

**BUTLER COUNTY  
WATER SYSTEM, INC.**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2019 and 2018**

**BUTLER COUNTY WATER SYSTEM, INC.**

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## INDEPENDENT AUDITOR'S 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, 2019 and 2018, 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 opinions.

## ***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, 2019 and 2018, 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**

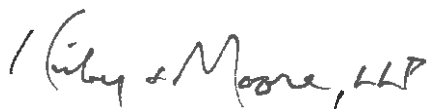
### ***Other Information***

Our audits were conducted for the purpose of forming opinions on the financial statements as a whole. The schedules of budgetary comparison on pages 19 and 20 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and 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 audits 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 audits 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 3, 2020, on our consideration of the Utility'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.



Bowling Green, Kentucky  
April 3, 2020

**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, 2019 and 2018.

- The System's assets totaled \$22,948,477 and increased by \$110,772 or 0.49% from the prior year reflecting an increase in cash and cash equivalents. Liabilities totaled \$5,611,097 and decreased by \$230,870 or -3.95% reflecting decreases in loan obligations and accounts payable.
- Operating revenues for the year totaled \$2,155,304 and increased by \$61,387 from the prior year, a 2.9% increase. Operating expenses totaled \$1,882,484 for the year and decreased by \$61,701 from last year, a 3.2% decrease. Operating revenues were impacted by a full year of a 9.95% retail rate increase effective on June 1, 2018. Operating expenses reflected labor and vehicle savings from the automated meter reading system (AMR) fully that was implemented in February 2019.
- Metered sales totaled \$2,091,041 and increased by \$65,652 from the prior year, a 3.2% increase. Residential sales increased by \$59,036 and commercial, agricultural, fire protection and other sales increased by a total of \$6,616. Total water consumption for the year was down slightly compared to the prior year and the increase in metered sales reflects a full year impact of the retail rate increase effective on June 1, 2018.
- Total revenues were greater than budgeted revenue by \$7,856 and total expenses were less than budgeted expenses by \$65,836. Net income of \$109,392 was greater than budget by \$73,692. Expenses that were below budgeted levels included salaries & wages, fringe benefits, purchased power, and equipment expense. Expenses that were above budgeted levels included chemicals and depreciation.
- The System uses Green River as a water source and produces water at its water treatment facility located in Morgantown, Kentucky. Total gallons produced for the year was 328.1 million gallons compared to 329.4 million gallons produced in the prior year, a decrease of 1.3 million gallons. The peak production day was September 12th which produced 1.2 million gallons.
- Total gallons sold to the System's customers during the year amounted to 254.4 million gallons compared to 256.5 million gallons in the prior year, a decrease of 2.1 million gallons. The peak demand month was September with 24.2 million gallons sold.
- The average monthly usage per residential customer was 4,019 gallons compared to 4,072 gallons in the prior year. The average monthly usage per commercial customer was 8,757 gallons compared to 8,822 gallons in the prior year.
- The number of customers totaled 4,900 consisting of 4,576 residential customers and 324 commercial and other class customers with 44 new meter applications received throughout the year. The System has a total of 518 miles of distribution main serving an average of 9.5 customers per mile.
- Project Placed in Service: Project 18 consisted of the construction of five water line extensions and the installation of an automated meter reading (AMR) system. In July 2018, the water main extensions were placed into service consisting of 22,860 feet of distribution main. In February 2019, the AMR portion of the project was fully implemented with the installation of 5,018 AMR units and 3,754 leak sensors. The project totaled \$1,856,758 was funded by loan and grant funds from USDA- Rural Development of \$1,422,000 and \$250,000, respectively, and System funds of \$184,758.

## **FINANCIAL STATEMENTS**

**BUTLER COUNTY WATER SYSTEM, INC.**

**BALANCE SHEETS**  
**December 31, 2019 and 2018**

	2019	2018
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 1,813,671	\$ 943,392
Short-term investments	-	500,000
Receivables		
Customer accounts receivable, net of allowance for uncollectibles of \$91,392 and \$91,218	66,709	69,286
Accounts receivable - WCWD	5,647	6,920
Accounts receivable- SCWD	73	-
Interest	-	5,892
Prepaid expenses	<u>17,724</u>	<u>17,846</u>
Total current assets	<u>1,903,824</u>	<u>1,543,336</u>
<b>PROPERTY, PLANT AND EQUIPMENT</b>		
Land and land rights	101,521	101,521
Utility plant in service	31,692,411	29,571,288
Construction in progress	127,341	1,721,571
Less: accumulated depreciation	<u>( 11,591,158)</u>	<u>( 10,878,879)</u>
Property, plant and equipment, net	<u>20,330,115</u>	<u>20,515,501</u>
<b>OTHER ASSETS</b>		
Restricted cash and cash equivalents	472,389	523,549
Restricted investments	152,849	149,114
Deferred charges	<u>89,300</u>	<u>106,205</u>
Total other assets	<u>714,538</u>	<u>778,868</u>
Total assets	<u>\$ 22,948,477</u>	<u>\$ 22,837,705</u>

See Notes to Financial Statements

<b>LIABILITIES AND MEMBERS' EQUITY</b>	<b>2019</b>	<b>2018</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 54,829	\$ 83,844
Accounts payable - WCWD	85,526	88,372
Accrued interest payable	82,937	70,255
Other current liabilities	5,992	5,808
Current portion of long-term debt	<u>214,092</u>	<u>226,756</u>
Total current liabilities	<u>443,376</u>	<u>475,035</u>
<b>Long-term liabilities</b>		
Rebates payable	11,391	9,450
Customer deposits	160,160	153,415
Loan payable	4,827,559	5,041,577
Other non-current liabilities	<u>168,611</u>	<u>162,490</u>
Total long-term liabilities	<u>5,167,721</u>	<u>5,366,932</u>
Total liabilities	<u>5,611,097</u>	<u>5,841,967</u>
<b>MEMBERS' EQUITY</b>		
Capital investments	14,740,566	14,508,316
Retained earnings	<u>2,596,814</u>	<u>2,487,422</u>
Total members' equity	<u>17,337,380</u>	<u>16,995,738</u>
Total liabilities and members' equity	<u>\$ 22,948,477</u>	<u>\$ 22,837,705</u>



**BUTLER COUNTY WATER SYSTEM, INC.**

**STATEMENTS OF OPERATIONS**  
**Years Ended December 31, 2019 and 2018**

	<b>2019</b>	<b>2018</b>
<b>Operating revenues</b>		
Metered sales		
Residential	\$ 1,849,447	\$ 1,790,411
Commercial	<u>241,594</u>	<u>234,978</u>
Total metered sales	2,091,041	2,025,389
Forfeited discounts	33,238	32,961
Miscellaneous service revenue	<u>31,025</u>	<u>35,567</u>
Total operating revenues	<u>2,155,304</u>	<u>2,093,917</u>
<b>Operating expenses</b>		
Pumping expense		
Purchased power	45,911	44,969
Insurance	2,718	2,752
Miscellaneous	2,974	1,904
Professional services	<u>1,063</u>	<u>750</u>
Total pumping expense	<u>52,666</u>	<u>50,375</u>
Water treatment expense		
Professional services	2,126	1,500
Purchased power	79,558	92,433
Purchased water	-	1,375
Chemicals	79,090	68,823
Materials and supplies	8,266	14,155
Insurance	5,435	5,503
Salaries and benefits	82,063	90,151
Contractual services	1,059	1,720
Miscellaneous	<u>4,077</u>	<u>4,740</u>
Total water treatment expense	<u>261,674</u>	<u>280,400</u>
General distribution expense		
Professional services	1,064	751
Purchased power	4,366	4,347
Salaries and benefits	123,462	98,325
Materials and supplies	41,513	28,176
Insurance	11,776	11,924
Miscellaneous	22,304	18,117
Contractual services	<u>26,318</u>	<u>21,261</u>
Total general distribution expense	<u>230,803</u>	<u>182,901</u>

See Notes to Financial Statements

**BUTLER COUNTY WATER SYSTEM, INC.**

**STATEMENTS OF OPERATIONS (Continued)**  
**Years Ended December 31, 2019 and 2018**

	<b>2019</b>	<b>2018</b>
Customer accounts expense		
Salaries and benefits	\$ 175,363	\$ 231,387
Contractual services	45,891	52,022
Uncollectible accounts	174	3,947
Materials and supplies	1,846	1,152
Insurance	1,359	1,376
Miscellaneous	25,894	35,494
Professional services	<u>3,190</u>	<u>2,250</u>
Total customer accounts expense	<u>253,717</u>	<u>327,628</u>
Maintenance expense		
Pumping equipment and storage expense	24,719	26,459
Materials and supplies	839	3,640
Salaries and benefits	110,645	110,688
Contractual services	70,215	91,723
Professional services	<u>2,127</u>	<u>1,500</u>
Total maintenance expense	<u>208,545</u>	<u>234,010</u>
Administrative and general expense		
Salaries and benefits	97,731	91,149
Other post-employment benefits	3,795	91,896
Materials and supplies	5,518	4,794
Insurance	2,544	2,560
Miscellaneous	3,023	3,768
Contractual services	36,713	34,740
Professional services	<u>3,215</u>	<u>2,344</u>
Total administrative and general expense	<u>152,539</u>	<u>231,251</u>
Depreciation and amortization expense	<u>722,540</u>	<u>637,620</u>
Total operating expenses	<u>1,882,484</u>	<u>1,944,185</u>
Operating income	<u>272,820</u>	<u>149,732</u>
Non-operating revenues (expenses)		
Non-utility income	-	20
Interest income	20,952	14,575
Interest expense on long-term debt	( 176,123)	( 149,661)
Interest expense on customer deposits	( 4,161)	( 2,133)
PSC taxes	<u>( 4,096)</u>	<u>( 3,896)</u>
Total non-operating revenues (expenses)	<u>( 163,428)</u>	<u>( 141,095)</u>
Net income	<u>\$ 109,392</u>	<u>\$ 8,637</u>

See Notes to Financial Statements

**BUTLER COUNTY WATER SYSTEM, INC.**

**STATEMENTS OF CHANGES IN MEMBERS' EQUITY**  
**Years Ended December 31, 2019 and 2018**

	<u>Retained Earnings</u>	<u>Contributions in Aid of Construction</u>	<u>Total</u>
Balance, December 31, 2017	\$ 2,478,785	\$14,409,037	\$16,887,822
Net income	8,637	—	8,637
Contributions in aid of construction	—	99,279	99,279
Balance, December 31, 2018	2,487,422	14,508,316	16,995,738
Net income	109,392	—	109,392
Contributions in aid of construction	—	232,250	232,250
Balance, December 31, 2019	<u>\$ 2,596,814</u>	<u>\$14,740,566</u>	<u>\$17,337,380</u>

See Notes to Financial Statements

**BUTLER COUNTY WATER SYSTEM, INC.**

**STATEMENTS OF CASH FLOWS**  
**Years Ended December 31, 2019 and 2018**

	<b>2019</b>	<b>2018</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers and agencies	\$ 2,159,081	\$ 2,147,999
Payments to suppliers for goods and services	( 598,135)	( 497,684)
Payments for contractual services	( 572,993)	( 605,335)
Net cash provided by operating activities	<u>987,953</u>	<u>1,044,980</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Interest paid on customer deposits	( 4,161)	( 2,133)
Net cash used in noncapital financial activities	( 4,161)	( 2,133)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Loan proceeds	-	1,422,000
Principal repayment on long-term debt	( 226,682)	( 193,953)
Contributions in aid of construction	232,250	99,279
Purchases of capital assets	( 524,097)	( 2,130,818)
Interest paid on long-term debt	( 169,253)	( 152,060)
Net cash used in capital and related financing activities	( 687,782)	( 955,552)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from matured investments	500,000	-
Interest income	26,844	8,683
Purchase of investments	( 3,735)	( 2,670)
Net cash provided by investing activities	<u>523,109</u>	<u>6,013</u>
Net increase in cash and cash equivalents	819,119	93,308
Cash and cash equivalents, beginning of year	<u>1,466,941</u>	<u>1,373,633</u>
Cash and cash equivalents, end of year	<u>\$ 2,286,060</u>	<u>\$ 1,466,941</u>

See Notes to Financial Statements

**BUTLER COUNTY WATER SYSTEM, INC.**

**STATEMENTS OF CASH FLOWS (Continued)**  
**Years Ended December 31, 2019 and 2018**

	<b>2019</b>	<b>2018</b>
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 272,820	\$ 149,732
Adjustment to reconcile net operating income to net cash provided by operating activities		
Depreciation	717,235	631,976
Amortization	5,305	5,644
Non-utility income	-	20
Payment of PSC taxes	( 4,096)	( 3,896)
Changes in assets and liabilities		
Net decrease in accounts receivable, net	3,777	54,082
Net (increase) decrease in prepaid expenses	122	( 45)
Net decrease in deferred charges	11,601	26,083
Net increase (decrease) in accounts payable	( 31,861)	28,142
Net increase (decrease) in other current liabilities	184	( 765)
Net increase in customer deposits	6,745	5,781
Net increase in other liabilities	<u>6,121</u>	<u>148,226</u>
Net cash provided by operating activities	<u>\$ 987,953</u>	<u>\$ 1,044,980</u>

See Notes to Financial Statements

**BUTLER COUNTY WATER SYSTEM, INC.**

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2019 and 2018**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Business**

The Butler County Water System, Inc. (the "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 revenues 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.

**BUTLER COUNTY WATER SYSTEM, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2019 and 2018**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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.

**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.

**BUTLER COUNTY WATER SYSTEM, INC.**

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2019 and 2018**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Investments**

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

**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



**BUTLER COUNTY WATER SYSTEM, INC.**

**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2019 and 2018**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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, 2019, the Utility has no uncertain tax positions that qualify for recognition.

**Subsequent Events**

The Utility has evaluated any recognized or unrecognized subsequent events for consideration in the accompanying financial statements through April 3, 2020, 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, 2019 and 2018, the carrying amounts of the Utility's deposits were \$2,438,909 and \$2,116,055 and the bank balances were \$2,434,778 and \$2,182,092, respectively.

	<b>2019</b>	<b>2018</b>
Cash and cash equivalents	\$ 1,813,671	\$ 943,392
Restricted cash and cash equivalents	472,389	523,549
Short-term investments	-	500,000
Restricted investments	<u>152,849</u>	<u>149,114</u>
	<u>\$ 2,438,909</u>	<u>\$ 2,116,055</u>

**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, 2019 and 2018, the Utility's bank balance was not exposed to custodial credit risk.

**BUTLER COUNTY WATER SYSTEM, INC.**

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2019 and 2018**

**NOTE 2. CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)**

**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. The construction fund is restricted by USDA Rural Development for Project 18 receipts and disbursements.

Restricted cash and cash equivalents and investments consist of the following as of December 31, 2019 and 2018:

	<b>2019</b>	<b>2018</b>
Sinking funds	\$ 189,149	\$ 188,786
Depreciation fund	273,240	273,240
Customer deposits	162,849	154,114
Construction fund	<u>          -</u>	<u>56,523</u>
	<u>\$ 625,238</u>	<u>\$ 672,663</u>

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

Property, plant and equipment consists of the following as of December 31, 2019 and 2018:

	<b>2019</b>	<b>2018</b>
<b>Non-depreciable</b>		
Land and land rights	\$ 101,521	\$ 101,521
Construction in progress	127,341	1,721,571
<b>Depreciable</b>		
Utility plant in service	31,692,411	29,571,288
Less: accumulated depreciation	<u>( 11,591,158)</u>	<u>( 10,878,879)</u>
Property, plant and equipment, net	<u>\$ 20,330,115</u>	<u>\$ 20,515,501</u>

Depreciation expense was \$717,235 and \$631,976 for the years ended December 31, 2019 and 2018, respectively.

**BUTLER COUNTY WATER SYSTEM, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2019 and 2018**

**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 1996 through Series 2019 were issued through USDA Rural Development (RD). The Series 2012 loan was issued through Kentucky Rural Water Finance Corporation (KRWFC). Loans outstanding as of December 31, 2019 and 2018 consist of the following:

<u>Original Amount</u>	<u>Series of</u>	<u>Interest Rate</u>	<u>2019</u>	<u>2018</u>
\$ 950,000	1996	4.50%	\$ 609,782	\$ 633,396
197,214	1997	4.50%	118,446	123,912
545,000	1998	4.75%	320,791	335,537
3,045,000	2012	2.80%-4.00%	2,190,000	2,330,000
437,000	2014	2.75%	416,452	423,488
1,442,000	2019	2.75%	<u>1,386,180</u>	<u>1,422,000</u>
			<u>\$ 5,041,651</u>	<u>\$ 5,268,333</u>

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. The Utility was in compliance with the depreciation reserve, debt service sinking fund and debt service coverage ratio requirements as of December 31, 2019 and 2018.

**BUTLER COUNTY WATER SYSTEM, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2019 and 2018**

**NOTE 5. LONG-TERM DEBT (Continued)**

Principal and interest of various amounts are due at least annually in each of the years through 2058. The principal and interest due for each of the next five years and thereafter is as follows:

<u>Year</u>	<u>Principal Amount</u>	<u>Interest Amount</u>
2020	\$ 214,092	\$ 177,923
2021	221,971	171,054
2022	229,969	163,926
2023	238,090	155,605
2024	246,337	146,058
Thereafter	<u>3,891,192</u>	<u>1,362,513</u>
	<u>\$ 5,041,651</u>	<u>\$ 2,177,079</u>

**NOTE 6. RELATED PARTIES**

The Warren County Water District (WCWD) provides management, engineering and repair and maintenance services to the Utility. Butler County Water System, Inc. shares common management with WCWD.

The following related party amounts were included in accounts receivable at December 31, 2019 and 2018:

	<b>2019</b>	<b>2018</b>
Warren County Water District	\$ 5,647	\$ 6,920
Simpson County Water District (SCWD)	\$ 73	\$ -

The following related party amounts were included in accounts payable at December 31, 2019 and 2018:

	<b>2019</b>	<b>2018</b>
Warren County Water District	\$ 85,526	\$ 88,372

**BUTLER COUNTY WATER SYSTEM, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2019 and 2018**

**NOTE 6. RELATED PARTIES (Continued)**

During 2019 and 2018, expenses from the WCWD amounted to \$1,000,801 and \$1,101,885, respectively, for the following:

	2019	2018
Wages and benefits:		
Operation	\$ 429,406	\$ 476,768
Administrative:		
Supervision and administration	128,881	116,315
Accounting	37,582	40,238
Customer service	94,432	85,115
Engineering	15,244	12,014
Operations - other	150,210	144,470
Additions to plant	96,322	92,853
Special projects	<u>48,724</u>	<u>134,112</u>
Totals	<u>\$1,000,801</u>	<u>\$ 1,101,885</u>

In addition to the above expenses from WCWD totaling \$ 1,000,801 and \$1,101,885 for the years ending December 31, 2019 and 2018, respectively, the Utility also recognized other post-employment benefits (OPEB) expense of \$3,795 and \$91,896 in 2019 and 2018, respectively. WCWD accrues the projected value of retiree healthcare benefits earned during its employees' working lifetime. The OPEB expense reflected in administrative and general expense in the statement of operations is the Utility's proportionate share of annual OPEB costs (expense) recorded by WCWD. The Utility's portion of the OPEB liability, included in the balance sheet caption "other non-current liabilities," totaled \$168,611 and \$162,490 at December 31, 2019 and 2018, respectively.

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.

**BUTLER COUNTY WATER SYSTEM, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2019 and 2018**

**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 provision 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. Congress passed, and the President signed legislation in December, 2016, to permanently transfer the dam and associated property to RDRWC. In October, 2018, the RDRWC was awarded a \$3,000,000 grant from the U.S. Economic Development Administration towards the estimated \$4,000,000 dam repair cost. Bids will be received for the repairs in year 2019 with construction expected through year 2020. The RDRWC has issued bonds for the remaining cost and each facility withdrawing water from the pool will pay \$0.10 per 1,000 gallons withdrawn beginning January 1, 2019. As of December 31, 2019 and 2018, Butler County Water System, Inc. has incurred cumulative costs totaling \$64,864 and \$33,030, respectively, for its participation in the RDRWC.

**NOTE 9. SUBSEQUENT EVENT – COVID-19**

The COVID-19 outbreak in Kentucky has resulted in mandated and voluntary closings of retail, commercial, and industrial customers within our service area. As directed by the Kentucky Public Service Commission, the Water System has suspended disconnections for non-payment, late charges are being waived, and payment arrangements are being made to assist customers during the outbreak. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of the closings. The extent of the impact of COVID-19 on our operations and financial performance will depend on certain developments, including the duration, the impact on our customers, employees, and daily operations. At this point, the extent to which COVID-19 may impact our financial condition and operations is uncertain.

**SUPPLEMENTARY INFORMATION**

**BUTLER COUNTY WATER SYSTEM, INC.**

**SCHEDULE OF BUDGETARY COMPARISON  
Year Ended December 31, 2019**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variances</u>
	<u>Original</u>	<u>Final</u>		<u>Favorable (Unfavorable) Final to Actual</u>
<b>Revenues</b>				
Metered revenue	\$ 2,081,000	\$ 2,081,000	\$ 2,091,041	\$ 10,041
Forfeited discounts	34,000	34,000	33,238	( 762)
Miscellaneous service revenue	35,100	35,100	30,930	( 4,170)
Interest income	18,300	18,300	20,952	2,652
Other income	<u>—</u>	<u>—</u>	<u>95</u>	<u>95</u>
Total revenues	<u>2,168,400</u>	<u>2,168,400</u>	<u>2,176,256</u>	<u>7,856</u>
<b>Expenses</b>				
Salaries and wages	383,000	383,000	358,202	24,798
Commissioner fees	18,000	18,000	18,000	—
Fringe benefits	237,000	237,000	214,791	22,209
Purchased power	149,600	149,600	129,835	19,765
Chemicals	71,900	71,900	79,090	( 7,190)
Materials and supplies	54,600	54,600	57,982	( 3,382)
Contractual services - accounting	12,000	12,000	12,762	( 762)
Contractual services - other	188,100	188,100	180,221	7,879
Rental of building and utilities	16,800	16,800	16,556	244
Equipment expense	72,600	72,600	58,919	13,681
Insurance - general liability	24,000	24,000	22,647	1,353
Insurance - other	1,100	1,100	1,185	( 85)
Regulatory expense	4,400	4,400	4,096	304
Bad debt expense	4,000	4,000	174	3,826
Miscellaneous expense	5,000	5,000	5,785	( 785)
Depreciation	692,500	692,500	717,235	( 24,735)
Amortization	5,300	5,300	5,305	( 5)
Interest expense	185,800	185,800	180,284	5,516
OPEB expense	<u>7,000</u>	<u>7,000</u>	<u>3,795</u>	<u>3,205</u>
Total expenses	<u>2,132,700</u>	<u>2,132,700</u>	<u>2,066,864</u>	<u>65,836</u>
Net income	<u>\$ 35,700</u>	<u>\$ 35,700</u>	<u>\$ 109,392</u>	<u>\$ 73,692</u>



**BUTLER COUNTY WATER SYSTEM, INC.**

**SCHEDULE OF BUDGETARY COMPARISON  
Year Ended December 31, 2018**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variances</u>
	<u>Original</u>	<u>Final</u>		<u>(Unfavorable)</u> <u>Final to Actual</u>
<b>Revenues</b>				
Metered revenue	\$ 2,045,000	\$ 2,045,000	\$ 2,025,389	(\$ 19,611)
Forfeited discounts	32,300	32,300	32,961	661
Miscellaneous service revenue	27,000	27,000	35,510	8,510
Interest income	8,300	8,300	14,575	6,275
Other income	<u>—</u>	<u>—</u>	<u>78</u>	<u>78</u>
Total revenues	<u>2,112,600</u>	<u>2,112,600</u>	<u>2,108,513</u>	<u>( 4,087)</u>
<b>Expenses</b>				
Salaries and wages	385,000	385,000	379,284	5,716
Commissioner fees	18,000	18,000	17,100	900
Fringe benefits	255,700	255,700	226,051	29,649
Purchased water	—	—	1,375	( 1,375)
Purchased power	138,200	138,200	141,750	( 3,550)
Chemicals	55,200	55,200	68,823	( 13,623)
Materials and supplies	49,000	49,000	51,917	( 2,917)
Contractual services – accounting	8,500	8,500	9,000	( 500)
Contractual services – other	173,400	173,400	201,560	( 28,160)
Rental of building and utilities	16,600	16,600	16,193	407
Equipment expense	60,400	60,400	68,618	( 8,218)
Insurance – general liability	23,400	23,400	22,930	470
Insurance – other	1,100	1,100	1,184	( 84)
Regulatory expense	4,000	4,000	3,896	104
Bad debt expense	2,400	2,400	3,947	( 1,547)
Miscellaneous expense	5,500	5,500	4,937	563
Depreciation	628,200	628,200	631,976	( 3,776)
Amortization	5,600	5,600	5,644	( 44)
Interest expense	162,900	162,900	151,795	11,105
Other post-employment benefits	<u>10,400</u>	<u>10,400</u>	<u>91,896</u>	<u>( 81,496)</u>
Total expenses	<u>2,003,500</u>	<u>2,003,500</u>	<u>2,099,876</u>	<u>( 96,376)</u>
Net income	<u>\$ 109,100</u>	<u>\$ 109,100</u>	<u>\$ 8,637</u>	<u>(\$ 100,463)</u>



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

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, 2019, 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 3, 2020.

**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 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.



Bowling Green, Kentucky  
April 3, 2020