

WARREN COUNTY WATER DISTRICT

FINANCIAL STATEMENTS  
AND  
SUPPLEMENTARY INFORMATION

For The Years Ended December 31, 2015 and 2014

WARREN COUNTY WATER DISTRICT  
 FINANCIAL STATEMENTS  
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**INDEPENDENT AUDITOR'S REPORT**

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

**Report on the Financial Statements**

We have audited the accompanying financial statements of the business type activities of the Warren County Water District (the District) as of and for the years ended December 31, 2015 and 2014, 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, 2015 and 2014, 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 11, 34, and 35 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 37 -41 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of operating expenses and individual division Statement of Net Position and Statements of Revenue, Expenses and Changes in Net Position is fairly stated in all material respects in relation to the financial statements as a whole.

## **Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated April 14, 2016 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control over financial reporting and compliance.

*Shelton CPAs, LLP*

Shelton CPAs, LLP  
April 14, 2016

## 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, 2015 and 2014. 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, 2015:

- Total revenue for the year increased by \$266,029 or 2.0%, compared to last year. The water division's total revenue increased by \$62,852, or 0.6%, and the sewer division's total revenue increased by \$203,177, or 5.6%.
- Total metered revenue increased by \$303,713 or 2.4%, compared to last year. Metered water revenue increased by \$107,703 or 1.2%, and metered sewer revenue increased by \$196,010 or 5.5%.
- Total expenses for the year increased by \$365,896, or 3.0%, compared to last year. The water division's total expenses increased by \$140,312, or 1.6%, and the sewer division's total expenses increased by \$225,584, or 6.4%.
- The water division added 512 customers throughout the year for a 1.9% increase and the sewer division added 296 customers for a 5.4% increase. The number of customers at the end of the year for the water and sewer divisions was 27,403 and 5,818 respectively.
- Average metered water revenue was \$20.71 per residential customer and \$127.85 per commercial customer. Average metered sewer revenue was \$22.89 per residential customer and \$417.33 per commercial customer.
- Total water sold to the District's customers during the year amounted to 2.52 billion gallons compared to 2.48 billion gallons in the prior year, an increase of 1.6%. The peak demand month was September 2015 with 257.4 million gallons sold. Total sewer service billed to customers totaled 981.9 million gallons compared to 928.3 million gallons in the prior year, an increase of 5.8%.
- The water division has a total of 1,138 miles of water main serving an average of 24.1 customers per mile. The sewer division has 167 miles of collection mains serving an average of 34.9 customers per mile.

## Financial Highlights (continued)

- Projects completed: *Kentucky Transpark Relocations* consisted 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 was funded by the Kentucky Transportation Department and Bilstein Cold Rolled Steel, L.P. with a total project cost of \$2,409,000. *Three Springs Road Relocation, Phase 2* consisted of line relocations ranging in size from 4 to 12 inch main to accommodate widening of Three Springs Road. The project was funded by the Kentucky Transportation Department with a total project cost of \$631,000.

## 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 \$16,408 or 0.1%, and *Total Expenses* were below budget by \$114,073 or -0.9%. *Net Income* totaled \$998,881 for the year, which exceeded budget by \$130,481, or 15%.

*Metered Water Revenue* was slightly less than budget by \$2,261 and *Metered Sewer Revenue* was greater than budget by \$29,434, or 0.8%. Due to higher than anticipated demand, total metered revenue exceeded budget even though budgeted retail rate increases of 4% for water service and 3.8% for wastewater service for year 2015 were not implemented. These rate increases would have been a pass through of wholesale rate increases for purchased water and sewer disposal from the District's supplier, Bowling Green Municipal Utilities. *Miscellaneous Service Revenue* which includes connection fees, collection fees, and meter tampering fees were less than budget by \$5,000, or -1.9% due to fewer fees for collection trips on past due accounts. *Interest Income* was slightly less than budget by \$665 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, gains on the disposition of assets, scrap metal sales, and other income was less than budget by \$5,100, or -1.2%.

*Operating Expenses* related to providing water and sewer service and maintaining the District's distribution and collection facilities were under budget by \$103,273 or -1.1% due to expenses such as purchased water, purchased power, and wages being under budget. *Depreciation* was less than budget by \$4,518 and *Interest Expense* was less than budget by \$6,283, or -1.7%. The budgeted interest expense included the Alvaton Area Sewer Improvement Project being placed into service, however the completion of the project and its corresponding debt service through a Kentucky Infrastructure Authority loan will not occur until year 2016.

Financial Analysis (Continued)

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

	<u>Actual 2015</u>	<u>Budget 2015</u>	<u>Increase \</u> <u>(Decrease)</u>	<u>%</u> <u>Change</u>
<u>Revenues:</u>				
Metered Water Revenue	\$ 9,238,739	\$ 9,241,000	\$ (2,261)	0.0%
Metered Sewer Revenue	3,751,434	3,722,000	29,434	0.8%
Miscellaneous Service Revenue	260,400	265,400	(5,000)	-1.9%
Interest Income	52,895	53,560	(665)	-1.2%
All Other Revenues	<u>433,970</u>	<u>439,070</u>	<u>(5,100)</u>	-1.2%
Total Revenue	<u>13,737,438</u>	<u>13,721,030</u>	<u>\$ 16,408</u>	0.1%
<u>Expenses:</u>				
Operating Expenses	\$ 9,253,827	\$ 9,357,100	\$ (103,273)	-1.1%
Depreciation	3,107,982	3,112,500	(4,518)	-0.1%
Interest Expense	367,987	374,270	(6,283)	-1.7%
All other Expenses	<u>8,761</u>	<u>8,760</u>	<u>1</u>	0.0%
Total Expenses	<u>12,738,557</u>	<u>12,852,630</u>	<u>(114,073)</u>	-0.9%
Net Income	<u>\$ 998,881</u>	<u>\$ 868,400</u>	<u>\$ 130,481</u>	15.0%

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 \$102,616,622 in year 2015.

*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 2015, capital assets totaled \$108,199,968 net of depreciation resulting in a 3.4% increase of \$3,535,020 over the prior year. Asset additions include the Kentucky Transpark Relocations and the Three Springs Road Relocation, Phase 2 with project costs of \$2,409,000 and \$631,000 respectively. Other asset additions include, line extensions, meter installations, and several residential developments placed into service throughout the year.



## Financial Analysis (Continued)

*Restricted and Current Assets* totaled \$16,123,981, a 5.5% increase of \$836,124 from last year. Restricted assets which include customer deposits, and funds for future system improvements, equipment replacement, and debt service increased by \$526,140. Current assets including cash and contractor receivables increased by \$309,894. *Other Assets* consisting of unamortized debt premiums and discounts, unamortized retirement costs, and miscellaneous assets increased \$14,128, or 3.9%.

*Long-Term Debt* totaled \$9,134,878, a 5.5% reduction of \$530,904 due to principal payments. *Current Liabilities* totaled \$2,012,928, a 9.1% decrease of \$201,460 from last year. Accounts payable decreased by \$194,497 and other current liabilities decreased by a net amount of \$6,963. *Other Liabilities* consisting of customer deposits held for water and sewer service and deferred revenue for leases to cellular providers totaled \$10,939,682 and decreased by \$9,327,553, or -46.0%. A review determined the amount of contributed capital retained for meter rebates payable to developers exceeded the amount typically rebated. As a result, an adjusting entry of \$9,773,990 was recorded reclassifying the excess contributed capital amount from rebates payable to contribution in aid of construction. For more information on rebates, 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 \$13,449,297, or 17.8%, and includes the \$9,773,990 reclassification of donated capital from rebates payable to contribution in aid of construction. *Restricted Net Position* increased by \$512,238, or 5.0%, 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 \$483,654, or 19.6%. *Total Net Position* was \$102,616,622 in year 2015, a 16.4% increase of \$14,445,189 compared to the prior year.

Financial Analysis (Continued)

Table 2  
WARREN COUNTY WATER DISTRICT  
Condensed Statement of Net Position

	<u>Year 2015</u>	<u>Year 2014</u>	Increase \ <u>Decrease</u>	% <u>Change</u>
Capital assets	\$ 108,199,968	\$ 104,664,948	\$ 3,535,020	3.4%
Restricted and current assets	16,123,981	15,287,857	836,124	5.5%
Other assets	<u>380,161</u>	<u>366,033</u>	<u>14,128</u>	3.9%
Total Assets	<u>\$ 124,704,110</u>	<u>\$ 120,318,838</u>	<u>\$ 4,385,272</u>	3.6%
Long term debt	\$ 9,134,878	\$ 9,665,782	\$ (530,904)	-5.5%
Current liabilities	2,012,928	2,214,388	(201,460)	-9.1%
Other liabilities	<u>10,939,682</u>	<u>20,267,235</u>	<u>(9,327,553)</u>	-46.0%
Total Liabilities	<u>22,087,488</u>	<u>32,147,405</u>	<u>(10,059,917)</u>	-31.3%
Net position invested in capital assets, net of related debt	88,987,550	75,538,253	13,449,297	17.8%
Restricted net position	10,672,040	10,159,802	512,238	5.0%
Unrestricted net position	<u>2,957,032</u>	<u>2,473,378</u>	<u>483,654</u>	19.6%
Total Net Position	<u>102,616,622</u>	<u>88,171,433</u>	<u>14,445,189</u>	16.4%
Total Liabilities and Net Position	<u>\$ 124,704,110</u>	<u>\$ 120,318,838</u>	<u>\$ 4,385,272</u>	3.6%

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

	<u>Year 2015</u>	<u>Year 2014</u>	<u>Increase \</u> <u>(Decrease)</u>	<u>%</u> <u>Change</u>
<u>Revenues:</u>				
Metered Water Revenue	\$ 9,238,739	\$ 9,131,036	\$ 107,703	1.2%
Metered Sewer Revenue	3,751,434	3,555,424	196,010	5.5%
Miscellaneous Service Revenue	260,400	276,097	(15,697)	-5.7%
Interest Income	52,895	63,896	(11,001)	-17.2%
All Other Revenues	433,970	444,956	(10,986)	-2.5%
Total Revenue	<u>\$ 13,737,438</u>	<u>\$ 13,471,409</u>	<u>\$ 266,029</u>	2.0%
<u>Expenses:</u>				
Operating Expenses	\$ 9,253,827	9,014,319	\$ 239,508	2.7%
Depreciation	3,107,982	2,965,480	142,502	4.8%
Interest Expense	367,987	383,593	(15,606)	-4.1%
All other Expenses	8,761	9,269	(508)	-5.5%
Total Expenses	<u>\$ 12,738,557</u>	<u>\$ 12,372,661</u>	<u>\$ 365,896</u>	3.0%
Income Before Capital Contributions	\$ 998,881	\$ 1,098,748	\$ (99,867)	-9.1%
Capital Contributions	<u>13,446,308</u>	<u>4,342,915</u>	<u>9,103,393</u>	209.6%
Increase in Net Assets	14,445,189	5,441,663	9,003,526	165.5%
Net Position, Beginning of Year	<u>88,171,433</u>	<u>82,729,770</u>	<u>5,441,663</u>	6.6%
Net Position, End of Year	<u>\$ 102,616,622</u>	<u>\$ 88,171,433</u>	<u>\$ 14,445,189</u>	16.4%

## Financial Analysis (Continued)

The volume of water sold in year 2015 totaled 2.52 billion gallons versus 2.48 billion gallons last year, a 1.6% increase of 40 million gallons. The volume of sewer revenue billed for year 2015 was 981.9 million gallons versus 928.3 million gallons last year, a 5.8% increase of 53.6 million gallons billed.

*Metered Water Revenue* increased by \$107,703, or 1.2% and *Metered Sewer Revenue* increased by \$196,010, or 5.5%. The water division added 512 customers for a total of 27,403, and the sewer division added 296 customers for a total of 5,818 customers. *Miscellaneous Service Revenue*, which includes connection fees, collection fees, and meter tampering fees decreased by \$15,697, or -5.7% due to fewer collection fees on past due accounts. *Interest Income* decreased by \$11,001, or -17.2% due to lower rates of return earned on investments. *All Other Income* which includes forfeited discounts, rental income, non-utility income, and scrap sales decreased by \$10,986, or -2.5%.

*Operating Expenses* increased by \$239,508, a 2.7% increase when compared to the prior year. Operating expenses related to meeting customer demand such as wastewater disposal and purchased water increased by \$216,736 and \$76,617 respectively; and contractual services for repairs, billing services, and banking services increased by \$67,236. Operating expenses such as purchased power, wage & benefits, and various other expenses decreased by \$67,341, \$12,940, and \$40,800 respectively.

*Depreciation* expense increased by \$142,502 or 4.8%, corresponding to various asset additions recorded throughout the year including the Kentucky Transpark Relocations and the Three Springs Road Relocation, Phase 2, residential developments, and meter installations. *Interest Expense* decreased by \$15,606, or -5.5%, due to reductions in outstanding debt.

*Capital Contributions* of \$13,446,308 were recorded during the year which includes the following: excess contributed capital transferred from developer rebate payables of \$9,773,990; expired developer rebate payables of \$1,188,691; contributions from Kentucky Department of Transportation for relocations of \$1,258,224; contributions for meter installations and sewer taps of \$506,250; contributions from the Inter-modal Transportation Authority (ITA) for new industry of \$470,901; contributions from city, county, and the development authority for debt service of \$74,540; and various contribution for special projects and relocations of \$173,712.

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 \$107,206,932 net of depreciation, as of December 31, 2015. 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 2015</u>	<u>Year 2014</u>	<u>Increase \</u> <u>Decrease</u>	<u>%</u> <u>Change</u>
<b>WATER DIVISION:</b>				
Land	\$ 1,324,352	\$ 1,324,352	\$ -	0.0%
Structures	1,976,947	1,879,667	97,280	5.2%
Pumping Equipment	2,617,743	2,645,794	(28,051)	-1.1%
Storage Tanks	8,784,519	8,832,437	(47,918)	-0.5%
Distribution Mains	43,248,685	39,338,365	,910,320	9.9%
Meters	10,500,217	9,781,435	718,782	7.3%
Hydrants	2,877,998	2,721,941	156,057	5.7%
Hardware & Software	1,011,214	1,031,332	(20,118)	-2.0%
Vehicles and Equipment	528,937	388,098	140,839	36.3%
Other	<u>386,538</u>	<u>421,923</u>	<u>(35,385)</u>	-8.4%
Subtotal - Water				
Division	<u>\$ 73,257,150</u>	<u>\$ 68,365,344</u>	<u>\$ 4,891,806</u>	7.2%
<b>SEWER DIVISION:</b>				
Land	\$ 70,602	\$ 70,602	\$ -	0.0%
Structures	5,831,049	5,973,585	(142,536)	-2.4%
Pumping Equipment	1,372,471	1,407,292	(34,821)	-2.5%
Collection Mains	23,905,694	23,119,185	786,509	3.4%
Taps	2,638,934	2,465,023	173,911	7.1%
Hardware & Software	107,066	115,232	(8,166)	-7.1%
Other	<u>23,966</u>	<u>2,197</u>	<u>21,769</u>	990.9%
Subtotal - Sewer				
Division	<u>33,949,782</u>	<u>33,153,116</u>	<u>796,666</u>	2.4%
Total - Water & Sewer	<u>\$ 107,206,932</u>	<u>\$ 101,518,460</u>	<u>\$ 5,688,472</u>	5.6%

Total capital assets, net of depreciation, increased by \$5,688,472 or 5.6%, compared to the prior year. In year 2015, the following were recorded to capital assets: Kentucky Transpark Relocations, \$2,409,000; Three Springs Road\Highway 242 Relocation, \$1,478,588; water meter installations and sewer taps, \$1,066,933 and \$238,596 respectively; water and sewer extensions from developers, \$828,190 and \$885,043 respectively; Three Springs Road Relocation, Phase 2, \$631,000; Bristow Road\Moorman Lane Relocation, \$304,000; repainting elevated storage tanks, \$220,151; other various additions, \$153,354; and a reduction of \$2,526,383 for accumulated depreciation. Table 4 does not reflect construction projects in progress totaling \$993,036 a decrease of \$2,153,452 from projects under construction this time last year of \$3,146,488.

## 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. As of December 31, 2015, the District had \$9,663,395 in outstanding debt compared to \$10,194,299 in the previous year. Principal payments throughout the year reduced outstanding debt by \$530,904.

### **Factors Affecting Next Year's Budget**

- Growth within the District's service area is expected to add 540 new water connections and 308 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 2016 at its meeting held in November 2015. Metered water sales and sewer revenue combined are budgeted to increase by 1.1%. Total revenue is also budgeted to increase by 1.1% from year 2015, and total expenses are budgeted to increase by 2.5%. Debt service payments are expected to total \$901,070 for both divisions with a reduction in outstanding debt of \$553,310. Net income for year 2016 is budgeted to total \$770,000. Capital expenditures for the year are budgeted to total \$9,511,700 including contributions from customers and governmental agencies totaling \$3,657,650 and loan proceeds from Kentucky Infrastructure Authority (KIA) of \$1,090,050 for the Alvaton Area Sewer Improvements and United States Department of Agriculture (USDA) for a sewer rehabilitation project in the Plum Springs Area of \$1,450,000.

### **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](http://www.warrenwater.com).

## BASIC FINANCIAL STATEMENTS

WARREN COUNTY WATER DISTRICT  
 STATEMENTS OF NET POSITION  
 DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
<b>ASSETS</b>		
UTILITY PLANT (at cost)		
Utility plant in service	\$ 151,054,534	\$ 142,839,679
Less accumulated depreciation	<u>(43,847,602)</u>	<u>(41,321,219)</u>
	107,206,932	101,518,460
Utility plant construction in progress	<u>993,036</u>	<u>3,146,488</u>
NET UTILITY PLANT	108,199,968	104,664,948
NONOPERATING PROPERTY, net of \$85,836		
accumulated depreciation	165,856	165,856
RESTRICTED ASSETS		
Bond and interest sinking funds	629,302	616,629
Debt service reserve for bond funds	318,800	318,800
Customer deposits	1,152,607	1,138,705
Construction funds	5,825,092	5,193,291
Depreciation funds	<u>3,898,846</u>	<u>4,031,082</u>
TOTAL RESTRICTED ASSETS	11,824,647	11,298,507
CURRENT ASSETS		
Cash and cash equivalents	2,783,071	1,677,131
Accounts receivable		
User charges, net of allowance for doubtful	571,108	544,450
accounts: 2015-\$9,453 and 2014-\$9,453		
Contractor receivable	37,248	826,458
Butler County Water System, Inc.	90,375	129,482
Simpson County Water District	55,895	71,664
Miscellaneous	17,368	14,221
Special deposits and transfers	1,630	1,630
Materials and supplies inventory	563,024	537,410
Prepaid expenses	91,516	96,572
Other receivables	<u>8,800</u>	<u>9,212</u>
TOTAL CURRENT ASSETS	4,220,035	3,908,230
OTHER ASSETS		
Unamortized debt premium/discount	68,893	77,654
Unamortized retirement costs and other expenses	<u>224,711</u>	<u>203,643</u>
TOTAL OTHER ASSETS	<u>293,604</u>	<u>281,297</u>
TOTAL ASSETS	<u>\$ 124,704,110</u>	<u>\$ 120,318,838</u>



WARREN COUNTY WATER DISTRICT  
 STATEMENTS OF NET POSITION  
 DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
NET POSITION		
Invested in capital assets, net of related debt	\$ 88,987,550	\$ 75,538,253
Restricted	10,672,040	10,159,802
Unrestricted	<u>2,957,032</u>	<u>2,473,378</u>
TOTAL NET POSITION	102,616,622	88,171,433
LONG-TERM DEBT		
Bonds and loans payable	2,800,500	2,936,500
Notes payable	6,862,895	7,257,799
Less - Current portion of long-term debt	<u>(553,328)</u>	<u>(528,517)</u>
TOTAL LONG-TERM DEBT	9,110,067	9,665,782
CURRENT LIABILITIES		
Accounts payable	583,492	777,989
Butler County Water System, Inc.	60,062	55,220
Simpson County Water District	46,610	44,291
Accrued expenses	794,247	808,371
Current portion of long-term debt	<u>553,328</u>	<u>528,517</u>
TOTAL CURRENT LIABILITIES	2,037,739	2,214,388
OTHER LIABILITIES		
Customer meter deposits	1,151,137	1,098,028
Contractor advances for construction	9,714,879	19,098,252
Unearned revenue for cellular leases	<u>73,666</u>	<u>70,955</u>
TOTAL OTHER LIABILITES	<u>10,939,682</u>	<u>20,267,235</u>
TOTAL LIABILITIES	<u>22,087,488</u>	<u>32,147,405</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 124,704,110</u>	<u>\$ 120,318,838</u>

WARREN COUNTY WATER DISTRICT  
 STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
 FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
OPERATING REVENUES		
Metered sales	\$ 13,162,976	\$ 12,846,745
Miscellaneous service revenue	<u>260,400</u>	<u>267,686</u>
TOTAL OPERATING REVENUES	13,423,376	13,114,431
OPERATING EXPENSES		
Source of supply	5,333,740	5,040,387
Pumping plant	633,745	701,297
Water treatment	-	42
Transmission and distribution	1,034,911	1,022,960
Customer accounts	1,396,684	1,413,254
Administrative and general	854,746	836,377
Depreciation	<u>3,107,982</u>	<u>2,965,480</u>
TOTAL OPERATING EXPENSES	<u>12,361,808</u>	<u>11,979,797</u>
OPERATING INCOME	1,061,568	1,134,634
NONOPERATING REVENUES (EXPENSES)		
Interest income	52,895	64,863
Rental revenue	139,645	134,022
Non-utility income	110,683	115,921
Gain on disposal of assets	10,837	42,170
Amortization of debt expense	(8,761)	(9,269)
Interest expense	<u>(367,986)</u>	<u>(383,593)</u>
NET NONOPERATING REVENUES (EXPENSES)	<u>(62,687)</u>	<u>(35,886)</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS	998,881	1,098,748
CAPITAL CONTRIBUTIONS		
	<u>13,446,308</u>	<u>4,342,915</u>
INCREASE IN NET POSITION	14,445,189	5,441,663
NET POSITION, BEGINNING OF YEAR	<u>88,171,433</u>	<u>82,729,770</u>
NET POSITION, END OF YEAR	<u>\$ 102,616,622</u>	<u>\$ 88,171,433</u>

WARREN COUNTY WATER DISTRICT  
 STATEMENTS OF CASH FLOW  
 FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers and users	\$ 14,238,069	\$ 12,241,628
Payments to suppliers	(7,723,138)	(7,088,216)
Payments to employees	<u>(1,669,402)</u>	<u>(1,703,193)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	4,845,529	3,450,219
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Principal paid on bonds and notes	(530,904)	(650,117)
Interest paid	(373,408)	(391,864)
Proceeds from disposal of capital assets	11,005	53,883
Acquisition and construction of capital assets	<u>(2,008,777)</u>	<u>(3,409,991)</u>
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	(2,902,084)	(4,398,089)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest income	53,307	76,820
Purchase of investments in certificates of deposits	(615,000)	-
Proceeds from sale of investments in certificates of deposit	(513,872)	1,375,747
Proceeds from miscellaneous income	<u>250,328</u>	<u>249,943</u>
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	<u>(825,237)</u>	<u>1,702,510</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,118,208	754,640
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>3,204,529</u>	<u>2,449,889</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 4,322,737</u>	<u>\$ 3,204,529</u>

See Note B for reconciliation to balance sheet.

	<u>2015</u>	<u>2014</u>
Reconciliation of operating income to net cash provided in operating activities:		
Operating income	\$ 1,061,568	\$ 1,134,634
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	3,107,982	2,965,480
Allocated Depreciation	48,552	-
Decrease (increase) in:		
Accounts receivable	814,281	(884,759)
Prepaid expenses	5,056	(10,083)
Materials and supplies inventory	(25,614)	(30,790)
Other receivables	412	11,956
Unamortized retirement costs and other expenses	(21,068)	(22,658)
Increase (decrease) in:		
Accounts payable and accrued liabilities	(201,460)	247,120
Deposits	53,109	38,907
Unearned revenue for cellular leases	<u>2,711</u>	<u>412</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 4,845,529</u>	<u>\$ 3,450,219</u>
 NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Private developers contributed constructed water and sewer lines at cost	<u>\$ 13,446,308</u>	<u>\$ 4,342,915</u>
TOTAL NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES	<u>\$ 13,446,308</u>	<u>\$ 4,342,915</u>

NOTES TO THE FINANCIAL STATEMENTS

WARREN COUNTY WATER DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2015 and 2014

**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, 2015 and 2014

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, 2015 and 2014

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, 2015 and 2014

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 2014 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, 2015 and 2014

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, 2015, 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	\$ 1,789,663	\$ 1,789,663	\$ 250,000	\$ 1,583,974
Financial Institution B	750,000	750,000	250,000	847,832
Financial Institution C	126,417	126,417	250,000	-
Financial Institution D	6,090,554	6,090,199	250,000	6,653,743
Financial Institution E	3,198,249	3,198,249	250,000	3,237,738
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	410,604	410,604	-	500,000
Financial Institution K	142,466	142,466	250,000	-
Financial Institution L	250,000	250,000	250,000	-
Financial Institution M	417,800	417,799	250,000	417,800
Financial Institution N	216,420	216,420	250,000	-
Financial Institution O	214,325	197,604	250,000	-
	<u>\$ 14,606,498</u>	<u>\$ 14,589,421</u>	<u>\$ 3,500,000</u>	<u>\$ 13,241,087</u>

WARREN COUNTY WATER DISTRICT  
 NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)  
 DECEMBER 31, 2015 and 2014

At December 31, 2015 and 2014 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 \$3,182,907.

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, 2015 and 2014 were \$4,763,608 and \$4,163,285, 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,	
	2015	2014
Cash and Investments		
Bond and Interest Sinking Funds	\$ 629,302	\$ 616,629
Debt Service Reserve	318,800	318,800
Customer deposits	1,152,607	1,138,705
Construction funds	5,825,092	5,193,291
Depreciation fund	3,898,846	4,031,082
Cash and cash equivalents	<u>2,783,071</u>	<u>1,677,131</u>
Total Cash and Investments	<u>14,607,718</u>	<u>12,975,638</u>
Less: Investments greater than ninety days	<u>(10,284,981)</u>	<u>(9,771,109)</u>
Total Cash and Cash Equivalents per Statements of Cash Flows	<u>\$ 4,322,737</u>	<u>\$ 3,204,529</u>

WARREN COUNTY WATER DISTRICT  
 NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)  
 DECEMBER 31, 2015 and 2014

**NOTE C-UTILITY PLANT**

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	100,263	18,684	9,623,698
Elec Pumping/Mains	106,703,953	4,125,932	571,295	110,258,590
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>\$ 6,231,682</u>	<u>\$ 708,931</u>	148,362,430
Nonoperating Property *	251,692			251,692
Construction in Progress *	3,146,488			3,685,140
Accumulated Depreciation	<u>(41,407,055)</u>			<u>(43,933,438)</u>
	<u>\$ 104,830,804</u>			<u>\$ 108,365,824</u>

\* Denotes items that are not depreciated.

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	<u>(85,836)</u>			<u>(85,836)</u>
	<u>\$ 41,321,219</u>			<u>\$ 43,847,602</u>

WARREN COUNTY WATER DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)  
DECEMBER 31, 2015 and 2014

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>

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, 2015 and 2014

Construction Commitments

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 gallon per minute pumps. The anticipated total cost of the project is \$1,827,650. 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, \$66,950, and \$180,000 respectively. Total expenditures as of 12/31/15 were \$106,500.

**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
				<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.

WARREN COUNTY WATER DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)  
DECEMBER 31, 2015 and 2014

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>

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>

WARREN COUNTY WATER DISTRICT  
 NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)  
 DECEMBER 31, 2015 and 2014

As of December 31, 2015, the aggregate debt service requirements on bonded indebtedness to maturity are summarized as follows:

Year Ending December	Principal Payments	Interest Payments	Total
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	160,500	92,926	253,426
2021-2025	912,000	353,006	1,265,006
2026-2030	326,500	212,875	539,375
2031-2035	318,500	134,955	453,455
2036-2040	240,000	78,413	318,413
2041-2045	280,000	20,783	300,783
	<u>\$ 2,800,500</u>	<u>\$ 1,324,768</u>	<u>\$ 4,125,268</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, 2015, \$2,448,000 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, 2015 and 2014

**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, 2015 and 2014 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, 2015 and 2014 was \$272,140 and \$272,140, respectively.

WARREN COUNTY WATER DISTRICT  
 NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)  
 DECEMBER 31, 2015 and 2014

**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, 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>

WARREN COUNTY WATER DISTRICT  
 NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)  
 DECEMBER 31, 2015 and 2014

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>

\* 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, 2015 and 2014

As of December 31, 2015, the future payments for the remaining note payable obligations by year are as follows:

Year Ending December	Principal Payments	Interest Payments	Total
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	377,097	187,305	564,402
2021-2025	2,043,728	735,437	2,779,165
2026-2030	1,887,942	394,891	2,282,833
2031-2035	544,694	144,923	689,617
2036-2040	385,000	51,135	436,135
	<u>\$ 6,862,895</u>	<u>\$ 2,389,427</u>	<u>\$ 9,252,322</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 \$150,454 and \$155,876 at December 31, 2015 and 2014, 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, 2015:

	<u>2014</u>	<u>Additions</u>	<u>2015</u>
Original membership and tap-on fees and contributions for construction of various projects	\$ 39,873,638	\$ 13,446,308	\$ 53,319,946
Grants-in-aid	<u>19,301,433</u>	<u>-</u>	<u>19,301,433</u>
Total Capital Contributions	59,175,071	<u>\$ 13,446,308</u>	72,621,379
Retained Earnings	28,996,362		29,995,243
Total Net Position	<u>\$ 88,171,433</u>		<u>\$ 102,616,622</u>

WARREN COUNTY WATER DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)  
DECEMBER 31, 2015 and 2014

**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 866-673-2299. 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](http://www.efast.dol.gov) and using the search tool (EIN 530116145; PN 333).

*Benefits Provided* - The District had 62 employees participating in the RS Plan on 12/31/2015. 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'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, 2015 and 2014

*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 payrolls 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 participant's 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 2015 was 25.89% 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 1/1/2015, the present value of accumulated benefits for the District was \$3,998,000. 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 \$2,789,000 and the resulting difference of \$1,209,000 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 will be reviewing options to address the RS Plan unfunded liability. As of the date of this report, the District has not received information for the 1/1/2016 plan valuation.

Please see required supplemental schedule, Schedule of Contributions and notes to the required supplemental schedule on pages 35 and 36 for further information.

**NOTE L- OTHER EMPLOYEE BENEFITS**

The District currently participates in 401(a) and 457(b) retirement plans through Transamerica Retirement Solutions Corporation. Prior to May 27, 2015, 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, 2015 and 2014, the District's accrued compensated absences for annual leave totaled \$297,958 and 289,145, respectively.

WARREN COUNTY WATER DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)  
DECEMBER 31, 2015 and 2014

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, 2015 and 2014, the District's accrued compensated absences for sick leave totaled \$27,718 and \$26,054, respectively.

**NOTE M-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 N-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, 2015, the District carried net receivables of \$30,313 and \$9,285 from Butler and Simpson Counties, respectively. At December 31, 2014, the District carried net receivables of \$74,262 and \$27,373 from Butler and Simpson Counties, respectively.

**NOTE O-SUBSEQUENT EVENTS**

The company has evaluated subsequent events through April 12, 2016 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, 2015

	Budgeted Amounts 2015	Actual Amounts 2015	Variance
<b>OPERATING REVENUES</b>			
Metered sales	\$ 13,124,650	\$ 13,162,976	\$ 38,326
Miscellaneous service revenue	<u>265,400</u>	<u>260,400</u>	<u>(5,000)</u>
TOTAL OPERATING REVENUES	13,390,050	13,423,376	33,326
<b>OPERATING EXPENSES</b>			
Source of supply	5,381,831	5,333,740	48,091
Pumping plant	555,770	633,745	(77,975)
Water treatment	-	-	-
Transmission and distribution	1,116,748	1,034,911	81,837
Customer accounts	1,399,742	1,396,684	3,058
Administrative and general	903,009	854,746	48,263
Depreciation	<u>3,112,500</u>	<u>3,107,982</u>	<u>4,518</u>
TOTAL OPERATING EXPENSES	<u>12,469,600</u>	<u>12,361,808</u>	<u>107,792</u>
OPERATING INCOME	920,450	1,061,568	141,118
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Interest income	53,560	52,895	(665)
Rental revenue	139,440	139,645	205
Non-utility income	127,140	110,683	(16,457)
Gain on disposal of assets	10,840	10,837	(3)
Amortization of debt expense	(8,760)	(8,761)	(1)
Interest expense	<u>(374,270)</u>	<u>(367,986)</u>	<u>6,284</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(52,050)</u>	<u>(62,687)</u>	<u>(10,637)</u>
INCREASE IN NET ASSETS	<u>\$ 868,400</u>	<u>\$ 998,881</u>	<u>\$ 130,481</u>

WARREN COUNTY WATER DISTRICT  
 SCHEDULE OF CONTRIBUTIONS  
 LAST 10 FISCAL YEARS\*

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

\* This schedule is intended to present a ten-year trend per GASB 78.  
 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, 2015 and 2014

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.

\*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, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
SOURCE OF SUPPLY EXPENSE		
Purchased water and disposal	\$ <u>5,333,740</u>	\$ <u>5,040,387</u>
PUMPING PLANT EXPENSE		
Power purchased	\$ 560,365	\$ 620,858
Chemicals	46,852	54,204
Miscellaneous pumping expense	42	225
Contractual services	6,250	6,838
Rental expense	5,001	5,036
Insurance	15,235	14,136
TOTAL PUMPING PLANT EXPENSE	\$ <u>633,745</u>	\$ <u>701,297</u>
WATER TREATMENT EXPENSE		
Power purchased	\$ -	\$ 42
TOTAL WATER TREATMENT EXPENSE	\$ -	\$ 42
TRANSMISSION AND DISTRIBUTION EXPENSE		
Salaries and benefits	\$ 624,457	\$ 606,436
Power purchased	438	(972)
Contractual services	135,794	130,853
Rental expense	19,171	19,304
Transportation	97,673	94,761
Insurance	49,410	45,586
Materials and supplies	107,968	126,992
TOTAL TRANSMISSION AND DISTRIBUTION EXPENSE	\$ <u>1,034,911</u>	\$ <u>1,022,960</u>

	<u>2015</u>	<u>2014</u>
<b>CUSTOMER ACCOUNTS EXPENSE</b>		
Salaries and benefits	\$ 969,795	\$ 976,409
Billing services	223,231	208,806
Contractual services	51,605	49,201
Uncollectible accounts	17,570	25,263
Rental expense	29,173	29,375
Transportation	85,624	103,494
Insurance	7,962	7,393
Miscellaneous	3,499	4,481
Materials and supplies	8,225	8,832
TOTAL CUSTOMER ACCOUNTS EXPENSE	<u>\$ 1,396,684</u>	<u>\$ 1,413,254</u>
<b>ADMINISTRATIVE AND GENERAL EXPENSE</b>		
Salaries and benefits	\$ 471,256	\$ 495,607
Office supplies	32,165	31,191
Commissioner Fees	30,000	30,000
Contractual services	260,879	220,188
Insurance	12,670	12,101
Rental expense	5,001	5,036
Regulatory commission expense	24,427	22,068
Miscellaneous	16,302	19,047
Transportation	2,046	1,139
TOTAL ADMINISTRATIVE AND GENERAL EXPENSE	<u>\$ 854,746</u>	<u>\$ 836,377</u>
<b>DEPRECIATION EXPENSE</b>	<b>\$ 3,107,982</b>	<b>\$ 2,965,480</b>

WARREN COUNTY WATER DISTRICT  
WATER DIVISION  
STATEMENTS OF NET POSITION  
DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
ASSETS		
UTILITY PLANT (at cost)		
Utility plant in service	\$ 107,176,695	\$ 100,552,709
Less accumulated depreciation	<u>(33,904,437)</u>	<u>(32,187,365)</u>
	73,272,258	68,365,344
Utility plant construction in progress	<u>789,419</u>	<u>3,086,395</u>
NET UTILITY PLANT	74,061,677	71,451,739
NONOPERATING PROPERTY, net of \$85,836		
accumulated depreciation	165,856	165,856
RESTRICTED ASSETS		
Bond and interest sinking funds	591,695	579,275
Debt service reserve for bond funds	46,660	46,660
Customer deposits	914,086	906,964
Construction funds	3,564,734	3,209,960
Depreciation fund	<u>1,911,040</u>	<u>2,152,512</u>
TOTAL RESTRICTED ASSETS	7,028,215	6,895,371
CURRENT ASSETS		
Cash and cash equivalents	1,932,700	923,830
Net accounts receivable	478,408	1,148,328
Butler County Water System, Inc.	90,375	129,482
Simpson County Water District	55,895	71,664
Special deposits and transfers	680	680
Materials and supplies inventory	563,024	537,410
Prepaid insurance and postage	79,077	84,149
Other receivables	<u>7,372</u>	<u>8,964</u>
TOTAL CURRENT ASSETS	3,207,531	2,904,507
OTHER ASSETS		
Unamortized debt premium/discount	67,946	76,543
Unamortized retirement costs and other expenses	<u>193,426</u>	<u>181,127</u>
TOTAL OTHER ASSETS	<u>261,372</u>	<u>257,670</u>
TOTAL ASSETS	<u>\$ 84,724,651</u>	<u>\$ 81,675,143</u>



	<u>2015</u>	<u>2014</u>
NET POSITION		
Invested in capital assets, net of related debt	\$ 61,777,559	\$ 54,624,633
Restricted	6,114,129	5,988,407
Unrestricted	<u>1,520,586</u>	<u>1,239,657</u>
TOTAL NET POSITION	69,412,274	61,852,697
LONG-TERM DEBT		
Bonds payable	2,273,000	2,391,000
Notes payable	5,754,484	6,032,259
Less - Current portion of long-term debt	<u>(413,445)</u>	<u>(395,774)</u>
TOTAL LONG-TERM DEBT	7,614,039	8,027,485
CURRENT LIABILITIES		
Accounts payable and accrued expenses	1,332,514	1,486,577
Butler County Water System, Inc.	60,062	55,220
Simpson County Water District	46,610	44,291
Accounts payable - Sewer Division	435,036	295,849
Current portion of long-term debt	<u>413,445</u>	<u>395,774</u>
TOTAL CURRENT LIABILITIES	2,287,667	2,277,711
OTHER LIABILITIES		
Customer meter deposits	914,515	876,592
Contractor advances for construction	4,422,490	8,569,703
Unearned revenue from cellular leases	<u>73,666</u>	<u>70,955</u>
TOTAL OTHER LIABILITIES	<u>5,410,671</u>	<u>9,517,250</u>
TOTAL LIABILITIES	<u>15,312,377</u>	<u>19,822,446</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 84,724,651</u>	<u>\$ 81,675,143</u>

WARREN COUNTY WATER DISTRICT  
WATER DIVISION  
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
OPERATING REVENUES		
Metered sales	\$ 9,368,201	\$ 9,256,898
Miscellaneous service revenue	<u>236,560</u>	<u>242,274</u>
TOTAL OPERATING REVENUES	9,604,761	9,499,172
OPERATING EXPENSES		
Source of supply expense:		
Purchased water	3,062,424	2,985,807
Pumping plant expense:		
Power purchased	455,289	524,000
Contractual services	3,125	3,712
Miscellaneous pumping expense	42	225
Rental expense	5,001	5,036
Insurance	<u>11,053</u>	<u>10,185</u>
	474,510	543,158
Water treatment expense:		
Power purchased	<u>-</u>	<u>42</u>
	-	42
Transmission and distribution expense:		
Salaries and benefits	562,856	530,203
Power purchased	438	(972)
Contractual services	90,081	89,554
Rental expense	19,171	19,304
Transportation	87,882	81,775
Insurance	46,974	43,285
Materials and supplies	<u>98,631</u>	<u>106,985</u>
	906,033	870,134

	<u>2015</u>	<u>2014</u>
Customer accounts expense:		
Salaries and benefits	873,994	894,390
Billing services	223,231	208,806
Contractual services	3,125	3,713
Uncollectible accounts	16,000	21,720
Rental expense	29,173	29,375
Transportation	86,442	103,287
Insurance	5,526	5,092
Miscellaneous	3,499	4,169
Materials and supplies	5,359	7,900
	<u>1,246,349</u>	<u>1,278,452</u>
Administrative and general expense:		
Salaries and benefits	405,441	424,030
Office supplies	29,585	28,925
Contractual services	231,768	193,618
Commissioner fees	15,000	15,000
Insurance	7,880	7,446
Rental expense	5,001	5,036
Regulatory commission expense	17,843	16,985
Miscellaneous	12,043	14,193
Transportation	2,046	1,139
	<u>726,607</u>	<u>706,372</u>
Depreciation	2,231,082	2,111,407
	<u>8,647,005</u>	<u>8,495,372</u>
TOTAL OPERATING EXPENSES		
OPERATING INCOME	957,756	1,003,800
NONOPERATING REVENUES (EXPENSES)		
Interest income	42,506	50,716
Rental revenue	121,604	119,591
Non utility income	110,681	115,888
Gain on disposal of assets	10,837	42,170
Debt expense	(8,597)	(9,093)
Interest expense	(306,672)	(317,495)
	<u>(29,641)</u>	<u>1,777</u>
TOTAL NONOPERATING REVENUES (EXPENSES)		
INCOME BEFORE CAPITAL CONTRIBUTIONS	928,115	1,005,577
CAPITAL CONTRIBUTIONS	6,631,462	2,353,783
	<u>7,559,577</u>	<u>3,359,360</u>
INCREASE IN NET POSITION		
NET POSITION, BEGINNING OF YEAR	61,852,697	58,493,337
NET POSITION, END OF YEAR	<u>\$ 69,412,274</u>	<u>\$ 61,852,697</u>

WARREN COUNTY WATER DISTRICT  
 SEWER DIVISION  
 STATEMENTS OF NET POSITION  
 DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
ASSETS		
UTILITY PLANT (at cost)		
Utility plant in service	\$ 43,877,839	\$ 42,286,970
Less accumulated depreciation	<u>(9,943,165)</u>	<u>(9,133,854)</u>
	33,934,674	33,153,116
Utility plant construction in progress	<u>203,617</u>	<u>60,093</u>
NET UTILITY PLANT	34,138,291	33,213,209
RESTRICTED ASSETS		
Bond and interest sinking funds	37,607	37,354
Debt service reserve for bond funds	272,140	272,140
Customer deposits	238,521	231,741
Construction Funds	2,260,358	1,983,331
Depreciation fund	<u>1,987,806</u>	<u>1,878,570</u>
TOTAL RESTRICTED ASSETS	4,796,432	4,403,136
CURRENT ASSETS		
Cash and cash equivalents	850,371	753,301
Net accounts receivable	147,316	236,801
Accounts receivable - Water Division	435,036	295,849
Special deposits and transfers	950	950
Prepaid insurance and postage	12,439	12,423
Other receivables	<u>1,428</u>	<u>248</u>
TOTAL CURRENT ASSETS	<u>1,447,540</u>	<u>1,299,572</u>
OTHER ASSETS		
Unamortized debt premium/discount	947	1,111
Unamortized retirement costs and other expenses	<u>31,285</u>	<u>22,516</u>
TOTAL OTHER ASSETS	<u>32,232</u>	<u>23,627</u>
TOTAL ASSETS	<u>\$ 40,414,495</u>	<u>\$ 38,939,544</u>

	<u>2015</u>	<u>2014</u>
NET POSITION		
Invested in capital assets, net of related debt	\$ 27,209,991	\$ 20,913,620
Restricted	4,557,911	4,171,395
Unrestricted	<u>1,436,446</u>	<u>1,233,721</u>
	33,204,348	26,318,736
LONG-TERM DEBT AND DEFERRED CREDITS		
Bonds payable	527,500	545,500
Notes payable	1,108,411	1,225,540
Less - Current portion of long-term debt	<u>(139,883)</u>	<u>(132,743)</u>
	1,496,028	1,638,297
CURRENT LIABILITIES		
Accounts payable and accrued expenses	45,225	99,783
Current portion of long-term debt	<u>139,883</u>	<u>132,743</u>
TOTAL CURRENT LIABILITIES	185,108	232,526
OTHER LIABILITIES		
Customer meter deposits	236,622	221,436
Contractor advances for construction	<u>5,292,389</u>	<u>10,528,549</u>
TOTAL OTHER LIABILITIES	<u>5,529,011</u>	<u>10,749,985</u>
TOTAL LIABILITIES	<u>7,210,147</u>	<u>12,620,808</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 40,414,495</u>	<u>\$ 38,939,544</u>

WARREN COUNTY WATER DISTRICT  
 SEWER DIVISION  
 STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
 FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
OPERATING REVENUES		
Metered sales	\$ 3,794,775	\$ 3,589,847
Miscellaneous service revenue	<u>23,840</u>	<u>25,412</u>
TOTAL OPERATING REVENUES	3,818,615	3,615,259
OPERATING EXPENSES		
Source of supply expense:		
Disposal expense	2,271,316	2,054,580
Pumping plant expense:		
Power purchased	105,076	96,858
Chemicals	46,852	54,204
Contractual services	3,125	3,126
Insurance	<u>4,182</u>	<u>3,951</u>
	159,235	158,139
Transmission and distribution expense:		
Salaries and benefits	61,601	76,233
Materials and supplies	9,337	20,007
Contractual services	45,713	41,299
Transportation	9,791	12,986
Insurance	<u>2,436</u>	<u>2,301</u>
	128,878	152,826
Customer accounts expense:		
Salaries and benefits	95,801	82,019
Uncollectible accounts	1,570	3,543
Contractual services	48,480	45,488
Insurance	2,436	2,301
Materials and supplies	2,866	932
Transportation	(818)	207
Miscellaneous	<u>-</u>	<u>312</u>
	150,335	134,802

	<u>2015</u>	<u>2014</u>
Administrative and general expense:		
Salaries and benefits	65,815	71,577
Contractual services	29,111	26,570
Commissioner fees	15,000	15,000
Insurance	4,790	4,655
Regulatory commission expense	6,584	5,083
Office supplies	2,580	2,266
Miscellaneous	4,259	4,854
	<u>128,139</u>	<u>130,005</u>
Depreciation	<u>876,900</u>	<u>854,073</u>
TOTAL OPERATING EXPENSES	<u>3,714,803</u>	<u>3,484,425</u>
OPERATING INCOME	103,812	130,834
NONOPERATING REVENUES (EXPENSES)		
Interest income	10,389	14,147
Rental revenue	18,041	14,431
Non utility income	2	33
Debt expense	(164)	(176)
Interest expense	(61,314)	(66,098)
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(33,046)</u>	<u>(37,663)</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS	70,766	93,171
CAPITAL CONTRIBUTIONS	<u>6,814,846</u>	<u>1,989,132</u>
INCREASE IN NET POSITION	6,885,612	2,082,303
NET POSITION, BEGINNING OF YEAR	<u>26,318,736</u>	<u>24,236,433</u>
NET POSITION, END OF YEAR	<u>\$ 33,204,348</u>	<u>\$ 26,318,736</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, 2015, and the related notes to the financial statements which collectively comprise the District's basic financial statements and have issued our report thereon dated April 14, 2016.

**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.



**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  
April 14, 2016