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SEP 30 2011

PUBLIC SERVICE
COMMISSION

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF BREATHITT COUNTY)
WATER DISTRICT FOR AUTHORITY TO ENTER) CASE NO.2011-_____
INTO A LOAN AGREEMENT WITH THE)
KENTUCKY INFRASTRUCTURE AUTHORITY)

APPLICATION

Breathitt County Water District ("Breathitt District"), by counsel, pursuant to KRS 278.300, petitions the Commission for authority to execute a loan agreement with the Kentucky Infrastructure Authority ("KIA") for an amount not to exceed \$2,500,000.00. The following information is filed in accordance with the Commission's regulations:

1. Breathitt District's office address is 1137 Main Street, Suite 305, Jackson, Kentucky 41339. Its principal officers are listed in its 2010 Annual Report, which is on file with the Commission.
2. Breathitt District is a non-profit water district organized under KRS Chapter 74 and has no articles of incorporation.
3. A description of Breathitt District's water system and its property stated at original cost by accounts is contained in its 2010 Annual Report, a copy of which is attached to this Application as Exhibit A, and its 2010 Audit Report, a copy of which is attached as Exhibit B.
4. Breathitt District proposes to enter into a loan agreement with KIA to borrow an amount not to exceed \$2,500,000. The loan agreement will provide for principal forgiveness in the amount of Forty (40%) percent of the loan amount, with actual amortized loan and forgiveness amounts will be based on actual projects costs drawn from the Authority. The loan will have an interest rate of One (1%) percent per

annum, which shall commence with the first draw of funds. The loan must be repaid over a period of 20 years. As a requirement of the loan agreement, Breathitt District will grant a security interest in its assets to KIA. The terms and conditions of the proposed loan are set forth in the KIA Infrastructure Revolving Loan Fund Conditional Commitment Letter, dated July 14, 2011, a copy of which is attached as Exhibit C. An amortization schedule for the proposed loan is attached as Exhibit D.

5. The proceeds of the proposed loan will be used to partially finance the purchase and installation of waterlines on Canoe Road, Ky. Hwy. 1098 (South Fork) and Houston Road, water line Extensions. Breathitt District proposes to install approximately 38 miles of waterlines providing potable water to the Citizens of those areas of Breathitt County. A proposed funding budget for the project is attached as Exhibit E.

6. Breathitt District will be immediately applying for a Certificate of Public Convenience and Necessity to bid and install said water lines.

7. Breathitt District has the following outstanding long-term loans:

a. Breathitt County Water District owes a note to USDA-Rural Development on the Kentucky Highway 30 East project. The original amount of this note was \$350,000.00. Principal and interest payments are due annually for 40 years. The note has an interest rate of .0275 percent. As of December 31, 2010, the balance was \$350,000.00.

b. Breathitt County Water District owes a note to Kentucky Infrastructure Authority on the Kentucky Highway 30 West project. The original amount of this note was \$572,000.00, however, the principal forgiveness was \$309,452.00, leaving a total balance due of \$262,548.00. Principal and interest payments are due

semi-annually for 20 years. The note has an interest rate of 1.0 percent. As of December 31, 2010, the balance was \$257,630.00.

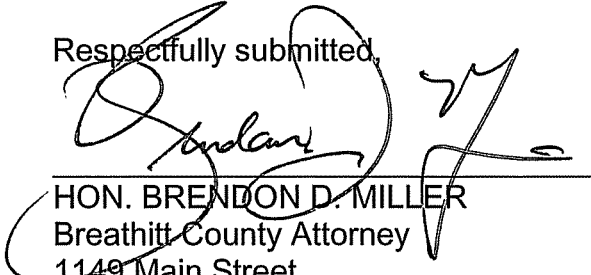
8. Breathitt District requests and moves for a deviation, pursuant to 807 KAR 5:001, Section 14, from the requirements of 807 KAR 5:001, Section 11(2)(a), which requires that the financial exhibit filed with the Application be for a twelve (12) month period ending within ninety (90) days of the filing of the Application. There has been no change that is material in nature in its financial condition or operation of the District since December 31, 2010. The financial information contained in Exhibits A and B is for the twelve (12) month period ending December 31, 2010. This is the most recent published financial data available. Because if CDBG funds that will be used along with the KIA Loan funds for construction of the South Fork water lines portion of the proposed use, is not bid by November 23, 2011, said CDBG grant agreement will be terminated for failure of satisfaction of said agreement, and the funds will be lost, and Breathitt District cannot run the risk of losing said funds while more current financial data is compiled.

WHEREFORE, the Applicant, Breathitt District requests that the Public Service Commission of Kentucky grant to the Applicant:

A. An order approving the issuance of evidences of indebtedness in the form of a loan from the Kentucky Infrastructure Authority in the approximate amount of \$2,500,000; and,

B. Applicant's motion for a deviation from the 90-day requirement for financial information as required by 807 KAR 5:001, Section (11)(2)(a).

Respectfully submitted,




HON. BRENDON D. MILLER
Breathitt County Attorney
1149 Main Street
Jackson, Kentucky 41339

COUNSEL for BREATHITT COUNTY
WATER DISTRICT

COMMONWEALTH OF KENTUCKY)
)
COUNTY OF BREATHITT)

The undersigned, BOBBY THORPE, JR., being duly sworn, deposes and states that he is the Chairman of the Breathitt County Water District, Applicant, in the above proceedings; that he has read the foregoing Application and has noted the contents thereof; that the same is true of his own knowledge, except as to matters which are therein stated on information or belief, and as to those matters, he believes same to be true.

IN TESTIMONY WHEREOF, witness the signature of the undersigned on this September 28, 2011.



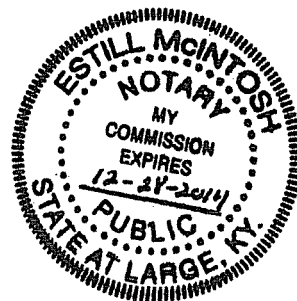
BOBBY THORPE, JR., Chairman
Breathitt County Water District

Subscribed and sworn to before me by BOBBY THORPE, JR., Chairman of the Breathitt County Water District, on this September 28, 2011.

My commission expires: December 28 2014



Notary Public State-At-Large



LIST OF EXHIBITS

<u>Exhibit</u>	<u>Document</u>
A	2010 Annual Report
B	2010 Audit Report
C	KIA Infrastructure Revolving Loan Fund Conditional Commitment Letter
D	Proposed Amortization Schedule for KIA Loan
E	Proposed Budget for the Water Line project



KENTUCKY INFRASTRUCTURE AUTHORITY

1024 Capital Center Drive, Suite 340
Frankfort, Kentucky 40601
Phone (502) 573-0260
Fax (502) 573-0157
<http://kia.ky.gov>

Steven L. Beshear
Governor

John E. Covington III
Executive Director

August 12, 2011

K.R.A.D.D.
DATE RECEIVED

AUG 16 2011

Mr. Bobby Thorpe, Jr., Chairman
Breathitt County Water District
1137 Main Street, Suite 305
Jackson, KY 41339

TO: *Jennifer M.*

**KENTUCKY INFRASTRUCTURE AUTHORITY
FEDERALLY ASSISTED DRINKING WATER REVOLVING LOAN FUND
RESTATED CONDITIONAL COMMITMENT LETTER (F11-07)**

Dear Chairman Thorpe:

The Kentucky Infrastructure Authority ("the Authority") commends your efforts to improve public service facilities in your community. On July 7, 2011, the Authority approved your loan and, subsequently, on August 4, 2011, approved a modification to your loan for the Canoe Road, Hwy 1098 (South Fork) and Houston Water Line Extensions project subject to the conditions stated below. The total cost of the project shall not exceed \$2,775,000 of which the Authority loan shall provide \$2,500,000 of the funding. Other anticipated funding for the project is reflected in Attachment A. The final loan amount will be equal to the Authority's portion of estimated project cost applied to the actual project cost. Attachment A incorporated herein by reference fully describes the project.

An Assistance Agreement will be executed between the Authority and the Breathitt County Water District upon satisfactory performance of the conditions set forth in this letter. A period of twelve months from the date of the original Conditional Commitment Letter dated July 14, 2011 (7/13/12), will be allowed for you to meet the conditions set forth in this letter and enter into an Assistance Agreement. A one-time extension of up to six months may be granted for applicants that experience extenuating circumstances. Funds will be available for disbursement only after execution of the Assistance Agreement.

The Assistance Agreement and this commitment shall be subject, but not limited to, the following terms:

1. The Authority project loan shall not exceed \$2,500,000.

2. The loan shall contain principal forgiveness in the amount of 40% (previously 35%). Actual amortized loan and forgiveness amounts will be based on actual project costs drawn from the Authority.
3. The loan shall bear interest at the rate of 1% per annum commencing with the first draw of funds.
4. The loan shall be repaid over a period not to exceed 20 years from the date the loan is closed.
5. Interest shall be payable on the unforgiven amount of actual funds received. The first payment shall be due on June 1 or December 1 immediately succeeding the date of the initial draw of funds, provided that if such June 1 or December 1 shall be less than three months since the date of the initial draw of funds, then the first interest payment date shall be the June 1 or December 1 which is at least six months from the date of the initial draw of funds. Interest payments will be due each six months thereafter until the loan is repaid.
6. Full principal payments will commence on the appropriate June 1 or December 1 within twelve months from initiation of operation. Full payments will be due each six months thereafter until the loan is repaid.
7. A loan servicing fee of 0.25% of the annual outstanding loan balance shall be payable to the Authority as a part of each interest payment.
8. Loan funds will be disbursed after execution of the Assistance Agreement as project costs are incurred.
9. The Authority loan funds must be expended within six months of the official date of initiation of operation.
10. Fund "F" loan funds are considered to be federal funds. OMB Circular A-133, "Audits of States, Local Governments and Non-Profit Organizations, requires that all recipients and subrecipients **expending \$500,000 or more in a year in federal awards must have a single or program-specific audit conducted for that year** in accordance with the Circular. If the federal amount expended plus all other federal funds expended exceeds the threshold, you are required to arrange for an A-133 audit to be performed by an independent, licensed CPA, or in special cases, the Auditor of Public Accounts of the Commonwealth of Kentucky. The Authority requires an annual audit to be preformed for the life of the loan.

The following is a list of the standard conditions to be satisfied prior to execution of the Assistance Agreement or incorporated in the Assistance Agreement. Any required documentation must be submitted to the party designated.

1. The Authority to Award (bid) package must be submitted to the Division of Water for approval within 14 days of bid opening.
2. The Assistance Agreement must be executed within six (6) months from bid opening.
3. The Borrower must agree to expend all Authority loan funds within six months of the date of initiation of operation.
4. Documentation of final funding commitments from all parties other than the Authority as reflected in the credit analysis shall be provided prior to preparation of the Assistance Agreement and disbursement of the loan monies. Rejections of any anticipated project funding shall be immediately reported and may cause this loan to be subject to further consideration.
5. The loan must undergo review by the Capital Projects and Bond Oversight Committee of the Kentucky Legislature prior to the state's execution of the Assistance Agreement. The committee meets monthly on the third Tuesday. At this time we know of no further submission required for their review; however, they may request information as needed.
6. Any required adjustment in utility service rates shall be adopted by ordinance, municipal order or resolution by the appropriate governing body of the Borrower. Public hearings as required by law shall be held prior to the adoption of the service rate ordinance, order, or resolution. Any required approvals by the Kentucky Public Service Commission shall be obtained.
7. All easements or purchases of land shall be completed prior to commencement of construction. Certification of all land or easement acquisitions shall be provided to the Division of Water.
8. The Borrower must complete and return to the Authority the attached "Authorization For Electronic Deposit of Vendor Payment" Form.
9. The Authority to Award Package documentation shall be submitted to and approved by DOW.

Chairman Bobby Thorpe
August 12, 2011
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10. An environmental review shall be conducted by the Division of Water for all construction projects receiving DWSRF funds, within the term of this binding commitment and prior to project bid.
11. Technical plans and specifications and a complete DWSRF specifications checklist shall be approved by the Division of Water prior to project bid.
12. A clear site certificate shall be obtained and DOW representatives shall be notified for attendance of the pre-construction conference.
13. Project changes or additions shall require a complete environmental and change order review before they can be included in the DWSRF loan project.

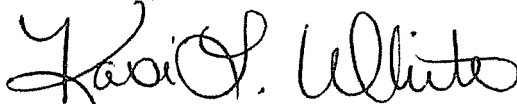
The following is a list of additional conditions to be satisfied prior to execution of the Assistance Agreement or incorporated in the Assistance Agreement. Any required documentation must be submitted to the party designated.

1. The Borrower shall require all contractors to pay wages pursuant to applicable prevailing wage rates (federal or state) for all work relating to the subject Project. The Borrower shall, if applicable, comply with all Davis Bacon related monitoring and reporting.
2. The project shall comply with the reporting requirements of the Transparency Act, and shall complete the attached Transparency Act Reporting Information Form and provide to the Authority no later than 30 days after the KIA Board approval date of your loan.
3. If the project has a "Green Reserve" component, the Borrower must submit a Business Case, if required.

Any special conditions listed below and/or stated in Attachment A must be resolved.

Please inform the Authority of any changes in your financing plan as soon as possible. We wish you every success for this project which will benefit both your community and the Commonwealth as a whole.

Sincerely,



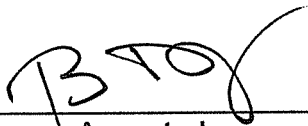
Kasi L. White
Financial Analyst

Chairman Bobby Thorpe
August 12, 2011
Page 5

Attachments

cc: Jennifer McIntosh, Kentucky River Area Development District
Matt Steen, Nesbitt Engineering, Inc.
Division of Water
Dirk Bedarff, Peck, Shaffer & Williams LLP
State Local Debt Office, DLG
Borrower File - Breathitt County Water District - F11-07

Please sign and return a copy of this letter indicating your acceptance of this commitment and its terms. Also attach the completed "Authorization For Electronic Deposit of Vendor Payment" Form.



Accepted

9-28-11

Date

ATTACHMENT A

**Breathitt County Water District
F11-07**

EXECUTIVE SUMMARY		Reviewer:	Kasi White	
KENTUCKY INFRASTRUCTURE AUTHORITY		Date:	July 7, 2011	
FUND F, FEDERALLY ASSISTED DRINKING WATER		KIA Loan Number:	F11-07	
REVOLVING LOAN FUND		WRIS Number	WX21025015, WX21025020 WX21025021	
BORROWER:	BREATHITT COUNTY WATER DISTRICT			
	BREATHITT COUNTY			
BRIEF DESCRIPTION:	<p>This request is comprised of three primary components. These projects will provide an adequate water supply to a community that currently has contaminated drinking water sources. Selective testing indicates that contaminants include iron, sulfur, manganese, sodium chloride as well as pathogens that usually include fecal coliform bacterial contamination at various levels.</p> <p>The first project is the installation of approximately 78,330 linear feet of PVC and ductile iron pipe in various sizes to service KY 315 north of 1933 (Turner's Creek) and the remaining side roads off of Canoe Road including Canoe, Spicer Branch, Butter Point, Buzzard Fork, Stamper Fork and Lick Branch. The project will also install a service line via railroad bore to Cecil Clair on HWY 52 and upgrade the HWY 52 and Town Hill pump stations. In addition, approximately 46,247 linear feet of 6", 4" and 2" PVC of new lines will be constructed to serve the area of South Fork from Swift Branch to Open Fork and Press Howard Fork and the Short Fork Road area. Lastly, approximately 25,000 linear feet of 4" and 2" line will be constructed to extend service from KY 1114 to Walter Combs' House at the end of Houston Road. Approximately 340 customers will be added as a result of the projects.</p>			
PROJECT FINANCING:	PROJECT BUDGET			
Fund F Loan	\$ 2,500,000	Administrative Expenses	\$ 40,839	
HB1	275,000	Legal Expenses	18,700	
		Land, Easements	4,699	
		Engineering Fees	355,554	
		Construction	2,117,200	
		Contingency	238,008	
TOTAL	\$ 2,775,000	TOTAL	\$ 2,775,000	
REPAYMENT		Est. Annual		
	Rate	1.00%	Payment \$ 86,687	
	Term	20 years	1st Payment 6 Mo. after first draw	
PROFESSIONAL SERVICES	Engineer	Nesbitt Engineering, Inc.		
	Bond Counsel	Peck, Shaffer, & Williams		
PROJECT SCHEDULE		Bid Opening:	August, 2011	
		Construction Start:	October, 2011	
		Construction Stop:	November, 2012	
DEBT PER CUSTOMER	Existing:	\$ 560		
	Proposed:	\$ 1,432		
OTHER DEBT	See Attached			
OTHER STATE-FUNDED PROJECTS LAST 5 YRS	See Attached			
RESIDENTIAL RATES		<u>Users</u>	<u>Avg. Bill</u>	
	Current	1,105	\$ 39.80 (for 4,000 gallons)	
	Additional	342	\$ 39.80 (for 4,000 gallons)	
REGIONAL COORDINATION	This project is consistent with regional planning recommendations.			
CASHFLOW	Cash Available for		Income after Debt	
	Debt Service	Debt Service	Service	Coverage Ratio
Audited 2006	(15,725)	0	(15,725)	n/a
Audited 2007	6,578	0	6,578	n/a
Audited 2008	(39,715)	45,070	(84,785)	(0.88)
Audited 2009	(43,548)	56,427	(99,975)	(0.77)
Preliminary 2010	34,564	574,181	(539,617)	0.06
Projected 2011	47,467	31,781	15,686	1.49
Projected 2012	152,030	44,118	107,912	3.45
Projected 2013	134,600	116,160	18,440	1.16
Projected 2014	126,208	116,003	10,206	1.09

Reviewer: Kasi White
 Date: July 7, 2011
 Amended: August 4, 2011
 Loan Number: F11-07

**KENTUCKY INFRASTRUCTURE AUTHORITY
 DRINKING WATER REVOLVING LOAN FUND (FUND "F")
 BREATHITT COUNTY WATER DISTRICT, BREATHITT COUNTY
 PROJECT REVIEW
 WX21025015, WX21025020 and WX21025021**

I. PROJECT DESCRIPTION

The Breathitt County Water District is requesting a Fund "F" loan in the amount of \$2,500,000 to extend water service in various areas. The request is comprised of three components. The projects will provide an adequate water supply to areas that currently have contaminated drinking water sources. Selective testing indicates that contaminants include iron, sulfur, manganese, sodium chloride as well as pathogens that usually include fecal coliform bacterial contamination at various levels.

The first project is the installation of approximately 78,330 linear feet of PVC and ductile iron pipe in various sizes to service KY 315 north of 1933 (Turner's Creek) and the remaining side roads off of Canoe Road including Canoe, Spicer Branch, Butter Point, Buzzard Fork, Stamper Fork and Lick Branch. The project will also install a service line via railroad bore to Cecil Clair on HWY 52 and upgrade the HWY 52 and Town Hill pump stations. In addition, approximately 46,247 linear feet of 6", 4" and 2" PVC of new lines will be constructed to serve the area of South Fork from Swift Branch to Open Fork and Press Howard Fork and the Short Fork Road area. Lastly, approximately 25,000 linear feet of 4" and 2" line will be constructed to extend service from KY 1114 to Walter Combs' House at the end of Houston Road. Approximately 340 customers will be added as a result of the projects.

II. PROJECT BUDGET

	Total
Administrative Expenses	\$ 40,839
Legal Expenses	18,700
Land & Easements	4,699
Engineering Fees	355,554
Construction	2,117,200
Contingency	238,008
Total	\$ 2,775,000

III. PROJECT FUNDING

	Amount	%
Fund F Loan	\$ 2,500,000	90%
HB1 (No CPBOC approval)	275,000	10%
Total	\$ 2,775,000	100%

IV. KIA DEBT SERVICE

Construction Loan	\$ 2,500,000
Less: Principal Forgiveness (40%)	<u>1,000,000</u>
Amortized Loan Amount	\$ 1,500,000
Interest Rate	1.00%
Loan Term (Years)	20
Estimated Annual Debt Service	\$ 82,937
Administrative Fee (0.25%)	<u>3,750</u>
Total Estimated Annual Debt Service	\$ 86,687

V. PROJECT SCHEDULE

Bid Opening:	August, 2011
Construction Start:	October, 2011
Construction Stop:	November, 2012

VI. RATE STRUCTURE

The district purchases all water for distribution from the City of Jackson at a rate of \$1.90 per 1,000 gallons. There is a minimum purchase required of 400,000 gallons per month.

A. Customers

Customers	Current	Proposed	Total
Residential	1,100	342	1,442
Commercial	5	0	5
Industrial	0	0	0
	<u>1,105</u>	<u>342</u>	<u>1,447</u>

The Canoe Road project is expected to add 220 customers while the Highway 1,098 project will add 122 customers.

B. Rates

Rates were last increased in October, 2005.

First 2,000 gallons (minimum)	\$ 19.90
Rate Per Additional 1,000 Gallons	<u>9.95</u>
Cost for 4,000 gallons	\$ 39.80

Affordability Index (Rate/MHI) 2.5%

VII. DEMOGRAPHICS

In 2000, the County's population was 13,500 with a Median Household Income (MHI) of \$19,155, which is less than 80% of the MHI for the Commonwealth (\$33,672), thus qualifying the District for a 1% interest rate on the proposed loan.

VIII. 2010 CAPITALIZATION GRANT EQUIVALENCIES

- 1) Green Project Reserve - This project does not qualify for Green Project Reserve (GPR) funding.
- 2) Additional Subsidization – This project qualifies for additional subsidization in the amount of \$1,000,000.

IX. FINANCIAL ANALYSIS (See Exhibit 1)

Financial information for the utility was obtained audited financial statements for the years ended December 31, 2006 through 2009. Amounts for 2010 are based on preliminary financial statements.

HISTORICAL

The Breathitt County Water District (BCWD) was created in 2003 to provide water service to unserved residences in Breathitt County. The customer base has increased from about 100 in 2006 to approximately 1,100 today. Since its inception the District has extended the water supply to numerous areas throughout the County.

Revenues have increased 461% from \$88,609 in 2006 to \$497,238 in 2010. Operating expenses and purchased water costs have increased 339% from \$105,449 to \$463,023 during the same period. Cash available for debt service has been negative in all years but 2007 due to customer hookups from extension projects being realized a little later after project completion than expected. The debt coverage ratio in 2010 was 0.06. Reserve funds and a portion of operating cash were utilized to fund the required \$572,000 in debt service from the ARRA loan.

The 2010 operating cash balance represents about 1.5 months of operating expenses and purchased water cost. There are minimal restricted reserve funds to support total capital assets of \$23.5 million. Large unexpected expenses could stress the District's finances given these combined factors.

Financing for the District's capital expansion has involved a combination of grants, fiscal court contributions and credit facilities. The District's long term debt is minimal and is comprised of Series 2009 Revenue Bonds and a note to KIA. Total debt to equity is approximately 4%. Days' sales in accounts receivables are 35.9 which reflects an efficient collection process.

PROJECTED

Projections are based on the following assumptions:

- Revenues have been adjusted to include the additional 340 customers that will be added in 2012 as a result of the project.
- Customer growth outside of planned service area expansions will be 2% per year.
- Operating expenses and purchased water costs are projected to increase by 4% annually
- Average water use was calculated at 3,600 gallons per month per customer based on historical usage.
- The replacement reserve is \$6,250 for this project and \$7,250 annually in total (includes KIA loan F2 09-05).
- Debt service on the new KIA loan will be \$86,687 annually beginning in June 2013.

Based on the above assumptions the Breathitt County Water District will meet the required cash flow through the projected years with a debt coverage ratio of 1.16 in 2013. Debt to equity will increase from 4% to 11% upon completion of the project.

REPLACEMENT RESERVE

Based on the information provided in the application the annual replacement cost is \$6,250. This amount should be added to the replacement account each December 1 until the balance reaches \$62,500 and maintained for the life of the system.

X. DEBT OBLIGATIONS

	<u>Outstanding</u>	<u>Maturity</u>
Series 2009 Revenue Bonds	\$350,000	2049
KIA (F2 09-05)	257,630	2030
Total	\$607,630	

XI. OTHER STATE OF FEDERAL FUNDING IN PAST FIVE YEARS

<u>Project Title</u>	<u>Funding Source</u>	<u>Amount</u>	<u>Type</u>
Watts Extension	HB608	\$1,600,000	Grant
Watts Extension	CDBG	\$1,000,000	Grant
Ext on Hwy 205/1812 to Wolfe County	HB380	\$1,200,000	Grant
Highway 30 West Project	HB608	\$750,000	Grant
Highway 30 East Extension	CDBG, USDA, RD, ARC, CST	\$1,200,000	Grant

XII. CONTACTS

Applicant

Name Breathitt County Water District
Address 1137 Main Street
 Jackson, Kentucky 41339

County Breathitt County
Contact Bobby Thorpe, Jr.
Phone (606) 666-3800, extension 250
Email breathittwater@yahoo.com

Engineer

Name Matt Steen
Firm Nesbitt Engineering, Inc.
Address 227 North Upper Street
 Lexington, Kentucky 40507

Phone (859) 233-3111
Email msteen@nei-ky.com

Applicant Contact

Name Kentucky River Area Development District
Address 917 Perry Park Road
 Hazard, KY 41701

Contact Jennifer McIntosh
Phone (606) 436-3158
Email Jennifer@kradd.org

XIII. RECOMMENDATIONS

KIA staff recommends approval of the loan with the standard conditions.

**EXHIBIT 1
BREATHITT COUNTY WATER DISTRICT DECEMBER
CASH FLOW ANALYSIS**

	Audited 2006	% Change	Audited 2007	% Change	Audited 2008	% Change	Audited 2009	% Change	Preliminary 2010	Projected 2011	Projected 2012	Projected 2013	Projected 2014
Operating Revenues													
Charges for Services	51,597	148%	128,026	59%	203,781	49%	304,003	39%	421,912	480,776	565,884	652,927	668,616
Tap Fees	0		54,550	-55%	24,750	135%	58,093	-52%	27,802	5,000	69,000	5,000	5,000
Other	37,012	-100%	25	169276%	42,344	26%	53,533	-11%	47,524	47,524	47,524	47,524	47,524
Total Revenues	88,609	106%	182,601	48%	270,875	53%	415,629	20%	497,238	533,300	682,408	705,451	721,140
Operating Expenses													
Purchased Water	13,946	158%	36,029	2%	36,709	92%	70,497	62%	114,289	120,055	143,381	167,180	173,851
Operating Expenses	91,503	54%	141,024	94%	274,150	42%	388,935	-10%	348,734	364,078	380,097	396,821	414,281
Depreciation	121,135	67%	202,701	40%	283,242	26%	358,016	57%	563,199	577,500	594,000	610,900	796,800
Replacement Reserve								0	0	2,000	7,250	7,250	7,250
Total Expenses	226,584	68%	379,754	56%	594,101	38%	817,448	26%	1,026,222	1,063,633	1,124,728	1,182,151	1,392,182
Net Operating Income	(137,975)	43%	(197,153)	64%	(323,226)	24%	(401,819)	32%	(528,984)	(530,333)	(442,320)	(476,700)	(671,042)
Non-Operating Income and Expenses													
Interest on Investments	1,115	-8%	1,030	-74%	269	-5%	255	37%	349	300	350	400	450
Total Non-Operating Income & Expenses	1,115	-8%	1,030	-74%	269	-5%	255	37%	349	300	350	400	450
Add Non-Cash Expenses													
Depreciation	121,135	67%	202,701	40%	283,242	26%	358,016	57%	563,199	577,500	594,000	610,900	796,800
Cash Available for Debt Service	(15,725)	-142%	6,578	-704%	(39,715)	10%	(43,548)	-179%	34,564	47,467	152,030	134,600	126,208
Debt Service (enter as positive #'s)													
Existing Principal	0		0		0		0		557,057	5,500	5,500	6,000	6,000
Existing Interest	0		0		45,070		56,427		10,387	9,188	9,044	8,899	8,742
KIA (F2 09-05)									6,737	14,593	14,574	14,574	14,574
Proposed KIA Loan										2,500	15,000	86,687	86,687
Total Debt Service	0		0		45,070		56,427		574,181	31,781	44,118	116,160	116,003
Income After Debt Service	(15,725)		6,578		(84,785)		(99,975)		(539,617)	15,686	107,912	18,440	10,206
Debt Coverage Ratio	n/a		n/a		(0.88)		(0.77)		0.06	1.49	3.45	1.16	1.09

**BREATHITT COUNTY WATER DISTRICT
BALANCE SHEETS (DECEMBER)**

ASSETS	Audited 2006	Audited 2007	Audited 2008	Audited 2009	Preliminary 2010	Project Completion
Current Assets						
Cash	38,002	32,149	40,788	119,763	19,287	19,287
Accounts Receivable	5,905	15,236	20,945	26,998	48,881	46,740
Inventory					6,799	7,500
Other Current Assets (Construction Receivables)					151,460	25,000
Total Current Assets	43,907	47,385	61,733	146,761	226,427	98,527
Restricted Assets						
Restricted for Construction	40,332	43,005	14,475	89,114	163	10,000
Debt Service Reserve Fund	0	0	0	369,833	34,551	34,551
KIA R&M Fund						3,000
Total Restricted Assets	40,332	43,005	14,475	458,947	34,714	47,551
Utility Plant						
Land, System, Building and Equipment	6,375,640	9,329,214	13,881,781	19,863,658	23,537,096	26,312,096
Less Accumulated Depreciation ()	(184,865)	(387,566)	(670,809)	(1,028,825)	(1,592,024)	(2,763,524)
Net Fixed Assets	6,190,775	8,941,648	13,210,972	18,834,833	21,945,072	23,548,572
Total Assets	6,275,014	9,032,038	13,287,180	19,440,541	22,206,213	23,694,650
LIABILITIES						
Current Liabilities						
Accounts Payable	1,195	5,622	9,919	20,798	16,884	20,900
Accrued Liabilities	1,184	2,226	478	838	10,012	15,000
Construction Related Payables	0	0	0	0	151,460	25,000
Current Portion Long Term Debt	0	0	0	500,000	28,804	17,649
Current Portion Proposed KIA Loan						68,106
Total Current Liabilities	2,379	7,848	10,397	521,636	207,160	146,655
Long Term Liabilities						
Long Term Debt	0	0	1,267,334	350,000	590,103	554,926
KIA - Proposed Loan						1,431,894
Total Long Term Liabilities	0	0	1,267,334	350,000	590,103	1,986,819
Total Liabilities	2,379	7,848	1,277,731	871,636	797,263	2,133,475
Retained Earnings:						
Invested in Capital Assets Net of Related Debt	6,190,775	8,941,648	11,943,638	17,984,833	21,326,165	21,466,325
Restricted for Construction	40,332	43,005	14,475	89,114	163	10,000
Restricted for Debt Service	0	0	0	369,833	34,551	34,551
Restricted for R&M	0	0	0	0	0	3,000
Unrestricted	41,528	39,537	51,336	125,125	48,071	47,300
Total Retained Earnings	6,272,635	9,024,190	12,009,449	18,568,905	21,408,950	21,561,176
Total Liabilities and Equities	6,275,014	9,032,038	13,287,180	19,440,541	22,206,213	23,694,651
Balance Sheet Analysis						
Current Ratio	18.46	6.04	5.94	0.28	1.09	0.67
Debt to Equity	0.00	0.00	0.11	0.05	0.04	0.10
Working Capital	41,528	39,537	51,336	(374,875)	19,267	(48,128)
Percent of Total Assets in Working Capital	0.66%	0.44%	0.39%	-1.93%	0.09%	-0.20%
Days Sales in Accounts Receivable	24.3	30.5	28.2	23.7	35.9	25.0

**REPORT OF THE AUDIT OF THE
BREATHITT COUNTY
WATER DISTRICT BOARD OF COMMISSIONERS**

**For The Year Ended
December 31, 2010**

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Chris Gooch

Certified Public Accountant
P.O. Box 1536
Hazard, Kentucky 41702
(606) 436-5700

FAX : (606) 436-5701

To the Board of Commissioners
Breathitt County Water District

Independent Auditor's Report

We have audited the accompanying financial statements of the business-type activities of the Breathitt County Water District as of and for the year ended December 31, 2010, which collectively comprise the Breathitt County Water District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Breathitt 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 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 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 the 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 Breathitt County Water District, as of December 31, 2010, and the respective changes in financial position, and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

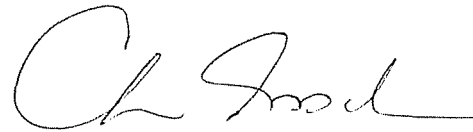
In accordance with *Government Auditing Standards*, we have also issued our report dated May 26, 2011, on our consideration of the Breathitt County Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 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 considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and

To the Board of Commissioners
Breathitt County Water District

comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Breathitt County Water District's financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. 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.



Chris Gooch
Certified Public Accountant

Hazard, Kentucky

May 26, 2011

BREATHITT COUNTY WATER DISTRICT COMMISSION OFFICIALS

For The Year Ended December 31, 2010

Water District Board Members:

Bobby Thorpe	Chairman
Sammie Turner	Vice Chairman
Kash Noble	Treasurer
Eva Fugate	Board Member
Eugene Turner	Board Member

Appointed Personnel:

Estill McIntosh	Superintendent
Wanda Kaye Barnett	Recorder
Cheryl Campbell	Office Clerk

**BREATHITT COUNTY WATER DISTRICT BOARD OF COMMISSIONERS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010**

As management of the Breathitt County Water District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the year ended December 31, 2010. This information should be considered in conjunction with the accompanying financial statements and disclosure following this section.

FINANCIAL HIGHLIGHTS

- The beginning cash balance for the District was \$578,710. The ending cash balance for the District was \$54,001.
- The District continued water line extensions to various locations in Breathitt County. The District had the following completed projects: Canoe, KY 30 East, KY 30 West, KY 1110 Phase II, Turners Creek and Panbowl.
- The District had the following ongoing and planned projects at various stages: KY 476, Duck Hollow, Copeland & River Caney, Southfork, Frozen area, Canoe extension and KY 315/KY 28.
- As of December 31, 2010 the District had 1,105 customers, up from 737 the previous year.

Management's Discussion and Analysis (MD & A) is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in their *Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* issued June 1999.

Our discussion and analysis of the Breathitt County Water District's financial performance provides an overview of the District's financial activities for the fiscal year ended December 31, 2010. Please read the MD & A in conjunction with the District's financial statements.

For accounting purposes, the District is classified as an enterprise fund: Enterprise funds account for activities similar to those found in the private business sector, where the determination of net income is necessary or useful to sound financial administration. Enterprise funds are reported using the full accrual method of accounting in which all assets and all liabilities associated with the operation of these funds are included on the balance sheet. The focus of enterprise funds is on income measurement, which, together with the maintenance of equity, is an important financial indicator.

Overview of the Financial Statements

This annual report includes this Management Discussion and Analysis report, the Basic Financial Statements and the Notes to the Financial Statements. The District's financial statements are presented as fund level financial statements because the District only has proprietary funds.

The financial statements of the District report information of the District using accounting methods similar to those used by private sector companies. These statements offer short-term and long-term financial information about the District's activities. The Statement of Net Assets includes all the District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations to the District's creditors (liabilities). It also provides the basis for evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

**BREATHITT COUNTY WATER DISTRICT BOARD OF COMMISSIONERS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010**

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Assets. The statement measures the success of the District's operations over the past year and can be used to determine whether the District has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness.

The Statement of Cash Flows reports cash receipts, cash payments, and net changes in cash resulting from operation, investing, and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Financial Analysis

The District's basic financial statements are the Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets. The Statements of Net Assets provides a summary of the District's assets and liabilities as of the close of business on December 31. The Statement of Changes in Net Assets summarizes the revenues and sources of those revenues generated during the year ended December 31 and the expenses incurred in operating the District for the year ended December 31.

Our analysis below focuses on the net assets and the change in net assets of the District as a whole and not the individual operations or projects.

	<u>12/31/2010</u>	<u>12/31/2009</u>
Net Assets:		
Current Assets	261,141	605,708
Noncurrent Assets	<u>21,945,072</u>	<u>18,434,833</u>
<u>Total Assets</u>	<u>22,206,213</u>	<u>19,040,541</u>
Current Liabilities	207,160	521,636
Noncurrent Liabilities	<u>590,103</u>	<u>350,000</u>
<u>Total Liabilities</u>	<u>797,263</u>	<u>871,636</u>
- Net Assets -		
Investment in Capital Assets (net of debt)	21,326,165	17,984,833
Restricted	34,714	458,947
Unreserved Fund Balance	<u>48,071</u>	<u>125,125</u>
<u>Total Net Assets</u>	<u>21,408,950</u>	<u>18,568,905</u>

**BREATHITT COUNTY WATER DISTRICT BOARD OF COMMISSIONERS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010**

- Decrease in current assets at December 31, 2010 includes a decrease of \$524,709 in cash due to payments on long-term debt.
- Increase in non-current assets is due to ongoing completion of water infrastructure projects.
- Decrease in current liabilities includes payment in full on a \$500,000 note payable.
- Increase in non-current liabilities includes recognition of a \$572,000 Kentucky Infrastructure Authority loan.

Changes in Net Assets	<u>12/31/2010</u>	<u>12/31/2009</u>
Revenues	<u>497,238</u>	<u>415,629</u>
Operating Expenses:		
General	473,410	515,859
Depreciation Expense	<u>563,199</u>	<u>358,016</u>
Total Operating Expenses	<u>1,036,609</u>	<u>873,875</u>
Other Income (Expenses)	<u>349</u>	<u>255</u>
Increase (Decrease) in Net Assets	<u><u>(539,022)</u></u>	<u><u>(457,991)</u></u>

- Increase in revenue due to completion of several projects.
- Increase in depreciation expense due to completion of several projects in the current fiscal year.

Questions regarding this report should be directed to the District Office at (606) 666-3800.

**BREATHITT COUNTY WATER DISTRICT BOARD OF COMMISSIONERS
STATEMENT OF NET ASSETS**

DECEMBER 31, 2010

BREATHITT COUNTY WATER DISTRICT BOARD OF COMMISSIONERS
STATEMENT OF NET ASSETS
December 31, 2010

<u>ASSETS:</u>	<u>Totals</u>
Current Assets:	
Cash and cash equivalents	54,001
Accounts Receivable (net of allowance for doubtful accounts)	48,881
Inventory	6,799
Construction Related Receivables	<u>151,460</u>
<u>Total Current Assets</u>	<u>261,141</u>
Noncurrent Assets:	
Capital Assets:	
Distribution System	22,543,389
Vehicles	121,604
Meters	81,646
Office Equipment	3,611
Other Equipment	85,448
Land	4,000
Construction in Progress	697,398
Less: Accumulated Depreciation	<u>(1,592,024)</u>
<u>Total Noncurrent Assets</u>	<u>21,945,072</u>
<u>Total Assets</u>	<u>22,206,213</u>
<u>LIABILITIES:</u>	
Current Liabilities:	
Accounts Payable	16,884
Accrued Payroll and Withheld Taxes Payable	8,487
Sales and Utility Taxes Payable	1,525
Construction Related Payables	151,460
Current Portion of Long-Term Debt	<u>28,804</u>
<u>Total Current Liabilities</u>	<u>207,160</u>
Long-term Liabilities:	
Revenue Bonds	350,000
Notes Payable	268,907
Less: Current portion	<u>(28,804)</u>
<u>Total Long-Term Liabilities</u>	<u>590,103</u>
<u>Total Liabilities</u>	<u>797,263</u>
<u>NET ASSETS:</u>	
Invested in Fixed Assets, Net of Related Debt	21,326,165
Restricted for Construction	163
Restricted for Debt Service	34,551
Unrestricted	<u>48,071</u>
<u>Total Net Assets</u>	<u>21,408,950</u>
<u>Total Liabilities and Net Assets</u>	<u>22,206,213</u>

The accompanying notes are an integral part of this financial statement.

**BREATHITT COUNTY WATER DISTRICT BOARD OF COMMISSIONERS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS**

FOR THE YEAR ENDED DECEMBER 31, 2010

**BREATHITT COUNTY WATER DISTRICT BOARD OF COMMISSIONERS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2010**

<u>Operating Revenues:</u>	
Water sales	421,912
Tap Fees	27,802
Miscellaneous Operating Revenue	<u>47,524</u>
<u>Total Operating Revenues</u>	<u>497,238</u>
<u>Operating Expenses:</u>	
Cost of Goods Sold	114,289
Salaries	124,778
Retirement Expense	27,278
Repairs and Maintenance	9,083
Auto and Truck Expense	19,988
Small Equipment	2,062
Dues and Subscriptions	430
Equipment Rental	1,714
Insurance	44,066
Professional Fees	9,310
Office Expense	3,270
Postage	3,281
Rents	3,750
Supplies	39,428
Telephone	6,033
Travel	649
Uniforms	2,122
Utilities	33,869
Payroll Taxes	10,505
Other Taxes	5,807
Miscellaneous Operating Expenses	1,311
Interest Expense	10,387
Depreciation Expense	<u>563,199</u>
<u>Total Operating Expense</u>	<u>1,036,609</u>
<u>Net Operating Income (Loss)</u>	<u>(539,371)</u>
<u>Non-Operating Revenues (Expenses):</u>	
Interest Income	<u>349</u>
<u>Total Non-Operating Revenues (Expenses)</u>	<u>349</u>
Net Income (Loss)	(539,022)
Net Assets, Beginning of Year	18,568,905
Add: Capital Contribution	<u>3,379,067</u>
Net Assets, End of Year	<u>21,408,950</u>

The accompanying notes are an integral part of this financial statement.

**BREATHITT COUNTY WATER DISTRICT BOARD OF COMMISSIONERS
STATEMENT OF CASH FLOWS**

FOR THE YEAR ENDED DECEMBER 31, 2010

BREATHITT COUNTY WATER DISTRICT BOARD OF COMMISSIONERS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2010

<u>Cash Flows from Operating Activities:</u>	
Receipts from Customers	475,355
Payments to Suppliers	(320,036)
Payments to Employees	<u>(154,913)</u>
<u>Net Cash Provided (Used) by Operating Activities</u>	<u>406</u>
<u>Cash Flows From Capital and Related Financing Activities:</u>	
Grant Receipts	3,379,067
Purchase of Capital Assets	(3,673,438)
Payment on Long-term Debt	(561,974)
Proceeds from Long-term Debt	<u>330,881</u>
<u>Net Cash (Used) for Capital and Related Financing Activities</u>	<u>(525,464)</u>
<u>Cash Flows from Investing Activities:</u>	
Interest revenue	<u>349</u>
Net Increase (Decrease) in Cash	(524,709)
Cash and restricted cash, Beginning of Year	<u>578,710</u>
Cash and restricted cash, End of Year	<u><u>54,001</u></u>
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:</u>	
Operating Income (Loss)	(539,371)
Adjustments to reconcile operating net cash provided by operating activities:	
Depreciation	563,199
Changes in assets and liabilities	
(Increase) decrease in accounts receivable	(21,883)
(Increase) decrease in construction related receivables	(151,460)
(Increase) decrease in inventories	(6,799)
Increase (decrease) in accounts payable	(3,914)
Increase (decrease) in accrued payroll and withheld taxes payable	7,649
Increase (decrease) in sales and utility taxes payable	1,525
Increase (decrease) in construction related payables	<u>151,460</u>
<u>Net Cash Used by Operations</u>	<u><u>406</u></u>

The accompanying notes are an integral part of this financial statement.

**INDEX FOR NOTES
TO FINANCIAL STATEMENTS**

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BREATHITT COUNTY WATER DISTRICT BOARD OF COMMISSIONERS
NOTES TO FINANCIAL STATEMENTS

December 31, 2010

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The financial statements of the Breathitt County Water District Board of Commissioners (the "Commission") have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standards setting body for establishing governmental accounting and financial reporting principles. The more significant of the Commission's accounting policies are described below.

B. Reporting Entity

The Breathitt County Water District was formed pursuant to KRS 74.010 et. seq. by the formal vote of the Breathitt County Fiscal Court on August 28, 2003 adopting ordinance 8-21-23A. The governing body of the Breathitt County Water District is a Board of Commissioners that is appointed pursuant to KRS 74.020.

The Commission shall be governed by and have all the powers listed in KRS 74.010 et. seq. and have full and complete supervision, management, and control of the sources of supply of water as provided in the ordinances of resolutions for acquiring and operating them and in their maintenance, operation, and extension.

The accompanying financial statements comply with the provisions of GASB Statement 14, the Financial Reporting Entity, in that the financial statements include all organizations, activities, and functions for which the Commission is financially accountable. This report includes all activities considered by management to be part of the Commission by virtue of Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards.

Section 2100 indicates that the reporting entity consists of a) the primary government, b) organizations for which the primary government is financially accountable, and c) other organizations for which the nature and significance of their relationship with the primary government are such, that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's government body and whether it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent upon it.

A primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, or activities of, or the level of services performed or provided by, the organization. A financial benefit or burden relationship exists if the primary government a) is entitled to the organization's resources, b) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization; or c) is obligated in some manner for the debt of the organization. Based on the application of these criteria, the Commission has no component units.

BREATHITT COUNTY WATER DISTRICT
BOARD OF COMMISSIONERS
NOTES TO FINANCIAL STATEMENTS
December 31, 2010
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation

The Commission's basic financial statements consist of a statement of net assets, a statement of revenue, expenses and changes in fund net assets, and a statement of cash flows.

D. Fund Accounting

The Commission uses the proprietary fund to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

Funds are classified into three categories: governmental, proprietary and fiduciary. The Commission uses the proprietary category for its programs.

E. Proprietary Fund Types

Proprietary funds are used to account for the Commission's ongoing activities, which are similar to those found in the private sector. The following is the proprietary fund type:

Enterprise Fund – This fund is used to account for the operations that are financed and operated in a manner similar to private business enterprises where the intent 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 where it has been decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

F. Measurement Focus/Basis of Accounting

The proprietary funds are accounted for on the accrual basis of accounting. Revenues are recognized in the period earned and expenses recognized in the period incurred. Pursuant to GASB Statement No. 20 Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting, The Commission follows GASB guidance as applicable to proprietary funds and Financial Accounting Standards Board (FASB) Statements or Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

G. Allowance for Doubtful Accounts

Breathitt County Water District's financial statements reflect an allowance account for its customer accounts receivable based on management's estimate of probable losses. An allowance expense in the amount of \$15,822 was recognized in the financial statements for the year ended December 31, 2010.

BREATHITT COUNTY WATER DISTRICT
BOARD OF COMMISSIONERS
NOTES TO FINANCIAL STATEMENTS
December 31, 2010
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

H. Proprietary Funds

Proprietary funds distinguish operating revenues and expense from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. The government has elected not to adopt FASB Statements or Interpretations issued after November 30, 1989, unless the GASB specifically adopts such FASB Statements or Interpretations.

I. Description of Program

The Commission is designed to construct waterlines, and supporting infrastructure for those waterlines, that will provide clean water to the citizens of Breathitt County.

J. Capital Assets

Capital assets are stated at cost. Depreciation is calculated using the straight-line method over the estimated useful lives of three years to forty years. Expenditures for repairs and maintenance are charged directly to expenses as they are incurred. Expenditures determined to represent additions or betterments are capitalized.

K. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets – net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are recorded as restricted when there are limitations imposed on their use by internal or external restrictions.

L. Operating Revenues and Expenses

Operating revenues and expenses are those revenues that are generated directly from the primary activities of the proprietary fund and expenses incurred for the day to day operation. For the Commission, operating revenues are water sales and tap-on fees and other miscellaneous revenues.

M. Capital Contributions

This represents contributions made available from a variety of sources including but not limited to Community Development Block Grants, Kentucky Infrastructure Authority Grants, Coal Severance Tax Funds, Abandoned Mine Lands Grants, U.S. Department of Agriculture Grants, and contributions from the Breathitt County Fiscal Court.

BREATHITT COUNTY WATER DISTRICT
BOARD OF COMMISSIONERS
NOTES TO FINANCIAL STATEMENTS
December 31, 2010
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

N. Budgetary Accounting

The Treasurer/Superintendent shall prepare and submit to the Commission's Budget Committee proposals for the annual Commission budget based on a Calendar Year. The proposed budget will be reviewed and passed to the Commission for tentative adoption. Following this action, the budget will be submitted to the Kentucky State Local Finance Officer for approval as to form and classification. The budget will then be returned to the Commission for adoption in the form of an ordinance as provided in KRS 122.180.

O. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect 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 revenue and expense during the reporting period. Actual results could differ from those estimates.

P. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the Commission to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for the future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposits issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits and Investments

The Commission maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1) (d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the District and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee and (c) an official record of the depository institution. These requirements were met.

BREATHITT COUNTY WATER DISTRICT
 BOARD OF COMMISSIONERS
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2010
 (Continued)

Note 2. Deposits and Investments (Continued)

Custodial credit risk is the risk that in the event of a depository institution failure, the District's deposits may not be returned. The District does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2010, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. Breathitt County Water District does not have any investments other than its interest bearing checking accounts. Concentrations of credit risk are the risk of loss attributed to the magnitude of the District's investments in a single issuer. All of the District's cash at December 31, 2010 is held at Citizens Bank & Trust. Foreign currency risk is the risk of changes in exchange rates effecting foreign investments. The District does not hold any foreign investments.

Note 3. Capital Assets

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

<u>Primary Government</u>	<u>1/1/2010</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/2010</u> <u>Balance</u>
Capital Assets Not Being Depreciated:				
Land and Land Improvements	4,000	-	-	4,000
Construction in Progress	<u>-</u>	<u>697,398</u>	<u>-</u>	<u>697,398</u>
Total Capital Assets Not Being Depreciated	<u>4,000</u>	<u>697,398</u>	<u>-</u>	<u>701,398</u>
Capital Assets Being Depreciated:				
Vehicles	96,963	24,641	-	121,604
Office Equipment	3,611	-	-	3,611
Other Equipment	81,322	4,126	-	85,448
Meters	-	81,646	-	81,646
Infrastructure-Distribution System	<u>19,677,762</u>	<u>2,865,627</u>	<u>-</u>	<u>22,543,389</u>
Total Capital Assets Being Depreciated:	<u>19,859,658</u>	<u>2,976,040</u>	<u>-</u>	<u>22,835,698</u>
Less Accumulated Depreciation For:				
Vehicles	(47,330)	(20,214)	-	(67,544)
Office Equipment	(3,049)	(386)	-	(3,435)
Other Equipment	(26,944)	(12,869)	-	(39,813)
Meters	-	(2,041)	-	(2,041)
Infrastructure-Distribution System	<u>(951,502)</u>	<u>(527,689)</u>	<u>-</u>	<u>(1,479,191)</u>
Total Accumulated Depreciation	<u>(1,028,825)</u>	<u>(563,199)</u>	<u>-</u>	<u>(1,592,024)</u>
Total Capital Assets Being Depreciated, Net	<u>18,830,833</u>	<u>2,412,841</u>	<u>-</u>	<u>21,243,674</u>
Total Capital Assets, Net	<u>18,834,833</u>	<u>3,110,239</u>	<u>-</u>	<u>21,945,072</u>

BREATHITT COUNTY WATER DISTRICT
 BOARD OF COMMISSIONERS
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2010
 (Continued)

Note 3. Capital Assets (continued)

Total depreciation expense for the year ended December 31, 2010 was \$563,199.

Note 4. Long-Term Debt

A. KADD Lease – Water Line Construction

In February 2009, the Commission entered into a capital lease agreement with the Kentucky Area Development District (KADD) to borrow \$500,000, with proceeds to be used for the construction of water lines. The lease was paid off in February 2010.

B. Waterworks Revenue Bonds, Series 2009

On September 24, 2009, the Breathitt County Water District issued \$350,000 in Waterworks Revenue Bonds, Series 2009. The bonds were sold at par to the U.S. Department of Agriculture, acting through Rural Development. The proceeds from these bonds were used for the construction of water lines. The bonds are scheduled to mature in 2048 and carry an interest rate of 2.625%. Annual interest payments are required with annual principal payments beginning in 2011. As of December 31, 2010, the principal balance outstanding on these bonds was \$350,000. Debt service requirements for the remaining years are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Balance</u>
				350,000
2011	5,500	9,188	14,688	344,500
2012	5,500	9,044	14,544	339,000
2013	6,000	8,899	14,899	333,000
2014	6,000	8,742	14,742	327,000
2015	6,000	8,584	14,584	321,000
2016-2020	32,500	40,480	72,980	288,500
2021-2025	37,500	35,952	73,452	251,000
2026-2030	42,500	30,767	73,267	208,500
2031-2035	48,000	24,914	72,914	160,500
2036-2040	55,000	18,260	73,260	105,500
2040-2045	62,500	10,647	73,147	43,000
2046-2048	<u>43,000</u>	<u>2,311</u>	<u>45,311</u>	<u>-</u>
<u>Total</u>	<u>350,000</u>	<u>207,788</u>	<u>557,788</u>	

C. Kentucky Infrastructure Authority

In December 2009 the Breathitt County Water District requested \$572,000 from the Kentucky Infrastructure Authority's Drinking Water State Revolving Fund Loan Program. During 2010 the District received the funds and made the first payment on the loan balance. The loan was funded by the American Recovery and Reinvestment Act. As part of the agreement \$309,452 was forgiven. Semi-annual principal and interest payments are due in June and December of each year. The debt is scheduled to mature in 2030 and carry an interest rate of 1%. The agreement calls for the District to deposit \$1,000 per year into a reserve account until a balance of \$10,000 is reached.

BREATHITT COUNTY WATER DISTRICT
 BOARD OF COMMISSIONERS
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2010
 (Continued)

Note 4. Long-Term Debt (continued)

Debt service requirements for the remaining years are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Balance</u>
				257,631
2011	12,028	2,564	14,592	245,603
2012	12,149	2,426	14,575	233,454
2013	12,271	2,304	14,575	221,183
2014	12,394	2,181	14,575	208,789
2015	12,518	2,057	14,575	196,271
2016-2020	64,498	8,374	72,872	131,773
2021-2025	67,796	5,078	72,874	63,977
2026-2030	<u>63,977</u>	<u>1,611</u>	<u>65,588</u>	<u>-</u>
<u>Total</u>	<u>257,631</u>	<u>26,595</u>	<u>284,226</u>	

Changes in long-term debt for the District are as follows:

	<u>1/1/2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/2010</u>	<u>Current</u>
	<u>Balance</u>			<u>Balance</u>	<u>Portion</u>
KADD Lease	500,000	-	(500,000)	-	-
Rural Development Revenue Bonds	350,000	-	-	350,000	5,500
Citizens Bank & Trust	-	68,333	(57,057)	11,276	11,276
Kentucky Infrastructure Authority	<u>-</u>	<u>262,548</u>	<u>(4,917)</u>	<u>257,631</u>	<u>12,028</u>
Total	<u>850,000</u>	<u>330,881</u>	<u>(561,974)</u>	<u>618,907</u>	<u>28,804</u>

Note 5. Employee Retirement System

The Commission has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Non-hazardous covered employees are required to contribute 5 percent of their salary to the plan. Non-hazardous covered employees who begin participation on or after September 1, 2008, are required to contribute 6 percent of their salary to the plan. The Commission's contribution rate for non-hazardous employees was 13.50 percent for the first half of the year and 16.93 percent for the second half of the year.

BREATHITT COUNTY WATER DISTRICT
BOARD OF COMMISSIONERS
NOTES TO FINANCIAL STATEMENTS
December 31, 2010
(Continued)

Note 5. Employee Retirement System (continued)

Benefits fully vest on reaching five years of service for non-hazardous employees. Aspects of benefits for non-hazardous employees include retirement after 27 years of service or age 65. Non-hazardous employees who begin participation on or after September 1, 2008, must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing to the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 6. Insurance

For the year ended December 31, 2010, the Commission was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 7. Contingencies

The District receives funding from local, state, and federal government agencies. These funds are to be used for designated purposes only. For government agency grants, if the grantor's review indicates that the funds have not been used for the intended purpose, the grantors may request a refund of monies advanced or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantor's satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

**BREATHITT COUNTY WATER DISTRICT BOARD OF COMMISSIONERS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

For The Year Ended December 31, 2010

**BREATHITT COUNTY WATER DISTRICT BOARD OF COMMISSIONERS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

For The Year Ended December 31, 2010

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantors Number</u>	<u>Program Expenditures</u>
US Department of Agriculture Passed through Office of Rural Development Water and Waste Disposal Systems for Rural Communities Grant	10.760	N/A	<u>99,900</u>
Environmental Protection Agency: Passed through Kentucky Infrastructure Authority Capitalization Grants for Drinking Water-State Revolving Funds Loan	66.468	F2 09-05	* <u>572,000</u>
US Department of Interior Passed through Kentucky Natural Resources and Environmental Protection Cabinet			
Abandoned Mines Land - Highway 1110 Water Project	15.252	595 08000015626 1	* 577,703
Abandoned Mines Land - Duck Hollow Water Project	15.252		* 103,975
Abandoned Mines Land - Turner's Creek Water Project	15.252		* 538,897
Abandoned Mines Land - Highway 476 Water Project	15.252		* <u>12,500</u>
Total US Department of Interior			<u>1,233,075</u>
US Department of Housing and Urban Development Passed through Kentucky Department for Local Government and Breathitt County Fiscal Court Community Development Block Grant KY 30 East Water Project	14.228	N/A	<u>248,087</u>
Appalachian Regional Commission Direct Appalachian Regional Development KY 30 East Water Project	23.001	N/A	<u>29,678</u>
<u>Total Federal Awards Expenditures</u>			<u>2,182,740</u>

**BREATHITT COUNTY WATER DISTRICT BOARD OF COMMISSIONERS
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

For The Year Ended December 31, 2010

NOTE 1 – Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal activity of the Breathitt County Water District Board of Commissioners and is presented on the modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

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

Chris Gooch

Certified Public Accountant
P.O. Box 1536
Hazard, Kentucky 41702
(606) 436-5700

FAX: (606) 436-5701

To the Board of Commissioners
Breathitt County Water District

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the business-type activities of Breathitt County Water District, as of and for the year ended December 31, 2010, which collectively comprise the Breathitt County Water District's basic financial statements and have issued our report thereon dated May 26, 2011. 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 Breathitt 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 Breathitt County Water District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Breathitt 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 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.

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

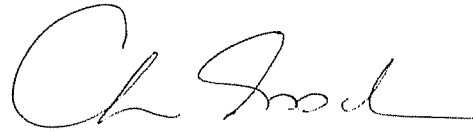
Compliance and Other Matters

As part of obtaining reasonable assurance about whether Breathitt 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*.

We noted certain matters that we reported to management of Breathitt County Water District, in a separate letter dated May 26, 2011.

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management, Commissioners, 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.

A handwritten signature in black ink, appearing to read "Chris Gooch". The signature is fluid and cursive, with the first name "Chris" and last name "Gooch" clearly distinguishable.

Chris Gooch
Certified Public Accountant

Hazard, Kentucky

May 26, 2011

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

Chris Gooch

Certified Public Accountant
P.O. Box 1536
Hazard, Kentucky 41702
(606) 436-5700

FAX: (606) 436-5701

To the Board of Commissioners
Breathitt County Water District

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Compliance

We have audited Breathitt County Water District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Breathitt County Water District's major federal programs for the year ended December 31, 2010. Breathitt County Water District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Breathitt County Water District's management. Our responsibility is to express an opinion on Breathitt County Water District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Breathitt County Water District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Breathitt County Water District's compliance with those requirements.

In our opinion, Breathitt County Water District, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010.

Internal Control over Compliance

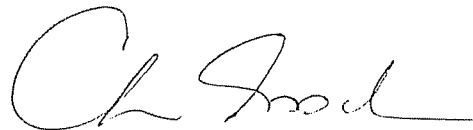
Management of Breathitt County Water District, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Breathitt County Water District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Breathitt County Water District's internal control over compliance.

Independent Auditor's Report On Compliance
With Requirements That Could Have A Direct
And Material Effect On Each Major Program
And On Internal Control Over Compliance In
Accordance With OMB Circular A-133

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance 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 compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, Commissioners, others within the entity, 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.



Chris Gooch
Certified Public Accountant

Hazard, Kentucky

May 26, 2011

**BREATHITT COUNTY WATER DISTRICT BOARD OF COMMISSIONERS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

For The Year Ended December 31, 2010

**BREATHITT COUNTY WATER DISTRICT BOARD OF COMMISSIONERS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

For The Year Ended December 31, 2010

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the business-type activities of the Breathitt County Water District Board of Commissioners.
2. No control deficiencies in the internal control were disclosed by the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of the Breathitt County Water District Board of Commissioners were disclosed during the audit.
4. No control deficiencies relating to the audit of the major federal awards programs are reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for the Breathitt County Water District Board of Commissioners expresses an unqualified opinion.
6. There are no audit findings relative to the major federal awards programs for the Breathitt County Water District Board of Commissioners reported in Part C of this schedule.
7. The programs tested as major programs were:

US Department of Interior

Passed through Kentucky Environmental and Public Protection Cabinet
Abandoned Mine Lands Reclamation (AMLR) Program
Highway 1110 Water Supply Construction Project 15.252
Duck Hollow Water Supply Project 15.252
Turner's Creek Water Supply Project 15.252
Highway 476 Water Supply Project 15.252

Environmental Protection Agency

Passed through Kentucky Infrastructure Authority
Capitalization Grants for Drinking Water State Revolving Funds
ARRA KY 30 West Waterline Extension Project 66.468

8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Breathitt County Water District Board of Commissioners was not determined to be a low-risk auditee.

B. FINDINGS – FINANCIAL STATEMENT AUDIT

None

**C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARDS PROGRAM
AUDIT**

None

D. SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

None

OATH

Commonwealth of Kentucky)
County of Breathitt County) ss:

Bobby Thorpe makes oath and says
(Name of Officer)

that he/she is Chairman of
(Official title of officer)
Breathitt County Water District
(Exact legal title or name of respondent)

that it is her/his duty to have supervision over the books of account of the respondent and to control the manner in which such books are kept; that he/she knows that such books have, during the period covered by the foregoing report, been kept in good faith in accordance with the accounting and other orders of the Public Service Commission of Kentucky, effective during the said period; that he/she has carefully examined the said report and to have the best of his/her knowledge and belief the entries contained in the said report have, so far as they relate to matters of account, been accurately taken from the said books of account and are in exact accordance therewith; that he/she believes that all other statements of fact contained in the said report are true; and that the said report is a correct and complete statement of the business and affairs of the above-named respondent during the period of time from and including

Jan 1, 20 10, to and including Dec., 20 11

[Signature]
(Signature of Officer)

subscribed and sworn to before me, a _____, in and for
the State and County named in the above this 31st day of May, 20 11

(Apply Seal Here)

My Commission expires December 28, 2014

[Signature]
(Signature of officer authorized to administer oath)

11-28-2014

7000700 Breathitt County Water District 01/01/2010 - 12/31/2010

Title Page

Organization	Address 1	Address 2	City	State	Zip
Water Districts/Associations					
Annual Report of					
Respondent	Breathitt County Water District	1137 Main Street Suite 305	Jackson	KY	41339

7000700 Breathitt County Water District 01/01/2010 - 12/31/2010

Principal Payment and Interest Information

Amount of Principal Payment During Calendar Year	\$561,974.00
Is Principal Current?	Y
Is Interest Current?	Y
Has all long-term debt been approved by the Public Service Commission?	Y

7000700 Breathitt County Water District 01/01/2010 - 12/31/2010

Services Performed by Independent CPA

Are your financial statements examined by a Certified Public Accountant?

Enter Y for Yes or N for No

Y

If yes, which service is performed?

Enter an X on each appropriate line

Audit

Y

Compilation

Review

7000700 Breathitt County Water District 01/01/2010 - 12/31/2010

Additional Requested Information

Name of Utility and Web Address

BREATHITT COUNTY WATER DISTRICT

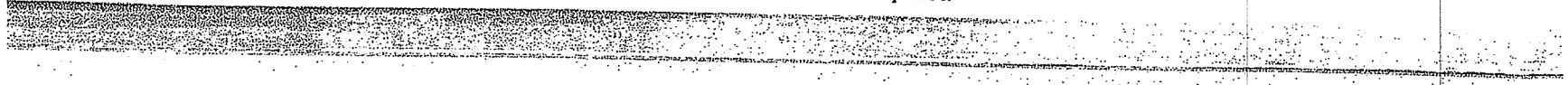
Contact Name and Email Address

ESTILL MCINTOSH

breathittwater@yahoo.com

7000700 Breathitt County Water District 01/01/2010 - 12/31/2010

Additional Information Required



7000700 Breathitt County Water District 01/01/2010 - 12/31/2010

Major Water Projects

Provide details about each major water project which is planned but has not yet been submitted for approval to the Public Service commission.

For the limited purpose of this report, a "Major Project" is defined as one which is not in the ordinary course of business, and will increase your current utility plant by at least 20 percent.

Brief Project Description: (Improvement, replacement, building, construction, expansion, if expansion, provide the estimated number of new customers)

SOUTH FORK PHASE I

Projected Costs and Funding Sources/Amounts:

2.2M. RD AND KIA

Approval Status: (Application for financial assistance filed, but not approved; or application approved, but have not advertised for construction bids)

APPLICATION FOR ASSISTANCE

Location: (community, area or nearby roads)

7000700 Breathitt County Water District 01/01/2010 - 12/31/2010

History-Legal Name (Ref Page: 4)

1. Exact name of utility making this report.

(Use the words "The", "Company", or "Incorporated" only when part of the corporate name.)

BREATHITT COUNTY WATER DISTRICT

7000700 Breathitt County Water District 01/01/2010 - 12/31/2010

History-Location (Ref Page: 4)

Name						
Give the location, including street and number, and TELEPHONE NUMBER of the principal office in KY.						
Principal office in KY	BREATHITT COUNTY	1137 MAIN ST, SUITE	JACKSON	KY	41339	6663800
Give name, title, address and TELEPHONE NUMBER of the officer	WATER DISTRICT	305				
to whom correspondence concerning this report should be addressed						
Location where books are located	CHRIS GOOCH CPA	PO BOX 1536	132 E MAIN ST	HAZARD	KY	41702
	BREATHITT COUNTY	1137 MAIN ST, SUITE	JACKSON	KY	41702	4365700
	WATER DISTRICT	305				

7000700 Breathitt County Water District 01/01/2010 - 12/31/2010

History-Date Organized (Ref Page: 4)

Date of Organization	06/28/2004
----------------------	------------

7000700 Breathitt County Water District 01/01/2010 - 12/31/2010

History-Laws of Organization (Ref Page: 4)

If a consolidated or merger company, name all contingent and all merged companies. Give reference to charters or general laws governing each, and all amendments of same N/A

Date and Authority for each consolidation and each merger: N/A

7000700 Breathitt County Water District 01/01/2010 - 12/31/2010

History-Departments (Ref Page: 4)

State whether respondent is a water district or association

WATER DISTRICT

Name all operating departments other than water

N/A

7000700 Breathitt County Water District 01/01/2010 - 12/31/2010

History - Counties (Ref Page: 5)

Breathitt

7000700 Breathitt County Water District 01/01/2010 - 12/31/2010

History - Number of Employees (Ref Page: 5)

Number of Full-time employees	4
Number of Part-time employees	0

7000700 Breathitt County Water District 01/01/2010 - 12/31/2010

Contacts (Ref Page: 6)

Person to send correspondence:	SUPERINTENDENT	MCINTOSH	ESTILL	1137 MAIN ST, JACKSON, KY	
Person who prepared this report:	GPA	GODCH	CHRIS	132 E MAIN ST, HAZARD KY	
Officers and Managers					
	CHAIRPERSON	THORPE	BOBBY	1137 MAIN ST, JACKSON, KY	\$0.00 08/28/2012
	VICE-CHAIR	TURNER	SAMMY	1137 MAIN ST, JACKSON, KY	\$0.00 08/28/2013
	TREASURER	NOBLE	KASH	1137 MAIN ST, JACKSON, KY	\$0.00 08/28/2012
	SECRETARY	FUGATE	EVA	1137 MAIN ST, JACKSON, KY	\$0.00 08/28/2012
	COMMISSIONER	TURNER	EUGENE	1137 MAIN ST, JACKSON, KY	\$0.00 08/28/2014

7000700 Breathitt County Water District 01/01/2010 - 12/31/2010

Balance Sheet - Assets and Other Debits (Ref Page: 7)

UTILITY PLANT		
Utility Plant (101-100)	\$19,863,658.00	\$23,537,396.00
Less: Accumulated Depreciation and Amortization (108-110)	\$1,028,824.00	\$1,592,024.00
Net Plant	\$18,834,834.00	\$21,945,072.00
Utility Plant Acquisition Adjustments (Net) (114-115)	\$0.00	
Other Utility Plant Adjustments (116)		
Total Net Utility Plant	\$18,834,834.00	\$21,945,072.00
OTHER PROPERTY AND INVESTMENTS		
Nonutility Property (121)		
Less: Accumulated Depreciation and Amortization (122)		
Net Nonutility Property		
Investment in Associated Companies (123)		
Utility and Other Investments (124-125)		
Sinking Funds (126)		
Other Special Funds (127)		
Total Other Property and Investments		
CURRENT AND ACCRUED ASSETS		
Cash (131)	\$578,710.00	\$54,001.00
Special Deposits (132)		
Other Special Deposits (133)		
Working Funds (134)		
Temporary Cash Investments (135)		
Accounts and Notes Receivable, Less Accumulated Provision for Uncollectible Accounts (141-144)	\$26,998.00	\$48,881.00
Accounts Receivable from Associated Companies (145)		
Notes Receivable from Associated Companies (146)		
Materials and Supplies (151-153)		\$6,799.00

7000700 Breathitt County Water District 01/01/2010 - 12/31/2010

Balance Sheet - Assets and Other Debits (Ref Page: 7)

Stores Expense (161)		
Prepayments (162)		
Accrued Interest and Dividends Receivable (171)		
Rents Receivable (172)		
Accrued Utility Revenues (173)		
Misc. Current and Accrued Assets (174)		
Total Current and Accrued Assets	\$605,708.00	\$151,460.00
DEFERRED DEBITS		\$261,141.00
Unamortized Debt Discount and Expense (181)		
Extraordinary Property Losses (182)		
Preliminary Survey and Investigation Charges (183)		
Clearing Accounts (184)		
Temporary Facilities (185)		
Misc. Deferred Debits (186)		
Research and Development Expenditure (187)		
Total Deferred Debits		
TOTAL ASSETS AND OTHER DEBITS	\$19,440,543.00	\$22,206,213.00

7000700 Breathitt County Water District 01/01/2010 - 12/31/2010

Balance Sheet - Equity Capital and Liabilities (Ref Page: 9)

EQUITY CAPITAL		
Appropriated Retained Earnings (214)		
Retained Earnings From Income before contributions (215.1)		
Donated Capital (215.2)	(\$626,804.00)	(\$1,165,826.00)
Total Equity Capital	\$19,195,711.00	\$22,574,776.00
LONG-TERM DEBT		
Bonds (221)		
Required Bonds (222)		
Advances from Associated Companies (223)		
Other Long-Term Debt (224)		
Total Long-Term Debt	\$350,000.00	\$618,907.00
CURRENT AND ACCRUED LIABILITIES		
Accounts Payable (231)		
Notes Payable (232)	\$20,798.00	\$16,884.00
Accounts Payable to Associated Co. (233)	\$500,000.00	
Notes Payable to Associated Co. (234)		
Customer Deposits (235)		
Accrued Taxes (236)		
Accrued Interest (237)	\$838.00	\$5,729.00
Matured Long-Term Debt (239)		
Matured Interest (240)		
Tax Collections Payable (241)		
Misc. Current and Accrued Liabilities (242)		
Total Current and Accrued Liabilities	\$0.00	\$155,743.00
DEFERRED CREDITS		
Unamortized Premium on Debt (251)		
Advances for Construction (252)		
	\$521,636.00	\$178,356.00

7000700 Breathitt County Water District 01/01/2010 - 12/31/2010

Balance Sheet - Equity Capital and Liabilities (Ref Page: 9)

Other Deferred Credits (253)		
Total Deferred Credits		
OPERATING RESERVES:		
Accumulated Provision For:		
Property Insurance (261)		
Injuries and Damages (262)		
Pensions and Benefits (263)		
Miscellaneous Operating Reserves (265)		
Total Operating Reserves		
Total Equity Capital and Liabilities	\$19,440,543.00	\$22,206,213.00

7000700 Breathitt County Water District 01/01/2010 - 12/31/2010

Comparative Operating Statement (Ref Page: 11)

UTILITY OPERATING INCOME		
Operating Revenues (400)		\$449,714.00
Operating Expenses (401)	\$562,096.00	
Depreciation Expenses (403)	\$450,799.00	\$446,711.00
Amortization of Utility Plant Acquisition Adjustment (406)	\$358,015.00	
Amortization Expense (407)	\$0.00	\$563,199.00
Taxes Other Than Income (408.10-408.13)	\$0.00	
Utility Operating Expenses	\$8,633.00	
Utility Operating Income	\$817,447.00	\$16,312.00
Income from Utility Plant Leased to Others (413)		\$1,026,222.00
Gain (Losses) from Disposition of Utility Property (414)		(\$576,508.00)
Total Utility Operating Income		
OTHER INCOME AND DEDUCTIONS		
Revenues From Merchandising, Jobbing and contract work (415)		(\$576,508.00)
Costs and Expenses of Merchandising, Jobbing and Contract Work (416)		
Interest and Dividend Income (419)		
Allowance for funds Used During Constructions (420)	\$255.00	
Nonutility Income (421)	\$0.00	\$349.00
Miscellaneous Nonutility Expenses (426)	\$53,533.00	
Total Other Income and Deductions	\$0.00	\$47,524.00
TAXES APPLICABLE TO OTHER INCOME		
Taxes Other Than Income (408.20)	\$53,788.00	\$47,873.00
Total Taxes Applic. to Other Income	\$0.00	
INTEREST EXPENSE		
Interest Expense (427)	\$0.00	
Amortization of Debt Discount and Exp. (428)	\$56,427.00	\$10,387.00

7000700 Breathitt County Water District 01/01/2010 - 12/31/2010

Comparative Operating Statement (Ref Page: 11)

Amorization of Premium on Debt (429)		
Total Interest Expense	\$56,427.00	\$10,387.00
EXTRAORDINARY ITEMS		
Extraordinary Income (433)		
Extraordinary Deductions (434)		
Total Extraordinary Items		
NET INCOME BEFORE CONTRIBUTIONS	(\$457,990.00)	(\$539,022.00)

7000700 Breathitt County Water District 01/01/2010 - 12/31/2010

Statement of Retained Earnings 2002 (Ref Page: 12)

Appropriated Retained earnings (214)	
(state balance and purpose of each appropriated amount at year end.)	
Total Appropriated Retained Earnings	
Retained Earnings From Income Before Contributions (215.1)	
Balance beginning of year	(\$626,804.00)
Balance transferred from Net Income Before Contributions (435)	(\$539,022.00)
Changes to account:	
Appropriations of Retained Earnings (436)	
Adjustments to Retained Earnings (439)	
(requires Commission approval prior to use):	
Credits	
Debits	
Balance End of Year	(\$1,165,826.00)

7000700 Breathitt County Water District 01/01/2010 - 12/31/2010

Statement of Retained Earnings (cont. 215.2) (Ref Page: 12)

Donated Capital (215.2)				
Balance Beginning of the Year	\$0.00	\$19,195,711.00	\$0.00	\$19,195,711.00
Credits:				
Proceeds from capital contributions (432)	\$0.00	\$3,379,065.00	\$0.00	\$3,379,065.00
Other Credits (explain)				
Debits (explain - requires Commission Approval)				
Balance End of Year	\$0.00	\$22,574,776.00	\$0.00	\$22,574,776.00

7000700 Breathitt County Water District 01/01/2010 - 12/31/2010

Net Utility Plant (Accts. 101-106) (Ref Page: 13)

Utility Plant in Service (101)	\$23,537,096.00
Utility Plant Leased to Others (102)	
Property Held for Future Use (103)	
Utility Plant Purchased or Sold (104)	
Construction Work in Progress (105)	
Completed Construction Not Classified (106)	
Total Utility Plant	\$23,537,096.00

7000700 Breathitt County Water District 01/01/2010 - 12/31/2010

Water Utility Plant Accounts (Ref Page: 14)

Organization (301)										
Franchises (302)										
Land and Land Rights (303)	\$44,081.00	\$0.00	\$0.00	\$44,081.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Structures and Improvements (304)										
Collecting and Impounding Reservoirs (305)										
Lakes, Rivers and Other Intakes (306)										
Wells and Springs (307)										
Infiltration Galleries and Tunnels (308)										
Supply Mains (309)										
Power Generation Equipment (310)										
Pumping Equipment (311)										
Water Treatment Equipment (320)										
Distribution Reservoirs and Standpipes (330)	\$245,019.00	\$0.00	\$0.00	\$245,019.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Transmission and Distribution Mains (331)	\$19,234,106.00	\$3,608,075.00	\$0.00	\$22,842,181.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00

7000700 Breathitt County Water District 01/01/2010 - 12/31/2010

Water Utility Plant Accounts (Ref Page: 14)

Services (333)	\$20,836.00	\$0.00	\$0.00	\$20,836.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Maintenance Installations (334)	\$41,950.00	\$0.00	\$41,950.00	\$81,046.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Hydrants (335)	\$92,550.00	\$0.00	\$0.00	\$92,550.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Backflow Prevention Devices (336)									
Other Plant and Misc. Equipment (339)	\$81,322.00	\$4,126.00	\$0.00	\$85,448.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Office Furnish and Equip. (340)	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Transportation Equipment (341)	\$96,963.00	\$24,641.00	\$0.00	\$121,604.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Stores Equipment (342)									
Tools, Shop and Garage Equip. (343)	\$120.00	\$0.00	\$0.00	\$120.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Laboratory Equipment (344)									
Power Operated Equipment (345)									
Communication Equipment (346)									
Miscellaneous Equipment (347)									
Other Tangible Plant (348)									
Total Water Plant	\$19,863,658.00	\$3,718,488.00	\$45,050.00	\$23,537,096.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00

7000700 Breathitt County Water District 01/01/2010 - 12/31/2010

Analysis of Accumulated Depreciation and Amortization by Primary Acct (Ref Page: 15)

Organization (301)							
Franchises (302)							
Land and Land Rights (303)							
Structures and Improvements (304)							
Collecting and Impounding Reservoirs (305)							
Lake, River and Other Intakes (306)							
Wells and Springs (307)							
Infiltration Galleries and Tunnels (308)							
Supply Mains (309)							
Power Generating Equipment (310)							
Pumping Equipment (311)							
Water Treatment Equipment (320)							
Distributions Reservoirs and Standpipes (330)	\$11,230.00	\$5,552.00	\$0.00	\$0.00	\$0.00	\$0.00	\$16,782.00
Transmission and Distribution Mains (331)	\$935,972.00	\$519,565.00	\$2,099.00	\$0.00	\$0.00	\$0.00	\$1,457,636.00
Services (333)	\$955.00	\$472.00	\$0.00	\$0.00	\$0.00	\$0.00	\$1,427.00
Meters and Meter Installations (334)	\$1,923.00	\$2,041.00	\$0.00	\$0.00	\$1,923.00	\$0.00	\$2,041.00
Hydrants (335)	\$1,242.00	\$2,097.00	\$0.00	\$0.00	\$0.00	\$0.00	\$3,339.00
Backflow Prevention Devices (336)							

7000700 Breathitt County Water District 01/01/2010 - 12/31/2010

Analysis of Accumulated Depreciation and Amortization by Primary Acct (Ref Page: 15)

Other Plant and Miscellaneous Equipment (339)	\$14,222.00	\$12,869.00	\$12,722.00	\$0.00	\$0.00	\$39,813.00
Office Furniture and Equip (340)	\$15,771.00	\$386.00	\$0.00	\$0.00	\$12,722.00	\$3,435.00
Transportation Equipment (341)	\$47,329.00	\$20,214.00	\$0.00	\$0.00	\$0.00	\$67,543.00
Stores Equipment (342)		\$0.00	\$0.00	\$0.00	\$0.00	\$8.00
Tools, Shop and Garage Equip (343)	\$5.00	\$3.00	\$0.00	\$0.00	\$0.00	\$0.00
Laboratory Equipment (344)						
Power Operated Equipment (345)						
Communication Equipment (346)						
Miscellaneous Equipment (347)						
Other Tangible Plant (348)	\$175.00	\$0.00	\$0.00	\$0.00	\$175.00	\$0.00
Totals	\$1,028,824.00	\$563,199.00	\$14,821.00	\$0.00	\$14,820.00	\$1,592,024.00

7000700 Breathitt County Water District 01/01/2010 - 12/31/2010

Accumulated Amortization (Acct. 110) (Ref Page: 16)

Balance First of Year	
Credit during year:	
Accruals Charged to Account 110.1	
Accruals Charged to Account 110.2	
Other Credits	
(specify)	
Total Credits	\$0.00
Debits during year:	
Book Cost of Plant Retired	
Other Debits	
(specify)	
Total Debits	\$0.00
Balance end of Year	\$0.00

7000700 Breathitt County Water District 01/01/2010 - 12/31/2010
Utility Plant Acquisition Adjustments (Accts. 114-115) (Ref Page: 10)

Acquisition Adjustments (114):	
(specify)	
Total Plant Acquisition Adjustments	
Accumulated Amortization (115):	\$0.00
(specify)	
Total Accumulated Amortization	
Net Acquisition Adjustments	\$0.00
	\$0.00

7000700 Breathitt County Water District 01/01/2010 - 12/31/2010

Investments and Special Funds (Ref Page: 17)

Investment in Associated Companies (123)

Total Investment in Associated Companies

\$0.00

Utility Investments (124)

Total Utility Investments

\$0.00

Other Investments (125)

Total Other Investments

Sinking Funds (126)

\$0.00

Total Sinking Funds

\$0.00

Other Special Funds (127)

\$0.00

Total Other Special Funds

\$0.00

\$0.00

7000700 Breathitt County Water District 01/01/2010 - 12/31/2010
 Accounts and Notes Receivable - Net (Accts 141-144) (Ref Page: 18)

Accounts and Notes Receivable	
Customer Accounts Receivable (141)	
Other Accounts Receivable (142)	\$64,703.00
Total Other Accounts Receivable	\$0.00
Notes Receivable (144)	
Total Notes Receivable	\$0.00
Total Accounts and Notes Receivable	\$64,703.00
Accumulated Provision for Uncollectible Accounts (143)	
Balance First of Year	
Add:	
Provision for uncollectibles for current year	
Collections of accounts previously written off	\$0.00
Other	
(specify)	
Total Additions	
Deduct accounts written off during year	\$0.00
Other	
(specify)	
Total Deductions	\$15,822.00
Balance end of Year	\$15,822.00
Total Accounts and Notes Receivable - Net	\$15,822.00
	\$48,881.00

7000700 Breathitt County Water District 01/01/2010 - 12/31/2010

Materials and Supplies (151-153) (Ref Page: 19)

Plant Materials and Supplies (151)	
Merchandise (152)	\$6,799.00
Other Materials and Supplies (153)	
Total Materials and Supplies	\$6,799.00

7000700 Breathitt County Water District 01/01/2010 - 12/31/2010

Prepayments (Acct. 162) (Ref Page: 19)

Prepaid Insurance	
Prepaid Rents	
Prepaid Interest	
Prepaid Taxes	
Other Prepayments	
(Specify)	
Total Prepayments	\$0.00

7000700 Breathitt County Water District 01/01/2010 - 12/31/2010

Miscellaneous Deferred Debits (Acct. 186) (Ref Page: 20)

Miscellaneous Deferred Debits (186)

Deferred Rate Case Expense (186.1)

Other Deferred Debits (186.2)

Regulatory Assets (186.3)

Total Miscellaneous Deferred Debits

\$0.00

7000700 Breathitt County Water District 01/01/2010 - 12/31/2010

Unamortized Debt Discount and Expense and Premium on Debt (Accts 181 and 251) (Ref Page. 20)

Unamortized Debt Discount and Expense (181)		
Total Unamortized Debt Discount and Expense	\$0.00	\$0.00
Unamortized Premium on Debt (251)		
Total Unamortized Premium on Debt	\$0.00	\$0.00

7000700 Breathitt County Water District 01/01/2010 - 12/31/2010

Extraordinary Property Losses (Acct. 182) (Ref Page: 21)

Extraordinary Property Losses (182)

(Specify)

Total Extraordinary Property Losses

\$0.00

7000700 Breathitt County Water District 01/01/2010 - 12/31/2010

Advances for Construction (Acct. 252) (Ref Page: 21)

Balance First of Year:

Add credits during year

Deduct charges during year

Balance end of year:

\$0.00

7000700 Breathitt County Water District 01/01/2010 - 12/31/2010

Long Term Debt (Ref Page: 22)

RURAL DEVELOPMENT 2009 REV BONDS	09/24/2009	2049	2.6250	\$7,086.00	\$350,000.00
KIA	12/01/2009	2030	1.0000	\$1,056.00	\$257,631.00
CITIZENS BANK OF JACKSON	01/20/2010	2011	4.0000	\$1,481.00	\$11,276.00
Total			0.0000	\$9,623.00	\$618,907.00

7000700 Breathitt County Water District 01/01/2010 - 12/31/2010

Bonds - Account 221 (Ref Page: 23)

Total

7000700 Breathitt County Water District 01/01/2010 - 12/31/2010

Schedule of Bond Maturities (Ref Page: 23)

Total

0

(The total of Column 12
must agree with the total of
col 4)

7000700 Breathitt County Water District 01/01/2010 - 12/31/2010

Notes Payable (Accts 232 and 234) (Ref Page: 24)

Account 232 - Notes
Payable

	BANK OF NEW YORK	08/2009	2/2010	4,000.00	\$0.00	\$0.00
Total Account 232					\$0.00	\$0.00
Account 234 - Notes Payable to Associated Companies						
Total Account 234				0		

7000700 Breathitt County Water District 01/01/2010 - 12/31/2010
Accounts Payable to Associated Companies (Acct. 233) (Ref Page: 21)

Payable to Associated Company, Dept. 210	
(Specify)	
Total	\$0.00
	\$0.00

7000700 Breathitt County Water District 01/01/2010 - 12/31/2010

Taxes Accrued (Acct. 236) (Ref Page: 25)

Balance First of Year	
Accruals Charged:	\$838.00
Utility regulatory assessment fees (408.10)	
Property taxes (408.11)	
Payroll taxes (employer's portion) (408.12)	
Other taxes and licenses (408.13)	\$10,505.00
Taxes other than income, other income and deductions (408.20)	\$5,807.00
Total taxes accrued	\$16,342.00
Taxes paid during year:	
Utility regulatory assessment fees (408.10)	
Property taxes (408.11)	
Payroll taxes (employer's portion) (408.12)	
Other taxes and licenses (408.13)	\$6,301.00
Taxes other than income, other income and deductions (408.20)	\$5,120.00
Total Taxes Paid	\$11,421.00
Balance end of year	\$5,729.00

7000700 Breathitt County Water District 01/01/2010 - 12/31/2010

Accrued Interest (Account 237) 2002 (Ref Page. 25)

Long Term Debt:				
	0.0000	\$10,387.00	\$10,387.00	\$0.00
Notes Payable:				
	0.0000	\$0.00	\$0.00	\$0.00
Customer Deposits:				
	0.0000	\$0.00	\$0.00	\$0.00
Other				
	0.0000	\$0.00	\$0.00	\$0.00
Total Acct. No 237	0.0000	\$10,387.00	\$10,387.00	\$0.00

7000700 Breathitt County Water District 01/01/2010 - 12/31/2010

Miscellaneous Current and Accrued Liabilities (Acct. 242) (Ref Page: 26)

CONSTRUCTION ACCOUNTS PAYABLE	\$151,460.00
ACCRUED PAYROLL	\$4,283.00
Total Miscellaneous Current and Accrued Liabilities	\$155,743.00

7000700 Breathitt County Water District 01/01/2010 - 12/31/2010
Regulatory Commission Expense(Acct 666 and 667) (Ref Page: 28)

Total

7000700 Breathitt County Water District 01/01/2010 - 12/31/2010

Water Operating Revenue (Ref Page: 27)

Operating Revenues			
Unmetered Water Revenue (460)			
Metered Water Revenue (461)			
Sales to Residential Customers (461.1)	732	1,105	
Sales to Commercial Customers (461.2)			\$421,912.00
Sales to Industrial Customers (461.3)			
Sales to Public Authorities (461.4)			
Sales to Multiple Family Dwellings (461.5)			
Sales through Bulk Loading Stations (461.6)			
Total Metered Sales	732	1,105	
Fire Protection Revenue (462)			\$421,912.00
Public Fire Protection (462.1)			
Private Fire Protection (462.2)			
Total Fire Protection Revenue			
Other Sales to Public Authorities (464)			
Sales to Irrigation Customers (465)			
Sales for Resale (466)			
Interdepartmental Sales (467)			
Total Sales of Water	0	0	
Other Water Revenues			
Guaranteed Revenues (469)			\$421,912.00
Forfeited Discounts (470)			
Miscellaneous Service Revenues (471)			
Rents from Water Property (472)			\$27,802.00
Interdepartments Rents (473)			
Other Water Revenues (474)			
Total Other Water Revenues			\$27,802.00

7000700 Breathitt County Water District 01/01/2010 - 12/31/2010

Water Operating Revenue (Ref Page: 27)

Total Water Operating Revenues

\$449,714.00

7000700 Breathitt County Water District 01/01/2010 - 12/31/2010

Water Utility Expense Accounts (Ref Page: 28)

Salaries and Wages-Employees (601)	\$124,778.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Salaries and Wages-Officers, Directors and Majority Stockholders (603)										
Employee Pensions and Benefits (604)	\$59,116.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Purchased Water (610)	\$111,400.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Purchased Power (615)	\$33,869.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Fuel for Power Production (616)										
Chemicals (618)										
Materials and Supplies (620)	\$48,511.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Contractual Services - Eng. (631)										
Contractual Services - Acct. (632)										
Contractual Services - Legal (633)										
Contractual Services Management Fees (634)										

7000700 Breathitt County Water District 01/01/2010 - 12/31/2010

Water Utility Expense Accounts (Ref Page: 28)

Contractual Serves - Water Testing (635)	\$2,889.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Contractual Services - Other (636)	\$9,310.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Rental of Bid./Real Property (641)										
Rental of Equipment (642)	\$5,464.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Transportation Expenses (650)	\$19,988.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Insurance - Vehicle (656)										
Insurance - General Liability (657)										
Insurance - Worker's Compensation (658)										
Insurance - Other (659)	\$12,228.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Advertising Expenses (660)										
Regulatory Commission Exp.										
- Amortization of Rate Case (666)										
- Other (667)										

7000700 Breathitt County Water District 01/01/2010 - 12/31/2010

Water Utility Expense Accounts (Ref Page: 26)

Water Resource									
Conservation									
Expense (668)									
Bad Debt (670)	\$783.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Miscellaneous	\$18,375.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Expenses (675)									
Total	\$446,711.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00

7000700 Breathitt County Water District 01/01/2010 - 12/31/2010

Pumping and Water Statistics - part one (Ref Page: 29)

January	4,292	0	4,292 2,329
February	5,314	0	5,314 7,025
March	3,576	0	3,576 4,954
April	3,931	0	3,931 2,525
May	3,053	0	3,053 2,685
June	5,705	0	5,705 3,079
July	4,708	0	4,708 3,638
August	5,678	0	5,678 3,730
September	5,799	0	5,799 3,795
October	4,605	0	4,605 3,627
November	4,176	0	4,176 3,491
December	3,765	0	3,765 3,904
Total for the year	54,602	0	54,602 44,762

7000700 Breathitt County Water District 01/01/2010 - 12/31/2010

Pumping and Water Statistics - part two (Ref Page: 29)

Maximum Gallons pumped by all methods in any one day (Omit
000's)

Minimum Gallons pumped by all methods in any one day (Omit
000's)

7000700 Breathitt County Water District 9/1/2010 - 12/31/2010

Pumping and Water Statistics - part three (Per Page. 25)

If water is purchased indicate the following:

Vendor:

Point of Delivery:

CITY OF JACKSON

MASTER METER

7000700 Breathitt County Water District 01/01/2010 - 12/31/2010

Pumping and Water Statistics - part four (Ref Page: 20)

If water is sold to other water utilities for redistribution, identify all entities with whom the utility has a water sales contract and the maximum quantity the utility is under contract

to provide daily and monthly. If unlimited then list "unlimited"; otherwise list in thousands of gallons.

7000700 Breathitt County Water District 01/01/2010 - 12/31/2010

Sales For Resale (406) (Ref Page: 50)

Total

7000700 Breathitt County Water District 01/01/2010 - 12/31/2010

Water Statistics (Ref Page: 30)

1. Water Produced, Purchased and Distributed	
2. Water Produced	
3. Water Purchased	54,602
4. Total Produced and Purchased	54,602
6. Water Sales:	
7. Residential	44,782
8. Commercial	
9. Industrial	
10. Bulk Loading Stations	
11. Resale	
12. Other Sales	
13. Total Water Sales	44,782
15. Other Water Used	
16. Utility/water treatment plant	6,200
17. Wastewater plant	
18. System flushing	500
19. Fire department	100
20. Other	
21. Total Other Water Used	6,800
23. Water Loss:	
24. Tank Overflows	
25. Line Breaks	2,500
26. Line Leaks	
27. Other	45
28. Total Line Loss	2,545
Note: Line 13 + Line 21 + Line 28 must equal Line 4	
32. Water Loss Percentage	

7000700 Breathitt County Water District 9/01/2010 - 12/31/2010

Water Statistics (Ref Page: 30)

33. Line 28 divided by Line 4

4.6610

7000700 Breathitt County Water District 01/01/2010 - 12/31/2010

Plant Statistics (Ref Page: 34)

Number of fire hydrants, by size

Number of private fire hydrants, by size

If produced whether water supply is river, impounded streams, well, springs, artificial lake, or collector well

If produced whether supply is by gravity, pumping or a combination

Type, capacity, and elevation of reservoirs at overflow and ground level

Miles of main by size and kind

Types of filters: gravity or pressure, number of units and total rated in capacity in gal. per min.

Type of disinfectant: number of units and capacity in pounds per 24 hours

Station Equipment. List each pump, giving type and capacity, HP of driving unit and character of driving unit (steam/electric/int. combustion) also whether pump is high/ low duty

Quantity of fuel used: coal in lbs., gas in cu. ft., oil in gals., and electric in KWH

Give description and total cost of any sizable additions or retirements to plant and service outside the normal system of growth for the period covered by this report

Capacity of clear well

Peak month, in gallons of water sold

Peak day, in gallons of water sold

7000700 Breathitt County Water District 01/01/2010 - 12/31/2010

Plant Statistics - Part B (Ref Page: 31)

Choose one to indicate the type of Water Supply

Purchase

7000700 Breathitt County Water District 01/01/2010 - 12/31/2010

Plant Statistics - Part C (Ref Page: 31)

Choose one to indicate the type of Water Supply Method:

Combination

7000700 Breathitt County Water District 01/01/2010 - 12/31/2010

CheckList (2002)

	Value 1	Value 2	FCR	FCR
NOTE: Any mention of page numbers or Line items refers to the annual report published and distributed for the 2002 report period.				
Identifications pages (ref 4-6) have been completed.				
Balance Sheet - Assets and Other Debts (ref. pg 7)				
Utility Plant (Accts 101-106) agrees with Sched: Net Utility Plants Accts 101-106 (ref pg 13) Line: Total Utility Plant	23537096.00	23537096.00	OK	
Accts 108-110 Acc. Depreciation and Amort. agrees with Sched: Analysis of Acc. Dep. and Amort. (ref pg 15) Line: Total 301-348 Col h	1592024.00	1592024.00	OK	
Accts 114-115 Utility Plant Acquisition Adjustments agrees with Sched: Utility Plant Acquisition Adjustments (ref pg 16) Line: Net Acquisition Adjustments (114-115)	0	0.0000	OK	
Accts 123 Investment in Assoc. Companies agrees with Sched: Investments and Spec. Funds (ref pg 17) Line: Total Investment in Associated Companies	0	0.0000	OK	
Accts 124-125 Utility Investments agrees with Sched: Investments and Spec. Funds (ref pg 17) Sum of Lines: 124 Total Utility Investments and 125 Total Other Investments	0	0.0000	OK	
Accts 126 Sinking Funds agrees with Sched: Investments and Spec. Funds (ref pg 17) Line: 126 Total Sinking Funds	0	0.0000	OK	
Accts 127 Other Special Funds agrees with Sched: Investments and Spec. Funds (ref pg 17) Line: Total 127 Other Special Funds	0	0.0000	OK	
Accts 141-144 Accounts and Notes Receivable agrees with Sched: Accts and Notes Receivable (ref pg 18) Line: Net Balance 141-144	48881.00	48881.00	OK	
Accts 151-153 Material and Supplies agrees with Sched: Material and Supplies (ref pg 19) Line: Total 151-153	6799.00	6799.00	OK	

7000700 Breathitt County Water District 01/01/2010 - 12/31/2010

item	CheckList (2002)			
	Value 1	Value 2	Agree	Explain
Accts 162 Prepayments agrees with Sched: Prepayments (ref pg 19) Line: Total 162	0	0.0000	OK	
Accts 181 Unamortized Debt Discount and Expense agrees with Sched: Unamortized Debt Discount and Exp. (ref pg 20) Line: Total 181	0	0.0000	OK	
Accts 182 Extraordinary Prop. losses agrees with Sched: Extraordinary Property Losses (ref pg 21) Line: Total 182	0	0.0000	OK	
Accts 186 Misc. Deferred Debits agrees with Sched: Misc. Deferred Debits (ref pg 20) Line: Total 186	0	0.0000	OK	
Balance Sheet - Equity Capitol and Liabilities (ref. pg 9)				
Accts 214 Appropriated Retained Earnings agrees with Sched: Statement of Retained Earnings (ref pg 12) Line: Total Appropriated Retained Earnings 214	0	0	OK	
Accts 215.1 Retained Earnings from Income before Contributions with Sched: Statement of Retained Earnings (ref pg 12) Line: Balance End of Year 215.1	-1165826.00	-1165826.00	OK	
Accts 215.2 Donated Capital with Sched: Statement of Retained Earnings (cont. 215.2) (ref pg 12) Line: Balance End of Year 215.2	22574776.00	22574776.00	OK	
Accts 221 Bonds agrees with Sched: Account 221 (ref pg 23) Line: Total Outstanding Bonds Col 4	0	0	OK	
Accts 221 Bonds agrees with Sched: Schedule of Bond Maturities (ref pg 23) Line: Total Remaining Bonds (Col 12)	0	0	OK	
Accts 224 Other Long Term Debt agrees with Sched: Long Term Debt (ref pg 22) Line: Total Acct 224 col f	618907.00	618907.00	OK	
Accts 232 Notes Payable agrees with Sched: Notes Payable (Accts 232 and 234) (ref pg 24) Line: Total Acct 232	0	0.0000	OK	

7000700 Breathitt County Water District 01/01/2010 - 12/31/2010

Item:	CheckList (2002)			
	Value 1	Value 2	Agree	Explain
Accts 233 Accounts Payable to Associated Co. agrees with Sched: Accounts Payable to Assoc. Companies (Accts 233) (ref pg 24) Line: Total Acct 233	0	0.0000	OK	
Accts 234 Notes Payable agrees with Sched: Notes Payable (Accts 232 and 234) (ref pg 24) Line: Total Acct 234	0	0	OK	
Accts 236 Taxes Accrued Balance First of Year agrees with Sched: Taxes Accrued (Accts 236) (ref pg 25) Line: Beginning Balance	838.00	838.00	OK	
Accts 236 Taxes Accrued agrees with Sched: Taxes Accrued (Accts 236) (ref pg 25) Line: Ending Balance	5729.00	5729.00	OK	
Accts 237 Accrued Interest Balance from Prev Year agrees with Sched: Accrued Interest (Accts 237) (ref pg 25) Line: Total 237 Balance Beginning of Year -Col b	0.0000	0	OK	
Accts 237 Accrued Interest agrees with Sched: Accrued Interest (Accts 237) (ref pg 25) Line: Total 237 Balance End of Year -Col e	0	0.0000	OK	
Accts 242 Misc. Current and Accrued Liabilities agrees with Sched: Misc current and Accrued Liabilities (Accts 242) (ref pg 26) Line: Total Miscellaneous and Current Accrued Liabilities	155743.00	155743.00	OK	
Accts 251 Unamortized Premium on Debt agrees with Sched: Unamort Debt Discount and Expense and Premium on Debt (Accts 181 - 251) (ref pg 20) Line: Total 251	0	0.0000	OK	
Accts 252 Advances for Construction agrees with Sched: Advances for Construction (Accts 252) (ref pg 21) Line: Total 252	0	0.0000	OK	
Total Equity Capital and Liabilities agrees with Balance Sheet - Assets and Other Debits: Total Assets and Other Debits	22206213.00	22206213.00	OK	
Comparitive Operating Statement (ref pg 10)				

7000700 Breathitt County Water District 01/01/2010 - 12/31/2010

CheckList (2002)

Item	Value 1	Value 2	Agree	Explain
Accts 400 Operating Revenues agrees with Sched: Water Operating Revenue (Accts 400) (ref pg 27) Line: Total Water Operating Revenues - Col e	449714.00	449714.00	OK	
Accts 401 Operating Expenses agrees with Sched: Water Utility Expense Accounts (ref pg 28) Line: Total Accts (601-675) - Col c	446711.00	446711.00	OK	
Accts 408.1 Taxes Other than Income agrees with Schedule Taxes Accrued (Acct 236) (ref pg 26) Sum of Accts 408.10 - 408.13	16312.00	16312.00	OK	
Sum of Accts 408.1 and 408.2 agrees with Sched: Taxes Accrued (Acct 236) (ref pg 25) Line: Total taxes Accrued	16312.00	16312.00	OK	
Accts 427 Interest Expense agrees with Sched: Accrued Interest (Acct 237) (ref pg 25) Line: Total Acct No 237 Col c - Interest Accrued	10387.00	10387.00	OK	
Net Income agrees with Sched: Retained Earnings (Acct 237) (ref pg 12) Line: Balance Transferred from Income (Acct 435)	-539022.00	-539022.00	OK	
Miscellaenous				
Schedule Net Utility Plant Accts 101 - 106 (ref pg 13) Utility Plant (101) agrees with Sched: Water Utility Plant Accounts (ref pg 14) Line: Total Water Plant Col f - Current Year	23537096.00	23537096.00	OK	
The analysis of water utility plant accounts Cols c though k has been completed (Ref pg 14)				
The analysis of accumulated depreciation and amortization by primary account has been completed. (Ref pg 14)				
Sched: Misc. Defferred Debits (Acct 186) Defferred Rate Case (Acct 186.1) agrees with Sched: Amort. of Rate Case (Acct 665 and 667) (ref pg 26) Line: Total Col c - Amt Transferred to 186.1	0	0	OK	
Schedule of Long Term Debt has been completed (ref pg 22)				

7000700 Breathitt County Water District 01/01/2010 - 12/31/2010

Item	CheckList (2002)			Explain
	Value 1	Value 2	Agree	
Schedule of Bond Maturities has been completed (ref pg 23)				
Taxes collected (example: school tax, sales tax, franchise tax) have been excluded from Operating Revenue (Ref pg 29)				
The analysis of water opertating revenue Cols c,d and e have been completed. (Ref pg 28)				
The analysis of water utility expense accounts Cols c through k have been completed. (Ref pg 28)				
Schedule of Pumping and Purchased Water Statistics has been completed (Ref pg 29)				
Sched Pumping and Water Statistics - part one (ref pg 29) Line Total for the year - Col Total (d) agrees with Sched Water Statistics (ref pg 30) Line 4. Total Produced and Purchased Col Gallons	54602	54602	OK	
Sched Pumping and Water Statistics - part one (ref pg 29) Line Total for the year - Col Water Sold(e) agrees with Sched Water Statistics (ref pg 30) Line Total Water Sales Col Gallons	44732	44732	OK	
Sched Sales for Resale (ref pg 30) 466 Total Gal agrees with Sched Water Statistics (ref pg 30) Total Water Sales	0	0	OK	
Oath Page Has been Completed				

Reviewer: Kasi White
 Date: July 7, 2011
 Amended: August 4, 2011
 Loan Number: F11-07

**KENTUCKY INFRASTRUCTURE AUTHORITY
 DRINKING WATER REVOLVING LOAN FUND (FUND "F")
 BREATHITT COUNTY WATER DISTRICT, BREATHITT COUNTY
 PROJECT REVIEW
 WX21025015, WX21025020 and WX21025021**

I. PROJECT DESCRIPTION

The Breathitt County Water District is requesting a Fund "F" loan in the amount of \$2,500,000 to extend water service in various areas. The request is comprised of three components. The projects will provide an adequate water supply to areas that currently have contaminated drinking water sources. Selective testing indicates that contaminants include iron, sulfur, manganese, sodium chloride as well as pathogens that usually include fecal coliform bacterial contamination at various levels.

The first project is the installation of approximately 78,330 linear feet of PVC and ductile iron pipe in various sizes to service KY 315 north of 1933 (Turner's Creek) and the remaining side roads off of Canoe Road including Canoe, Spicer Branch, Butter Point, Buzzard Fork, Stamper Fork and Lick Branch. The project will also install a service line via railroad bore to Cecil Clair on HWY 52 and upgrade the HWY 52 and Town Hill pump stations. In addition, approximately 46,247 linear feet of 6", 4" and 2" PVC of new lines will be constructed to serve the area of South Fork from Swift Branch to Open Fork and Press Howard Fork and the Short Fork Road area. Lastly, approximately 25,000 linear feet of 4" and 2" line will be constructed to extend service from KY 1114 to Walter Combs' House at the end of Houston Road. Approximately 340 customers will be added as a result of the projects.

II. PROJECT BUDGET

	<u>Total</u>
Administrative Expenses	\$ 40,839
Legal Expenses	18,700
Land & Easements	4,699
Engineering Fees	355,554
Construction	2,117,200
Contingency	238,008
Total	\$ 2,775,000

III. PROJECT FUNDING

	<u>Amount</u>	<u>%</u>
Fund F Loan	\$ 2,500,000	90%
HB1 (No CPBOC approval)	275,000	10%
Total	\$ 2,775,000	100%

IV. KIA DEBT SERVICE

Construction Loan	\$ 2,500,000
Less: Principal Forgiveness (40%)	<u>1,000,000</u>
Amortized Loan Amount	\$ 1,500,000
Interest Rate	1.00%
Loan Term (Years)	20
Estimated Annual Debt Service	\$ 82,937
Administrative Fee (0.25%)	<u>3,750</u>
Total Estimated Annual Debt Service	\$ 86,687

V. PROJECT SCHEDULE

Bid Opening:	August, 2011
Construction Start:	October, 2011
Construction Stop:	November, 2012

VI. RATE STRUCTURE

The district purchases all water for distribution from the City of Jackson at a rate of \$1.90 per 1,000 gallons. There is a minimum purchase required of 400,000 gallons per month.

A. Customers

Customers	Current	Proposed	Total
Residential	1,100	342	1,442
Commercial	5	0	5
Industrial	0	0	0
	<u>1,105</u>	<u>342</u>	<u>1,447</u>

The Canoe Road project is expected to add 220 customers while the Highway 1,098 project will add 122 customers.

B. Rates

Rates were last increased in October, 2005.

First 2,000 gallons (minimum)	\$ 19.90
Rate Per Additional 1,000 Gallons	<u>9.95</u>
Cost for 4,000 gallons	\$ 39.80

Affordability Index (Rate/MHI) 2.5%

VII. DEMOGRAPHICS

In 2000, the County's population was 13,500 with a Median Household Income (MHI) of \$19,155, which is less than 80% of the MHI for the Commonwealth (\$33,672), thus qualifying the District for a 1% interest rate on the proposed loan.

VIII. 2010 CAPITALIZATION GRANT EQUIVALENCIES

- 1) Green Project Reserve - This project does not qualify for Green Project Reserve (GPR) funding.
- 2) Additional Subsidization – This project qualifies for additional subsidization in the amount of \$1,000,000.

IX. FINANCIAL ANALYSIS (See Exhibit 1)

Financial information for the utility was obtained audited financial statements for the years ended December 31, 2006 through 2009. Amounts for 2010 are based on preliminary financial statements.

HISTORICAL

The Breathitt County Water District (BCWD) was created in 2003 to provide water service to unserved residences in Breathitt County. The customer base has increased from about 100 in 2006 to approximately 1,100 today. Since its inception the District has extended the water supply to numerous areas throughout the County.

Revenues have increased 461% from \$88,609 in 2006 to \$497,238 in 2010. Operating expenses and purchased water costs have increased 339% from \$105,449 to \$463,023 during the same period. Cash available for debt service has been negative in all years but 2007 due to customer hookups from extension projects being realized a little later after project completion than expected. The debt coverage ratio in 2010 was 0.06. Reserve funds and a portion of operating cash were utilized to fund the required \$572,000 in debt service from the ARRA loan.

The 2010 operating cash balance represents about 1.5 months of operating expenses and purchased water cost. There are minimal restricted reserve funds to support total capital assets of \$23.5 million. Large unexpected expenses could stress the District's finances given these combined factors.

Financing for the District's capital expansion has involved a combination of grants, fiscal court contributions and credit facilities. The District's long term debt is minimal and is comprised of Series 2009 Revenue Bonds and a note to KIA. Total debt to equity is approximately 4%. Days' sales in accounts receivables are 35.9 which reflects an efficient collection process.

PROJECTED

Projections are based on the following assumptions:

- Revenues have been adjusted to include the additional 340 customers that will be added in 2012 as a result of the project.
- Customer growth outside of planned service area expansions will be 2% per year.
- Operating expenses and purchased water costs are projected to increase by 4% annually
- Average water use was calculated at 3,600 gallons per month per customer based on historical usage.
- The replacement reserve is \$6,250 for this project and \$7,250 annually in total (includes KIA loan F2 09-05).
- Debt service on the new KIA loan will be \$86,687 annually beginning in June 2013.

Based on the above assumptions the Breathitt County Water District will meet the required cash flow through the projected years with a debt coverage ratio of 1.16 in 2013. Debt to equity will increase from 4% to 11% upon completion of the project.

REPLACEMENT RESERVE

Based on the information provided in the application the annual replacement cost is \$6,250. This amount should be added to the replacement account each December 1 until the balance reaches \$62,500 and maintained for the life of the system.

X. DEBT OBLIGATIONS

	<u>Outstanding</u>	<u>Maturity</u>
Series 2009 Revenue Bonds	\$350,000	2049
KIA (F2 09-05)	257,630	2030
Total	\$607,630	

XI. OTHER STATE OF FEDERAL FUNDING IN PAST FIVE YEARS

<u>Project Title</u>	<u>Funding Source</u>	<u>Amount</u>	<u>Type</u>
Watts Extension	HB608	\$1,600,000	Grant
Watts Extension	CDBG	\$1,000,000	Grant
Ext on Hwy 205/1812 to Wolfe County	HB380	\$1,200,000	Grant
Highway 30 West Project	HB608	\$750,000	Grant
Highway 30 East Extension	CDBG, USDA, RD, ARC, CST	\$1,200,000	Grant

XII. CONTACTS

Applicant

Name Breathitt County Water District
Address 1137 Main Street
 Jackson, Kentucky 41339
County Breathitt County
Contact Bobby Thorpe, Jr.
Phone (606) 666-3800, extension 250
Email breathittwater@yahoo.com

Engineer

Name Matt Steen
Firm Nesbitt Engineering, Inc.
Address 227 North Upper Street
 Lexington, Kentucky 40507
Phone (859) 233-3111
Email msteen@nei-ky.com

Applicant Contact

Name Kentucky River Area Development District
Address 917 Perry Park Road
 Hazard, KY 41701
Contact Jennifer McIntosh
Phone (606) 436-3158
Email Jennifer@kradd.org

XIII. RECOMMENDATIONS

KIA staff recommends approval of the loan with the standard conditions.

**EXHIBIT 1
BREATHITT COUNTY WATER DISTRICT DECEMBER
CASH FLOW ANALYSIS**

	Audited 2006	% Change	Audited 2007	% Change	Audited 2008	% Change	Audited 2009	% Change	Preliminary 2010	Projected 2011	Projected 2012	Projected 2013	Projected 2014
Operating Revenues													
Charges for Services	51,597	148%	128,026	59%	203,781	49%	304,003	39%	421,912	480,776	565,884	652,927	668,616
Tap Fees	0		54,550	-55%	24,750	135%	58,093	-52%	27,802	5,000	69,000	5,000	5,000
Other	37,012	-100%	25	169276%	42,344	26%	53,533	-11%	47,524	47,524	47,524	47,524	47,524
Total Revenues	88,609	106%	182,601	48%	270,875	53%	415,629	20%	497,238	533,300	682,408	705,451	721,140
Operating Expenses													
Purchased Water	13,946	158%	36,029	2%	36,709	92%	70,497	62%	114,289	120,055	143,381	167,180	173,851
Operating Expenses	91,503	54%	141,024	94%	274,150	42%	388,935	-10%	348,734	364,078	380,097	396,821	414,281
Depreciation	121,135	67%	202,701	40%	283,242	26%	358,016	57%	563,199	577,500	594,000	610,900	796,800
Replacement Reserve									0	2,000	7,250	7,250	7,250
Total Expenses	226,584	68%	379,754	56%	594,101	38%	817,448	26%	1,026,222	1,063,633	1,124,728	1,182,151	1,392,182
Net Operating Income	(137,975)	43%	(197,153)	64%	(323,226)	24%	(401,819)	32%	(528,984)	(530,333)	(442,320)	(476,700)	(671,042)
Non-Operating Income and Expenses													
Interest on Investments	1,115	-8%	1,030	-74%	269	-5%	255	37%	349	300	350	400	450
Total Non-Operating Income & Expenses	1,115	-8%	1,030	-74%	269	-5%	255	37%	349	300	350	400	450
Add Non-Cash Expenses													
Depreciation	121,135	67%	202,701	40%	283,242	26%	358,016	57%	563,199	577,500	594,000	610,900	796,800
Cash Available for Debt Service	(15,725)	-142%	6,578	-704%	(39,715)	10%	(43,548)	-179%	34,564	47,467	152,030	134,600	126,208
Debt Service (enter as positive #s)													
Existing Principal	0		0		0		0		557,057	5,500	5,500	6,000	6,000
Existing Interest	0		0		45,070		56,427		10,387	9,188	9,044	8,899	8,742
KIA (F2 09-05)									6,737	14,593	14,574	14,574	14,574
Proposed KIA Loan									2,500	2,500	15,000	86,687	86,687
Total Debt Service	0		0		45,070		56,427		574,181	31,781	44,118	116,160	116,003
Income After Debt Service	(15,725)		6,578		(84,785)		(99,975)		(539,617)	15,686	107,912	18,440	10,206
Debt Coverage Ratio	n/a		n/a		(0.88)		(0.77)		0.06	1.49	3.45	1.16	1.09

**BREATHITT COUNTY WATER DISTRICT
BALANCE SHEETS (DECEMBER)**

ASSETS	Audited 2006	Audited 2007	Audited 2008	Audited 2009	Preliminary 2010	Project Completion
Current Assets						
Cash	38,002	32,149	40,788	119,763	19,287	19,287
Accounts Receivable	5,905	15,236	20,945	26,998	48,881	46,740
Inventory					6,799	7,500
Other Current Assets (Construction Receivables)					151,460	25,000
Total Current Assets	43,907	47,385	61,733	146,761	226,427	98,527
Restricted Assets						
Restricted for Construction	40,332	43,005	14,475	89,114	163	10,000
Debt Service Reserve Fund	0	0	0	369,833	34,551	34,551
KIA R&M Fund						3,000
Total Restricted Assets	40,332	43,005	14,475	458,947	34,714	47,551
Utility Plant						
Land, System, Building and Equipment	6,375,640	9,329,214	13,881,781	19,863,658	23,537,096	26,312,096
Less Accumulated Depreciation ()	(184,865)	(387,566)	(670,809)	(1,028,825)	(1,592,024)	(2,763,524)
Net Fixed Assets	6,190,775	8,941,648	13,210,972	18,834,833	21,945,072	23,548,572
Total Assets	6,275,014	9,032,038	13,287,180	19,440,541	22,206,213	23,694,650
LIABILITIES						
Current Liabilities						
Accounts Payable	1,195	5,622	9,919	20,798	16,884	20,900
Accrued Liabilities	1,184	2,226	478	838	10,012	15,000
Construction Related Payables	0	0	0	0	151,460	25,000
Current Portion Long Term Debt	0	0	0	500,000	28,804	17,649
Current Portion Proposed KIA Loan						68,106
Total Current Liabilities	2,379	7,848	10,397	521,636	207,160	146,655
Long Term Liabilities						
Long Term Debt	0	0	1,267,334	350,000	590,103	554,926
KIA - Proposed Loan						1,431,894
Total Long Term Liabilities	0	0	1,267,334	350,000	590,103	1,986,819
Total Liabilities	2,379	7,848	1,277,731	871,636	797,263	2,133,475
Retained Earnings:						
Invested in Capital Assets Net of Related Debt	6,190,775	8,941,648	11,943,638	17,984,833	21,326,165	21,466,325
Restricted for Construction	40,332	43,005	14,475	89,114	163	10,000
Restricted for Debt Service	0	0	0	369,833	34,551	34,551
Restricted for R&M	0	0	0	0	0	3,000
Unrestricted	41,528	39,537	51,336	125,125	48,071	47,300
Total Retained Earnings	6,272,635	9,024,190	12,009,449	18,568,905	21,408,950	21,561,176
Total Liabilities and Equities	6,275,014	9,032,038	13,287,180	19,440,541	22,206,213	23,694,651
Balance Sheet Analysis						
Current Ratio	18.46	6.04	5.94	0.28	1.09	0.67
Debt to Equity	0.00	0.00	0.11	0.05	0.04	0.10
Working Capital	41,528	39,537	51,336	(374,875)	19,267	(48,128)
Percent of Total Assets in Working Capital	0.66%	0.44%	0.39%	-1.93%	0.09%	-0.20%
Days Sales in Accounts Receivable	24.3	30.5	28.2	23.7	35.9	25.0

Breathitt County Water District

Opinion of Probable Construction & Project Cost Total KIA-SRF Loan Budget 8/19/11

Project		Total Cost
Project #1	South Fork Waterline Phase 1	\$ 950,000.00
Project #2	South Fork Waterline Phase 2	\$ 628,000.00
Project #3	Houston Road Waterline	\$ 250,000.00
Project #4	Canoe Waterline Extension	\$ 1,106,000.00
	Cecil Clair Railroad Crossing	\$ 20,000.00
	Ky 52 & Town Hill Pump Station Upgrades	\$ 100,000.00
Project #5	Bethany Road Waterline	\$ 86,100.00
	Baker Drive Directional Drill	\$ 15,000.00
	Miles Lane Waterline	\$ 10,000.00
	Gross Fork Road Waterline	\$ 25,000.00
Subtotal - Opinion of Probable Construction Cost =		\$ 3,190,100.00
Other Project Related Costs		
	Administration	\$ 80,000.00
	Legal Services	\$ 55,000.00
	Land, Appraisals, Easements, etc.	\$ 44,000.00
	Engineering	
	Preliminary Engr.	\$ 11,000.00
	Design (70%)	\$ 204,360.16
	Contract Admin. (30%)	\$ 87,582.93
	Resident Observation	\$ 197,529.24
Engineering Design, Contract Admin and Resident Observation fees are based		
on the 5 projects being bid separately.		
	Studies, Surveying, Easements, etc.	\$ 17,000.00
	Permitting (DOW, KTC, CSX, etc)	\$ 31,000.00
	O&M Manuals	\$ 7,000.00
	Contingencies	\$ 308,427.67
Total Opinion of Probable Project Cost =		\$ 4,233,000.00
Funding		
	KIA-SRF	\$ 2,500,000.00
	CDBG	\$ 566,000.00
	Coal Severance	\$ 675,000.00
	EPA	\$ 485,000.00
	Tap Fees	\$ 7,000.00
Total Funding		\$ 4,233,000.00

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Breathitt County Water District

KY 1098 South Fork Waterline Extension
Opinion of Probable Construction Cost 8/18/11

Waterline Extension	
Original Project Phase 1	\$ 950,000
Waterline Extension - Total Opinion of Construction Cost	
	\$ 950,000
Project Related Expenses	
Administration	\$ 40,000
Legal	\$ 37,000
Property Acquisition	\$ 35,000
Engineering - Basic	
Design	\$ 59,352
Construction	\$ 25,436
Resident Observation	\$ 54,150
Engineering - Additional Services	
Preliminary Engineering	\$ 2,500
Permitting	\$ 3,000
Easements, Surveying, etc.	\$ 5,000
Contingencies	\$ 93,316
Total Opinion of Probable Project & Construction Cost	
	\$ 1,304,754



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Breathitt County Water District

KY 1098 South Fork Waterline Extension
Opinion of Probable Construction Cost 8/18/11

Waterline Extension	
Open Fork Extension Project Phase 2	\$ 485,000
Press-Howard Fork Project Phase 2	\$ 143,000
Waterline Extension - Total Opinion of Construction Cost	\$ 628,000
Project Related Expenses	
Administration	\$ 15,000
Legal	\$ 4,000
Property Acquisition	\$ 1,000
Engineering - Basic	
Design	\$ 42,428
Construction	\$ 18,184
Resident Observation	\$ 42,001
Engineering - Additional Services	
Preliminary Engineering	\$ 2,500
Permitting	\$ 3,000
Easements, Surveying, etc.	\$ 2,000
Contingencies	\$ 60,133
Total Opinion of Probable Project & Construction Cost	\$ 818,246



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Breathitt County Water District
Opinion of Probable Construction & Project Cost
Houston Road Waterline Extension (8/18/11)

Project	Total Cost
Houston Road Waterline	\$ 250,000.00
Total - Opinion of Probable Construction Cost =	\$ 250,000.00
Other Project Related Costs	
Administrative	\$ 5,000.00
Legal Service	\$ 1,000.00
Land, Appraisals, Easements, etc.	\$ 1,000.00
Engineering	
Design	\$ 20,519.10
Contract Admin.	\$ 8,793.90
Resident Observation	\$ 24,000.00
Operation & Maintenance Manual (if requested)	\$ 2,000.00
Surveying	\$ 2,000.00
Permits, environmental studies, etc.	\$ 2,000.00
Project Contingencies	\$ 24,687.00
Total Opinion of Probable Project Cost	\$ 341,000.00

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Breathitt County Water District

Opinion of Probable Construction & Project Cost Canoe SRF Loan Budget 8/18/11

Project	Total Cost
Canoe Waterline Extension	\$ 1,106,000.00
Cecil Clair Railroad Crossing	\$ 20,000.00
KY 52 & Town Hill Pumpstation Upgrades	\$ 100,000.00
Subtotal - Opinion of Probable Construction Cost =	\$ 1,226,000.00
Other Project Related Costs	
Administration	\$ 20,000.00
Legal Services	\$ 12,000.00
Land, Appraisals, Easements, etc.	\$ 6,000.00
Engineering	
Preliminary Engr.	\$ 5,000.00
Design (70%)	\$ 73,623.26
Contract Admin. (30%)	\$ 31,552.83
Resident Observation	\$ 65,885.24
Studies, Surveying, Easements, etc.	\$ 7,000.00
Permitting (DOW, KTC, CSX, etc)	\$ 20,000.00
O&M Manuals	\$ 5,000.00
Contingencies	\$ 121,938.67
Total Opinion of Probable Project Cost =	\$ 1,594,000.00

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Breathitt County Water District
Opinion of Probable Construction & Project Cost
Bethany Road Waterline Extension (8/18/11)

Project	Total
Bethany Road Waterline	\$ 86,100.00
Subtotal - Opinion of Probable Construction Cost =	\$ 86,100.00
Other Project Related Costs	
Administration	\$ -
Legal Services	\$ 1,000.00
Land, Appraisals, Easements, etc.	\$ 1,000.00
Engineering	
Preliminary Engr.	\$ 1,000.00
Design (70%)	\$ 8,437.80
Contract Admin. (30%)	\$ 3,616.20
Resident Observation	\$ 11,493.00
Studies, Surveying, Easements, etc.	\$ 1,000.00
Permitting (DOW, KTC, CSX, etc)	\$ 3,000.00
O&M Manuals	\$ -
Contingencies	\$ 8,353.00
Total Opinion of Probable Project Cost =	\$ 125,000.00



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BCWD

Project Funding (8/12/11)

Projects		Opinion of Project Costs	Funds	
1	South Fork Waterline Phase 1	\$1,217,000.00	KIA	\$310,000.00
			CDBG	\$566,000.00
			COAL	\$334,000.00
			TAP FEES	\$7,000.00
2	South Fork Waterline Phase 2	\$840,000.00	KIA	\$840,000.00
3	Houston Road Waterline	\$341,000.00	COAL	\$275,000.00
			KIA	\$66,000.00
4	Canoe Waterline	\$1,474,000.00		
	Cecil Clair RR Crossing	\$20,000.00		
	Pump Station Upgrades	\$100,000.00		
		\$1,594,000.00	EPA	\$485,000.00
			KIA	\$1,109,000.00
	Extra			
	Baker Drive Drill	\$15,000.00		
	Bethany Road Waterline	\$125,000.00		
	Miles Lane Waterline	\$10,000.00		
	Gross Fork Road Waterline	\$25,000.00		
		\$175,000.00	KIA	\$175,000.00