

# Butler County Water System, Inc.

## Audited Financial Statements and Required Supplementary Information

December 31, 2020

**Jones & Associates** CPAs, PSC  
Certified Public Accountants



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## 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, 2020.

- The System's assets totaled \$23,012,701 and increased by \$64,224 or 0.28% from the prior year reflecting a receivable for unbilled customer revenue. The recording of the unbilled receivable totaled \$153,722 and captured customer usage in December 2020 that was not billed as part of the normal billing cycle until January 2021. This accounting practice was adopted in year 2020. Liabilities totaled \$5,225,578 and decreased by \$385,519 or 6.87% reflecting the early payoff of the USDA-Rural Development 1997 loan.
- Metered sales totaled \$2,108,291 and increased by \$17,250 from the prior year, a 0.82% increase. Residential sales increased by \$29,065 and commercial, agricultural, fire protection and other sales decreased by a total of \$11,815. Total water consumption for the year was down slightly compared to the prior year and the increase in metered sales reflects the recording of unbilled revenue totaling \$23,315.
- Total revenues for the year totaled \$2,135,475 and decreased by \$19,829 from the prior year, a 0.9% decrease. Total expenses totaled \$1,869,658 for the year and decreased by \$12,826 from last year, a 0.7% decrease. Revenues were adversely impacted by the COVID 19 pandemic and the subsequent Public Service Commission order which placed a moratorium on the assessment of late charges (forfeited discounts) and disconnection of services for non-payment during the year. Expenses reflected an increase in payroll costs for wages paid to employees during the System's COVID-19 operations protocol while most other operational expenses decreased when compared to the prior year.
- Income before Contributions in Aid of Construction amounted to \$102,601 and decreased by \$6,791, or 6.21%, from the prior year's income of \$109,392.
- 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 313.4 million gallons compared to 328.1 million gallons produced in the prior year, a decrease of 14.7 million gallons. The maximum amount of water pumped in a single day was 1.2 million gallons on December 28<sup>th</sup>.
- Total gallons sold to the System's customers during the year amounted to 251.7 million gallons compared to 254.4 million gallons in the prior year, a decrease of 2.7 million gallons. The peak month for customer demand was August with 24.6 million gallons sold.
- The average monthly usage per residential customer was 4,039 gallons compared to 4,019 gallons in the prior year. The average monthly usage per commercial customer was 7,467 gallons compared to 8,757 gallons in the prior year.
- The number of customers totaled 4,969 consisting of 4,634 residential customers and 335 commercial and other class customers with 69 new meter applications received throughout the year. The System has a total of 519 miles of distribution main serving an average of 9.6 customers per mile.
- Projects Placed into Service included the Natcher Parkway Cromwell Exit Line relocation totaling \$224,455; a raw water pump replacement totaling \$92,817 and various service line replacements totaling \$65,809.

# JONES & ASSOCIATES CPAs, PSC

121 PROSPEROUS PLACE, SUITE 2A, LEXINGTON, KY 40509 (859) 687-0303

## CERTIFIED PUBLIC ACCOUNTANTS

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

### **Independent Auditor's Report**

#### **Report on the Financial Statements**

We have audited the accompanying financial statements of Butler County Water System, Inc. (a nonprofit organization), which comprise the Statement of Financial Position as of December 31, 2020, and the related Statements of Activities and Cash Flows for the year 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.

#### **Auditor's Responsibility**

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

**To the Board of Directors of  
Butler County Water System, Inc.  
Independent Auditor's Report  
(Continued)**

**Opinion**

In our opinion, the financial statements referred to previously present fairly, in all material respects, the financial position of Butler County Water System, Inc. as of December 31, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

*Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Financial and Statistical Highlights and Schedule of Budgetary Comparison are presented for purposes of additional analysis and are not a required part of the basic financial statements. We do not express an opinion or provide any assurance on the Financial and Statistical Highlights and Schedule of Budgetary Comparison because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated April 8, 2021, on our consideration of 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 the effectiveness of Butler County Water System, Inc.'s 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 Butler County Water System, Inc.'s internal control over financial reporting and compliance.

Respectfully submitted,

*Jones & Associates CPAs, PSC*

Jones & Associates CPAs, PSC  
Certified Public Accountants  
Lexington, KY

April 8, 2021

Financial Statements

**Butler County Water System, Inc.**  
**Statement of Financial Position**  
**December 31, 2020**

**Assets**

Current assets

Cash and cash equivalents	\$	1,830,430
Customer accounts receivable, net		78,593
Unbilled receivable		153,722
Accounts receivable - Other		5,899
Prepaid assets		16,785
Other current assets		<u>22,729</u>

Total current assets \$ 2,108,158

Other assets

Property, plant, and equipment, net	\$	19,986,049
Restricted cash and cash equivalents		577,756
Restricted investments		155,737
Construction in progress		<u>185,001</u>

Total other assets \$ 20,904,543

**Total assets** **\$ 23,012,701**

**Liabilities and net assets**

Liabilities

Current liabilities

Accounts payable	\$	106,419
Accounts payable - WCWD		17,600
Customer deposits		170,957
Bonds and notes payable		215,922
Interest payable		79,859
Other current liabilities		<u>6,370</u>

Total current liabilities \$ 597,127

Noncurrent liabilities

Bonds and notes payable, net	\$	4,468,870
Other postemployment benefits		154,940
Rebates payable		<u>4,641</u>

Total noncurrent liabilities \$ 4,628,451

Total liabilities \$ 5,225,578

Net assets

Without donor restriction \$ 17,787,123

Total net assets \$ 17,787,123

**Total liabilities and net assets** **\$ 23,012,701**

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

**Butler County Water System, Inc.**  
**Statement of Activities**  
**For the Year Ended December 31, 2020**

**Revenues, gains, and other support**

Residential metered sales	\$ 1,878,512
Commercial metered sales	216,094
Industrial metered sales	13,685
Forfeited discounts	6,317
Miscellaneous service revenue	<u>20,867</u>

**Total revenues, gains, and other support** \$ 2,135,475

**Expenses and losses**

Expenses

Pumping

Salaries and benefits	\$ 359
Purchased power	45,155
Insurance	2,429
Professional services	749
Miscellaneous	<u>1,205</u>

Total pumping \$ 49,897

Water treatment

Salaries and benefits	\$ 90,343
Purchased power	74,431
Insurance	4,859
Chemicals	75,502
Material and supplies	8,066
Contractual services	1,219
Professional services	1,499
Miscellaneous	<u>4,111</u>

Total water treatment \$ 260,030

General distribution

Salaries and benefits	\$ 101,085
Purchased power	4,360
Insurance	10,526
Material and supplies	34,568
Contractual services	24,355
Professional services	751
Miscellaneous	<u>18,138</u>

Total general distribution \$ 193,783

Customer accounts

Salaries and benefits	\$ 156,135
Insurance	1,214
Material and supplies	1,585



**Butler County Water System, Inc.**  
**Statement of Activities**  
**For the Year Ended December 31, 2020**  
*(Continued)*

**Expenses and losses** *(Continued)*

Expenses *(Continued)*

Customer accounts *(Continued)*

Contractual services	\$ 49,325
Professional services	2,250
Miscellaneous	<u>24,345</u>

Total customer accounts	\$ <u>234,854</u>
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Maintenance

Salaries and benefits	\$ 161,221
Material and supplies	1,300
Contractual services	66,710
Professional services	1,501
Miscellaneous	<u>18,219</u>

Total maintenance	\$ <u>248,951</u>
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Administrative and general

Salaries and benefits	\$ 76,321
Insurance	2,399
Material and supplies	7,774
Contractual services	34,016
Professional services	2,641
Other postemployment benefits	(8,203)
Miscellaneous	<u>21,345</u>

Total administrative and general	\$ <u>136,293</u>
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Depreciation	\$ <u>740,884</u>
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Amortization	\$ <u>4,966</u>
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Total expenses	\$ <u>1,869,658</u>
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<b>Total expenses and losses</b>	<b>\$ <u>1,869,658</u></b>
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**Non-operating revenues (expenses)**

Interest revenue	\$ 14,060
Regulatory commission tax	(4,311)
Interest expense	<u>(172,965)</u>

<b>Total non-operating revenues (expenses)</b>	<b>\$ <u>(163,216)</u></b>
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**Butler County Water System, Inc.**  
**Statement of Activities**  
**For the Year Ended December 31, 2020**  
*(Continued)*

<b>Change in net assets before contributions in aid of construction</b>	\$	102,601
<b>Contributions in aid of construction</b>		<u>216,734</u>
<b>Change in net assets</b>	\$	319,335
<b>Net assets - Beginning of year (Restated)</b>		<u>17,467,788</u>
<b>Net assets - End of year</b>	\$	<u><u>17,787,123</u></u>

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

**Butler County Water System, Inc.**  
**Statement of Cash Flows**  
**For the Year Ended December 31, 2020**

<b>Cash flows from operating activities</b>	
Increase (decrease) in net assets	\$ 319,335
Adjustments to reconcile change in net assets to net cash	
(Increase) decrease in	
Customer accounts receivable, net	(11,884)
Unbilled receivable	(23,314)
Accounts receivable - Other	(179)
Prepaid assets	939
Other current assets	31,495
Increase (decrease) in	
Accounts payable	51,590
Accounts payable - WCWD	(67,926)
Customer deposits	10,797
Interest payable	(3,078)
Other current liabilities	378
Rebates payable	(6,750)
Investment revenue	(2,888)
Other postemployment benefits	(8,203)
Depreciation	740,884
Amortization	4,966
	<u>4,966</u>
<b>Net cash provided (used) by operating activities</b>	<b>\$ <u>1,036,162</u></b>
<b>Cash flows from investing activities</b>	
Purchase of property and equipment	\$ <u>(587,287)</u>
<b>Net cash provided (used) by investing activities</b>	<b>\$ <u>(587,287)</u></b>
<b>Cash flows from financing activities</b>	
Repayment of debt	\$ <u>(326,749)</u>
<b>Net cash provided (used) by financing activities</b>	<b>\$ <u>(326,749)</u></b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>\$ 122,126</b>
<b>Cash and cash equivalents - Beginning of year</b>	<u>2,286,060</u>
<b>Cash and cash equivalents - End of year</b>	<b>\$ <u><u>2,408,186</u></u></b>
<b>Supplemental disclosure of cash flow information</b>	
Cash paid during the year for interest	\$ <u><u>173,626</u></u>

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

**Butler County Water System, Inc.**  
**Notes to the Financial Statements**  
**For the Year Ended December 31, 2020**

**Note 1. Description of Business and Summary of Significant Accounting Policies**

**Description of Business**

Butler County Water System, Inc. (System) 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 System provides a public water system to citizens primarily located in Butler County, Kentucky. The accounting policies of the System conform to generally accepted accounting principles as applicable to a non-profit membership association.

The System is governed by a five-member board (Board). The Board is elected by the members of the System and 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. 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.

**Cash and Cash Equivalents**

Cash and cash equivalents include investments purchased with an initial maturity of 90 days or less.

**Investments**

Investments, which consists of certificates of deposits, are recorded at fair value which approximates cost.

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

**Property, Plant, and Equipment**

The System 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 System defers the ongoing activity and capitalizes these costs as part of the utility plant upon completion of the project.

**Butler County Water System, Inc.**  
**Notes to the Financial Statements**  
**For the Year Ended December 31, 2020**  
*(Continued)*

**Note 1. Description of Business and Summary of Significant Accounting Policies** *(Continued)*

**Property, Plant, and Equipment** *(Continued)*

Management's capitalization policy is based upon the asset's estimated future benefit. Depreciation is computed using the straight-line method over the estimated useful life of the utility plant asset. The estimated useful lives range from 5 to 50 years for utility plant assets. The System capitalizes construction period interest on loans that were obtained to finance construction.

**Tax Exempt Status**

The Internal Revenue Service has determined that the System is exempt from federal income tax under Section 501(c)(12) of the Internal Revenue Code.

**Accounts Receivable and Allowance for Doubtful Accounts**

Customer accounts receivable amounts arise from monthly water usage. Based on System policy, water meters are read monthly, with billings occurring approximately 10 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 grace period of 2 to 4 days 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.

**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 System follows accounting requirements associated with uncertainty in income taxes using the provisions of Financial Accounting Standards Board (FASB) ASC 740, Income Taxes. The guidance prescribes 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, 2020, the System has no uncertain tax positions that qualify for recognition.

**Butler County Water System, Inc.**  
**Notes to the Financial Statements**  
**For the Year Ended December 31, 2020**  
*(Continued)*

**Note 2. Deposits, Restricted Cash, Investments, and Restricted Investments**

**Deposits**

The System maintains deposits with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). The depository institutions should pledge sufficient securities as collateral which, together with FDIC insurance, equals or exceeds the amount on deposit at all times.

**A. Custodial Credit Risk – Deposits**

Custodial credit risk is the risk that in the event of a depository institution's failure, the System's deposits may not be returned. The System'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.

**Restricted Cash and Cash Equivalents**

Restricted cash consists of the following:

Sinking funds	\$	306,516
Depreciation fund		261,240
Customer deposits fund		10,000
Total restricted cash	\$	<u>577,756</u>

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.

**Restricted Investments**

The System held \$155,737 in certificates of deposit at December 31, 2020, all of which are categorized as current investments.

**Note 3. Concentrations of Risk**

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

**Note 4. Tax Status**

The System believes it is no longer subject to income tax examinations for years prior to 2016.

**Note 5. Risks of Loss**

The System'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 the Financial Statements**  
**For the Year Ended December 31, 2020**  
*(Continued)*

**Note 6. Rebates Payable**

These amounts are partially made up of private developers' unrecovered costs in installing water lines. Property, Plant, and Equipment was increased for a like amount when the facilities were donated to the System. 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 10 years or up to the value of facilities constructed. The remaining balance in this account was obtained from subscriptions of prospective users of the System. When a meter is installed, the subscribed amount is transferred to contributions in aid of construction.

**Note 7. Related Parties**

The Warren County Water District (Warren) provides management, engineering, and repair and maintenance services to the System. The System shares common management with Warren. The System included \$5,899 in accounts receivable from related parties and \$17,600 in accounts payable to related parties at December 31, 2020. During 2020, expenses from Warren amounted to \$925,883 for the following:

Wages and benefits	
Operation	\$ 415,264
Administrative	
Supervision and administration	126,328
Accounting	34,877
Customer service	94,394
Engineering	9,036
Operations – Other	136,497
Additions to plant	106,170
Special projects	<u>3,317</u>
Total	<u>\$ 925,883</u>

In addition to the above expenses, the System also recognized other post-employment benefits (OPEB) expense of \$(8,203) in 2020. Warren 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 Activities is the System's proportionate share of annual OPEB costs (expense) recorded by Warren. The System's portion of the OPEB liability, included in the Statement of Net Position, totaled \$154,940 at December 31, 2020.

In the ordinary course of business, the System has and expects to continue to have transactions with Warren. In the opinion of management, such transactions were on substantially the same terms as those prevailing at the time of comparable transactions with other entities and did not involve more than a normal risk of collectability or present any other unfavorable features to the System.

**Note 8. Rochester Dam Regional Water Commission**

The Rochester Dam Regional Water Commission (Commission) is a water commission created pursuant to KRS 74.440 for the purpose of providing an adequate and dependable supply of water currently established by the water impoundment of Green River Lock and Dam #3 for the region which includes Butler, Muhlenberg, and Ohio Counties. To support this mission, the Commission began a project to repair

**Butler County Water System, Inc.**  
**Notes to the Financial Statements**  
**For the Year Ended December 31, 2020**  
*(Continued)*

**Note 8. Rochester Dam Regional Water Commission** *(Continued)*

the 180-year-old dam structure in 2018 at a cost of \$4,000,000 with \$3,000,000 being provided by a U.S. Economic Development Administration grant. The Commission has issued bonds for the remaining project cost and facilities withdrawing water from the impoundment are paying \$0.10 per 1,000 gallons withdrawn. The project is approximately 50% complete and is expected to be completed in 2021. As of December 31, 2020, the System has incurred cumulative costs totaling \$33,042 for its participation in the Commission.

**Note 9. Coronavirus**

In March 2020, the outbreak of Covid-19 (coronavirus) was recognized as a pandemic by the World Health Organization. The outbreak has had a notable impact on general economic conditions with many unknown effects. The System continues to closely monitor the impact of the coronavirus outbreak. The extent to which this will impact its operations or financial results is still uncertain; however, management believes that the System will remain stable.

**Note 10. Long-term Debt**

The following reflects the long-term debt activity for the year ended December 31, 2020:

	<b><u>Beginning</u></b>		<b><u>Additions</u></b>		<b><u>Reductions</u></b>		<b><u>Ending</u></b>		<b><u>Due Within</u></b>
	<b><u>Balance</u></b>						<b><u>Balance</u></b>		<b><u>One Year</u></b>
USDA-RD 1996	\$ 609,782	\$		\$	24,677	\$	585,105	\$	25,788
USDA-RD 1997	118,446				118,446				
USDA-RD 1998	320,791				15,446		305,345		16,180
USDA-RD 2014	416,452				7,230		409,222		7,428
USDA-RD 2018	1,386,180				20,950		1,365,230		21,526
KRWFC 2012G	2,190,000				140,000		2,050,000		145,000
<b>Total</b>	<b>\$ 5,041,651</b>	<b>\$</b>		<b>\$</b>	<b>326,749</b>	<b>\$</b>	<b>4,714,902</b>	<b>\$</b>	<b>215,922</b>

Principal and interest are due as follows:



**Butler County Water System, Inc.**  
**Notes to the Financial Statements**  
**For the Year Ended December 31, 2020**  
*(Continued)*

**Note 10. Long-term Debt** *(Continued)*

<u>Year Ending December 31,</u>	<u>Interest</u>	<u>Principal</u>
2021	\$ 166,061	\$ 215,922
2022	159,206	223,647
2023	151,170	231,483
2024	141,919	239,434
2025	132,347	247,506
2026 – 2030	509,189	1,283,176
2031 – 2035	275,961	978,904
2036 – 2040	161,199	278,913
2041 – 2045	125,608	263,152
2046 – 2050	87,379	301,381
2051 – 2055	43,599	326,395
2056 – 2058	5,680	124,990
Total	<u>\$ 1,959,317</u>	<u>\$ 4,714,902</u>

**USDA Rural Development 91-17 1996 Loan**

On August 8, 1996, the System issued a \$950,000 loan for Project 10 construction and improvement to their distribution system. The loan matures August 8, 2036 and requires annual interest and principal payments on August 8 at an interest rate of 4.5%. The outstanding balance as of December 31, 2020 is \$585,105.

**USDA Rural Development 91-21 1997 Loan**

On December 18, 1997, the System issued a \$197,214 loan for the construction and improvement of their distribution system. As of December 31, 2020, this loan, with a maturity date of December 18, 2034, had been repaid and no principal was outstanding.

**USDA Rural Development 91-22 1998 Loan**

On July 7, 1998, the System issued a \$545,000 loan for the construction and improvement of their distribution system. The loan matures July 7, 2034 and require annual interest and principal payments on July 7 at an interest rate of 4.75%. The outstanding balance as of December 31, 2020 is \$305,345.

**USDA Rural Development 91-24 2014 Loan**

On November 24, 2014, the System issued a \$437,000 loan for water treatment plant improvements. The loan matures November 24, 2054 and require annual interest and principal payments on November 24 at an interest rate of 2.75%. The outstanding balance as of December 31, 2020 is \$409,222.

**Butler County Water System, Inc.**  
**Notes to the Financial Statements**  
**For the Year Ended December 31, 2020**  
*(Continued)*

**Note 10. Long-term Debt** *(Continued)*

**USDA Rural Development 91-26 2018 Loan**

On March 28, 2018, the System issued a \$1,422,000 loan for the implementation of an Automated Meter Reading (AMR) and leak detection system. The loan matures March 28, 2058 and require annual interest and principal payments on March 28 at an interest rate of 2.75%. The outstanding balance as of December 31, 2020 is \$1,365,230.

**Kentucky Rural Water Finance Corporation Series 2012G – Refunding Loan**

On December 11, 2012, the District received a \$3,045,000 loan to a refund prior USDA – Rural Development loan. The loan matures February 1, 2034 and requires principal payments on February 1 and semi-annual interest payments at interest rates ranging from 2.8% to 4%. The loan is collateralized with service revenue. The outstanding balance as of December 31, 2020 is \$2,050,000.

**Note 11. Property, Plant, and Equipment**

Property, plant, and equipment consists of the following:

	<b><u>Beginning Balance</u></b>		<b><u>Increase</u></b>		<b><u>Decrease</u></b>		<b><u>Ending Balance</u></b>
Assets not being depreciated							
Land and land rights	\$ 101,521	\$		\$		\$	\$ 101,521
Construction in progress	127,341		152,051		94,391		185,001
Assets being depreciated							
Utility plant in service	<u>31,692,411</u>		<u>524,158</u>		<u>1,365</u>		<u>32,215,204</u>
Total property, plant, and equipment	\$ 31,921,273	\$	\$ 676,209	\$	\$ 95,756	\$	\$ 32,501,726
Less: Accumulated depreciation	<u>11,591,158</u>		<u>740,884</u>		<u>1,366</u>		<u>12,330,676</u>
Property, plant, and equipment, net	<u>\$ 20,330,115</u>	\$	<u>(64,675)</u>	\$	<u>94,390</u>	\$	<u>\$ 20,171,050</u>

**Note 12. Liquidity and Availability of Financial Assets**

The System's financial assets available to meet cash needs for general expenditures within one year of the balance sheet date were \$2,802,137. The Organization does not have a formal liquidity management plan but purchases certificates of deposit occasionally.

**Note 13. New Accounting Standards**

In February 2016, the FASB issued ASU 2016-02, *Leases*. The ASU requires all leases with terms over twelve months to be capitalized as a right-of-use asset and lease liability on the Statement of Financial Position at the date of the lease commencement. Leases will be classified as either finance or operating, which will be relevant for the pattern of expense recognition in the Statement of Activities. The ASU will be effective for the year ending December 31, 2021. The System is currently in the process of evaluating the impact of adoption of this ASU on its financial statements.

**Butler County Water System, Inc.**  
**Notes to the Financial Statements**  
**For the Year Ended December 31, 2020**  
*(Continued)*

**Note 14. Adoption of Accounting Standard**

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities*. The ASU requires significant changes to the financial reporting model of organizations who follow the not-for-profit reporting model. The changes include reducing the classes of net assets from three classes to two: net assets with donor restrictions and net assets without donor restrictions. The ASU also requires changes in the way certain information is aggregated and reported by the System, including required disclosures about liquidity and availability of resources. The new standard is effective for the System's year ending December 31, 2019 and thereafter and must be applied on a retrospective basis. The System adopted the ASU effective January 1, 2020.

**Note 15. Restatement of Net Position**

Beginning net position was restated as follows to correct account balances at December 31, 2019:

Net Position - Beginning of year	\$	2,596,814
Understatement of unbilled receivable		<u>130,408</u>
Net Position - Beginning of year, restated	\$	<u><u>2,727,222</u></u>

Assets were understated by \$130,408. As a result, net position was understated by \$130,408.

**Note 16. Commitments**

*Storage Tank Painting:* The System has committed to re-coating 2 potable water storage tanks during 2021. These tanks are known as the High School Tank and the 626 Tank. The combined projects will have total expenses of approximately \$188,000.

**Note 17. Subsequent Events**

The System has evaluated and considered the need to recognize or disclose subsequent events through April 8, 2021, the date which the financial statements were available to be issued. Subsequent events past this date, as they pertain to the year ended December 31, 2020, have not been evaluated by the System.

# JONES & ASSOCIATES CPAs, PSC

121 PROSPEROUS PLACE, SUITE 2A, LEXINGTON, KY 40509 (859) 687-0303

## CERTIFIED PUBLIC ACCOUNTANTS

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

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

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 Butler County Water System, Inc. (a nonprofit Organization), which comprise the Statement of Net Position as of December 31, 2020, and the related Statements of Activities 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, 2021.

#### **Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Butler County Water System, Inc.'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 Butler County Water System, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Butler County Water System, Inc.'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.

**To the Board of Directors of  
Butler County Water System, Inc.  
Independent Auditor's Report on Internal Control over Financial Reporting and  
on Compliance and Other Matters Based on an Audit of the Financial Statements  
Performed in Accordance with *Government Auditing Standards*  
(Continued)**

**Compliance and Other Matters**

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

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

*Jones & Associates CPAs, PSC*

Jones & Associates CPAs, PSC  
Certified Public Accountants  
Lexington, KY

April 8, 2021

Supplementary Information

**Butler County Water System, Inc.**  
**Schedule of Budgetary Comparison**  
**For the Year Ended December 31, 2020**

	<b>Budgeted Amounts</b>		<b>Actual Amounts (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues</b>				
Metered water revenue	\$ 2,102,000	\$ 2,102,000	\$ 2,108,291	\$ 6,291
Forfeited discounts	33,100	33,100	6,317	(26,783)
Miscellaneous service revenue	32,500	32,500	20,867	(11,633)
Disposition gain (loss)	2,000	2,000		(2,000)
<b>Total revenues</b>	<b>\$ 2,169,600</b>	<b>\$ 2,169,600</b>	<b>\$ 2,135,475</b>	<b>\$ (34,125)</b>
<b>Expenses</b>				
Salaries and wages	\$ 363,700	\$ 363,700	\$ 367,559	\$ (3,859)
Commissioner fees	18,000	18,000	18,000	
Employee overhead	220,300	220,300	217,905	2,395
Purchased power	129,200	129,200	123,946	5,254
Chemicals	62,800	62,800	75,502	(12,702)
Materials and supplies	79,600	79,600	53,293	26,307
Contractual services - Accounting	9,000	9,000	9,000	
Contractual services - Legal			391	(391)
Contractual services - Other	183,200	183,200	175,625	7,575
Rental of building and property	16,800	16,800	15,919	881
Equipment	64,100	64,100	49,915	14,185
Insurance - Liability and property	22,600	22,600	20,242	2,358
Insurance - Treasury bond	1,200	1,200	1,185	15
Bad debts	1,500	1,500	(1,075)	2,575
Miscellaneous	7,000	7,000	4,604	2,396
Depreciation	732,900	732,900	740,884	(7,984)
Amortization	5,000	5,000	4,966	34
OPEB	5,200	5,200	(8,203)	13,403
<b>Total expenses</b>	<b>\$ 1,922,100</b>	<b>\$ 1,922,100</b>	<b>\$ 1,869,658</b>	<b>\$ 52,442</b>
<b>Non-operating revenues (expenses)</b>				
Interest revenue	\$ 22,300	\$ 22,300	\$ 14,060	\$ (8,240)
Regulatory commission tax	(4,100)	(4,100)	(4,311)	(211)
Interest expense	(180,700)	(180,700)	(172,965)	7,735
<b>Total non-operating revenues (expenses)</b>	<b>\$ (162,500)</b>	<b>\$ (162,500)</b>	<b>\$ (163,216)</b>	<b>\$ (716)</b>
<b>Total operating and non-operating revenues (expenses)</b>	<b>\$ 2,084,600</b>	<b>\$ 2,084,600</b>	<b>\$ 2,032,874</b>	<b>\$ 51,726</b>

**Butler County Water System, Inc.**  
**Schedule of Budgetary Comparison**  
**For the Year Ended December 31, 2020**  
*(Continued)*

<b>Income before contributions in aid of construction</b>	\$ 85,000	\$ 85,000	\$ 102,601	\$ 17,601
<b>Contributions in aid of construction</b>	<u>30,000</u>	<u>30,000</u>	<u>216,734</u>	<u>186,734</u>
<b>Change in net assets</b>	\$ <u>115,000</u>	\$ <u>115,000</u>	\$ <u>319,335</u>	\$ <u>204,335</u>
<b>Net assets - Beginning of year</b>	\$ 17,337,380	\$ 17,337,380	\$ 17,337,380	\$
<b>Prior period adjustment - Unbilled revenue</b>			<u>130,408</u>	<u>130,408</u>
<b>Net assets - Beginning of year (Restated)</b>	\$ <u>17,337,380</u>	\$ <u>17,337,380</u>	\$ <u>17,467,788</u>	\$ <u>130,408</u>
<b>Net assets - End of year</b>	\$ <u><u>17,452,380</u></u>	\$ <u><u>17,452,380</u></u>	\$ <u><u>17,787,123</u></u>	\$ <u><u>334,743</u></u>