

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

**FINANCIAL STATEMENTS
December 31, 2019 and 2018**

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INDEPENDENT AUDITORS' REPORT

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) which comprise the statements of financial position as of December 31, 2019 and 2018 and the related statements of activities, functional expenses, changes in net assets 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.

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, 2019 and 2018, 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.

Emphasis of a Matter – Implementation of New FASB Accounting Standard

As discussed in Note 2, effective January 1, 2019, the Association adopted Financial Accounting Standards Board (FASB) Accounting Standards Update 2016-10, Topic 606: Revenue from Contracts with Customers. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2020, 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 27, 2020

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

| ASSETS | 2019 | 2018 |
|--|-------------------------|-------------------------|
| Current assets | | |
| Cash and cash equivalents | \$ 835,219 | \$ 719,367 |
| Certificates of deposit | 736,009 | 150,806 |
| Accounts receivable, net | 57,432 | 81,855 |
| Accrued interest receivable | 520 | 470 |
| Inventory | <u>16,705</u> | <u>18,331</u> |
| Total current assets | <u>1,645,885</u> | <u>970,829</u> |
| Capital assets | | |
| Property, plant and equipment | 8,334,678 | 8,306,162 |
| Less accumulated depreciation | <u>(3,717,649)</u> | <u>(3,541,315)</u> |
| Total capital assets | <u>4,617,029</u> | <u>4,764,847</u> |
| Other assets | | |
| Certificate of deposit, reserved for debt requirements | 100,000 | 34,706 |
| Certificates of deposit, noncurrent | <u>223,175</u> | <u>869,786</u> |
| Total other assets | <u>323,175</u> | <u>904,492</u> |
| TOTAL ASSETS | <u>\$ 6,586,089</u> | <u>\$ 6,640,168</u> |
| LIABILITIES AND NET ASSETS | | |
| Current liabilities | | |
| Accounts payable | \$ 25,121 | \$ 33,826 |
| Taxes payable | 7,311 | 31,289 |
| Customer deposits | 26,510 | 25,240 |
| Accrued interest payable | 5,637 | 5,761 |
| Current portion of notes payable | <u>24,963</u> | <u>24,039</u> |
| Total current liabilities | 89,542 | 120,155 |
| Long-term debt | | |
| Notes payable | <u>944,085</u> | <u>969,948</u> |
| Total liabilities | <u>1,033,627</u> | <u>1,090,103</u> |
| Net assets | | |
| Without donor restrictions | | |
| Debt reserves | 100,000 | 34,706 |
| Customer contributions | 3,289,341 | 3,278,351 |
| Grants in aid of construction | 2,477,558 | 2,477,558 |
| Unappropriated (deficit) | <u>(314,437)</u> | <u>(240,550)</u> |
| Total net assets | <u>5,552,462</u> | <u>5,550,065</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 6,586,089</u> | <u>\$ 6,640,168</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,

| | 2019 | 2018 |
|---|---------------------|---------------------|
| OPERATING REVENUE | | |
| Water sales | \$ 688,795 | \$ 702,999 |
| Other revenue | <u>12,637</u> | <u>97,868</u> |
| Total operating revenue | <u>701,432</u> | <u>800,867</u> |
| OPERATING EXPENSES | | |
| Purchased water | 210,040 | 232,286 |
| Contractual services | 104,737 | 143,084 |
| Salaries and wages | 128,100 | 97,395 |
| Regulatory commission expense | 1,567 | 1,524 |
| Materials and supplies | 25,615 | 9,778 |
| Utilities and telephone | 9,658 | 10,220 |
| Insurance | 8,571 | 10,940 |
| Bad debt expense | - | 2,266 |
| Miscellaneous | <u>26,252</u> | <u>23,620</u> |
| Total operating expense | <u>514,540</u> | <u>531,113</u> |
| Operating income before depreciation | 186,892 | 269,754 |
| Depreciation expense | <u>176,334</u> | <u>168,522</u> |
| OPERATING INCOME (LOSS) | <u>10,558</u> | <u>101,232</u> |
| Non-operating income (expense) | | |
| Customer contributions, tap fees | 10,990 | 23,000 |
| Customer contributions, donated lines | - | 10,000 |
| Interest income | 13,089 | 4,231 |
| Interest expense | <u>(32,240)</u> | <u>(33,493)</u> |
| Total non-operating income (expense) | <u>(8,161)</u> | <u>3,738</u> |
| NET INCOME | 2,397 | 104,970 |
| Net assets, beginning of year, restated | <u>5,550,065</u> | <u>5,445,095</u> |
| NET ASSETS, ENDING | <u>\$ 5,552,462</u> | <u>\$ 5,550,065</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, 2019

| | Operating | General and Administrative | Total |
|-------------------------------|-----------------------|---------------------------------------|-----------------------|
| Purchased water | \$ 210,040 | \$ - | \$ 210,040 |
| Contractual services | 94,337 | 10,400 | 104,737 |
| Salaries and wages | - | 128,100 | 128,100 |
| Regulatory commission expense | - | 1,567 | 1,567 |
| Materials and supplies | - | 25,615 | 25,615 |
| Utilities and telephone | 9,658 | - | 9,658 |
| Insurance | 8,571 | - | 8,571 |
| Miscellaneous | 3,692 | 22,560 | 26,252 |
| Depreciation | <u>176,334</u> | <u>-</u> | <u>176,334</u> |
| Total expenses | <u>\$ 502,632</u> | <u>\$ 188,242</u> | <u>\$ 690,874</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, 2019 and 2018

| | Debt Service Reserves | Customer Contributions | Grants in Aid of Construction | Unappropriated | Total |
|---|--------------------------|---------------------------|-------------------------------------|---------------------|---------------------|
| Balances, December 31, 2017 | <u>\$ 34,706</u> | <u>\$ 3,245,351</u> | <u>\$ 2,397,683</u> | <u>\$ (232,645)</u> | <u>\$ 5,445,095</u> |
| Net income | - | - | - | 104,970 | 104,970 |
| Customer contributions | - | 33,000 | - | (33,000) | - |
| Proceeds from grants | <u>-</u> | <u>-</u> | <u>79,875</u> | <u>(79,875)</u> | <u>-</u> |
| Change in net assets without donor restrictions | <u>-</u> | <u>33,000</u> | <u>79,875</u> | <u>(7,905)</u> | <u>104,970</u> |
| Balances, December 31, 2018 | <u>34,706</u> | <u>3,278,351</u> | <u>2,477,558</u> | <u>(240,550)</u> | <u>5,550,065</u> |
| Net income | - | - | - | 2,397 | 2,397 |
| Customer contributions | - | 10,990 | - | (10,990) | - |
| Transfer | <u>65,294</u> | <u>-</u> | <u>-</u> | <u>(65,294)</u> | <u>-</u> |
| Change in net assets without donor restrictions | <u>65,294</u> | <u>10,990</u> | <u>-</u> | <u>(73,887)</u> | <u>2,397</u> |
| Balances, December 31, 2019 | <u>\$ 100,000</u> | <u>\$ 3,289,341</u> | <u>\$ 2,477,558</u> | <u>\$ (314,437)</u> | <u>\$ 5,552,462</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,

| | 2019 | 2018 |
|--|--------------------------|--------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Receipts from customers | \$ 727,125 | \$ 696,500 |
| Payments to suppliers | (393,519) | (464,098) |
| Payments for employee services and benefits | <u>(152,078)</u> | <u>(100,025)</u> |
| Net cash provided by (used in) operating activities | <u>181,528</u> | <u>132,377</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Customer contributions | 10,990 | 23,000 |
| Purchases of capital assets | (28,516) | (79,134) |
| Interest paid | (32,364) | (30,589) |
| Principal paid | (24,939) | (33,597) |
| Proceeds from grants | - | 79,875 |
| Receipts from note receivable | <u>-</u> | <u>7,147</u> |
| Net cash provided by (used in) capital and related financing activities | <u>(74,829)</u> | <u>(33,298)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of certificates of deposit | (3,886) | (3,777) |
| Interest income | <u>13,039</u> | <u>4,054</u> |
| Net cash provided by (used in) investing activities | <u>9,153</u> | <u>277</u> |
| NET INCREASE (DECREASE) IN CASH | 115,852 | 99,356 |
| Cash and cash equivalents, beginning of year | <u>719,367</u> | <u>620,011</u> |
| CASH AND CASH EQUIVALENTS, END OF YEAR | <u>\$ 835,219</u> | <u>\$ 719,367</u> |
| Reconciliation of operating income (loss) to net cash provided by (used in) operating activities: | | |
| Operating income (loss) | \$ 10,558 | \$ 101,232 |
| Adjustments to reconcile operating income to net cash provided by (used in) operating activities: | | |
| Depreciation expense | 176,334 | 168,522 |
| Proceeds from grants | - | (79,875) |
| Change in assets and liabilities: | | |
| (Increase) decrease in accounts receivable | 24,423 | (21,962) |
| (Increase) decrease in inventory | 1,626 | (771) |
| Increase (decrease) in accounts payable | (8,705) | (29,609) |
| Increase (decrease) in taxes payable | (23,978) | (2,630) |
| Increase in customer deposits | <u>1,270</u> | <u>(2,530)</u> |
| Net cash provided by (used in) operating activities | <u>\$ 181,528</u> | <u>\$ 132,377</u> |

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

BUFFALO TRAIL WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

1. ORGANIZATION AND ACCOUNTING POLICIES

Buffalo Trail Water Association, Inc. (the Association) distributes and sells water to approximately 1,550 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 2016. 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, interest expense and customer contributions.

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.

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, 2019 and 2018 totaled \$28,495 and \$19,953, respectively.

Inventory

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

BUFFALO TRAIL WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

1. ORGANIZATION AND ACCOUNTING POLICIES (CONTINUED)

Property and Equipment

Fixed assets are stated at cost. Contributed assets are recorded at fair value at the time of donation. 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 27, 2020; 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, 2019, have not been evaluated by the Association.

2. REVENUE RECOGNITION

On January 1, 2019, the Association adopted ASC Topic 606, *Revenue from Contracts with Customers*. The standard was applied retrospectively for the year ended December 31, 2018. The Association has analyzed the provisions of ASC Topic 606, and have concluded that certain changes are necessary to conform with the new standard. The Association is now including customer contributions (tap fees and donated lines) in the statement of activities at the time service is connected. These items were previously shown only on the statements of changes in net assets. The Association's sales are delivered daily as customers use water at which time ownership, risks, and rewards transfer. Revenue is recognized at the end of the month when the customers usage is measured and billed. Control of water transfers to the customer as they consume it. In 2019 and 2018, the Association recognized revenue from sales to customers of \$688,795 and \$702,999, respectively. This revenue recognition did not change based upon ASC Topic 606.

BUFFALO TRAIL WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

2. REVENUE RECOGNITION (CONTINUED)

Contract Balances

The timing of revenue recognition, billings and cash collections results in billed accounts receivable on the statements of financial position. Amounts are billed at the end of every month based on customer usage. Total usage determines the rate at which a customer is billed per unit. Payment is due within 10 days, but penalties are not imposed until 10 additional days past the due date. The association receives bill payments, on average, every 34 days.

The beginning and ending contract balances were as follows as of December 31:

| | 2019 | 2018 | 2017 |
|---------------------|------------------|------------------|------------------|
| Accounts receivable | <u>\$ 57,432</u> | <u>\$ 81,855</u> | <u>\$ 59,893</u> |

Customers have the right to claim adjustments for leaks, once per year, or to correct errors from meter reading. The Association recognized revenue sales in the amount it expected to be entitled, that is, net of estimated adjustments. Based on past experience, the Association does not anticipate a significant amount of adjustments and therefore has not accrued an adjustment liability.

3. 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. Investments consist of certificates of deposit and are stated at cost.

The bank balance of the Association's deposits and investments at December 31, 2019 and 2018, totaled \$1,888,753 and \$1,779,567, respectively. The balance of deposits in excess of federal depository insurance (FDIC) at December 31, 2019 is as follows:

| | |
|--------------------------------|---------------------|
| FDIC insurance | \$ 1,274,228 |
| Uninsured and uncollateralized | <u>614,525</u> |
| Total | <u>\$ 1,888,753</u> |

4. 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, 2019, the Association's financial assets available to meet cash needs for general expenditures within one year are as follows:

| | |
|--|---------------------|
| Financial assets, at December 31, 2019 | \$ 1,952,355 |
| Less those unavailable for general expenditures within one year, due to: | |
| Board designations: | |
| Debt service reserves | (100,000) |
| Investments with a maturity date greater than one year: | |
| Certificates of deposit, non-current | <u>(223,175)</u> |
| Financial assets available to meet cash needs for general expenditures within one year | <u>\$ 1,629,180</u> |

BUFFALO TRAIL WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

4. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS (CONTINUED)

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> |

5. CAPITAL ASSETS

The following is a summary of capital asset activity during the year ended December 31, 2019:

| | Balance 12/31/2018 | Additions | Disposals | Balance 12/31/2019 |
|--------------------------------------|-------------------------------|---------------------|------------------|-------------------------------|
| Capital assets not depreciated: | | | | |
| Land and land rights | \$ 9,778 | \$ - | \$ - | \$ 9,778 |
| Total not depreciated | <u>9,778</u> | <u>-</u> | <u>-</u> | <u>9,778</u> |
| Capital assets that are depreciated: | | | | |
| Plant and equipment | 8,296,384 | 28,516 | - | 8,324,900 |
| Less: accumulated depreciation | <u>(3,541,315)</u> | <u>(176,334)</u> | <u>-</u> | <u>(3,717,649)</u> |
| Total depreciated | <u>4,755,069</u> | <u>(147,818)</u> | <u>-</u> | <u>4,607,251</u> |
| Capital assets, net | <u>\$ 4,764,847</u> | <u>\$ (147,818)</u> | <u>\$ -</u> | <u>\$ 4,617,029</u> |

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>587,009</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>\$ (641,821)</u> | <u>\$ 4,764,847</u> |

BUFFALO TRAIL WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

5. CAPITAL ASSETS (CONTINUED)

Depreciation expense totaled \$176,334 and \$168,522 for the years ended December 31, 2019 and 2018, respectively.

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 | 2019 | 2018 |
|---|-------------------|-------------------|
| Loan - \$347,000, date 8/6/99, payable in annual installments of \$19,894 through 2040, bearing interest at a rate of 4.75% | \$ 223,493 | \$ 233,030 |
| Loan - \$347,000, dated 5/14/03, payable in annual installments of \$19,394 through 2040, bearing interest at a rate of 4.5% | 274,018 | 280,957 |
| 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>471,537</u> | <u>480,000</u> |
| Total debt | 969,048 | 993,987 |
| Less: current portion | <u>(24,963)</u> | <u>(24,039)</u> |
| Long-term portion | <u>\$ 944,085</u> | <u>\$ 969,948</u> |

The annual requirements to amortize all loans outstanding at December 31, 2019, are as follows:

| Year Ending December 31, | Principal | Interest | Total |
|-------------------------------------|-------------------|-------------------|---------------------|
| 2020 | \$ 24,963 | \$ 31,788 | \$ 56,751 |
| 2021 | 25,883 | 30,868 | 56,751 |
| 2022 | 26,842 | 29,909 | 56,751 |
| 2023 | 27,840 | 28,911 | 56,751 |
| 2024 | 28,880 | 27,871 | 56,751 |
| 2025-2029 | 161,599 | 122,156 | 283,755 |
| 2030-2034 | 195,035 | 88,720 | 283,755 |
| 2035-2039 | 160,929 | 52,049 | 212,978 |
| 2040-2044 | 117,329 | 27,166 | 144,495 |
| 2045-2049 | 71,209 | 16,106 | 87,315 |
| 2050-2054 | 78,140 | 9,175 | 87,315 |
| 2055-2057 | <u>50,399</u> | <u>1,900</u> | <u>52,299</u> |
| | <u>\$ 969,048</u> | <u>\$ 466,619</u> | <u>\$ 1,435,667</u> |

BUFFALO TRAIL WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

6. LONG-TERM DEBT (CONTINUED)

Changes in long term debt for the years ended December 31, 2019 and 2018 are as follows:

| | December 31, 2018 | Additions | Retirements | December 31, 2019 | Due Within One Year |
|----------------|----------------------|-------------|--------------------|----------------------|---------------------------|
| Long-term debt | <u>\$ 993,987</u> | <u>\$ -</u> | <u>\$ (24,939)</u> | <u>\$ 969,048</u> | <u>\$ 24,963</u> |
| | 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> |

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 \$100,00 and \$34,706 at December 31, 2019 and 2018, respectively. The required reserve balance at December 31, 2018 was \$35,600, causing it to be underfunded by \$894. The reserve requirement at December 31, 2019 remained at \$35,600. The balance of the reserve was adequately funded at December 31, 2019 in the amount of \$100,000.

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, 2019 and 2018 of \$314,437 and \$240,550, respectively. The deficit is primarily a result of user charges insufficient to provide for depreciation on contributed assets. Accumulated depreciation on contributed assets totaled \$3,717,649 and \$3,541,315 at December 31, 2019 and 2018, respectively.

10. FASB ASC TOPIC 606

In order to implement ASC Topic 606, customer contributions were added to the statements of activities for the year ended December 31, 2018. Additionally, total net assets were added to the statement of activities replacing unappropriated net assets. This had no effect on previously stated net assets.



**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**

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. (the Association) as of and for the year ended December 31, 2019, 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 27, 2020.

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 (2019-001, 2019-002, and 2019-003).

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

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 27, 2020

BUFFALO TRAIL WATER ASSOCIATION, INC.
SCHEDULE OF FINDINGS AND RESPONSES
December 31, 2019

2019-001 The Association should have internal controls in place that enable it to prepare complete financial statements. (Repeat)

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 generally accepted 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.

2019-002 The Association should have controls in place to oversee the timely remittance of payments with payroll tax returns. (Repeat)

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

Cause: The Association had not remitted payments for federal and state payroll tax returns for multiple years. At December 31, 2019, the Association caught up on current year tax payments and had paid amounts to settle tax liabilities for prior years.

Effect: The Association received a federal notice regarding a compliance check for their 2016, 2017, and 2018 payroll taxes. They received additional federal notices during the year to assess additional penalties, interest, and amounts owed on prior years payroll taxes. Payments totaling \$42,646 were made to settle amounts due on prior years, of which \$6,538 were penalties and interests. There were two additional federal notices totaling \$3,644 that were received and paid in January 2020. These amounts were included in the accrued liability at December 31, 2019.

Recommendation: The Association should remit timely payments of payroll tax returns going forward.

Response: The Association has settled all known unpaid taxes to date and will continue to settle any additional federal notices.

2019-003 All bank accounts should be reconciled to the Association's financial records monthly.

Criteria: The Association's system of internal control requires that all bank accounts are to be reconciled to the Association's financial records monthly and that all deposits be made timely.

Cause: The Association changed accounting software, which made automated entries to cash and revenue for amounts in transit each month. Due to the confusion brought on by this change, bank reconciliations were not completed for the last six months of the year and transactions were not recorded accurately.

Effect: Bank reconciliations for the checking account were not completed timely. A material amount of customer bill payments from October and December 2019 were misplaced and not deposited timely.

Recommendation: We recommend that the Association take steps to ensure that the bank account is reconciled monthly and that all financial activity is recorded accurately.

Response: The Association has changed end of month procedures to ensure reconciliation with the software changes. Customer bill payments will be deposited in a timely manner.