

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

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**FINANCIAL STATEMENTS  
December 31, 2020 and 2019**

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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, 2020 and 2019 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, 2020 and 2019, 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 19, 2021, 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 19, 2021

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

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<b>ASSETS</b>	<b>2020</b>	<b>2019</b>
Current assets		
Cash and cash equivalents	\$ 913,117	\$ 835,219
Certificates of deposit	518,235	736,009
Accounts receivable, net	65,353	57,432
Accrued interest receivable	370	520
Inventory	<u>15,873</u>	<u>16,705</u>
Total current assets	<u>1,512,948</u>	<u>1,645,885</u>
Capital assets		
Property, plant and equipment	8,368,192	8,334,678
Less accumulated depreciation	<u>(3,894,361)</u>	<u>(3,717,649)</u>
Total capital assets	<u>4,473,831</u>	<u>4,617,029</u>
Other assets		
Certificate of deposit, reserved for debt requirements	100,000	100,000
Certificates of deposit, noncurrent	<u>444,829</u>	<u>223,175</u>
Total other assets	<u>544,829</u>	<u>323,175</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 6,531,608</u></b>	<b><u>\$ 6,586,089</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities		
Accounts payable	\$ 25,821	\$ 25,121
Taxes payable	5,409	7,311
Customer deposits	28,320	26,510
Accrued interest payable	5,510	5,637
Current portion of notes payable	<u>25,926</u>	<u>24,963</u>
Total current liabilities	90,986	89,542
Long-term debt		
Notes payable, net of current portion	<u>917,242</u>	<u>944,085</u>
Total liabilities	<u>1,008,228</u>	<u>1,033,627</u>
Net assets		
Without donor restrictions		
Debt reserves	100,000	100,000
Customer contributions	3,308,991	3,289,341
Grants in aid of construction	2,477,558	2,477,558
Unappropriated (deficit)	<u>(363,169)</u>	<u>(314,437)</u>
Total net assets	<u>5,523,380</u>	<u>5,552,462</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 6,531,608</u></b>	<b><u>\$ 6,586,089</u></b>

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,

**NET ASSETS WITHOUT DONOR RESTRICTIONS**

	<b>2020</b>	<b>2019</b>
<b>OPERATING REVENUE</b>		
Water sales	\$ 716,947	\$ 688,795
Other revenue	<u>57,856</u>	<u>12,637</u>
Total operating revenue	<u>774,803</u>	<u>701,432</u>
<b>OPERATING EXPENSES</b>		
Purchased water	245,450	210,040
Contractual services	155,193	104,737
Salaries and wages	148,284	128,100
Regulatory commission expense	1,403	1,567
Materials and supplies	11,269	25,615
Utilities and telephone	9,375	9,658
Insurance	7,995	8,571
Bad debt expense	24,168	-
Miscellaneous	<u>21,464</u>	<u>26,252</u>
Total operating expense	<u>624,601</u>	<u>514,540</u>
Operating income before depreciation	150,202	186,892
Depreciation expense	<u>176,712</u>	<u>176,334</u>
<b>OPERATING INCOME (LOSS)</b>	<u>(26,510)</u>	<u>10,558</u>
Non-operating income (expense)		
Customer contributions, tap fees	19,650	10,990
Interest income	9,074	13,089
Interest expense	<u>(31,296)</u>	<u>(32,240)</u>
Total non-operating income (expense)	<u>(2,572)</u>	<u>(8,161)</u>
<b>NET INCOME (LOSS)</b>	(29,082)	2,397
Net assets, beginning of year	<u>5,552,462</u>	<u>5,550,065</u>
<b>NET ASSETS, ENDING</b>	<u>\$ 5,523,380</u>	<u>\$ 5,552,462</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, 2020

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	<b>Operating</b>	<b>General and Administrative</b>	<b>Total</b>
Purchased water	\$ 245,450	\$ -	\$ 245,450
Contractual services	144,693	10,500	155,193
Salaries and wages	-	148,284	148,284
Regulatory commission expense	-	1,403	1,403
Materials and supplies	-	11,269	11,269
Utilities and telephone	9,375	-	9,375
Insurance	7,995	-	7,995
Bad debt expense	24,168	-	24,168
Miscellaneous	3,201	18,263	21,464
Depreciation	<u>176,712</u>	<u>-</u>	<u>176,712</u>
 Total expenses	 <u>\$ 611,594</u>	 <u>\$ 189,719</u>	 <u>\$ 801,313</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

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	<b>Operating</b>	<b>General and Administrative</b>	<b>Total</b>
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.**  
**STATEMENTS OF CHANGES IN NET ASSETS**  
for the years ended December 31, 2020 and 2019

	Debt Service Reserves	Customer Contributions	Grants in Aid of Construction	Unappropriated	Total
<b>Balances, December 31, 2018</b>	<b><u>\$ 34,706</u></b>	<b><u>\$ 3,278,351</u></b>	<b><u>\$ 2,477,558</u></b>	<b><u>\$ (240,550)</u></b>	<b><u>\$ 5,550,065</u></b>
Net income	-	-	-	2,397	2,397
Customer contributions	-	10,990	-	(10,990)	-
Transfers	<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>
<b>Balances, December 31, 2019</b>	<b><u>100,000</u></b>	<b><u>3,289,341</u></b>	<b><u>2,477,558</u></b>	<b><u>(314,437)</u></b>	<b><u>5,552,462</u></b>
Net income (loss)	-	-	-	(29,082)	(29,082)
Customer contributions	<u>-</u>	<u>19,650</u>	<u>-</u>	<u>(19,650)</u>	<u>-</u>
Change in net assets without donor restrictions without donor restrictions	<u>-</u>	<u>19,650</u>	<u>-</u>	<u>(48,732)</u>	<u>(29,082)</u>
<b>Balances, December 31, 2020</b>	<b><u>\$ 100,000</u></b>	<b><u>\$ 3,308,991</u></b>	<b><u>\$ 2,477,558</u></b>	<b><u>\$ (363,169)</u></b>	<b><u>\$ 5,523,380</u></b>

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,

	<b>2020</b>	<b>2019</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 768,692	\$ 727,125
Payments to suppliers	(474,785)	(393,519)
Payments for employee services and benefits	<u>(150,186)</u>	<u>(152,078)</u>
 Net cash provided by (used in) operating activities	 <u>143,721</u>	 <u>181,528</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Customer contributions	19,650	10,990
Purchases of capital assets	(33,514)	(28,516)
Interest paid	(31,423)	(32,364)
Principal paid	<u>(25,880)</u>	<u>(24,939)</u>
 Net cash provided by (used in) capital and related financing activities	 <u>(71,167)</u>	 <u>(74,829)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of certificates of deposit	(3,880)	(3,886)
Interest income	<u>9,224</u>	<u>13,039</u>
 Net cash provided by (used in) investing activities	 <u>5,344</u>	 <u>9,153</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>77,898</b>	<b>115,852</b>
Cash and cash equivalents, beginning of year	<u>835,219</u>	<u>719,367</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b><u>\$ 913,117</u></b>	<b><u>\$ 835,219</u></b>
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:</b>		
Operating income (loss)	\$ (26,510)	\$ 10,558
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Depreciation expense	176,712	176,334
Change in assets and liabilities:		
(Increase) decrease in accounts receivable	(7,921)	24,423
(Increase) decrease in inventory	832	1,626
Increase (decrease) in accounts payable	700	(8,705)
Increase (decrease) in taxes payable	(1,902)	(23,978)
Increase in customer deposits	<u>1,810</u>	<u>1,270</u>
 Net cash provided by (used in) operating activities	 <u>\$ 143,721</u>	 <u>\$ 181,528</u>

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

**BUFFALO TRAIL WATER ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2020 and 2019**

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**1. ORGANIZATION AND ACCOUNTING POLICIES**

Buffalo Trail Water Association, Inc. (the Association) distributes and sells water to approximately 1,600 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 2017. 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, 2020 and 2019 totaled \$52,663 and \$28,495, 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, 2020 and 2019**

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**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:

<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 19, 2021; 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, 2020, have not been evaluated by the Association.

**2. REVENUE RECOGNITION**

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 2020 and 2019, the Association recognized revenue from sales to customers totaling \$716,947 and \$688,795, respectively.

Water tap-on fees for new services and various grants are recognized as revenue in the periods received and then reflected as contributed capital in the Statement of Net Assets.

**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.

**BUFFALO TRAIL WATER ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2020 and 2019**

**2. REVENUE RECOGNITION (CONTINUED)**

**Contract Balances (continued)**

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

	2020	2019	2018
Accounts receivable	<u>\$ 65,353</u>	<u>\$ 57,432</u>	<u>\$ 81,855</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, 2020 and 2019, totaled \$1,998,943 and \$1,888,753, respectively. The balance of deposits in excess of federal depository insurance (FDIC) at December 31, 2020 is as follows:

FDIC insurance	\$ 1,275,673
Uninsured and uncollateralized	<u>723,270</u>
Total	<u>\$ 1,998,943</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, 2020, the Association's financial assets available to meet cash needs for general expenditures within one year are as follows:

Financial assets, at December 31, 2020	\$ 2,041,904
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>(444,829)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 1,497,075</u>

**BUFFALO TRAIL WATER ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2020 and 2019**

**4. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS (CONTINUED)**

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>

**5. CAPITAL ASSETS**

The following is a summary of capital asset activity during the year ended December 31, 2020:

	<b>Balance 12/31/2019</b>	<b>Additions</b>	<b>Disposals</b>	<b>Balance 12/31/2020</b>
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	8,324,900	33,514	-	8,358,414
Less: accumulated depreciation	<u>(3,717,649)</u>	<u>(176,712)</u>	<u>-</u>	<u>(3,894,361)</u>
Total depreciated	<u>4,607,251</u>	<u>(143,198)</u>	<u>-</u>	<u>4,464,053</u>
Capital assets, net	<u>\$ 4,617,029</u>	<u>\$ (143,198)</u>	<u>\$ -</u>	<u>\$ 4,473,831</u>

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

	<b>Balance 12/31/2018</b>	<b>Additions</b>	<b>Disposals</b>	<b>Balance 12/31/2019</b>
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>

Depreciation expense totaled \$176,712 and \$176,334 for the years ended December 31, 2020 and 2019, respectively.

**BUFFALO TRAIL WATER ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2020 and 2019**

**6. 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>2020</b>	<b>2019</b>
Loan - \$347,000, date 8/6/99, payable in annual installments of \$19,894 through 2040, bearing interest at a rate of 4.75%	\$ 213,492	\$ 223,493
Loan - \$347,000, dated 5/14/03, payable in annual installments of \$19,394 through 2040, bearing interest at a rate of 4.50%	266,760	274,018
Loan - \$480,000, dated 7/5/17, payable in annual installments of \$17,463 through 2057, bearing interest at a rate of 1.88%	<u>462,916</u>	<u>471,537</u>
Total debt	943,168	969,048
Less: current portion	<u>(25,926)</u>	<u>(24,963)</u>
Long-term portion	<u>\$ 917,242</u>	<u>\$ 944,085</u>

The annual requirements to amortize all loans outstanding at December 31, 2020, are as follows:

<b>Year Ending December 31,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2021	\$ 25,926	\$ 30,825	\$ 56,751
2022	26,887	29,864	56,751
2023	27,887	28,864	56,751
2024	28,930	27,821	56,751
2025	30,016	26,735	56,751
2026-2030	168,041	115,714	283,755
2031-2035	202,975	80,780	283,755
2036-2040	145,436	46,130	191,566
2041-2045	101,041	23,547	124,588
2046-2050	72,545	14,770	87,315
2051-2054	79,606	7,709	87,315
2055-2057	<u>33,878</u>	<u>957</u>	<u>34,835</u>
	<u>\$ 943,168</u>	<u>\$ 433,716</u>	<u>\$ 1,376,884</u>

Changes in long term debt for the years ended December 31, 2020 and 2019 are as follows:

	<b>December 31, 2019</b>	<b>Additions</b>	<b>Retirements</b>	<b>December 31, 2020</b>	<b>Due Within One Year</b>
Long-term debt	<u>\$ 969,048</u>	<u>\$ -</u>	<u>\$ (25,880)</u>	<u>\$ 943,168</u>	<u>\$ 25,962</u>
	<b>December 31, 2018</b>	<b>Additions</b>	<b>Retirements</b>	<b>December 31, 2019</b>	<b>Due Within One Year</b>
Long-term debt	<u>\$ 993,987</u>	<u>\$ -</u>	<u>\$ (24,939)</u>	<u>\$ 969,048</u>	<u>\$ 24,963</u>

**BUFFALO TRAIL WATER ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2020 and 2019**

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**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 \$100,000 and \$100,000 at December 31, 2020 and 2019, respectively. The reserve requirement at December 31, 2020 and December 31, 2019 was \$35,600 for both years.

**8. COST ALLOCATION**

Certain categories of expenses are attributable to more than one program or supporting function and are allocated on a reasonable basis that is consistently applied. The expenses that are allocated are salaries, payroll taxes and benefits, which are allocated on the basis of estimates of time and effort.

**9. 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.

**10. DEFICIT UNAPPROPRIATED NET ASSETS**

The Association carried a deficit in unappropriated net assets at December 31, 2020 and 2019 of \$363,169 and \$314,437, respectively. The deficit is primarily a result of user charges insufficient to provide for depreciation on contributed assets. Accumulated depreciation on contributed assets totaled \$3,894,361 and \$3,717,649 at December 31, 2020 and 2019, respectively.

**11. COVID-19 PANDEMIC**

During 2020 and 2021, various restrictions were placed on utilities in the state of Kentucky in response to the COVID-19 pandemic. These restrictions included the cessation of utility shutoffs and the charging of penalties due to nonpayment of bills. As a result of these orders and the impact of COVID-19 on the Association's customers, there has been an increase in delinquent billings as of December 31, 2020. The Association is working to establish payment plans with customers who have delinquent bills in an attempt to ensure continuous service and the collection of past due balances. The Association increased its allowance for doubtful accounts to approximately \$52,000 as of December 31, 2020, as an estimate of the total amount of accounts receivable that may not be collectible.





**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, 2020, 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 19, 2021.

**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 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. (2020-001 and 2020-002).

**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 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 19, 2021

**BUFFALO TRAIL WATER ASSOCIATION, INC.**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**December 31, 2020**

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**2020-001 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.

**2020-002 All bank accounts should be reconciled to the Association's financial records monthly. (Repeat)**

*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 during the prior year, 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 year and transactions were not recorded accurately.

*Effect:* Bank reconciliations for the checking account were not completed timely. A material amount of transactions were incorrectly recorded during the year.

*Recommendation:* We recommend that the Association take steps to ensure that bank accounts are reconciled on a monthly basis and that all financial activity is recorded accurately.

*Response:* The Association has changed end of month procedures to ensure reconciliation with the software changes.