

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

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**FINANCIAL STATEMENTS  
December 31, 2025 and 2024**

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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, 2025 and 2024, 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, 2025 and 2024, 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, 2026, 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, 2026

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

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<b>ASSETS</b>	<b>2025</b>	<b>2024</b>
<b>Current assets</b>		
Cash and cash equivalents	\$ 685,392	\$ 536,850
Certificates of deposit	866,421	617,261
Accounts receivable, net of an allowance of \$46,431 and \$43,683, for 2025 and 2024, respectively	87,508	77,279
Grants receivable	-	32,373
Capital contributions receivable	-	6,757
Accrued interest receivable	370	370
Inventory	<u>62,853</u>	<u>65,879</u>
<b>Total current assets</b>	<u><b>1,702,544</b></u>	<u><b>1,336,769</b></u>
<b>Fixed assets</b>		
Construction in progress	22,125	13,434
Property, plant and equipment	10,000,125	9,931,426
Less accumulated depreciation	<u>(4,864,491)</u>	<u>(4,655,112)</u>
<b>Total fixed assets</b>	<u><b>5,157,759</b></u>	<u><b>5,289,748</b></u>
<b>Other assets</b>		
Certificate of deposit, reserved for debt requirements	100,000	100,000
Certificates of deposit, noncurrent	<u>113,359</u>	<u>355,580</u>
<b>Total other assets</b>	<u><b>213,359</b></u>	<u><b>455,580</b></u>
<b>TOTAL ASSETS</b>	<u><b>\$ 7,073,662</b></u>	<u><b>\$ 7,082,097</b></u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 44,635	\$ 41,905
Taxes payable	6,260	6,018
Customer deposits	23,540	23,110
Accrued interest payable	4,815	4,963
Current portion of notes payable	<u>31,949</u>	<u>30,761</u>
<b>Total current liabilities</b>	111,199	106,757
<b>Long-term debt</b>		
Notes payable, net of current portion	<u>766,228</u>	<u>798,649</u>
<b>Total liabilities</b>	<u><b>877,427</b></u>	<u><b>905,406</b></u>
<b>Net assets</b>		
<b>Without donor restrictions</b>		
Debt reserves	100,000	100,000
Capital contributions	3,549,590	3,502,091
Grants in aid of construction	2,980,191	2,980,191
Unappropriated (deficit)	<u>(433,546)</u>	<u>(405,591)</u>
<b>Total net assets</b>	<u><b>6,196,235</b></u>	<u><b>6,176,691</b></u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><b>\$ 7,073,662</b></u>	<u><b>\$ 7,082,097</b></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**

	<b>2025</b>	<b>2024</b>
<b>OPERATING REVENUE</b>		
Water sales	\$ 926,381	\$ 893,157
Other revenue	<u>5,391</u>	<u>2,245</u>
Total operating revenue	<u>931,772</u>	<u>895,402</u>
<b>OPERATING EXPENSES</b>		
Salaries and wages	172,064	171,552
Purchased water	298,253	292,486
Purchased power	11,709	10,360
Office expenses	20,698	17,426
Contractual services	33,856	27,345
Maintenance and renovations	158,563	103,653
Insurance	13,906	13,081
Regulatory commission expense	1,428	1,386
Credit loss expense	2,865	4,490
Water testing expense	5,262	5,231
Miscellaneous	<u>13,832</u>	<u>5,960</u>
Total operating expenses	<u>732,436</u>	<u>652,970</u>
Operating income before depreciation	199,336	242,432
Depreciation expense	<u>209,379</u>	<u>201,351</u>
<b>OPERATING INCOME (LOSS)</b>	<u>(10,043)</u>	<u>41,081</u>
Non-operating income (expense)		
Grant revenue	-	356,098
Customer contributions, tap fees	38,808	23,520
Contributed lines	8,691	13,434
Interest income	8,011	6,427
Interest expense	<u>(25,923)</u>	<u>(27,097)</u>
Total non-operating income (expense)	<u>29,587</u>	<u>372,382</u>
<b>NET CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS</b>	19,544	413,463
Net assets, beginning of year	<u>6,176,691</u>	<u>5,763,228</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 6,196,235</u>	<u>\$ 6,176,691</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, 2025

	<b>Water Costs</b>	<b>General and Administrative</b>	<b>Total Operating</b>
Salaries and wages	\$ 72,575	\$ 99,489	\$ 172,064
Purchased water	298,253	-	298,253
Purchased power	11,709	-	11,709
Office expenses	-	20,698	20,698
Contractual services	17,356	16,500	33,856
Maintenance and renovations	144,298	14,265	158,563
Insurance	13,906	-	13,906
Regulatory commission expense	-	1,428	1,428
Credit loss expense	2,865	-	2,865
Water testing	5,262	-	5,262
Miscellaneous	-	13,832	13,832
	<hr/>	<hr/>	<hr/>
Operating expenses	566,224	166,212	732,436
Depreciation	209,379	-	209,379
	<hr/>	<hr/>	<hr/>
Total expenses	<u>\$ 775,603</u>	<u>\$ 166,212</u>	<u>\$ 941,815</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, 2024

	<b>Water Costs</b>	<b>General and Administrative</b>	<b>Total Operating</b>
Salaries and wages	\$ 74,315	\$ 97,237	\$ 171,552
Purchased water	292,486	-	292,486
Purchased power	10,360	-	10,360
Office expenses	-	17,426	17,426
Contractual services	11,257	16,088	27,345
Maintenance and renovations	103,653	-	103,653
Insurance	13,081	-	13,081
Regulatory commission expense	-	1,386	1,386
Credit loss expense	4,490	-	4,490
Water testing	5,231	-	5,231
Miscellaneous	-	5,960	5,960
	<hr/>	<hr/>	<hr/>
Operating expenses	514,873	138,097	652,970
Depreciation	201,351	-	201,351
	<hr/>	<hr/>	<hr/>
Total expenses	<u>\$ 716,224</u>	<u>\$ 138,097</u>	<u>\$ 854,321</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, 2025 and 2024

	Debt Service Reserves	Capital Contributions	Grants in Aid of Construction	Unappropriated (Deficit)	Total
<b>Balances, December 31, 2023</b>	<b><u>\$ 100,000</u></b>	<b><u>\$ 3,465,137</u></b>	<b><u>\$ 2,624,093</u></b>	<b><u>\$ (426,002)</u></b>	<b><u>\$ 5,763,228</u></b>
Change in net assets	-	-	-	413,463	413,463
Customer contributions	-	36,954	-	(36,954)	-
Grants in aid of construction	-	-	356,098	(356,098)	-
Change in net assets without donor restrictions	<u>-</u>	<u>36,954</u>	<u>356,098</u>	<u>20,411</u>	<u>413,463</u>
<b>Balances, December 31, 2024</b>	<b><u>100,000</u></b>	<b><u>3,502,091</u></b>	<b><u>2,980,191</u></b>	<b><u>(405,591)</u></b>	<b><u>6,176,691</u></b>
Change in net assets	-	-	-	19,544	19,544
Customer contributions	-	47,499	-	(47,499)	-
Grants in aid of construction	-	-	-	-	-
Change in net assets without donor restrictions	<u>-</u>	<u>47,499</u>	<u>-</u>	<u>(27,955)</u>	<u>19,544</u>
<b>Balances, December 31, 2025</b>	<b><u>\$ 100,000</u></b>	<b><u>\$ 3,549,590</u></b>	<b><u>\$ 2,980,191</u></b>	<b><u>\$ (433,546)</u></b>	<b><u>\$ 6,196,235</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>2025</b>	<b>2024</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 921,973	\$ 904,602
Payments to suppliers	(564,513)	(762,147)
Payments for employee services and benefits	<u>(171,822)</u>	<u>(97,466)</u>
Net cash provided by (used in) operating activities	<u>185,638</u>	<u>44,989</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Customer contributions	38,808	23,520
Purchases of capital assets	(52,045)	(471,294)
Interest paid	(26,071)	(27,240)
Principal paid	(31,233)	(30,063)
Proceeds from grants	<u>32,373</u>	<u>337,046</u>
Net cash provided by (used in) capital and related financing activities	<u>(38,168)</u>	<u>(168,031)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of certificates of deposit	(6,939)	(1,843)
Interest income	<u>8,011</u>	<u>6,427</u>
Net cash provided by (used in) investing activities	<u>1,072</u>	<u>4,584</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	148,542	(118,458)
Cash and cash equivalents, beginning of year	<u>536,850</u>	<u>655,308</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 685,392</u>	<u>\$ 536,850</u>
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:</b>		
Operating income (loss)	\$ (10,043)	\$ 41,081
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation expense	209,379	201,351
Change in assets and liabilities:		
(Increase) decrease in accounts receivable	(10,229)	10,350
(Increase) decrease in inventory	-	-
Increase (decrease) in accounts payable	(4,141)	(206,414)
Increase (decrease) in taxes payable	242	(229)
Increase (decrease) in customer deposits	<u>430</u>	<u>(1,150)</u>
Net cash provided by (used in) operating activities	<u>\$ 185,638</u>	<u>\$ 44,989</u>
<b>Supplemental disclosure of cash flow information</b>		
Non-cash capital and related financing activities:		
Capital contributions	<u>\$ 15,448</u>	<u>\$ 6,677</u>
Capital assets in accounts payable	<u>\$ 6,871</u>	<u>\$ 6,757</u>
Capital assets from inventory	<u>\$ 3,026</u>	<u>\$ 3,420</u>

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

**BUFFALO TRAIL WATER ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2025 and 2024**

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**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 2022. 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 capital 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 allowance for credit losses for accounts receivable represents accounts past due in excess of ninety days that are thought to be uncollectible. The allowance for credit losses for accounts receivable at December 31, 2025 and 2024, totaled \$46,431 and \$43,683, respectively. Credit loss expense for the years ending December 31, 2025 and 2024, totaled \$2,865 and \$4,490, 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:

<b>Asset Class</b>	<b>Life</b>
Vehicles and equipment	5-10
Meters and pipes	50
Buildings	30
Water and sewer systems	50

**BUFFALO TRAIL WATER ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2025 and 2024**

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**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.

**Management's Review of Subsequent Events**

The Association has evaluated and considered the need to recognize or disclose subsequent events through March 20, 2026, 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, 2025, 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 2025 and 2024, the Association recognized revenue from sales to customers totaling \$926,381 and \$893,157, 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:

	<b>2025</b>	<b>2024</b>	<b>2023</b>
Accounts receivable, net	<u>\$ 87,508</u>	<u>\$ 77,279</u>	<u>\$ 87,629</u>

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.

**BUFFALO TRAIL WATER ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2025 and 2024**

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**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, 2025 and 2024, totaled \$1,765,370 and \$1,609,805, respectively. The balance of deposits in excess of federal depository insurance (FDIC) at December 31, 2025, is as follows:

FDIC insurance	\$ 1,284,227
Uninsured and uncollateralized	<u>481,143</u>
Total	<u>\$ 1,765,370</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, 2025, the Association's financial assets available to meet cash needs for general expenditures within one year are as follows:

Financial assets, at December 31, 2025	\$ 1,853,050
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>(113,359)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 1,639,691</u>

As of December 31, 2024, the Association's financial assets available to meet cash needs for general expenditures within one year are as follows:

Financial assets, at December 31, 2024	\$ 1,726,470
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>(355,580)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 1,270,890</u>

**BUFFALO TRAIL WATER ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2025 and 2024**

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**5. FIXED ASSETS**

The following is a summary of fixed asset activity during the year ended December 31, 2025:

	<b>Balance 12/31/2024</b>	<b>Additions</b>	<b>Disposals</b>	<b>Balance 12/31/2025</b>
Capital assets not depreciated:				
Land and land rights	\$ 9,778	\$ -	\$ -	\$ 9,778
Construction in progress	<u>13,434</u>	<u>8,691</u>	<u>-</u>	<u>22,125</u>
Total not depreciated	<u>23,212</u>	<u>8,691</u>	<u>-</u>	<u>31,903</u>
Capital assets that are depreciated:				
Plant and equipment	9,921,648	68,699	-	9,990,347
Less: accumulated depreciation	<u>(4,655,112)</u>	<u>(209,379)</u>	<u>-</u>	<u>(4,864,491)</u>
Total depreciated	<u>5,266,536</u>	<u>(140,680)</u>	<u>-</u>	<u>5,125,856</u>
Capital assets, net	<u>\$ 5,289,748</u>	<u>\$ (131,989)</u>	<u>\$ -</u>	<u>\$ 5,157,759</u>

The following is a summary of capital asset activity during the year ended December 31, 2024:

	<b>Balance 12/31/2023</b>	<b>Additions</b>	<b>Disposals</b>	<b>Balance 12/31/2024</b>
Capital assets not depreciated:				
Land and land rights	\$ 9,778	\$ -	\$ -	\$ 9,778
Construction in progress	<u>604,631</u>	<u>188,896</u>	<u>(780,093)</u>	<u>13,434</u>
Total not depreciated	<u>614,409</u>	<u>188,896</u>	<u>(780,093)</u>	<u>23,212</u>
Capital assets that are depreciated:				
Plant and equipment	8,842,303	1,079,345	-	9,921,648
Less: accumulated depreciation	<u>(4,453,761)</u>	<u>(201,351)</u>	<u>-</u>	<u>(4,655,112)</u>
Total depreciated	<u>4,388,542</u>	<u>877,994</u>	<u>-</u>	<u>5,266,536</u>
Capital assets, net	<u>\$ 5,002,951</u>	<u>\$ 1,066,890</u>	<u>\$ (780,093)</u>	<u>\$ 5,289,748</u>

Depreciation expense totaled \$209,379 and \$201,351 for the years ended December 31, 2025 and 2024, respectively.

**BUFFALO TRAIL WATER ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2025 and 2024**

**6. LONG-TERM DEBT**

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

<b>Notes-Rural Development (USDA)</b>	<b>2025</b>	<b>2024</b>
Loan - \$347,000, dated 8/6/99, payable in annual installments of \$19,894 through 2040, bearing interest at a rate of 4.75%	\$ 155,718	\$ 168,393
Loan - \$347,000, dated 5/14/03, payable in annual installments of \$19,394 through 2040, bearing interest at a rate of 4.50%	225,150	234,236
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>417,309</u>	<u>426,781</u>
Total debt	798,177	829,410
Less: current portion	<u>(31,949)</u>	<u>(30,761)</u>
Long-term portion	<u>\$ 766,228</u>	<u>\$ 798,649</u>

The annual requirements to amortize all loans outstanding at December 31, 2025, are as follows:

<b>Year Ending December 31,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2026	\$ 31,949	\$ 25,353	\$ 57,302
2027	33,167	24,136	57,303
2028	34,436	22,867	57,303
2029	35,759	21,544	57,303
2030	37,138	20,165	57,303
2031-2035	202,588	77,986	280,574
2036-2040	139,329	45,186	184,515
2041-2045	97,798	23,245	121,043
2046-2050	72,546	14,769	87,315
2051-2055	79,607	7,708	87,315
2056-2057	<u>33,860</u>	<u>954</u>	<u>34,814</u>
	<u>\$ 798,177</u>	<u>\$ 283,913</u>	<u>\$ 1,082,090</u>

Changes in long-term debt for the years ended December 31, 2025 and 2024, are as follows:

	<b>December 31, 2024</b>	<b>Additions</b>	<b>Retirements</b>	<b>December 31, 2025</b>	<b>Due Within One Year</b>
Long-term debt	<u>\$ 829,410</u>	<u>\$ -</u>	<u>\$ (31,233)</u>	<u>\$ 798,177</u>	<u>\$ 31,949</u>
	<b>December 31, 2023</b>	<b>Additions</b>	<b>Retirements</b>	<b>December 31, 2024</b>	<b>Due Within One Year</b>
Long-term debt	<u>\$ 859,473</u>	<u>\$ -</u>	<u>\$ (30,063)</u>	<u>\$ 829,410</u>	<u>\$ 30,761</u>

**BUFFALO TRAIL WATER ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2025 and 2024**

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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 at both December 31, 2025 and 2024. The reserve requirement at December 31, 2025 and 2024, was \$48,200 and \$46,400, 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, 2025 and 2024, of \$433,546 and \$405,591, respectively. The deficit is primarily a result of user charges insufficient to provide for depreciation on capital assets. Accumulated depreciation on capital assets totaled \$4,864,491 and \$4,655,112 at December 31, 2025 and 2024, 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 Buffalo Trail Water Association, Inc. (the Association), which comprise the statement of financial position as of December 31, 2025, 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, 2026.

**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 2025-001, 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 Finding**

*Government Auditing Standards* requires the auditor to perform limited procedures on the Association's response to the finding 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, 2026

**BUFFALO TRAIL WATER ASSOCIATION, INC.**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**December 31, 2025**

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***2025-001 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 record its transactions on the accrual basis of accounting, as well as 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 cash to accrual adjustments and draft financial statements, including the related notes to the financial statements. Material audit adjustments were necessary to record accounts payable, adjust receivables, capitalize property, plant and equipment additions, record depreciation expense, adjust debt balances, and reclassify revenue and expense items. Management reviewed, approved, and accepted responsibility for the adjustments and 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 and prepare the cash to accrual adjustments.

*Response:* This is an ongoing finding. Management has determined that it is more cost effective to continue to engage the auditor to prepare the cash to accrual adjustments and draft the financial statements and related notes.