

Warren County Water District

Component Unit of
Warren County, Kentucky

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

December 31, 2018



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Warren County Water District
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December 31, 2018

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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, 2018, 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, 2018, 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.

Emphasis of Matter

As described in Note 1 to the financial statements, in 2018, the District adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions ("OPEB")*. Our opinion is not modified with respect to this matter.

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 select pension/OPEB information on pages 40 through 42 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.

The schedule of budgetary comparison, statement of net position by division, and statement of revenues, expenses, and changes in net position by division are 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 16, 2019 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.

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, 2018 and 2017. 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, 2018:

- Operating revenue totaled \$15,432,003 for the year and increased by \$606,374 or 4.1%, compared to \$14,825,629 last year. Operating expenses totaled \$14,804,762 for the year and increased by \$895,848 or 6.4% compared to \$13,908,914 last year.
- Metered water revenue totaled \$10,979,171 for the year and increased by \$314,916 or 3.0%, compared to \$10,664,255 last year reflecting an increase in customer demand. Metered sewer revenue totaled \$3,911,615 for the year and increased by \$186,838 or 5.0% compared to \$3,724,777 last year reflecting residential growth and strong industrial demand.
- Income before contributions totaled \$783,351, a decrease of \$198,713 or 20.2% compared to \$982,064 last year. The decrease in income reflects increases in wage expense during the year to support the District's operations and the reporting of other post-employment expense required by the adoption of GASB 75.
- Capital contributions for the year totaled \$7,013,198, an increase of \$288,291 or 4.3% compared to \$6,724,907 last year.
- Net position totaled \$124,794,663, an increase of \$6,995,900 or 5.9% compared to \$117,798,763 last year.
- The water division added 801 customers and the sewer division added 538 customers throughout the year. The number of customers at the end of the year for the water and sewer divisions was 29,741 and 7,128 respectively.
- Average metered water revenue was \$22.06 per residential customer and \$145.39 per commercial customer. Average metered sewer revenue was \$20.43 per residential customer and \$332.69 per commercial customer.
- Total water sold to the District's customers during the year amounted to 2.75 billion gallons compared to 2.67 billion gallons in the prior year, an increase of 3%. The peak demand month was September with 283.3 million gallons sold. Total sewer service billed to customers totaled 1.19 billion gallons compared to 1.14 billion gallons in the prior year, an increase of 4.3%.

- The water division has a total of 1,155 miles of water main serving an average of 25 customers per mile. The sewer division has 182 miles of collection mains serving an average of 39.2 customers per mile.
- Projects Completed: The *2017 Small Line Replacement Project* consisted of the replacement of aging water lines throughout the distribution system which was funded by District with total project costs of \$308,300. *Lift Station Improvements #2 & #4* consisted of upgrading two sewer lift stations which will be funded by the District totaling \$435,600.

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 exceeded the budget by \$5,665 and *Total Expenses* were less than budget by \$54,614. *Net Change in Net Position* totaled \$6,740,600 and was below budget by \$1,055,949.

Metered Water Sales exceeded budget by \$2,829 and *Metered Sewer Revenue* exceeded budget by \$17,385 due growth in the District's sewer service area. *Forfeited Discounts* which occur when payments are received after the customers due date were below budget by \$4,804. *Miscellaneous Service Revenue* which includes connection fees, collection fees, and meter tampering fees and *Interest Income* which includes interest earned on the operating fund, depreciation fund, construction funds, reserve funds, and debt service funds were near budgeted amounts. *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 more than budget by \$20,733.

Operating Expenses related to providing water and sewer service and maintaining the District's distribution and collection facilities was below budget by \$77,965. Other Expenses were over budget by \$135,154 reflecting the District's adoption of GASB 75 (see Note 8: Post Employment Healthcare Plan) which required an accounting entry to record other post-employment benefits (OPEB) expense totaling \$175,053. *Net Income before Contributions* totaled \$783,351 and was below budget by \$48,949. Contribution in Aid of Construction was below budgeted projections due the Nashville Road Highway Relocation Project which was delayed until year 2019 and requires \$2,850,000 in contributions to from the Kentucky Transportation Cabinet to complete.

Table 1
TABLE OF BUDGETARY COMPARISON

	Budget <u>Year 2018</u>	Actual <u>Year 2018</u>	Variances Favorable \\ (Unfavorable)
Revenues:			
Metered Water Sales	\$ 10,982,000	\$ 10,979,171	\$ 2,829
Metered Sewer Revenue	3,929,000	3,911,615	17,385
Forfeited Discounts	236,600	241,404	(4,804)
Miscellaneous Service Revenue	291,100	291,302	(202)
Interest Income	209,700	209,840	(140)
Other Revenues	<u>266,900</u>	<u>287,633</u>	<u>(20,733)</u>
Total Revenue	<u>\$ 15,915,300</u>	<u>\$ 15,920,965</u>	<u>\$ (5,665)</u>
Expenses:			
Operating Expenses	\$ 11,071,000	\$ 10,993,035	\$ 77,965
Depreciation	3,644,000	3,641,220	2,780
Interest Expense	328,100	328,305	(205)
Other Expenses	<u>39,900</u>	<u>175,054</u>	<u>(135,154)</u>
Total Expenses	<u>15,083,000</u>	<u>15,137,614</u>	<u>(54,614)</u>
Net Income	\$ 832,300	\$ 783,351	\$ 48,949
Contribution in Aid of Construction	<u>5,908,300</u>	<u>7,013,198</u>	<u>(1,104,898)</u>
Net Change in Net Position	<u>\$ 6,740,600</u>	<u>\$ 7,796,549</u>	<u>\$ (1,055,949)</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 \$124,794,763 for the year.

Current and Non-Current Assets (excluding net utility plant) totaled \$20,846,982, a 5.8% increase of \$1,151,463 from last year. The increase reflects an increase in cash reserves which will be utilized for District funded projects in year 2019. *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 2018, utility plant totaled \$122,067,056 net of depreciation resulting in a 3.7% increase of \$4,361,391 over the prior year. The increase in utility plant includes a substantial number of residential developments placed into service during the year totaling \$3,143,801. Other utility plant additions include line extensions, meter installations, fire hydrant installations, service line replacements, and hardware/software additions.

Current and Non-Current Liabilities (excluding long-term debt) totaled \$9,337,468, reflecting an 8.4% decrease of \$854,986 from last year. The decrease is the net effect of a reduction in developer rebates payable of \$2,364,439 and an increase in the OPEB obligation of \$1,335,372 required by the adoption of GASB 75 reporting requirements. *Long-Term Debt* totaled \$8,943,441, a 6.6% decrease of \$629,307 reflecting debt service payments made throughout the year. In December, the District paid-off two Kentucky Infrastructure (KIA) loans for sewer line extensions.

The District's *Total Net Position* totaled \$124,794,663 and increased by \$6,995,900 comparatively over the prior year. *Total Liabilities & Net Position* totaled \$143,075,572 for year 2018, an increase of \$5,511,607, or 4.0%.

Table 2
CONDENSED STATEMENT OF NET POSITION
December 31, 2018

<u>Assets:</u>	<u>Year 2018</u>	<u>Year 2017</u>	<u>Increase (Decrease)</u>	
Current & Non-Current Assets	\$ 20,846,982	\$ 19,695,519	\$ 1,151,463	5.8%
Utility Plant	122,067,056	117,705,365	4,361,691	3.7%
Other Assets	<u>161,534</u>	<u>\$ 163,081</u>	<u>(1,547)</u>	-0.9%
Total Assets	<u>\$ 143,075,572</u>	<u>\$ 137,563,965</u>	<u>5,511,607</u>	4.0%
 <u>Liabilities:</u>				
Current & Non-Current Liabilities	9,337,468	10,192,454	(854,986)	-8.4%
Long-Term Debt	<u>8,943,441</u>	<u>9,572,748</u>	<u>(629,307)</u>	-6.6%
Total Liabilities	<u>18,280,909</u>	<u>19,765,202</u>	<u>(1,484,293)</u>	-7.5%
 <u>Net Position:</u>				
Net Investment in Capital Assets	\$ 113,316,024	108,329,573	4,986,451	4.6%
Restricted for Depreciation Reserves	4,684,828	4,769,315	(84,487)	-1.8%
Unrestricted	<u>6,793,811</u>	<u>4,699,875</u>	<u>2,093,936</u>	44.6%
Total Net Position	<u>\$ 124,794,663</u>	<u>\$ 117,798,763</u>	<u>6,995,900</u>	5.9%
Total Liabilities & Net Position	<u>\$ 143,075,572</u>	<u>\$ 137,563,965</u>	<u>\$ 5,511,607</u>	4.0%

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, 2018

	<u>Year 2018</u>	<u>Year 2017</u>	<u>Increase \</u> <u>(Decrease)</u>	<u>%</u> <u>Change</u>
<u>Operating Revenues:</u>				
Metered Water Revenue	\$ 10,979,171	\$ 10,664,255	\$ 314,916	3.0%
Metered Sewer Revenue	3,911,615	3,724,777	186,838	5.0%
Forfeited Discounts	241,404	172,490	68,914	40.0%
Miscellaneous Service Revenue	<u>299,813</u>	<u>264,107</u>	<u>35,706</u>	13.5%
Total Operating Revenues	<u>15,432,003</u>	<u>14,825,629</u>	<u>606,374</u>	4.1%
<u>Operating Expenses:</u>				
Wages & Benefits	2,529,386	2,234,011	295,375	13.2%
Commissioner Fees	29,500	30,000	(500)	-1.7%
Purchased Water	4,273,508	4,072,465	201,043	4.9%
Sewage Disposal	2,294,305	2,171,687	122,618	5.6%
Purchased Power	615,240	595,921	19,319	3.2%
Materials & Chemicals	247,650	225,321	22,329	9.9%
Contractual Services	734,510	763,756	(29,246)	-3.8%
Rental of Building	57,832	58,687	(855)	-1.5%
Equipment	223,091	175,868	47,223	26.9%
Depreciation	3,636,673	3,430,473	206,200	6.0%
Other Operating Expenses	<u>163,067</u>	<u>150,725</u>	<u>12,342</u>	8.2%
Total Operating Expenses	<u>14,804,762</u>	<u>13,908,914</u>	<u>895,848</u>	6.4%
<u>Non-Operating Revenues (Expenses)</u>				
Interest Income	209,840	138,364	71,476	51.7%
Rental Income	148,207	144,018	4,189	2.9%
Non-Utility Income	130,915	116,908	14,007	12.0%
Gain on Disposals	-	7,805	(7,805)	-100.0%
Interest Expense	<u>(332,852)</u>	<u>(341,746)</u>	<u>8,894</u>	-2.6%
Total Non-Operating Revenues (Expenses)	<u>156,110</u>	<u>65,349</u>	<u>90,761</u>	138.9%
Income Before Capital Contributions	783,351	982,064	(198,713)	-20.2%
Capital Contributions	<u>7,013,198</u>	<u>6,724,907</u>	<u>288,291</u>	4.3%
Change in Net Position	7,796,549	7,706,971	89,578	1.2%
Net Position, Beginning of Year	117,798,763	110,091,792	7,706,971	
Effect of Adoption of GASB 75	<u>(800,649)</u>	-	<u>(800,649)</u>	
Net Position, Beginning of Year Restated	116,998,114	110,091,792	6,906,322	6.3%
Total Net Position, End of Year	<u>\$ 124,794,663</u>	<u>\$ 117,798,763</u>	<u>\$ 6,995,900</u>	5.9%

Metered Water Revenue and *Metered Sewer Revenue* increased by \$314,916 and \$186,838 respectively. The volume of water sold in year 2018 totaled 2.75 billion gallons versus 2.67 billion gallons last year, a 3.0% increase of 80 million gallons. The volume of sewer revenue billed for year 2018 was 1.19 billion gallons versus 1.14 billion gallons last year, a 4.3% increase of 50 million gallons billed. Steady growth continued in the District's service area and the water division added 729 customers for a total of 29,471, and the sewer division added 517 customers for a total of 7,128 customers. *Forfeited Discounts* which are penalties on payments made after a customer's due date increased by \$68,914 or 40.0% over the prior year and *Miscellaneous Service Revenue*, which includes connection fees, collection fees, and meter tampering fees increased by \$35,706, or 13.5%.

Operating Expenses increased by \$895,848 a 6.4% increase when compared to the prior year. Wages & benefits increased by \$295,375, or 13.2% reflecting additional employee cross training, increase in overtime costs, and filling budgeted positions in water quality and meter reading. *Purchased Water* increased by \$201,403 due to customer demand and *Sewer Disposal* costs increased by \$122,618 due to customer demand, growth, and ground water infiltration. The District is currently identifying areas of infiltration and will begin rehabilitation of aged lines in the Plum Springs area next year. *Depreciation* expense increased by \$206,200 corresponding with depreciation of various asset additions including depreciation on several water and sewer extensions associated with residential developments placed into service throughout the year.

Capital Contributions of \$7,013,198 were recorded during the year which includes the following: expired developer rebate payables of \$5,225,876; contributions for meter installations, sewer taps, and capital recovery fees of \$1,148,030; contributions from the Kentucky Transportation Cabinet for relocations of \$303,695; contributions from city and county governments for debt service of \$131,560; and various customer contribution for special projects and relocations of \$204,037. A charge reducing the net position was recorded for prior period OPEB costs of \$800,649 in accordance with GASB 75 (see Note 1: Summary of Significant Accounting Policies).

Changes in Capital Assets

The largest portion of the District's assets is invested in the water distribution and sewer collection system amounting to \$122,067,056 net of depreciation, as of December 31, 2018. Table 4 details changes in capital assets.

Table 4
CHANGES IN UTILITY PLANT
(Net of Depreciation)

<u>Capital Investment</u>	<u>Year 2018</u>	<u>Year 2017</u>	<u>Increase \</u> <u>Decrease</u>	<u>%</u> <u>Change</u>
WATER DIVISION:				
Land	\$ 1,323,352	\$ 1,323,352	-	0.0%
Structures	1,811,126	1,868,054	(56,928)	-3.0%
Pumping Equipment	2,650,317	2,742,813	(92,496)	-3.4%
Storage Tanks	8,149,991	8,347,832	(197,841)	-2.4%
Distribution Mains	45,207,129	44,589,514	617,615	1.4%
Meters	11,963,453	11,424,138	539,315	4.7%
Hydrants	3,209,912	3,061,192	148,720	4.9%
Hardware & Software	819,185	853,177	(33,992)	-4.0%
Vehicles and Equipment	727,540	648,772	78,768	12.1%
Other	366,501	376,368	(9,867)	-2.6%
Construction in Progress	<u>3,518,434</u>	<u>1,787,516</u>	<u>1,730,918</u>	96.8%
Subtotal - Water Division	<u>79,746,940</u>	<u>77,022,728</u>	<u>2,724,212</u>	3.5%
SEWER DIVISION:				
Land	\$ 70,602	\$ 70,602	-	0.0%
Structures	7,459,527	7,256,516	203,011	2.8%
Pumping Equipment	1,895,506	1,282,857	612,649	47.8%
Collection Mains	28,229,363	27,456,799	772,564	2.8%
Taps	4,067,712	3,820,403	247,309	6.5%
Hardware & Software	87,212	90,541	(3,329)	-3.7%
Other	62,324	74,423	(12,099)	-16.3%
Construction in Progress	<u>447,870</u>	<u>630,496</u>	<u>(182,626)</u>	-29.0%
Subtotal - Sewer Division	<u>42,320,116</u>	<u>40,682,637</u>	<u>1,637,479</u>	4.0%
				3.7%
Total - Water & Sewer	<u>122,067,056</u>	<u>117,705,365</u>	<u>4,361,691</u>	

Total utility plant net of depreciation, increased by \$4,361,691 or 3.7%, compared to the prior year. In year 2018, the following were added to utility plant: water extensions and sewer extensions from developers, \$1,138,554 and \$2,005,247 respectively; water meter installations and sewer taps, \$978,095 and \$346,394 respectively; lift station upgrades and improvements \$639,950; hardware and software additions, \$187,863; other various additions, \$1,246,446; and a reduction of \$3,729,149 for accumulated depreciation and an increase in construction in progress of \$1,548,292.

Long-Term Debt

The District's debt obligations include United States Department of Agriculture (USDA) bonds, Water Revenue Bonds, Kentucky Rural Water Finance Corporation (KRWFC) loans, and Kentucky Infrastructure Authority (KIA) loans. As of December 31, 2018, the District had \$8,943,441 in outstanding debt compared to \$9,572,748 in the previous year reflecting in a decrease of \$629,307.

Factors Affecting Next Year's Budget

- Growth within the District's service area is expected to add 600 new water connections and 380 sewer connections.
- A sewer retail rate increase of 9.65% was budgeted effective June 1, 2019 generating \$272,000 in additional revenue.
- 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 2019 at its meeting held in November 2018. Metered water sales and metered sewer revenue combined are budgeted to increase by 3.3%. Total revenue is budgeted to increase by 3.6% and total expenses are budgeted to increase by 3.4% from year 2018. Debt service payments are expected to total \$848,600 for both divisions with a reduction in outstanding debt of \$558,600. Net income for year 2019 is budgeted to total \$972,900. Capital expenditures for the year are budgeted to total \$15,824,900 including contributions from customers and governmental agencies totaling \$4,455,900, and loan proceeds from USDA – Rural Development and Kentucky Infrastructure Authority (KIA) totaling \$4,645,000.

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.

Warren County Water District
Statement of Net Position

<i>December 31,</i>	2018
Assets	
Current assets	
Cash and cash equivalents	\$ 9,235,530
Accounts receivable:	
Customer accounts receivable, net of allowance for uncollectibles of \$399,775	706,861
Accounts receivable – Butler County Water System	113,615
Accounts receivable – Simpson County Water District	87,798
Other accounts receivable	174,136
Interest receivable	19,704
Materials and supplies inventory	620,835
Prepaid expenses	110,742
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Total current assets	11,069,221
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Non-current assets	
Utility Plant	
Utility plant in service	171,677,196
Construction in progress	3,966,304
Less accumulated depreciation	(53,576,444)
<hr/>	
Total utility plant, net	122,067,056
<hr/>	
Restricted cash and equivalents	1,914,730
Restricted investments	5,109,710
Investments	894,000
Accounts receivable:	
Accounts receivable – Butler County Water System	137,248
Accounts receivable – Simpson County Water District	96,445
Non-operating property, net of \$85,836 accumulated depreciation	165,856
Retirement security plan costs	1,459,772
Other assets	161,534
<hr/>	
Total non-current assets	132,006,351
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Total assets	\$ 143,075,572

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

Warren County Water District
Statement of Net Position

<i>December 31,</i>	2018
Liabilities	
Current liabilities	
Accounts payable	\$ 706,804
Accounts payable – Butler County Water Systems	6,920
Accounts payable – Simpson County Water District	7,874
Accrued expenses	825,039
Contractor advances for construction	123,300
Current portion of long-term debt	557,960
Total current liabilities	2,227,897
Non-current liabilities	
Long-term debt	
Bonds and loans payable	2,381,500
Notes payable	6,561,941
Less: Net unamortized bond (discount) premium	(26,553)
Less: Current portion of long-term debt	(557,960)
Net long-term debt	8,358,928
Customer meter deposits	1,306,823
Rebates payable	4,856,957
Unearned revenue for cellular leases	71,014
Total other post employment benefit obligation	1,459,290
Total non-current liabilities	16,053,012
Total liabilities	18,280,909
Net Position	
Net investment in capital assets	113,316,024
Restricted for depreciation reserves	4,684,828
Unrestricted	6,793,811
Total net position	124,794,663
Total liabilities and net position	\$ 143,075,572

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>	2018
Operating Revenues	
Metered sales	
Residential	\$ 8,692,889
Commercial	6,197,897
<hr/>	
Total metered sales	14,890,786
<hr/>	
Forfeited discounts	241,404
Miscellaneous service revenue	299,813
<hr/>	
Total operating revenues	15,432,003
<hr/>	
Operating Expenses	
Source of supply expense	
Purchased water	4,273,508
Sewage disposal	2,294,305
<hr/>	
Total source of supply expense	6,567,813
<hr/>	
Pumping plant expense	
Salaries and benefits	86
Power purchased	602,745
Chemicals	28,372
Miscellaneous pumping expense	34
Contractual services	8,220
Rental expense	4,933
Insurance	14,187
<hr/>	
Total pumping plant expense	658,577
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Transmission and distribution expense	
Salaries and benefits	636,158
Power purchased	12,495
Contractual services	176,796
Rental expense	18,966
Transportation	109,541
Insurance	46,957
Materials and supplies	175,349
<hr/>	
Total transmission and distribution expense	1,176,262
<hr/>	

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>	2018
Operating Expenses (Continued)	
Customer accounts expense	
Salaries and benefits	1,070,502
Contractual services	259,660
Uncollectible accounts	16,651
Rental expense	28,988
Transportation	100,774
Insurance	7,392
Miscellaneous	7,095
Materials and supplies	9,044
<hr/>	
Total customer accounts expense	1,500,106
<hr/>	
Administrative and general expense	
Salaries and benefits	822,640
Office supplies	34,885
Commissioner fees	29,500
Contractual services	289,834
Insurance	12,362
Rental expense	4,945
Regulatory commission expense	28,898
Miscellaneous	29,491
Transportation	12,776
<hr/>	
Total administrative and general expense	1,265,331
<hr/>	
Depreciation	3,636,673
<hr/>	
Total operating expenses	14,804,762
<hr/>	
Operating income	627,241
<hr/>	
Non-Operating Revenues (Expenses)	
Interest income	209,840
Rental income	148,207
Non-utility income	130,915
Interest expense	(332,852)
<hr/>	
Total non-operating revenues (expenses)	156,110

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

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

<u>Year Ended December 31,</u>	<u>2018</u>
Income before capital contributions	783,351
Capital contributions	7,013,198
Change in net position	7,796,549
Total net position – beginning of year, as previously reported	117,798,763
Effect of adoption of GASB 75	(800,649)
Total net position – beginning of year, as restated	116,998,114
Total net position – end of year	<u>\$ 124,794,663</u>

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>	2018
Cash Flows from Operating Activities	
Receipts from customers and users	\$ 15,169,002
Receipts from rental and non-utility income	279,122
Payments to suppliers for goods and services	(11,107,891)
Payments to employees	(1,457,298)
Net cash provided by operating activities	2,882,935
Cash Flows from Noncapital Financing Activities	
Interest paid on customer deposits	(17,976)
Net cash used in noncapital financing activities	(17,976)
Cash Flows from Capital and Related Financing Activities	
Principal repayment on long-term debt	(629,307)
Interest paid on long-term debt	(322,045)
Acquisition and construction of capital assets	(1,125,575)
Net cash used in capital and related financing activities	(2,076,927)
Cash Flows from Investing Activities	
Purchase of short-term investments	(3,305,414)
Maturity of short-term investments	3,953,472
Interest income	202,524
Net cash provided by investing activities	850,582
Net increase in cash and cash equivalents	1,638,614
Balances – beginning of year	9,511,646
Balances – end of year	\$ 11,150,260

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

Warren County Water District
Statement of Cash Flows

Year Ended December 31,	2018
Reconciliation of Operating Income to Net Cash Provided By Operating Activities	
Operating income	\$ 627,241
Adjustments to reconcile net operating income to net cash provided by operating activities:	
Depreciation expense	3,777,083
Amortization of debt premium / discount	4,547
Rental and non-utility income	279,122
Changes in assets and liabilities:	
Net decrease in accounts receivable	16,542
Net increase in other receivables	(263,001)
Net increase in prepaid expenses	(6,232)
Net increase in materials and supplies inventory	(62,310)
Net decrease in retirement security plan costs	161,410
Net decrease in other assets	1,547
Net increase in accounts payable	61,582
Net increase in accrued liabilities	78,097
Net decrease in contractor advances	(25,700)
Net increase in customer deposits	61,676
Net decrease in rebates payable	(2,364,439)
Net increase in other liabilities	1,046
Net increase in other post employment benefit obligation	534,724
Net cash provided by operating activities	\$ 2,882,935
Non-Cash Investing, Capital, and Financing Activities	
Contributed constructed water and sewer lines at cost	\$ 7,013,198
Total non-cash investing, capital, and financing activities	\$ 7,013,198

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



Warren County Water District Notes to 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, 2018, 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)

Total Other Post-Employment Benefits (OPEB) Liability

For purposes of measuring the total OPEB liability and OPEB expense, information about the District's employees and contributions made have been determined on the same basis as they are reported to the District's actuary. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Note 8 provides further detail on the total OPEB liability.

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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Position (Continued)

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. 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 16, 2019, which was the date the financial statements were made available.

Recently Issued and Adopted 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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recently Issued and Adopted Accounting Pronouncements (Continued)

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. The District has implemented the new requirements of this Statement for the fiscal year ended December 31, 2018. The implementation of GASB Statement No. 75 resulted in a reduction of beginning net position and an increase in the total OPEB liability by \$800,649, respectively.

Recent Accounting Pronouncements Not Yet Adopted

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 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 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 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements Not Yet Adopted (Continued)

In April 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. 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 June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. The District is evaluating the requirements of this Statement.

In August 2018, the GASB issued Statement No. 90, *Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis. The District is evaluating the requirements of this Statement.

Warren County Water District
Notes to the Financial Statements

NOTE 2: CASH AND CASH EQUIVALENTS AND INVESTMENTS

Deposits and Certificates of Deposit

At December 31, 2018, the District's deposits and certificates of deposit consisted of the following:

<u>December 31,</u>	<u>2018</u>
Cash and cash equivalents	\$ 9,232,680
Restricted cash and cash equivalents	1,914,730
Investments	894,000
Restricted investments	5,109,710
	<u>\$ 17,151,120</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, 2018, the carrying amount of the District's deposits and certificates of deposit totaled \$17,151,120 and the bank balances totaled \$17,164,159. Of the bank balances, \$17,164,159 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, 2018, none of the District's deposits and certificates of deposit were exposed to custodial credit risk.

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, 2018, there are no investments in any one issuer that represents 5% or more of the total investments.

Warren County Water District
Notes to the Financial Statements

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

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 and investments consisted of the following at December 31, 2018:

<i>December 31,</i>	2018
Sinking funds	\$ 654,686
Depreciation funds	4,684,828
Debt service reserve funds	372,140
Customer deposits	1,312,786
	<u>\$ 7,024,440</u>

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, 2018 is as follows:

Description	Beginning Balance	Additions	Disposals	Ending Balance
Utility plant, not being depreciated				
Land and land rights	\$ 1,393,954	\$ -	\$ -	\$ 1,393,954
Construction in progress	2,418,012	4,828,504	3,280,212	3,966,304
Total utility plant, not being depreciated	3,811,966	4,828,504	3,280,212	5,360,258
Utility plant, being depreciated				
Buildings and improvements	11,434,293	400,461	-	11,834,754
Mains and pumping	121,437,485	4,212,366	-	125,649,851
Meters and hydrants	26,375,938	1,556,638	47,933	27,884,643
Office furniture and equipment	2,634,188	193,738	-	2,827,926
Equipment	1,858,790	227,278	-	2,086,068
Total utility plant, being depreciated	163,740,694	6,590,481	47,933	170,283,242
Less accumulated depreciation	49,847,295	3,777,082	47,933	53,576,444
Total utility plant, being depreciated, net	113,893,399	2,813,399	-	116,706,798
Total utility plant, net	\$ 117,705,365	\$ 7,641,903	\$ 3,280,212	\$ 122,067,056

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, 2018, 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.	\$ 468,500
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.	865,000
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.	1,048,000
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.	644,063
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.	1,007,878
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.	1,545,000
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.	1,335,000

Warren County Water District
Notes to the Financial Statements

NOTE 4: LONG-TERM DEBT (CONTINUED)

Description	Balance
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.	2,030,000
Total bonds and notes payable	8,943,441
Less unamortized premium (discount) on bonds - net	(26,553)
Less current portion of bonds and notes payable	(557,960)
Net long-term debt	\$ 8,358,928

The District complied with all 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 \$26,553 as of December 31, 2018. Related amortization expenses for the year ended December 31, 2018 totaled \$4,547.

The following is a summary of long-term debt transactions for the year ended December 31, 2018:

Description	Beginning Balance	Increases	Decreases	Ending Balance	Due in Less than 1 Year
USDA Series 1993	\$ 489,000	\$ -	\$ 20,500	\$ 468,500	\$ 22,000
USDA Series 2004A	965,000	-	100,000	865,000	100,000
USDA Series 2005A	1,069,000	-	21,000	1,048,000	22,000
KIA A97-04	68,496	-	68,496	-	-
KIA A98-02	17,673	-	17,673	-	-
KIA C11-02	679,003	-	34,940	644,063	36,002
KIA C15-003	1,049,576	-	41,698	1,007,878	42,958
KRWFC 2012B	1,595,000	-	50,000	1,545,000	55,000
KRWFC 2013B	1,465,000	-	130,000	1,335,000	135,000
KRWFC 2016B	2,175,000	-	145,000	2,030,000	145,000
	\$ 9,572,748	\$ -	\$ 629,307	\$ 8,943,441	\$ 557,960

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, 2018 are as follows:

Year(s)	Principal	Interest	Total
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	646,479	221,092	867,571
2024-2028	2,885,521	796,246	3,681,767
2029-2033	1,672,858	411,200	2,084,058
2034-2038	888,589	187,121	1,075,710
2039-2043	372,000	55,354	427,354
2044-2045	110,000	4,378	114,378
Total	\$ 8,943,441	\$ 2,752,610	\$ 11,696,051

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, 2018:

	Accounts Receivable	Accounts Payable
Butler County Water Systems	\$ 113,615	\$ 6,920
Simpson County Water District	\$ 87,798	\$ 7,874

Warren County Water District
Notes to the Financial Statements

NOTE 5: RELATED PARTIES (CONTINUED)

For the year ended December 31, 2018, the District allocated expenses to related parties as follows:

Description	Butler County Water Systems	Simpson County Water District
Wages and benefits:		
Operation	\$ 476,768	\$ 243,723
Administrative:		
Supervision and administration	116,315	81,735
Accounting	40,238	28,275
Customer service	85,115	51,382
Engineering	12,014	11,706
Operations - other	144,470	83,863
Additions to plant	92,853	84,550
Special projects	134,112	57,832
Totals	\$ 1,101,885	\$ 643,066

NOTE 6: MAJOR SUPPLIER

The District purchases all water and sewer services from the Bowling Green Municipal Utilities ("BGMU"). The agreement was renewed on December 4, 2018 for an additional forty-five 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.



Warren County Water District Notes to the Financial Statements

NOTE 7: EMPLOYEE RETIREMENT PLAN (CONTINUED)

Financial Information

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

Benefits Provided

The District had 58 employees participating in the RS Plan on 12/31/2018. 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, 1.85% for service years from April 1, 1999 to January 1, 2018, and 1% for service years after January 1, 2018) 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 2018 was 11.86% 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 administers an Other Postemployment Benefits (OPEB) plan providing medical, prescription drug, and dental benefits to retired District employees and their dependents under certain conditions. A summary of retiree medical, prescription drug and dental insurance benefits are in the District’s Operating Policy NO. 109, paragraph J. This Operating Policy 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 does not issue a separate report that includes financial statements and required supplementary information for the OPEB plan.

Benefits Provided

Individuals who are employed by the District and are eligible to participate in the group health plan are eligible to continue healthcare benefits upon retirement after reaching age 60 and meeting a combined age plus years of service of at least 75. Coverage during retirement continues in the group health plans. Employees covered by the plan make contributions toward the plan premiums.

Plan Membership

As of December 31, 2018, plan membership consisted of the following:

Inactive members currently receiving benefits	5
Active members	64
Total	69

Investment Policy

The District’s obligation is unfunded at December 31, 2018. There are no assets accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

Contributions

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 5 years. All retirees and their spouses may be allowed to retain the coverage as set forth with a 100 percent of the premium being paid by the retiree. For fiscal year 2018, the District contributed \$73,479 towards the healthcare plan.