

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

**FINANCIAL STATEMENTS
December 31, 2018 and 2017**

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Buffalo Trail Water Association, Inc.
Mayslick, 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, 2018 and 2017 the related statements of activities, changes in net assets and cash flows for the years then ended, the related statement of functional expenses for the year ended December 31, 2018, 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.

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 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 Buffalo Trail Water Association, Inc., as of December 31, 2018 and 2017, the changes in its net assets, and its 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 25, 2019, 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.

RFH

RFH, PLLC
Lexington, Kentucky
March 25, 2019

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

ASSETS	2018	2017
Current assets		
Cash and cash equivalents	\$ 719,367	\$ 620,011
Certificates of deposit	150,806	1,016,815
Accounts receivable, net	81,855	59,893
Accrued interest receivable	470	293
Inventory	<u>18,331</u>	<u>17,560</u>
Total current assets	<u>970,829</u>	<u>1,714,572</u>
Capital assets		
Property, plant and equipment	8,306,162	7,630,019
Less accumulated depreciation	(3,541,315)	(3,372,793)
Construction in progress	<u>-</u>	<u>587,009</u>
Total capital assets	<u>4,764,847</u>	<u>4,844,235</u>
Other assets		
Note receivable - Mt. Olivet	-	7,147
Certificate of deposit, reserved for debt requirements	34,706	34,706
Certificates of deposit, noncurrent	<u>869,786</u>	<u>-</u>
Total other assets	<u>904,492</u>	<u>41,853</u>
 TOTAL ASSETS	 <u>\$ 6,640,168</u>	 <u>\$ 6,600,660</u>
 LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 33,826	\$ 63,435
Taxes payable	31,289	33,919
Customer deposits	25,240	27,770
Accrued interest payable	5,761	2,857
Current portion of notes payable	<u>24,039</u>	<u>32,712</u>
Total current liabilities	120,155	160,693
Long-term debt		
Notes payable	<u>969,948</u>	<u>994,872</u>
Total liabilities	<u>1,090,103</u>	<u>1,155,565</u>
Net assets		
Without donor restrictions		
Debt reserves	34,706	34,706
Customer contributions	3,278,351	3,245,351
Grants in aid of construction	2,477,558	2,397,683
Unappropriated (deficit)	<u>(240,550)</u>	<u>(232,645)</u>
Total net assets	<u>5,550,065</u>	<u>5,445,095</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 6,640,168</u>	 <u>\$ 6,600,660</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,

	2018	2017
OPERATING REVENUE		
Water sales	\$ 702,999	\$ 672,954
Other revenue	<u>97,868</u>	<u>89,017</u>
Total operating revenue	<u>800,867</u>	<u>761,971</u>
OPERATING EXPENSES		
Purchased water	232,286	205,698
Contractual services	143,084	142,427
Salaries and wages	97,395	92,811
Regulatory commission expense	1,524	1,295
Materials and supplies	9,778	13,474
Utilities and telephone	10,220	8,918
Insurance	10,940	10,632
Bad debt expense	2,266	802
Miscellaneous	<u>23,620</u>	<u>36,541</u>
Total operating expense	<u>531,113</u>	<u>512,598</u>
Operating income before depreciation	269,754	249,373
Depreciation expense	<u>168,522</u>	<u>162,077</u>
OPERATING INCOME (LOSS)	<u>101,232</u>	<u>87,296</u>
Non-operating income (expense)		
Interest income	4,231	5,712
Interest expense	<u>(33,493)</u>	<u>(27,581)</u>
Total non-operating income (expense)	<u>(29,262)</u>	<u>(21,869)</u>
NET INCOME	71,970	65,427
Net assets - unappropriated (deficit), beginning	(232,645)	(217,946)
Proceeds from grants in aid of construction	<u>(79,875)</u>	<u>(80,126)</u>
NET ASSETS - UNAPPROPRIATED (DEFICIT), ENDING	<u>\$ (240,550)</u>	<u>\$ (232,645)</u>

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

BUFFALO TRAIL WATER ASSOCIATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
for the year ended December 31, 2018

	Operating	General and Administrative	Total
Purchased water	\$ 232,286	\$ -	\$ 232,286
Contractual services	133,684	9,400	143,084
Salaries and wages	-	97,395	97,395
Regulatory commission expense	-	1,524	1,524
Materials and supplies	-	9,778	9,778
Utilities and telephone	10,220	-	10,220
Insurance	10,940	-	10,940
Bad debt expense	-	2,266	2,266
Miscellaneous	4,334	19,286	23,620
Depreciation	<u>168,522</u>	<u>-</u>	<u>168,522</u>
 Total expenses	 <u>\$ 559,986</u>	 <u>\$ 139,649</u>	 <u>\$ 699,635</u>

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

BUFFALO TRAIL WATER ASSOCIATION, INC.
STATEMENTS OF CHANGES IN NET ASSETS
for the years ended December 31, 2018 and 2017

	Debt Service Reserves	Customer Contributions	Grants in Aid of Construction	Unappropriated
Balances, December 31, 2016, as restated	<u>\$ 34,706</u>	<u>\$ 3,231,551</u>	<u>\$ 2,317,557</u>	<u>\$ (217,946)</u>
Net income	-	-	-	65,427
Customer contributions	-	13,800	-	-
Proceeds from grants	<u>-</u>	<u>-</u>	<u>80,126</u>	<u>(80,126)</u>
Change in net assets without donor restrictions	<u>-</u>	<u>13,800</u>	<u>80,126</u>	<u>(14,699)</u>
Balances, December 31, 2017	<u>34,706</u>	<u>3,245,351</u>	<u>2,397,683</u>	<u>(232,645)</u>
Net income	-	-	-	71,970
Customer contributions	-	33,000	-	-
Proceeds from grants	<u>-</u>	<u>-</u>	<u>79,875</u>	<u>(79,875)</u>
Change in net assets without donor restrictions	<u>-</u>	<u>33,000</u>	<u>79,875</u>	<u>(7,905)</u>
Balances, December 31, 2018	<u>\$ 34,706</u>	<u>\$ 3,278,351</u>	<u>\$ 2,477,558</u>	<u>\$ (240,550)</u>

The accompanying notes are an integral
part of the financial statement

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

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 696,500	\$ 672,668
Payments to suppliers	(464,098)	(385,770)
Payments for employee services and benefits	<u>(100,025)</u>	<u>(104,429)</u>
Net cash provided by (used in) operating activities	<u>132,377</u>	<u>182,469</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Customer contributions	33,000	13,800
Purchases of capital assets	(89,134)	(548,668)
Interest paid	(30,589)	(24,612)
Principal paid	(33,597)	(35,573)
Borrowings on notes	-	480,000
Proceeds from grants	79,875	80,126
Receipts from note receivable	<u>7,147</u>	<u>8,221</u>
Net cash provided by (used in) capital and related financing activities	<u>(33,298)</u>	<u>(26,706)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of certificates of deposit	(3,777)	(4,337)
Interest income	<u>4,054</u>	<u>5,835</u>
Net cash provided by (used in) investing activities	<u>277</u>	<u>1,498</u>
NET INCREASE (DECREASE) IN CASH	99,356	157,261
Cash and cash equivalents, beginning of year	<u>620,011</u>	<u>462,750</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 719,367</u>	<u>\$ 620,011</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$ 101,232	\$ 87,296
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	168,522	162,077
Proceeds from grants	(79,875)	(80,126)
Change in assets and liabilities:		
(Increase) decrease in accounts receivable	(21,962)	(12,397)
(Increase) decrease in inventory	(771)	(695)
Increase (decrease) in accounts payable	(29,609)	34,712
Increase (decrease) in taxes payable	(2,630)	(11,618)
Increase in customer deposits	<u>(2,530)</u>	<u>3,220</u>
Net cash provided by operating activities	<u>\$ 132,377</u>	<u>\$ 182,469</u>

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

BUFFALO TRAIL WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

1. ORGANIZATION AND ACCOUNTING POLICIES

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

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 generally is no longer subject to income tax examinations by tax authorities for years before 2015. The 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 and interest expense.

New Accounting Pronouncement

On August 18, 2016, the FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The Association has adjusted the presentation of its financial statements accordingly, applying the changes retrospectively to the comparative period presented. The new standards change the following aspects of the Association's financial statements:

- The unrestricted net asset class has been renamed net assets without donor restrictions.
- The financial statements include a new disclosure about liquidity and availability of resources (Note 3).
- The statement of functional expenses for the year ended December 31, 2018, is now reported as a financial statement. The Association has elected to omit the statement of functional expenses for the year ended December 31, 2017, as permitted by ASU 2016-14.

Basis of Presentation

The Association is required to report information regarding its financial position and activities according to the two classes of net assets; net assets without donor restrictions and net assets with donor restrictions.

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 banks, and certificates of deposit with original maturities of 90 days or less.

BUFFALO TRAIL WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

1. ORGANIZATION AND ACCOUNTING POLICIES (CONTINUED)

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, 2018 and 2017 totaled \$19,953 and \$13,343, respectively.

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:

Asset Class	Life
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 25, 2019; 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, 2018, have not been evaluated by the Association.

BUFFALO TRAIL WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

2. CASH AND INVESTMENTS

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 should be one hundred percent of the market value of the principal, plus accrued interest.

The bank balance of the Association's deposits and investments at December 31, 2018 and 2017, totaled \$1,779,567 and \$1,677,725, respectively. The balance of deposits in excess of federal depository insurance (FDIC) at December 31, 2018 is as follows:

FDIC insurance	\$ 1,272,754
Uninsured and uncollateralized	<u>506,813</u>
Total	<u>\$ 1,779,567</u>

3. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The Association has not adopted a formal liquidity management plan. The Association continually reviews its financial assets and assesses if these financial assets are sufficient to meet cash needs for general expenditures. The Association's financial assets for this purpose include cash and cash equivalents, certificates of deposit and receivables. As of December 31, 2018, the Association's financial assets available to meet cash needs for general expenditures within one year are as follows:

Financial assets, at December 31, 2018	\$ 1,856,990
Less those unavailable for general expenditures within one year, due to:	
Board designations:	
Debt service reserves	(34,706)
Amounts set aside for use on construction projects	(2,201)
Investments with a maturity date greater than one year:	
Certificates of deposit, non-current	<u>(869,786)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 950,297</u>

As of December 31, 2017, the Association's financial assets available to meet cash needs for general expenditures within one year are as follows:

Financial assets, at December 31, 2017	\$ 1,731,718
Less those unavailable for general expenditures within one year, due to:	
Board designations:	
Debt service reserves	(34,706)
Amounts set aside for use on construction projects	<u>(1,000)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 1,696,012</u>

BUFFALO TRAIL WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

4. CAPITAL ASSETS

The following is a summary of capital asset activity during the year ended December 31, 2018:

	Balance 12/31/2017	Additions	Disposals	Balance 12/31/2018
Capital assets not depreciated:				
Land and land rights	\$ 9,778	\$ -	\$ -	\$ 9,778
Construction in process	<u>587,009</u>	<u>54,818</u>	<u>(641,827)</u>	<u>-</u>
Total not depreciated	<u>596,787</u>	<u>54,818</u>	<u>(641,827)</u>	<u>9,778</u>
Capital assets that are depreciated:				
Plant and equipment	7,620,241	676,143	-	8,296,384
Less: accumulated depreciation	<u>(3,372,793)</u>	<u>(168,522)</u>	<u>-</u>	<u>(3,541,315)</u>
Total depreciated	<u>4,247,448</u>	<u>507,621</u>	<u>-</u>	<u>4,755,069</u>
Capital assets, net	<u>\$ 4,844,235</u>	<u>\$ 562,439</u>	<u>\$ (641,827)</u>	<u>\$ 4,764,847</u>

The following is a summary of capital asset activity during the year ended December 31, 2017:

	Balance 12/31/2016	Additions	Disposals	Balance 12/31/2017
Capital assets not depreciated:				
Land and land rights	\$ 9,778	\$ -	\$ -	\$ 9,778
Construction in process	<u>38,341</u>	<u>548,668</u>	<u>-</u>	<u>587,009</u>
Total not depreciated	<u>48,119</u>	<u>548,668</u>	<u>-</u>	<u>596,787</u>
Capital assets that are depreciated:				
Plant and equipment	7,620,241	-	-	7,620,241
Less: accumulated depreciation	<u>(3,210,716)</u>	<u>(162,077)</u>	<u>-</u>	<u>(3,372,793)</u>
Total depreciated	<u>4,409,525</u>	<u>(162,077)</u>	<u>-</u>	<u>4,247,448</u>
Capital assets, net	<u>\$ 4,457,644</u>	<u>\$ 386,591</u>	<u>\$ -</u>	<u>\$ 4,844,235</u>

Depreciation expense totaled \$168,522 and \$162,077 for the years ended December 31, 2018 and 2017, respectively.

5. 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 and the receivable had been fully paid off at December 31, 2018. The debt at year end December 31, 2017 totaled \$17,867, the receivable December 31, 2017 totaled \$7,147.

BUFFALO TRAIL WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

6. LONG-TERM DEBT

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

Notes-Farmers Home Administration	2018	2017
Loan - \$364,000, dated 5/12/80, bearing interest at a rate of 5% loan was paid off in October 2018	\$ -	\$ 17,867
Loan - \$347,000, date 8/6/99, payable in annual installments of \$20,400 through 2040, bearing interest at a rate of 4.75%	233,030	242,125
Loan - \$347,000, dated 5/14/03, payable in annual installments of \$19,394 through 2040, bearing interest at a rate of 4.5%	280,957	287,592
Loan - \$480,000, dated 7/5/17, payable in annual installments of \$17,463 through 2057, bearing interest at a rate of 1.875%	<u>480,000</u>	<u>480,000</u>
Total debt	993,987	1,027,584
Less: current portion	<u>(24,039)</u>	<u>(32,712)</u>
Long-term portion	<u>\$ 969,948</u>	<u>\$ 994,872</u>

On July 5, 2017, the Association entered into a loan agreement for \$480,000 with the United States Department of Agriculture to help finance the construction of a new elevated water tank. The loan is to be repaid over the course of 40 years with an interest rate of 1.875%.

The annual requirements to amortize all loans outstanding at December 31, 2018, are as follows:

Year Ending December 31,	Principal	Interest	Total
2019	\$ 24,039	\$ 32,712	\$ 56,751
2020	24,921	31,830	56,751
2121	25,839	30,912	56,751
2022	26,795	29,956	56,751
2023	27,792	28,959	56,751
2024-2028	155,425	128,330	283,755
2029-2033	187,429	96,326	283,755
2034-2038	175,666	58,774	234,440
2039-2043	132,870	31,538	164,408
2044-2048	69,899	17,416	87,315
2049-2053	76,702	10,613	87,315
2054-2057	<u>66,610</u>	<u>3,149</u>	<u>69,759</u>
	<u>\$ 993,987</u>	<u>\$ 500,515</u>	<u>\$ 1,494,502</u>

BUFFALO TRAIL WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

6. LONG-TERM DEBT (CONTINUED)

Changes in long term debt for years ended December 31, 2018 and 2017 are as follows:

	December 31, 2017	Additions	Retirements	December 31, 2018	Due Within One Year
Long-term debt	<u>\$ 1,027,584</u>	<u>\$ -</u>	<u>\$ (33,597)</u>	<u>\$ 993,987</u>	<u>\$ 24,039</u>

	December 31, 2016	Additions	Retirements	December 31, 2017	Due Within One Year
Long-term debt	<u>\$ 583,157</u>	<u>\$ 480,000</u>	<u>\$ (35,573)</u>	<u>\$ 1,027,584</u>	<u>\$ 32,712</u>

7. COMPLIANCE WITH LOAN AGREEMENT

The loan agreements between Rural Development (U.S. Department of Agriculture) and the Association require a reserve balance to be maintained to fund unanticipated emergency maintenance, pay for repairs, and assist with debt service should the need arise. The Association's reserve balance consists of a certificate of deposit totaling \$34,706 at December 31, 2018 and 2017. The required reserve balance at December 31, 2017 was \$53,050, causing it to be underfunded by \$18,344. The reserve requirement at December 31, 2018 decreased to \$35,600 with the payoff of the loan issued in 1980. The balance of the reserve was underfunded by \$894 at December 31, 2018.

8. 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.

9. DEFICIT UNAPPROPRIATED NET ASSETS

The Association carried a deficit in unappropriated net assets at December 31, 2018 and 2017 of \$240,550 and \$232,645, respectively. The deficit is primarily a result of user charges insufficient to provide for depreciation on contributed assets. Accumulated depreciation on contributed assets totaled \$3,541,315 and \$3,372,793 at December 31, 2018 and 2017, respectively.



**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.
Mayslick, 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. as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise Buffalo Trail Water Association, Inc.'s basic financial statements and have issued our report thereon dated March 25, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Buffalo Trail Water Association, Inc.'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 Buffalo Trail Water Association, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be material weaknesses (2018-001 and 2018-002).

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*.

Buffalo Trail Water Association, Inc.'s Response to Findings

Buffalo Trail Water Association, Inc.'s response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Buffalo Trail Water Association, Inc.'s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

RFH

RFH, PLLC
Lexington, Kentucky
March 25, 2019

BUFFALO TRAIL WATER ASSOCIATION, INC.
SCHEDULE OF FINDINGS AND RESPONSES
December 31, 2018

2018-001 The Association should have internal controls in place that enable it to prepare complete financial statements. This is a repeat finding.

Criteria: 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.

Cause: The Association lacks personnel with the expertise to apply generally accepted accounting principles in preparing its financial statements including note disclosures and thus, does not have the internal control procedures required to draft the financial statements in conformity with generally accepted accounting principles.

Effect: 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.

Recommendation: The Association should strive to strengthen the financial reporting system and more closely adhere to governmental accounting practices. Transactions should be recorded in the appropriate funds and closing entries should be posted to all funds prior to initiation of the audit. Furthermore, the Association should consider employing a consultant to assist with the year end transactions.

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.

2018-002 The Association should have controls in place to oversee the timely remittance of payments with payroll tax returns. This is a repeat finding.

Criteria: The associated should have controls in place to oversee the timely remittance of payments with payroll tax returns.

Cause: As noted in the prior year, the Association had not remitted payments for federal and state payroll tax returns. At December 31, 2018, the Association caught up on current year tax payments but still owed federal tax deposits for 2016 and 2017. Additionally, current year tax deposits owed were not made timely.

Effect: The Association received a state notice for late tax payments that resulted in penalties and interest of approximately \$1,434. The Association has not received a federal notice at this time, but it is reasonable to assume they will receive one in the future. At this time, the amount of penalties and interest accumulating for unpaid 2016 and 2017, as well as untimely 2018 federal tax payments is undeterminable. Penalties and interest will likely continue to accumulate for unpaid balances of payroll tax returns.

Recommendation: The Association should settle the balances of unpaid taxes with the respective taxing authority, and the Association should remit timely payments of payroll tax returns going forward.

Response: The Association is in the process of settling all unpaid taxes to date.