

PUBLIC SERVICE COMMISSION
ANNUAL REPORT BRANCH
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**BATH COUNTY WATER DISTRICT
SALT LICK, KENTUCKY
AUDITED FINANCIAL STATEMENTS
For the Years Ended December 31, 2011 and 2010**

BATH COUNTY WATER DISTRICT
SALT LICK, KENTUCKY
Years Ended December 31, 2011 and 2010

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INDEPENDENT AUDITOR'S REPORT

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To the Board of Commissioners of the Bath County Water District
Salt Lick, Kentucky

We have audited the accompanying financial statements of the business-type activities, of Bath County Water District as of and for the year ended December 31, 2011 and 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Bath County Water District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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 audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, of the Bath County Water District, as of December 31, 2011 and 2010, and the respective changes in financial position and, where applicable, cash flows thereof for the year 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 our report dated February 21, 2012, on our consideration of the Bath County Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 important for assessing the results of our audit.

The District has not presented the management's discussion and analysis that Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Bath County Water District's financial statements as a whole. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.


Donna J. Hendrix, CPA

Morehead, Kentucky 40351
February 21, 2012

BATH COUNTY WATER DISTRICT
STATEMENTS OF NET ASSETS
PROPRIETARY FUND
DECEMBER 31,

ASSETS	2011	2010
Current Assets		
Cash	\$ 1,068,145	\$ 948,519
Accounts receivable		
Customers, net	231,460	233,714
Other	-	-
Prepaid expenses	10,037	10,182
Inventory	66,161	56,788
	<u>1,375,802</u>	<u>1,249,203</u>
Restricted Assets		
Cash-Customer deposits	44,225	38,145
Cash-Sinking fund	139,094	94,423
Cash-Depreciation fund	176,980	176,980
	<u>360,299</u>	<u>309,548</u>
Fixed Assets		
Property, Plant & Equipment	14,956,359	14,784,956
Less accumulated depreciation	(4,006,916)	(3,787,539)
Construction-in-progress	-	224,944
	<u>10,949,443</u>	<u>11,222,361</u>
TOTAL ASSETS	<u>\$ 12,685,544</u>	<u>\$ 12,781,112</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 64,225	\$ 69,423
MUPB payable	50,923	46,501
BCSD payable	3,713	3,241
Accrued wages and Vacation Pay	53,925	60,257
Customer deposits	38,776	32,721
Advances	14,010	14,010
Taxes payable	4,207	6,550
Accrued interest payable	52,883	54,221
Interium RD financing	-	-
Current Portion of bonds payable	55,200	48,400
Total Current Liabilities	<u>337,862</u>	<u>335,324</u>
Long-term debt		
KRWA financing	-	-
Bonds payable, net	2,472,400	2,527,600
Total Long-term Liabilities	<u>2,472,400</u>	<u>2,527,600</u>
TOTAL LIABILITIES	2,810,262	2,862,924
Net Assets		
Investment in Capital Assets, Net of Related Debt	8,421,843	8,646,361
Restricted Net Assets	360,299	309,548
Unrestricted Net Assets	1,093,140	962,280
TOTAL NET ASSETS	<u>9,875,282</u>	<u>9,918,189</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 12,685,544</u>	<u>\$ 12,781,112</u>

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

BATH COUNTY WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES
IN NET ASSETS
PROPRIETARY FUND
for the years ended December 31,

	2011	2010
OPERATING INCOME		
Water sales	\$ 1,622,653	\$ 1,619,939
Other revenue	<u>74,488</u>	<u>60,810</u>
Total operating income	<u>1,697,141</u>	<u>1,680,749</u>
OPERATING EXPENSES		
Power	60,517	56,308
Water purchased	656,954	649,849
Salaries	285,377	326,141
Materials and Supplies	26,569	29,373
Transportation expense	24,858	20,715
Insurance	19,330	19,008
Health and Life Insurance	101,305	84,270
Chemicals	7,096	5,513
Payroll taxes	22,207	21,798
Employee retirement	51,459	44,996
Legal and Professional	4,750	4,829
Contract Services	5,265	7,285
Office Utilities	9,756	10,650
Office Supplies	21,333	29,180
Postage	12,995	14,195
Miscellaneous	-	-
Bad debt expense (recoveries)	6,539	9,567
Regulatory commission expenses	<u>2,514</u>	<u>1,584</u>
Total operating expense	<u>1,318,824</u>	<u>1,335,259</u>
Operating income before depreciation	378,317	345,490
Depreciation expense	<u>(345,409)</u>	<u>(352,092)</u>
OPERATING INCOME (LOSS)	32,908	(6,602)
Non-operating income (Expenses)		
Gain (Loss) on disposal of assets	-	-
Customer Tap Fees	22,046	22,975
Interest income	8,073	14,027
Interest expense	<u>(105,933)</u>	<u>(112,032)</u>
Total Non-Operating Income (Expense)	<u>(75,814)</u>	<u>(75,030)</u>
NET INCOME (LOSS) BEFORE CONTRIBUTIONS	(42,906)	(81,632)
STATE CONTRIBUTIONS IN AID OF CONSTRUCTION	<u>-</u>	<u>392,157</u>
NET INCOME (LOSS) AFTER CONTRIBUTIONS	(42,906)	310,525
NET ASSETS, BEGINNING OF YEAR	<u>9,918,189</u>	<u>9,607,663</u>
NET ASSETS, END OF YEAR	<u>\$ 9,875,283</u>	<u>\$ 9,918,188</u>

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

BATH COUNTY WATER DISTRICT
STATEMENTS OF CASH FLOWS
PROPRIETARY FUND
for the years ended December 31,

	2011	2010
CASH FLOW FROM OPERATING ACTIVITIES		
Receipts From Customers	\$ 1,699,396	\$ 1,670,383
Payments to Suppliers	(1,005,282)	(960,087)
Payments to Employees	(307,584)	(347,939)
Other Receipts (Payments)	<u>-</u>	<u>-</u>
Net Cash (Used) Provided by Operating Activities	386,530	362,357
CASH FLOW FROM INVESTING ACTIVITIES		
Sinking Fund	44,671	(11,007)
Depreciation Fund	6,080	3,672
Interest Income	<u>8,073</u>	<u>14,027</u>
Net Cash (Used) Provided by Investing Activities	<u>58,824</u>	<u>6,692</u>
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds From Capital Debt	-	259,000
Principal Paid on Capital Debt	(48,400)	(392,442)
Purchases of Capital Assets	(195,573)	(605,638)
State Grants Received	-	392,157
Contributed Capital-Tap Fees	22,046	22,975
Interest Paid on Capital Debt	<u>(53,050)</u>	<u>(59,655)</u>
Net cash (Used) Provided by Financing Activities	<u>(274,977)</u>	<u>(383,603)</u>
NET INCREASE (DECREASE) IN CASH	170,377	(14,554)
Cash and Cash Equivalents - At beginning of year	<u>1,258,068</u>	<u>1,272,622</u>
CASH AND CASH EQUIVALENTS - AT END OF YEAR	<u>\$ 1,428,444</u>	<u>\$ 1,258,068</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Operating Income (Loss)	\$ 32,908	\$ (6,602)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation Expense	345,409	352,092
Change in Assets and Liabilities:		
Accounts Receivable, Net	2,255	(10,366)
Inventories	9,373	4,433
Prepaid Expense	145	(805)
Accounts Payable and Other Payables	(3,985)	(40,608)
Customer Deposits	6,055	3,956
Accrued Wages and Vacation	<u>(6,332)</u>	<u>60,257</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 385,828</u>	<u>\$ 362,357</u>

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

**BATH COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2011 and 2010**

NOTE 1: ORGANIZATION AND ACCOUNTING POLICIES

The Bath County Water District was created and organized as a public body corporate in Bath County, Kentucky, pursuant to Chapter 74 of the Kentucky Revised Statutes, by the Bath County Fiscal Court to operate a water distribution system. The District is regulated by the Kentucky Public Service Commission.

The Reporting Entity

The District, for financial purposes, includes all of the funds relevant to the operation of the District. The financial statements presented herein do not include agencies which have been formed under applicable state laws or separate and distinct units of government apart from the Bath County Water District.

The financial statements of the District would include those of separately administered organizations that are controlled by or dependent on the District. Control or dependence is determined on the basis of financial interdependency, selection of government authority, designation of management, ability to significantly influence operations, accountability of fiscal matters, scope of public service and financing relations. The entities included in the financial statements are the general operations of the District.

Based on the foregoing criteria there are no other organizations included in these financial statements.

The District, presented as an enterprise fund, does not apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or after November 30, 1989.

Enterprise Funds

Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprise where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The transactions of the District are accounted for on a flow of economic resources management focus. With the measurement focus, all assets and all liabilities associated with the operations are included on the balance sheet. Net assets (i.e., total assets net of total liabilities) are segmented into invested in capital assets, net of related debt, restricted and unrestricted components. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, and then unrestricted resources as they are needed.

**BATH COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS**

For the years ended December 31, 2011 and 2010

Note 1: ORGANIZATION AND ACCOUNTING POLICIES

Basis of Accounting

The District maintains its accounting records on the accrual basis during the year. The District's financial statements include the operations of all entities for which the District exercises oversight responsibility. Oversight responsibility includes, but is not limited to financial interdependency, selection of the governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters.

Inventory

Inventory is maintained at lower of cost or market.

Utility Plant

Utility Plant is stated at original cost. The cost of repairs and maintenance is charged to the proper expense account as incurred. Property replacements are capitalized and retirements are charged to the proper plant account and depreciation provision.

Depreciation

Depreciation is applied on the straight-line method over the estimated useful life of the asset, using rates on a straight-line basis determined by reference to Utility Standards Rates (NARUC). The provisions for depreciation in 2010 reflect those standard rates by asset class.

Unbilled Revenue

The District records revenue as billed to its customers on monthly meter reading cycle. At the end of each year, water service that has been rendered from the latest date of each meter reading to the year-end is unbilled.

Power Costs

The cost of power purchases for pumping water is charged to expense as used.

Income Tax Status

The District is a political subdivision created under Kentucky Revised Statutes 74.012, and as such, is exempt from federal and state income taxes. Accordingly, the financial statement include no provision for income taxes.

Cash Flows

For purposes of the statement of cash flows, the District uses the direct method of reporting net cash flow from operating activities, and considers certificates of deposit with a maturity of six months or less to be cash equivalents.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**BATH COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2011 and 2010**

Net Assets

Net assets represent the difference between assets and liabilities in the statement of net assets. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are legal limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, laws or regulations of other governments. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

NOTE 2: CUSTODIAL CREDIT RISK

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's cash and cash equivalents consist of checking and savings accounts with local banks. The District does have a deposit policy for custodial credit risk. As of December 31, 2011, \$0 of the bank balance was exposed to custodial credit risk as follows:

Uninsured and collateral held by pledging bank \$0

NOTE 3: LONG-TERM DEBT

Revenue bonds in the principal amount of \$235,000 were authorized in 1970 and are held by the Economic Development Administration. A 1977 Bond Issue in the amount of \$130,000 was sold to the Farmers Home Administration, payable and secured by a pledge of the revenues of the District on parity as to security and source of payment with the 1970 Bonds held by EDA. A 1982 Bond Issue in the amount of \$106,000 was sold to the Farmers Home Administration as second lien bonds subject to the vested rights and priority of the 1970 and 1977 bonds. Bonds in the amount of \$375,000 were authorized in 1988 and issued February 14, 1989, as second lien bonds on parity as to security and source of payment with the 1982 bonds. Bonds in the amount of \$138,000 were authorized and issued May 26, 1989 as second lien bonds on parity as to security and source of payment with the second lien bonds of 1982 and 1988. Bonds in the amount of \$103,000 were authorized in 1991 and issued November 25, 1992 and bonds in the amount of \$280,000 were authorized in 1994 and issued October 20, 1994, as second lien bonds. Bonds in the amount of \$200,000 were authorized and issued January 22, 1999. Bonds in the amount of \$500,000 were authorized and issued June 29, 2004. The Bonds Issues of 1988, 1989, 1991, 1998 and 2004 were sold to the Farmers Home Administration. Bonds Series 2009 in the amount of \$259,000 were authorized and issued January 26, 2010.

BATH COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)
For years Ended December 31, 2011 and 2010

Note 4: LONG-TERM DEBT (CONTINUED)

The Following is a summary of changes in long-term debt for the year ended December 31,2011

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Bond Series 1977				
loan amount \$130,000				
interest rate 5.00%	\$ 44,000.00		\$ 5,000.00	\$ 39,000.00
Bond Series 1982				
Loan amount \$106,000				
Interest rate 5.00%	60,000.00		4,000.00	56,000.00
Bond Series 1988				
Loan amount \$375,000				
Interest rate 5.00%	251,000.00		10,000.00	241,000.00
Bond Series 1989				
Loan Amount \$138,000				
Interest rate 5.00%	-		-	-
Bond Series 1991				
Loan Amount \$103,000				
Interest rate 5.00%	78,200.00		2,200.00	76,000.00
Bond Series 1994				
Loan Amount \$280,000				
Interest rate 4.50%	228,500.00		5,000.00	223,500.00
Bond Series 1998				
Loan Amount \$200,000				
Interest rate 4.50%	174,300.00		3,200.00	171,100.00
Bond Series 2004				
Loan Amount \$500,000				
Interest rate 4.375%	478,000.00		6,000.00	472,000.00
Bond Series 2006				
Loan Amount \$1,039,000				
Interest rate 4.125%	1,003,000.00		13,000.00	990,000.00
Bond Series 2009				
Loan Amount \$259,000				
Interest rate 2.375%	259,000.00	-		259,000.00
	<u>\$ 2,576,000.00</u>	<u>\$ -</u>	<u>\$ 48,400.00</u>	<u>\$ 2,527,600.00</u>
Less: Current Maturities	<u>48,400.00</u>			<u>55,200.00</u>
Totals	<u><u>\$ 2,527,600.00</u></u>			<u><u>\$ 2,472,400.00</u></u>

The following is a schedule of long-term debt maturities

	<u>Principle</u>	<u>Interest</u>
2012	55,200.00	104,770.00
2013	57,400.00	93,267.00
2014	58,800.00	90,682.00
2015	64,500.00	96,938.00
2016	65,300.00	94,048.00
2017-2020	270,100.00	346,685.00
2021-2025	378,800.00	362,264.00
2026-2030	388,900.00	270,420.00
2031-2035	385,500.00	184,159.00
2036-2040	371,600.00	119,961.00
2041-2045	390,500.00	42,782.00
2046-2049	41,000.00	1,971.00
	<u><u>\$ 2,527,600.00</u></u>	<u><u>\$ 1,807,947.00</u></u>

**BATH COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2011 and 2010**

NOTE 5: RESERVES

The Bath County Water District is required to comply with the bond agreements of all bond issues as follows:

Sinking Fund

The District is required to set aside an amount into a special account known as the Bath County Water District Water System Revenue Bonds, Bond and Interest Sinking Fund. The amount to be so set aside and paid each month shall be not less than the following respective amounts:

- 1) A sum equal to one sixth (1/6) of the interest becoming due on the next succeeding interest due date, with respect to all outstanding Bond Issues.
- 2) A sum equal to one twelfth (1/12) of the principal of all such bonds maturing on the next succeeding January 1.

The required balance of the reserve at December 31, 2011 was \$108,198. The District had set aside \$139,094 into a restricted account. The District is properly reserved and is over by \$30,896 at December 31, 2011.

Depreciation Fund

The District is required to deposit into the Depreciation Fund account the proceeds from the sale of any equipment no longer usable or needed, fees or charges collected from potential customers to aid in the financing of the cost of extensions, additions and/or improvements to the project, plus the proceeds of any property damage insurance not immediately used to replace damaged or destroyed property. Monies in the Depreciation Fund shall be available and used, upon appropriate certification to the bank, for the purpose of paying the cost of construction replacements, extensions, additions and/or improvements to the project. Whenever the balance in the Depreciation Fund shall equal \$124,400, the monthly payments may be discontinued, or by order of the governing body of the District, be diverted into the Sinking Fund Account. The District had set aside \$176,980 and \$176,980 at December 31, 2011 and 2010, respectively.

NOTE 6: SEWER COLLECTIONS

During 2000, the District began collecting sewer payments for the Morehead Utility Plant Board. The accounts receivable reflected on the balance sheet represent monies receivable for water and sewer service. The MUPB payable is the amount of monies in the receivable, which are due to the MUPB. The balance at December 31, 2011 and 2010 was \$50,923 and \$46,500, respectively.

**BATH COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2011 and 2010**

NOTE 7: RETIREMENT PLAN

The Bath County Water District is a participating employer of the County Employees' Retirement System (CERS), which is a multi-employer defined benefit plan that covers substantially all regular full-time employees of each county, school board, municipal and other local agencies electing to participate. Upon election to participate in the CERS, each employee has the option to participate, however, all subsequent employees must participate and the employer is required to continue participation.

Employees who retire at age 65 and have 48 or more months of credited service or have 27 years of credited service regardless of age are entitled to a retirement benefit, payable monthly for life, equal to 2.2% of the average annual salary of the members' five highest earning years multiplied by the number of years of service credit. Members retiring at less than 55 years of age with 25 to 27 years of service credit or 65 years of age with less than 48 months of service credit are entitled to reduced benefits. Members' retirement benefits become fully vested when they complete sixty months of service, twelve of which are current service.

The Bath County Water District has a total of 8 employees covered by the CERS. Employer contribution rates are intended to fund the System's normal cost on a current basis plus one percent (1%) of unfounded past service costs per annum plus interest at the actuarial assumed rate. Such contribution rates are determined by the Board of Trustees of Kentucky Retirement Systems each biennium. There are 8 non-hazardous duty employees who contributed 5.00% and the employer contributed 16.93% until July 1 and 18.96%, thereafter. The District's contributions for the year ended December 31, 2011 and 2010 were \$51,459 and \$44,996 and the employees contributed \$14,552 and \$13,610, respectively. The total payroll for covered employees for the years ended December 31, 2011 and 2010 were \$290,281 and \$272,193.

The amount shown below as "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increased, estimated to be payable in the future as a result of employee service to date. The measure is the actuarial present value of credited projected benefits and is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among public employee retirement systems (PERS). The measure is independent of the actuarial funding method used to determine contributions to the System.

All required contributions were paid at year end or within thirty (30) days thereafter.

NOTE 8: RISK MANAGEMENT

The District 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 district also carries commercial insurance for all other risks of loss such as worker's compensation and employee health and accident coverage.

BATH COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2011 and 2010

NOTE 9: FIXED ASSETS

Capital asset activity for the fiscal year ended December 31, 2011 was as follows:

Business-Type Activities	Balance Jan. 1, 2011	Additions	Deductions	Balance Dec. 31, 2011
Cost:				
Land	\$ 35,350			\$ 35,350
Plant in Service	14,022,516	296,050		14,318,566
Other Depreciable Assets	727,090	1,385	126,032	602,443
Construction in Progress	224,944	3,000	227,944	-
Totals at historical cost	15,009,900	300,435	353,976	14,956,359
Less accumulated depreciation:				
Land & Land Rights				-
Plant in Service	3,291,262	303,167		3,594,429
Other Depreciable Assets	496,277	42,242	126,031	412,488
Total accumulated Depreciation	3,787,540	345,409	126,031	4,006,918
Business-Type Activities Capital Assets - Net	\$ 11,222,360	\$ (44,974)	\$ 227,945	\$ 10,949,443

Capital asset activity for the fiscal year ended December 31, 2010 was as follows:

Business-Type Activities	Balance Jan. 1, 2010	Additions	Deductions	Balance Dec. 31, 2010
Cost:				
Land	\$ 35,350			\$ 35,350
Plant in Service	13,085,697	936,818		14,022,515
Other Depreciable Assets	690,710	36,381		727,091
Construction in Progress	592,505	467,889	835,450	224,944
Totals at historical cost	14,404,262	1,441,088	835,450	15,009,900
Less accumulated depreciation:				
Land & Land Rights			-	-
Plant in Service	3,003,017	297,332	-	3,300,349
Other Depreciable Assets	432,430	54,761	-	487,191
Total accumulated Depreciation	3,435,447	352,093	-	3,787,540
Business-Type Activities Capital Assets - Net	\$ 10,968,815	\$ 1,088,995	\$ 835,450	\$ 11,222,360

**BATH COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2011 and 2010**

NOTE 10: CONTINGENCIES

The District had elected to be recognized as a reimbursing employer for state unemployment compensation purposes. Accordingly, the District will become liable for direct payment of unemployment benefits as they become due.

NOTE 11: GRANT PROCEEDS

There were no Grant proceeds for water projects in 2011.

SUPPLEMENTAL INFORMATION

**BATH COUNTY WATER DISTRICT
SUPPLEMENTAL INFORMATION REQUIRED BY RURAL DEVELOPMENT
December 31, 2011**

Schedule of Insurance in Force

<u>Insurance Coverage</u>	<u>Amount of Coverage</u>	<u>Expiration Date of Policy</u>
General Liability	\$ 6,000,000	7/1/2012
Property - Building & Contents	3,402,069.00	7/1/2012
Equipment & Vehicles	140,000.00	7/1/2012
Treasurer and Commissioners	400,000.00	7/1/2012
Workers Compensation	Statutory	7/1/2012

Aged Accounts Receivable

A detailed schedule of aged accounts receivable is prepared on a monthly basis. At December 31,2011, accounts receivable were aged as follows:

	<u>Number Of Accounts</u>	<u>Amount</u>
Current	3,677	\$ 151,616
Over 30 Days	227	1,915
Over 60 Days	63	1,405
Over 90 Days	260	11,115
Total	<u>4,227</u>	<u>\$ 166,051</u>

During 2011, the District carried a reserve for possible uncollected accounts of \$1,997. Accounts in arrears have been collected or are covered by deposits.

The District had a total of 3,691 customers at December 31, 2011. Of these customers, 3,616 were residential and 75 were commercial.

DONNA J. HENDRIX
CERTIFIED PUBLIC ACCOUNTANT

MEMBER: K.S.C.P.A.
A.I.C.P.A.

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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

To the Board of Commissioners
Bath County Water District
Salt Lick, KY

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Bath County Water District, as of and for the year ended December 31, 2011, which collectively comprise the Bath County Water District's basic financial statements and have issued our report thereon dated February 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 Bath County Water District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Bath County Water District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Bath County Water District'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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entities financial statements will not be prevented, or detected and corrected on a timely basis.

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 identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Bath County Water District's financial statements are free of 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*.

This report is intended solely for the information and use of the Board of Commissioners and management of Bath County Water District and the Governor's Office of Local Development and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Donna J. Hendrix, CPA". The signature is written in a cursive style.

Donna J. Hendrix, CPA
Morehead, KY

February 21, 2012