

**BUFFALO TRAIL  
WATER ASSOCIATION, INC.  
Sardis, Kentucky**

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**FINANCIAL STATEMENTS  
December 31, 2014 and 2013**

## CONTENTS

Independent Auditors' Report.....	1-2
Financial Statements	
Statements of Financial Position .....	3
Statements Activities .....	4
Statements of Cash Flows.....	5
Notes to Financial Statements .....	6-9
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <b>Governmental Auditing Standards</b> .....	10-12

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Buffalo Trail Water Association, Inc.  
Sardis, Kentucky

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Buffalo Trail Water Association, Inc. (the Association) as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Association's basic financial statements as listed in the table of contents.

### ***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.

### ***Auditors' 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 auditors' 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 respective financial position of the Buffalo Trail Water Association, Inc., as of December 31, 2014 and 2013, and the respective changes in financial position, and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2015, on our consideration of the Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Association's internal control over financial reporting and compliance.

*Ray, Foley, Hensley & Company*

Ray, Foley, Hensley & Company, PLLC  
March 28, 2015

**BUFFALO TRAIL WATER ASSOCIATION, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31,**

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<b>ASSETS</b>	<b>2014</b>	<b>2013</b>
Current assets		
Cash and cash equivalents	\$ 224,865	\$ 238,978
Certificates of deposit	1,001,944	845,759
Accounts receivable, net	48,733	54,314
Accrued interest receivable	625	628
Inventory	<u>16,360</u>	<u>16,106</u>
Total current assets	<u>1,292,527</u>	<u>1,155,785</u>
Capital assets		
Property, plant and equipment	7,618,178	7,536,037
Less accumulated depreciation	<u>(2,893,451)</u>	<u>(2,737,296)</u>
Total plant, property and equipment	<u>4,724,727</u>	<u>4,798,741</u>
Other assets		
Note receivable - Mt. Olivet	31,278	37,710
Certificate of deposit	36,024	36,024
Unamortized bond costs	<u>1,823</u>	<u>1,903</u>
Total other assets	<u>69,125</u>	<u>75,637</u>
 TOTAL ASSETS	 <u>\$ 6,086,379</u>	 <u>\$ 6,030,163</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities		
Accounts payable	\$ 29,791	\$ 25,045
Taxes payable	4,472	3,300
Customer deposits	20,190	19,350
Accrued interest payable	2,190	2,388
Current portion of long-term debt	<u>30,605</u>	<u>29,114</u>
Total current liabilities	87,248	79,197
Long-term debt		
Notes payable	<u>618,734</u>	<u>650,991</u>
Total liabilities	<u>705,982</u>	<u>730,188</u>
Net Assets		
Unrestricted net assets-debt reserves	36,024	36,024
Unrestricted net assets-customer contributions	3,209,351	3,118,810
Unrestricted net assets-grants in aid of construction	2,317,557	2,317,557
Unrestricted net assets (deficit)	<u>(182,535)</u>	<u>(172,416)</u>
Total net assets	<u>5,380,397</u>	<u>5,299,975</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 6,086,379</u>	<u>\$ 6,030,163</u>

The accompanying notes are an integral  
part of the financial statements

**BUFFALO TRAIL WATER ASSOCIATION, INC.**  
**STATEMENTS OF ACTIVITIES**  
for the years ended December 31,

	<b>2014</b>	<b>2013</b>
<b>OPERATING INCOME</b>		
Water sales	\$ 620,430	\$ 609,798
Other revenue	<u>13,670</u>	<u>6,399</u>
Total operating income	<u>634,100</u>	<u>616,197</u>
<b>OPERATING EXPENSES</b>		
Purchased water	213,484	192,024
Contractual services	147,378	160,003
Salaries and wages	59,313	65,789
Regulatory commission expense	2,380	2,440
Materials and supplies	13,100	9,862
Utilities and telephone	11,190	7,419
Insurance	9,600	9,145
Bad debt expense	802	730
Miscellaneous	<u>8,631</u>	<u>7,091</u>
Total operating expense	<u>465,878</u>	<u>454,503</u>
Operating income before depreciation	168,222	161,694
Depreciation expense	<u>(156,155)</u>	<u>(167,256)</u>
<b>OPERATING INCOME (LOSS)</b>	12,067	(5,562)
Non-operating income (expenses)		
Interest income	8,778	8,712
Interest expense	<u>(30,964)</u>	<u>(63,160)</u>
<b>NET (LOSS)</b>	(10,119)	(60,010)
Net assets (deficit), beginning	<u>(172,416)</u>	<u>(112,406)</u>
<b>NET ASSETS (DEFICIT), ENDING</b>	<u>\$ (182,535)</u>	<u>\$ (172,416)</u>

The accompanying notes are an integral part of the financial statements.

**BUFFALO TRAIL WATER ASSOCIATION, INC.**  
**STATEMENTS OF CASH FLOWS**  
for the years ended December 31,

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	<b>2014</b>	<b>2013</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 640,521	\$ 609,697
Payments to suppliers	(402,073)	(382,872)
Payments for employee services and benefits	<u>(58,141)</u>	<u>(65,460)</u>
Net cash provided by operating activities	<u>180,307</u>	<u>161,365</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Customer contributions	90,541	10,800
Purchases of capital assets	(82,141)	(53,135)
Interest paid	(31,082)	(61,976)
Principal paid	(30,766)	(46,312)
Receipts from note receivable	<u>6,432</u>	<u>6,804</u>
Net cash (used in) financing activities	<u>(47,016)</u>	<u>(143,819)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of certificates of deposit	(156,185)	(106,068)
Interest income	<u>8,781</u>	<u>8,712</u>
Net cash (used in) investing activities	<u>(147,404)</u>	<u>(97,356)</u>
<b>NET (DECREASE) IN CASH</b>	(14,113)	(79,810)
Cash and cash equivalents, beginning of year	<u>238,978</u>	<u>318,788</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 224,865</u>	<u>\$ 238,978</u>
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:</b>		
Operating income (loss)	\$ 12,067	\$ (5,562)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	156,155	167,256
Change in assets and liabilities:		
(Increase) decrease in accounts receivable	5,581	(7,070)
(Increase) decrease in inventory	(254)	(482)
Increase (decrease) in accounts payable	4,746	6,324
Increase (decrease) in taxes payable	1,172	329
Increase in customer deposits	<u>840</u>	<u>570</u>
Net cash provided by operating activities	<u>\$ 180,307</u>	<u>\$ 161,365</u>

The accompanying notes are an integral part of the financial statements.

**BUFFALO TRAIL WATER ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2014 and 2013**

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**1. ORGANIZATION AND ACCOUNTING POLICIES**

The Buffalo Trail Water Association, Inc. (the Association) distributes and sells water to approximately 1,500 members. The Association primarily serves Bracken, Harrison, Mason, Nicholas, Pendleton, and Robertson Counties. Its suppliers of water are Maysville Utilities and the Western Fleming Water District.

**Reporting Entity**

The Buffalo Trail Water Association, Inc. was created and organized as a non-profit association and is exempt from income tax under Section 501(c)12 of the Internal Revenue Code.

The Association files an income tax return in the U.S. federal jurisdiction and the state of Kentucky. The Association is no longer subject to income tax examinations by tax authorities for years before 2010. Association believes there are no tax positions that meet the more likely than not threshold for disclosure in these financial statements.

**Basis of Accounting**

The Association maintains its accounting records on the cash basis during the year. Adjustments are made to convert to the accrual basis from memorandum records at year end.

The Association records revenue as billed to its customers based upon monthly meter reading cycles. At the end of each year, water service which has been rendered from the latest date of each meter reading to December 31, is unbilled.

The statements of activities report all revenues and expenses as operating, except interest income, interest expense, and amortization.

**Basis of Presentation**

The Association is required to report information regarding its financial position and activities according to the three classes of net assets; unrestricted, temporarily restricted, and permanently restricted.

**Unrestricted** - These assets generally result from revenues from providing services, receiving unrestricted contributions and receiving dividends and interest from income-producing assets, less expense incurred in providing services, raising contributions and performing administrative functions. The only limits on unrestricted net assets are the board limits resulting from the nature of the Organization, the environment in which it operates and the purposes specified in its articles of incorporation.

**Temporarily restricted** - These assets result from receiving contributions that may be expended only for specific purposes or in specific future periods. There were no temporarily restricted net assets for the years ended December 31, 2014 or 2013.

**Permanently restricted** - These assets represent funds that are permanently restricted by the donor with income and appreciation available to support the general operations of the Association. There were no permanently restricted net assets for the years ended December 31, 2014 or 2013.

**Cash and Cash Equivalents**

For purposes of the statements of cash flows, the Association defines cash and cash equivalents to include cash on hand, cash in bank, and certificates of deposit with original maturities of 90 days or less.

**Accounts Receivable**

The reserve for accounts receivable represents accounts past due in excess of thirty days that are thought to be uncollectible. The reserve for accounts receivable at December 31, 2014 and 2013 totaled \$12,631 and \$14,294, respectively.



**BUFFALO TRAIL WATER ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2014 and 2013**

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**1. ORGANIZATION AND ACCOUNTING POLICIES (CONTINUED)**

**Inventory**

The Association's inventory is maintained at lower of cost (first-in, first-out method) or market.

**Property and Equipment**

Fixed assets are stated at cost. Interest costs incurred during construction are capitalized as a cost of the project. Depreciation has been provided using the straight-line method with the economic lives determined using the following guidelines:

<b>Asset Class</b>	<b>Life</b>
Vehicles and Equipment	5-10
Meters and Pipes	25
Buildings	40
Water and Sewer Systems	50

**Restricted Funds**

The Board of Directors makes a determination whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**Estimates**

The preparation of financial statements in conformity with 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 period. Actual results could differ from those estimates.

**Management's Review of Subsequent Events**

The Association has evaluated and considered the need to recognize or disclose subsequent events through March 28, 2015; which represents the date that these financial statements were available for issuance. Subsequent events past this date, as they pertain to the fiscal year ended December 31, 2014, have not been evaluated by the Association.

**2. CASH AND CASH EQUIVALENTS**

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Association will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. In order to anticipate market changes and provide a level of security for all funds, the collateralization level shall be one hundred percent of the market value of the principal, plus accrued interest.

The Association's deposits and investments at December 31, 2014 and 2013 were substantially covered by Federal Depository Insurance. These deposits totaled \$1,371,489 and \$1,228,160, respectively. There were uninsured deposits at December 31, 2014. There were no uninsured deposits at December 31, 2013.

FDIC Insurance	\$ 1,267,442
Uninsured and uncollateralized	<u>104,046</u>
Total	<u>\$ 1,371,489</u>

**BUFFALO TRAIL WATER ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2014 and 2013**

**3. CAPITAL ASSETS**

The following is a summary of capital asset activity during the year:

	<b>Balance 12/31/2013</b>	<b>Additions</b>	<b>Disposals</b>	<b>Balance 12/31/2014</b>
Capital assets not depreciated:				
Land and land rights	\$ 9,778	\$ -	\$ -	\$ 9,778
Construction in process	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total not depreciated	<u>9,778</u>	<u>-</u>	<u>-</u>	<u>9,778</u>
Capital assets that are depreciated:				
Plant and equipment	7,526,259	82,141	-	7,608,400
Less: accumulated depreciation	<u>(2,737,296)</u>	<u>(156,155)</u>	<u>-</u>	<u>(2,893,451)</u>
Total depreciated	<u>4,788,963</u>	<u>(74,014)</u>	<u>-</u>	<u>4,714,949</u>
Capital assets, net	<u>\$ 4,798,741</u>	<u>\$ (74,014)</u>	<u>\$ -</u>	<u>\$ 4,724,727</u>

**4. NOTE RECEIVABLE**

The Association entered into an agreement with the City of Mt. Olivet to help pay a debt incurred in 1980 to connect to the West Fleming Water District. The City of Mt. Olivet agreed to pay the Association \$648 per month for a total of \$7,772 per year. This represents 35% of the annual payment of \$22,008 due on the Farmers Home Loan. The receivable represents 40% of the outstanding debt at year end. The debt at December 31, 2014 totaled \$76,577, the receivable at December 31, 2014 totaled \$31,278. The debt at year end December 31, 2013 totaled \$94,274, the receivable December 31, 2013 totaled \$37,710.

**5. LONG-TERM DEBT**

The following is a summary of the notes outstanding for the Association for the years ended December 31:

<b>Notes-Farmers Home Administration</b>	<b>2014</b>	<b>2013</b>
Loan - \$364,000, dated 5/12/80, payable in annual installments of \$21,588 through 2020, bearing interest at a rate of 5%	\$ 76,577	\$ 94,274
Loan - \$347,000, date 8/6/99, payable in annual installments of \$20,400 through 2040, bearing interest at a rate of 4.75%	266,964	274,489
Loan - \$347,000, dated 5/14/3, payable in annual installments of \$19,394 through 2040, bearing interest at a rate of 4.5%	<u>305,799</u>	<u>311,342</u>
Total debt	649,340	680,105
Less: current portion	<u>(30,605)</u>	<u>(29,114)</u>
Long-term portion	<u>\$ 618,734</u>	<u>\$ 650,991</u>

**BUFFALO TRAIL WATER ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2014 and 2013**

**5. LONG-TERM DEBT (CONTINUED)**

The annual requirements to amortize all bonds and loans outstanding at December 31, 2014, are as follows:

Year Ending December 31	Principal	Interest	Total
2015	\$ 30,605	\$ 30,271	\$ 60,876
2016	32,090	28,786	60,876
2017	33,646	27,230	60,876
2018	35,277	25,599	60,876
2019	15,435	23,888	39,323
2020-2024	88,420	108,020	196,440
2025-2029	110,936	85,504	196,440
2030-2034	139,192	57,248	196,440
2035-2039	108,980	25,074	134,054
2040-2044	<u>54,758</u>	<u>5,146</u>	<u>59,904</u>
	<u>\$ 649,339</u>	<u>\$ 416,766</u>	<u>\$ 1,066,105</u>

	December 31, 2013	Additions	Retirements	December 31, 2014	Due Within One Year
Long-term debt	<u>\$ 680,105</u>	<u>\$ -</u>	<u>\$ (30,766)</u>	<u>\$ 649,339</u>	<u>\$ 30,605</u>

**6. RISK MANAGEMENT**

The Association is exposed to various risks of loss related torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In addition to its general liability insurance, the Association also carries commercial insurance for all other risks of loss such as worker's compensation and employee health and accident coverage. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**7. DEFICIT NET ASSETS**

The Association carried a deficit in net assets at December 31, 2014 and 2013 of \$182,535 and \$172,416, respectively. The deficit is primarily a result of user charges insufficient to provide for depreciation on contributed assets. Accumulated depreciation on contributed assets totaled \$2,893,451 and \$2,737,296 at December 31, 2014 and 2013, respectively.

**8. RECLASSIFICATION**

Certain components of net assets in the statements of financial position have been reclassified in the prior year, in order to fit the current year presentation. Accordingly, the beginning net asset deficit in the statements of activities for 2013 has been changed as follows:

Previously reported	\$ (76,382)
Reclassification	<u>(36,024)</u>
2013 opening balance	<u>\$ (112,406)</u>



Ray, Foley, Hensley & Company, PLLC

Certified Public Accountants and Consultants

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors  
Buffalo Trail Water Association, Inc.  
Sardis, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Buffalo Trail Water Association, Inc. (the Association), as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Association's basic financial statements, and have issued our report thereon dated March 28, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Association's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses (2014-001 and 2014-002).

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention to those charged with governance.

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS  
(CONTINUED)**

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Buffalo Trail Water Association Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Ray, Foley, Hensley & Company*

Ray, Foley, Hensley & Company, PLLC  
March 28, 2015

**BUFFALO TRAIL WATER ASSOCIATION, INC.**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**DECEMBER 31, 2014**

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**FINDING 2014-001 (recurring)**

The Association is required to have internal controls in place that enable it to prepare complete financial statements, including note disclosures, in compliance with generally accepted accounting principles.

The Association lacks personnel with the expertise to apply generally accepted accounting principles in preparing its financial statements including note disclosures.

Management engaged the auditor to prepare draft financial statements, including the related notes to the financial statements. Management reviewed, approved and accepted responsibility for the financial statements prior to their issuance.

We recommend management review the costs and benefits involved to retain a consultant with the required expertise to prepare the financial statements and ensure compliance with generally accepted accounting principles.

**RESPONSE:**

This is an ongoing finding. Management has determined that it is more cost effective to continue to engage the auditor to draft the financial statements and related notes.

**FINDING 2014-002 (recurring)**

The Association is required to have internal controls in place that enable it to identify discrepancies in cash accounts between book balances and bank balances.

Management is charged with performing monthly bank reconciliations to help identify these discrepancies. Our audit revealed that the cash accounts were not being reconciled to the bank statements.

We recommend management perform monthly bank reconciliations on a timely basis and that the Board of Directors review the bank reconciliations at the monthly board meetings.

**RESPONSE:**

Management has agreed to start reconciling cash accounts monthly, on a timely basis. The Board of Directors has agreed to review management's monthly bank reconciliations at the board meetings.