

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

**FINANCIAL STATEMENTS
December 31, 2023 and 2022**

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INDEPENDENT AUDITORS' REPORT

The 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, 2023 and 2022, 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.

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, 2023 and 2022, 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 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. Our responsibilities under those standards are further described in the Auditors' 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 audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 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 auditors' 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 20, 2024, 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 20, 2024

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

ASSETS	2023	2022
Current assets		
Cash and cash equivalents	\$ 655,308	\$ 548,239
Certificates of deposit	375,153	520,825
Accounts receivable, net of an allowance of \$39,193 and \$30,618, for 2023 and 2022, respectively	87,629	122,349
Grants receivable	13,321	-
Accrued interest receivable	370	370
Inventory	<u>69,299</u>	<u>34,163</u>
Total current assets	<u>1,201,080</u>	<u>1,225,946</u>
Fixed assets		
Construction in progress	604,631	415,613
Property, plant and equipment	8,852,081	8,603,933
Less accumulated depreciation	<u>(4,453,761)</u>	<u>(4,267,288)</u>
Total fixed assets	<u>5,002,951</u>	<u>4,752,258</u>
Other assets		
Certificate of deposit, reserved for debt requirements	100,000	100,000
Certificates of deposit, noncurrent	<u>595,845</u>	<u>445,616</u>
Total other assets	<u>695,845</u>	<u>545,616</u>
TOTAL ASSETS	<u>\$ 6,899,876</u>	<u>\$ 6,523,820</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 241,562	\$ 75,198
Taxes payable	6,247	9,327
Customer deposits	24,260	32,420
Accrued interest payable	5,106	5,245
Current portion of notes payable	<u>29,621</u>	<u>27,978</u>
Total current liabilities	306,796	150,168
Long-term debt		
Notes payable, net of current portion	<u>829,852</u>	<u>860,446</u>
Total liabilities	<u>1,136,648</u>	<u>1,010,614</u>
Net assets		
Without donor restrictions		
Debt reserves	100,000	100,000
Customer contributions	3,465,137	3,384,959
Grants in aid of construction	2,624,093	2,477,558
Unappropriated (deficit)	<u>(426,002)</u>	<u>(449,311)</u>
Total net assets	<u>5,763,228</u>	<u>5,513,206</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 6,899,876</u>	<u>\$ 6,523,820</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

	2023	2022
OPERATING REVENUE		
Water sales	\$ 864,168	\$ 878,733
Other revenue	<u>27,504</u>	<u>43,422</u>
Total operating revenue	<u>891,672</u>	<u>922,155</u>
OPERATING EXPENSES		
Salaries and wages	92,944	88,551
Purchased water	293,842	307,339
Purchased power	10,602	10,033
Materials and supplies	18,684	14,298
Contractual services	197,178	289,031
Insurance	10,835	9,862
Regulatory commission expense	1,201	1,141
Bad debt expense	8,575	550
Miscellaneous	<u>28,701</u>	<u>15,650</u>
Total operating expense	<u>662,562</u>	<u>736,455</u>
Operating income before depreciation	229,110	185,700
Depreciation expense	<u>186,894</u>	<u>185,573</u>
OPERATING INCOME	<u>42,216</u>	<u>127</u>
Non-operating income (expense)		
Grant revenue	146,535	-
Customer contributions, tap fees	40,804	27,048
Contributed lines	39,374	11,760
Interest income	9,306	3,778
Interest expense	<u>(28,213)</u>	<u>(29,286)</u>
Total non-operating income (expense)	<u>207,806</u>	<u>13,300</u>
NET INCREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	250,022	13,427
Net assets, beginning of year	<u>5,513,206</u>	<u>5,499,779</u>
NET ASSETS, ENDING	<u>\$ 5,763,228</u>	<u>\$ 5,513,206</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, 2023

	Operating	General and Administrative	Total
Salaries and wages	\$ -	\$ 92,944	\$ 92,944
Purchased water	293,842	-	293,842
Purchased power	10,602	-	10,602
Materials and supplies	-	18,684	18,684
Contractual services	184,178	13,000	197,178
Insurance	10,835	-	10,835
Regulatory commission expense	-	1,201	1,201
Bad debt expense	8,575	-	8,575
Miscellaneous	<u>6,475</u>	<u>22,226</u>	<u>28,701</u>
Operating expenses	514,507	148,055	662,562
Depreciation	<u>186,894</u>	<u>-</u>	<u>186,894</u>
Total expenses	<u>\$ 701,401</u>	<u>\$ 148,055</u>	<u>\$ 849,456</u>

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part of the financial statements.

BUFFALO TRAIL WATER ASSOCIATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
for the year ended December 31, 2022

	Operating	General and Administrative	Total
Salaries and wages	\$ -	\$ 88,551	\$ 88,551
Purchased water	307,339	-	307,339
Purchased power	10,033	-	10,033
Materials and supplies	-	14,298	14,298
Contractual services	276,581	12,450	289,031
Insurance	9,862	-	9,862
Regulatory commission expense	-	1,141	1,141
Bad debt expense	550	-	550
Miscellaneous	<u>4,403</u>	<u>11,247</u>	<u>15,650</u>
 Operating expenses	 608,768	 127,687	 736,455
 Depreciation	 <u>185,573</u>	 <u>-</u>	 <u>185,573</u>
 Total expenses	 <u>\$ 794,341</u>	 <u>\$ 127,687</u>	 <u>\$ 922,028</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, 2023 and 2022

	Debt Service Reserves	Customer Contributions	Grants in Aid of Construction	Unappropriated	Total
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>
Change in net assets	-	-	-	13,427	13,427
Customer contributions	-	<u>38,808</u>	-	<u>(38,808)</u>	-
Change in net assets without donor restrictions	-	<u>38,808</u>	-	<u>(25,381)</u>	<u>13,427</u>
Balances, December 31, 2022	<u>100,000</u>	<u>3,384,959</u>	<u>2,477,558</u>	<u>(449,311)</u>	<u>5,513,206</u>
Change in net assets	-	-	-	250,022	250,022
Customer contributions	-	80,178	-	(80,178)	-
Grants in aid of construction	-	-	<u>146,535</u>	<u>(146,535)</u>	-
Change in net assets without donor restrictions	-	<u>80,178</u>	<u>146,535</u>	<u>23,309</u>	<u>250,022</u>
Balances, December 31, 2023	<u>\$ 100,000</u>	<u>\$ 3,465,137</u>	<u>\$ 2,624,093</u>	<u>\$ (426,002)</u>	<u>\$ 5,763,228</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,

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 918,232	\$ 877,734
Payments to suppliers	(631,408)	(509,002)
Payments for employee services and benefits	<u>(96,024)</u>	<u>(85,523)</u>
Net cash provided by (used in) operating activities	<u>190,800</u>	<u>283,209</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Customer contributions	40,804	27,048
Purchases of capital assets	(205,195)	(531,858)
Interest paid	(28,352)	(29,420)
Principal paid	(28,951)	(27,883)
Proceeds from grants	<u>133,214</u>	<u>-</u>
Net cash provided by (used in) capital and related financing activities	<u>(88,480)</u>	<u>(562,113)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of certificates of deposit	(4,557)	(1,695)
Interest income	<u>9,306</u>	<u>3,778</u>
Net cash provided by (used in) investing activities	<u>4,749</u>	<u>2,083</u>
NET INCREASE (DECREASE) IN CASH	107,069	(276,821)
Cash and cash equivalents, beginning of year	<u>548,239</u>	<u>825,060</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 655,308</u>	<u>\$ 548,239</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:		
Operating income (loss)	\$ 42,216	\$ 127
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Depreciation expense	186,894	185,573
Change in assets and liabilities:		
(Increase) decrease in accounts receivable	34,720	(45,661)
(Increase) decrease in inventory	(35,136)	113,591
Increase (decrease) in accounts payable	(26,654)	25,311
Increase (decrease) in taxes payable	(3,080)	3,028
Increase (decrease) in customer deposits	<u>(8,160)</u>	<u>1,240</u>
Net cash provided by (used in) operating activities	<u>\$ 190,800</u>	<u>\$ 283,209</u>
Supplemental disclosure of cash flow information		
Non-cash capital and related financing activities:		
Customer contributions	<u>\$ 39,374</u>	<u>\$ 11,760</u>
Capital assets in accounts payable	<u>\$ 193,018</u>	<u>\$ 14,552</u>

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

BUFFALO TRAIL WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2023 and 2022

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 the counties of Bracken, Harrison, Mason, Nicholas, Pendleton, and Robertson. 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 2020. 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 31st is unbilled.

The statements of activities report all revenues and expenses as operating, except interest income, interest expense, capital grants, 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, 2023 and 2022, totaled \$39,193 and \$30,618, respectively.

Inventory

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

Property and Equipment

Fixed assets are stated at cost. 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

BUFFALO TRAIL WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2023 and 2022

1. ORGANIZATION AND ACCOUNTING POLICIES (CONTINUED)

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.

Change in Accounting Policy

In 2022, the Association adopted Accounting Standards Update (ASU) No. 2016-02, *Leases*, which requires lessees to recognize leases on the balance sheet and disclose key information about leasing arrangements. The adoption did not result in a significant effect on net assets as of December 31, 2022.

In 2023, The Association adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (ASU 2016-13 or ASC 326). ASU 2016-13 revises the accounting requirements related to the measurement of credit losses and requires organizations to measure all expected credit losses for financial assets based on historical experience, current conditions, and reasonable and supportable forecasts about collectability. Assets must be presented in the financial statements at the net amount expected to be collected. The implementation had no significant impact on the financial statements.

Management’s Review of Subsequent Events

The Association has evaluated and considered the need to recognize or disclose subsequent events through March 20, 2024, which represents the date that these financial statements were available for issuance. Subsequent events past this date, as they pertain to the year ended December 31, 2023, 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 2023 and 2022, the Association recognized revenue from sales to customers totaling \$864,168 and \$878,733, 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 statements of changes in 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 35 days.

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

	2023	2022	2021
Accounts receivable, net	<u>\$ 87,629</u>	<u>\$ 122,349</u>	<u>\$ 76,688</u>

BUFFALO TRAIL WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2023 and 2022

2. REVENUE RECOGNITION (CONTINUED)

Customers have the right to claim adjustments for leaks, once per year, or to correct errors from meter reading. The Association recognizes revenue in the amount to which it expects 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, 2023 and 2022, totaled \$1,726,601 and \$1,626,133, respectively. The balance of deposits in excess of federal depository insurance (FDIC) at December 31, 2023, is as follows:

FDIC insurance	\$ 1,277,936
Uninsured and uncollateralized	<u>448,665</u>
Total	<u>\$ 1,726,601</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, 2023, the Association's financial assets available to meet cash needs for general expenditures within one year are as follows:

Financial assets, at December 31, 2023	\$ 1,813,935
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>(598,845)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 1,115,090</u>

As of December 31, 2022, the Association's financial assets available to meet cash needs for general expenditures within one year are as follows:

Financial assets, at December 31, 2022	\$ 1,737,029
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>(445,616)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 1,191,413</u>

BUFFALO TRAIL WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2023 and 2022

5. FIXED ASSETS

The following is a summary of fixed asset activity during the year ended December 31, 2023:

	Balance 12/31/2022	Additions	Disposals	Balance 12/31/2023
Capital assets not depreciated:				
Land and land rights	\$ 9,778	\$ -	\$ -	\$ 9,778
Construction in progress	<u>415,613</u>	<u>189,018</u>	<u>-</u>	<u>604,631</u>
Total not depreciated	<u>425,391</u>	<u>189,018</u>	<u>-</u>	<u>614,409</u>
Capital assets that are depreciated:				
Plant and equipment	8,594,155	248,569	(421)	8,842,303
Less: accumulated depreciation	<u>(4,267,288)</u>	<u>(186,894)</u>	<u>421</u>	<u>(4,453,761)</u>
Total depreciated	<u>4,326,867</u>	<u>61,675</u>	<u>-</u>	<u>4,388,542</u>
Capital assets, net	<u>\$ 4,752,258</u>	<u>\$ 250,693</u>	<u>\$ -</u>	<u>\$ 5,002,951</u>

The following is a summary of capital asset activity during the year ended December 31, 2022:

	Balance 12/31/2021	Additions	Disposals	Balance 12/31/2022
Capital assets not depreciated:				
Land and land rights	\$ 9,778	\$ -	\$ -	\$ 9,778
Construction in progress	<u>97,736</u>	<u>317,877</u>	<u>-</u>	<u>415,613</u>
Total not depreciated	<u>107,514</u>	<u>317,877</u>	<u>-</u>	<u>425,391</u>
Capital assets that are depreciated:				
Plant and equipment	8,368,414	225,741	-	8,594,155
Less: accumulated depreciation	<u>(4,081,715)</u>	<u>(185,573)</u>	<u>-</u>	<u>(4,267,288)</u>
Total depreciated	<u>4,286,699</u>	<u>40,168</u>	<u>-</u>	<u>4,326,867</u>
Capital assets, net	<u>\$ 4,394,213</u>	<u>\$ 358,045</u>	<u>\$ -</u>	<u>\$ 4,752,258</u>

Depreciation expense totaled \$186,894 and \$185,573 for the years ended December 31, 2023 and 2022, respectively.

BUFFALO TRAIL WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2023 and 2022

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	2023	2022
Loan - \$347,000, date 8/6/99, payable in annual installments of \$19,894 through 2040, bearing interest at a rate of 4.75%	\$ 180,483	\$ 192,012
Loan - \$347,000, dated 5/14/03, payable in annual installments of \$19,394 through 2040, bearing interest at a rate of 4.50%	242,922	251,228
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>436,068</u>	<u>445,184</u>
Total debt	859,473	888,424
Less: current portion	<u>(29,621)</u>	<u>(27,978)</u>
Long-term portion	<u>\$ 829,852</u>	<u>\$ 860,446</u>

The annual requirements to amortize all loans outstanding at December 31, 2023, are as follows:

Year Ending December 31,	Principal	Interest	Total
2024	\$ 29,621	\$ 27,681	\$ 57,302
2025	30,741	26,562	57,303
2026	31,907	25,396	57,303
2027	33,122	24,181	57,303
2028	34,389	22,914	57,303
2029-2033	192,916	93,600	286,516
2034-2038	163,783	56,464	220,247
2039-2043	129,782	30,930	160,712
2044-2048	69,899	17,416	87,315
2049-2053	76,702	10,613	87,315
2054-2057	<u>66,611</u>	<u>3,149</u>	<u>69,760</u>
	<u>\$ 859,473</u>	<u>\$ 338,906</u>	<u>\$ 1,198,379</u>

Changes in long-term debt for the years ended December 31, 2023 and 2022, are as follows:

	December 31, 2022	Additions	Retirements	December 31, 2023	Due Within One Year
Long-term debt	<u>\$ 888,424</u>	<u>\$ -</u>	<u>\$ (28,951)</u>	<u>\$ 859,473</u>	<u>\$ 29,621</u>
	December 31, 2021	Additions	Retirements	December 31, 2022	Due Within One Year
Long-term debt	<u>\$ 916,307</u>	<u>\$ -</u>	<u>\$ (27,883)</u>	<u>\$ 888,424</u>	<u>\$ 27,978</u>

BUFFALO TRAIL WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2023 and 2022

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, 2023 and 2022. The reserve requirement at December 31, 2023 and 2022, was \$44,600 and \$42,800, 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 to 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, 2023 and 2022, of \$426,002 and \$449,311, respectively. The deficit is primarily a result of user charges insufficient to provide for depreciation on capital assets. Accumulated depreciation on capital assets totaled \$4,453,761 and \$4,267,288 at December 31, 2023 and 2022, respectively.



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

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 the Buffalo Trail Water Association, Inc. (the Association), which comprise the statement of financial position as of December 31, 2023, and the related statements of activities, functional expenses, changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 20, 2024.

Report on Internal Control over Financial Reporting

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

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 were not identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2023-001, that we consider to be a material weakness.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Association'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 financial statements. 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

Government Auditing Standards requires the auditor to perform limited procedures on the Association's response to the findings identified in our audit and described in the accompanying schedule of findings and responses. The Association's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 Association'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 Association's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RFH

RFH, PLLC
Lexington, Kentucky
March 20, 2024

BUFFALO TRAIL WATER ASSOCIATION, INC.
SCHEDULE OF FINDINGS AND RESPONSES
December 31, 2023

2023-001 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. 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.