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Warren County
Water District

April 29, 2013

PUBLIC SERVICE COMMISSION
ANNUAL REPORT BRANCH

MAY 1 2013

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EXAMINED BY_____

Mr. Jeff D. Cline
Annual Report Branch
Public Service Commission
P.O. Box 615
Frankfort, KY 40602-0615

RE: Annual Report, 2012

Dear Mr. Cline,

Enclosed is the Audit Report for the year ending December 31, 2012 as required by the commission. The Annual Report has already been filed. Please refer to Warren County Water District – Water Division 31700. If you have any questions, please let us know.

Sincerely,

Alan Vilines
General Manager

Enclosures

Providing high-quality water and wastewater services to families and businesses throughout Warren County.

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COMMISSION

WARREN COUNTY WATER DISTRICT

FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION

For The Years Ended December 31, 2012 and 2011

WARREN COUNTY WATER DISTRICT
FINANCIAL STATEMENTS
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Shelton CPAs, LLP

www.sheltoncpas.com

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Warren County Water District (the District) as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2012 and 2011, and the respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

181 West Professional Park Ct. Bowling Green, KY 42104 • (270) 842-9620 • Fax (270) 781-1911 • info@sheltoncpas.com

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion analysis information and budgetary comparison information on pages 3 through 10 and 31 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The schedules of operating expenses and individual division Statement of Net Position and Statements of Revenue, Expenses and Changes in Net Position on page 31 -36 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 were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of operating expenses and individual division Statement of Net Position and Statements of Revenue, Expenses and Changes in Net Position is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated April 16, 2013 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control over financial reporting and compliance.

Shelton CPAs, LLP

Shelton CPAs, LLP
April 16, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Warren County Water District's annual financial report presents an analysis of the District's financial performance during the fiscal years ended December 31, 2012 and 2011. 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, 2012:

- The District's Net Position increased by $3,768,873 from $77,794,169 to $81,563,042 as of December 31, 2012.

- Total revenue for the year increased by $1,312,781, or 12.7%, compared to last year. The water division's total revenue increased by $1,014,315 and the sewer division's total revenue increased by $298,466.

- In year 2012, metered water sales increased by $901,600, or 11.4%, and metered sewer revenue increased by $287,409, or 15.6%.

- Total expenses for the year increased by $950,465, or 10.1%, compared to last year. The water division's total expenses increased by $766,122 and the sewer division's total expenses increased by $184,343.

- The water division added 808 customers throughout the year for a 3.2% increase and the sewer division added 413 customers for a 9.1% increase. The number of customers at the end of the year for the water and sewer divisions was 25,924 and 4,970 respectively.

- Average metered water revenue was $21.61 per residential customer and $124.49 per commercial customer. Average metered sewer revenue was $18.45 per residential customer and $222.85 per commercial customer.

- Total water sold to the District's customers during the year amounted to 2.40 billion gallons compared to 2.25 billion gallons in the prior year, an increase of 6.6%. The peak demand month was July 2012 with 314 million gallons sold.

- New water meter applications in year 2012 and year 2011 totaled 726 and 365 respectively, an increase of 361 applications, or 98.9%. New sewer applications in year 2012 and year 2011 totaled 374 and 202 respectively, an increase of 172 applications, or 85.1%.

- The water division has a total of 1,122 miles of water main serving an average of 23.1 customers per mile. The sewer division has 157 miles of collection mains serving an average of 31.7 customers per mile.

- Projects placed into service include: *2010 Water System Improvements* – included construction of approximately 2 miles of water main to replace aging lines. *Highway 31W Water & Sewer Line Relocations* relocated approximately 2 miles of water main and 0.5 miles of gravity sewer main in southern Warren County. *Rockfield Sewer Extension* included the construction of a pump station and approximately 1.3 miles of sewer main. *Buchanon Park Sewer Extension* was substantially complete in the current year and consisted of 1.8 miles of 8 to 15-inch sewer line in southern Warren County. *CIS Selection & Implementation* – procurement of a new customer billing and information system.

- Projects under construction: *Smiths Grove No. 1 Lift Station Upgrade* consists of the replacement of the existing lift station with an upgraded station.

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 above budget by $325,482 or 2.9%, and *total expenses* were below budget by $125,773 or -1.2%. *Metered Water Sales* were 1.8% greater than budget and metered sewer revenue was 6.3% greater than budget due to unusually hot weather and near drought conditions resulting in greater water demand than budgeted. *Miscellaneous Service Revenue* which includes connection fees, collection fees, and meter tampering fees was greater than budgeted by 1.8% or $4,041. *Interest Income* was greater than budgeted by 23.8% or $19,375 due to higher yields on the District's funds than budgeted. Funds that earn interest include the operating fund, depreciation fund, reserve funds, and debt service funds. *All Other Revenues* which includes forfeited discounts, rental income, income from local agencies for providing billing services, and gains on the disposition of assets was higher than budget by 4.8% or $17,772. Rental income throughout the year was greater than budgeted and gains on the disposition of several trucks were not budgeted.

Operating Expenses related to maintaining the District's water distribution and sewer collection facilities were less than budget by 0.3%, or -$24,522. The operating expense with the largest variance was wages which were less than budget due to a greater amount of time capitalized than budgeted for the CIS Billing Implementation project. *Depreciation* was lower than budget by 1.0% or -$26,209 due to projects such as the CIS Billing Software Implementation, and 2010 Water System Improvements being placed into service later than initially planned. *Interest Expense* was less than budget by 12.6%, or -$66,138, due to interest savings from refinancing of Series 1998 and Series 1999A bonds in March 2012 that were not budgeted. *All Other Expenses*

were less than budget by 18.7% or -$8,904. Net income totaled $1,327,960 for the year, or 51.5% higher than budget.

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

	Actual 2012	Budget 2012	Increase \ (Decrease)	% Change
Revenues:				
Metered Water Sales	$ 8,837,547	$ 8,679,020	158,527	1.8%
Metered Sewer Revenue	2,124,074	1,998,310	125,764	6.3%
Miscellaneous Service Revenue	234,436	230,395	4,041	1.8%
Interest Income	100,648	81,270	19,378	23.8%
All Other Revenues	387,237	369,465	17,772	4.8%
Total Revenue	11,683,942	11,358,460	325,482	2.9%
Expenses:				
Operating Expenses	$ 7,162,528	$ 7,187,050	(24,522)	-0.3%
Depreciation	2,694,616	2,720,825	(26,209)	-1.0%
Interest Expense	460,222	526,360	(66,138)	-12.6%
All other Expenses	38,616	47,520	(8,904)	-18.7%
Total Expenses	10,355,982	10,481,755	(125,773)	-1.2%
Net Income	$ 1,327,960	$ 876,705	451,255	51.5%

Statement of Net Position

A summary of the District's Statement of Net Position is presented below in Table 2. The District's assets exceeded liabilities by $81,563,042 in year 2012.

Current and Other Assets totaled $16,016,525, a 5.2% increase of $792,545 from last year. Funds restricted for future system improvements, equipment repairs and replacement, debt service, and customer deposits increased by $1,170,295. Assets including the general operating fund, receivables, inventory, deferred charges, and unamortized debt decreased by $377,750.

Capital Assets are the largest portion of the District's assets and include land, water distribution mains, sewer collection mains, pump stations, lift stations, storage tanks, vehicles, and equipment. In year 2012, capital assets totaled $99,169,765 net of depreciation resulting in a 1.8% increase of $1,731,844 over the prior year. The increase is due to projects placed into service during the year including the CIS Billing Implementation project, the Highway 31W Water & Sewer Line Relocations, the 2010 Water System Improvements, and the Rockfield School Sewer Extension.

Non-Current Liabilities totaled $30,842,833, a 2.2% decrease of $699,301 from the last year. The decrease in non-current liabilities includes a reduction in long term debt balances totaling $160,463 and decreases in deferred credits of $538,838. *Other Liabilities* totaled $2,780,415, a 16.4% decrease of $545,183 from last year. The current portion of long-term debt, accounts payable, and accrued expenses decreased by $217,907, $333,220, and $35,624 respectively; and customer meter deposits and other liabilities increased by $36,205 and $5,363 respectively.

Non-Current Liabilities totaled $31,542,134, a 4.4% decrease of $1,452,304 from the last year. The decrease in non-current liabilities includes a reduction in long term debt balances totaling $797,803, and decreases in deferred credits of $655,501. *Other Liabilities* totaled $3,325,598, a 27.9% increase of $724,463 from last year. The current portion of long-term debt, accounts payable, customer meter deposits, and various other liabilities increased by $512,580, $149,079, $28,720, and $34,084 respectively.

Restricted Net Position includes funds restricted for the following: payment of principal and interest on bonds and loans, anticipated expenditures for capital improvements, and funds for emergencies. The District's restricted funds totaled $11,995,392, an increase of $1,170,295 or 10.8% from the previous year. Funds required for bond and interest payments decreased and funds set aside for future system improvements increased compared balances in the previous year. *Net Position* totaled $81,563,042 in year 2012, a 4.8% increase of $3,768,873 over the prior year.

Table 2
WARREN COUNTY WATER DISTRICT
Condensed Statement of Net Position
December 31, 2012

	Year 2012	Year 2011	Increase \ Decrease	% Change
Current and other assets	16,016,525	15,223,980	792,545	5.2%
Capital assets	99,169,765	97,437,921	1,731,844	1.8%
Total assets	115,186,290	112,661,901	2,524,389	2.2%
Non-current liabilities	30,842,833	31,542,134	(699,301)	-2.2%
Other liabilities	2,780,415	3,325,598	(545,183)	-16.4%
Total liabilities	33,623,248	34,867,732	(1,244,484)	-3.6%
Net Position invested in capital assets, net of related debt	67,913,893	65,264,841	2,649,052	4.1%
Restricted Net Position	11,995,392	10,825,097	1,170,295	10.8%
Unrestricted Net Position	1,653,757	1,704,231	(50,474)	-3.0%
Total Net Position	81,563,042	77,794,169	3,768,873	4.8%

Statement of Revenues, Expenses and Changes in Net Position

This statement identifies various revenue and expense items, which impact the change in Net Position. A summary of this statement is presented in Table 3 below.

Table 3
WARREN COUNTY WATER DISTRICT
Combined Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended December 31, 2012

	Year 2012	Year 2011	Increase \ (Decrease)	% Change
Revenues:				
Metered Water Sales	8,837,547	7,935,947	901,600	11.4%
Metered Sewer Revenue	2,124,074	1,836,665	287,409	15.6%
Miscellaneous Service Revenue	234,436	216,790	17,646	8.1%
Interest Income	100,648	20,642	80,006	387.6%
All Other Revenues	387,237	361,117	26,120	7.2%
Total Revenue	11,683,942	10,371,161	1,312,781	12.7%
Expenses:				
Operating Expenses	7,162,528	6,192,093	970,435	15.7%
Depreciation	2,694,616	2,636,361	58,255	2.2%
Interest Expense	460,222	529,578	(69,356)	-13.1%
All other Expenses	38,616	47,485	(8,869)	-18.7%
Total Expenses	10,355,982	9,405,517	950,465	10.1%
Income Before Capital Contributions	1,327,960	965,644	362,316	37.5%
Capital Contributions	2,440,913	2,494,161	(53,248)	-2.1%
Increase in Net Position	3,768,873	3,459,805	309,068	8.9%
Net Position, Beginning of Year	77,794,169	74,334,364	3,459,805	4.7%
Net Position, End of Year	81,563,042	77,794,169	3,768,873	4.8%

The volume of water sold in year 2012 totaled 2.40 billion gallons versus 2.25 billion gallons last year, a 6.6% increase of 150 million gallons. The volume of sewer revenue billed for year 2012 was 825.3 million gallons versus 749.9 million gallons last year, a 10.1% increase of 75.4 million gallons billed. *Metered Water Sales* increased by 11.4% or $901,600 and *Metered Sewer Revenue* increased by 15.6% or $287,409. This was due to unusually hot weather with near drought conditions, a water retail rate increase effective in September 2011, and a sewer rate increase effective in December 2012. Customer growth within the District's service area improved with a 3.2% increase in water service customers and a 9.1% increase in sewer service customers. The water division added 808 customers for a total of 25,924, and the sewer division added 413 customers for a total of 4,970 customers. *Miscellaneous Service Revenue*, which includes connection fees, collection fees, and meter tampering fees increased by 8.1%, or $17,646. *Interest Income* increased by $80,006 due to an arbitrage payment of $70,259 made to the Internal Revenue Service for the Series 1998 Bonds in year 2011.

Operating Expenses increased by $970,435, a 15.7% increase when compared to the prior year. Operating expenses such as purchased water and wastewater disposal increased by $697,786 and $122,860 respectively due to near drought conditions, a wholesale water rate increase effective in September 2011, and a wholesale sewer rate increase effective December 2012 from Bowling Green Municipal Utilities (BGMU). The remaining operating expenses increased by a total of $149,789 including an increase in wages and benefits of $141,941 compared to the prior year.

Depreciation expense increased by $58,255, or 2.2%, corresponding to various asset additions recorded throughout the year. *Interest Expense* decreased by $69,356, or -13.1%, due to reductions in outstanding debt and refinancing of Series 1999A and Series 1998 bonds in March 2012.

Capital Contributions of $2,440,913 were received in year 2012 including expired rebate balances from developers of $783,327, contributions towards special projects of $679,850, contributions for meter installations and sewer taps of $589,482, reimbursements for water and sewer line relocations of $307,147, and contributions towards debt service of $81,107.

Changes in Capital Assets

The largest portion of the District's assets is invested in the water distribution and sewer collection system amounting to $96,987,420 net of depreciation, as of December 31, 2012. Table 4 details changes in capital assets.

Table 4
WARREN COUNTY WATER DISTRICT
Changes in Capital Assets
(Net of Depreciation)

Capital Investment	Year 2012	Year 2011	Increase \ Decrease	% Change
WATER DIVISION:				
Land	$ 1,326,380	$ 1,326,380	-	0.0%
Structures	1,939,952	1,927,649	12,303	0.6%
Pumping Equipment	1,827,966	1,824,690	3,276	0.2%
Storage Tanks	8,989,155	9,234,268	(245,113)	-2.7%
Distribution Mains	38,987,762	38,108,094	879,668	2.3%
Meters	9,017,622	8,753,982	263,640	3.0%
Hydrants	2,651,076	2,624,877	26,199	1.0%
Hardware & Software	839,689	202,500	637,189	314.7%
Vehicles and Equipment	407,088	451,677	(44,589)	-9.9%
Other	171,381	220,321	(48,940)	-22.2%
Subtotal - Water Division	66,158,071	64,674,438	1,483,633	2.3%
SEWER DIVISION:				
Land	$ 70,602	70,602	-	0.0%
Structures	5,293,067	5,403,483	(110,416)	-2.0%
Pumping Equipment	1,461,494	1,471,606	(10,112)	-0.7%
Collection Mains	21,694,167	20,911,142	783,025	3.7%
Taps	2,175,545	2,153,254	22,291	1.0%
Hardware & Software	110,406	7,397	103,009	1392.6%
Other	24,068	37,748	(13,680)	-36.2%
Subtotal - Sewer Division	30,829,349	30,055,232	774,117	2.6%
Total - Water & Sewer	96,987,420	94,729,670	2,257,750	2.4%

Total capital assets, net of depreciation, increased by $2,257,750 compared to the prior year. In year 2012, the following projects were recorded to capital assets: Highway 31W Water and Sewer Line Relocation (Natcher Parkway to Dillard Road), $1,474,462; CIS Infinity Customer Service and Billing System, $751,407; Rockfield Sewer Extension, $606,422; 2010 Water System Improvement Project, $391,822; water meter installations, $569,930; water & sewer pumping equipment, $94,294; warehouse improvements, $62,837; various other assets totaling $768,059; and a reduction of $2,461,483 for accumulated depreciation.

The above table does not reflect construction projects in progress totaling $2,182,345, a decrease of $525,906 from projects under construction this time last year of $2,708,251.

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 March 2012, the District refinanced the Series 1998 and Series 1999A bonds to reduce interest costs in current and future years. As of December 31, 2012, the District had $11,482,285 in outstanding debt compared to $11,860,655 in the previous year. Principal payments made towards the KRWFC and KIA loans throughout the year reduced outstanding debt by $378,370.

Factors Affecting Next Year's Budget

- Stability of the economy and the corresponding impact on residential and commercial growth.
- Weather trends.
- 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 2013 at its meeting held in November 2012. Metered water sales and sewer revenue combined are budgeted to increase by 7.3%. Total revenue is budgeted to increase by 7.1% from year 2012, and total expenses are budgeted to increase by 10.8%. Debt service payments are expected to total $1,063,920 for both divisions with a reduction in outstanding debt of $614,045. Not included in the budget is the refinancing of the Series 2003A and Series 2003C Kentucky Rural Water Finance Corporation loans in February 2013. The opportunity to refinance these loans occurred after the budget was approved and will result in reduced interest costs in budget year and future years. Net income for year 2013 is budgeted to total $998,545. Capital expenditures budgeted for the year totaled $6,363,744.

Request for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the General Manager, Warren County Water District, P.O. Box 10180, Bowling Green, KY 42102-4780. General information regarding the District can be found on our website located at *www.warrenwater.com.*

BASIC FINANCIAL STATEMENTS

	2012	2011	
OTHER ASSETS			
Deferred charges Amort Repairs (PS, LS, etc.)	262,366	166,525	
Unamortized debt expense KRWFC 2012	398,319	352,317	
TOTAL OTHER ASSETS	660,685	518,842	
TOTAL ASSETS	$ 115,186,290	$ 112,661,901	
NET POSITION AND LIABILITIES			
NET POSITION			
Invested in capital assets, net of related debt	$ 67,913,893	$ 65,264,841	
Restricted	11,995,392	10,825,097	
Unrestricted	1,653,757	1,704,231	
TOTAL NET POSITION	81,563,042	77,794,169	
			+ 3,768,873
LONG-TERM DEBT AND DEFERRED CREDITS			
Bonds and loans payable	✓3,179,500	✓6,151,000	-2,971,500
Notes payable KRWFC 2012, Buchanan Park	✓ 8,302,785	✓5,709,655	+2,593,130
Deferred credits Rebates Payable	19,939,443	20,478,281	
	31,421,728	32,338,936	
Less - Current portion of long-term debt	✓(578,895)	✓(796,802)	
TOTAL LONG-TERM DEBT AND DEFERRED CREDITS	30,842,833	31,542,134	-699,301
	✓= 10,903,390	✓= 11,063,853	-160,463
CURRENT LIABILITIES			
Accounts payable Clay Pipeline -143k, Advance -50k	334,218	667,438	-333,220
Butler County Water System, Inc.	42,405	45,616	
Simpson County Water District	35,750	31,818	
Accrued expenses	714,274	749,898	
Current portion of long-term debt	578,895	796,802	
Deferred revenue	63,300	58,658	
TOTAL CURRENT LIABILITIES	1,768,842	2,350,230	
			-581,388
OTHER LIABILITIES			
Customers' meter deposits	1,011,573	975,368	
TOTAL NET POSITION AND LIABILITIES	$ 115,186,290	$ 112,661,901	
			+2,524,389

WARREN COUNTY WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2012 and 2011

	2012	2011
OPERATING REVENUES		
Metered sales	$ 11,113,443	$ 9,918,239
Miscellaneous service revenue	234,436	216,790
TOTAL OPERATING REVENUES	11,347,879	10,135,029
		+ 1,212,850
OPERATING EXPENSES		
Source of supply	3,513,231	2,692,585
Pumping plant	632,110	601,490
Water treatment	252	240
Transmission and distribution	1,028,587	1,002,138
Customer accounts	1,216,926	1,149,528
Administrative and general	771,423	746,107
Depreciation	2,694,616	2,636,361
TOTAL OPERATING EXPENSES	9,857,145	8,828,449
		+ 1,028,696
OPERATING INCOME	1,490,734	1,306,580
		+ 184,154
NONOPERATING REVENUES (EXPENSES)		
Interest income SERIES 1998 ARBITRAGE (2011); SERIES 1998 PAID OFF (2012)	100,648	20,642
Rental revenue 505 BLDG., TANKS	122,630	103,042
Non-utility income STORMWATER, RECYCLING	108,521	107,161
Gain on disposal of assets TRUCKS	10,569	12,314
Amortization of debt expense	(44,920)	(54,517)
Interest expense KRWFC 2012	(460,222)	(529,578)
NET NONOPERATING REVENUES (EXPENSES)	(162,774)	(340,936)
INCOME BEFORE CAPITAL CONTRIBUTIONS	1,327,960	965,644
		+ 362,316
CAPITAL CONTRIBUTIONS EXPIRED DEVELOP BALS. 783K; SPECIAL PROJECTS 680K; METERS / TAPS 589K; RELOCATIONS 307K	2,440,913	2,494,161
		- 53,248
INCREASE IN NET POSITION	3,768,873	3,459,805
NET POSITION, BEGINNING OF YEAR	77,794,169	74,334,364
NET POSITION, END OF YEAR	$ 81,563,042	$ 77,794,169
		+ 3,768,873

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

	2012	2011
Reconciliation of operating income to net cash provided in operating activities:		
✓ Operating income	$ 1,490,734	$ 1,306,580
Adjustments to reconcile operating income to net cash provided by operating activities:		
✓ Depreciation	2,694,616	2,636,361
Decrease (increase) in:		
Accounts receivable	358,987	(377,273)
Special Deposits and transfers	-	20
Prepaid insurance and pension contributions	(9,682)	624,744
Materials and supplies inventory	(106,255)	17,604
Other receivables	(6,633)	770
Deferred charges	(95,841)	26,805
Increase (decrease) in:		
Accounts payable and accrued liabilities	(368,123)	181,838
Deposits	36,205	28,720
Deferred revenues	4,642	1,325
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 3,998,650	$ 4,447,494
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Private developers contributed constructed water and sewer lines at cost	$ 2,440,914	$ 2,409,546
TOTAL NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES	$ 2,440,914	$ 2,409,546

NOTES TO THE FINANCIAL STATEMENTS

NOTE A-ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

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

Basis of Accounting

The District's financial statements are presented in accordance with accounting principles generally accepted in the United States of America for utility districts. The District follows the accounting policies and procedures set forth by the National Association of Regulatory Utility Commissioners and the guidance provided by the American Water Works Association in *Water Utility Accounting.* The District has elected to apply all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless FASB and/or APB pronouncements conflict with or contradict GASB pronouncements.

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

Cash and Cash Equivalents

The District considers demand deposits, money market funds, and other investments with an original maturity of ninety (90) days or less, to be cash equivalents.

Allowance for Doubtful Accounts

The provision for allowance for doubtful accounts is provided for on the reserve method based on historical experience and an evaluation of outstanding accounts receivable at the end of the year.

Material and Supplies Inventory Pricing

Cost of inventories is determined by using the weighted average cost method.

Utility Plant and Depreciation

Property and equipment is stated at cost. Costs of utility plant retirements are charged directly to utility plant accumulated depreciation. Interest relating to the financing of projects under construction is charged to construction works in progress based on the rates paid for long-term borrowing. When the related asset is ready for use, the costs are transferred to utility plant. The cost of current repairs and maintenance is charged to expense.

Depreciation is computed using the straight-line method, using composite rates based on estimated lives as follows: transmission and distribution reservoirs, tanks, and mains – 50 years; buildings – 50 years; equipment – 10 years; service trucks – 5-10 years; tools – 12.5 years; and furniture and fixtures – 10 years.

Restricted Assets

Certain proceeds of the District's revenue bonds and certain resources set aside for their repayment are classified as restricted assets because they are maintained in separate bank accounts and their use is restricted by applicable bond covenants. When an expense is incurred that can be paid using either restricted or unrestricted resources, the District's policy is to first apply the expense toward restricted resources and then toward unrestricted resources.

Deferred Charges

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.

Capital Contributions and Deferred Credits

The donor cost of contributed property and equipment is included in capital contributions or, otherwise, referred to as contributions in aid of construction. These contributions are received from developers, local and state governmental agencies, and others. Deferred credits are amounts advanced by contractors that are to be refunded either entirely or in part. Amounts not refunded are transferred to contributions in aid of construction after a ten-year period has lapsed.

Contractor Receivable

Contractor receivable totals include grant receivables. The total grant receivable at December 31, 2012 and 2011 were $0 and $204, respectively

Net Position

Accounting standards require the classification of Net Position into the following three components:

Invested in capital assets, net of related debt – This component of Net Position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted – This component of Net Position consists of constraints placed on net asset use by internal designation or externally imposed by creditors, (such as through debt covenants), grantors, contributors, or laws or regulations of other governments.

Unrestricted – This component consists of Net Position that do not meet the definition of "invested in capital assets, net of related debt" or "restricted".

Revenues and Expenses

Service rates are authorized by the Public Service Commission (PSC). The District currently uses eight billing cycle dates each month. Revenues between the last billing date and the end of the year are estimated to be an immaterial amount and, therefore, no accruals are recorded in the accompanying financial statements.

Revenues and expenses are distinguished between operating and non-operating items. Operating revenues relate to the direct revenues generated as a result of services performed or sale of commodities. Non-operating revenues are generated from activities not directly related to the District's core operations. Operating expenses are those directly related to the operations of the District in providing the core services and/or goods to the public. Some expenses, such as interest, are generally classified as non-operating.

Income Tax Status

The District is organized under KRS 74.101 as a division of county government, and is, therefore, exempt from federal and state income taxes.

Concentration of Credit Risk

The majority of the District's business activity is with customers located within Warren County. The District typically collects within thirty (30) days approximately ninety (90) percent of the month-end balances owed by customers.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, and disclosures. Accordingly, actual results could differ from these estimates. These differences may be material.

Reclassifications

Certain accounts in the 2011 financial statements have been reclassified for comparative purposes to conform to the presentation in the current-year financial statements.

NOTE B-CASH AND INVESTMENTS

Various cash accounts or funds are restricted as follows:

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

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

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

The "Customer Deposit" account contains the deposits for services by the District's customers. Interest from this account is credited to each customer's account quarterly.

"Construction Funds" are those funds restricted for a specific construction project. They are normally derived from proceeds of long-term debt or from grants or from contributions from state or local governmental agencies or from excess income.

"Depreciation Funds" are savings set aside for meeting operating expenditures that are needed to maintain or improve the system.

Cash and cash equivalents with no restrictions are reflected on the Statement of Net Position as current assets.

At December 31, 2012, the District's cash and investments held at fourteen financial institutions are as follows:

		Book Balance	Bank Balance	FDIC Insurance	Collateral Pledged
FARMERS	Financial Institution A	$ 250,000	$ 250,000	$ 250,000	$ -
EDMONSON	Financial Institution B	750,000	750,000	250,000	599,745
NY MELLON	Financial Institution C	114,069	114,069	250,000	-
BBT	Financial Institution D	4,921,932	4,956,834	250,000	5,520,865
CHASE	Financial Institution E	3,382,486	3,382,486	250,000	3,326,174
	Financial Institution F	250,000	250,000	250,000	-
CD'S	Financial Institution G	250,000	250,000	250,000	-
	Financial Institution H	250,000	250,000	250,000	-
	Financial Institution I	250,000	250,000	250,000	-
KY HOUSING	Financial Institution J	807,073	807,073	-	807,073
INDEP. BANK	Financial Institution K	1,018,024	1,018,024	250,000	919,548
MONTICELLO	Financial Institution L	142,466	142,466	250,000	-
CD	Financial Institution M	250,000	250,000	250,000	-
REGIONS	Financial Institution N	544,538	544,538	250,000	544,538
SCB	Financial Institution O	216,420	216,420	250,000	-
US BANK	Financial Institution P	501,779	494,775	250,000	310,724
		$ 13,898,787	$ 13,926,685	$ 3,750,000	$ 12,028,667

At December 31, 2012 and 2011 approximately $0 and $0 respectively was not collateralized.

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District has an investment policy that requires balances in excess of FDIC insured amounts be secured with collateral held by a separate bank or trust company as custodian. Uninsured and collateralized balances held by pledging institution trust department or agent bank in the District's name are $10,453,730. NON-FDIC

The District places restricted cash in certificates of deposits, money markets, or other demand deposits with local financial institutions based on the highest bid interest rate and the ability to pledge sufficient collateral. The District's investments are in certificates of deposits and bonds. The District's cost basis, which approximates fair market value, in certificates of deposits at December 31, 2012 and 2011 were $4,042,316 and $2,978,114, respectively. At December 31, 2012, $807,073 was held in AAA rated money market funds. KY HOUSING BONDS ?

The reconciliation of restricted assets and cash and cash equivalents from the Statement of Net Position to the Statement of Cash Flows follows:

Cash and Investments	December 31, 2012	December 31, 2011
Bond and Interest Sinking Funds	$ 740,701	$ 976,333
Debt Service Reserve	318,800	734,206
Rebate fund	-	59,173
Customer deposits	1,048,024	983,822
Construction funds	5,082,064	4,970,240
Depreciation fund	4,805,803	3,101,323
Cash and cash equivalents	1,904,615	2,187,791
Total Cash and Investments	13,900,007	13,012,888
Less: Investments in Certificates of Deposit	(4,042,316)	(2,978,114)
Total Cash and Cash Equivalents per Statements of Cash Flows	$ 9,857,691	$ 10,034,774

NOTE C-UTILITY PLANT

The costs of major classes of utility plant at December 31, 2012 were:

Description	2011	Additions	Disposals	2012
Land *	$ 1,396,982	$ -	$ -	$ 1,396,982
Buildings/Improvements	8,464,310	76,283	-	8,540,593
Elec Pumping/Mains	96,997,312	3,343,740	248,756	100,092,296
Meters/Hydrants	18,959,466	742,382	19,641	19,682,207
Furniture and Equipment-Office	967,463	826,941	-	1,794,404
Equipment	1,300,108	75,937	77,653	1,298,392
Total Utility Plant in Service	128,085,641	$ 5,065,283	$ 346,050	132,804,874
Nonoperating Property *	251,692			251,692
Construction in Progress *	2,708,251			2,182,345
Accumulated Depreciation	(33,441,807)			(35,903,290)
	$ 97,603,777			$ 99,335,621

* Denotes items that are not depreciated.

The accumulated depreciation by major classes of utility plant at December 31, 2012 were:

Description	2011	Additions	Disposals	2012
Buildings/Improvements	1,143,300	174,054	-	1,317,354
Elec Pumping/Mains	25,042,488	1,993,690	248,756	26,787,422
Meters/Hydrants	5,428,386	431,485	19,641	5,840,230
Furniture and Equipment-Office	736,067	87,379	-	823,446
Equipment	1,091,566	120,925	77,653	1,134,838
Total Utility Plant in Service	33,441,807	$ 2,807,533	$ 346,050	35,903,290
Nonoperating Property	(85,836)			(85,836)
	$ 33,355,971			$ 35,817,454

The costs of major classes of utility plant at December 31, 2011 were:

Description	2010	Additions	Disposals	2011
Land *	$ 1,396,982	$ -	$ -	$ 1,396,982
Buildings/Improvements	8,385,647	78,663	-	8,464,310
Elec Pumping/Mains	95,416,039	1,581,273	-	96,997,312
Meters/Hydrants	18,574,634	391,682	6,850	18,959,466
Furniture and Equipment-Office	831,022	136,441	-	967,463
Equipment	1,155,471	255,962	111,325	1,300,108
Total Utility Plant in Service	125,759,795	$ 2,444,021	$ 118,175	128,085,641
Nonoperating Property *	251,692			251,692
Construction in Progress *	740,779			2,708,251
Accumulated Depreciation	(30,820,835)			(33,441,807)
	$ 95,931,431			$ 97,603,777

The accumulated depreciation by major classes of utility plant at December 31, 2011 were:

Description	2010	Additions	Disposals	2011
Buildings/Improvements	971,611	171,689	-	1,143,300
Elec Pumping/Mains	23,053,028	1,989,460	-	25,042,488
Meters/Hydrants	5,017,957	417,279	6,850	5,428,386
Furniture and Equipment-Office	687,248	48,819	-	736,067
Equipment	1,090,991	102,861	102,286	1,091,566
Total Utility Plant in Service	$ 30,820,835	$ 2,730,108	$ 109,136	$ 33,441,807
Nonoperating Property	(85,836)			(85,836)
	$ 30,734,999			$ 33,355,971

Construction Commitments

The District is committed to several material construction contracts and they are classified as "Construction in Progress" on the financial statements. Some of the more significant contracts are as follows:

- The Smiths Grove No. 1 Lift Station Upgrade project consists of the replacement of the existing lift station with an upgraded station. Total expenditures as of 12/31/12 were $119,500. The anticipated total cost of the project is $227,000.

- The Buchanon Park Sewer Extension consists of approximately 9,700 feet of 8 – 15-inch sewer line adjacent to Hwy 242 and Hwy 31W in the Richpond area. Total expenditures as of 12/31/12 were $1,128,300. The anticipated total cost of the project is $1,187,269.

NOTE D-NON-OPERATING PROPERTY

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

NOTE E-BONDS PAYABLE

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

Description	Interest Rate	Dated	Maturity Date	Original Amount
Series 1993	4.50%	11/23/94	07/01/33	761,000
PAID Series 1998*	3.85-4.50%	01/15/98	01/01/14	5,645,000
Series 1999A	5.13%	05/25/01	01/01/39	2,000,000
Series 2004A*	2.00-4.50%	01/15/05	01/01/25	2,025,000
Series 2005A	4.25%	06/30/06	01/01/44	1,250,000
				$ 11,681,000

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

The District has complied with all covenants related to the outstanding debt issues as of December 31, 2012.

Summary of bond activity for the year ended December 31, 2012 was as follows:

Series	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
1993	$ 594,000	$ -	$ 15,500	$ 578,500	16,000
PAID 1998*	1,085,000	-	1,085,000	-	-
1999A*	1,772,000	-	1,772,000	-	-
2004A*	1,525,000	-	85,000	1,440,000	85,000
2005A	1,175,000	-	14,000	1,161,000	17,000
	$ 6,151,000	$ -	$ 2,971,500	$ 3,179,500	$ 118,000

Summary of bond activity for the year ended December 31, 2011 was as follows:

Series	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
1993	$ 594,000	$ -	$ -	$ 594,000	15,500
PAID 1998*	1,085,000	-	-	1,085,000	350,000
1999A*	1,772,000	-	-	1,772,000	30,000
2004A*	1,525,000	-	-	1,525,000	85,000
2005A	1,175,000	-	-	1,175,000	17,000
	$ 6,624,500	$ -	$ -	$ 6,151,000	$ 497,500

As of December 31, 2012, the aggregate debt service requirements on bonded indebtedness to maturity are summarized as follows:

Year Ending December	Principal Payments	Interest Payments	Total
2013	118,000	244,299	362,299
2014	125,000	221,748	346,748
2015	136,000	206,785	342,785
2016	137,500	199,716	337,216
2017	140,000	192,306	332,306
2018-2022	784,000	837,015	1,621,015
2023-2027	695,500	591,989	1,287,489
2028-2032	358,000	409,069	767,069
2033-2037	255,500	229,325	484,825
2038-2042	261,000	67,785	328,785
2043-2045	169,000	5,269	174,269
	$ 3,179,500	$ 3,205,306	$ 6,384,806

The bonds have been issued in fully registered form, maturing as to principal in various amounts on various dates in each of the years through 2044. Interest is due semi-annually of each year. The District has historically made its principal and interest payments as of December 31; therefore, all bond obligations are classified as long-term and the scheduled maturities for 2012 are expected to be paid in 2012. Amortization is provided on a straight-line basis over the life of the related bonds or notes.

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

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

The proceeds of the new loan are in an irrevocable trust to provide for all future debt service payments on the old bond. Accordingly, the trust account assets and liabilities for the defeased portion of the bonds are not included in the District's financial statements. As of December 31, 2012, $2,778,000 of the bond considered defeased is still outstanding. All issuance costs of the transaction, $249,420, are to be amortized over the remaining life of the refunded debt. This advanced refunding was undertaken to reduce total debt service payments over the next twenty-five years by $600,208. The District's refunding of the 1999B bond resulted in an economic gain of $422,281.

During the year 2012, the District refunded its outstanding 1998 and 1999A bonds of $1,085,000 and $1,772,000 respectively, carrying an interest rate of 4.5% and 5.125% respectively, with a new loan, 2012B, of $2,095,000 with an interest rate ranging from 2.0% to 4.325%. The lower rate is applicable to the beginning of the term and increasing over the life of the note. The new note requires annual debt service payments maturing in 2039. The District's refunding of the 1998 and 1999A bonds resulted in total gross debt service savings of $721,561 and a net present value savings of $638,226.

In 2012 a new note, C11-02, was finalized to fund the Buchanon Park sewer line extension for $823,900, of which only $797,431 was drawn for the project at the years end. It has and interest rate of 3% with annual debt service payments and it matures in 2033. Annual replacement cost is $2,000 annually until the balance reaches $20,000 and will be maintained for the life of the loan.

NOTE F-DEBT SERVICE RESERVE FOR BOND FUNDS

Water Division

Arbitrage rebate refers to the required payment, to the U.S. Treasury, of excess earnings received on tax exempt bond proceeds that are invested at a higher yield than the yield of the tax exempt bond issue. Federal law requires that arbitrage liability, and cumulative excess arbitrage earnings, be calculated and remitted to the U.S. Treasury at the end of the fifth bond year, and every fifth year thereafter. Series 1998 and 2004A (defeasance of 1995B issue) are subject to arbitrage limitations. The bond resolutions authorizing the aforementioned issues require the debt service reserve account to hold funds equal to the "Reserve Amount". The combined reserve amount at December 31, 2012 and 2011 is $46,660 and $462,066, respectively. The Series 1998 bond was refunded in 2012.

PAID
FILED RETURN

OUTSTANDING
ARBITRAGE BOND
FILING DUE 2/2014

Sewer Division

The bond resolution authorizing the District's "Sewer System Revenue Bonds, Series of 1993" required the establishment of a debt service reserve account. Funds are required to be deposited to this account until the balance is equal to the maximum annual principal and interest requirements on all sewer bonds authorized and issued. Withdrawals from the Debt Service Reserve Account are restricted to transfers to the bond and interest sinking fund if required at any time to prevent default in the payment of principal or interest on any bonds. Whenever withdrawals are made from the Debt Service Reserve, the deficiency in the fund is required to be restored when reserves are available. Income from investments of the Debt Service Reserve Fund is to be accumulated in the fund. The balance at December 31, 2012 and 2011 was $272,140 and $272,140, respectively.

NOTE G-NOTES PAYABLE

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

Description	Int. Rate	Dated	Maturity Date	Original Amount
Series 2003A*	4.06-4.81%	03/25/03	02/01/28	$ 2,475,000
Series 2003C*	2.00-5.00%	10/29/03	12/30/25	499,600
Series 2006A*	4.30%	07/01/06	07/01/30	3,098,000
Series 2012B	2.00-4.25%	03/25/12	01/01/39	2,095,000
B90-07/263	5.30%	01/01/91	12/01/12	229,035
B92-01/265	4.95%	06/01/92	12/01/13	100,791
A97-04/317	3.80%	08/01/97	12/01/18	982,400
A98-02/353	3.80%	03/01/98	12/01/18	265,000
C11-02	3.00%	12/27/11	10/24/33	797,431
				$ 10,542,257

Summary of note activity for the year ended December 31, 2012 was as follows:

Description	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
2003A*	$ 1,899,000	$ -	$ 84,000	$ 1,815,000	$ 85,000
2003C*	356,500	-	17,800	338,700	20,900
2006A*	2,882,000	-	104,000	2,778,000	104,000
2012B	-	2,095,000	-	2,095,000	170,000
B90-07/263	17,994	-	17,994	-	-
B92-01/265	13,859	-	6,760	7,099	7,099
A97-04/317	429,488	-	54,648	374,840	56,745
A98-02/353	110,815	-	14,100	96,715	14,641
C11-02	-	797,431	-	797,431	2,510
	$ 5,709,656	$ 2,892,431	$ 299,302	$ 8,302,785	$ 460,895

Summary of note activity for the year ended December 31, 2011 was as follows:

Description	Beginning Balance	Reductions	Ending Balance	Amounts Due Within One Year
2003A*	$ 1,979,000	$ 80,000	$ 1,899,000	$ 84,000
2003C*	377,000	20,500	356,500	17,800
2006A*	2,976,000	94,000	2,882,000	104,000
B90-07/263	35,070	17,076	17,994	17,994
B92-01/265	20,296	6,437	13,859	6,760
A97-04/317	482,117	52,630	429,487	54,648
A98-02/353	124,394	13,579	110,815	14,100
	$ 5,993,877	$ 284,222	$ 5,709,655	$ 299,302

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

As of December 31, 2012, the future payments for the remaining note payable obligations by year are as follows:

Year Ending December	Principal Payments	Interest Payments	Total
2013	460,894	252,905	713,799
2014	509,433	311,677	821,110
2015	382,221	294,766	676,987
2016	406,220	278,595	684,815
2017	409,174	263,353	672,527
2018-2022	1,960,620	1,077,591	3,038,211
2023-2027	2,220,983	651,352	2,872,335
2028-2032	1,287,405	268,069	1,555,474
2033-2037	465,835	107,582	573,417
2038-2039	200,000	18,795	218,795
	$ 8,302,785	$ 3,524,685	$ 11,827,470

The Kentucky Infrastructure Authority notes, B90-07/263 and B92-01/265 are subordinate to the parity lien bonds of the Water Divisions revenues. The Kentucky Infrastructure Authority notes, A97-04/317 and A98-02/353 are subordinate to the parity lien bonds of the Sewer Divisions revenues. Interest has been accrued in the amount of $188,425 and $232,527 at December 31, 2012 and 2011, respectively.

NOTE H-CONTRIBUTIONS IN AID OF CONSTRUCTION

The contributions in aid of construction were derived from prospective users of the various water and sewer systems and certain governmental grants received by the District. They are recorded on the Statements of Revenues, Expenses, and Changes in Net Position as "Capital Contributions". The contributions were composed of the following at December 31, 2012:

	2011	Additions	2012
Original membership and tap-on fees and contributions for construction of various projects	$ 32,345,545	$ 2,440,913	$ 34,786,458
Grants-in-aid	19,301,433	-	19,301,433
Total Capital Contributions	51,646,978	$ 2,440,913	54,087,891
Retained Earnings	26,147,191		27,475,151
Total Net Assets	$ 77,794,169		$ 81,563,042

NOTE I-MAJOR SUPPLIER

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

NOTE J-INSURANCE AND RISK MANAGEMENT

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

NOTE K-EMPLOYEE BENEFITS

The District participates in a pooled defined benefit retirement plan through the National Rural Electric Cooperative Association (NRECA). The NRECA publishes a financial statement and a copy can be obtained by writing or calling the Plan Administrator, NRECA, PO Box 6007, Lincoln, NE 68506; telephone number 866-NRECA99. The District's contribution rate for 2012, 2011, and 2010 were 23.98%, 23.53%, and 23.53% respectively of employees' base pay for those employees who have been employed with the District for over one year and has worked the number of hours needed to qualify. Payments to the NRECA are charged to expense as incurred and the District carries no liability for the plan. For the years 2012, 2011, and 2010 the pension contributions are $645,744, $590,616, $557,139, respectively. Upon retirement at the normal age of sixty-two, the annual estimated benefit is calculated as: Benefit Level (1.6% eligible service years from January 1, 1976 to April 1, 1999 and 1.85% for service after April 1, 1999) multiplied by the number of continuous years in the program multiplied by the average of the highest five salary years. Other plans were in effect prior to January 1, 1976, and benefit calculations will vary in accordance with an employee's hire date. The District decreased the normal retirement age to sixty-two and increased the benefit level by paying approximately $185,000 for the improved benefits, which is being amortized over thirty years. During the 2002 year, the District adopted changes to the plan to maintain compliance with the new Internal Revenue Service regulations regarding cafeteria plan changes. The District's Board of Commissioners has the authority to provide provisions and amendments to the pension plan.

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

Employees with less than twenty-five years of continuous service shall accrue annual leave at the rate of fifteen days per year. Employees with more than twenty-five years of continuous service accrue annual leave at the rate of twenty days per year. Unused annual leave in excess of ten days accumulate at the end of the year and are payable upon request to employees with more than 240 accumulated annual leave days. All accumulated annual leave is payable to employees upon termination. At December 31, 2012 and 2011, the District's accrued compensated absences for annual leave totaled $290,067 and $265,828, respectively.

Employees accrue sick days at the rate of one sick day per month worked. The sick pay accumulation is unlimited and is payable upon retirement for all sick leave in excess of 800 hours at the rate of one day's pay for each 100 hours or fraction thereof. At December 31, 2012 and 2011, the District's accrued compensated absences for sick leave totaled $32,963 and $31,039, respectively.

NOTE L-RELATED PARTIES

Management of the District also serves as the management of the Butler County Water System, Inc. and the Simpson County Water District through a Joint Operations Agreement. Certain transactions, such as vehicle use, initiate billings of revenue between the districts. At December 31, 2012, the District carried net receivables of $56,877 and $17,064 from Butler and Simpson Counties, respectively. At December 31, 2011, the District carried net receivables of $46,494 and $38,982 from Butler and Simpson Counties, respectively.

NOTE M-SUBSEQUENT EVENTS

The company has evaluated subsequent events through April 16th the date which the financial statements were available to be issued.

In February of 2013 the District refunded its Bond Series 2003A, with outstanding principal balances of $1,815,000 with Bond Series 2013B in the amount of $1,975,000. The Bond Series 2013B has an interest rate ranging from 2.3 % to 3.3% and will pay off in February 2028.

OTHER SUPPLEMENTARY INFORMATION

WARREN COUNTY WATER DISTRICT
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2012

	Budgeted Amounts 2012	Actual Amounts 2012	Variance
OPERATING REVENUES			
Metered sales	$ 10,822,565	$ 11,113,443	$ 290,878
Miscellaneous service revenue	230,395	234,436	4,041
TOTAL OPERATING REVENUES	11,052,960	11,347,879	294,919
OPERATING EXPENSES			
Source of supply	3,467,155	3,513,231	(46,076)
Pumping plant	583,278	632,110	(48,832)
Water treatment	5,685	252	5,433
Transmission and distribution	1,080,615	1,028,587	52,028
Customer accounts	1,199,259	1,216,926	(17,667)
Administrative and general	851,058	771,423	79,635
Depreciation	2,720,825	2,694,616	26,209
TOTAL OPERATING EXPENSES	9,907,875	9,857,145	50,730
OPERATING INCOME	1,145,085	1,490,734	345,649
NONOPERATING REVENUES (EXPENSES)			
Interest income	81,270	100,648	19,378
Rental revenue	111,860	122,630	10,770
Non-utility income	112,370	108,521	(3,849)
Gain on disposal of assets	-	10,569	10,569
Amortization of debt expense	(47,520)	(44,920)	2,600
Interest expense	(526,360)	(460,222)	66,138
TOTAL NONOPERATING REVENUES (EXPENSES)	(268,380)	(162,774)	105,606
INCREASE IN NET ASSETS	$ 876,705	$ 1,327,960	$ 451,255

	2012	2011
CUSTOMER ACCOUNTS EXPENSE		
Salaries and benefits	$ 827,171	$ 773,996
Billing services	191,103	175,480
Contractual services	46,561	37,947
Uncollectible accounts	22,293	20,374
Rental expense	30,255	29,181
Transportation	90,011	94,318
Insurance	6,890	6,512
Miscellaneous	(182)	(1,468)
Materials and supplies	2,824	13,188
TOTAL CUSTOMER ACCOUNTS EXPENSE	$ 1,216,926	$ 1,149,528
ADMINISTRATIVE AND GENERAL EXPENSE		
Salaries and benefits	$ 470,767	$ 434,130
Office supplies	41,611	34,521
Commissioner Fees	30,000	30,000
Contractual services	179,361	196,014
Insurance	11,596	11,216
Rental expense	5,187	5,002
Regulatory commission expense	16,701	14,729
Miscellaneous	15,047	19,426
Transportation	1,153	1,069
TOTAL ADMINISTRATIVE AND GENERAL EXPENSE	$ 771,423	$ 746,107
DEPRECIATION EXPENSE	$ 2,694,616	$ 2,636,361

	2012	2011
OTHER ASSETS		
Deferred charges	225,422	157,581
Unamortized debt expense	392,092	345,143
TOTAL OTHER ASSETS	617,514	502,724
TOTAL ASSETS	$ 78,006,729	$ 77,443,770
NET POSITION AND LIABILITIES		
NET POSITION		
Invested in capital assets, net of related debt	$ 48,793,487	$ 47,680,742
Restricted	7,800,461	6,999,237
Unrestricted	995,308	1,118,376
TOTAL NET POSITION	57,589,256	55,798,355
LONG-TERM DEBT AND DEFERRED CREDITS		
Bonds payable	2,601,000	5,557,000
Notes payable	6,787,666	4,910,283
Deferred credits	8,926,765	8,919,464
	18,315,431	19,386,747
Less - Current portion of long-term debt	(473,811)	(699,618)
TOTAL LONG-TERM DEBT AND DEFERRED CREDITS	17,841,620	18,687,129
CURRENT LIABILITIES		
Accounts payable and accrued expenses	1,001,225	1,206,043
Butler County Water System, Inc.	42,405	45,616
Simpson County Water District	35,750	31,818
Accounts payable - Sewer Division	141,723	124,798
Current portion of long-term debt	473,811	699,618
Deferred revenue	63,300	58,658
TOTAL CURRENT LIABILITIES	1,758,214	2,166,551
OTHER LIABILITIES		
Customers' meter deposits	817,639	791,735
TOTAL NET POSITION AND LIABILITIES	$ 78,006,729	$ 77,443,770

	2012	2011
Customer accounts expense:		
Salaries and benefits	749,533	706,349
Billing services	191,103	175,480
Contractual services	3,214	3,038
Uncollectible accounts	20,686	17,801
Rental expense	30,255	29,181
Transportation	89,835	94,222
Insurance	4,755	4,512
Miscellaneous	(182)	(605)
Materials and supplies	2,484	12,738
	1,091,683	1,042,716
Administrative and general expense:		
Salaries and benefits	416,023	388,077
Office supplies	39,119	31,924
Contractual services	155,658	174,615
Commissioner fees	15,000	15,000
Insurance	7,107	6,865
Rental expense	5,187	5,002
Regulatory commission expense	13,749	12,082
Miscellaneous	12,244	15,830
Transportation	1,153	1,069
	665,240	650,464
Depreciation	1,932,103	1,889,196
TOTAL OPERATING EXPENSES	7,932,066	7,088,769
OPERATING INCOME	1,246,667	1,168,686
NONOPERATING REVENUES (EXPENSES)		
Interest income	80,800	(2,361)
Rental revenue	104,484	94,946
Non utility income	108,516	107,150
Gain on disposal of assets	10,569	12,314
Amortization of debt expense	(43,973)	(53,520)
Interest expense	(399,356)	(467,699)
TOTAL NONOPERATING REVENUES (EXPENSES)	(138,960)	(309,170)
INCOME BEFORE CAPITAL CONTRIBUTIONS	1,107,707	859,516
CAPITAL CONTRIBUTIONS	683,194	1,651,857
INCREASE IN NET POSITION	1,790,901	2,511,373
NET POSITION, BEGINNING OF YEAR	55,798,355	53,286,982
NET POSITION, END OF YEAR	$ 57,589,256	$ 55,798,355

	2012	2011
NET POSITION AND LIABILITIES		
NET POSITION		
Invested in capital assets, net of related debt	$ 19,120,406	$ 17,584,099
Restricted	4,194,931	3,825,860
Unrestricted	658,449	585,855
TOTAL NET POSITION	23,973,786	21,995,814
LONG-TERM DEBT AND DEFERRED CREDITS		
Bonds payable	578,500	594,000
Notes payable	1,515,119	799,372
Deferred credits	11,012,678	11,558,817
	13,106,297	12,952,189
Less - Current portion of long-term debt	(105,084)	(97,184)
TOTAL LONG-TERM DEBT AND DEFERRED CREDITS	13,001,213	12,855,005
CURRENT LIABILITIES		
Accounts payable and accrued expenses	47,267	211,292
Current portion of long-term debt	105,084	97,184
TOTAL CURRENT LIABILITIES	152,351	308,476
OTHER LIABILITIES		
Customers' meter deposits	193,934	183,633
TOTAL NET POSITION AND LIABILITIES	$ 37,321,284	$ 35,342,928

	2012	2011
Administrative and general expense:		
Salaries and benefits	54,744	46,053
Contractual services	23,703	21,399
Commissioner fees	15,000	15,000
Insurance	4,489	4,351
Regulatory commission expense	2,952	2,647
Office supplies	2,492	2,597
Miscellaneous	2,803	3,596
	106,183	95,643
Depreciation	762,513	747,165
TOTAL OPERATING EXPENSES	1,925,079	1,739,680
OPERATING INCOME	244,067	137,894
NONOPERATING REVENUES (EXPENSES)		
Interest income	19,848	23,003
Rental revenue	18,146	8,096
Non utility income	5	11
Amortization of debt expense	(947)	(997)
Interest expense	(60,866)	(61,879)
TOTAL NONOPERATING REVENUES (EXPENSES)	(23,814)	(31,766)
INCOME BEFORE CAPITAL CONTRIBUTIONS	220,253	106,128
CAPITAL CONTRIBUTIONS	1,757,719	842,304
INCREASE IN NET POSITION	1,977,972	948,432
NET POSITION, BEGINNING OF YEAR	21,995,814	21,047,382
NET POSITION, END OF YEAR	$ 23,973,786	$ 21,995,814

Shelton CPAs, LLP

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Warren County Water District (the District), as of and for the year ended December 31, 2012, 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 16, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Shelton CPAs, LLP

Shelton CPAs, LLP
April 16, 2013