

WARREN COUNTY WATER DISTRICT

FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION

For The Years Ended December 31, 2013 and 2012

WARREN COUNTY WATER DISTRICT
FINANCIAL STATEMENTS
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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business type activities of the Warren County Water District (the District) as of and for the years ended December 31, 2013 and 2012, 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.

Auditor's 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 audits 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2013 and 2012, and the respective changes in

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion analysis information and budgetary comparison information on pages 3 through 10 and 33 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 audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The schedules of operating expenses and individual division Statements of Net Position and Statements of Revenue, Expenses and Changes in Net Position on pages 34 -38 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 was 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 schedules of operating expenses and individual division Statement of Net Position and Statements of Revenue, Expenses and Changes in Net Position is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated April 14, 2014 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.

Shelton CPAs, LLP

Shelton CPAs, LLP
April 14, 2014

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, 2013 and 2012. 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, 2013:

- The District's net position increased by \$1,489,945 from \$81,239,825 to \$82,729,770 as of December 31, 2013.
- Total revenue for the year increased by \$710,931 or 6.1%, compared to last year. The water division's total revenue decreased by \$342,466 and the sewer division's total revenue increased by \$1,053,397.
- In year 2013, metered water sales decreased by \$382,408, or -4.3%, and metered sewer revenue increased by \$1,038,622, or 48.9%. In year 2013, sewer revenue included an average retail rate increase 50.8%.
- Total expenses for the year increased by \$1,293,211, or 12.5%, compared to last year. The water division's total expenses decreased by \$57,507 and the sewer division's total expenses increased by \$1,350,718. In year 2013, the sewer division's expenses included a wholesale increase of 161% for wastewater disposal.
- The water division added 413 customers throughout the year for a 1.6% increase and the sewer division added 250 customers for a 5% increase. The number of customers at the end of the year for the water and sewer divisions was 26,337 and 5,220 respectively.
- Average metered water revenue was \$20.24 per residential customer and \$114.95 per commercial customer. Average metered sewer revenue was \$22.33 per residential customer and \$356.27 per commercial customer.
- Total water sold to the District's customers during the year amounted to 2.24 billion gallons compared to 2.40 billion gallons in the prior year, a decrease of 6.7%. The peak demand month was September 2013 with 222.8 million gallons sold.
- New water meter applications in year 2013 and year 2012 totaled 560 and 726 respectively, a decrease of 166 applications, or -22.9%. New sewer applications in year 2013 and year 2012 totaled 281 and 374 respectively, a decrease of 93 applications, or -24.9%.
- The water division has a total of 1,126 miles of water main serving an average of 23.4 customers per mile. The sewer division has 159 miles of collection mains serving an average of 32.8 customers per mile.
- Projects placed into service include: *Smiths Grove No. 1 Lift Station Upgrade* consists of the replacement of the existing lift station with an upgraded station.
- Projects under construction: *Project 20* consists of several water lines ranging in size from 4- to 10-inch, to increase transmission capacity and system reliability. Additionally, a pump station will be upgraded with new larger pumps.

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 lower than budget by \$136,426 or -1.1%, and *total expenses* were above budget by \$116,439, or 1%. *Metered Water Sales* were 2.9% under budget due to unusually cool and wet weather and *Metered Sewer Revenue* was 3.1% greater than budget. *Miscellaneous Service Revenue* which includes connection fees, collection fees, and meter tampering fees was less than budget by 5.2% or -\$12,985. *Interest Income* was near budget and includes interest earned on 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, and other income was higher than budget by 8.6% or \$34,531. Other revenue includes \$28,020 received from an Atrazine Class Action Settlement that was not budgeted.

Operating Expenses related to maintaining the District's water distribution and sewer collection facilities were greater than budget by 1.6%, or \$131,362. The sewer division's operating expenses such as disposal costs, chemicals, and purchased power were greater than budget due in part to infiltration associated with above average rainfall during the year. *Depreciation* was higher than budget by 0.9% or \$26,336 due several residential developments being placed into service sooner than budgeted. *Interest Expense* was less than budget by 9.2%, or -\$41,350, due to interest savings due to the refinancing of Series 2003A and Series 2003C loans in February 2013 that were not budgeted. Net income totaled \$745,680 for the year, or which was 25.3% lower than budget.

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

	<u>Actual 2013</u>	<u>Budget 2013</u>	Increase \ (Decrease)	% Change
<u>Revenues:</u>				
Metered Water Sales	\$ 8,455,139	\$ 8,709,000	(253,861)	-2.9%
Metered Sewer Revenue	3,162,696	3,067,000	95,696	3.1%
Miscellaneous Service Revenue	237,925	250,910	(12,985)	-5.2%
Interest Income	101,183	100,990	193	0.2%
All Other Revenues	<u>437,930</u>	<u>403,399</u>	<u>34,531</u>	8.6%
Total Revenue	<u>12,394,873</u>	<u>12,531,299</u>	<u>(136,426)</u>	-1.1%
<u>Expenses:</u>				
Operating Expenses	\$ 8,378,536	\$ 8,247,174	131,362	1.6%
Depreciation	2,814,146	2,787,810	26,336	0.9%
Interest Expense	410,890	452,420	(41,530)	-9.2%
All other Expenses	<u>45,621</u>	<u>45,350</u>	<u>271</u>	0.6%
Total Expenses	<u>11,649,193</u>	<u>11,532,754</u>	<u>116,439</u>	1.0%
Net Income	<u>\$ 745,680</u>	<u>\$ 998,545</u>	<u>(252,865)</u>	-25.3%

Management's Discussion And Analysis (Continued)

Statement of Net Position

A summary of the District's Net Position is presented below in Table 2. The District's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$82,729,770 in year 2013.

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 2013, capital assets totaled \$101,680,235 net of depreciation resulting in a 2.5% increase of \$2,510,470 over the prior year. Asset additions include the Buchanon Park sewer extension and several residential developments placed into service throughout the year.

Restricted and Current Assets totaled \$15,076,686, a 1.8% decrease of -\$279,154 from last year. Funds restricted for future system improvements, equipment repairs and replacement, debt service, and customer deposits increased by \$683,865. Current assets including cash and contractor receivables decreased by \$963,019. *Other Assets* consists of unamortized debt premiums and discounts which increased \$11,821 and *Deferred Outflows of Resources* includes unamortized retirement plan costs and other deferred expenses which decreased by \$22,791.

Long-Term Debt totaled \$10,194,299, a 6.5% reduction of \$709,091 from the last year. In February 2013, the Kentucky Rural Water Finance Corporation (KRWFC) Series 2013B loan paid off the KRWFC Series 2003A & 2003B loans. In addition, a loan was obtained from Kentucky Infrastructure Authority (KIA) to finance the Buchanon Park sewer extension. *Current Liabilities* totaled \$2,088,869, a 22.5% increase of \$383,327 from last year. Accrued expenses and accounts payable increased by \$156,434 and \$148,576 respectively; and other current liabilities increased by a net amount of \$78,317. *Other Liabilities* consists of customer deposits for water and sewer service. *Deferred Inflows of Resources* totaled \$21,011,000 and includes contributed capital from developers and deferred revenue from leases to cellular providers. The increase of \$1,008,617 is due to several residential developments that were transferred to the District and placed into service during the year.

The District's *Net Position Invested in Capital Assets* increased by \$2,146,963, or 3.2%. *Restricted Net Position* increased by \$671,294 and includes funds restricted for the following: payment of principal and interest on bonds and loans, anticipated expenditures for capital improvements, and funds for emergencies. *Unrestricted Net Position* decreased by \$1,328,312, or 55.8%. *Total Net Position* was \$82,729,770 in year 2013, a 1.8% increase of \$1,489,945 compared to the prior year.

Management's Discussion And Analysis (Continued)

Table 2
WARREN COUNTY WATER DISTRICT
Condensed Statement of Net Position
December 31, 2013

	<u>Year 2013</u>	<u>Year 2012</u>	<u>Increase \</u> <u>Decrease</u>	<u>%</u> <u>Change</u>
Capital assets	101,680,235	99,169,765	2,510,470	2.5%
Restricted and current assets	15,076,686	15,355,840	(279,154)	-1.8%
Other Assets	86,923	75,102	11,821	15.7%
Deferred outflows of resources	<u>239,575</u>	<u>262,366</u>	<u>(22,791)</u>	<u>-8.7%</u>
Total assets and deferred outflows of resources	117,083,419	114,863,073	2,220,346	1.9%
Long Term Debt	10,194,299	10,903,390	(709,091)	-6.5%
Current liabilities	2,088,869	1,705,542	383,327	22.5%
Other Liabilities	1,059,121	1,011,573	47,548	4.7%
Deferred inflows of resources	<u>21,011,360</u>	<u>20,002,743</u>	<u>1,008,617</u>	<u>5.0%</u>
Total liabilities and deferred inflows of resources	34,353,649	33,623,248	730,401	2.2%
Net position invested in capital assets, net of related debt	70,060,856	67,913,893	2,146,963	3.2%
Restricted net position	11,618,662	10,947,368	671,294	6.1%
Unrestricted net position	<u>1,050,252</u>	<u>2,378,564</u>	<u>(1,328,312)</u>	<u>-55.8%</u>
Total net position	<u><u>82,729,770</u></u>	<u><u>81,239,825</u></u>	<u><u>1,489,945</u></u>	<u><u>1.8%</u></u>

Management's Discussion And Analysis (Continued)

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 3 below.

Table 3
WARREN COUNTY WATER DISTRICT
Combined Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended December 31, 2013

	<u>Year 2013</u>	<u>Year 2012</u>	<u>Increase \</u> <u>(Decrease)</u>	<u>%</u> <u>Change</u>
<u>Revenues:</u>				
Metered Water Sales	8,455,139	8,837,547	(382,408)	-4.3%
Metered Sewer Revenue	3,162,696	2,124,074	1,038,622	48.9%
Miscellaneous Service Revenue	237,925	234,436	3,489	1.5%
Interest Income	101,183	100,648	535	0.5%
All Other Revenues	<u>437,930</u>	<u>387,237</u>	<u>50,693</u>	13.1%
Total Revenue	<u>12,394,873</u>	<u>11,683,942</u>	<u>710,931</u>	6.1%
<u>Expenses:</u>				
Operating Expenses	8,378,536	7,162,528	1,216,008	17.0%
Depreciation	2,814,146	2,694,616	119,530	4.4%
Interest Expense	410,890	460,222	(49,332)	-10.7%
All other Expenses	<u>45,621</u>	<u>38,616</u>	<u>7,005</u>	18.1%
Total Expenses	<u>11,649,193</u>	<u>10,355,982</u>	<u>1,293,211</u>	12.5%
Income Before Capital Contributions	745,680	1,327,960	(582,280)	-43.8%
Capital Contributions	<u>744,265</u>	<u>2,440,913</u>	<u>(1,696,648)</u>	-69.5%
Increase in Net Assets	1,489,945	3,768,873	(2,278,928)	-60.5%
Net Position, Beginning of Year	81,239,825	77,794,169	3,445,656	4.4%
Net Position, Adjustment	<u>-</u>	<u>(323,217)</u>	<u>323,217</u>	-100.0%
Net Position, End of Year	<u>82,729,770</u>	<u>81,239,825</u>	<u>1,489,945</u>	1.8%

Management's Discussion And Analysis (Continued)

The volume of water sold in year 2013 totaled 2.24 billion gallons versus 2.40 billion gallons last year, a 6.7% decrease of 160 million gallons. The volume of sewer revenue billed for year 2013 was 812.8 million gallons versus 825.3 million gallons last year, a 1.5% decrease of 12.5 million gallons billed.

Metered Water Sales decreased by 4.3% or -\$382,408 and *Metered Sewer Revenue* increased by 48.9% or \$1,038,622. Water sales decreased due to unusually wet weather and cool temperatures while sewer revenue increased due to a retail rate increase effective in December 2012. Customer growth within the District's service area continued with a 1.6% increase in water service customers and a 5% increase in sewer service customers. The water division added 413 customers for a total of 26,337, and the sewer division added 250 customers for a total of 5,220 customers. *Miscellaneous Service Revenue*, which includes connection fees, collection fees, and meter tampering fees increased by 1.5%, or \$3,489. *All Other Income* increased by \$50,693 and consists of increases in forfeited discounts, rental income, non-utility income, and includes \$28,020 received from an Atrazine Class Action Settlement.

Operating Expenses increased by \$1,216,008, a 17% increase when compared to the prior year. The operating expense with the largest increase was wastewater disposal which increased by \$1,239,323 due to a wholesale sewer rate increase from Bowling Green Municipal Utilities (BGMU). The remaining operating expenses decreased by a total of \$23,315 including decreases in purchased water of \$147,761 and purchased power of \$24,838; and increases in employment costs of \$96,009 and various other expenses totaling \$53,275.

Depreciation expense increased by \$119,530 or 4.4%, corresponding to various asset additions recorded throughout the year including the Buchanan Park sewer extension, four sewer lift station upgrades, and several residential developments. *Interest Expense* decreased by \$49,332, or -10.7%, due to reductions in outstanding debt and refinancing of Series 2003A and Series 2003C loans in February 2013.

Capital Contributions of \$745,680 were received during the year including contributions for meter installations and sewer taps of \$517,840, contributions towards debt service of \$197,055, reimbursements for special projects and relocations of \$30,785.

Management's Discussion And Analysis (Continued)

Changes in Capital Assets

The largest portion of the District's assets is invested in the water distribution and sewer collection system amounting to \$98,674,900 net of depreciation, as of December 31, 2013. Table 4 details changes in capital assets.

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

<u>Capital Investment</u>	<u>Year 2013</u>	<u>Year 2012</u>	<u>Increase \</u> <u>Decrease</u>	<u>%</u> <u>Change</u>
WATER DIVISION:				
Land	\$ 1,324,352	\$ 1,326,380	(2,028)	-0.2%
Structures	1,892,324	1,939,952	(47,628)	-2.5%
Pumping Equipment	1,819,707	1,827,966	(8,259)	-0.5%
Storage Tanks	8,757,872	8,989,155	(231,283)	-2.6%
Distribution Mains	38,736,737	38,987,762	(251,025)	-0.6%
Meters	9,355,497	9,017,622	337,875	3.7%
Hydrants	2,690,327	2,651,076	39,251	1.5%
Hardware & Software	880,676	839,689	40,987	4.9%
Vehicles and Equipment	431,042	407,088	23,954	5.9%
Other	<u>152,862</u>	<u>171,381</u>	<u>(18,519)</u>	-10.8%
Subtotal - Water Division	<u>66,041,396</u>	<u>66,158,071</u>	<u>(116,675)</u>	-0.2%
SEWER DIVISION:				
Land	\$ 70,602	70,602	-	0.0%
Structures	5,555,181	5,293,067	262,114	5.0%
Pumping Equipment	1,436,473	1,461,494	(25,021)	-1.7%
Collection Mains	23,068,790	21,694,167	1,374,623	6.3%
Taps	2,377,700	2,175,545	202,155	9.3%
Hardware & Software	113,174	110,406	2,768	2.5%
Other	<u>11,584</u>	<u>24,068</u>	<u>(12,484)</u>	-51.9%
Subtotal - Sewer Division	<u>32,633,504</u>	<u>30,829,349</u>	<u>1,804,155</u>	5.9%
Total - Water & Sewer	<u>98,674,900</u>	<u>96,987,420</u>	<u>1,687,480</u>	1.7%

Total capital assets, net of depreciation, increased by \$1,687,480, or 1.7%, compared to the prior year. In year 2013, the following were recorded to capital assets: Buchanan Park Sewer Extension, \$1,272,815; residential water and sewer developments, \$1,228,760; water meter installations, \$581,300; four sewer lift station improvements, \$306,480; sewer taps, \$259,670; water service line upgrades, \$139,140; fire hydrant installations, \$107,270; trucks and equipment, \$104,420; computer network upgrades, \$96,180; GIS mapping upgrades, \$71,565; office building improvements, \$83,080; other various additions, \$160,853; and a reduction of \$2,724,053 for accumulated depreciation.

Table 4 does not reflect construction projects in progress totaling \$3,005,335, an increase of \$822,990 from projects under construction this time last year of \$2,182,345. The water division's Project 20 was under construction at end of the year with accumulated costs of \$1,632,415.

Management's Discussion And Analysis (Continued)

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. In February 2013, the District refinanced the Series 2003A and Series 2003C loans to reduce interest costs in current and future years. As of December 31, 2013, the District had \$10,844,417 in outstanding debt compared to \$11,482,285 in the previous year. Principal payments throughout the year and refinancing reduced outstanding debt by \$637,868.

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 2014 at its meeting held in November 2013. Metered water sales and sewer revenue combined are budgeted to increase by 2.4%. Total revenue is budgeted to increase by 2.1% from year 2013, and total expenses are budgeted to increase by 1.7%. Debt service payments are expected to total \$919,870 for both divisions with a reduction in outstanding debt of \$537,270. Net income for year 2014 is budgeted to total \$724,070. Capital expenditures budgeted for the year totaled \$6,966,850.

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 POSITION
 DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
ASSETS		
UTILITY PLANT (at cost)		
Utility plant in service	\$ 137,216,407	\$ 132,804,874
Less accumulated depreciation	<u>(38,541,507)</u>	<u>(35,817,454)</u>
	98,674,900	96,987,420
Utility plant construction in progress	<u>3,005,335</u>	<u>2,182,345</u>
NET UTILITY PLANT	101,680,235	99,169,765
NONOPERATING PROPERTY, net of \$85,836		
accumulated depreciation	165,856	165,856
RESTRICTED ASSETS		
Bond and interest sinking funds	744,936	740,701
Debt service reserve for bond funds	318,800	318,800
Customer deposits	1,060,595	1,048,024
Construction funds	6,607,331	5,082,064
Depreciation funds:		
Cash in bank	<u>3,947,595</u>	<u>4,805,803</u>
TOTAL RESTRICTED ASSETS	12,679,257	11,995,392
CURRENT ASSETS		
Cash and cash equivalents	998,886	1,904,615
Accounts receivable		
User charges, net of allowance for doubtful	571,435	480,050
accounts: 2013-\$9,454 and 2012-\$9,205		
Contractor receivable	3,065	133,708
Butler County Water System, Inc.	72,766	99,282
Simpson County Water District	41,597	52,814
Miscellaneous	12,653	13,641
Special deposits and transfers	1,630	2,190
Materials and supplies inventory	421,884	411,218
Prepaid expenses	86,489	77,784
Other receivables	<u>21,168</u>	<u>19,290</u>
TOTAL CURRENT ASSETS	2,231,573	3,194,592
OTHER ASSETS		
Unamortized debt premium/discount	<u>86,923</u>	<u>75,102</u>
TOTAL OTHER ASSETS	<u>86,923</u>	<u>75,102</u>
TOTAL ASSETS	116,843,844	114,600,707
DEFERRED OUTFLOWS OF RESOURCES		
Unamortized retirement costs and deferred expenses	<u>239,575</u>	<u>262,366</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>239,575</u>	<u>262,366</u>
TOTAL ASSETS AND DEFERRED		
OUTFLOWS OF RESOURCES	<u>\$ 117,083,419</u>	<u>\$ 114,863,073</u>

WARREN COUNTY WATER DISTRICT
 STATEMENTS OF NET POSITION
 DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
NET POSITION		
Invested in capital assets, net of related debt	\$ 70,060,856	\$ 67,913,893
Restricted	11,618,662	10,947,368
Unrestricted	<u>1,050,252</u>	<u>2,378,564</u>
TOTAL NET POSITION	82,729,770	81,239,825
LONG-TERM DEBT		
Bonds and loans payable	3,061,500	3,179,500
Notes payable	7,782,917	8,302,785
Less - Current portion of long-term debt	<u>(650,118)</u>	<u>(578,895)</u>
TOTAL LONG-TERM DEBT	10,194,299	10,903,390
CURRENT LIABILITIES		
Accounts payable	482,794	334,218
Butler County Water System, Inc.	46,003	42,405
Simpson County Water District	39,246	35,750
Accrued expenses	870,708	714,274
Current portion of long-term debt	<u>650,118</u>	<u>578,895</u>
TOTAL CURRENT LIABILITIES	2,088,869	1,705,542
OTHER LIABILITIES		
Customers' meter deposits	<u>1,059,121</u>	<u>1,011,573</u>
TOTAL LIABILITIES	13,342,289	13,620,505
DEFERRED INFLOWS OF RESOURCES		
Contractor advances for construction	20,940,818	19,939,443
Deferred revenue from cellular leases	<u>70,542</u>	<u>63,300</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>21,011,360</u>	<u>20,002,743</u>
TOTAL NET POSITION, LIABILITIES, AND DEFERRED INFLOWS OF RESOURCES	<u>\$ 117,083,419</u>	<u>\$ 114,863,073</u>

WARREN COUNTY WATER DISTRICT
 STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
 FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
OPERATING REVENUES		
Metered sales	\$ 11,785,396	\$ 11,113,443
Miscellaneous service revenue	<u>237,925</u>	<u>234,436</u>
TOTAL OPERATING REVENUES	12,023,321	11,347,879
OPERATING EXPENSES		
Source of supply	4,604,792	3,513,231
Pumping plant	618,886	632,110
Water treatment	252	252
Transmission and distribution	1,031,583	1,028,587
Customer accounts	1,319,793	1,216,926
Administrative and general	803,229	771,423
Depreciation	<u>2,814,146</u>	<u>2,694,616</u>
TOTAL OPERATING EXPENSES	<u>11,192,681</u>	<u>9,857,145</u>
OPERATING INCOME	830,640	1,490,734
NONOPERATING REVENUES (EXPENSES)		
Interest income	100,235	100,648
Rental revenue	131,781	122,630
Non-utility income	107,141	108,521
Gain on disposal of assets	3,425	10,569
Amortization of debt expense	(44,672)	(44,920)
Interest expense	(410,890)	(460,222)
Legal settlement	<u>28,020</u>	<u>-</u>
NET NONOPERATING REVENUES (EXPENSES)	<u>(84,960)</u>	<u>(162,774)</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS	745,680	1,327,960
CAPITAL CONTRIBUTIONS		
	<u>744,265</u>	<u>2,440,913</u>
INCREASE IN NET POSITION	1,489,945	3,768,873
NET POSITION, BEGINNING OF YEAR	<u>81,239,825</u>	<u>77,794,169</u>
NET POSITION, ADJUSTMENT	<u>-</u>	<u>(323,217)</u>
NET POSITION, RESTATED	<u>81,239,825</u>	<u>77,470,952</u>
NET POSITION, END OF YEAR	<u>\$ 82,729,770</u>	<u>\$ 81,239,825</u>

WARREN COUNTY WATER DISTRICT
 STATEMENTS OF CASH FLOW
 FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers and users	\$ 12,099,982	\$ 11,700,233
Payments to suppliers	(6,361,375)	(6,173,613)
Payments to employees	<u>(1,646,846)</u>	<u>(1,527,970)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	4,091,761	3,998,650
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from notes	1,999,469	2,892,431
Principal paid on bonds and notes	(2,519,336)	(3,270,801)
Interest paid	(435,168)	(504,324)
Proceeds from disposal of capital assets	-	10,875
Acquisition and construction of capital assets	<u>(3,695,869)</u>	<u>(2,564,878)</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(4,650,904)	(3,436,697)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest income	98,357	94,015
Purchase of investments in certificates of deposits	(1,488,707)	(1,064,202)
Proceeds from miscellaneous income	<u>238,922</u>	<u>231,151</u>
NET CASH USED BY INVESTING ACTIVITIES	<u>(1,151,428)</u>	<u>(739,036)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,710,571)	(177,083)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>9,857,691</u>	<u>10,034,774</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 8,147,120</u>	<u>\$ 9,857,691</u>

See Note B for reconciliation to balance sheet.

	<u>2013</u>	<u>2012</u>
Reconciliation of operating income to net cash provided in operating activities:		
Operating income	\$ 830,640	\$ 1,490,734
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	2,814,146	2,694,616
Decrease (increase) in:		
Accounts receivable	77,979	358,987
Special Deposits and transfers	560	-
Prepaid insurance and pension contributions	(8,705)	(9,682)
Materials and supplies inventory	(10,666)	(106,255)
Other receivables	(1,878)	(6,633)
Deferred charges	22,791	(95,841)
Increase (decrease) in:		
Accounts payable and accrued liabilities	312,104	(368,123)
Deposits	47,548	36,205
Deferred revenues	7,242	4,642
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 4,091,761</u>	<u>\$ 3,998,650</u>
 NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Private developers contributed constructed water and sewer lines at cost	<u>\$ 744,265</u>	<u>\$ 2,440,914</u>
TOTAL NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES	<u>\$ 744,265</u>	<u>\$ 2,440,914</u>

NOTES TO THE FINANCIAL STATEMENTS

WARREN COUNTY WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2013 and 2012

**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 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.

New Accounting Pronouncements: Changes in Accounting Principles and Restatements

On December 31, 2012, the District adopted the following new accounting pronouncement issued by the Governmental Accounting Standards Board (GASB):

- GASB Statement No. 63, Financial Reporting of Deferred Outflow of Resources, Deferred Inflows of Resources, and Net Position. The Statement provides guidance for deferred outflows of resources and deferred inflows of resources. Deferred outflows and deferred inflows of resources are defined as consumption of net position by the government that is applicable to a future reporting period and the acquisition of net position by the government that is applicable to a future reporting period. Net position is defined as the residual of all other elements presented in a statement of financial position.

WARREN COUNTY WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2013 and 2012

On December 31, 2013, the District adopted the following new accounting pronouncement issued by the Governmental Accounting Standards Board (GASB):

- GASB Statement No. 65, Items Previously Reported as Assets and Liabilities. This Statement establishes accounting and financial reporting standards that classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources, and recognize certain items that were previously reported as assets and liabilities as outflows or resources or inflows of resources.

Accounting changes adopted to conform to the provisions of these pronouncements should be applied retroactively. Except for GASB Statement No. 65, the implementation of these pronouncements had no material effect on amounts reported in the District’s financial statements for the fiscal year ended December 31, 2013. The requirements of GASB Statements No. 65 caused the District to restate certain prior year net positions by the amount of the unamortized debt issuance costs, as these costs should now be recognized as an expense in the period incurred.

The following table provides a reconciliation of net positions at December 31, 2012 as previously reported to net positions at December 31, 2012 as restated.

Net position at beginning of the year, as previously reported	\$	77,794,169
Debt issuance costs	<u></u>	<u>(323,217)</u>
Net position - restated	\$	<u>77,470,952</u>

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.

WARREN COUNTY WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2013 and 2012

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.

Unamortized Retirement Costs

In 1999 the District was given the opportunity to lower the retirement age of their employees to sixty two. 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 as allowed by the agreement with retirement group.

Capital Contributions and Contractor Advances for Construction

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. Contractor Advances for Construction are amounts advanced by contractors to improve property by adding water and sewer connections. These amounts are to be refunded either entirely or in part dependent on residents having services installed. Amounts not refunded are transferred to contributions in aid of construction after a ten-year period has lapsed.

WARREN COUNTY WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2013 and 2012

Net Position

Accounting standards require the classification of Net Position into the following three components:

Invested in capital assets, net of related debt – This component of Net Position 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 Position 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 Position 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.

WARREN COUNTY WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2013 and 2012

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 2012 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 Position as current assets.

WARREN COUNTY WATER DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
 DECEMBER 31, 2013 and 2012

At December 31, 2013, the District's cash and investments held at sixteen 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	750,000	750,000	250,000	588,700
Financial Institution C	118,346	118,346	250,000	-
Financial Institution D	4,569,521	5,127,612	250,000	5,859,858
Financial Institution E	2,726,337	2,726,337	250,000	2,532,467
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	250,000	250,000	250,000	-
Financial Institution J	1,476,136	1,476,136	-	1,476,136
Financial Institution K	1,030,595	1,030,595	250,000	827,532
Financial Institution L	142,466	142,466	250,000	-
Financial Institution M	250,000	250,000	250,000	-
Financial Institution N	544,076	544,076	250,000	544,076
Financial Institution O	216,420	216,420	250,000	-
Financial Institution P	603,026	603,025	500,000	268,505
	<u>\$ 13,676,923</u>	<u>\$ 14,235,013</u>	<u>\$ 4,000,000</u>	<u>\$ 12,097,274</u>

At December 31, 2013 and 2012 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 \$3,727,232.

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 investments are in certificates of deposits and bonds. The District's cost basis, which approximates fair market value, in certificates of deposits at December 31, 2013 and 2012 were \$5,531,023 and \$4,042,316, respectively. At December 31, 2013, \$1,476,136 was held in AAA rated money market funds.

WARREN COUNTY WATER DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
 DECEMBER 31, 2013 and 2012

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

	December 31,	
Cash and Investments	2013	2012
Bond and Interest Sinking Funds	\$ 744,936	\$ 740,701
Debt Service Reserve	318,800	318,800
Customer deposits	1,060,595	1,048,024
Construction funds	6,607,331	5,082,064
Depreciation fund	3,947,595	4,305,803
Cash and cash equivalents	<u>998,886</u>	<u>1,904,615</u>
Total Cash and Investments	<u>13,678,143</u>	<u>13,400,007</u>
Less: Investments in Certificates of Deposit	<u>(5,531,023)</u>	<u>(4,042,316)</u>
Total Cash and Cash Equivalents per Statements of Cash Flows	<u>\$ 8,147,120</u>	<u>\$ 9,357,691</u>

NOTE C-UTILITY PLANT

The costs of major classes of utility plant at December 31, 2013 were:

Description	2012	Additions	Disposals	2013
Land *	\$ 1,396,982	\$ -	\$ 2,028	\$ 1,394,954
Buildings/Improvements	8,540,593	395,902	-	8,936,495
Elec Pumping/Mains	100,092,296	2,879,912	-	102,972,208
Meters/Hydrants	19,682,207	1,032,025	83,790	20,630,442
Furniture and Equipment-Office	1,794,404	171,220	94,460	1,871,164
Equipment	<u>1,298,392</u>	<u>133,677</u>	<u>20,926</u>	<u>1,411,143</u>
Total Utility Plant in Service	132,804,874	<u>\$ 4,612,736</u>	<u>\$ 201,204</u>	137,216,406
Nonoperating Property *	251,692			251,692
Construction in Progress *	2,182,345			3,005,335
Accumulated Depreciation	<u>(35,903,290)</u>			<u>(38,627,342)</u>
	<u>\$ 99,335,621</u>			<u>\$ 101,846,091</u>

* Denotes items that are not depreciated.

WARREN COUNTY WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2013 and 2012

The accumulated depreciation by major classes of utility plant at December 31, 2013 were:

<u>Description</u>	<u>2012</u>	<u>Additions</u>	<u>Disposals</u>	<u>2013</u>
Buildings/Improvements	1,317,354	181,417	-	1,498,771
Elec Pumping/Mains	26,787,422	2,044,734	-	28,832,156
Meters/Hydrants	5,840,230	452,744	83,790	6,209,184
Furniture and Equipment-Office	823,446	130,830	94,460	859,816
Equipment	<u>1,134,838</u>	<u>113,504</u>	<u>20,926</u>	<u>1,227,416</u>
Total Utility Plant in Service	35,903,290	<u>\$ 2,923,229</u>	<u>\$ 199,176</u>	38,627,343
Nonoperating Property	(85,836)			(85,836)
	<u>\$ 35,817,454</u>			<u>\$ 38,541,507</u>

The costs of major classes of utility plant at December 31, 2012 were:

<u>Description</u>	<u>2011</u>	<u>Additions</u>	<u>Disposals</u>	<u>2012</u>
Land *	\$ 1,396,982	\$ -	\$ -	\$ 1,396,982
Buildings/Improvements	8,464,310	76,283	-	8,540,593
Elec Pumping/Mains	96,997,312	3,343,740	248,756	100,092,296
Meters/Hydrants	18,959,466	742,382	19,641	19,682,207
Furniture and Equipment-Office	967,463	826,941	-	1,794,404
Equipment	<u>1,300,108</u>	<u>75,937</u>	<u>77,653</u>	<u>1,298,392</u>
Total Utility Plant in Service	128,085,641	<u>\$ 5,065,283</u>	<u>\$ 346,050</u>	132,804,874
Nonoperating Property *	251,692			251,692
Construction in Progress *	2,708,251			2,182,345
Accumulated Depreciation	(33,441,807)			(35,903,290)
	<u>\$ 97,603,777</u>			<u>\$ 99,335,621</u>

WARREN COUNTY WATER DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
 DECEMBER 31, 2013 and 2012

The accumulated depreciation by major classes of utility plant at December 31, 2012 were:

<u>Description</u>	<u>2011</u>	<u>Additions</u>	<u>Disposals</u>	<u>2012</u>
Buildings/Improvements	1,143,300	174,054	-	1,317,354
Elec Pumping/Mains	25,042,488	1,993,690	248,756	26,787,422
Meters/Hydrants	5,428,386	431,485	19,641	5,840,230
Furniture and Equipment-Office	736,067	87,379	-	823,446
Equipment	<u>1,091,566</u>	<u>120,925</u>	<u>77,653</u>	<u>1,134,838</u>
Total Utility Plant in Service	<u>\$ 33,441,807</u>	<u>\$ 2,807,533</u>	<u>\$ 346,050</u>	<u>\$ 35,903,290</u>
Nonoperating Property	(85,836)			(85,836)
	<u>\$ 33,355,971</u>			<u>\$ 35,817,454</u>

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:

Project 20

Project 20 consists of several water lines ranging in size from 4- to 10-inch, to increase transmission capacity and system reliability throughout Warren County. Additionally a pump station will be upgraded with new larger pumps. Total expenditures as of 12/31/13 were \$1,376,000. The anticipated total cost of the project is \$1,700,000. This project is internally funded.

Rivendell Lift Station Upgrade

The Rivendell Lift Station Upgrade project consists of the replacement of the existing lift station with an upgraded station. Total expenditures as of 12/31/13 were \$14,600. The anticipated total cost of the project is \$185,000. This project is internally funded.

WARREN COUNTY WATER DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
 DECEMBER 31, 2013 and 2012

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.

WARREN COUNTY WATER DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
 DECEMBER 31, 2013 and 2012

Summary of bond activity for the year ended December 31, 2013 was as follows:

Series	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
1993	\$ 578,500	\$ -	\$ 16,000	\$ 562,500	17,000
2004A*	1,440,000	-	85,000	1,355,000	90,000
2005A	<u>1,161,000</u>	<u>-</u>	<u>17,000</u>	<u>1,144,000</u>	<u>18,000</u>
	<u>\$ 3,179,500</u>	<u>\$ -</u>	<u>\$ 118,000</u>	<u>\$ 3,061,500</u>	<u>\$ 125,000</u>

Summary of bond activity for the year ended December 31, 2012 was as follows:

Series	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
1993	\$ 594,000	\$ -	\$ 15,500	\$ 578,500	16,000
1998*	1,085,000	-	1,085,000	-	-
1999A*	1,772,000	-	1,772,000	-	-
2004A*	1,525,000	-	85,000	1,440,000	85,000
2005A	<u>1,175,000</u>	<u>-</u>	<u>14,000</u>	<u>1,161,000</u>	<u>17,000</u>
	<u>\$ 6,151,000</u>	<u>\$ -</u>	<u>\$ 2,971,500</u>	<u>\$ 3,179,500</u>	<u>\$ 118,000</u>

WARREN COUNTY WATER DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
 DECEMBER 31, 2013 and 2012

As of December 31, 2013, the aggregate debt service requirements on bonded indebtedness to maturity are summarized as follows:

Year Ending December	Principal Payments	Interest Payments	Total
2014	\$ 125,000	\$ 221,748	\$ 346,748
2015	136,000	206,785	342,785
2016	137,500	199,716	337,216
2017	140,000	192,306	332,306
2018	141,500	184,583	326,083
2019-2023	825,000	791,268	1,616,268
2024-2028	578,500	548,541	1,127,041
2029-2033	375,000	373,400	748,400
2034-2038	221,000	194,009	415,009
2039-2043	272,000	47,334	319,334
2044-2045	<u>110,000</u>	<u>1,317</u>	<u>111,317</u>
	<u>\$ 3,061,500</u>	<u>\$ 2,961,007</u>	<u>\$ 6,022,507</u>

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 2045. Interest is due semi-annually of each year. 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.

WARREN COUNTY WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2013 and 2012

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, 2013, \$2,778,000 of the bond considered defeased is still outstanding. 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.

During the year 2012, the District refunded its outstanding 1998 and 1999A bonds of \$1,085,000 and \$1,772,000 respectively, carrying an interest rate of 4.5% and 5.125% respectively, with a new loan, 2012B, of \$2,095,000 with an interest rate ranging from 2.0% to 4.325%. The lower rate is applicable to the beginning of the term and increasing over the life of the note. The new note requires annual debt service payments maturing in 2039. The District's refunding of the 1998 and 1999A bonds resulted in total gross debt service savings of \$721,561 and a net present value savings of \$638,226.

In 2012 a new note, C11-02, was finalized to fund the Buchanon Park sewer line extension for \$823,900, of which only \$797,431 was drawn for the project at the years end. It has an interest rate of 3% with annual debt service payments and it matures in 2033. Annual replacement cost is \$2,000 annually until the balance reaches \$20,000 and will be maintained for the life of the loan.

During the year 2013, the District amended its outstanding 2003A and 2003C notes of \$1,815,000 and \$338,700 respectively, carrying an interest rate of 4.0% and 5.0% respectively, with a new loan, 2013B, of \$1,975,000 with an interest rate ranging from 2.3% to 3.3%. The lower rate is applicable to the beginning of the term and increasing over the life of the note. The new note requires annual debt service payments maturing in 2028. The District's amending of the 2003A and 2003C bonds resulted in total cash flow savings of \$264,654.

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, 2013 and 2012 is \$46,660 and \$46,660, respectively. The Series 1998 bond was refunded in 2012.

WARREN COUNTY WATER DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
 DECEMBER 31, 2013 and 2012

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. Income from investments of the Debt Service Reserve Fund is to be accumulated in the fund. The balance at December 31, 2013 and 2012 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 2006A*	4.30%	07/01/06	07/01/30	3,098,000
Series 2012B	2.00-4.25%	03/25/12	01/01/39	2,095,000
Series 2013B	2.30-3.30%	02/27/13	01/01/28	1,975,000
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
C11-02	3.00%	12/27/11	10/24/33	797,431
				<u>\$ 9,542,657</u>

WARREN COUNTY WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2013 and 2012

Summary of note activity for the year ended December 31, 2013 was as follows:

Description	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
2003A*	\$ 1,815,000	\$ -	\$ 1,815,000	\$ -	\$ -
2003C*	338,700	-	338,700	-	-
2006A*	2,778,000	-	104,000	2,674,000	115,000
2012B	2,095,000	-	170,000	1,925,000	180,000
2013B	-	1,975,000	-	1,975,000	125,000
B92-01/265	7,099	-	7,099	-	-
A97-04/317	374,840	-	56,745	318,095	58,921
A98-02/353	96,715	-	14,641	82,074	15,203
C11-02	797,432	24,469	13,153	808,748	30,609
	<u>\$ 8,302,786</u>	<u>\$ 1,999,469</u>	<u>\$ 2,519,338</u>	<u>\$ 7,782,917</u>	<u>\$ 524,733</u>

Summary of note activity for the year ended December 31, 2012 was as follows:

Description	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
2003A*	\$ 1,899,000	\$ -	\$ 84,000	\$ 1,815,000	\$ 85,000
2003C*	356,500	-	17,800	338,700	20,900
2006A*	2,882,000	-	104,000	2,778,000	104,000
2012B	-	2,095,000	-	2,095,000	170,000
B90-07/263	17,994	-	17,994	-	-
B92-01/265	13,859	-	6,760	7,099	7,099
A97-04/317	429,487	-	54,648	374,839	56,745
A98-02/353	110,815	-	14,100	96,715	14,641
C11-02	-	797,432	-	797,432	2,510
	<u>\$ 5,709,655</u>	<u>\$ 2,892,432</u>	<u>\$ 299,302</u>	<u>\$ 8,302,785</u>	<u>\$ 460,895</u>

* 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.

WARREN COUNTY WATER DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
 DECEMBER 31, 2013 and 2012

As of December 31, 2013, the future payments for the remaining note payable obligations by year are as follows:

Year Ending December	Principal Payments	Interest Payments	Total
2014	\$ 525,118	\$ 268,257	\$ 793,375
2015	392,517	253,238	645,755
2016	415,828	239,184	655,012
2017	417,895	226,159	644,054
2018	434,109	212,721	646,830
2019-2023	1,920,901	872,794	2,793,695
2024-2028	2,083,218	543,738	2,626,956
2029-2033	1,033,331	206,536	1,239,867
2034-2038	460,000	89,251	549,251
2039	100,000	8,400	108,400
	<u>\$ 7,782,917</u>	<u>\$ 2,920,278</u>	<u>\$ 10,703,195</u>

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 \$164,147 and \$188,425 at December 31, 2013 and 2012, 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 Position as “Capital Contributions”. The contributions were composed of the following at December 31, 2013:

	<u>2012</u>	<u>Additions</u>	<u>2013</u>
Original membership and tap-on fees and contributions for construction of various projects	\$ 34,786,458	\$ 744,265	\$ 35,530,723
Grants-in-aid	19,301,433	-	19,301,433
Total Capital Contributions	54,087,891	<u>\$ 744,265</u>	54,832,156
Retained Earnings	27,475,151		27,897,614
Net Position, adjustment	(323,217)		-
Total Net Position	<u>\$ 81,239,825</u>		<u>\$ 82,729,770</u>

WARREN COUNTY WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2013 and 2012

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 2013, 2012, and 2011 were 25.89%, 23.98%, and 23.53% respectively of employees' base pay for those employees who have been employed with the District for over one year and has worked the number of hours needed to qualify. Payments to the NRECA are charged to expense as incurred and the District carries no liability for the plan. For the years 2013, 2012, and 2011 the pension contributions are \$707,043, \$645,744, \$590,616, 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.

WARREN COUNTY WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2013 and 2012

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, 2013 and 2012, the District's accrued compensated absences for annual leave totaled \$265,446 and \$290,067, 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, 2013 and 2012, the District's accrued compensated absences for sick leave totaled \$35,866 and \$32,963, 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, 2013, the District carried net receivables of \$26,763 and \$2,351 from Butler and Simpson Counties, respectively. At December 31, 2012, the District carried net receivables of \$56,877 and \$17,064 from Butler and Simpson Counties, respectively.

NOTE M-SUBSEQUENT EVENTS

The company has evaluated subsequent events through April 14, 2014 the date which the financial statements were available to be issued.

OTHER SUPPLEMENTARY INFORMATION

WARREN COUNTY WATER DISTRICT
 BUDGETARY COMPARISON SCHEDULE
 FOR THE YEAR ENDED DECEMBER 31, 2013

	Budgeted Amounts 2013	Actual Amounts 2013	Variance
	<u> </u>	<u> </u>	<u> </u>
OPERATING REVENUES			
Metered sales	\$ 11,926,640	\$ 11,785,396	\$ (141,244)
Miscellaneous service revenue	<u>250,910</u>	<u>237,925</u>	<u>(12,985)</u>
TOTAL OPERATING REVENUES	12,177,550	12,023,321	(154,229)
OPERATING EXPENSES			
Source of supply	4,574,217	4,604,792	(30,575)
Pumping plant	563,990	618,886	(54,896)
Water treatment	6,199	252	5,947
Transmission and distribution	1,048,832	1,031,583	17,249
Customer accounts	1,244,097	1,319,793	(75,696)
Administrative and general	809,840	803,229	6,611
Depreciation	<u>2,787,810</u>	<u>2,814,146</u>	<u>(26,336)</u>
TOTAL OPERATING EXPENSES	<u>11,034,985</u>	<u>11,192,681</u>	<u>(157,696)</u>
OPERATING INCOME	1,142,565	830,640	(311,925)
NONOPERATING REVENUES (EXPENSES)			
Interest income	100,990	100,235	(755)
Rental revenue	137,850	131,781	(6,069)
Non-utility income	114,910	107,141	(7,769)
Gain on disposal of assets	-	3,425	3,425
Amortization of debt expense	(45,350)	(44,672)	678
Interest expense	(452,420)	(410,890)	41,530
Legal settlement	<u>-</u>	<u>28,020</u>	<u>28,020</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(144,020)</u>	<u>(84,960)</u>	<u>59,060</u>
INCREASE IN NET ASSETS	<u>\$ 998,545</u>	<u>\$ 745,680</u>	<u>\$ (252,865)</u>

WARREN COUNTY WATER DISTRICT
SCHEDULES OF OPERATING EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
SOURCE OF SUPPLY EXPENSE		
Purchased water and disposal	\$ 4,604,792	\$ 3,513,231
PUMPING PLANT EXPENSE		
Power purchased	\$ 547,484	\$ 568,094
Chemicals	46,130	38,954
Miscellaneous pumping expense	343	329
Contractual services	6,251	6,362
Rental expense	4,985	5,195
Insurance	13,693	13,176
TOTAL PUMPING PLANT EXPENSE	<u>\$ 618,886</u>	<u>\$ 632,110</u>
WATER TREATMENT EXPENSE		
Power purchased	\$ 252	\$ 252
TOTAL WATER TREATMENT EXPENSE	<u>\$ 252</u>	<u>\$ 252</u>
TRANSMISSION AND DISTRIBUTION EXPENSE		
Salaries and benefits	\$ 623,255	\$ 606,145
Power purchased	2,024	6,251
Contractual services	126,410	120,087
Rental expense	19,110	19,874
Transportation	106,566	107,996
Insurance	44,163	42,553
Materials and supplies	109,953	125,681
TOTAL TRANSMISSION AND DISTRIBUTION EXPENSE	<u>\$ 1,031,481</u>	<u>\$ 1,028,587</u>

	<u>2013</u>	<u>2012</u>
CUSTOMER ACCOUNTS EXPENSE		
Salaries and benefits	\$ 910,247	\$ 827,171
Billing services	195,517	191,103
Contractual services	47,456	46,561
Uncollectible accounts	23,086	22,293
Rental expense	29,063	30,255
Transportation	95,019	90,011
Insurance	7,162	6,890
Miscellaneous	1,952	(182)
Materials and supplies	10,291	2,824
TOTAL CUSTOMER ACCOUNTS EXPENSE	<u>\$ 1,319,793</u>	<u>\$ 1,216,926</u>
ADMINISTRATIVE AND GENERAL EXPENSE		
Salaries and benefits	\$ 466,591	\$ 470,767
Office supplies	36,280	41,611
Commissioner Fees	30,000	30,000
Contractual services	213,636	179,361
Insurance	11,870	11,596
Rental expense	5,003	5,187
Regulatory commission expense	19,193	16,701
Miscellaneous	19,932	15,047
Transportation	724	1,153
TOTAL ADMINISTRATIVE AND GENERAL EXPENSE	<u>\$ 803,229</u>	<u>\$ 771,423</u>
DEPRECIATION EXPENSE	\$ 2,814,146	\$ 2,694,616

WARREN COUNTY WATER DISTRICT
WATER DIVISION
STATEMENTS OF NET POSITION
DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
ASSETS		
UTILITY PLANT (at cost)		
Utility plant in service	\$ 96,303,122	\$ 94,501,499
Less accumulated depreciation	<u>(30,261,726)</u>	<u>(28,343,428)</u>
	66,041,396	66,158,071
Utility plant construction in progress	<u>2,922,110</u>	<u>784,991</u>
NET UTILITY PLANT	68,963,506	66,943,062
NONOPERATING PROPERTY, net of \$85,836		
accumulated depreciation	165,856	165,856
RESTRICTED ASSETS		
Bond and interest sinking funds	708,713	674,857
Debt service reserve for bond funds	46,660	46,660
Customer deposits	849,951	847,458
Construction funds	4,804,583	3,278,532
Depreciation fund:		
Cash in bank	709,686	1,725,322
Certificates of deposit/ money market investment	<u>1,274,292</u>	<u>1,227,632</u>
TOTAL RESTRICTED ASSETS	8,393,885	7,800,461
CURRENT ASSETS		
Cash and cash equivalents	478,275	1,393,951
Net accounts receivable	424,672	437,666
Butler County Water System, Inc.	72,766	99,282
Simpson County Water District	41,597	52,814
Special deposits and transfers	680	1,060
Materials and supplies inventory	421,884	411,218
Prepaid insurance and postage	74,679	67,796
Other receivables	<u>17,121</u>	<u>16,049</u>
TOTAL CURRENT ASSETS	1,531,674	2,479,836
OTHER ASSETS		
Unamortized debt premium/discount	<u>85,636</u>	<u>74,954</u>
TOTAL OTHER ASSETS	<u>85,636</u>	<u>74,954</u>
TOTAL ASSETS	79,140,557	77,464,169

DEFERRED OUTFLOWS OF RESOURCES

Unamortized retirement costs and deferred expenses	<u>216,985</u>	<u>225,422</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>216,985</u>	<u>225,422</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 79,357,542</u>	<u>\$ 77,689,591</u>

	<u>2013</u>	<u>2012</u>
NET POSITION		
Invested in capital assets, net of related debt	\$ 50,924,600	\$ 48,793,487
Restricted	7,543,934	6,953,003
Unrestricted	<u>24,803</u>	<u>1,525,628</u>
TOTAL NET POSITION	58,493,337	57,272,118

LONG-TERM DEBT

Bonds payable	2,499,000	2,601,000
Notes payable	6,444,033	6,787,666
Less - Current portion of long-term debt	<u>(519,774)</u>	<u>(473,811)</u>
TOTAL LONG-TERM DEBT	8,423,259	8,914,855

CURRENT LIABILITIES

Accounts payable and accrued expenses	1,313,005	1,001,225
Butler County Water System, Inc.	46,003	42,405
Simpson County Water District	39,246	35,750
Accounts payable - Sewer Division	340,177	141,723
Current portion of long-term debt	<u>519,774</u>	<u>473,811</u>
TOTAL CURRENT LIABILITIES	2,258,205	1,694,914

OTHER LIABILITIES

Customers' meter deposits	<u>850,470</u>	<u>817,639</u>
TOTAL OTHER LIABILITIES	<u>850,470</u>	<u>817,639</u>
TOTAL LIABILITIES	11,531,934	11,427,408

DEFERRED INFLOWS OF RESOURCES

Contractor advances for construction	9,261,729	8,926,765
Deferred revenue from cellular leases	<u>70,542</u>	<u>63,300</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>9,332,271</u>	<u>8,990,065</u>

TOTAL NET POSITION, LIABILITIES, AND DEFERRED INFLOWS OF RESOURCES	<u>\$ 79,357,542</u>	<u>\$ 77,689,591</u>
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WARREN COUNTY WATER DISTRICT
WATER DIVISION
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
OPERATING REVENUES		
Metered sales	\$ 8,582,636	\$ 8,964,200
Miscellaneous service revenue	<u>215,960</u>	<u>214,533</u>
TOTAL OPERATING REVENUES	8,798,596	9,178,733
OPERATING EXPENSES		
Source of supply expense:		
Purchased water	2,694,767	2,842,529
Pumping plant expense:		
Power purchased	455,858	482,727
Contractual services	3,125	3,214
Miscellaneous pumping expense	343	329
Rental expense	4,985	5,195
Insurance	<u>9,867</u>	<u>9,510</u>
	474,178	500,975
Water treatment expense:		
Power purchased	<u>252</u>	<u>252</u>
	252	252
Transmission and distribution expense:		
Salaries and benefits	550,518	535,694
Power purchased	2,024	6,251
Contractual services	91,736	93,558
Miscellaneous expense	102	-
Rental expense	19,110	19,874
Transportation	93,335	96,004
Insurance	41,935	40,418
Materials and supplies	<u>85,408</u>	<u>107,485</u>
	884,168	899,284

Customer accounts expense:	<u>2013</u>	<u>2012</u>
Salaries and benefits	830,298	749,533
Billing services	195,517	191,103
Contractual services	3,125	3,214
Uncollectible accounts	19,548	20,686
Rental expense	29,063	30,255
Transportation	94,984	89,835
Insurance	4,934	4,755
Miscellaneous	1,952	(182)
Materials and supplies	10,070	2,484
	<u>1,189,491</u>	<u>1,091,683</u>
Administrative and general expense:		
Salaries and benefits	406,540	416,023
Office supplies	34,239	39,119
Contractual services	185,819	155,658
Commissioner fees	15,000	15,000
Insurance	7,288	7,107
Rental expense	5,003	5,187
Regulatory commission expense	15,642	13,749
Miscellaneous	15,279	12,244
Transportation	724	1,153
	<u>685,534</u>	<u>665,240</u>
Depreciation	<u>2,000,581</u>	<u>1,932,103</u>
TOTAL OPERATING EXPENSES	<u>7,928,971</u>	<u>7,932,066</u>
OPERATING INCOME	869,625	1,246,667
NONOPERATING REVENUES (EXPENSES)		
Interest income	81,454	80,800
Rental revenue	115,294	104,484
Non utility income	107,136	108,516
Gain on disposal of assets	3,425	10,569
Debt expense	(42,094)	(43,973)
Interest expense	(340,113)	(399,356)
Legal settlement	28,020	-
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(46,878)</u>	<u>(138,960)</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS	822,747	1,107,707
CAPITAL CONTRIBUTIONS	<u>398,472</u>	<u>683,194</u>
INCREASE IN NET POSITION	1,221,219	1,790,901
NET POSITION, BEGINNING OF YEAR	57,272,118	55,798,355
NET POSITION, ADJUSTMENT	<u>-</u>	<u>(317,138)</u>
NET POSITION, RESTATED	<u>57,272,118</u>	<u>55,481,217</u>
NET POSITION, END OF YEAR	<u>\$ 58,493,337</u>	<u>\$ 57,272,118</u>

WARREN COUNTY WATER DISTRICT
SEWER DIVISION
STATEMENTS OF NET POSITION
DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
ASSETS		
UTILITY PLANT (at cost)		
Utility plant in service	\$ 40,913,285	\$ 38,303,375
Less accumulated depreciation	<u>(8,279,781)</u>	<u>(7,474,026)</u>
	32,633,504	30,829,349
Utility plant construction in progress	<u>83,225</u>	<u>1,397,354</u>
NET UTILITY PLANT	<u>32,716,729</u>	<u>32,226,703</u>
RESTRICTED ASSETS		
Bond and interest sinking funds	36,223	65,844
Debt service reserve for bond funds	272,140	272,140
Customer deposits	210,644	200,566
Construction Funds	1,802,748	1,803,532
Depreciation fund:		
Cash in bank	1,203,362	1,352,849
Certificates of deposit/ money market investment	<u>760,255</u>	<u>500,000</u>
TOTAL RESTRICTED ASSETS	<u>4,285,372</u>	<u>4,194,931</u>
CURRENT ASSETS		
Cash and cash equivalents	520,611	510,664
Net accounts receivable	162,481	189,733
Accounts receivable - Water Division	340,177	141,723
Special deposits and transfers	950	1,130
Prepaid insurance and postage	11,810	9,988
Other receivables	<u>4,047</u>	<u>3,241</u>
TOTAL CURRENT ASSETS	<u>1,040,076</u>	<u>856,479</u>
OTHER ASSETS		
Unamortized debt premium/discount	<u>1,287</u>	<u>148</u>
TOTAL OTHER ASSETS	<u>1,287</u>	<u>148</u>
TOTAL ASSETS	<u>38,043,464</u>	<u>37,278,261</u>
DEFERRED OUTFLOWS OF RESOURCES		
Unamortized retirement costs and deferred expenses	<u>22,590</u>	<u>36,944</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>22,590</u>	<u>36,944</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 38,066,054</u>	<u>\$ 37,315,205</u>

	<u>2013</u>	<u>2012</u>
NET POSITION		
Invested in capital assets, net of related debt	\$ 19,136,256	\$ 19,120,406
Restricted	4,074,728	3,994,365
Unrestricted	<u>1,025,449</u>	<u>852,936</u>
	24,236,433	23,967,707
LONG-TERM DEBT AND DEFERRED CREDITS		
Bonds payable	562,500	578,500
Notes payable	1,338,884	1,515,119
Less - Current portion of long-term debt	<u>(130,344)</u>	<u>(105,084)</u>
	1,771,040	1,988,535
CURRENT LIABILITIES		
Accounts payable and accrued expenses	40,497	47,267
Current portion of long-term debt	<u>130,344</u>	<u>105,084</u>
TOTAL CURRENT LIABILITIES	170,841	152,351
OTHER LIABILITIES		
Customers' meter deposits	<u>208,651</u>	<u>193,934</u>
TOTAL LIABILITIES	<u>2,150,532</u>	<u>2,334,820</u>
DEFERRED INFLOWS OF RESOURCES		
Contractor advances for construction	<u>11,679,089</u>	<u>11,012,678</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>11,679,089</u>	<u>11,012,678</u>
TOTAL NET POSITION, LIABILITIES, AND DEFERRED INFLOWS OF RESOURCES	<u>\$ 38,066,054</u>	<u>\$ 37,315,205</u>

WARREN COUNTY WATER DISTRICT
 SEWER DIVISION
 STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
 FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
OPERATING REVENUES		
Metered sales	\$ 3,202,760	\$ 2,149,243
Miscellaneous service revenue	<u>21,965</u>	<u>19,903</u>
TOTAL OPERATING REVENUES	3,224,725	2,169,146
OPERATING EXPENSES		
Source of supply expense:		
Disposal expense	1,910,025	670,702
Pumping plant expense:		
Power purchased	91,626	85,367
Chemicals	46,130	38,954
Contractual services	3,126	3,148
Insurance	<u>3,826</u>	<u>3,666</u>
	144,708	131,135
Transmission and distribution expense:		
Salaries and benefits	72,737	70,451
Materials and supplies	24,545	18,196
Contractual services	34,674	26,529
Transportation	13,231	11,992
Insurance	<u>2,228</u>	<u>2,135</u>
	147,415	129,303
Customer accounts expense:		
Salaries and benefits	79,949	77,638
Uncollectible accounts	3,538	1,607
Contractual services	44,331	43,347
Insurance	2,228	2,135
Materials and supplies	221	340
Transportation	35	176
Miscellaneous	<u>-</u>	<u>-</u>
	130,302	125,243

	<u>2013</u>	<u>2012</u>
Administrative and general expense:		
Salaries and benefits	60,051	54,744
Contractual services	27,817	23,703
Commissioner fees	15,000	15,000
Insurance	4,582	4,489
Regulatory commission expense	3,551	2,952
Office supplies	2,041	2,492
Miscellaneous	<u>4,653</u>	<u>2,803</u>
	117,695	106,183
Depreciation	<u>813,565</u>	<u>762,513</u>
TOTAL OPERATING EXPENSES	<u>3,263,710</u>	<u>1,925,079</u>
OPERATING INCOME	(38,985)	244,067
NONOPERATING REVENUES (EXPENSES)		
Interest income	18,781	19,848
Rental revenue	16,487	18,146
Non utility income	5	5
Debt expense	(2,578)	(947)
Interest expense	<u>(70,777)</u>	<u>(60,866)</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(38,082)</u>	<u>(23,814)</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS	(77,067)	220,253
CAPITAL CONTRIBUTIONS	<u>345,793</u>	<u>1,757,719</u>
INCREASE IN NET POSITION	268,726	1,977,972
NET POSITION, BEGINNING OF YEAR	23,967,707	21,995,814
NET POSITION, ADJUSTMENT	<u>-</u>	<u>(6,079)</u>
NET POSITION, RESTATED	<u>23,967,707</u>	<u>21,989,735</u>
NET POSITION, END OF YEAR	<u>\$ 24,236,433</u>	<u>\$ 23,967,707</u>

**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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Warren County Water District (the District), as of and for the year ended December 31, 2013, and the related notes to the financial statements which collectively comprise the District's basic financial statements and have issued our report thereon dated April 14, 2014.

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 as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

To the Board of Commissioners
Warren County Water District
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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


Shelton CPAs, LLP
April 14, 2014