

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of

*Electronic* Proposed Acquisition of Waste- )  
water System Facilities by Bluegrass )  
Water Utility Operating Company, LLC )  
)

No. 2021-00265

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**Bluegrass Water’s Response to Staff’s First Request for Information**

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The Applicant, Bluegrass Water Utility Operating Company, LLC (“Bluegrass Water”), herewith submit its Response to the Commission Staff’s First Request for Information. Signed, notarized verification for these Response appears on the following pages. The undersigned counsel is responsible for any objection noted for a particular response.

Respectfully submitted,

/s/ Kathryn A. Eckert

Katherine K. Yunker  
[kyunker@mcbayerfirm.com](mailto:kyunker@mcbayerfirm.com)

Kathryn A. Eckert  
[keckert@mcbayerfirm.com](mailto:keckert@mcbayerfirm.com)

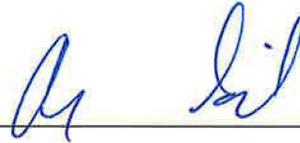
MCBRAYER PLLC  
201 East Main Street; Suite 900  
Lexington, KY 40507-1310  
859-231-8780  
fax: 859-231-1175

*Counsel for Bluegrass Water Utility Operating  
Company*

Bluegrass Water Utility Operating Company, LLC

Verification

I, **Aaron Silas**, Regulatory Case Manager of Central States Water Resources, Inc., the manager of Applicant Bluegrass Operating Company, LLC being duly sworn, state that I prepared or supervised the preparation of the following responses to PSC's First Request for Information, and that the matters and things set forth in the responses are true and correct to the best of my knowledge, information and belief formed after reasonable inquiry.



Aaron Silas

STATE OF MISSOURI        )  
COUNTY OF St. Louis    )

Subscribed, sworn to, and acknowledged this 3<sup>rd</sup> day of December, 2021, before me, a Notary Public in and before said County and State.

My Commission expires: 11/13/2022



NOTARY PUBLIC

{seal}



MERANDA K. KEUBLER  
My Commission Expires  
November 13, 2022  
St. Louis County  
Commission #14631487

**Request**

1. Refer to the Application, paragraph 13. State whether the agreement requires the sellers to maintain any cash or other assets to settle any liability that arose prior to the transfer. If so, identify those provisions. If not, explain how the sellers could settle any liabilities that arose prior to the transfer that were known prior to the transfer or not known until after the transfer.
- 

**Response**

The Agreement provided as Exhibit F to the Application does not require the seller to maintain any cash or other assets to settle any liabilities that arise prior to the transfer.

Through its due diligence processes, Bluegrass Water investigates whether any liens or encumbrances are associated with the assets to be acquired, and then works with the seller to clear all encumbrances at or prior to closing.

## Request

2. Refer to the Application at paragraph 12, which states that Central States Water Resources, Inc. (Central States) entered into an Agreement for the sale of the wastewater system currently owned by Darlington Creek Homeowner's Association, Inc. (Darlington Creek). Provide a detailed explanation as to why Central States and Darlington Creek are not parties to this instant case.
- 

## Response

Bluegrass Water is the only Applicant in this instant case because it provides sewer service to the public and the only obligation under KRS 278.010 et seq. falls on Bluegrass Water as a result. Darlington Creek's sewer facilities are not presently used to provide service "for the public" within the meaning of KRS 278.010(3)(f). It is therefore not a "utility" which must seek Commission approval before transferring its facilities.

KRS 278.020(1) requires that, "[N]o person, partnership, public or private corporation, or combination thereof shall commence providing utility service to or for the public or begin the construction of any plant, equipment, property, or facility for furnishing to the public any of the services enumerated in KRS 278.010 ... until that person has obtained from the Public Service Commission a certificate that public convenience and necessity require the service or construction." Bluegrass Water is the only "utility" under the jurisdiction of the Commission involved in this transaction – therefore triggering KRS 278.020(1)'s requirement that it apply for a certificate to provide service to the public in its acquisition of the Darlington Creek assets. *See, e.g., Case No. 2020-00028, Application by Bluegrass Water Utility Operating Company, LLC of Wastewater System Facilities and Subsequent Tariffed Service to Users Presently Served by Those Facilities, 6/19/20 Order pp. 13-14.*

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**Request**

3. Provide an itemized breakdown of the annual operation and maintenance expenses Bluegrass Water expects to incur for Darlington Creek.
- 

**Response**

Please see the table below for an itemized breakdown of expected annual operations and maintenance expenses.

| Darlington Creek Expense Breakdown   | \$           |
|--------------------------------------|--------------|
| Sewer - Contract Operations          | \$ 42,724.24 |
| Sewer - Electric Utilities           | \$ 4,233.56  |
| Sewer - Chemicals                    | \$ -         |
| Sewer - Misc Operations              | \$ -         |
| Sewer - Purchased Treatment          | \$ -         |
| Sewer - Maintenance                  | \$ 3,500.00  |
| Sewer - Sludge Hauling               | \$ 5,000.00  |
| Sewer - Mowing & Grounds Maintenance | \$ 6,680.00  |
| Sewer - Testing                      | \$ 2,820.00  |

**Request**

4. Provide a copy of Darlington Creek's balance sheet, income statement, and state of retained earnings for the 12-month period ending December 31, 2020. If such documents are not available for the period ending December 31, 2020, provide them for the most recent period for which they are available.
- 

**Response**

Please see the financial information provided by Darlington Creek, attached as KY2021-00265\_BW\_0001 to BW\_0004 .

Balance Sheet (Cash)  
 Darlington Creek Sewer District (9799)  
 December 31, 2020

1  
 1/11/2021

|  |                                  | Operating          | Reserves         | Total            |
|--|----------------------------------|--------------------|------------------|------------------|
|  |                                  | <b>ASSETS</b>      |                  |                  |
| <b>Cash - Operations</b>                   |                                  |                    |                  |                  |
| 110100.0000                                | Cash - Operating Acct            | 6,634.01           | 0.00             | 6,634.01         |
| 110100.0200                                | Cash Checking - 5th 3rd          | 90.00              | 0.00             | 90.00            |
|  | <b>Total Operating Funds</b>     | <u>6,724.01</u>    | <u>0.00</u>      | <u>6,724.01</u>  |
| <b>Cash for Reserves</b>                   |                                  |                    |                  |                  |
| 112001.0000                                | Cash - Reserve Acct              | 0.00               | 21,491.76        | 21,491.76        |
|  | <b>Total Reserves Funds</b>      | <u>0.00</u>        | <u>21,491.76</u> | <u>21,491.76</u> |
|  | <b>Total Current Assets</b>      | <u>6,724.01</u>    | <u>21,491.76</u> | <u>28,215.77</u> |
| <b>Total Assets</b>                        |                                  | <u>6,724.01</u>    | <u>21,491.76</u> | <u>28,215.77</u> |
|  |                                  | <b>LIABILITIES</b> |                  |                  |
|  |                                  | <b>EQUITY</b>      |                  |                  |
|  | Owners Equity                    | 4,768.73           | 0.00             | 4,768.73         |
|  | Current Year Income/(Loss)       | 1,955.28           | 0.00             | 1,955.28         |
|  | Replacement Reserve Prior Years  | 0.00               | 15,852.77        | 15,852.77        |
|  | Replacement Reserve Current Year | 0.00               | 5,638.99         | 5,638.99         |
|  | <b>Total Equity</b>              | <u>6,724.01</u>    | <u>21,491.76</u> | <u>28,215.77</u> |
| <b>Total Liabilities and Owners Equity</b> |                                  | <u>6,724.01</u>    | <u>21,491.76</u> | <u>28,215.77</u> |

**Cash Basis Income Statement**  
**Darlington Creek Sewer District (9799)**  
**For the period ending December 31, 2020**

| Account                            | Account Name                | MTD<br>Actual   | MTD<br>Budget   | MTD<br>\$ Variance | YTD<br>Actual    | YTD<br>Budget    | YTD<br>\$ Variance | Annual<br>Budget |
|------------------------------------|-----------------------------|-----------------|-----------------|--------------------|------------------|------------------|--------------------|------------------|
| <b>Operating Income</b>            |                             |                 |                 |                    |                  |                  |                    |                  |
| 601350.0000                        | Prepaid                     | 140.40          | 0.00            | 140.40             | (823.75)         | 0.00             | (823.75)           | 0.00             |
| 603820.0000                        | HOA Late Fees               | 30.00           | 0.00            | 30.00              | 955.00           | 0.00             | 955.00             | 0.00             |
| 604000.0000                        | Bad Check Charge            | 0.00            | 0.00            | 0.00               | 75.00            | 0.00             | 75.00              | 0.00             |
| 604400.0000                        | Sewer Assessment Income     | 3,279.00        | 2,968.37        | 310.63             | 42,335.17        | 35,620.00        | 6,715.17           | 35,620.00        |
| <b>Sub-total Income</b>            |                             | <u>3,449.40</u> | <u>2,968.37</u> | <u>481.03</u>      | <u>42,541.42</u> | <u>35,620.00</u> | <u>6,921.42</u>    | <u>35,620.00</u> |
| 681500.0000                        | Reserve Funding             | (467.00)        | (463.00)        | (4.00)             | (5,604.00)       | (5,600.00)       | (4.00)             | (5,600.00)       |
| <b>Total Operating Income</b>      |                             | <u>2,982.40</u> | <u>2,505.37</u> | <u>477.03</u>      | <u>36,937.42</u> | <u>30,020.00</u> | <u>6,917.42</u>    | <u>30,020.00</u> |
| <b>Operating Expenses</b>          |                             |                 |                 |                    |                  |                  |                    |                  |
| <b>Utilities</b>                   |                             |                 |                 |                    |                  |                  |                    |                  |
| 610100.0000                        | Electric                    | 585.23          | 637.50          | 52.27              | 8,287.38         | 7,650.00         | (637.38)           | 7,650.00         |
| 610300.0000                        | Water/Sewer                 | 28.06           | 25.00           | (3.06)             | 322.96           | 300.00           | (22.96)            | 300.00           |
| 610400.0000                        | Sewer                       | 1,840.00        | 1,625.00        | (215.00)           | 20,833.00        | 19,500.00        | (1,333.00)         | 19,500.00        |
| <b>Total Utilities</b>             |                             | <u>2,453.29</u> | <u>2,287.50</u> | <u>(165.79)</u>    | <u>29,443.34</u> | <u>27,450.00</u> | <u>(1,993.34)</u>  | <u>27,450.00</u> |
| <b>Maintenance</b>                 |                             |                 |                 |                    |                  |                  |                    |                  |
| 630100.0000                        | Service Tech Payroll        | 0.00            | 0.00            | 0.00               | 0.00             | 45.00            | 45.00              | 45.00            |
| <b>Total Maintenance</b>           |                             | <u>0.00</u>     | <u>0.00</u>     | <u>0.00</u>        | <u>0.00</u>      | <u>45.00</u>     | <u>45.00</u>       | <u>45.00</u>     |
| <b>Grounds Care</b>                |                             |                 |                 |                    |                  |                  |                    |                  |
| 620300.0000                        | Grounds Labor               | 0.00            | 0.00            | 0.00               | 0.00             | 100.00           | 100.00             | 100.00           |
| <b>Total Grounds Care</b>          |                             | <u>0.00</u>     | <u>0.00</u>     | <u>0.00</u>        | <u>0.00</u>      | <u>100.00</u>    | <u>100.00</u>      | <u>100.00</u>    |
| <b>Administrative Expense</b>      |                             |                 |                 |                    |                  |                  |                    |                  |
| 660200.0000                        | Legal                       | 0.00            | 166.63          | 166.63             | 0.00             | 2,000.00         | 2,000.00           | 2,000.00         |
| 660500.0000                        | Misc Administrative Expense | 503.72          | 37.00           | (466.72)           | 962.05           | 400.00           | (562.05)           | 400.00           |
| 661900.0000                        | Bad Debt Expense            | 0.00            | 0.00            | 0.00               | 767.28           | 0.00             | (767.28)           | 0.00             |
| 681100.0000                        | Real Estate Taxes           | 0.00            | 0.00            | 0.00               | 1,809.47         | 0.00             | (1,809.47)         | 0.00             |
| 681400.0000                        | Insurance                   | 0.00            | 0.00            | 0.00               | 2,000.00         | 0.00             | (2,000.00)         | 0.00             |
| <b>Total Administrative</b>        |                             | <u>503.72</u>   | <u>203.63</u>   | <u>(300.09)</u>    | <u>5,538.80</u>  | <u>2,400.00</u>  | <u>(3,138.80)</u>  | <u>2,400.00</u>  |
| <b>Total Operating Expenses</b>    |                             | <u>2,957.01</u> | <u>2,491.13</u> | <u>(465.88)</u>    | <u>34,982.14</u> | <u>29,995.00</u> | <u>(4,987.14)</u>  | <u>29,995.00</u> |
| <b>Net Operating Income/(Loss)</b> |                             | <u>25.39</u>    | <u>14.24</u>    | <u>11.15</u>       | <u>1,955.28</u>  | <u>25.00</u>     | <u>1,930.28</u>    | <u>25.00</u>     |
| <b>Net Income/(Loss)</b>           |                             | <u>25.39</u>    | <u>14.24</u>    | <u>11.15</u>       | <u>1,955.28</u>  | <u>25.00</u>     | <u>1,930.28</u>    | <u>25.00</u>     |

**Capital Reserve Summary Report**  
 Darlington Creek Sewer District (9799)  
 Books = Cash  
 For the period ending December 31, 2020

| Account                  | Account #    | Last Year Ending Balance | Prior Month Balance | Current Month Receipts | Current Month Expenses | Current Month Balance | YTD Expenses |
|--------------------------|--------------|--------------------------|---------------------|------------------------|------------------------|-----------------------|--------------|
| Contingency Fund Expense | 870000.4210  | 15,056.00                | 20,193.00           | 467.00                 | 0.00                   | 20,660.00             | 0.00         |
| Fence (Vinyl) Expense    | 870000.4302  | 24.00                    | 24.00               | 0.00                   | 0.00                   | 24.00                 | 0.00         |
| Structural Expense       | 870000.4730  | 420.00                   | 420.00              | 0.00                   | 0.00                   | 420.00                | 0.00         |
|                          | Sub-Total:   | 15,500.00                | 20,637.00           | 467.00                 | 0.00                   | 21,104.00             | 0.00         |
| Interest Income          | 870000.4995  | 352.77                   | 387.59              | 0.17                   | 0.00                   | 387.76                | 0.00         |
|                          | Grand Total: | 15,852.77                | 21,024.59           | 467.17                 | 0.00                   | 21,491.76             | 0.00         |

9799 - Darlington Creek Sewer District

**Cash Expense Distribution Report**  
From Posting Month 12/2020 to 12/2020

| Vendor  | Invoice Date | Invoice Number         | Notes                        | Check Date | Check Number | Amount          |
|---|--------------|------------------------|------------------------------|------------|--------------|-----------------|
| <b>Entity AP Checks</b>                               |              |                        |                              |            |              |                 |
| <b>1101000226 - Cash - Alliance Bank</b>              |              |                        |                              |            |              |                 |
| 15459 - Darlington Creek Sewer District               | 12/03/2020   | 12/2020 58-Pmt-        | FUNDS MOVED FROM FIFTH THIRD | 12/02/2020 | 100615       | 2,579.31        |
| 15459 - Darlington Creek Sewer District               | 12/14/2020   | 12/2020 58-pymt-       | FUNDS MOVED FROM FIFTH THIRD | 12/14/2020 | 100621       | 3,808.03        |
| <b>Total 1101000226 - Cash - Alliance Bank</b>        |              |                        |                              |            |              | <b>6,387.34</b> |
| <b>6101000000 - Electric</b>                          |              |                        |                              |            |              |                 |
| 43738 - Owen Electric Cooperative                     | 12/02/2020   | 26790                  | 10/22-11/20                  | 12/04/2020 | 100617       | 267.90          |
| 43738 - Owen Electric Cooperative                     | 12/14/2020   | 397.91                 | 11/01-12/01                  | 12/15/2020 | 100622       | 397.91          |
| <b>Total 6101000000 - Electric</b>                    |              |                        |                              |            |              | <b>665.81</b>   |
| <b>6103000000 - Water/Sewer</b>                       |              |                        |                              |            |              |                 |
| 44651 - Pendleton County Water District               | 12/04/2020   | 2806 122020            | 10/14-11/13                  | 12/07/2020 | 100618       | 28.06           |
| <b>Total 6103000000 - Water/Sewer</b>                 |              |                        |                              |            |              | <b>28.06</b>    |
| <b>6104000000 - Sewer</b>                             |              |                        |                              |            |              |                 |
| 15218 - Crone Environmental Services LLC              | 11/24/2020   | 1540 112020            | 11/20                        | 12/02/2020 | 100616       | 1,540.00        |
| 20864 - Flush Sanitation LLC                          | 11/16/2020   | 2395                   | 11/20                        | 12/09/2020 | 100620       | 300.00          |
| <b>Total 6104000000 - Sewer</b>                       |              |                        |                              |            |              | <b>1,840.00</b> |
| <b>6605000000 - Misc Administrative Expense</b>       |              |                        |                              |            |              |                 |
| 57900 - TPAMC Ltd.                                    | 12/08/2020   | 9928 11/20 Copies 9799 | 9928 11/20 Copies 9799       | 12/08/2020 | 12           | 27.55           |
| 57900 - TPAMC Ltd.                                    | 12/08/2020   | 9928 11/20 CouponEtc   | 9928 11/20 CouponEtc 9799    | 12/08/2020 | 13           | 20.17           |
| 43804 - Page Per Page                                 | 12/21/2020   | PPP Coupon Order 979   | PPP 2021 Coupon Order        | 12/21/2020 | 14           | 456.00          |
| <b>Total 6605000000 - Misc Administrative Expense</b> |              |                        |                              |            |              | <b>503.72</b>   |
| <b>6815000000 - Reserve Funding</b>                   |              |                        |                              |            |              |                 |
| 15459 - Darlington Creek Sewer District               | 12/01/2020   | RRDecember 2020-46     | Replacement Reserves 2020    | 12/09/2020 | 100619       | 467.00          |
| <b>Total 6815000000 - Reserve Funding</b>             |              |                        |                              |            |              | <b>467.00</b>   |
| <b>Total Entity AP Checks</b>                         |              |                        |                              |            |              | <b>9,891.93</b> |

**Request**

5. Provide any information and documentation regarding expenses paid by Darlington Creek Homeowner's Association, Inc. for operation and maintenance of the wastewater facility since 2016.
- 

**Response**

Please see the documents provided by Darlington Creek, attached as KY2021-00265\_BW\_0005 to BW\_0011, detailing expenses for operation and maintenance of its wastewater facility since 2016.

RECEIVED JUN 21 2017

Crone Environmental Services  
Carl W. Crone  
4576 River Rd.  
Hebron Ky. 41048

Invoice No.  
Phone Numbers  
Home 586-6005  
Cell 250-8338

| Name   | Darlington Creek Subdivision HOA WWTP                       | Amount     |
|--------|---|------------|
| Date   | Services  |            |
| Jun-17 | Monthly service charge for operation at the Treatment Plant | \$750.00   |
|        | Flow measurement & Field Lab Fees                           | \$75.00    |
|        | Sludge Hauled   |            |
|        | 15 lbs.Chlorine Tablets                                     | \$85.00    |
|        | 20 lbs.De-clor Tablets                                      | \$120.00   |
|        | Service Blower & Belts                                      | \$50.00    |
|        | Sampler rental & sampling                                   | \$35.00    |
|        | Pulled/repared/re-installed Mixer pump                      | \$450.00   |
|        | Total   | \$1,565.00 |

15218

9799  
610400  
PR

Crone Environmental Services  
Carl W. Crone  
808 Niewahner Dr.  
Villa Hills Ky. 41017

15218

RECEIVED DEC 18 2017

Invoice No.  
Phone Numbers  
Home 916-5198  
Cell 250-8338

| Name       | Darlington Creek Subdivision HOA WWTP                                       | Amount     |
|------------|---|------------|
| Date       | Services  |            |
| Dec.2017   | Monthly service charge for operation at the Treatment Plant                 | \$750.00   |
|            | Flow measurement & Field Lab Fees   | \$75.00    |
|            | Sludge Hauled   |            |
|            | 20 lbs.Chlorine Tablets   | \$115.00   |
|            | 20 lbs.De-clor Tablets  | \$120.00   |
|            | Service Blower & Belts  | \$50.00    |
|            | Sampler rental & sampling   | \$35.00    |
| 11/28/2017 | Installed 2 new Diffusers, drops & hardware in chlorine tank. Parts & Labor | \$285.00   |
| 11/30/17   | Rplaced mixer pumps with 4 new air diffusers Parts & Labor                  | \$465.00   |
|            | Total   | \$1,895.00 |

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Crone Environmental Services  
Carl W. Crone  
808 Niewahner Dr.  
Villa Hills Ky. 41017

RECEIVED SEP 25 2018

Invoice No.  
Phone Numbers  
Home 916-5198  
Cell 250-8338

| Name   | Darlington Creek Subdivision HOA WWTP                       | Amount                |
|--------|---|-----------------------|
| Date   | Services  |                       |
| Sep-18 | Monthly service charge for operation at the Treatment Plant | \$750.00              |
|        | Flow measurement & Field Lab Fees                           | \$75.00               |
|        | Sludge Hauled   |                       |
|        | 20 lbs Chlorine Tablets                                     | \$150.00              |
|        | 20 lbs De-clor Tablets                                      | \$165.00              |
|        | Service Blower & Belts                                      | \$50.00               |
|        | Sampler rental & sampling                                   | \$35.00               |
|        | Pulled both Inf. Mixers & stored in Building                | \$80.00               |
|        | Sprayed Weeds   | Parts & Labor \$60.00 |
|        | Installed De-clor tube                                      | \$45.00               |
|        | Total   | \$1,410.00            |

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RECEIVED JAN 23 2019

Crone Environmental Services  
Carl W. Crone  
808 Niewahner Dr.  
Villa Hills Ky. 41017

Invoice No.  
Phone Numbers  
Home 916-5198  
Cell 250-8338

| Name      | Darlington Creek Subdivision HOA WWTP                       | Amount                 |
|-----------|---|------------------------|
| Date      | Services  |                        |
| Jan. 2019 | Monthly service charge for operation at the Treatment Plant | \$750.00               |
|           | Flow measurement & Field Lab Fees                           | \$75.00                |
|           | Sludge Hauled   |                        |
|           | 20 lbs Chlorine Tablets                                     | \$150.00               |
|           | 20 lbs De-clor Tablets                                      | \$165.00               |
|           | Service Blower & Belts                                      |                        |
|           | Sampler rental & sampling                                   | \$35.00                |
| 1/11/2019 | Pulled broken Check Valve & Installed new Brass one         | Parts & Labor \$335.49 |
| 1/18/2019 | Tuff Bin storage for chlorine & D-clor tablets              | \$92.00                |
|           | Total   | \$1,602.49             |

9799  
610400  
OK

Crone Environmental Services  
 Carl W. Crone  
 4576 River Road  
 Hebron, Ky. 41048

RECEIVED AUG 23 2019

Invoice No.  
 Phone Numbers  
 Home 585-6005  
 Cell 250-8338

| Name      | Darlington Creek Subdivision HOA WWTP                       | Amount           |
|-----------|---|------------------|
| Date      | Services  |                  |
| Aug. 2019 | Monthly service charge for operation at the Treatment Plant | \$800.00         |
|           | Flow measurement & Field Lab Fees                           | \$75.00          |
|           | Sludge Hauled   |                  |
|           | 25 lbs Chlorine Tablets                                     | \$185.00         |
|           | 25 lbs De-clor Tablets                                      | \$220.00         |
|           | Service Blower & Belts                                      |                  |
|           | Sampler rental & sampling                                   |                  |
| 7/27/2019 | Trouble shooting control panel & blower Motor               | Labor \$100.00   |
| 7/27/2019 | Cut & sprayed weeds   | \$60.00          |
| 7/29/2019 | Pulled old Motor  | Labor \$150.00   |
| 8/1/2019  | Installed New 5 HP Motor                                    | Parts \$595.32   |
|           |   | Labor \$200.00   |
| 8/1/2019  | Purchased broom/trash can/light bulbs/trash bags            | Parts            |
|           |   | Total \$2,385.32 |

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RECEIVED APR 05 2021

Crone Environmental Services  
Carl W. Crone  
4576 River Road  
Hebron, Ky. 41048

Invoice No.  
Phone Numbers  
Home 586-6005  
Cell 250-8338

*15218*

| Name      | Darlington Creek Subdivision HOA WWTP  | Amount                            |
|-----------|--|-----------------------------------|
| Date      | Services   |                                   |
| 2/25/2021 | Found wiring to both Motors burnt up. Ran new wires to 1 Motor, its running<br>The 2nd Motor is Burnt up & needs replaced<br>3 New Belts | Parts & Labor \$125.00<br>\$57.00 |
| 2/27/2021 | Ran wires to 2nd motor. Placed order for new Motor   | Parts & Labor \$125.00            |
| 3/6/2021  | Installed New Motor  | Parts & Labor \$889.00            |
| 3/12/2021 | Electrician did trouble shooting on control panel<br>Need new overloads  | Labor \$75.00                     |
| 3/16/2021 | Installed 12 new Diffusers   | Parts & Labor \$700.00            |
| 3/28/2021 | Electrician installed new stater & overloads   | Parts & Labor \$214.00            |

*9799  
87000.4210  
RSC*

\$1,885.00

RECEIVED SEP 23 2020

Crone Environmental Services  
Carl W. Crone  
4576 River Road  
Hebron, Ky. 41048

Invoice No.  
Phone Numbers  
Home 586-6005  
Cell 250-8338

| Name      | Darlington Creek Subdivision HOA WWTP                       | Amount                     |
|-----------|---|----------------------------|
| Date      | Services  |                            |
| Sept.2020 | Monthly service charge for operation at the Treatment Plant | \$880.00                   |
|           | Flow measurement & Field Lab Fees                           | \$75.00                    |
|           | Sludge Hauled   |                            |
|           | 20 lbs Chlorine Tablets                                     | \$230.00                   |
|           | 20 lbs.De-clor Tablets De-Clor                              | \$275.00                   |
|           | Service Blower & Belts                                      | \$50.00                    |
|           | Sampler rental & sampling                                   | \$35.00                    |
| 9/10/2020 | Worked on stopped up sludge return pipe                     | Labor \$60.00              |
| 9/11/2020 | Used Pump Truck to un-stop sludge return pipe               | Equipment & Labor \$260.00 |
|           | Total   | \$1,865.00                 |

152A  
9799  
610400  
CW

**Request**

6. Provide the most recent audited financial statement for Bluegrass Water.

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**Response**

Please see the audited Consolidated Financial Statements for 2020 and 2019, a redacted copy of which is attached as KY2021-00265\_BW\_0012 to BW\_0034.<sup>1</sup> These audited financial statements are for CSWR, LLC consolidated with all its subsidiaries, which includes Bluegrass Water Utility Operating Company, LLC (“UOC”). There are no audited financial statements available solely at the Bluegrass Water level.

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<sup>1</sup> A highlighted unredacted copy has been submitted under seal with a concurrently-filed Motion for Confidential Treatment.

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# CSWR, LLC and Subsidiaries

Consolidated Financial Statements

December 31, 2020 and 2019



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RSM US LLP

## Independent Auditor's Report

Board of Directors  
CSWR, LLC and Subsidiaries

### Report on the Financial Statements

We have audited the accompanying consolidated financial statements of CSWR, LLC and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2020 and 2019, the related consolidated statements of operations, member's equity and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CSWR, LLC and Subsidiaries as of December 31, 2020 and 2019, and the results of their operations and their cash flows for the years the ended, in accordance with accounting principles generally accepted in the United States of America.

THE POWER OF BEING UNDERSTOOD  
AUDIT | TAX | CONSULTING

**Other Matter**

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The consolidating information is presented for purposes of additional analysis rather than to present the financial position and results of operations of the individual companies 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 consolidating information has been subjected to the auditing procedures applied in the audits 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.

*RSM US LLP*

St. Louis, Missouri  
March 11, 2021

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**CSWR, LLC and Subsidiaries**  
As of December 31, 2020 and 2019

**Consolidated Balance Sheets**

|  | <u>2020</u> | <u>2019</u> |
|--|-------------|-------------|
| Current Assets                               |             |             |
| Cash   |             |             |
| Accounts Receivable, net                     |             |             |
| Other Current Assets                         |             |             |
| <b>Total Current Assets</b>                  |             |             |
| Property, Plant and Equipment, Net           |             |             |
| Non-Current Assets                           |             |             |
| Preliminary Survey and Investigation         |             |             |
| Other Long-Term Assets                       |             |             |
| <b>Total Non-Current Assets</b>              |             |             |
| Goodwill                                     |             |             |
| Intangible Assets                            |             |             |
| <b>Total Assets</b>                          |             |             |
| Current Liabilities                          |             |             |
| Accounts Payable                             |             |             |
| Notes Payable - Current                      |             |             |
| Other Current Liabilities                    |             |             |
| <b>Total Current Liabilities</b>             |             |             |
| Long-Term Liabilities                        |             |             |
| Notes Payable, net of Current Portion        |             |             |
| Contributions in Aid of Construction         |             |             |
| Other Long-Term Liabilities                  |             |             |
| <b>Total Long-Term Liabilities</b>           |             |             |
| Member's Equity                              |             |             |
| Paid-In Capital                              |             |             |
| Retained Deficit                             |             |             |
| <b>Total Member's Equity</b>                 |             |             |
| <b>Total Liabilities and Member's Equity</b> |             |             |

See notes to consolidated financial statements

**CSWR, LLC and Subsidiaries**

For the years ended December 31, 2020 and 2019

**Consolidated Statements of Operations**

|                               | <u>2020</u> | <u>2019</u> |
|-------------------------------|-------------|-------------|
| <b>Operating Revenue</b>      |             |             |
| Operating Revenue             |             |             |
| <b>Operating Expense</b>      |             |             |
| Operations and Maintenance    |             |             |
| General and Administrative    |             |             |
| Depreciation and Amortization |             |             |
| Total Operating Expense       |             |             |
| Operating Loss                |             |             |
| <b>Other Income (Expense)</b> |             |             |
| Other Revenue                 |             |             |
| Interest                      |             |             |
| Total Other Income (Expense)  |             |             |
| Net Loss before Taxes         |             |             |
| Income Tax Benefit            |             |             |
| <b>Net Loss</b>               |             |             |

See notes to consolidated financial statements

**CSWR, LLC and Subsidiaries**  
For the years ended December 31, 2020 and 2019

**Consolidated Statements of Member's Equity**

|                                     | Paid-In Capital | Retained Deficit | Total Member's Equity |
|-------------------------------------|-----------------|------------------|-----------------------|
| Balance at December 31, 2018        | \$              |                  |                       |
| Capital Contributions               |                 |                  |                       |
| Net Loss                            |                 |                  |                       |
| <b>Balance at December 31, 2019</b> |                 |                  |                       |
| Capital Contributions               |                 |                  |                       |
| Net Loss                            |                 |                  |                       |
| <b>Balance at December 31, 2020</b> | \$              |                  |                       |

See notes to consolidated financial statements

**CSWR, LLC and Subsidiaries**

For the years ended December 31, 2020 and 2019

**Consolidated Statements of Cash Flows**

|  | <u>2020</u> | <u>2019</u> |
|--|-------------|-------------|
| <b>Cash Flows from Operating Activities</b>                                |             |             |
| Net Loss   | \$          |             |
| Adjustments to reconcile net loss to net cash used in operating activities |             |             |
| Depreciation and amortization  |             |             |
| Amortization of deferred financing costs to interest expense               |             |             |
| Loss on transfer of preliminary survey & investigation expense             |             |             |
| Loss on disposal of property, plant and equipment                          |             |             |
| Interest capitalized to notes payable                                      |             |             |
| Interest capitalized to deferred financing costs                           |             |             |
| Interest capitalized to allowance for funds used during construction       |             |             |
| <b>Change in assets (increase) decrease</b>                                |             |             |
| Accounts receivable, net   |             |             |
| Other current assets   |             |             |
| Other long-term assets   |             |             |
| <b>Change in liabilities - increase (decrease)</b>                         |             |             |
| Current liabilities  |             |             |
| Other long-term liabilities  |             |             |
| Net cash used in Operating Activities                                      |             |             |
| <b>Cash Flows from Investing Activities</b>                                |             |             |
| Purchase of property, plant and equipment                                  |             |             |
| Acquisition of preliminary survey and investigation                        |             |             |
| Net cash used in Investing Activities                                      |             |             |
| <b>Cash Flows from Financing Activities</b>                                |             |             |
| Payments on notes payable  |             |             |
| Contributions for construction   |             |             |
| Capital contributions  |             |             |
| Net cash provided by Financing Activities                                  |             |             |
| Net Increase in Cash   |             |             |
| Cash, Beginning of Period  |             |             |
| <b>Cash, End of Period</b>   | <b>\$</b>   |             |

See notes to consolidated financial statements

**NOTE 01: NATURE OF OPERATIONS AND BASIS OF PRESENTATION**

**Principles of Consolidation**

The accompanying consolidated financial statements include the accounts of CSWR, LLC ("CSWR") and its wholly owned subsidiaries, Missouri Central States Water Resources, LLC ("Missouri Central States"), Arkansas Central States Water Resources, LLC ("Arkansas Central States"), Kentucky Central States Water Resources, LLC ("Kentucky Central States"), Texas Central States Water Resources, LLC ("Texas Central States") and Louisiana Central States Water Resources, LLC ("Louisiana Central States"), collectively "the Company".

The accounts of Missouri Central States' wholly owned subsidiaries are included. Those subsidiaries are: Hillcrest Utility Holding Company, Inc. ("Hillcrest"), Raccoon Creek Utility Holding Company, Inc. ("Raccoon Creek"), Indian Hills Utility Holding Company, Inc. ("Indian Hills"), Elm Hills Utility Holding Company, Inc. ("Elm Hills"), Confluence Rivers Utility Holding Company, Inc. ("Confluence Rivers") and Osage Utility Holding Company, Inc. ("Osage"), which in turn each own operating subsidiaries that carry out day-to-day operations of the Company.

The accounts of Arkansas Central States' wholly owned subsidiaries are also included. Those subsidiaries are: Hayden's Place Utility Holding Company, LLC ("Hayden's Place"), St. Joseph's Glen Utility Holding Company, LLC ("St. Joseph's Glen"), Sebastian Lake Utility Holding Company, LLC ("Sebastian Lake"), Eagle Ridge Utility Holding Company, LLC ("Eagle Ridge"), Flushing Meadows Utility Operating Company, LLC ("Flushing Meadows") and Oak Hill Utility Holding Company, LLC ("Oak Hill"), which in turn each own operating subsidiaries that carry out day-to-day operations of the Company.

The accounts of Kentucky Central States' wholly owned subsidiary, Bluegrass Water Utility Holding Company, LLC ("Bluegrass") are included. Bluegrass owns an operating subsidiary that carries out the day-to-day operations of the Company.

The accounts of Texas Central States' wholly owned subsidiary, CSWR-Texas Utility Holding Company, LLC ("CSWR-Texas") are included. CSWR-Texas owns an operating subsidiary that carries out the day-to-day operations of the Company.

The accounts of Louisiana Central States' wholly owned subsidiary, Magnolia Water Utility Holding Company, LLC ("Magnolia") are included. Magnolia owns an operating subsidiary that carries out the day-to-day operations of the Company.

The Company has additional, inactive subsidiaries which, while included in The Company's financial statements, are immaterial to the consolidated financial results.

All significant inter-company transactions and account balances have been eliminated in consolidation.

**Nature of Operations and Acquisition**

CSWR is a private water and wastewater utility company. The Company's primary purpose, through its subsidiaries, is to establish and maintain compliant water and wastewater treatment facilities for underserved communities and private facility owners by creating economically viable options compliant

**NOTE 01: NATURE OF OPERATIONS AND BASIS OF PRESENTATION (continued)**

with the Clean Water Act and the Safe Drinking Water Act. The Company holds certificates of public convenience and necessity granted by the Missouri Public Service Commission, ("Missouri PSC"), under which the Company provides water and wastewater services in Missouri. In the state of Kentucky, the Company holds certificates of public convenience and necessity granted by the Kentucky Public Service Commission, ("Kentucky PSC"), under which the Company provides water and wastewater services in Kentucky. In the state of Texas, the Company holds certificates of public convenience and necessity granted by the Public Utility Commission of Texas, ("Texas PUCT"), under which the Company provides water and wastewater services in Texas. In the state of Louisiana, the Company has been granted authority to operate water and wastewater systems by the Louisiana Public Service Commission, ("Louisiana PSC"). The Company also provides water and wastewater services in Arkansas; however, Arkansas Central States' subsidiaries are currently under the water and sewer revenue threshold that requires rate regulation from the Arkansas Public Service Commission, ("Arkansas PSC").

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The Company is a wholly owned subsidiary of US Water Systems, LLC. (the "Parent").

**NOTE 02: 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 generally accepted in the United States of America (GAAP).

**Use of Estimates**

The preparation of consolidated financial statements in conformity with GAAP 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 Revenue**

On January 1, 2019, the Company adopted Accounting Standards Codification ("ASC") Topic 606, Revenue From Contracts With Customers using the modified retrospective approach, applied to contracts which were not completed as of January 1, 2019. Under this approach, periods prior to the adoption have not been restated and continue to be reported under the accounting standards in effect for those periods.

Under ASC 606, a performance obligation is a promise within a contract to transfer a distinct good or service, or a series of distinct goods and services, to a customer. Revenue is recognized when performance obligations are satisfied and the customer obtains control of promised goods or services. The amount of revenue recognized reflects the consideration which the Company expects to be entitled to receive in exchange for goods or services. Under the standard, a contract's transaction price is allocated to each distinct performance obligation. For contracts within the scope of ASC 606, the Company recognizes revenue through the following steps: 1) identifies the contract with a customer; 2) identifies the performance obligations within the contract; 3) determines the transaction price; 4) allocates the transaction price to the performance obligations in the contract; and 5) recognizes revenue when, or as, the Company satisfies each performance obligation.

**NOTE 02: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

The Company's revenues from contracts with customers are discussed below. Customer payments for contracts are generally due within 30 days of billing and none of the contracts with customers have payment terms that exceed one year; therefore, the Company elected to apply the significant financing component practical expedient, and no amount of consideration has been allocated as a financing component.

The Company's revenue is generated from water and wastewater services delivered to customers. These contracts contain a single performance obligation, the delivery of water and wastewater services, as the promise to transfer the individual service is not separately identifiable from other promises within the contract and is not distinct. Revenue is recognized over time, as water and sewer services are provided, and includes amounts billed to customers on a cycle basis and unbilled amounts based on one month of service. The amounts the Company has a right to invoice are determined by a periodic flat fee, metered usage or both where applicable, indicating that the invoice amount corresponds directly to the value transferred to the customer. The Company elected to use the right to invoice and the disclosure of remaining performance obligations practical expedients for these revenues.

**Income Taxes**

CSWR, LLC has elected to be treated as a partnership for federal income tax purposes and does not record income taxes. Instead, its taxable earnings and losses are allocated in accordance with the Operating Agreement and are included in the income tax returns of the members. Accordingly, no provision is made for federal and state income taxes in the consolidated financial statements.

The Company's subsidiaries have elected to be treated as "C" Corporations. 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 net operating losses timing differences.

The Company has assessed its federal and state tax positions and determined there were more likely than not no uncertainties or possible related effects that need to be recorded as of or for the years ended December 31, 2020 and 2019.

The federal and state income tax returns of the Company for the years ended December 31, 2020 and 2019 are subject to examination by the respective taxing authorities, generally for three years after they were filed.

**Accounts Receivable**

Accounts receivable includes utility customer accounts receivable, which represent amounts billed to water and wastewater customers on a cycle basis. Accounts receivable also includes unbilled revenue for services provided but not billed to customers. Credit is extended based on the guidelines of the applicable state regulatory body and collateral is generally not required.

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

**NOTE 02: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

receivable are reduced when the receivables are determined to be uncollectible. The allowance at December 31, 2020 and 2019 was [REDACTED] and [REDACTED] respectively.

**Property, Plant and Equipment**

Property, plant and equipment is generally stated at cost. Major additions and improvements are capitalized and, where rate regulated, placed in service subject to review and revaluation by the applicable state regulatory body, 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. The estimated lives for computing depreciation and amortization on property, plant and equipment are:

|                                  |             |
|----------------------------------|-------------|
| Utility Plant in Service - Sewer | 10-50 Years |
| Utility Plant in Service - Water | 10-50 Years |
| Furniture, Fixtures, and Other   | 7-20 Years  |

**Preliminary Survey and Investigation Charges**

The Company capitalizes all expenditures for preliminary surveys, plans, investigations and other expenditures made for the purpose of determining the feasibility of the acquisition of system assets. When the acquisition of system assets occurs, these costs are reclassified to the appropriate utility plant account. If the initiative is abandoned, the costs are expensed in the period in which Management makes the determination.

**Regulation**

The Company's Missouri, Kentucky, Texas and Louisiana utilities are subject to economic regulation by the respective PSCs. The Missouri PSC, Kentucky PSC, Texas PUC and Louisiana PSC generally authorize revenue at levels intended to recover the estimated costs of providing service, plus a return on net investments, or rate base. The Missouri PSC approved a rate increase April 8, 2020 with an effective date of July 1, 2020 for Confluence Rivers and a rate increase December 30, 2020 with an effective date of January 29, 2021 for Elm Hills. Regulators may also impose certain penalties or grant certain incentives. Due to timing and other differences in the collection of utility revenue, an incurred cost that would otherwise be charged to expense by a non-regulated entity is (at the direction of the state PSC) to be deferred as a regulatory asset if it is probable that the cost is recoverable in future rates. Conversely, GAAP requires the recording of a regulatory liability for amounts collected in rates to recover costs expected to be incurred in the future or amounts collected in excess of costs incurred and refundable to customers.

The Company had a regulatory asset of [REDACTED] ("Other Long-Term Assets"), with accumulated amortization of [REDACTED] and [REDACTED] at December 31, 2020 and 2019 respectively. Amortization expense for the periods ended December 31, 2020 and 2019 was [REDACTED] and [REDACTED] respectively.

The Company's net regulatory liability for removal costs recoverable through rates at December 31, 2020 and 2019 was [REDACTED] and [REDACTED] respectively. Salvage expense of the liability for removal costs was [REDACTED] and [REDACTED] for the periods ended December 31, 2020 and 2019 respectively.

**NOTE 02: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

These liabilities are included in Property, Plant and Equipment, Net as a subset of accumulated depreciation.

**Contributions in Aid of Construction**

Regulated utilities may receive advances for construction and/or contributions in aid of construction from customers, home builders, real estate developers, home-owners associations, etc., to fund construction necessary to extend or enhance services or operating facilities to new areas. Advances that are no longer refundable are reclassified as contributions of capital. Contributions are permanent collections of plant assets or cash for a specific capital construction project. For tariff ratemaking purposes, the amount of such contributions generally serves as a rate base reduction since the contributions represent non-investor supplied funds. Generally, the Company depreciates utility plants funded by contributions and amortizes its contributions balance as a reduction to depreciation expense, producing a result which is functionally equivalent to reducing the original cost of the utility plant for the contributions. Amortization of contributions in aid of construction was [REDACTED] and [REDACTED] for the periods ended December 31, 2020 and December 31, 2019, respectively.

**Goodwill and Other Intangible Assets**

Included in the Company's financials are goodwill and intangible assets which are the result of pushdown accounting from its parent. Goodwill arising from business combinations is generally determined as the excess of the fair value of the consideration transferred, plus the fair value of any noncontrolling interests in the acquiree, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized but tested for impairment at least annually or more frequently if events and circumstances exist that indicate that a goodwill impairment test should be performed. The Company has selected December 31 as the date to perform the annual impairment test. Intangible assets with definite useful lives are amortized over their estimated useful lives to their estimated residual values. Goodwill, the Trade Name and Certificate of Convenience and Necessity have an indefinite life on the consolidated balance sheets. There are no intangible assets with a definite life on the consolidated balance sheets.

**New Accounting Pronouncements**

In February 2016, the FASB issued Accounting Standards Update ("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, 2021 for entities other than public business entities. This ASU requires the recognition of lease assets and liabilities on the consolidated balance sheets 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. The Company is currently evaluating the impact, if any, 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

**NOTE 02: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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, 2022. The Company is currently in the process of evaluating the impact, if any, of adoption of this ASU on the consolidated financial statements.

**NOTE 03: ASSET PURCHASES AND FACILITY OPERATIONS**

**Asset Purchases**

Throughout the year ended December 31, 2020, the Company, through its subsidiaries, purchased certain operating assets of various previously existing companies, primarily property, plant and equipment, that provide water treatment and sewer collection and treatment services in various counties throughout Missouri, Arkansas, Kentucky, Texas and Louisiana for total cash considerations of [REDACTED]. No liabilities were assumed at acquisition. Management has determined that the cash consideration approximates the net realizable value of the assets acquired, which is indicative of the fair value. Per standard regulatory accounting procedures, [REDACTED] of net contributions in aid of construction were recorded along with the purchased assets.

During the period ended December 31, 2019, the Company, through its subsidiaries, acquired certain operating assets of previously existing companies, primarily property, plant and equipment that provides sewer collection and treatment services, and water supply and distribution services, in various counties throughout Missouri, Arkansas, Kentucky and Louisiana for total cash considerations of [REDACTED]. No liabilities were assumed at acquisition. Management has determined that the cash consideration approximates the net realizable value of the assets acquired, which is indicative of the fair value. Per standard regulatory accounting procedures, [REDACTED] of net contributions in aid of construction were recorded along with the purchased assets.

**Facility Operations**

During the year ended December 31, 2019, the Company, through its subsidiaries, began or continued operations at various unowned water supply and wastewater collection treatment facilities located in various counties in Missouri. In this period, the Company held or reached various agreements to acquire certain operating assets of these facilities for a total of [REDACTED]. The Company received regulatory approval on February 14, 2019 to complete these acquisitions and as of December 31, 2019 all acquisitions had been completed. Prior to completion of the acquisitions, the Company paid monthly operating fees totaling [REDACTED] for some of these facilities.

**NOTE 04: CONSOLIDATED STATEMENT OF CASH FLOWS**

Cash paid for interest during the periods ending December 31, 2020 and December 31, 2019 was [REDACTED] and [REDACTED] respectively. The Company did not have any cash paid for income taxes during the periods ended December 31, 2020 and 2019.

As of December 31, 2020, [REDACTED] in property, plant and equipment and [REDACTED] in preliminary survey and investigation charges were funded by accounts payable. Preliminary survey and investigation

**NOTE 04: CONSOLIDATED STATEMENT OF CASH FLOWS (continued)**

charges totaling [REDACTED] were reclassified to property, plant, and equipment during the period ending December 31, 2020.

As of December 31, 2019, [REDACTED] in property, plant and equipment and [REDACTED] in preliminary survey and investigation charges were funded by accounts payable. Preliminary survey and investigation charges totaling [REDACTED] were reclassified to property, plant, and equipment during the period ending December 31, 2019. Interest capitalized to property, plant, and equipment was [REDACTED] for the period ending December 31, 2019.

**NOTE 05: CASH CONCENTRATION**

As of December 31, 2020 and 2019, the Company's cash balance per depositor exceeded federally insured limits.

**NOTE 06: PROPERTY, PLANT AND EQUIPMENT**

Capital assets, consisting of property, plant and equipment purchased or constructed by the Company, are stated at cost. Depreciation has been computed over the estimated useful life of each asset using the straight-line method. Interest costs have been capitalized based on the average outstanding capital expenditures. In addition, certain technical and engineering related studies associated with the project have also been capitalized and included in the basis of the assets.

Major classes of property, plant and equipment consist of the following:

|  | <u>2020</u> | <u>2019</u> |
|--|-------------|-------------|
| Utility Plant in Service - Sewer               | [REDACTED]  | [REDACTED]  |
| Utility Plant in Service - Water               | [REDACTED]  | [REDACTED]  |
| Furniture, Fixtures and Other                  | [REDACTED]  | [REDACTED]  |
| Less: Accumulated Depreciation                 | [REDACTED]  | [REDACTED]  |
| In Service Property, Plant and Equipment - Net | [REDACTED]  | [REDACTED]  |
| Construction Work in Progress                  | [REDACTED]  | [REDACTED]  |
| Property, Plant & Equipment Net                | [REDACTED]  | [REDACTED]  |

Net depreciation expense for the periods ended December 31, 2020 and December 31, 2019 totaled and [REDACTED] and [REDACTED] which consisted of [REDACTED] and [REDACTED] in depreciation on property, plant and equipment, net salvage expense of the regulatory assets and liabilities [REDACTED] and [REDACTED] respectively, as disclosed in Note 2, and [REDACTED] and [REDACTED] in reduction of expense for amortization of contributions in aid of construction as disclosed in Note 2, respectively.

**NOTE 07: NOTES PAYABLE – RELATED PARTY**

The Company, through its subsidiaries, entered into agreements with Fresh Start Venture, LLC, a related party through common ownership, at various times between 2016 and 2018, for a maximum principal amount of [REDACTED]. Associated with the agreements were construction notes payable to provide financing for the construction, improvements, and equipment for the Company’s subsidiaries. During the construction period, all interest accrued on the loan was rolled into the principal balance of the loan. Interest is accrued at fixed rates of 13% or 14%. For some of these construction notes payable, the Company was not obligated to make any payments of interest or principal on the accrued interest or the principal amount owed until the first calendar month immediately following the construction completion date, at which point principal and interest payments are due monthly at various maturities between October 2036 and December 2039. As of December 31, 2020, and 2019, the outstanding loan balance, including accrued interest and origination fee, was [REDACTED] and [REDACTED] and unamortized deferred financing costs were [REDACTED] and [REDACTED] respectively. The outstanding loan balance, including capitalized interest and origination fee, less unamortized financing costs is as follows as of December 31:

|   | 2020       | 2019       |
|---|------------|------------|
| Notes Payable balance, including accrued interest and origination fee | [REDACTED] | [REDACTED] |
| Unamortized deferred financing costs                                  | [REDACTED] | [REDACTED] |
| Current portion of notes payable                                      | [REDACTED] | [REDACTED] |
| <b>Notes Payable, net of current portion</b>                          | [REDACTED] | [REDACTED] |

Future maturities of notes payable are as follows:

Years ending December 31,

|            |            |
|------------|------------|
| 2021       | [REDACTED] |
| 2022       | [REDACTED] |
| 2023       | [REDACTED] |
| 2024       | [REDACTED] |
| 2025       | [REDACTED] |
| Thereafter | [REDACTED] |

The agreements are secured by specific portions of the Company’s assets and require adherence to specific restrictive covenants. For the years ending December 31, 2020 the Company had not satisfied certain covenant obligations. Through the date of issuance of the independent auditors report the debt has not been called and as of December 31, 2020, the lender provided written covenant waivers evidencing that no event of default has occurred which would cause the lender to exercise before April 1, 2022, its options to pursue the remedies outlined in the loan agreements.

**NOTE 07: NOTES PAYABLE -RELATED PARTY (continued)**

**Deferred Financing Costs**

Costs incurred in connection with financing activities are deferred and amortized to interest expense using the straight-line method over the terms of the related debt agreement. The straight-line method approximates the deferred interest method. Unamortized deferred financing costs of [REDACTED] and [REDACTED] are included in the accompanying consolidated balance sheets as a reduction of debt at December 31, 2020 and 2019, respectively. Amortization expense included in interest expense was [REDACTED] and [REDACTED] for the periods ended December 31, 2020 and 2019, respectively.

**NOTE 08: OPERATING LEASE**

The Company has a lease agreement for office space. During 2020, the prior lease agreement expired and the Company entered a new agreement. Under the expiring lease agreement, the Company paid monthly rent payments of [REDACTED] per month through March 2020. The Company's current lease has a term of five years and requires monthly rent payments of [REDACTED] beginning April, 2020 through March 2025.

Total future minimum commitments related to these leases are as follows:

|                |            |
|----------------|------------|
| 2021 -         | [REDACTED] |
| 2022 -         | [REDACTED] |
| 2023 -         | [REDACTED] |
| 2024 -         | [REDACTED] |
| 2025 -         | [REDACTED] |
| <b>Total -</b> | [REDACTED] |

The current lease agreement included a leasehold incentive as reimbursement for costs related to improving the leasehold and preparing the space for the Company's use. This incentive totaled [REDACTED] and was a receivable, included in Other Current Assets, to The Company at December 31, 2020. The incentive also results in a liability which is to be amortized over the life of the lease as a reduction of rent expense. The Leasehold Incentive Liability is recorded on the Company's financial statements, net of accumulated amortization of [REDACTED], in Other Long-Term Liabilities. Rent expense amounted to [REDACTED] and [REDACTED] for the periods ended December 31, 2020 and December 31, 2019, respectively. Amortization expense of the Leasehold Incentive Liability amounted to [REDACTED] for the period ended December 31, 2020.

**NOTE 09: EMPLOYEE BENEFIT PLAN**

The Company has a retirement plan for its employees which allows participants to make contributions by salary reduction pursuant to Section 401(k) of the Internal Revenue Code. The Company can make a discretionary profit-sharing contribution to employees any time during the year. Employees vest immediately in their contributions and the Company's profit-sharing contributions. The Company's contributions to the 401(k) plan totaled [REDACTED] and [REDACTED] for the periods ended December 31, 2020, December 31, 2019, respectively.

**NOTE 10: COMMITMENTS AND CONTINGENCIES**

The Company is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of the Company's management, the probable resolution of such contingencies will not have a material adverse effect on the financial position, cash flows or results of operations of the Company.

**NOTE 11: INCOME TAXES AND LOSS CARRYFORWARD**

Deferred income tax provisions/benefits for the Company's C-Corp subsidiaries are calculated for certain transactions and events because of differing treatments under accounting principles generally accepted in the United States of America and the currently enacted tax laws of the federal, state, and local governments. The Company accounts for federal income taxes in accordance with FASB ASC 740, whereby deferred taxes are provided on temporary differences arising from assets and liabilities whose bases are different for financial reporting and income tax purposes. Current deferred federal income taxes relate primarily to timing differences including a net operating loss carryforward and certain expenses that are not deductible for tax purposes. Deferred income tax assets and liabilities are computed for those temporary differences that have future tax consequences using the currently enacted tax laws and rates that apply to the periods in which they are expected to affect taxable income. Examples of these temporary differences include the future tax benefits of operating loss carryforwards recognized for financial reporting purposes and the allowance for doubtful accounts which will provide a tax benefit only upon the direct write off of customer balances.

The net deferred tax asset consists of the following components as of December 31:

|                                      | <u>2020</u> | <u>2019</u> |
|--------------------------------------|-------------|-------------|
| Accumulated net operating loss       |             |             |
| Allowance for doubtful accounts      |             |             |
| Deferred tax asset/(liability)       |             |             |
| Less valuation allowance             |             |             |
| Deferred tax asset/(liability) - Net |             |             |

The deferred tax assets as of December 31, 2020 and 2019 are a result of net operating losses for federal and state taxes that are available for carryforward to future periods and certain timing differences. There is a degree of uncertainty inherent in determining if it is more likely than not that the benefits from certain net operating loss carryforwards and other deferred tax assets may not be realized. Management has assessed this risk and has provided a valuation allowance of [redacted] and [redacted] on these deferred tax assets as of December 31, 2020 and 2019, respectively until the company starts to generate taxable income.

It is reasonably possible that management's estimate of the amount of tax benefit the Company will realize from the use of the tax loss carryforwards and other timing differences will change significantly in the future along with the related tax benefits.

**NOTE 12: RECLASSIFICATIONS**

Certain reclassifications have been made to the prior year consolidated financial statements to conform to the current year presentation. Total assets, total liabilities, and net loss were not affected.

**NOTE 13: SUBSEQUENT EVENTS**

Subsequent to year end, the Company paid approximately [REDACTED] to acquire certain operating assets, primarily property, plant and equipment, that provides water supply and distribution services, and sewer collection and treatment services in Missouri, Texas, Kentucky and Louisiana. The assets acquired are expected to approximate the amount paid.

Management has evaluated subsequent events through the date of the independent auditors report, March 11, 2021, the date these consolidated financial statements were available to be issued.

---

**CSWR, LLC and Subsidiaries**  
 Supplemental Information to the  
 Consolidated Financial Statements  
 For the Year ended December 31, 2020

**CONSOLIDATING BALANCE SHEETS**

|   | Consolidated | Consolidation Elimination | CSWR, LLC | Missouri-CSWR | Hillicrest | Raccoon Creek | Indian Hills | Confluence Rivers | Elm Hills | Osage | Louisiana-CSWR | Magnolia |
|---|--------------|---------------------------|-----------|---------------|------------|---------------|--------------|-------------------|-----------|-------|----------------|----------|
| <b>Current Assets</b>                     |              |                           |           |               |            |               |              |                   |           |       |                |          |
| Cash                                      |              |                           |           |               |            |               |              |                   |           |       |                |          |
| Accounts Receivable, net                  |              |                           |           |               |            |               |              |                   |           |       |                |          |
| Other Current Assets                      |              |                           |           |               |            |               |              |                   |           |       |                |          |
| <b>Total Current Assets</b>               |              |                           |           |               |            |               |              |                   |           |       |                |          |
| <b>Property, Plant and Equipment, Net</b> |              |                           |           |               |            |               |              |                   |           |       |                |          |
| <b>Non-Current Assets</b>                 |              |                           |           |               |            |               |              |                   |           |       |                |          |
| Preliminary Survey & Investigation        |              |                           |           |               |            |               |              |                   |           |       |                |          |
| Investment in Associated Companies        |              |                           |           |               |            |               |              |                   |           |       |                |          |
| Receivable from Associated Companies      |              |                           |           |               |            |               |              |                   |           |       |                |          |
| Other Long-Term Assets                    |              |                           |           |               |            |               |              |                   |           |       |                |          |
| <b>Total Non-Current Assets</b>           |              |                           |           |               |            |               |              |                   |           |       |                |          |
| <b>Goodwill</b>                           |              |                           |           |               |            |               |              |                   |           |       |                |          |
| <b>Intangible Assets</b>                  |              |                           |           |               |            |               |              |                   |           |       |                |          |
| Deferred Income Tax                       |              |                           |           |               |            |               |              |                   |           |       |                |          |
| <b>Total Assets</b>                       |              |                           |           |               |            |               |              |                   |           |       |                |          |
| <b>Current Liabilities</b>                |              |                           |           |               |            |               |              |                   |           |       |                |          |
| Accounts Payable                          |              |                           |           |               |            |               |              |                   |           |       |                |          |
| Notes Payable - Current                   |              |                           |           |               |            |               |              |                   |           |       |                |          |
| Other Current Liabilities                 |              |                           |           |               |            |               |              |                   |           |       |                |          |
| <b>Total Current Liabilities</b>          |              |                           |           |               |            |               |              |                   |           |       |                |          |
| <b>Long-Term Liabilities</b>              |              |                           |           |               |            |               |              |                   |           |       |                |          |
| Notes Payable, net of Current Portion     |              |                           |           |               |            |               |              |                   |           |       |                |          |
| Payable to Associated Companies           |              |                           |           |               |            |               |              |                   |           |       |                |          |
| Contributions in Aid of Construction      |              |                           |           |               |            |               |              |                   |           |       |                |          |
| Other Long-Term Liabilities               |              |                           |           |               |            |               |              |                   |           |       |                |          |
| <b>Total Long-Term Liabilities</b>        |              |                           |           |               |            |               |              |                   |           |       |                |          |
| Deferred Income Tax Liability             |              |                           |           |               |            |               |              |                   |           |       |                |          |
| <b>Members' Equity</b>                    |              |                           |           |               |            |               |              |                   |           |       |                |          |
| Paid-In Capital                           |              |                           |           |               |            |               |              |                   |           |       |                |          |
| Retained Deficit                          |              |                           |           |               |            |               |              |                   |           |       |                |          |
| <b>Total Members' Equity</b>              |              |                           |           |               |            |               |              |                   |           |       |                |          |
| <b>Total Liabilities and Equity</b>       |              |                           |           |               |            |               |              |                   |           |       |                |          |

**CSWR, LLC and Subsidiaries**  
 Supplemental Information to the  
 Consolidated Financial Statements  
 For the year ended December 31, 2020

**CONSOLIDATING BALANCE SHEETS**

|                                       | Kentucky-<br>CSWR | Bluegrass | Arkansas-<br>CSWR | Hayden's<br>Place | St. Joseph's<br>Glen | Sebastian<br>Lake | Eagle Ridge | Oak Hill | Flushing<br>Meadows | TX-CSWR | CSWR-TX<br>Operating | Inactive<br>Entities |
|---------------------------------------|-------------------|-----------|-------------------|-------------------|----------------------|-------------------|-------------|----------|---------------------|---------|----------------------|----------------------|
| <b>Current Assets</b>                 | [REDACTED]        |           |                   |                   |                      |                   |             |          |                     |         |                      |                      |
| Cash                                  |                   |           |                   |                   |                      |                   |             |          |                     |         |                      |                      |
| Accounts Receivable, net              |                   |           |                   |                   |                      |                   |             |          |                     |         |                      |                      |
| Other Current Assets                  |                   |           |                   |                   |                      |                   |             |          |                     |         |                      |                      |
| Total Current Assets                  |                   |           |                   |                   |                      |                   |             |          |                     |         |                      |                      |
| Property, Plant and Equipment, Net    |                   |           |                   |                   |                      |                   |             |          |                     |         |                      |                      |
| <b>Non-Current Assets</b>             |                   |           |                   |                   |                      |                   |             |          |                     |         |                      |                      |
| Preliminary Survey & Investigation    |                   |           |                   |                   |                      |                   |             |          |                     |         |                      |                      |
| Investment in Associated Companies    |                   |           |                   |                   |                      |                   |             |          |                     |         |                      |                      |
| Receivable from Associated Companies  |                   |           |                   |                   |                      |                   |             |          |                     |         |                      |                      |
| Other Long-Term Assets                |                   |           |                   |                   |                      |                   |             |          |                     |         |                      |                      |
| Total Non-Current Assets              |                   |           |                   |                   |                      |                   |             |          |                     |         |                      |                      |
| Goodwill                              |                   |           |                   |                   |                      |                   |             |          |                     |         |                      |                      |
| Intangible Assets                     |                   |           |                   |                   |                      |                   |             |          |                     |         |                      |                      |
| Deferred Income Tax                   |                   |           |                   |                   |                      |                   |             |          |                     |         |                      |                      |
| <b>Total Assets</b>                   |                   |           |                   |                   |                      |                   |             |          |                     |         |                      |                      |
| <b>Current Liabilities</b>            |                   |           |                   |                   |                      |                   |             |          |                     |         |                      |                      |
| Accounts Payable                      |                   |           |                   |                   |                      |                   |             |          |                     |         |                      |                      |
| Notes Payable - Current               |                   |           |                   |                   |                      |                   |             |          |                     |         |                      |                      |
| Other Current Liabilities             |                   |           |                   |                   |                      |                   |             |          |                     |         |                      |                      |
| Total Current Liabilities             |                   |           |                   |                   |                      |                   |             |          |                     |         |                      |                      |
| Long-Term Liabilities                 |                   |           |                   |                   |                      |                   |             |          |                     |         |                      |                      |
| Notes Payable, net of Current Portion |                   |           |                   |                   |                      |                   |             |          |                     |         |                      |                      |
| Payable to Associated Companies       |                   |           |                   |                   |                      |                   |             |          |                     |         |                      |                      |
| Contributions in Aid of Construction  |                   |           |                   |                   |                      |                   |             |          |                     |         |                      |                      |
| Other Long-Term Liabilities           |                   |           |                   |                   |                      |                   |             |          |                     |         |                      |                      |
| Total Long-Term Liabilities           |                   |           |                   |                   |                      |                   |             |          |                     |         |                      |                      |
| Deferred Income Tax Liability         |                   |           |                   |                   |                      |                   |             |          |                     |         |                      |                      |
| Members' Equity                       |                   |           |                   |                   |                      |                   |             |          |                     |         |                      |                      |
| Paid-In Capital                       |                   |           |                   |                   |                      |                   |             |          |                     |         |                      |                      |
| Retained Deficit                      |                   |           |                   |                   |                      |                   |             |          |                     |         |                      |                      |
| Total Members' Equity                 |                   |           |                   |                   |                      |                   |             |          |                     |         |                      |                      |
| <b>Total Liabilities and Equity</b>   |                   |           |                   |                   |                      |                   |             |          |                     |         |                      |                      |

**CSWR, LLC & Subsidiaries**  
 Supplemental Information to the  
 Consolidated Financial Statements  
 For the year ended December 31, 2020

**CONSOLIDATING STATEMENT OF OPERATIONS**

|                               | Consolidated | CSWR, LLC | Missouri-<br>CSWR | Hillcrest | Raccoon<br>Creek | Indian Hills | Confluence<br>Rivers | Elm Hills | Osage | Louisiana-<br>CSWR | Magnolia |
|-------------------------------|--------------|-----------|-------------------|-----------|------------------|--------------|----------------------|-----------|-------|--------------------|----------|
| <b>Operating Revenue</b>      |              |           |                   |           |                  |              |                      |           |       |                    |          |
| Operating Revenue             |              |           |                   |           |                  |              |                      |           |       |                    |          |
| <b>Operating Expense</b>      |              |           |                   |           |                  |              |                      |           |       |                    |          |
| Operations and Maintenance    |              |           |                   |           |                  |              |                      |           |       |                    |          |
| General and Administrative    |              |           |                   |           |                  |              |                      |           |       |                    |          |
| Depreciation and Amortization |              |           |                   |           |                  |              |                      |           |       |                    |          |
| Total Operating Expense       |              |           |                   |           |                  |              |                      |           |       |                    |          |
| Operating Loss                |              |           |                   |           |                  |              |                      |           |       |                    |          |
| <b>Other Income (Expense)</b> |              |           |                   |           |                  |              |                      |           |       |                    |          |
| Other Revenue                 |              |           |                   |           |                  |              |                      |           |       |                    |          |
| Interest                      |              |           |                   |           |                  |              |                      |           |       |                    |          |
| Total Other Income (Expense)  |              |           |                   |           |                  |              |                      |           |       |                    |          |
| Net Loss before Taxes         |              |           |                   |           |                  |              |                      |           |       |                    |          |
| <b>Net Income (Loss)</b>      |              |           |                   |           |                  |              |                      |           |       |                    |          |

CSWR, LLC & Subsidiaries  
 Supplemental Information to the  
 Consolidated Financial Statements  
 For the year ended December 31, 2020

CONSOLIDATING STATEMENT OF OPERATIONS

|                               | Kentucky-<br>CSWR | Bluegrass | Arkansas-<br>CSWR | Hayden's<br>Place | St. Joseph's<br>Glen | Sebastian<br>Lake | Eagle Ridge | Oak Hill | Flushing<br>Meadows | TX-CSWR | CSWR-TX<br>Operating | Inactive<br>Entities |
|-------------------------------|-------------------|-----------|-------------------|-------------------|----------------------|-------------------|-------------|----------|---------------------|---------|----------------------|----------------------|
| <b>Operating Revenue</b>      | [REDACTED]        |           |                   |                   |                      |                   |             |          |                     |         |                      |                      |
| Operating Revenue             |                   |           |                   |                   |                      |                   |             |          |                     |         |                      |                      |
| <b>Operating Expense</b>      |                   |           |                   |                   |                      |                   |             |          |                     |         |                      |                      |
| Operations and Maintenance    |                   |           |                   |                   |                      |                   |             |          |                     |         |                      |                      |
| General and Administrative    |                   |           |                   |                   |                      |                   |             |          |                     |         |                      |                      |
| Depreciation and Amortization |                   |           |                   |                   |                      |                   |             |          |                     |         |                      |                      |
| Total Operating Expense       |                   |           |                   |                   |                      |                   |             |          |                     |         |                      |                      |
| Operating Loss                |                   |           |                   |                   |                      |                   |             |          |                     |         |                      |                      |
| <b>Other Income (Expense)</b> |                   |           |                   |                   |                      |                   |             |          |                     |         |                      |                      |
| Other Revenue                 |                   |           |                   |                   |                      |                   |             |          |                     |         |                      |                      |
| Interest                      |                   |           |                   |                   |                      |                   |             |          |                     |         |                      |                      |
| Total Other Income (Expense)  |                   |           |                   |                   |                      |                   |             |          |                     |         |                      |                      |
| Net Loss before Taxes         |                   |           |                   |                   |                      |                   |             |          |                     |         |                      |                      |
| <b>Net Income (Loss)</b>      |                   |           |                   |                   |                      |                   |             |          |                     |         |                      |                      |

**Request**

7. Provide all estimates prepared by or on behalf of Bluegrass Water as to the value of any assets of Darlington Creek.
- 

**Response**

Please see the redacted Appraisal Report attached as KY2021-00265\_BW\_0035 to BW\_0089 and the redacted Asset Valuation Report attached as KY2021-00265\_BW\_0090 to BW\_0118.<sup>1</sup>

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<sup>1</sup> A highlighted unredacted copy has been submitted under seal with a concurrently-filed Motion for Confidential Treatment.



**Valbridge**  
PROPERTY ADVISORS

## Appraisal Report

Darlington Creek HOA  
Darlington Creek Road and 12847 Sycamore Creek Drive  
Alexandria, Campbell County, Kentucky 41001

Report Date: 12-06-2021



FOR:

Central States Water Resources  
Mr. Todd Thomas  
Vice-President  
500 Northwest Plaza Drive, Suite 500  
St. Ann, Missouri 63074

Client Number:

**Valbridge Property Advisors |  
New Orleans**

2030 Dickory Avenue, Suite 200  
New Orleans, LA 70123  
504.541.5100 phone  
504.541.5107 fax  
[valbridge.com](http://valbridge.com)

Valbridge File Number:  
LA01-21-0352.000



2030 Dickory Avenue, Suite 200  
New Orleans, LA 70123  
504.541.5100 phone  
504.541.5107 fax  
valbridge.com

12-06-2021



Mr. Todd Thomas  
Vice-President  
Central States Water Resources  
500 Northwest Plaza Drive, Suite 500  
St. Ann, Missouri 63074

RE: Appraisal Report  
Darlington Creek HOA  
Darlington Creek Road and 12847 Sycamore Creek Drive  
Alexandria, Campbell County, Kentucky 41001

Dear Mr. Thomas:

In accordance with your request, we have performed an appraisal of the above referenced property. This appraisal report sets forth the pertinent data gathered, the techniques employed, and the reasoning leading to our value opinions. This letter of transmittal does not constitute an appraisal report and the rationale behind the value opinion(s) reported cannot be adequately understood without the accompanying appraisal report.

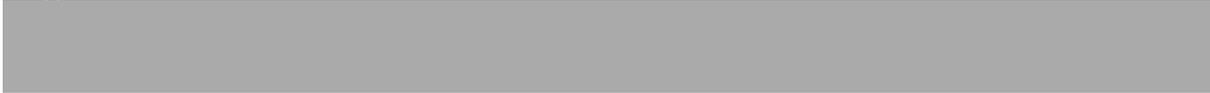




Extraordinary Assumptions:

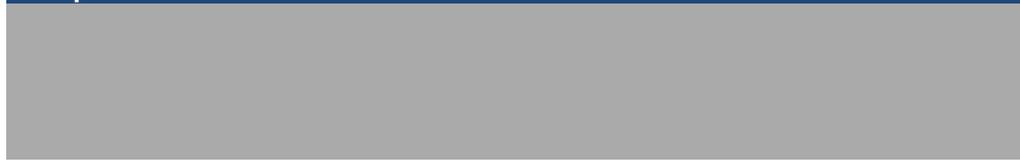


Hypothetical Conditions:

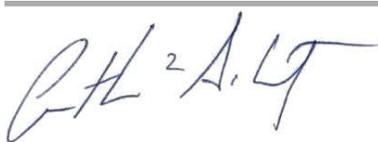


Based on the analysis contained in the following report, our value conclusions are summarized as follows:

### Value Conclusions

| Component   | As Is | As Is |
|---|-------|-------|
|  |       |       |

Respectfully submitted,  
Valbridge Property Advisors | New Orleans



Arthur L. Schwertz, MAI  
Senior Managing Director  
Kentucky Certified General  
Real Property Appraiser #5470

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## Summary of Salient Facts

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### Property Identification



### Site



### Valuation Opinions



**Value Conclusions**

| <b>Component</b> | <b>As Is</b> | <b>As Is</b> |
|------------------|--------------|--------------|
|                  |              |              |

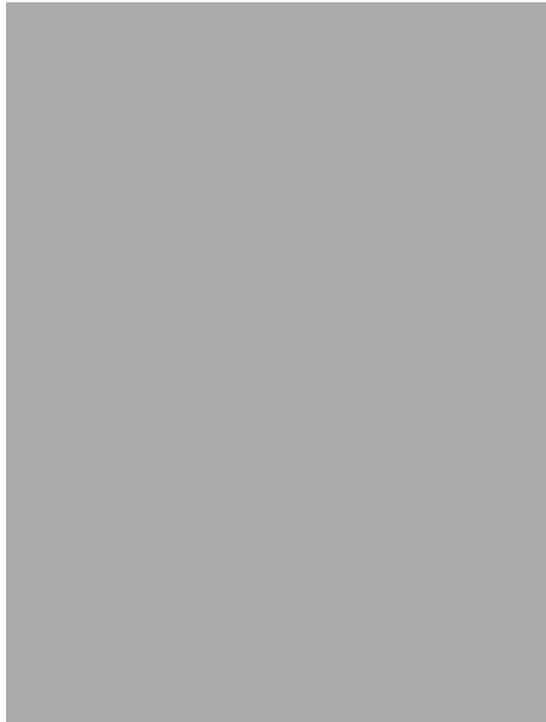
## Aerial and Front Views

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**AERIAL VIEW**



**FRONT VIEW**



## Location Map

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# Introduction

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## Client and Intended Users of the Appraisal



## Intended Use of the Appraisal



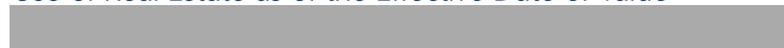
## Real Estate Identification



## Legal Description



## Use of Real Estate as of the Effective Date of Value



## Use of Real Estate as Reflected in this Appraisal



## Ownership of the Property



## History of the Property



## Analysis of Listings/Offer/Contracts



## Type and Definition of Value



## Valuation Scenarios, Property Rights Appraised, and Effective Dates of Value



| Valuation Scenario | Effective Date of Value |
|--------------------|-------------------------|
|--------------------|-------------------------|



## Date of Report



## List of Items Requested but Not Provided



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<sup>1</sup> Source: Code of Federal Regulations, Title 12, Banks and Banking, Part 722.2-Definitions

Assumptions and Conditions of the Appraisal



Extraordinary Assumptions



Hypothetical Conditions



## Scope of Work

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### Extent to Which the Property Was Identified



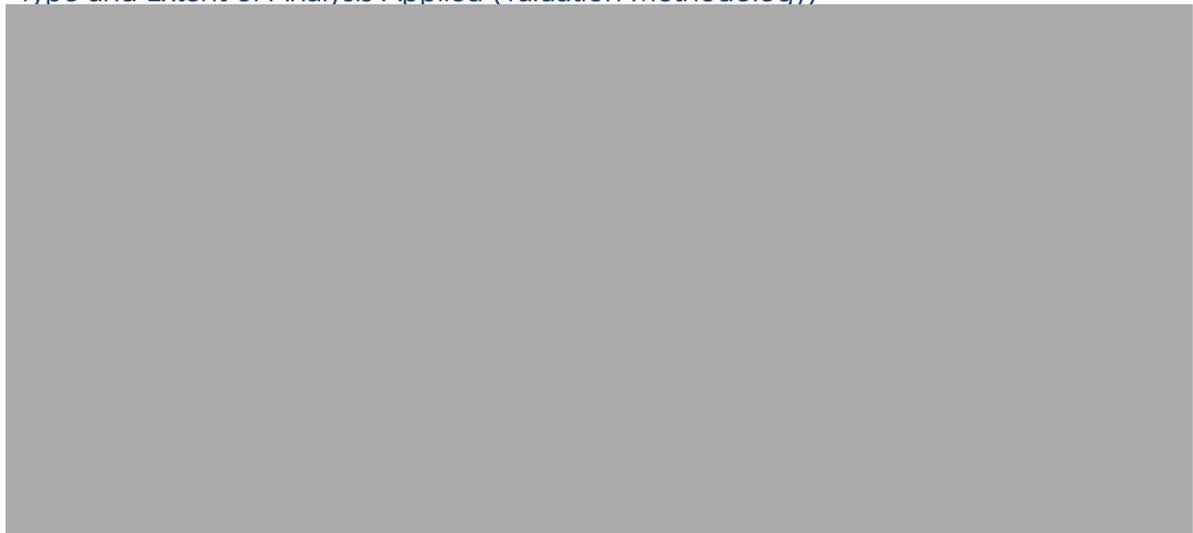
### Extent to Which the Property Was Inspected



### Type and Extent of Data Researched



### Type and Extent of Analysis Applied (Valuation Methodology)





#### Appraisal Conformity and Report Type



#### Personal Property/FF&E



# City and Neighborhood Analysis

---

## NEIGHBORHOOD MAP



### Overview



### Neighborhood Location and Boundaries



### Transportation Access



### Neighborhood Land Use



### LAND USES



### Land Use Trends



## Demographics



### Neighborhood Demographics

| Radius (Miles) | 1 Mile | 3 Mile | 5 Mile |
|----------------|--------|--------|--------|
|----------------|--------|--------|--------|



Source: ESRI (ArcGIS)

(Lat: 38.851988, Lon: -84.388579)



## Nuisances & External Obsolescence



### Neighborhood Life Cycle



### Immediate Area Uses



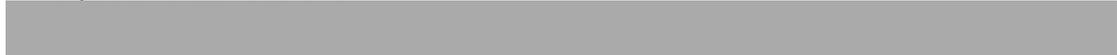
#### **IMMEDIATE AREA USES**



*Source: Google Maps*



### Analysis and Conclusions



## Site Description

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### Site Characteristics



### Flood Zone Data



### Adjacent Land Uses



### Zoning Designation



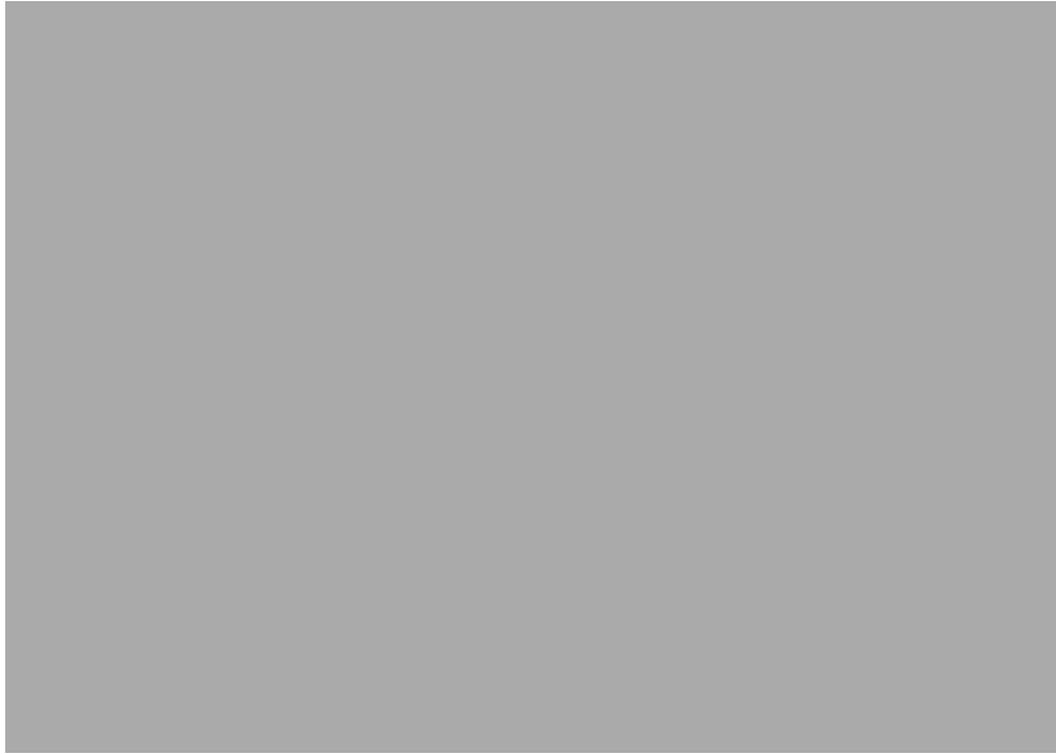
### Analysis/Comments on Site



**TAX/PLAT MAP**



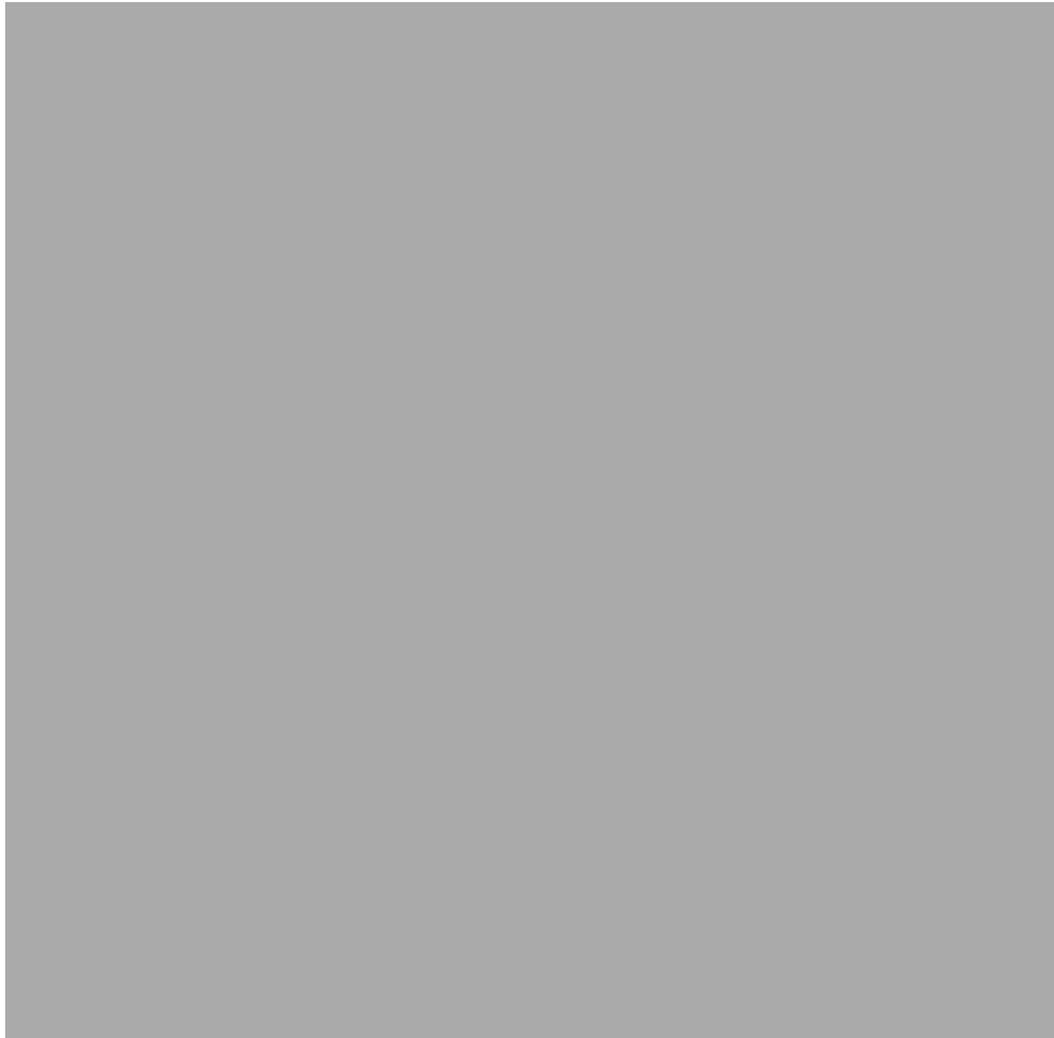
**SERVICE AREA MAP**



**FLOOD MAP**

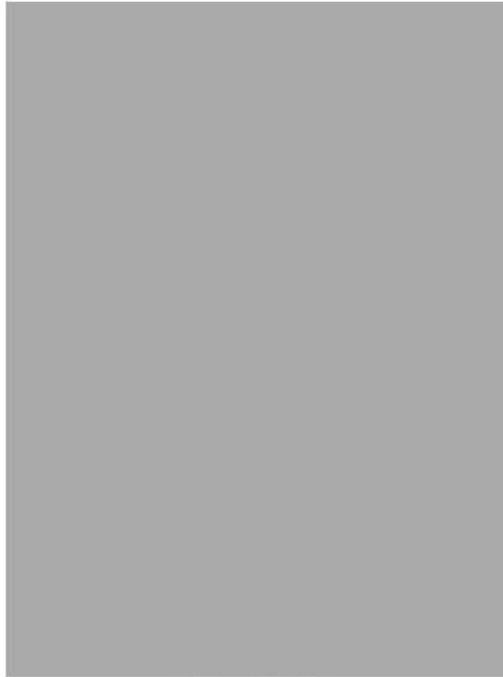


**ZONING MAP**



## Subject Photographs

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Subject Site View



Subject View



Subject View



Subject View

## Highest and Best Use

---



### Analysis of Highest and Best Use As Though Vacant



#### Legally Permissible



#### Physically Possible



#### Financially Feasible



#### Maximally Productive



### Conclusion of Highest and Best Use As Though Vacant



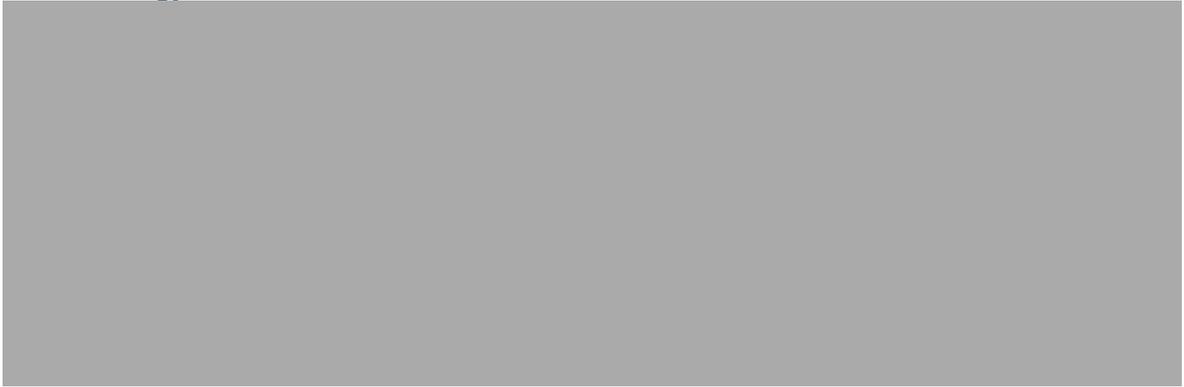
### Most Probable Buyer



# Land Valuation

---

## Methodology



## Unit of Comparison



## Elements of Comparison



## Comparable Sales Data



**Land Sales Summary**

| Sale # 1   | Sale # 2 | Sale # 3 | Sale # 4 |
|------------|----------|----------|----------|
| [Redacted] |          |          |          |

**Sales Data**

|            |
|------------|
| [Redacted] |
|------------|

**Physical Characteristics**

|            |
|------------|
| [Redacted] |
|------------|

**COMPARABLE SALES MAP**



## Land Sales Comparison Analysis



### Elements of Comparison



## Summary of Adjustments



**LAND SALES ADJUSTMENT GRID**

| Subject | Sale # 1 | Sale # 2 | Sale # 3 | Sale # 4 |
|---------|----------|----------|----------|----------|
|         |          |          |          |          |

Conclusion

[Redacted]

**Land Sale Statistics**

| Metric     | Unadjusted | Analyzed   | Adjusted   |
|------------|------------|------------|------------|
| [Redacted] | [Redacted] | [Redacted] | [Redacted] |

[Redacted]

Valuation of the Fee Simple Area

[Redacted]

**Calculation of Fee Simple Value**

| Site Area  | Unit Value | Market Value |
|------------|------------|--------------|
| [Redacted] | [Redacted] | [Redacted]   |

Valuation of the Easement

[Redacted]

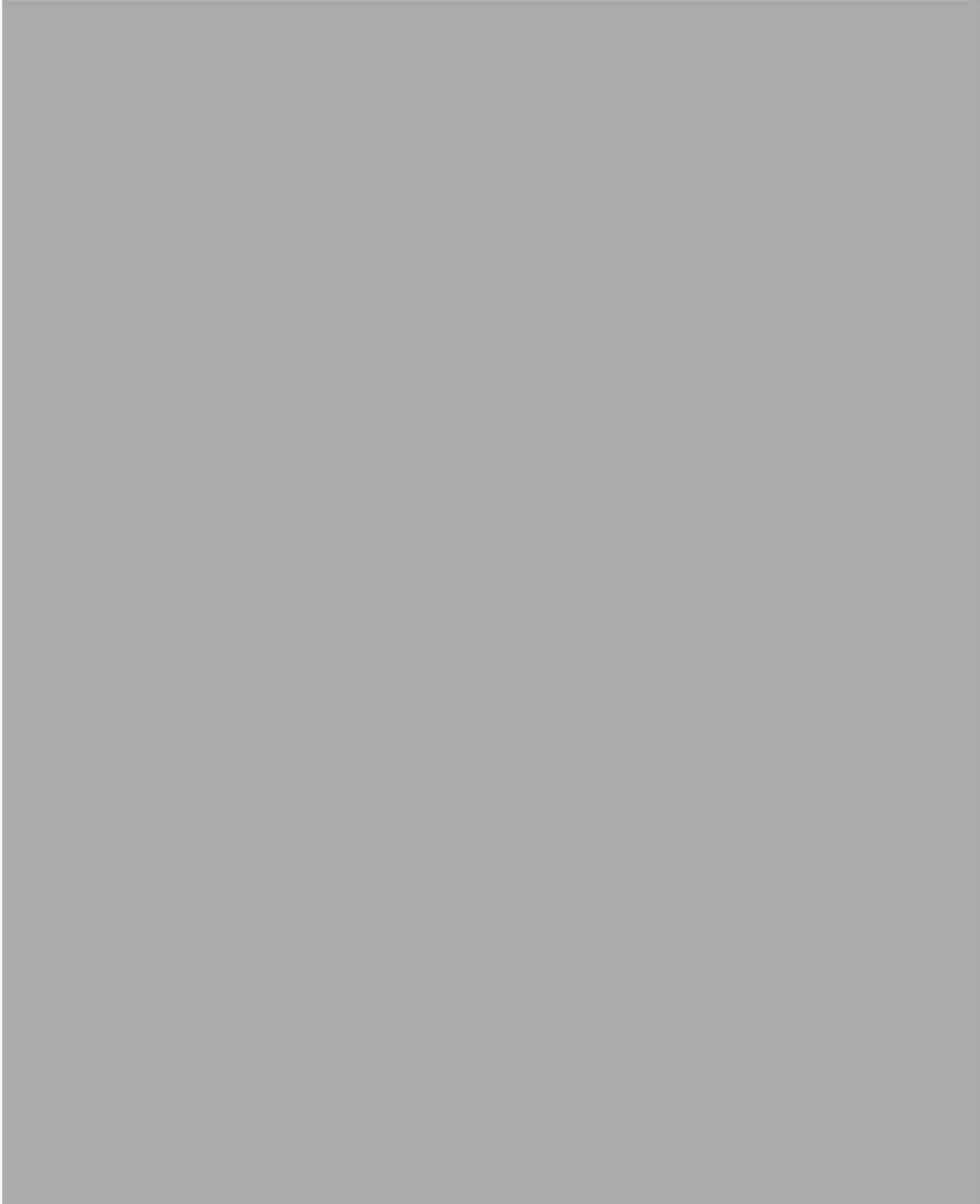
**Calculation of Easement Value**

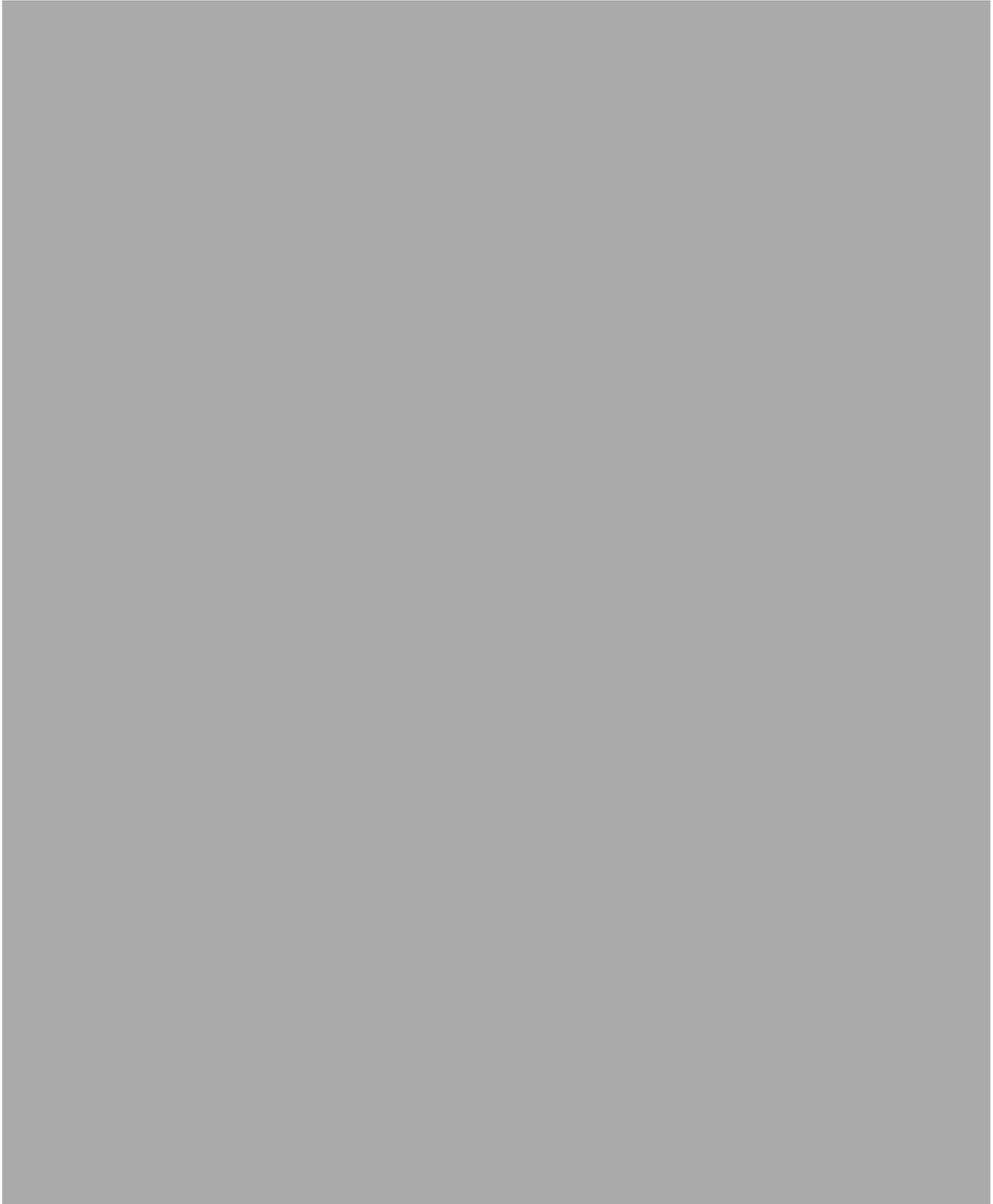
| Site Area  | Unit Value | Market Value of Fee | Easement Use | Indicated Value of Easement |
|------------|------------|---------------------|--------------|-----------------------------|
| [Redacted] | [Redacted] | [Redacted]          | [Redacted]   | [Redacted]                  |

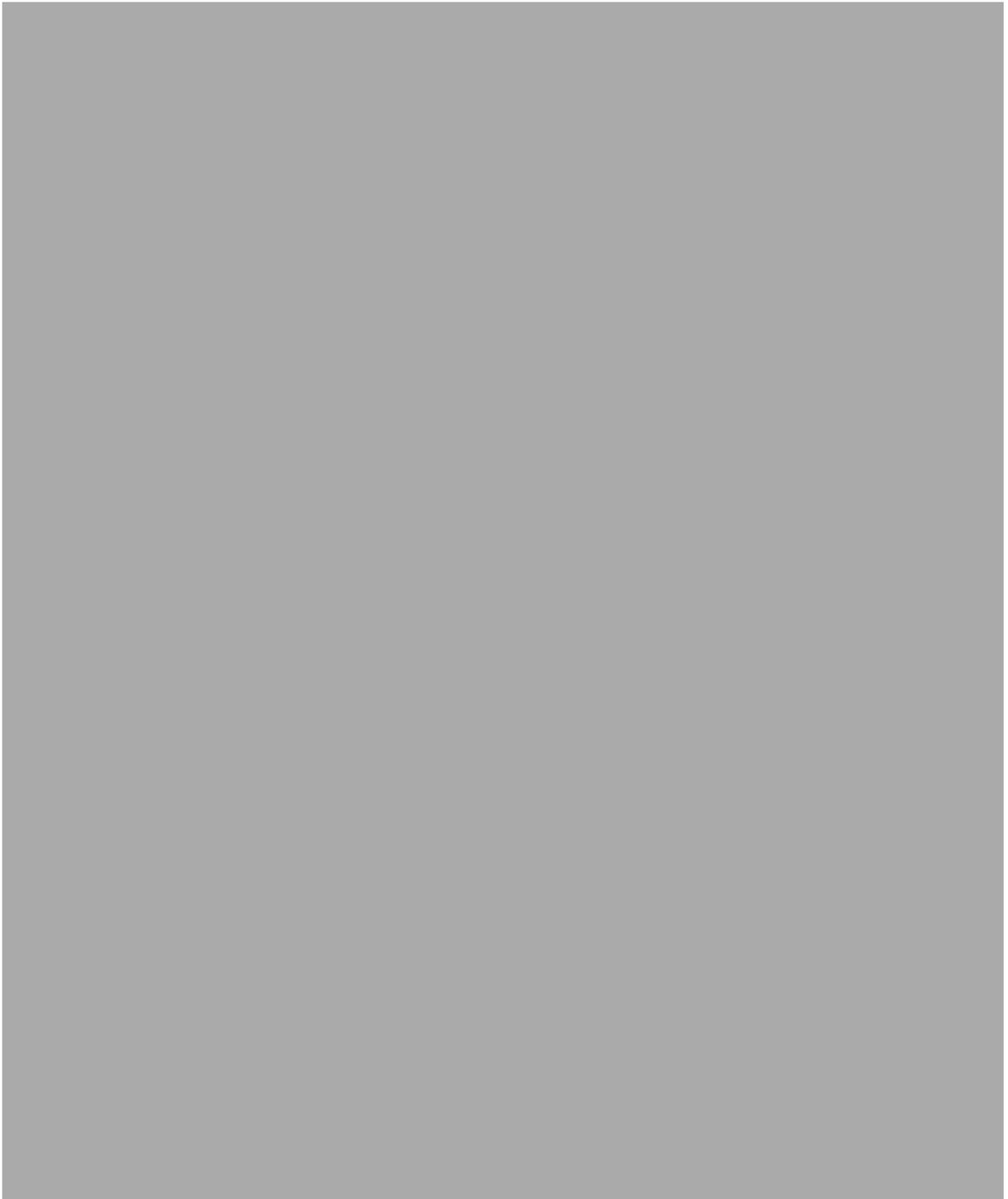
Exposure Time and Marketing Period

[Redacted]

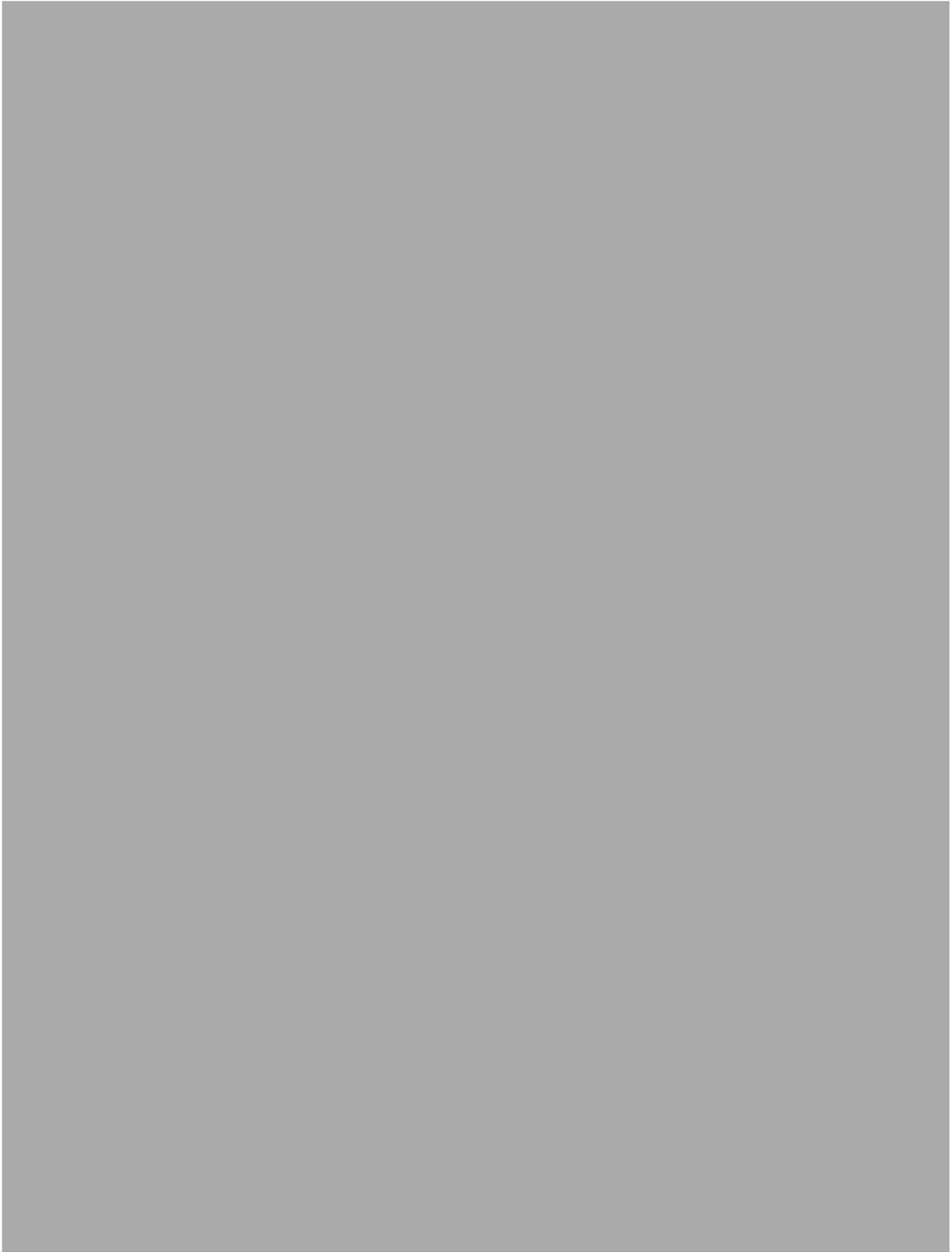
## General Assumptions and Limiting Conditions



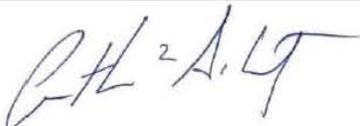








## Certification – Arthur L. Schwertz



Arthur L. Schwertz, MAI  
Senior Managing Director  
Kentucky Certified General  
Real Property Appraiser #5470

## Addenda

---

Glossary

Qualifications

- Arthur L. Schwertz, MAI - Senior Managing Director

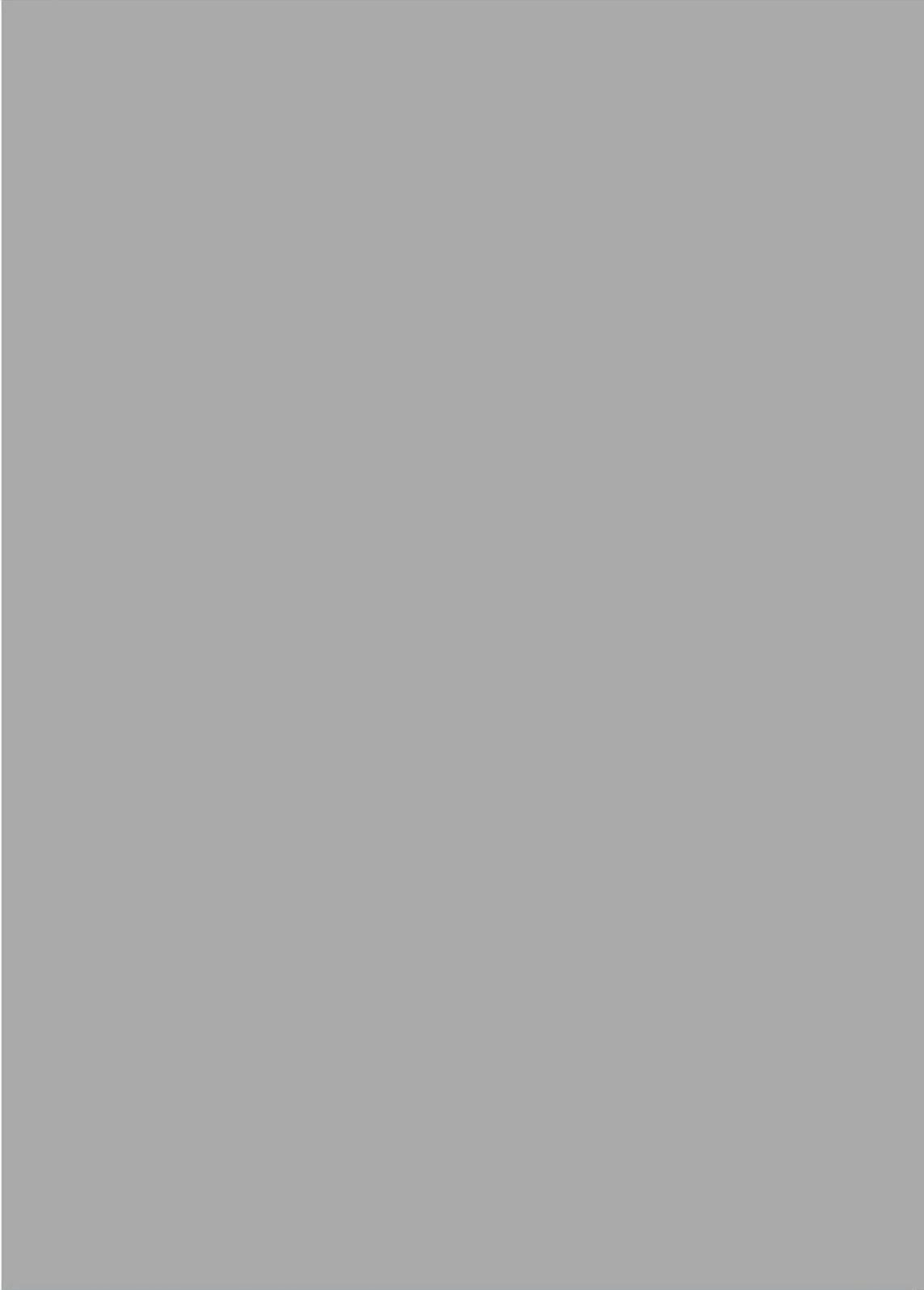
Information on Valbridge Property Advisors

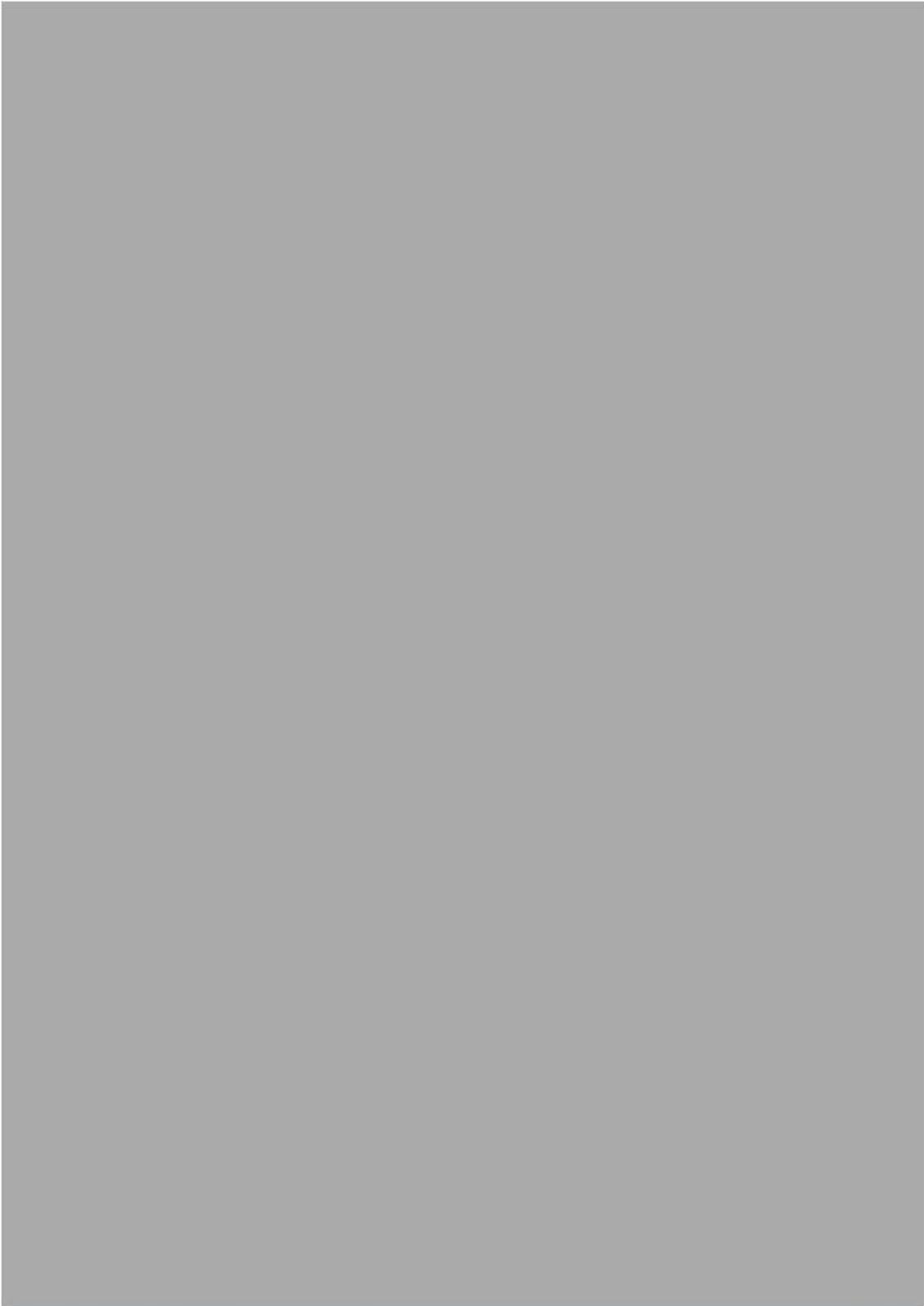
Office Locations



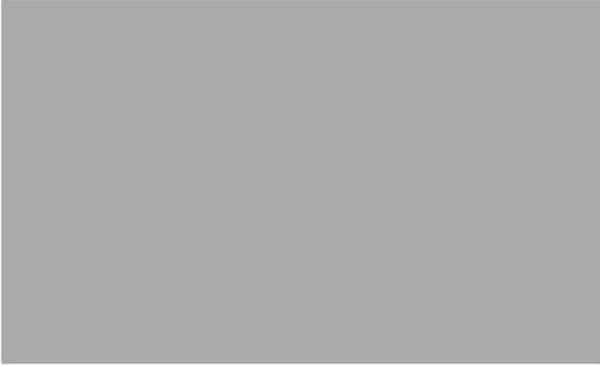




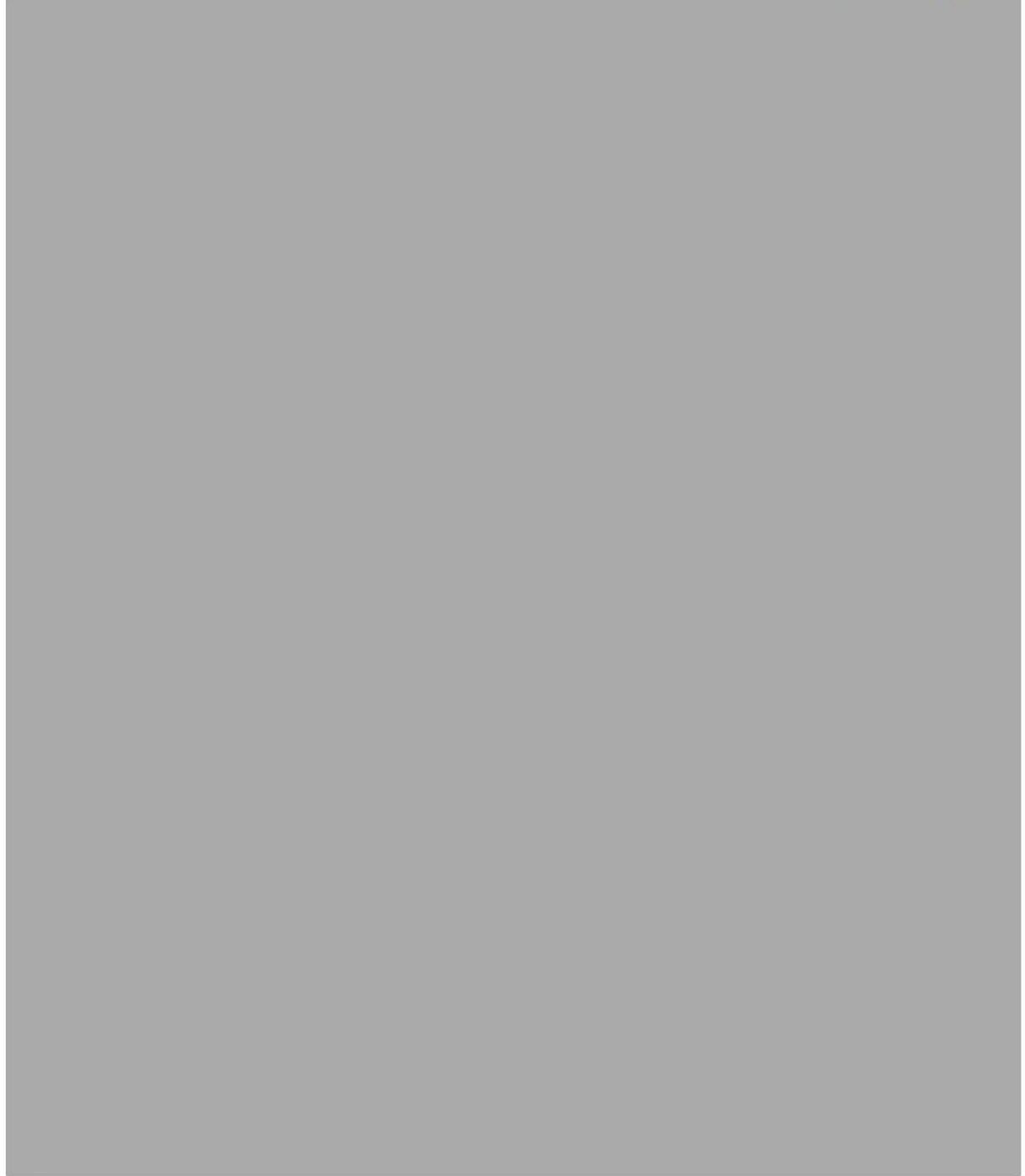
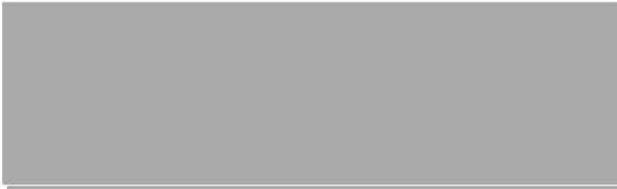




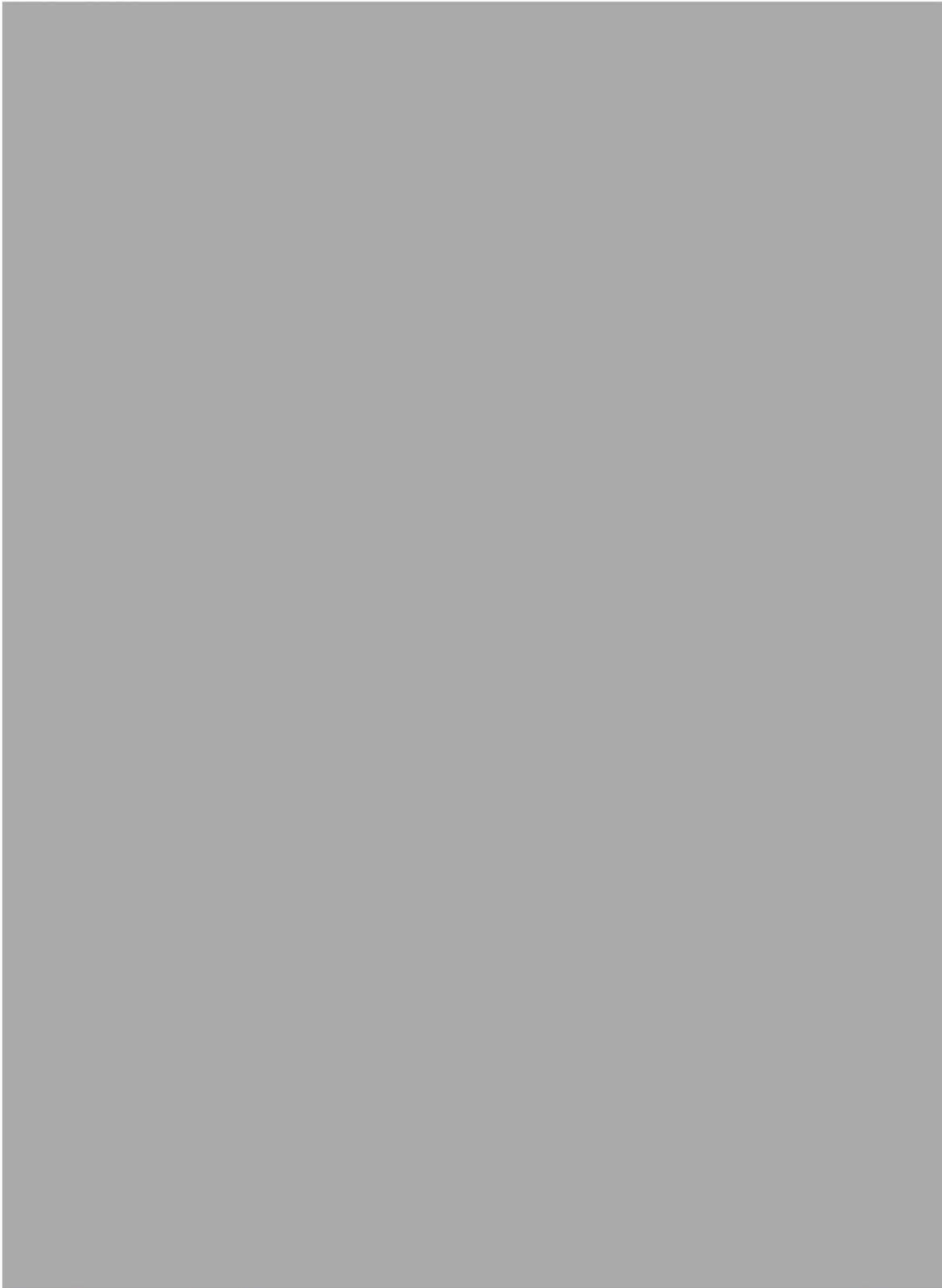




## Qualifications

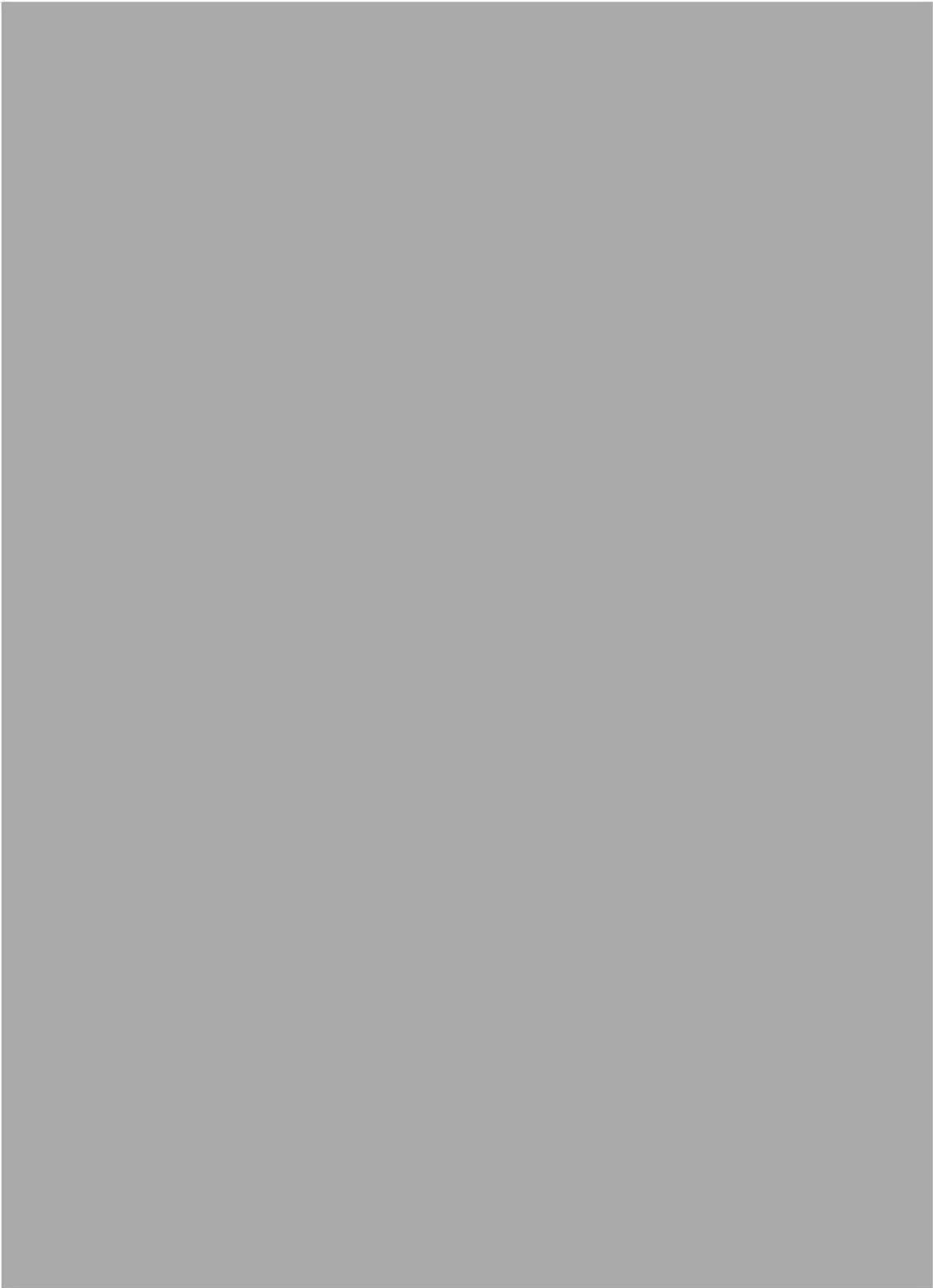














**Valbridge**  
PROPERTY ADVISORS



## FAST FACTS

### COMPANY INFORMATION

- Valbridge is the largest independent national commercial real estate valuation and advisory services firm in North America.
  - Total number of MAI-designated appraisers: 200+ on staff
  - Total number of office locations: 70+ across U.S.
  - Total number of staff: 675+ strong
- Valbridge covers the entire U.S. from coast to coast.
- Valbridge services all property types, including special-purpose properties.
- Valbridge provides independent valuation services. We are not owned by a brokerage firm or investment company.
- Every Valbridge office is led by a senior managing director who holds the MAI designation of the Appraisal Institute.
- Valbridge is owned by our local office leaders.
- Valbridge welcomes single-property assignments as well as portfolio, multi-market and other bulk-property engagements.

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Knoxville, TN 37922  
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Spring 2021

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KY2021-00265\_BW\_0089 (redacted)



Flinn Engineering, LLC  
11216 Neumann Lane  
Highland, Illinois 62249  
618-550-8427  
ksimpson@flinnengineering.com

December 3, 2021

Jacob Freeman, PE  
Director, Engineering  
Central States Water Resources  
1650 Des Peres Rd., Suite 303  
St. Louis, MO 63131

Re: Asset Valuation Report  
Darlington Creek Homeowners Association Wastewater System

Dear Mr. Freeman:

Flinn Engineering, LLC has completed the valuation of the assets owned by the Darlington Creek Homeowners Association for the Darlington Creek Subdivision in Alexandria, KY. The purpose of this report is to estimate the value of the assets at the time the system was placed in service and estimate the depreciated book value of the assets.



Summary



Table 1 – Wastewater Systems Estimated Installation Cost and Depreciated Book Value



Available Information/Assumption



Available Information



Assumptions



Wastewater System



Table 2 – Estimated Installation Cost for Wastewater Assets in 2021

A large rectangular area that has been completely redacted with a solid grey fill, obscuring the data for Table 2.

Notes:  
1 – Info/Assumption number refers to list above.

A horizontal rectangular area that has been completely redacted with a solid grey fill, obscuring the data for the notes section.

Table 3 - Wastewater Assets Estimated Original Installation Cost

A large rectangular area that has been completely redacted with a solid grey fill, obscuring the data for Table 3.

Depreciated Value

A large rectangular area that has been completely redacted with a solid grey fill, obscuring the data for the Depreciated Value section.

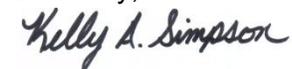
Mr. Jacob Freeman  
Page 4 | December 3, 2021

Table 4 – Depreciation Periods

A large rectangular area of the document is redacted with a solid grey fill, obscuring the content of Table 4.

We appreciate the opportunity to assist you on this project. If you have any questions, please let me know.

Sincerely,

A handwritten signature in black ink that reads "Kelly A. Simpson".

Kelly A. Simpson, PE, LEED® AP  
Owner

Enclosures:

Appendix A – Available Information

Appendix B – PSC Depreciation Rate Schedules

Appendix C – Depreciation Calculation

Civil Engineering  
GIS Mapping  
Potable Water  
Wastewater Treatment



Civil Site Design  
Construction Support  
Transportation  
Wastewater Collection

---

Darlington Creek Homeowners Association, Inc. – Darlington Creek  
WWTP KY0105325  
Alexandria, Kentucky  
Engineering Memorandum  
Date: September 15, 2021

#### Introduction



#### Existing Flows and Loadings and Projections



#### Permit Limitations and Historical Compliance Performance



Civil Engineering  
GIS Mapping  
Potable Water  
Wastewater Treatment



Civil Site Design  
Construction Support  
Transportation  
Wastewater Collection

---

Wastewater Treatment Facility Existing Conditions



Civil Engineering  
GIS Mapping  
Potable Water  
Wastewater Treatment



Civil Site Design  
Construction Support  
Transportation  
Wastewater Collection

---

Functionality of the Existing System



Wastewater Treatment Facility Recommended Improvements



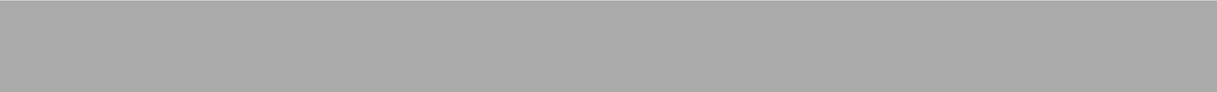
Civil Engineering  
GIS Mapping  
Potable Water  
Wastewater Treatment



Civil Site Design  
Construction Support  
Transportation  
Wastewater Collection



Wastewater Collection System Understanding



Wastewater Collection System Recommended Improvements



Civil Engineering

GIS Mapping

Potable Water

Wastewater Treatment



Civil Site Design

Construction Support

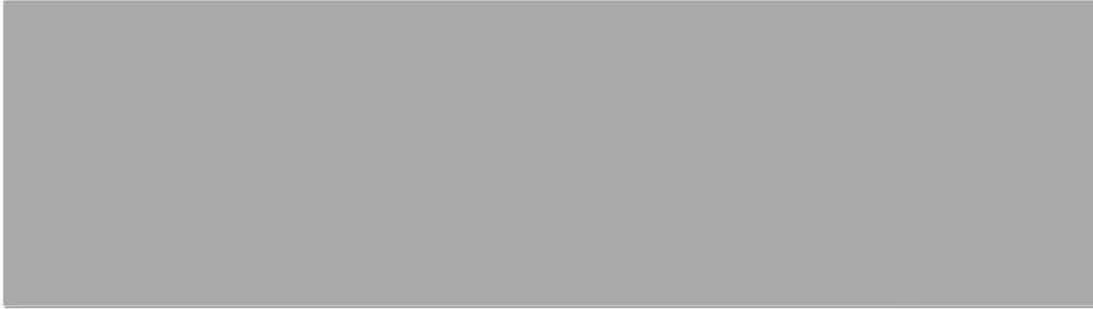
Transportation

Wastewater Collection

---

Total Project Cost Estimate

DARLINGTON WASTEWATER PLANT - NARUC



---

APPENDIX



**Influent Tank with Bar Screen (Left) and  
Anaerobic Digester (Right)**



**Aeration Tank (Left) and Clarifier with  
Ductweed (Right)**

Civil Engineering  
GIS Mapping  
Potable Water  
Wastewater Treatment



Civil Site Design  
Construction Support  
Transportation  
Wastewater Collection



**Treatment Plant w/Blower and  
Filter Building in Background**



**Chlorine Tablet Feeder**

Civil Engineering  
GIS Mapping  
Potable Water  
Wastewater Treatment



Civil Site Design  
Construction Support  
Transportation  
Wastewater Collection



**Dechlorination Tablet Feeder (Bottom)**



**Tertiary Filter and Control Panel**

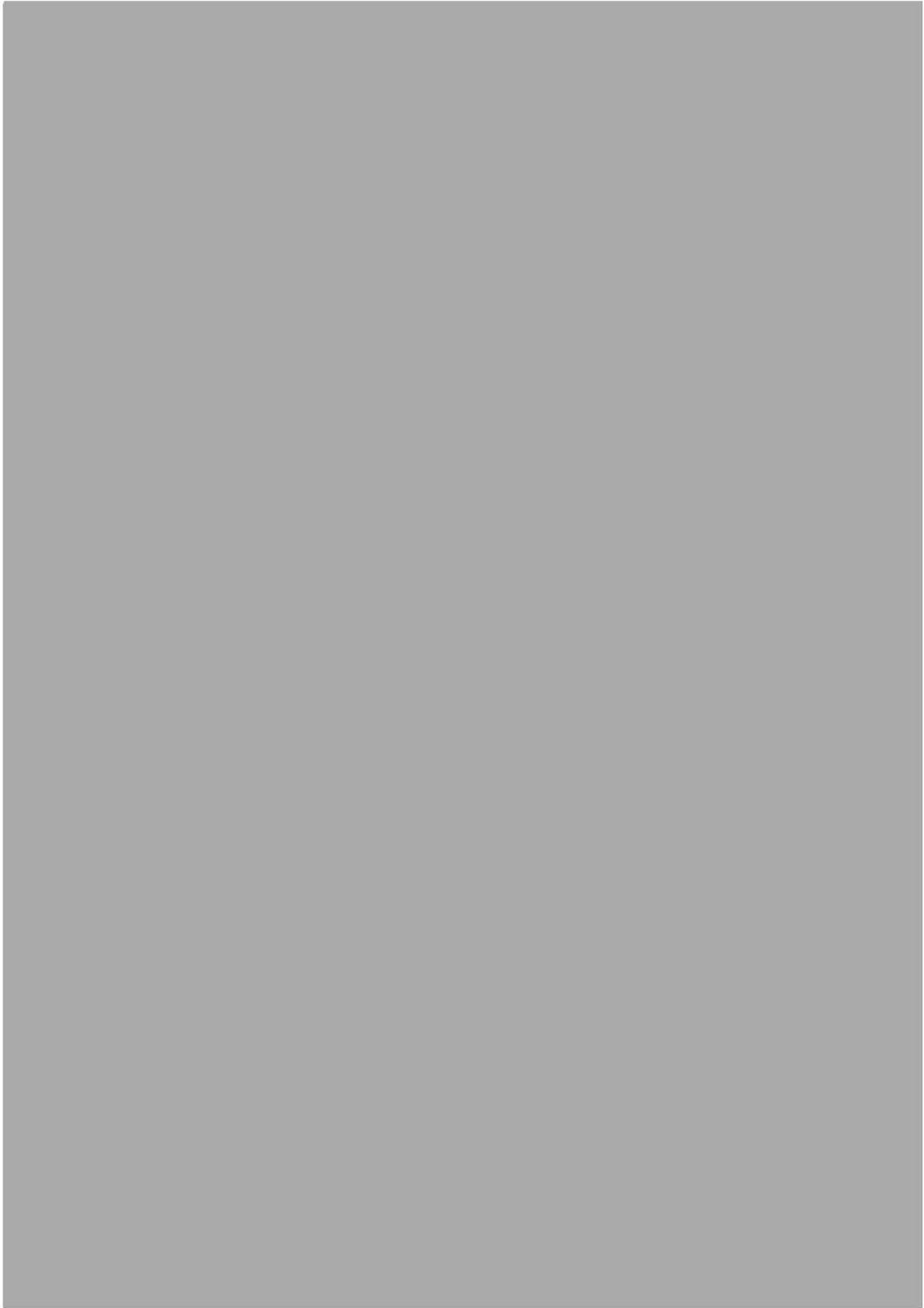




# Wastewater Technology Fact Sheet Package Plants













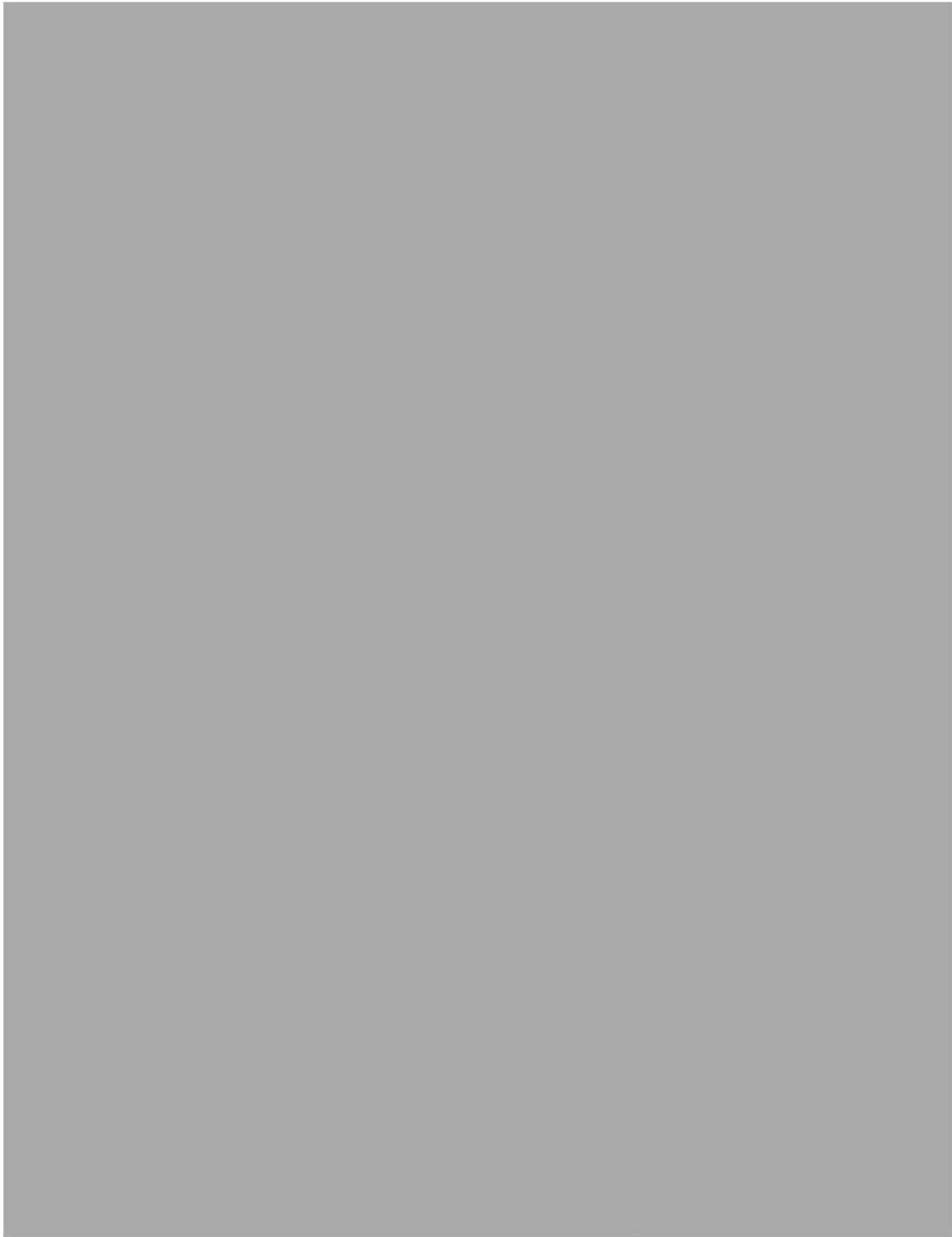




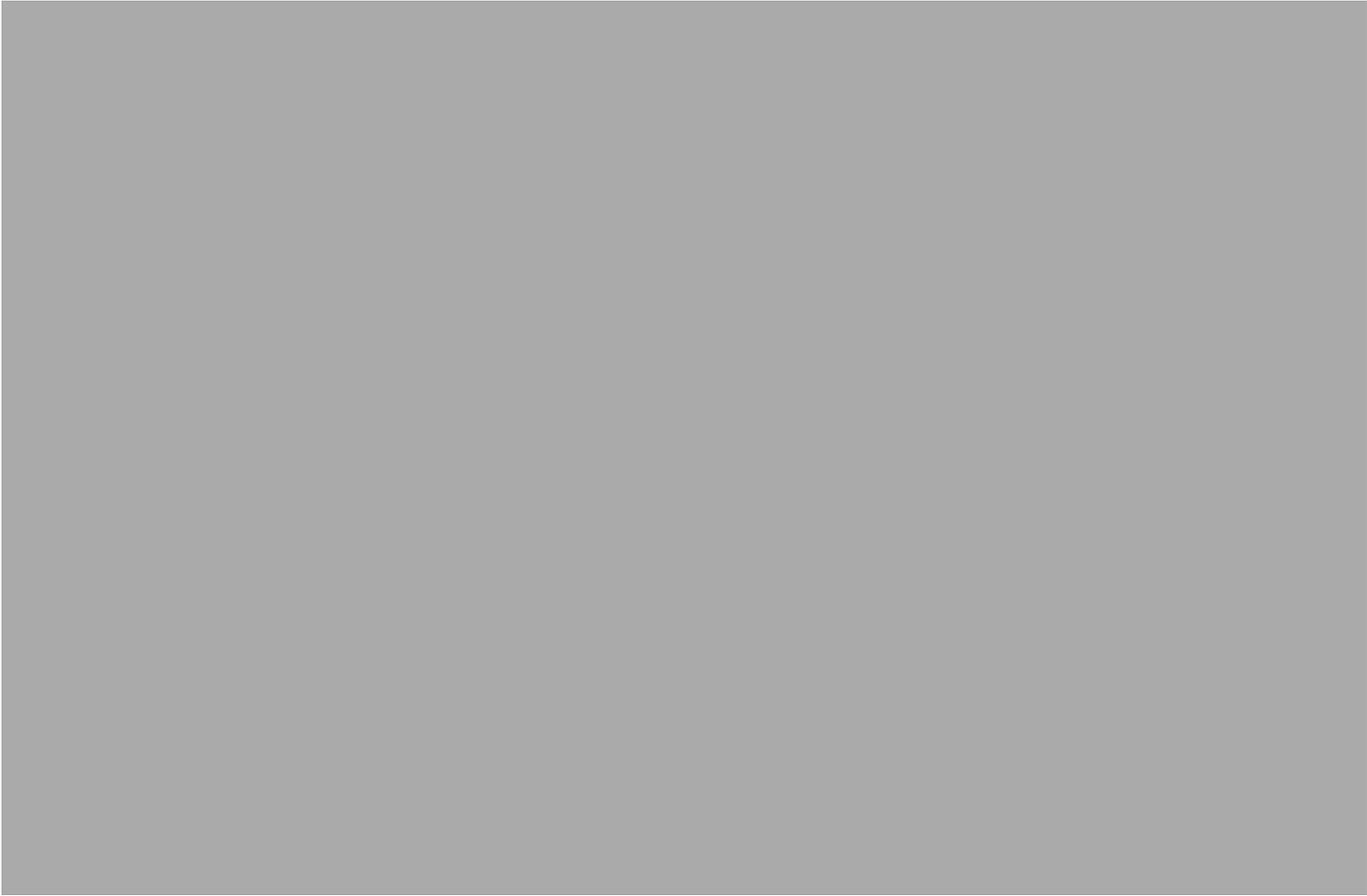








**Terre Du Lac Utility Company**  
**DEPRECIATION RATES**  
**(SEWER)**  
**SR-2014-0105**



**P.C.B., Inc.**  
**SCHEDULE of DEPRECIATION RATES**  
**(SEWER Class C & D)**  
**SR-2014-0068 Attachment D**



**Rogue Creek Sewer  
Interim Rate Case  
SR-2013-0435  
Test Year Ending 12-31-2012  
Depreciation Expense - Sewer**



Darlington Creek Subdivision  
Asset Value Report  
Depreciated Value

Appendix C  
December 3, 2021



**Request**

8. Provide the journal entry that Bluegrass Water will use to record the acquisition of Darlington Creek.
- 

**Response**

Please see the journal entry attached as KY2021-00265\_BW\_0119.<sup>1</sup>

---

<sup>1</sup> A highlighted unredacted copy has been submitted under seal with a concurrently-filed Motion for Confidential Treatment.

**Bluegrass Water Utility Operating Company**

Purchase/Acquisition Assets

System: Darlington Creek HOA

Purchase Price  
Date of Valuation Used  
In-Service Date  
Estimated title fees/closing cost

*\*this is an HOA, no regulatory annual reports are available*

| <u>Acct Name</u> | <u>Acct #</u> | <u>Plant Balance</u> | <u>Dep %</u> | <u>AccDep</u> | <u>Dep Exp</u> | <u>AccDep-12/31/2021</u> | <u>NBV-12/31/2021</u> |
|------------------|---------------|----------------------|--------------|---------------|----------------|--------------------------|-----------------------|
| Total            |               |                      |              |               |                |                          |                       |

**Journal Entry to transfer In-Service assets post acquisition**

| <u>Acct Name</u>        | <u>Acct #</u> | <u>Debit</u> | <u>Credit</u> | <u>Note</u> |
|-------------------------|---------------|--------------|---------------|-------------|
| Utility Plant Purchased |               |              |               |             |
| Land & Land Rights      |               |              |               |             |

**Request**

9. Explain how Bluegrass Water intends to fund any projects listed in the engineering report attached to the Application.
- 

**Response**

Bluegrass Water's global and long-term plan is to fund the work to repair, replace and improve the acquired systems with debt financing. For now, Bluegrass Water has secured the commitment of equity capital through its parent company to fund the projects listed in the previously-produced engineering report.

**Request**

10. State whether Bluegrass Water currently anticipates the need, within the next five years, for any capital projects that are not listed in the engineering report attached to the Application, to serve the Darlington Creek customers. If so, provide an itemized list of the capital projects that Bluegrass Water has identified that it will construct at the Darlington Creek wastewater facilities. For each such project include the reason for the project, the cost to construct each project, and the source of funding used for each project.
- 

**Response**

At this time Bluegrass Water does not anticipate any additional capital projects in the next five years beyond what was documented in the previously-produced engineering report.

**Request**

11. Provide an update regarding Bluegrass Water's efforts to obtain debt financing, including when Bluegrass Water expects to request approval from the Commission for the same.
- 

**Response**

Bluegrass Water had initially anticipated filing for financing approval to obtain debt financing earlier in 2021. To this effect, Bluegrass Water filed its Notice of Election of Use of Electronic Filing Procedures on March 8, 2021, in Case No. 2021-00128, and further gave notice of its intent that Bluegrass Water would be filing its Application by April 7, 2021. In its Notice re Status of Proposed Application filing on April 13, 2021, Bluegrass Water indicated that orders issued by the Commission in then-pending rate-adjustment case, No. 2020-00290, may affect the ability of this financing case to continue. The entry of the Commission's final order on August 2, 2021, in 2020-00290 did negatively affect Bluegrass Water's ability to obtain the financing anticipated in this matter, and delayed attempts to obtain said financing. At this time, Bluegrass Water anticipates filing an application for approval of financing pursuant to KRS 278.300 in the first quarter of 2022.

**Request**

12. Provide Explain whether the Darlington Creek Homeowners Association, Inc. is currently governed by the residents of the subdivision, the developer of the subdivision, or some other persons or entities.
- 

**Response**

Darlington Creek Homeowners Association, Inc. is currently governed by the residents of the subdivision, with Towne Properties as the management company.

**Request**

13. Describe the role of Donald Misrach with the Darlington Creek Homeowners Association, Inc.
- 

**Response**

Donald Misrach was the developer of the subdivision and previously president of Darlington Creek Homeowners Association, Inc (the "HOA"). His association with the HOA recently ended. At this time, the HOA is governed by the residents of the subdivision, with Towne Properties as the management company.

### **Request**

14. Provide a copy of Central States' and CSWR, LLC's cost allocation manual and any other written procedures that describe the methodology Central States and CSWR, LLC use to allocate costs among each of their subsidiaries, including any non-utility subsidiaries and out of state subsidiaries.
- 

### **Response**

Bluegrass Water, and its parent company, CSWR, LLC, have not created a formal cost allocation manual to date. CSWR, LLC has no non-utility subsidiaries but has utility operating companies in addition to Bluegrass Water that operate in other states. While nearly all operating costs are expensed directly to the individual utility operating companies, some costs are expensed to CSWR, LLC in order to take advantage of scale for cost efficiencies. For any cost expensed to CSWR, LLC, an assessment is done to find and utilize the most direct cost allocation base that is available. For certain costs, no direct allocation base is available. These costs are related to various administrative functions including accounting, human resources, information technology, executive administration and legal services. These indirect costs are allocated using a three-factor methodology based on the Massachusetts method for cost allocation. Those three factors are revenue, operating costs and utility plant. A cost allocation policy and manual is part of the future plans of Bluegrass Water and the CSWR, LLC finance and accounting department, but no date for completion can yet be estimated.

### **Request**

15. Provide the distance between Darlington Creek wastewater facilities and the closest point at which these facilities could be attached to the nearest known wastewater facilities. Provide any information and documentation regarding availability, feasibility, and cost of connecting Darlington Creek facilities to any other wastewater utility system.
- 

### **Response**

The nearest wastewater facility is the Campbell County MHP (KY0034487), which is 0.5 miles from the Darlington facility “as the crow flies” and does not have capacity to treat wastewater from the Darlington subdivision. Additionally, it would require at least 0.75 miles of sewer mains, a new lift station, and boring under a highway to reach the treatment facility before even considering the expansion that would be required at the Campbell County MHP facility. The necessary additions would cost significantly more than the proposed project identified in the engineering report attached to the Application.

The next nearest wastewater treatment or collection facility appears to be the Schaefer-Mudd-Steffen Residence (KY0093637), which is 0.8 miles from the Darlington Facility “as the crow flies” and does not have capacity to treat wastewater from the Darlington facility. Additionally, connecting here would require at least 1.2 miles of sewer mains and a new lift station, which would cost significantly more than the proposed project at the Darlington facility before even considering the expansion that would be required at the Schaefer-Mudd-Steffen Residence facility.

The next nearest wastewater treatment or collection facilities are in the Greystone Acres Subdivision (KY0102130), which is 1.1 miles from the Darlington facility “as the crow flies.” The Greystone Acres facilities do not have capacity to also treat wastewater from the

Darlington facility. Additionally, it would require at least 1.5 miles of sewer mains and a new lift station, which would cost significantly more than the proposed project at the Darlington Creek facility before even considering the expansion that would be required at the Greystone Acres Subdivision.

**Request**

16. Irrespective of whether an official study has been conducted, state whether Bluegrass Water or Darlington Creek has obtained an estimate of the cost to connect to the facilities of another sewer provider, regardless of whether it is the closest. If so, provide that estimate, explain the circumstances under which it was obtained, and state why it was decided not to connect to the system.
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**Response**

Bluegrass Water has not obtained any studies or estimates of the cost to connect to the facilities of another sewer provider. Please see the response to 1 PSC 15 for estimates of the relative cost of connecting to facilities of the two nearest sewer providers, and why that would not be cost effective.