

**Butler County  
Water System, Inc.**

**FINANCIAL STATEMENTS**

**December 31, 2015 and 2014**



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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, 2015 and 2014, 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, 2015 and 2014, and the changes in its financial position and its 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 23 and 24 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 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, 2016, 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.*



# **FINANCIAL STATEMENTS**

## Butler County Water System, Inc. Financial and Statistical Highlights

The following are financial and statistical highlights of Butler County Water System, Inc. for years ending December 31, 2015 and 2014.

- The System's assets totaled \$21,582,265 and increased by \$491,466, or 2.3% from the prior year.
- Operating revenue for the year totaled \$1,928,517 and increased by \$107,107 from the prior year, a 5.9% increase. Operating expenses totaled \$1,696,131 for the year and increased by \$29,916 from last year, a 1.8% increase.
- Metered sales totaled \$1,867,388 and increased by \$106,335 from the prior year, a 6% increase. Residential sales increased by \$96,561, or 6.3%; commercial, agricultural, fire protection and other sales increased by \$9,774, or 4.2%. Although water demand was less than last year, the main factor that contributed to the increase in water sales was a retail rate increase of 9% that went into effect in November 2014.
- Total revenues were less than budgeted revenues by \$6,542 and total expenses were slightly less than budgeted expenses by \$522. Net income totaled \$70,690 and was \$6,020 less than budgeted net income for the year.
- 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 315.5 million gallons compared to 325.6 million gallons in the prior year, a decrease of 3.1%. The peak production month was August 2015 which produced 27.9 million gallons.
- Total gallons sold to the System's customers during the year amounted to 252.6 million gallons compared to 259.6 million gallons in the prior year, a decrease of 2.7%. The peak demand month was August 2015 with 23.4 million gallons sold.
- The average monthly usage per residential customer was 3,925 gallons compared to 4,005 gallons in the prior year, a 2.0% decrease. The average monthly usage per commercial customer was 11,280 gallons compared to 11,978 gallons in the prior year, a 5.8% decrease.
- The number of customers at the end of the year totaled 4,813 consisting of 4,504 residential customers and 309 commercial and other class customers.
- The System received 41 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 completed: *Water Treatment Plant Enhancement Project* consists of upgrades required to increase plant daily capacity from 1.5-MG to 2.0-MG. Installation included 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 total cost of the project was \$865,750 with funding from a USDA – Rural Development loan and a grant of \$437,000 and \$146,000, respectively; and from System funds totaling \$282,750.

Butler County Water System, Inc.  
Balance Sheets

<i>December 31,</i>	<b>2015</b>	2014
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 985,060	\$ 819,188
Short-term investments	500,000	500,000
<b>Accounts receivable</b>		
Customer accounts receivable, net of allowance for uncollectibles of \$83,706 and \$80,275	61,048	58,195
Accounts receivable – WCWD	60,062	104,562
Accounts receivable – SCWD	32	21
Accounts receivable – other	-	385
Prepaid expenses	18,999	18,628
<b>Total current assets</b>	<b>1,625,201</b>	<b>1,500,979</b>
<b>Property, plant &amp; equipment</b>		
Land and land rights	101,521	101,521
Utility plant in service	28,159,787	27,067,177
Construction in progress	181,573	286,452
Less: accumulated depreciation	(9,091,646)	(8,520,237)
<b>Property, plant &amp; equipment, net</b>	<b>19,351,235</b>	<b>18,934,913</b>
<b>Other assets</b>		
Restricted cash and cash equivalents	340,516	401,024
Restricted investments	132,082	131,030
Deferred charges	133,231	122,853
<b>Total other assets</b>	<b>605,829</b>	<b>654,907</b>
<b>Total assets</b>	<b>\$ 21,582,265</b>	<b>\$ 21,090,799</b>

See the accompanying notes to the financial statements.

Butler County Water System, Inc.  
Balance Sheets

<i>December 31,</i>	<b>2015</b>	2014
<b>Liabilities and Members' Equity</b>		
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 23,632	\$ 31,899
Accounts payable – WCWD	95,723	70,373
Accounts payable – SCWD	-	39
Accrued interest payable	64,049	65,438
Other current liabilities	5,110	5,404
Current portion of long-term debt	209,489	201,849
<b>Total current liabilities</b>	<b>398,003</b>	375,002
<b>Long-term liabilities</b>		
Rebates payable	12,150	12,150
Customer deposits	132,642	127,290
Loans payable	4,256,089	4,028,966
<b>Total long-term liabilities</b>	<b>4,400,881</b>	4,168,406
<b>Total liabilities</b>	<b>4,798,884</b>	4,543,408
<b>Members' equity</b>		
Capital investments	14,364,177	14,198,877
Retained earnings	2,419,204	2,348,514
<b>Total members' equity</b>	<b>16,783,381</b>	16,547,391
<b>Total liabilities and members' equity</b>	<b>\$ 21,582,265</b>	\$ 21,090,799

See the accompanying notes to the financial statements.

Butler County Water System, Inc.  
Statements of Operations

<i>Years Ended December 31,</i>	<b>2015</b>	2014
<b>Operating Revenues</b>		
<b>Metered sales</b>		
Residential	\$ 1,623,419	\$ 1,526,858
Commercial	243,969	233,797
Resale	-	398
<b>Total metered sales</b>	<b>1,867,388</b>	1,761,053
Forfeited discounts	31,454	29,836
Miscellaneous service revenue	29,675	30,521
<b>Total operating revenues</b>	<b>1,928,517</b>	1,821,410
<b>Operating Expenses</b>		
<b>Pumping expense</b>		
Purchased power	42,594	46,585
Insurance	2,792	2,747
Miscellaneous	1,147	1,084
Professional services	781	720
<b>Total pumping expense</b>	<b>47,314</b>	51,136
<b>Water treatment expense</b>		
Purchased power	87,026	87,830
Chemicals	53,146	48,616
Materials and supplies	14,505	10,441
Insurance	5,583	5,495
Salaries and benefits	86,446	89,308
Contractual services	2,550	3,355
Miscellaneous	4,786	5,656
Professional services	1,562	1,440
<b>Total water treatment expense</b>	<b>255,604</b>	252,141

Butler County Water System, Inc.  
Statements of Operations

<i>Years Ended December 31,</i>	<b>2015</b>	2014
<b>General distribution expense</b>		
Purchased power	<b>4,056</b>	4,125
Salaries and benefits	<b>115,777</b>	123,100
Materials and supplies	<b>28,845</b>	23,061
Insurance	<b>12,097</b>	11,905
Miscellaneous	<b>23,766</b>	27,241
Contractual services	<b>15,749</b>	17,313
Professional services	<b>782</b>	721
<b>Total general distribution expense</b>	<b>201,072</b>	207,466
<b>Customer accounts expense</b>		
Salaries and benefits	<b>220,573</b>	209,025
Contractual services	<b>51,386</b>	47,903
Uncollectible accounts	<b>3,431</b>	4,313
Materials and supplies	<b>1,851</b>	1,475
Insurance	<b>1,396</b>	1,374
Miscellaneous	<b>26,489</b>	34,494
Professional services	<b>2,345</b>	2,162
<b>Total customer accounts expense</b>	<b>307,471</b>	300,746
<b>Maintenance expense</b>		
Pumping equipment and storage expense	<b>20,044</b>	18,652
Salaries and benefits	<b>117,318</b>	101,942
Contractual services	<b>35,042</b>	32,043
Professional services	<b>1,563</b>	1,441
<b>Total maintenance expense</b>	<b>173,967</b>	154,078

See the accompanying notes to the financial statements.

Butler County Water System, Inc.  
Statements of Operations

<i>Years Ended December 31,</i>	<b>2015</b>	2014
<b>Administrative and general expense</b>		
Salaries and benefits	<b>85,315</b>	82,858
Materials and supplies	<b>5,703</b>	5,460
Insurance	<b>2,461</b>	2,439
Miscellaneous	<b>3,749</b>	3,861
Contractual services	<b>32,218</b>	30,199
Professional services	<b>2,473</b>	3,272
<b>Total administrative and general expense</b>	<b>131,919</b>	128,089
<b>Depreciation and amortization expense</b>	<b>578,784</b>	572,559
<b>Total operating expenses</b>	<b>1,696,131</b>	1,666,215
<b>Operating income</b>	<b>232,386</b>	155,195
<b>Non-Operating Revenues (Expenses)</b>		
Non-utility income	<b>2</b>	-
Interest income	<b>7,979</b>	9,055
Interest expense on long-term debt	<b>(166,056)</b>	(165,094)
Interest expense on customer deposits	<b>(158)</b>	(158)
Gain on disposition of assets	<b>-</b>	6,230
PSC taxes	<b>(3,463)</b>	(3,357)
<b>Total non-operating revenues (expenses)</b>	<b>(161,696)</b>	(153,324)
<b>Net income</b>	<b>\$ 70,690</b>	<b>\$ 1,871</b>

See the accompanying notes to the financial statements.

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

<i>Years Ended December 31, 2015 and 2014</i>	<b>Retained Earnings</b>	<b>Contributions in Aid of Construction</b>	<b>Total</b>
Balance, January 1, 2014	\$ 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
Net income	70,690	-	70,690
Contributions in aid of construction	-	165,300	165,300
<b>Balance, December 31, 2015</b>	<b>\$ 2,419,204</b>	<b>\$ 14,364,177</b>	<b>\$ 16,783,381</b>

See the accompanying notes to the financial statements.

Butler County Water System, Inc.  
Statements of Cash Flows

<i>Years Ended December 31,</i>	<b>2015</b>	2014
<b>Cash Flows From Operating Activities</b>		
Receipts from customers and agencies	\$ 1,970,538	\$ 1,764,053
Payments to suppliers for goods and services	(490,736)	(501,730)
Payments for contractual services	(625,429)	(606,233)
<b>Net cash provided by operating activities</b>	<b>854,373</b>	656,090
<b>Cash Flows From Noncapital Financing Activities</b>		
Interest paid on customer deposits	(158)	(158)
<b>Net cash used in noncapital financing activities</b>	<b>(158)</b>	(158)
<b>Cash Flows From Capital and Related Financing Activities</b>		
Proceeds from capital asset disposals	-	7,319
Proceeds from debt issuance	436,900	-
Principal repayment on long-term debt	(202,137)	(184,443)
Contributions in aid of construction	165,300	112,929
Purchases of capital assets	(988,396)	(358,041)
Interest paid on long-term debt	(167,445)	(167,422)
<b>Net cash used in capital and related financing activities</b>	<b>(755,778)</b>	(589,658)
<b>Cash Flows From Investing Activities</b>		
Purchase of short-term investments	(1,052)	(5,281)
Interest income	7,979	9,055
<b>Net cash provided by investing activities</b>	<b>6,927</b>	3,774
<b>Net increase in cash and cash equivalents</b>	<b>105,364</b>	70,048
Balances – beginning of year	1,220,212	1,150,164
<b>Balances – end of year</b>	<b>\$ 1,325,576</b>	\$ 1,220,212

See the accompanying notes to the financial statements.

Butler County Water System, Inc.  
Statements of Cash Flows

<i>Years Ended December 31,</i>	<b>2015</b>	2014
<b>Reconciliation of Operating Income to Net Cash Provided</b>		
<b>By Operating Activities</b>		
Operating income	\$ 232,386	\$ 155,195
<b>Adjustment to reconcile net operating income to net cash provided by operating activities:</b>		
Depreciation	572,074	565,498
Amortization	6,710	7,061
Non-utility income	2	-
Payment of PSC taxes	(3,463)	(3,357)
<b>Changes in assets and liabilities:</b>		
Net decrease (increase) in accounts receivable, net	42,021	(57,357)
Net (increase) decrease in prepaid insurance	(371)	504
Net increase in deferred charges	(17,088)	(9,429)
Net increase (decrease) in accounts payable	17,044	(2,242)
Net (decrease) increase in other current liabilities	(294)	707
Net increase in customer deposits	5,352	1,985
Net decrease in rebates payable	-	(2,475)
<b>Net cash provided by operating activities</b>	<b>\$ 854,373</b>	<b>\$ 656,090</b>

See the accompanying notes to the 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 Directors 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, 2015, 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, 2011 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 8, 2016 which was the date the financial statements were made available.

**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, 2015 and 2014, the carrying amounts of the Utility's deposits were \$1,957,658 and \$1,850,922 and the bank balances were \$1,954,938 and \$1,812,312, respectively.

<i>December 31,</i>	<b>2015</b>	2014
Cash and cash equivalents	\$ 985,060	\$ 818,868
Restricted cash and cash equivalents	340,516	401,024
Short-term investments	500,000	500,000
Restricted investments	132,082	131,030
	<b>\$ 1,957,658</b>	<b>\$ 1,850,922</b>

***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, 2015 and 2014, the Utility's bank balance was not exposed to custodial credit risk.

***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.

**NOTE 2: CASH AND CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)**

***Restricted Cash and Cash Equivalents and Investments (Continued)***

<i>December 31,</i>	<b>2015</b>	2014
Sinking funds	\$ 202,716	\$ 199,617
Depreciation fund	137,800	201,407
Customer deposits	132,082	131,030
	<b>\$ 472,598</b>	<b>\$ 532,054</b>

**NOTE 3: PROPERTY, PLANT AND EQUIPMENT**

<i>December 31,</i>	<b>2015</b>	2014
<b>Non-depreciable</b>		
Land and land rights	\$ 101,521	\$ 101,521
Construction in progress	181,573	286,452
<b>Depreciable</b>		
Utility plant in service	28,159,787	27,067,177
Less: accumulated depreciation	(9,091,646)	(8,520,237)
Property, plant and equipment, net	<b>\$ 19,351,235</b>	<b>\$ 18,934,913</b>

Depreciation expense was \$572,074 and \$565,498 for the years ended December 31, 2015 and 2014, respectively.

**NOTE 4: 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 5: LONG-TERM DEBT**

The loans below from Series 1977 through Series 2014 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,	
			2015	2014
\$ 191,400	1977	5.00%	\$ 20,615	\$ 30,442
152,000	1979	5.00%	21,734	29,403
950,000	1996	4.50%	698,310	718,112
40,013	1997	5.00%	3,098	6,105
197,214	1997	4.50%	138,938	143,522
545,000	1998	4.75%	375,883	388,131
3,045,000	2012	2.80% - 4.00%	2,770,000	2,915,000
437,000	2014	2.75%	437,000	100
			<b>\$ 4,465,578</b>	<b>\$ 4,230,815</b>

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, 2015 and 2014.

Principal and interest of various amounts are due at least annually in each of the years through 2054. The principal and interest due for each of the next five years and thereafter is as follows:

Year	Principal Amount	Interest Amount
2016	209,489	166,457
2017	215,186	159,431
2018	193,658	152,628
2019	190,532	146,521
2020	192,719	140,420
Thereafter	3,463,994	1,188,059
<b>\$ 4,465,578</b>		<b>\$ 1,953,516</b>

**NOTE 6: 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.

<u>December 31,</u>	<u>2015</u>	<u>2014</u>
Warren County Water District	\$ 60,062	\$ 104,562
Simpson County Water District	32	21

The following related party amounts were included in accounts payable.

<u>December 31,</u>	<u>2015</u>	<u>2014</u>
Warren County Water District	\$ 95,723	\$ 70,373
Simpson County Water District	-	39

During 2015 and 2014, expenses from the WCWD amounted to \$1,052,705 and \$916,983, respectively, for the following:

<u>Years Ended December 31,</u>	<u>2015</u>	<u>2014</u>
<b>Wages and benefits:</b>		
Operation	\$ 492,526	\$ 464,484
<b>Administrative:</b>		
Supervision and administration	101,490	107,566
Accounting	42,790	44,297
Customer service	83,516	82,619
Engineering	9,874	11,779
Operations - other	145,519	94,614
Additions to plant	59,714	94,404
Special projects	117,276	17,220
<b>Totals</b>	<b>\$ 1,052,705</b>	<b>\$ 916,983</b>

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 7: 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 8: 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.

In 2015, the RDRWC obtained 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, 2015 and 2014, Butler County Water System has incurred cumulative costs totaling \$13,320 and \$0, respectively, for its participation in the RDRWC. Future payments to cover legal expenses of the RDRWC will be prorated between all participating entities.

Butler County Water System, Inc.  
Schedules of Budgetary Comparison

Year Ended December 31, 2015

	Budgeted Amounts		Actual	Variances
	Original	Final		Favorable (Unfavorable) Final to Actual
<b>Revenues</b>				
Metered revenue	\$ 1,871,000	\$ 1,871,000	\$ 1,867,388	\$ (3,612)
Forfeited discounts	31,300	31,300	31,454	154
Miscellaneous service revenue	31,680	31,680	29,675	(2,005)
Interest income	9,060	9,060	7,979	(1,081)
Other income	-	-	2	2
<b>Total revenues</b>	<b>1,943,040</b>	<b>1,943,040</b>	<b>1,936,498</b>	<b>(6,542)</b>
<b>Expenses</b>				
Salaries and wages	377,450	377,450	386,700	(9,250)
Fringe benefits	243,400	243,400	238,799	4,601
Purchased power	148,470	148,470	133,676	14,794
Chemicals	53,240	53,240	53,146	94
Materials and supplies	40,740	40,740	50,904	(10,164)
Contractual services - Accounting	9,350	9,350	9,378	(28)
Contractual services - Legal	-	-	128	(128)
Contractual services - Other	128,710	128,710	136,945	(8,235)
Rental of building and utilities	15,340	15,340	15,073	267
Equipment expense	71,240	71,240	60,850	10,390
Insurance - general liability	23,400	23,400	23,264	136
Insurance - other	1,070	1,070	1,065	5
Regularly expense	3,360	3,360	3,463	(103)
Bad debt expense	3,750	3,750	3,431	319
Miscellaneous expense	6,000	6,000	3,988	2,012
Depreciation	570,190	570,190	572,074	(1,884)
Amortization	6,710	6,710	6,710	-
Interest expense	163,910	163,910	166,214	(2,304)
<b>Total expenses</b>	<b>1,866,330</b>	<b>1,866,330</b>	<b>1,865,808</b>	<b>522</b>
<b>Net income</b>	<b>\$ 76,710</b>	<b>\$ 76,710</b>	<b>\$ 70,690</b>	<b>\$ (6,020)</b>

Butler County Water System, Inc.  
Schedules of Budgetary Comparison

**Year Ended December 31, 2014**

	<u>Budgeted Amounts</u>		Actual	Variances
	Original	Final		Favorable (Unfavorable) Final to Actual
<b>Revenues</b>				
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
<b>Total revenues</b>	<b>1,903,135</b>	<b>1,903,135</b>	<b>1,836,695</b>	<b>(66,440)</b>
<b>Expenses</b>				
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
<b>Total expenses</b>	<b>1,807,110</b>	<b>1,807,110</b>	<b>1,834,824</b>	<b>(27,714)</b>
<b>Net income</b>	<b>\$ 96,025</b>	<b>\$ 96,025</b>	<b>\$ 1,871</b>	<b>\$ (94,154)</b>



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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, 2015, 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, 2016.

**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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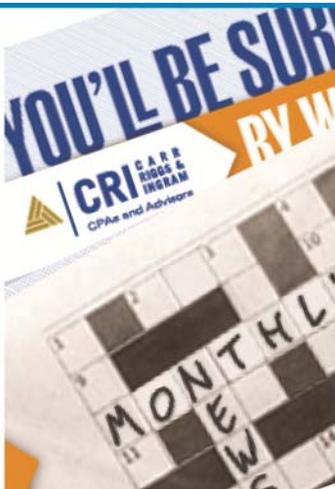
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