

# Warren County Water District

Component Unit of  
Warren County, Kentucky

FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION

December 31, 2017



**CRI** CARR  
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**REPORT**



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## **INDEPENDENT AUDITORS' REPORT**

Board of Commissioners  
Warren County Water District  
Bowling Green, Kentucky

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Warren County Water District (the "District"), a component unit of Warren County, Kentucky, as of and for the year ended December 31, 2017, 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.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 auditors' 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 District'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 District'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 Warren County Water District as of December 31, 2017, and the changes in financial position, and its cash flows thereof for the year then ended in accordance 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 and analysis on pages 4 through 11 and the schedule of employer required contributions and schedule of funding progress on pages 38 through 39 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 an opinion on the financial statements that collectively comprise the District's basic financial statements. The schedule of budgetary comparison, statement of net position by division, and statement of revenues, expenses, and changes in net position by division 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 relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial

statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of budgetary comparison, statement of net position by division, and statement of revenues, expenses, and changes in net position by division are fairly stated in all material respects in relation to the basic 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 18, 2018 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 solely 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 the effectiveness of the District's 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.

*Carr, Riggs & Ingram, L.L.C.*



# **FINANCIAL STATEMENTS**

## 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, 2017 and 2016. 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, 2017:

- Operating revenue totaled \$14,825,629 for the year and increased by \$963,488 or 7.0%, compared to \$13,862,141 last year. Operating expenses totaled \$13,908,914 for the year and increased by \$929,304 or 7.2% compared to \$12,979,610 last year.
- Metered water revenue totaled \$10,664,255 for the year and increased by \$1,198,065 or 12.7%, compared to \$9,466,190 last year reflecting an increase in retail rates and customer demand. Metered Sewer revenue totaled \$3,724,777 for the year and decreased by \$248,991 or -6.3% compared to \$3,973,768 last year reflecting a retail rate decrease.
- Income before contributions totaled \$982,064, an increase of \$123,646 or 14.4% compared to \$858,418 last year.
- Capital contributions for the year totaled \$6,724,907, an increase of \$108,155 or 1.6% compared to \$6,616,752 last year.
- Net position totaled \$117,798,763, an increase of \$7,706,971 or 7.0% compared to \$110,091,792 last year.
- The water division added 721 customers throughout the year for a 2.6% increase and the sewer division added 454 customers for a 7.4% increase over the prior year. The number of customers at the end of the year for the water and sewer divisions was 28,742 and 6,611 respectively.
- Average metered water revenue was \$22.05 per residential customer and \$145.45 per commercial customer. Average metered sewer revenue was \$20.54 per residential customer and \$350.46 per commercial customer.
- Total water sold to the District's customers during the year amounted to 2.67 billion gallons compared to 2.59 billion gallons in the prior year, an increase of 3%. The peak demand month was September with 273.4 million gallons sold. Total sewer service billed to customers totaled 1.14 billion gallons compared to 1.03 billion gallons in the prior year, an increase of 11%.
- The water division has a total of 1,149 miles of water main serving an average of 25 customers per mile. The sewer division has 176 miles of collection mains serving an average of 37.6 customers per mile.

- Projects Completed: The *Alvaton Area Sewer Project* provides service to a large elementary school, county park, church, and will facilitate commercial and residential development in the Alvaton Area. The total cost of the project was \$1,698,000. The *2016 Lift Station Improvement Project* included the replacement and upgrade of a lift station serving the South Industrial Park including surrounding residential areas and a lift station serving the General Motors Corvette assembly complex. The total cost of the project was \$737,000.
- Projects in Progress: The *2017 Small Line Replacement Project* consists of the replacement of aging water lines throughout the distribution system which will be funded by District with costs incurred to date of \$290,000. *Cemetery Road Waterline Relocation* consists of relocating a water line to accommodate a bridge replacement project funded by the Kentucky Transportation Cabinet with costs incurred to date of \$264,000. *Lift Station Improvements #2 & #4* consists of upgrading two sewer lift stations which will be funded by the District with costs incurred to date of \$330,000.

### **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 less than budget by \$57,276 and *Total Expenses* were less than budget by \$149,340. *Net Change in Net Position* totaled \$7,706,971 and exceeded budget by \$908,671.

*Metered Water Revenue* was less than budget by \$36,745 and *Metered Sewer Revenue* was less than budget by \$25,223 due to lower than expected customer demand in the fourth quarter. *Miscellaneous Service Revenue* which includes connection fees, collection fees, and meter tampering fees were less than budget by \$10,409. *Interest Income* exceeded budget by \$17,864 and includes interest earned on the operating fund, depreciation fund, construction funds, reserve funds, and debt service funds. *All Other Revenues* which includes rental income, income from local agencies for providing billing services, gains on the disposition of assets, and other income was less than budget by \$2,953.

*Operating Expenses* related to providing water and sewer service and maintaining the District's distribution and collection facilities were below budget by \$138,876 reflecting wages & benefits and chemicals & material supplies below budgeted levels. *Depreciation* and *Interest Expense* were below budget by \$3,227 and \$9,394 respectively. *Net Income before Contributions* totaled \$982,064 and exceeded budget by \$92,064.

Table 1  
SCHEDULE OF BUDGETARY COMPARISON

	Budget <u>Year 2017</u>	Actual <u>Year 2017</u>	Variances Favorable \\ <u>(Unfavorable)</u>
<b><u>Revenues:</u></b>			
Metered Water Sales	\$ 10,701,000	\$ 10,664,255	\$ (36,745)
Metered Sewer Revenue	3,750,000	3,724,777	(25,223)
Forfeited Discounts	172,300	172,490	190
Miscellaneous Service Revenue	266,100	255,691	(10,409)
Interest Income	120,500	138,364	17,864
Other Revenues	<u>280,100</u>	<u>277,147</u>	<u>(2,953)</u>
Total Revenue	<u>15,290,000</u>	<u>15,232,724</u>	<u>(57,276)</u>
<b><u>Expenses:</u></b>			
Operating Expenses	\$ 10,612,500	\$ 10,473,624	\$ 138,876
Depreciation	3,433,700	3,430,473	3,227
Interest Expense	346,800	337,406	9,394
Other Expenses	<u>7,000</u>	<u>9,157</u>	<u>(2,157)</u>
Total Expenses	<u>14,400,000</u>	<u>14,250,660</u>	<u>149,340</u>
<b>Net Income before Contributions</b>	<b>\$ 890,000</b>	<b>\$ 982,064</b>	<b>\$ 92,064</b>
Capital Contributions	<u>5,908,300</u>	<u>6,724,907</u>	<u>816,607</u>
Net Change in Net Position	<u>\$ 6,798,300</u>	<u>\$ 7,706,971</u>	<u>\$ 908,671</u>

### **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 \$117,798,763 in year 2017.

*Current and Non-Current Assets* totaled \$19,695,519, a 5.4% increase of \$1,000,754 from last year. The increase reflects a \$1,556,940 prepayment to the District's retirement plan that was recorded as a deferred debit and will be amortized over ten years beginning in year 2018. *Other Assets* consisting of miscellaneous deferred debits and clearing accounts decreased by \$72,927, or -30.9%.

*Utility Plant* is the largest portion of the District's assets and include land, water distribution mains, sewer mains, pump stations, lift stations, storage tanks, vehicles, and equipment. In year 2017, utility plant totaled \$117,705,365 net of depreciation resulting in a 4.9% increase of \$5,516,644 over the prior year. The increase in utility plant includes a substantial number of residential developments placed into service during the year totaling \$4,729,840. Other utility plant additions include line extensions, meter installations, fire hydrant installations, service line replacements, and hardware/software additions.

*Current and Non-Current Liabilities* totaled \$10,192,454, a 6.2% decrease of \$673,340 from last year. The decrease is due to a net reduction in developer rebates payable of \$472,698 and a reduction in accounts payable \$382,872. Other liabilities including customer deposits held for water and sewer service, deferred revenue for leases to cellular providers, payroll liabilities, and post-employment benefit obligation (OPEB) increased by a total of \$182,230. *Long-Term Debt* totaled \$9,572,748, a 5.8% decrease of \$589,160 reflecting debt service payments made throughout the year.

The District's *Total Net Position* totaled \$117,798,763 and increased by \$7,706,971 comparatively over the prior year; however, the amounts reported for net investment in capital, restricted for depreciation reserves, and restricted cannot be used comparatively due to third party restricted access to year 2016 data. *Total Liabilities & Net Position* totaled \$137,563,965 for year 2017, an increase of \$6,444,471, or 4.9%.

Table 2  
CONDENSED STATEMENT OF NET POSITION  
December 31, 2017

<u>Assets:</u>	<u>Year 2017</u>	<u>Year 2016</u>	<u>Increase (Decrease)</u>	
Current & Non-Current Assets	\$ 19,695,519	\$ 18,767,628	\$ 1,000,754	5.4%
Utility Plant	117,705,365	112,188,721	5,516,644	4.9%
Other Assets	<u>163,081</u>	<u>127,705</u>	<u>(72,927)</u>	30.9%
Total Assets	<u>\$ 137,563,965</u>	<u>\$ 131,084,054</u>	<u>\$ 6,444,471</u>	4.9%
<u>Liabilities:</u>				
Current & Non-Current Liabilities	\$ 10,192,454	\$ 10,830,354	\$ (673,340)	-6.2%
Long-Term Debt	<u>9,572,748</u>	<u>10,161,908</u>	<u>(589,160)</u>	-5.8%
Total Liabilities	<u>19,765,202</u>	<u>20,992,262</u>	<u>(1,262,500)</u>	-6.0%
<u>Net Position:</u>				
Net Investment in Capital Assets	108,329,573	94,498,575	13,830,998	14.6%
Restricted for Depreciation Reserves	4,769,315	12,085,689	(7,316,374)	60.5%
Unrestricted	<u>4,699,875</u>	<u>3,507,528</u>	<u>1,192,347</u>	34.0%
<b>Total Net Position</b>	<b><u>\$ 117,798,763</u></b>	<b><u>\$ 110,091,792</u></b>	<b><u>\$ 7,706,971</u></b>	<b>7.0%</b>
 Total Liabilities & Net Position	 <u>\$ 137,563,965</u>	 <u>\$ 131,084,054</u>	 <u>\$ 6,444,471</u>	 4.9%

### **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  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
For the Year Ended December 31, 2017

	<u>Year 2017</u>	<u>Year 2016</u>	<u>Increase \</u> <u>(Decrease)</u>	<u>%</u> <u>Change</u>
<b><u>Operating Revenues:</u></b>				
Metered Water Revenue	\$ 10,664,255	\$ 9,466,190	\$ 1,198,065	12.7%
Metered Sewer Revenue	3,724,777	3,973,768	(248,991)	-6.3%
Forfeited Discounts	172,490	157,451	15,039	9.6%
Miscellaneous Service Revenue	<u>264,107</u>	<u>264,732</u>	<u>(625)</u>	-0.2%
Total Operating Revenues	<u>14,825,629</u>	<u>13,862,141</u>	<u>963,488</u>	7.0%
<b><u>Operating Expenses:</u></b>				
Wages & Benefits	2,234,011	2,213,908	20,103	0.9%
Commissioner Fees	30,000	30,000	-	0.0%
Purchased Water	4,072,465	3,181,664	890,801	28.0%
Sewage Disposal	2,171,687	2,407,626	(235,939)	-9.8%
Purchased Power	595,922	575,793	20,129	3.5%
Materials & Chemicals	225,322	232,733	(7,411)	-3.2%
Contractual Services	763,754	710,593	53,161	7.5%
Rental of Building	58,688	58,064	624	1.1%
Equipment	175,867	163,027	12,840	7.9%
Depreciation	3,430,473	3,256,541	173,932	5.3%
Other Operating Expenses	<u>150,725</u>	<u>149,661</u>	<u>1,064</u>	0.7%
Total Operating Expenses	<u>13,908,914</u>	<u>12,979,610</u>	<u>929,304</u>	7.2%
<b><u>Non-Operating Revenues (Expenses)</u></b>				
Interest Income	138,364	95,935	42,429	44.2%
Rental Income	144,018	133,514	10,504	7.9%
Non-Utility Income	116,908	114,342	2,566	2.2%
Gain on Disposals	7,805	20,714	(12,909)	-62.3%
Interest Expense	<u>(341,746)</u>	<u>(388,618)</u>	<u>46,872</u>	12.1%
Total Non-Operating Revenues (Expenses)	<u>65,349</u>	<u>(24,113)</u>	<u>89,462</u>	371.0%
<b>Income Before Capital Contributions</b>	<b>982,064</b>	<b>858,418</b>	<b>123,646</b>	<b>14.4%</b>
Capital Contributions	<u>6,724,907</u>	<u>6,616,752</u>	<u>108,155</u>	1.6%
Change in Net Position	7,706,971	7,475,170	231,801	3.1%
Net Position, Beginning of Year	<u>110,091,792</u>	<u>102,616,622</u>	<u>7,475,170</u>	7.3%
Net Position, End of Year	<u>\$ 117,798,763</u>	<u>\$ 110,091,792</u>	<u>\$ 7,706,971</u>	7.0%

The volume of water sold in year 2017 totaled 2.67 billion gallons versus 2.59 billion gallons last year, a 3.0% increase of 80 million gallons. The volume of sewer revenue billed for year 2017 was 1.14 billion gallons versus 1.03 billion gallons last year, an 11% increase of 110 million gallons billed.

*Metered Water Revenue* increased by \$1,198,065, or 12.7% due to a combination of customer demand and a 9.65% retail rate increase (pass through of wholesale water rate increase). Although the volume of gallons billed increased over last year, *Metered Sewer Revenue* decreased by \$248,991, or -6.3%, reflecting a 14.25% retail rate decrease (pass through of wholesale sewer disposal rate decrease). The water division added 721 customers for a total of 28,742, and the sewer division added 454 customers for a total of 6,611 customers reflecting continued residential growth in the District's service area. *Forfeited Discounts* which are penalties on payments made after a customer's due date increased by \$15,039 or 9.6% over the prior year and *Miscellaneous Service Revenue*, which includes connection fees, collection fees, and meter tampering fees decreased slightly.

*Operating Expenses* increased by \$929,304 a 7.2% increase when compared to the prior year. *Purchased Water* costs increased \$890,801 over the prior year due to a greater volume of water purchased to support customer demand, and reflects a 28.16% wholesale water rate increase from the District's supplier. Sewage Disposal costs decreased \$235,939 from the prior year and reflects the net effect of an increase in gallons billed to customers offset by a 23% wholesale sewer disposal rate decrease. *Depreciation* expense increased by \$173,932 corresponding with depreciation of various asset additions recorded throughout the year including the Alvaton Sewer Project and several water and sewer extensions transferred from developers.

*Interest Income* increased by \$42,429, or 44.2% due to higher rates of return earned on cash and investments and *Interest Expense* decreased by \$46,872, or -12.1%, reflecting interest savings from refinancing through the KRWFC, Series 2016B loan.

*Capital Contributions* of \$6,724,907 were recorded during the year which includes the following: expired developer rebate payables of \$5,057,649; contributions for meter installations, sewer taps, and capital recovery fees of \$949,785; contributions from the Kentucky Transportation Cabinet for relocations of \$342,162; contributions from city and county governments for debt service of \$105,871; and various customer contribution for special projects and relocations of \$269,440.

**Changes in Capital Assets**

The largest portion of the District’s assets is invested in the water distribution and sewer collection system amounting to \$117,705,365 net of depreciation, as of December 31, 2017. Table 4 details changes in capital assets.

Table 4  
CHANGES IN UTILITY PLANT  
(Net of Depreciation)

<u>Capital Investment</u>	<u>Year 2017</u>	<u>Year 2016</u>	<u>Increase \</u> <u>Decrease</u>	<u>%</u> <u>Change</u>
<b>WATER DIVISION:</b>				
Land	\$ 1,323,352	\$ 1,324,352	(1,000)	-0.1%
Structures	1,868,054	1,920,154	(52,100)	-2.7%
Pumping Equipment	2,742,813	2,557,374	185,439	7.3%
Storage Tanks	8,347,832	8,616,236	(268,404)	-3.1%
Distribution Mains	44,589,514	43,502,433	1,087,081	2.5%
Meters	11,424,138	10,925,192	498,946	4.6%
Hydrants	3,061,192	2,923,914	137,278	4.7%
Hardware & Software	853,177	909,000	(55,823)	-6.1%
Vehicles and Equipment	648,772	548,108	100,664	18.4%
Other	376,368	295,134	81,234	27.5%
Construction in Progress	<u>1,787,516</u>	<u>1,284,305</u>	<u>503,211</u>	39.2%
Subtotal - Water Division	<u>77,022,728</u>	<u>74,806,202</u>	<u>2,216,526</u>	3.0%
<b>SEWER DIVISION:</b>				
Land	\$ 70,602	\$ 70,602	-	0.0%
Structures	7,256,516	5,916,258	1,340,258	22.7%
Pumping Equipment	1,282,857	1,327,665	(44,808)	-3.4%
Collection Mains	27,456,799	24,715,865	2,740,934	11.1%
Taps	3,820,403	2,996,164	824,239	27.5%
Hardware & Software	90,541	96,402	(5,861)	-6.1%
Other	74,423	99,480	(25,057)	-25.2%
Construction in Progress	<u>630,496</u>	<u>2,160,083</u>	<u>(1,529,587)</u>	-70.8%
Subtotal - Sewer Division	<u>40,682,637</u>	<u>37,382,519</u>	<u>3,300,118</u>	8.8%
<b>Total - Water &amp; Sewer</b>	<b><u>117,705,365</u></b>	<b><u>112,188,721</u></b>	<b><u>5,516,644</u></b>	<b>4.9%</b>

Total utility plant net of depreciation increased by \$5,516,644, or 4.9%, compared to the prior year. In year 2017, the following were recorded to utility plant: water extensions and sewer extensions from developers, \$1,576,449 and \$3,153,391 respectively; water meter installations and sewer taps, \$822,656 and \$910,740 respectively; Alvaton Area Sewer Project, \$1,698,000; 2016 Lift Station Improvement Project, \$737,000; hardware and software additions, \$147,639; other various additions, \$237,470; and a reduction of \$2,740,325 for accumulated depreciation and a decrease in construction in progress of \$1,026,376.

### **Long-Term Debt**

The District's debt obligations include United States Department of Agriculture (USDA) bonds, Water Revenue Bonds, Kentucky Rural Water Finance Corporation (KRWFC) loans, and Kentucky Infrastructure Authority (KIA) loans. In June 2017, the District made its first payment on the \$1,090,050 KIA loan for the Alvaton Area Sewer Project. As of December 31, 2017, the District had \$9,572,748 in outstanding debt compared to \$10,161,908 in the previous year reflecting a decrease of \$589,160.

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

- Growth within the District's service area is expected to add 650 new water connections and 400 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 2018 at its meeting held in November 2017. Metered water sales and sewer revenue combined are budgeted to increase by 2.0%. Total revenue is budgeted to increase by 2.1% and total expenses are budgeted to increase by 3.1% from year 2017. Debt service payments are expected to total \$938,800 for both divisions with a reduction in outstanding debt of \$628,400. Net income for year 2018 is budgeted to total \$889,800. Capital expenditures for the year are budgeted to total \$13,624,180 including contributions from customers and governmental agencies totaling \$5,037,750, loan proceeds from the United States Department of Agriculture (USDA) and KRWFC for the Plum Springs Area Sewer Rehabilitation Project of \$2,500,000, and an USDA loan for the Hilltop Trail Tank & Pump Station Project of \$2,000,000.

### **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).

Warren County Water District  
Statement of Net Position

<i>December 31,</i>	2017
<b>Assets</b>	
<b>Current Assets</b>	
Cash and cash equivalents	\$ 7,255,274
Short-term investments	900,000
Accounts receivable:	
Customer accounts receivable, net of allowance for uncollectibles of \$9,453	723,403
Accounts receivable – Butler County Water System	105,560
Accounts receivable – Simpson County Water District	71,548
Other accounts receivable	169,133
Interest receivable	12,388
Materials and supplies inventory	558,525
Prepaid expenses	104,510
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Total current assets	9,900,341
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<b>Non-current Assets</b>	
<b>Utility Plant</b>	
Utility plant in service	165,134,648
Construction in progress	2,418,012
Less accumulated depreciation	(49,847,295)
Total utility plant, net	117,705,365
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Restricted cash and equivalents	2,256,372
Restricted investments	4,770,334
Investments	981,434
Non-operating property, net of \$85,836 accumulated depreciation	165,856
Retirement security plan costs	1,621,182
Other assets	163,081
<hr/>	
Total non-current assets	127,663,624
<hr/>	
Total assets	\$ 137,563,965

*The accompanying notes are an integral part of the financial statements.*

Warren County Water District  
Statement of Net Position

December 31,

2017

**Liabilities**

**Current liabilities**

Accounts payable	\$	556,418
Accounts payable – Butler County Water Systems		57,441
Accounts payable – Simpson County Water District		46,157
Accrued expenses		754,111
Contractor advances for construction		149,000
Current portion of long-term debt		629,307

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Total current liabilities		2,192,434
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**Non-current liabilities**

**Long-term debt**

Bonds and loans payable		2,523,000
Notes payable		7,049,748
Less: Net unamortized bond (discount) premium		(31,100)
Less: Current portion of long-term debt		(629,307)

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Net long-term debt		8,912,341
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Customer meter deposits		1,245,147
Rebates payable		7,221,396
Unearned revenue for cellular leases		69,966
Other post employment benefit obligation		123,918

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Total non-current liabilities		17,572,768
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Total liabilities		19,765,202
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**Net Position**

Net investment in capital assets		108,329,573
Restricted for depreciation reserves		4,769,315
Unrestricted		4,699,875

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Total net position		117,798,763
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Total liabilities and net position	\$	137,563,965
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*The accompanying notes are an integral part of the financial statements.*

Warren County Water District  
Statement of Revenues, Expenses, and Changes in Net Position

<i>Year Ended December 31,</i>	2017
<b>Operating Revenues</b>	
<b>Metered sales</b>	
Residential	\$ 8,417,373
Commercial	5,971,659
Total metered sales	14,389,032
Forfeited discounts	172,490
Miscellaneous service revenue	264,107
Total operating revenues	14,825,629
<b>Operating Expenses</b>	
<b>Source of supply expense</b>	
Purchased water	4,072,465
Sewage disposal	2,171,687
Total source of supply expense	6,244,152
<b>Pumping plant expense</b>	
Salaries and benefits	232
Power purchased	584,267
Chemicals	30,841
Miscellaneous pumping expense	644
Contractual services	6,250
Rental expense	5,030
Insurance	14,891
Materials and supplies	30
Total pumping plant expense	642,185
<b>Transmission and distribution expense</b>	
Salaries and benefits	647,042
Power purchased	11,654
Contractual services	170,473
Rental expense	19,283
Transportation	89,574
Insurance	49,234
Materials and supplies	153,139
Total transmission and distribution expense	1,140,399

*The accompanying notes are an integral part of the financial statements.*

Warren County Water District  
Statement of Revenues, Expenses, and Changes in Net Position

Year Ended December 31,	2017
<b>Operating Expenses (Continued)</b>	
<b>Customer accounts expense</b>	
Salaries and benefits	1,030,595
Contractual services	298,603
Uncollectible accounts	12,309
Rental expense	29,344
Transportation	85,249
Insurance	7,762
Miscellaneous	4,549
Materials and supplies	5,576
Total customer accounts expense	1,473,987
<b>Administrative and general expense</b>	
Salaries and benefits	556,142
Office supplies	35,765
Commissioner fees	30,000
Contractual services	288,430
Insurance	12,470
Rental expense	5,030
Regulatory commission expense	27,090
Miscellaneous	21,776
Transportation	1,015
Total administrative and general expense	977,718
Depreciation	3,430,473
Total operating expenses	13,908,914
Operating income	916,715
<b>Non-Operating Revenues (Expenses)</b>	
Interest income	138,364
Rental income	144,018
Non-utility income	116,908
Gain on disposal of assets	7,805
Interest expense	(341,746)
Total non-operating revenues (expenses)	65,349
Income before capital contributions	982,064

*The accompanying notes are an integral part of the financial statements.*

Warren County Water District  
Statement of Revenues, Expenses, and Changes in Net Position

<i>Year Ended December 31,</i>	2017
Capital contributions	6,724,907
Change in net position	7,706,971
Total net position – beginning of year	110,091,792
Total net position – end of year	\$ 117,798,763

*The accompanying notes are an integral part of the financial statements.*

Warren County Water District  
Statement of Cash Flows

<i>Year Ended December 31,</i>	2017
<b>Cash Flows from Operating Activities</b>	
Receipts from customers and users	\$ 15,058,495
Receipts from rental and non-utility income	260,926
Payments to suppliers for goods and services	(10,120,492)
Payments to employees	(1,157,263)
<hr/>	
Net cash provided by operating activities	4,041,666
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<b>Cash Flows from Noncapital Financing Activities</b>	
Retirement security plan payment	(1,556,940)
Interest paid on customer deposits	(8,404)
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Net cash used in noncapital financing activities	(1,565,344)
<hr/>	
<b>Cash Flows from Capital and Related Financing Activities</b>	
Principal repayment on long-term debt	(589,160)
Interest paid on long-term debt	(353,371)
Acquisition and construction of capital assets	(2,222,210)
<hr/>	
Net cash used in capital and related financing activities	(3,164,741)
<hr/>	
<b>Cash Flows from Investing Activities</b>	
Purchase of short-term investments	(2,450,516)
Maturity of short-term investments	2,300,432
Interest income	138,321
<hr/>	
Net cash used in investing activities	(11,763)
<hr/>	
Net decrease in cash and cash equivalents	(700,182)
<hr/>	
Balances – beginning of year	10,211,828
<hr/>	
Balances – end of year	\$ 9,511,646
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*The accompanying notes are an integral part of the financial statements.*

Warren County Water District  
Statement of Cash Flows

Year Ended December 31,

2017

**Reconciliation of Operating Income to Net Cash Provided By Operating Activities**

Operating income	\$	916,715
<b>Adjustments to reconcile net operating income to net cash provided by operating activities:</b>		
Depreciation expense		3,430,473
Amortization of debt premium / discount		4,340
Rental and non-utility income		260,926
Gain on disposal of asset		7,805
<b>Changes in assets and liabilities:</b>		
Net increase in accounts receivable		(158,092)
Net decrease in other receivables		232,866
Net decrease in prepaid expenses		1,909
Net increase in materials and supplies inventory		(6,310)
Net decrease in retirement security plan costs		8,621
Net increase in other assets		(35,376)
Net decrease in accounts payable		(330,712)
Net decrease in accrued liabilities		(74,095)
Net increase in contractor advances		149,000
Net increase in customer deposits		49,710
Net decrease in rebates payable		(472,698)
Net increase in other liabilities		1,016
Net increase in other post employment benefit obligation		55,568
Net cash provided by operating activities		\$ 4,041,666

**Non-Cash Investing, Capital, and Financing Activities**

Private developers contributed constructed water and sewer lines at cost	\$	6,724,907
Total non-cash investing, capital, and financing activities		\$ 6,724,907

*The accompanying notes are an integral part of the financial statements.*

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Nature of Operations***

The Warren County Water District (“District”) is a tax-exempt division of Warren County, Kentucky organized under KRS 74.010. The District operates water and sewer services for the residents of Warren County, Kentucky and surrounding areas.

***Reporting Entity***

The District is governed by a five-member board of commissioners (the “Board”). The criteria for determining the District as a component unit of Warren County, Kentucky, the primary government, is financial accountability. As set forth in GASB No. 14, *The Financial Reporting Entity*, a primary government is financially accountable for legally separate organizations if its officials appoint a voting majority of an organization’s governing body and it is able to impose its will on that organization. The commissioners of the Board are appointed by the Warren County Judge Executive. Warren County is able to impose its will on the District through the ability to remove appointed members of the Board at will.

***Measuring Focus, Basis of Accounting, and Financial Statement Presentation***

The District’s financial statements are presented on the full accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The accounting policies of the District conform to applicable generally accepted accounting principles as defined in the pronouncements of the Governmental Accounting Standards Board (GASB). The District’s basic financial statements include only proprietary fund financial statements because the District engages only in a single business-type activity. 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 District operates as an enterprise activity, using the flow of economic resources measurement focus. Enterprise funds distinguish operating revenues and expenses from non-operating items. Operating revenue and expenses generally result from providing services and delivering goods in connection with the enterprise fund's principal ongoing operations. The principal operating revenues of the District are charges to customers for sales and service. Operating expenses for the enterprise funds include the cost of sales and service, administrative expense, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, and other changes in net position during the reporting period. Actual results could differ from the estimates.

***Cash and Cash Equivalents***

The District's cash equivalents are considered to be liquid investments with original maturities of three months or less. For the purposes of the statement of cash flows, cash and cash equivalents consist of restricted and unrestricted cash and cash equivalents.

***Accounts Receivable***

Trade receivables result from unpaid billings for service to customers and from unpaid billings related to work performed or materials sold to certain entities. All trade receivables are shown net of an allowance for uncollectible accounts. The allowance for uncollectible customer accounts recorded by the District is based on past history of uncollectible accounts and management's analysis of current accounts.

***Materials and Supplies***

All materials and supplies inventories are valued using the weighted average cost method.

***Prepaid Items***

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements.

***Restricted Assets***

Certain proceeds of the bond issues and certain resources set aside for their repayment along with reserves for depreciation of plant are classified as restricted assets on the statement of net position because they are maintained in separate bank accounts and their use is limited by applicable bond covenants.

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Investments***

Investments consist of non-brokered certificates of deposit and are recorded at cost. The cost of investments approximates their fair value. KRS 66.480 permits the Utility to invest in U.S. Treasury obligations, certain federal instruments, repurchase agreements, commercial bank certificates of deposit and the Commonwealth of Kentucky investment pool.

***Utility Plant***

Utility plant, which include property, plant, equipment, and construction in progress, are recorded at historical cost or estimated historical cost if purchased or constructed. Original cost includes materials, labor, transportation, and such other indirect costs as engineering, supervision, and employee fringe benefits.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. For the year ended December 31, 2017, there was no capitalized interest.

As property units are retired in the ordinary course of business, the cost of the property plus removal cost less salvage, is charged to accumulated depreciation. Property, plant, and equipment of the Utility are depreciated using the straight-line method over the following useful lives: transmission and distribution reservoirs, tanks, and mains – 50 years; buildings – 50 years; equipment – 10 years; services trucks – 5 to 10 years; tools – 12.5 years; and furniture and fixtures – 10 years.

***Retirement Security Plan 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 the retirement group.

On August 2, 2017, the District made a prepayment of \$1,556,940 to the District's retirement plan in order to achieve a lower annual required contribution ("ARC") requirement along with making various modifications to the District's retirement plan. The payment will lower the ARC over a ten-year period ending in 2028; therefore, the payment will be amortized over a ten-year period as a component of the District's pension costs.

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Rebates Payable***

Rebates payable are amounts paid by contractors to improve property by adding water and/or sewer connections which are eligible to be refunded to the contractor either entirely or in part, dependent upon the number of future residents attaching to the water and/or sewer connections. Amounts not refunded are transferred to capital contributions after the ten-year eligibility period has lapsed.

***Long-term Obligations***

Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method.

***Capital Contributions***

The donor cost of contributed property and equipment is included in capital contributions. Contributions are recognized in the statements of revenues, expenses, and changes in net position when earned. Contributions may include connect fees; developer contributed utility systems; capital grants and other supplemental support by other utilities and industrial customers; and federal, state, and local grants in support of system improvements. Assets acquired through contributions from developers or other customers are capitalized at donor cost at the date of donations.

***Net Position***

The District classifies its net position into the following three categories:

*Net investment in capital assets* - This component of net position represents the District's total investment in capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

*Restricted* - The restricted component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Net Position (Continued)***

Restricted assets will be reduced by liabilities and deferred inflows of resources related to those assets in the determination of restricted net position. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported.

*Unrestricted* - The unrestricted component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

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 towards restricted resources, and then towards unrestricted resources.

***Concentration of Credit Risk***

The majority of the District's business activity is with customers located within Warren County, Kentucky. The District extends credit to all citizens who live within the geographic location of the District and who utilize the utility system. Credit losses are usually minimal and are generally within management's expectations.

***Subsequent Events***

The District has evaluated any recognized or unrecognized subsequent events for consideration in the accompanying financial statements through April 18, 2018, which was the date the financial statements were made available.

***Recent Accounting Pronouncements***

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The objective of this Statement is to address accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed. This Statement becomes effective for fiscal years beginning after June 15, 2017. The District is evaluating the requirements of this Statement.

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Recent Accounting Pronouncements (Continued)***

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. The District is evaluating the requirements of this Statement.

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities for all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. The District is evaluating the requirements of this Statement.

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. The District is evaluating the requirements of this Statement.

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources - resources other than the proceeds of refunding debt - are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. The District is evaluating the requirements of this Statement.

In June 2017, the GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Recent Accounting Pronouncements (Continued)***

payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. The District is evaluating the requirements of this Statement.

**NOTE 2: CASH AND CASH EQUIVALENTS AND INVESTMENTS**

***Deposits and Certificates of Deposit***

At December 31, 2017, the District's deposits and certificates of deposit consisted of the following:

<u>December 31,</u>	<u>2017</u>
Cash and cash equivalents	\$ 7,252,424
Restricted cash and cash equivalents	2,256,372
Short-term investments	900,000
Investments	981,434
Restricted investments	4,770,334
	<u>\$ 16,160,564</u>

The District maintains its deposits and certificates of deposit with financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). As of December 31, 2017, the carrying amount of the District's deposits and certificates of deposit totaled \$16,160,564 and the bank balances totaled \$16,241,916. Of the bank balances, \$16,241,916 were covered by FDIC insurance or by collateral held by an institution for the pledging bank in the District's name.

***Custodial Credit Risk***

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's formal deposit policy for custodial credit risk requires deposits in banks which are in excess of the FDIC insurance coverage to be secured by the bank pledging securities in direct obligations of the United States of America or by approved security bonds. As of December 31, 2017, none of the District's deposits and certificates of deposit were exposed to custodial credit risk.

**NOTE 2: CASH AND CASH EQUIVALENT AND INVESTMENTS (CONTINUED)**

***Credit Risk***

Under Kentucky Revised Statutes Section 66.480, the District is authorized to invest in obligations of the United States and its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States or of its agencies, obligations of any corporation of the United States government, certificates of deposit, commercial paper rated in one of the three highest categories by nationally recognized rating agencies and securities in mutual funds shall be eligible investments pursuant to this section. However, the District's bond agreement further limits its investment choices.

***Concentration of Credit Risk***

The District places no limit on the amount the District may invest in any one issuer. At December 31, 2017, there are no investments in any one issuer that represents 5% or more of the total investments.

***Interest Rate Risk***

The District's investment policy limits investment maturities of less than three years as a means of managing its exposure to fair value losses arising from increasing interest rates.

***Restricted Cash and Cash Equivalents and Investments***

Restricted cash and cash equivalents consisted of the following at December 31, 2017:

<i>December 31,</i>	<i>2017</i>
Sinking funds	\$ 664,166
Depreciation funds	4,769,315
Debt service reserve funds	318,800
Customer deposits	1,274,425
	\$ 7,026,706

The sinking funds and debt service reserve funds are restricted to the payment of principal and interest on long-term debt.

The depreciation funds are restricted to payment for improvements and approved repairs.

The customer deposits fund is restricted to hold customer deposits until service is terminated.

Warren County Water District  
Notes to the Financial Statements

**NOTE 3: UTILITY PLANT**

Utility plant activity for the year ended December 31, 2017 is as follows:

Description	Beginning Balance	Additions	Disposals	Ending Balance
Utility plant, not being depreciated				
Land and land rights	\$ 1,394,954	\$ -	\$ 1,000	\$ 1,393,954
Construction in progress	3,444,388	4,258,768	5,285,144	2,418,012
<b>Total utility plant, not being depreciated</b>	<b>4,839,342</b>	<b>4,258,768</b>	<b>5,286,144</b>	<b>3,811,966</b>
Utility plant, being depreciated				
Buildings and improvements	9,943,037	1,514,327	23,071	11,434,293
Mains and pumping	115,936,434	6,130,876	629,825	121,437,485
Meters and hydrants	24,435,314	2,051,537	110,913	26,375,938
Office furniture and equipment	2,459,201	174,987	-	2,634,188
Equipment	1,682,364	227,230	50,804	1,858,790
<b>Total utility plant, being depreciated</b>	<b>154,456,350</b>	<b>10,098,957</b>	<b>814,613</b>	<b>163,740,694</b>
<b>Less accumulated depreciation</b>	<b>47,106,970</b>	<b>3,430,473</b>	<b>690,148</b>	<b>49,847,295</b>
<b>Total utility plant, being depreciated, net</b>	<b>107,349,380</b>	<b>6,668,484</b>	<b>124,465</b>	<b>113,893,399</b>
<b>Total utility plant, net</b>	<b>\$ 112,188,722</b>	<b>\$ 10,927,252</b>	<b>\$ 5,410,609</b>	<b>\$ 117,705,365</b>

***Non-operating Property***

During 1999, the District closed its water treatment plant. The related equipment was reclassified as non-operating property and is no longer being depreciated. The building was repurposed for District storage space; therefore, it is still classified as operating property and is being depreciated.

Warren County Water District  
Notes to the Financial Statements

**NOTE 4: LONG-TERM DEBT**

At December 31, 2017, long-term debt consisted of the following:

Description	Balance
Revenue bonds, U.S. Department of Agriculture Series 1993, with a 4.5% interest rate, payable semiannually. Principal payments are due annually every January 1, and vary until payoff on January 1, 2033.	\$ 489,000
Refunding revenue bonds, U.S. Department of Agriculture Series 2004A, with varying interest rates commencing at 2.00% and increasing to 4.50% over the life of the bond issue, payable semiannually. Principal payments are due annually every January 1, and vary until payoff on January 1, 2025.	965,000
Revenue bonds, U.S. Department of Agriculture Series 2005A, with a 4.25% interest rate, payable semiannually. Principal payments are due annually every January 1, and vary until payoff on January 1, 2045.	1,069,000
Note payable, Kentucky Infrastructure Association Loan A97-04, with a 3.80% interest rate, payable semiannually. Principal payments are due semiannually every December 1 and June 1, until payoff December 1, 2018.	68,496
Note payable, Kentucky Infrastructure Association Loan A98-02, with a 3.80% interest rate, payable semiannually. Principal payments are due semiannually every December 1 and June 1, until payoff December 1, 2018.	17,673
Note payable, Kentucky Infrastructure Association Loan C11-02, with a 3.00% interest rate, payable monthly. Principal payments are due monthly until payoff June 1, 2033.	679,003
Note payable, Kentucky Infrastructure Association Loan C15-003, with a 3.00% interest rate, payable semiannually. Principal payments are due semiannually every December 1 and June 1, until payoff December 1, 2036.	1,049,576
Refunding revenue bonds, Kentucky Rural Water Finance Corporation Series 2012B, with varying interest rates commencing at 2.20% and increasing to 4.20% over the life of the loan, payable semiannually. Principal payments are due annually every January 1, and vary until payoff on January 1, 2039.	1,595,000

Warren County Water District  
Notes to the Financial Statements

**NOTE 4: LONG-TERM DEBT (CONTINUED)**

Description	Balance
Revenue bonds, Kentucky Rural Water Finance Corporation Series 2013B, with varying interest rates commencing at 2.30% and increasing to 3.30% over the life of the loan, payable semiannually. Principal payments are due annually every February 1, and vary until payoff on February 1, 2028.	1,465,000
Refunding revenue bonds, Kentucky Rural Water Finance Corporation Series 2016B, with varying interest rates between 2.25% and 3.25% over the life of the loan, payable semiannually. Principal payments are due annually every January 1, and vary until payoff on January 1, 2030.	2,175,000
Total bonds and notes payable	9,572,748
Less unamortized premium (discount) on bonds - net	(31,100)
Less current portion of bonds and notes payable	(629,307)
Net long-term debt	\$ 8,912,341

The District complied with all significant debt covenants and restrictions as set forth in the bond and loan agreements.

Unamortized net premiums and discounts on the debt issuances noted previously totaled \$31,100 as of December 31, 2017. Related amortization expenses for the year ended December 31, 2017 totaled \$4,340.

The following is a summary of long-term debt transactions for the year ended December 31, 2017:

Description	Beginning Balance	Increases	Decreases	Ending Balance	Due in Less than 1 Year
USDA Series 1993	\$ 509,000	\$ -	\$ 20,000	\$ 489,000	\$ 20,500
USDA Series 2004A	1,065,000	-	100,000	965,000	100,000
USDA Series 2005A	1,089,000	-	20,000	1,069,000	21,000
KIA A97-04	134,462	-	65,966	68,496	68,496
KIA A98-02	34,693	-	17,020	17,673	17,673
KIA C11-02	712,911	-	33,908	679,003	34,940
KIA C15-003	1,081,841	-	32,265	1,049,576	41,698
KRWFC 2012B	1,645,000	-	50,000	1,595,000	50,000
KRWFC 2013B	1,595,000	-	130,000	1,465,000	130,000
KRWFC 2016B	2,295,000	-	120,000	2,175,000	145,000
	\$ 10,161,907	\$ -	\$ 589,159	\$ 9,572,748	\$ 629,307

Warren County Water District  
Notes to the Financial Statements

**NOTE 4: LONG-TERM DEBT (CONTINUED)**

The annual debt service requirements to maturity, including principal and interest, as of December 31, 2017 are as follows:

Year(s)	Principal	Interest	Total
2018	\$ 629,307	\$ 317,496	\$ 946,803
2019	557,960	297,400	855,360
2020	591,853	278,893	870,746
2021	601,820	259,972	861,792
2022	616,361	240,954	857,315
2023-2027	3,078,193	894,621	3,972,814
2028-2032	1,871,811	473,657	2,345,468
2033-2037	995,443	223,825	1,219,268
2038-2042	461,000	72,981	533,981
2043-2045	169,000	10,307	179,307
<b>Total</b>	<b>\$ 9,572,748</b>	<b>\$ 3,070,106</b>	<b>\$ 12,642,854</b>

**NOTE 5: RELATED PARTIES**

The District provides management, engineering, and repair and maintenance services to the both Butler County Water Systems and Simpson County Water District as defined in the "Joint Operations Agreement" dated February 20, 2014. In the ordinary course of business, the District has and expects to continue to have transactions with Butler County Water Systems and Simpson County Water District. In the opinion of management, such transactions were on substantially the same terms as those prevailing at the time of comparable transactions with other persons and did not involve more than a normal risk of collectability or present any other unfavorable features to the District.

The following related party amounts were included in accounts receivable and accounts payable at December 31, 2017:

	Accounts Receivable	Accounts Payable
Butler County Water Systems	\$ 105,560	\$ 57,441
Simpson County Water District	\$ 71,548	\$ 46,157

Warren County Water District  
Notes to the Financial Statements

**NOTE 5: RELATED PARTIES (CONTINUED)**

For the year ended December 31, 2017, the District allocated expenses to related parties as follows:

Description	Butler County Water Systems	Simpson County Water District
Wages and benefits:		
Operation	\$ 473,817	\$ 252,673
Administrative:		
Supervision and administration	118,804	83,371
Accounting	40,638	28,518
Customer service	91,954	53,127
Engineering	6,826	18,266
Operations - other	125,867	92,774
Additions to plant	117,547	119,945
Special projects	15,172	59,426
<b>Totals</b>	<b>\$ 990,625</b>	<b>\$ 708,100</b>

**NOTE 6: MAJOR SUPPLIER**

The District purchases all water and sewer services from the Bowling Green Municipal Utilities (“BGMU”). The agreement was renewed on March 17, 2003 for an additional forty-one years. Any rate adjustments are approved by BGMU, the District, and the Kentucky Public Service Commission.

**NOTE 7: EMPLOYEE RETIREMENT PLAN**

***Plan Description***

Employees of the District are provided with a defined benefit retirement plan through the Retirement Security Plan (“RS Plan”) 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, which was adopted by the District on December 31, 2015.

***Financial Information***

The RS Plan publishes a financial statement and a copy can be obtained by writing or calling the Plan Administrator, NRECA, PO Box 6007, Lincoln, NE, 68506; telephone number 866-NRECA99. The RS Plan must file annual reports with the U.S. Department of Labor (Form 5500) that include a copy of the RS annual financial statements. An electronic copy of Form 5500, and the plan's annual financial statements, can be obtained by going to [www.efast.dol.gov](http://www.efast.dol.gov) and using the search tool (EIN 530116145; PN 333).

**NOTE 7: EMPLOYEE RETIREMENT PLAN (CONTINUED)**

***Benefits Provided***

The District had 58 employees participating in the RS Plan on 12/31/2017. Upon retirement at the normal age of sixty-two, the annual estimated benefit is calculated as: Benefit Level (1.6% eligible service years from January 1, 1976 to April 1, 1999 and 1.85% for service years after April 1, 1999) multiplied by the number of continuous years in the plan multiplied by the average of the highest five salary years. Other plans were in effect prior to January 1, 1976 and benefit calculations will vary in accordance with an employee's hire date. The District decreased the normal retirement age to sixty-two and increased the benefit level. 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. Each employer in the RS plan elects to participate in the plan.

***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 2017 was 27.55% of 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. The District can choose to withdraw from the RS Plan, subject to plan provisions that require the District to fully fund its share of the RS Plan liabilities before withdrawing.

**NOTE 8: POST EMPLOYMENT HEALTHCARE PLAN**

***Plan Description***

The District provides medical, prescription drug, and dental benefits (healthcare benefits) to retired employees and their spouses under certain conditions. The District adopted the provisions of GASB 45 beginning with the fiscal year ended December 31, 2016. A report was prepared in accordance with the requirements of GASB Statement 45 and provides an actuarial valuation as of December 31, 2016 of the retiree healthcare benefits provided by the District. This report may be obtained by writing to John Dix, General Manager, Warren County Water District, P.O. Box 10180, Bowling Green, KY 42102-4780. The District has elected to perform an actuarial valuation on a triennial basis.

**NOTE 8: POSTEMPLOYMENT HEALTHCARE PLAN (CONTINUED)**

***Funding Policy***

The contribution requirements of retired employees are established and may be amended by the District's Board of Commissioners. If an employee retires at a minimum age of 60 and their age plus years of service equals 75, the District will pay 70 percent of the premium for employee and spouse coverage for a period not to exceed 3 years. All coverage ceases when the retiree or spouse attains age 65 or becomes eligible for Medicare except for COBRA continuation, if elected. For fiscal year 2017, the District contributed \$26,080 towards the healthcare plan.

***Annual OPEB Cost and Net OPEB Obligation***

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

Annual required contribution (ARC)	\$	81,648
Interest on net OPEB obligation		-
Adjustment to annual required contribution (ARC)		-
Annual OPEB cost (expense)		81,648
Employer contributions made		(26,080)
Increase in net OPEB obligation		55,568
Net OPEB Obligation - Beginning of Year		68,350
Net OPEB Obligation - End of Year	\$	123,918

The District's annual OPEB cost, the percentage of annual OPEB cost contributed, and the net OPEB obligation for years 2017 and 2016 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2017	\$ 81,648	31.94%	\$ 123,918
12/31/2016	\$ 81,648	16.30%	\$ 68,350

**NOTE 8: POSTEMPLOYMENT HEALTHCARE PLAN (CONTINUED)**

***Annual OPEB Cost and Net OPEB Obligation (Continued)***

Expected contributions by fiscal year are below:

Fiscal Year Ended	Expected Employer Contribution
12/31/2017	\$ 26,080
12/31/2018	\$ 13,273

***Funded Status and Funding Progress***

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

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

***Actuarial Methods and Assumptions***

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

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

**NOTE 9: OTHER EMPLOYEE BENEFITS**

The District currently participates in 401(a) and 457(b) retirement plans through Transamerica Retirement Solutions Corporation. 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, 2017, the District's accrued compensated absences for annual leave totaled \$293,453.

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, 2017, the District's accrued compensated absences for sick leave totaled \$28,222.

**NOTE 10: RISKS OF LOSS**

The District's risks of loss are addressed by the purchase of commercial insurance. These areas include employee dishonesty bonds, property coverage, vehicle coverage and a public entity liability policy which includes errors and omission. Coverage is reviewed for adequacy by management and agents on an annual basis.

**NOTE 11: COMMITMENTS**

The District has 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 equals the cost of the grant. In turn, the Intermodal Transportation Authority 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.

In August 2017, the District's Board of Commissioners approved the installation of an automated meter reading (AMR) system. The project will be installed on approximately 31,500 meters over a five year period and will collect consumption data using a radio based transmission system that will eliminate the need to physically read meters each month. The AMR system will include acoustic leak detection capabilities that will continuously monitor mains and service lines for water leaks. The estimated cost of the project is \$6,835,175 and will be funded by the District. The project is expected to start installation in January 2019 and be completed in December 2023.

**NOTE 11: COMMITMENTS (CONTINUED)**

The Morgantown Road Area Improvements Project (“Hilltop Trail Tank”) will replace the Briggs Hill standpipe with a new 200,000 gallon elevated tank at a higher elevation. The higher tank will result in more water pressure for customers in the area. There will also be a new pump station and communications building that will serve as an alternate site for SCADA operation in the event of an emergency that interferes with standard operations at the main office complex. The anticipated total cost of the project is \$1,500,000. Funding will be obtained through Kentucky Rural Water Finance. Total expenses as of December 31, 2017 were \$53,428.

The Plum Springs Area Sewer Rehabilitation Project will consist of lining approximately 20,000 linear feet of concrete and clay gravity sewer that has reached the end of its useful life, comprised of approximately 6,000 feet of 8” sewer and 14,000 feet of large diameter sewer. The anticipated total cost of the project is \$2,500,000. Funding will consist of approximately \$500,000 from a Rural Development loan and \$2,000,000 from Kentucky Rural Water Finance. Total expenses as of December 31, 2017 were \$28,894.

Warren County Water District  
Schedule of Employer Required Contributions

**RETIREMENT SECURITY PLAN**

	Year 1 2017	Year 2 2016	Year 3 2015	Year 4 2014	Year 5 2013	Year 6 2012	Year 7 2011	Year 8 2010
Contractually Required Contribution	\$ 782,066	\$ 785,396	\$ 674,876	\$ 658,698	\$ 689,385	\$ 626,233	\$ 587,412	\$ 557,139

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

Warren County Water District  
 Schedule of Funding Progress

**SCHEDULE OF FUNDING PROGRESS**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Payroll
1/1/2016	\$ -	\$ 746,275	\$ 746,275	\$ -	\$ 2,837,994	26.3%

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

*See required supplementary information notes.*

Warren County Water District  
Notes to the Required Supplementary Information

The table below summarized the District's contribution rates, contractually required contribution amounts, and factors significantly affecting contribution rates for the RS Plan.

Year	Contribution Rate	Contribution Amount Required and Paid	Average Age	Factors Significantly Affecting Contribution Rate
2010	23.53	\$ 557,139	42	Actual 2008 investment return was significantly lower than assumed 8.5% expected annual return.
2011	23.53	\$ 587,412	42	
2012	23.95	\$ 626,233	43	Increase in the average age of District participants.
2013	25.89	\$ 689,385	43	Actual 2011 investment return was significantly lower than assumed 8.5% expected annual return.
2014	26.37	\$ 658,698	44	Increase in the average age of District participants.
2015	25.89	\$ 674,879	43	Decrease in the average age of District participants.
2016	27.17	\$ 785,396	44	Increase in the average age of District participants and lower than assumed 7.75% expected annual return.
2017	27.55	\$ 782,066	45	Increase in the average age of District participants.

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

Warren County Water District  
Schedule of Budgetary Comparison

*For the Year Ended December 31, 2017*

	Budgeted Amounts		Actual (GAAP Basis)	Variances Favorable (Unfavorable) Final to Actual
	Original	Final		
<b>Operating Revenues</b>				
Metered water revenue	\$ 10,391,000	\$ 10,701,000	\$ 10,664,255	\$ (36,745)
Metered sewer revenue	3,470,000	3,750,000	3,724,777	(25,223)
Forfeited discounts	167,300	172,300	172,490	190
Miscellaneous service revenue	261,100	266,100	255,691	(10,409)
Other water revenue	7,700	7,700	7,816	116
Other sewer revenue	600	600	600	-
Interest income	103,500	120,500	138,364	17,864
Rental income - utility property	136,300	161,300	144,018	(17,282)
Non-utility income - recycling	110,500	110,500	116,908	6,408
Disposition gains / (losses)	13,500	-	7,805	7,805
<b>Total operating revenues</b>	<b>14,661,500</b>	<b>15,290,000</b>	<b>15,232,724</b>	<b>(57,276)</b>
<b>Operating Expenses</b>				
Salaries and wages	1,366,000	1,361,000	1,328,643	32,357
Commissioner fees	30,000	30,000	30,000	-
Fringe benefits	916,600	917,600	900,551	17,049
Purchased water	4,038,000	4,088,000	4,072,465	15,535
Sewage disposal	1,854,000	2,179,000	2,171,687	7,313
Purchased power	631,000	604,000	595,921	8,079
Chemicals	64,400	39,400	30,841	8,559
Materials and supplies	176,400	216,400	194,480	21,920
Contractual services - accounting	25,000	27,000	25,002	1,998
Contractual services - legal	5,600	8,200	6,461	1,739
Contractual services - other	651,500	740,300	732,293	8,007
Rental of building / property	57,600	58,600	58,687	(87)
Equipment expense	164,200	182,200	175,868	6,332
Insurance - general liability	85,300	85,300	79,649	5,651
Insurance - other	4,800	4,800	4,708	92
Regulatory expense	25,700	28,700	27,090	1,610
Bad debt expense	12,600	12,600	12,309	291
Miscellaneous expense	24,400	29,400	26,969	2,431
<b>Total operating expenses</b>	<b>10,133,100</b>	<b>10,612,500</b>	<b>10,473,624</b>	<b>138,876</b>

Warren County Water District  
Schedule of Budgetary Comparison

*For the Year Ended December 31, 2017*

	Budgeted Amounts		Actual (GAAP Basis)	Variances Favorable (Unfavorable)
	Original	Final		Final to Actual
<b>Other (Revenues) and Expenses</b>				
Depreciation	3,383,700	3,433,700	3,430,473	3,227
Miscellaneous non-operating income	(5,000)	(5,000)	-	(5,000)
Interest expense	339,800	346,800	337,406	9,394
Unamortized debt expense	5,000	5,000	4,340	660
OPEB expense	-	7,000	4,817	2,183
<b>Total other (revenues) expenses</b>	<b>3,723,500</b>	<b>3,787,500</b>	<b>3,777,036</b>	<b>10,464</b>
<b>Total expenses</b>	<b>13,856,600</b>	<b>14,400,000</b>	<b>14,250,660</b>	<b>149,340</b>
<b>Income before capital contributions</b>	<b>804,900</b>	<b>890,000</b>	<b>982,064</b>	<b>92,064</b>
<b>Contribution-in-aid of construction</b>	<b>3,640,500</b>	<b>5,908,300</b>	<b>6,724,907</b>	<b>816,607</b>
<b>Net change in net position</b>	<b>\$ 4,445,400</b>	<b>\$ 6,798,300</b>	<b>\$ 7,706,971</b>	<b>\$ 908,671</b>

Warren County Water District  
Statement of Net Position by Division

<i>December 31, 2017</i>	Water Division	Sewer Division	Eliminating Entries	Total
<b>Assets</b>				
<b>Current Assets</b>				
Cash and cash equivalents	\$ 4,083,326	\$ 3,171,948	\$ -	\$ 7,255,274
Short-term investments	400,000	500,000	-	900,000
Accounts receivable:				
Customer accounts receivable, net of allowance for uncollectibles	525,314	198,089	-	723,403
Accounts receivable – Butler County Water System	105,560	-	-	105,560
Accounts receivable – Simpson County Water District	71,529	19	-	71,548
Accounts receivable – Water Division	0	450,512	(450,512)	-
Accounts receivable – Sewer Division	36,009	-	(36,009)	-
Other accounts receivable	119,630	49,503	-	169,133
Interest receivable	10,052	2,336	-	12,388
Materials and supplies inventory	558,525	-	-	558,525
Prepaid expenses	93,012	11,498	-	104,510
<b>Total current assets</b>	<b>6,002,957</b>	<b>4,383,905</b>	<b>(486,521)</b>	<b>9,900,341</b>
<b>Non-current Assets</b>				
<b>Utility Plant</b>				
Utility plant in service	113,349,581	51,785,067	-	165,134,648
Construction in progress	1,787,516	630,496	-	2,418,012
Less accumulated depreciation	(38,114,369)	(11,732,926)	-	(49,847,295)
<b>Total utility plant, net</b>	<b>77,022,728</b>	<b>40,682,637</b>	<b>-</b>	<b>117,705,365</b>

Warren County Water District  
Statement of Net Position by Division

<i>December 31, 2017</i>	Water Division	Sewer Division	Eliminating Entries	Total
<b>Non-current Assets (Continued)</b>				
Restricted cash and equivalents	956,963	1,299,409	-	2,256,372
Restricted investments	2,999,695	1,770,639	-	4,770,334
Investments	981,434	-	-	981,434
Non-operating property, net of accumulated depreciation	165,856	-	-	165,856
Unamortized retirement security plan costs	1,621,182	-	-	1,621,182
Other assets	142,986	20,095	-	163,081
<b>Total non-current assets</b>	<b>83,890,844</b>	<b>43,772,780</b>	<b>-</b>	<b>127,663,624</b>
<b>Total assets</b>	<b>\$ 89,893,801</b>	<b>\$ 48,156,685</b>	<b>\$ (486,521)</b>	<b>\$ 137,563,965</b>

Warren County Water District  
Statement of Net Position by Division

<i>December 31, 2017</i>	Water Division	Sewer Division	Eliminating Entries	Total
<b>Liabilities</b>				
<b>Current liabilities</b>				
Accounts payable	\$ 478,202	\$ 78,216	\$ -	\$ 556,418
Accounts payable – Butler County Water Systems	57,441	-	-	57,441
Accounts payable – Simpson County Water District	46,157	-	-	46,157
Accounts payable – Water Division	-	36,009	(36,009)	-
Accounts payable – Sewer Division	450,512	-	(450,512)	-
Accrued expenses	710,246	43,865	-	754,111
Contractor advances for construction	58,600	90,400	-	149,000
Current portion of long-term debt	324,580	304,727	-	629,307
<b>Total current liabilities</b>	<b>2,125,738</b>	<b>553,217</b>	<b>(486,521)</b>	<b>2,192,434</b>
<b>Non-current liabilities</b>				
<b>Long-term Obligations</b>				
Bonds and loans payable	2,034,000	489,000	-	2,523,000
Notes payable	5,138,594	1,911,154	-	7,049,748
Less: Net unamortized bond (discount) premium	(30,444)	(656)	-	(31,100)
Less: Current portion of long-term debt	(324,580)	(304,727)	-	(629,307)
<b>Net long-term obligations</b>	<b>6,817,570</b>	<b>2,094,771</b>	<b>-</b>	<b>8,912,341</b>
Customer meter deposits	980,152	264,995	-	1,245,147
Rebates payable	3,524,907	3,696,489	-	7,221,396
Unearned revenue for cellular leases	69,966	-	-	69,966
Other post employment benefit obligation	123,918	-	-	123,918
<b>Total non-current liabilities</b>	<b>11,516,513</b>	<b>6,056,255</b>	<b>-</b>	<b>17,572,768</b>
<b>Total liabilities</b>	<b>13,642,251</b>	<b>6,609,472</b>	<b>(486,521)</b>	<b>19,765,202</b>

Warren County Water District  
Statement of Net Position by Division

<i>December 31, 2017</i>	Water Division	Sewer Division	Eliminating Entries	Total
<b>Net Position</b>				
Net investment in capital assets	70,046,434	38,283,139	-	108,329,573
Restricted	2,297,800	2,471,515	-	4,769,315
Unrestricted	3,907,316	792,559	-	4,699,875
<b>Total net position</b>	<b>76,251,550</b>	<b>41,547,213</b>	<b>-</b>	<b>117,798,763</b>
<b>Total liabilities and net position</b>	<b>\$ 89,893,801</b>	<b>\$ 48,156,685</b>	<b>\$ (486,521)</b>	<b>\$ 137,563,965</b>

Warren County Water District  
Statement of Revenues, Expenses, and Changes in Net Position by Division

<i>Year Ended December 31, 2017</i>	Water Division	Sewer Division	Eliminating Entries	Total
<b>Operating Revenues</b>				
<b>Metered sales</b>				
Residential	\$ 6,972,360	\$ 1,445,013	\$ -	\$ 8,417,373
Commercial	3,691,895	2,279,764	-	5,971,659
<b>Total metered sales</b>	<b>10,664,255</b>	<b>3,724,777</b>	<b>-</b>	<b>14,389,032</b>
Forfeited discounts	132,434	40,056	-	172,490
Miscellaneous service revenue	237,872	26,235	-	264,107
<b>Total operating revenues</b>	<b>11,034,561</b>	<b>3,791,068</b>	<b>-</b>	<b>14,825,629</b>
<b>Operating Expenses</b>				
<b>Source of supply expense</b>				
Purchased water	4,072,465	-	-	4,072,465
Sewage disposal	-	2,171,687	-	2,171,687
<b>Total source of supply expense</b>	<b>4,072,465</b>	<b>2,171,687</b>	<b>-</b>	<b>6,244,152</b>
<b>Pumping plant expense</b>				
Salaries and benefits	232	-	-	232
Power purchased	460,820	123,447	-	584,267
Chemicals	-	30,841	-	30,841
Miscellaneous pumping expense	644	-	-	644
Contractual services	3,126	3,124	-	6,250
Rental expense	5,030	-	-	5,030
Insurance	11,059	3,832	-	14,891
Materials and supplies	30	-	-	30
<b>Total pumping plant expense</b>	<b>480,941</b>	<b>161,244</b>	<b>-</b>	<b>642,185</b>

Warren County Water District  
Statement of Revenues, Expenses, and Changes in Net Position by Division

<i>Year Ended December 31, 2017</i>	Water Division	Sewer Division	Eliminating Entries	Total
<b>Operating Expenses (Continued)</b>				
<b>Transmission and distribution expense</b>				
Salaries and benefits	549,904	97,138	-	647,042
Power purchased	11,654	-	-	11,654
Contractual services	120,830	49,643	-	170,473
Rental expense	19,283	-	-	19,283
Transportation	75,896	13,678	-	89,574
Insurance	47,002	2,232	-	49,234
Materials and supplies	143,450	9,689	-	153,139
<b>Total transmission and distribution expense</b>	<b>968,019</b>	<b>172,380</b>	<b>-</b>	<b>1,140,399</b>
<b>Customer accounts expense</b>				
Salaries and benefits	928,588	102,007	-	1,030,595
Contractual services	241,000	57,603	-	298,603
Uncollectible accounts	11,401	908	-	12,309
Rental expense	29,344	-	-	29,344
Transportation	85,161	88	-	85,249
Insurance	5,530	2,232	-	7,762
Miscellaneous	4,509	40	-	4,549
Materials and supplies	5,206	370	-	5,576
<b>Total customer accounts expense</b>	<b>1,310,739</b>	<b>163,248</b>	<b>-</b>	<b>1,473,987</b>
<b>Administrative and general expense</b>				
Salaries and benefits	475,154	80,988	-	556,142
Office supplies	31,595	4,170	-	35,765
Commissioner fees	15,000	15,000	-	30,000
Contractual services	252,301	36,129	-	288,430
Insurance	7,884	4,586	-	12,470
Rental expense	5,030	-	-	5,030

Warren County Water District  
Statement of Revenues, Expenses, and Changes in Net Position by Division

<i>Year Ended December 31, 2017</i>	Water Division	Sewer Division	Eliminating Entries	Total
<b>Administrative and general expense (Continued)</b>				
Regulatory commission expense	19,357	7,733	-	27,090
Miscellaneous	15,509	6,267	-	21,776
Transportation	1,015	-	-	1,015
<b>Total administrative and general expense</b>	<b>822,845</b>	<b>154,873</b>	<b>-</b>	<b>977,718</b>
Depreciation	2,435,008	995,465	-	3,430,473
<b>Total operating expenses</b>	<b>10,090,017</b>	<b>3,818,897</b>	<b>-</b>	<b>13,908,914</b>
<b>Operating income</b>	<b>944,544</b>	<b>(27,829)</b>	<b>-</b>	<b>916,715</b>
<b>Non-Operating Revenues (Expenses)</b>				
Interest income	85,127	53,237	-	138,364
Rental income	127,026	16,992	-	144,018
Non-utility income	116,880	28	-	116,908
Gain on disposal of assets	7,805	-	-	7,805
Interest expense	(256,622)	(85,124)	-	(341,746)
<b>Total non-operating revenues (expenses)</b>	<b>80,216</b>	<b>(14,867)</b>	<b>-</b>	<b>65,349</b>
<b>Income before capital contributions</b>	<b>1,024,760</b>	<b>(42,696)</b>	<b>-</b>	<b>982,064</b>
<b>Capital contributions</b>	<b>2,714,990</b>	<b>4,009,917</b>	<b>-</b>	<b>6,724,907</b>
<b>Change in net position</b>	<b>3,739,750</b>	<b>3,967,221</b>	<b>-</b>	<b>7,706,971</b>
<b>Total net position – beginning of year</b>	<b>72,511,800</b>	<b>37,579,992</b>	<b>-</b>	<b>110,091,792</b>
<b>Total net position – end of year</b>	<b>\$ 76,251,550</b>	<b>\$ 41,547,213</b>	<b>\$ -</b>	<b>\$ 117,798,763</b>



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**Independent Auditors' 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***

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"), a component unit of Warren County, Kentucky, as of and for the year ended December 31, 2017, 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 18, 2018.

**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 (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion 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 from material misstatement, 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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Carr, Riggs & Ingram, L.L.C.*