

Butler County Water System, Inc.

**Audited Financial Statements and
Supplementary Information**

December 31, 2021 and 2020

Jones & Associates CPAs, PSC
Certified Public Accountants



121 Prosperous Place, Suite 2A, Lexington, KY 40509 (859) 687- 0303

Table of Contents

	Page
Financial and Statistical Highlights	1
Independent Auditor's Report	2 – 4
Financial Statements.....	5
Statement of Financial Position	6
Statement of Activities.....	7 – 9
Statement of Cash Flows	10
Notes to the Financial Statements	11 – 20
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 <i>Government Auditing Standards</i>	21 – 22
Supplementary Information	23
Schedule of Budgetary Comparison	24 – 25

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, 2021.

- The System's assets totaled \$22,939,345 and decreased by \$73,356, or 0.3%, from the prior year reflecting a decrease of net utility plant due to depreciation. Liabilities totaled \$5,038,588 and decreased by \$186,990, or 3.6%, reflecting the reduction of long-term debt.
- Metered sales totaled \$2,139,290 and increased by \$30,999 from the prior year, a 1.47% increase. Residential sales increased by \$4,137 and commercial, agricultural, fire protection and other sales increased by a total of \$26,862.
- Total revenues for the year totaled \$2,207,395 and increased by \$71,920 from the prior year, a 3.37% increase. Total expenses were \$2,000,128 for the year and increased by \$130,470 from last year, a 7.0% increase. Revenues in year 2021 included a full year of late penalties (forfeited discounts) and disconnect fees compared to year 2020 when the Public Service Commission ordered a moratorium on the assessment of late penalties and disconnect fees. In year 2021, total expenses increased due to costs associated with system flushing, line locates, leak detection, and leak repairs
- Income before Contributions in Aid of Construction amounted to \$61,170 and decreased by \$41,431, or 40.3%, from the prior year's income of \$102,601.
- 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 327.1 million gallons compared to 313.4 million gallons produced in the prior year, an increase of 13.7 million gallons. The maximum amount of water pumped in a single day was 1.3 million gallons on August 4, 2021.
- Total gallons sold to the System's customers during the year amounted to 258 million gallons compared to 251.7 million gallons in the prior year, an increase of 6.3 million gallons. The peak month for customer demand was September with 25.4 million gallons sold.
- The average monthly usage per residential customer was 4,029 gallons compared to 4,039 gallons in the prior year. The average monthly usage per commercial customer was 8,307 gallons compared to 7,467 gallons in the prior year.
- The number of customers totaled 5,002 consisting of 4,661 residential customers and 341 commercial and other class customers with 62 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 completed for the year include the repainting of the High School Storage Tank and the Highway 626 Storage Tank for a cost of \$191,650 and \$56,300, respectively.

Jones & Associates CPAs, PSC

Certified Public Accountants



121 Prosperous Place, Suite 2A, Lexington, KY 40509 (859) 687-0303

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

Independent Auditor's Report

Opinion

We have audited the accompanying financial statements of the Butler County Water System, Inc. (a nonprofit organization), which comprise the Statement of Financial Position as of December 31, 2021 and 2020, and the related Statements of Activities and Cash Flows for the years then ended, and the related notes to the financial statements.

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, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Butler County Water System, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Butler County Water System, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore

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

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Butler County Water System, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Butler County Water System, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Financial and Statistical Highlights and Schedule of Budgetary Comparison is presented for purposes of additional analysis and is 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

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

Supplementary Information (Continued)

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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2022, 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 the effectiveness of the 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 the 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

March 30, 2022

Financial Statements

Butler County Water System, Inc.
Statement of Financial Position
December 31, 2021 and 2020

	2021	2020
Assets		
Current assets		
Cash and cash equivalents	\$ 2,029,344	\$ 1,830,430
Customer accounts receivable, net	66,600	78,593
Unbilled receivable	167,825	153,722
Accounts receivable - Other	6,878	5,899
Prepaid assets	17,848	16,785
Other current assets	33,987	22,729
Total current assets	\$ 2,322,482	\$ 2,108,158
Other assets		
Property, plant, and equipment, net	\$ 19,725,439	\$ 19,986,049
Restricted cash and cash equivalents	640,620	577,756
Restricted investments		155,737
Construction in progress	250,804	185,001
Total other assets	\$ 20,616,863	\$ 20,904,543
Total assets	\$ 22,939,345	\$ 23,012,701
Liabilities and net assets		
Liabilities		
Current liabilities		
Accounts payable	\$ 114,522	\$ 106,419
Accounts payable - WCWD	18,196	17,600
Customer deposits	181,149	170,957
Bonds and notes payable	224,751	215,922
Interest payable	70,768	79,859
Other current liabilities	6,308	6,370
Total current liabilities	\$ 615,694	\$ 597,127
Noncurrent liabilities		
Bonds and notes payable, net	\$ 4,255,826	\$ 4,468,870
Other postemployment benefits	165,128	154,940
Rebates payable	1,940	4,641
Total noncurrent liabilities	\$ 4,422,894	\$ 4,628,451
Total liabilities	\$ 5,038,588	\$ 5,225,578
Net assets		
Without donor restriction	\$ 17,900,757	\$ 17,787,123
Total net assets	\$ 17,900,757	\$ 17,787,123
Total liabilities and net assets	\$ 22,939,345	\$ 23,012,701

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

Butler County Water System, Inc.
Statement of Activities
For the Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Revenues, gains, and other support		
Residential metered sales	\$ 1,882,649	\$ 1,878,512
Commercial metered sales	242,475	216,094
Industrial metered sales	14,166	13,685
Forfeited discounts	31,990	6,317
Miscellaneous service revenue	<u>36,115</u>	<u>20,867</u>
Total revenues, gains, and other support	\$ <u>2,207,395</u>	\$ <u>2,135,475</u>
Expenses and losses		
Expenses		
Pumping		
Salaries and benefits	\$ 165	\$ 359
Purchased power	48,817	45,155
Insurance	2,446	2,429
Professional services	505	749
Miscellaneous	<u>1,193</u>	<u>1,205</u>
Total pumping	\$ <u>53,126</u>	\$ <u>49,897</u>
Water treatment		
Salaries and benefits	\$ 87,714	\$ 90,343
Purchased power	85,201	74,431
Insurance	4,892	4,859
Chemicals	73,967	75,502
Material and supplies	18,394	8,066
Contractual services	12,916	1,219
Professional services	1,009	1,499
Miscellaneous	<u>4,960</u>	<u>4,111</u>
Total water treatment	\$ <u>289,053</u>	\$ <u>260,030</u>
General distribution		
Salaries and benefits	\$ 147,482	\$ 101,085
Purchased power	4,383	4,360
Insurance	10,599	10,526
Material and supplies	49,239	34,568
Contractual services	18,609	24,355
Professional services	505	751
Miscellaneous	<u>33,276</u>	<u>18,138</u>
Total general distribution	\$ <u>264,093</u>	\$ <u>193,783</u>
Customer accounts		
Salaries and benefits	\$ 162,128	\$ 156,135
Insurance	1,223	1,214

Butler County Water System, Inc.
Statement of Activities
For the Years Ended December 31, 2021 and 2020
(Continued)

Expenses and losses (Continued)

Expenses (Continued)

Customer accounts (Continued)

Material and supplies	\$ 2,373	\$ 1,585
Contractual services	50,345	49,325
Professional services	1,514	2,250
Miscellaneous	26,912	24,345

Total customer accounts \$ 244,495 \$ 234,854

Maintenance

Salaries and benefits	\$ 136,375	\$ 161,221
Materials and supplies		1,300
Contractual services	58,760	66,710
Professional services	1,009	1,501
Miscellaneous	25,070	18,219

Total maintenance \$ 221,214 \$ 248,951

Administrative and general

Salaries and benefits	\$ 83,866	\$ 76,321
Insurance	2,478	2,399
Material and supplies	6,796	7,774
Contractual services	42,657	34,016
Professional services	1,514	2,641
Other postemployment benefits	6,113	(8,203)
Miscellaneous	21,027	21,345

Total administrative and general \$ 164,451 \$ 136,293

Depreciation \$ 759,117 \$ 740,884

Amortization \$ 4,579 \$ 4,966

Total expenses \$ 2,000,128 \$ 1,869,658

Total expenses and losses \$ 2,000,128 \$ 1,869,658

Non-operating revenues (expenses)

Interest revenue	\$ 10,548	\$ 14,060
Gain on disposition of assets	3,921	
Other income	349	
Regulatory commission tax	(4,270)	(4,311)
Interest expense	(156,645)	(172,965)

Total non-operating revenues (expenses) \$ (146,097) \$ (163,216)

Butler County Water System, Inc.
Statement of Activities
For the Years Ended December 31, 2021 and 2020
(Continued)

Change in net assets before contributions in aid of construction	\$	61,170	\$	102,601
Contributions in aid of construction		<u>52,464</u>		<u>216,734</u>
Change in net assets	\$	113,634	\$	319,335
Net assets - Beginning of year		<u>17,787,123</u>		<u>17,467,788</u>
Net assets - End of year	\$	<u><u>17,900,757</u></u>	\$	<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 Years Ended December 31, 2021 and 2020

	2021	2020
Cash flows from operating activities		
Increase (decrease) in net assets	\$ 113,634	\$ 319,335
Adjustments to reconcile change in net assets to net cash		
(Increase) decrease in		
Customer accounts receivable, net	11,993	(11,884)
Unbilled receivable	(14,103)	(23,314)
Accounts receivable - Other	(979)	(179)
Prepaid assets	(1,063)	939
Other current assets	(11,258)	31,495
Increase (decrease) in		
Accounts payable	8,103	51,590
Accounts payable - WCWD	596	(67,926)
Customer deposits	10,192	10,797
Interest payable	(9,091)	(3,078)
Other current liabilities	(62)	378
Rebates payable		(6,750)
Expired rebates	(2,701)	
Investment revenue		(2,888)
Other postemployment benefits	6,113	(8,203)
Depreciation	759,117	740,884
Gain on disposal of assets	(3,921)	
Amortization	4,579	4,966
Net cash provided (used) by operating activities	\$ 871,149	\$ 1,036,162
Cash flows from investing activities		
Cash received from certificate of deposit	\$ 155,737	\$
Cash received from sale of assets	5,170	
Purchase of property and equipment	(561,483)	(587,287)
Net cash provided (used) by investing activities	\$ (400,576)	\$ (587,287)
Cash flows from financing activities		
Repayment of debt	\$ (208,795)	\$ (326,749)
Net cash provided (used) by financing activities	\$ (208,795)	\$ (326,749)
Net increase (decrease) in cash and cash equivalents	\$ 261,778	\$ 122,126
Cash and cash equivalents - Beginning of year	2,408,186	2,286,060
Cash and cash equivalents - End of year	\$ 2,669,964	\$ 2,408,186
Cash and cash equivalents reported in the Statement of Financial Position		
Cash and cash equivalents	\$ 2,029,344	\$ 1,830,430
Restricted cash and cash equivalents	640,620	577,756
Total cash and cash equivalents reported in the Statement of Financial Position	\$ 2,669,964	\$ 2,408,186
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	\$ 165,593	\$ 173,626

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

Butler County Water System, Inc.
Notes to the Financial Statements
For the Years Ended December 31, 2021 and 2020

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

Description of Business

The Butler County Water System, Inc. (System) is a water association organized as a non-profit corporation under Kentucky Revised Statute Section 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 5-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 ongoing activities 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.

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.

Butler County Water System, Inc.
Notes to the Financial Statements
For the Years Ended December 31, 2021 and 2020
(Continued)

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

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. The balance of customer accounts receivable, net was \$66,600 and \$78,593 for December 31, 2021 and 2020, respectively.

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, 2021, the System has no uncertain tax positions that qualify for recognition.

Revenue and Revenue Recognition

Revenue from Contracts with Customers

Service revenue is reported at the amount that reflects the consideration to which the System expects to be entitled in exchange for providing water service. These amounts are due from customers who are billed monthly. Revenue is recognized as performance obligations are satisfied. Customers are billed at the System's standard billing rates, which are updated annually.

Butler County Water System, Inc.
Notes to the Financial Statements
For the Years Ended December 31, 2021 and 2020
(Continued)

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

Revenue and Revenue Recognition *(Continued)*

Revenue from Contracts with Customers *(Continued)*

Performance obligations are determined based on the nature of the services provided by the System. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected or actual charges. The System believes this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the performance obligation. The System measures the performance obligation from when services begin to when it is no longer required to provide services to that customer. The contract does not extend beyond the services already transferred.

Revenue from Contributions

The System recognizes contributions and grants when cash, securities or other assets, and unconditional promises to give, or notification of a beneficial interest, is received. Conditional promises to give, that is, those with a measurable performance or other barrier and a right of return, are not recognized until the conditions on which they depend have been substantially met.

Grants from governmental agencies are earned based on agreed allowable costs for services provided. In the case of governmental grants, reimbursement is based on allowable costs expended for program services. Revenue is recognized when earned. Program payments under cost reimbursement contracts received in advance are deferred to the applicable period in which the related services are performed, or expenditures are incurred, respectively.

Note 2. Deposits, Restricted Cash and Cash Equivalents, 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.

Monies held for principal and interest payments on bonds are required to be kept in a separate bank account.

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:

Butler County Water System, Inc.
Notes to the Financial Statements
For the Years Ended December 31, 2021 and 2020
(Continued)

Note 2. Deposits, Restricted Cash and Cash Equivalents, and Restricted Investments *(Continued)*

Restricted Cash and Cash Equivalents *(Continued)*

	<u>2021</u>	<u>2020</u>
Sinking funds	\$ 277,688	\$ 306,516
Depreciation fund	177,762	261,240
Customer deposits fund	185,170	10,000
Total restricted cash	<u>\$ 640,620</u>	<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 are generally minimal and within management's expectations.

Note 4. Tax Status

The System believes it is no longer subject to income tax examinations for years prior to 2017.

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.

Note 6. Rochester Dam Regional Water Commission

The Rochester Dam Regional Water Commission (Commission) is a water commission created pursuant to Kentucky Revised Statutes Section 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 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 issued bonds for the remaining cost and the project was completed in October 2021. Facilities withdrawing water from the impoundment are paying \$0.10 per 1,000 gallons withdrawn and the System has incurred cumulative costs totaling \$35,145 and \$33,042 for its participation in the Commission as of December 31, 2021 and 2020, respectively.

Butler County Water System, Inc.
Notes to the Financial Statements
For the Years Ended December 31, 2021 and 2020
(Continued)

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 \$5,685 and \$5,899 in accounts receivable from related parties and \$18,196 and \$17,600 in accounts payable to related parties at December 31, 2021 and 2020, respectively. During 2021 and 2020, expenses from Warren amounted to \$1,108,740 and \$925,883, respectively, for the following:

	<u>2021</u>	<u>2020</u>
Wages and benefits		
Operation	\$ 466,612	\$ 415,264
Administrative		
Supervision and administration	129,800	126,328
Accounting	38,309	34,877
Customer service	96,910	94,394
Engineering	13,577	9,036
Operations – Other	205,461	136,497
Additions to plant	135,147	106,170
Special projects	<u>22,924</u>	<u>3,317</u>
Total	<u>\$ 1,108,740</u>	<u>\$ 925,883</u>

In addition to the above expenses, the System also recognized other post-employment benefits (OPEB) expense of \$6,113 and \$(8,203) in 2021 and 2020, respectively. 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 Financial Position, totaled \$165,128 and \$154,940 at December 31, 2021 and 2020, respectively.

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. Change in Accounting Principle

FASB Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers*, as amended, supersedes or replaces nearly all GAAP revenue recognition guidance. These standards establish a new contract and control-based revenue recognition model, change the basis for deciding when revenue is recognized over time or at a point in time, and expand disclosures about revenue. The System has implemented Topic 606 and has adjusted the presentation in those financial statements accordingly.

In June 2018, FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (Topic 958). This standard assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. The System has implemented the provisions of ASU 2018-08 applicable to both contributions received and to contributions made in the accompanying financial statements.

Butler County Water System, Inc.
Notes to the Financial Statements
For the Years Ended December 31, 2021 and 2020
(Continued)

Note 8. Change in Accounting Principle *(Continued)*

Collectively, the new Topic 606 and 958 will be referred to as the “new guidance”.

The System adopted the requirements of the new guidance as of January 1, 2021, utilizing the modified retrospective method of transition. However, the adoption of this new guidance did not result in the System changing its policies for recognizing revenue and thus no cumulative adjustment to the System’s net assets as of January 1, 2021 was necessary. The amounts reported in the financial statements for 2021 are the same amounts that would have been reported under the former guidance. The System did apply the new guidance using the practical expedient provided in Topic 606 and 958 that allows the guidance to be applied only to contracts and contributions that were not complete as of January 1, 2021. The effects of applying this practical expedient were not significant to the financial statements.

Note 9. Liquidity and Availability of Financial Assets

The following reflects the System’s financial assets as of the balance sheet date, reduced by amounts not available for general use because of donor-imposed restrictions within 1 year of the balance sheet date:

	<u>2021</u>	<u>2020</u>
Financial assets, at year-end	\$ 2,911,267	\$ 2,802,137
Less those unavailable for general expenditures within 1 year, due to donor-imposed restrictions		
Restricted for bond payments	455,450	567,756
Restricted for customer deposits	<u>185,170</u>	<u>165,737</u>
Financial assets available to meet cash needs for general expenditures within 1 year	<u>\$ 2,270,647</u>	<u>\$ 2,068,644</u>

The System does not have a formal liquidity management plan but purchases certificates of deposit occasionally.

Note 10. 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 11. New Accounting Standards

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases* (Topic 842). The core principle of Topic 842 is that a lessee should recognize the assets and liabilities that arise from leases that are not excluded by the standard. Such leases, which are not excluded by the standard, create an asset and a liability from the lessee in accordance with FASB Concepts Statement No. 6, *Elements of Financial Statements*, and therefore, will result in recognition of

Butler County Water System, Inc.
Notes to the Financial Statements
For the Years Ended December 31, 2021 and 2020
(Continued)

Note 11. New Accounting Standards *(Continued)*

lease assets and lease liabilities for most leases. The ASU will be effective for the year ending December 31, 2022. The Organization is currently in the process of evaluating the impact of adoption of this ASU on its financial statements.

Note 12. Long-term Debt

The following reflects the long-term debt activity for the year ended December 31, 2021:

	<u>Beginning</u>		<u>Additions</u>		<u>Reductions</u>		<u>Ending</u>		<u>Due Within</u>
	<u>Balance</u>						<u>Balance</u>		<u>One Year</u>
USDA-RD 1996	\$ 585,105	\$		\$	585,105			\$	
USDA-RD 1998	305,345				305,345				
USDA-RD 2014	409,222				7,428		401,794		7,633
USDA-RD 2018	1,365,230				21,526		1,343,704		22,118
KRWFC 2012G	2,050,000				145,000		1,905,000		150,000
KRWFC 2021B			855,000				855,000		45,000
Total	<u>\$ 4,714,902</u>	\$	<u>855,000</u>	\$	<u>1,064,404</u>		<u>4,505,498</u>	\$	<u>224,751</u>

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

	<u>Beginning</u>		<u>Additions</u>		<u>Reductions</u>		<u>Ending</u>		<u>Due Within</u>
	<u>Balance</u>						<u>Balance</u>		<u>One Year</u>
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
Total	<u>\$ 5,041,651</u>	\$		\$	<u>326,749</u>		<u>4,714,902</u>	\$	<u>215,922</u>

Principal and interest, subsequent to the year ended December 31, 2021, were due as follows:

Butler County Water System, Inc.
Notes to the Financial Statements
For the Years Ended December 31, 2021 and 2020
(Continued)

Note 12. Long-term Debt *(Continued)*

<u>Year Ending December 31,</u>	<u>Interest</u>	<u>Principal</u>
2022	\$ 144,988	\$ 224,751
2023	136,863	235,569
2024	128,122	246,410
2025	118,999	252,273
2026	109,651	258,161
2027 – 2031	405,935	1,269,995
2032 – 2036	220,306	816,144
2037 – 2041	152,669	236,091
2042 – 2046	118,371	270,389
2047 – 2051	79,091	309,669
2052 – 2056	34,623	316,689
2057 – 2058	2,243	69,357
Total	<u>\$ 1,651,861</u>	<u>\$ 4,505,498</u>

Principal and interest, subsequent to the year ended December 31, 2020, were due as follows:

<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	5,679	124,989
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 construction and improvement to their distribution system. As of December 31, 2021, this loan, with a maturity date of August 8, 2036, had been repaid and no principal was outstanding. As of December 31, 2020, the outstanding balance was \$585,105.

Butler County Water System, Inc.
Notes to the Financial Statements
For the Years Ended December 31, 2021 and 2020
(Continued)

Note 12. Long-term Debt *(Continued)*

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. As of December 31, 2021, this loan, with a maturity date of July 7, 2034, had been repaid and no principal was outstanding. As of December 31, 2020, the outstanding balance was \$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 requires annual interest and principal payments on November 24 at an interest rate of 2.75%. The outstanding balances as of December 31, 2021 and 2020 were \$401,794 and \$409,222, respectively.

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 requires annual interest and principal payments on March 28 at an interest rate of 2.75%. The outstanding balances as of December 31, 2021 and 2020 were \$1,343,704 and \$1,365,230, respectively.

Kentucky Rural Water Finance Corporation Series 2012G – Refunding Loan

On December 11, 2012, the System received a \$3,045,000 loan to refund a 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 balances as of December 31, 2021 and 2020 were \$1,905,000 and \$2,050,000, respectively.

Kentucky Rural Water Finance Corporation Series 2021B – Refunding Loan

On July 21, 2021, the System received a \$855,000 loan to refund prior USDA – Rural Development loans. The loan matures July 1, 2036 and requires principal payments on July 1 and semi-annual interest payments at interest rates ranging from 2.2% to 3.2%. The outstanding balance as of December 31, 2021 is \$855,000.

Butler County Water System, Inc.
Notes to the Financial Statements
For the Years Ended December 31, 2021 and 2020
(Continued)

Note 13. Property, Plant, and Equipment

Property, plant, and equipment as of December 31, 2021 consist of the following:

	<u>Beginning Balance</u>		<u>Increase</u>		<u>Decrease</u>		<u>Ending Balance</u>
Assets not being depreciated:							
Land and land rights	\$ 101,521	\$		\$		\$	101,521
Construction in progress	185,001		550,224		484,421		250,804
Assets being depreciated:							
Utility plant in service	<u>32,215,204</u>		<u>503,713</u>		<u>32,464</u>		<u>32,686,453</u>
Total property, plant, and equipment	\$ 32,501,726	\$	1,053,937	\$	516,885	\$	33,038,778
Less: Accumulated depreciation	<u>12,330,676</u>		<u>759,117</u>		<u>27,258</u>		<u>13,062,535</u>
Property, plant, and equipment, net	\$ <u>20,171,050</u>	\$	<u>294,820</u>	\$	<u>489,627</u>	\$	<u>19,976,243</u>

Property, plant, and equipment as of December 31, 2020 consist of the following:

	<u>Beginning Balance</u>		<u>Increase</u>		<u>Decrease</u>		<u>Ending Balance</u>
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 14. Restatement of Net Assets

Net assets was restated as follows to correct account balances at December 31, 2019:

Net assets – December 31, 2019	\$	17,337,380
Understatement of unbilled receivable		130,408
Net assets – December 31, 2019 (restated)	\$	<u>17,467,788</u>

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

Note 15. Subsequent Events

The System has evaluated and considered the need to recognize or disclose subsequent events through March 30, 2022, 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, 2021, have not been evaluated by the System.

Jones & Associates CPAs, PSC

Certified Public Accountants



121 Prosperous Place, Suite 2A, Lexington, KY 40509 (859) 687-0303

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 the Butler County Water System, Inc. (a nonprofit Organization), which comprise the Statement of Financial Position as of December 31, 2021, 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 March 30, 2022.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Butler County Water System, Inc.'s internal control over financial reporting (internal control) as a basis for designing 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 Butler County Water System, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the 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.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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

**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)**

Report on Compliance and Other Matters (Continued)

material effect on the financial statements. 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

March 30, 2022

Supplementary Information

Butler County Water System, Inc.
Schedule of Budgetary Comparison
For the Year Ended December 31, 2021

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Metered water revenue	\$ 2,120,000	\$ 2,120,000	\$ 2,139,290	\$ 19,290
Forfeited discounts	33,700	33,700	31,990	(1,710)
Miscellaneous service revenue	31,400	31,400	36,115	4,715
Total revenues	\$ 2,185,100	\$ 2,185,100	\$ 2,207,395	\$ 22,295
Expenses				
Salaries and wages	\$ 415,100	\$ 415,100	\$ 385,483	\$ 29,617
Commissioner fees	18,000	18,000		18,000
Employee overhead	254,500	254,500	232,248	22,252
Purchased power	129,800	129,800	138,401	(8,601)
Chemicals	74,200	74,200	73,967	233
Materials and supplies	53,300	53,300	76,802	(23,502)
Contractual services - Accounting	9,900	9,900	6,055	3,845
Contractual services - Legal	500	500		500
Contractual services - Other	177,900	177,900	183,288	(5,388)
Rental of building and property	16,800	16,800	16,157	643
Equipment	57,400	57,400	73,729	(16,329)
Insurance - Liability and property	22,700	22,700	20,384	2,316
Insurance - Treasury bond	1,200	1,200	1,254	(54)
Bad debts	2,500	2,500	817	1,683
Miscellaneous	5,500	5,500	21,734	(16,234)
Depreciation	762,900	762,900	759,117	3,783
Amortization	4,600	4,600	4,579	21
OPEB	5,300	5,300	6,113	(813)
Total expenses	\$ 2,012,100	\$ 2,012,100	\$ 2,000,128	\$ 11,972
Non-operating revenues (expenses)				
Interest revenue	\$ 8,300	\$ 8,300	\$ 10,548	\$ 2,248
Gain on disposition of assets			3,921	3,921
Miscellaneous income			349	349
Regulatory commission tax	(4,100)	(4,100)	(4,270)	(170)
Interest expense	(167,200)	(167,200)	(156,645)	10,555
Total non-operating revenues (expenses)	\$ (163,000)	\$ (163,000)	\$ (146,097)	\$ 16,903
Total operating and non-operating revenues (expenses)	\$ 2,175,100	\$ 2,175,100	\$ 2,146,225	\$ 28,875

Butler County Water System, Inc.
Schedule of Budgetary Comparison
For the Year Ended December 31, 2021
(Continued)

Income before contributions in aid of construction	\$	10,000	\$	10,000	\$	61,170	\$	51,170
Contributions in aid of construction		<u>33,750</u>		<u>33,750</u>		<u>52,464</u>		<u>18,714</u>
Change in net assets	\$	43,750	\$	43,750	\$	113,634	\$	69,884
Net assets - Beginning of year		<u>17,452,380</u>		<u>17,452,380</u>		<u>17,787,123</u>		<u>334,743</u>
Net assets - End of year	\$	<u><u>17,496,130</u></u>	\$	<u><u>17,496,130</u></u>	\$	<u><u>17,900,757</u></u>	\$	<u><u>404,627</u></u>