

WARREN COUNTY WATER DISTRICT

FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION

For The Years Ended December 31, 2014 and 2013

WARREN COUNTY WATER DISTRICT
 FINANCIAL STATEMENTS
 TABLE OF CONTENTS
 FOR THE YEARS ENDED DECEMBER 31, 2014 and 2013

INDEPENDENT AUDITOR’S REPORT 1-2

MANAGEMENT’S DISCUSSION AND ANALYSIS 3-11

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..... 16-32

REQUIRED SUPPLEMENTARY INFORMATION

Budgetary Comparison Schedule.....33

OTHER SUPPLEMENTARY INFORMATION

Schedules of Operating Expenses34

Water Division - Statements of Net Position35

Water Division - Statements of Revenues, Expenses,
 and Changes in Net Position36

Sewer Division - Statements of Net Position.....37

Sewer Division - Statements of Revenues, Expenses,
 and Changes in Net Position38

**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**..... 39-40

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, 2014 and 2013, and the related notes to the financial statements which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2014 and 2013, 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 and budgetary comparison information on pages 3 through 11 and 33 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The schedules of operating expenses and individual division Statements of Net Position and Statements of Revenue, Expenses and Changes in Net Position on pages 34 -38 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of operating expenses and individual division Statement of Net Position and Statements of Revenue, Expenses and Changes in Net Position is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated April 20, 2015 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control over financial reporting and compliance.

Shelton CPAs, LLP

Shelton CPAs, LLP
April 20, 2015

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, 2014 and 2013. 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, 2014:

- The District's net position increased by \$5,441,663 from \$82,729,770 to \$88,171,433 as of December 31, 2014.
- Total revenue for the year increased by \$1,076,536 or 8.7%, compared to last year. The water division's total revenue increased by \$693,201, or 7.6%, and the sewer division's total revenue increased by \$383,335, or 11.8%.
- In year 2014, total sales revenue increased by \$1,068,625 or 9.2%, compared to last year. Metered water sales increased by 675,897, or 8.0%, and metered sewer revenue increased by \$392,728, or 12.4%.
- Total expenses for the year increased by \$723,468, or 6.2%, compared to last year. The water division's total expenses increased by \$510,374, or 6.1%, and the sewer division's total expenses increased by \$213,094, or 6.4%.
- The water division added 554 customers throughout the year for a 2.1% increase and the sewer division added 302 customers for a 5.8% increase. The number of customers at the end of the year for the water and sewer divisions was 26,891 and 5,522 respectively.
- Average metered water revenue was \$21.15 per residential customer and \$124.38 per commercial customer. Average metered sewer revenue was \$23.03 per residential customer and \$401.26 per commercial customer.
- Total water sold to the District's customers during the year amounted to 2.48 billion gallons compared to 2.24 billion gallons in the prior year, an increase of 10.7%. The peak demand month was August 2014 with 268.8 million gallons sold.
- New water meter applications in year 2014 and year 2013 totaled 530 and 560 respectively, a decrease of 30 applications, or -5.4%. New sewer applications in year 2014 and year 2013 totaled 284 and 281 respectively, an increase of 3 applications, or 1.1%.
- The water division has a total of 1,134 miles of water main serving an average of 23.7 customers per mile. The sewer division has 161 miles of collection mains serving an average of 34.3 customers per mile.

Financial Highlights (continued)

- Projects completed: *Project 20* consisted of several water lines ranging in size from 4- to 10-inch to increase transmission capacity and system reliability. Additionally, a pump station was upgraded with new larger pumps. Total project cost was \$1,943,743. *Three Springs Road / Highway 242 Transmission Line* included the installation of 25,455 feet of 12” waterline to serve growth in the southern portion of the county. The project was funded by Kentucky Transportation Department with total project costs of \$1,116,237.
- Projects under construction: *Kentucky Transpark Relocations* consists of several water and sewer line relocations ranging in size from 6 to 20 inch main to accommodate construction of a new section of highway and new industrial facility. The project is funded by the Kentucky Transportation Department and Bilstein Cold Rolled Steel, L.P. with an estimated cost of \$2,150,000. *Three Springs Road Relocation, Phase 2* consists of line relocations ranging in size from 4 to 12 inch main to accommodate widening of Three Springs Road. The project is funded by the Kentucky Transportation Department and is estimated to cost \$578,000.

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 \$925,709 or 7.4%, and *Total Expenses* were above budget by \$551,031 or 4.7%. *Metered Water Sales* were 5.7% over budget due to hot summer weather and *Metered Sewer Revenue* was 11.7% greater than budget. *Miscellaneous Service Revenue* which includes connection fees, collection fees, and meter tampering fees were greater than budget by 14.1% or \$34,067 due to a focus on past due collections. *Interest Income* was less than budget by -14.0 % or -\$10,384 and includes interest earned on the operating fund, depreciation fund, reserve funds, and debt service funds. *All Other Revenues* which includes forfeited discounts, rental income, income from local agencies for providing billing services, and gains on the disposition of assets, and other income was higher than budget by 9.7% or \$39,166.

Operating Expenses related to providing water and sewer service and maintaining the District’s distribution and collection facilities were greater than budget by 6.6%, or \$556,019. Operating expenses such as purchased water and wastewater disposal costs were greater than budget due to customer demand during hot summer weather. *Depreciation* was higher than budget by 1.1% or \$32,300 due to several residential developments placed into service sooner than budgeted. *Interest Expense* was less than budget by -0.5%, or -\$2,107 and *Net Income* totaled \$1,098,748 for the year, which was 51.7% higher than budget.

Financial Analysis (Continued)

Table 1

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

	<u>Actual 2014</u>	<u>Budget 2014</u>	<u>Increase \</u> <u>(Decrease)</u>	<u>%</u> <u>Change</u>
<u>Revenues:</u>				
Metered Water Sales	\$ 9,131,036	\$ 8,640,100	490,936	5.7%
Metered Sewer Revenue	3,555,424	3,183,500	371,924	11.7%
Miscellaneous Service Revenue	276,097	242,030	34,067	14.1%
Interest Income	63,896	74,280	(10,384)	-14.0%
All Other Revenues	<u>444,956</u>	<u>405,790</u>	<u>39,166</u>	9.7%
Total Revenue	<u>13,471,409</u>	<u>12,545,700</u>	<u>925,709</u>	7.4%
<u>Expenses:</u>				
Operating Expenses	\$ 9,014,319	\$ 8,458,300	556,019	6.6%
Depreciation	2,965,480	2,933,180	32,300	1.1%
Interest Expense	383,593	385,700	(2,107)	-0.5%
All other Expenses	<u>9,269</u>	<u>44,450</u>	<u>(35,181)</u>	-79.1%
Total Expenses	<u>12,372,661</u>	<u>11,821,630</u>	<u>551,031</u>	4.7%
Net Income	<u>\$ 1,098,748</u>	<u>\$ 724,070</u>	<u>374,678</u>	51.7%

Financial Analysis (Continued)

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 \$88,171,433 in year 2014.

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 2014, capital assets totaled \$104,664,948 net of depreciation resulting in a 2.9% increase of \$2,984,713 over the prior year. Asset additions include Project 20 water line upgrades, two sewer lift station upgrades, and several residential developments placed into service throughout the year.

Restricted and Current Assets totaled \$15,287,857, a 1.4% increase of \$211,171 from last year. Funds restricted for future system improvements, equipment repairs and replacement, debt service, and customer deposits decreased by \$1,380,750. Current assets including cash and contractor receivables increased by \$1,591,921. *Other Assets* totaled \$366,033, a 12.1% increase of \$39,535 and includes miscellaneous assets, unamortized debt premiums and discounts, and unamortized retirement plan costs.

Long-Term Debt totaled \$9,665,782, a 5.2% reduction of \$528,517 due to principal payments. *Current Liabilities* totaled \$2,214,388, a 6.0% increase of \$125,519 from last year. Accounts payable increased by \$295,195 and other current liabilities decreased by a net amount of \$169,676. *Other Liabilities* totaled \$20,267,235, an 8.2% decrease of \$1,803,246 and includes customer deposits for water and sewer service, contractor advances for construction, and unearned revenue from leases to cellular providers. The majority of the decrease is due to expired developer rebate balances transferred to capital contributions.

The District's *Net Position Invested in Capital Assets* increased by \$5,477,397, or 7.8%. *Restricted Net Position* decreased by \$1,458,860 and includes funds restricted for the following: payment of principal and interest on bonds and loans, anticipated expenditures for capital improvements, and funds for emergencies. *Unrestricted Net Position* increased by \$1,423,126, or 135.5%. *Total Net Position* was \$88,171,433 in year 2014, a 6.6% increase of \$5,441,663 compared to the prior year.

Financial Analysis (Continued)

Table 2
 WARREN COUNTY WATER DISTRICT
 Condensed Statement of Net Position
 December 31, 2014

	<u>Year 2014</u>	<u>Year 2013</u>	Increase \ Decrease	% Change
Capital assets	104,664,948	101,680,235	2,984,713	2.9%
Restricted and current assets	15,287,857	15,076,686	211,171	1.4%
Other assets	<u>366,033</u>	<u>326,498</u>	<u>39,535</u>	<u>12.1%</u>
Total Assets	120,318,838	117,083,419	3,235,419	2.8%
Long term debt	9,665,782	10,194,299	(528,517)	-5.2%
Current liabilities	2,214,388	2,088,869	125,519	6.0%
Other liabilities	<u>20,267,235</u>	<u>22,070,481</u>	<u>(1,803,246)</u>	<u>-8.2%</u>
Total Liabilities	32,147,405	34,353,649	(2,206,244)	-6.4%
Net position invested in capital assets, net of related debt	75,538,253	70,060,856	5,477,397	7.8%
Restricted net position	10,159,802	11,618,662	(1,458,860)	-12.6%
Unrestricted net position	<u>2,473,378</u>	<u>1,050,252</u>	<u>1,423,126</u>	<u>135.5%</u>
Total Net Position	<u>88,171,433</u>	<u>82,729,770</u>	<u>5,441,663</u>	<u>6.6%</u>

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, 2014

	<u>Year 2014</u>	<u>Year 2013</u>	<u>Increase \</u> <u>(Decrease)</u>	<u>%</u> <u>Change</u>
<u>Revenues:</u>				
Metered Water Sales	9,131,036	8,455,139	675,897	8.0%
Metered Sewer Revenue	3,555,424	3,162,696	392,728	12.4%
Miscellaneous Service Revenue	276,097	237,925	38,172	16.0%
Interest Income	63,896	101,183	(37,287)	-36.9%
All Other Revenues	<u>444,956</u>	<u>437,930</u>	<u>7,026</u>	1.6%
Total Revenue	<u>13,471,409</u>	<u>12,394,873</u>	<u>1,076,536</u>	8.7%
<u>Expenses:</u>				
Operating Expenses	9,014,319	8,378,536	635,783	7.6%
Depreciation	2,965,480	2,814,146	151,334	5.4%
Interest Expense	383,593	410,890	(27,297)	-6.6%
All other Expenses	<u>9,269</u>	<u>45,621</u>	<u>(36,352)</u>	-79.7%
Total Expenses	<u>12,372,661</u>	<u>11,649,193</u>	<u>723,468</u>	6.2%
Income Before Capital Contributions	1,098,748	745,680	353,068	47.3%
Capital Contributions	<u>4,342,915</u>	<u>744,265</u>	<u>3,598,650</u>	483.5%
Increase in Net Assets	5,441,663	1,489,945	3,951,718	265.2%
Net Position, Beginning of Year	<u>82,729,770</u>	<u>81,239,825</u>	<u>1,489,945</u>	1.8%
Net Position, End of Year	<u>88,171,433</u>	<u>82,729,770</u>	<u>5,441,663</u>	6.6%

Financial Analysis (Continued)

The volume of water sold in year 2014 totaled 2.48 billion gallons versus 2.24 billion gallons last year, a 10.7% increase of 240 million gallons. The volume of sewer revenue billed for year 2014 was 928.2 million gallons versus 812.8 million gallons last year, a 14.2% increase of 115.4 million gallons billed.

Metered Water Sales increased by 8.0% or \$675,897 and *Metered Sewer Revenue* increased by 12.4% or \$392,728. Water sales and sewer sales increased due to periods of very hot weather which increased customer demand. Customer growth within the District's service area continued with a 2.1% increase in water service customers and a 5.8% increase in sewer service customers. The water division added 554 customers for a total of 26,891, and the sewer division added 302 customers for a total of 5,522 customers. *Miscellaneous Service Revenue*, which includes connection fees, collection fees, and meter tampering fees increased by 16.0%, or \$38,172 due to increased efforts to collect on past due accounts. *Interest Income* decreased by 36.9%, or - \$37,287 due to lower rates of return earned on investments. *All Other Income* increased by \$7,026 and consists of increases in forfeited discounts, rental income, and non-utility income.

Operating Expenses increased by \$635,783, a 7.6% increase when compared to the prior year. A significant portion of the increase in operating expenses were related to meeting customer demand including purchased water, wastewater disposal, and purchased power which increased by \$291,040, \$144,555, and \$70,166 respectively. Other operating expenses that increased include wage and benefits, contractual services, and various other expenses of \$78,357, \$26,616, and \$25,049 respectively.

Depreciation expense increased by \$151,334 or 5.4%, corresponding to various asset additions recorded throughout the year including the Project 20 water line upgrades, two sewer lift station upgrades, and several residential developments. *Interest Expense* decreased by \$27,297, or - 6.6%, due to reductions in outstanding debt.

Capital Contributions of \$4,342,915 were received during the year including expired developer rebates of \$2,692,285, Kentucky Department of Transportation relocations of \$947,586, contributions for meter installations and sewer taps of \$441,053, contributions towards debt service of \$96,228, and reimbursements for special projects and relocations of \$165,763.

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 \$101,518,460 net of depreciation, as of December 31, 2014. 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 2014</u>	<u>Year 2013</u>	<u>Increase \</u> <u>Decrease</u>	<u>%</u> <u>Change</u>
WATER DIVISION:				
Land	\$ 1,324,352	\$ 1,324,352	-	0.0%
Structures	1,879,667	1,892,324	(12,657)	-0.7%
Pumping Equipment	2,645,794	1,819,707	826,087	45.4%
Storage Tanks	8,832,437	8,757,872	74,565	0.9%
Distribution Mains	39,338,365	38,736,737	601,628	1.6%
Meters	9,781,435	9,355,497	425,938	4.6%
Hydrants	2,721,941	2,690,327	31,614	1.2%
Hardware & Software	1,031,332	880,676	150,656	17.1%
Vehicles and Equipment	388,098	431,042	(42,944)	-10.0%
Other	<u>421,922</u>	<u>152,862</u>	<u>269,060</u>	176.0%
Subtotal - Water				
Division	<u>68,365,343</u>	<u>66,041,396</u>	<u>2,323,947</u>	3.5%
SEWER DIVISION:				
Land	\$ 70,602	\$ 70,602	-	0.0%
Structures	5,973,585	5,555,181	418,404	7.5%
Pumping Equipment	1,407,292	1,436,473	(29,181)	-2.0%
Collection Mains	23,119,185	23,068,790	50,395	0.2%
Taps	2,465,023	2,377,700	87,323	3.7%
Hardware & Software	115,232	113,174	2,058	1.8%
Other	<u>2,198</u>	<u>11,584</u>	<u>(9,386)</u>	-81.0%
Subtotal - Sewer				
Division	<u>33,153,117</u>	<u>32,633,504</u>	<u>519,613</u>	1.6%
Total - Water & Sewer	<u>101,518,460</u>	<u>98,674,900</u>	<u>2,843,560</u>	2.9%

Financial Analysis (Continued)

Total capital assets, net of depreciation, increased by \$2,843,560 or 2.9%, compared to the prior year. In year 2014, the following were recorded to capital assets: Project 20 water line upgrades, \$1,943,743; residential water and sewer developments, \$576,619 and \$432,371 respectively; three lift station upgrades, \$554,849; repaint elevated storage tanks, \$321,213; water meter installations, \$281,952; sewer taps, \$153,500; computer network upgrades, \$237,057; service line upgrades, \$142,130; water service line upgrades, \$139,140; SCADA system upgrades, \$97,398; GIS mapping & fieldwork, \$85,761; other various additions, \$657,539; and a reduction of \$2,779,712 for accumulated depreciation. Table 4 does not reflect construction projects in progress totaling \$3,146,488, an increase of \$141,153 from projects under construction this time last year of \$3,005,335.

Long-Term Debt

The District's debt obligations include United States Department of Agriculture (USDA) bonds, Water Revenue Bonds, Kentucky Rural Water Finance Corporation (KRWFC) loans, and Kentucky Infrastructure Authority (KIA) loans. As of December 31, 2014, the District had \$10,194,299 in outstanding debt compared to \$10,844,417 in the previous year. Principal payments throughout the year reduced outstanding debt by \$650,118.

Factors Affecting Next Year's Budget

- In April 2015, retail rate increases of 4% for water service and 3.8% for wastewater service are budgeted. The rate increase is a pass through of wholesale rate increases from the District's supplier, Bowling Green Municipal Utilities.
- Growth within the District's service area is expected to add 530 new water connections and 266 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 2015 at its meeting held in November 2014. Metered water sales and sewer revenue combined are budgeted to increase by 0.8%. Total revenue is budgeted to increase by 0.8% from year 2014, and total expenses are budgeted to increase by 4.0%. Debt service payments are expected to total \$921,120 for both divisions with a reduction in outstanding debt of \$542,090. Net income for year 2015 is budgeted to total \$595,960. Capital expenditures budgeted for the year totaled \$6,899,200.

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, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
ASSETS		
UTILITY PLANT (at cost)		
Utility plant in service	\$ 142,839,679	\$ 137,216,407
Less accumulated depreciation	<u>(41,321,219)</u>	<u>(38,541,507)</u>
	101,518,460	98,674,900
Utility plant construction in progress	<u>3,146,488</u>	<u>3,005,335</u>
NET UTILITY PLANT	104,664,948	101,680,235
NONOPERATING PROPERTY, net of \$85,836		
accumulated depreciation	165,856	165,856
RESTRICTED ASSETS		
Bond and interest sinking funds	616,629	744,936
Debt service reserve for bond funds	318,800	318,800
Customer deposits	1,138,705	1,060,595
Construction funds	5,193,291	6,607,331
Depreciation funds	<u>4,031,082</u>	<u>3,947,595</u>
TOTAL RESTRICTED ASSETS	11,298,507	12,679,257
CURRENT ASSETS		
Cash and cash equivalents	1,677,131	998,886
Accounts receivable		
User charges, net of allowance for doubtful	544,450	571,435
accounts: 2014-\$9,453 and 2013-\$9,453		
Contractor receivable	826,458	3,065
Butler County Water System, Inc.	129,482	72,766
Simpson County Water District	71,664	41,597
Miscellaneous	14,221	12,653
Special deposits and transfers	1,630	1,630
Materials and supplies inventory	452,674	421,884
Prepaid expenses	96,572	86,489
Other receivables	<u>9,212</u>	<u>21,168</u>
TOTAL CURRENT ASSETS	3,823,494	2,231,573
OTHER ASSETS		
Miscellaneous	84,736	58,590
Unamortized debt premium/discount	77,654	86,923
Unamortized retirement costs and other expenses	<u>203,643</u>	<u>180,985</u>
TOTAL OTHER ASSETS	<u>366,033</u>	<u>326,498</u>
TOTAL ASSETS	<u>\$ 120,318,838</u>	<u>\$ 117,083,419</u>

WARREN COUNTY WATER DISTRICT
 STATEMENTS OF NET POSITION
 DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
NET POSITION		
Invested in capital assets, net of related debt	\$ 75,538,253	\$ 70,060,856
Restricted	10,159,802	11,618,662
Unrestricted	<u>2,473,378</u>	<u>1,050,252</u>
TOTAL NET POSITION	88,171,433	82,729,770
LONG-TERM DEBT		
Bonds and loans payable	2,936,500	3,061,500
Notes payable	7,257,799	7,782,917
Less - Current portion of long-term debt	<u>(528,517)</u>	<u>(650,118)</u>
TOTAL LONG-TERM DEBT	9,665,782	10,194,299
CURRENT LIABILITIES		
Accounts payable	777,989	482,794
Butler County Water System, Inc.	55,220	46,003
Simpson County Water District	44,291	39,246
Accrued expenses	808,371	870,708
Current portion of long-term debt	<u>528,517</u>	<u>650,118</u>
TOTAL CURRENT LIABILITIES	2,214,388	2,088,869
OTHER LIABILITIES		
Customer meter deposits	1,098,028	1,059,121
Contractor advances for construction	19,098,252	20,940,818
Unearned revenue for cellular leases	<u>70,955</u>	<u>70,542</u>
TOTAL OTHER LIABILITES	<u>20,267,235</u>	<u>22,070,481</u>
TOTAL LIABILITIES	<u>32,147,405</u>	<u>34,353,649</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 120,318,838</u>	<u>\$ 117,083,419</u>

WARREN COUNTY WATER DISTRICT
 STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
 FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
OPERATING REVENUES		
Metered sales	\$ 12,846,745	\$ 11,785,396
Miscellaneous service revenue	<u>267,686</u>	<u>237,925</u>
TOTAL OPERATING REVENUES	13,114,431	12,023,321
OPERATING EXPENSES		
Source of supply	5,040,387	4,604,792
Pumping plant	701,297	618,886
Water treatment	42	252
Transmission and distribution	1,022,960	1,031,583
Customer accounts	1,413,254	1,319,793
Administrative and general	836,378	803,229
Depreciation	<u>2,965,480</u>	<u>2,814,146</u>
TOTAL OPERATING EXPENSES	<u>11,979,798</u>	<u>11,192,681</u>
OPERATING INCOME	1,134,633	830,640
NONOPERATING REVENUES (EXPENSES)		
Interest income	64,864	100,235
Rental revenue	134,022	131,781
Non-utility income	115,921	107,141
Gain on disposal of assets	42,170	3,425
Amortization of debt expense	(9,269)	(44,672)
Interest expense	(383,593)	(410,890)
Legal settlement	<u>-</u>	<u>28,020</u>
NET NONOPERATING REVENUES (EXPENSES)	<u>(35,885)</u>	<u>(84,960)</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS	1,098,748	745,680
CAPITAL CONTRIBUTIONS	<u>4,342,915</u>	<u>744,265</u>
INCREASE IN NET POSITION	5,441,663	1,489,945
NET POSITION, BEGINNING OF YEAR	<u>82,729,770</u>	<u>81,239,825</u>
NET POSITION, END OF YEAR	<u>\$ 88,171,433</u>	<u>\$ 82,729,770</u>

WARREN COUNTY WATER DISTRICT
 STATEMENTS OF CASH FLOW
 FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers and users	\$ 12,241,628	\$ 12,099,982
Payments to suppliers	(7,088,216)	(6,361,375)
Payments to employees	<u>(1,703,193)</u>	<u>(1,646,846)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	3,450,219	4,091,761
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from notes	-	1,999,469
Principal paid on bonds and notes	(650,117)	(2,519,336)
Interest paid	(391,864)	(435,168)
Proceeds from disposal of capital assets	53,883	-
Acquisition and construction of capital assets	<u>(3,409,991)</u>	<u>(3,695,869)</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(4,398,089)	(4,650,904)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest income	76,820	98,357
Purchase of investments in certificates of deposits	-	(677,745)
Proceeds from sale of investments in certificates of deposit	1,375,747	-
Proceeds from miscellaneous income	<u>249,943</u>	<u>238,922</u>
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>1,702,510</u>	<u>(340,466)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	754,640	(899,609)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>2,449,889</u>	<u>3,349,498</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 3,204,529</u>	<u>\$ 2,449,889</u>

See Note B for reconciliation to balance sheet.

	<u>2014</u>	<u>2013</u>
Reconciliation of operating income to net cash provided in operating activities:		
Operating income	\$ 1,134,633	\$ 830,640
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	2,965,480	2,814,146
Decrease (increase) in:		
Accounts receivable	(884,759)	77,979
Special Deposits and transfers	-	560
Prepaid insurance and pension contributions	(10,083)	(8,705)
Materials and supplies inventory	(30,790)	(10,666)
Other receivables	11,956	(1,878)
Deferred charges	(22,658)	22,791
Increase (decrease) in:		
Accounts payable and accrued liabilities	247,120	312,104
Deposits	38,907	47,548
Deferred revenues	413	7,242
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 3,450,219</u>	<u>\$ 4,091,761</u>
 NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Private developers contributed constructed water and sewer lines at cost	<u>\$ 4,342,915</u>	<u>\$ 744,265</u>
TOTAL NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES	<u>\$ 4,342,915</u>	<u>\$ 744,265</u>

NOTES TO THE FINANCIAL STATEMENTS

WARREN COUNTY WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2014 and 2013

**NOTE A-ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES**

Nature of Operations

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

Basis of Accounting

The District's financial statements are presented in accordance with accounting principles generally accepted in the United States of America for utility districts. The District follows the accounting policies and procedures set forth by the National Association of Regulatory Utility Commissioners and the guidance provided by the American Water Works Association in *Water Utility Accounting*.

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

New Accounting Pronouncements: Changes in Accounting Principles and Restatements

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

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

WARREN COUNTY WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2014 and 2013

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.

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.

WARREN COUNTY WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2014 and 2013

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.

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.

WARREN COUNTY WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2014 and 2013

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 2013 financial statements have been reclassified for comparative purposes to conform to the presentation in the current-year financial statements.

NOTE B-CASH AND INVESTMENTS

Various cash accounts or funds are restricted as follows:

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

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

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

WARREN COUNTY WATER DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
 DECEMBER 31, 2014 and 2013

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, 2014, the District’s cash and investments held at sixteen financial institutions are as follows:

	Book Balance	Bank Balance	FDIC Insurance	Collateral Pledged
Financial Institution A	\$ 1,777,399	\$ 1,777,399	\$ 250,000	\$ 1,571,888
Financial Institution B	750,000	750,000	250,000	592,421
Financial Institution C	127,856	127,856	250,000	-
Financial Institution D	4,031,135	4,578,109	250,000	4,916,945
Financial Institution E	3,809,099	3,809,099	250,000	3,584,683
Financial Institution F	250,000	250,000	250,000	-
Financial Institution G	250,000	250,000	250,000	-
Financial Institution H	250,000	250,000	250,000	-
Financial Institution I	250,000	250,000	250,000	-
Financial Institution J	410,972	410,972	-	410,972
Financial Institution K	142,466	142,466	250,000	-
Financial Institution L	250,000	250,000	250,000	-
Financial Institution M	404,740	404,740	250,000	236,222
Financial Institution N	216,420	216,420	250,000	-
Financial Institution O	54,330	54,330	250,000	-
	<u>\$ 12,974,417</u>	<u>\$ 13,521,391</u>	<u>\$ 3,500,000</u>	<u>\$ 11,313,131</u>

WARREN COUNTY WATER DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
 DECEMBER 31, 2014 and 2013

At December 31, 2014 and 2013 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 \$3,041,072.

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, 2014 and 2013 were \$4,163,285 and \$5,531,023, respectively. At December 31, 2014, \$410,972 was held in AAA rated municipal bonds.

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	2014	2013
Bond and Interest Sinking Funds	\$ 616,629	\$ 744,936
Debt Service Reserve	318,800	318,800
Customer deposits	1,138,705	1,060,595
Construction funds	5,193,291	6,607,331
Depreciation fund	4,031,082	3,947,595
Cash and cash equivalents	<u>1,677,131</u>	<u>998,886</u>
Total Cash and Investments	<u>12,975,638</u>	<u>13,678,143</u>
Less: Investments greater than ninety days	<u>(9,771,109)</u>	<u>(11,146,856)</u>
Total Cash and Cash Equivalents per Statements of Cash Flows	<u>\$ 3,204,529</u>	<u>\$ 2,531,287</u>

WARREN COUNTY WATER DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
 DECEMBER 31, 2014 and 2013

NOTE C-UTILITY PLANT

The costs of major classes of utility plant at December 31, 2014 were:

<u>Description</u>	<u>2013</u>	<u>Additions</u>	<u>Disposals</u>	<u>2014</u>
Land *	\$ 1,394,954	\$ -	\$ -	\$ 1,394,954
Buildings/Improvements	8,936,495	605,624	-	9,542,119
Elec Pumping/Mains	102,972,208	3,895,567	163,822	106,703,953
Meters/Hydrants	20,630,442	1,021,769	57,731	21,594,480
Furniture and Equipment-Office	1,871,164	328,213		2,199,377
Equipment	<u>1,411,143</u>	<u>77,522</u>	<u>83,869</u>	<u>1,404,796</u>
Total Utility Plant in Service	137,216,406	<u>\$ 5,928,695</u>	<u>\$ 305,422</u>	142,839,679
Nonoperating Property *	251,692			251,692
Construction in Progress *	3,005,335			3,146,488
Accumulated Depreciation	<u>(38,627,342)</u>			<u>(41,407,055)</u>
	<u>\$ 101,846,091</u>			<u>\$ 104,830,804</u>

* Denotes items that are not depreciated.

The accumulated depreciation by major classes of utility plant at December 31, 2014 was:

<u>Description</u>	<u>2013</u>	<u>Additions</u>	<u>Disposals</u>	<u>2014</u>
Buildings/Improvements	1,498,771	199,875	-	1,698,646
Elec Pumping/Mains	28,832,155	2,105,998	163,822	30,774,331
Meters/Hydrants	6,209,184	476,894	57,731	6,628,347
Furniture and Equipment-Office	859,816	178,272	-	1,038,088
Equipment	<u>1,227,416</u>	<u>112,382</u>	<u>72,155</u>	<u>1,267,643</u>
Total Utility Plant in Service	38,627,342	<u>\$ 3,073,421</u>	<u>\$ 293,708</u>	41,407,055
Nonoperating Property	<u>(85,836)</u>			<u>(85,836)</u>
	<u>\$ 38,541,506</u>			<u>\$ 41,321,219</u>

WARREN COUNTY WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2014 and 2013

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

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

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

<u>Description</u>	<u>2012</u>	<u>Additions</u>	<u>Disposals</u>	<u>2013</u>
Buildings/Improvements	1,317,354	181,417	-	1,498,771
Elec Pumping/Mains	26,787,422	2,044,733	-	28,832,155
Meters/Hydrants	5,840,230	452,744	83,790	6,209,184
Furniture and Equipment-Office	823,446	130,830	94,460	859,816
Equipment	<u>1,134,838</u>	<u>113,504</u>	<u>20,926</u>	<u>1,227,416</u>
Total Utility Plant in Service	35,903,290	<u>\$ 2,923,228</u>	<u>\$ 199,176</u>	38,627,342
Nonoperating Property	<u>(85,836)</u>			<u>(85,836)</u>
	<u>\$ 35,817,454</u>			<u>\$ 38,541,506</u>

WARREN COUNTY WATER DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
 DECEMBER 31, 2014 and 2013

Construction Commitments

Transpark Connector Relocations consists of several water and sewer line relocations ranging in size from 6- to 20- inch, to accommodate construction of a new section of highway and the abandonment of another section of road to accommodate construction of a new industrial facility. Total expenditures as of 12/31/14 were \$692,000. The anticipated total cost of the project is \$2,150,000. This project is funded by the Kentucky Transportation Department and a private industry.

Three Springs Road Relocations consists of water line relocations ranging in size from 4- to 12- inch, to accommodate widening of Three Springs Road. Total expenditures as of 12/31/14 were \$343,000. The anticipated total cost of the project is \$578,000. This project is funded by the Kentucky Transportation Department.

NOTE D-NON-OPERATING PROPERTY

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

NOTE E-BONDS PAYABLE

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

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

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

WARREN COUNTY WATER DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
 DECEMBER 31, 2014 and 2013

Summary of bond activity for the year ended December 31, 2014 was as follows:

Series	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
1993	\$ 562,500	\$ -	\$ 17,000	\$ 545,500	18,000
2004A*	1,355,000	-	90,000	1,265,000	100,000
2005A	1,144,000	-	18,000	1,126,000	18,000
	<u>\$ 3,061,500</u>	<u>\$ -</u>	<u>\$ 125,000</u>	<u>\$ 2,936,500</u>	<u>\$ 136,000</u>

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

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

WARREN COUNTY WATER DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
 DECEMBER 31, 2014 and 2013

As of December 31, 2014, the aggregate debt service requirements on bonded indebtedness to maturity are summarized as follows:

Year Ending December	Principal Payments	Interest Payments	Total
2015	136,000	121,659	257,659
2016	137,500	116,409	253,909
2017	140,000	110,921	250,921
2018	141,500	105,196	246,696
2019	144,000	99,284	243,284
2020-2024	870,500	391,796	1,262,296
2025-2029	457,500	230,404	687,904
2030-2034	347,500	149,803	497,303
2035-2039	230,000	88,825	318,825
2040-2044	284,000	32,130	316,130
2045	48,000	-	48,000
	<u>\$ 2,936,500</u>	<u>\$ 1,446,427</u>	<u>\$ 4,382,927</u>

The bonds have been issued in fully registered form, maturing as to principal in various amounts on various dates in each of the years through 2045. Interest is due semi-annually of each year. Amortization is provided on a straight-line basis over the life of the related bonds or notes.

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

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

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, 2014, \$2,674,000 of the bond considered defeased is still outstanding. This advanced refunding was undertaken to reduce total debt service payments over the next twenty-five years by \$600,208. The District's refunding of the 1999B bond resulted in an economic gain of \$422,281.

WARREN COUNTY WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2014 and 2013

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

NOTE F-DEBT SERVICE RESERVE FOR BOND FUNDS

Water Division

Arbitrage rebate refers to the required payment, to the U.S. Treasury, of excess earnings received on tax exempt bond proceeds that are invested at a higher yield than the yield of the tax exempt bond issue. Federal law requires that arbitrage liability, and cumulative excess arbitrage earnings, be calculated and remitted to the U.S. Treasury at the end of the fifth bond year, and every fifth year thereafter. Series 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, 2014 and 2013 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, 2014 and 2013 was \$272,140 and \$272,140, respectively.

WARREN COUNTY WATER DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
 DECEMBER 31, 2014 and 2013

NOTE G-NOTES PAYABLE

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

Description	Int. Rate	Dated	Maturity Date	Original Amount
Series 2006A*	4.30%	07/01/06	07/01/30	3,098,000
Series 2012B	2.00-4.25%	03/25/12	01/01/39	2,095,000
Series 2013B	2.30-3.30%	02/27/13	01/01/28	1,975,000
A97-04/317	3.80%	08/01/97	12/01/18	982,400
A98-02/353	3.80%	03/01/98	12/01/18	265,000
C11-02	3.00%	12/27/11	10/24/33	797,431
				<u>\$ 9,212,831</u>

Summary of note activity for the year ended December 31, 2014 was as follows:

Description	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
2006A*	2,674,000	-	115,000	2,559,000	111,000
2012B	1,925,000	-	180,000	1,745,000	50,000
2013B	1,975,000	-	124,999	1,850,001	125,000
A97-04/317	318,095	-	58,921	259,174	61,182
A98-02/353	82,074	-	15,203	66,871	15,786
C11-02	808,748	-	30,995	777,753	29,549
	<u>\$ 7,782,917</u>	<u>\$ -</u>	<u>\$ 525,118</u>	<u>\$ 7,257,799</u>	<u>\$ 392,517</u>

WARREN COUNTY WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2014 and 2013

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

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

* 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, 2014 and 2013

As of December 31, 2014, the future payments for the remaining note payable obligations by year are as follows:

Year Ending December	Principal Payments	Interest Payments	Total
2015	392,517	252,842	645,359
2016	415,828	238,775	654,603
2017	417,895	225,738	643,633
2018	434,109	212,288	646,397
2019	356,602	198,935	555,537
2020-2024	1,988,119	804,783	2,792,902
2025-2029	1,982,977	466,793	2,449,770
2030-2034	794,751	169,351	964,102
2035-2039	475,001	72,765	547,766
	<u>\$ 7,257,799</u>	<u>\$ 2,642,270</u>	<u>\$ 9,900,069</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 \$155,876 and \$164,147 at December 31, 2014 and 2013, 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, 2014:

	<u>2013</u>	<u>Additions</u>	<u>2014</u>
Original membership and tap-on fees and contributions for construction of various projects	\$ 35,530,723	\$ 4,342,915	\$ 39,873,638
Grants-in-aid	<u>19,301,433</u>	<u>-</u>	<u>19,301,433</u>
Total Capital Contributions	54,832,156	<u>\$ 4,342,915</u>	59,175,071
Retained Earnings	27,897,614		28,996,362
Total Net Position	<u>\$ 82,729,770</u>		<u>\$ 88,171,433</u>

WARREN COUNTY WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2014 and 2013

NOTE I-MAJOR SUPPLIER

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

NOTE J-INSURANCE AND RISK MANAGEMENT

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

NOTE K-EMPLOYEE BENEFITS

The District participates in a pooled defined benefit retirement plan through the National Rural Electric Cooperative Association (NRECA). The NRECA publishes a financial statement and a copy can be obtained by writing or calling the Plan Administrator, NRECA, PO Box 6007, Lincoln, NE 68506; telephone number 866-NRECA99. The District's contribution rate for 2014, 2013, and 2012 were 26.37%, 25.89%, and 23.98% respectively of employees' base pay for those employees who have been employed with the District for over one year and has worked the number of hours needed to qualify. Payments to the NRECA are charged to expense as incurred and the District carries no liability for the plan. For the years 2014, 2013, and 2012 the pension contributions are \$675,700, \$707,043, \$645,744, respectively. Upon retirement at the normal age of sixty-two, the annual estimated benefit is calculated as: Benefit Level (1.6% eligible service years from January 1, 1976 to April 1, 1999 and 1.85% for service after April 1, 1999) multiplied by the number of continuous years in the program multiplied by the average of the highest five salary years. Other plans were in effect prior to January 1, 1976, and benefit calculations will vary in accordance with an employee's hire date. The District decreased the normal retirement age to sixty-two and increased the benefit level by paying approximately \$185,000 for the improved benefits, which is being amortized over thirty years. During the 2002 year, the District adopted changes to the plan to maintain compliance with the new Internal Revenue Service regulations regarding cafeteria plan changes. The District's Board of Commissioners has the authority to provide provisions and amendments to the pension plan.

WARREN COUNTY WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2014 and 2013

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

Employees with less than twenty-five years of continuous service shall accrue annual leave at the rate of fifteen days per year. Employees with more than twenty-five years of continuous service accrue annual leave at the rate of twenty days per year. Unused annual leave in excess of ten days accumulate at the end of the year and are payable upon request to employees with more than 240 accumulated annual leave days. All accumulated annual leave is payable to employees upon termination. At December 31, 2014 and 2013, the District's accrued compensated absences for annual leave totaled \$289,145 and 265,446, 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, 2014 and 2013, the District's accrued compensated absences for sick leave totaled \$26,054 and \$35,866, respectively.

NOTE L-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 M-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, 2014, the District carried net receivables of \$74,262 and \$27,373 from Butler and Simpson Counties, respectively. At December 31, 2013, the District carried net receivables of \$26,763 and \$2,351 from Butler and Simpson Counties, respectively.

NOTE N-SUBSEQUENT EVENTS

The company has evaluated subsequent events through April 20, 2015 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, 2014

	Budgeted Amounts 2014	Actual Amounts 2014	Variance
OPERATING REVENUES			
Metered sales	\$ 11,990,460	\$ 12,846,745	\$ 856,285
Miscellaneous service revenue	<u>242,030</u>	<u>267,686</u>	<u>25,656</u>
TOTAL OPERATING REVENUES	12,232,490	13,114,431	881,941
OPERATING EXPENSES			
Source of supply	4,631,020	5,040,387	(409,367)
Pumping plant	562,158	701,297	(139,139)
Water treatment	6,067	42	6,025
Transmission and distribution	1,120,196	1,022,960	97,236
Customer accounts	1,347,978	1,413,254	(65,276)
Administrative and general	790,881	836,378	(45,497)
Depreciation	<u>2,933,180</u>	<u>2,965,480</u>	<u>(32,300)</u>
TOTAL OPERATING EXPENSES	<u>11,391,480</u>	<u>11,979,798</u>	<u>(588,318)</u>
OPERATING INCOME	841,010	1,134,633	293,623
NONOPERATING REVENUES (EXPENSES)			
Interest income	74,280	64,864	(9,416)
Rental revenue	130,130	134,022	3,892
Non-utility income	108,800	115,921	7,121
Gain on disposal of assets	-	42,170	42,170
Amortization of debt expense	(44,450)	(9,269)	35,181
Interest expense	<u>(385,700)</u>	<u>(383,593)</u>	<u>2,107</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(116,940)</u>	<u>(35,885)</u>	<u>81,055</u>
INCREASE IN NET ASSETS	<u>\$ 724,070</u>	<u>\$ 1,098,748</u>	<u>\$ 374,678</u>

OTHER SUPPLEMENTARY INFORMATION

WARREN COUNTY WATER DISTRICT
SCHEDULES OF OPERATING EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
SOURCE OF SUPPLY EXPENSE		
Purchased water and disposal	\$ <u>5,040,387</u>	\$ <u>4,604,792</u>
PUMPING PLANT EXPENSE		
Power purchased	\$ 620,858	\$ 547,484
Chemicals	54,204	46,130
Miscellaneous pumping expense	225	343
Contractual services	6,838	6,251
Rental expense	5,036	4,985
Insurance	<u>14,136</u>	<u>13,693</u>
TOTAL PUMPING PLANT EXPENSE	\$ <u>701,297</u>	\$ <u>618,886</u>
WATER TREATMENT EXPENSE		
Power purchased	\$ 42	\$ 252
TOTAL WATER TREATMENT EXPENSE	\$ <u>42</u>	\$ <u>252</u>
TRANSMISSION AND DISTRIBUTION EXPENSE		
Salaries and benefits	\$ 606,436	\$ 623,255
Power purchased	(972)	2,024
Contractual services	130,853	126,410
Rental expense	19,304	19,110
Transportation	94,761	106,566
Insurance	45,586	44,163
Miscellaneous	-	102
Materials and supplies	<u>126,992</u>	<u>109,953</u>
TOTAL TRANSMISSION AND DISTRIBUTION EXPENSE	\$ <u>1,022,960</u>	\$ <u>1,031,583</u>

	<u>2014</u>	<u>2013</u>
CUSTOMER ACCOUNTS EXPENSE		
Salaries and benefits	\$ 976,409	\$ 910,247
Billing services	208,806	195,517
Contractual services	49,201	47,456
Uncollectible accounts	25,263	23,086
Rental expense	29,375	29,063
Transportation	103,494	95,019
Insurance	7,393	7,162
Miscellaneous	4,481	1,952
Materials and supplies	8,832	10,291
TOTAL CUSTOMER ACCOUNTS EXPENSE	<u>\$ 1,413,254</u>	<u>\$ 1,319,793</u>
ADMINISTRATIVE AND GENERAL EXPENSE		
Salaries and benefits	\$ 495,607	\$ 466,591
Office supplies	31,191	36,280
Commissioner Fees	30,000	30,000
Contractual services	220,188	213,636
Insurance	12,101	11,870
Rental expense	5,036	5,003
Regulatory commission expense	22,068	19,193
Miscellaneous	19,048	19,932
Transportation	1,139	724
TOTAL ADMINISTRATIVE AND GENERAL EXPENSE	<u>\$ 836,378</u>	<u>\$ 803,229</u>
DEPRECIATION EXPENSE	\$ 2,965,480	\$ 2,814,146

WARREN COUNTY WATER DISTRICT
WATER DIVISION
STATEMENTS OF NET POSITION
DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
ASSETS		
UTILITY PLANT (at cost)		
Utility plant in service	\$ 100,552,709	\$ 96,303,122
Less accumulated depreciation	<u>(32,187,365)</u>	<u>(30,261,726)</u>
	68,365,344	66,041,396
Utility plant construction in progress	<u>3,086,395</u>	<u>2,922,110</u>
NET UTILITY PLANT	71,451,739	68,963,506
NONOPERATING PROPERTY, net of \$85,836		
accumulated depreciation	165,856	165,856
RESTRICTED ASSETS		
Bond and interest sinking funds	579,275	708,713
Debt service reserve for bond funds	46,660	46,660
Customer deposits	906,964	849,951
Construction funds	3,209,960	4,804,583
Depreciation fund	<u>2,152,512</u>	<u>1,983,978</u>
TOTAL RESTRICTED ASSETS	6,895,371	8,393,885
CURRENT ASSETS		
Cash and cash equivalents	923,830	478,275
Net accounts receivable	1,148,328	424,672
Butler County Water System, Inc.	129,482	72,766
Simpson County Water District	71,664	41,597
Special deposits and transfers	680	680
Materials and supplies inventory	452,674	421,884
Prepaid insurance and postage	84,149	74,679
Other receivables	<u>8,964</u>	<u>17,121</u>
TOTAL CURRENT ASSETS	2,819,771	1,531,674
OTHER ASSETS		
Miscellaneous	84,736	58,590
Unamortized debt premium/discount	76,543	85,636
Unamortized retirement costs and other expenses	<u>181,127</u>	<u>158,395</u>
TOTAL OTHER ASSETS	<u>342,406</u>	<u>302,621</u>
TOTAL ASSETS	<u>\$ 81,675,143</u>	<u>\$ 79,357,542</u>

	<u>2014</u>	<u>2013</u>
NET POSITION		
Invested in capital assets, net of related debt	\$ 54,624,633	\$ 50,924,600
Restricted	5,988,407	7,543,934
Unrestricted	<u>1,239,657</u>	<u>24,803</u>
TOTAL NET POSITION	61,852,697	58,493,337
LONG-TERM DEBT		
Bonds payable	2,391,000	2,499,000
Notes payable	6,032,259	6,444,033
Less - Current portion of long-term debt	<u>(395,774)</u>	<u>(519,774)</u>
TOTAL LONG-TERM DEBT	8,027,485	8,423,259
CURRENT LIABILITIES		
Accounts payable and accrued expenses	1,486,577	1,313,005
Butler County Water System, Inc.	55,220	46,003
Simpson County Water District	44,291	39,246
Accounts payable - Sewer Division	295,849	340,177
Current portion of long-term debt	<u>395,774</u>	<u>519,774</u>
TOTAL CURRENT LIABILITIES	2,277,711	2,258,205
OTHER LIABILITIES		
Customer meter deposits	876,592	850,470
Contractor advances for construction	8,569,703	9,261,729
Unearned revenue from cellular leases	<u>70,955</u>	<u>70,542</u>
TOTAL OTHER LIABILITIES	<u>9,517,250</u>	<u>10,182,741</u>
TOTAL LIABILITIES	<u>19,822,446</u>	<u>20,864,205</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 81,675,143</u>	<u>\$ 79,357,542</u>

WARREN COUNTY WATER DISTRICT
WATER DIVISION
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
OPERATING REVENUES		
Metered sales	\$ 9,256,898	\$ 8,582,636
Miscellaneous service revenue	<u>242,274</u>	<u>215,960</u>
TOTAL OPERATING REVENUES	9,499,172	8,798,596
OPERATING EXPENSES		
Source of supply expense:		
Purchased water	2,985,807	2,694,767
Pumping plant expense:		
Power purchased	524,000	455,858
Contractual services	3,712	3,125
Miscellaneous pumping expense	225	343
Rental expense	5,036	4,985
Insurance	<u>10,185</u>	<u>9,867</u>
	543,158	474,178
Water treatment expense:		
Power purchased	<u>42</u>	<u>252</u>
	42	252
Transmission and distribution expense:		
Salaries and benefits	530,203	550,518
Power purchased	(972)	2,024
Contractual services	89,554	91,736
Miscellaneous expense	-	102
Rental expense	19,304	19,110
Transportation	81,775	93,335
Insurance	43,285	41,935
Materials and supplies	<u>106,985</u>	<u>85,408</u>
	870,134	884,168

	<u>2014</u>	<u>2013</u>
Customer accounts expense:		
Salaries and benefits	894,390	830,298
Billing services	208,806	195,517
Contractual services	3,713	3,125
Uncollectible accounts	21,720	19,548
Rental expense	29,375	29,063
Transportation	103,287	94,984
Insurance	5,092	4,934
Miscellaneous	4,169	1,952
Materials and supplies	7,900	10,070
	<u>1,278,452</u>	<u>1,189,491</u>
Administrative and general expense:		
Salaries and benefits	424,030	406,540
Office supplies	28,925	34,239
Contractual services	193,618	185,819
Commissioner fees	15,000	15,000
Insurance	7,446	7,288
Rental expense	5,036	5,003
Regulatory commission expense	16,985	15,642
Miscellaneous	14,193	15,279
Transportation	1,139	724
	<u>706,372</u>	<u>685,534</u>
Depreciation	2,111,407	2,000,581
	<u>2,111,407</u>	<u>2,000,581</u>
TOTAL OPERATING EXPENSES	<u>8,495,372</u>	<u>7,928,971</u>
OPERATING INCOME	1,003,800	869,625
NONOPERATING REVENUES (EXPENSES)		
Interest income	50,716	81,454
Rental revenue	119,591	115,294
Non utility income	115,888	107,136
Gain on disposal of assets	42,170	3,425
Debt expense	(9,093)	(42,094)
Interest expense	(317,495)	(340,113)
Legal settlement	-	28,020
	<u>-</u>	<u>28,020</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>1,777</u>	<u>(46,878)</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS	1,005,577	822,747
CAPITAL CONTRIBUTIONS	2,353,783	398,472
	<u>2,353,783</u>	<u>398,472</u>
INCREASE IN NET POSITION	3,359,360	1,221,219
NET POSITION, BEGINNING OF YEAR	<u>58,493,337</u>	<u>57,272,118</u>
NET POSITION, END OF YEAR	<u>\$ 61,852,697</u>	<u>\$ 58,493,337</u>

WARREN COUNTY WATER DISTRICT
SEWER DIVISION
STATEMENTS OF NET POSITION
DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
ASSETS		
UTILITY PLANT (at cost)		
Utility plant in service	\$ 42,286,970	\$ 40,913,285
Less accumulated depreciation	<u>(9,133,854)</u>	<u>(8,279,781)</u>
	33,153,116	32,633,504
Utility plant construction in progress	<u>60,093</u>	<u>83,225</u>
NET UTILITY PLANT	<u>33,213,209</u>	<u>32,716,729</u>
RESTRICTED ASSETS		
Bond and interest sinking funds	37,354	36,223
Debt service reserve for bond funds	272,140	272,140
Customer deposits	231,741	210,644
Construction Funds	1,983,331	1,802,748
Depreciation fund	<u>1,878,570</u>	<u>1,963,617</u>
TOTAL RESTRICTED ASSETS	4,403,136	4,285,372
CURRENT ASSETS		
Cash and cash equivalents	753,301	520,611
Net accounts receivable	236,801	162,481
Accounts receivable - Water Division	295,849	340,177
Special deposits and transfers	950	950
Prepaid insurance and postage	12,423	11,810
Other receivables	<u>248</u>	<u>4,047</u>
TOTAL CURRENT ASSETS	<u>1,299,572</u>	<u>1,040,076</u>
OTHER ASSETS		
Unamortized debt premium/discount	1,111	1,287
Unamortized retirement costs and other expenses	<u>22,516</u>	<u>22,590</u>
TOTAL OTHER ASSETS	<u>23,627</u>	<u>23,877</u>
TOTAL ASSETS	<u>\$ 38,939,544</u>	<u>\$ 38,066,054</u>

	<u>2014</u>	<u>2013</u>
NET POSITION		
Invested in capital assets, net of related debt	\$ 20,913,620	\$ 19,136,256
Restricted	4,171,395	4,074,728
Unrestricted	<u>1,233,721</u>	<u>1,025,449</u>
	26,318,736	24,236,433
LONG-TERM DEBT AND DEFERRED CREDITS		
Bonds payable	545,500	562,500
Notes payable	1,225,540	1,338,884
Less - Current portion of long-term debt	<u>(132,743)</u>	<u>(130,344)</u>
	1,638,297	1,771,040
CURRENT LIABILITIES		
Accounts payable and accrued expenses	99,783	40,497
Current portion of long-term debt	<u>132,743</u>	<u>130,344</u>
TOTAL CURRENT LIABILITIES	232,526	170,841
OTHER LIABILITIES		
Customer meter deposits	221,436	208,651
Contractor advances for construction	<u>10,528,549</u>	<u>11,679,089</u>
TOTAL OTHER LIABILITIES	<u>10,749,985</u>	<u>11,887,740</u>
TOTAL LIABILITIES	<u>12,620,808</u>	<u>13,829,621</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 38,939,544</u>	<u>\$ 38,066,054</u>

WARREN COUNTY WATER DISTRICT
SEWER DIVISION
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
OPERATING REVENUES		
Metered sales	\$ 3,589,847	\$ 3,202,760
Miscellaneous service revenue	<u>25,412</u>	<u>21,965</u>
TOTAL OPERATING REVENUES	3,615,259	3,224,725
OPERATING EXPENSES		
Source of supply expense:		
Disposal expense	2,054,580	1,910,025
Pumping plant expense:		
Power purchased	96,858	91,626
Chemicals	54,204	46,130
Contractual services	3,126	3,126
Insurance	<u>3,951</u>	<u>3,826</u>
	158,139	144,708
Transmission and distribution expense:		
Salaries and benefits	76,233	72,737
Materials and supplies	20,007	24,545
Contractual services	41,299	34,674
Transportation	12,986	13,231
Insurance	<u>2,301</u>	<u>2,228</u>
	152,826	147,415
Customer accounts expense:		
Salaries and benefits	82,019	79,949
Uncollectible accounts	3,543	3,538
Contractual services	45,488	44,331
Insurance	2,301	2,228
Materials and supplies	932	221
Transportation	207	35
Miscellaneous	<u>312</u>	<u>-</u>
	134,802	130,302

	<u>2014</u>	<u>2013</u>
Administrative and general expense:		
Salaries and benefits	71,577	60,051
Contractual services	26,570	27,817
Commissioner fees	15,000	15,000
Insurance	4,655	4,582
Regulatory commission expense	5,083	3,551
Office supplies	2,266	2,041
Miscellaneous	4,855	4,653
	<u>130,006</u>	<u>117,695</u>
Depreciation	<u>854,073</u>	<u>813,565</u>
TOTAL OPERATING EXPENSES	<u>3,484,426</u>	<u>3,263,710</u>
OPERATING INCOME	130,833	(38,985)
NONOPERATING REVENUES (EXPENSES)		
Interest income	14,148	18,781
Rental revenue	14,431	16,487
Non utility income	33	5
Debt expense	(176)	(2,578)
Interest expense	(66,098)	(70,777)
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(37,662)</u>	<u>(38,082)</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS	93,171	(77,067)
CAPITAL CONTRIBUTIONS	<u>1,989,132</u>	<u>345,793</u>
INCREASE IN NET POSITION	2,082,303	268,726
NET POSITION, BEGINNING OF YEAR	<u>24,236,433</u>	<u>23,967,707</u>
NET POSITION, END OF YEAR	<u>\$ 26,318,736</u>	<u>\$ 24,236,433</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, 2014, and the related notes to the financial statements which collectively comprise the District's basic financial statements and have issued our report thereon dated April 20, 2015.

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
April 20, 2015