

WARREN COUNTY WATER DISTRICT

FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION

For The Years Ended December 31, 2016 and 2015

WARREN COUNTY WATER DISTRICT
FINANCIAL STATEMENTS
TABLE OF CONTENTS
FOR THE YEARS ENDED DECEMBER 31, 2016 and 2015

| | | |
|---|-------|-------|
| INDEPENDENT AUDITOR'S REPORT | 1-2 | |
| MANAGEMENT'S DISCUSSION AND ANALYSIS | 3-12 | |
| BASIC FINANCIAL STATEMENTS | | |
| Statements of Net Position..... | 12-13 | |
| Statements of Revenues, Expenses, and Changes in Net Position | 14 | |
| Statements of Cash Flows..... | 15 | |
| Notes to the Basic Financial Statements..... | 16-37 | |
| REQUIRED SUPPLEMENTARY INFORMATION | | |
| Budgetary Comparison Schedule..... | 38 | |
| Employer's Required Contribution..... | 39 | |
| Notes to the Supplementary Information..... | 40 | |
| OTHER SUPPLEMENTARY INFORMATION | | |
| Schedules of Operating Expenses..... | 41 | |
| Water Division - Statements of Net Position..... | 42 | |
| Water Division - Statements of Revenues, Expenses, and Changes in Net Position | 43 | |
| Sewer Division - Statements of Net Position..... | 44 | |
| Sewer Division - Statements of Revenues, Expenses, and Changes in Net Position | 45 | |
| 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 | | 46-47 |

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, 2016 and 2015, 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 opinions.

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, 2016 and 2015, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion analysis information, budgetary comparison, and schedule of contributions information on pages 3 through 12, 38, and 40 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 42-45 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 May 23, 2017 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

May 23, 2017

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, 2016 and 2015. 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, 2016:

- Total revenue for the year increased by \$489,209 or 3.6%, compared to last year. The water division's total revenue increased by \$246,966 or 2.5%, and the sewer division's total revenue increased by \$242,243, or 6.3%.
- Total metered revenue increased by \$449,785 or 3.5%, compared to last year. Metered water revenue increased by \$227,451 or 2.5%, and metered sewer revenue increased by \$222,334 or 5.9%.
- Total expenses for the year increased by \$629,672, or 4.9%, compared to last year. The water division's total expenses increased by \$410,735 or 4.6%, and the sewer division's total expenses increased by \$218,937, or 5.8%.
- The water division added 618 customers throughout the year for a 2.3% increase and the sewer division added 339 customers for a 5.8% increase. The number of customers at the end of the year for the water and sewer divisions was 28,021 and 6,157 respectively.
- Average metered water revenue was \$20.71 per residential customer and \$126.35 per commercial customer. Average metered sewer revenue was \$22.94 per residential customer and \$419.02 per commercial customer.
- Total water sold to the District's customers during the year amounted to 2.59 billion gallons compared to 2.52 billion gallons in the prior year, an increase of 2.8%. The peak demand month was July 2016 with 263.3 million gallons sold. Total sewer service billed to customers totaled 1.03 billion gallons compared to 981.9 million gallons in the prior year, an increase of 4.9%.
- The water division has a total of 1,142 miles of water main serving an average of 24.5 customers per mile. The sewer division has 176 miles of collection mains serving an average of 34.9 customers per mile.

Financial Highlights (continued)

- **Projects In Progress:** The *Alvaton Area Sewer Project* will provide service to a large elementary school, county park, church, and will facilitate commercial and residential development in the Alvaton Area. The anticipated total cost of the project is \$1,708,000. Total expenditures as of 12/31/16 were \$1,569,000 and the estimated completion date is April 30, 2017. The *2016 Lift Station Improvement Project* consists of the replacement and upgrade of a lift station serving the South Industrial Park including surrounding residential areas and a lift station serving the General Motors Corvette assembly complex. The anticipated total cost of the project is \$937,000. Total expenditures as of 12/31/16 were \$550,700 and the estimated completion date is May 30, 2017.

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 higher than budget by \$70,847 or 0.5%, and *Total Expenses* were higher than budget by \$27,544 or 0.2%. *Net Income* totaled \$858,418 for the year, which was below budget by \$11,582, or -1.3%.

Metered Water Revenue was greater than budget by \$55,190, or 0.6%, and *Metered Sewer Revenue* was greater than budget by \$14,768, or 0.4%. Total metered revenue exceeded budget due to higher than anticipated demand from both residential and commercial customers. *Miscellaneous Service Revenue* which includes connection fees, collection fees, and meter tampering fees were less than budget by \$1,134, or -0.4%. *Interest Income* was exceeded budget by \$3,135 and includes interest earned on the operating fund, depreciation fund, construction funds, reserve funds, and debt service funds. *All Other Revenues* which includes forfeited discounts, rental income, income from local agencies for providing billing services, gains on the disposition of assets, scrap metal sales, and other income was less than budget by \$1,112, or -0.3%.

Operating Expenses related to providing water and sewer service and maintaining the District's distribution and collection facilities were over budget by \$ 52,270, or 0.5%. *Depreciation* was less than budget by \$4,559 and *Interest Expense* was within budget. *All Other Expenses* were over budget by \$34,782 due to debt issuance expenses associated with the Kentucky Rural Water Finance Corporation (KRWFC), Series 2016B refinancing loan.

Financial Analysis (Continued)

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

| | <u>Actual 2016</u> | <u>Budget 2016</u> | <u>Increase \</u> <u>(Decrease)</u> | <u>%</u> <u>Change</u> |
|-------------------------------|--------------------|--------------------|--|---------------------------|
| <u>Revenues:</u> | | | | |
| Metered Water Revenue | \$ 9,466,190 | \$ 9,411,000 | \$55,190 | 0.6% |
| Metered Sewer Revenue | 3,973,768 | 3,959,000 | 14,768 | 0.4% |
| Miscellaneous Service Revenue | 256,366 | 257,500 | (1,134) | -0.4% |
| Interest Income | 95,935 | 92,800 | 3,135 | 3.4% |
| All Other Revenues | <u>434,388</u> | <u>435,500</u> | <u>(1,112)</u> | -0.3% |
| Total Revenue | <u>14,226,647</u> | <u>14,155,800</u> | <u>70,847</u> | 0.5% |
| <u>Expenses:</u> | | | | |
| Operating Expenses | \$ 9,723,070 | \$ 9,670,800 | 52,270 | 0.5% |
| Depreciation | 3,256,541 | 3,261,100 | (4,559) | -0.1% |
| Interest Expense | 345,536 | 345,600 | (64) | 0.0% |
| All other Expenses | <u>43,082</u> | <u>8,300</u> | <u>34,782</u> | 419.1% |
| Total Expenses | <u>13,368,229</u> | <u>13,285,800</u> | <u>82,429</u> | 0.6% |
| Net Income | <u>\$ 858,418</u> | <u>\$ 870,000</u> | <u>\$(11,582)</u> | -1.3% |

Statement of Net Position

A summary of the District's Net Position is presented below in Table 2. The District's assets exceeded liabilities by \$110,091,792 in year 2016.

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 2016, capital assets totaled \$112,188,721 net of depreciation resulting in a 3.7% increase of \$3,988,753 over the prior year. The increase in capital assets includes residential developments placed into service during the year totaling \$2,698,141, and the Alvaton Area Sewer Project currently under construction with costs totaling \$1,569,000.

Financial Analysis (Continued)

Other asset additions include line extensions, meter installations, fire hydrant installations, service line replacements, and tank rehabilitation.

Restricted and Current Assets totaled \$18,736,314, a 15.5% increase of \$2,525,776 from last year. Restricted assets which include customer deposits, and funds for future system improvements, equipment replacement, and debt service increased by \$1,467,069. Current assets including cash and contractor receivables increased by \$1,058,707. *Other Assets* consisting of unamortized debt premiums and discounts, unamortized retirement costs, and miscellaneous assets decreased by \$57,596, or -19.6%.

Long-Term Debt totaled \$10,161,908, a 5.2% increase of \$498,513 due to loan proceeds from Kentucky Infrastructure Authority (KIA) for the Alvaton Area Sewer Project of \$1,081,841 and principal payments of \$583,328. *Current Liabilities* totaled \$1,838,963, a 23.9% increase of \$354,552 from last year. Accounts payable increased by \$269,574 and other current liabilities increased by a net amount of \$84,978. *Other Liabilities* consisting of customer deposits held for water and sewer service, developer rebates payable, deferred revenue for leases to cellular providers, and other post-employment benefit obligation (OPEB) totaled \$9,026,831 and decreased by \$1,912,851, or -17.5%. The decrease is primarily due to a net reduction in developer rebates payable of \$2,020,785. For more information on the District's rebate program, see Note A in this report titled Capital Contributions and Contractor Advances for Construction.

The District's *Net Position Invested in Capital Assets* increased by \$5,511,025, or 6.2%, and includes the \$4,588,588 reclassification of donated capital from rebates payable to contribution in aid of construction. *Restricted Net Position* increased by \$1,413,649, or 13.2%, and includes funds restricted for payment of principal and interest on bonds and loans, anticipated expenditures for capital improvements, and funds for emergencies. *Unrestricted Net Position* increased by \$550,496, or 18.6%. *Total Net Position* was \$110,091,792 in year 2016, a 7.3% increase of \$7,475,170 compared to the prior year.

Financial Analysis (Continued)

Table 2
 WARREN COUNTY WATER DISTRICT
 Condensed Statement of Net Position
 December 31, 2016

| | <u>Year 2016</u> | <u>Year 2015</u> | Increase \ <u>Decrease</u> | <u>% Change</u> |
|--|-----------------------------|-----------------------------|-------------------------------|---------------------|
| Capital assets | \$112,188,721 | \$108,199,968 | \$ 3,988,753 | 3.7% |
| Restricted and current assets | 18,694,765 | 16,210,538 | 2,484,227 | 15.3% |
| Other assets | <u>236,008</u> | <u>293,604</u> | <u>(57,596)</u> | -19.6% |
| Total Assets | <u>131,119,494</u> | <u>124,704,110</u> | <u>6,415,384</u> | 5.1% |
| Long term debt | 10,161,908 | 9,663,395 | 498,513 | 5.2% |
| Current liabilities | 1,838,963 | 1,484,411 | 354,552 | 23.9% |
| Other liabilities | <u>9,026,831</u> | <u>10,939,682</u> | <u>(1,912,851)</u> | -17.5% |
| Total Liabilities | <u>21,027,702</u> | <u>22,087,488</u> | <u>(1,059,786)</u> | -4.8% |
| Net position invested in capital assets, net of | | | | |
| related debt | 94,498,575 | 88,987,550 | 5,511,025 | 6.2% |
| Restricted net position | 12,085,689 | 10,672,040 | 1,413,649 | 13.2% |
| Unrestricted net position | <u>3,507,528</u> | <u>2,957,032</u> | <u>550,496</u> | 18.6% |
| Total Net Position | <u>110,091,792</u> | <u>102,616,622</u> | <u>7,475,170</u> | 7.3% |
| Total Liabilities and Net Position | <u>\$131,119,494</u> | <u>\$124,704,110</u> | <u>\$6,415,387</u> | 5.1% |

Financial 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, 2016

| | <u>Year 2016</u> | <u>Year 2015</u> | <u>Increase \</u> <u>(Decrease)</u> | <u>%</u> <u>Change</u> |
|-------------------------------------|-----------------------|-----------------------|--|---------------------------|
| <u>Revenues:</u> | | | | |
| Metered Water Revenue | \$ 9,466,190 | \$ 9,238,739 | \$ 227,451 | 2.5% |
| Metered Sewer Revenue | 3,973,768 | 3,751,434 | 222,334 | 5.9% |
| Miscellaneous Service Revenue | 256,366 | 260,400 | (4,034) | -1.5% |
| Interest Income | 95,935 | 52,895 | 43,040 | 81.4% |
| All Other Revenues | <u>434,388</u> | <u>433,970</u> | <u>418</u> | <u>0.1%</u> |
| Total Revenue | <u>14,226,647</u> | <u>13,737,438</u> | <u>489,209</u> | <u>3.6%</u> |
| <u>Expenses:</u> | | | | |
| Operating Expenses | 9,723,070 | 9,253,827 | 469,243 | 5.1% |
| Depreciation | 3,256,541 | 3,107,982 | 148,559 | 4.8% |
| Interest Expense | 345,536 | 367,987 | (22,451) | -6.1% |
| All other Expenses | <u>43,082</u> | <u>8,761</u> | <u>34,321</u> | <u>391.7%</u> |
| Total Expenses | <u>13,368,229</u> | <u>12,738,557</u> | <u>629,672</u> | <u>4.9%</u> |
| Income Before Capital Contributions | 858,418 | 998,881 | (140,463) | -14.1% |
| Capital Contributions | <u>6,616,752</u> | <u>13,446,308</u> | <u>(6,829,556)</u> | <u>-50.8%</u> |
| Increase in Net Assets | 7,475,170 | 14,445,189 | (6,970,019) | -48.3% |
| Net Position, Beginning of Year | <u>102,616,622</u> | <u>88,171,433</u> | <u>14,445,189</u> | <u>16.4%</u> |
| Net Position, End of Year | <u>\$ 110,091,792</u> | <u>\$ 102,616,622</u> | <u>\$ 7,475,170</u> | <u>7.3%</u> |

Financial Analysis (Continued)

The volume of water sold in year 2016 totaled 2.59 billion gallons versus 2.52 billion gallons last year, a 2.8% increase of 70 million gallons. The volume of sewer revenue billed for year 2017 was 1.03 billion gallons versus 981.9 million gallons last year, a 4.9% increase of 48.1 million gallons billed.

Metered Water Revenue increased by \$227,451, or 2.5% and *Metered Sewer Revenue* increased by \$222,334, or 5.9%. The water division added 618 customers for a total of 28,021, and the sewer division added 339 customers for a total of 6,157 customers. *Miscellaneous Service Revenue*, which includes connection fees, collection fees, and meter tampering fees decreased by \$4,034, or -1.5% due to fewer collection fees on past due accounts. *Interest Income* increased by \$43,040, or 81.4% due to higher rates of return earned on investments. *All Other Income* which includes forfeited discounts, rental income, non-utility income, and scrap sales increased slightly by \$418.

Operating Expenses increased by \$469,243, a 5.1% increase when compared to the prior year. Operating expenses related to meeting customer demand such as wastewater disposal, purchased water, purchased power increased by \$119,240, \$136,311, and \$14,988 respectively. Operating expenses such as wage and benefits, material and supplies, and various other expenses increased by \$148,399, \$37,947, and \$12,358 respectively.

Depreciation expense increased by \$148,559 or 4.8%, corresponding to various asset additions recorded throughout the year. *Interest Expense* decreased by \$22,451, or -6.1%, reflecting interest savings from refinancing through the KRWFC, Series 2016B loan.

Capital Contributions of \$6,616,752 were recorded during the year which includes the following: expired developer rebate payables of \$4,588,588; contributions for meter installations and sewer taps of \$1,003,671; contributions for the Alvaton Area Sewer Project of \$537,650; contributions from city, county, and the development authority for debt service of \$259,139; contributions for the 2016 Lift Station Improvement Project of \$222,892; and various contribution for special projects and relocations of \$4,812.

Financial 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 \$108,744,333 net of depreciation, as of December 31, 2016. 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 2016</u> | <u>Year 2015</u> | <u>Increase \</u> <u>Decrease</u> | <u>%</u> <u>Change</u> |
|---------------------------|-----------------------|-----------------------|--------------------------------------|---------------------------|
| WATER DIVISION: | | | | |
| Land | \$ 1,324,352 | \$ 1,324,352 | \$ - | 0.0% |
| Structures | 1,920,154 | 1,976,947 | (56,793) | -2.9% |
| Pumping Equipment | 2,557,374 | 2,617,743 | (60,369) | -2.3% |
| Storage Tanks | 8,616,236 | 8,784,519 | (168,283) | -1.9% |
| Distribution Mains | 43,502,433 | 43,248,685 | 253,748 | 0.6% |
| Meters | 10,925,192 | 10,500,217 | 424,975 | 4.0% |
| Hydrants | 2,923,914 | 2,877,998 | 45,916 | 1.6% |
| Hardware & Software | 909,000 | 1,011,214 | (102,214) | -10.1% |
| Vehicles and Equipment | 548,108 | 528,937 | 19,171 | 3.6% |
| Other | 295,134 | 386,538 | (91,404) | -23.6% |
| Subtotal - Water | | | | |
| Division | <u>73,521,897</u> | <u>73,257,150</u> | <u>264,747</u> | 0.4% |
| SEWER DIVISION: | | | | |
| Land | \$ 70,602 | \$ 70,602 | - | 0.0% |
| Structures | 5,916,258 | 5,831,049 | 85,209 | 1.5% |
| Pumping Equipment | 1,327,665 | 1,372,471 | (44,806) | -3.3% |
| Collection Mains | 24,715,865 | 23,905,694 | 810,171 | 3.4% |
| Taps | 2,996,164 | 2,638,934 | 357,230 | 13.5% |
| Hardware & Software | 96,402 | 107,066 | (10,664) | -10.0% |
| Other | 99,480 | 23,966 | 75,514 | 315.1% |
| Subtotal - Sewer | | | | |
| Division | <u>35,222,436</u> | <u>33,949,782</u> | <u>1,272,654</u> | 3.7% |
| Total - Water & Sewer | <u>\$ 108,744,333</u> | <u>\$ 107,206,932</u> | <u>\$ 1,537,401</u> | 1.4% |

Total capital assets, net of depreciation, increased by \$1,537,401 or 1.4%, compared to the prior year. In year 2016, the following were recorded to capital assets: water and sewer extensions from developers, \$779,126 and \$1,919,015 respectively; water meter installations and sewer taps, \$818,188 and \$429,912 respectively; repainting of one elevated storage tank, \$105,416; hardware and software additions, \$95,441; two field trucks, \$62,095; other various additions, \$587,576; and a reduction of \$3,259,368 for accumulated depreciation. Table 4 does not reflect construction projects in progress totaling \$3,444,388 an increase of \$2,451,352 from projects under construction this time last year of \$993,036.

Financial 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 May 2016, the KRWFC, Series 2006A loan was refinanced with the KRWFC, Series 2016B loan saving the District approximately \$324,000 in interest costs over the life of the loan. In June 2016, the District received the first draw of a KIA loan for the Alvaton Area Sewer Project currently under construction. The total KIA loan amount will be \$1,090,050 of which \$1,081,841 had been received. As of December 31, 2016, the District had \$10,161,908 in outstanding debt compared to \$9,663,395 in the previous year. Principal payments throughout the year reduced outstanding debt by \$583,328.

Factors Affecting Next Year's Budget

- Effective January 2017, a retail rate increase of 9.65% for water service and a retail rate decrease of 14.25% for wastewater service are budgeted. The water rate increase and the sewer rate decrease are a pass through of wholesale rate adjustments from the District's supplier, Bowling Green Municipal Utilities.
- Growth within the District's service area is expected to add 640 new water connections and 292 sewer connections.
- A normal weather year was projected resulting in reduced water demand compared to the previous year.
- 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 2017 at its meeting held in November 2016. Metered water sales and sewer revenue combined are budgeted to increase by 3.8%. Total revenue is budgeted to increase by 3.9% from year 2016, and total expenses are budgeted to increase by 5.6%. Debt service payments are expected to total \$929,100 for both divisions with a reduction in outstanding debt of \$597,700. Net income for year 2017 is budgeted to total \$804,900. Capital expenditures for the year are budgeted to total \$11,278,700 including contributions from customers and governmental agencies totaling \$3,640,500, and loan proceeds from the United States Department of Agriculture (USDA) and KRWFC for the Plum Springs Area Sewer Rehabilitation Project of \$2,800,000 and an USDA loan for the Hilltop Trail Tank & Pump Station Project of \$1,460,000.

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, 2016 AND 2015

| | <u>2016</u> | <u>2015</u> |
|--|-----------------------|-----------------------|
| ASSETS | | |
| UTILITY PLANT (at cost) | | |
| Utility plant in service | \$ 155,851,303 | \$ 151,054,534 |
| Less accumulated depreciation | <u>(47,106,970)</u> | <u>(43,847,602)</u> |
| | 108,744,333 | 107,206,932 |
| Utility plant construction in progress | <u>3,444,388</u> | <u>993,036</u> |
| NET UTILITY PLANT | 112,188,721 | 108,199,968 |
| NONOPERATING PROPERTY, net of \$85,836 | | |
| accumulated depreciation | 165,856 | 165,856 |
| RESTRICTED ASSETS | | |
| Bond and interest sinking funds | 635,741 | 629,302 |
| Debt service reserve for bond funds | 318,800 | 318,800 |
| Customer deposits | 1,206,027 | 1,152,607 |
| Construction funds | 6,268,152 | 5,825,092 |
| Depreciation funds | <u>4,862,996</u> | <u>3,898,846</u> |
| TOTAL RESTRICTED ASSETS | 13,291,716 | 11,824,647 |
| CURRENT ASSETS | | |
| Cash and cash equivalents | 3,420,166 | 2,783,071 |
| Accounts receivable | | |
| User charges, net of allowance for doubtful accounts: 2016-\$9,453 and 2015-\$9,453 | 565,311 | 571,108 |
| Contractor receivable | 417,368 | 37,248 |
| Butler County Water System, Inc. | 88,471 | 90,375 |
| Simpson County Water District | 57,900 | 55,895 |
| Miscellaneous | 15,368 | 17,368 |
| Special deposits and transfers | 1,630 | 1,630 |
| Materials and supplies inventory | 552,215 | 563,024 |
| Prepaid expenses | 106,419 | 91,516 |
| Other receivables | <u>12,345</u> | <u>8,800</u> |
| TOTAL CURRENT ASSETS | 5,237,193 | 4,220,035 |
| OTHER ASSETS | | |
| Unamortized debt premium/discount | 35,440 | 68,893 |
| Unamortized retirement costs and other expenses | <u>200,568</u> | <u>224,711</u> |
| TOTAL OTHER ASSETS | 236,008 | 293,604 |
| TOTAL ASSETS | \$ 131,119,494 | \$ 124,704,110 |

WARREN COUNTY WATER DISTRICT
 STATEMENTS OF NET POSITION
 DECEMBER 31, 2016 AND 2015

| | <u>2016</u> | <u>2015</u> |
|---|------------------------------|------------------------------|
| NET POSITION | | |
| Invested in capital assets, net of related debt | \$ 94,498,575 | \$ 88,987,550 |
| Restricted | 12,085,689 | 10,672,040 |
| Unrestricted | <u>3,507,528</u> | <u>2,957,032</u> |
| TOTAL NET POSITION | 110,091,792 | 102,616,622 |
| LONG-TERM DEBT | | |
| Bonds and loans payable | 2,663,000 | 2,800,500 |
| Notes payable | 7,498,908 | 6,862,895 |
| Less - Current portion of long-term debt | <u>(589,160)</u> | <u>(553,328)</u> |
| TOTAL LONG-TERM DEBT | 9,572,748 | 9,110,067 |
| CURRENT LIABILITIES | | |
| Accounts payable | 853,066 | 583,492 |
| Butler County Water System, Inc. | 61,099 | 60,062 |
| Simpson County Water District | 76,563 | 46,610 |
| Accrued expenses | 848,235 | 794,247 |
| Current portion of long-term debt | <u>589,160</u> | <u>553,328</u> |
| TOTAL CURRENT LIABILITIES | 2,428,123 | 2,037,739 |
| OTHER LIABILITIES | | |
| Customer meter deposits | 1,195,437 | 1,151,137 |
| Contractor advances for construction | 7,694,094 | 9,714,879 |
| Unearned revenue for cellular leases | 68,950 | 73,666 |
| Other post employment benefit obligation | <u>68,350</u> | <u>-</u> |
| TOTAL OTHER LIABILITES | 9,026,831 | 10,939,682 |
| TOTAL LIABILITIES | 21,027,702 | 22,087,488 |
| TOTAL LIABILITIES AND NET POSITION | \$ <u>131,119,494</u> | \$ <u>124,704,110</u> |

WARREN COUNTY WATER DISTRICT
 STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
 FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

| | <u>2016</u> | <u>2015</u> |
|--------------------------------------|-----------------------|-----------------------|
| OPERATING REVENUES | | |
| Metered sales | \$ 13,605,775 | \$ 13,162,976 |
| Miscellaneous service revenue | <u>256,366</u> | <u>260,400</u> |
| TOTAL OPERATING REVENUES | 13,862,141 | 13,423,376 |
| OPERATING EXPENSES | | |
| Source of supply | 5,589,290 | 5,333,740 |
| Pumping plant | 651,253 | 633,745 |
| Transmission and distribution | 1,121,454 | 1,034,911 |
| Customer accounts | 1,418,748 | 1,396,684 |
| Administrative and general | 942,324 | 854,746 |
| Depreciation | <u>3,256,543</u> | <u>3,107,982</u> |
| TOTAL OPERATING EXPENSES | <u>12,979,612</u> | <u>12,361,808</u> |
| OPERATING INCOME | 882,529 | 1,061,568 |
| NONOPERATING REVENUES (EXPENSES) | | |
| Interest income | 95,935 | 52,895 |
| Rental revenue | 133,514 | 139,645 |
| Non-utility income | 114,342 | 110,683 |
| Gain on disposal of assets | 20,714 | 10,837 |
| Amortization of debt expense | (43,082) | (8,761) |
| Interest expense | <u>(345,534)</u> | <u>(367,986)</u> |
| NET NONOPERATING REVENUES (EXPENSES) | <u>(24,111)</u> | <u>(62,687)</u> |
| INCOME BEFORE CAPITAL CONTRIBUTIONS | 858,418 | 998,881 |
| CAPITAL CONTRIBUTIONS | <u>6,616,752</u> | <u>13,446,308</u> |
| INCREASE IN NET POSITION | 7,475,170 | 14,445,189 |
| NET POSITION, BEGINNING OF YEAR | <u>102,616,622</u> | <u>88,171,433</u> |
| NET POSITION, END OF YEAR | <u>\$ 110,091,792</u> | <u>\$ 102,616,622</u> |

WARREN COUNTY WATER DISTRICT
 STATEMENTS OF CASH FLOW
 FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

| | <u>2016</u> | <u>2015</u> |
|--|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Receipts from customers and users | \$ 13,486,172 | \$ 14,238,069 |
| Payments to suppliers | (7,506,785) | (7,723,138) |
| Payments to employees | <u>(1,688,661)</u> | <u>(1,669,402)</u> |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 4,290,726 | 4,845,529 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | |
| Proceeds from notes | 3,376,841 | - |
| Principal paid on bonds and notes | (2,878,328) | (530,904) |
| Interest paid | (349,193) | (373,408) |
| Proceeds from disposal of capital assets | 22,605 | 11,005 |
| Acquisition and construction of capital assets | <u>(2,698,733)</u> | <u>(2,008,777)</u> |
| NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES | (2,526,808) | (2,902,084) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Interest income | 92,390 | 53,307 |
| Purchase of investments in certificates of deposits | - | (615,000) |
| Proceeds from sale of investments in certificates of deposit | (1,390,626) | (513,872) |
| Proceeds from miscellaneous income | <u>247,856</u> | <u>250,328</u> |
| NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES | <u>(1,050,380)</u> | <u>(825,237)</u> |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 713,538 | 1,118,208 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | <u>4,322,737</u> | <u>3,204,529</u> |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | <u>\$ 5,036,275</u> | <u>\$ 4,322,737</u> |

See Note B for reconciliation to balance sheet.

| | <u>2016</u> | <u>2015</u> |
|---|---------------------|---------------------|
| Reconciliation of operating income to net cash provided in operating activities: | | |
| Operating income | \$ 882,529 | \$ 1,061,568 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation | 3,256,543 | 3,107,982 |
| Allocated Drepreciation | 45,088 | 48,552 |
| Decrease (increase) in: | | |
| Accounts receivable | (372,424) | 814,281 |
| Prepaid expenses | (14,903) | 5,056 |
| Materials and supplies inventory | 10,809 | (25,614) |
| Other receivables | (3,545) | 412 |
| Unamortized retirement costs and other expenses | 24,143 | (21,068) |
| Increase (decrease) in: | | |
| Accounts payable and accrued liabilities | 354,552 | (201,460) |
| Deposits | 44,300 | 53,109 |
| Unearned revenue for cellular leases | (4,716) | 2,711 |
| Other post employment benefit obligation | <u>68,350</u> | <u>-</u> |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u>\$ 4,290,726</u> | <u>\$ 4,845,529</u> |

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

| | | |
|--|---------------------|----------------------|
| Private developers contributed constructed water and sewer lines at cost | <u>\$ 6,616,752</u> | <u>\$ 13,446,308</u> |
| TOTAL NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES | <u>\$ 6,616,752</u> | <u>\$ 13,446,308</u> |

NOTES TO THE FINANCIAL STATEMENTS

WARREN COUNTY WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2016 and 2015

**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

On December 31, 2015, the District adopted the following new accounting pronouncement issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 78, This Statement establishes accounting and financial reporting standards for defined benefit pensions provided to the employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan (cost-sharing pension plan) that meets the criteria in paragraph 4 of Statement 68 and that (a) is not a state or local governmental pension plan, (b) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (c) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan).

WARREN COUNTY WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2016 and 2015

On December 31, 2016, the District acknowledged the following accounting pronouncement issued by the Governmental Accounting Standards Board (GASB) to recognize a postemployment benefit plan:

GASB Statement No. 45, This Statement establishes standards for the measurement, recognition, and display of other postemployment benefits (OPEB) expense/expenditures and related liabilities (assets), note disclosures, and required supplementary information (RSI) in the financial reports of state or local governmental employers.

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.

WARREN COUNTY WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2016 and 2015

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.

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 does 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.

WARREN COUNTY WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2016 and 2015

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 2015 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.

WARREN COUNTY WATER DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
 DECEMBER 31, 2016 and 2015

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.

At December 31, 2016, the District’s cash and investments held at fifteen financial institutions are as follows:

| | Book Balance | Bank Balance | FDIC Insurance | Collateral Pledged |
|-------------------------|----------------------|----------------------|---------------------|-----------------------|
| Financial Institution A | \$ 1,800,432 | \$ 1,800,432 | \$ 250,000 | \$ 1,606,000 |
| Financial Institution B | 750,000 | 750,000 | 250,000 | 599,823 |
| Financial Institution C | 141,031 | 141,031 | 250,000 | - |
| Financial Institution D | 5,808,880 | 6,076,822 | 250,000 | 6,189,201 |
| Financial Institution E | 3,709,154 | 3,709,154 | 250,000 | 3,469,845 |
| 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 | 2,000,000 | 2,000,000 | 250,000 | 5,302,206 |
| Financial Institution J | 250,000 | 250,000 | 250,000 | - |
| Financial Institution K | 408,044 | 408,044 | - | 2,500,000 |
| Financial Institution L | 142,466 | 142,466 | 250,000 | - |
| Financial Institution M | 250,000 | 250,000 | 250,000 | - |
| Financial Institution N | 406,320 | 406,811 | 250,000 | 406,320 |
| Financial Institution O | 216,420 | 216,420 | 250,000 | 155 |
| Financial Institution p | 77,915 | 77,915 | 250,000 | - |
| | <u>\$ 16,710,662</u> | <u>\$ 16,979,095</u> | <u>\$ 3,750,000</u> | <u>\$ 20,073,550</u> |

WARREN COUNTY WATER DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
 DECEMBER 31, 2016 and 2015

At December 31, 2016 and 2015 all balances were 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 \$3,327,832.

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, 2016 and 2015 were \$7,285,623 and \$4,763,608, respectively

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 | 2016 | 2015 |
| Bond and Interest Sinking Funds | \$ 635,741 | \$ 629,302 |
| Debt Service Reserve | 318,800 | 318,800 |
| Customer deposits | 1,206,027 | 1,152,607 |
| Construction funds | 6,268,152 | 5,825,092 |
| Depreciation fund | 4,862,996 | 3,898,846 |
| Cash and cash equivalents | 3,420,166 | 2,783,071 |
| Total Cash and Investments | 16,711,882 | 14,607,718 |
| Less: Investments greater than ninety days | (11,675,607) | (10,284,981) |
| Total Cash and Cash Equivalents per Statements of Cash Flows | \$ 5,036,275 | \$ 4,322,737 |

WARREN COUNTY WATER DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
 DECEMBER 31, 2016 and 2015

NOTE C-UTILITY PLANT

The costs of major classes of utility plant at December 31, 2016 were:

| <u>Description</u> | <u>2015</u> | <u>Additions</u> | <u>Disposals</u> | <u>2016</u> |
|--------------------------------|-----------------------|---------------------|-------------------|-----------------------|
| Land * | \$ 1,394,954 | \$ - | \$ - | \$ 1,394,954 |
| Buildings/Improvements | 9,686,419 | 256,628 | - | 9,943,047 |
| Elec Pumping/Mains | 112,887,973 | 3,048,279 | - | 115,936,252 |
| Meters/Hydrants | 23,107,534 | 1,370,222 | 42,260 | 24,435,496 |
| Furniture and Equipment-Office | 2,363,754 | 95,441 | - | 2,459,195 |
| Equipment | <u>1,613,900</u> | <u>146,368</u> | <u>77,909</u> | <u>1,682,359</u> |
| Total Utility Plant in Service | 151,054,534 | <u>\$ 4,916,938</u> | <u>\$ 120,169</u> | 155,851,303 |
| Nonoperating Property * | 251,692 | | | 251,692 |
| Construction in Progress * | 993,036 | | | 3,444,388 |
| Accumulated Depreciation | <u>(43,933,438)</u> | | | <u>(47,192,806)</u> |
| | <u>\$ 108,365,824</u> | | | <u>\$ 112,354,577</u> |

* Denotes items that are not depreciated.

The accumulated depreciation by major classes of utility plant at December 31, 2016 was:

| <u>Description</u> | <u>2015</u> | <u>Additions</u> | <u>Disposals</u> | <u>2016</u> |
|--------------------------------|----------------------|---------------------|-------------------|----------------------|
| Buildings/Improvements | 1,888,201 | 213,150 | - | 2,101,351 |
| Elec Pumping/Mains | 32,396,853 | 2,279,991 | - | 34,676,844 |
| Meters/Hydrants | 7,092,651 | 542,100 | 42,260 | 7,592,491 |
| Furniture and Equipment-Office | 1,231,406 | 210,699 | - | 1,442,105 |
| Equipment | <u>1,324,327</u> | <u>131,706</u> | <u>76,018</u> | <u>1,380,015</u> |
| Total Utility Plant in Service | 43,933,438 | <u>\$ 3,377,646</u> | <u>\$ 118,278</u> | 47,192,806 |
| Nonoperating Property | <u>(85,836)</u> | | | <u>(85,836)</u> |
| | <u>\$ 43,847,602</u> | | | <u>\$ 47,106,970</u> |

WARREN COUNTY WATER DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
 DECEMBER 31, 2016 and 2015

The costs of major classes of utility plant at December 31, 2015 were:

| <u>Description</u> | <u>2014</u> | <u>Additions</u> | <u>Disposals</u> | <u>2015</u> |
|--------------------------------|-----------------------|---------------------|-------------------|-----------------------|
| Land * | \$ 1,394,954 | \$ - | \$ - | \$ 1,394,954 |
| Buildings/Improvements | 9,542,119 | 162,984 | 18,684 | 9,686,419 |
| Elec Pumping/Mains | 106,703,953 | 6,755,315 | 571,295 | 112,887,973 |
| Meters/Hydrants | 21,594,480 | 1,553,227 | 40,173 | 23,107,534 |
| Furniture and Equipment-Office | 2,199,377 | 164,377 | - | 2,363,754 |
| Equipment | <u>1,404,796</u> | <u>287,883</u> | <u>78,779</u> | <u>1,613,900</u> |
| Total Utility Plant in Service | 142,839,679 | <u>\$ 8,923,786</u> | <u>\$ 708,931</u> | 151,054,534 |
| Nonoperating Property * | 251,692 | | | 251,692 |
| Construction in Progress * | 3,146,488 | | | 993,036 |
| Accumulated Depreciation | (41,407,055) | | | (43,933,438) |
| | <u>\$ 104,830,804</u> | | | <u>\$ 108,365,824</u> |

The accumulated depreciation by major classes of utility plant at December 31, 2015 was:

| <u>Description</u> | <u>2014</u> | <u>Additions</u> | <u>Disposals</u> | <u>2015</u> |
|--------------------------------|----------------------|---------------------|-------------------|----------------------|
| Buildings/Improvements | 1,698,646 | 208,239 | 18,684 | 1,888,201 |
| Elec Pumping/Mains | 30,774,331 | 2,193,817 | 571,295 | 32,396,853 |
| Meters/Hydrants | 6,628,347 | 504,477 | 40,173 | 7,092,651 |
| Furniture and Equipment-Office | 1,038,088 | 193,318 | - | 1,231,406 |
| Equipment | <u>1,267,643</u> | <u>135,463</u> | <u>78,779</u> | <u>1,324,327</u> |
| Total Utility Plant in Service | 41,407,055 | <u>\$ 3,235,314</u> | <u>\$ 708,931</u> | 43,933,438 |
| Nonoperating Property | (85,836) | | | (85,836) |
| | <u>\$ 41,321,219</u> | | | <u>\$ 43,847,602</u> |

WARREN COUNTY WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2016 and 2015

Construction Commitments

(1) The Alvaton Area Sewer Project will provide service to a large elementary school, county park, church, and will facilitate commercial and residential development in the Alvaton Area. It consists of 18,000 feet of force main, 8,000 feet of gravity sewer, and a lift station with 300 gallons per minute pumps. The anticipated total cost of the project is \$1,708,000. Funding consists of a Kentucky Infrastructure loan of \$1,090,050 with debt service paid by connection fees and Warren County Fiscal Court and contributions from Warren County Board of Education, Warren County Public Works, and Warren County Water District of \$490,650, \$47,000, and \$80,300 respectively. Total expenditures as of 12/31/16 were \$1,569,000. The project is to be completed by April 30, 2017.

(2) The 2016 Lift Station Improvement Project consists of the replacement and upgrade of two large lift stations. The new South Industrial Park Lift Station will serve the majority of the industries in the south half of Warren County as well as a growing residential area. The new Lift Station No. 8 will primarily serve the recently expanded General Motors Corvette assembly complex. The anticipated total cost of the project is \$937,000. Funding consists of \$457,000 from General Motors and \$480,000 from Warren County Water District. Total expenditures as of 12/31/16 were \$550,700. The project is expected to be completed by May 30, 2017.

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:

WARREN COUNTY WATER DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
 DECEMBER 31, 2016 and 2015

| Description | Interest Rate | Dated | Maturity Date | Original Amount |
|---------------|---------------|----------|---------------|---------------------|
| Series 1993 | 4.50% | 11/23/94 | 07/01/33 | 761,000 |
| 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 |
| | | | | <u>\$ 4,036,000</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.

Summary of bond activity for the year ended December 31, 2016 was as follows:

| Series | Beginning Balance | Additions | Reductions | Ending Balance | Amounts Due Within One Year |
|--------|---------------------|-------------|-------------------|---------------------|-----------------------------|
| 1993 | \$ 527,500 | \$ - | \$ 19,000 | \$ 508,500 | 20,000 |
| 2004A* | 1,165,000 | - | 100,000 | 1,065,000 | 100,000 |
| 2005A | 1,108,000 | - | 18,500 | 1,089,500 | 20,000 |
| | <u>\$ 2,800,500</u> | <u>\$ -</u> | <u>\$ 137,500</u> | <u>\$ 2,663,000</u> | <u>\$ 140,000</u> |

Summary of bond activity for the year ended December 31, 2015 was as follows:

| Series | Beginning Balance | Additions | Reductions | Ending Balance | Amounts Due Within One Year |
|--------|---------------------|-------------|-------------------|---------------------|-----------------------------|
| 1993 | \$ 545,500 | \$ - | \$ 18,000 | \$ 527,500 | 18,500 |
| 2004A* | 1,265,000 | - | 100,000 | 1,165,000 | 100,000 |
| 2005A | 1,126,000 | - | 18,000 | 1,108,000 | 19,000 |
| | <u>\$ 2,936,500</u> | <u>\$ -</u> | <u>\$ 136,000</u> | <u>\$ 2,800,500</u> | <u>\$ 137,500</u> |

WARREN COUNTY WATER DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
 DECEMBER 31, 2016 and 2015

As of December 31, 2016, the aggregate debt service requirements on bonded indebtedness to maturity are summarized as follows:

| Year Ending December | Principal Payments | Interest Payments | Total |
|----------------------------|-----------------------|----------------------|---------------------|
| 2017 | 140,000 | 110,921 | 250,921 |
| 2018 | 141,500 | 105,196 | 246,696 |
| 2019 | 144,000 | 99,284 | 243,284 |
| 2020 | 160,500 | 92,926 | 253,426 |
| 2021 | 168,000 | 86,021 | 254,021 |
| 2022-2026 | 803,500 | 315,266 | 1,118,766 |
| 2027-2031 | 342,000 | 197,940 | 539,940 |
| 2032-2036 | 287,500 | 121,456 | 408,956 |
| 2037-2041 | 250,000 | 67,554 | 317,554 |
| 2042-2045 | 226,000 | 11,794 | 237,794 |
| | <u>\$ 2,663,000</u> | <u>\$ 1,208,358</u> | <u>\$ 3,871,358</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 2016, the District advanced refunded and defeased in substance its outstanding 2006A bond of \$2,357,467 carrying a fixed interest rate 4.30%, with a new loan, 2016B, of \$2,295,000 with an interest rate ranging from 2.25% to 3.25% the interest rate range change at different times over the life of the bond. Both require level annual debt service payments with final payments in 2030. The 2006A was an advanced refunding of the 1999B bond.

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, 2016, \$2,295,000 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 \$324,519. The District's refunding of the 2006A bond resulted in present value of cash flow savings of \$268,461.

WARREN COUNTY WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2016 and 2015

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 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, 2016 and 2015 is \$46,660 and \$46,660, 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. Income from investments of the Debt Service Reserve Fund is to be accumulated in the fund. The balance at December 31, 2016 and 2015 was \$272,140 and \$272,140, respectively.

WARREN COUNTY WATER DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
 DECEMBER 31, 2016 and 2015

NOTE G-NOTES PAYABLE

Notes payable consists of five long-term construction loans with the Kentucky Infrastructure Authority (KIA) and four 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 |
| 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 |
| Series 2016B* | 2.25-3.25% | 05/12/16 | 12/31/30 | 2,295,000 |
| C15-003 | 3.00% | 02/22/16 | 12/01/36 | 1,081,841 |
| | | | | <u>\$ 12,589,672</u> |

Summary of note activity for the year ended December 31, 2016 was as follows:

| Description | Beginning Balance | Additions | Reductions | Ending Balance | Amounts Due Within One Year |
|---------------|---------------------|---------------------|---------------------|---------------------|-----------------------------|
| 2006A* | 2,448,000 | - | 2,448,000 | - | - |
| 2012B | 1,695,000 | - | 50,000 | 1,645,000 | 50,000 |
| 2013B | 1,725,001 | - | 130,002 | 1,594,999 | 130,000 |
| A97-04/317 | 197,992 | - | 63,530 | 134,462 | 65,966 |
| A98-02/353 | 51,085 | - | 16,391 | 34,694 | 17,020 |
| C11-02 | 745,817 | - | 32,905 | 712,912 | 33,909 |
| Series 2016B* | - | 2,295,000 | - | 2,295,000 | 120,000 |
| C15-003 | - | 1,081,841 | - | 1,081,841 | 32,265 |
| | <u>\$ 6,862,895</u> | <u>\$ 3,376,841</u> | <u>\$ 2,740,828</u> | <u>\$ 7,498,908</u> | <u>\$ 449,160</u> |

WARREN COUNTY WATER DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
 DECEMBER 31, 2016 and 2015

Summary of note activity for the year ended December 31, 2015 was as follows:

| Description | Beginning Balance | Additions | Reductions | Ending Balance | Amounts Due Within One Year |
|-------------|----------------------|-------------|-------------------|---------------------|-----------------------------------|
| 2006A* | 2,559,000 | - | 111,000 | 2,448,000 | 123,000 |
| 2012B | 1,745,000 | | 50,000 | 1,695,000 | 50,000 |
| 2013B | 1,850,001 | - | 125,000 | 1,725,001 | 130,000 |
| A97-04/317 | 259,174 | - | 61,182 | 197,992 | 63,529 |
| A98-02/353 | 66,871 | - | 15,786 | 51,085 | 16,391 |
| C11-02 | 777,753 | - | 31,936 | 745,817 | 32,907 |
| | <u>\$ 7,257,799</u> | <u>\$ -</u> | <u>\$ 394,904</u> | <u>\$ 6,862,895</u> | <u>\$ 415,827</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, 2016 and 2015

As of December 31, 2016, the future payments for the remaining note payable obligations by year are as follows:

| Year Ending December | Principal Payments | Interest Payments | Total |
|----------------------------|-----------------------|----------------------|---------------------|
| 2017 | 449,160 | 243,065 | 692,225 |
| 2018 | 487,807 | 213,330 | 701,137 |
| 2019 | 413,560 | 199,432 | 612,992 |
| 2020 | 431,354 | 187,321 | 618,675 |
| 2021 | 433,820 | 175,263 | 609,083 |
| 2022-2026 | 2,338,785 | 687,710 | 3,026,495 |
| 2027-2031 | 1,807,665 | 353,061 | 2,160,726 |
| 2032-2036 | 841,757 | 153,995 | 995,752 |
| 2037-2040 | 295,000 | 33,075 | 328,075 |
| | <u>\$ 7,498,908</u> | <u>\$ 2,246,252</u> | <u>\$ 9,745,160</u> |

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 \$146,795 and \$150,454 at December 31, 2016 and 2015, 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, 2016:

| | <u>2015</u> | <u>Additions</u> | <u>2016</u> |
|--|-----------------------|---------------------|-----------------------|
| Original membership and tap-on fees and contributions for construction of various projects | \$ 53,319,946 | \$ 6,616,752 | \$ 59,936,698 |
| Grants-in-aid | <u>19,301,433</u> | <u>-</u> | <u>19,301,433</u> |
| Total Capital Contributions | 72,621,379 | <u>\$ 6,616,752</u> | 79,238,131 |
| Retained Earnings | 29,995,243 | | 30,853,661 |
| Total Net Position | <u>\$ 102,616,622</u> | | <u>\$ 110,091,792</u> |

WARREN COUNTY WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2016 and 2015

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 RETIREMENT PLAN

Plan Description. Employees of the District are provided with a defined benefit retirement plan through the Retirement Security Plan (RS Plan) and administered by the National Rural Electric Cooperative Association (NRECA) which is a cost sharing multiple-employer plan that has the characteristics described in paragraph 2 of GASB Statement No. 78.

Financial Information. The RS Plan 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 RS Plan must file annual reports with the U.S. Department of Labor (Form 5500) that include a copy of the RS annual financial statements. An electronic copy of Form 5500, and the plan's annual financial statements, can be obtained by going to www.efast.dol.gov and using the search tool (EIN 530116145; PN 333).

Benefits Provided. The District had 59 employees participating in the RS Plan on 12/31/2016. 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 years after April 1, 1999) multiplied by the number of continuous years in the plan 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 The District's Board of Commissioners has the authority to amend certain terms of the RS Plan, including benefit levels provided for each year of service, normal retirement age, eligibility for participation, and required employee contributions to the plan. Other terms such as vesting periods, forms of payment, and factors used to reduce benefits for early retirement and conversion of benefits to optional forms of payment, are governed at the overall plan level and cannot be adjusted by the District.

WARREN COUNTY WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2016 and 2015

Contribution Requirements. The total annual contribution is determined actuarially to be sufficient in funding the benefits of the RS Plan as a level percentage of covered payroll over the average expected remaining working lifetime of its participants. The amount is determined annually. This total annual contribution is allocated based on each employer's RS Plan provisions and participant demographics (in particular, the average age of participants and each participants pay level). The District must contribute annually in accordance with the terms of the RS Plan. The District's Board of Commissioners may amend certain benefit provisions, changing the corresponding contribution level after the effective date of the amendment. The District's contribution rate for Year 2016 was 27.17% of an employees' base pay for those employees who have been employed with the District for over one year and have worked the number of hours to qualify.

Plan Valuation. As of 1/1/2016, the present value of accumulated benefits for the District was \$4,415,000. This is the liability determined using the RS Plan valuation assumptions which are appropriate for an ongoing plan. The proportionate share of the actuarial value of assets assigned to the District was \$3,020,000 and the resulting difference of \$1,395,000 is the unfunded liability. At this time, no entry has been made to record the unfunded liability on the District's financial statements. In year 2016, management began reviewing options to address the RS Plan unfunded liability. As of the date of this report, the District has not received information for the 1/1/2017 plan valuation.

Please see required supplemental schedule, Schedule of Contributions and notes to the required supplemental schedule on pages 39 and 40 for further information.

NOTE L – POSTEMPLOYMENT HEALTHCARE PLAN

Plan Description. The District provides medical, prescription drug, and dental benefits (healthcare benefits) to retired employees and their spouses under certain conditions. The District is adopting the provisions of GASB 45 for the fiscal year ending December 31, 2016. The plan was not adopted previously because the District did not feel that the liability was significant. A report was prepared in accordance with the requirements of GASB Statement 45 and provides an actuarial valuation as of December 31, 2016 of the retiree healthcare benefits provided by the District. This report may be obtained by writing to John Dix, General Manager, Warren County Water District, P.O. Box 10180, Bowling Green, KY 42102-4780.

WARREN COUNTY WATER DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
 DECEMBER 31, 2016 and 2015

Funding Policy. The contribution requirements of retired employees are established and may be amended by the District's Board of Commissioners. If an employee retires at a minimum age of 60 and their age plus years of service equals 75, the District will pay 70 percent of the premium for employee and spouse coverage for a period not to exceed 3 years. All coverage ceases when the retiree or spouse attains age 65 or becomes eligible for Medicare except for COBRA continuation, if elected. For fiscal year 2016, the District contributed \$13,298 towards the healthcare plan.

Annual OPEB Cost and Net OPEB Obligation. The District's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution* (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the District's annual OPEB cost for the year, the amount contributed to the plan, and changes in the District's net OPEB obligation:

| | |
|--|-------------------------|
| Annual Required Contribution (ARC) | \$ 81,648 |
| Interest on Net OPEB Obligation | - |
| Adjustment to Annual Required Contribution (ARC) | - |
| Annual OPEB Cost (Expense) | <u>81,648</u> |
| Employer Contributions Made | <u>(13,298)</u> |
| Increase in Net OPEB Obligation | 68,350 |
| Net OPEB Obligation - Beginning of Year | - |
| Net OPEB Obligation - End of Year | <u><u>\$ 68,350</u></u> |

The District's annual OPEB cost, the percentage of annual OPEB cost contributed, and the net OPEB obligation for year 2016 were as follows:

| Fiscal | | Percentage of | Net |
|---------------------|-------------------------|--------------------------------|--------------------------|
| Year | Annual | Annual OPEB | OPEB |
| <u>Ended</u> | <u>OPEB Cost</u> | <u>Cost Contributed</u> | <u>Obligation</u> |
| 12/31/2016 | \$81,648 | 16.3% | \$68,350 |

WARREN COUNTY WATER DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
 DECEMBER 31, 2016 and 2015

Expected contributions by Fiscal Year are below:

| Fiscal Year Ending | Expected Employer Contribution |
|-----------------------------------|---|
| 12/31/2016 | \$13,298 |
| 12/31/2017 | \$26,080 |
| 12/31/2018 | \$13,273 |

Funded Status and Funding Progress. As of December 31, 2016, the first and most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability (AAL) for benefits was \$746,275 and the actuarial value of assets was \$0, resulting in an unfunded actuarial liability (UAAL) of \$746,275. The covered payroll (annual payroll of active employees covered by the plan) was \$2,837,994, and the ratio of the UAAL to the covered payroll was 26.3%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents information about the actuarial value of plan assets and actuarial liabilities for benefits.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and employees to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the December 31, 2016, actuarial valuations, the Alternative Measurement Method (AMM) was used. The actuarial assumptions included a 3.78% investment rate of return per year which reflects the index rate for 20-year, tax exempt general obligation municipal bonds with an average rating of AA/Aa or higher as of the valuation date, and an annual healthcare cost trend rate of 5% for all years. Other assumptions included a general inflation rate of 3% annually and salary increases of 2.5% annually. The UAAL of \$746,275 is being amortized over period of 25.2 years.

WARREN COUNTY WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2016 and 2015

Please see required supplemental schedule, Schedule of Contributions on pages 39 for further information.

NOTE M- OTHER EMPLOYEE BENEFITS

The District currently participates in 401(a) and 457(b) retirement plans through Transamerica Retirement Solutions Corporation. Prior to May 27, 2016, the District participated in the Kentucky Deferred Compensation Authority 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, 2016 and 2015, the District's accrued compensated absences for annual leave totaled \$310,103 and \$297,958, 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, 2016 and 2015, the District's accrued compensated absences for sick leave totaled \$31,835 and \$27,718, respectively.

NOTE N-CONTINGENCES

The District entered into an agreement with an entity to develop the water and sewer system for their plant with a grant received from the Kentucky Cabinet for Economic development (KCED). To meet the requirements of the KCED the District had to place a surety with KCED for \$615,000 until July 1, 2025, which is the cost of the grant. In turn, the Inter-modal Transportation Authority (ITA) agrees to return the surety in the form of water and sewer improvement if the entity does not meet the employment goals required by the grant agreement.

NOTE O-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, 2016, the District carried net receivables of \$27,372 from Butler and a net payable of \$18,663 to Simpson, Counties. At December 31, 2015, the District carried net receivables of \$30,313 and \$9,285 from Butler and Simpson Counties, respectively.

WARREN COUNTY WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2016 and 2015

NOTE P-SUBSEQUENT EVENTS

The company has evaluated subsequent events through May 23, 2017 the date which the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

WARREN COUNTY WATER DISTRICT
 BUDGETARY COMPARISON SCHEDULE
 FOR THE YEAR ENDED DECEMBER 31, 2016

| | Budgeted Amounts 2016 | Actual Amounts 2016 | Variance |
|---|--------------------------|------------------------|--------------------|
| OPERATING REVENUES | | | |
| Metered sales | \$ 13,530,900 | \$ 13,605,775 | \$ 74,875 |
| Miscellaneous service revenue | 257,500 | 256,366 | (1,134) |
| TOTAL OPERATING REVENUES | 13,788,400 | 13,862,141 | 73,741 |
| OPERATING EXPENSES | | | |
| Source of supply | 5,580,251 | 5,589,290 | (9,039) |
| Pumping plant | 568,600 | 651,253 | (82,653) |
| Water treatment | 6,949 | - | 6,949 |
| Transmission and distribution | 1,192,515 | 1,121,454 | 71,061 |
| Customer accounts | 1,454,673 | 1,418,748 | 35,925 |
| Administrative and general | 867,812 | 942,324 | (74,512) |
| Depreciation | 3,261,100 | 3,256,543 | 4,557 |
| TOTAL OPERATING EXPENSES | 12,931,900 | 12,979,612 | (47,712) |
| OPERATING INCOME | 856,500 | 882,529 | 26,029 |
| NONOPERATING REVENUES (EXPENSES) | | | |
| Interest income | 92,800 | 95,935 | 3,135 |
| Rental revenue | 131,900 | 133,514 | 1,614 |
| Non-utility income | 122,700 | 114,342 | (8,358) |
| Gain on disposal of assets | 20,000 | 20,714 | 714 |
| Amortization of debt expense | (8,300) | (43,082) | (34,782) |
| Interest expense | (345,600) | (345,534) | 66 |
| TOTAL NONOPERATING REVENUES (EXPENSES) | 13,500 | (24,111) | (37,611) |
| INCREASE IN NET ASSETS | \$ 870,000 | \$ 858,418 | \$ (11,582) |

WARREN COUNTY WATER DISTRICT
SCHEDULE OF CONTRIBUTIONS

Employee Retirement System

| | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>2013</u> | <u>2012</u> | <u>2011</u> | <u>2010</u> |
| Contractually Required Contribution | \$ 785,396 | \$ 674,876 | \$ 658,698 | \$ 689,385 | \$ 626,233 | \$ 587,412 | \$ 557,139 |

Note: This schedule is intended to present a ten-year trend per GASB 78.
Additional years will be reported as incurred.

Other Postemployment Benefit Plan - Healthcare Plan

| Actuarial Valuation <u>Date</u> | Actuarial Value of <u>Assets</u> | Actuarial Accrued Liability <u>(AAL)</u> | Unfunded AAL <u>(UAAL)</u> | Funded <u>Ratio</u> | Covered <u>Payroll</u> | UAAL as a Percentage <u>of Payroll</u> |
|---------------------------------------|--|---|----------------------------------|------------------------|---------------------------|--|
| 1/1/2016 | \$ - | \$ 746,275 | \$ 746,275 | \$ - | \$ 2,837,994 | 26.30% |

Note: This schedule will eventually provide three fiscal years of data.
Additional years will be reported as incurred.

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

WARREN COUNTY WATER DISTRICT
 NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION (Continued)
 DECEMBER 31, 2016 and 2015

In the table below is a summary of the District's contribution rates, contractually required contributions amounts, and factors significantly affecting contribution rates.

SCHEDULE OF REQUIRED CONTRIBUTIONS

| Year | Contribution Rate | Contribution Amount Required and Paid | Average Age | Factors Significantly Affecting Contribution Rate |
|------|-------------------|---------------------------------------|-------------|---|
| 2010 | 23.53 | \$557,139 | 42 | Actual 2008 investment return was significantly lower than assumed 8.5% expected annual return. |
| 2011 | 23.53 | \$587,412 | 42 | |
| 2012 | 23.95 | \$626,233 | 43 | Increase in the average age of District participants. |
| 2013 | 25.89 | \$689,385 | 43 | Actual 2011 investment return was significantly lower than assumed 8.5% expected annual return. |
| 2014 | 26.37 | \$658,698 | 44 | Increase in the average age of District participants. |
| 2015 | 25.89 | \$674,879 | 43 | Decrease in the average age of District participants. |
| 2016 | 27.17 | \$785,396 | 44 | Increase in the average age of District participants and lower than assumed 7.75% expected annual return. |

*Note: This schedule is intended to present a ten year trend per GASB Statement No. 78. Additional years will be reported as incurred.

OTHER SUPPLEMENTARY INFORMATION

WARREN COUNTY WATER DISTRICT
 SCHEDULES OF OPERATING EXPENSES
 FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

| | <u>2016</u> | <u>2015</u> |
|---|---------------------|---------------------|
| SOURCE OF SUPPLY EXPENSE | | |
| Purchased water and disposal | \$ 5,589,290 | \$ 5,333,740 |
| PUMPING PLANT EXPENSE | | |
| Power purchased | \$ 577,065 | \$ 560,365 |
| Chemicals | 46,428 | 46,852 |
| Miscellaneous pumping expense | 933 | 42 |
| Contractual services | 6,250 | 6,250 |
| Rental expense | 4,976 | 5,001 |
| Insurance | 15,601 | 15,235 |
| TOTAL PUMPING PLANT EXPENSE | <u>\$ 651,253</u> | <u>\$ 633,745</u> |
| TRANSMISSION AND DISTRIBUTION EXPENSE | | |
| Salaries and benefits | \$ 681,960 | \$ 624,457 |
| Power purchased | (1,272) | 438 |
| Contractual services | 137,109 | 135,794 |
| Rental expense | 19,073 | 19,171 |
| Transportation | 91,381 | 97,673 |
| Insurance | 51,021 | 49,410 |
| Materials and supplies | 142,182 | 107,968 |
| TOTAL TRANSMISSION AND DISTRIBUTION EXPENSE | <u>\$ 1,121,454</u> | <u>\$ 1,034,911</u> |

| | <u>2016</u> | <u>2015</u> |
|---|---------------------|---------------------|
| CUSTOMER ACCOUNTS EXPENSE | | |
| Salaries and benefits | \$ 998,368 | \$ 969,795 |
| Billing services | 233,705 | 223,231 |
| Contractual services | 55,479 | 51,605 |
| Uncollectible accounts | 12,582 | 17,570 |
| Rental expense | 29,025 | 29,173 |
| Transportation | 70,343 | 85,624 |
| Insurance | 8,144 | 7,962 |
| Miscellaneous | 3,403 | 3,499 |
| Materials and supplies | 7,699 | 8,225 |
| TOTAL CUSTOMER ACCOUNTS EXPENSE | <u>\$ 1,418,748</u> | <u>\$ 1,396,684</u> |
| ADMINISTRATIVE AND GENERAL EXPENSE | | |
| Salaries and benefits | \$ 533,579 | \$ 471,256 |
| Office supplies | 36,424 | 32,165 |
| Commissioner Fees | 30,000 | 30,000 |
| Contractual services | 278,050 | 260,879 |
| Insurance | 12,852 | 12,670 |
| Rental expense | 4,990 | 5,001 |
| Regulatory commission expense | 25,724 | 24,427 |
| Miscellaneous | 19,401 | 16,302 |
| Transportation | 1,304 | 2,046 |
| TOTAL ADMINISTRATIVE AND GENERAL EXPENSE | <u>\$ 942,324</u> | <u>\$ 854,746</u> |
| DEPRECIATION EXPENSE | \$ 3,256,543 | \$ 3,107,982 |

WARREN COUNTY WATER DISTRICT
WATER DIVISION
STATEMENTS OF NET POSITION
DECEMBER 31, 2016 AND 2015

| | <u>2016</u> | <u>2015</u> |
|---|----------------------|----------------------|
| ASSETS | | |
| UTILITY PLANT (at cost) | | |
| Utility plant in service | \$ 109,851,458 | \$ 107,176,695 |
| Less accumulated depreciation | <u>(36,243,726)</u> | <u>(33,904,437)</u> |
| | 73,607,732 | 73,272,258 |
| Utility plant construction in progress | <u>1,284,305</u> | <u>789,419</u> |
| NET UTILITY PLANT | 74,892,037 | 74,061,677 |
| NONOPERATING PROPERTY, net of \$85,836 | | |
| accumulated depreciation | 165,856 | 165,856 |
| RESTRICTED ASSETS | | |
| Bond and interest sinking funds | 596,341 | 591,695 |
| Debt service reserve for bond funds | 46,660 | 46,660 |
| Customer deposits | 951,265 | 914,086 |
| Construction funds | 3,564,767 | 3,564,734 |
| Depreciation fund | <u>2,430,948</u> | <u>1,911,040</u> |
| TOTAL RESTRICTED ASSETS | 7,589,981 | 7,028,215 |
| CURRENT ASSETS | | |
| Cash and cash equivalents | 2,537,688 | 1,932,700 |
| Net accounts receivable | 462,560 | 478,408 |
| Butler County Water System, Inc. | 88,471 | 90,375 |
| Simpson County Water District | 57,900 | 55,895 |
| Special deposits and transfers | 680 | 680 |
| Materials and supplies inventory | 552,215 | 563,024 |
| Prepaid insurance and postage | 94,100 | 79,077 |
| Other receivables | <u>9,336</u> | <u>7,372</u> |
| TOTAL CURRENT ASSETS | 3,802,950 | 3,207,531 |
| OTHER ASSETS | | |
| Unamortized debt premium/discount | 34,645 | 67,946 |
| Unamortized retirement costs and other expenses | <u>164,090</u> | <u>193,426</u> |
| TOTAL OTHER ASSETS | <u>198,735</u> | <u>261,372</u> |
| TOTAL ASSETS | <u>\$ 86,649,559</u> | <u>\$ 84,724,651</u> |

| | <u>2016</u> | <u>2015</u> |
|---|----------------------|----------------------|
| NET POSITION | | |
| Invested in capital assets, net of related debt | \$ 63,825,829 | \$ 61,777,559 |
| Restricted | 6,638,716 | 6,114,129 |
| Unrestricted | <u>2,047,255</u> | <u>1,520,586</u> |
| TOTAL NET POSITION | 72,511,800 | 69,412,274 |
| LONG-TERM DEBT | | |
| Bonds payable | 2,154,000 | 2,273,000 |
| Notes payable | 5,430,039 | 5,754,484 |
| Less - Current portion of long-term debt | <u>(411,445)</u> | <u>(413,445)</u> |
| TOTAL LONG-TERM DEBT | 7,172,594 | 7,614,039 |
| CURRENT LIABILITIES | | |
| Accounts payable and accrued expenses | 1,474,497 | 1,332,514 |
| Butler County Water System, Inc. | 61,099 | 60,062 |
| Simpson County Water District | 76,563 | 46,610 |
| Accounts payable - Sewer Division | 210,003 | 435,036 |
| Current portion of long-term debt | <u>411,445</u> | <u>413,445</u> |
| TOTAL CURRENT LIABILITIES | 2,233,607 | 2,287,667 |
| OTHER LIABILITIES | | |
| Customer meter deposits | 946,233 | 914,515 |
| Contractor advances for construction | 3,648,025 | 4,422,490 |
| Unearned revenue from cellular leases | 68,950 | 73,666 |
| Other post employment benefit obligation | <u>68,350</u> | <u>-</u> |
| TOTAL OTHER LIABILITIES | <u>4,731,558</u> | <u>5,410,671</u> |
| TOTAL LIABILITIES | <u>14,137,759</u> | <u>15,312,377</u> |
| TOTAL LIABILITIES AND NET POSITION | <u>\$ 86,649,559</u> | <u>\$ 84,724,651</u> |

WARREN COUNTY WATER DISTRICT
WATER DIVISION
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

| | <u>2016</u> | <u>2015</u> |
|--|------------------|------------------|
| OPERATING REVENUES | | |
| Metered sales | \$ 9,595,177 | \$ 9,368,201 |
| Miscellaneous service revenue | 231,553 | 236,560 |
| TOTAL OPERATING REVENUES | <u>9,826,730</u> | <u>9,604,761</u> |
| OPERATING EXPENSES | | |
| Source of supply expense: | | |
| Purchased water | 3,181,664 | 3,062,424 |
| Pumping plant expense: | | |
| Power purchased | 461,104 | 455,289 |
| Contractual services | 3,125 | 3,125 |
| Miscellaneous pumping expense | 933 | 42 |
| Rental expense | 4,976 | 5,001 |
| Insurance | 11,434 | 11,053 |
| | <u>481,572</u> | <u>474,510</u> |
| Transmission and distribution expense: | | |
| Salaries and benefits | 601,635 | 562,856 |
| Power purchased | (1,272) | 438 |
| Contractual services | 110,610 | 90,081 |
| Rental expense | 19,073 | 19,171 |
| Transportation | 83,229 | 87,882 |
| Insurance | 48,594 | 46,974 |
| Materials and supplies | 121,254 | 98,631 |
| | <u>983,123</u> | <u>906,033</u> |

| | <u>2016</u> | <u>2015</u> |
|--|----------------------|----------------------|
| Customer accounts expense: | | |
| Salaries and benefits | 905,102 | 873,994 |
| Billing services | 233,705 | 223,231 |
| Contractual services | 3,125 | 3,125 |
| Uncollectible accounts | 11,818 | 16,000 |
| Rental expense | 29,025 | 29,173 |
| Transportation | 70,292 | 86,442 |
| Insurance | 5,717 | 5,526 |
| Miscellaneous | 2,612 | 3,499 |
| Materials and supplies | 7,533 | 5,359 |
| | <u>1,268,929</u> | <u>1,246,349</u> |
| Administrative and general expense: | | |
| Salaries and benefits | 459,869 | 405,441 |
| Office supplies | 33,746 | 29,585 |
| Contractual services | 244,654 | 231,768 |
| Commissioner fees | 15,000 | 15,000 |
| Insurance | 8,071 | 7,880 |
| Rental expense | 4,990 | 5,001 |
| Regulatory commission expense | 18,582 | 17,843 |
| Miscellaneous | 14,973 | 12,043 |
| Transportation | 1,304 | 2,046 |
| | <u>801,189</u> | <u>726,607</u> |
| Depreciation | 2,336,463 | 2,231,082 |
| | <u>9,052,940</u> | <u>8,647,005</u> |
| TOTAL OPERATING EXPENSES | | |
| | <u>9,052,940</u> | <u>8,647,005</u> |
| OPERATING INCOME | 773,790 | 957,756 |
| NONOPERATING REVENUES (EXPENSES) | | |
| Interest income | 64,398 | 42,506 |
| Rental revenue | 111,184 | 121,604 |
| Non utility income | 114,329 | 110,681 |
| Gain on disposal of assets | 20,714 | 10,837 |
| Debt expense | (42,930) | (8,597) |
| Interest expense | (277,136) | (306,672) |
| | <u>(9,441)</u> | <u>(29,641)</u> |
| TOTAL NONOPERATING REVENUES (EXPENSES) | | |
| | <u>(9,441)</u> | <u>(29,641)</u> |
| INCOME BEFORE CAPITAL CONTRIBUTIONS | 764,349 | 928,115 |
| CAPITAL CONTRIBUTIONS | 2,335,177 | 6,631,462 |
| | <u>3,099,526</u> | <u>7,559,577</u> |
| INCREASE IN NET POSITION | | |
| | <u>3,099,526</u> | <u>7,559,577</u> |
| NET POSITION, BEGINNING OF YEAR | 69,412,274 | 61,852,697 |
| | <u>69,412,274</u> | <u>61,852,697</u> |
| NET POSITION, END OF YEAR | <u>\$ 72,511,800</u> | <u>\$ 69,412,274</u> |

WARREN COUNTY WATER DISTRICT
 SEWER DIVISION
 STATEMENTS OF NET POSITION
 DECEMBER 31, 2016 AND 2015

| | <u>2016</u> | <u>2015</u> |
|---|----------------------|----------------------|
| ASSETS | | |
| UTILITY PLANT (at cost) | | |
| Utility plant in service | \$ 45,999,845 | \$ 43,877,839 |
| Less accumulated depreciation | <u>(10,863,244)</u> | <u>(9,943,165)</u> |
| | 35,136,601 | 33,934,674 |
| Utility plant construction in progress | <u>2,160,083</u> | <u>203,617</u> |
| NET UTILITY PLANT | 37,296,684 | 34,138,291 |
| RESTRICTED ASSETS | | |
| Bond and interest sinking funds | 39,400 | 37,607 |
| Debt service reserve for bond funds | 272,140 | 272,140 |
| Customer deposits | 254,762 | 238,521 |
| Construction Funds | 2,703,385 | 2,260,358 |
| Depreciation fund | <u>2,432,048</u> | <u>1,987,806</u> |
| TOTAL RESTRICTED ASSETS | 5,701,735 | 4,796,432 |
| CURRENT ASSETS | | |
| Cash and cash equivalents | 882,478 | 850,371 |
| Net accounts receivable | 535,487 | 147,316 |
| Accounts receivable - Water Division | 210,003 | 435,036 |
| Special deposits and transfers | 950 | 950 |
| Prepaid insurance and postage | 12,319 | 12,439 |
| Other receivables | <u>3,009</u> | <u>1,428</u> |
| TOTAL CURRENT ASSETS | <u>1,644,246</u> | <u>1,447,540</u> |
| OTHER ASSETS | | |
| Unamortized debt premium/discount | 795 | 947 |
| Unamortized retirement costs and other expenses | <u>36,478</u> | <u>31,285</u> |
| TOTAL OTHER ASSETS | <u>37,273</u> | <u>32,232</u> |
| TOTAL ASSETS | <u>\$ 44,679,938</u> | <u>\$ 40,414,495</u> |

| | <u>2016</u> | <u>2015</u> |
|--|----------------------|----------------------|
| NET POSITION | | |
| Invested in capital assets, net of related debt | \$ 30,672,746 | \$ 27,209,991 |
| Restricted | 5,446,973 | 4,557,911 |
| Unrestricted | <u>1,460,273</u> | <u>1,436,446</u> |
| | 37,579,992 | 33,204,348 |
| LONG-TERM DEBT AND DEFERRED CREDITS | | |
| Bonds payable | 509,000 | 527,500 |
| Notes payable | 2,068,869 | 1,108,411 |
| Less - Current portion of long-term debt | <u>(177,715)</u> | <u>(139,883)</u> |
| | 2,400,154 | 1,496,028 |
| CURRENT LIABILITIES | | |
| Accounts payable and accrued expenses | 226,804 | 45,225 |
| Current portion of long-term debt | <u>177,715</u> | <u>139,883</u> |
| TOTAL CURRENT LIABILITIES | 404,519 | 185,108 |
| OTHER LIABILITIES | | |
| Customer meter deposits | 249,204 | 236,622 |
| Contractor advances for construction | <u>4,046,069</u> | <u>5,292,389</u> |
| TOTAL OTHER LIABILITIES | <u>4,295,273</u> | <u>5,529,011</u> |
| TOTAL LIABILITIES | <u>7,099,946</u> | <u>7,210,147</u> |
| TOTAL LIABILITIES AND NET POSITION | <u>\$ 44,679,938</u> | <u>\$ 40,414,495</u> |

WARREN COUNTY WATER DISTRICT
 SEWER DIVISION
 STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
 FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

| | <u>2016</u> | <u>2015</u> |
|--|---------------|---------------|
| OPERATING REVENUES | | |
| Metered sales | \$ 4,010,598 | \$ 3,794,775 |
| Miscellaneous service revenue | <u>24,813</u> | <u>23,840</u> |
| TOTAL OPERATING REVENUES | 4,035,411 | 3,818,615 |
| OPERATING EXPENSES | | |
| Source of supply expense: | | |
| Disposal expense | 2,407,626 | 2,271,316 |
| Pumping plant expense: | | |
| Power purchased | 115,961 | 105,076 |
| Chemicals | 46,428 | 46,852 |
| Contractual services | 3,125 | 3,125 |
| Insurance | <u>4,167</u> | <u>4,182</u> |
| | 169,681 | 159,235 |
| Transmission and distribution expense: | | |
| Salaries and benefits | 80,325 | 61,601 |
| Materials and supplies | 20,928 | 9,337 |
| Contractual services | 26,499 | 45,713 |
| Transportation | 8,152 | 9,791 |
| Insurance | <u>2,427</u> | <u>2,436</u> |
| | 138,331 | 128,878 |
| Customer accounts expense: | | |
| Salaries and benefits | 93,266 | 95,801 |
| Uncollectible accounts | 764 | 1,570 |
| Contractual services | 52,354 | 48,480 |
| Insurance | 2,427 | 2,436 |
| Materials and supplies | 166 | 2,866 |
| Transportation | 51 | (818) |
| Miscellaneous | <u>791</u> | <u>-</u> |
| | 149,819 | 150,335 |

| | <u>2016</u> | <u>2015</u> |
|--|----------------------|----------------------|
| Administrative and general expense: | | |
| Salaries and benefits | 73,710 | 65,815 |
| Contractual services | 33,396 | 29,111 |
| Commissioner fees | 15,000 | 15,000 |
| Insurance | 4,781 | 4,790 |
| Regulatory commission expense | 7,142 | 6,584 |
| Office supplies | 2,678 | 2,580 |
| Miscellaneous | 4,428 | 4,259 |
| | <u>141,135</u> | <u>128,139</u> |
| Depreciation | <u>920,080</u> | <u>876,900</u> |
| TOTAL OPERATING EXPENSES | <u>3,926,672</u> | <u>3,714,803</u> |
| OPERATING INCOME | 108,739 | 103,812 |
| NONOPERATING REVENUES (EXPENSES) | | |
| Interest income | 31,537 | 10,389 |
| Rental revenue | 22,330 | 18,041 |
| Non utility income | 13 | 2 |
| Debt expense | (152) | (164) |
| Interest expense | <u>(68,398)</u> | <u>(61,314)</u> |
| TOTAL NONOPERATING REVENUES (EXPENSES) | <u>(14,670)</u> | <u>(33,046)</u> |
| INCOME BEFORE CAPITAL CONTRIBUTIONS | 94,069 | 70,766 |
| CAPITAL CONTRIBUTIONS | <u>4,281,575</u> | <u>6,814,846</u> |
| INCREASE IN NET POSITION | 4,375,644 | 6,885,612 |
| NET POSITION, BEGINNING OF YEAR | <u>33,204,348</u> | <u>26,318,736</u> |
| NET POSITION, END OF YEAR | <u>\$ 37,579,992</u> | <u>\$ 33,204,348</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, 2016, and the related notes to the financial statements which collectively comprise the District's basic financial statements and have issued our report thereon dated May 23, 2017.

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
Page Two

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

Shelton CPAs, LLP
Bowling Green, Kentucky
May 23, 2017