

Butler County Water System, Inc.

**Audited Financial Statements and
Supplementary Information**

December 31, 2022 and 2021

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 the year ending December 31, 2022.

- The System's assets totaled \$22,052,540 and decreased by \$886,805 or 3.9% from the prior year reflecting a decrease in utility plant due to an adjustment in the depreciable lives of assets. Liabilities totaled \$4,805,563 and decreased by \$233,025 or 4.6% reflecting reduction in long-term debt.
- Metered sales totaled \$2,207,160 and increased by \$67,870 from the prior year, a 3.2% increase. Residential sales increased by \$35,301 and commercial, agricultural, fire protection and other sales increased by a total of \$32,569.
- Total revenues for the year totaled \$2,268,008 and increased by \$60,613 from the prior year, a 2.7% increase. Total expenses were \$2,824,099 for the year and increased by \$823,971 from last year, a 41.2% increase. Expenses for the year included an adjustment in the depreciable lives of utility assets resulting in an increase in depreciation expense of \$685,462.
- A loss before Contributions in Aid of Construction totaled \$677,990 compared to the prior year's income of \$61,170. The loss reflects the increase in depreciation expense of \$685,462 stated previously.
- 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 were 350.8 million gallons compared to 327.1 million gallons produced in the prior year, an increase of 23.7 million gallons. The maximum volume of water pumped in a single day was 1.5 million gallons on May 31st.
- Total gallons sold to the System's customers during the year amounted to 269.9 million gallons compared to 258 million gallons in the prior year, an increase of 11.9 million gallons. The peak month for customer demand was September with 34.6 million gallons sold.
- The average monthly usage per residential customer was 4,083 gallons compared to 4,029 gallons in the prior year. The average monthly usage per commercial customer was 9,828 gallons compared to 8,307 gallons in the prior year.
- The number of customers totaled 5,010 consisting of 4,659 residential customers and 351 commercial and other class customers with 44 new meter applications received throughout the year. The System has a total of 519 miles of distribution main serving an average of 9.7 customers per mile.

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

Independent Auditor's Report

Report on the Audit of the Financial Statements

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, 2022 and 2021, 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, 2022 and 2021, 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 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

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

Report on the Audit of the Financial Statements (Continued)

our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore 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 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 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.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2023, 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 29, 2023

Financial Statements

Butler County Water System, Inc.
Statement of Financial Position
December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 2,226,569	\$ 2,029,344
Customer accounts receivable, net	69,037	66,600
Unbilled receivable	191,012	167,825
Accounts receivable - Other	6,800	6,878
Prepaid assets	18,460	17,848
Other current assets	<u>61,532</u>	<u>33,987</u>
Total current assets	\$ <u>2,573,410</u>	\$ <u>2,322,482</u>
Other assets		
Property, plant, and equipment, net	\$ 18,570,606	\$ 19,725,439
Restricted cash and cash equivalents	651,736	640,620
Construction in progress	<u>256,788</u>	<u>250,804</u>
Total other assets	\$ <u>19,479,130</u>	\$ <u>20,616,863</u>
Total assets	<u><u>\$ 22,052,540</u></u>	<u><u>\$ 22,939,345</u></u>
Liabilities and net assets		
Liabilities		
Current liabilities		
Accounts payable	\$ 141,906	\$ 114,522
Accounts payable - WCWD	22,737	18,196
Customer deposits	183,024	181,149
Bonds and notes payable	235,569	224,751
Interest payable	67,379	70,768
Other current liabilities	<u>6,413</u>	<u>6,308</u>
Total current liabilities	\$ <u>657,028</u>	\$ <u>615,694</u>
Noncurrent liabilities		
Bonds and notes payable, net	\$ 4,024,431	\$ 4,255,826
Other postemployment benefits	122,164	165,128
Rebates payable	<u>1,940</u>	<u>1,940</u>
Total noncurrent liabilities	\$ <u>4,148,535</u>	\$ <u>4,422,894</u>
Total liabilities	\$ <u>4,805,563</u>	\$ <u>5,038,588</u>
Net assets		
Without donor restriction	\$ <u>17,246,977</u>	\$ <u>17,900,757</u>
Total net assets	\$ <u>17,246,977</u>	\$ <u>17,900,757</u>
Total liabilities and net assets	<u><u>\$ 22,052,540</u></u>	<u><u>\$ 22,939,345</u></u>

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, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Revenues, gains, and other support		
Residential metered sales	\$ 1,917,950	\$ 1,882,649
Commercial metered sales	273,560	242,475
Industrial metered sales	15,650	14,166
Forfeited discounts	32,405	31,990
Miscellaneous service revenue	<u>28,443</u>	<u>36,115</u>
Total revenues, gains, and other support	\$ <u>2,268,008</u>	\$ <u>2,207,395</u>
Expenses and losses		
Expenses		
Pumping		
Salaries and benefits	\$ 687	\$ 165
Purchased power	55,404	48,817
Insurance	2,605	2,446
Professional services	500	505
Miscellaneous	<u>1,360</u>	<u>1,193</u>
Total pumping	\$ <u>60,556</u>	\$ <u>53,126</u>
Water treatment		
Salaries and benefits	\$ 104,309	\$ 87,714
Purchased power	93,555	85,201
Insurance	5,211	4,892
Chemicals	88,875	73,967
Material and supplies	17,027	18,394
Contractual services	21,889	12,916
Professional services	1,000	1,009
Miscellaneous	<u>6,136</u>	<u>4,960</u>
Total water treatment	\$ <u>338,002</u>	\$ <u>289,053</u>
General distribution		
Salaries and benefits	\$ 135,657	\$ 147,482
Purchased power	5,345	4,383
Insurance	11,290	10,599
Material and supplies	56,927	49,239
Contractual services	20,050	18,609
Professional services	500	505
Miscellaneous	<u>38,733</u>	<u>33,276</u>
Total general distribution	\$ <u>268,502</u>	\$ <u>264,093</u>
Customer accounts		
Salaries and benefits	\$ 175,615	\$ 162,128
Insurance	1,303	1,223

Butler County Water System, Inc.
Statement of Activities
For the Years Ended December 31, 2022 and 2021
(Continued)

Expenses and losses (Continued)

Expenses (Continued)

Customer accounts (Continued)

Material and supplies	\$ 4,747	\$ 2,373
Contractual services	50,993	50,345
Professional services	1,500	1,514
Miscellaneous	<u>30,409</u>	<u>26,912</u>

Total customer accounts	\$ <u>264,567</u>	\$ <u>244,495</u>
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Maintenance

Salaries and benefits	\$ 169,563	\$ 136,375
Materials and supplies	410	
Contractual services	62,278	58,760
Professional services	1,000	1,009
Miscellaneous	<u>37,732</u>	<u>25,070</u>

Total maintenance	\$ <u>270,983</u>	\$ <u>221,214</u>
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Administrative and general

Salaries and benefits	\$ 92,693	\$ 83,866
Insurance	2,505	2,478
Material and supplies	7,012	6,796
Contractual services	56,711	42,657
Professional services	1,702	1,514
Other postemployment benefits	(25,349)	6,113
Miscellaneous	<u>22,809</u>	<u>21,027</u>

Total administrative and general	\$ <u>158,083</u>	\$ <u>164,451</u>
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Depreciation	\$ <u>1,459,231</u>	\$ <u>759,117</u>
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Amortization	\$ <u>4,175</u>	\$ <u>4,579</u>
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Total expenses	\$ <u>2,824,099</u>	\$ <u>2,000,128</u>
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Total expenses and losses	\$ <u>2,824,099</u>	\$ <u>2,000,128</u>
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Non-operating revenues (expenses)

Interest revenue	\$ 28,352	\$ 10,548
Loss on disposal of assets	(5,840)	3,921
Other income	684	349
Regulatory commission tax	(3,296)	(4,270)
Interest expense	<u>(141,799)</u>	<u>(156,645)</u>

Total non-operating revenues (expenses)	\$ <u>(121,899)</u>	\$ <u>(146,097)</u>
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Butler County Water System, Inc.
Statement of Activities
For the Years Ended December 31, 2022 and 2021
(Continued)

Change in net assets before contributions in aid of construction	\$ (677,990)	\$ 61,170
Contributions in aid of construction	<u>24,210</u>	<u>52,464</u>
Change in net assets	\$ (653,780)	\$ 113,634
Net assets - Beginning of year	<u>17,900,757</u>	<u>17,787,123</u>
Net assets - End of year	<u>\$ 17,246,977</u>	<u>\$ 17,900,757</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, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities		
Increase (decrease) in net assets	\$ (653,780)	\$ 113,634
Adjustments to reconcile change in net assets to net cash		
(Increase) decrease in		
Customer accounts receivable, net	(2,437)	11,993
Unbilled receivable	(23,187)	(14,103)
Accounts receivable - Other	78	(979)
Prepaid assets	(612)	(1,063)
Other current assets	(27,545)	(11,258)
Increase (decrease) in		
Accounts payable	27,384	8,103
Accounts payable - WCWD	4,541	596
Customer deposits	1,875	10,192
Interest payable	(3,389)	(9,091)
Other current liabilities	104	(62)
Expired rebates		(2,701)
Other postemployment benefits	(25,349)	6,113
Depreciation	1,459,231	759,117
Loss (gain) on disposal of assets	5,840	(3,921)
Amortization	4,175	4,579
Net cash provided (used) by operating activities	<u>\$ 766,929</u>	<u>\$ 871,149</u>
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	<u>(333,837)</u>	<u>(561,483)</u>
Net cash provided (used) by investing activities	<u>\$ (333,837)</u>	<u>\$ (400,576)</u>
Cash flows from financing activities		
Repayment of debt	<u>\$ (224,751)</u>	<u>\$ (208,795)</u>
Net cash provided (used) by financing activities	<u>\$ (224,751)</u>	<u>\$ (208,795)</u>
Net increase (decrease) in cash and cash equivalents	<u>\$ 208,341</u>	<u>\$ 261,778</u>
Cash and cash equivalents - Beginning of year	<u>2,669,964</u>	<u>2,408,186</u>
Cash and cash equivalents - End of year	<u><u>\$ 2,878,305</u></u>	<u><u>\$ 2,669,964</u></u>
Cash and cash equivalents reported in the Statement of Financial Position		
Cash and cash equivalents	\$ 2,226,569	\$ 2,029,344
Restricted cash and cash equivalents	<u>651,736</u>	<u>640,620</u>
Total cash and cash equivalents reported in the Statement of Financial Position	<u><u>\$ 2,878,305</u></u>	<u><u>\$ 2,669,964</u></u>
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	<u><u>\$ 144,990</u></u>	<u><u>\$ 165,593</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 Years Ended December 31, 2022 and 2021

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 62.5 years for utility plant assets.

Butler County Water System, Inc.
Notes to the Financial Statements
For the Years Ended December 31, 2022 and 2021
(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. The balance of customer accounts receivable, net was \$69,037 and \$66,600, respectively, for December 31, 2022 and 2021.

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, 2022, 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, 2022 and 2021
(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.

Butler County Water System, Inc.
Notes to the Financial Statements
For the Years Ended December 31, 2022 and 2021
(Continued)

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

Restricted Cash and Cash Equivalents

Restricted cash consists of the following:

	<u>2022</u>	<u>2021</u>
Sinking funds	\$ 285,804	\$ 277,688
Depreciation funds	177,762	177,762
Customer deposits fund	185,170	185,170
Construction funds	3,000	
Total restricted cash	<u>\$ 651,736</u>	<u>\$ 640,620</u>

The sinking funds are restricted to the payment of principal and interest on long-term debt. The depreciation funds are restricted to payment for improvements and approved repairs. The customer deposits fund is restricted to hold customer deposits until service is terminated. The construction funds are restricted to the payment of expenses on federally funded projects.

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 2019.

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 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 \$40,956 and \$35,145, respectively, for its participation in the Commission as of December 31, 2022 and 2021.

Butler County Water System, Inc.
Notes to the Financial Statements
For the Years Ended December 31, 2022 and 2021
(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 \$5,991 and \$5,685, respectively, in accounts receivable from related parties and \$22,737 and \$18,196, respectively, in accounts payable to related parties at December 31, 2022 and 2021. During 2022 and 2021, expenses from Warren amounted to \$1,185,750 and \$1,108,740, respectively, for the following:

	<u>2022</u>	<u>2021</u>
Wages and benefits		
Operation	\$ 516,264	\$ 466,612
Administrative		
Supervision and administration	140,541	129,800
Accounting	45,464	38,309
Customer service	104,296	96,910
Engineering	8,597	13,577
Operations – Other	252,233	205,461
Additions to plant	98,417	135,147
Special projects	19,938	22,924
Total	\$ <u>1,185,750</u>	\$ <u>1,108,740</u>

In addition to the above expenses, the System also recognized other post-employment benefits (OPEB) expenses of \$(25,349) and \$6,113, respectively, in 2022 and 2021. 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 \$122,164 and \$165,128, respectively, at December 31, 2022 and 2021.

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. 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.

Butler County Water System, Inc.
Notes to the Financial Statements
For the Years Ended December 31, 2022 and 2021
(Continued)

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>2022</u>	<u>2021</u>
Financial assets, at year-end	\$ 3,145,154	\$ 2,911,267
Less those unavailable for general expenditures within 1 year, due to donor-imposed restrictions		
Restricted for bond payments	463,566	455,450
Restricted for customer deposits	185,170	185,170
Restricted for federally funded projects	3,000	
Financial assets available to meet cash needs for general expenditures within 1 year	<u>\$ 2,493,418</u>	<u>\$ 2,270,647</u>

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

Note 10. Long-term Debt

The following reflects the long-term debt activity for the year ended December 31, 2022:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
USDA-RD 2014	\$ 401,794	\$	\$ 7,633	\$ 394,161	\$ 7,843
USDA-RD 2018	1,343,704		22,118	1,321,586	22,726
KRWFC 2012G	1,905,000		150,000	1,755,000	155,000
KRWFC 2021B	855,000		45,000	810,000	50,000
Total	<u>\$ 4,505,498</u>	<u>\$</u>	<u>\$ 224,751</u>	<u>4,280,747</u>	<u>\$ 235,569</u>

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within 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>

Principal and interest due at December 31, 2022 follows:

Butler County Water System, Inc.
Notes to the Financial Statements
For the Years Ended December 31, 2022 and 2021
(Continued)

Note 10. Long-term Debt (Continued)

<u>Year Ending December 31,</u>		<u>Interest</u>		<u>Principal</u>
2023	\$	136,863	\$	235,569
2024		128,122		246,410
2025		118,999		252,273
2026		109,651		258,161
2027		100,079		269,073
2028 – 2032		362,105		1,234,945
2033 – 2037		197,117		626,813
2038 – 2042		146,176		242,584
2043 – 2047		110,936		277,824
2048 – 2052		70,575		318,185
2053 – 2057		25,914		306,716
2058		335		12,194
Total	\$	<u>1,506,872</u>	\$	<u>4,280,747</u>

Principal and interest due at December 31, 2021 follows:

<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>

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.

Butler County Water System, Inc.
Notes to the Financial Statements
For the Years Ended December 31, 2022 and 2021
(Continued)

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

USDA Rural Development 91-22 1998 Loan

On July 7, 1998, the System issued an \$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.

USDA Rural Development 91-24 2014 Loan

On November 24, 2014, the System issued an \$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, 2022 and 2021 were \$394,161 and \$401,794, respectively.

USDA Rural Development 91-26 2018 Loan

On March 28, 2018, the System issued an \$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, 2022 and 2021 were \$1,321,586 and \$1,343,704, respectively.

Kentucky Rural Water Finance Corporation Series 2012G – Refunding Loan

On December 11, 2012, the System received an \$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, 2022 and 2021 were \$1,755,000 and \$1,905,000, respectively.

Kentucky Rural Water Finance Corporation Series 2021B – Refunding Loan

On July 21, 2021, the System received an \$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 balances as of December 31, 2022 and 2021 were \$810,000 and \$855,000, respectively.

Note 11. Construction Commitments

The System received a grant award of \$350,962 from the State of Kentucky as part of the Cleaner Water Program (CWP) Round 1. These funds are to be allocated to the BCWS – Small Diameter Water Line Replacement, Phase 2 project. A grant award of \$557,592 from the State of Kentucky was also received as part of the CWP Round 2. These funds are to be allocated to the BCWS – Supervisory Control And Data Acquisition (SCADA) System Replacement project. Both grants are provided through the American Rescue Plan Act of 2021.

The System has committed to an upgrade of its distribution system-wide SCADA system. The system consists of remote terminal unit's which provide telemetry, control, and alarming for pump stations, storage tanks, and metering sites. The estimated cost of the project is \$872,354 and will be funded internally and with CWP Round 2 grant funds. Total costs incurred as of December 31, 2022 are \$101.

Butler County Water System, Inc.
Notes to the Financial Statements
For the Years Ended December 31, 2022 and 2021
(Continued)

Note 12. Property, Plant, and Equipment

Property, plant, and equipment as of December 31, 2022 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	250,804	329,853	323,869	256,788
Assets being depreciated:				
Utility plant in service	<u>32,686,453</u>	<u>310,238</u>	<u>16,828</u>	<u>32,979,863</u>
Total property, plant, and equipment	\$ 33,038,778	\$ 640,091	\$ 340,697	\$ 33,338,172
Less: Accumulated depreciation	<u>13,062,535</u>	<u>1,459,231</u>	<u>10,988</u>	<u>14,510,778</u>
Property, plant, and equipment, net	\$ <u>19,976,243</u>	\$ <u>(819,140)</u>	\$ <u>329,709</u>	\$ <u>18,827,394</u>

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>

Note 13. Changes to Useful Lives of Capital Assets

On August 31, 2022, the System made an adjustment to the depreciable lives of their property, plant, and equipment in order to comply with the National Association of Regulatory Utility Commissioner's guidelines. This change in depreciable lives was applied on a prospective basis and resulted in no change to the beginning net assets of the System. The change in depreciable lives resulted in an increase in depreciation expense for the year ended December 31, 2022 of \$685,462.

Note 14. Subsequent Events

The System has evaluated and considered the need to recognize or disclose subsequent events through March 29, 2023, 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, 2022, 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.

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, 2022, 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 29, 2023.

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 material effect on the financial statements. However, providing an opinion on compliance with those

**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)

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 29, 2023

Supplementary Information

Butler County Water System, Inc.
Schedule of Budgetary Comparison
For the Year Ended December 31, 2022

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive Negative
	Original	Final		
Revenues				
Metered water revenue	\$ 2,136,600	\$ 2,136,600	\$ 2,207,160	\$ 70,560
Forfeited discounts	32,600	32,600	32,405	(195)
Miscellaneous service revenue	39,600	39,600	28,443	(11,157)
Total revenues	\$ 2,208,800	\$ 2,208,800	\$ 2,268,008	\$ 59,208
Expenses				
Salaries and wages	\$ 438,000	\$ 438,000	\$ 430,016	\$ 7,984
Commissioner fees	18,000	18,000	18,000	
Employee overhead	254,500	254,500	248,508	5,992
Purchased power	141,400	141,400	154,304	(12,904)
Chemicals	76,100	76,100	88,875	(12,775)
Materials and supplies	83,000	83,000	86,123	(3,123)
Contractual services - Accounting	6,000	6,000	6,041	(41)
Contractual services - Legal			161	(161)
Contractual services - Other	192,800	192,800	211,921	(19,121)
Rental of building and property	16,800	16,800	16,295	505
Equipment	74,400	74,400	98,941	(24,541)
Insurance - Liability and property	21,700	21,700	21,712	(12)
Insurance - Treasury bond	1,200	1,200	1,202	(2)
Bad debts	1,000	1,000	(1,000)	2,000
Miscellaneous	5,000	5,000	4,943	57
Depreciation	770,700	770,700	1,459,231	(688,531)
Amortization	4,300	4,300	4,175	125
OPEB	4,200	4,200	(25,349)	29,549
Total expenses	\$ 2,109,100	\$ 2,109,100	\$ 2,824,099	\$ (714,999)
Non-operating revenues (expenses)				
Interest revenue	\$ 10,700	\$ 10,700	\$ 28,352	\$ 17,652
Loss on disposition of assets			(5,840)	(5,840)
Miscellaneous income			684	684
Regulatory commission tax	(4,300)	(4,300)	(3,296)	1,004
Interest expense	(143,400)	(143,400)	(141,799)	1,601
Total non-operating revenues (expenses)	\$ (137,000)	\$ (137,000)	\$ (121,899)	\$ 15,101
Total operating expenses and non-operating revenues (expenses)	\$ 2,246,100	\$ 2,246,100	\$ 2,945,998	\$ (699,898)

Butler County Water System, Inc.
Schedule of Budgetary Comparison
For the Year Ended December 31, 2022
(Continued)

Revenue over (under) expenses before contributions in aid of construction	\$	(37,300)	\$	(37,300)	\$	(677,990)	\$	(640,690)
Contributions in aid of construction		<u>14,000</u>		<u>14,000</u>		<u>24,210</u>		<u>10,210</u>
Change in net assets	\$	(23,300)	\$	(23,300)	\$	(653,780)	\$	(630,480)
Net assets - Beginning of year		<u>17,496,130</u>		<u>17,496,130</u>		<u>17,900,757</u>		<u>404,627</u>
Net assets - End of year	\$	<u><u>17,472,830</u></u>	\$	<u><u>17,472,830</u></u>	\$	<u><u>17,246,977</u></u>	\$	<u><u>(225,853)</u></u>