



Butler County
Water System



April 29, 2013

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 Butler County Water System, Inc. 33700. If you have any questions, please let us know.

Sincerely,

Alan Vilines
General Manager

Enclosures

Providing high quality
water services to
families and businesses
throughout
Butler County.



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COMMISSION

**Butler County
Water System, Inc.**

Financial Statements

December 31, 2012 and 2011



Independent Auditors' Report 3

Other Information:

Financial and Statistical Highlights 7

Financial Statements:

Balance Sheets 9
Statements of Operations 11
Statements of Changes in Members' Equity 13
Statements of Cash Flows 14
Notes to the Financial Statements 16

Supplementary Information:

Schedules of Budgetary Comparison 26

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* 28



Carr, Riggs & Ingram, LLC
927 College Street
Bowling Green, Kentucky 42101
PO Box 104
Bowling Green, Kentucky 42102-0104
(270) 782-0700
(270) 782-0932 (fax)

167 South Main Street
Russellville, Kentucky 42276
(270) 726-7151
(270) 726-3155 (fax)

www.cricpa.com

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Butler County Water System, Inc. (the "Utility"), which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of operations, changes in members' equity and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk

assessments, the auditor considers internal control relevant to the 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 opinion.

Opinion

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

Other Matters

Supplemental and Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of budgetary comparison are presented for purposes of additional analysis and are 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.

The financial and statistical highlights have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 8, 2013, on our consideration of the Butler County Water System, Inc.'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 and 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 Utility's internal control over financial reporting and compliance.

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

Other Information

Financial and Statistical Highlights

FINANCIAL & STATISCIAL HIGHLIGHTS

The following are financial and statistical highlights of Butler County Water System for year ending December 31, 2012 and 2011.

- The System's total assets increased by \$78,592 to \$21,152,741 from \$21,074,149 in the prior year.
- Total operating revenue for the year increased by \$25,779 from the prior year, a 1.5% increase. Total operating expenses for the year increased by \$27,877 from last year, a 1.8% increase.
- Total water sales increased by \$26,164 from the prior year, a 1.5% increase. Residential sales increased by \$21,602, or 1.4%; commercial sales increased by \$3,580, or 1.8%.
- 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 318.2 million gallons compared to 310.5 million gallons in the prior year, an increase of 2.5%. The peak production month was July 2012 which produced 33 million gallons.
- Total gallons sold to the System's customers during the year amounted to 256.7 million gallons compared to 251.1 million gallons in the prior year, an increase of 2.2%. The peak demand month was July 2012 with 28.2 million gallons sold.
- The average monthly usage per residential customer was 4,056 gallons compared to 3,996 gallons in the prior year, a 1.5% increase. The average monthly usage per commercial customer was 10,601 gallons compared to 10,262 gallons in the prior year, a 3.3% increase.
- The number of customers at the end of the year totaled 4,802 consisting of 4,502 residential customers and 300 commercial customers.
- The System installed 27 new meters including 25 installations of 5/8" size meters, and 2 installations of 1" size meters.
- The System has a total of 527 miles of distribution main serving an average of 9 customers per mile and 30 miles of service line.
- Major project under construction: *Highway 231 Water Line Relocation* – consists of relocating approximately 6,800 linear feet of 4-, 8-, & 12-inch water for a total project cost of \$402,000 which is 100% funded through the Kentucky Department of Transportation.

Financial Statements

Butler County Water System, Inc.
Balance Sheets

December 31,	2012	2011
Assets		
Current Assets		
Cash and cash equivalents	\$ 101,123	\$ 166,512
Accounts receivable:		
Customer accounts receivable, net of allowance for uncollectibles of \$72,672 and \$67,512	61,068	41,637
Accounts receivable – WCWD	42,405	45,503
Accounts receivable – SCWD	1,778	-
Accounts receivable – other	106,314	-
Prepaid insurance	16,284	16,159
Total current assets	328,972	269,811
Property, Plant and Equipment		
Land and land rights	101,521	101,521
Utility plant in service	26,198,187	25,217,869
Construction in progress	494,421	893,307
Less: accumulated depreciation	(7,500,133)	(7,029,654)
Property, plant and equipment, net	19,293,996	19,183,043
Other Assets		
Restricted cash and cash equivalents	778,441	1,456,049
Restricted investments	625,372	119,635
Deferred charges	125,960	45,611
Total other assets	1,529,773	1,621,295
Total Assets	\$ 21,152,741	\$ 21,074,149

December 31,	2012	2011
Liabilities and Members' Equity		
Current Liabilities		
Accounts payable	\$ 78,072	\$ 61,545
Accounts payable – WCWD	102,162	80,153
Accrued interest payable	30,733	149,000
Other current liabilities	4,711	4,430
Current portion of long-term debt	60,740	165,117
Total current liabilities	276,418	460,245
Long-Term Liabilities		
Rebates payable	14,625	14,625
Customer deposits	121,872	119,136
Long-term debt, net of current portion	4,421,003	4,465,594
Total long-term liabilities	4,557,500	4,599,355
Total liabilities	4,833,918	5,059,600
Members' Equity		
Contributions in aid of construction	13,971,655	13,644,563
Retained earnings	2,347,168	2,369,986
Total members' equity	16,318,823	16,014,549
Total Liabilities and Members' Equity	\$ 21,152,741	\$ 21,074,149

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,	2012	2011
Operating Revenues		
Metered sales:		
Residential	\$ 1,515,541	\$ 1,493,939
Commercial	204,737	201,157
Resale	2,097	1,115
Total metered sales	1,722,375	1,696,211
Forfeited discounts	29,105	31,605
Miscellaneous service revenue	30,545	28,430
Total operating revenues	1,782,025	1,756,246
Operating Expenses		
Pumping expense:		
Purchased power	39,556	39,342
Salaries and benefits	33	120
Insurance	2,688	2,650
Miscellaneous	5,634	1,473
Professional services	718	480
Total pumping expense	48,629	44,065
Water treatment expense:		
Purchased power	82,182	86,203
Chemicals	48,830	55,766
Materials and supplies	12,619	5,195
Insurance	5,376	5,301
Salaries and benefits	94,868	91,107
Contractual services	2,612	757
Miscellaneous	7,051	6,169
Professional services	1,436	972
Total water treatment expense	254,974	251,470
General distribution expense:		
Purchased power	3,872	4,008
Salaries and benefits	114,144	105,530
Materials and supplies	30,758	43,504
Insurance	11,648	11,485
Miscellaneous	27,078	26,659
Contractual services	13,706	14,979
Professional services	719	487
Total general distribution expense	201,925	206,652

Years Ended December 31,	2012	2011
Customer accounts expense:		
Salaries and benefits	189,810	173,629
Contractual services	44,437	39,587
Uncollectible accounts	5,160	4,233
Materials and supplies	1,410	2,376
Insurance	1,344	1,325
Miscellaneous	30,337	28,767
Professional services	2,154	1,459
Total customer accounts expense	274,652	251,376
Maintenance expense:		
Pumping equipment and storage expense	20,843	26,440
Salaries and benefits	116,529	117,573
Contractual services	28,554	41,565
Professional services	1,437	972
Total maintenance expense	167,363	186,550
Administrative and general expense:		
Salaries and benefits	66,181	61,662
Materials and supplies	6,046	5,775
Insurance	2,350	2,240
Miscellaneous	2,533	2,739
Contractual services	25,058	23,880
Professional services	2,154	1,609
Total administrative and general expense	104,322	97,905
Depreciation and amortization expense	542,284	528,254
Total operating expenses	1,594,149	1,566,272
Operating income	187,876	189,974
Non-Operating Revenues (Expenses)		
Other income	13	1
Interest income	11,860	17,778
Interest expense on long-term debt	(218,790)	(228,606)
Interest expense on customer deposits	(697)	(827)
PSC taxes	(3,080)	(2,735)
Total non-operating revenues (expenses)	(210,694)	(214,389)
Net Loss	\$ (22,818)	\$ (24,415)

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, 2012 and 2011	Retained Earnings	Contributions in Aid of Construction	Total
Balance, January 1, 2011	\$ 2,394,401	\$ 13,577,062	\$ 15,971,463
Net loss	(24,415)	-	(24,415)
Contributions in aid of construction	-	67,501	67,501
Balance, December 31, 2011	2,369,986	13,644,563	16,014,549
Net loss	(22,818)	-	(22,818)
Contributions in aid of construction	-	327,092	327,092
Balance, December 31, 2012	\$ 2,347,168	\$ 13,971,655	\$ 16,318,823

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

Butler County Water System, Inc.
Statements of Cash Flows

Years Ended December 31,	2012	2011
Cash Flows from Operating Activities		
Receipts from customers and agencies	\$ 1,657,600	\$ 1,804,341
Payments to suppliers for goods and services	(432,786)	(618,651)
Payments for contractual services	(581,565)	(549,842)
Net cash provided by operating activities	643,249	635,848
Cash Flows from Non-Capital Financing Activities		
Interest paid on customer deposits	(697)	(827)
Net cash used in non-capital financing activities	(697)	(827)
Cash Flows from Capital and Related Financing Activities		
Proceeds from issuance of long-term debt	3,045,000	-
Principal repayment on long-term debt	(3,193,968)	(144,692)
Debt issuance cost	(79,602)	-
Contributions in aid of construction	327,092	67,501
Purchases of capital assets	(653,137)	(590,623)
Interest paid on long-term debt	(337,057)	(232,647)
Net cash used in capital and related financing activities	(891,672)	(900,461)
Cash Flows from Investing Activities		
Purchase of investments	(625,372)	(119,635)
Maturity of investments	119,635	118,855
Interest income	11,860	17,778
Net cash provided by (used in) investing activities	(493,877)	16,998
Net Decrease in Cash and Cash Equivalents	(742,997)	(248,442)
Balances – Beginning of Year	1,622,561	1,871,003
Balances – End of Year	\$ 879,564	\$ 1,622,561

Years Ended December 31,	2012	2011
Reconciliation of Operating Income to Net Cash Provided		
By Operating Activities		
Operating income	\$ 187,876	\$ 189,974
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation	542,184	528,254
Amortization	100	-
Non-utility rental income	13	1
Payment of PSC taxes	(3,080)	(2,735)
Changes in assets and liabilities:		
Net (increase) decrease in accounts receivable, net	(124,425)	48,095
Net increase in prepaid insurance	(125)	(273)
Net increase in deferred charge	(847)	(15,141)
Net increase (decrease) in accounts payable	38,536	(65,385)
Net increase (decrease) in rebates payable	-	(48,501)
Net increase (decrease) in other current liabilities	281	(76)
Net increase in customer deposits	2,736	1,635
Net Cash Provided By Operating Activities	\$ 643,249	\$ 635,848

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.

▶ **Investments**

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 has applied as a tax-exempt organization under Section 501(c)(12) of the Internal Revenue Code and, accordingly, the status is pending upon the Internal Revenue Service's approval. Management believes that the Utility is designed and is currently being operated in compliance with the applicable requirements of Section 501(c)(12) of the Internal Revenue Code and is, therefore, exempt from taxes.

• ***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.

• ***Uncertain Tax Positions***

The Utility follows accounting requirements associated with uncertainty in income taxes using the provisions of Financial Accounting Standards Board (FASB) ASC 740, *Income Taxes*. The guidance prescribed a minimum recognition threshold and measurement methodology that a tax position taken or expected to be taken in a tax return is required before being recognized in the financial statements. It also provides guidance for derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. As of December 31, 2012, the Utility has no uncertain tax positions that qualify for recognition; however, a disclosure in the financial statements of

Note 1: Summary of Significant Accounting Policies
(Continued)

an uncertain tax position is reflected in Note 1 under income taxes. With a few exceptions, the Utility is no longer subject to tax reporting examinations by the U.S. federal authorities for the years ended December 31, 2008 and prior.

• **Subsequent Events**

The Utility has evaluated any recognized or unrecognized subsequent events for consideration in the accompanying financial statements through April 8, 2013 which was the date the financial statements were made available.

Note 2: Cash and Investments

The Utility maintains its deposits with financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). As of December 31, 2012 and 2011, respectively, the carrying amounts of the Utility's deposits were \$1,504,936 and \$1,742,196 and the bank balances were \$1,572,620 and \$1,698,522.

December 31,	2012	2011
Cash and cash equivalents	\$ 101,123	\$ 166,512
Restricted investments	625,372	119,635
Restricted cash and cash equivalents	778,441	1,456,049
	\$ 1,504,936	\$ 1,742,196

• **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, 2012 and 2011, the Utility's bank balance was not exposed to custodial credit risk.

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

Note 3: Restricted Cash and 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.

December 31,	2012	2011
Sinking funds	\$ 55,723	\$ 349,914
Depreciation fund	1,217,718	1,101,135
Customer deposits	130,372	124,635
	\$ 1,403,813	\$ 1,575,684

Note 4: Property, Plant and Equipment

December 31,	2012	2011
Non-depreciable:		
Land and land rights	\$ 101,521	\$ 101,521
Construction in progress	494,421	893,307
Depreciable:		
Utility plant in service	26,198,187	25,217,869
Less: accumulated depreciation	(7,500,133)	(7,029,654)
Property, Plant and Equipment, Net	\$ 19,293,996	\$ 19,183,043

Depreciation expense was \$542,184 and \$528,254 for the years ended December 31, 2012 and 2011, respectively.

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

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 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 loans below from Series 1973 through Series 1998 were issued through USDA, Rural Development (RD). The Series 2012 loan was issued through Kentucky Rural Water Finance Corporation (KRWFC) to refinance previous RD loans from Series 1977, 1987, 1989, 1992 and 1994. The following table shows loans outstanding at December 31, 2012 and 2011:

Original Amount	Series of	Interest Rate	Balance as of December 31,	
			2012	2011
\$ 116,000	1973	5.00%	\$ 2,666	\$ 9,025
117,400	1974	5.00%	11,744	17,743
191,400	1977	5.00%	48,715	57,203
357,000	1977	5.00%	-	106,750
152,000	1979	5.00%	43,637	50,239
369,000	1987	5.00%	-	235,592
940,000	1989	5.00%	-	642,325
752,000	1992	5.00%	-	564,872
1,998,000	1994	5.00%	-	1,582,360
950,000	1996	4.50%	755,195	772,547
40,013	1997	5.00%	11,696	14,293
197,214	1997	4.50%	152,105	156,121
545,000	1998	4.75%	410,985	421,641
3,045,000	2012	2.80% - 4.00%	3,045,000	-
			\$ 4,481,743	\$ 4,630,711

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

Note 6: Long-Term Debt (Continued)

Principal and interest of various amounts are due at least annually in each of the years through 2037. The principal and interest due for each of the next five years and thereafter is as follows:

Year	Principal Amount	Interest Amount
2013	\$ 60,740	\$ 134,353
2014	189,754	168,018
2015	201,849	161,269
2016	209,490	154,439
2017	208,519	147,413
Thereafter	3,611,391	1,355,297
	\$ 4,481,743	\$ 2,120,789

All loans 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. The RD loans each have a requirement for depreciation reserves. The KRWFC loan has a requirement for a debt service sinking fund, which was in compliance at December 31, 2012.

Note 7: Related Parties

The Warren County Water District (WCWD) provides management, engineering and repair and maintenance services to the Utility. Simpson County Water District shares common management with WCWD. The following related party amounts were included in accounts receivable at December 31, 2012 and 2011:

December 31,	2012	2011
Warren County Water District	\$ 42,405	\$ 45,503
Simpson County Water District	1,778	-

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

Note 7: Related Parties (Continued)

The following related party amounts were included in accounts payable at December 31, 2012 and 2011:

<u>December 31,</u>	<u>2012</u>	<u>2011</u>
Warren County Water District	\$ 102,162	\$ 80,153

During 2012 and 2011, expenses from the WCWD amounted to \$970,728 and \$903,810, respectively, for the following expenses:

<u>Years Ended December 31,</u>	<u>2012</u>	<u>2011</u>
Wages and benefits:		
Operation	\$ 465,995	\$ 448,670
Administrative:		
Supervision and administration	108,110	95,404
Accounting	38,229	34,275
Customer service	73,394	69,048
Engineering	28,925	34,590
Operations – other	105,121	105,925
Additions to plant	47,946	31,238
Special projects	103,008	84,660
Totals	\$ 970,728	\$ 903,810

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: Commitments

On June 12, 2012, the Utility awarded a bid for the Highway 231 water line relocation project to Precision Utilities for \$304,837. As of December 31, 2012, Precision Utilities had been paid \$216,405 on this contract, leaving a remaining balance of \$88,432 to be paid.

Supplementary Information

Butler County Water System, Inc.
Schedule of Budgetary Comparison

Year Ended December 31, 2012

	Budgeted Amounts		Actual	Variances
	Original	Final		Favorable (Unfavorable)
				Final to Actual
Revenues				
Metered revenue	\$ 1,722,000	\$ 1,722,000	\$ 1,722,375	\$ 375
Forfeited discounts	31,725	31,725	29,105	(2,620)
Miscellaneous service revenue	31,350	31,350	30,545	(805)
Other water revenue	-	-	13	13
Interest income	16,320	16,320	11,860	(4,460)
Total revenues	1,801,395	1,801,395	1,793,898	(7,497)
Expenses				
Salaries and wages	382,960	382,960	361,707	21,253
Fringe benefits	218,285	218,285	219,858	(1,573)
Purchased water	138,340	138,340	125,610	12,730
Chemicals	60,170	60,170	48,830	11,340
Materials and supplies	56,490	56,490	55,399	1,091
Contractual services – accounting	5,750	5,750	8,618	(2,868)
Contractual services – other	117,700	117,700	114,367	3,333
Rental of building and utilities	15,135	15,135	14,956	179
Equipment expense	75,825	75,825	71,704	4,121
Insurance – general liability	24,650	24,650	22,400	2,250
Insurance – other	915	915	1,006	(91)
Regular expense	2,740	2,740	3,080	(340)
Bad debt expense	3,320	3,320	5,160	(1,840)
Miscellaneous expense	1,930	1,930	2,250	(320)
Depreciation	550,135	550,135	542,184	7,951
Amortization	-	-	100	(100)
Interest expense	226,250	226,250	219,487	6,763
Total expenses	1,880,595	1,880,595	1,816,716	63,879
Net Loss	\$ (79,200)	\$ (79,200)	\$ (22,818)	\$ 56,382

Year Ended 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	-	-	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 Income (Loss)	\$ 2,936	\$ 2,936	\$ (24,415)	\$ (27,351)



Carr, Riggs & Ingram, LLC

927 College Street
Bowling Green, Kentucky 42101
PO Box 104
Bowling Green, Kentucky 42102-0104
(270) 782-0700
(270) 782-0932 (fax)

167 South Main Street
Russellville, Kentucky 42276
(270) 726-7151
(270) 726-3155 (fax)

www.cricpa.com

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Directors
Butler County Water System, Inc.
Morgantown, 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 Butler County Water System, Inc. (the "Utility") (a nonprofit organization), which comprise the balance sheet as of December 31, 2012 and the related statements of operations and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 8, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Utility's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Utility's internal control. Accordingly, we do not express an opinion on the effectiveness of the Utility'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 Utility's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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, 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 Utility'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 Utility's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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