

Butler County Water System, Inc.
Audited Financial Statements and
Supplementary Information
December 31, 2025

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, 2025.

- The System's assets totaled \$21,493,913 and decreased by \$62,696 or 0.29% from the prior year reflecting a decrease in utility plant, net of depreciation. Liabilities totaled \$4,151,512 and decreased by \$188,035 or 4.3% reflecting reduction in long-term debt.
- Metered sales combined totaled \$2,589,379 and increased by \$355,429 from the prior year, a 15.9% increase. By customer class, residential sales increased by \$309,950 and commercial, agricultural, fire protection and other sales increased by a total of \$45,479. The increase in revenue resulted from a retail rate increase of 15.9% implemented on November 1, 2024. The second phase of the PSC approved rate increase of 14.1% was effective on November 1, 2025.
- Total revenues for the year totaled \$2,637,291 and increased by \$346,461 from the prior year, a 15.1% increase. Total expenses were \$2,779,818 for the year and increased by \$58,187 from last year, a 2.1% increase. The increase in expenses reflects new positions and system maintenance throughout the year.
- A loss before Contributions in Aid of Construction totaled \$192,717 compared to the prior year's loss of \$461,212. The loss reflects a shortfall in revenues and increases in operating expenses.
- 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 347.9 million gallons compared to 337.4 million gallons produced in the prior year, an increase of 10.5 million gallons. The maximum volume of water pumped in a single day was 1.4 million gallons on August 15th and the peak month for customer demand was September with 32.4 million gallons produced.
- The average monthly usage and revenue per residential customer was 4,079 gallons and \$39.59. The average monthly usage and revenue per commercial customer was 8,071 gallons and \$71.04, respectively.
- The number of customers totaled 5,103, consisting of 4,716 residential customers and 387 commercial and other classes of customers with 50 new meter applications received throughout the year. The System has a total of 519 miles of distribution main serving an average of 9.8 customers per mile.
- On November 1, 2024, the Kentucky Public Service Commission approved a retail rate adjustment over two years consisting of an increase of 15.9% in November 2024 and an increase of 14.1% in November 2025.

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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 Butler County Water System, Inc. (a nonprofit organization), which comprise the Statement of Financial Position as of December 31, 2025 and 2024, 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 Butler County Water System, Inc. as of December 31, 2025 and 2024, 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 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 opinion.

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 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.

**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)

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 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 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 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 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 April 9, 2026, on our consideration of Butler County Water System, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Butler County Water System, Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Butler County Water System, Inc.'s internal control over financial reporting and compliance.

Respectfully submitted,

Jones & Associates CPAs, PSC

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

April 9, 2026

Financial Statements

Butler County Water System, Inc.
Statement of Financial Position
December 31, 2025 and 2024

	2025	2024
Assets		
Current assets		
Cash and cash equivalents	\$ 2,193,105	\$ 1,926,320
Customer accounts receivable, net	90,658	78,003
Unbilled receivable	251,500	217,234
Accounts receivable - Other	9,761	5,828
Prepaid assets	28,408	25,175
Other current assets	30,874	210,591
Total current assets	\$ 2,604,306	\$ 2,463,151
Other assets		
Property, plant, and equipment, net	\$ 17,582,136	\$ 17,353,364
Construction in progress	562,721	1,051,119
Restricted cash and cash equivalents	701,037	688,975
Right-of-use Asset	43,713	
Total other assets	\$ 18,889,607	\$ 19,093,458
Total assets	\$ 21,493,913	\$ 21,556,609
Liabilities and net assets		
Liabilities		
Current liabilities		
Accounts payable	\$ 173,216	\$ 164,460
Accounts payable - WCWD	2,832	1,726
Customer deposits	188,805	187,296
Bonds and notes payable	258,161	252,273
Interest payable	55,137	59,722
Lease liability	6,932	
Other current liabilities	8,865	7,831
Total current liabilities	\$ 693,948	\$ 673,308
Noncurrent liabilities		
Bonds and notes payable, net	\$ 3,277,836	\$ 3,532,973
Other postemployment benefits	140,213	131,326
Lease liability	37,575	
Rebates payable	1,940	1,940
Total noncurrent liabilities	\$ 3,457,564	\$ 3,666,239
Total liabilities	\$ 4,151,512	\$ 4,339,547

Net assets		
Without donor restriction	\$ <u>17,342,401</u>	\$ <u>17,217,062</u>
Total net assets	\$ <u>17,342,401</u>	\$ <u>17,217,062</u>
Total liabilities and net assets	\$ <u><u>21,493,913</u></u>	\$ <u><u>21,556,609</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, 2025 and 2024

	2025	2024
Revenues, gains, and other support		
Residential metered sales	\$ 2,259,332	\$ 1,949,382
Commercial metered sales	296,937	260,533
Industrial metered sales	33,110	24,035
Forfeited discounts	36,115	31,626
Miscellaneous service revenue	11,797	25,254
Total revenues, gains, and other support	\$ 2,637,291	\$ 2,290,830
Expenses and losses		
Expenses		
Pumping		
Salaries and benefits	\$ 561	\$ 3,642
Insurance	4,153	833
Professional services	1,000	1,148
Miscellaneous	780	5,623
Total pumping	\$ 6,494	\$ 5,623
Water treatment		
Salaries and benefits	\$ 169,813	\$ 149,608
Purchased power	91,104	87,038
Insurance	8,305	7,284
Chemicals	105,656	100,843
Material and supplies	21,195	10,416
Contractual services	24,638	15,791
Professional services		1,666
Miscellaneous	6,939	8,202
Total water treatment	\$ 427,650	\$ 380,848
General distribution		
Salaries and benefits	\$ 155,365	\$ 161,503
Purchased power	62,409	59,150
Insurance	17,996	15,782
Material and supplies	9,546	10,294
Contractual services	30,341	25,973
Professional services	1,001	834
Miscellaneous	29,192	35,421
Total general distribution	\$ 305,850	\$ 308,957
Customer accounts		
Salaries and benefits	\$ 207,784	\$ 209,395
Insurance	2,076	1,821
Material and supplies	9,396	6,412

Butler County Water System, Inc.
Statement of Activities
For the Years Ended December 31, 2025 and 2024
(Continued)

Expenses and losses *(Continued)*

Expenses *(Continued)*

Customer accounts *(Continued)*

Contractual services	\$ 75,168	\$ 59,285
Professional services	3,000	2,500
Miscellaneous	40,731	33,711
	<u>40,731</u>	<u>33,711</u>

Total customer accounts	\$ <u>338,155</u>	\$ <u>313,124</u>
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Maintenance

Salaries and benefits	\$ 221,338	\$ 180,849
Materials and supplies (Restated)	108,454	102,538
Contractual services (Restated)	73,189	129,027
Professional services (Restated)	2,000	1,667
Miscellaneous	57,428	48,570
	<u>57,428</u>	<u>48,570</u>

Total maintenance	\$ <u>462,409</u>	\$ <u>462,651</u>
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Administrative and general

Salaries and benefits	\$ 124,931	\$ 125,475
Insurance	3,262	3,006
Material and supplies	5,416	8,233
Contractual services	83,635	68,167
Professional services	8,786	5,558
Other postemployment benefits	5,597	983
Miscellaneous	27,592	26,296
	<u>27,592</u>	<u>26,296</u>

Total administrative and general	\$ <u>259,219</u>	\$ <u>237,718</u>
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Depreciation expense	\$ <u>980,041</u>	\$ <u>1,009,289</u>
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Total expenses	\$ <u>2,779,818</u>	\$ <u>2,718,210</u>
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Total expenses and losses	\$ <u>2,779,818</u>	\$ <u>2,718,210</u>
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Non-operating revenues (expenses)

Interest revenue	\$ 83,322	\$ 102,393
Other income (expense)	5,288	683
Regulatory commission tax	(3,654)	(3,458)
Amortization expense	(7,388)	(3,421)
Interest expense	(127,758)	(130,029)
	<u>(127,758)</u>	<u>(130,029)</u>

Total non-operating revenues (expenses)	\$ <u>(50,190)</u>	\$ <u>(33,832)</u>
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Butler County Water System, Inc.
Statement of Activities
For the Years Ended December 31, 2025 and 2024
(Continued)

Change in net assets before contributions in aid of construction	\$	(192,717)	\$	(461,212)
Contributions in aid of construction		<u>318,056</u>		<u>253,966</u>
Change in net assets	\$	125,339	\$	(207,246)
Net assets - Beginning of year		<u>17,217,062</u>		<u>17,424,308</u>
Net assets - End of year	\$	<u><u>17,342,401</u></u>	\$	<u><u>17,217,062</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, 2025 and 2024

	2025	2024
Cash flows from operating activities		
Increase (decrease) in net assets	\$ 125,339	\$ (207,246)
Adjustments to reconcile change in net assets to net cash		
(Increase) decrease in		
Customer accounts receivable, net	(12,655)	(16,696)
Unbilled receivable	(34,266)	(46,894)
Accounts receivable - Other	(3,933)	(856)
Prepaid assets	(3,233)	(4,713)
Other current assets	179,717	280,900
Increase (decrease) in		
Accounts payable	8,756	(8,683)
Accounts payable - WCWD	1,106	(9,615)
Customer deposits	1,509	1,188
Interest payable	(4,585)	(3,910)
Other current liabilities	1,034	476
Right-of-use lease	(6,594)	
Other postemployment benefits	8,887	983
Loss on disposal	1,397	
Depreciation expense	980,041	1,009,289
Amortization expense	7,388	3,421
	\$ 1,249,908	\$ 997,644
Cash flows from investing activities		
Purchase of property and equipment	\$ (721,812)	\$ (639,953)
	\$ (721,812)	\$ (639,953)
Cash flows from financing activities		
Repayment of debt	\$ (249,249)	\$ (246,410)
	\$ (249,249)	\$ (246,410)
Net increase (decrease) in cash and cash equivalents	\$ 278,847	\$ 111,281
Cash and cash equivalents - Beginning of year	2,615,295	2,504,014
Cash and cash equivalents - End of year	\$ 2,894,142	\$ 2,615,295
Cash and cash equivalents reported in the Statement of Financial Position		
Cash and cash equivalents	\$ 2,193,105	\$ 1,926,320
Restricted cash and cash equivalents	701,037	688,975
	\$ 2,894,142	\$ 2,615,295
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	\$ 118,999	\$ 128,122
	\$ 118,999	\$ 128,122

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, 2025 and 2024

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

Description of Business

Butler County Water System, Inc. (System) is a water association organized as a non-profit corporation under Kentucky Revised Statute (KRS) 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, 2025 and 2024
(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 \$90,658 and \$78,003 for December 31, 2025 and 2024, 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, 2025, 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, 2025 and 2024
(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. Tax Status

The System believes it is no longer subject to income tax examinations for years prior to 2021.

Note 3. 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.

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, 2025 and 2024
(Continued)

Note 3. Deposits, Restricted Cash and Cash Equivalents, and Restricted Investments *(Continued)*

Restricted Cash and Cash Equivalents

Restricted cash consists of the following:

	<u>2025</u>		<u>2024</u>
Sinking funds	\$ 321,622	\$	311,069
Depreciation funds	190,610		177,762
Customer deposits fund	188,805		187,296
Construction funds			12,848
Total restricted cash	<u>\$ 701,037</u>	<u>\$</u>	<u>688,975</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 holding customer deposits until service is terminated. The construction funds are restricted to the payment of expenses on federally funded projects.

Note 4. 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 5. Rochester Dam Regional Water Commission

The Rochester Dam Regional Water Commission (Commission) is a water commission created pursuant to KRS 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 \$4,308,674 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 \$.08 per 1,000 gallons and \$.08 per 1,000 gallons withdrawn for the years ended December 31, 2025 and 2024, respectively, and the System has incurred cumulative costs totaling \$28,658 and \$28,891, respectively, for its participation in the Commission as of December 31, 2025 and 2024.

Note 6. 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 \$8,911 and \$4,759, respectively, in accounts receivable from related parties and \$2,832 and \$1,726, respectively, in accounts payable to related parties at December 31, 2025 and 2024. During 2025 and 2024, expenses from Warren amounted to \$1,692,845 and \$1,615,682, respectively, for the following:

Butler County Water System, Inc.
Notes to the Financial Statements
For the Years Ended December 31, 2025 and 2024
(Continued)

Note 6. Related Parties *(Continued)*

	<u>2025</u>	<u>2024</u>
Wages and benefits		
Operation	\$ 643,462	\$ 603,443
Administrative		
Supervision and administration	159,669	157,721
Accounting	59,628	53,498
Customer service	92,507	96,771
Operations	27,507	8,305
Engineering	3,706	3,166
Operations – Other	526,199	404,749
Additions to plant	178,889	284,496
Special projects	1,278	3,533
Total	<u>\$ 1,692,845</u>	<u>\$ 1,615,682</u>

In addition to the above expenses, the System also recognized other post-employment benefits (OPEB) expenses of \$5,597 and \$983, respectively, in 2025 and 2024. 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 \$140,213 and \$131,326, respectively, at December 31, 2025 and 2024.

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 7. 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 8. 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:

Butler County Water System, Inc.
Notes to the Financial Statements
For the Years Ended December 31, 2025 and 2024
(Continued)

Note 8. Liquidity and Availability of Financial Assets *(Continued)*

	<u>2025</u>	<u>2024</u>
Financial assets, at year-end	\$ 3,236,300	\$ 2,916,360
Less those unavailable for general expenditures within 1 year, due to donor-imposed restrictions		
Restricted for bond payments	512,232	488,831
Restricted for customer deposits	188,805	187,296
Restricted for federally funded projects	<u> </u>	<u>12,848</u>
Financial assets available to meet cash needs for general expenditures within 1 year	<u>\$ 2,532,263</u>	<u>\$ 2,227,385</u>

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

Note 9. Long-term Debt

The following reflects the long-term debt activity for the year ended December 31, 2025:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
USDA-RD 2014	\$ 378,260	\$	\$ 8,282	\$ 369,978	\$ 8,508
USDA-RD 2018	1,275,508		23,994	1,251,514	24,653
KRWFC 2012G	1,440,000		165,000	1,275,000	170,000
KRWFC 2021B	705,000		55,000	650,000	55,000
Total	<u>\$ 3,798,768</u>	<u>\$</u>	<u>\$ 252,276</u>	<u>\$ 3,546,492</u>	<u>\$ 258,161</u>

The following reflects the long-term debt activity for the year ended December 31, 2024:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
USDA-RD 2014	\$ 386,318	\$	\$ 8,058	\$ 378,260	\$ 8,280
USDA-RD 2018	1,298,860		23,352	1,275,508	23,993
KRWFC 2012G	1,600,000		160,000	1,440,000	165,000
KRWFC 2021B	760,000		55,000	705,000	55,000
Total	<u>\$ 4,045,178</u>	<u>\$</u>	<u>\$ 246,410</u>	<u>\$ 3,798,768</u>	<u>\$ 252,273</u>

Butler County Water System, Inc.
Notes to the Financial Statements
For the Years Ended December 31, 2025 and 2024
(Continued)

Note 9. Long-term Debt (Continued)

Principal and interest due at December 31, 2025 follows:

<u>Year Ending December 31,</u>	<u>Interest</u>	<u>Principal</u>
2026	\$ 109,651	\$ 258,161
2027	100,079	269,073
2028	90,222	270,010
2029	80,439	270,972
2030	71,370	231,962
2031 – 2035	248,793	960,627
2036 – 2040	160,068	269,772
2041 – 2045	125,608	263,152
2046 – 2050	87,379	301,381
2051 – 2055	43,599	326,395
2056 – 2058	5,680	124,987
Total	<u>\$ 1,122,888</u>	<u>\$ 3,546,492</u>
Less: Unamortized discount		10,495
Total, net		<u>\$ 3,535,997</u>
Less: Current portion		258,161
Long-term bonds and notes payable, net		<u>\$ 3,277,836</u>

Principal and interest due at December 31, 2024 follows:

<u>Year Ending December 31,</u>	<u>Interest</u>	<u>Principal</u>
2025	\$ 118,999	\$ 252,273
2026	109,651	258,161
2027	100,079	269,073
2028	90,222	270,010
2029	80,439	270,973
2030 – 2034	282,623	1,110,257
2035 – 2039	168,337	303,623
2040 – 2044	132,651	256,109
2045 – 2049	95,445	293,315
2050 – 2054	52,834	335,842
2055 – 2058	10,606	179,132
Total	<u>\$ 1,241,886</u>	<u>\$ 3,798,768</u>
Less: Unamortized discount		13,522
Total, net		<u>\$ 3,785,246</u>
Less: Current portion		252,273
Long-term bonds and notes payable, net		<u>\$ 3,532,973</u>

Butler County Water System, Inc.
Notes to the Financial Statements
For the Years Ended December 31, 2025 and 2024
(Continued)

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

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, 2025 and 2024 were \$369,978 and \$378,260, 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, 2025 and 2024 were \$1,251,514 and \$1,275,508, respectively.

Rural Water Finance Agency 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, 2025 and 2024 were \$1,275,000 and \$1,440,000, respectively.

Rural Water Finance Agency 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, 2025 and 2024 were \$650,000 and \$705,000, respectively.

Note 10. Commitments

The Water System received two grants for system improvements from the Commonwealth of Kentucky through Kentucky's Cleaner Water Program (CWP). Both grant awards are provided through the American Resue Plan Act of 2021. The first grant was awarded through the CWP Round 1 in the amount of \$350,962 for the BCWS – Small Diameter Water Line Replacement, Phase 2 project. Total costs incurred through December 31, 2025, are \$14,188.

Note 11. 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 up to 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, 2025 and 2024
(Continued)

Note 12. Property, Plant, and Equipment

Property, plant, and equipment as of December 31, 2025 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	1,051,119		758,402		1,246,800		562,721
Assets being depreciated:							
Utility plant in service	<u>33,412,424</u>		<u>1,210,210</u>		<u>30,062</u>		<u>34,592,572</u>
Total property, plant, and equipment	\$ 34,565,064	\$	\$ 1,968,612	\$	1,276,862	\$	\$ 35,256,814
Less: Accumulated depreciation	<u>16,160,581</u>		<u>980,041</u>		<u>28,665</u>		<u>17,111,957</u>
Property, plant, and equipment, net	<u>\$ 18,404,483</u>	\$	<u>988,571</u>	\$	<u>1,248,197</u>	\$	<u>\$ 18,144,857</u>

Property, plant, and equipment as of December 31, 2024 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	842,450		640,608		431,939		1,051,119
Assets being depreciated:							
Utility plant in service	<u>32,995,443</u>		<u>431,939</u>		<u>14,958</u>		<u>33,412,424</u>
Total property, plant, and equipment	\$ 33,939,414	\$	\$ 1,072,547	\$	446,897	\$	\$ 34,565,064
Less: Accumulated depreciation	<u>15,166,250</u>		<u>1,009,289</u>		<u>14,958</u>		<u>16,160,581</u>
Property, plant, and equipment, net	<u>\$ 18,773,164</u>	\$	<u>63,258</u>	\$	<u>431,939</u>	\$	<u>\$ 18,404,483</u>

Note 13. Subsequent Events

The System has evaluated and considered the need to recognize or disclose subsequent events through April 9, 2026, 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, 2025, 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 Financial Statements Performed in Accordance with *Government Auditing Standards*

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Butler County Water System, Inc. (a nonprofit Organization), which comprise the Statement of Financial Position as of December 31, 2024, and the related Statements of Activities and Cash Flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 9, 2026.

Report on Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Butler County Water System, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance

**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 Financial Statements
Performed in Accordance with *Government Auditing Standards*
(Continued)**

Report on Compliance and Other Matters (Continued)

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, Kentucky

April 9, 2026