PUBLIC SERVICE COMMISSION
ANNUAL REPORT BRANCH

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WARREN COUNTY WATER DISTRICT

FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION

For The Years Ended December 31, 2011 and 2010

WARREN COUNTY WATER DISTRICT
FINANCIAL STATEMENTS
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SHELTON & ASSOCIATES, LLP
CERTIFIED PUBLIC ACCOUNTANTS
181 WEST PROFESSIONAL PARK COURT
BOWLING GREEN, KENTUCKY 42104
(270) 842-9620

MEMBER
AMERICAN INSTITUTE OF CPAs

MEMBER
KENTUCKY SOCIETY OF CPAs

INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Warren County Water District
Bowling Green, Kentucky

We have audited the accompanying financial statements of the Warren County Water District (the District) as of and for the years ended December 31, 2011 and 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. 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 of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Warren County Water District as of December 31, 2011 and 2010, and the respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 3 through 10 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

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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Warren County Water District's financial statements as a whole. The budgetary comparison and schedules of operating expenses and individual division Statement of Net Assets and Statements of Revenue, Expenses and Changes in Net assets on page 31 -36 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Shelton + Associates, LLP

Shelton & Associates, LLP
April 16, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Warren County Water District's annual financial report presents an analysis of the District's financial performance during the fiscal years ended December 31, 2011 and 2010. This information is presented in conjunction with the audited basic financial statements, which follow this section.

Financial Highlights

The following are highlights of Warren County Water District for year ending December 31, 2011:

- The District's net assets increased by $3,459,805 from $74,334,364 to $77,794,169 as of December 31, 2011.

- Total revenue for the year increased by $252,700, or 2.5%, compared to last year. The water division's total revenue increased by $147,878 and the sewer division's total revenue increased by $104,822.

- In year 2011, metered water sales increased by $213,873, or 2.8%, and metered sewer revenue increased by $126,949, or 7.4%.

- Total expenses for the year increased by $417,412, or 4.6%, compared to last year. The water division's total expenses increased by $276,694 and the sewer division's total expenses increased by $140,718.

- The water division added 332 customers throughout the year for a 1.3% increase and the sewer division added 189 customers for a 4.3% increase. The number of customers at the end of the year for the water and sewer divisions was 25,116 and 4,557, respectively.

- Average water revenue was $20 per residential customer and $109 per commercial customer. Average sewer revenue was $18 per residential customer and $195 per commercial customer.

- New water meter applications in year 2011 and year 2010 totaled 365 and 470 respectively, a decrease of 105 applications, or -22.3%. New sewer applications in year 2011 and year 2010 totaled 202 and 212 respectively, a decrease of 10 applications, or -4.7%.

- The District has a total of 1,123 miles of water mains and 152 miles of sewer mains.

- Projects placed into service include: *Natcher Parkway Force Main Extension* – includes the construction of approximately 1 mile of force main to reduce the load on our wholesale provider's downstream interceptor. *CIS Selection & Implementation* – procurement of a new customer billing and information system.

- Projects under construction: *2010 Water System Improvements* – includes construction of approximately 2 miles of water main to replace aging lines. *Highway 31W Water & Sewer Line Relocations* will relocate approximately 2 miles of water main and 0.5 miles of gravity sewer main in southern Warren County.

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 Warren 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

Budgetary Analysis

Total Revenue was above budget by $59,386 or 0.6%, and *total expenses* were above budget by $93,592 or 1.0%. *Metered Water Sales* were 1.4% greater than budget and metered sewer revenue was 2.7% greater than budget due a retail water and sewer rate increase that was not budgeted and was effective in September 2011. This retail increase was a pass through to offset rate increases from the District's wholesale provider, Bowling Green Municipal Utilities (BGMU). *Miscellaneous Service Revenue*, which includes connection fees, collection fees, and meter tampering fees was less than budget by 9.3%, or -$22,205 due to fewer collection fees and disconnect fees than estimated. *Interest Income* on deposits was less than budget by 82.4%, or -$96,543. The shortfall in interest income is due to an arbitrage rebate payment of $70,259 made to the Internal Revenue Service for the Series 1998 Bonds and due to the continued drop in rates throughout the year resulting in lower yields on the District's investments. Funds that earn interest include the operating fund, depreciation fund, reserve funds, and debt service funds. *All Other Revenues* which includes forfeited discounts, rental income, income from local agencies for providing billing services, and gains on the disposition of assets was higher than budget by 6.3%, or $21,532. Late charges assessed throughout the year were greater than budgeted and gains on the disposition of trucks were not budgeted.

Operating Expenses related to maintaining the District's water distribution and sewer collection facilities were higher than budget by 2.7%, or $163,453. Operating expenses such as purchased water and wastewater disposal were higher than budgeted amounts by $132,998, and $60,902 respectively due an unbudgeted wholesale rate increase from the District's wholesale provider, BGMU. Other operating expenses including wages, employee benefits, purchased power, chemicals, and contractual services were less than budgeted amounts by a total of $30,447. *Depreciation* was lower than budget by $53,009 due to projects such as the CIS Billing Software Implementation, and 2008 Water System Improvements, Phase 2 being placed into service later than initially planned. *Interest Expense* and *All Other Expenses* were less than budget by 1.8% and 12.9% respectively.

Net income totaled $965,644 for the year, or 3.4% lower than budget.

Table 1
WARREN COUNTY WATER DISTRICT
Statement of Revenue and Expense
Comparison to Budget

	Actual 2011	Budget 2011	Increase \ (Decrease)	% Change
Revenues:				
Metered Water Sales	$ 7,935,947	$ 7,828,280	107,667	1.4%
Metered Sewer Revenue	1,836,665	1,787,730	48,935	2.7%
Miscellaneous Service Revenue	216,790	238,995	(22,205)	-9.3%
Interest Income	20,642	117,185	(96,543)	-82.4%
All Other Revenues	361,117	339,585	21,532	6.3%
Total Revenue	10,371,161	10,311,775	59,386	0.6%
Expenses:				
Operating Expenses	$ 6,192,093	$ 6,028,640	163,453	2.7%
Depreciation	2,636,361	2,689,370	(53,009)	-2.0%
Interest Expense	529,578	539,395	(9,817)	-1.8%
All other Expenses	47,485	54,520	(7,035)	-12.9%
Total Expenses	9,405,517	9,311,925	93,592	1.0%
Net Income	$ 965,644	$ 999,850	(34,206)	-3.4%

Statement of Net Assets

A summary of the District's Statement of Net Assets is presented below in Table 2. The District's assets exceeded liabilities by $77,794,169 in year 2011.

Current and Other Assets totaled $15,223,980, a 7.5% increase of $1,059,618 from last year. Funds restricted for future system improvements, equipment repairs and replacement, debt service, and customer deposits increased by $937,193. Assets including the general operating fund, receivables, inventory, deferred charges, and unamortized debt increased by $122,425.

Capital Assets are the largest portion of the District's assets and include land, water distribution mains, sewer collection mains, pump stations, lift stations, storage tanks, vehicles, and equipment. In year 2011, capital assets totaled $97,437,921, net of depreciation, resulting in a 1.7% increase of $1,672,346 over the prior year. The increase is due to projects placed into service during the year including the Natcher Parkway Force Main Extension, South Warren School Relocation, CIS Billing System Implementation, and the GIS Mobile Mapping System in addition to projects currently in progress including the Highway 31W Water & Sewer Line Relocations, and 2008 Water System Improvements, Phase 2.

Non-Current Liabilities totaled $31,542,134, a 4.4% decrease of $1,452,304 from the last year. The decrease in non-current liabilities includes a reduction in long term debt balances totaling $797,803, and decreases in deferred credits of $655,501. *Other Liabilities* totaled $3,325,598, a 27.9% increase of $724,463 from last year. The current portion of long-term debt, accounts payable, customer meter deposits, and various other liabilities increased by $512,580, $149,079, $28,720, and $34,084 respectively.

Restricted Net Assets includes funds restricted for the following: payment of principal and interest on bonds and loans, anticipated expenditures for capital improvements, and funds for emergencies. The District's restricted funds totaled $10,825,097, an increase of $937,193 or 9.5% from the previous year. Funds required for bond and interest payments and funds set aside for future system improvements increased compared balances in the previous year.

Net Assets totaled $77,794,169 in year 2011, a 4.7% increase of $3,459,805 over the prior year.

Table 2
WARREN COUNTY WATER DISTRICT
Condensed Statement of Net Assets
December 31, 2011

	Year 2011	Year 2010	Increase \ Decrease	% Change
Current and other assets	15,223,980	14,164,362	1,059,618	7.5%
Capital assets	97,437,921	95,765,575	1,672,346	1.7%
Total assets	112,661,901	109,929,937	2,731,964	2.5%
Non-current liabilities	31,542,134	32,994,438	(1,452,304)	-4.4%
Other liabilities	3,325,598	2,601,135	724,463	27.9%
Total liabilities	34,867,732	35,595,573	(727,841)	-2.0%
Net assets invested in capital assets, net of related debt	65,264,841	62,652,771	2,612,070	4.2%
Restricted net assets	10,825,097	9,887,904	937,193	9.5%
Unrestricted net assets	1,704,231	1,793,689	(89,458)	-5.0%
Total net assets	77,794,169	74,334,364	3,459,805	4.7%

Statement of Revenues, Expenses and Changes in Net Assets

This statement identifies various revenue and expense items, which impact the change in net assets. A summary of this statement is presented in Table 3 below.

Table 3
WARREN COUNTY WATER DISTRICT
Combined Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended December 31, 2011

	Year 2011	Year 2010	Increase \ (Decrease)	% Change
Revenues:				
Metered Water Sales	7,935,947	7,722,074	213,873	2.8%
Metered Sewer Revenue	1,836,665	1,709,716	126,949	7.4%
Miscellaneous Service Revenue	216,790	224,441	(7,651)	-3.4%
Interest Income	20,642	117,816	(97,174)	-82.5%
All Other Revenues	361,117	344,414	16,703	4.8%
Total Revenue	10,371,161	10,118,461	252,700	2.5%
Expenses:				
Operating Expenses	6,192,093	5,975,373	216,720	3.6%
Depreciation	2,636,361	2,390,129	246,232	10.3%
Interest Expense	529,578	563,876	(34,298)	-6.1%
All other Expenses	47,485	58,727	(11,242)	-19.1%
Total Expenses	9,405,517	8,988,105	417,412	4.6%
Income Before Capital Contributions	965,644	1,130,356	(164,712)	-14.6%
Capital Contributions	2,494,161	1,948,429	545,732	28.0%
Increase in Net Assets	3,459,805	3,078,785	381,020	12.4%
Net Assets, Beginning of Year	74,334,364	71,255,579	3,078,785	4.3%
Net Assets, End of Year	77,794,169	74,334,364	3,459,805	4.7%

The volume of water sold in year 2011 totaled 2,246,150,266 gallons versus 2,271,467,642 gallons last year, a 1.1% decrease of 25,317,376 gallons. The volume of sewer revenue billed for year 2011 was 749,877,250 gallons versus 711,419,613 gallons last year, a 5.4% increase of 38,457,637 gallons billed. *Metered water sales* increased by 2.8% or $213,873 and *metered sewer revenue* increased by 7.4% or by $126,949 due to retail water and sewer rate increases that were effective in September 2011 to offset rate increases from the District's wholesale provider, BGMU. Customer growth within the District's service area improved slightly with a 1.3% increase in water service customers and a 4.3% increase in sewer service customers. The water division added 332 customers for a total of 25,116, and the sewer division added 189 customers for a total of 4,557. *Miscellaneous Service Revenue*, which includes connection fees, collection fees, and meter tampering fees decreased by 3.4%, or -$7,651 due to fewer collection fees and disconnect fees than last year. *Interest Income* decreased by 82.5% or -$97,174 due to an arbitrage rebate payment of $70,259 made to the Internal Revenue Service for the Series 1998 Bonds and due to the continued to drop in rates throughout the year resulting in lower yields on the District's investments.

Operating Expenses increased by $216,720, a 3.6% increase when compared to the prior year. Operating expenses such as purchased water and wastewater disposal increased by $138,237, and $96,671 respectively due to wholesale rate increases from the District's provider, BGMU. The remaining operating expenses including employee benefits, materials, and contractual services decreased by a total of $18,188.

Depreciation expense increased by $246,232, or 10.3%, corresponding to various asset additions recorded throughout the year. *Interest Expense* decreased by $34,298, or -6.1%, due to reductions in outstanding debt since last year.

Capital Contributions of $2,494,161 were received in year 2011 including expired rebate balances from developers of $869,574, reimbursements for water line relocations of $720,329, reimbursements for sewer line relocations of $228,173, contributions for meter installations of $250,623, contributions for sewer taps of $109,000 and contributions for various other projects and installations totaling $316,462.

Changes in Capital Assets

The largest portion of the District's assets is invested in the water distribution and sewer collection system amounting to $94,729,670 net of depreciation, as of December 31, 2011. Table 4 details changes in capital assets.

Table 4
WARREN COUNTY WATER DISTRICT
Changes in Capital Assets
(Net of Depreciation)

Capital Investment	Year 2011	Year 2010	Increase \ Decrease	% Change
WATER DIVISION:				
Land	$ 1,326,380	$ 1,326,380	-	0.0%
Structures	1,927,649	1,954,581	(26,932)	-1.4%
Pumping Equipment	1,824,690	1,692,849	131,841	7.8%
Storage Tanks	9,234,268	9,479,383	(245,115)	-2.6%
Distribution Mains	38,108,094	38,439,656	(331,562)	-0.9%
Meters	8,753,982	8,738,450	15,532	0.2%
Hydrants	2,624,877	2,657,364	(32,487)	-1.2%
Furniture & Fixtures	11,836	14,574	(2,738)	-18.8%
Vehicles and Equipment	451,677	304,552	147,125	48.3%
Other	410,986	524,842	(113,856)	-21.7%
Subtotal - Water Division	64,674,439	65,132,631	(458,192)	-0.7%
SEWER DIVISION:				
Land	$ 70,602	70,602	-	0.0%
Structures	5,403,483	5,467,584	(64,101)	-1.2%
Pumping Equipment	1,471,606	1,468,794	2,812	0.2%
Collection Mains	20,911,142	20,654,402	256,740	1.2%
Taps	2,153,255	2,161,897	(8,642)	-0.4%
Other	45,143	68,886	(23,743)	-34.5%
Subtotal - Sewer Division	30,055,231	29,892,165	163,066	0.5%
Total - Water & Sewer	94,729,670	95,024,796	(295,126)	-0.3%

During the year 3 miles of water distribution main was recorded to plant amounting to 1,123 total miles in the water system, and 3 miles of sewer collection main was recorded to plant amounting to 152 total miles in the sewer system. In year 2011, the following were recorded to capital assets: Natcher Parkway Force Main Extension, $406,370; water meter installations, $307,975; GIS Mapping, $219,430; sewer line extensions & developments, $208,745; water line extensions & developments, $187,215; South Warren Water Line Relocation, $177,832; water & sewer pumping equipment, $101,285; various other assets totaling $716,994; and accumulated depreciation of $2,620,972.

The above table does not reflect construction projects in progress totaling $2,708,251 an increase of $1,967,472 from projects under construction this time last year of $740,779

Long-Term Debt

The District's debt obligations include United States Department of Agriculture (USDA) bonds, Water Revenue Bonds, Kentucky Rural Water Finance Corporation (KRWFC) loans, and Kentucky Infrastructure Authority (KIA) loans. As of December 31, 2012, the District had $11,860,655 in outstanding debt compared to $12,144,878 in the previous year. Principal payments made towards the KRWFC and KIA loans were made throughout the year and reduced outstanding debt by $284,222. The payment date for the USDA bonds and Water Revenue bonds was changed from December 31st to January 1st annually resulting in principal payments of $497,500 due on January 1, 2012.

Factors Affecting Next Year's Budget

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

The District's board of commissioners adopted the budget for year 2012 at its meeting held in November 2011. Metered water sales and sewer revenue combined are budgeted to increase by 7.9%. Total revenue is budgeted to increase by 8.12% from year 2011, and total expenses are budgeted to increase by 10.9%. Debt service payments are expected to total $1,361,430 for both divisions with a reduction in outstanding debt of $839,965. Not included in the budget is the refunding of the Water Revenue, Series 1998 and USDA, Series 1999A bonds in March 2012 through a KRWFC loan. The opportunity to refinance these bonds occurred after the budget was approved and will result in reduced interest costs in budget year and future years. Net income for year 2012 is budgeted to total $876,705. Capital expenditures budgeted for the year totaled $2,414,020.

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, Warren 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.warrenwater.com.*

BASIC FINANCIAL STATEMENTS

WARREN COUNTY WATER DISTRICT
STATEMENTS OF NET ASSETS
DECEMBER 31, 2011 and 2010

	2011	2010
ASSETS		
UTILITY PLANT (at cost)		
Utility plant in service	$ 128,085,641	$ 125,759,795
Less accumulated depreciation	(33,355,971)	(30,734,999)
	94,729,670	95,024,796
Utility plant construction in progress	2,708,251	740,779
NET UTILITY PLANT	97,437,921	95,765,575
NONOPERATING PROPERTY, net of $85,836 accumulated depreciation	165,856	165,856
RESTRICTED ASSETS		
Bond and interest sinking funds	976,333	334,214
Debt service reserve for bond funds	734,206	734,206
Rebate fund	59,173	56,639
Customer deposits	983,822	947,598
Construction funds	4,970,240	4,529,940
Depreciation funds:		
Cash in bank	3,101,323	3,285,307
TOTAL RESTRICTED ASSETS	10,825,097	9,887,904
CURRENT ASSETS		
Cash and cash equivalents	2,187,791	1,718,179
Accounts receivable		
User charges, net of allowance for doubtful accounts: 2011-$272,310 and 2010-$251,936	216,565	412,674
Contractor receivable	736,740	129,109
Butler County Water System, Inc.	92,110	107,613
Simpson County Water District	70,800	63,019
Miscellaneous	22,267	48,794
Special deposits and transfers	2,190	2,210
Materials and supplies inventory	304,963	322,567
Prepaid expenses	68,102	692,846
Other receivables	12,657	13,427
TOTAL CURRENT ASSETS	3,714,185	3,510,438

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

	2011	2010
OTHER ASSETS		
Deferred charges	166,525	193,330
Unamortized debt expense	352,317	406,834
TOTAL OTHER ASSETS	518,842	600,164
TOTAL ASSETS	$ 112,661,901	$ 109,929,937
NET ASSETS AND LIABILITIES		
NET ASSETS		
Invested in capital assets, net of related debt	$ 65,264,841	$ 62,652,771
Restricted	10,825,097	9,887,904
Unrestricted	1,704,231	1,793,689
TOTAL NET ASSETS	77,794,169	74,334,364
LONG-TERM DEBT AND DEFERRED CREDITS		
Bonds and loans payable	6,151,000	6,151,000
Notes payable	5,709,655	5,993,878
Deferred credits	20,478,281	21,133,782
	32,338,936	33,278,660
Less - Current portion of long-term debt	(796,802)	(284,222)
TOTAL LONG-TERM DEBT AND DEFERRED CREDITS	31,542,134	32,994,438
CURRENT LIABILITIES		
Accounts payable	667,438	518,359
Butler County Water System, Inc.	45,616	42,783
Simpson County Water District	31,818	28,786
Accrued expenses	749,898	723,004
Current portion of long-term debt	796,802	284,222
Deferred revenue	58,658	57,333
TOTAL CURRENT LIABILITIES	2,350,230	1,654,487
OTHER LIABILITIES		
Customers' meter deposits	975,368	946,648
TOTAL NET ASSETS AND LIABILITIES	$ 112,661,901	$ 109,929,937

WARREN COUNTY WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2011 and 2010

	2011	2010
OPERATING REVENUES		
Metered sales	$ 9,918,239	$ 9,564,874
Miscellaneous service revenue	216,790	224,440
TOTAL OPERATING REVENUES	10,135,029	9,789,314
OPERATING EXPENSES		
Source of supply	2,692,585	2,457,682
Pumping plant	601,490	600,655
Water treatment	240	203
Transmission and distribution	1,002,138	1,022,000
Customer accounts	1,149,528	1,161,863
Administrative and general	746,107	732,971
Depreciation	2,636,361	2,390,129
TOTAL OPERATING EXPENSES	8,828,449	8,365,503
OPERATING INCOME	1,306,580	1,423,811
NONOPERATING REVENUES (EXPENSES)		
Interest income	20,642	117,817
Rental revenue	103,042	112,316
Non-utility income	107,161	101,462
Gain on disposal of assets	12,314	-
Amortization of debt expense	(54,517)	(61,174)
Interest expense	(529,578)	(563,876)
NET NONOPERATING REVENUES (EXPENSES)	(340,936)	(293,455)
INCOME BEFORE CAPITAL CONTRIBUTIONS	965,644	1,130,356
CAPITAL CONTRIBUTIONS	2,494,161	1,948,429
INCREASE IN NET ASSETS	3,459,805	3,078,785
NET ASSETS, BEGINNING OF YEAR	74,334,364	71,255,579
NET ASSETS, END OF YEAR	$ 77,794,169	$ 74,334,364

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

WARREN COUNTY WATER DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2011 and 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers and users	$ 9,758,546	$ 10,270,009
Payments to suppliers	(3,888,007)	(5,025,155)
Payments to employees	(1,423,045)	(1,479,339)
NET CASH PROVIDED BY OPERATING ACTIVITIES	4,447,494	3,765,515
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Principal paid on bonds and notes	(284,223)	(743,675)
Interest paid	(452,134)	(567,825)
Proceeds from insurance	12,314	-
Grants in aid of construction	84,615	714,141
Acquisition and construction of capital assets	(2,656,333)	(4,699,211)
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	(3,295,761)	(5,296,570)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest income	21,412	117,817
Purchase of investments in certificates of deposits	-	(979,483)
Proceeds from sale of investments in certificates of deposit	868,128	-
Proceeds from miscellaneous income	210,203	213,778
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	1,099,743	(647,888)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,251,476	(2,178,943)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	7,759,841	9,938,784
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 10,011,317	$ 7,759,841

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

	2011	2010
Reconciliation of operating income to net cash provided in operating activities:		
Operating income	$ 1,306,580	$ 1,423,811
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	2,636,361	2,390,129
Decrease (increase) in:		
Accounts receivable	(377,273)	479,451
Special Deposits and transfers	20	10
Prepaid insurance and pension contributions	624,744	(622,073)
Materials and supplies inventory	17,604	(5,665)
Other receivables	770	1,234
Deferred charges	26,805	148,653
Increase (decrease) in:		
Accounts payable and accrued liabilities	181,838	(85,301)
Deposits	28,720	32,689
Deferred revenues	1,325	2,577
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 4,447,494	$ 3,765,515
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Private developers contributed constructed water and sewer lines estimate at	$ 2,409,546	$ 1,234,288
TOTAL NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES	$ 2,409,546	$ 1,234,288

NOTES TO THE FINANCIAL STATEMENTS

NOTE A-ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The Warren County Water District (the District) was created by the County of Warren in accordance with the applicable provisions of Chapter 74 of the Kentucky Revised Statutes. The District operates water and sewer services for the residents of Warren County, Kentucky and surrounding areas. The financial statements of the District include the accounts of the Water Division and the Sewer Division after elimination of all significant inter-division accounts and transactions. The Warren County Judge Executive makes appointments to the Board of Directors.

Basis of Accounting

The District's financial statements are presented in accordance with accounting principles generally accepted in the United States of America for utility districts. The District follows the accounting policies and procedures set forth by the National Association of Regulatory Utility Commissioners and the guidance provided by the American Water Works Association in *Water Utility Accounting*. The District has elected to apply all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless FASB and/or APB pronouncements conflict with or contradict GASB pronouncements.

The District operates as an enterprise activity, uses the flow of economic resources measurement focus and its accounts are maintained on the accrual basis of accounting. Under this method, revenues are recognized when earned and expenses are recorded as liabilities when incurred, without regard to receipt or payment of cash.

Cash and Cash Equivalents

The District considers demand deposits, money market funds, and other investments with an original maturity of ninety (90) days or less, to be cash equivalents.

Allowance for Doubtful Accounts

The provision for allowance for doubtful accounts is provided for on the reserve method based on historical experience and an evaluation of outstanding accounts receivable at the end of the year.

Material and Supplies Inventory Pricing

Cost of inventories is determined by using the weighted average cost method.

Utility Plant and Depreciation

Property and equipment is stated at cost. Costs of utility plant retirements are charged directly to utility plant accumulated depreciation. Interest relating to the financing of projects under construction is charged to construction works in progress based on the rates paid for long-term borrowing. When the related asset is ready for use, the costs are transferred to utility plant. The cost of current repairs and maintenance is charged to expense.

Depreciation is computed using the straight-line method, using composite rates based on estimated lives as follows: transmission and distribution reservoirs, tanks, and mains – 50 years; buildings – 50 years; equipment – 10 years; service trucks – 5-10 years; tools – 12.5 years; and furniture and fixtures – 10 years.

Restricted Assets

Certain proceeds of the District's revenue bonds and certain resources set aside for their repayment are classified as restricted assets because they are maintained in separate bank accounts and their use is restricted by applicable bond covenants. When an expense is incurred that can be paid using either restricted or unrestricted resources, the District's policy is to first apply the expense toward restricted resources and then toward unrestricted resources.

Deferred Charges

The cost of reducing the retirement age of the District's retirement plan has been deferred and is being amortized using the straight-line method over a thirty-year period.

Capital Contributions and Deferred Credits

The donor cost of contributed property and equipment is included in capital contributions or, otherwise, referred to as contributions in aid of construction. These contributions are received from developers, local and state governmental agencies, and others. Deferred credits are amounts advanced by contractors that are to be refunded either entirely or in part. Amounts not refunded are transferred to contributions in aid of construction after a ten-year period has lapsed.

Contractor Receivable

Contractor receivable totals include grant receivables. The total grant receivable at December 31, 2011 and 2010 were $204 and $24,356, respectively

Net Assets

Accounting standards require the classification of net assets into the following three components:

Invested in capital assets, net of related debt – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted – This component of net assets consists of constraints placed on net asset use by internal designation or externally imposed by creditors, (such as through debt covenants), grantors, contributors, or laws or regulations of other governments.

Unrestricted – This component consists of net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted".

Revenues and Expenses

Service rates are authorized by the Public Service Commission (PSC). The District currently uses eight billing cycle dates each month. Revenues between the last billing date and the end of the year are estimated to be an immaterial amount and, therefore, no accruals are recorded in the accompanying financial statements.

Revenues and expenses are distinguished between operating and non-operating items. Operating revenues relate to the direct revenues generated as a result of services performed or sale of commodities. Non-operating revenues are generated from activities not directly related to the District's core operations. Operating expenses are those directly related to the operations of the District in providing the core services and/or goods to the public. Some expenses, such as interest, are generally classified as non-operating.

Income Tax Status

The District is organized under KRS 74.101 as a division of county government, and is, therefore, exempt from federal and state income taxes.

Concentration of Credit Risk

The majority of the District's business activity is with customers located within Warren County. The District typically collects within thirty (30) days approximately ninety (90) percent of the month-end balances owed by customers.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, and disclosures. Accordingly, actual results could differ from these estimates. These differences may be material.

Reclassifications

Certain accounts in the 2010 financial statements have been reclassified for comparative purposes to conform to the presentation in the current-year financial statements.

NOTE B-CASH AND INVESTMENTS

Various cash accounts or funds are restricted as follows:

The "Bond Interest and Sinking Fund" maintains monthly contributions equal to one-sixth of the next maturing semi-annual interest payment plus one-twelfth of the next annual repayment of debt principal. Amounts are then transferred to fiscal agents as required to make debt service payments.

The "Debt Service Reserve for Bond Funds" is the cash portion of the bond issues invested in interest bearing accounts and are subject to Arbitrage Filings for excess earnings. The bond indenture frequently calls for the accumulation of restricted assets during the life of the bond to provide for redemption of the bonds at maturity.

The "Rebate Fund" maintains the funds set aside for future payments resulting from Arbitrage Filings.

The "Customer Deposit" account contains the deposits for services by the District's customers. Interest from this account is credited to each customer's account quarterly.

"Construction Funds" are those funds restricted for a specific construction project. They are normally derived from proceeds of long-term debt or from grants or from contributions from state or local governmental agencies or from excess income.

"Depreciation Funds" are savings set aside for meeting operating expenditures that are needed to maintain or improve the system.

Cash and cash equivalents with no restrictions are reflected on the Statement of Net Assets as current assets.

At December 31, 2011, the District's cash and investments held at fourteen financial institutions are as follows:

	Book Balance	Bank Balance	FDIC Insurance	Collateral Pledged
Financial Institution A	$ 250,000	$ 250,000	$ 250,000	$ -
Financial Institution B	250,000	250,000	250,000	-
Financial Institution C	115,387	115,387	250,000	-
Financial Institution D	3,421,108	3,816,614	250,000	3,613,650
Financial Institution E	5,591,301	5,591,301	250,000	5,347,122
Financial Institution F	250,000	250,000	250,000	-
Financial Institution G	250,000	250,000	250,000	-
Financial Institution H	250,000	250,000	250,000	-
Financial Institution I	142,466	142,466	250,000	1,475,367
Financial Institution J	335,471	335,471	250,000	335,471
Financial Institution K	953,822	953,822	1,000,000	-
Financial Institution L	216,420	216,420	250,000	143,587
Financial Institution M	450,737	450,737	250,000	450,736
Financial Institution N	534,904	534,904	250,000	439,581
	$ 13,011,616	$ 13,407,122	$ 4,250,000	$ 11,805,514

At December 31, 2011 and 2010 approximately $0 and $0 respectively was not collateralized.

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 has an investment policy that requires balances in excess of FDIC insured amounts be secured with collateral held by a separate bank or trust company as custodian. Uninsured and collateralized balances held by pledging institution trust department or agent bank in the District's name are $9,479,027.

The District places restricted cash in certificates of deposits, money markets, or other demand deposits with local financial institutions based on the highest bid interest rate and the ability to pledge sufficient collateral. The District's only investments are in certificates of deposits. The District's cost basis, which approximates fair market value, in certificates of deposits at December 31, 2011 and 2010 were $2,978,114 and $3,846,242, respectively. At December 31, 2011, $450,736 was held in AAA rated money market funds.

The reconciliation of restricted assets and cash and cash equivalents from the Statement of Net Assets to the Statement of Cash Flows follows:

	December 31,	
Cash and Investments	2011	2010
Bond and Interest Sinking Funds	$ 976,333	$ 334,214
Debt Service Reserve	734,206	734,206
Rebate fund	59,173	56,639
Customer deposits	983,822	947,598
Construction funds	4,970,240	4,529,940
Depreciation fund	3,101,323	3,285,307
Cash and cash equivalents	2,187,791	1,718,179
Total Cash and Investments	13,012,888	11,606,083
Less: Investments in Certificates of Deposit	(2,978,114)	(3,846,242)
Total Cash and Cash Equivalents per Statements of Cash Flows	$ 10,034,774	$ 7,759,841

NOTE C-UTILITY PLANT

The costs of major classes of utility plant at December 31, 2011 were:

Description	2010	Additions	Disposals	2011
Land *	$ 1,396,982	$ -	$ -	$ 1,396,982
Buildings/Improvements	8,385,647	78,663	-	8,464,310
Elec Pumping/Mains	95,416,039	1,581,273	-	96,997,312
Meters/Hydrants	18,574,634	391,682	6,850	18,959,466
Furniture and Equipment-Office	831,022	136,441	-	967,463
Equipment	1,155,471	255,962	111,325	1,300,108
Total Utility Plant in Service	125,759,795	$ 2,444,021	$ 118,175	128,085,641
Nonoperating Property *	251,692			251,692
Construction in Progress *	740,779			2,708,251
Accumulated Depreciation	(30,820,835)			(33,441,807)
	$ 95,931,431			$ 97,603,777

* Denotes items that are not depreciated.

The accumulated depreciation by major classes of utility plant at December 31, 2011 were:

Description	2010	Additions	Disposals	2011
Buildings/Improvements	971,611	171,689	-	1,143,300
Elec Pumping/Mains	23,053,028	1,989,460	-	25,042,488
Meters/Hydrants	5,017,957	417,279	6,850	5,428,386
Furniture and Equipment-Office	687,248	48,819	-	736,067
Equipment	1,090,991	102,861	102,286	1,091,566
Total Utility Plant in Service	30,820,835	$ 2,730,108	$ 109,136	33,441,807
Nonoperating Property	(85,836)			(85,836)
	$ 30,734,999			$ 33,355,971

The costs of major classes of utility plant at December 31, 2010 were:

Description	2009	Additions	Disposals	2010
Land *	$ 1,396,982	$ -	$ -	$ 1,396,982
Buildings/Improvements	5,036,545	3,388,586	39,484	8,385,647
Elec Pumping/Mains	81,097,726	14,492,471	174,158	95,416,039
Meters/Hydrants	18,129,515	504,756	59,637	18,574,634
Furniture and Equipment-Office	813,667	17,355	-	831,022
Equipment	1,069,398	86,073	-	1,155,471
Total Utility Plant in Service	107,543,833	$ 18,489,241	$ 273,279	125,759,795
Nonoperating Property *	251,692			251,692
Construction in Progress *	13,274,585			740,779
Accumulated Depreciation	(28,605,575)			(30,820,835)
	$ 92,464,535			$ 95,931,431

The accumulated depreciation by major classes of utility plant at December 31, 2010 were:

Description	2009	Additions	Disposals	2010
Buildings/Improvements	871,205	139,890	39,484	971,611
Elec Pumping/Mains	21,451,932	1,775,254	174,158	23,053,028
Meters/Hydrants	4,671,849	405,742	59,634	5,017,957
Furniture and Equipment-Office	629,462	57,786	-	687,248
Equipment	981,127	109,864	-	1,090,991
Total Utility Plant in Service	28,605,575	$ 2,488,536	$ 273,276	30,820,835
Nonoperating Property	(85,836)			(85,836)
	$ 28,519,739			$ 30,734,999

Construction Commitments

The District is committed to several material construction contracts and they are classified as "Construction in Progress" on the financial statements. Some of the more significant contracts are as follows:

- The 2010 Water System Improvements Project consists of approximately 9,900 linear feet of 6-, 8-, and 12-inch water lines and appurtenances. The water lines will replace existing water lines which have experienced high water line break rates in the past. The water lines will increase service reliability and reduce repair costs associated with the existing water lines. The costs incurred at December 31, 2011 were $311,667 toward an estimated cost of $355,792. Funding for this project will be provided by District reserves.

- The Hwy 31W Water & Sewer Line Relocations (2011) consists of approximately 11,400 linear feet of 4-, 6-, 8-, 10-, 12-, and 14-inch water line; 2,500 linear feet of 8-, 10-, 12-, and 15-inch gravity sewer line; 700 linear feet of 4- and 8-inch force main; and appurtenances. The purpose of this project is to relocate water and sewer facilities to accommodate a major widening of Hwy 31W in southern Warren County. The costs incurred at December 31, 2011 were $1,002,013 toward an estimated cost of $1,402,460. Funding for this project will be provided by the Kentucky Transportation Cabinet.

NOTE D-NON-OPERATING PROPERTY

During 1999, the District closed its water treatment plant. The equipment has been reclassified to the non-operating property account and is no longer being depreciated. The water treatment building is being utilized for storage so it is still classified in plant assets and is being depreciated.

NOTE E-BONDS PAYABLE

Bonds have been issued through the United States Department of Agriculture, Economic Development Administration, Department of Housing and Urban Development, and public sales to finance the construction of the water and sewer systems:

Description	Interest Rate	Dated	Maturity Date	Original Amount
Series 1993	4.50%	11/23/94	07/01/33	761,000
Series 1998*	3.85-4.50%	01/15/98	01/01/14	5,645,000
Series 1999A	5.13%	05/25/01	01/01/39	2,000,000
Series 2004A*	2.00-4.50%	01/15/05	01/01/25	2,025,000
Series 2005A	4.25%	06/30/06	01/01/44	1,250,000
				$ 11,681,000

* Interest rates for these issues have different fixed coupon rates, within the specified ranges, for serially maturing bonds. Generally, the bonds with shorter maturities have lower coupon rates than the bonds with longer maturities. The lower rate is applicable at the beginning of the term and increases in increments over the life of the issue to the higher rate, which is applicable at the end of the term.

The District has complied with all covenants related to the outstanding debt issues as of December 31, 2011.

Summary of bond activity for the year ended December 31, 2011 was as follows:

Series	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
1993	$ 594,000	$ -	$ -	$ 594,000	15,500
1998*	1,085,000	-	-	1,085,000	350,000
1999A*	1,772,000	-	-	1,772,000	30,000
2004A*	1,525,000	-	-	1,525,000	85,000
2005A	1,175,000	-	-	1,175,000	17,000
	$ 6,151,000	$ -	$ -	$ 6,151,000	$ 497,500

Summary of bond activity for the year ended December 31, 2010 was as follows:

Series	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
1993	$ 608,500	$ -	$ 14,500	$ 594,000	-
1998*	1,420,000	-	335,000	1,085,000	-
1999A*	1,800,000	-	28,000	1,772,000	-
2004A*	1,605,000	-	80,000	1,525,000	-
2005A	1,191,000	-	16,000	1,175,000	-
	$ 6,624,500	$ -	$ 473,500	$ 6,151,000	$ -

As of December 31, 2011, the aggregate debt service requirements on bonded indebtedness to maturity are summarized as follows:

Year Ending December	Principal Payments	Interest Payments	Total
2012	497,500	265,989	763,489
2013	510,000	244,299	754,299
2014	533,000	221,748	754,748
2015	171,000	206,785	377,785
2016	175,500	199,716	375,216
2017-2021	970,000	880,237	1,850,237
2022-2024	1,080,500	639,525	1,720,025
2027-2031	698,000	443,043	1,141,043
2032-2034	744,500	264,955	1,009,455
2035-2041	588,000	93,205	681,205
2042-2044	183,000	11,793	194,793
	$ 6,151,000	$ 3,471,295	$ 9,622,295

The bonds have been issued in fully registered form, maturing as to principal in various amounts on various dates in each of the years through 2044. Interest is due semi-annually of each year. The District has historically made its principal and interest payments as of December 31; therefore, all bond obligations are classified as long-term and the scheduled maturities for 2011 are expected to be paid in 2011. Amortization is provided on a straight-line basis over the life of the related bonds or notes.

Each bond issue is subject to prior redemption as set forth in the respective bond resolutions, and all bonds are secured by a parity lien and ratable payable from the assets and revenues of the District.

During the year 2006, the District partially refunded and defeased in substance its outstanding 1999B bond of $3,294,000, carrying an interest rate ranging from 4.00 to 5.50%, the lower rate is applicable to the beginning of the term and increasing over the life of the bond, with a new loan, 2006A, of $3,098,000 with a fixed interest rate of 4.30%. Both require level annual debt service payments with final payments in 2030.

The proceeds of the new loan are in an irrevocable trust to provide for all future debt service payments on the old bond. Accordingly, the trust account assets and liabilities for the defeased portion of the bonds are not included in the District's financial statements. As of December 31, 2011, $2,882,000 of the bond considered defeased is still outstanding. All issuance costs of the transaction, $249,420, are to be amortized over the remaining life of the refunded debt. This advanced refunding was undertaken to reduce total debt service payments over the next twenty-five years by $600,208. The District's refunding of the 1999B bond resulted in an economic gain of $422,281.

NOTE F-DEBT SERVICE RESERVE FOR BOND FUNDS

Water Division

Arbitrage rebate refers to the required payment, to the U.S. Treasury, of excess earnings received on tax exempt bond proceeds that are invested at a higher yield than the yield of the tax exempt bond issue. Federal law requires that arbitrage liability, and cumulative excess arbitrage earnings, be calculated and remitted to the U.S. Treasury at the end of the fifth bond year, and every fifth year thereafter. Series 1998 and 2004A (defeasance of 1995B issue) are subject to arbitrage limitations. The bond resolutions authorizing the aforementioned issues require the debt service reserve account to hold funds equal to the "Reserve Amount". The combined reserve amount at December 31, 2011 and 2010 is $462,066 and $462,066, respectively.

Sewer Division

The bond resolution authorizing the District's "Sewer System Revenue Bonds, Series of 1993" required the establishment of a debt service reserve account. Funds are required to be deposited to this account until the balance is equal to the maximum annual principal and interest requirements on all sewer bonds authorized and issued. Withdrawals from the Debt Service Reserve Account are restricted to transfers to the bond and interest sinking fund if required at any time to prevent default in the payment of principal or interest on any bonds. Whenever withdrawals are made from the Debt Service Reserve, the deficiency in the fund is required to be restored when reserves are available. The balance at December 31, 2011 and 2010 was $272,140 and $272,140, respectively.

NOTE G-NOTES PAYABLE

Notes payable consists of four long-term construction loans with the Kentucky Infrastructure Authority (KIA) and three loans with Kentucky Rural Water Finance Corporation. The KIA loans have a repayment term of twenty years.

Description	Int. Rate	Dated	Maturity Date	Original Amount
Series 2003A*	4.06-4.81%	03/25/03	02/01/28	$ 2,475,000
Series 2003C*	2.00-5.00%	10/29/03	12/30/25	499,600
Series 2006A*	4.30%	07/01/06	07/01/30	3,098,000
B90-07/263	5.30%	01/01/91	12/01/12	229,035
B92-01/265	4.95%	06/01/92	12/01/13	100,791
A97-04/317	3.80%	08/01/97	12/01/18	982,400
A98-02/353	3.80%	03/01/98	12/01/18	265,000
				$ 7,649,826

Summary of note activity for the year ended December 31, 2011 was as follows:

Description	Beginning Balance	Reductions	Ending Balance	Amounts Due Within One Year
2003A*	$ 1,979,000	$ 80,000	$ 1,899,000	$ 84,000
2003C*	377,000	20,500	356,500	17,800
2006A*	2,976,000	94,000	2,882,000	104,000
B90-07/263	35,070	17,076	17,994	17,994
B92-01/265	20,296	6,437	13,859	6,760
A97-04/317	482,117	52,630	429,487	54,648
A98-02/353	124,394	13,579	110,815	14,100
	$ 5,993,877	$ 284,222	$ 5,709,655	$ 299,302

Summary of note activity for the year ended December 31, 2010 was as follows:

Description	Beginning Balance	Reductions	Ending Balance	Amounts Due Within One Year
2003A*	$ 2,056,000	$ 77,000	$ 1,979,000	$ 80,000
2003C*	397,100	20,100	377,000	20,500
2006A*	3,070,000	94,000	2,976,000	94,000
B90-07/263	51,276	16,206	35,070	17,076
B92-01/265	26,426	6,130	20,296	6,437
A97-04/317	532,722	50,605	482,117	52,630
A98-02/353	137,472	13,078	124,394	13,579
	$ 6,270,996	$ 277,119	$ 5,993,877	$ 284,222

* Interest rates for these issues have different fixed coupon rates, within the specified ranges, for serially maturing bonds. Generally, the bonds with shorter maturities have lower coupon rates than the bonds with longer maturities. The lower rate is applicable at the beginning of the term and increases in increments over the life of the issue to the higher rate, which is applicable at the end of the term.

As of December 31, 2011, the future payments for the remaining note payable obligations by year are as follows:

Year Ending December	Principal Payments	Interest Payments	Total
2012	299,302	243,025	542,327
2013	288,385	230,827	519,212
2014	298,824	218,903	517,727
2015	303,068	206,772	509,840
2016	323,720	194,091	517,811
2017-2021	1,524,156	769,624	2,293,780
2022-2026	1,653,200	417,598	2,070,798
2027-2030	1,019,000	78,812	1,097,812
	$ 5,709,655	$ 2,359,652	$ 8,069,307

The Kentucky Infrastructure Authority notes, B90-07/263 and B92-01/265 are subordinate to the parity lien bonds of the Water Divisions revenues. The Kentucky Infrastructure Authority notes, A97-04/317 and A98-02/353 are subordinate to the parity lien bonds of the Sewer Divisions revenues. Interest has been accrued in the amount of $251,040 and $97,265 at December 31, 2011 and 2010, respectively.

NOTE H-CONTRIBUTIONS IN AID OF CONSTRUCTION

The contributions in aid of construction were derived from prospective users of the various water and sewer systems and certain governmental grants received by the District. They are recorded on the Statements of Revenues, Expenses, and Changes in Net Assets as "Capital Contributions". The contributions were composed of the following at December 31, 2011:

	2010	Additions	2011
Original membership and tap-on fees and contributions for construction of various projects	$ 29,935,999	$ 2,409,546	$ 32,345,545
Grants-in-aid	19,216,818	84,615	19,301,433
Total Capital Contributions	49,152,817	$ 2,494,161	51,646,978
Retained Earnings	25,181,547		26,147,191
Total Net Assets	$ 74,334,364		$ 77,794,169

NOTE I-MAJOR SUPPLIER

The District purchases all water and sewer services it supplies to its customers from Bowling Green Municipal Utilities. This agreement was renewed on March 17, 2003 for an additional forty-one years.

NOTE J-INSURANCE AND RISK MANAGEMENT

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance. The District has purchased certain policies that are retrospectively rated including workers' compensation insurance. Premiums for these policies are based upon the District's experience to date.

NOTE K-EMPLOYEE BENEFITS

The District participates in a pooled defined benefit retirement plan through the National Rural Electric Cooperative Association (NRECA). The NRECA publishes a financial statement and a copy can be obtained by writing or calling the Plan Administrator, NRECA, PO Box 6007, Lincoln, NE 68506; telephone number 866-NRECA99. The District's contribution rate for 2011, 2010, and 2009 were 23.53%, 23.53%, and 17.1% respectively of employees' base pay for those full-time employees who have been employed with the District for over one year. Payments to the NRECA are charged to expense as incurred and the District carries no liability for the plan. For the years 2011, 2010, and 2009 the pension contributions are $590,616, $557,139, and $408,046, respectively. Upon retirement at the normal age of sixty-two, the annual estimated benefit is calculated as: Benefit Level (1.6% eligible service years from January 1, 1976 to April 1, 1999 and 1.85% for service after April 1, 1999) multiplied by the number of continuous years in the program multiplied by the average of the highest five salary years. Other plans were in effect prior to January 1, 1976, and benefit calculations will vary in accordance with an employee's hire date. The District decreased the normal retirement age to sixty-two and increased the benefit level by paying approximately $185,000 for the improved benefits, which is being amortized over thirty years. During the 2002 year, the District adopted changes to the plan to maintain compliance with the new Internal Revenue Service regulations regarding cafeteria plan changes. The District's Board of Commissioners has the authority to provide provisions and amendments to the pension plan.

The District participates in the Kentucky Public Employees Deferred Compensation Authority, a defined contribution 401(k) retirement plan. Full-time employees meeting certain eligibility requirements can participate in the plan to the extent allowed under Internal Revenue Service rules. The District's contribution to the plan is limited to 1% for those employees who have been employed for over one year and contribute a minimum of 4%.

Employees with less than twenty-five years of continuous service shall accrue annual leave at the rate of fifteen days per year. Employees with more than twenty-five years of continuous service accrue annual leave at the rate of twenty days per year. Unused annual leave in excess of ten days accumulate at the end of the year and are payable upon request to employees with more than 240 accumulated annual leave days. All accumulated annual leave is payable to employees upon termination. At December 31, 2011 and 2010, the District's accrued compensated absences for annual leave totaled $265,828 and $238,483, respectively.

Employees accrue sick days at the rate of one sick day per month worked. The sick pay accumulation is unlimited and is payable upon retirement for all sick leave in excess of 800 hours at the rate of one day's pay for each 100 hours or fraction thereof. At December 31, 2011 and 2010, the District's accrued compensated absences for sick leave totaled $31,039 and $27,651, respectively.

NOTE L-RELATED PARTIES

Management of the District also serves as the management of the Butler County Water System, Inc. and the Simpson County Water District through a Joint Operations Agreement. Certain transactions, such as vehicle use, initiate billings of revenue between the districts. At December 31, 2011, the District carried net receivables of $46,494 and $38,982 from Butler and Simpson Counties, respectively. At December 31, 2010, the District carried net receivables of $64,830 and $34,233 from Butler and Simpson Counties, respectively.

NOTE N-SUBSEQUENT EVENTS

The company has evaluated subsequent events through April 16th the date which the financial statements were available to be issued.

In March of 2012 the District refunded it is Bond Series 1998 and 1999A, with outstanding principal balances of $735,000 and $1,742,00 respectively, with Bond Series 2012B in the amount of $2,095,000. The Bond Series 2012B has an interest rate ranging from 3.2 % to 4.2% and will pay off in December 30, 2039

OTHER SUPPLEMENTARY INFORMATION

WARREN COUNTY WATER DISTRICT
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2011

	Budgeted Amounts 2011	Actual Amounts 2011	Variance
OPERATING REVENUES			
Metered sales	$ 9,736,010	$ 9,918,239	$ 182,229
Miscellaneous service revenue	238,995	216,790	(22,205)
TOTAL OPERATING REVENUES	9,975,005	10,135,029	160,024
OPERATING EXPENSES			
Source of supply	2,519,724	2,692,585	(172,861)
Pumping plant	573,634	601,490	(27,856)
Water treatment	5,706	240	5,466
Transmission and distribution	995,088	1,002,138	(7,050)
Customer accounts	1,124,533	1,149,528	(24,995)
Administrative and general	809,955	746,107	63,848
Depreciation	2,689,370	2,636,361	53,009
TOTAL OPERATING EXPENSES	8,718,010	8,828,449	(110,439)
OPERATING INCOME	1,256,995	1,306,580	49,585
NONOPERATING REVENUES (EXPENSES)			
Interest income	117,185	20,642	(96,543)
Rental revenue	117,580	103,042	(14,538)
Non-utility income	102,005	107,161	5,156
Gain on disposal of assets	-	12,314	12,314
Amortization of debt expense	(54,520)	(54,517)	3
Interest expense	(539,395)	(529,578)	9,817
TOTAL NONOPERATING REVENUES (EXPENSES)	(257,145)	(340,936)	(83,791)
INCREASE IN NET ASSETS	$ 999,850	$ 965,644	$ (34,206)

WARREN COUNTY WATER DISTRICT
SCHEDULES OF OPERATING EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2011 and 2010

	2011	2010
SOURCE OF SUPPLY EXPENSE		
Purchased water and disposal	$ 2,692,585	$ 2,457,682
PUMPING PLANT EXPENSE		
Power purchased	$ 547,672	$ 552,755
Chemicals	30,028	24,418
Miscellaneous pumping expense	188	252
Contractual services	6,142	6,480
Rental expense	5,002	4,807
Insurance	12,458	11,943
TOTAL PUMPING PLANT EXPENSE	$ 601,490	$ 600,655
WATER TREATMENT EXPENSE		
Power purchased	$ 240	$ 203
TOTAL WATER TREATMENT EXPENSE	$ 240	$ 203
TRANSMISSION AND DISTRIBUTION EXPENSE		
Salaries and benefits	$ 554,016	$ 543,015
Power purchased	12,067	10,919
Contractual services	122,958	165,133
Rental expense	19,176	18,427
Transportation	113,503	99,766
Insurance	40,351	38,745
Materials and supplies	140,067	145,995
TOTAL TRANSMISSION AND DISTRIBUTION EXPENSE	$ 1,002,138	$ 1,022,000

	2011	2010
CUSTOMER ACCOUNTS EXPENSE		
Salaries and benefits	$ 773,996	$ 796,774
Billing services	175,480	171,925
Contractual services	37,947	36,287
Uncollectible accounts	20,374	19,692
Rental expense	29,181	28,041
Transportation	94,318	93,675
Insurance	6,512	6,241
Miscellaneous	(1,468)	2,218
Materials and supplies	13,188	7,010
TOTAL CUSTOMER ACCOUNTS EXPENSE	$ 1,149,528	$ 1,161,863
ADMINISTRATIVE AND GENERAL EXPENSE		
Salaries and benefits	$ 434,130	$ 431,299
Office supplies	34,521	41,995
Commissioner Fees	30,000	30,000
Contractual services	196,014	184,395
Insurance	11,216	10,935
Rental expense	5,002	4,807
Regulatory commission expense	14,729	15,012
Miscellaneous	19,426	13,966
Transportation	1,069	562
TOTAL ADMINISTRATIVE AND GENERAL EXPENSE	$ 746,107	$ 732,971
DEPRECIATION EXPENSE	$ 2,636,361	$ 2,390,129

WARREN COUNTY WATER DISTRICT
WATER DIVISION
STATEMENTS OF NET ASSETS
DECEMBER 31, 2011 and 2010

	2011	2010
ASSETS		
UTILITY PLANT (at cost)		
Utility plant in service	$ 91,240,360	$ 89,824,742
Less accumulated depreciation	(26,565,922)	(24,692,115)
	64,674,438	65,132,627
Utility plant construction in progress	2,227,195	527,962
NET UTILITY PLANT	66,901,633	65,660,589
NONOPERATING PROPERTY, net of $85,836 accumulated depreciation	165,856	165,856
RESTRICTED ASSETS		
Bond and interest sinking funds	917,337	299,895
Debt service reserve for bond funds	462,066	462,066
Rebate fund	59,173	56,639
Customer deposits	796,698	771,630
Construction funds	3,156,240	3,206,240
Depreciation fund:		
Cash in bank	833,431	643,390
Certificates of deposit/ money market investment	774,292	774,292
TOTAL RESTRICTED ASSETS	6,999,237	6,214,152
CURRENT ASSETS		
Cash and cash equivalents	1,574,685	1,013,703
Net accounts receivable	759,303	486,199
Sewer division	-	13,288
Butler County Water System, Inc.	92,110	107,613
Simpson County Water District	70,800	63,019
Special deposits and transfers	1,060	1,060
Materials and supplies inventory	304,963	322,567
Prepaid insurance and postage	58,778	683,513
Other receivables	12,621	12,284
TOTAL CURRENT ASSETS	2,874,320	2,703,246

	2011	2010
OTHER ASSETS		
Deferred charges	157,581	153,472
Unamortized debt expense	345,143	398,663
TOTAL OTHER ASSETS	502,724	552,135
TOTAL ASSETS	$ 77,443,770	$ 75,295,978
NET ASSETS AND LIABILITIES		
NET ASSETS		
Invested in capital assets, net of related debt	$ 47,680,742	$ 45,779,333
Restricted	6,999,237	6,214,152
Unrestricted	1,118,376	1,293,497
TOTAL NET ASSETS	55,798,355	53,286,982
LONG-TERM DEBT AND DEFERRED CREDITS		
Bonds payable	5,557,000	5,557,000
Notes payable	4,910,283	5,113,400
Deferred credits	8,919,464	9,376,712
	19,386,747	20,047,112
Less - Current portion of long-term debt	(699,618)	(203,116)
TOTAL LONG-TERM DEBT AND DEFERRED CREDITS	18,687,129	19,843,996
CURRENT LIABILITIES		
Accounts payable and accrued expenses	1,206,043	1,061,260
Butler County Water System, Inc.	45,616	42,783
Simpson County Water District	31,818	28,786
Accounts payable - Sewer Division	124,798	-
Current portion of long-term debt	699,618	203,116
Deferred revenue	58,658	57,333
TOTAL CURRENT LIABILITIES	2,166,551	1,393,278
OTHER LIABILITIES		
Customers' meter deposits	791,735	771,722
TOTAL NET ASSETS AND LIABILITIES	$ 77,443,770	$ 75,295,978

WARREN COUNTY WATER DISTRICT
WATER DIVISION
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2011 and 2010

	2011	2010
OPERATING REVENUES		
Metered sales	$ 8,058,785	$ 7,835,697
Miscellaneous service revenue	198,670	206,263
TOTAL OPERATING REVENUES	8,257,455	8,041,960
OPERATING EXPENSES		
Source of supply expense:		
Purchased water	2,144,743	2,006,510
Pumping plant expense:		
Power purchased	467,370	462,168
Contractual services	3,038	3,406
Miscellaneous pumping expense	188	252
Rental expense	5,002	4,807
Insurance	9,024	8,668
	484,622	479,301
Water treatment expense:		
Power purchased	240	203
	240	203
Transmission and distribution expense:		
Salaries and benefits	493,483	466,209
Power purchased	12,067	10,919
Contractual services	91,031	114,994
Rental expense	19,176	18,427
Transportation	102,311	88,370
Insurance	38,351	36,838
Materials and supplies	120,369	132,666
	876,788	868,423

	2011	2010
Customer accounts expense:		
Salaries and benefits	706,349	729,440
Billing services	175,480	171,925
Contractual services	3,038	3,405
Uncollectible accounts	17,801	18,373
Rental expense	29,181	28,041
Transportation	94,222	93,583
Insurance	4,512	4,334
Miscellaneous	(605)	2,101
Materials and supplies	12,738	6,665
	1,042,716	1,057,867
Administrative and general expense:		
Salaries and benefits	388,077	384,481
Office supplies	31,924	38,900
Contractual services	174,615	162,644
Commissioner fees	15,000	15,000
Insurance	6,865	6,681
Rental expense	5,002	4,807
Regulatory commission expense	12,082	12,323
Miscellaneous	15,830	10,955
Transportation	1,069	562
	650,464	636,353
Depreciation	1,889,196	1,722,570
TOTAL OPERATING EXPENSES	7,088,769	6,771,227
OPERATING INCOME	1,168,686	1,270,733
NONOPERATING REVENUES (EXPENSES)		
Interest income	(2,361)	82,673
Rental revenue	94,946	90,962
Non utility income	107,150	101,441
Gain on disposal of assets	12,314	-
Amortization of debt expense	(53,520)	(60,120)
Interest expense	(467,699)	(497,360)
TOTAL NONOPERATING REVENUES (EXPENSES)	(309,170)	(282,404)
INCOME BEFORE CAPITAL CONTRIBUTIONS	859,516	988,329
CAPITAL CONTRIBUTIONS	1,651,857	1,207,416
INCREASE IN NET ASSETS	2,511,373	2,195,745
NET ASSETS, BEGINNING OF YEAR	53,286,982	51,091,237
NET ASSETS, END OF YEAR	$ 55,798,355	$ 53,286,982

WARREN COUNTY WATER DISTRICT
SEWER DIVISION
STATEMENTS OF NET ASSETS
DECEMBER 31, 2011 and 2010

	2011	2010
ASSETS		
UTILITY PLANT (at cost)		
Utility plant in service	$ 36,845,281	$ 35,935,053
Less accumulated depreciation	(6,790,049)	(6,042,884)
	30,055,232	29,892,169
Utility plant construction in progress	481,056	212,817
NET UTILITY PLANT	30,536,288	30,104,986
RESTRICTED ASSETS		
Bond and interest sinking funds	58,996	34,319
Debt service reserve for bond funds	272,140	272,140
Customer deposits	187,124	175,968
Construction Funds	1,814,000	1,323,700
Depreciation fund:		
Cash in bank	1,493,600	1,867,625
TOTAL RESTRICTED ASSETS	3,825,860	3,673,752
CURRENT ASSETS		
Cash and cash equivalents	613,106	704,476
Net accounts receivable	216,268	104,378
Accounts receivable - Water Division	124,798	-
Special deposits and transfers	1,130	1,150
Prepaid insurance and postage	9,324	9,333
Other receivables	36	1,143
TOTAL CURRENT ASSETS	964,662	820,480
OTHER ASSETS		
Deferred charges	8,944	39,858
Unamortized debt expense	7,174	8,171
TOTAL OTHER ASSETS	16,118	48,029
TOTAL ASSETS	$ 35,342,928	$ 34,647,247

	2011	2010
NET ASSETS AND LIABILITIES		
NET ASSETS		
Invested in capital assets, net of related debt	$ 17,584,099	$ 16,873,438
Restricted	3,825,860	3,673,752
Unrestricted	585,855	500,192
TOTAL NET ASSETS	21,995,814	21,047,382
LONG-TERM DEBT AND DEFERRED CREDITS		
Bonds payable	594,000	594,000
Notes payable	799,372	880,478
Deferred credits	11,558,817	11,757,070
	12,952,189	13,231,548
Less - Current portion of long-term debt	(97,184)	(81,106)
TOTAL LONG-TERM DEBT AND DEFERRED CREDITS	12,855,005	13,150,442
CURRENT LIABILITIES		
Accounts payable and accrued expenses	211,292	180,103
Accounts payable -Water Division	-	13,288
Current portion of long-term debt	97,184	81,106
TOTAL CURRENT LIABILITIES	308,476	274,497
OTHER LIABILITIES		
Customers' meter deposits	183,633	174,926
TOTAL NET ASSETS AND LIABILITIES	$ 35,342,928	$ 34,647,247

WARREN COUNTY WATER DISTRICT
SEWER DIVISION
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2011 and 2010

	2011	2010
OPERATING REVENUES		
Metered sales	$ 1,859,454	$ 1,729,177
Miscellaneous service revenue	18,120	18,177
TOTAL OPERATING REVENUES	1,877,574	1,747,354
OPERATING EXPENSES		
Source of supply expense:		
Disposal expense	547,842	451,172
Pumping plant expense:		
Power purchased	80,302	90,587
Chemicals	30,028	24,418
Contractual services	3,104	3,074
Insurance	3,434	3,275
	116,868	121,354
Transmission and distribution expense:		
Salaries and benefits	60,533	76,806
Materials and supplies	19,698	13,329
Contractual services	31,927	50,139
Transportation	11,192	11,396
Insurance	2,000	1,907
	125,350	153,577
Customer accounts expense:		
Salaries and benefits	67,647	67,334
Uncollectible accounts	2,573	1,319
Contractual services	34,909	32,882
Insurance	2,000	1,907
Materials and supplies	450	345
Transportation	96	92
Miscellaneous	(863)	117
	106,812	103,996

	2011	2010
Administrative and general expense:		
Salaries and benefits	46,053	46,818
Contractual services	21,399	21,751
Commissioner fees	15,000	15,000
Insurance	4,351	4,254
Regulatory commission expense	2,647	2,689
Office supplies	2,597	3,095
Miscellaneous	3,596	3,011
	95,643	96,618
Depreciation	747,165	667,559
TOTAL OPERATING EXPENSES	1,739,680	1,594,276
OPERATING INCOME	137,894	153,078
NONOPERATING REVENUES (EXPENSES)		
Interest income	23,003	35,144
Rental revenue	8,096	21,354
Non utility income	11	21
Amortization of debt expense	(997)	(1,054)
Interest expense	(61,879)	(66,516)
TOTAL NONOPERATING REVENUES (EXPENSES)	(31,766)	(11,051)
INCOME BEFORE CAPITAL CONTRIBUTIONS	106,128	142,027
CAPITAL CONTRIBUTIONS	842,304	741,013
INCREASE IN NET ASSETS	948,432	883,040
NET ASSETS, BEGINNING OF YEAR	21,047,382	20,164,342
NET ASSETS, END OF YEAR	$ 21,995,814	$ 21,047,382

SHELTON & ASSOCIATES, LLP
CERTIFIED PUBLIC ACCOUNTANTS
181 WEST PROFESSIONAL PARK COURT
BOWLING GREEN, KENTUCKY 42104
(270) 842-9620

MEMBER
AMERICAN INSTITUTE OF CPAs

MEMBER
KENTUCKY SOCIETY OF CPAs

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

To the Board of Commissioners
Warren County Water District
Bowling Green, Kentucky

We have audited the financial statements of the Warren County Water District, as of and for the year ended December 31, 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated April 16, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Warren County Water District's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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 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.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weakness. We did not identify any deficiencies in internal control over financial reporting that we consider to material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Warren County Water District's financial statements are free of material misstatements, 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.*

This report is intended solely for the information and use of the Board of Commissioners, management, others within the organization, Public Service Commission, bond agencies, Standard and Poor's, Warren County Fiscal Court, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Shelton + associates, LLP

Shelton & Associates, LLP
Bowling Green, Kentucky
April 16, 2012