

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

**FINANCIAL STATEMENTS
December 31, 2021 and 2020**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Buffalo Trail Water Association, Inc.
Mayslick, Kentucky

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Buffalo Trail Water Association, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2021 and 2020, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Buffalo Trail Water Association, Inc. as of December 31, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit 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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Buffalo Trail Water Association, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Buffalo Trail Water Association, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Buffalo Trail Water Association, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Buffalo Trail Water Association, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 18, 2022 on our consideration of Buffalo Trail Water Association, Inc.'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 solely 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 the effectiveness of Buffalo Trail Water Association, Inc.'s 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 Buffalo Trail Water Association, Inc.'s internal control over financial reporting and compliance.

RFH

RFH, PLLC
Lexington, Kentucky
March 18, 2022

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

ASSETS	2021	2020
Current assets		
Cash and cash equivalents	\$ 825,060	\$ 913,117
Certificates of deposit	519,917	518,235
Accounts receivable, net	76,688	65,353
Accrued interest receivable	370	370
Inventory	<u>147,754</u>	<u>15,873</u>
Total current assets	<u>1,569,789</u>	<u>1,512,948</u>
Fixed assets		
Construction in progress	97,736	-
Property, plant and equipment	8,378,192	8,368,192
Less accumulated depreciation	<u>(4,081,715)</u>	<u>(3,894,361)</u>
Total fixed assets	<u>4,394,213</u>	<u>4,473,831</u>
Other assets		
Certificate of deposit, reserved for debt requirements	100,000	100,000
Certificates of deposit, noncurrent	<u>444,829</u>	<u>444,829</u>
Total other assets	<u>544,829</u>	<u>544,829</u>
TOTAL ASSETS	<u>\$ 6,508,831</u>	<u>\$ 6,531,608</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 49,887	\$ 25,821
Taxes payable	6,299	5,409
Customer deposits	31,180	28,320
Accrued interest payable	5,379	5,510
Current portion of notes payable	<u>26,930</u>	<u>25,926</u>
Total current liabilities	119,675	90,986
Long-term debt		
Notes payable, net of current portion	<u>889,377</u>	<u>917,242</u>
Total liabilities	<u>1,009,052</u>	<u>1,008,228</u>
Net assets		
Without donor restrictions		
Debt reserves	100,000	100,000
Customer contributions	3,346,151	3,308,991
Grants in aid of construction	2,477,558	2,477,558
Unappropriated (deficit)	<u>(423,930)</u>	<u>(363,169)</u>
Total net assets	<u>5,499,779</u>	<u>5,523,380</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 6,508,831</u>	<u>\$ 6,531,608</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,

NET ASSETS WITHOUT DONOR RESTRICTIONS	2021	2020
OPERATING REVENUE		
Water sales	\$ 752,191	\$ 716,947
Other revenue	<u>12,048</u>	<u>57,856</u>
Total operating revenue	<u>764,239</u>	<u>774,803</u>
OPERATING EXPENSES		
Purchased water	294,569	245,450
Contractual services	180,161	155,193
Salaries and wages	80,223	148,284
Regulatory commission expense	1,549	1,403
Materials and supplies	12,936	11,269
Utilities and telephone	10,511	9,375
Insurance	9,547	7,995
Bad debt expense	-	24,168
Miscellaneous	<u>22,415</u>	<u>21,464</u>
Total operating expense	<u>611,911</u>	<u>624,601</u>
Operating income before depreciation	152,328	150,202
Depreciation expense	<u>187,354</u>	<u>176,712</u>
OPERATING INCOME (LOSS)	<u>(35,026)</u>	<u>(26,510)</u>
Non-operating income (expense)		
Customer contributions, tap fees	27,160	19,650
Contributed lines	10,000	-
Interest income	4,576	9,074
Interest expense	<u>(30,311)</u>	<u>(31,296)</u>
Total non-operating income (expense)	<u>11,425</u>	<u>(2,572)</u>
NET INCREASE (DECREASE) IN NET ASSETS WITHOUT DONOR RESTRICTIONS	(23,601)	(29,082)
Net assets, beginning of year	<u>5,523,380</u>	<u>5,552,462</u>
NET ASSETS, ENDING	<u>\$ 5,499,779</u>	<u>\$ 5,523,380</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, 2021

	Operating	General and Administrative	Total
Purchased water	\$ 294,569	\$ -	\$ 294,569
Contractual services	168,961	11,200	180,161
Salaries and wages	-	80,223	80,223
Regulatory commission expense	-	1,549	1,549
Materials and supplies	-	12,936	12,936
Utilities and telephone	10,511	-	10,511
Insurance	9,547	-	9,547
Bad debt expense	-	-	-
Miscellaneous	4,895	17,520	22,415
Depreciation	<u>187,354</u>	<u>-</u>	<u>187,354</u>
 Total expenses	 <u>\$ 675,837</u>	 <u>\$ 123,428</u>	 <u>\$ 799,265</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

	Operating	General and Administrative	Total
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.
STATEMENTS OF CHANGES IN NET ASSETS
for the years ended December 31, 2021 and 2020

	Debt Service Reserves	Customer Contributions	Grants in Aid of Construction	Unappropriated	Total
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>
Change in net assets	-	-	-	(29,082)	(29,082)
Customer contributions	-	19,650	-	(19,650)	-
Change in net assets without donor restrictions	-	19,650	-	(48,732)	(29,082)
Balances, December 31, 2020	<u>100,000</u>	<u>3,308,991</u>	<u>2,477,558</u>	<u>(363,169)</u>	<u>5,523,380</u>
Change in net assets	-	-	-	(23,601)	(23,601)
Customer contributions	-	37,160	-	(37,160)	-
Change in net assets without donor restrictions	-	37,160	-	(60,761)	(23,601)
Balances, December 31, 2021	<u>\$ 100,000</u>	<u>\$ 3,346,151</u>	<u>\$ 2,477,558</u>	<u>\$ (423,930)</u>	<u>\$ 5,499,779</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,

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 755,764	\$ 768,692
Payments to suppliers	(639,503)	(474,785)
Payments for employee services and benefits	<u>(79,333)</u>	<u>(150,186)</u>
Net cash provided by (used in) operating activities	<u>36,928</u>	<u>143,721</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Customer contributions	27,160	19,650
Purchases of capital assets, construction in progress	(97,736)	(33,514)
Interest paid	(30,442)	(31,423)
Principal paid	<u>(26,861)</u>	<u>(25,880)</u>
Net cash provided by (used in) capital and related financing activities	<u>(127,879)</u>	<u>(71,167)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of certificates of deposit	(1,682)	(3,880)
Interest income	<u>4,576</u>	<u>9,224</u>
Net cash provided by (used in) investing activities	<u>2,894</u>	<u>5,344</u>
NET INCREASE (DECREASE) IN CASH	(88,057)	77,898
Cash and cash equivalents, beginning of year	<u>913,117</u>	<u>835,219</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 825,060</u>	<u>\$ 913,117</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:		
Operating income (loss)	\$ (35,026)	\$ (26,510)
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Depreciation expense	187,354	176,712
Change in assets and liabilities:		
(Increase) decrease in accounts receivable	(11,335)	(7,921)
(Increase) decrease in inventory	(131,881)	832
Increase (decrease) in accounts payable	24,066	700
Increase (decrease) in taxes payable	890	(1,902)
Increase in customer deposits	<u>2,860</u>	<u>1,810</u>
Net cash provided by (used in) operating activities	<u>\$ 36,928</u>	<u>\$ 143,721</u>
Supplemental disclosure of cash flow information		
Non-cash capital and related financing activities:		
Customer contributions	<u>\$ 10,000</u>	<u>\$ -</u>

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

BUFFALO TRAIL WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2021 and 2020

1. ORGANIZATION AND ACCOUNTING POLICIES

Buffalo Trail Water Association, Inc. (the Association) distributes and sells water to approximately 1,800 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 2018. 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, 2021 and 2020 totaled \$30,068 and \$52,663, 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, 2021 and 2020

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 18, 2022; 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, 2021, 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 customer's usage is measured and billed. Control of water transfers to the customer as they consume it. In 2021 and 2020, the Association recognized revenue from sales to customers totaling \$752,191 and \$716,947, respectively.

Water tap-on fees for new services and various contributions are recognized as revenue in the periods received and then reflected as contributed capital in the statement of financial position.

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, 2021 and 2020

2. REVENUE RECOGNITION (CONTINUED)

Contract Balances (continued)

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

	2021	2020	2019
Accounts receivable	<u>\$ 76,688</u>	<u>\$ 65,353</u>	<u>\$ 57,432</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, 2021 and 2020, totaled \$2,042,170 and \$1,998,943, respectively. The balance of deposits in excess of federal depository insurance (FDIC) at December 31, 2021 is as follows:

FDIC insurance	\$ 1,276,170
Uninsured and uncollateralized	<u>766,000</u>
Total	<u>\$ 2,042,170</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 accounts receivable. As of December 31, 2021, the Association's financial assets available to meet cash needs for general expenditures within one year are as follows:

Financial assets, at December 31, 2021	\$ 1,966,494
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>\$ 1,421,665</u>

BUFFALO TRAIL WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2021 and 2020

4. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS (CONTINUED)

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	\$ 2,041,534
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>\$ 1,496,705</u>

5. FIXED ASSETS

The following is a summary of fixed asset activity during the year ended December 31, 2021:

	Balance 12/31/2020	Additions	Disposals	Balance 12/31/2021
Capital assets not depreciated:				
Land and land rights	\$ 9,778	\$ -	\$ -	\$ 9,778
Construction in progress	<u>-</u>	<u>97,736</u>	<u>-</u>	<u>97,736</u>
Total not depreciated	<u>9,778</u>	<u>97,736</u>	<u>-</u>	<u>107,514</u>
Capital assets that are depreciated:				
Plant and equipment	8,358,414	10,000	-	8,368,414
Less: accumulated depreciation	<u>(3,894,361)</u>	<u>(187,354)</u>	<u>-</u>	<u>(4,081,715)</u>
Total depreciated	<u>4,464,053</u>	<u>(177,354)</u>	<u>-</u>	<u>4,286,699</u>
Capital assets, net	<u>\$ 4,473,831</u>	<u>\$ (79,618)</u>	<u>\$ -</u>	<u>\$ 4,394,213</u>

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

	Balance 12/31/2019	Additions	Disposals	Balance 12/31/2020
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>

Depreciation expense totaled \$187,354 and \$176,712 for the years ended December 31, 2021 and 2020, respectively.

BUFFALO TRAIL WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2021 and 2020

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	2021	2020
Loan - \$347,000, date 8/6/99, payable in annual installments of \$19,894 through 2040, bearing interest at a rate of 4.75%	\$ 203,006	\$ 213,492
Loan - \$347,000, dated 5/14/03, payable in annual installments of \$19,394 through 2040, bearing interest at a rate of 4.50%	259,168	266,760
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>454,133</u>	<u>462,916</u>
Total debt	916,307	943,168
Less: current portion	<u>(26,930)</u>	<u>(25,926)</u>
Long-term portion	<u>\$ 889,377</u>	<u>\$ 917,242</u>

The annual requirements to amortize all loans outstanding at December 31, 2021, are as follows:

Year Ending December 31,	Principal	Interest	Total
2022	\$ 26,930	\$ 29,820	\$ 56,750
2023	27,934	28,818	56,752
2024	28,978	27,773	56,751
2025	30,066	26,685	56,751
2026	31,200	25,551	56,751
2027-2031	174,762	108,993	283,755
2032-2036	211,262	72,493	283,755
2037-2041	129,148	40,385	169,533
2042-2046	83,971	20,622	104,593
2047-2051	73,905	13,410	87,315
2052-2056	81,098	6,217	87,315
2057	<u>17,053</u>	<u>410</u>	<u>17,463</u>
	<u>\$ 916,307</u>	<u>\$ 401,177</u>	<u>\$ 1,317,484</u>

Changes in long term debt for the years ended December 31, 2021 and 2020 are as follows:

	December 31, 2020	Additions	Retirements	December 31, 2021	Due Within One Year
Long-term debt	<u>\$ 943,168</u>	<u>\$ -</u>	<u>\$ (26,861)</u>	<u>\$ 916,307</u>	<u>\$ 26,930</u>
	December 31, 2019	Additions	Retirements	December 31, 2020	Due Within One Year
Long-term debt	<u>\$ 969,048</u>	<u>\$ -</u>	<u>\$ (25,880)</u>	<u>\$ 943,168</u>	<u>\$ 25,926</u>

BUFFALO TRAIL WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2021 and 2020

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 at both December 31, 2021 and 2020. The reserve requirement at December 31, 2021 and 2020 was \$41,000 and \$39,200, respectively.

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, 2021 and 2020 of \$423,930 and \$363,169, respectively. The deficit is primarily a result of user charges insufficient to provide for depreciation on contributed assets. Accumulated depreciation on contributed assets totaled \$4,081,715 and \$3,894,361 at December 31, 2021 and 2020, respectively.

11. COVID-19 PANDEMIC

Since 2020, 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, 2021. 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.



**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. (a non-profit organization) as of and for the year ended December 31, 2021, 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 18, 2022.

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 Buffalo Trail Water Association, Inc.'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 a certain deficiency in internal control, described in the accompanying schedule of findings and responses that we consider to be a material weakness. (2021-001).

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 18, 2022

BUFFALO TRAIL WATER ASSOCIATION, INC.
SCHEDULE OF FINDINGS AND RESPONSES
December 31, 2021

2021-001 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 (Prior Year) All bank accounts should be reconciled to the Association's financial records monthly. (Resolved)