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DAMON R. TALLEY

ATTORNEY AT LAW

April 20, 2007

Ms. Beth O'Donnell
Executive Director
Public Service Commission
PO Box 615
Frankfort, KY 40602

RECEIVED

APR 20 2007

PUBLIC SERVICE
COMMISSION

RE: Muhlenberg County Water District

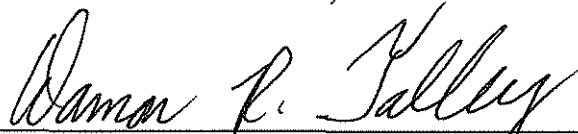
Dear Ms. O'Donnell;

Case No. 7007-00163

Enclosed are the original and ten (10) copies of the Application of the Muhlenberg County Water District to issue securities pursuant to KRS 278.300.

Should you need any additional information, please let me know.

Yours truly,
DAMON R. TALLEY, P.S.C.



DAMON R. TALLEY, ATTORNEY FOR
MUHLENBERG COUNTY WATER
DISTRICT

DRT:ms
Enclosures
cc: Muhlenberg County Water District

7/MCWD/O'Donnell 04-20-07

RECEIVED

APR 20 2007

PUBLIC SERVICE
COMMISSION

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

THE APPLICATION OF THE MUHLENBERG)
 COUNTY WATER DISTRICT TO ISSUE) CASE NO. 2007-00163
 SECURITIES IN THE APPROXIMATE)
 PRINCIPAL AMOUNT OF \$1,897,000)
 PURSUANT TO THE PROVISIONS OF)
 KRS 278.300 and 807 KAR 5:001.)

*** ** *** ** *** ** *** ** ***

APPLICATION

The Applicant, MUHLENBERG COUNTY WATER DISTRICT, situated in Muhlenberg County, Kentucky (the "District"), acting by and through its Board of Commissioners, respectfully tenders this Petition and Application, pursuant to KRS 278.300, 807 KAR 5:001, and all other applicable laws and regulations, and requests that the Public Service Commission of Kentucky (the "Commission") enter an Order authorizing the District to issue certain securities in the approximate principal amount of \$1,897,000 for the purpose of refinancing short term debt and converting it to long term debt. In support of this Petition and Application, and in conformity with the rules of the Commission, the District states as follows:

1. The District was established by Order of the County Court of Muhlenberg County, Kentucky entered under date of July 24, 1962, pursuant to the provisions of KRS 74.010. The District is now, and has been since its inception, regulated by the Commission, and all records and proceedings of the Commission with reference to the District are incorporated in this Application by reference.

2. The governing body of the District is its Board of Commissioners, which is a public body corporate, with power to make contracts in furtherance of its lawful and proper purposes as provided in KRS 74.070 and all other applicable laws.

3. The mailing address of the District is as follows:

Muhlenberg County Water District
301 Dean Road
P.O. Box 348
Greenville, Kentucky 42345
Attn: Tommy Woodruff, Superintendent
Telephone: (270) 338-1300

4. A general description of the District's water system property, together with a statement of the original cost, is contained in the District's Annual Report for 2005 which is on file with the Commission. The Annual Report is incorporated herein by reference.

5. The District proposes to issue new securities, to be evidenced by a Loan Agreement and Note to the Kentucky Rural Water Finance Corporation (the

“2007 Notes”) in the approximate principal amount of \$1,897,000 (subject to adjustment of up to 10%) for the purpose of refinancing the District’s 2007 short term loan in the principal amount of \$1,790,000 which was incurred on January 31, 2007 and matures on August 1, 2007 (the “2007 Loan”).

6. The 2007 Loan, sometimes referred to as the “Series 2007B Note”, refinanced the District’s 2006 short term loan in the principal amount of \$1,750,000 which was incurred on August 1, 2006 and matured on February 1, 2007 (the “2006 Loan”).

7. The 2006 Loan refinanced a short-term loan with the Old National Bank and refunded the District’s 2005 Loan with the Kentucky Rural Water Finance Corporation. The proceeds from both the 2005 Loan and the Old National Bank Loan were used to pay for various water system improvement projects which have been constructed by the District and already placed in service, capitalized interest, and other fees and expenses incident to the issuance of those loans.

8. The estimated Debt Service Schedule for the proposed 2007 Notes is shown in **Exhibit 1**, which is attached hereto and incorporated herein by reference. **Exhibit 1** also shows the anticipated coupon rate for each maturity and the anticipated average coupon rate. The Debt Service Schedule (**Exhibit 1**) is subject to change because of market conditions. The final terms and details of the 2007

Notes may vary from the present assumptions based upon market conditions and other business judgment factors. The 2007 Notes will be sold pursuant to public advertisement soliciting competitive bids according to Kentucky law.

9. As shown in **Exhibit 1**, the proposed 2007 Notes will have a 20 year term with interest rates varying from **4.50%** to **5.00%**.

10. The issuance of the 2007 Notes will provide the District with the funds necessary to allow it to refinance the 2007 Loan referred to in paragraph 5, including accrued interest, and to pay the fees and expenses incident to the issuance of the 2007 Notes.

11. The Sources and Uses of the funds to be obtained from the issuance of the 2007 Notes are detailed in **Exhibit 2**, which is attached hereto and incorporated herein by reference.

12. The District represents that the issuance of the 2007 Notes will be in the public interest and is intended to accomplish the purpose of strengthening the financial condition of the District by converting short term debt to long term debt. This is a lawful object within the corporate purposes of the District's utility operations. The issuance of the 2007 Notes is necessary, appropriate for, and consistent with the proper performance by the District of its service to the public and will not impair its ability to perform that service.

13. The District represents that it will, as soon as reasonably possible after the issuance of the 2007 Notes, file with the Commission a statement setting forth the date of issuance of the 2007 Notes, the price paid, the fees and expenses incurred in the issuance of the 2007 Notes, and the terms and interest rates of the 2007 Notes.

14. The detailed Income Statement and Balance Sheet for the twelve (12) month period ending on December 31, 2005 are attached hereto and incorporated herein by reference as **Exhibits 3 and 4** respectively.

15. The remaining financial schedules and other information necessary for the Financial Exhibit required by 807 KAR 5:001, Section 6 and Section 11(2)(a) are contained in the 2005 Annual Report which is on file with the Commission. The 2005 Annual Report is incorporated herein by reference. The 2006 Annual Report is scheduled to be completed, and will be filed with the Commission, on or before April 30, 2007.

16. Pursuant to KAR 5:001, the District hereby states as follows:

- A. Section 6(4) Mortgages: The District does not have any mortgages in effect as of the date hereof;
- B. Section 6(5) Bonds: The 2007 Notes will be secured by a pledge of the revenues of the District's System;
- C. Section 11(2)(b): The District does not have any trust deeds in effect as of the date hereof; and

D. Section 11(2)(c): No property is being acquired as the proceeds of the securities are being used for the purpose of refunding the 2007 Loan.

17. A copy of the District's audited financial statements for the year ended December 31, 2005 is attached hereto and incorporated herein by reference as **Exhibit 5**.

18. The District hereby requests and moves for a deviation, pursuant to 807 KAR 5:001, Section 14, from the requirements of 807 KAR 5:001, Section 6, which requires that the financial data filed with the Application be for a twelve (12) month period ending within ninety (90) days of the filing of the Application. The District states that there has been no material change in the financial condition or operation of the District since December 31, 2005. The financial data filed with this Application is for the twelve (12) month period ending December 31, 2005. This is the most recent published financial data available. The District will provide the audit for the year ending 2006 as soon as it has been completed by the auditor.

19. The sale of the proposed 2007 Notes is scheduled for July 3, 2007, and the closing is scheduled for **July 17, 2007**. The closing must take place prior to August 1, 2007, which is the maturity date of the 2007 Loan which is being refinanced by the 2007 Notes. Otherwise, the District will, once again, be forced to secure short term financing.

20. The District currently has a rate adjustment case pending before the Commission (PSC Case No. 2006-00248). The District's requested revenue requirements in Case No. 2006-00248 include the annual debt service that will be incurred by the District upon the issuance of the 2007 Notes. If the Commission grants the requested rate adjustment in Case No. 2006-00248, then no additional rate adjustment will be necessary.

WHEREFORE, the District respectfully requests that the Commission take the following actions:

1. Place this Application to issue securities at the head of the docket as provided by KRS 278.300 (2);
2. Authorize the issuance of the securities requested in the Application prior to the proposed closing date of **July 17, 2007**;
3. Grant the District a deviation, to the extent necessary, from 807 KAR 5:001, Section 6 to allow the submission of the District's 2005 Annual Report in lieu of more recent financial data; and
4. Process this Application without a formal hearing in order to save time and expense. The District will promptly respond to any inquiries or information requests by the Commission's staff.

This 19th day of April, 2007.

Respectfully submitted,

**MUHLENBERG COUNTY WATER
DISTRICT**



**DAMON R. TALLEY
P. O. BOX 150
HODGENVILLE, KY 42748
(270) 358-3187
FAX: (270) 358-9560
COUNSEL FOR THE DISTRICT**

VERIFICATION

I, **BOBBY G. CREAGER**, being first duly sworn according to law, state that I am Chairman of the Board of Commissioners of the **MUHLENBERG COUNTY WATER DISTRICT**; that I have read the foregoing Petition and Application and noted the contents thereof; and that the statements of fact set forth therein are true and accurate to the best of my knowledge and belief.

WITNESS my signature this 19th day of ~~February~~ ^{April}, 2007.




BOBBY G. CREAGER, CHAIRMAN

STATE OF KENTUCKY

COUNTY OF MUHLENBERG

SUBSCRIBED AND SWORN TO before me this 19th day of ~~February~~ ^{April}, 2007, by **BOBBY G. CREAGER** in his capacity as Chairman of the Board of Commissioners of the **MUHLENBERG COUNTY WATER DISTRICT**.



NOTARY PUBLIC, State at Large

MY COMMISSION EXPIRES: 6-9-07

\$1,897,000
Muhlenberg County Water District
Kentucky Rural Water Finance Corporation
Long-Term Issuance - Payoff of Series 2007 B Note

EXHIBIT 1

Net Debt Service Schedule

Year end	Principal	Coupon	Interest	Total P+I	Trustee	Net New D/S
12/30/2007	-	-	-	-	450.00	450.00
12/30/2008	63,000.00	4.500%	86,585.28	149,585.28	450.00	150,035.28
12/30/2009	62,000.00	4.500%	87,777.50	149,777.50	450.00	150,227.50
12/30/2010	65,000.00	4.500%	84,987.50	149,987.50	450.00	150,437.50
12/30/2011	68,000.00	4.500%	82,062.50	150,062.50	450.00	150,512.50
12/30/2012	71,000.00	4.500%	79,002.50	150,002.50	450.00	150,452.50
12/30/2013	74,000.00	4.750%	75,807.50	149,807.50	450.00	150,257.50
12/30/2014	78,000.00	4.750%	72,292.50	150,292.50	450.00	150,742.50
12/30/2015	81,000.00	4.750%	68,587.50	149,587.50	450.00	150,037.50
12/30/2016	85,000.00	4.750%	64,740.00	149,740.00	450.00	150,190.00
12/30/2017	89,000.00	4.750%	60,702.50	149,702.50	450.00	150,152.50
12/30/2018	93,000.00	4.750%	56,475.00	149,475.00	450.00	149,925.00
12/30/2019	98,000.00	4.750%	52,057.50	150,057.50	450.00	150,507.50
12/30/2020	102,000.00	4.750%	47,402.50	149,402.50	450.00	149,852.50
12/30/2021	107,000.00	4.750%	42,557.50	149,557.50	450.00	150,007.50
12/30/2022	112,000.00	4.750%	37,475.00	149,475.00	450.00	149,925.00
12/30/2023	118,000.00	4.750%	32,155.00	150,155.00	450.00	150,605.00
12/30/2024	123,000.00	5.000%	26,550.00	149,550.00	450.00	150,000.00
12/30/2025	129,000.00	5.000%	20,400.00	149,400.00	450.00	149,850.00
12/30/2026	136,000.00	5.000%	13,950.00	149,950.00	450.00	150,400.00
12/30/2027	143,000.00	5.000%	7,150.00	150,150.00	450.00	150,600.00
Total	\$1,897,000.00	-	\$1,098,717.78	\$2,995,717.78	\$9,450.00	\$3,005,167.78

\$1,897,000

Preliminary

Muhlenberg County Water District

EXHIBIT 1

Kentucky Rural Water Finance Corporation - Long-Term Issuance - Payoff of Series 2007 B Note

Page 2

Debt Service Schedule

Date	Principal	Coupon	Interest	Total P+I	Fiscal Total
07/17/2007	-	-	-	-	-
01/01/2008	-	-	41,279.03	41,279.03	-
07/01/2008	63,000.00	4.500%	45,306.25	108,306.25	-
12/30/2008	-	-	-	-	149,585.28
01/01/2009	-	-	43,888.75	43,888.75	-
07/01/2009	62,000.00	4.500%	43,888.75	105,888.75	-
12/30/2009	-	-	-	-	149,777.50
01/01/2010	-	-	42,493.75	42,493.75	-
07/01/2010	65,000.00	4.500%	42,493.75	107,493.75	-
12/30/2010	-	-	-	-	149,987.50
01/01/2011	-	-	41,031.25	41,031.25	-
07/01/2011	68,000.00	4.500%	41,031.25	109,031.25	-
12/30/2011	-	-	-	-	150,062.50
01/01/2012	-	-	39,501.25	39,501.25	-
07/01/2012	71,000.00	4.500%	39,501.25	110,501.25	-
12/30/2012	-	-	-	-	150,002.50
01/01/2013	-	-	37,903.75	37,903.75	-
07/01/2013	74,000.00	4.750%	37,903.75	111,903.75	-
12/30/2013	-	-	-	-	149,807.50
01/01/2014	-	-	36,146.25	36,146.25	-
07/01/2014	78,000.00	4.750%	36,146.25	114,146.25	-
12/30/2014	-	-	-	-	150,292.50
01/01/2015	-	-	34,293.75	34,293.75	-
07/01/2015	81,000.00	4.750%	34,293.75	115,293.75	-
12/30/2015	-	-	-	-	149,587.50
01/01/2016	-	-	32,370.00	32,370.00	-
07/01/2016	85,000.00	4.750%	32,370.00	117,370.00	-
12/30/2016	-	-	-	-	149,740.00
01/01/2017	-	-	30,351.25	30,351.25	-
07/01/2017	89,000.00	4.750%	30,351.25	119,351.25	-
12/30/2017	-	-	-	-	149,702.50
01/01/2018	-	-	28,237.50	28,237.50	-
07/01/2018	93,000.00	4.750%	28,237.50	121,237.50	-
12/30/2018	-	-	-	-	149,475.00
01/01/2019	-	-	26,028.75	26,028.75	-
07/01/2019	98,000.00	4.750%	26,028.75	124,028.75	-
12/30/2019	-	-	-	-	150,057.50
01/01/2020	-	-	23,701.25	23,701.25	-
07/01/2020	102,000.00	4.750%	23,701.25	125,701.25	-
12/30/2020	-	-	-	-	149,402.50
01/01/2021	-	-	21,278.75	21,278.75	-
07/01/2021	107,000.00	4.750%	21,278.75	128,278.75	-
12/30/2021	-	-	-	-	149,557.50
01/01/2022	-	-	18,737.50	18,737.50	-
07/01/2022	112,000.00	4.750%	18,737.50	130,737.50	-
12/30/2022	-	-	-	-	149,475.00
01/01/2023	-	-	16,077.50	16,077.50	-
07/01/2023	118,000.00	4.750%	16,077.50	134,077.50	-
12/30/2023	-	-	-	-	150,155.00
01/01/2024	-	-	13,275.00	13,275.00	-
07/01/2024	123,000.00	5.000%	13,275.00	136,275.00	-
12/30/2024	-	-	-	-	149,550.00
01/01/2025	-	-	10,200.00	10,200.00	-
07/01/2025	129,000.00	5.000%	10,200.00	139,200.00	-
12/30/2025	-	-	-	-	149,400.00
01/01/2026	-	-	6,975.00	6,975.00	-
07/01/2026	136,000.00	5.000%	6,975.00	142,975.00	-
12/30/2026	-	-	-	-	149,950.00
01/01/2027	-	-	3,575.00	3,575.00	-
07/01/2027	143,000.00	5.000%	3,575.00	146,575.00	-
12/30/2027	-	-	-	-	150,150.00
Total	\$1,897,000.00	-	\$1,098,717.78	\$2,995,717.78	-

Yield Statistics

Bond Year Dollars.....	\$22,665.69
Average Life.....	11.948 Years
Average Coupon.....	4.8474934%
Net Interest Cost (NIC).....	4.9730356%
True Interest Cost (TIC).....	5.0127234%
Bond Yield for Arbitrage Purposes.....	4.9231018%
All Inclusive Cost (AIC).....	5.3175344%
IRS Form 8058	
Net Interest Cost.....	4.8853908%
Weighted Average Maturity.....	11.923 Years

\$1,897,000

*Muhlenberg County Water District
Kentucky Rural Water Finance Corporation
Long-Term Issuance - Payoff of Series 2007 B Note*

EXHIBIT 2

Sources & Uses

Dated 07/17/2007 | Delivered 07/17/2007

Sources Of Funds

Par Amount of Bonds.....	\$1,897,000.00
Total Sources.....	\$1,897,000.00

Uses Of Funds

Original Issue Discount (OID).....	3,944.94
Total Underwriter's Discount (1.292%).....	24,510.06
Costs of Issuance.....	31,903.50
Gross Bond Insurance Premium (34.0 bp).....	10,185.44
Payoff of Series 2007 B Note.....	1,825,998.89
Rounding Amount.....	457.17
Total Uses.....	\$1,897,000.00

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EXHIBIT 3

MUHLENBERG COUNTY WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2005

	<u>2005</u>
<u>Operating Revenues</u>	
Water revenues	\$ 2,186,516
Other	70,127
Total Operating Revenues	<u>2,256,643</u>
<u>Operating Expenses</u>	
Administrative and general expenses	657,628
Source of supply purchases	631,849
Transmission and distribution expenses	373,979
Depreciation	280,781
Customer accounts expenses	112,978
Pumping expenses	66,478
Payroll and other taxes	48,555
Water treatment	8,703
Total Operating Expenses	<u>2,180,951</u>
<u>Operating Income</u>	<u>75,692</u>
<u>Nonoperating Revenues (Expenses)</u>	
Interest revenue	70,248
Interest on debt	(136,731)
Amortization	(29,584)
Other Interest expense	(680)
Total Nonoperating Revenue (Expenses)	<u>(96,747)</u>
<u>Net Loss before Capital Contributions</u>	<u>(21,055)</u>
<u>Capital Contributions</u>	<u>390,916</u>
<u>Change in Net Assets</u>	<u>369,861</u>
<u>Net Assets at Beginning of Year</u>	<u>4,071,191</u>
<u>Net Assets at End of Year</u>	<u>\$ 4,441,052</u>

See notes to financial statements

EXHIBIT 4

MUHLENBERG COUNTY WATER DISTRICT
STATEMENT OF NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2005

ASSETS

<u>Assets</u>	<u>2005</u>
Cash and cash equivalents	\$ 110,100
Customer accounts receivable (net)	180,011
Unbilled revenue	110,114
Other Receivables	13,278
Prepayments	10,918
Inventory	54,026
Restricted assets:	
Cash and cash equivalents	350,281
Investments	620,623
Capital assets, net of depreciation	7,374,823
Deferred charges	80,725
Total Assets	<u>8,904,899</u>

LIABILITIES

<u>Liabilities</u>	
Trade accounts payable	83,555
Construction accounts payable	134,921
Accrued liabilities	30,089
Accrued interest on debt	55,286
Customers' deposits	144,830
Short term debt	1,174,500
Long-term debt due in one year	160,000
Noncurrent liabilities:	
Long-term debt due after one year	2,680,666
Total Liabilities	<u>4,463,847</u>

NET ASSETS

<u>Net Assets</u>	
Invested in capital assets, net of related debt	3,518,998
Restricted for:	
Debt Service	666,837
Unrestricted	255,217
Total Net Assets	<u>\$ 4,441,052</u>

See notes to financial statements

MUHLENBERG COUNTY WATER DISTRICT

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2005

MUHLENBERG COUNTY WATER DISTRICT

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2005

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INDEPENDENT AUDITOR'S REPORT

Mr. Bobby Creager, Chairman
and the Board of Commissioners
Muhlenberg County Water District,
Greenville, Kentucky

We have audited the accompanying financial statements of the Muhlenberg County Water District as of and for the year ended December 31, 2005. These financial statements are the responsibility of the Muhlenberg County Water District's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Muhlenberg County Water District as of December 31, 2004, were audited by other auditors whose report dated July 31, 2005, expressed an unqualified opinion on those statements.

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 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 opinion.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Muhlenberg County Water District for the year ended December 31, 2005, and the results of its operations and cash flows for the period then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 15, 2006 on our consideration of the Muhlenberg County Water District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Madisonville, Kentucky
May 15, 2006

**MUHLENBERG COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
(UNAUDITED)**

As management of the Muhlenberg 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, 2005. For the year ended December 31, 2005, the Muhlenberg County Water District has prepared the financial statements based on the guidelines provided in Governmental Accounting Standards Board (GASB) Statement No. 34.

FINANCIAL HIGHLIGHTS

- The assets of the Muhlenberg County Water District exceeded its liabilities at the close of the 2005 year by \$4,441,052 (Net assets). Of this amount, \$255,217 (unrestricted net assets) may be used to meet the district's ongoing obligations to citizens and creditors in accordance with the District's fund designation and fiscal policies.
- The District's total net assets increased by \$742,290. Normal operating and nonoperating activities decreased the District's net assets by \$21,055. Capital contributions of \$390,916 and prior period adjustments of \$372,429 increased net assets.
- The District's total long-term bond and note liability increased by \$206,834 from the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of: 1) the basic financial statements, and 2) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Basic financial statements – The basic financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to private-sector business.

The Statement of Net Assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Net Assets presents information showing how the District's net assets changed during the year. All changes in net assets are reported when 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 the future fiscal periods (e.g., earned but unused compensated absences).

The Statement of Cash Flows include information on the District's cash receipts and payments and the changes in cash balances resulting from operating activities, investing activities and financing activities.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 10-20.

DISTRICT FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$4,441,052 as of December 31, 2005.

MUHLENBERG COUNTY WATER DISTRICT'S NET ASSETS

	2005
Current and other assets	\$ 1,530,076
Capital assets	<u>7,374,823</u>
Total Assets	<u>8,904,899</u>
Current and other liabilities	1,783,181
Long-term liabilities	<u>2,680,666</u>
Total Liabilities	<u>4,463,847</u>
Net Assets:	
Invested in capital assets	
net of related debt	3,518,998
Restricted	666,837
Unrestricted	<u>255,217</u>
Total Net Assets	<u>\$ 4,441,052</u>

The largest portion of the District's net assets (79%) reflects its investments in capital assets (e.g., land and construction in progress, buildings, plants and facilities, machinery and equipment, system studies and mapping and infrastructure), less any debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the District's net assets (15%) represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets \$255,217 may be used to meet the District's ongoing obligations to citizens and creditors.

As of December 31, 2005, the District is able to report positive balances in all three categories of net assets.

Analysis of the District's Operations – Overall the District had an increase in net assets of \$742,290. Prior period adjustments to previously issued financial statements represented \$372,429 of the increase and capital asset contributions were \$390,916.

The following table provides a summary of the District's operations for the year ended December 31, 2005.

**MUHLENBERGE COUNTY WATER DISTRICT
CHANGES IN NET ASSETS**

	2005
Operating Revenues:	
Metered water sales	\$ 2,082,952
Other sales	103,565
Other operating revenues	140,374
Capital grants and contributions	390,916
Total revenues	2,717,807
Expenses	
Transmission and distribution expenses	1,005,828
Administrative and general expenses	657,628
Depreciation and amortization	310,365
Interest on long-term debt	137,411
Customer accounts expenses	112,978
Pumping expenses	66,478
Payroll and other taxes	48,555
Water treatment	8,703
Total Expenses	2,347,946
Change in net assets	369,861
Net assets - January 1	4,071,191
Net assets - December 31	\$ 4,441,052

FINANCIAL ANALYSIS OF THE DISTRICT'S OPERATIONS

The following provides an explanation of revenues by source that changed significantly from the prior year:

- Operating revenues increased by \$75,151 or 3.33%.
- Capital contributions decreased by \$257,534.

The following provides an explanation of expenditures by function that changed significantly from the prior year:

- Transmission and distribution expenses decreased by \$27,948 due to a decrease in labor cost.
- Interest on long-term debt decreased by \$11,843 due to refinancing the 1995 bond issue.
- Customer accounts expenses decreased by \$11,880 due to a decrease in the labor cost.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets

The District's investment in capital assets for business-type activities as of December 31, 2005, amounts to \$7,374,823 (net of accumulated depreciation). This investment in capital assets includes land and construction in progress, buildings, plants and facilities, machinery and equipment, and infrastructure. The total increase in the District's net investment in capital assets for the fiscal year was 10.66%.

	<u>2005</u>
Business-type activities:	
Capital assets, not being depreciated:	
Land	\$ 30,752
Construction in progress	<u>1,431,539</u>
Total capital assets, not being depreciated	<u>1,462,291</u>
Capital assets, being depreciated:	
Plants and facilities	5,432,921
Buildings	378,280
Vehicles and equipment	81,991
Office furniture and equipment	<u>19,340</u>
Total capital assets, being depreciated	<u>5,912,532</u>
Business-type activities capital assets, net	<u>\$ 7,374,823</u>

Major capital asset transactions/events during the fiscal year included:

- Purchase of a vehicle for \$12,580.
- Line extensions for \$16,964.
- Completion of the Beech Creek Water Tank for \$584,324.

Additional information on the District's capital assets can be found in Note 4 of this report.

Long-term and other debt

At the end of the current year, the Muhlenberg County Water District had total debt of \$4,015,166. Debt incurred during the year of \$1,172,340 pertains to various new water line construction projects and new tank construction.

	<u>2005</u>
Revenue bonds payable	\$ 2,926,000
Notes payable	1,174,500
Capital lease obligation	70,000
Less deferred loss on early retirement	<u>(155,334)</u>
Total	<u><u>\$ 4,015,166</u></u>

Additional information on the District's long-term debt can be found in Notes 6 & 7 of this report.

REQUEST FOR INFORMATION

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the District's finances. If you have any questions about this report or need any additional information, contact the Office Manager, at P.O. Box 348, Greenville, Kentucky 42345 or call (270) 338-1300.

MUHLENBERG COUNTY WATER DISTRICT
STATEMENT OF NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2005

ASSETS

<u>Assets</u>	<u>2005</u>
Cash and cash equivalents	\$ 110,100
Customer accounts receivable (net)	180,011
Unbilled revenue	110,114
Other Receivables	13,278
Prepayments	10,918
Inventory	54,026
Restricted assets:	
Cash and cash equivalents	350,281
Investments	620,623
Capital assets, net of depreciation	7,374,823
Deferred charges	80,725
Total Assets	<u>8,904,899</u>

LIABILITIES

<u>Liabilities</u>	
Trade accounts payable	83,555
Construction accounts payable	134,921
Accrued liabilities	30,089
Accrued interest on debt	55,286
Customers' deposits	144,830
Short term debt	1,174,500
Long-term debt due in one year	160,000
Noncurrent liabilities:	
Long-term debt due after one year	2,680,666
Total Liabilities	<u>4,463,847</u>

NET ASSETS

<u>Net Assets</u>	
Invested in capital assets, net of related debt	3,518,998
Restricted for:	
Debt Service	666,837
Unrestricted	255,217
Total Net Assets	<u>\$ 4,441,052</u>

See notes to financial statements

MUHLENBERG COUNTY WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2005

	2005
<u>Operating Revenues</u>	
Water revenues	\$ 2,186,516
Other	70,127
Total Operating Revenues	2,256,643
 <u>Operating Expenses</u>	
Administrative and general expenses	657,628
Source of supply purchases	631,849
Transmission and distribution expenses	373,979
Depreciation	280,781
Customer accounts expenses	112,978
Pumping expenses	66,478
Payroll and other taxes	48,555
Water treatment	8,703
Total Operating Expenses	2,180,951
 <u>Operating Income</u>	75,692
 <u>Nonoperating Revenues (Expenses)</u>	
Interest revenue	70,248
Interest on debt	(136,731)
Amortization	(29,584)
Other Interest expense	(680)
Total Nonoperating Revenue (Expenses)	(96,747)
 <u>Net Loss before Capital Contributions</u>	(21,055)
 <u>Capital Contributions</u>	390,916
 <u>Change in Net Assets</u>	369,861
 <u>Net Assets at Beginning of Year</u>	4,071,191
 <u>Net Assets at End of Year</u>	\$ 4,441,052

See notes to financial statements

MUHLENBERG COUNTY WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2005

	2005
<u>Cash Flows From Operating Activities</u>	
Cash received from customers	\$ 2,269,633
Cash payments to suppliers for goods and services	(929,519)
Cash payments to employees for services	(919,705)
Net Cash Provided By Operating Activities	420,409
<u>Cash Flows From Capital and Related Financing Activities</u>	
Proceeds from issuance of debt	1,172,340
Principal paid on debt	(1,293,839)
Contributed capital	55,681
Acquisition of property, plant and equipment	(991,303)
Grants received	335,235
Bond Issuance costs	87,841
Bond issuance costs amortization	(29,584)
Interest paid on debt	(109,924)
Net Cash Used By Capital and Related Financing Activities	(773,553)
<u>Cash Flows From Investing Activities</u>	
Interest income received	70,248
Purchase of investments	(297,269)
Net Cash Used By Investing Activities	(227,021)
<u>Net Decrease in Cash and Cash Equivalents</u>	(580,165)
<u>Cash and Cash Equivalents at Beginning of Year</u>	1,040,546
<u>Cash and Cash Equivalents at End of Year</u>	\$ 460,381
<u>Reconciliation of Operating Income to Net Cash Provided</u>	
<u>By Operating Activities</u>	
Operating income	\$ 75,692
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	280,781
Provision for uncollectible accounts	8,247
Change in assets and liabilities:	
Decrease (increase) in accounts receivable	4,743
Decrease (increase) in inventory	2,998
Decrease (increase) in prepayments	(8,346)
Increase (decrease) in accounts payable	50,996
Increase (decrease) in customer deposits	9,090
Increase (decrease) in accrued liabilities	(3,792)
Net Cash Provided By Operating Activities	\$ 420,409

See notes to financial statements

MUHLENBERG COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Muhlenberg County Water District, (the District), was established under the provisions of Chapter 74 of the Kentucky Revised Statutes in July 1962. Actual operations began in December 1967. The Muhlenberg County Judge Executive appoints a three member commission that oversees the District's Water System which renders services based on user charges.

The financial statements of the District are prepared in accordance with Generally Accepted Accounting Principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental and financial reporting principles. The District has elected to implement the provisions of GASB Statement 20 with regard to the application of Financial Accounting Standards Board (FASB) pronouncements to its proprietary fund. In accordance with the provisions of GASB Statement 20, the District has elected to not apply those FASB statements and interpretations issued after November 30, 1989. The more significant of the government's accounting policies are described below.

Reporting Entity

The District, for financial purposes, includes all of the accounts relevant to the operations of the Muhlenberg County Water District owned water system in accordance with generally accepted accounting principles.

Basis of Presentation

The accounts of the District are organized in accordance with the uniform system of accounts adopted by the Public Service Commission of Kentucky. Those accounts are organized on the basis of a proprietary fund type, specifically an enterprise fund. The operations of each fund are summarized by providing a separate set of self balancing accounts which include its assets, liabilities, fund equity, revenues and expenses. The following funds are used by the District:

Proprietary Fund Types

Proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position and cash flow. All assets and liabilities are included on the Statement of Net Assets.

Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied. The accounting and financial statements for a proprietary fund are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and all liabilities (whether current or non-current) are included on the statement of net assets and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled water services which are accrued. Expenses are recognized at the time the liability is incurred.

Budgets

The District adopted a fixed budget for the fiscal year ended December 31, 2005. Flexible budgets prepared for several levels of possible activity are better for proprietary fund planning, control, and evaluation purposes than are fixed budgets. For this reason, actual comparison of the fixed operating

MUHLENBERG COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

budget adopted by the District and the actual operating revenues and expenses are not shown in these financial statements.

The District is required to follow budgetary guidelines established by the Public Service Commission and the Department of Rural Development. Those guidelines require:

- 1) The District to submit a proposed budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them for the upcoming year.
- 2) The District is required to submit a budget to the Department of Rural Development for each fiscal year as stipulated in the bond agreement.

For the year ended December 31, 2005, the District has complied with budgetary guidelines.

Cash Equivalents/ Investments

Cash and cash equivalents (certificates of deposit) are deposited with Old National Bank. District ordinances authorize the District to invest in obligations of the U.S. Government and its instrumentalities, mutual funds, repurchase agreements, and demand deposits. All investments must be purchased through brokers/dealers or deposited with local financial institutions.

For the purpose of the statement of cash flows, the District considers all cash in banks with stated maturities of three months or less or available for withdrawal by management to be cash and cash equivalents.

Compensated Absences

The District recognizes a liability for unpaid compensated absences arising from unpaid sick time in accordance with Governmental Accounting Standards Board (GASB) Statement 16. GASB Statement 16 requires employers to accrue a liability for future vacation; sick and other leave benefits that meet the following conditions:

- a) The employer's obligation relating to employees' rights to receive compensation for future absences is attributable to employees' services already rendered.
- b) The obligation relates to rights that vest or accumulate.
- c) Payment of the compensation is probable.
- d) The amount can be reasonably estimated.

Employees earn vacation leave on their hire date anniversary of each year. Employees hired during the first 6 months of any year will receive 5 days of vacation during the first year of employment and 10 days of vacation during the second year. Persons hired during the last 6 months of any year receive days on a prorated basis during the first year of employment. Vacation days after the second year of employment are earned as 10 days in the third to the fifth year, 15 days in the sixth through tenth year and 20 days after year ten. Vacation leave may not be carried forward from one year to the next. Each year employees receive 12 sick and/or personal days. Sick days may be carried forward into the next year if not used. Payment is made for any unused sick and personal leave upon

MUHLENBERG COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

resignation or retirement. Sick and personal leave benefits are limited to a maximum carryover of 50 days.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2005 are recorded as prepaid items.

Post Employment Benefits

Post employment benefits are those received by employees after termination of employment. The District provides no such benefits.

Capital Assets

Capital assets, which include property, plant and equipment, are stated at historical cost. Donated capital assets are stated at their fair market value on the date donated. Proprietary fund capital assets are recorded in the respective funds and depreciated using the straight line method. Estimated useful lives, in years, for depreciable assets are as follows:

Utility System	20 to 65 years
Furniture, Machinery and Equipment	5 to 10 years
Improvements	5 to 10 years
Vehicles	3 to 5 years

Allowance for Uncollectible Accounts

An allowance for uncollectible accounts has been provided based on prior years' loss experiences as a percentage of revenues billed. Based on past experience, management considers the allowance adequate to provide for any losses on collection of the December 31, 2005 accounts receivable.

Inventory

Inventories are stated at cost using the first-in first-out (FIFO) method. Inventory consists primarily of replacement parts and supplies.

Restricted Assets

The restricted assets have been handled in accordance with the provisions of the various enterprise fund revenue bond resolutions, loan resolutions, loan agreements, or by state or federal laws and regulations. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as needed. See Note 3 for information describing restricted assets.

Estimates

The preparation of the District's financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disaster. During the year ended December 31, 2005, the District contracted with commercial insurance carriers for coverage of all risks mentioned above. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years. There were no significant reductions in coverage

MUHLENBERG COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

during the past three years. As required by the Public Service Commission, detailed insurance coverage is presented as supplementary data.

Bond Discounts/Issuance Costs

Bond discounts and issuance costs on long-term debt are deferred and charged to interest expense over the terms of the related issues.

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 improvements of those assets, and adding back unspent debt proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

2. DEPOSITS AND INVESTMENTS

A. Net Assets

The captions on the statement of net assets for cash, investments and restricted assets enumerated as to deposits and investments and the amounts in total are as follows:

	Deposits	Investments	Total
Cash equivalents	\$ 110,100	\$ -	\$ 110,100
Restricted assets:			
Cash equivalents	350,281	-	350,281
Investments	323,354	297,269	620,623
Total	\$ 783,735	\$ 297,269	\$ 1,081,004

B. Deposits

At year-end, the carrying amount of the District's deposits in financial institutions was \$783,735 and the bank balances were \$828,154. Of the bank balance, \$100,000 of time and savings deposits and \$100,000 of in demand deposits was covered by federal depository insurance; with \$728,154 covered by collateral held by the pledging financial institution's agent or trust department in the District's name.

C. Investments

Interest Rate Risk

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

MUHLENBERG COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

Investments in corporate bonds have been limited to US Government Agency obligations that carry a superior credit rating. The value of the District's investment in external investment pools are not regulated by oversight agency. The other investments of the District are collateralized certificates of deposit (Section B above) or with mutual funds invested in direct obligations of the US Government and its instrumentalities.

Concentration of Credit Risk

The District does not place any limit on the amount that may be invested with one issuer. At December 31, 2005, the District had 52% of its investments in fully collateralized certificates of deposit; 41% were in mutual funds invested in direct obligations of the US Government and its instrumentalities; 7% was invested in a repurchase agreement.

Identification

At December 31, 2005, the District had the following investments:

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>
Certificates of Deposit:		
Old National Bank	3/1/2006	\$ 143,354
Old National Bank	6/1/2021	<u>180,000</u>
Total Certificates of Deposit		323,354
Mutual Funds:		
Federated Securities Trust Obligations	23 Days Average	252,306
Repurchase Agreement:		
Royal Bank of Canada - Master Repurchase Agreement	5/1/2006	<u>44,963</u>
Total Investments		<u><u>\$ 620,623</u></u>

3. **RESTRICTED NET ASSETS**

Debt Covenant Requirements

	<u>Depreciation Fund</u>	<u>Payment and Escrow Fund</u>
Cash equivalents	\$ 37,066	\$ 9,147
Investments:		
Certificates of deposit	323,354	-
Mutual funds	-	252,306
Repurchase agreement	<u>-</u>	<u>44,963</u>
Totals	<u><u>\$ 360,420</u></u>	<u><u>\$ 306,416</u></u>

Customer Meter Deposits

MUHLENBERG COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

Customer deposits for utility services are segregated and invested on a short-term basis. At December 31, 2005, customer deposits of \$144,726 were deposited in an interest bearing account in Old National Bank for the purpose of refunding customer deposits.

Construction

At December 31, 2005, the District had \$159,341 of monies restricted for the payment of ongoing construction projects.

4. CAPITAL ASSETS

A summary of proprietary fund property, plant and equipment at December 31, 2005 for business-type activities follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 28,652	\$ 2,100	\$ -	\$ 30,752
Construction in progress	1,076,562	945,191	(590,214)	1,431,539
Total capital assets, not being depreciated	<u>1,105,214</u>	<u>947,291</u>	<u>(590,214)</u>	<u>1,462,291</u>
Capital assets, being depreciated:				
Plants and facilities	8,833,157	613,476	-	9,446,633
Buildings	682,278	-	-	682,278
Vehicles and equipment	666,423	15,207	(9,470)	672,160
Office furniture and equipment	163,248	5,543	-	168,791
Total capital assets, being depreciated	<u>10,345,106</u>	<u>634,226</u>	<u>(9,470)</u>	<u>10,969,862</u>
Less accumulated depreciation for:				
Plants and facilities	(3,794,341)	(219,371)	-	(4,013,712)
Buildings	(283,126)	(20,872)	-	(303,998)
Vehicles and equipment	(562,167)	(37,472)	9,470	(590,169)
Office furniture and equipment	(146,385)	(3,066)	-	(149,451)
Total accumulated depreciation	<u>(4,786,019)</u>	<u>(280,781)</u>	<u>9,470</u>	<u>(5,057,330)</u>
Total capital assets, being depreciated, net	<u>5,559,087</u>	<u>353,445</u>	<u>-</u>	<u>5,912,532</u>
Business-type activities capital assets, net	<u>\$ 6,664,301</u>	<u>\$ 1,300,736</u>	<u>\$ (590,214)</u>	<u>\$ 7,374,823</u>

5. EMPLOYEES' RETIREMENT PLAN
County Employees Retirement System

1. Plan Description and Provisions

The District is a participant in the Commonwealth of Kentucky's County Employees' Retirement System (CERS). CERS is a multiple-employer, cost-sharing public employee retirement system which covers substantially all regular full-time employees of each county and school board and any additional eligible local agencies electing to participate in the System. The CERS is a defined benefit pension plan which also provides disability and death benefits to plan members. Cost of living adjustments are provided at the discretion of

MUHLENBERG COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

the Commonwealth's legislature. CERS is administered by Kentucky Retirement Systems Board of Trustees pursuant to KRS 78.510-78.852.

2. Contributions

Covered employees are required by state statute to contribute 5 percent of their annual creditable compensation to CERS. Employers are required by state statute (KRS 61.565) to contribute the remaining amounts necessary to pay benefits when due. These contribution rates are determined by the Board of Trustees of Kentucky Retirement Systems each biennium. For the year ended December 31, 2005, the employer contribution rate was 8.48% from January 1, through June 30, 2005 and 10.98% from July 1, through December 31, 2005, respectively, of members' compensation. Total contributions for the year ended December 31, 2005 of \$56,031 was 100% of the required contributions for the year.

An Annual Financial Report is prepared by the Kentucky Retirement Systems and contains financial statements and required supplementary information for the County Employees Retirement System. The financial report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601.

3. Postretirement Healthcare Benefits

In addition to the pension benefits described above, the Kentucky Retirement Systems (KRS) provides postretirement healthcare benefits, in accordance with Kentucky Revised Statutes. The Kentucky Retirement Systems Insurance Fund (Fund) was established to provide hospital and medical insurance for members receiving benefits from the Kentucky Employees Retirement System (KERS), the County Employees Retirement System (CERS), and the State Police Retirement System (SPRS). The Fund and members receiving benefits pay prescribed portions of the aggregate premiums paid by the Fund. For the year ended June 30, 2005 (the date of the latest available information), insurance premiums withheld from benefit payments to members of the CERS approximated \$23,110,726. As of June 30, 2005, the Fund had 69,266 CERS retirees and beneficiaries for whom benefits were available. The allocation of insurance premiums paid by the Fund and amounts withheld from member benefits is based on years of service with the Systems. For members participating prior to July 1, 2003, years of service and respective percentage of the maximum contribution are as follows:

<u>Years of Service</u>	<u>% Paid by Insurance Fund</u>
20 or more	100%
15 - 19	75%
10 - 14	50%
4 - 9	25%
Less than 4	0%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participating on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003 earn ten dollars (\$10) per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment (COLA), which is updated annually due to changes in the Consumer Price

MUHLENBERG COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

Index for all urban consumers. This benefit is not protected under the inviolable contract provision of Kentucky Revised Statute 16.652, 61.692 and 78.852. The General Assembly reserves the right to suspend or reduce this benefit if, in its judgment, the welfare of the Commonwealth so demands.

In prior years, the employers' required medical insurance contribution rate was being increased annually by a percentage that would result in advance-funding the medical liability on an actuarially determined basis using the entry age normal cost method within a 20 year period measured from 1987. In November 1992, the Board of Trustees adopted a fixed percentage contribution rate and suspended future increases under the current medical premium funding policy until the next experience study could be performed. In May 1996, the Board of Trustees adopted a policy to increase the insurance contribution rate by the amount needed to achieve the target rate for full entry age normal funding within twenty years.

6. DEBT OBLIGATIONS

Revenue Bonds Payable

<u>Description</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance 12/31/2005</u>	<u>Due in One Year</u>
Waterworks Refunding Bonds Series 2004-A	2.00% - 3.75%	2017	\$ 1,148,000	\$ 87,000
Waterworks Refunding Bonds Series 2004-D	3.00% - 4.13%	2021	<u>1,778,000</u>	<u>64,000</u>
Total			2,926,000	<u>\$ 151,000</u>
Less current portion			(151,000)	
Less deferred loss on early retirement of debt			<u>(155,334)</u>	
Long-term portion			<u>\$ 2,619,666</u>	

Series 2004-A

A bond issue dated March 24, 2004, authorized issuance of \$1,234,000 of refunding revenue bonds maturing in annual installment through 2017. Interest is paid semi-annually on February 1, and August 1, from 2.0% to 3.75% per annum and principal is payable annually on February 1.

Series 2004-D

A bond resolution dated October 19, 2004, authorized issuance of \$1,820,000 of refunding revenue bonds maturing in annual installments through 2021. Interest is paid semi-annually on February 1, and August 1, from 3.0% to 4.13% per annum and principal is payable annually on February 1. This issue refinanced the 1995 Series outstanding bonds.

MUHLENBERG COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

Principal and interest requirements of the revenue bonds payable as of December 31, 2005, are:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest & Fees</u>	<u>Total</u>
2006	\$ 151,000	\$ 95,972	\$ 246,972
2007	187,000	91,782	278,782
2008	193,000	86,817	279,817
2009	194,000	81,525	275,525
2010	200,000	75,944	275,944
2011	206,000	69,970	275,970
2012	213,000	63,479	276,479
2013	223,000	56,362	279,362
2014	233,000	48,325	281,325
2015	239,000	39,492	278,492
2016	253,000	30,140	283,140
2017	205,000	21,272	226,272
2018	151,000	14,229	165,229
2019	141,000	8,389	149,389
2020	68,000	4,209	72,209
2021	69,000	1,424	70,424
Total	<u>\$2,926,000</u>	<u>\$ 789,331</u>	<u>\$3,715,331</u>

KACO Capital Lease Obligation

During 1992, the District entered into a phase of construction to service an area known as "Forest Oak." The District received a Community Block Grant in the amount of \$153,770 and borrowed \$147,000 from the Kentucky Association of Counties Leasing Trust (KACO). These monies were remitted through the Muhlenberg County Fiscal Court. The interest rate on this obligation is 5.55% over a 20 year term.

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest & Fees</u>	<u>Total</u>
2006	\$ 9,000	\$ 4,030	\$ 13,030
2007	9,000	3,443	12,443
2008	9,000	2,856	11,856
2009	10,000	2,208	12,208
2010	10,000	1,556	11,556
2011	11,000	843	11,843
2012	12,000	65	12,065
Total	<u>\$ 70,000</u>	<u>\$ 15,001</u>	<u>\$ 85,001</u>

MUHLENBERG COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

7. NOTES PAYABLE

Old National Bank Line of Credit

The District established an operating line of credit agreement with Old National Bank in the amount of \$600,000 on February 18, 2005. During 2005, the District had drawn \$94,500 and at December 31, 2005, had an outstanding balance of \$94,500. The line of credit matures February 18, 2006 and accrues interest at 5.57% per annum.

Kentucky Rural Water Finance Corporation

The District entered into an agreement with the Kentucky Rural Water Finance Corporation on July 1, 2005, for the purpose of funding water system improvements in the amount of \$1,080,000. This obligation will be due on August 1, 2006 with interest at the rate of 3.15%.

8. COMMITMENTS

Purchase Contract

The District has a long-term contract with Central City Municipal Water and Sewer for the purchase of treated water. The contract for water was amended September 9, 1981, and is for a period of 50 years. There are no minimum payments required under the contract except for actual delivery and the rates are adjusted periodically.

The District purchased \$631,849 from Central City during the year ended December 31, 2005.

Wholesale Contract

The District sells water on a wholesale basis to the City of Drakesboro, Kentucky. The original October 1967 contract was amended in May 1997, to extend water sales to October 2047. The District has the authority by the Public Service Commission of Kentucky, to periodically adjust the rates charged to the City of Drakesboro. Total sales to the City of Drakesboro during the year ended December 31, 2005 were \$58,119.

9. PUBLIC SERVICE COMMISSION REGULATIONS

The District is required to file with the Public Service Commission (PSC) a report of its gross earnings or receipts derived from intra-state business for the preceding calendar year. The District has satisfied this requirement. The District has also filed the 2005 annual PSC Report as required. Further, the PSC requires that all customer deposit refunds be paid with interest. This requirement has been fulfilled.

10. LITIGATION

The District is not aware of any pending or threatened litigation in which it is involved which would have a material effect on these financial statements.

MUHLENBERG COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

11. PRIOR PERIOD ADJUSTMENTS

The December 31, 2004 beginning unrestricted net assets have been restated for the following corrections of errors:

		<u>Amounts</u>
Unrestricted net assets as of December 31, 2004:		\$ 78,935
Accrued compensated absences	\$ (33,881)	
Accrued interest earnings	7,388	
Unbilled revenue	132,670	
Accounts receivable - Metered water revenue	165,880	
Deferred loss on bond refinancing	<u>100,372</u>	
Net increase in unrestricted net assets		<u>372,429</u>
Unrestricted net assets as restated December 31, 2004		451,364
Other components of Net Assets as of December 31, 2004:		
Invested in capital assets, net of related debt		2,442,302
Restricted net assets		<u>1,177,525</u>
Total Net Assets restated as of December 31, 2004		<u><u>\$ 4,071,191</u></u>

SUPPLEMENTARY SCHEDULES

MUHLENBERG COUNTY WATER DISTRICT
SCHEDULE OF INSURANCE
FOR THE YEAR ENDED DECEMBER 31, 2005

Hamilton Mutual Insurance Company

Coverage period June 19, 2005 to June 19, 2006

Fire and lightning and extended coverage including vandalism and malicious mischief \$1,000 deductible; 80% co-insurance – includes earthquake \$50,000 mine subsidence

Description:	Coverage
Office Building	\$ 327,600
Office Contents of Building	102,010
Shop Building	87,360
Equipment & Garage Building	54,600
Water pump stations:	
Belton	56,112
Lake Malone	52,716
Stephen Meadows #2 & Weir	114,725
Powderly and Nebo	57,742
Central City, Cleaton/Powderly	108,438
TVA	54,600
Luzerne Lake, Depoy	67,513
Nelson	54,600
Dunmor	70,980
US Highway 431	369,000
Metal Water Tanks:	
123,000 gallon capacity, Lake Malone	134,316
70,000 gallon capacity, Weir	76,440
61,000 gallon capacity, Nelson	66,612
56,000 gallon capacity, Nebo	61,152
100,000 gallon capacity, Dunmor	109,200
500,000 gallon capacity, Powderly	546,000
250,000 gallon capacity, Depoy	273,000
250,000 gallon capacity, Beech Creek	273,000
500,000 gallon capacity, Cleaton	163,800
200,000 gallon capacity, TVA	218,400
91,000 gallon capacity, Belton	65,520
500,000 gallon capacity, Beech Creek #2	600,000

General Liability:

Products/Completed Operations Aggregate \$2,000,000
General Aggregate Limit \$2,000,000
Bodily Injury and property Damage \$1,000,000 each occurrence and aggregate
Premises medical payments \$5,000 each person
Fire Damage \$100,000; Crime \$10,000, \$250 deductible
Encroachment Bond \$5,000

MUHLENBERG COUNTY WATER DISTRICT
SCHEDULE OF INSURANCE
FOR THE YEAR ENDED DECEMBER 31, 2005

Business Automobile:

Liability \$1,000,000; Personal Injury Protection \$20,000; Uninsured Motorist \$60,000;
 Underinsured Motorists \$60,000; Comprehensive Actual Cash Value with \$100 deductible;
 Collision Actual Cash Value with \$500 deductible

Contractor's Equipment Floater – Broad Form:

\$1,000 per occurrence deductible with a \$338,818 catastrophe limit

Description:	Value	Deductible
Ditch Witch	\$ 58,251	\$ 1,000
John Deere Backhoe	58,500	1,000
24' X 8' Gooseneck Trailer	3,993	1,000
1998 Trailer	4,400	1,000
Tiller	1,550	1,000
Honda 4-Wheeler	6,949	1,000
Ditch Witch Earth Mover	7,500	1,000
John Deere Excavator	28,750	1,000
John Deere Riding Mower	1,799	1,000
Office Equipment	18,617	1,000
Dual Loader	2,650	1,000
Radio, Telemetry Equipment	141,000	1,000
1995 Ford Tractor	17,336	1,000

Comprehensive Crime Insurance:

Loss Inside of Premises \$10,000; Loss Outside of Premises \$10,000

Kentucky Employers Mutual Insurance

Workers compensation and employers liability \$500,000/\$500,000/\$500,000

The First Reinsurance Company

Public Officials Liability \$1,000,000

Ohio Casualty Group

Employees Dishonesty \$500,000 with \$5,000 deductible

I certify that the insurance and bond coverage shown is currently effective and copies of the insurance policies are on file with our office.

 Officer

 Date

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

Mr. Bobby Creager, Chairman
and the Board of Commissioners
Muhlenberg County Water District,
Greenville, Kentucky

We have audited the financial statements of the Muhlenberg County Water District, as of and for the year ended December 31, 2005, and have issued our report thereon dated May 15, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Muhlenberg County Water District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that *might be material weakness*. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the *financial statements being audited* may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Muhlenberg County Water District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is as follows:

Segregation of Duties

The internal control structure relating to receipts and disbursements is *inadequate* due to a lack of segregation of duties. Proper segregation of duties is essential to an adequate internal control structure. The lack of proper segregation of duties may permit errors or irregularities to go undetected. Effective segregation of duties does not appear to be feasibly alleviated due to a limited number of office employees.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Muhlenberg 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 grants, 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 that are required to be reported under *Government Auditing Standards*.

We also noted other matters involving the internal control over financial reporting that we have reported to management of the Muhlenberg County Water District, in a separate letter dated June 1, 2006.

This report is intended for the information of the district council and management. However, this report is a matter of public record and its distribution is not limited.

Madisonville, Kentucky
May 15, 2006

