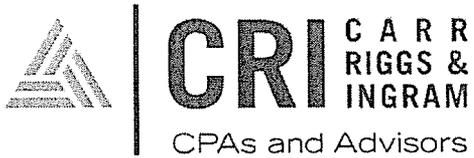


PUBLIC SERVICE COMMISSION
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EXAMINED BY _____

**Butler County
Water System, Inc.**

Financial Statements

December 31, 2011 and 2010



Butler County Water System, Inc.

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December 31, 2011 and 2010

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Independent Auditors' Report

Board of Directors
Butler County Water System, Inc.
Morgantown, Kentucky

We have audited the accompanying balance sheet of the Butler County Water System, Inc. (the "Utility") as of December 31, 2011, and the related statements of operations, changes in members' equity and cash flows for the year then ended. These financial statements are the responsibility of the Utility's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements as of December 31, 2010 were audited by other auditors whose report dated March 18, 2011 expressed an unqualified opinion on those statements.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Butler County Water System, Inc. as of December 31, 2011 and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 9, 2012 on our consideration of the Utility's internal control over financial

reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of budgetary comparison is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 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 information is fairly stated in all material respects in relation to the financial statements as a whole.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The financial and statistical highlights is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Carr, Riggs & Ingram, LLC

Carr, Riggs & Ingram, LLC
Bowling Green, Kentucky
April 9, 2012

Other Information

Financial and Statistical
Highlights

Financial and Statistical Highlights

The following are financial and statistical highlights of Butler County Water System for year ending December 31, 2011 and 2010.

- The System's total assets decreased by \$217,974 to \$21,074,149 from \$21,292,123 in the prior year.
- Total operating revenue for the year decreased by \$32,331 from the prior year, a 1.8% decrease. Total operating expenses for the year increased by \$52,776 from last year, a 3.5% increase.
- Total water sales decreased by \$29,395 from the prior year, a 1.7% decrease. Residential sales decreased by \$22,322, or -1.5%; commercial sales decreased by \$7,073, or -3.4%.
- The System uses Green River as a water source and produces water at its water treatment facility located on Middle Ferry Road in Morgantown, Kentucky. Total gallons produced for the year amounted to 310.5 million gallons compared to 318.7 million gallons in the prior year, a decrease of 2.6%. The peak production month was August 2011 which produced 31.1 million gallons.
- Total gallons sold to the System's customers during the year amounted to 251.1 million gallons compared to 258.8 million gallons in the prior year, a decrease of 3.0%. The peak demand month was August 2011 with 25.4 million gallons sold.
- The average monthly usage per residential customer was 3,996 gallons compared to 4,106 gallons in the prior year, a 2.7% decrease. The average monthly usage per commercial customer was 10,262 gallons compared to 11,092 gallons in the prior year, a 7.5% decrease.
- The number of customers at the end of the year totaled 4,783 consisting of 4,491 residential customers and 292 commercial customers.
- The System installed 42 new meters including 41 installations of 5/8" size meters, and 1 installation of 1" size meter.
- The System has a total of 519 miles of distribution main, and 29 miles of service line.
- *Projects placed into service this year: Water System Improvements – Project 16A, Contract B – consists of one new backwash pump at the water treatment plant. Water System Improvements – Project 17 consists of approximately 9*

miles of small diameter water main replacement plus another 2.6 miles of new distribution mains. *Project 17, Phase 2* consists of installing 4" water main to provide water service to residents on Hidden Valley Drive, Huldeyville Road, and Cane Ridge Road. *CIS Selection & Implementation* – includes the procurement and conversion of a new customer billing and information system.

Financial Statements

Butler County Water System, Inc.
Balance Sheets

December 31,	2011	2010
Assets		
Current Assets		
Cash and cash equivalents	\$ 166,512	\$ 462,449
Accounts receivable:		
Customer accounts receivable, net of allowance for uncollectibles of \$67,512 and \$63,278	41,637	59,123
Accounts receivable – other	45,503	76,112
Prepaid insurance	16,159	15,886
Total current assets	269,811	613,570
Property, Plant and Equipment		
Land and land rights	101,521	101,521
Utility plant in service	25,217,869	25,125,971
Construction in progress	893,307	640,269
Less: accumulated depreciation	(7,029,654)	(6,747,087)
Property, plant and equipment, net	19,183,043	19,120,674
Other Assets		
Restricted cash and cash equivalents	1,456,049	1,408,554
Restricted short-term investments	119,635	118,855
Deferred charges	45,611	30,470
Total other assets	1,621,295	1,557,879
Total Assets	\$ 21,074,149	\$ 21,292,123

December 31,	2011	2010
Liabilities and Members' Equity		
Current Liabilities		
Accounts payable	\$ 61,545	\$ 99,470
Accounts payable – WCWD	80,153	107,613
Accrued interest payable	149,000	153,041
Other current liabilities	4,430	4,506
Current portion of long-term debt	165,117	157,686
Total current liabilities	460,245	522,316
Long-Term Liabilities		
Rebates payable	14,625	63,126
Customer deposits	119,136	117,501
Long-term debt, net of current portion	4,465,594	4,617,717
Total long-term liabilities	4,599,355	4,798,344
Total liabilities	5,059,600	5,320,660
Members' Equity		
Contributions in aid of construction	13,644,563	13,577,062
Retained earnings	2,369,986	2,394,401
Total members' equity	16,014,549	15,971,463
Total Liabilities and Members' Equity	\$ 21,074,149	\$ 21,292,123

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

Butler County Water System, Inc.
Statements of Operations

Years Ended December 31,	2011	2010
Operating Revenues		
Metered sales:		
Residential	\$ 1,493,939	\$ 1,516,261
Commercial	201,157	209,277
Resale	1,115	68
Total metered sales	1,696,211	1,725,606
Forfeited discounts	31,605	29,938
Miscellaneous service revenue	28,430	33,033
Total operating revenues	1,756,246	1,788,577
Operating Expenses		
Pumping expense:		
Purchased power	39,342	39,680
Salaries and benefits	120	83
Insurance	2,650	2,545
Miscellaneous	1,473	1,084
Professional services	480	479
Total pumping expense	44,065	43,871
Water treatment expense:		
Purchased power	86,203	86,015
Chemicals	55,766	52,678
Materials and supplies	5,195	3,521
Insurance	5,301	5,090
Salaries and benefits	91,107	91,187
Contractual services	757	703
Miscellaneous	6,169	6,312
Professional services	972	958
Total water treatment expense	251,470	246,464
General distribution expense:		
Purchased power	4,008	2,968
Salaries and benefits	105,530	93,424
Materials and supplies	43,504	38,530
Insurance	11,485	11,029
Miscellaneous	26,659	23,616
Contractual services	14,979	14,648
Professional services	487	480
Total general distribution expense	206,652	184,695

Years Ended December 31,	2011	2010
Customer accounts expense:		
Salaries and benefits	173,629	185,147
Contractual services	39,587	40,266
Uncollectible accounts	4,233	4,488
Materials and supplies	2,376	1,045
Insurance	1,325	1,273
Miscellaneous	28,767	32,732
Professional services	1,459	1,438
Total customer accounts expense	251,376	266,389
Maintenance expense:		
Pumping equipment and storage expense	26,440	20,998
Salaries and benefits	117,573	117,064
Contractual services	41,565	38,524
Professional services	972	959
Total maintenance expense	186,550	177,545
Administrative and general expense:		
Salaries and benefits	61,662	64,779
Materials and supplies	5,775	5,531
Insurance	2,240	2,186
Miscellaneous	2,739	2,854
Contractual services	23,880	21,957
Professional services	1,609	1,538
Total administrative and general expense	97,905	98,845
Depreciation expense	528,254	495,687
Total operating expenses	1,566,272	1,513,496
Operating income	189,974	275,081
Non-Operating Revenues (Expenses)		
Other income	1	27
Interest income	17,778	19,083
Interest expense on long-term debt	(228,606)	(236,180)
Interest expense on customer deposits	(827)	(1,311)
Gain on sale of assets	0	3,732
PSC taxes	(2,735)	(2,771)
Total non-operating revenues (expenses)	(214,389)	(217,420)
Net Income (Loss)	\$ (24,415)	\$ 57,661

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

Butler County Water System, Inc.
Statements of Changes in Members' Equity

Years Ended December 31, 2011 and 2010	Retained Earnings	Contributions in Aid of Construction	Total
Balance, January 1, 2010	\$ 2,336,740	\$ 13,534,832	\$ 15,871,572
Net income	57,661	0	57,661
Contributions in aid of construction	0	42,230	42,230
Balance, December 31, 2010	2,394,401	13,577,062	15,971,463
Net loss	(24,415)	0	(24,415)
Contributions in aid of construction	0	67,501	67,501
Balance, December 31, 2011	\$ 2,369,986	\$ 13,644,563	\$ 16,014,549

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

Butler County Water System, Inc.
Statements of Cash Flows

December 31,	2011	2010
Cash Flows From Operating Activities		
Receipts from customers and agencies	\$ 1,804,341	\$ 1,771,492
Payments to suppliers for goods and services	(618,651)	(423,885)
Payments for contractual services	(549,842)	(551,684)
Net cash provided by operating activities	635,848	795,923
Cash Flows From Non-Capital Financing Activities		
Interest paid on customer deposits	(827)	(1,311)
Net cash used in non-capital financing activities	(827)	(1,311)
Cash Flows From Capital and Related Financing Activities		
Receipt of other receivable	0	1,931,685
Principal repayment on long-term debt	(144,692)	(149,757)
Contributions in aid of construction	67,501	42,230
Purchases of capital assets	(590,623)	(2,292,340)
Gain on sale of capital assets	0	(3,732)
Interest paid on long-term debt	(232,647)	(244,167)
Net cash used in capital and related financing activities	(900,461)	(716,081)
Cash Flows From Investing Activities		
Purchase of short-term investments	(119,635)	(118,857)
Maturity of short-term investments	118,855	0
Interest income	17,778	19,083
Net cash provided by (used in) investing activities	16,998	(99,774)
Net Decrease in Cash and Cash Equivalents	(248,442)	(21,243)
Balances – Beginning of Year	1,871,003	1,892,246
Balances – End of Year	\$ 1,622,561	\$ 1,871,003

December 31,	2011	2010
Reconciliation of Operating Income to Net Cash Provided By Operating Activities		
Operating income	\$ 189,974	\$ 275,081
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation expense	528,254	495,687
Non-utility rental income	1	23
Payment of PSC taxes	(2,735)	(2,771)
Changes in assets and liabilities:		
Net decrease in accounts receivable, net	48,095	(16,908)
Net increase in prepaid insurance	(273)	(482)
Net increase in deferred charge	(15,141)	(7,192)
Net increase (decrease) in accounts payable	(65,385)	47,803
Net increase (decrease) in rebates payable	(48,501)	1,497
Net decrease in other current liabilities	(76)	71
Net increase in customer deposits	1,635	3,114
Net Cash Provided By Operating Activities	\$ 635,848	\$ 795,923

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

Note 1: Summary of Significant Accounting Policies

• ***Nature of Business***

The Butler County Water System, Inc. ("Utility") is a water association organized as a non-profit corporation under KRS 273 and is under the authority of the Public Service Commission of Kentucky. The Utility provides a public water system to primarily citizens located in Butler County, Kentucky.

The accounting policies of the Utility conform to generally accepted accounting principles as applicable to a non-profit membership association. The following is a summary of the more significant policies:

▶ **Reporting Entity**

The Utility is governed by a five-member board (the "Board"). The Board of Directors are elected by the members of the Utility. The Board has the power and authority to acquire, construct, maintain and operate the waterworks system.

▶ **Basis of Accounting**

Basis of accounting refers to the point at which revenues or expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied. The accompanying financial statements have been prepared on the accrual basis of accounting.

The Utility follows the practice of recording metered sales when billed to the customers and recording related expenses when billed to the water Utility. This results in a lag of recording revenue and related expenses. However, it does provide approximate matching of revenue and expenses and does not have a material effect between years. Operating revenues are revenues generated from general water operations (water sales, forfeited discounts and miscellaneous service revenue) and all other non-water revenues are considered non-operating revenues.

▶ **Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles 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 and expenses during the reporting period. Actual results could differ from those estimates.

Note 1: Summary of Significant Accounting Policies
(Continued)

▶ **Cash and Cash Equivalents**

The Utility has defined cash and cash equivalents to include all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

▶ **Accounts Receivable**

Customer accounts receivable amounts arise from monthly water usage. Based on Utility policy, water meters are read monthly, with billings occurring approximately ten days subsequent to the reading. Once billed, the customer has 16 days to pay the amount due. If payment is not made by the due date, a two to four day grace period is granted. If payment is not made at the expiration of the grace period, a late penalty is assessed to water charges and delinquent notices are sent. Customers are given 14 days from the date of the delinquent notice to render payment. Customer service places calls to facilitate collection; if no payment is received, collection trips are made to the service location. If collection does not occur, the meter is shut off. If collection is considered unlikely, the balances are charged off as a bad debt expense in the period in which they were deemed uncollectible.

Management's periodic evaluation of the adequacy of the allowance for doubtful accounts is based on past loss experience, known and other risks inherent to the specific amount, adverse situations that may affect the customer's ability to render payment and current economic conditions. Management considers many factors in determining whether a receivable is impaired, such as payment history and changes in employment.

▶ **Concentration of Credit Risk**

The Utility extends credit to all citizens who live within the geographic location of the Utility and who utilize the utility system. Credit losses may be minimal and are generally within management's expectations.

▶ **Short-Term Investments**

Short-term investments consist of certificates of deposit and are recorded at cost. The cost of investments approximates their fair value.

Note 1: Summary of Significant Accounting Policies
(Continued)

▶ **Property, Plant and Equipment**

The Utility has an ongoing activity of assessing the feasibility of installing additional lines to new service areas. Once an extension is considered feasible, there are additional engineering studies, applications to various funding agencies and project administrative costs. The Utility defers the ongoing activity and capitalizes these costs as part of the utility plant upon completion of the project.

Management's capitalization policy is based upon the assets' estimated future benefit. Depreciation is computed using the straight-line method over the estimated useful lives of the utility plant. The estimated useful lives range from 5 to 50 years for utility plant assets. Upon retirement, the cost of the asset, less any proceeds, is charged to accumulated depreciation.

The Utility capitalizes construction period interest on loans that were obtained to finance construction.

▶ **Income Taxes**

The Utility may qualify for an exemption from federal income tax under the Internal Revenue Code as a not-for-profit organization. The Utility is applying for an exempt status with the Internal Revenue Service. See Note 9.

• ***Contributions in Aid of Construction***

Contributions in aid of construction consist of member 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.

• ***Reclassifications***

Certain amounts presented in the 2010 year data have been reclassified in order to be consistent with the 2011 year's presentation. These changes had no impact on the net income for 2010.

• ***Subsequent Events***

The Utility has evaluated any recognized or unrecognized subsequent events for consideration in the accompanying financial statements through April 9, 2012 which was the date the financial statements were made available.

Note 2: Cash and Short-Term Investments

The Utility maintains its deposits with financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). As of December 31, 2011 and 2010, respectively, the carrying amounts of the Utility's deposits were \$1,742,196 and \$1,989,858 and the bank balances were \$1,698,522 and \$2,187,973.

December 31,	2011	2010
Cash and cash equivalents	\$ 166,512	\$ 462,449
Restricted investments	119,635	118,855
Restricted cash and cash equivalents	1,456,049	1,408,554
	\$ 1,742,196	\$ 1,989,858

• **Cash Concentration Risk — Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the Utility's deposits may not be returned to it. The Utility'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, 2011 and 2010, the Utility's bank balance was not exposed to custodial credit risk.

Note 3: Restricted Cash and Short-Term Investments

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

The depreciation fund is restricted to payment for improvements and approved repairs.

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

Butler County Water System, Inc.
Notes to the Financial Statements (Continued)

Note 3: Restricted Cash and Short-Term Investments
(Continued)

December 31,	2011	2010
Sinking funds	\$ 349,914	\$ 333,899
Depreciation fund	1,101,135	1,074,655
Customer deposits	124,635	118,855
	\$ 1,575,684	\$ 1,527,409

Note 4: Property, Plant and Equipment

December 31,	2011	2010
Non-depreciable:		
Land and land rights	\$ 101,521	\$ 101,521
Construction in progress	893,307	640,270
Depreciable:		
Utility plant in service	25,217,869	25,125,971
Less: accumulated depreciation	(7,029,654)	(6,747,087)
Property, Plant and Equipment, Net	\$ 19,183,043	\$ 19,120,675

Depreciation expense was \$528,254 and \$495,687 for the years ended December 31, 2011 and 2010, respectively.

Note 5: Rebates Payable

These amounts are partially made up of private developers' unrecovered costs in installing water lines. Utility plant was increased for a like amount when the facilities were donated to the water Utility. As meters are placed in the development, the developer receives half of the new customers' contribution for meters connected directly to the extension over the next ten years or up to the value of facilities constructed. The

Butler County Water System, Inc.
Notes to the Financial Statements (Continued)

Note 5: Rebates Payable (Continued)

remaining balance in this account was obtained from subscriptions of prospective users of the water Utility. When a meter is installed, the subscribed amount is transferred to contributions in aid of construction.

Note 6: Long-Term Debt

The following loans were issued through USDA, Rural Development (RD):

Original Amount	Series of	Interest Rate	Balance as of December 31,	
			2011	2010
\$ 116,000	1973	5.00%	\$ 9,025	\$ 9,025
117,400	1974	5.00%	17,743	17,743
191,400	1977	5.00%	57,203	65,288
357,000	1977	5.00%	106,750	121,746
152,000	1979	5.00%	50,239	55,802
369,000	1987	5.00%	235,592	245,858
940,000	1989	5.00%	642,325	664,352
752,000	1992	5.00%	564,872	579,686
1,998,000	1994	5.00%	1,582,360	1,618,630
950,000	1996	4.50%	772,547	788,966
40,013	1997	5.00%	14,293	16,786
197,214	1997	4.50%	156,121	160,135
545,000	1998	4.75%	421,641	431,386
			\$ 4,630,711	\$ 4,775,403

Principal and interest of various amounts are due at least annually in each of the years through 2032. The principal and interest due for each of the next five years and thereafter is as follows:

Year	Principal Amount	Interest Amount
2012	\$ 165,117	\$ 225,974
2013	169,227	217,843
2014	173,704	209,511

Butler County Water System, Inc.
Notes to the Financial Statements (Continued)

Note 6: Long-Term Debt (Continued)

Year	Principal Amount	Interest Amount
2015	176,462	200,915
2016	185,082	192,234
Thereafter	3,761,119	1,839,476
	\$ 4,630,711	\$ 2,885,953

The bonds are secured by an exclusive pledge of a fixed portion of the income and revenues derived from the operation of the Utility's water distribution system and each has a debt service sinking fund requirement along with depreciation reserves.

Note 7: Related Parties

The Warren County Water District (WCWD) provides management, engineering and repair and maintenance services to the Utility. The following related party amounts were included in accounts payable at December 31, 2011 and 2010:

December 31,	2011	2010
Warren County Water District	\$ 80,153	\$ 107,613

During 2011 and 2010, expenses from the WCWD amounted to \$903,810 and \$1,034,188, respectively, for the following expenses:

December 31,	2011	2010
Wages and benefits:		
Operation	\$ 448,670	\$ 442,263
Administrative:		
Supervision and administration	95,404	107,292
Accounting	34,275	32,547
Customer service	69,048	56,088

Butler County Water System, Inc.
Notes to the Financial Statements (Continued)

Note 7: Related Parties *(Continued)*

<u>December 31,</u>	<u>2011</u>	<u>2010</u>
Engineering	34,590	25,263
Operations – other	105,925	103,456
Additions to plant	31,238	37,185
Special projects	84,660	230,094
Totals	\$ 903,810	\$ 1,034,188

In the ordinary course of business, the Utility has and expects to continue to have transactions with WCWD. 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 Utility.

Note 8: Risks of Loss

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

Note 9: Contingency

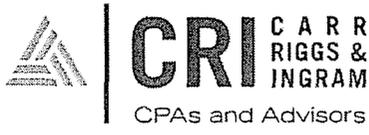
The Utility has been informed that they may be required to file an annual tax return with the Internal Revenue Service. The Utility has not filed any tax returns. The Utility is applying for tax-exempt status with the Internal Revenue Service. As of December 31, 2011, the Utility does not know the outcome of this matter. Accordingly, no provision has been reflected in the accompanying financial statements.

Supplementary Information

Butler County Water System, Inc.
Schedule of Budgetary Comparison

December 31, 2011

	Budgeted Amounts		Actual	Variances Favorable (Unfavorable)
	Original	Final		Final to Actual
Revenues				
Metered revenue	\$ 1,722,080	\$ 1,722,080	\$ 1,696,211	\$ (25,869)
Forfeited discounts	30,140	30,140	31,605	1,465
Miscellaneous service revenue	35,100	35,100	28,430	(6,670)
Other water revenue	0	0	1	1
Interest income	17,395	17,395	17,778	383
Total revenues	1,804,715	1,804,715	1,774,025	(30,690)
Expenses				
Salaries and wages	382,149	382,149	355,507	26,642
Fringe benefits	219,970	219,970	194,335	25,635
Purchased water	129,450	129,450	129,553	(103)
Chemicals	56,550	56,550	55,766	784
Materials and supplies	53,215	53,215	57,003	(3,788)
Contractual services -- accounting	6,000	6,000	5,836	164
Contractual services -- legal	250	250	150	100
Contractual services -- other	107,515	107,515	120,761	(13,246)
Rental of building and utilities	15,135	15,135	14,998	137
Equipment expense	74,495	74,495	74,811	(316)
Insurance -- general liability	21,550	21,550	22,086	(536)
Insurance -- other	915	915	915	0
Regular expense	2,740	2,740	2,735	5
Bad debt expense	5,000	5,000	4,233	767
Miscellaneous expense	3,265	3,265	2,064	1,201
Depreciation	559,185	559,185	528,254	30,931
Interest expense	164,395	164,395	229,433	(65,038)
Total expenses	1,801,779	1,801,779	1,798,440	3,339
Net Loss	\$ 2,936	\$ 2,936	\$ (24,415)	\$ (27,351)



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**Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance With
*Government Auditing Standards***

Board of Directors
Butler County Water System, Inc.
Morgantown, Kentucky

We have audited the financial statements of the Butler County Water System, Inc. (the "Utility"), as of and for the year ended December 31, 2011, and have issued our report thereon dated April 9, 2012. 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.

• **Internal Control Over Financial Reporting**

Management of the Utility is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Utility's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Utility's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Utility's internal control over financial reporting.

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 Utility's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

● **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Utility's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance 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 non-compliance and other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to the Utility's management in a separate letter dated April 9, 2012.

This report is intended solely for the information and use of the Board of Directors, management, others within the organization and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

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

Carr, Riggs & Ingram, LLC
Bowling Green, Kentucky
April 9, 2012