

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of

Electronic Proposed Acquisition by Bluegrass)
Water Utility Operating Company, LLC and)
the Transfer of Ownership and Control of)
Assets by: P.R. Wastewater Management, Inc.;) No. 2019-00104
Marshall County Environmental Services LLC;)
LH Treatment Company, LLC; Kingswood)
Development, Inc.; Airview Utilities, LLC;)
Brocklyn Utilities, LLC; Fox Run Utilities,)
LLC; and, Lake Columbia Utilities, Inc.)

Bluegrass Water’s Motion for Confidential Treatment of Information

Applicant Bluegrass Water Utility Operating Company, LLC (“Bluegrass Water”) respectfully submits this Motion pursuant to 807 KAR 5:001, Section 13, for confidential treatment of certain information responsive to the initial requests for information in this case. In support of this Motion, Bluegrass Water states as follows:

1. On this date, the Joint Applicants filed with the Commission their Responses to Commission Staff’s First Requests for Information (“1 PSC _”) and their Responses to the Attorney General’s Initial Data Requests (“1 AG _”).

2. Commission Staff’s Request for Information No. 13 requested copies of the engineering reports created as part of Bluegrass Water’s due diligence for purposes of the proposed acquisition. The Attorney General’s Data Request No. 1 also sought the most recent engineering studies regarding the underlying assets for each transaction.

3. As represented in paragraph 55 of the Joint Application, Bluegrass Water did engage an independent engineer to assess each system and provide a detailed evaluation of the status of each system as well as any deficits or needed improvements.

4. The engineering reports for each system have been attached to the response to 1 PSC 13, as JA_00163-197. In addition, the response to 1 PSC 20 includes confidential material from the engineer reports. Confidential treatment is sought for these reports and the report material used in the response to 1 PSC 20. The engineering reports and 1 PSC 20 have been redacted in the publicly-filed response; the material for which confidential treatment is sought has been highlighted in the unredacted copy filed under seal. Redacted copies of these reports are attached to this Motion as:

<u>System</u>	<u>JA</u>
P.R. Wastewater	00163-166
MCES (Golden Acres)	00167-169
MCES (Great Oaks)	00170-173
LH Treatment	00174-176
Kingswood	00177-179
Airview	00180-183
Brocklyn	00184-187
Fox Run	00188-193
Lake Columbia	00194-197

A redacted copy of the response to 1 PSC 20 is also attached to this Motion.

5. Commission Staff's Request No. 9 seeks financial statements or annual reports for each wastewater or water system acquired by CSWR Group in the Missouri and Arkansas. Annual reports for the Missouri systems are available through the Missouri PSC's website, but statements for Arkansas systems and operations have been attached to the response to 1 PSC 9 as JA_00198-212. The redacted Arkansas 2018 Consolidated Financial Statement has been attached to this Motion as JA_00198 and the redacted 2017 Statement as JA_00199-212. Confidential treatment is sought for the dollar amounts and other material in these Statements.

The Statements have been redacted in the publicly-filed copies and the material for which confidential treatment is sought has been highlighted in the unredacted copy filed under seal.

6. The Attorney General's Initial Data Request No. 3 seeks information about the capitalization of Kentucky CSWR and Bluegrass Water UHC, LLC. Initial Request No. 5 seeks the capitalization costs (including both debt and equity) for the Missouri UOCs and Arkansas UOCs in CSWR Group. The responses to 1 AG 3 and 1 AG 5 have been redacted in the publicly-filed copies and the material for which confidential treatment is sought has been highlighted in the unredacted copy filed under seal.

7. The information in the engineering reports (JA_00163-197) for which Bluegrass Water seeks confidential treatment is not publicly disseminated and public disclosure of this information would harm Bluegrass Water. The reports reveal information regarding the internal ability and workings of Bluegrass Water and its affiliates; specifically, how they evaluate potential systems for acquisition and the internal processes by which they respond to various issues that arise in similar wastewater systems. These documents also demonstrate innovative and proprietary technology and processes developed through experience and used by CSWR Group to renovate small wastewater systems. Such processes are "trade secrets" as defined by KRS 365.880(4) and fall within the scope of the trade secret exemption from disclosure pursuant to KRS 61.878(c). If these trade secrets contained within the engineering reports do not receive confidential treatment, the risk of harm would be unnecessarily increased that Bluegrass Water and its affiliates would suffer a serious business injury and these trade secrets would be misappropriated by other competitors in the wastewater industry.

8. Bluegrass Water further seeks confidential treatment for the engineering reports because these are also proprietary. Bluegrass Water expended funds with a third party as part of

its due diligence in investigating these systems. Bluegrass Water therefore should not be forced to share this information publicly to its possible detriment. If this information were shared publicly, and especially in the event that the Application is denied, Bluegrass Water would suffer harm because it would give other potential purchasers and competitors a “leg-up” with the systems discussed in the report and lessen competition in a subsequent bidding process. Such disclosure would also be costly in the future when attempts to acquire similarly distressed systems are made and Bluegrass Water’s ability to negotiate terms specific to a particular utility and its circumstances has been compromised.

9. The information in JA_00198-212 and the responses to AG Request Nos. 3 and 5 for which Bluegrass Water seeks confidential treatment is not publicly disseminated and public disclosure of this information would harm Bluegrass Water and its affiliates. The Arkansas systems fall below the annual-revenue threshold and are so are not subject to state utility regulation; nor is this information subject to disclosure to a regulatory body in the usual course of business, and this information is not otherwise publicly available. Bluegrass Water’s responses reveal information regarding the internal financial ability and workings of the CSWR Group. The sensitive, commercially-valuable, financial and inter-affiliate transaction information contained in the Arkansas consolidated financial statements is not publicly distributed or disseminated outside of the CSWR Group.

10. The information about Bluegrass Water, the utility facilities to be acquired, and affiliated entities in Arkansas and Missouri as identified above could be used by competitors to the business injury of the CSWR Group, including Bluegrass Water, in other ways as well. An example of potential harm if this information is disclosed is that consolidated financials would

give competitors sensitive information about Bluegrass Water and CSWR Group's acquisition strategy and capability and its valuation of systems, their problems, and potential.

11. Under KRS 61.878(1)(c)(1), commercial information generally recognized as confidential is protected if disclosure would cause competitive injury and give competitors an unfair commercial advantage. Public disclosure of the information in the identified engineering reports may cause competitive harm to Bluegrass Water and its affiliates as well as the transferring utilities and could cause a lessening of competition in subsequent bidding processes in the event the Commission denies the Joint Application or the proposed acquisition otherwise fails to close.

12. If the Commission disagrees with Bluegrass Water that the material for which this Motion seeks confidential treatment are exempt from disclosure, it must hold an evidentiary hearing to protect the due process rights of Bluegrass Water and permit the opportunity to supply the Commission with a complete record to enable it to reach a decision with regard to this confidentiality request.

13. Pursuant and subject to a previously executed confidentiality agreement with the Attorney General's Office, Bluegrass Water will disclose the unredacted engineering reports and other confidential information identified above to the Attorney General's Office.

14. In compliance with 807 KAR 5:001, Section 8(3) and 13(2)(3), Bluegrass Water is filing with the Commission one paper copy of the engineering reports, statements, and other material, entirely unredacted and with highlighting of the material for which confidential treatment is sought. The unredacted paper copy is filed under seal; redacted pages of the subject reports are being publicly filed with the electronic copy of this Motion.

15. 807 KAR 5:001, Section 13(2)(a)(2) provides that a motion for confidential treatment shall state the time period in which the material should be treated as confidential and the reasons for this time period. Movants respectfully submit that five years from the date of the filing of the Joint Application is a reasonable period of time for the material to be treated as confidential in light of the competitive conditions in the water and wastewater industries.

WHEREFORE, Bluegrass Water respectfully requests that the Commission grant confidential treatment of the information described herein and shown as redacted on the attached publicly-filed documents and responses to initial Requests for Information.

Respectfully submitted,

/s/ Kathryn A. Eckert

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Attorneys for Movant

MOTION ATTACHMENTS

(redacted versions are filed herewith; unredacted, highlighted versions are filed under seal)

1 PSC 20 response

1 AG 3 response

1 AG 5 response

Engineering Reports JA_00163-197

Arkansas CSWR consolidated statements JA_00198-212

Request

20. Explain how Bluegrass Water will resolve each of the outstanding violations cited by the Commission on all plants involved in the proposed transfer.
-

Response

For those systems for which Bluegrass Water has had the opportunity to review the Commission's most recent inspection reports (LH Treatment, P.R. Wastewater, Kingswood), Bluegrass Water plans to address any identified deficiency as follows:

1.

— redacted —

2. No deficiencies were identified for the Persimmon Ridge plant or the Kingswood plant.

In general, Bluegrass Water's current plans to address outstanding violations and/or deficiencies and to make operational improvements throughout the plant to ensure that compliance is achieved in the long term are contained in detail in the engineering reports provided in response to 1 PSC 13.

Request

3. Provide the capitalization of Kentucky CSWR and Bluegrass Water UOC, LLC.
-

Response

KY-CSWR and Bluegrass

Subsidiary Pro Forma Capitalization

State	Entity	Debt	Equity	Total Capitalization	Debt/Equity Ratio
Kentucky	KY-CSWR				
Kentucky	Bluegrass				

— redacted —

Request

- Provide the capitalization costs, both debt and equity, for Missouri UOCs and Arkansas UOCs.

Response

Central States Water Resources						
Subsidiary Capitalization						
April 30, 2019						
State	UOC	Debt	Equity	Total Capitalization	Debt/Equity Ratio	
Missouri	Hillcrest	[REDACTED]				
Missouri	Raccoon Creek					
Missouri	Indian Hills					
Missouri	Elm Hills					
Arkansas	Hayden's Place					
Arkansas	St Joseph's Glen					
Arkansas	Sebastian Lake					
Arkansas	Eagle Ridge					
Arkansas	Oak Hill					

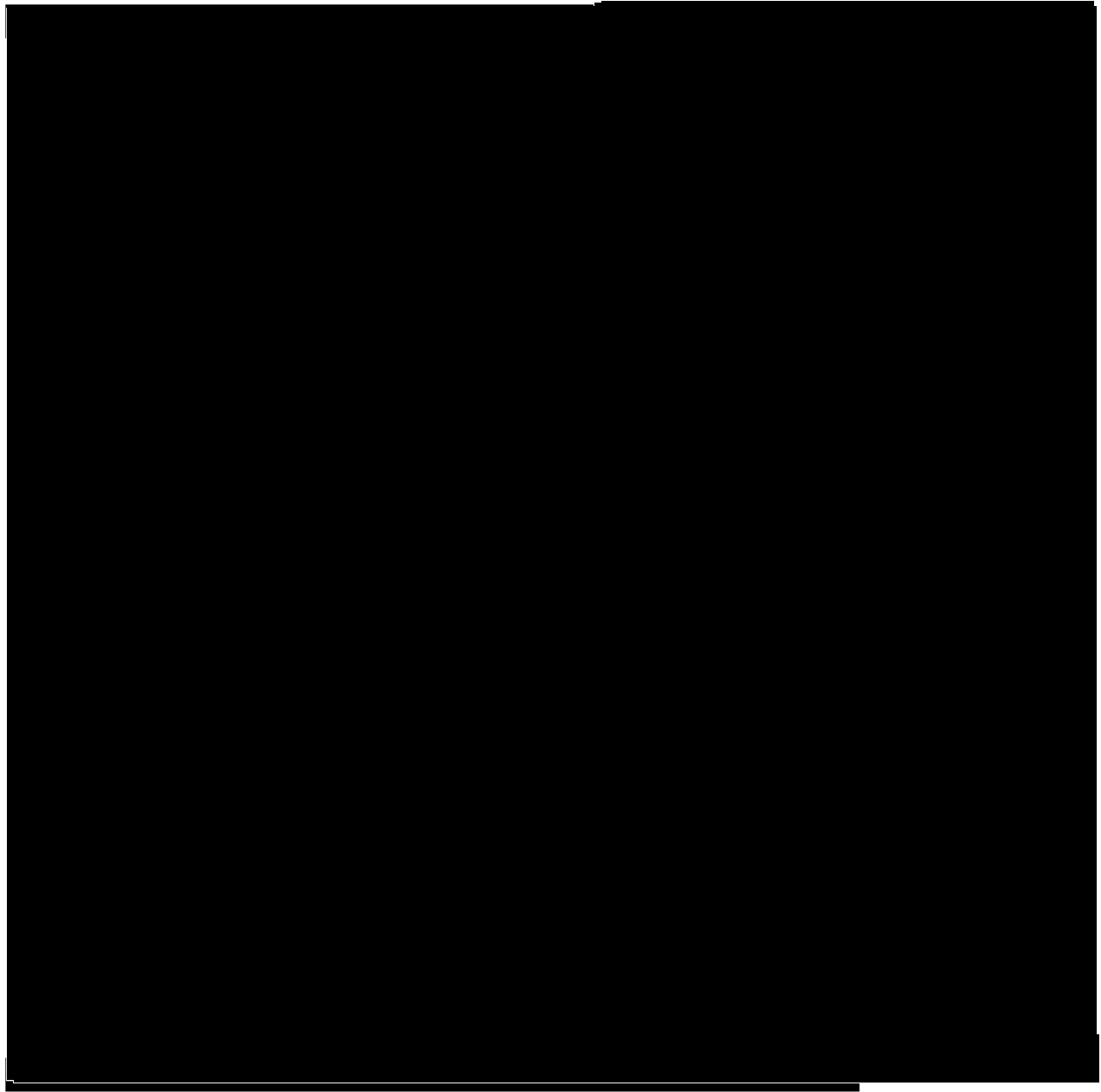
Civil Engineering
Surveying & Mapping
Potable Water
Wastewater Treatment



Civil Site Design
Construction Support
Transportation
Wastewater Collection

Persimmon Ridge (Wastewater)
Engineering Memorandum
Date: December 31, 2018

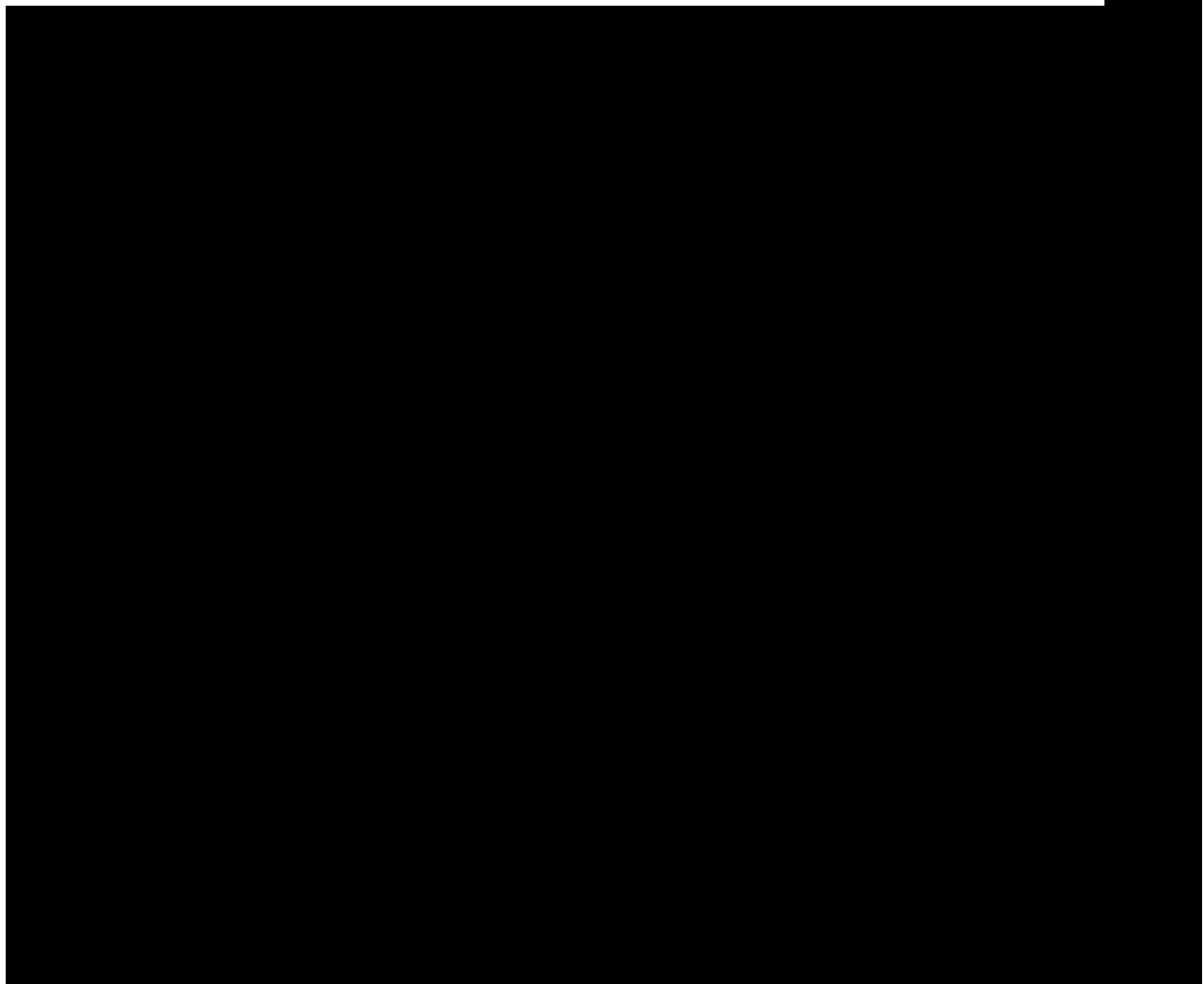
Wastewater Treatment Facility Understanding



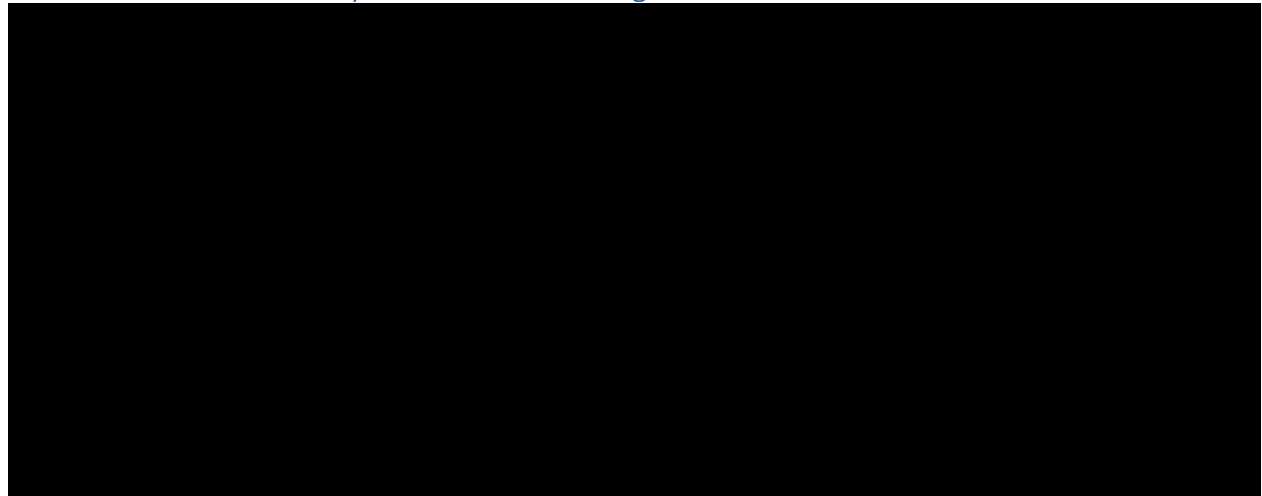
Civil Engineering
Surveying & Mapping
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Civil Site Design
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Wastewater Collection System Understanding

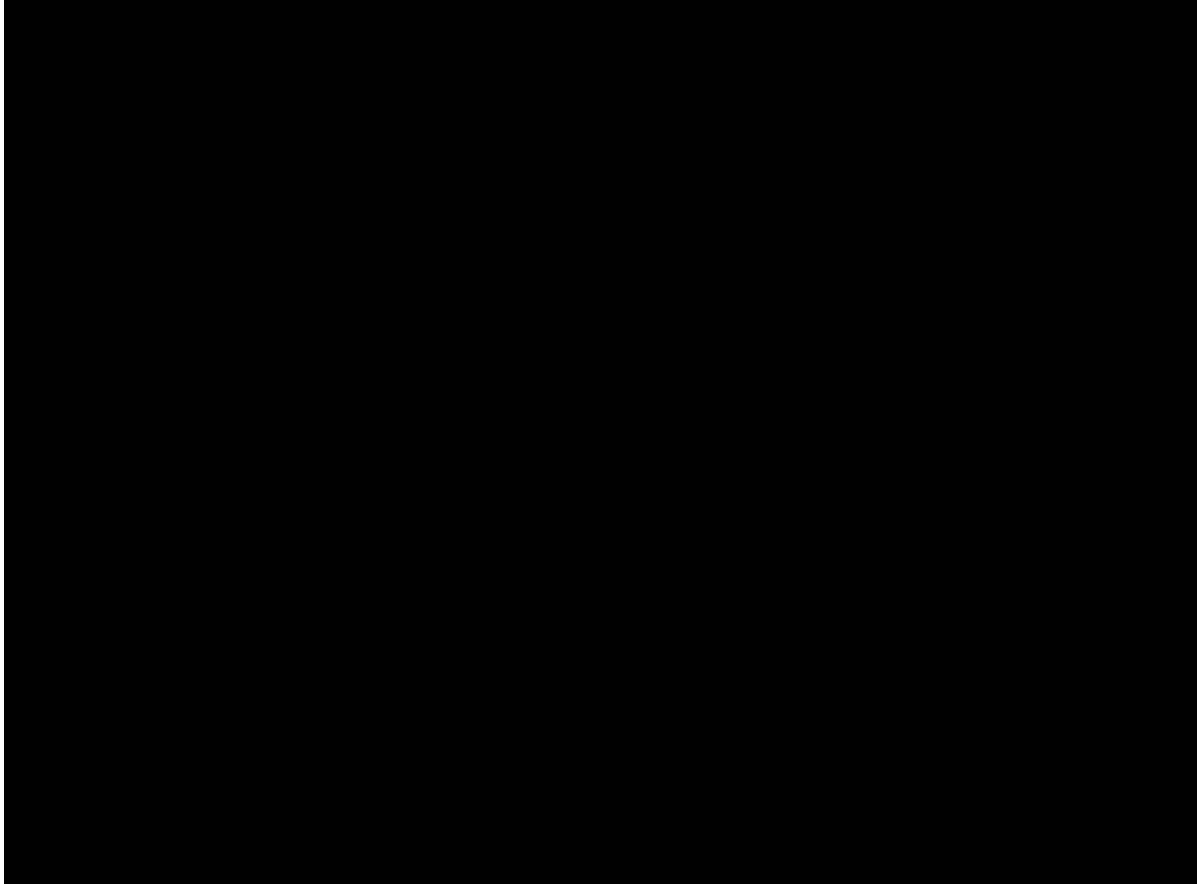


Civil Engineering
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Civil Site Design
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Wastewater Collection

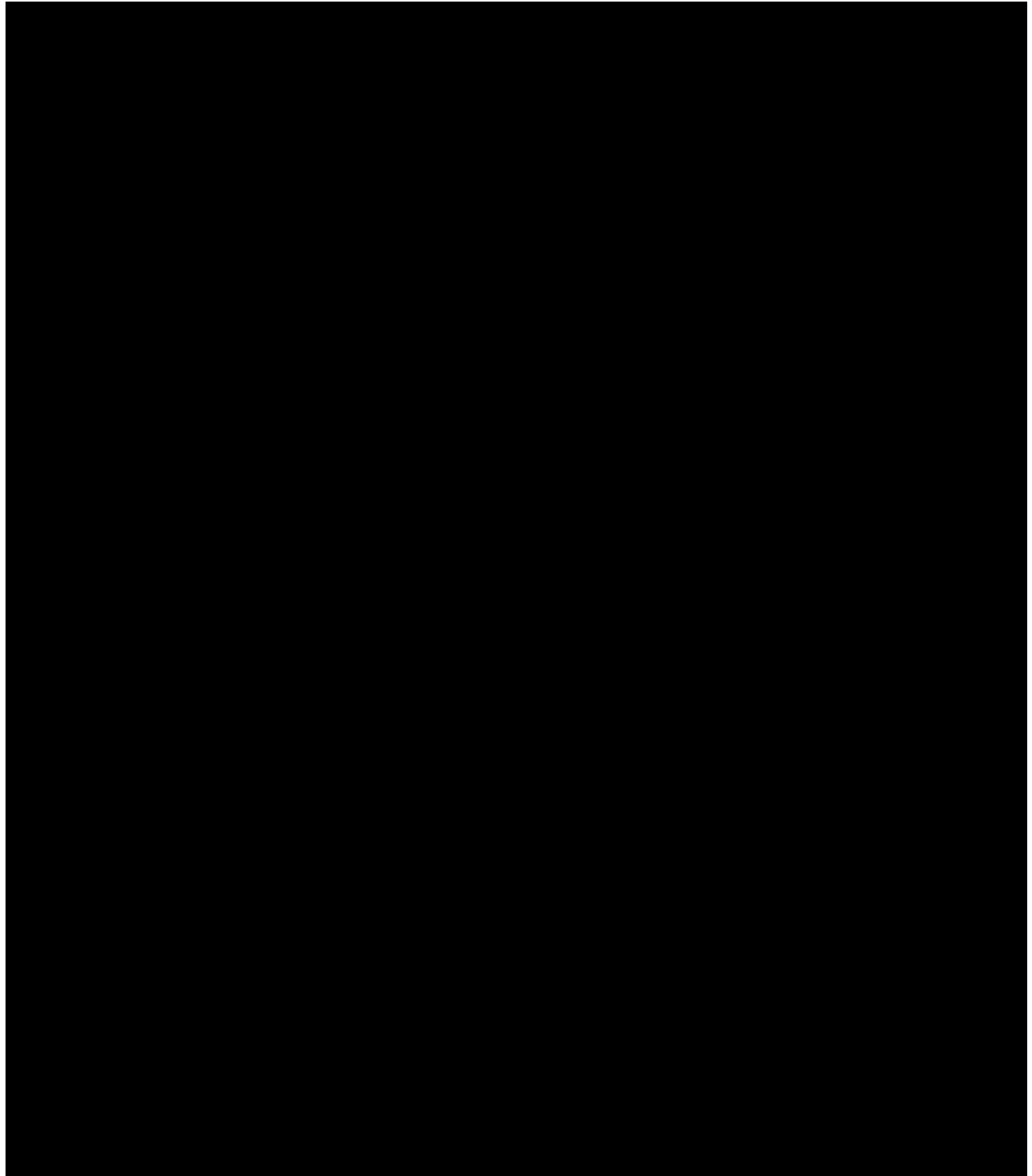
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Civil Engineering
Surveying & Mapping
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Wastewater Treatment



Civil Site Design
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Civil Engineering
Surveying & Mapping
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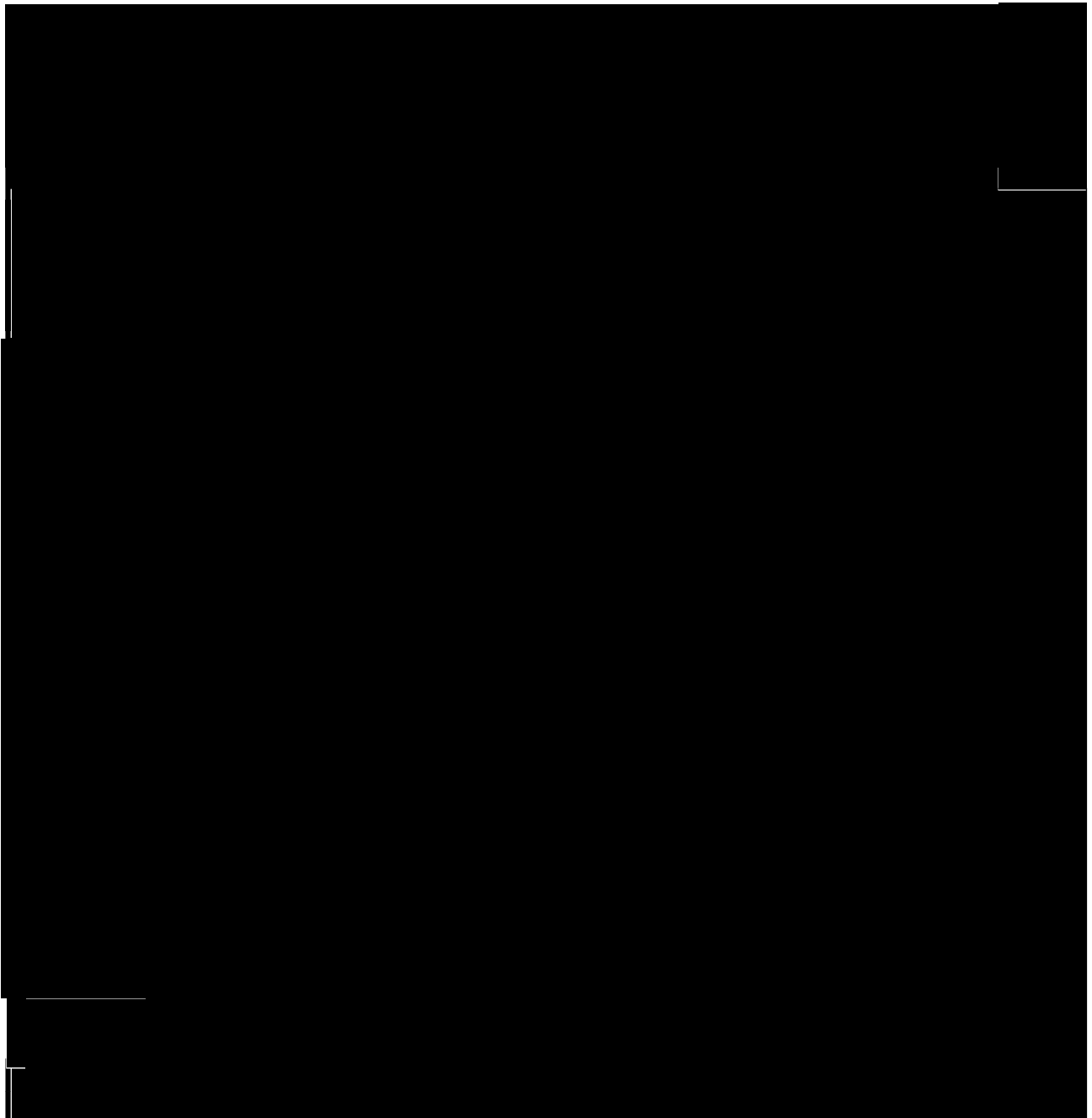
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Wastewater Collection

Golden Acres-Kentucky (Wastewater, KY0044164)

Engineering Memorandum

Date: February 17, 2019

Wastewater Treatment Facility Understanding



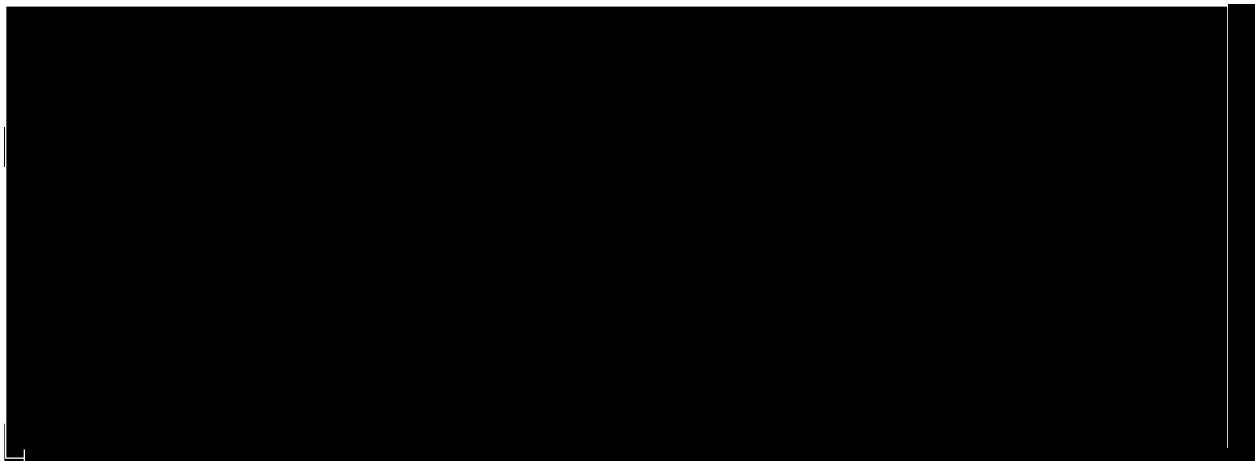
Civil Engineering
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Civil Site Design
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Wastewater Collection System Understanding

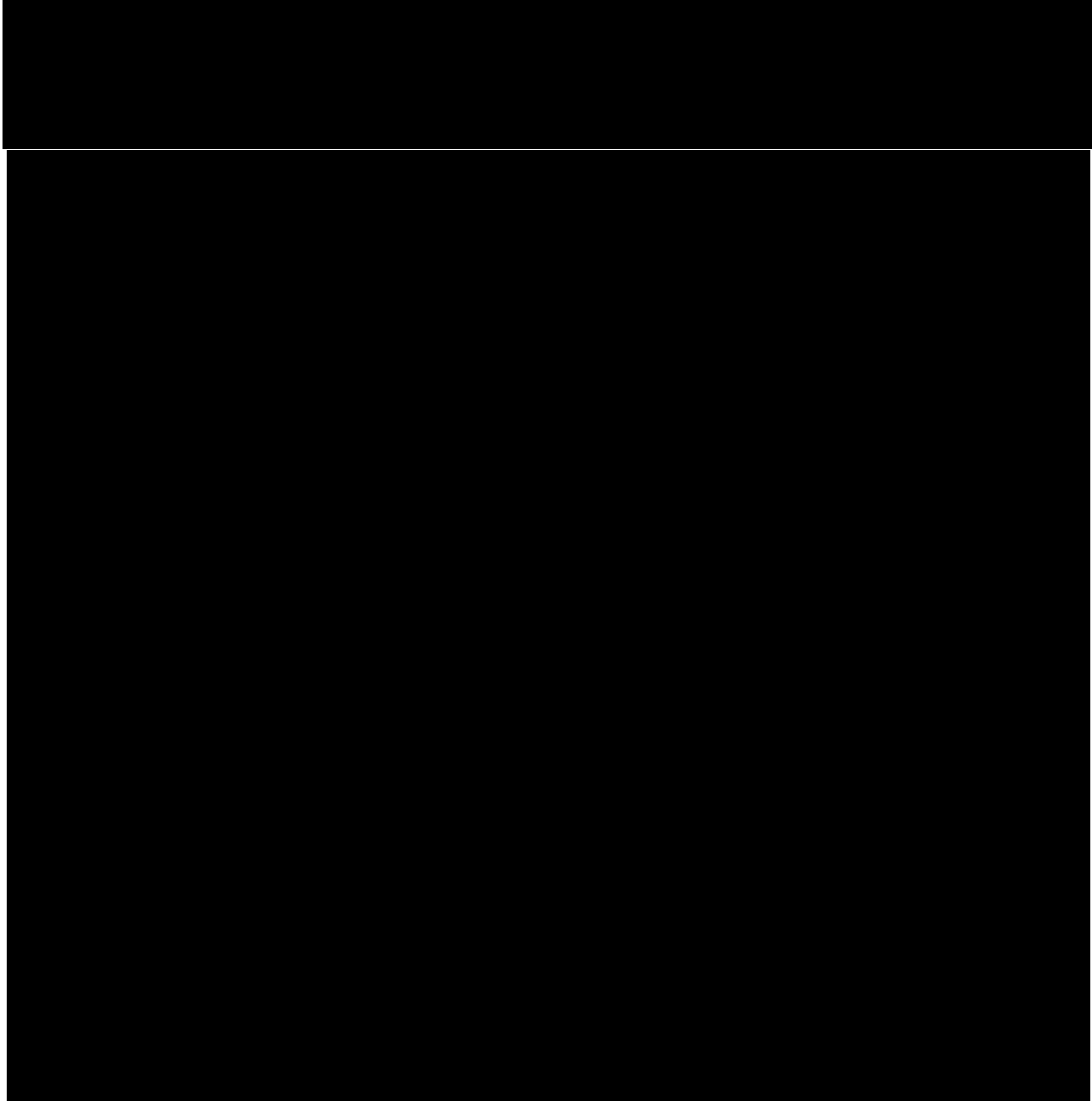


Civil Engineering
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Civil Site Design
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Civil Engineering
Surveying & Mapping
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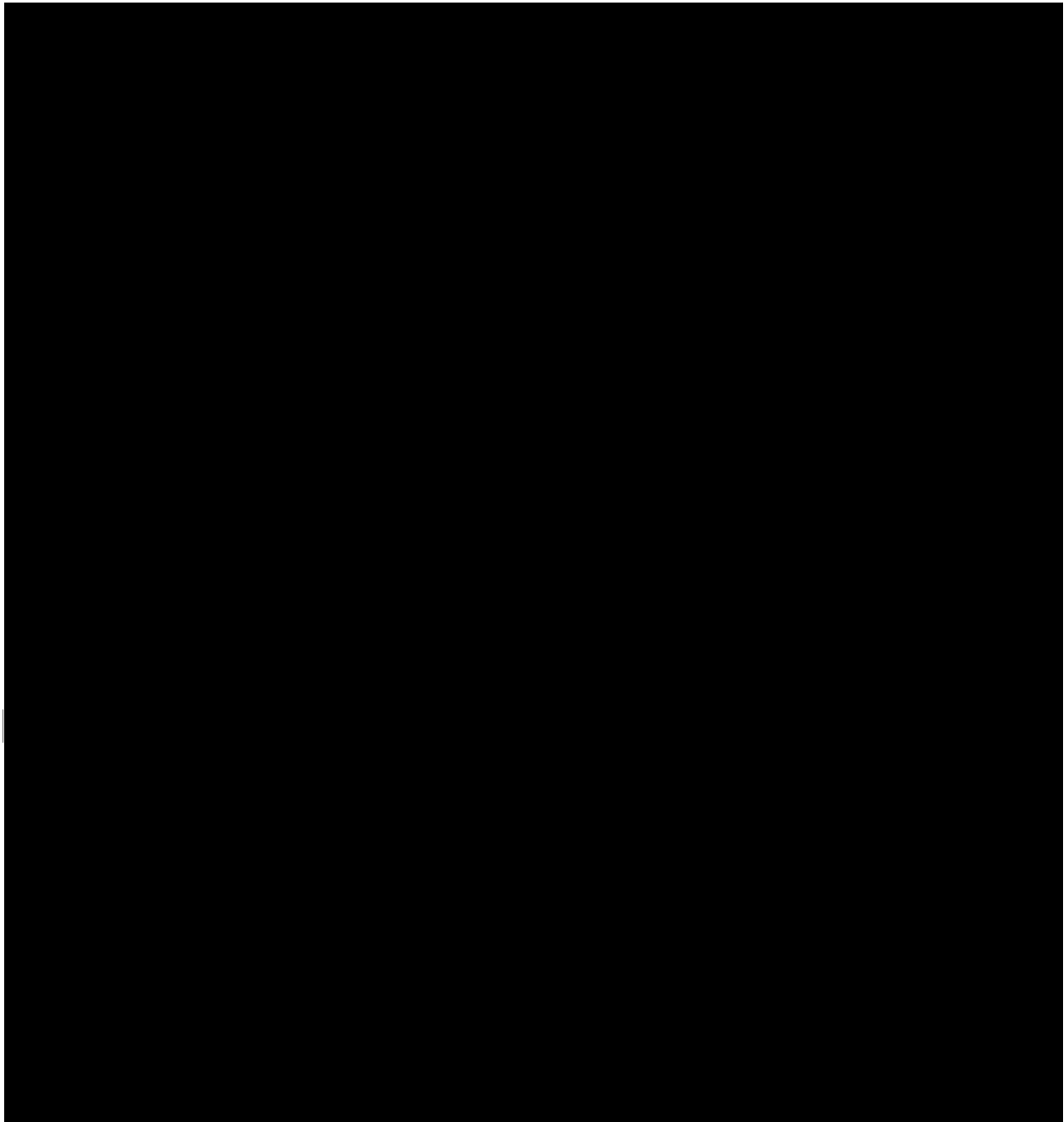
Civil Site Design
Construction Support
Transportation
Wastewater Collection

Great Oaks-Kentucky (Wastewater, KY0080845)

Engineering Memorandum

Date: February 19, 2019

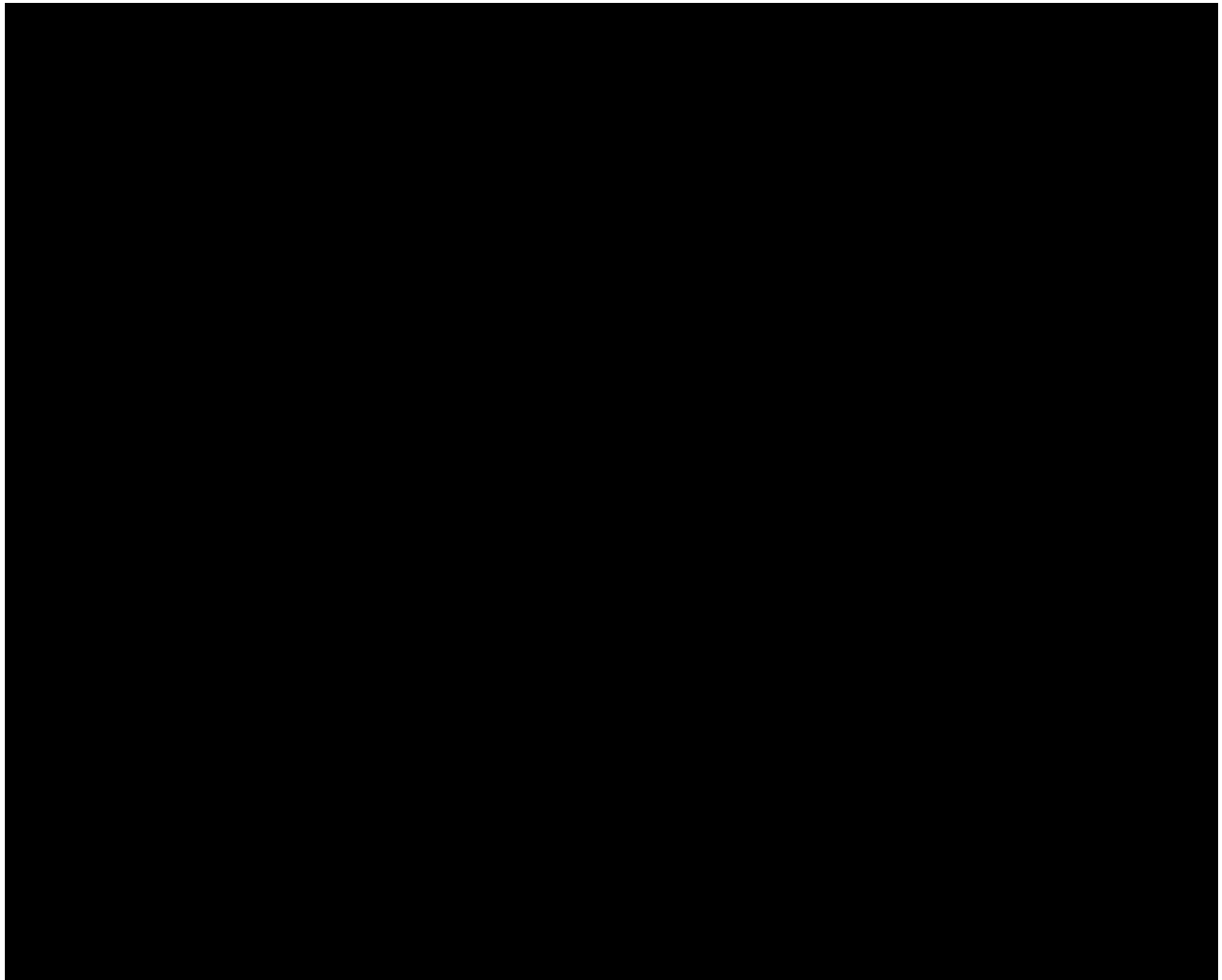
Wastewater Treatment Facility Understanding



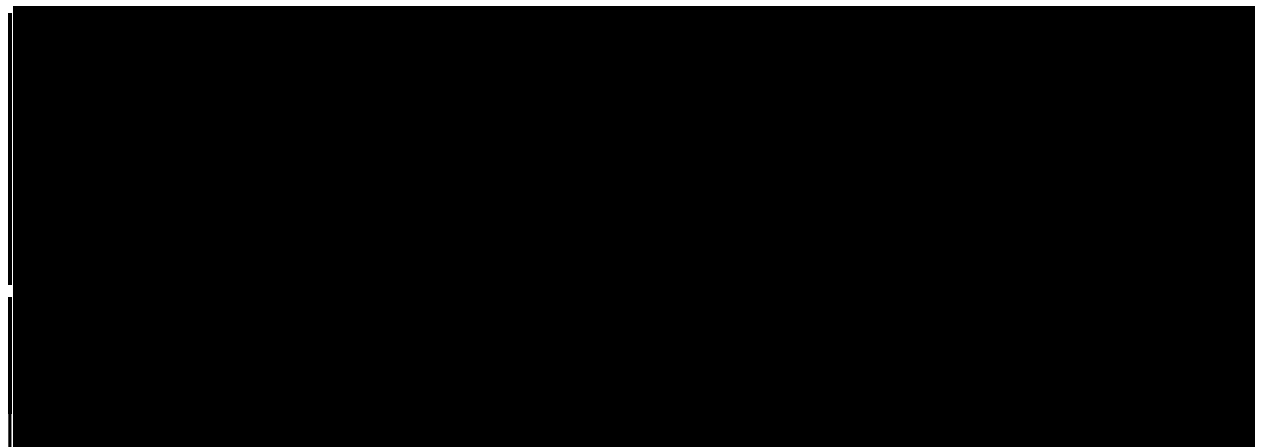
Civil Engineering
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Civil Site Design
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Wastewater Collection System Understanding



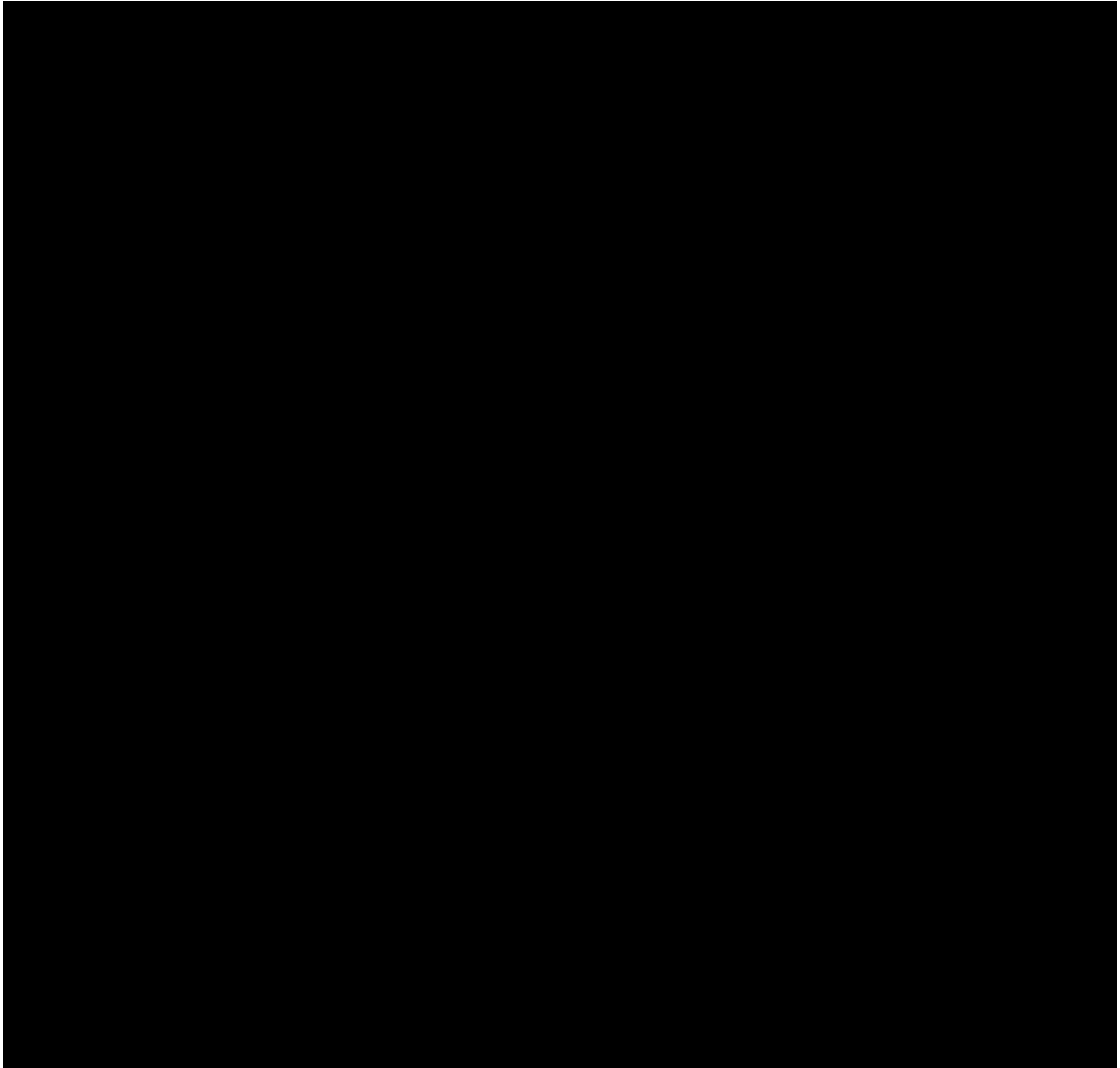
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Improvements Required: Map the system. Install a flow meter. Smoke test and video inspect the collection system.

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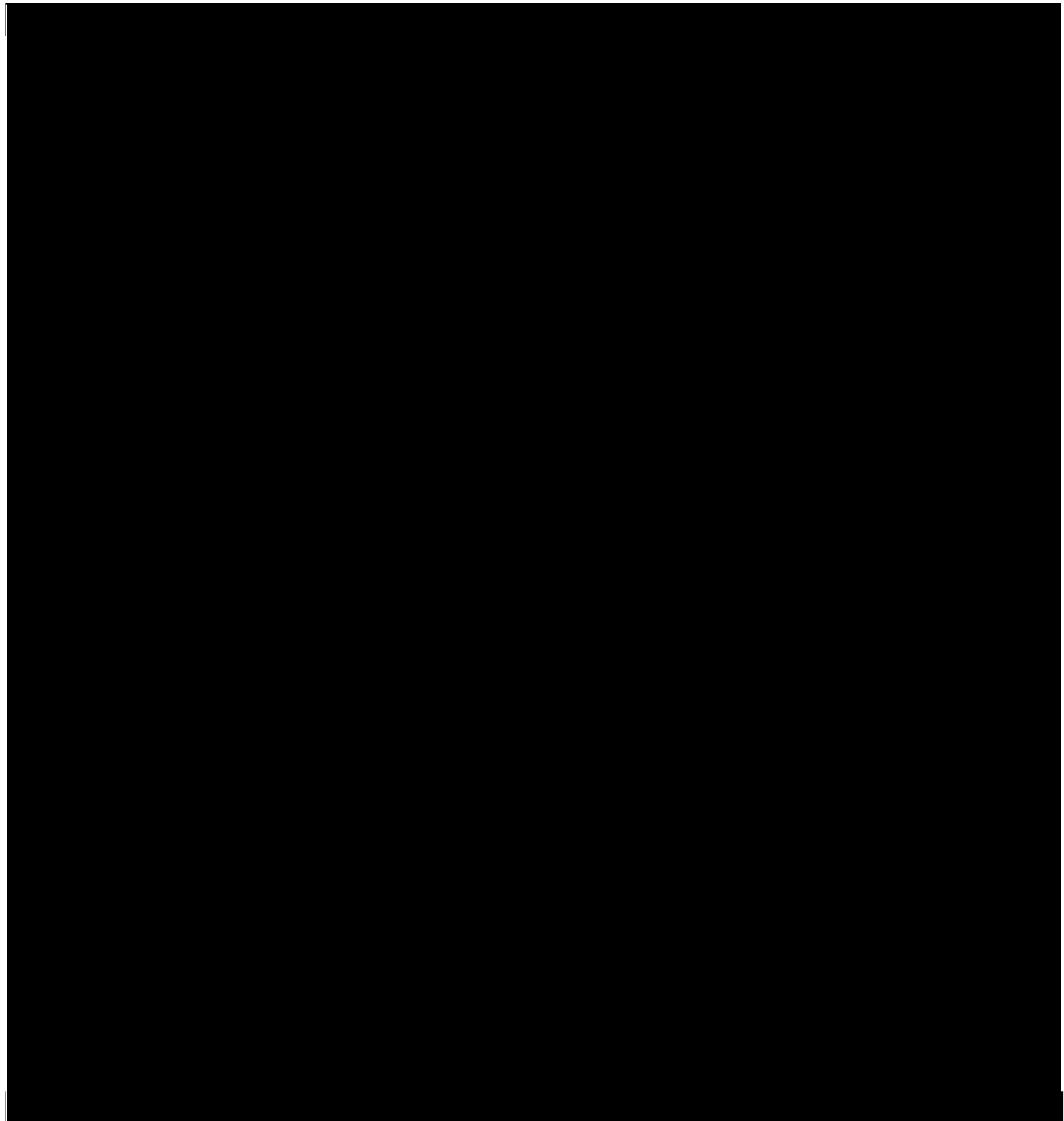
Civil Site Design
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LH Treatment-Kentucky (Wastewater, KY0081591)

Engineering Memorandum

Date: February 17, 2019

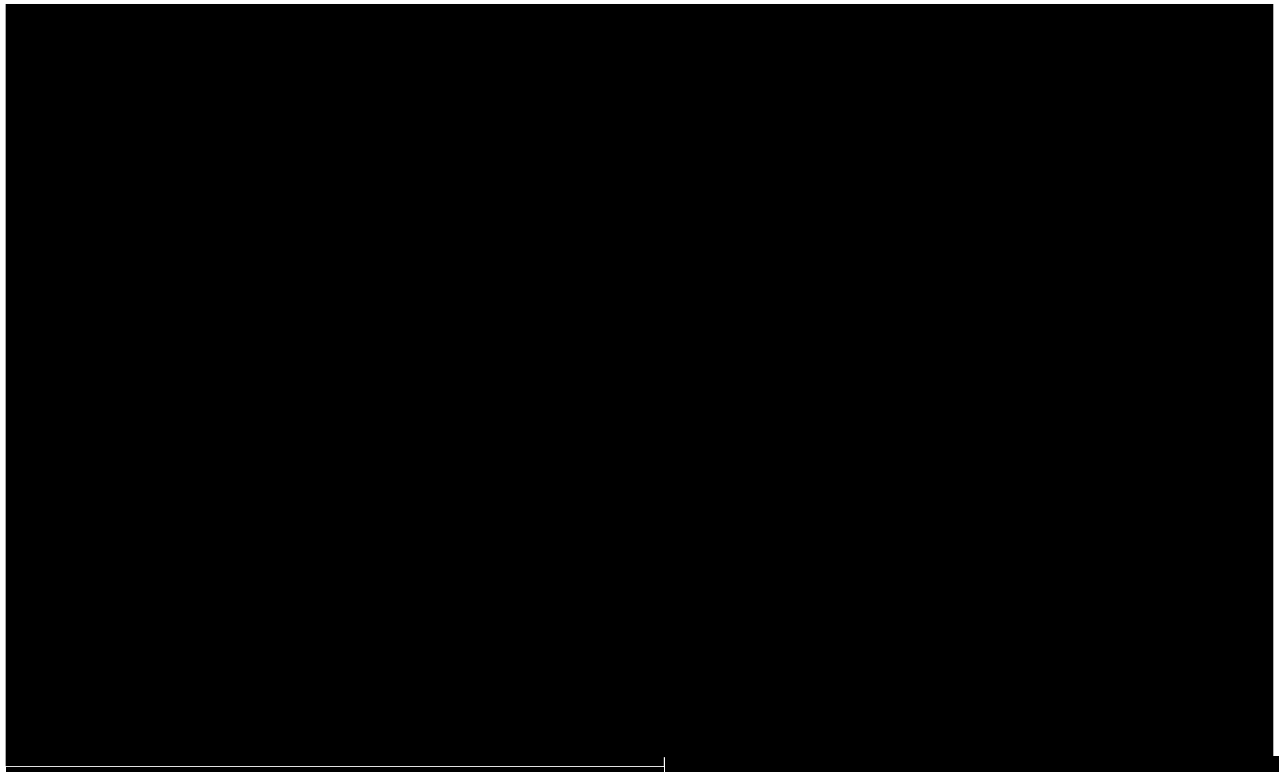
Wastewater Treatment Facility Understanding



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Wastewater Collection System Understanding

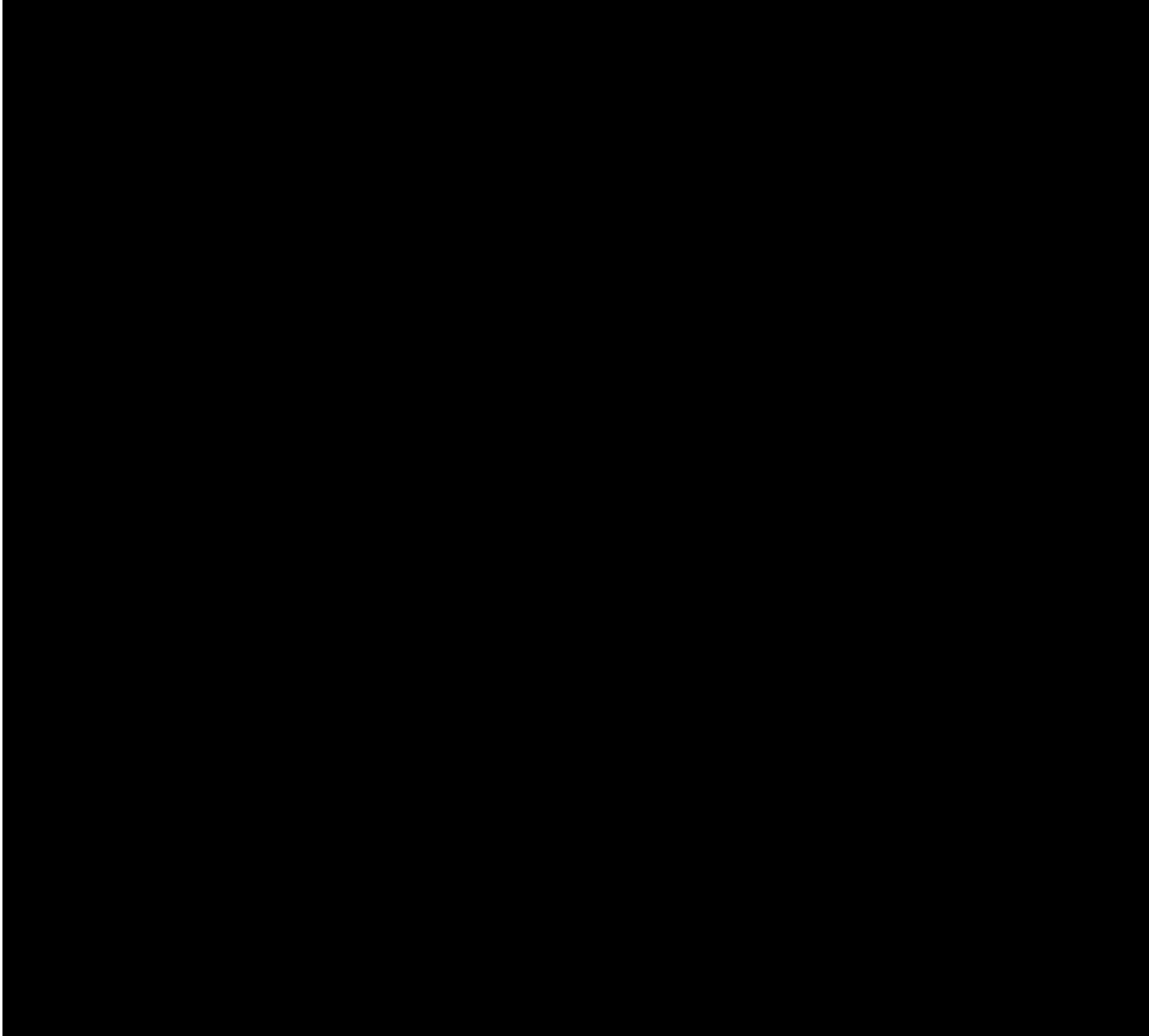


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Civil Site Design
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Civil Engineering
Surveying & Mapping
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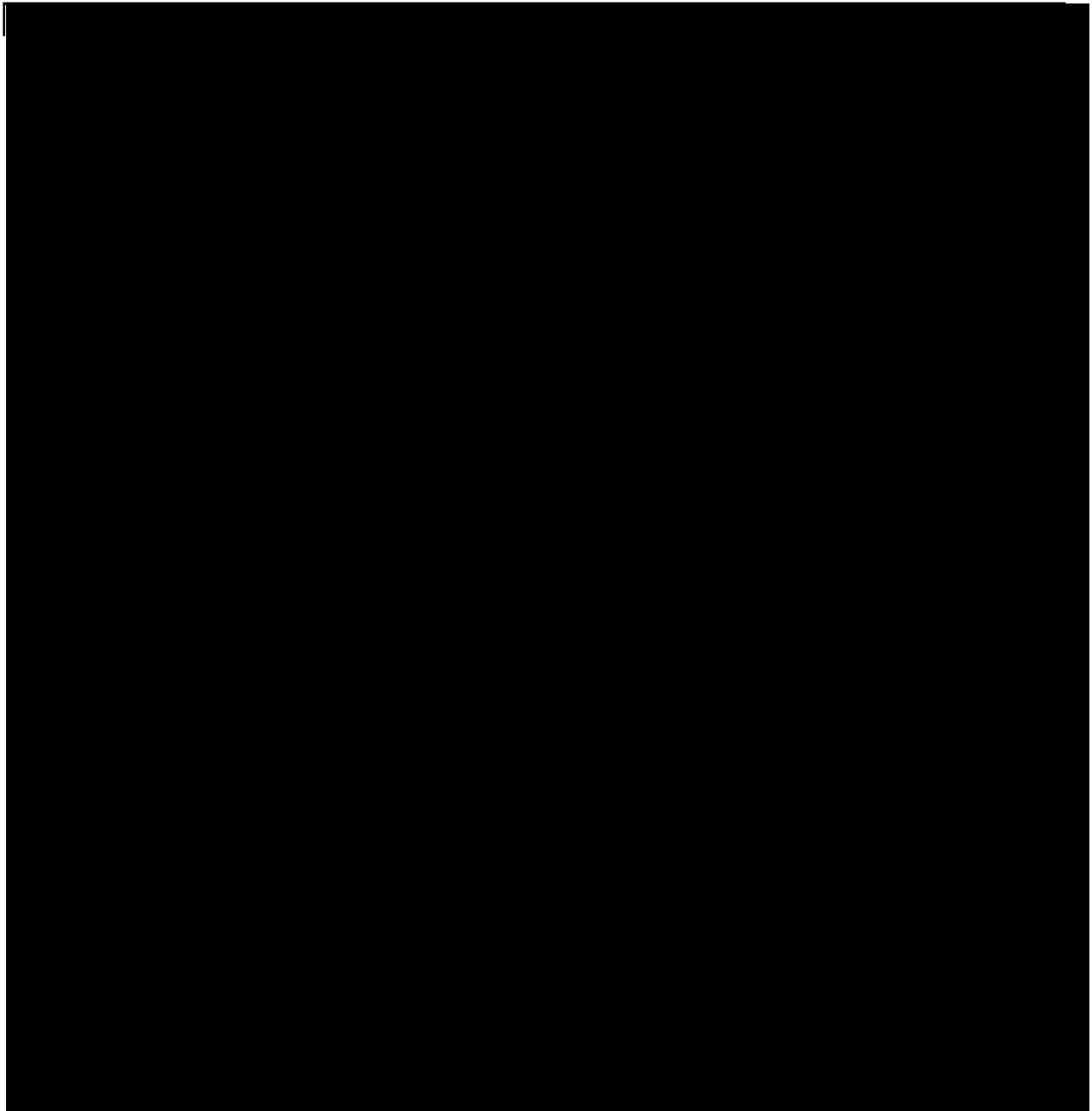
Civil Site Design
Construction Support
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Wastewater Collection

Kingswood Kentucky (Wastewater, KY00101419)

Engineering Memorandum

Date: April 2, 2019

Wastewater Treatment Facility Understanding



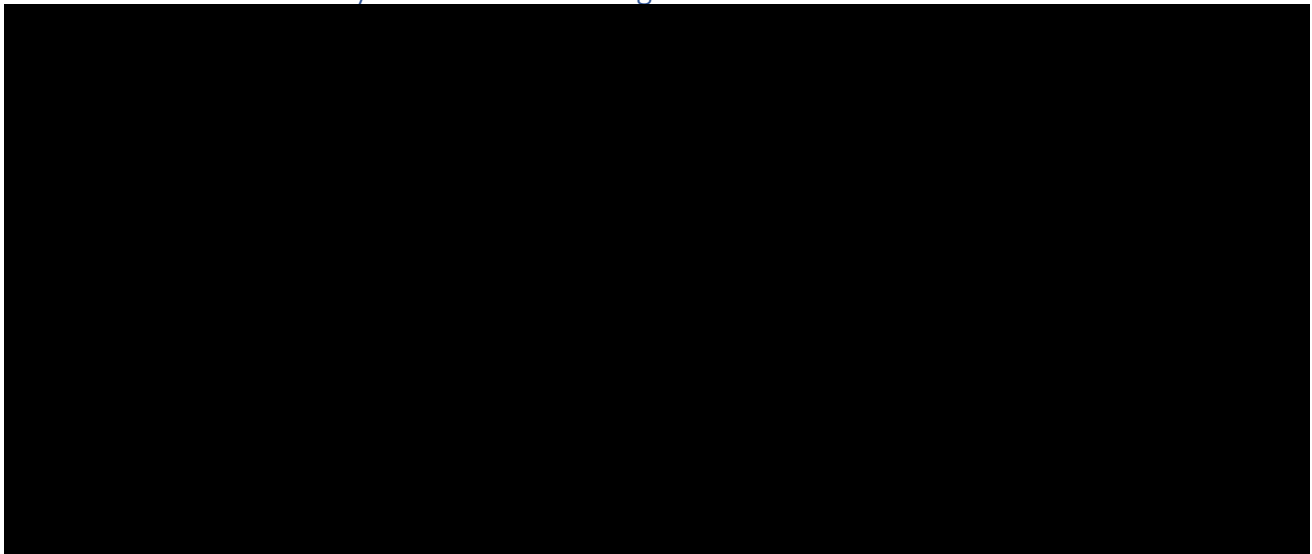
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Wastewater Collection System Understanding

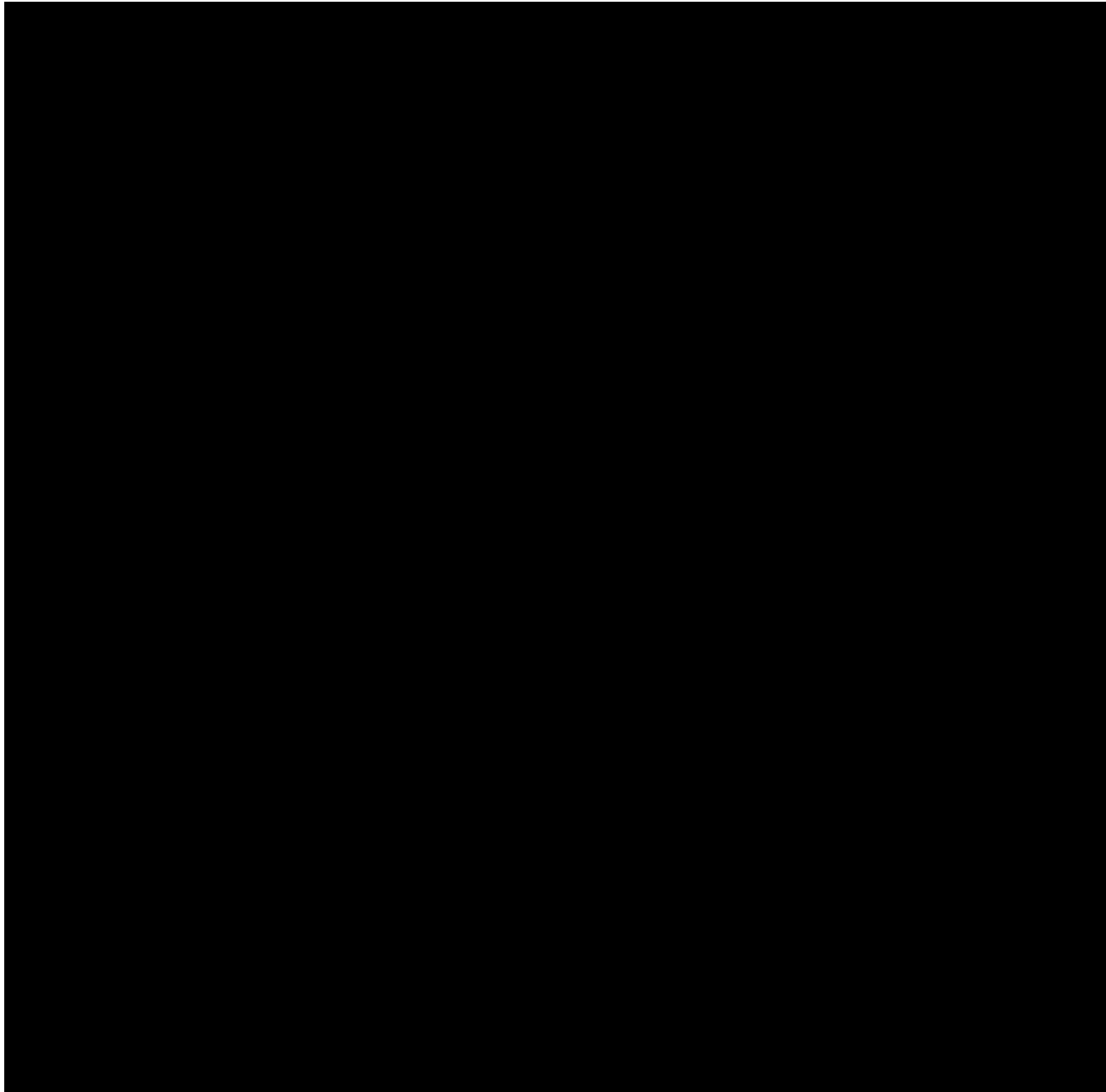


Civil Engineering
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Civil Site Design
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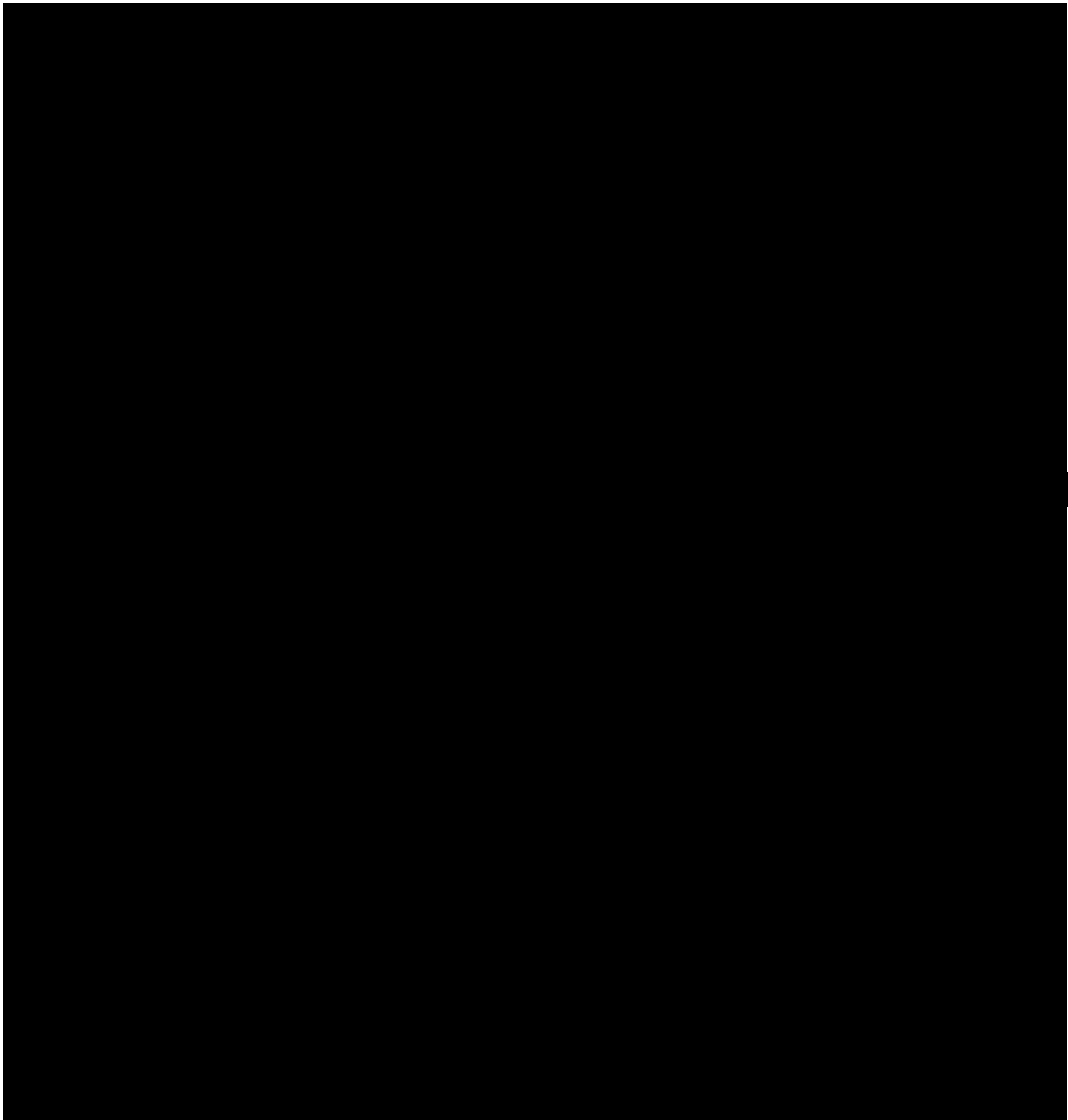
Civil Engineering
Surveying & Mapping
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Wastewater Treatment



Civil Site Design
Construction Support
Transportation
Wastewater Collection

Airview-Kentucky (Wastewater)
Engineering Memorandum
Date: December 22, 2018

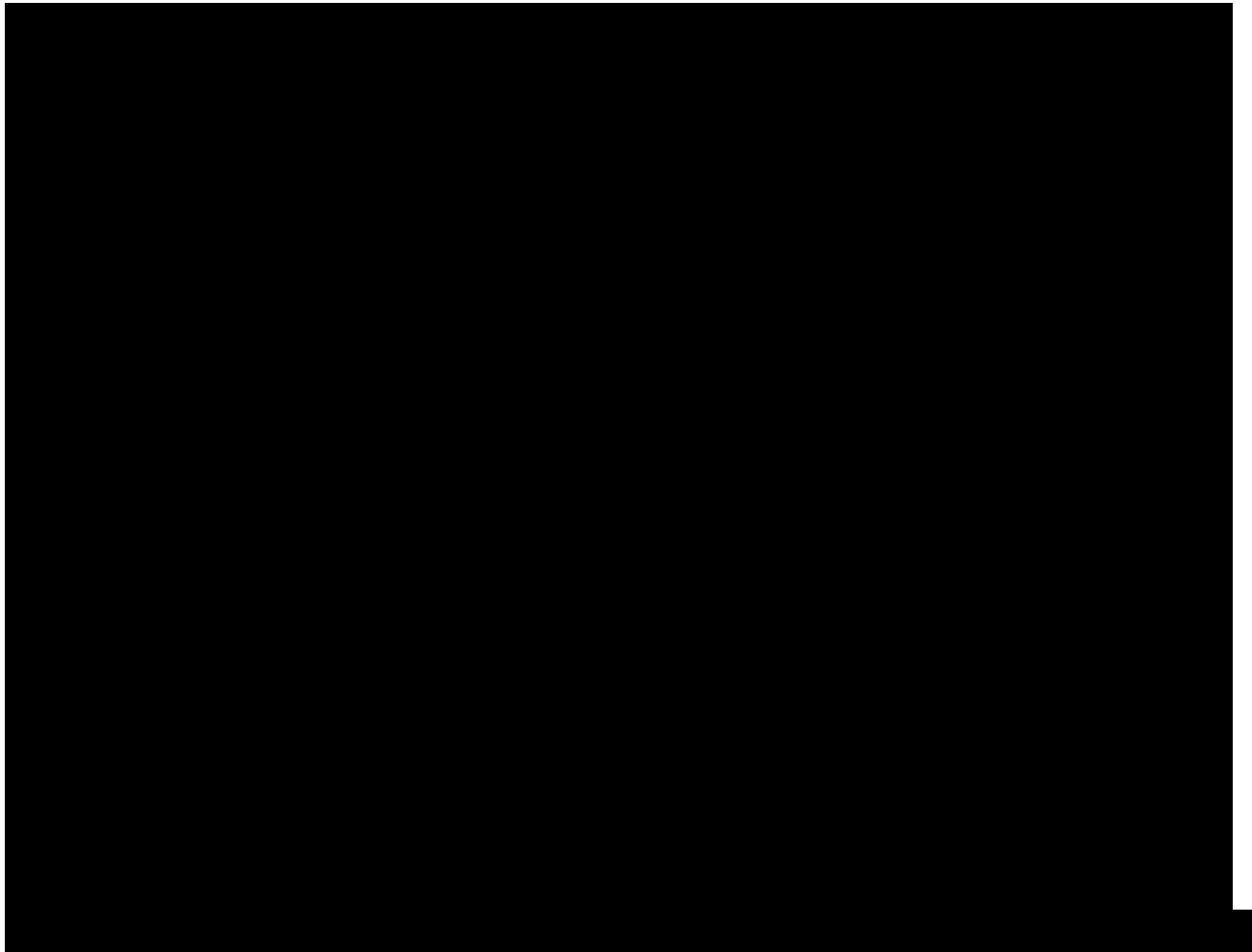
Wastewater Treatment Facility Understanding



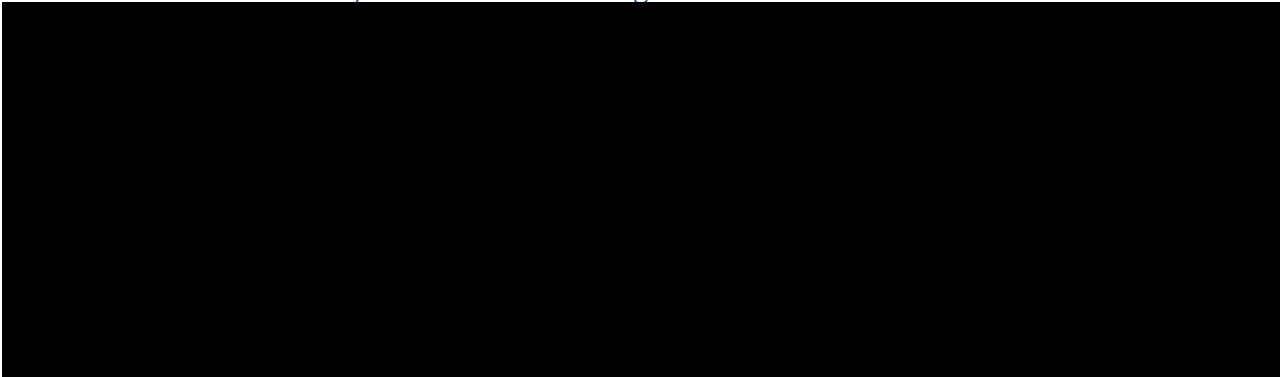
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Civil Site Design
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Wastewater Collection System Understanding

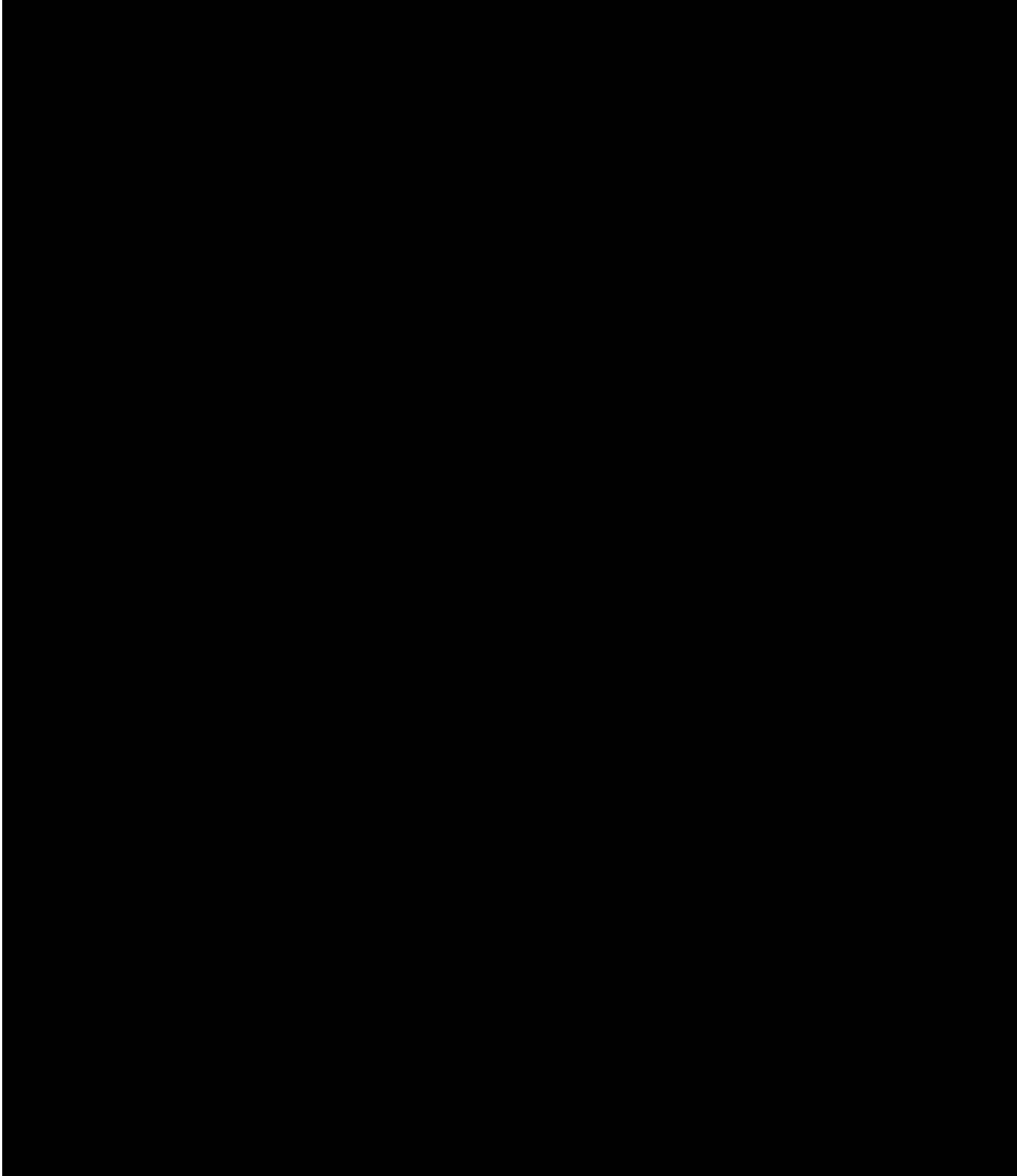


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Civil Site Design
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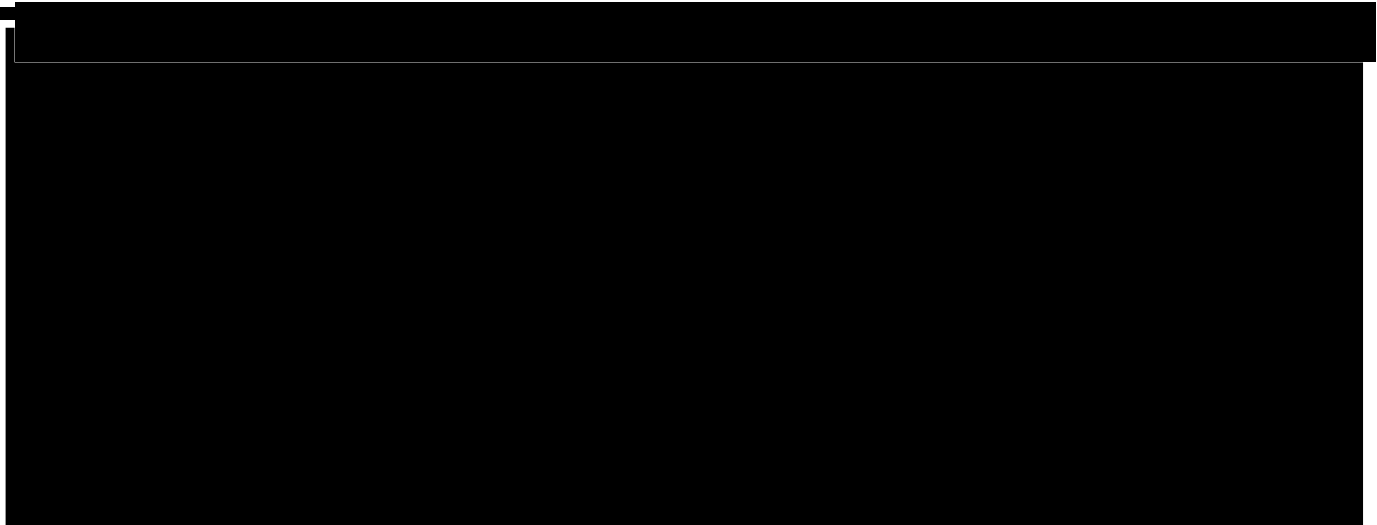
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Civil Site Design
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Civil Engineering
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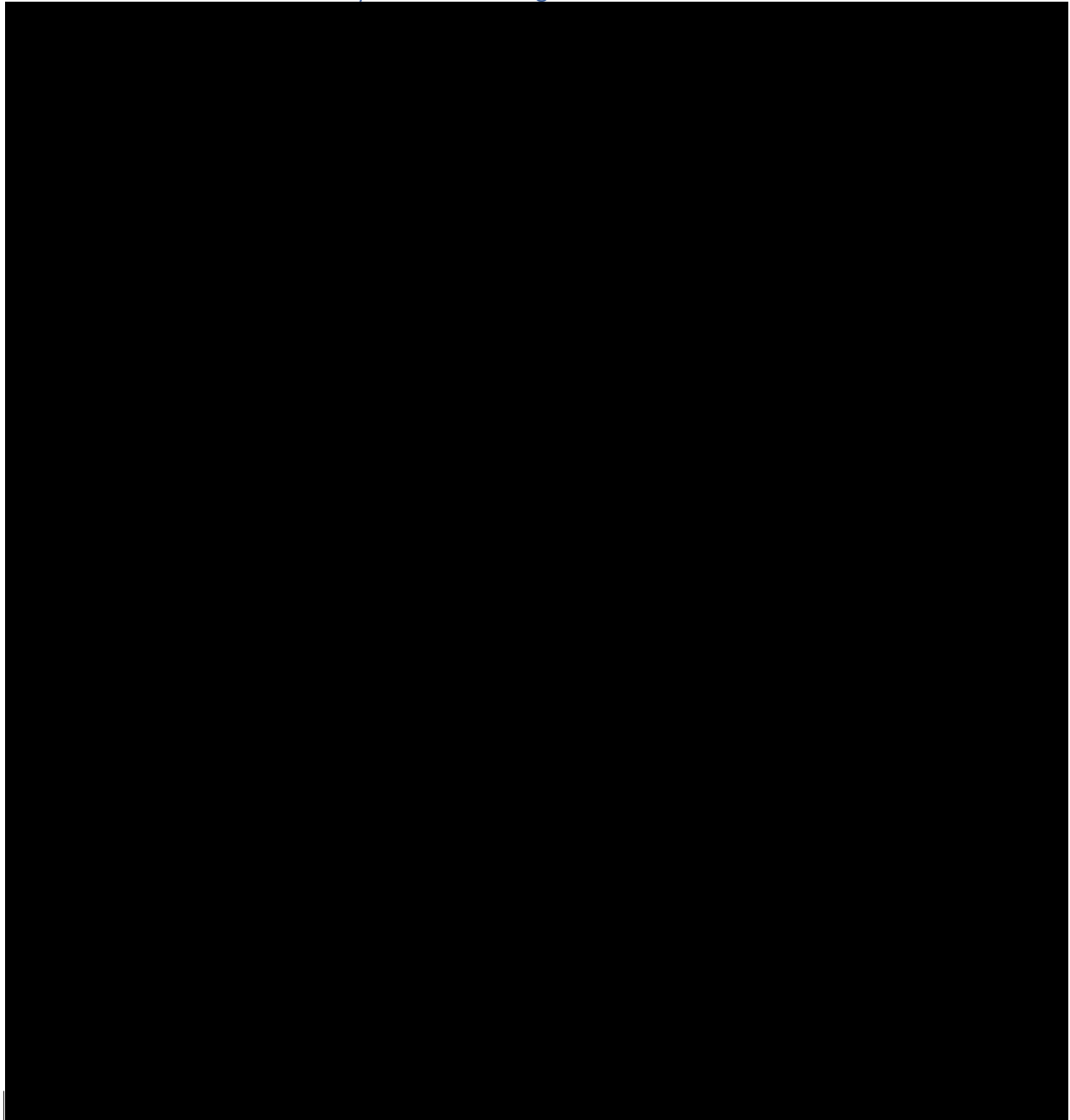
Civil Site Design
Construction Support
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Wastewater Collection

Brocklyn-Kentucky (Wastewater)

Engineering Memorandum

Date: December 26, 2018

Wastewater Treatment Facility Understanding



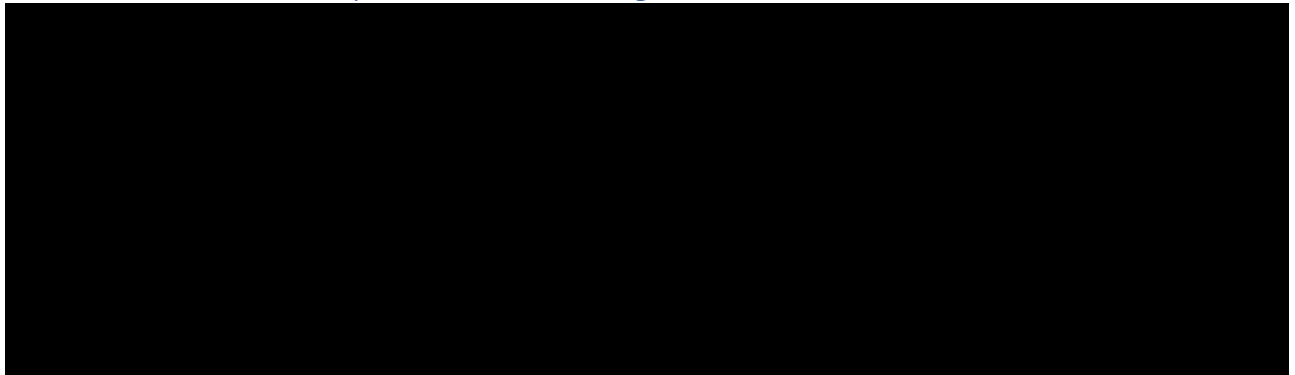
Civil Engineering
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Civil Site Design
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Wastewater Collection System Understanding

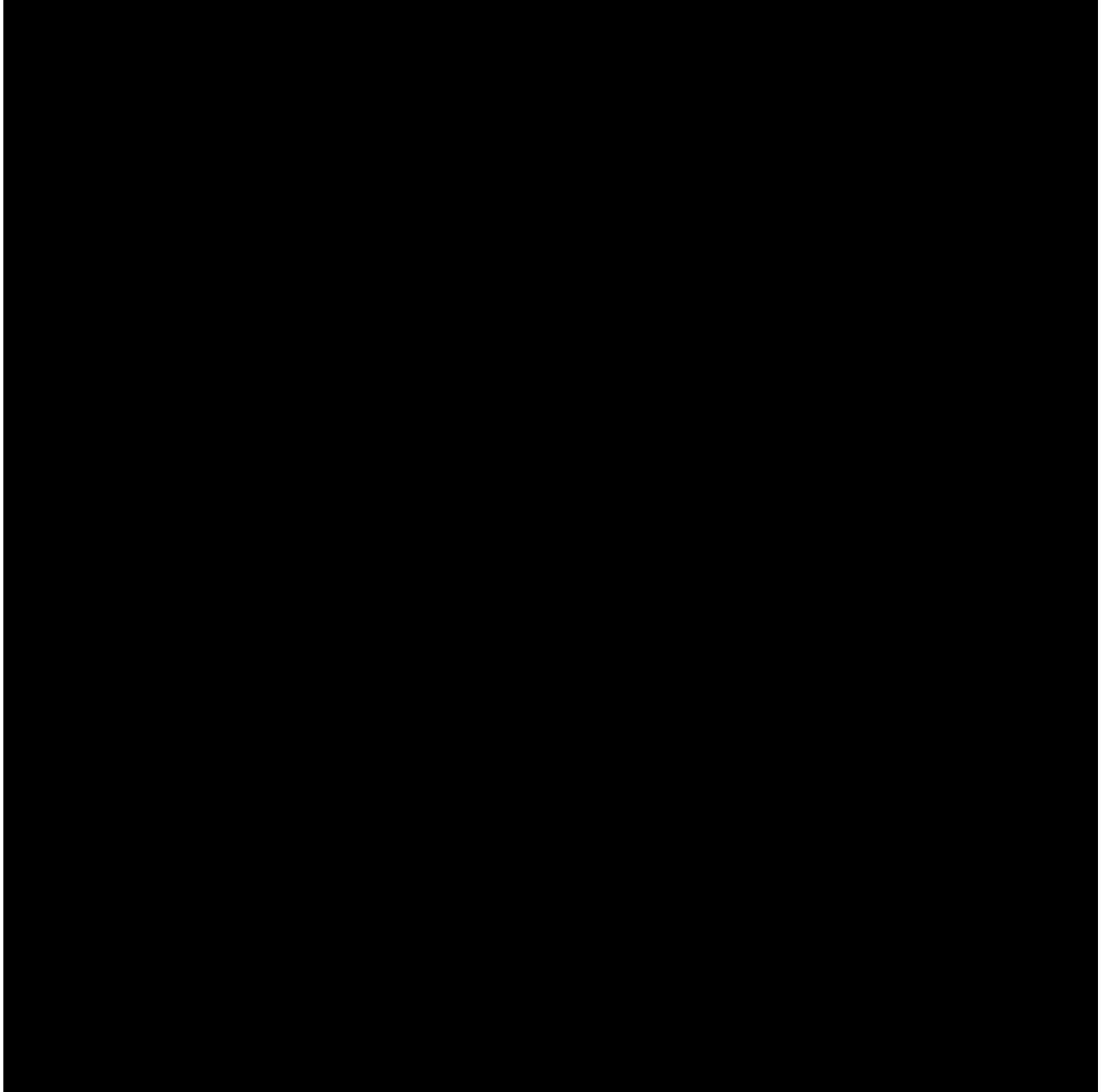


Civil Engineering
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Civil Site Design
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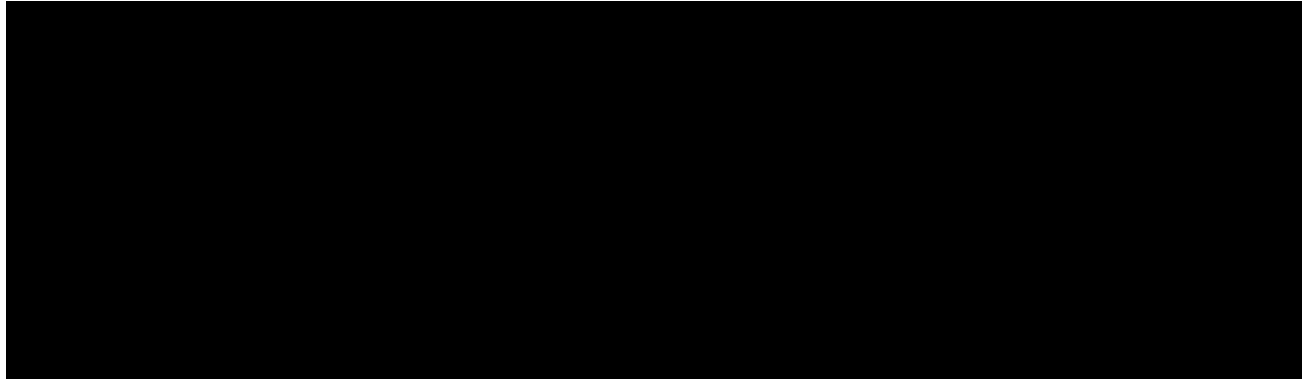
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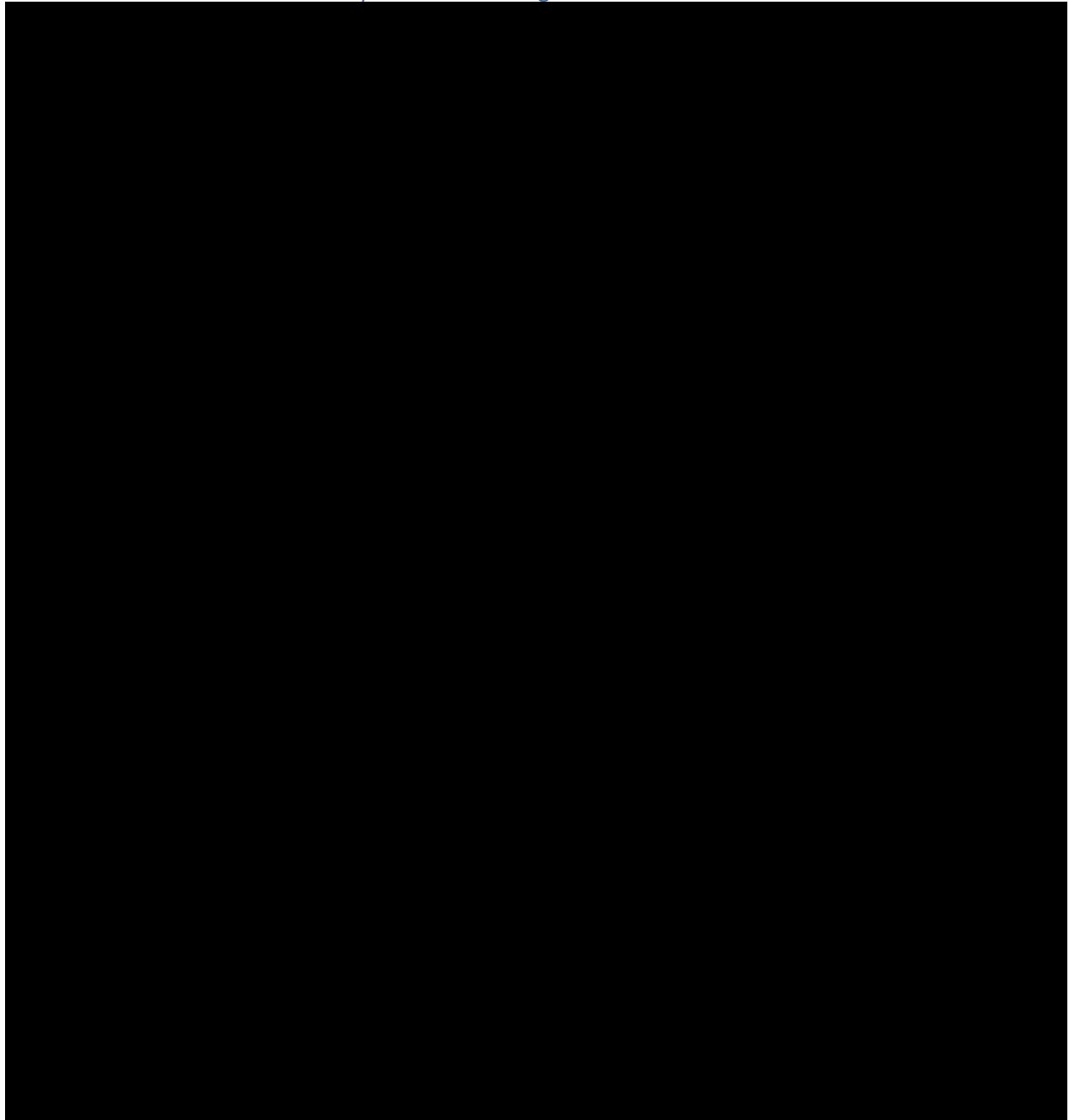
Civil Engineering
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Civil Site Design
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Fox Run Utilities (Wastewater)
Engineering Memorandum
Date: December 31, 2018

Wastewater Treatment Facility Understanding



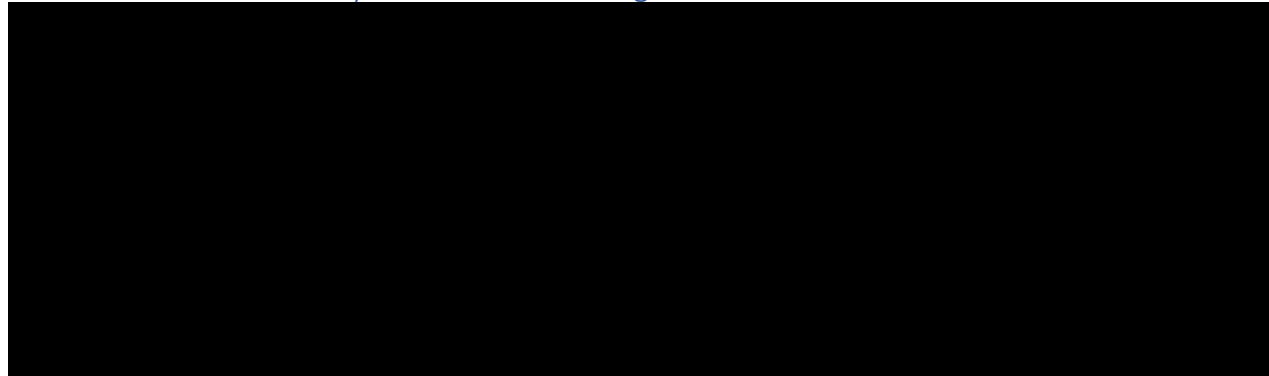
Civil Engineering
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Civil Site Design
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Wastewater Collection System Understanding

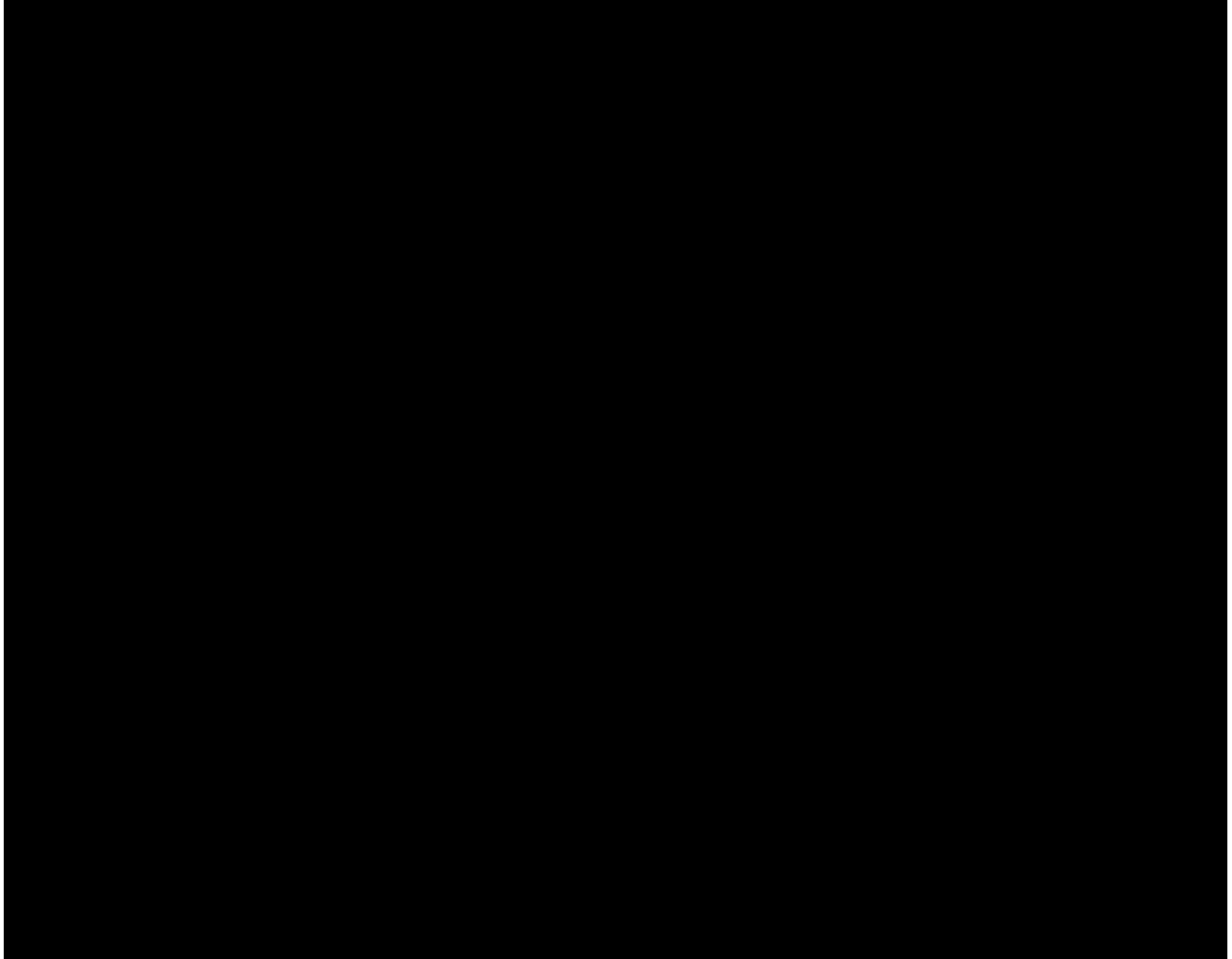


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Civil Site Design
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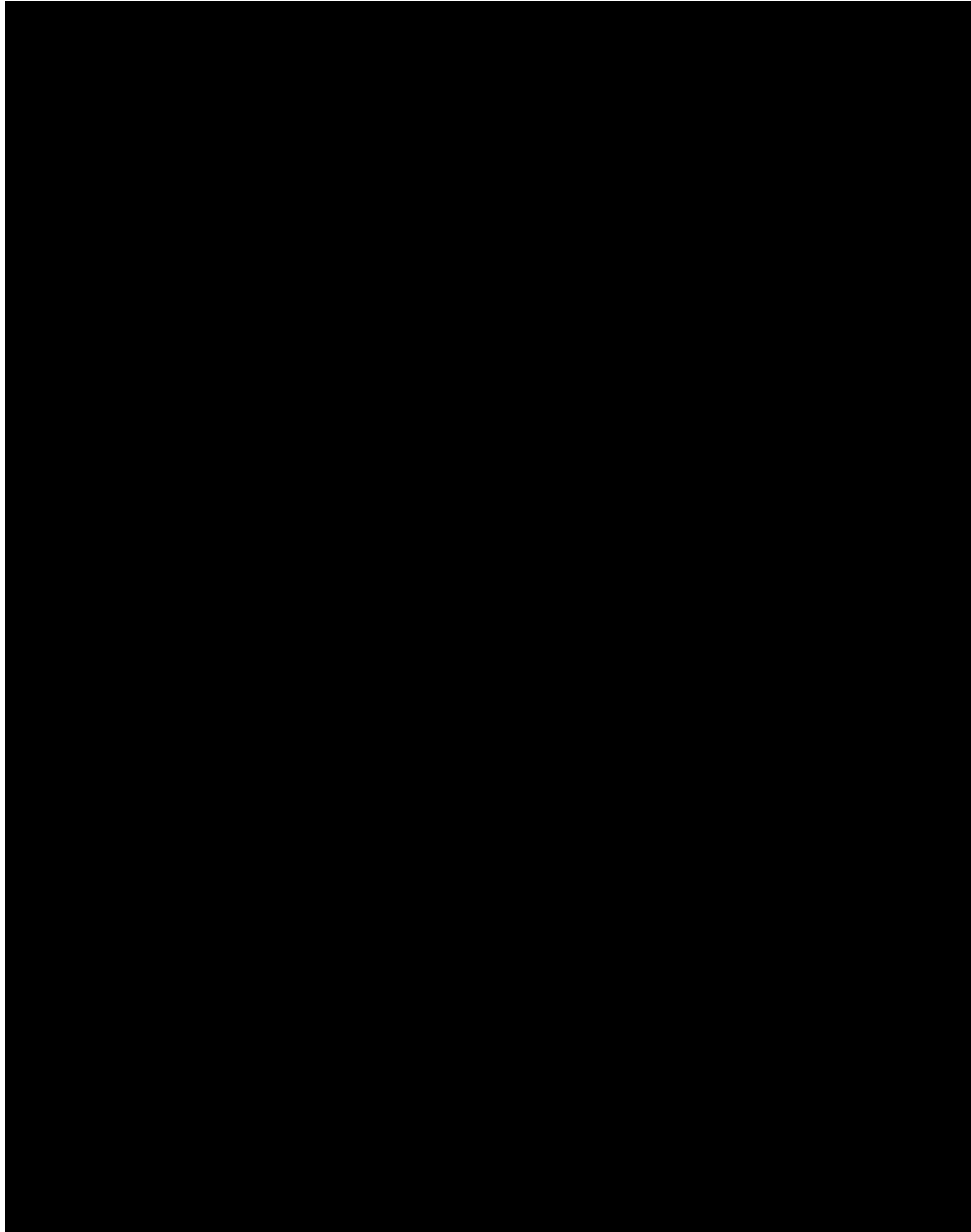
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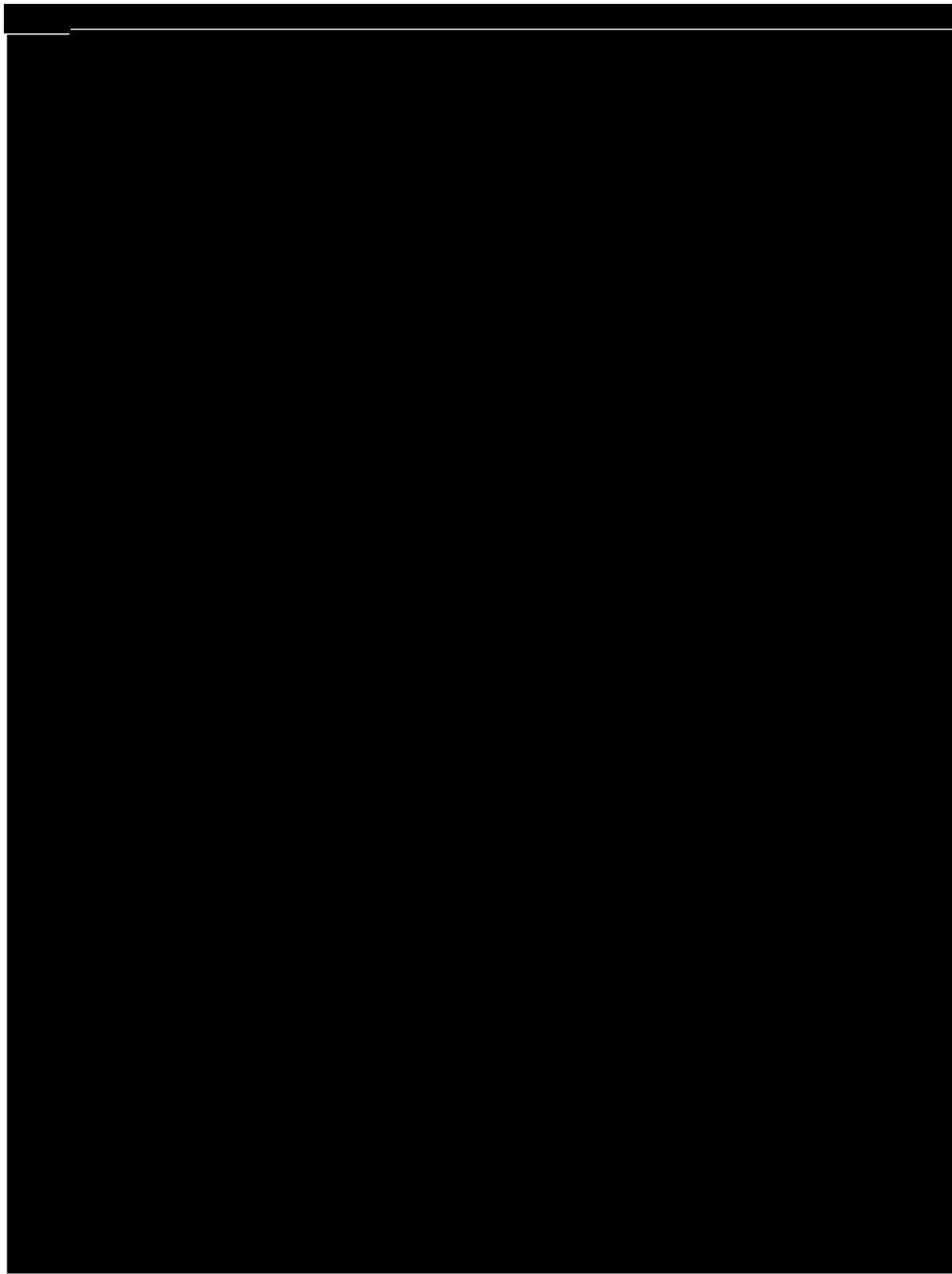
Civil Site Design
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Civil Engineering
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21 DESIGN

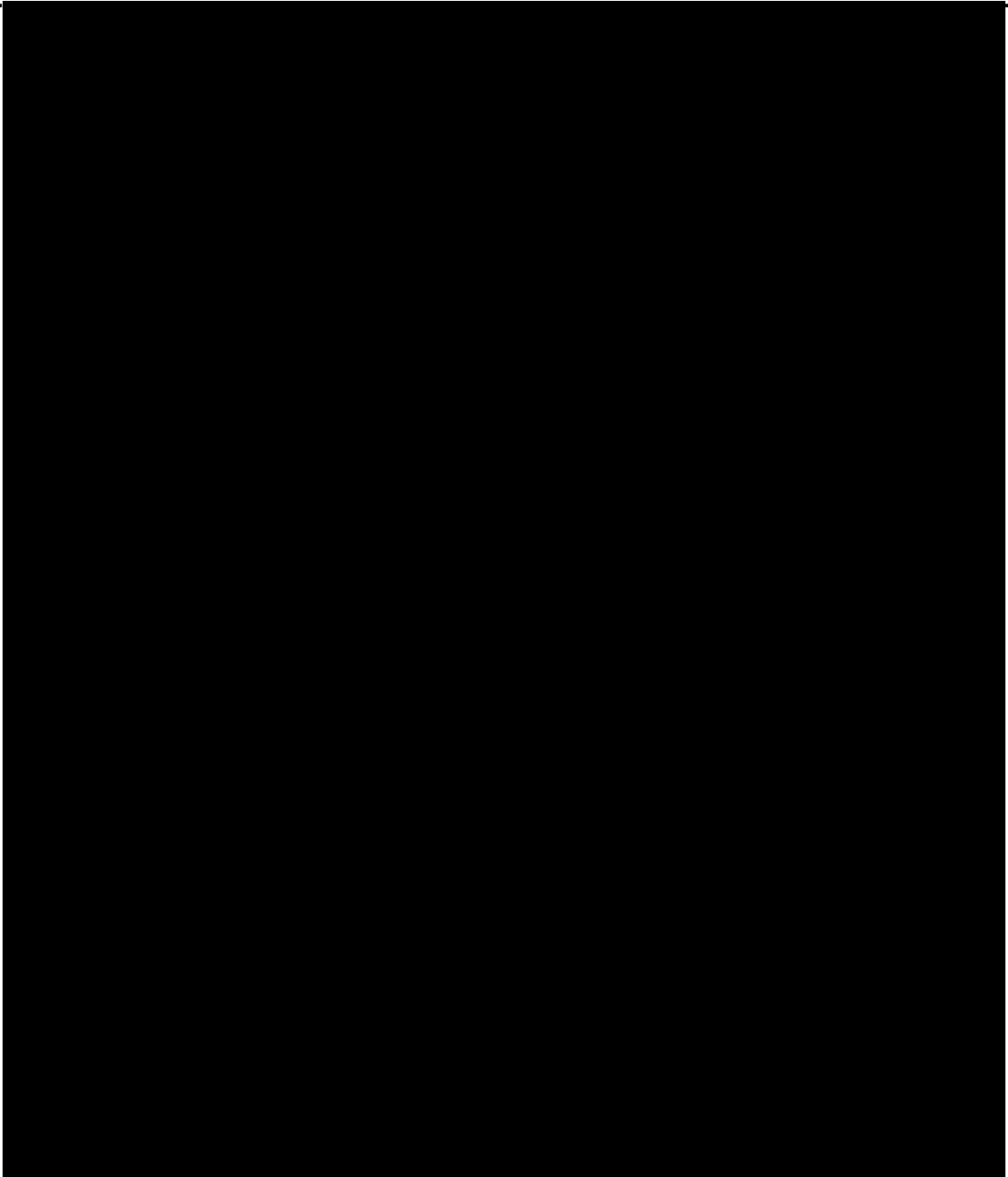
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Civil Engineering
Surveying & Mapping
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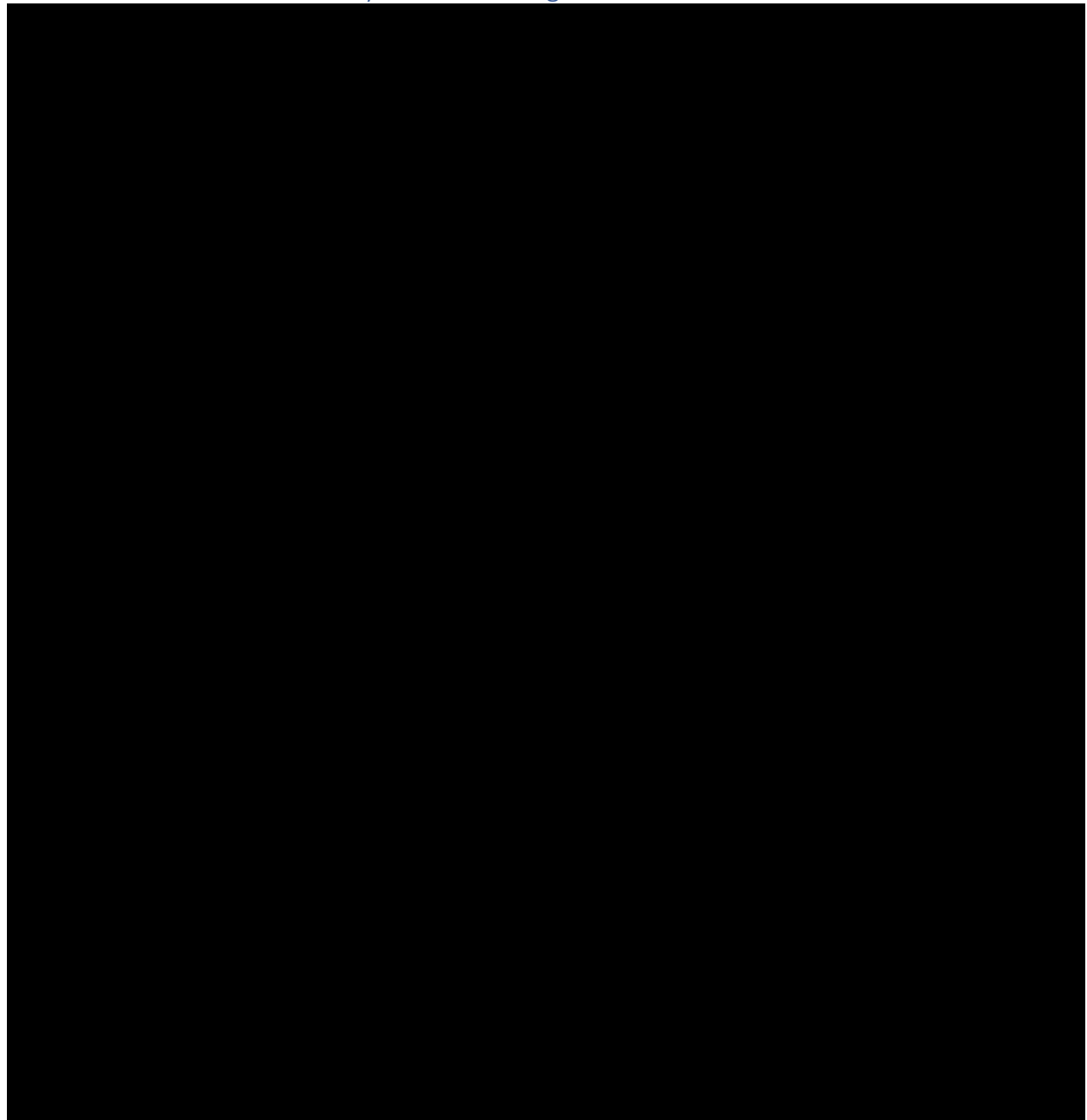
Civil Engineering
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Civil Site Design
Construction Support
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Wastewater Collection

Lake Columbia-Kentucky (Wastewater)
Engineering Memorandum
Date: December 28, 2018

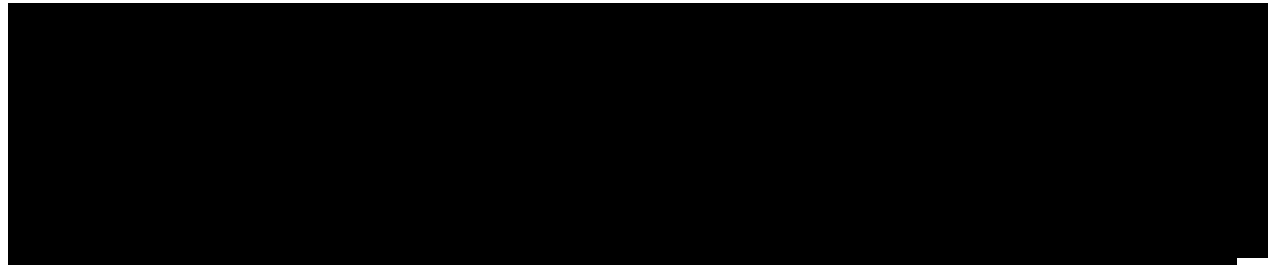
Wastewater Treatment Facility Understanding



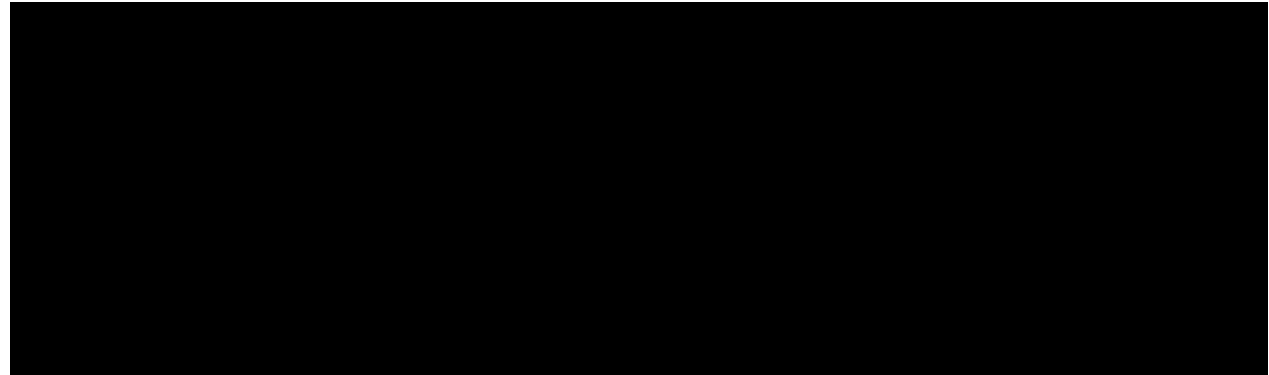
Civil Engineering
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Civil Site Design
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Wastewater Collection System Understanding

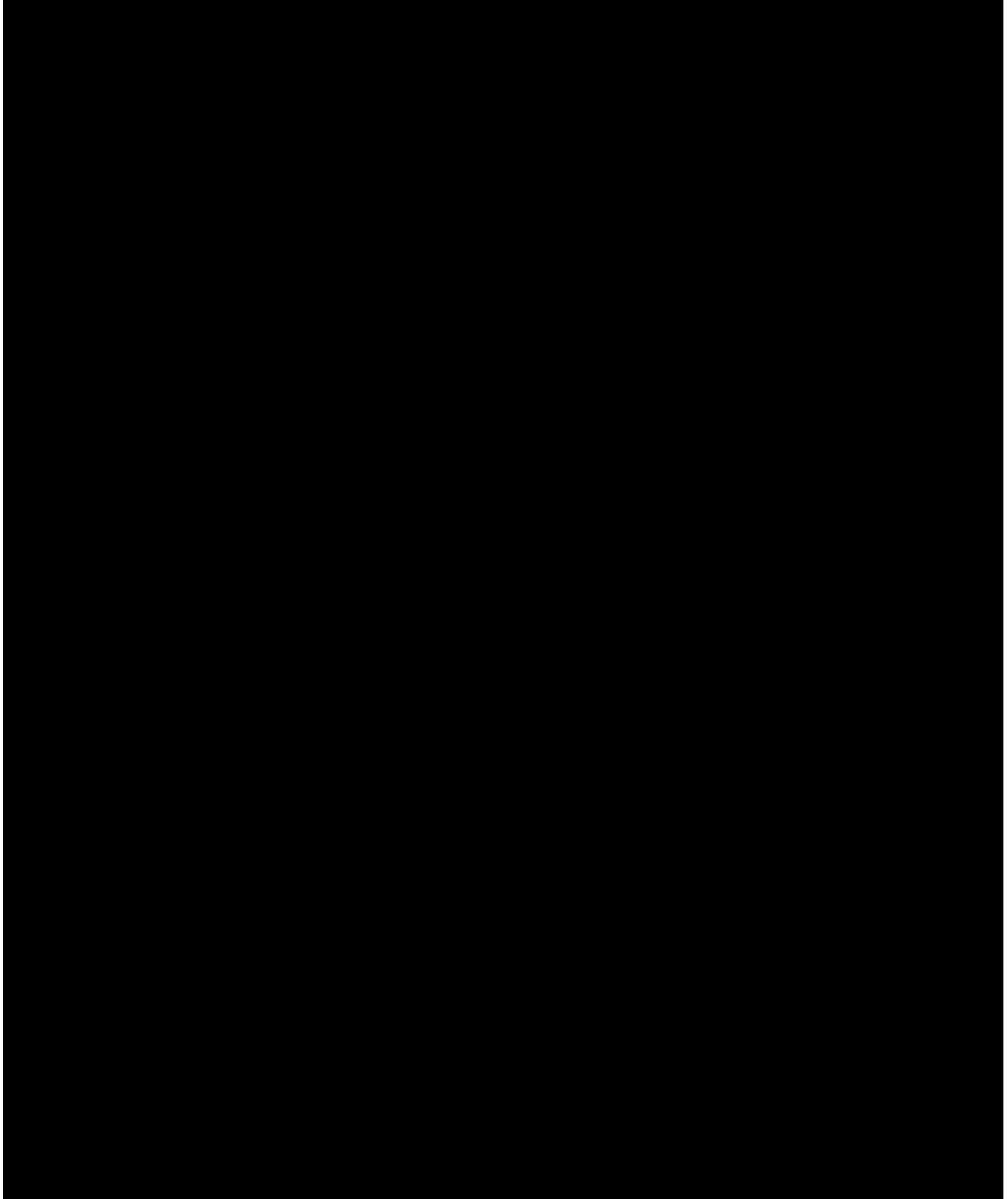


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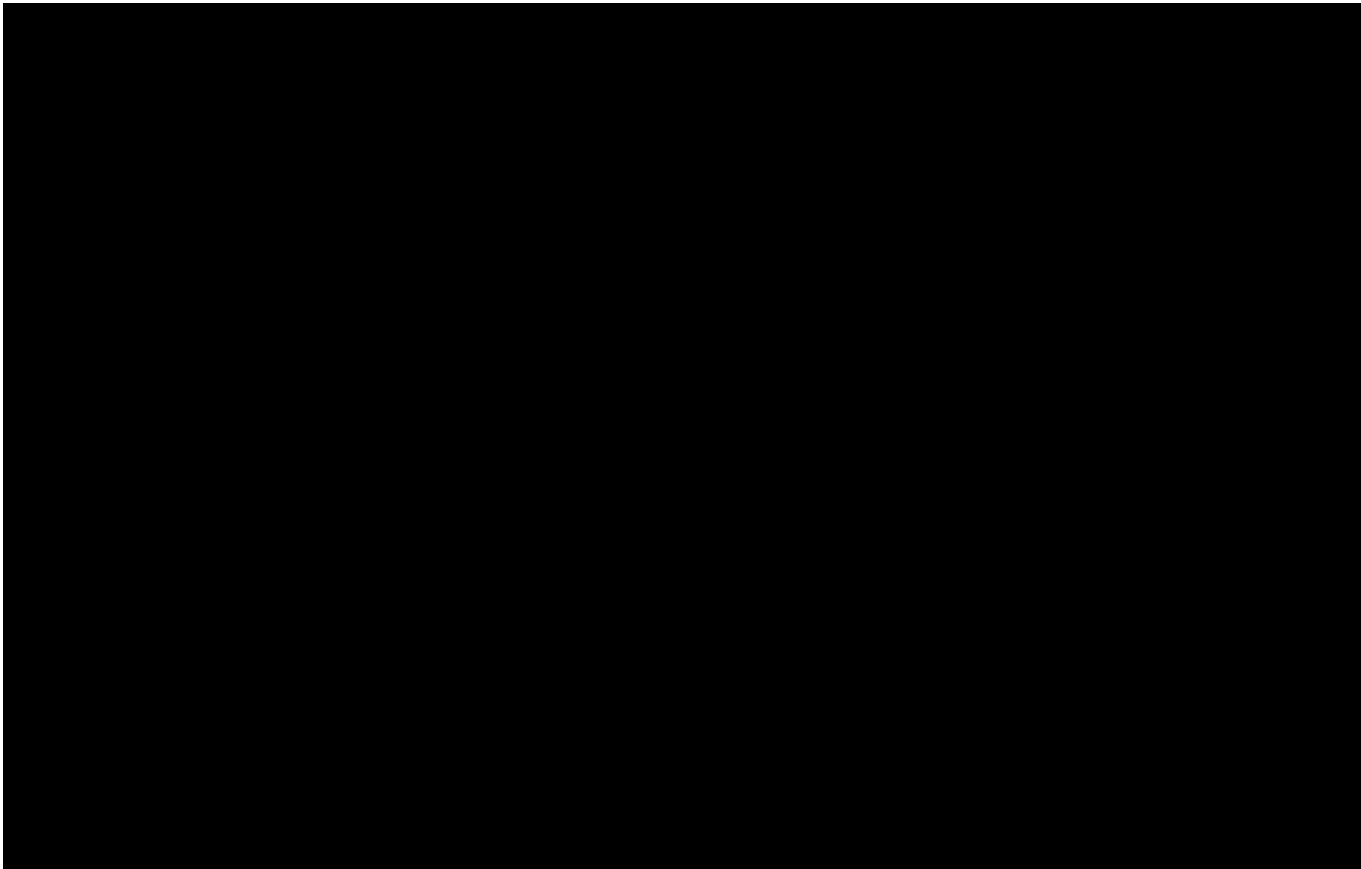
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Civil Engineering
Surveying & Mapping
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Civil Site Design
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Arkansas-CSWR, LLC - Utility Systems
 Consolidated Balance Sheet
 December 31, 2018

	Consolidated	Hayden's Place	St. Joseph's Glen	Sebastian Lake	Eagle Ridge	Oak Hill
Assets						
Current Assets						
Cash						
Receivables						
Unbilled receivables						
Prepaid expenses and other current assets						
Due FM associated parties						
Deferred Tax Asset						
Total Current Assets						
Plant, Property & Equipment (Net)						
Deferred Financing Cost						
Preliminary Survey and Investigation Charges						
Investment in Subsidiaries						
Total Assets						
Liabilities and Equity						
Current Liabilities						
Accounts Payable						
Due to associated parties						
Notes Payable - ST						
Misc. Accrued Liabilities						
Operating Reserves						
Total Current Liabilities						
Long Term Liabilities						
Notes Payable - LT						
Deferred Tax Liability						
Total Long Term Liabilities						
Total Liabilities						
Contributions in Aid of Construction - (Net)						
Shareholder's Equity						
APIC						
Retained deficit						
Total Equity						
Total Liabilities and Equity						

** Unaudited **

Arkansas-CSWR, LLC - Utility Systems
 Consolidated Statement of Loss and Retained Deficit
 For the Period Ended December 31, 2018

	Consolidated	Hayden's Place	St. Joseph's Glen	Sebastian Lake	Eagle Ridge	Oak Hill
Revenues						
Operating Revenues						
Total Revenue						
Operating Income (Expenses)						
Operations and Maintenance						
Depreciation and Amortization						
Total Expenses						
Income from Operations						
Other Income (Expenses)						
Gain (Loss) - Other						
Interest						
Total Other Income (Expenses)						
Net Loss Before Income tax						
Provision for Income Tax						
Net Loss						
<hr/>						
Retained Earning - Beginning						
Net Loss						
Retained Earning - Ending						

** Unaudited **

**ARKANSAS CENTRAL STATES WATER
RESOURCES, LLC AND SUBSIDIARIES**

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017



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To the Shareholders of
Arkansas Central States Water Resources, LLC
St. Louis, Missouri

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying consolidated financial statements of *Arkansas Central States Water Resources, LLC and Subsidiaries (the "Company")*, which comprise the consolidated balance sheet as of December 31, 2017, and the related consolidated statements of loss and retained deficit, and cash flows for the period from inception, July 31, 2017, to December 31, 2017 and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosure in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatements of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2017, and the results of its operations and its cash flows for the initial period then ended in accordance with accounting principles generally accepted in the United States of America.

February 25, 2019
St. Louis, Missouri

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Certified Public Accountants

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ARKANSAS CENTRAL STATES WATER RESOURCES, LLC AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
DECEMBER 31, 2017

ASSETS

Current Assets
 Cash
 Accounts receivable, net
 Total Current Assets

Property, Plant and Equipment, Net

Deferred Income Tax Asset

Total Assets

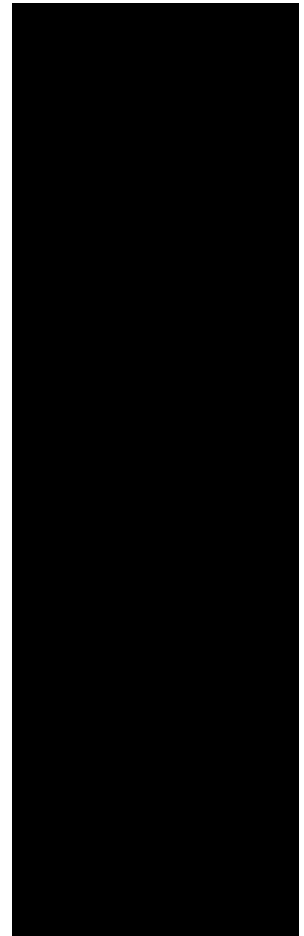
LIABILITIES AND CAPITALIZATION

Current Liabilities
 Accounts payable
 Due to related party
 Total Current Liabilities

Total Liabilities

Capitalization
 Additional paid in capital
 Retained deficit
 Total Capitalization

Total Liabilities and Capitalization



ARKANSAS CENTRAL STATES WATER RESOURCES, LLC AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF LOSS AND RETAINED DEFICIT
FOR THE PERIOD ENDED DECEMBER 31, 2017

Revenue
 Operating revenue
 Total Revenue

Expenses
 Operation and maintenance
 Depreciation and amortization
 Total Expenses

Net Loss Before Income Taxes

Income Tax Benefit

Net Loss

Retained Earnings - Beginning of Period

Retained Deficit - End of Period



ARKANSAS CENTRAL STATES WATER RESOURCES, LLC AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED DECEMBER 31, 2017

Cash Flows From Operating Activities
 Net loss
 Adjustments to reconcile net income to:
 Depreciation
Change in assets - (increase) decrease
 Accounts receivable
 Deferred income tax asset
Change in liabilities - increase (decrease)
 Accounts payable
 Due to related party
 Net Cash Provided by Operating Activities

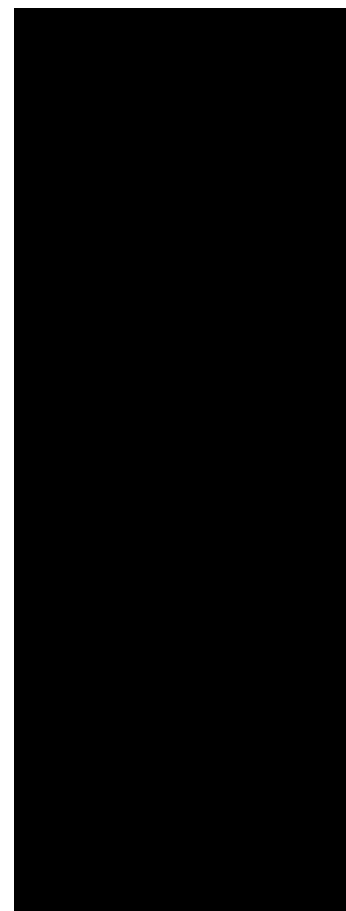
Cash Flows From Investing Activities
 Purchase of property and equipment
 Net Cash Used in Investing Activities

Cash Flows From Financing Activities
 Contributed capital
 Net Cash Provided by Financing Activities

Net Increase in Cash and Cash Equivalents

Cash and Cash Equivalents, Beginning of Period

Cash and Cash Equivalents, End of Period



ARKANSAS CENTRAL STATES WATER RESOURCES, LLC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Arkansas Central States Water Resources, LLC (“Arkansas Central States”) and its wholly owned subsidiaries, Hayden’s Place Utility Holding Company, Inc. (“Hayden’s Place”) and St. Joseph’s Glen Utility Holding Company, Inc. (“St. Joseph’s Glen”) which in turn own operating subsidiaries that carry out day-to-day operations of the Company (collectively the “Company”). All significant inter-company transactions and account balances have been eliminated in consolidation. The Company is a wholly owned subsidiary of First Round CSWR, LLC.

Nature of Operations

Arkansas Central States is a private water and wastewater utility company. The Company's primary purpose through its subsidiary is to establish compliant water and wastewater treatment facilities for underserved communities and private facility owners by creating economically-viable options compliant with the Clean Water Act and the Safe Drinking Water Act. The Company holds authoritative permits granted by the Arkansas Department of Environmental Quality (the “ADEQ”) under which the Company provides sewer collection and treatment services in Faulkner and Saline counties in Arkansas. The ADEQ first authorized the Company to provide wastewater services in August 2017.

Period End

The Company began operations on July 31, 2017. As such, the consolidated financial statements are for the period beginning July 31, 2017 and ending December 31, 2017.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Company’s policy is to prepare its consolidated financial statements on the accrual basis of accounting in conformity with accounting principles for regulated utilities generally accepted in the United States of America.

Use of Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, the actual results could differ from those estimates.

Recognition of Revenues

Revenues are recognized as water and sewer services are provided, and include amounts billed to customers on a cycle basis and unbilled amounts based on one month of service.

ARKANSAS CENTRAL STATES WATER RESOURCES, LLC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

Income taxes are provided for the tax effects of transactions reported in the consolidated financial statements and consist of taxes currently due, plus deferred taxes related primarily to temporary differences including the future tax benefits of operating loss carryforwards recognized for financial reporting purposes. The Company files a consolidated return in accordance with provisions of "C" Corporation status with the Internal Revenue Service.

The Company implemented "Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASU") 740-10, Income Taxes – Overall." Included in this is a requirement under Accounting for Uncertainty in Income Taxes that realization of an uncertain income tax position must be "more likely than not" (i.e., greater than 50% likelihood of receiving a benefit or expense) before it should be recognized in the consolidated financial statements. Further, the code section prescribes the benefit or expense to be recorded in the consolidated financial statements as the amount most likely to be realized assuming a review by tax authorities having all relevant information and applying current conventions. The code section also clarifies the consolidated financial statement classification of potential tax-related penalties and interest and sets forth new disclosures regarding unrecognized tax benefits or expense.

The Company has assessed its federal and state tax positions and determined there were no uncertainties or possible related effects that need to be recorded as of or for the period ended December 31, 2017. If applicable, penalties and interest assessed by income taxing authorities are included with the provision for income taxes.

The federal and state income tax returns of the Company for the year ended December 31, 2017 are subject to examination by the respective taxing authorities, generally for three years after they were filed.

Accounts Receivable

Accounts receivable include utility customer accounts receivable, which represent amounts billed to water and wastewater customers on a cycle basis. Accounts receivable also includes unbilled revenue amounts for services provided but not billed to customers.

The Company provides an allowance for doubtful accounts equal to the estimated losses that will be incurred in the collection of accounts receivable. This estimate is based on historical experience coupled with a review of the current status of existing receivables. The allowance and associated accounts receivable are reduced when the receivables are determined to be uncollectible. The Company did not believe an allowance was necessary at December 31, 2017.

Property, Plant and Equipment

Property, plant and equipment is stated at cost. Major additions and improvements are capitalized while maintenance and repairs are expensed as incurred. When assets are sold or otherwise disposed of, the related cost and accumulated depreciation are removed from the accounts. Any gain or loss arising from such disposition is included as income or expense in the year of disposition.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

ARKANSAS CENTRAL STATES WATER RESOURCES, LLC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, Plant and Equipment (Continued)

The estimated lives for computing depreciation and amortization on property, plant and equipment are:

<u>Classification</u>	<u>Years</u>
Utility Plant in Service - Sewer	10-50
Furniture, Fixtures, and Other	7-20

Regulation

The Company is currently under the revenue threshold requiring rate regulation.

Purchase Accounting

Acquisitions are accounted for as a business purchase combination using the purchase method of accounting under the provisions of “FASB Accounting Standards Codification 805-10, Business Combinations – Overall”. The allocation of consideration for acquisitions requires extensive use of accounting estimates and management judgment to allocate the purchase price of tangible and identifiable intangible assets acquired and liabilities and contributions in aid of construction assumed based on their respective fair values.

Management believes the fair values assigned to the assets and liabilities are based on reasonable estimates and assumptions.

New Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers, which is effective for fiscal years beginning after December 15, 2018 for entities other than public business entities and outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts and customers. ASU 2014-09 supersedes most current revenue recognition guidance, including industry-specific guidance, and outlines a five-step process for revenue recognition that focuses on transfer of control, as opposed to transfer of risk and reward. Major provisions include determining which goods and services are distinct and represent separate performance obligations, how variable consideration is recognized, whether revenue should be recognized at a point in time or over time, and ensuring the time value of money is considered in the transaction price. ASU 2014-09 can be applied either retrospectively to each prior period presented or as a cumulative-effect adjustment as of the date of adoption. Management is currently evaluating the impact of adopting ASU 2014-09 on the Company’s consolidated financial statements and related disclosures.

ARKANSAS CENTRAL STATES WATER RESOURCES, LLC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

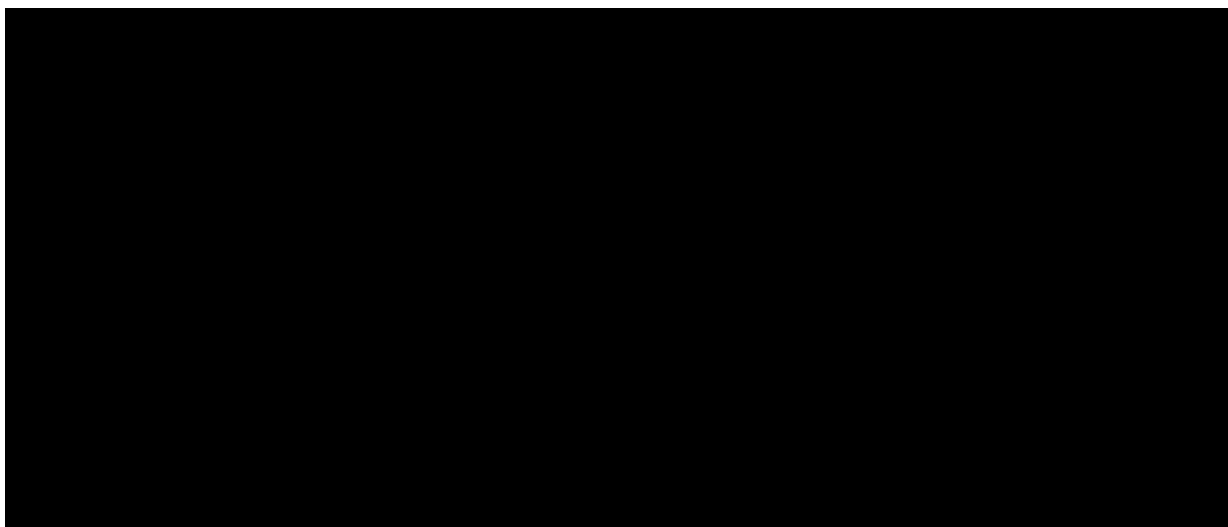
NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Pronouncements (Continued)

In February 2016, the FASB issued ASU 2016-02, Leases: Amendments to the FASB Accounting Standards Codification, which amends the existing guidance on accounting for leases, and is effective for fiscal years beginning after December 15, 2019 for entities other than public business entities. This ASU requires the recognition of lease assets and liabilities on the consolidated balance sheet and the disclosure of key information about leasing arrangements. Early adoption is permitted and modified retrospective application is required for leases that exist or are entered into after the beginning of the earliest comparative period in the consolidated financial statements. Management is currently evaluating the impact of adopting ASU 2016-02 on the Company's consolidated financial statements and related disclosures.

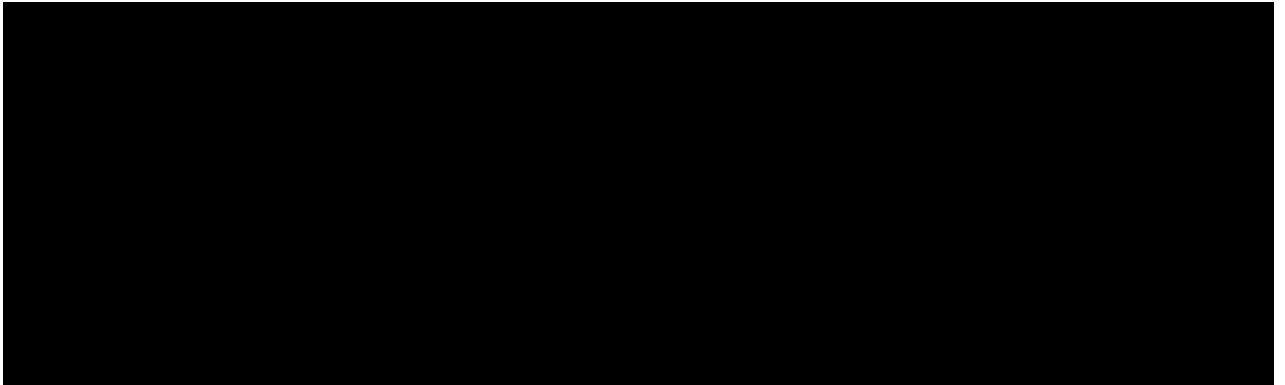
In June 2016, the FASB issued ASU 2016-13, Financial Instruments-Credit Losses. The standard requires a financial asset (including trade receivables) measured at amortized cost basis to be presented at the net amount expected to be collected. Thus, the income statement will reflect the measurement of credit losses for newly-recognized financial assets as well as the expected increases or decreases of expected credit losses that have taken place during the period. This standard will be effective for the calendar year ending December 31, 2021. The Company is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

NOTE 3 ACQUISITIONS

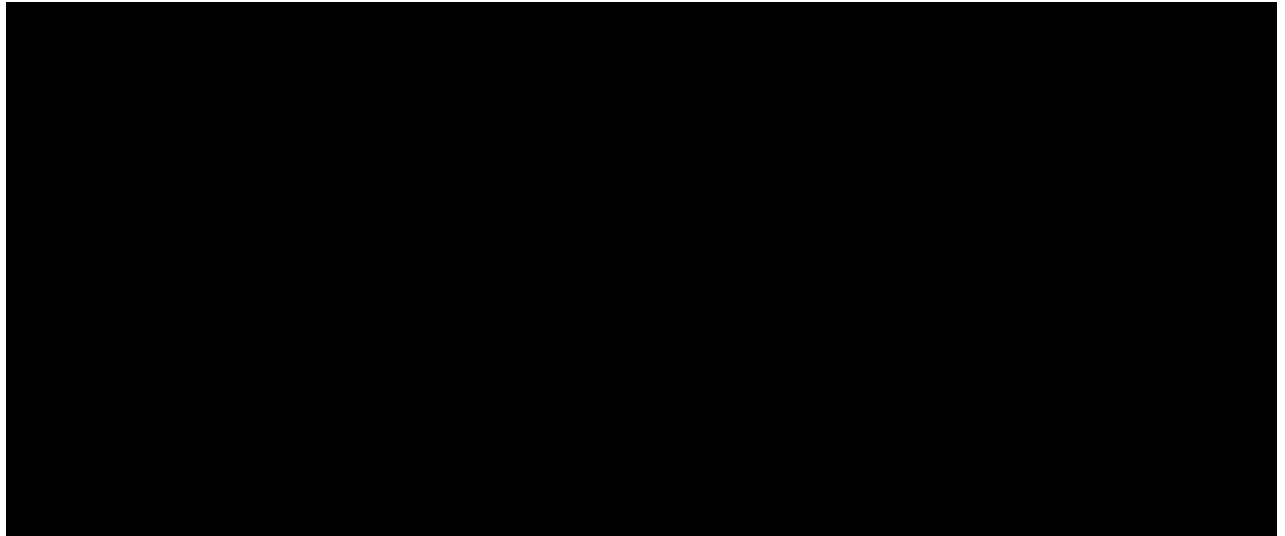


ARKANSAS CENTRAL STATES WATER RESOURCES, LLC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

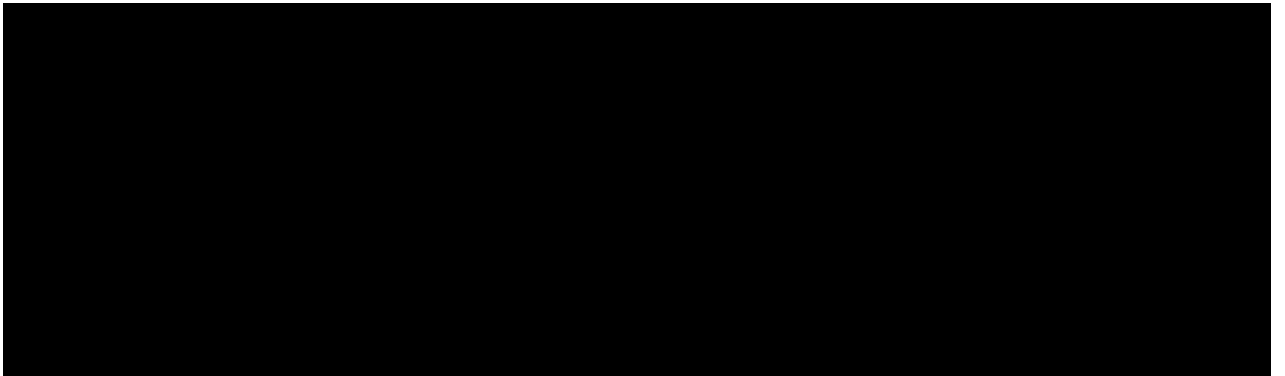
NOTE 4 STATEMENT OF CASH FLOWS



NOTE 5 PROPERTY, PLANT AND EQUIPMENT, NET



NOTE 6 CONSTRUCTION NOTES PAYABLE

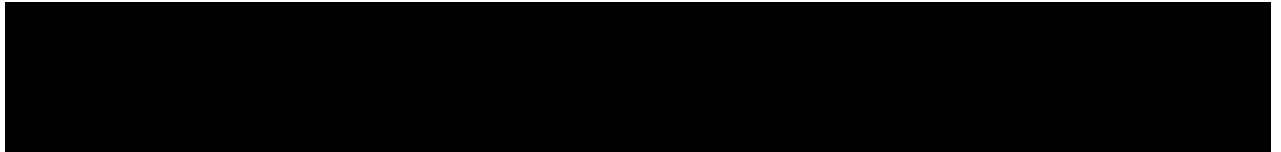


ARKANSAS CENTRAL STATES WATER RESOURCES, LLC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

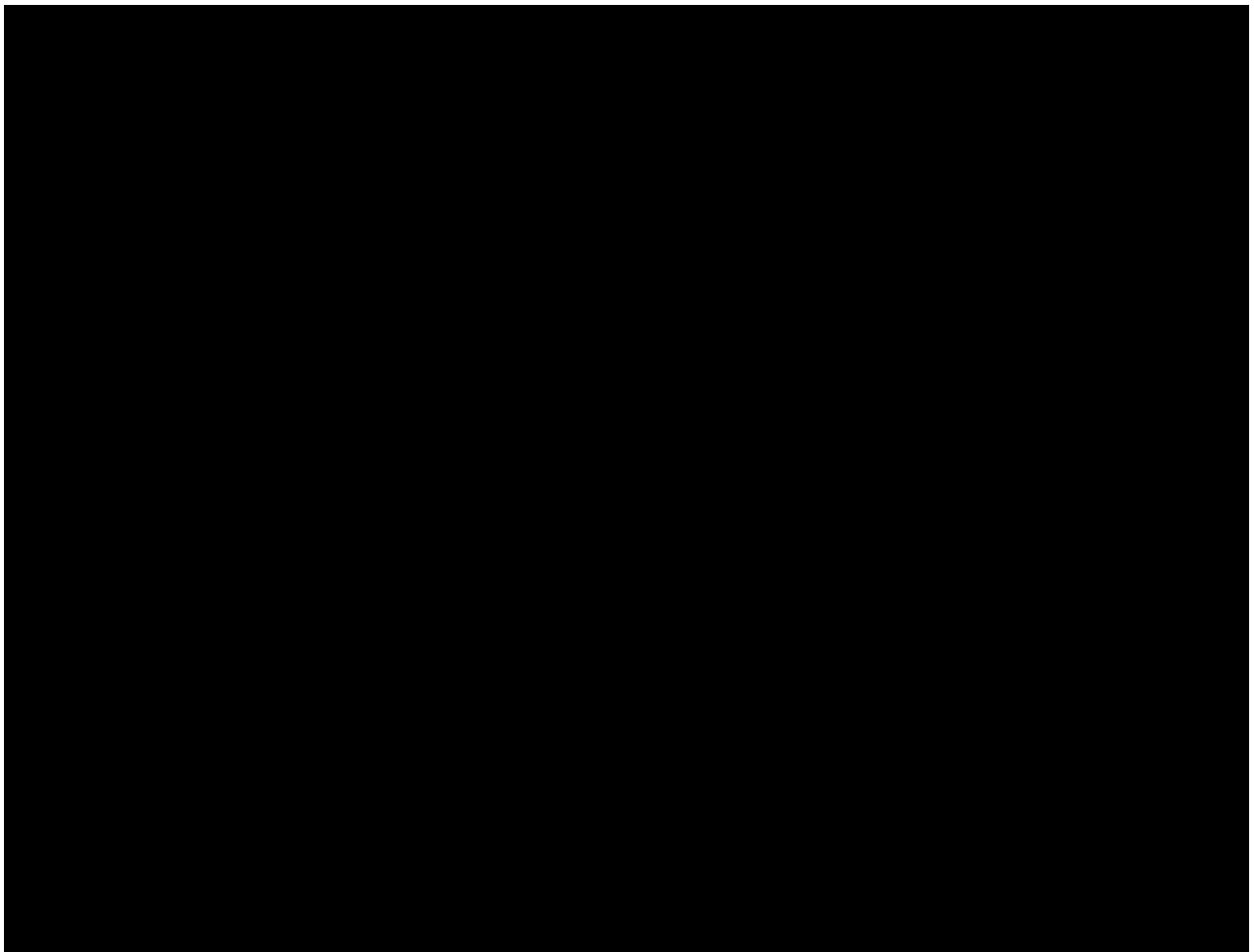
NOTE 7 RELATED PARTY TRANSACTIONS



NOTE 8 COMMITMENTS AND CONTINGENCIES

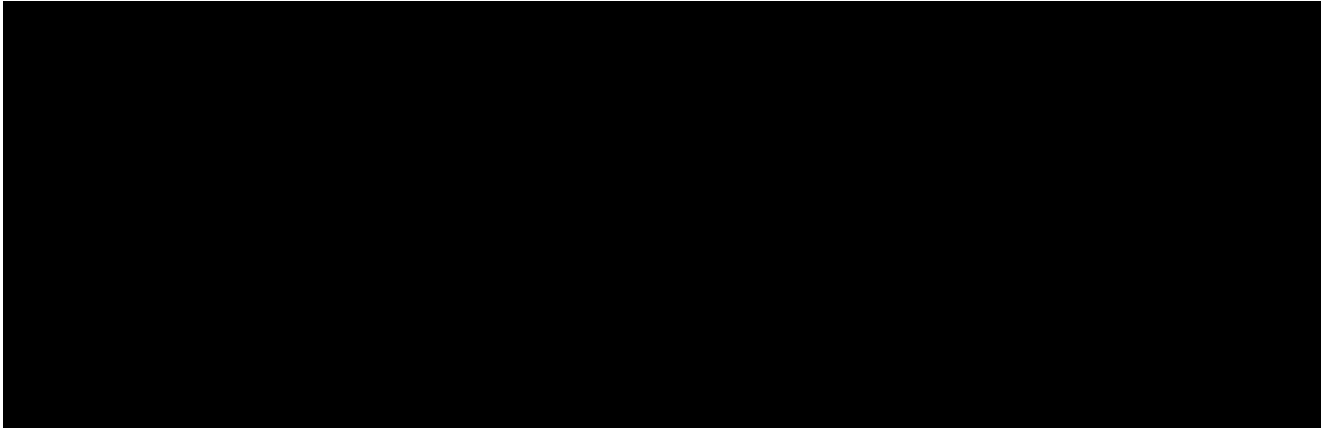


NOTE 9 INCOME TAXES AND DEFERRED TAXES

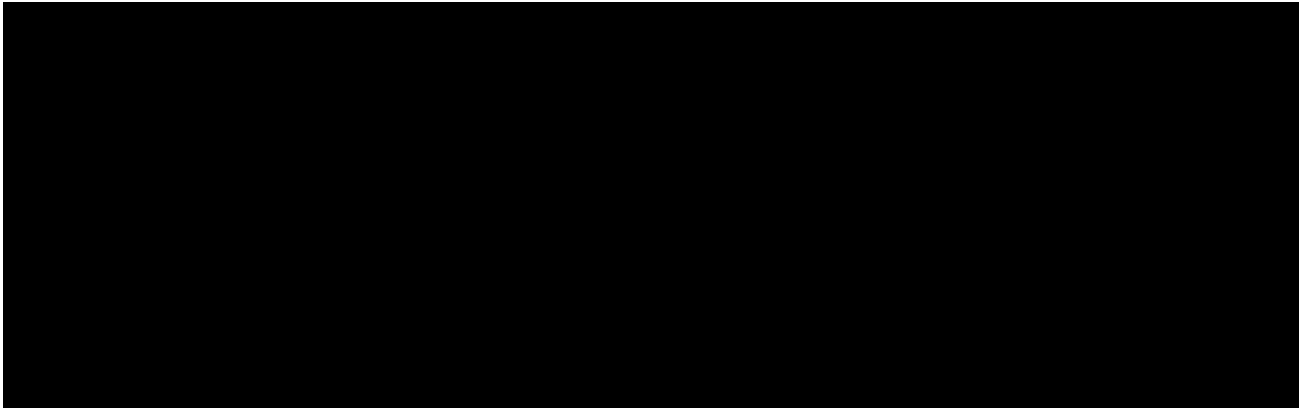


ARKANSAS CENTRAL STATES WATER RESOURCES, LLC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

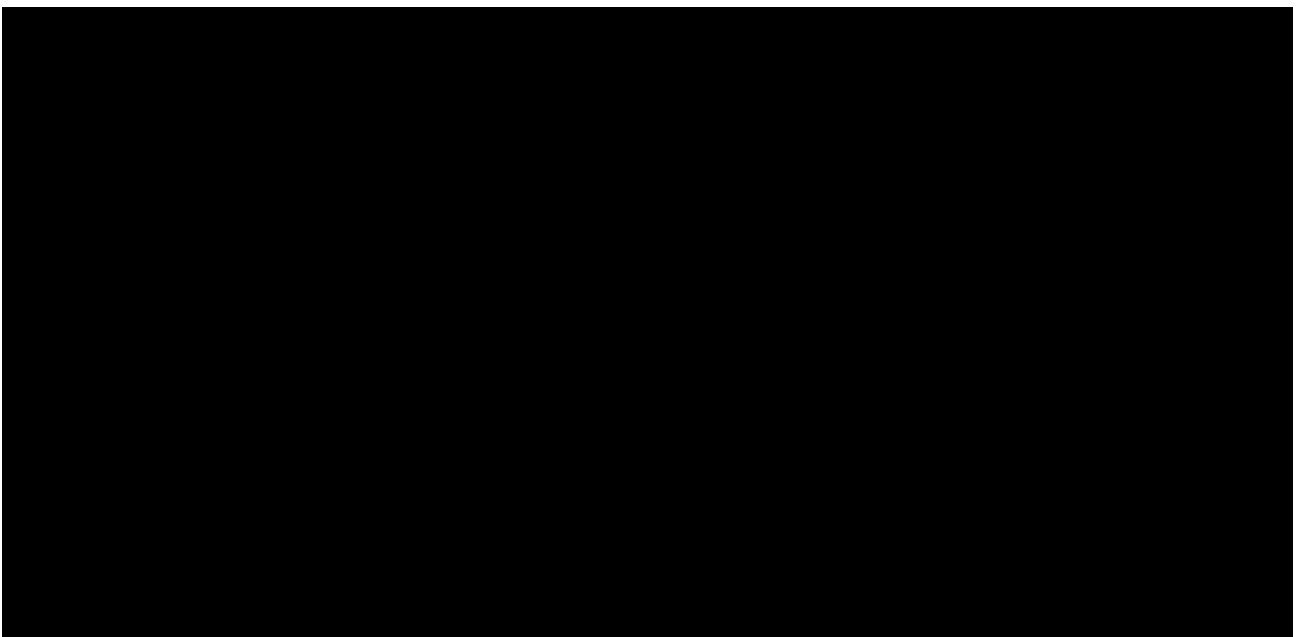
NOTE 9 INCOME TAXES AND DEFERRED TAXES (CONTINUED)



NOTE 10 ON-GOING OPERATIONS



NOTE 11 SUBSEQUENT EVENTS



February 27, 2019

Phil W. Macias
Arkansas Central States Utility Holding Company, Inc.
500 Northwest Plaza Dr. #500
St. Ann, MO 63074

Dear Phil:

Enclosed are 5 bound copies of *Arkansas Central States Utility Holding Company, Inc.'s* consolidated financial statements for the period ended December 31, 2017.

We thank you for the opportunity to provide this service to you. If you have any questions or if we can provide additional services, please do not hesitate to contact us.

Sincerely,

Mueller Prost LC



John E. Oeltjen, CPA, CMP, CGMA

JEO:cta
Enclosures
18736000