

Cause No. 45363 U

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INDIANA UTILITY
REGULATORY COMMISSION

Silver Creek Water Corporation

Audited Financial Statements
December 31, 2019
and
December 31, 2018

SHERMAN, BARBER & MULLIKIN
— A PROFESSIONAL CORPORATION —
CERTIFIED PUBLIC ACCOUNTANTS

SILVER CREEK WATER CORPORATION

December 31, 2019 and December 31, 2018

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SHERMAN, BARBER & MULLIKIN

A PROFESSIONAL CORPORATION
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Silver Creek Water Corporation
Sellersburg, Indiana

We have audited the accompanying financial statements of Silver Creek Water Corporation (an Indiana nonprofit organization), which comprise the Balance Sheets as of December 31, 2019 and December 31, 2018, and the related Statements of Income, Changes in Equity and Cash Flows for the years then ended, and the related notes to 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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.

To the Board of Directors of
Silver Creek Water Corporation

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Silver Creek Water Corporation as of December 31, 2019 and December 31, 2018, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedules of Other Operating Expenses are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the 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.

Sherman, Barber & Mullikin

Sherman, Barber & Mullikin
Madison, Indiana

February 26, 2020

SILVER CREEK WATER CORPORATION

**Balance Sheets
December 31,**

	2019	2018
<u>ASSETS</u>		
<u>Utility Plant</u>		
Utility Plant in Service	\$ 20,561,751	\$ 19,813,051
Less: Accumulated Depreciation	(7,050,973)	(6,581,212)
Net Utility Plant in Service	13,510,778	13,231,839
Construction in Progress	-	60,636
Total Utility Plant	13,510,778	13,292,475
<u>Current Assets</u>		
Cash and Cash Equivalents	960,055	1,469,656
Certificates of Deposit	252,948	354,615
Accounts Receivable	219,527	217,814
Inventory - Materials	275,337	291,055
Meters on Deposit	662	662
Total Current Assets	1,708,529	2,333,802
<u>Other Assets</u>		
Certificates of Deposit	113,547	-
<u>TOTAL ASSETS</u>	\$ 15,332,854	\$ 15,626,277

SILVER CREEK WATER CORPORATION

**Balance Sheets
December 31,
(Continued)**

	2019	2018
<u>EQUITY AND LIABILITIES</u>		
<u>Equity</u>		
Unappropriated Retained Earnings	\$ 2,939,731	\$ 3,396,376
Contributions-in-Aid of Construction	9,438,442	9,191,133
Total Equity	12,378,173	12,587,509
<u>Long-Term Liabilities</u>		
Notes Payable	2,107,657	2,225,878
Less: Current Portion	(120,443)	(115,319)
Net Long-Term Debt	1,987,214	2,110,559
<u>Current Liabilities</u>		
Accounts Payable	6,732	6,166
Accrued Taxes	14,394	13,989
Customer Deposits	825,898	792,735
Current Portion of Long-Term Debt	120,443	115,319
Total Current Liabilities	967,467	928,209
<u>TOTAL EQUITY AND LIABILITIES</u>	\$ 15,332,854	\$ 15,626,277

SILVER CREEK WATER CORPORATION

Statements of Income For the Years Ended December 31,

	<u>2019</u>	<u>2018</u>
<u>Operating Revenue</u>		
Water Sales	\$ 2,913,719	\$ 2,763,942
Other Operating Revenue	<u>273,262</u>	<u>277,994</u>
Total Operating Revenue	3,186,981	3,041,936
<u>Operating Expenses</u>		
Purchased Water	1,497,037	1,541,167
Salaries, Wages and Employee Benefits	652,356	566,833
Depreciation Expense	514,811	473,200
Other Operating Expenses	<u>885,543</u>	<u>732,003</u>
Total Operating Expenses	<u>3,549,747</u>	<u>3,313,203</u>
<u>Net Operating Loss</u>	(362,766)	(271,267)
<u>Other Income and Expense</u>		
Interest Earned	4,026	4,211
Interest Expense	(89,469)	-
Loss on Disposal of Assets	<u>(8,436)</u>	<u>(14,247)</u>
Total Other Income and Expense	<u>(93,879)</u>	<u>(10,036)</u>
<u>NET LOSS</u>	<u>\$ (456,645)</u>	<u>\$ (281,303)</u>

SILVER CREEK WATER CORPORATION

**Statements of Changes in Equity
For the Years Ended December 31,**

	<u>2019</u>	<u>2018</u>
<u>Unappropriated Retained Earnings</u>		
Balance, January 1	\$ 3,396,376	\$ 3,677,679
Net Loss	<u>(456,645)</u>	<u>(281,303)</u>
Balance, December 31	2,939,731	3,396,376
<u>Contributions-in-Aid of Construction</u>		
Balance, January 1	9,191,133	9,029,900
Tap Fees Collected	165,495	112,803
Customer Contributions	<u>81,814</u>	<u>48,430</u>
Balance, December 31	<u>9,438,442</u>	<u>9,191,133</u>
<u>TOTAL EQUITY</u>	<u>\$ 12,378,173</u>	<u>\$ 12,587,509</u>

SILVER CREEK WATER CORPORATION

**Statements of Cash Flows
For the Years Ended December 31,**

	2019	2018
<u>Cash Flows from Operations</u>		
Net Loss	\$ (456,645)	\$ (281,303)
Noncash Items Included in Net Loss:		
Loss on Disposal of Assets	8,436	14,247
Interest Earned on Certificates of Deposit	(2,051)	(2,236)
Depreciation Expense	514,811	473,200
Bad Debt Expense	1,756	1,803
(Increase) Decrease in:		
Accounts Receivable	(25,509)	(47,794)
Inventory	15,718	(12,130)
Increase (Decrease) in:		
Accounts Payable	2,201	(124,041)
Accrued and Withheld Liabilities	405	13,989
Cash Provided by Operations	59,122	35,735
<u>Cash Flows from Investing Activities</u>		
Additions to Utility Plant and Equipment	(220,294)	(2,210,425)
Additions to Construction in Progress	(441,077)	(59,001)
Transfer to Certificates of Deposit	(113,235)	(250,000)
Transfer from Certificates of Deposit	103,406	-
Cash Used in Investing Activities	(671,200)	(2,519,426)
<u>Cash Flows from Financing Activities</u>		
Customer Deposits Received	128,718	115,022
Customer Deposits Refunded	(73,515)	(22,766)
Tap Fees Received	165,495	112,803
Proceeds from Note Payable	-	2,287,099
Reduction of Notes Payable	(118,221)	(73,647)
Cash Provided by Financing Activities	102,477	2,418,511

(Continued)

SILVER CREEK WATER CORPORATION

**Statements of Cash Flows
For the Years Ended December 31,**

	2019	2018
Net Increase (Decrease) in Cash and Cash Equivalents	(509,601)	(65,180)
Cash and Cash Equivalents, Beginning of Year	1,469,656	1,534,836
Cash and Cash Equivalents, End of Year	\$ 960,055	\$ 1,469,656
 <u>Supplemental Information</u>		
Interest Paid (excludes interest capitalized in 2018)	\$ 89,468	\$ -
 <u>Noncash Investing & Financing Activities</u>		
Portion of Mains Donated by Contractors	\$ 81,814	\$ 48,430
Customer Deposits Applied to Bills	\$ 22,040	\$ 70,628
Original Cost of Utility Plant and Equipment Disposed	\$ 53,485	\$ 107,961
Accumulated Depreciation on Utility Plant and Equipment Disposed	\$ 45,049	\$ 93,714
Construction in Progress in Accounts Payable	\$ -	\$ 1,635
Construction in Progress Capitalized	\$ 500,078	\$ 1,536,371
Utility Plant Costs Paid From Loan Proceeds	\$ -	\$ 12,426

SILVER CREEK WATER CORPORATION

Notes to Financial Statements December 31, 2019 and December 31, 2018

NOTE A. NATURE OF OPERATIONS

Silver Creek Water Corporation (the Corporation) operates a water distribution system in predominately rural southeastern Indiana. The Corporation serves approximately 7,606 customers and operates from one office located in Clark County, Indiana.

The financial statements are presented in accordance with accounting principles generally accepted in the United States of America that apply to business entities. Although the Corporation is exempt from taxation by the Internal Revenue Service, the Corporation does not possess certain not-for-profit characteristics, as defined by accounting standards, that distinguish it from a business entity.

NOTE B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Utility Plant

Utility Plant assets are recorded at cost. Expenditures, including those for major maintenance activities, which do not materially extend the useful life of, or expand the "system," are charged to supplies or repair expense when incurred. Components of Utility Plant are described in Note D.

(2) Depreciation

The provision for depreciation on the water system is computed using the straight-line method, over the useful lives of the assets. Utility plant is depreciated over lives ranging from 3 to 50 years. Equipment and office furniture are depreciated over 3 to 50 years, and transportation equipment is depreciated over 5 and 7 years. Depreciation is taken using the half-year convention for the year of acquisition and disposition.

(3) Income Taxes

The Corporation has been granted an exemption from federal income taxes under Section 501(c)(12) of the Internal Revenue Code. The Corporation has also been granted exemption from Indiana Gross Receipts Tax under Indiana Code. Accordingly, no provision has been made for income taxes in the financial statements.

(4) Cash and Cash Equivalents

Cash and Cash Equivalents includes cash on deposit with financial institutions and investments with an original maturity of less than three months.

(5) Certificates of Deposit

The Corporation has certificates of deposit at financial institutions with various original maturities. Certificates of deposit maturing within one year of the Balance Sheet date have been reported as current, whereas certificates of deposit maturing subsequent to this date are classified as Other Assets.

SILVER CREEK WATER CORPORATION

Notes to Financial Statements December 31, 2019 and December 31, 2018

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(6) Inventory

Inventory is recorded at cost on the first-in, first-out basis. Inventory consists of materials to be used in future repairs or additions to Utility Plant.

(7) Contributions-in-Aid of Construction

This account represents a portion of the capital of the Corporation. The credits to this account cannot be transferred to any other account without the approval of the Indiana Utility Regulatory Commission (see Note C).

Members are required to pay a tap-in fee when they are connected to the water system. This fee is assessed to cover the cost of the meter, meter installation and the service connecting the meter and the distribution main. In addition, the customer must pay the cost, in excess of three years' anticipated revenue, of extending water mains to provide service.

The total cost of extending water lines is added to Utility Plant in Service. The portion paid by the customer or by grant funds is credited to Contributions-in-Aid of Construction. When developers or customers pay the cost of extending water lines, these lines become the property and responsibility of the Corporation. Donated property is added to Utility Plant at the cost incurred by the donor and is depreciated in accordance with methods described in Note B(2).

(8) Uncollectible Accounts

Accounts receivable are considered past due when payment is not received by the due date listed on a customer's bill. Bad debts are accounted for using the direct write-off method. The expense is recognized when a specific account is determined to be uncollectible. The effects of using this method approximate those of the allowance method.

(9) Sales Tax

The Corporation collects sales tax on all of their sales to nonexempt customers and remits the entire amount to the state. The net method of recording the collection and remittance of sales tax is used in the financial statements.

(10) Estimates

The preparation of financial statements in conformity with United States generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

SILVER CREEK WATER CORPORATION

Notes to Financial Statements December 31, 2019 and December 31, 2018

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(11) Revenue Recognition

On January 1, 2019, the Corporation adopted Accounting Standards Codification Topic 606, Revenue from Contracts with Customers, and all related amendments (collectively, "ASC 606"), 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 date have not been restated and continue to be reported under the accounting standards in effect for those periods.

The Corporation'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 Corporation elected to apply the significant financing component practical expedient and no amount of consideration has been allocated as a financing component.

Revenue is generated primarily from water services delivered to customers. These contracts contain a single performance obligation, the delivery of water services, as the promise to transfer the individual good or service is not separately identifiable from other promises within the contracts and, therefore, is not distinct. Revenues are recognized over time, as services are provided. There are generally no significant financing components or variable consideration. Revenues amounts are billed to customers on a cycle basis at the beginning of each month for water used during the previous month. The Corporation accrues that billing. The amounts that the Corporation has a right to invoice are determined by each customer's actual usage, an indicator that the invoice amount corresponds directly to the value transferred to the customer.

NOTE C. REGULATORY AGENCIES

Silver Creek Water Corporation is regulated by the Utility Regulatory Commission of the State of Indiana as a Class A Not-for-Profit Water Utility. The records of the Corporation are maintained in accordance with the Uniform System of Accounts as prescribed by the National Association of Regulatory Utility Commissioners.

SILVER CREEK WATER CORPORATION

**Notes to Financial Statements
December 31, 2019 and December 31, 2018**

NOTE D. UTILITY PLANT IN SERVICE

Utility Plant in Service consisted of the following at December 31,

	<u>2019</u>	<u>2018</u>
Organization Costs	\$ 145	\$ 145
Land and Land Rights	706,673	706,673
Structures	1,246,518	1,136,649
Electric Pumping Equipment	971,194	597,013
Dist. Reservoir and Standpipe	3,682,166	3,645,409
Transmission and Distribution Mains	9,086,080	8,962,258
Services	764,439	748,603
Meters and Installations	2,061,959	2,019,050
Hydrants	688,331	644,425
Office Furniture and Fixtures	290,472	302,380
Transportation Equipment	258,976	258,976
Tools, Shop and Garage Equipment	255,776	251,027
Communication Equipment	187,290	178,711
Miscellaneous Equipment	<u>361,732</u>	<u>361,732</u>
Total Utility Plant in Service	<u>\$ 20,561,751</u>	<u>\$ 19,813,051</u>

NOTE E. NOTES PAYABLE

On May 29, 2018, the Corporation obtained a \$2,300,000 mortgage loan at a local financial institution, maturing on May 29, 2033. The loan provides for a 4.25% fixed interest rate through May 29, 2025. Thereafter, the loan bears a variable rate based on 3.25% above the weekly average yield on US Treasury securities with a maturity of one year. Adjustments to the interest rate may be made as often as every 12 months. The rate will never be higher than 21% and never lower than 4.25%. The loan is secured by 11 parcels of real property and all equipment owned by the Corporation. The loan also contains restrictive covenants related to working capital, debt service coverage and providing financial information.

The combined scheduled principal reduction for the next five years is as follows:

2020	\$	120,443
2021	\$	125,663
2022	\$	131,109
2023	\$	136,790
2024	\$	142,719

SILVER CREEK WATER CORPORATION

**Notes to Financial Statements
December 31, 2019 and December 31, 2018**

NOTE F. REVENUE RECOGNITION

Disaggregated Revenues

The following table provides operation revenues from contracts with customers disaggregated for the year ended December 31, 2019.

Water Services:	
Residential	\$ 2,436,570
Commercial	256,356
Industrial	60,545
Public Authorities	65,766
Multi-Family	94,482
Total Water Sales	<u>2,913,719</u>
Private Fire Protection	135,453
Late Payment Charges	38,191
Miscellaneous Utility Charges	99,618
Total Operating Revenues	<u>\$ 3,186,981</u>

Customer Accounts Receivable and Contract Balances

Contract assets and contract liabilities are the result of timing differences between revenue recognition, billings and cash collections. Contract assets are recorded when billing occurs subsequent to revenue recognition, and are reclassified to accounts receivable when billed and the right to consideration becomes unconditional. Contract liabilities are recorded when the Corporation receives advances from customers prior to satisfying contractual performance obligations, and are recognized as revenue when the associated performance obligations are satisfied. Contract assets and contract liabilities are both a component of Accounts Receivable, Net as shown on the Balance Sheets. Customer Accounts Receivable consisted of the following as of December 31,

	<u>2019</u>	<u>2018</u>
Customer Accounts Receivable - Billed	\$ 254,231	\$ 248,944
Contract Liabilities - Overpayments from Customers	<u>(34,704)</u>	<u>(31,130)</u>
Accounts Receivable, Net	<u>\$ 219,527</u>	<u>\$ 217,814</u>

SILVER CREEK WATER CORPORATION

Notes to Financial Statements December 31, 2019 and December 31, 2018

NOTE G. PENSION PLAN

Silver Creek Water Corporation has a defined contribution plan for employees, qualified under Section 401(k) of the Internal Revenue Code. In order to qualify for the plan, the employee must have attained the age of 21 years and have been employed by the Corporation for a period of at least one year. Benefits will begin on January 1 after one full year of service. An employee must have over 1,000 hours of service in a plan year to have contributions allocated to him/her for that year. Each participant may elect to have compensation deferred by a range of 3% to 80% and the Corporation contributes 9% of the employee's qualified gross salary. The provision for pension costs for 2019 and 2018 was \$39,143, and \$36,373, respectively.

NOTE H. ECONOMIC DEPENDENCY

Silver Creek Water Corporation purchases 100% of the water it sells from Indiana American Water Company. If, in the future, Indiana American Water Company is unable to provide the necessary water, the Corporation will be forced to procure an alternative source of supply.

NOTE I. CONCENTRATIONS OF CREDIT RISK

Due to the nature of the Corporation's business, its customers are all in a concentrated geographic area. Future events that have a negative impact on the economy of Silver Creek Water Corporation's service area could affect the collectability of the Corporation's receivables.

The Corporation maintains cash at federally insured financial institutions. At times such balances may be in excess of the FDIC insurance limit. At December 31, 2019, the Corporation's uninsured balance was \$3,082. The Corporation also maintains a repurchase agreement account. At December 31, 2019, the balance in the account was \$328,775. This account is not subject to the FDIC insurance limit, but is secured by securities owned by the financial institution to minimize the Corporation's risk of loss.

NOTE J. SUBSEQUENT EVENTS

Management has evaluated subsequent events through February 26, 2020, which was the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

SILVER CREEK WATER CORPORATION

Schedules of Other Operating Expenses For the Years Ended December 31,

	<u>2019</u>	<u>2018</u>
Purchased Power	\$ 25,207	\$ 27,829
Repair and Maintenance	504,873	346,199
Office Supplies and Postage	60,086	58,842
Telephone Expense	14,291	15,588
Outside Services	86,009	68,142
Transportation	28,070	37,223
Director Expense	24,634	24,267
Payroll Tax Expense	41,893	37,062
Insurance	33,399	32,910
Regulatory Commission Expense	25,510	21,734
Bad Debt Expense	1,756	1,803
Training and Seminars	25,697	49,413
Miscellaneous Expense	<u>14,118</u>	<u>10,991</u>
Total Other Operating Expenses	<u>\$ 885,543</u>	<u>\$ 732,003</u>