

SIMPSON COUNTY WATER DISTRICT

**COMPONENT UNIT OF
SIMPSON COUNTY, KENTUCKY**

FINANCIAL STATEMENTS

DECEMBER 31, 2019 and 2018

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, 2019 and 2018, 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, 2019 and 2018, 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 9 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 3, 2020, 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 3, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

This section of Simpson County Water District's annual financial report presents an analysis of the District's financial performance during the fiscal years ended December 31, 2019 and 2018. 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, 2019:

- In 2019, Total Net Position increased by \$189,649 or 1.3% to \$14,479,987 from \$14,290,338 in 2018 reflecting increases in capital assets. 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 2019, Total Revenue increased by \$12,413 or 0.5% to \$2,307,916 compared to \$2,295,503 in 2018 with slight increases in interest income and commercial metered water sales. In 2018, Total Revenue increased by \$120,305 or 5.5% to \$2,295,503 compared to \$2,175,198 in 2017 due to increases in residential and commercial metered water sales.
- In 2019, Total Expenses decreased by \$17,060 or -0.7% to \$2,259,384 compared to \$2,276,444 in 2018 reflecting increases in operating costs and depreciation offset by a decrease in post-employment benefit (OPEB) expense. In 2018, Total Expenses increased by \$131,998 or 6.2% to \$2,276,444 compared to \$2,144,446 in 2017 due to increases in operating costs, depreciation, and other post-employment benefit (OPEB) expense.
- In 2019, Income Before Capital Contributions totaled \$48,532, an increase of \$29,473 compared to the prior year Income Before Capital Contributions of \$19,059.
- In 2019, Net Utility Plant increased by \$372,232 net of depreciation, or 2.6% to \$14,931,634 from \$14,559,402 in 2018 reflecting the installation of an automated meter reading (AMR) system in selected areas of the District's system. 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 2019, total water sold to customers during the year amounted to 337.7 million gallons compared to 340.6 million gallons in year 2018. The peak demand month was October with 32.7 million gallons sold. The peak demand day was May 24th with 1,666,000 gallons pumped.
- New meter applications in year 2019 and year 2018 totaled 47 and 42, respectively, and the number of customers at the end of the year totaled 3,499 consisting of 3,121 residential customers and 378 commercial customers.
- The District's water system includes 397 miles of distribution main serving an average of 8.8 customers per mile.
- The average monthly revenue from a residential and commercial customer was \$32.62 and \$216.46, respectively, and the average monthly usage by a residential and commercial customer was 4,677 gallons and 36,390 gallons respectively.
- *Projects placed into service* during the year included an automated meter reading (AMR) and leak detection system that was installed in selected areas. AMR utilizes a radio-based drive by meter reading system to collect consumption data from customers and includes acoustic leak detection capabilities to continuously monitor mains and service lines for water leaks. During the year 1,504 AMR units and 1,105 acoustic leak sensors were installed.

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, 2019 and 2018 and analysis of net position, revenue and expense, and net utility plant for the fiscal years ended December 31, 2019 and 2018. In some sections year 2017 results are provided for comparison purposes.

Budgetary Analysis for the Year Ended December 31, 2019

Total Revenue was below budgeted revenue by \$7,748, or 0.30% reflecting lower than expected residential water sales and higher than expected commercial water sales. *Total Expenses* were lower than budgeted expenses by \$46,216 or 2%. *Operating Expenses* related to providing water service and maintaining the District's water distribution system were lower than budget by \$44,531 or 2.5%. Operating expenses include: (1) purchased water that was under budget by \$29,584; (2) wages and benefits that were under budget by \$7,583; and (3) various other costs which were under budget by a net amount of \$7,364.

Net income totaled \$48,532 for the year which exceeded budgeted net income by \$38,532 and *Capital contributions* totaled \$141,117 which was below budgeted contributions by \$705,700. Budgeted capital contributions included an Economic Development Authority grant of \$665,000 that was not received in year 2019 for the Fritz Winter Capacity Improvements Project which was delayed until year 2020.

Table 1
COMBINED STATEMENT OF REVENUES AND EXPENSES
Comparison to Budget

	<u>Actual 2019</u>	<u>Budget 2019</u>	Variances	
			<u>Favorable</u> <u>(Unfavorable)</u>	<u>%</u> <u>Change</u>
<u>Revenues:</u>				
Residential Water Sales	\$ 1,209,980	\$ 1,247,500	(37,520)	-3.0%
Commercial Water Sales	976,466	949,000	27,466	2.9%
Forfeited Discounts	31,556	31,800	(244)	-0.8%
Miscellaneous Service Revenue & Other	29,485	27,200	2,285	8.4%
Interest Income	24,765	24,500	265	1.1%
Rental Income - Utility Property	<u>35,664</u>	<u>35,600</u>	<u>64</u>	<u>0.2%</u>
Total Revenue	<u>2,307,916</u>	<u>2,315,600</u>	<u>(7,748)</u>	<u>-0.3%</u>
<u>Expenses:</u>				
Operating Expenses	1,709,469	1,754,000	44,531	2.5%
Depreciation	467,117	468,500	1,383	0.3%
Interest Expense	77,598	77,900	302	0.4%
Other Expenses	<u>5,200</u>	<u>5,200</u>	<u>-</u>	<u>0.0%</u>
Total Expenses	<u>2,259,384</u>	<u>2,305,600</u>	<u>46,216</u>	<u>2.0%</u>
Net Income	\$ 48,532	\$ 10,000	38,532	385.3%
Capital Contributions	<u>141,117</u>	<u>705,700</u>	<u>(564,583)</u>	<u>-80.0%</u>
Net Income After Contributions	<u>\$ 189,649</u>	<u>\$ 715,700</u>	<u>(526,051)</u>	<u>-73.5%</u>

Budgetary Analysis for the Year Ended December 31, 2018

Total Revenue exceeded budgeted revenue by \$7,204 reflecting higher than expected commercial water sales and lower than expected residential water sales. *Total Expenses* were higher than budgeted expenses by \$14,145. *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 2020.

Table 2
COMBINED STATEMENT OF REVENUES AND EXPENSES
Comparison to Budget

	<u>Actual 2018</u>	<u>Budget 2018</u>	Variances	
			<u>Favorable</u> <u>(Unfavorable)</u>	<u>%</u> <u>Change</u>
<u>Revenues:</u>				
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%
<u>Expenses:</u>				
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%

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 \$14,479,987 for the year ending December 31, 2019.

Total Assets amounted to \$16,964,486 and increased by \$243,264 or 1.5% from last year. *Current and Other Assets* which include funds for general operations, accounts receivable, interest receivable, and prepaid assets increased by \$3,586. *Non-Current Assets* which include funds for future repairs & improvements decreased by \$132,824 due to in-house funding of the automated meter reading (AMR) system. *Capital Assets* include the District's investment in land, distribution mains, pump stations, service lines, storage tanks, and construction in progress. Capital assets totaled \$14,931,634 and increased by \$372,232 reflecting the AMR system that was placed into service during the year.

Total Liabilities amounted to \$2,492,619 and increased by \$52,385 or 2.1% from last year. *Current Liabilities* which include accounts payable, interest payable, and long-term debt due within one year increased by \$165,675 due to reimbursement payable to Warren County Water District related to the AMR system project. *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 \$113,290 reflecting reductions in long term debt.

Total Net Position amounted to \$14,479,987 an increase of \$189,649 or 1.3% from last year. *Net Position Invested in Capital Assets* which includes the District's transmission & distribution facilities net of related debt increased by \$503,678. *Restricted for Depreciation Reserves* which are funds set aside for future system repairs and improvements increased by \$29,640 and *Unrestricted Net Assets* decreased by \$343,669.

Table 3
CONDENSED STATEMENT OF NET POSITION
December 31, 2019

	<u>Year 2019</u>	<u>Year 2018</u>	<u>Year 2017</u>	<u>Increase (Decrease)</u>	
				<u>Yr. 2018 to Yr. 2019</u>	
Current and Other Assets	\$ 1,001,807	\$ 997,951	\$ 880,336	\$ 3,856	0.4%
Non-Current Assets	1,031,045	1,163,869	1,173,710	(132,824)	-11.4%
Capital Assets	<u>14,931,634</u>	<u>14,559,402</u>	<u>14,493,742</u>	<u>372,232</u>	2.6%
Total Assets	<u>\$ 16,964,486</u>	<u>\$ 16,721,222</u>	<u>\$ 16,547,788</u>	<u>243,264</u>	1.5%
Deferred amount on debt refundings	<u>\$ 8,120</u>	<u>\$ 9,350</u>	<u>\$ 10,745</u>	<u>(1,230)</u>	-13.2%
Current Liabilities	468,736	303,061	283,833	165,675	54.7%
Non-Current Liabilities	<u>2,023,883</u>	<u>2,137,173</u>	<u>2,176,043</u>	<u>(113,290)</u>	-5.3%
Total Liabilities	2,492,619	2,440,234	2,459,876	52,385	2.1%
Net position invested in capital assets, net of related debt	\$ 13,106,839	\$ 12,603,161	\$ 12,408,159	503,678	4.0%
Restricted for depreciation reserves	703,950	674,310	644,670	29,640	4.4%
Unrestricted	<u>669,198</u>	<u>1,012,867</u>	<u>1,045,828</u>	<u>(343,669)</u>	-33.9%
Total Net Position	<u>14,479,987</u>	<u>14,290,338</u>	<u>14,098,657</u>	<u>189,649</u>	1.3%

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
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Year Ended December 31, 2019

	<u>Year 2019</u>	<u>Year 2018</u>	<u>Year 2017</u>	<u>Increase (Decrease)</u> <u>Yr. 2018 to Yr. 2019</u>	
<u>Revenues:</u>					
Residential Water Sales	\$ 1,209,980	\$ 1,218,828	\$ 1,190,443	\$ (8,848)	-0.7%
Commercial Water Sales	976,466	965,139	893,262	11,327	1.2%
Forfeited Discounts	31,556	29,957	26,694	1,599	5.3%
Miscellaneous Service Revenue	29,485	27,456	25,952	2,029	7.4%
Interest Income	24,765	18,974	11,036	5,791	30.5%
Rental Income - Utility Property	<u>35,664</u>	<u>35,149</u>	<u>27,811</u>	<u>515</u>	1.5%
Total Revenue	<u>2,307,916</u>	<u>2,295,503</u>	<u>2,175,198</u>	<u>12,413</u>	0.5%
<u>Expenses:</u>					
Operating Expenses	1,709,469	1,674,012	1,648,127	35,457	2.1%
Depreciation	467,117	455,008	404,238	12,109	2.7%
Interest Expense	77,598	80,184	83,343	(2,586)	-3.2%
Other Expenses	<u>5,200</u>	<u>67,240</u>	<u>8,738</u>	<u>(62,040)</u>	-92.3%
Total Expenses	<u>2,259,384</u>	<u>2,276,444</u>	<u>2,144,446</u>	<u>(17,060)</u>	-0.7%
Income Before Capital Contributions	48,532	19,059	30,752	29,473	154.6%
Capital Contributions	<u>141,117</u>	<u>172,622</u>	<u>698,250</u>	<u>(31,505)</u>	-18.3%
Increase in Net Position	189,649	191,681	729,002	(2,032)	-1.1%
Net Position, Beginning of Year	<u>14,290,338</u>	<u>14,098,657</u>	<u>13,369,655</u>	<u>191,681</u>	1.4%
Net Position, End of Year	<u>\$ 14,479,987</u>	<u>\$ 14,290,338</u>	<u>\$ 14,098,657</u>	<u>189,649</u>	1.3%

Total Revenue increased by \$12,413 or 0.5% from last year reflecting a slight increase in *Residential and Commercial Water Sales* of \$2,479 combined. The volume of water sold this year was 337.7 million gallons compared to 340.6 million gallons last year, a decrease of 2.9 million gallons. *Forfeited Discounts* which are late penalties increased by \$1,599 and *Interest Income* increased by \$5,791 due to higher yields on the District's investments. *Miscellaneous Service Revenue* which includes connection fees, collection fees, meter tampering fees, and billing services and *Rental Income - Utility Plant* which includes income from a cellular provider and internet provider for the use of the Districts water storage tanks increased slightly.

Total Expenses decreased by \$17,060 or -0.7% from last year. *Operating Expenses* increased by \$35,457, and consists of the following: (1) purchased water increase of \$9,749 reflecting an increase in non-revenue water loss; (2) material & supplies increase of \$13,353 due to system repairs; (3) contractual services increase of \$6,705 due to additional contractor time for system repairs; (4) all other expenses increased by a net total of \$5,650. *Depreciation* increased by \$12,109 reflecting the depreciation on the AMR System placed into service and *Interest Expense* decreased by \$2,586 due to reductions in outstanding debt. *Other Expenses* which includes amortized debt and other post-employment benefits decreased by \$62,040 due to last year's recording of other post-employment benefit expense of \$64,582 required by GASB 75 adopted by Warren County Water District in year 2018 (see Note 6. Related Parties).

Capital Contributions totaled \$141,117 and decreased by \$31,505 compared to last year. In year 2019, contributions included contributions received for the following: line extensions, \$80,615; new meter installations, \$31,192; fire hydrants, \$23,610; and line relocations, \$5,700. *Net Position* at the end of the year totaled \$14,479,987, an increase of \$189,649.

Changes in Utility Plant

The largest portion of the District’s assets is invested in utility plant totaling \$14,931,634 on December 31, 2019. Changes by asset category are listed below in Table 5.

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

	December 31, <u>2019</u>	December 31, <u>2018</u>	December 31, <u>2017</u>	Increase (Decrease) Yr. 2018 to Yr. 2019	
<u>Capital Investment</u>					
Land	\$ 25,549	\$ 25,549	\$ 25,549	\$ -	0.0%
Structures	77	77	77	-	0.0%
Pumping Equipment	1,163,949	1,191,022	1,218,099	(27,073)	-2.3%
Storage Tanks	1,449,184	1,527,444	1,455,004	(78,260)	-5.1%
Distribution Mains	9,302,528	9,378,471	9,477,638	(75,943)	-0.8%
SCADA Communications	25,466	25,490	25,574	(24)	-0.1%
Meters	1,977,886	1,526,299	1,530,564	451,587	29.6%
Hydrants	504,303	500,420	503,516	3,883	0.8%
Computer Hardware & Software	111,787	82,138	81,694	29,649	36.1%
Furniture & Fixtures	6,364	7,287	7,877	(923)	-12.7%
Vehicles and Equipment	8,501	13,358	18,216	(4,857)	100.0%
Other	<u>18,191</u>	<u>14,269</u>	<u>16,229</u>	<u>3,922</u>	27.5%
TOTAL Capital Investment	\$ 14,593,785	\$ 14,291,824	\$ 14,360,037	\$ 301,961	2.1%
Construction in Progress	<u>337,849</u>	<u>267,578</u>	<u>133,705</u>	<u>70,271</u>	26.3%
NET Utility Plant	<u>\$ 14,931,634</u>	<u>\$ 14,559,402</u>	<u>\$ 14,493,742</u>	<u>\$ 372,232</u>	2.6%

The District’s utility plant includes the following: (1) 397 miles of distribution main, (2) 24 miles of service line, (3) 215 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. Meters increased by \$451,587 reflecting the installation of the AMR system that totaled \$413,189. *Net Utility Plant* increased by \$372,232, or 2.6%.

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, 2019, the District had \$1,843,000 in outstanding debt compared to \$1,977,000 in the previous year, a reduction of \$134,000 in principal.

Factors Affecting Budget Year 2020

- On January 1, 2020, 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 systematically flush the distribution system as part of its water quality program.
- The installation of an additional 1,200 AMR units and acoustic leak sensors.
- The impact of regulatory changes forthcoming from the Kentucky Division of Water, the Environmental Protection Agency, and the Kentucky Public Service Commission.

The District's board of commissioners adopted the budget for year 2020 at its meeting held in October 2019. Metered water sales are budgeted to increase by 10.64%. Total revenue is budgeted to increase by 10.33% from year 2019, and total expenses are budgeted to increase by 3.7%. Debt service payments are expected to total \$229,700 with a reduction in outstanding debt of \$125,000. Net income for year 2020 is budgeted to total \$184,800. Capital expenditures for the year are budgeted to total \$3,220,100 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 \$33,600.

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, 2019 and 2018**

	2019	2018
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Current assets		
Cash and cash equivalents	\$ 908,467	\$ 903,906
Accounts receivable		
Customer accounts receivable, net of allowance for uncollectibles of \$104,198 and \$99,040	57,051	61,876
Accounts receivable - other	24,418	17,184
Interest receivable	342	3,384
Prepaid expenses	<u>11,529</u>	<u>11,601</u>
Total current assets	<u>1,001,807</u>	<u>997,951</u>
Non-current assets		
Restricted cash and cash equivalents	<u>358,331</u>	<u>245,119</u>
Restricted investments	<u>662,535</u>	<u>753,764</u>
Investments	<u>-</u>	<u>150,000</u>
Other assets	<u>10,179</u>	<u>14,986</u>
Capital assets		
Utility plant in service	21,285,641	20,530,934
Construction in progress	337,849	267,578
Less: accumulated depreciation	(6,691,856)	(6,239,110)
Net capital assets	<u>14,931,634</u>	<u>14,559,402</u>
Total non-current assets	<u>15,962,679</u>	<u>15,723,271</u>
Total assets	16,964,486	16,721,222
Deferred outflows of resources		
Deferred amount on debt refundings	<u>8,120</u>	<u>9,350</u>
Total assets and deferred outflows of resources	<u>\$16,972,606</u>	<u>\$16,730,572</u>

See Notes to Financial Statements

	2019	2018
LIABILITIES AND NET POSITION		
Current liabilities		
Accounts payable	\$ 65,772	\$ 48,066
Accounts payable - WCWD	219,862	70,078
Accrued interest payable	33,336	35,293
Other current liabilities	24,766	15,624
Current portion of long-term debt	<u>125,000</u>	<u>134,000</u>
Total current liabilities	<u>468,736</u>	<u>303,061</u>
Non-current liabilities		
Rebates payable	<u>52,909</u>	<u>48,397</u>
Customer deposits	<u>144,651</u>	<u>143,045</u>
Other non-current liabilities	<u>118,408</u>	<u>114,140</u>
Long-term obligations:		
Bonds and loans payable	1,843,000	1,977,000
Less: net unamortized bond (discount)/premium	(10,085)	(11,409)
Less: current portion of long-term debt	<u>(125,000)</u>	<u>(134,000)</u>
Net long-term obligations	<u>1,707,915</u>	<u>1,831,591</u>
Total non-current liabilities	<u>2,023,883</u>	<u>2,137,173</u>
Total liabilities	<u>2,492,619</u>	<u>2,440,234</u>
Net Position		
Net investment in capital assets	13,106,839	12,603,161
Restricted for depreciation reserves	703,950	674,310
Unrestricted	<u>669,198</u>	<u>1,012,867</u>
Total net position	<u>14,479,987</u>	<u>14,290,338</u>
Total liabilities and net position	<u>\$16,972,606</u>	<u>\$16,730,572</u>

SIMPSON COUNTY WATER DISTRICT

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Years Ended December 31, 2019 and 2018

	2019	2018
Operating revenues		
Metered sales		
Residential	\$ 1,209,980	\$ 1,218,828
Commercial	<u>976,466</u>	<u>965,139</u>
Total metered sales	2,186,446	2,183,967
Forfeited discounts	31,556	29,957
Miscellaneous service revenue	<u>29,485</u>	<u>27,456</u>
Total operating revenues	<u>2,247,487</u>	<u>2,241,380</u>
Operating expenses		
Purchased water	<u>1,113,417</u>	<u>1,103,667</u>
Pumping expense		
Purchased power	23,166	21,721
Insurance	1,565	1,581
Miscellaneous	1,169	1,133
Professional services	<u>1,086</u>	<u>1,135</u>
Total pumping expense	<u>26,986</u>	<u>25,570</u>
General distribution expense		
Purchased power	4,703	4,601
Salaries and benefits	100,122	99,303
Materials and supplies	2,906	4,511
Insurance	7,696	7,773
Miscellaneous	20,098	17,880
Contractual services	11,826	11,202
Professional services	<u>1,085</u>	<u>1,135</u>
Total general distribution expense	<u>148,436</u>	<u>146,405</u>
Customer accounts expense		
Uncollectible accounts	5,159	3,879
Salaries and benefits	151,137	148,639
Materials and supplies	1,192	984
Insurance	1,565	1,581
Miscellaneous	16,743	14,725
Contractual services	30,662	34,262
Professional services	<u>2,171</u>	<u>2,271</u>
Total customer accounts expense	<u>208,629</u>	<u>206,341</u>

See Notes to Financial Statements

SIMPSON COUNTY WATER DISTRICT

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION Years Ended December 31, 2019 and 2018

	2019	2018
Maintenance expense		
Salaries and benefits	\$ 28,109	\$ 34,567
Materials and supplies	29,254	16,159
Miscellaneous	4,670	5,511
Contractual services	38,479	26,113
Professional services	2,171	2,271
Total maintenance expense	<u>102,683</u>	<u>84,621</u>
Administrative and general expense		
Salaries and benefits	55,049	50,561
Other post-employment benefits	2,645	64,582
Materials and supplies	3,896	2,240
Insurance	3,022	3,044
Miscellaneous	12,595	13,306
Contractual services	28,023	30,710
Professional services	2,281	3,219
Total administrative and general expense	<u>107,511</u>	<u>105,984</u>
Depreciation expense	<u>467,117</u>	<u>455,008</u>
Amortization expense	<u>2,554</u>	<u>2,658</u>
Total operating expenses	<u>2,177,333</u>	<u>2,191,932</u>
Operating income	<u>70,154</u>	<u>49,448</u>
Non-operating revenues (expenses)		
Interest income	24,765	18,974
Rental income	35,664	35,149
Interest expense on long-term debt	(73,793)	(78,206)
Interest expense on customer deposits	(3,805)	(1,978)
PSC taxes	(4,453)	(4,328)
Total non-operating revenues (expenses)	<u>(21,622)</u>	<u>(30,389)</u>
Income before capital contributions	48,532	19,059
Capital contributions	<u>141,117</u>	<u>172,622</u>
Change in net position	189,649	191,681
Net position, beginning of year	<u>14,290,338</u>	<u>14,098,657</u>
Net position, end of year	<u>\$ 14,479,987</u>	<u>\$ 14,290,338</u>

See Notes to Financial Statements

SIMPSON COUNTY WATER DISTRICT

STATEMENTS OF CASH FLOWS
Years Ended December 31, 2019 and 2018

	2019	2018
Cash flows from operating activities		
Receipts from customers and agencies	\$ 2,245,078	\$ 2,274,542
Payments to suppliers for goods and services	(1,150,137)	(1,261,631)
Payments for contractual services	(334,417)	(333,069)
Net cash provided by operating activities	<u>760,524</u>	<u>679,842</u>
Cash flows from noncapital financing activities		
Interest paid on customer deposits	(3,805)	(1,978)
Net cash used in noncapital financial activities	(3,805)	(1,978)
Cash flows from capital and related financing activities		
Principal repayment on long-term debt	(134,000)	(132,000)
Capital contributions	28,077	172,622
Purchases of capital assets	(726,309)	(520,668)
Interest paid on long-term debt	(75,750)	(80,114)
Net cash used in capital and related financing activities	(907,982)	(560,160)
Cash flows from investing activities		
Purchase of short-term investments	(412,535)	(395,815)
Maturity of short-term investments	653,764	389,393
Interest income	<u>27,807</u>	<u>15,649</u>
Net cash provided by investing activities	<u>269,036</u>	<u>9,227</u>
Net increase in cash and cash equivalents	117,773	126,931
Cash and cash equivalents, beginning of year	<u>1,149,025</u>	<u>1,022,094</u>
Cash and cash equivalents, end of year	<u>\$ 1,266,798</u>	<u>\$ 1,149,025</u>

See Notes to Financial Statements

SIMPSON COUNTY WATER DISTRICT

STATEMENTS OF CASH FLOWS
Years Ended December 31, 2019 and 2018

	2019	2018
Reconciliation of Operating Income to Net Cash Provided		
by Operating Activities		
Operating income	\$ 70,154	\$ 49,448
Adjustment to reconcile net operating income to net cash provided by operating activities:		
Depreciation	467,117	455,008
Amortization	2,554	2,658
Payment of PSC taxes	(4,453)	(4,328)
Non-utility rental income	35,664	35,149
Changes in assets and liabilities		
Net (increase) decrease in accounts receivable, net	(2,409)	33,163
Net (increase) decrease in prepaid expenses	72	(3)
Net (increase) decrease in deferred charges	4,807	(4,256)
Net increase in accounts payable	167,490	17,844
Net increase (decrease) in rebates payable	4,512	(14,834)
Net increase in other current liabilities	9,142	1,292
Net increase in customer deposits	1,606	4,542
Net increase in other liabilities	<u>4,268</u>	<u>104,159</u>
Net cash provided by operating activities	<u>\$ 760,524</u>	<u>\$ 679,842</u>
Noncash Investing, Capital and Financing Activities		
Utility plant additions contributed from developers	<u>\$ 113,040</u>	<u>\$ —</u>

See Notes to Financial Statements

SIMPSON COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018

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, 2019 and 2018

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, 2019 and 2018

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, 2019 and 2018

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, 2019 and 2018

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 3, 2020, which was the date the financial statements were made available.

SIMPSON COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018

NOTE 2. CASH AND CASH EQUIVALENTS AND INVESTMENTS

At December 31, 2019 and 2018, the District's deposits and certificates of deposit consisted of the following:

	2019	2018
Cash and cash equivalents	\$ 908,467	\$ 903,906
Restricted cash and cash equivalents	358,330	245,119
Investments	-	150,000
Restricted investments	<u>662,535</u>	<u>753,764</u>
	<u>\$ 1,929,332</u>	<u>\$ 2,052,789</u>

The District maintains its deposits with financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). As of December 31, 2019 and 2018, the carrying amounts of the District's deposits were \$1,929,332 and \$2,052,789, respectively, and the bank balances were \$1,923,286 and \$2,052,355, respectively. Of the bank balances, \$1,923,286 and \$2,052,355 at December 31, 2019 and 2018, 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, 2019 and 2018, 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, 2019 and 2018

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, 2019 and 2018, 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, 2019 and 2018:

	2019	2018
Sinking funds	\$ 166,471	\$ 177,650
Depreciation funds	703,950	674,310
Customer deposits fund	<u>150,445</u>	<u>146,923</u>
	<u>\$1,020,866</u>	<u>\$ 998,883</u>

SIMPSON COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018

NOTE 3. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2019 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>267,578</u>	<u>70,271</u>	<u>—</u>	<u>337,849</u>
Total capital assets not being depreciated	<u>293,127</u>	<u>70,271</u>	<u>—</u>	<u>363,398</u>
Capital assets being depreciated				
Utility plant in service	20,505,385	769,078	(14,371)	21,260,092
Less: accumulated depreciation	(6,239,110)	(467,117)	14,371	(6,691,856)
Capital assets being depreciated, net	<u>14,266,275</u>	<u>301,961</u>	<u>—</u>	<u>14,568,236</u>
Total capital assets, net	<u>\$ 14,559,402</u>	<u>\$ 372,232</u>	<u>\$ —</u>	<u>\$ 14,931,634</u>

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	(5,789,567)	(455,008)	5,465	(6,239,110)
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>

SIMPSON COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018

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>2019</u>	<u>2018</u>
\$ 1,060,000	RD	1995	4.88%	\$ 663,000	\$ 692,000
1,575,000	KRWFC	2012	2.20%-3.95%	1,150,000	1,215,000
330,000	KRWFC	2013	2.30%	<u>30,000</u>	<u>70,000</u>
				<u>\$ 1,843,000</u>	<u>\$ 1,977,000</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 \$10,085 and \$11,409 as of and for the years ended December 31, 2019 and 2018, respectively. Related amortization expenses for the years ended December 31, 2019 and 2018 totaled \$1,324 and \$1,263, respectively.

Deferred outflows resulting from losses on the KRWFC debt refunding totaled \$8,120 and \$9,350 as of and for the years ended December 31, 2019 and 2018, respectively.

SIMPSON COUNTY WATER DISTRICT

**NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018**

NOTE 5. LONG-TERM DEBT (Continued)

Long-term debt activity is as follows as of and for year ended December 31, 2019:

	<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	\$ 692,000	\$ -	(\$ 29,000)	\$ 663,000	\$ 30,000
Kentucky Rural Water Finance Corp., 2012	1,215,000	-	(65,000)	1,150,000	65,000
Kentucky Rural Water Finance Corp., 2013	<u>70,000</u>	<u>-</u>	<u>(40,000)</u>	<u>30,000</u>	<u>30,000</u>
	<u>\$ 1,977,000</u>	<u>\$ -</u>	<u>(\$ 134,000)</u>	<u>\$ 1,843,000</u>	<u>\$ 125,000</u>

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>

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>
2020	\$ 125,000	\$ 71,426
2021	102,000	67,409
2022	103,000	63,585
2023	110,000	59,608
2024	112,000	55,453
2025-2029	626,000	208,272
2030-2034	<u>665,000</u>	<u>66,582</u>
	<u>\$ 1,843,000</u>	<u>\$ 592,335</u>

SIMPSON COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018

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, 2019 and 2018:

	2019	2018
Warren County Water District	\$ 219,862	\$ 70,078

During 2019 and 2018, expenses from the WCWD amounted to \$643,066 and \$708,099, respectively, for the following:

	2019	2018
Wages and benefits:		
Operation	\$ 216,122	\$ 243,723
Administrative:		
Supervision and administration	89,862	81,735
Accounting	26,204	28,275
Customer service	57,141	51,382
Engineering	10,784	11,706
Operations - other	96,990	83,863
Additions to plant	88,568	84,550
Special projects	<u>126,273</u>	<u>57,832</u>
	<u>\$ 711,944</u>	<u>\$ 643,066</u>

In addition to the above expenses from WCWD totaling \$711,944 and \$643,066 for the years ending December 31, 2019 and 2018, respectively, the Utility also recognized other post-employment benefits (OPEB) expense of \$2,645 and \$64,582 in 2019 and 2018, respectively. WCWD adopted Governmental Accounting Standards Board (GASB) Statement No. 45 in 2016 and GASB Statement No. 75 in 2019, 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 \$118,408 and \$114,140 at December 31, 2019 and 2018, respectively.

SIMPSON COUNTY WATER DISTRICT

**NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018**

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, 2019, 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 \$987,300. Funding for the project consists of a USDA – Rural Development loan of \$864,500 and internal funds of \$122,800. As of December 31, 2019, the District has incurred approximately \$110,330 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 Simpson County to better service a new industry. The total project is estimated to cost \$1,330,000. Funding consists of an EDA grant for \$665,000 and a USDA-Rural Development loan of \$665,000. As of December 31, 2019, the District had incurred approximately \$120,723 of these costs.

SIMPSON COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

NOTE 9. SUBSEQUENT EVENT – COVID-19

The COVID-19 outbreak in Kentucky has resulted in mandated and voluntary closings of retail, commercial, and industrial customers within our service area. As directed by the Kentucky Public Service Commission, the Water District has suspended disconnections for non-payment, late charges will be waived, and payment arrangements are being made to assist customers during the outbreak. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of the closings. The extent of the impact of COVID-19 on our operations and financial performance will depend on certain developments, including the duration, the impact on our customers, employees, and daily operations. At this point, the extent to which COVID-19 may impact our financial condition and operations is uncertain.

SIMPSON COUNTY WATER DISTRICT

**SCHEDULE OF BUDGETARY COMPARISON
Year Ended December 31, 2019**

	Budgeted Amounts		Actual	Variances
	Original	Final		Favorable (Unfavorable) Final to Actual
Revenues				
Metered revenue	\$ 2,309,000	\$ 2,196,500	\$ 2,186,446	(\$ 10,054)
Forfeited discounts	31,800	31,800	31,556	(244)
Miscellaneous service revenue	24,200	25,200	25,430	230
Other water revenue	2,000	2,000	4,055	2,055
Interest income	23,000	24,500	24,765	265
Rental income - utility property	35,600	35,600	35,664	64
Contribution-in-aid of construction	705,700	705,700	141,117	(564,583)
Total revenues	3,131,300	3,021,300	2,449,033	(572,267)
Expenses				
Salaries and wages	227,000	212,000	208,950	3,050
Commissioner fees	10,800	10,800	10,800	—
Fringe benefits	142,000	130,000	125,467	4,533
Purchased water	1,131,000	1,143,000	1,113,417	29,583
Purchased power	28,400	28,400	27,870	530
Materials and supplies	24,700	37,700	37,248	452
Contractual services - accounting	9,000	9,000	8,683	317
Contractual services - legal	1,000	1,000	111	889
Contractual services - other	106,200	110,200	108,989	1,211
Rental of building and utilities	10,100	10,600	10,231	369
Equipment expense	29,700	31,200	30,368	832
Insurance - general liability	13,500	13,500	13,043	457
Insurance - other	800	800	804	(4)
Regulatory expense	4,800	4,800	4,453	347
Bad debt expense	4,300	6,300	5,159	1,141
Miscellaneous expense	4,700	4,700	3,877	823
Depreciation	458,500	468,500	467,117	1,383
Interest expense	101,900	77,900	77,598	302
Unamortized debt expense	2,500	2,500	2,554	(54)
OPEB expense	4,700	2,700	2,645	55
Total expenses	2,315,600	2,305,600	2,259,384	46,216
Change in net position	815,700	715,700	189,649	(526,051)
Net position, beginning of year	14,290,338	14,290,338	14,290,338	—
Net position, end of year	\$ 15,106,038	\$ 15,006,038	\$ 14,479,987	(\$ 526,051)

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)



**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, 2019, 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 3, 2020.

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.

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

Bowling Green, Kentucky
April 3, 2020