

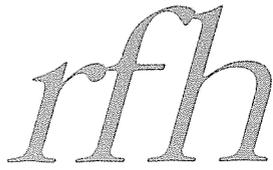


BUFFALO TRAIL WATER ASSOCIATION, INC.
Sardis, Kentucky

FINANCIAL STATEMENTS
December 31, 2011 and 2010

CONTENTS

Independent Auditors' Report.....	1
Financial Statements	
Balance Sheets.....	2
Statements of Revenues, Expenses and Changes in Retained Earnings	3
Statements of Cash Flows	4
Notes to Financial Statements	5-8
Report in Accordance with Governmental Auditing Standards	9-11



Ray, Foley, Hensley & Company, PLLC

Certified Public Accountants and Consultants

Stephen R. Allen, CPA/PFS
Dennis H. England, CPA
Michael D. Foley, CPA
Lyman Hager, Jr., CPA/PFS
Jerry W. Hensley, CPA

INDEPENDENT AUDITORS' REPORT

J. Carroll Luby, CPA

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

We have audited the accompanying balance sheets of Buffalo Trail Water Association, Inc. (a nonprofit organization) as of December 31, 2011 and 2010 and the related statements of revenues, expenses and changes in retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in **Government Auditing Standards**, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Buffalo Trail Water Association, Inc. as of December 31, 2011 and 2010 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with **Government Auditing Standards**, we have also issued a report dated March 21, 2012 on our consideration of Buffalo Trail Water Association, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with **Government Auditing Standards** and should be read in conjunction with this report in considering the results of our audit.

Ray, Foley, Hensley & Company

Ray, Foley, Hensley & Company, PLLC
March 21, 2012

230 Lexington Green Circle, Suite 600 • Lexington, Kentucky 40503-3326
Phone: 859-231-1800 • Fax: 859-422-1800 • Toll-Free: 1-800-342-7299
www.rfhco.com

Members American Institute of Certified Public Accountants and Kentucky Society of Certified Public Accountants

BUFFALO TRAIL WATER ASSOCIATION, INC.
BALANCE SHEETS
DECEMBER 31,

ASSETS	2011	2010
Current Assets		
Cash and cash equivalents	\$ 172,379	\$ 157,266
Certificates of deposit	632,719	725,043
Accounts receivable, net	46,432	51,074
Accrued interest receivable	1,150	1,150
Inventory	<u>13,906</u>	<u>12,946</u>
	<u>866,586</u>	<u>947,479</u>
Restricted Assets		
Cash and cash equivalents	111,777	110,395
Investments	36,024	36,024
Note receivable-Mt Olivet	<u>50,436</u>	<u>54,516</u>
	<u>198,237</u>	<u>200,935</u>
Fixed Assets		
Property, plant and equipment	7,331,648	7,279,571
Less accumulated depreciation	(2,401,710)	(2,233,377)
Construction in progress	<u>55,829</u>	<u>-</u>
	<u>4,985,767</u>	<u>5,046,194</u>
Other Assets		
Unamortized bond costs	<u>4,491</u>	<u>5,791</u>
TOTAL ASSETS	<u>\$ 6,055,081</u>	<u>\$ 6,200,399</u>
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable	\$ 20,149	\$ 28,478
Taxes payable	3,005	3,084
Customer deposits	15,000	14,010
Current portion of long term debt	66,339	65,004
Accrued interest payable	<u>2,798</u>	<u>3,100</u>
	<u>107,291</u>	<u>113,676</u>
Long-term debt		
Notes payable	711,005	738,919
Bonds payable, net	<u>17,000</u>	<u>57,000</u>
	<u>728,005</u>	<u>795,919</u>
Equity		
Contributed capital		
Customer contributions	2,957,110	2,945,110
Federal /state grants in aid of construction	2,317,557	2,317,557
Retained earnings	<u>(54,882)</u>	<u>28,137</u>
	<u>5,219,785</u>	<u>5,290,804</u>
TOTAL LIABILITIES AND EQUITY	<u>\$ 6,055,081</u>	<u>\$ 6,200,399</u>

The accompanying notes are an integral
part of the financial statements

BUFFALO TRAIL WATER ASSOCIATION, INC.
STATEMENTS OF REVENUES, EXPENSES AND CHANGES
IN RETAINED EARNINGS
for the years ended December 31,

	2011	2010
OPERATING INCOME		
Water sales	\$ 655,490	\$ 617,275
Other revenue	<u>10,119</u>	<u>16,469</u>
Total operating income	<u>665,609</u>	<u>633,744</u>
OPERATING EXPENSES		
Regulatory commission expenses	964	964
Salaries and wages	76,591	73,561
Purchased water	245,435	197,654
Materials and supplies	11,099	11,088
Contractual services	196,091	193,689
Utilities and telephone	6,687	7,130
Insurance	9,583	9,211
Bad debt expense	679	644
Miscellaneous	<u>4,868</u>	<u>9,657</u>
Total operating expense	<u>551,997</u>	<u>503,598</u>
Operating income before depreciation	113,612	130,146
Depreciation expense	<u>(168,333)</u>	<u>(154,621)</u>
OPERATING INCOME (LOSS)	(54,721)	(24,475)
Non-operating income (expenses)		
Interest income	15,769	12,209
Interest expense	<u>(44,067)</u>	<u>(47,231)</u>
NET (LOSS)	(83,019)	(59,497)
Retained earnings - beginning	<u>28,137</u>	<u>87,634</u>
RETAINED EARNINGS - ENDING	<u>\$ (54,882)</u>	<u>\$ 28,137</u>

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

**BUFFALO TRAIL WATER ASSOCIATION, INC.
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**

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

We have audited the financial statements of Buffalo Trail Water Association, Inc. (the Association) as of and for the year ended December 31, 2011, and have issued our report thereon dated March 21, 2012. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Association's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control over financial reporting.

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. We identified a certain *deficiency in internal control over financial reporting*, described in the accompanying schedule of findings and responses that we consider to be a material weakness in internal control over financial reporting. (2011-1).

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Association's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants 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**.

The Association's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Association's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, Board of Directors, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Ray, Foley, Hensley & Company

Ray, Foley, Hensley & Company, PLLC
March 21, 2012

BUFFALO TRAIL WATER ASSOCIATION, INC.
SCHEDULE OF FINDINGS AND RESPONSES
December 31, 2011

FINDING:

2011-1

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.

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 take responsibility for the financial statements in conformity with generally accepted accounting principles.

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.

We recommend management review the costs and benefits involved to retain a consultant with the required expertise to prepare the financial statements or review the financial statements as prepared by the auditor for compliance with generally accepted accounting principles.

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.