0%
Structures	77	77	77	-	0.0%
Pumping Equipment	1,191,022	1,218,099	966,124	(27,077)	-2.2%
Storage Tanks	1,527,444	1,455,004	1,292,740	72,440	5.0%
Distribution Mains	9,378,471	9,477,638	8,017,093	(99,167)	-1.0%
SCADA Communications	25,490	25,574	25,658	(84)	-0.3%
Meters	1,526,299	1,530,564	1,320,149	(4,265)	-0.3%
Hydrants	500,420	503,516	446,325	(3,096)	-0.6%
Computer Hardware & Software	82,138	81,694	80,052	444	0.5%
Furniture & Fixtures	7,287	7,877	6,731	(590)	-7.5%
Vehicles and Equipment	13,358	18,216	23,073	(4,858)	100.0%
Other	<u>14,269</u>	<u>16,230</u>	<u>13,249</u>	<u>(1,961)</u>	<u>-12.1%</u>
TOTAL Capital Investment	\$ 14,291,824	\$ 14,360,037	\$ 12,216,820	\$ (68,214)	-0.5%
Construction in Progress	<u>267,578</u>	<u>133,705</u>	<u>1,663,474</u>	<u>133,873</u>	<u>100.1%</u>
NET Utility Plant	<u>\$ 14,559,402</u>	<u>\$ 14,493,742</u>	<u>\$ 13,880,294</u>	<u>\$ 65,660</u>	<u>0.5%</u>

The District's utility plant includes the following: (1) 397 miles of distribution main, (2) 24 miles of service line, (3) 211 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 Capital Assets* increased by \$29,010, or 0.2%.

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, 2018, the District had \$1,977,000 in outstanding debt compared to \$2,109,000 in the previous year, a reduction of \$132,000 in principal.

Factors Affecting Next Year's Budget

- In July 2019, a retail rate increase of 9.75% 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.
- The District will be systematically flushing the distribution system as part of its water quality program.
- 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 2019 at its meeting held in October 2018. Metered water sales are budgeted to increase by 5.15%. Total revenue is budgeted to increase by 5.2% from year 2018, and total expenses are budgeted to increase by 3.4%. Debt service payments are expected to total \$233,500 with a reduction in outstanding debt of \$134,000. Net income for year 2019 is budgeted to total \$110,000. Capital expenditures for the year are budgeted to total \$2,604,600 funded in part with loan proceeds from USDA-Rural Development of \$1,529,500, an Economic Development Administration grant of \$665,000 and contributions from customers & governmental agencies totaling \$40,700.

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

	2018	2017
LIABILITIES AND NET POSITION		
Current liabilities		
Accounts payable	\$ 48,066	\$ 38,752
Accounts payable - WCWD	70,078	61,548
Accrued interest payable	35,293	37,201
Other current liabilities	15,624	14,332
Current portion of long-term debt	<u>134,000</u>	<u>132,000</u>
Total current liabilities	<u>303,061</u>	<u>283,833</u>
Non-current liabilities		
Rebates payable	<u>48,397</u>	<u>63,231</u>
Customer deposits	<u>143,045</u>	<u>138,503</u>
Other non-current liabilities	<u>114,140</u>	<u>9,981</u>
Long-term obligations:		
Bonds and loans payable	1,977,000	2,109,000
Less: net unamortized bond (discount)/premium	(11,409)	(12,672)
Less: current portion of long-term debt	<u>(134,000)</u>	<u>(132,000)</u>
Net long-term obligations	<u>1,831,591</u>	<u>1,964,328</u>
Total non-current liabilities	<u>2,137,173</u>	<u>2,176,043</u>
Total liabilities	<u>2,440,234</u>	<u>2,459,876</u>
Net Position		
Net investment in capital assets	12,603,161	12,408,159
Restricted for depreciation reserves	674,310	644,670
Unrestricted	<u>1,012,867</u>	<u>1,045,828</u>
Total net position	<u>14,290,338</u>	<u>14,098,657</u>
Total liabilities and net position	<u>\$16,730,572</u>	<u>\$16,558,533</u>

SIMPSON COUNTY WATER DISTRICT

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Years Ended December 31, 2018 and 2017

	2018	2017
Operating revenues		
Metered sales		
Residential	\$ 1,218,828	\$ 1,190,443
Commercial	<u>965,139</u>	<u>893,262</u>
Total metered sales	2,183,967	2,083,705
Forfeited discounts	29,957	26,694
Miscellaneous service revenue	<u>27,456</u>	<u>25,952</u>
Total operating revenues	<u>2,241,380</u>	<u>2,136,351</u>
Operating expenses		
Purchased water	<u>1,103,667</u>	<u>1,063,594</u>
Pumping expense		
Purchased power	21,721	18,413
Insurance	1,581	1,641
Miscellaneous	1,133	1,133
Professional services	<u>1,135</u>	<u>1,163</u>
Total pumping expense	<u>25,570</u>	<u>22,250</u>
General distribution expense		
Purchased power	4,601	4,533
Salaries and benefits	99,303	106,175
Materials and supplies	4,511	2,726
Insurance	7,773	8,068
Miscellaneous	17,880	16,674
Contractual services	11,202	12,714
Professional services	<u>1,135</u>	<u>1,063</u>
Total general distribution expense	<u>146,405</u>	<u>151,953</u>
Customer accounts expense		
Uncollectible accounts	3,879	2,466
Salaries and benefits	148,639	151,334
Materials and supplies	984	136
Insurance	1,581	1,641
Miscellaneous	14,725	13,360
Contractual services	34,262	42,072
Professional services	<u>2,271</u>	<u>2,125</u>
Total customer accounts expense	<u>206,341</u>	<u>213,134</u>

See Notes to Financial Statements

SIMPSON COUNTY WATER DISTRICT

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Years Ended December 31, 2018 and 2017

	2018	2017
Maintenance expense		
Salaries and benefits	\$ 34,567	\$ 31,256
Materials and supplies	16,159	20,882
Miscellaneous	5,511	4,253
Contractual services	26,113	34,516
Professional services	<u>2,271</u>	<u>2,125</u>
Total maintenance expense	<u>84,621</u>	<u>93,032</u>
Administrative and general expense		
Salaries and benefits	50,561	49,099
Other post-employment benefits	64,582	5,978
Materials and supplies	2,240	4,483
Insurance	3,044	3,129
Miscellaneous	13,306	13,128
Contractual services	30,710	28,042
Professional services	<u>3,219</u>	<u>2,125</u>
Total administrative and general expense	<u>167,662</u>	<u>105,984</u>
Depreciation expense	<u>455,008</u>	<u>404,238</u>
Amortization expense	<u>2,658</u>	<u>2,760</u>
Total operating expenses	<u>2,191,932</u>	<u>2,056,945</u>
Operating income	<u>49,448</u>	<u>79,406</u>
Non-operating revenues (expenses)		
Interest income	18,974	11,036
Rental income	35,149	27,811
Interest expense on long-term debt	(78,206)	(82,469)
Interest expense on customer deposits	(1,978)	(874)
PSC taxes	<u>(4,328)</u>	<u>(4,158)</u>
Total non-operating revenues (expenses)	<u>(30,389)</u>	<u>(48,654)</u>
Income before capital contributions	19,059	30,752
Capital contributions	<u>172,622</u>	<u>698,250</u>
Change in net position	191,681	729,002
Net position, beginning of year	<u>14,098,657</u>	<u>13,369,655</u>
Net position, end of year	<u>\$ 14,290,338</u>	<u>\$ 14,098,657</u>

See Notes to Financial Statements

SIMPSON COUNTY WATER DISTRICT

STATEMENTS OF CASH FLOWS
Years Ended December 31, 2018 and 2017

	2018	2017
Cash flows from operating activities		
Receipts from customers and agencies	\$ 2,274,542	\$ 2,261,324
Payments to suppliers for goods and services	(1,261,631)	(1,439,310)
Payments for contractual services	(333,069)	(337,864)
Net cash provided by operating activities	<u>679,842</u>	<u>484,150</u>
Cash flows from noncapital financing activities		
Interest paid on customer deposits	(1,978)	(874)
Net cash used in noncapital financial activities	(1,978)	(874)
Cash flows from capital and related financing activities		
Principal repayment on long-term debt	(132,000)	(131,000)
Capital contributions	172,622	532,210
Purchases of capital assets	(520,668)	(851,646)
Interest paid on long-term debt	(80,114)	(84,084)
Net cash used in capital and related financing activities	(560,160)	(534,520)
Cash flows from investing activities		
Purchase of short-term investments	(395,815)	(397,291)
Maturity of short-term investments	389,393	385,699
Interest income	<u>15,649</u>	<u>11,040</u>
Net cash provided by (used in) investing activities	<u>9,227</u>	(552)
Net increase (decrease) in cash and cash equivalents	126,931	(51,796)
Cash and cash equivalents, beginning of year	<u>1,022,094</u>	<u>1,073,890</u>
Cash and cash equivalents, end of year	<u>\$ 1,149,025</u>	<u>\$ 1,022,094</u>

See Notes to Financial Statements

SIMPSON COUNTY WATER DISTRICT

**STATEMENTS OF CASH FLOWS
Years Ended December 31, 2018 and 2017**

	2018	2017
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	\$ 49,448	\$ 79,406
Adjustment to reconcile net operating income to net cash provided by operating activities:		
Depreciation	455,008	404,238
Amortization	2,658	2,760
Payment of PSC taxes	(4,328)	(4,158)
Non-utility rental income	35,149	27,811
Changes in assets and liabilities		
Net decrease in accounts receivable, net	33,163	124,973
Net (increase) decrease in prepaid expenses	(3)	516
Net (increase) decrease in deferred charges	(4,256)	4,342
Net increase (decrease) in accounts payable	17,844	(196,489)
Net increase (decrease) in rebates payable	(14,834)	20,246
Net increase in other current liabilities	1,292	5,608
Net increase in customer deposits	4,542	4,916
Net increase in other liabilities	<u>104,159</u>	<u>9,981</u>
Net cash provided by operating activities	<u>\$ 679,842</u>	<u>\$ 484,150</u>
Noncash Investing, Capital and Financing Activities		
Utility plant additions contributed from developers	<u>\$ —</u>	<u>\$ 166,040</u>

See Notes to Financial Statements

SIMPSON COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

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, 2018 and 2017

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, 2018 and 2017

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, 2018 and 2017

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, 2018 and 2017

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 12, 2019, which was the date the financial statements were made available.

Reclassification

Certain reclassifications have been made to the 2017 financial statements to conform to the 2018 presentation.

SIMPSON COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 2. CASH AND CASH EQUIVALENTS AND INVESTMENTS

At December 31, 2018 and 2017, the District's deposits and certificates of deposit consisted of the following:

	2018	2017
Cash and cash equivalents	\$ 903,506	\$ 756,056
Restricted cash and cash equivalents	245,119	265,638
Investments	150,000	200,299
Restricted investments	<u>753,764</u>	<u>697,043</u>
	<u>\$ 2,052,389</u>	<u>\$ 1,919,036</u>

The District maintains its deposits with financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). As of December 31, 2018 and 2017, the carrying amounts of the District's deposits were \$2,052,389 and \$1,919,436, respectively, and the bank balances were \$1,148,591 and \$1,918,015, respectively. Of the bank balances, \$1,148,591 and \$1,918,015 at December 31, 2018 and 2017, 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, 2018 and 2017, 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, 2018 and 2017

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, 2018 and 2017, 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, 2018 and 2017:

	2018	2017
Sinking funds	\$ 177,650	\$ 178,652
Depreciation funds	674,310	644,670
Customer deposits fund	<u>146,923</u>	<u>139,359</u>
	<u>\$ 998,883</u>	<u>\$ 962,681</u>

SIMPSON COUNTY WATER DISTRICT

**NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017**

NOTE 3. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2018 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>133,705</u>	<u>133,873</u>	<u>—</u>	<u>267,578</u>
Total capital assets not being depreciated	<u>159,254</u>	<u>133,873</u>	<u>—</u>	<u>293,127</u>
Capital assets being depreciated				
Utility plant in service	20,124,055	386,795	(5,465)	20,505,385
Less: accumulated depreciation	<u>(5,789,567)</u>	<u>(455,008)</u>	<u>5,465</u>	<u>(6,239,110)</u>
Capital assets being depreciated, net	<u>14,334,488</u>	<u>(68,213)</u>	<u>—</u>	<u>14,266,275</u>
Total capital assets, net	<u>\$ 14,493,742</u>	<u>\$ 65,660</u>	<u>\$ —</u>	<u>\$ 14,559,402</u>

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>

SIMPSON COUNTY WATER DISTRICT

**NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017**

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>2018</u>	<u>2017</u>
\$ 1,060,000	RD	1995	4.88%	\$ 692,000	\$ 719,000
1,575,000	KRWFC	2012	2.20%-3.95%	1,215,000	1,280,000
330,000	KRWFC	2013	2.30%	<u>70,000</u>	<u>110,000</u>
				<u>\$ 1,977,000</u>	<u>\$ 2,109,000</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 \$11,409 and \$12,672 as of and for the years ended December 31, 2018 and 2017, respectively. Related amortization expenses for the years ended December 31, 2018 and 2017 totaled \$1,263 and \$1,199, respectively.

Deferred outflows resulting from losses on the KRWFC debt refunding totaled \$9,350 and \$10,745 as of and for the years ended December 31, 2018 and 2017, respectively.

SIMPSON COUNTY WATER DISTRICT

**NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017**

NOTE 5. LONG-TERM DEBT (Continued)

Long-term debt activity is as follows as of and for year ended December 31, 2018:

	<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	\$ 719,000	\$ —	(\$ 27,000)	\$ 692,000	\$ 29,000
Kentucky Rural Water Finance Corp., 2012	1,280,000	—	(65,000)	1,215,000	65,000
Kentucky Rural Water Finance Corp., 2013	<u>110,000</u>	<u>—</u>	<u>(40,000)</u>	<u>70,000</u>	<u>40,000</u>
	<u>\$ 2,109,000</u>	<u>\$ —</u>	<u>(\$ 132,000)</u>	<u>\$ 1,977,000</u>	<u>\$ 134,000</u>

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>

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>
2019	\$ 134,000	\$ 75,749
2020	125,000	71,426
2021	102,000	67,409
2022	103,000	63,585
2023	110,000	59,608
2024-2028	600,000	232,257
2029-2033	741,000	96,539
2034	<u>62,000</u>	<u>1,511</u>
	<u>\$ 1,977,000</u>	<u>\$ 668,084</u>

SIMPSON COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

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, 2018 and 2017:

	2018	2017
Warren County Water District	\$ 70,078	\$ 61,548

During 2018 and 2017, expenses from the WCWD amounted to \$643,066 and \$708,099, respectively, for the following:

	2018	2017
Wages and benefits:		
Operation	\$ 243,723	\$ 252,672
Administrative:		
Supervision and administration	81,735	83,371
Accounting	28,275	28,518
Customer service	51,382	53,127
Engineering	11,706	18,266
Operations - other	83,863	92,774
Additions to plant	84,550	119,945
Special projects	<u>57,832</u>	<u>59,426</u>
	<u>\$ 643,066</u>	<u>\$ 708,099</u>

In addition to the above expenses from WCWD totaling \$643,066 and \$708,099 for the years ending December 31, 2018 and 2017, respectively, the Utility also recognized other post-employment benefits (OPEB) expense of \$64,582 and \$5,978 in 2018 and 2017, respectively. WCWD adopted Governmental Accounting Standards Board (GASB) Statement No. 45 in 2016 and GASB Statement No. 75 in 2018, which requires WCWD to accrue the projected value of retiree healthcare benefits earned during its employees' working lifetime. The OPEB expense reflected in administrative and general expense in the statement of revenues, expenses and changes in net position is the Utility's proportionate share of annual OPEB costs (expense) recorded by WCWD, in accordance with relevant GASB statements accounting and financial reporting standards. The District's portion of the OPEB liability, included in the statement of net position caption "other non-current liabilities," totaled \$114,140 and \$9,981 at December 31, 2018 and 2017, respectively.

SIMPSON COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 6. RELATED PARTIES (Continued)

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.

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, 2018, 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 \$987,000. A Rural Development loan will be pursued for the majority of the funding. As of December 31, 2018, the District has incurred approximately \$33,795 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, 2018, the District had incurred approximately \$51,864 of these costs.

SIMPSON COUNTY WATER DISTRICT
SCHEDULE OF BUDGETARY COMPARISON
Year Ended December 31, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variances
	<u>Original</u>	<u>Final</u>		Favorable (Unfavorable) Final to Actual
Revenues				
Metered revenue	\$ 2,189,000	\$ 2,179,000	\$ 2,183,967	\$ 4,967
Forfeited discounts	28,000	29,000	29,957	957
Miscellaneous service revenue	24,200	25,200	25,388	188
Other water revenue	1,700	1,700	2,068	368
Interest income	13,500	18,500	18,974	474
Rental income - utility property	34,900	34,900	35,149	249
Contribution-in-aid of construction	<u>898,500</u>	<u>898,500</u>	<u>172,622</u>	(725,878)
Total revenues	<u>3,189,800</u>	<u>3,186,800</u>	<u>2,468,125</u>	(718,675)
Expenses				
Salaries and wages	207,000	217,000	209,132	7,868
Commissioner fees	10,800	10,800	10,800	-
Fringe benefits	136,500	127,400	123,937	3,463
Purchased water	1,084,000	1,129,000	1,103,667	25,333
Purchased power	27,000	27,000	26,322	678
Materials and supplies	26,600	26,600	23,895	2,705
Contractual services - accounting	8,500	9,000	9,084	(84)
Contractual services - legal	500	1,000	948	52
Contractual services - other	99,200	103,200	102,286	914
Rental of building and utilities	10,100	10,100	9,912	188
Equipment expense	24,500	27,500	27,447	53
Insurance - general liability	13,400	13,400	13,175	225
Insurance - other	800	800	804	(4)
Regulatory expense	4,100	4,600	4,328	272
Bad debt expense	3,100	4,100	3,879	221
Miscellaneous expense	4,000	5,000	4,396	604
Depreciation	431,900	455,900	455,008	892
Interest expense	95,900	80,900	80,184	716
Unamortized debt expense	2,600	2,600	2,658	(58)
OPEB expense	<u>6,400</u>	<u>6,400</u>	<u>64,582</u>	(58,182)
Total expenses	<u>2,196,900</u>	<u>2,262,300</u>	<u>2,276,444</u>	(14,144)
Change in net position	992,900	924,500	191,681	(732,819)
Net position, beginning of year	<u>14,098,657</u>	<u>14,098,657</u>	<u>14,098,657</u>	-
Net position, end of year	<u>\$ 15,091,557</u>	<u>\$ 15,023,157</u>	<u>\$ 14,290,338</u>	(\$ 732,819)

SIMPSON COUNTY WATER DISTRICT

**SCHEDULE OF BUDGETARY COMPARISON
Year Ended December 31, 2017**

	Budgeted Amounts		Actual	Variances
	Original	Final		Favorable (Unfavorable) Final to Actual
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	313,550	476,230	698,250	222,020
Total revenues	2,418,250	2,673,430	2,873,448	200,018
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	-	5,000	5,978	(978)
Total expenses	2,076,190	2,177,190	2,144,446	32,744
Change in net position	342,060	496,240	729,002	232,762
Net position, beginning of year	13,369,655	13,369,655	13,369,655	-
Net position, end of year	\$ 13,711,715	\$ 13,865,895	\$ 14,098,657	\$ 232,762



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**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, 2018, 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 12, 2019.

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.

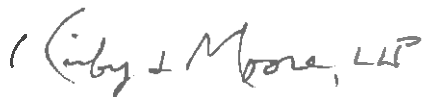
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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



Bowling Green, Kentucky
April 12, 2019