

**Butler County
Water System, Inc.**

FINANCIAL STATEMENTS

December 31, 2014 and 2013



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Butler County Water System, Inc.
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December 31, 2014 and 2013

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REPORT





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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 balance sheets as of December 31, 2014 and 2013, 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 from material misstatement.

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

relevant to the 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, 2014 and 2013, and the changes in its 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 on pages 24 and 25 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 14, 2015, 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 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 Utility's internal control over financial reporting and compliance.

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

CARR, RIGGS & INGRAM, LLC
Bowling Green, Kentucky
April 14, 2015

Butler County Water System, Inc. Financial and Statistical Highlights

The following are financial and statistical highlights of Butler County Water System, Inc. for year ending December 31, 2014 and 2013.

- The System's total assets decreased by \$73,996 to \$21,090,799 from \$21,164,795 in the prior year.
- Total operating revenue for the year increased by \$101,777 from the prior year, a 5.9% increase. Total operating expenses for the year increased by \$96,707 from last year, a 6.2% increase.
- Total water sales increased by \$99,302 from the prior year, a 6% increase. Residential sales increased by \$64,011, or 4.4%; commercial, agricultural, fire protection and other sales increased by \$35,291, or 17.7%. Two factors that contributed to the increase in water sales were periods of hot weather during the summer and a retail rate increase of 9% that went into effect in November 2014.
- Total water sales was less than budgeted sales by \$69,517 due to the net total of the following: (1) a retail rate increase budgeted for February 2014 was not implemented until November 2014 resulting in \$120,666 in budgeted revenue; and (2) the impact greater customer demand due to periods of hot weather in the summer resulting in higher than budgeted water sales of \$51,149.
- 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 325.6 million gallons compared to 297.8 million gallons in the prior year, an increase of 9.3%. The peak production month was August 2014 which produced 32.1 million gallons.
- Total gallons sold to the System's customers during the year amounted to 259.6 million gallons compared to 241.5 million gallons in the prior year, an increase of 7.5%. The peak demand month was August 2014 with 26 million gallons sold.
- The average monthly usage per residential customer was 4,003 gallons compared to 3,819 gallons in the prior year, a 4.8% increase. The average monthly usage per commercial customer was 11,948 gallons compared to 9,809 gallons in the prior year, a 21.8% increase.
- The number of customers at the end of the year totaled 4,793 consisting of 4,494 residential customers and 299 commercial and other class customers.
- The System received 48 new meter applications throughout the year.

The System has a total of 528 miles of distribution main serving an average of 9.1 customers per mile and 30 miles of service line.

- Major projects under construction: *Water Treatment Plant Enhancement Project* consists of upgrades required to increase plant daily capacity from 1.5-MG to 2.0-MG. Installation includes 1,550 feet of 10" raw water line, 700 feet of 16" finished water line, new high service pumps, tube settlers, and electrical upgrades. The anticipated total cost of the project is \$647,000. This project is funded primarily through an USDA - Rural Development loan and grant.



FINANCIAL STATEMENTS

Butler County Water System, Inc.
Balance Sheets

December 31,	2014	2013
Assets		
Current Assets		
Cash and cash equivalents	\$ 819,188	\$ 775,989
Short-term investments	500,000	500,000
Accounts receivable:		
Customer accounts receivable, net of allowance for uncollectibles of \$80,275 and \$75,962	58,195	59,235
Accounts receivable – WCWD	104,562	46,003
Accounts receivable – SCWD	21	19
Accounts receivable – other	385	549
Prepaid expenses	18,628	19,132
Total current assets	1,500,979	1,400,927
Property, Plant & Equipment		
Land and land rights	101,521	101,521
Utility plant in service	27,067,177	26,844,892
Construction in progress	286,452	172,498
Less: accumulated depreciation	(8,520,237)	(7,975,452)
Property, plant & equipment, net	18,934,913	19,143,459
Other Assets		
Restricted cash and cash equivalents	401,024	374,175
Restricted investments	131,030	125,749
Deferred charges	122,853	120,485
Total other assets	654,907	620,409
Total Assets	\$ 21,090,799	\$ 21,164,795

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

Butler County Water System, Inc.
Balance Sheets

December 31,	2014	2013
Liabilities and Members' Equity		
Current Liabilities		
Accounts payable	\$ 31,899	\$ 7,802
Accounts payable – WCWD	70,373	96,751
Accounts payable – SCWD	39	-
Accrued interest payable	65,438	67,766
Other current liabilities	5,404	4,697
Current portion of long-term debt	201,849	184,273
Total current liabilities	375,002	361,289
Long-term Liabilities		
Rebates payable	12,150	14,625
Customer deposits	127,290	125,305
Loans payable	4,028,966	4,230,985
Total long-term liabilities	4,168,406	4,370,915
Total liabilities	4,543,408	4,732,204
Members' equity		
Capital investments	14,198,877	14,085,948
Retained earnings	2,348,514	2,346,643
Total members' equity	16,547,391	16,432,591
Total Liabilities and Members' Equity	\$ 21,090,799	\$ 21,164,795

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

Butler County Water System, Inc.
Statements of Operations

Years Ended December 31,	2014	2013
Operating Revenues		
Metered sales:		
Residential	\$ 1,526,858	\$ 1,462,847
Commercial	233,797	198,875
Resale	398	29
Total metered sales	1,761,053	1,661,751
Forfeited discounts	29,836	29,217
Miscellaneous service revenue	30,521	28,725
Total operating revenues	1,821,410	1,719,693
Operating Expenses		
Pumping expense:		
Purchased power	46,585	38,199
Insurance	2,747	2,709
Miscellaneous	1,084	3,202
Professional services	720	754
Total pumping expense	51,136	44,864
Water treatment expense:		
Purchased power	87,830	79,719
Chemicals	48,616	39,612
Materials and supplies	10,441	12,779
Insurance	5,495	5,418
Salaries and benefits	89,308	88,966
Contractual services	3,355	3,209
Miscellaneous	5,656	5,758
Professional services	1,440	1,508
Total water treatment expense	252,141	236,969
General distribution expense:		
Purchased power	4,125	3,960
Salaries and benefits	123,100	109,820
Materials and supplies	23,061	21,198
Insurance	11,905	11,738
Miscellaneous	27,241	23,504
Contractual services	17,313	14,605
Professional services	721	755
Total general distribution expense	207,466	185,580

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

Butler County Water System, Inc.
Statements of Operations

Years Ended December 31,	2014	2013
Customer accounts expense:		
Salaries and benefits	209,025	190,700
Contractual services	47,903	46,889
Uncollectible accounts	4,313	3,290
Materials and supplies	1,475	1,170
Insurance	1,374	1,354
Miscellaneous	34,494	27,229
Professional services	2,162	2,263
Total customer accounts expense	300,746	272,895
Maintenance expense:		
Pumping equipment and storage expense	18,652	18,447
Salaries and benefits	101,942	105,478
Contractual services	32,043	30,282
Professional services	1,441	1,509
Total maintenance expense	154,078	155,716
Administrative and general expense:		
Salaries and benefits	82,858	78,907
Materials and supplies	5,460	3,327
Insurance	2,439	2,323
Miscellaneous	3,861	3,048
Contractual services	30,199	26,215
Professional services	3,272	4,992
Total administrative and general expense	128,089	118,812
Depreciation and amortization expense	572,559	554,672
Total operating expenses	1,666,215	1,569,508
Operating income	155,195	150,185

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

Butler County Water System, Inc.
Statements of Operations

Years Ended December 31,	2014	2013
Non-Operating Revenues (Expenses)		
Other income	-	14,545
Interest income	9,055	9,221
Interest expense on long-term debt	(165,094)	(171,087)
Interest expense on customer deposits	(158)	(208)
Gain on disposition of assets	6,230	-
PSC taxes	(3,357)	(3,181)
Total non-operating revenues (expenses)	(153,324)	(150,710)
Net Income (Loss)	\$ 1,871	\$ (525)

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

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

Years Ended December 31, 2014 and 2013	Retained Earnings	Contributions in Aid of Construction	Total
Balance, January 1, 2013	\$ 2,347,168	\$ 13,971,655	\$ 16,318,823
Net loss	(525)	-	(525)
Contributions in aid of construction	-	114,293	114,293
Balance, December 31, 2013	2,346,643	14,085,948	16,432,591
Net income	1,871	-	1,871
Contributions in aid of construction	-	112,929	112,929
Balance, December 31, 2014	\$ 2,348,514	\$ 14,198,877	\$ 16,547,391

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

Butler County Water System, Inc.
Statements of Cash Flows

Years Ended December 31,	2014	2013
Cash Flows From Operating Activities		
Receipts from customers and agencies	\$ 1,764,053	\$ 1,719,687
Payments to suppliers for goods and services	(501,730)	(400,847)
Payments for contractual services	(606,233)	(573,871)
Net cash provided by operating activities	656,090	744,969
Cash Flows From Noncapital Financing Activities		
Interest paid on customer deposits	(158)	(208)
Net cash used in noncapital financing activities	(158)	(208)
Cash Flows From Capital and Related Financing Activities		
Proceeds from capital asset disposals	7,319	-
Principal repayment on long-term debt	(184,443)	(66,485)
Contributions in aid of construction	112,929	114,293
Purchases of capital assets	(358,041)	(396,759)
Interest paid on long-term debt	(167,422)	(134,054)
Net cash used in capital and related financing activities	(589,658)	(483,005)
Cash Flows From Investing Activities		
Purchase of short-term investments	(5,281)	(377)
Interest income	9,055	9,221
Net cash provided by investing activities	3,774	8,844
Net Increase in Cash and Cash Equivalents	70,048	270,600
Balances – Beginning of Year	1,150,164	879,564
Balances – End of Year	\$ 1,220,212	\$ 1,150,164

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

Butler County Water System, Inc.
Statements of Cash Flows

Years Ended December 31,	2014	2013
Reconciliation of Operating Income to Net Cash Provided By Operating Activities		
Operating income	\$ 155,195	\$ 150,185
Adjustment to reconcile net operating income to net cash provided by operating activities:		
Depreciation	565,498	547,296
Amortization	7,061	7,376
Non-utility income	-	14,545
Payment of PSC taxes	(3,357)	(3,181)
Changes in assets and liabilities:		
Net (increase) decrease in accounts receivable, net	(57,357)	105,759
Net (increase) decrease in prepaid insurance	504	(2,848)
Net increase in deferred charges	(9,429)	(1,901)
Net decrease in accounts payable	(2,242)	(75,681)
Net increase (decrease) in other current liabilities	707	(14)
Net increase in customer deposits	1,985	3,433
Net decrease in rebates payable	(2,475)	-
Net Cash Provided By Operating Activities	\$ 656,090	\$ 744,969

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

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 Commissioners is 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 is a tax-exempt organization under Section 501(c) (12) of the Internal Revenue Code. Therefore, no provision for income taxes is made in the accompanying financial statements.

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, 2014, the Utility has no uncertain tax positions that qualify for recognition. 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, 2010 and prior.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events

The Utility has evaluated any recognized or unrecognized subsequent events for consideration in the accompanying financial statements through April 14, 2015 which was the date the financial statements were made available.

Reclassifications

Amounts in the 2013 financial statements have been reclassified to be comparable with the presentation of the 2014 financial statements. The reclassification had no impact on the net loss for 2013.

NOTE 2: CASH AND CASH EQUIVALENTS AND INVESTMENTS

The Utility maintains its deposits with financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). As of December 31, 2014 and 2013, the carrying amounts of the Utility's deposits were \$1,850,922 and \$1,775,593 and the bank balances were \$1,812,312 and \$1,794,369, respectively.

December 31,	2014	2013
Cash and cash equivalents	\$ 818,868	\$ 775,669
Restricted cash and cash equivalents	401,024	374,175
Short-term investments	500,000	500,000
Restricted investments	131,030	125,749
	\$ 1,850,922	\$ 1,775,593

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, 2014 and 2013, the Utility's bank balance was not exposed to custodial credit risk.

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

NOTE 3: RESTRICTED CASH AND CASH EQUIVALENTS 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.

<u>December 31,</u>	<u>2014</u>	<u>2013</u>
Sinking funds	\$ 199,617	\$ 186,268
Depreciation fund	201,407	187,907
Customer deposits	131,030	125,749
	<u>\$ 532,054</u>	<u>\$ 499,924</u>

NOTE 4: PROPERTY, PLANT AND EQUIPMENT

<u>December 31,</u>	<u>2014</u>	<u>2013</u>
Non-depreciable:		
Land and land rights	\$ 101,521	\$ 101,521
Construction in progress	286,452	172,498
Depreciable:		
Utility plant in service	27,067,177	26,844,892
Less: accumulated depreciation	(8,520,237)	(7,975,452)
Property, Plant and Equipment, Net	<u>\$ 18,934,913</u>	<u>\$ 19,143,459</u>

Depreciation expense was \$565,498 and \$547,296 for the years ended December 31, 2014 and 2013, respectively.

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

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 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 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 1977 through Series 1998 were issued through USDA Rural Development (RD). The Series 2012 loan was issued through Kentucky Rural Water Finance Corporation (KRWFC). The following table shows loans outstanding:

Original Amount	Series of	Interest Rate	Balance as of December 31,	
			2014	2013
\$ 191,400	1977	5.00%	\$ 30,542	\$ 39,801
152,000	1979	5.00%	29,403	36,697
950,000	1996	4.50%	718,112	737,061
40,013	1997	5.00%	6,105	8,968
197,214	1997	4.50%	143,522	147,908
545,000	1998	4.75%	388,131	399,823
3,045,000	2012	2.80% - 4.00%	2,915,000	3,045,000
			\$ 4,230,815	\$ 4,415,258

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

NOTE 6: LONG-TERM DEBT (CONTINUED)

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 requirements for a debt service sinking fund and a debt service coverage ratio, which were in compliance at December 31, 2014 and 2013.

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
2015	\$ 201,849	\$ 161,269
2016	209,489	154,439
2017	208,522	147,413
2018	186,820	140,610
2019	183,496	134,687
Thereafter	3,240,639	1,080,000
	\$ 4,230,815	\$ 1,818,418

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.

December 31,	2014	2013
Warren County Water District	\$ 104,562	\$ 46,003
Simpson County Water District	21	19

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

NOTE 7: RELATED PARTIES (CONTINUED)

The following related party amounts were included in accounts payable.

<u>December 31,</u>	<u>2014</u>	<u>2013</u>
Warren County Water District	\$ 70,373	\$ 96,751
Simpson County Water District	39	-

During 2014 and 2013, expenses from the WCWD amounted to \$916,983 and \$907,404, respectively, for the following expenses:

<u>Years Ended December 31,</u>	<u>2014</u>	<u>2013</u>
Wages and benefits:		
Operation	\$ 464,484	\$ 447,207
Administrative:		
Supervision and administration	107,566	111,192
Accounting	44,297	42,624
Customer service	82,619	74,974
Engineering	11,779	27,447
Operations - other	94,614	82,630
Additions to plant	94,404	59,966
Special projects	17,220	61,364
Totals	\$ 916,983	\$ 907,404

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: ROCHESTER DAM REGIONAL WATER COMMISSION

The Rochester Dam Regional Water Commission (“RDRWC”) is a water commission which was created by an Order issued by the Ohio County Judge/Executive on June 13, 2013 pursuant to the provisions of KRS 74.440. Butler County Water System, Inc. participated in the creation of the RDRWC along with the City of Morgantown, Kentucky and the Ohio County Water District. The Board of Commissioners for the RDRWC is comprised of one representative from each of the three establishing entities plus two additional representatives appointed by the Ohio County Judge/Executive and approved by the Ohio County Fiscal Court.

The primary purpose of the RDRWC is to provide an adequate and dependable supply of water for the region which derives its water supply from Pool 3 of the Green River including, but not limited to, Butler, Muhlenberg, and Ohio Counties and all customers and entities served by the RDRWC members. RDRWC will endeavor to accomplish this purpose by: (1) acquiring an ownership interest, either by lease, easement, or deed, in the Rochester Dam on Pool 3 of the Green River; (2) repairing and stabilizing the Rochester Dam; and (3) maintaining the Rochester Dam.

The RDRWC is pursuing a lease on the Rochester Dam from the Corp of Engineers in order to obtain funding through the EDA or other agency grants to perform the necessary repairs for the dam. As of December 31, 2014, Butler County Water System has incurred \$6,888 for its participation in the RDRWC, this amount has been capitalized. Future payments to cover legal expenses of the RDRWC are estimated to be minimal and will be prorated between all participating entities.

Butler County Water System, Inc.
Schedules of Budgetary Comparison

Year Ended December 31, 2014

	Budgeted Amounts		Actual	Variances
	Original	Final		Favorable (Unfavorable) Final to Actual
Revenues				
Metered revenue	\$ 1,830,570	\$ 1,830,570	\$ 1,761,053	\$ (69,517)
Forfeited discounts	31,620	31,620	29,836	(1,784)
Miscellaneous service revenue	29,815	29,815	30,521	706
Interest income	9,630	9,630	9,055	(575)
Other income	1,500	1,500	6,230	4,730
Total revenues	1,903,135	1,903,135	1,836,695	(66,440)
Expenses				
Salaries and wages	373,380	373,380	375,017	(1,637)
Fringe benefits	229,015	229,015	231,215	(2,200)
Purchased power	139,025	139,025	138,540	485
Chemicals	40,845	40,845	48,616	(7,771)
Materials and supplies	40,860	40,860	40,437	423
Contractual services - Accounting	10,000	10,000	9,726	274
Contractual services - Legal	500	500	30	470
Contractual services - Other	119,135	119,135	130,813	(11,678)
Rental of building and utilities	15,135	15,135	15,175	(40)
Equipment expense	66,735	66,735	69,189	(2,454)
Insurance - general liability	23,000	23,000	22,895	105
Insurance - other	1,065	1,065	1,065	-
Regularly expense	3,515	3,515	3,357	158
Bad debt expense	3,700	3,700	4,313	(613)
Miscellaneous expense	3,265	3,265	6,625	(3,360)
Depreciation	560,700	560,700	565,498	(4,798)
Amortization	7,060	7,060	7,061	(1)
Interest expense	170,175	170,175	165,252	4,923
Total expenses	1,807,110	1,807,110	1,834,824	(27,714)
Net Income	\$ 96,025	\$ 96,025	\$ 1,871	\$ (94,154)

Butler County Water System, Inc.
Schedules of Budgetary Comparison

Year Ended December 31, 2013

	Budgeted Amounts		Actual	Variances
	Original	Final		Favorable (Unfavorable) Final to Actual
Revenues				
Metered revenue	\$ 1,824,000	\$ 1,824,000	\$ 1,661,751	\$ (162,249)
Forfeited discounts	31,475	31,475	29,217	(2,258)
Miscellaneous service revenue	32,955	32,955	28,725	(4,230)
Interest Income	10,790	10,790	9,221	(1,569)
Other Income	-	-	14,545	14,545
Total revenues	1,899,220	1,899,220	1,743,459	(155,761)
Expenses				
Salaries and wages	369,325	369,325	351,410	17,915
Fringe benefits	222,975	222,975	222,461	514
Purchased power	135,310	135,310	121,878	13,432
Chemicals	43,275	43,275	39,612	3,663
Materials and supplies	55,490	55,490	40,607	14,883
Contractual services - Accounting	9,040	9,040	9,052	(12)
Contractual services - Legal	-	-	2,729	(2,729)
Contractual services - Other	118,740	118,740	121,200	(2,460)
Rental of building and utilities	15,135	15,135	14,969	166
Equipment expense	70,505	70,505	60,907	9,598
Insurance - general liability	22,300	22,300	22,461	(161)
Insurance - other	1,095	1,095	1,081	14
Regularly expense	2,870	2,870	3,181	(311)
Bad debt expense	4,125	4,125	3,290	835
Miscellaneous expense	3,095	3,095	3,179	(84)
Depreciation	543,960	543,960	547,296	(3,336)
Amortization	-	-	7,376	(7,376)
Interest expense	193,805	193,805	171,295	22,510
Total expenses	1,811,045	1,811,045	1,743,984	67,061
Net Income (Loss)	\$ 88,175	\$ 88,175	\$ (525)	\$ (88,700)



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

Board of 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, 2014, 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 14, 2015.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of this Report

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

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



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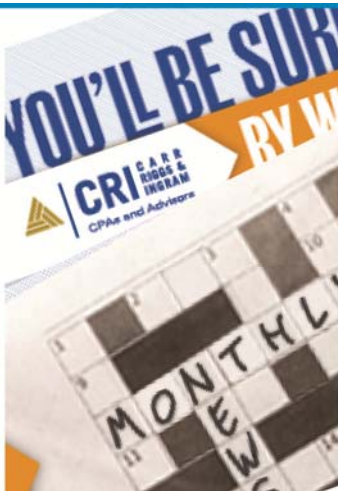
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