

**MURRAY NO. 3 WATER DISTRICT
P.O. BOX 643
MURRAY, KY 42071**

March 11, 2013

Commonwealth of Kentucky
Public Service Commission
211 Sower Blvd
PO Box 615
Frankfort, KY 40602-0615

Dear Sir or Madame:

The Murray No. 3 Water District did not have an independent audit due to limited financial resources. Please find enclosed a copy of the Independent Accountant's Review Report.

Sincerely,


Darrell Beane
Treasurer

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MAR 15 2013

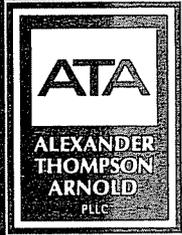
**PUBLIC SERVICE
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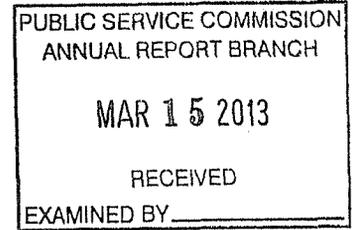
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MAY 15 2013

MURRAY NO. 3 WATER DISTRICT

REVIEWED FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011





MURRAY NO. 3 WATER DISTRICT

REVIEWED FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

**MURRAY NO. 3 WATER DISTRICT
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Board of Trustees

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INTRODUCTORY SECTION

MURRAY NO. 3 WATER DISTRICT

December 31, 2012

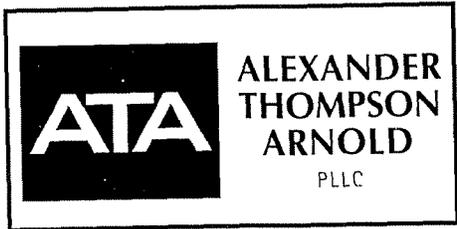
BOARD OF TRUSTEES

Max Morris, Chairman

Max Rogers, Secretary

Darrell Beane, Treasurer

FINANCIAL SECTION



Certified Public Accountants

www.atacpa.net

301 Maple Street
Murray, KY 42071

Telephone: (270) 753-2424
Fax: (270) 753-3878

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AICPA Employee Benefit Plan Audit Quality Center
Tennessee Society of Certified Public Accountants
Kentucky Society of Certified Public Accountants

Independent Accountant's Review Report

Board of Trustees
Murray No. 3 Water District
Murray, Kentucky

We have reviewed the accompanying financial statements of the business-type activities of Murray No. 3 Water District as of and for the years ended December 31, 2012 and 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. A review includes primarily applying analytical procedures to management's financial data and making inquiries of the management of Murray No. 3 Water District. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

The management of the Murray No. 3 Water District is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. We believe that the results of our procedures provide a reasonable basis for our report.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

Our review was made primarily for the purpose of expressing a conclusion that there are no material modifications that should be made to the financial statements for them to be in conformity with accounting principles generally accepted in the United States of America. The management's discussion and analysis information on pages 3 through 5 is presented for purposes of additional analysis. Such information, although not a required 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 and for placing the basic financial statements in an appropriate operational, economic, or historical context. The supplementary information has not been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, but it has been compiled from information that is

the representation of management. We have not audited or reviewed the supplementary information and accordingly, we do not express an opinion or provide any assurance on such supplementary information.

Alexander Thompson Arnold PLLC

Murray, Kentucky
February 28, 2013

MURRAY NO. 3 WATER DISTRICT
P.O. BOX 643
MURRAY, KY 42071

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

As management of the Murray No. 3 Water District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the Water District for the years ended December 31, 2012 and 2011. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

FINANCIAL HIGHLIGHTS

- The beginning cash balances for 2012 and 2011, for the Water District were \$6,618 and \$9,152, respectively, in the operating account and \$22,589 and \$26,476, respectively, in certificates of deposit.
- The Water District's revenues are derived from water purchased by commercial and residential customers. There was no significant change in water revenue during the years ended December 31, 2012 and 2011 as the Water District has not increased its rates in several years.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Water District's basic financial statements. The Water District's basic financial statements are comprised of 1) Statement of Net Position, 2) Statement of Revenues, Expenses, and Changes in Net Position, 3) Statement of Cash Flows, and 4) Notes to Financial Statements. This report also contains an introductory section and other supplementary information in addition to the basic financial statements themselves.

The statement of net position presents information on all of the Water District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Water District is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Net Position presents information showing how the Water District's net position changed during the most recent year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods.

The Statement of Cash Flows presents the changes in cash and the events giving rise to the changes during the year.

The Notes to Financial Statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The basic financial statements can be found on pages 6 through 7 of this report.

THE WATER DISTRICT AS A WHOLE

The Statement of Net Position provides the perspective of the District as a whole. Net position may serve over time as a useful indicator of financial position. In the case of the Water District, assets and deferred outflows of resources exceed liabilities and deferred inflows of resources by \$106,164 as of December 31, 2012.

A portion of the District's net position reflects its unrestricted net position. The unrestricted portion can be used to finance day-to-day operations without constraints established by debt covenants or other legal requirements.

CAPITAL ASSET AND DEBT ADMINISTRATION

At the end of 2012 and 2011, the District had \$233,746 invested in land, buildings, and equipment. Capital assets (net of depreciation) for 2012 and 2011 were \$54,144 and \$58,693 respectively.

FINANCIAL ANALYSIS

Net Position as of December 31,

	<u>2012</u>	<u>2011</u>
Assets		
Current assets	\$ 55,270	\$ 38,194
Capital assets	<u>54,144</u>	<u>58,693</u>
Total assets	<u>109,414</u>	<u>96,887</u>
Liabilities and Net Assets		
Current liabilities	<u>3,250</u>	<u>3,343</u>
Investment in capital assets	54,143	58,693
Unrestricted	<u>52,021</u>	<u>34,851</u>
Total net position	<u>\$ 106,164</u>	<u>\$ 93,544</u>

Revenues and Expenses for the period ending December 31.

	<u>2012</u>	<u>2011</u>
Revenues		
Operating Revenues:		
Charges for services	\$ 71,872	\$ 71,452
Non Operating Revenues:		
Grant funds	25,728	-
Interest income	35	113
Total revenues	<u>97,635</u>	<u>71,565</u>
Expenses		
Operating Expenses:		
Water purchases	37,248	33,505
Salaries	25,554	24,810
Office Supplies	3,036	3,078
Insurance	4,438	4,180
Sales tax	186	172
School tax	2,151	2,105
Miscellaneous	250	265
Legal and accounting	2,700	2,700
Repairs and maintenance	980	1,639
Contract labor	1,775	1,350
Water testing	38	768
Depreciation	4,549	4,549
Payroll tax	1,985	2,089
Other tax and licenses	125	108
Total operating expenses	<u>85,015</u>	<u>81,318</u>
Net income (loss)	12,620	(9,753)
Net position, beginning of year	<u>93,544</u>	<u>103,297</u>
Net position, end of year	<u>\$ 106,164</u>	<u>\$ 93,544</u>

BUDGETS

No budgetary information is presented in this report as the Water District is not legally required to adopt a budget.

Questions regarding this report should be directed to Darrell Beane, Treasurer (270) 435-4420 or to Dana Beane, Office Manager, (270) 435-4420 or by mail at P.O. Box 643, Murray, Kentucky, 42071

BASIC FINANCIAL STATEMENTS

MURRAY NO. 3 WATER DISTRICT
STATEMENT OF NET POSITION
December 31, 2012 and 2011

	2012	2011
Assets		
Current assets		
Cash and cash equivalents	\$ 4,255	\$ 6,618
Certificates of deposit	16,599	22,589
Accounts receivable	6,473	6,778
Material and supplies	25,728	-
Prepaid expenses	2,215	2,209
Total current assets	55,270	38,194
Noncurrent assets		
Water plant in service	229,083	229,083
Land and land rights	4,663	4,663
Accumulated depreciation	(179,602)	(175,053)
Total noncurrent assets	54,144	58,693
 Total assets	 109,414	 96,887
Liabilities		
Current liabilities		
Accounts payable	2,476	2,474
Accrued liabilities	774	869
Total current liabilities	3,250	3,343
 Total liabilities	 3,250	 3,343
Net Position		
Invested in capital assets	54,144	58,693
Unrestricted	52,020	34,851
Total net position	\$ 106,164	\$ 93,544

See accompanying notes and accountant's review report.

MURRAY NO. 3 WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating Revenues		
Charges for services	\$ 71,872	\$ 71,452
Operating Expenses		
Water purchased	37,248	33,505
Salaries	25,554	24,810
Office supplies	3,036	3,078
Insurance	4,438	4,180
Sales tax	186	172
School tax	2,151	2,105
Miscellaneous	250	265
Legal and accounting	2,700	2,700
Repairs and maintenance	980	1,639
Contract labor	1,775	1,350
Water testing	38	768
Payroll tax	1,985	2,089
Depreciation	4,549	4,549
Other tax and license	125	108
Total operating expenses	<u>85,015</u>	<u>81,318</u>
Operating loss	<u>(13,143)</u>	<u>(9,866)</u>
Non-Operating Revenues		
Interest income	<u>35</u>	<u>113</u>
Capital Contributions		
Grant funds	<u>25,728</u>	<u>-</u>
Change in net position	12,620	(9,753)
Total net position, beginning of year	<u>93,544</u>	<u>103,297</u>
Total net position, end of year	<u>\$ 106,164</u>	<u>\$ 93,544</u>

See accompanying notes and accountant's review report.

MURRAY NO. 3 WATER DISTRICT
STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2012 and 2011

	2012	2011
Cash Flows from Operating Activities		
Cash received from customers	\$ 69,827	\$ 68,340
Cash paid to suppliers	(76,296)	(47,961)
Cash paid to employees	(27,622)	(26,913)
Net cash used by operating activities	(34,091)	(6,534)
Cash Flows from Investing Activities		
Proceeds from maturities of certificates of deposit	6,000	4,000
Cash Flows from Investing Activities		
Grant funds received	25,728	-
Net decrease in cash and cash equivalents	(2,363)	(2,534)
Cash and cash equivalents, beginning of year	6,618	9,152
Cash and cash equivalents, end of year	\$ 4,255	\$ 6,618
Reconciliation of Operating Loss to Net Cash Used by Operating Activities		
Operating loss	\$ (13,143)	\$ (9,866)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation	4,549	4,549
Noncash penalty	25	-
(Increase) decrease in certain assets:		
Accounts receivable	305	(827)
Materials and supplies	(25,728)	
Prepaid expenses	(6)	(264)
Increase (decrease) in certain liabilities:		
Accounts payable	2	(103)
Accrued expenses	(95)	(23)
Net cash used by operating activities	\$ (34,091)	\$ (6,534)

DISCLOSURE OF ACCOUNTING POLICY

For purposes of the statement of cash flows, the Water District considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

See accompanying notes and accountant's review report.

NOTES TO FINANCIAL STATEMENTS

**MURRAY NO. 3 WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS**

December 31, 2012 and 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

The Murray No. 3 Water District was created in 1965 under the provision of Chapter 74 of the Kentucky Revised Statutes for the purpose of providing water services to the general public on a continuing basis with operations being financed primarily through user charges. The District is governed by a Board of Commissioners who are appointed by the Calloway County Fiscal Court and reports to the Public Service Commission of the Commonwealth of Kentucky. The District is exempt from Federal income taxes under Internal Revenue Code Section 115.

B. Basis of Accounting

The District is presented as an enterprise fund. The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, deferred outflows of resources, liabilities, and deferred inflows of resources resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Grants and similar items are recognized as soon as all eligibility requirements imposed by the provider have been met.

The District applies all GASB pronouncements to proprietary funds as well as the FASB pronouncements issued on or after November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Enterprise funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating revenues of the District are charges to customers for water services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

C. Use of Restricted/Unrestricted Resources

When an expense is incurred for purposes for which both restricted and unrestricted resources are available, the District's policy is to apply restricted resources first. The District had no restricted balances at December 31, 2012 and 2011.

D. Material and Supplies

The District received a grant from the Kentucky Infrastructure Authority, \$25,698 and the City of Murray, \$30 to purchase new water meters. The meters are included in inventory before installation. Inventories consist of materials and supplies and are stated at cost which is determined by the first-in, first-out method. Inventory at December 31, 2012 and 2011 totaled \$25,728 and 0, respectively.

E. Water Plant in Service

Water plant in service is stated on the basis of cost. The District maintains a capitalization threshold of \$1,000. The provision for depreciation is computed by the straight-line method, using the

**MURRAY NO. 3 WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS**

December 31, 2012 and 2011

applicable useful life. The cost of maintenance and repairs is charged to income as incurred; significant betterments are capitalized.

Capital assets are depreciated over the following useful lives:

Buildings	50 years
Furniture and equipment	5 to 10 years

F. Land and Land Rights

Land and land rights are stated on the basis of cost.

G. Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

H. Deferred Outflows and Inflows of Resources

During the year ended December 31, 2012 the District adopted the provisions of GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. The objective of the statement is to provide financial reporting guidance for deferred outflows of resources and deferred inflows of resources. The District has no deferred outflows or inflows of resources at December 31, 2012.

I. Subsequent Events

Management has evaluated subsequent events through February 28, 2013, the date on which the financial statements were available to be issued.

NOTE 2 – DETAILED NOTES ON ACCOUNTS

A. Capital Assets

Capital assets are summarized below:

Asset Description	Balance December 31, 2012	Balance December 31, 2011
Non-depreciable:		
Land and land rights	\$ 4,663	\$ 4,663
Depreciable:		
Structures and improvement	6,633	6,633
Pumping equipment	8,485	8,485
Distribution reservoirs and standpipes	47,837	47,837
Transmission and distribution mains	138,622	138,622

**MURRAY NO. 3 WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS**

December 31, 2012 and 2011

<u>Asset Description</u>	<u>Balance December 31, 2012</u>	<u>Balance December 31, 2011</u>
Services	7,447	7,447
Meter and meter installations	14,917	14,917
Hydrants	3,507	3,507
Other plant and miscellaneous equipment	<u>1,635</u>	<u>1,635</u>
Total	229,083	229,083
Less allowance for depreciation	<u>179,602</u>	<u>175,053</u>
Total	<u>49,481</u>	<u>54,030</u>
Capital Assets, net	<u>\$ 54,144</u>	<u>\$ 58,693</u>

There were no additions or retirements for 2012 and 2011, respectively. Depreciation charged to income was \$4,549 at December 31, 2012 and 2011.

B. Concentrations of Credit Risk

Financial instruments that potentially subject the District to concentrations of credit risk consist principally of temporary cash investments and trade accounts receivables.

The District maintains its cash balances in one financial institution located in Kentucky. The balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. At December 31, 2012 and 2011, the District had no uninsured cash balances.

Concentrations of credit with respect to trade receivables are limited due to the large number of customers comprising the District's customer base and their dispersion across different industries and geographic locations. As of December 31, 2012 and 2011 the District had no significant concentrations of credit risk with respect to trade receivables.

C. Water Purchases

The District purchases all of its water from Murray Municipal Utilities, a component of the City of Murray, Kentucky. The District pays Murray Municipal Utilities a rate based on water usage each month.

D. Budget

The District is not legally required to adopt a budget. Consequently, no budgetary information is presented.