



Pennyryle Area Development District

a regional planning and development agency

300 Hammond Drive, Hopkinsville, KY 42240

voice (270) 886-9484 fax (270) 886-3211

www.peadd.org

email peadd@peadd.org

July 21, 2015

RECEIVED

AUG 10 2015

PUBLIC SERVICE
COMMISSION

Kentucky Public Service Commission
P.O. Box 615
211 Sower Blvd.
Frankfort, KY 40602-0615

To Whom It May Concern:

On behalf of the Muhlenberg County Water District #3, please find enclosed the following:

- Application for a Certificate of Public Convenience and Necessity to Construct an Office Building
- Application to Enter Into a Loan Agreement with the Kentucky Infrastructure Authority

Should you need additional documentation to process these requests, please feel free to contact me by phone at 270-886-9484 or by email at amy.frogué@ky.gov.

Sincerely,

Amy Frogué
Associate Director

Enclosures

RECEIVED

AUG 10 2015

PUBLIC SERVICE COMMISSION

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF MUHLENBERG COUNTY WATER)
DISTRICT #3 FOR AUTHORITY TO ENTER INTO A) CASE NO. 2015-_____
LOAN AGREEMENT WITH THE KENTUCKY)
INFRASTRUCTURE AUTHORITY AND FOR A)
CERTIFICATE OF PUBLIC CONVENIENCE AND)
NECESSITY TO CONSTRUCT AN OFFICE BUILDING)

APPLICATION

Muhlenberg County Water District #3 (MCWD #3), by counsel, petitions for an order approving the entering of a loan agreement with the Kentucky Infrastructure Authority pursuant to KRS 278.300, and for the construction of a new administrative building pursuant to KRS 278.020(1).

In support of the application, the following information is provided:

1. MCWD #3's current office address is 4789 Main Street, Bremen, KY 42325. Its principal officers are listed in its current Annual Report, which is filed with the Commission as are its prior years Reports;
2. MCWD #3 is a non-profit water district organized under Chapter 74 and has no separate articles of incorporation;
3. A description of MCWD #3s water system and its property stated at original cost by accounts is contained in its 2014 Annual Report, which is incorporated by reference. The 2015 Report will be filed by May 1, 2016.
4. MCWD #3 serves retail customers in Muhlenberg County and sells water at wholesale to non-affiliated water distribution system in McLean County
5. MCWD #3 proposes to build a new administrative building to house the billing and administrative services for the water district. Please see Exhibit A for the building layout and proposed outside elevations. The District is financing part of the overall project through a low interest loan (\$250,000) from the Kentucky Infrastructure Authority. The District has applied for the loan, and has received notice of approval.
6. The construction is in the public interest and is required to allow MCWD #3 to continue to provide adequate service to its customers. The project, its cost, need and other details are contained in Exhibit A.

7. The total project cost is approximately \$391,000. See Exhibit A.
8. Easements and rights of way are not required, see Exhibit B.
9. This service will not compete with any other utility in the area.
10. The proposed project, identified in Exhibit A, is scheduled to begin construction on PSC approval, estimated to be August 1, 2015 and be completed within 6 months. Board approval of the project was given on February 23, 2015, attached as Exhibit B.
11. No new franchises are required. No DOW permit is required. See Exhibit B.
12. Construction descriptions are in Exhibit A. Facts relied on to justify the public need are included in the project descriptions in Exhibit A.
13. Maps of the area showing location of the proposed facilities are in Exhibit B. Plans and specifications and drawings of the proposed facility are in Exhibit A.
14. The a portion construction costs will be funded by the KIA Fund B Loan for \$250,000.
15. Estimated operating costs for operation and maintenance, depreciation and debt service after construction are shown in Exhibit C.
16. A description of the facilities and operation of the system are in Exhibit A.
17. A full description of the route, location of the project, description of construction and related information is in Exhibit A.
18. The start date for construction; proposed in-service date; and total estimated cost of construction at completion are included in Exhibit A.
21. The use of the funds and need for the facilities is justified based on a the Project Description included as Exhibit A
22. No rate adjustment is being proposed.
23. Muhlenberg County Water District #3 requests and moves for a deviation, pursuant to 807 KAR 5:001, Section 12(1), 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, 2014. The financial information contained in Exhibits D and E is for the twelve (12) month period ending December 31, 2014 and

the operational budget for 2014. This is the most recent published financial data available. Muhlenberg County Water District cannot run the risk of delaying the project and losing favorable bid conditions and the construction season. Any delays in construction could result in increased bids and loss of revenues due to increased construction costs.

24. The following information is provided in response to 807 KAR 5:001 Section 14: a. Articles of Incorporation - None. MCWD #3 is a statutorily created water district under KRS Chapter 74;

25. The following information is supplied pursuant to 807 KAR 5:001 Section 18: a. Facts relied upon to show that the application is in the public interest: See Exhibit A.

26. The following information is provided as required by 807 KAR 5:001 Section 18(1):

- a. A general description of the property is contained in the Annual Report, Exhibit F.
- b. No stock is to be issued; No bonds are to be issued in this case;
- c. There is no refunding or refinancing;
- d. The proceeds of the financing are to construct the property described in Exhibit A
- e. The par value, expenses, use of proceeds, interest rates and other information is not applicable because no bonds are being issued at this time.

27. The following exhibits are provided pursuant to 807 KAR 5:001 (18)(2):

- a. There are no trust deeds. All notes, indebtedness and mortgages are included in Exhibit D.
- b. Property to be constructed is described in Exhibit A and B.

28. The following information is provided pursuant to 807 KAR 5:001 Section 12(2) :

- a. No stock is authorized.
- b. No stock is issued.
- c. There are no stock preferences.
- d. Mortgages are listed in Exhibit D.
- e. Bonds are listed in Exhibit D.
- f. Notes are listed in Exhibit D.
- g. Other indebtedness is listed in Exhibit D.
- h. No dividends have been paid.
- i. Current balance sheet; income statement and debt schedule are attached as Exhibit E.

807 KAR 5:001

Section 14(1)	Full name and post office address of applicant and a reference to the	Muhlenberg County Water District #3
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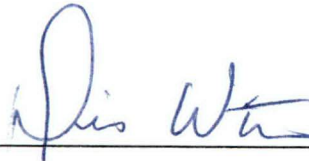
	particular provision of law requiring Application Commission approval.	4789 Main Street, Bremen, KY 42325
Section 7(1)	The original and 10 copies of the application with an additional copy for any party named therein as an interested party.	Yes
Section 14(2)	If applicant is a corporation, a certified copy of the Articles of Incorporation and all amendments thereto or if the articles were filed with the PSC in a prior proceeding, a reference to the style and case number of the prior proceeding.	Not a corporation
Section 18(1)(a)	The facts relied upon to show that the proposed new construction is or will be required by public convenience or necessity.	Exhibit A
(b)	Copies of franchises or permits, if any, from the proper public authority for the proposed new construction or extension, if not previously filed with the commission.	No franchises or permits required.
(c)	A full description of the proposed location, route, or routes of the new construction or extension, including a description of the manner in which same will be constructed, and also the names of all public utilities, corporations, or persons with whom the proposed new construction or extension is likely to compete.	Exhibit A
(d)	Three (3) maps to suitable scale (preferably not more than two (2) miles per inch) showing the location or route of the proposed new construction or extension, as well as	Exhibit B

the location to scale of any like facilities owned by others located anywhere within the map area with adequate identification as to the ownership of such other facilities.

- | | | |
|-------------|---|----------------|
| (e) | The manner, in detail, in which it is proposed to finance the new construction or extension. | Exhibit A & D |
| (f) | An estimated cost of operation after the proposed facilities are completed. | Exhibit C |
| KRS 322.340 | Engineering plans, specifications, plats and report for documents prepared by a registered engineer, requires that they be signed, sealed, and dated by an engineer registered in Kentucky. | Not Applicable |

For these reasons, the District requests authorization to construct the facilities and any other order or authorization that may be necessary to obtain Commission approval for construction.

Respectfully submitted,



Dennis N. Winters, Attorney at Law PSC
125 W Broad St.
Central City, KY 42330
Phone: 270-754-3322
Email:

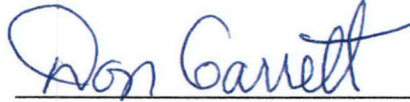
COUNSEL FOR MUHLNEBERG COUNTY
WATER DISTRICT #3

COMMONWEALTH OF KENTUCKY)

COUNTY OF MUHLENBERG)

The undersigned, Don Garrett, being duly sworn, deposes and states that he is the Chairman of the Muhlenberg County Water District #3, 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 July 20, 2015, Muhlenberg County Water District #3.



Don Garrett, Chairman
Muhlenberg County Water District #3

Subscribed and sworn to before me by Don Garrett, Chairman of the Muhlenberg County Water District #3, on this July 20, 2015.

My commission expires: April 30, 2016



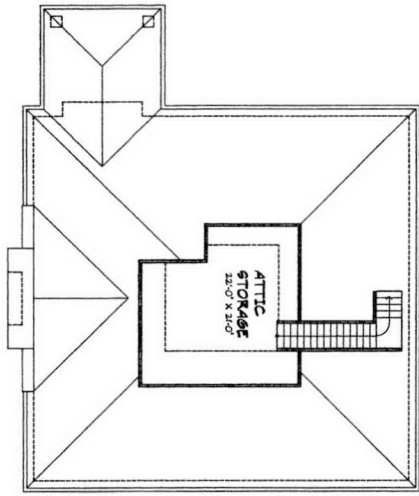
Notary Public State-At-Large

Exhibit A

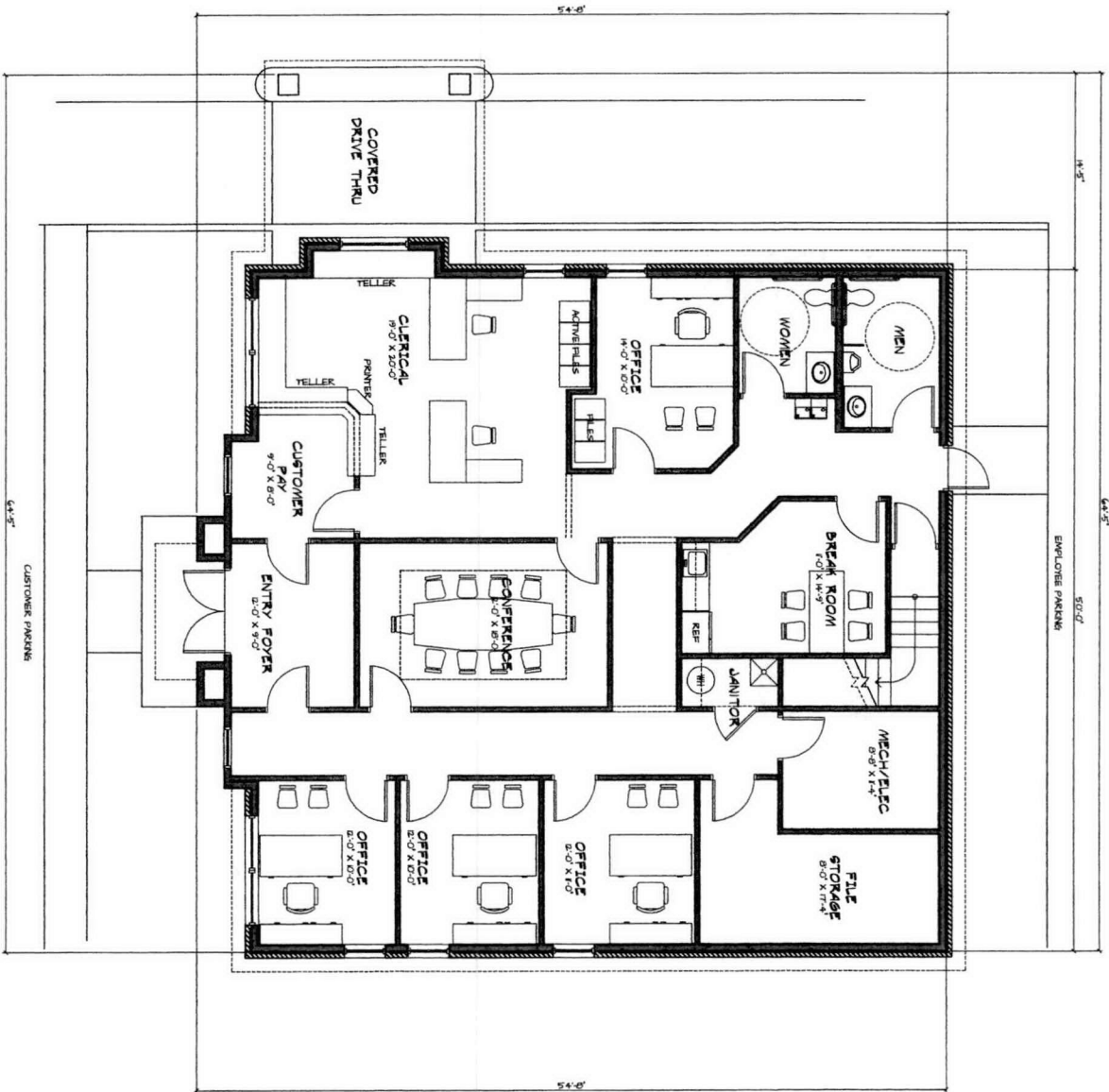
**Muhlenberg County Water District #3
New Administration Building Project**

Project Description

The Water District plans to build roughly a 2,700 square foot office building in Bremen, Kentucky. This building will house the administrative staff as well as the superintendent. It will also provide a meeting place for the board of directors as well as providing a location for the bill payment and customer interaction. Please see attached maps for project location and proposed building design. The Water District has undertaken because their current building is quickly becoming a hazard to employees and customers. The Water District has looked at remodeling their current location and has come to the conclusion that a better use of their funds would be to build a new building. The current office building will continue to be used as a maintenance garage until the Water District can put aside enough funds to build a new garage.



2 UPPER LEVEL FLOOR PLAN
1/8" = 1'-0"



1 MAIN LEVEL FLOOR PLAN
1/8" = 1'-0"

A101

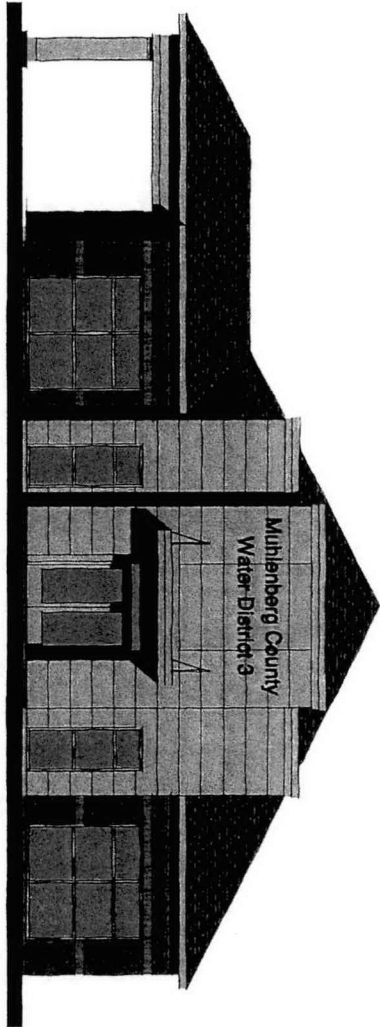
PROJECT NO.	187
DATE	5/1/2008
PROJECT NAME	NEW BUILDING FOR MUHLENBERG COUNTY WATER DISTRICT 3
OWNER	MUHLENBERG COUNTY WATER DISTRICT 3
DESIGNER	STUDIO 725
SCALE	1/8" = 1'-0"
TOTAL	
DATE	
BY	
CHECKED	
DATE	

OWNER
NEW BUILDING FOR:
**MUHLENBERG COUNTY
WATER DISTRICT 3**

studio 725
design + planning + visualization
V: 270.338.7692
F: 888.736.3418
www.studio725.net

A I
B D
American Institute
of Building Design

DISCLAIMER:
The purchaser of this plan is responsible for compliance with all local building codes and for obtaining all necessary permits and approvals from the appropriate authorities. The purchaser is advised that the plan is provided as a guide only and that the purchaser should consult with a professional engineer or architect for all details and specifications. The purchaser is advised that the plan is provided as a guide only and that the purchaser should consult with a professional engineer or architect for all details and specifications.



1 FRONT ELEVATION - OPTION 1

A201	OWNER NEW BUILDING FOR: MUHLENBERG COUNTY WATER DISTRICT 3 BREMEN, KENTUCKY	 studio 725 design + planning + visualization V: 270.338.7692 F: 888.736.3418 www.studio725.net	A I BD <small>American Institute of Building Design</small>	<p>EXCLUSIONS:</p> <p>The architect is not responsible for the design of the building's interior, including the design of the building's mechanical, electrical, plumbing, and fire protection systems. The architect is not responsible for the design of the building's exterior, including the design of the building's landscape, site work, or other exterior features.</p> <p>The architect is not responsible for the design of the building's interior, including the design of the building's mechanical, electrical, plumbing, and fire protection systems. The architect is not responsible for the design of the building's exterior, including the design of the building's landscape, site work, or other exterior features.</p>
	PROJECT NO. 1914 DRAWING NO. 1914-1 DATE: 10/1/11 SCALE: AS SHOWN SHEET NO. 1 OF 1			

General Requirements	\$ 42,000.00
Concrete	\$ 32,500.00
Masonry	\$ 24,000.00
Wood Framing/ Carpentry	\$ 48,000.00
Thermal/ Moisture	\$ 33,500.00
Doors Windows	\$ 48,000.00
Finishes	\$ 65,000.00
Specialties	\$ 4,500.00
Plumbing	\$ 23,500.00
HVAC	\$ 24,000.00
Electrical	\$ 41,000.00
Site Work	\$ 5,000.00
	\$ 391,000.00



Drinking Water Project Profile

Legal Applicant: **Muhlenberg County Water District #3**
Project Title: **MCWD #3 – New Administrative Building**

Project Number: **WX21177038** [View Map](#)

Funding Status: **Fully Funded**

Project Status: **Pending**

Project Schedule: **0-2 Years**

E-Clearinghouse SAI:

Applicant Entity Type: **Water District (KRS 74)**

Date Approved (AWMPC):

Submitted By: **PEADD**

Primary County: **Muhlenberg**

Planning Unit: **Muhlenberg**

Multi-County: **No**

ECH Status:

ADD WMC Contact: **Amy Frogue**

Project Description:

The water district will build a new administrative building to replace their deteriorating current location.

Need for Project:

Briefly describe how this project promotes public health or achieves and/or maintains compliance with the Clean Water Act or Safe Drinking Water Act:

This building will increase customer and employee safety.

Project Alternatives:

Alternate A:

Remodel current building.

Alternate B:

Demolish current building and rebuild on site.

Legal Applicant:

Entity Type: **Water District (KRS 74)**

PSC Group ID: **26000**

Entity Name: **Muhlenberg County Water District #3**

Web URL:

Office EMail: muhlenbergwater@bellsouth.net

Office Phone: **270-525-6333**

Toll Free:

Fax: **270-525-0025**

Mail Address Line 1: **PO Box 67**

Phys Address Line 1:

Mail Address Line 2:

Phys Address Line 2:

Mail City, State Zip: **Bremen, KY 42325**

Phys City, State Zip:

Contact: **Ben Tooley**

Auth Official: **Ben Tooley**

Contact Title: **Superintendent**

Auth Official Title: **Superintendent**

Contact EMail: ben@muhlenbergwater.com

Auth Official EMail: ben@muhlenbergwater.com

Contact Phone: **270-525-6333**

Auth Official Phone: **270-525-6333**

Contact Cell:

Auth Official Cell:

Data Source: [Kentucky Infrastructure Authority](#)

Date Last Modified: 06.27.2014



Drinking Water Project Profile
WX21177038 - Muhlenberg County Water District #3
MCWD #3 – New Administrative Building

Project Administrator (PA) Information

Name: **John-Michael S Herring**

Title: **Water Management Coordinator**

Organization: **Pennyrile Area Development District**

Address Line 1: **Pennyrile Area Development District**

Address Line 2: **300 Hammond Dr**

City: **Hopkinsville** State: **KY** Zip: **42240**

Phone: **270-886-9484** Fax: **270-886-3211**

Applicant Contact (AC) Information

Name: **Ben Tooley**

Title: **Superintendent**

Organization: **Muhlenberg County Water District #3**

Address Line 1: **PO Box 67**

Address Line 2:

City: **Bremen** State: **KY** Zip: **42325**

Phone: **270-525-6333** Fax:

Project Engineer (PE) Information:

This project requires a licensed Professional Engineer.

PE Exemption Explanation:

This is not a engineered project. System has paid for an architect.



Drinking Water Project Profile
 WX21177038 - Muhlenberg County Water District #3
 MCWD #3 - New Administrative Building

Estimated Budget

Project Cost Classification:

Administrative Exp.:	\$ 5,000
Legal Exp.:	
Land, Appraisals, Easements:	
Relocation Exp. & Payments:	
Planning:	
Engineering Fees - Design:	
Engineering Fees - Construction:	
Engineering Fees - Inspection:	
Engineering Fees - Other:	
Construction:	\$ 386,000
Equipment:	
Miscellaneous:	
Contingencies:	
Total Project Cost:	\$ 391,000

Construction Cost Categories:

Treatment:	
Transmission & Distribution:	
Source:	
Storage:	
Purchase of Systems:	
Restructuring:	
Land Acquisition:	
Non-Catagorized:	\$ 386,000
Total Construction:	\$ 386,000

Total Sustainable Infrastructure Costs:

Note: Total Sustainability Infrastructure Costs are included within construction and other costs reported in this section. This breakout is provided for SRF review purposes.

Project Funding Sources:

Total Project Cost: **\$391,000**
 Total Committed Funding: **\$391,000**
 Funding Gap: **\$0 (Fully Funded)**

This project will be requesting SRF funding for fiscal year 2016.

Estimated Project Schedule:

Est. Environmental Review Submittal Date:
 Estimated Bid Date:
 Estimated Construction Start Date:
 Estimated Construction Completion Date:

Funding Source	Loan or Grant ID	Fiscal Year	Amount	Status	Applicable Date
Local			\$141,000	Committed	2/23/2015
KIA Fund B Loan	B16-001	2016	\$250,000	Committed	7/2/2015
Total Committed			\$391,000		

Funding Source Notes:

The following systems are beneficiaries of this project:

KY0890304 Muhlenberg County Water District #3

Note: Check mark indicates primary system for this project.

Project Ranking by AWMPC:

Regional Ranking(s):	<input type="checkbox"/> Plans and specs have been sent to DOW.
Planning Unit Ranking:	<input type="checkbox"/> Plans and specs have been reviewed by DOW.
Total Points:	<input type="checkbox"/> Plans and specs have been sent to PSC.
	<input type="checkbox"/> Plans and specs have been reviewed by PSC.

Economic, Demographic and Geographic Impacts



Drinking Water Project Profile

WX21177038 - Muhlenberg County Water District #3
MCWD #3 – New Administrative Building

Economic Impacts	
Jobs Created:	
Jobs Retained:	

*Demographic Impacts (GIS Census Overlay)			
Serviceable Demographic	Project Area	Included Systems	Included Utilities
Population:		4,965	4,964
Households:		2,225	2,225
MHI:		\$37,400	*\$37,400
MHI MOE		\$8,745	*\$8,745
MOE as Pct:		23.0%	23.0%
**NSRL:		1	1

Population and household counts are based on 2010 census block values from the SF1 (100%) dataset.

MHI Source is from the American Community Survey 2009-2013 5Yr Estimates (Table B19013) *(for the primary system operated by the above listed beneficiary utilities).

MHI MOE = Med HH Income Margin of Error.

** NSRL (Non-Standard Rate Levels):

- 0 = Income above Kentucky MHI (KMHI).
- 1 = Income between 80% KMHI and KMHI.
- 2 = Income less than or equal to 80% KMHI.
- KMHI = \$43,036
- 80% KHMI = \$34,429

Geographic Impacts For Project Area	
Counties	
Legislative Districts	
District Name	Legislator
Groundwater Sensitivity Zones	
HUC 11 Watersheds	
HUC Code	Watershed Name

Geographic Impacts For Included System(s)	
Counties	
McLean	
Muhlenberg	
Legislative Districts	
District Name	Legislator
House 012	Jim Gooch Jr.
House 015	Brent Yonts
Senate 06	C.B. Embry Jr.
Senate 08	Joe Bowen
Congressional 1	Ed Whitfield

New Customers	
New Residential Customers:	
New Commercial Customers:	
New Institutional Customers:	
New Industrial Customers:	

New or Improved Service		
Service Demographic	Survey Based	Census Overlay*
To Unserved Households:		
To Underserved Households:		
To Total Households:		
** Cost Per Household:		

* GIS Census block overlay figures are estimates of population and households potentially served by systems and projects based on a proximity analysis of relevant service lines to census block boundaries.

** Cost per household is based on surveyed household counts, not GIS overlay values.

INFRASTRUCTURE REVOLVING LOAN FUND (Fund B) LOAN APPLICATION

I. GENERAL PROJECT SUMMARY

1. **PROJECT TITLE** MCWD #3 – New Administrative Building

PROJECT NUMBER WX21177038

(WX or SX #)

2. **LEGAL APPLICANT**

Applicant Name: Muhlenberg County Water District #3

Street/P.O. Box: 4789 Main Street

City, State & Zip Code: Bremen, KY 42325

Telephone: 270-525-6333

County: Muhlenberg County

Contact Person: Ben Tooley

3. **APPLICATION CONTACT PERSON**
(Consultant, Area Development District, etc.)

Name: John Herring

Title: Water Management Coordinator

Firm: Pennyriple Area Development District

Street/P.O. Box: 300 Hammond Drive

City, State & Zip Code: Hopkinsville, KY 42240

Telephone: 270-886-9484

4. ARCHITECTURE FIRM

Name: Studio 725
Street/P.O. Box: 227 Twin Hills Dr.
City, State, Zip Code: Greenville, KY 42345
Telephone: 270-338-7692
Contact Person: Jeremy Johnston

5. BRIEF DESCRIPTION OF PROJECT (Attach project maps)

The Water District plans to build roughly a 2,700 square foot office building in Bremen, Kentucky. This building will house the administrative staff as well as the superintendent. It will also provide a meeting place for the board of directors as well as providing a location for the bill payment and customer interaction. Please see attached maps for project location and proposed building design. The Water District has undertaken because their current building is quickly becoming a hazard to employees and customers. The Water District has looked at remodeling their current location and has come to the conclusion that a better use of their funds would be to build a new building. The current office building will continue to be used as a maintenance garage until the Water District can put aside enough funds to build a new garage.

6. FINANCING PACKAGE PROPOSED

Source	Amount	Type Loan/Grant	Rate%	Term	Status
Fund B	250,000	Loan		20 years	Application
TOTAL	\$ 250,000				

Attach evidence of commitment from other funds.

7. CERTIFICATION

To the best of my knowledge and belief, the information contained in this application is true and correct.

Don Garret
Typed Name and Title
Chief Executive Officer

Don Garret
Signature


5/11/15
Date

KENTUCKY INFRASTRUCTURE AUTHORITY
 PROJECT BUDGET
 PROJECT #

Cost Classification	Infrastructure Revolving Loan (Fund B)	Other Funding Source A	Other Funding Source B	Other Funding Source C	Local Funds	Total Project Cost
1 Administrative Expenses (Including Interim Financing)	5,000					5,000
2 Legal Expenses						
3 Land, Appraisals, Easements, Right-of-Way						
4 Relocation Expense & Payments						
5 Planning						
6 Engineering Fees - Design						
7 Engineering Fees - Construction						
8 Engineering Fees - Inspection						
9 Construction	245,000				141,000	386,000
10 Equipment						
11 Contingency						
12 Other						
Total						391,000

Funding Sources	Amount	Date Committed
A KIA Fund B Loan	250,000	Anticipated
B		
C		

Please identify all sources and amounts of Local Funding	Amount
1 Local Contribution	136,000 Committed
2	
3	


 Signature
 Water Coordinator
 Title
 5-6-15
 Date

II. GENERAL PROJECT INFORMATION

1. Have business closings or disruptions occurred due to infrastructure inadequacy or failure?

Yes No

2. Is the applicable infrastructure system under sanction from any enforcement agency?

Yes No N/A

3. Are easements or land acquisition needed for the project?

Yes No Number of Parcels

Explain status of each parcel.

The water district currently owns the parcel where the new structure will be built. Please see attached deed.

4. If applicant has obtained the necessary land, indicate if by:

Leasehold interest Fee simple title Other (Specify)

N/A

5. Have plans and specifications been reviewed and approved by the Division of Water?

Yes No

If no, explain status.

The current project does not need DOW approval. Please see attached letter for confirmation.

6. Does the Public Service Commission have jurisdiction over this project?

Yes No

If yes, describe their role and estimated schedule of review.

The water district will pursue PSC approval once project has been approved by the KIA board. The water district assumes between three and six months for PSC approval.

III. CURRENT INFRASTRUCTURE SYSTEM ANALYSIS

Answer each question as it relates to the system affected by the proposed infrastructure development.

1. Number of existing customers, if any:

Residential	2,027
Business	88
Wholesale	1
Total	2,116

2. System capacity:

Type of system	Distribution system only
Design	N/A
Current	N/A
Peak	N/A
Proposed	N/A

3. Method of treatment employed. If a new method is proposed, describe.

N/A

4. Operator Certification:

Number of certified operators required for system	1
Level of certification required	Class 2 Distribution
Number of operators employed by system	2
Are all operators properly certified	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No

IV. FINANCIAL ANALYSIS

1. Are revenues and expenses for this system accounted for separately from other utility services?

Yes No

2. Identify all revenues, other than service fees, which are dedicated to the system.

- A. Tap Fees \$ 5,850
- B. Interest \$ 5,001

3. Is there outstanding debt on the system? Yes No

- A. Source Equipment Lease
- B. Principal outstanding Approximately \$ 20,000
- C. Annual debt requirement \$ 21,264
- D. Date of final payment May of 2016

Attach a copy of debt service schedule(s).

4. Has a rate study been prepared in anticipation of a rate increase?

Yes No
If yes, attach a copy.

5. Are water or sewer services provided by other communities or districts to this system?

Yes No

Attach copy of service agreements and briefly describe terms.

The City of Central City provides water to the District at a wholesale price of \$ 2.63. The District in turn provides wholesale water to the City of Sacramento at a wholesale price of \$ 4.93. Please see attached contracts for further details.

6. Does this system provide services to other communities or districts?

Yes No

<u>Community/District</u>	<u># of Customers</u>	<u>Amount of Revenue Derived</u>
City of Sacramento	774	\$ 294,000.00
_____	_____	\$ _____
_____	_____	\$ _____

Attach copy of service agreement(s) and briefly describe terms.

The District provides wholesale water to the City of Sacramento at a wholesale price of \$ 4.93. Please see attached contracts for further details.

7. Rate structure (attach copy of current rate ordinance).

- A. Current \$ 17.25
- B. Proposed \$ 17.25
- C. Average usage/bill \$ 23.00/approximately 3,000 gallons
- D. Date last rate increase/amount of change 4-17-13/ \$2.54
- E. Method of collection of service fees District accepts most payment forms
- F. Percentage rate of collection 99%

G. Do any users provide more than 5% of the service revenue for the system?

Yes No

If yes, list.

<u>Company</u>	<u>% Service Revenue</u>
City of Sacramento	20%

8. Compare rates with other providers in your area.

Please see attached rate comparison sheet.

9. Operation and Maintenance.

	<u>Year</u>	<u>Cost</u>
A. Annual operation and maintenance costs for last 3 years.	2014	\$ 1,378,079
	2013	\$ 1,208,901
	2012	\$ 963,738
B. Estimated total cost after project completion.	2016	\$ 1,383,000
C. Current annual funding requirements for depreciation, and operation and maintenance reserves.		

The Water District funds depreciation and O & M costs on yearly basis based on the amount of depreciable assets owned by the district, in 2014 the Water District funded \$ 103,654 and in 2013 they funded \$ 85,503. Please see attached audits for more detail.

D. Are operation and maintenance payments required by prior bond or ordinance?

Yes No

E. Are operation and maintenance functions assigned to another party?

_____ Yes No

F. Provide a copy of the current operating budget of the system affected by this proposed funding.

10. Tap fee amounts.

A. Residential \$ 650.00

B. Commercial \$ 650.00

C. Other \$ Actual Cost

D. How collected Fees are due to the Water District before any work is completed.

11. Outline the applicant's plan for producing revenues sufficient to cover debt service and operations.

The Water District's current rate structure is enough to cover the proposed debt service

12. List any security available to support the proposed debt, if applicable. This may include liens on mortgages or projected revenues.

The debt service will be supported by the water districts rate structure.

V. IMPLEMENTATION SCHEDULE

1. Anticipated engineering design time required (including plan review).

The water district has already had the building designed. Please see the attached building plans.

2. Anticipated number of contracts. Please list contracts below:

<u>Contract #/Name/Description</u>	<u>Estimated Amount</u>
Building Contract	\$ 386,000.00
_____	\$ _____
_____	\$ _____

3. Anticipated bid advertising date(s). July 15, 2015

4. Anticipated bid opening date(s). August 1, 2015
5. Anticipated construction start date(s). August 15, 2015
6. Anticipated construction completion date(s). February 1, 2016
7. Will force account labor be used?

_____ Yes No
If yes, list activities.

8. List any construction or bid requirements related to other funding sources, which could affect timely implementation. N/A

VI. MANAGEMENT CAPACITY

These questions relate to compliance with statutory mandates placed on each type of applicant. Answer each question as appropriate.

1. Audit Requirement.
- A. Is applicant required to have annual audit performed?
 Yes _____ No
- B. Date of last audit completed: December 31, 2014
- C. Attach four (4) of the most recent financial statements, current year-to-date unaudited financials and current budget.
2. All Other Applicants
- A. Explain designation of responsibility for financial accountability and personnel administration.

Currently all day to day operations are overseen by system manager Ben Tooley. Mr. Tooley answers to a board of directors. The utility is organized under KRS 74.010 & 74.012.
- B. Have any public meetings been held on the proposed project or service fee increases in the last six months?

_____ Yes No
If yes, provide minutes.

VII. CAPITAL INVESTMENT

Federal/State Funding History.

List all federal and state funding (grant and loan) awarded to the jurisdiction during the last five (5) years for infrastructure or economic development projects.

YEAR	PROJECT	SOURCE	AMOUNT
2010	Generator Project	Coal Severance	100,000
2012	Main Replacement	Coal Severance	75,000

Exhibit B

WITNESSETH:

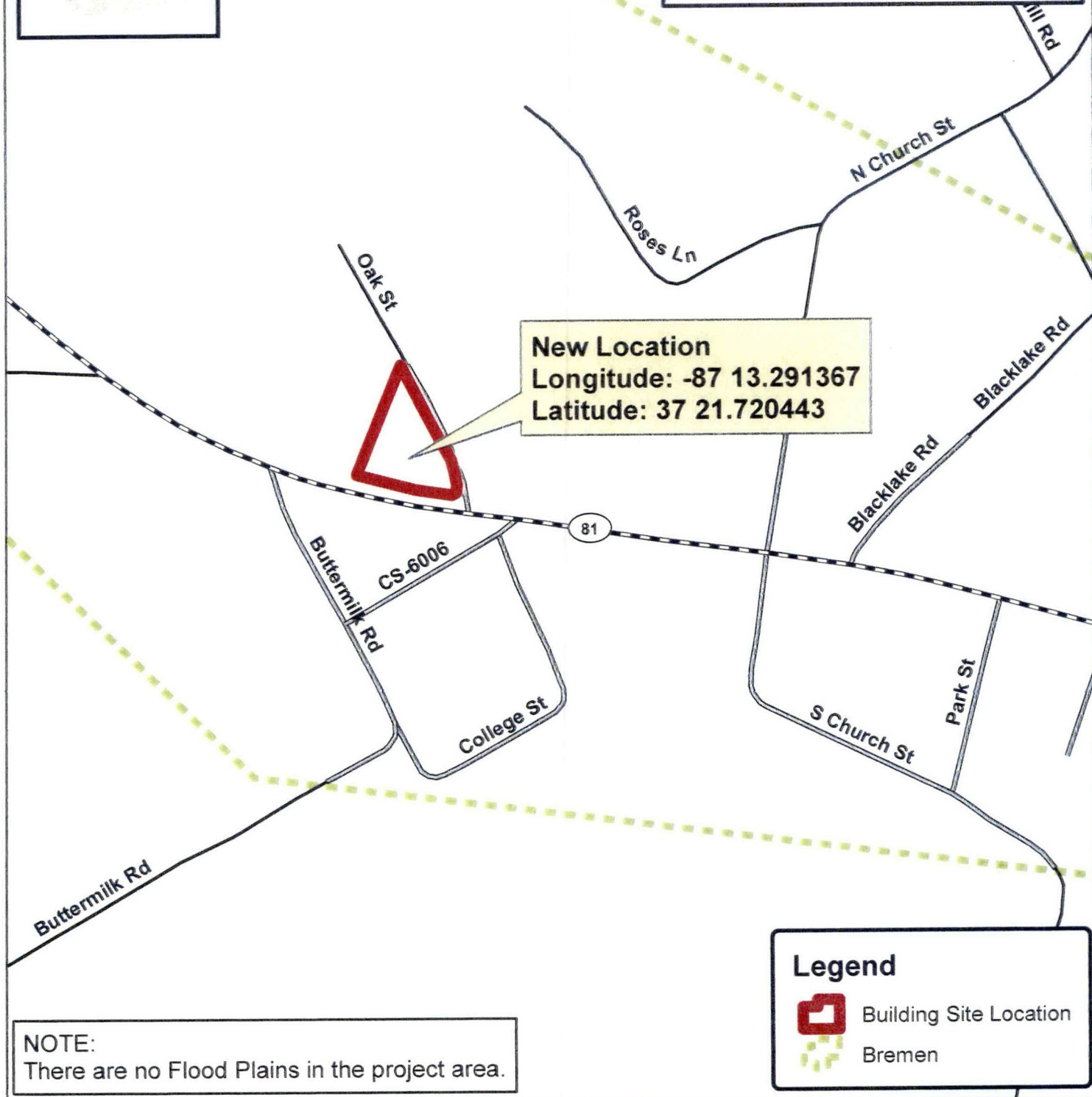
That for and in consideration of **Sixteen Thousand Dollars** (\$16,000.00), the receipt and sufficiency of which is hereby acknowledged, the Parties of the First Part have bargained and sold and do by these presents bargain, sell, alien and convey unto the Party of the Second Part, its successors and assigns forever, the following described property located at 4893 Main Street, Bremen, Muhlenberg County, Kentucky, and more particularly described as follows:

Beginning at a 1/2" rebar marked L.S. 2573 (set), said point being the southwest corner of the original tract, said point also being in the R/W of Hwy. No. 81, said point also being a corner to Clarence Edwards – Deed Book 381, page 271 (Tract 2), thence N 8-26-21 E 247.03 feet to a 1/2" rebar marked L.S. 2573 (set), said point being in the line of Clarence Edwards – Deed Book 381, page 271 (Tract 1), thence S 89-45-39 E 35.07 feet to a 1/2" rebar marked L.S. 2573 (set), said point being a corner to Clarence Edwards – Deed Book 381, page 271 (Tract 1), said point also being in the R/W of Oak Street, thence with the R/W of Oak Street S 28-01-49 E 28.89 feet, thence with the R/W of Oak Street S 26-27-55 E 244.14 feet, thence with the R/W of Oak Street S 17-08-57 E 32.43 feet to a point, said point being in the R/W of Hwy No. 81, thence with the R/W of Hwy. No. 81 N 82-43-15 W 75.13 feet, thence with the R/W of Hwy. No. 81 N 80-35-38 W 130.50 feet to the point of beginning, containing 0.72 acres, more or less, according to a survey by Floyd R. Ashby, PLS 2573 dated August 24, 1999.

There is also excepted and not conveyed hereby the same having been reserved heretofore, the coal and mining rights underlying the property herein conveyed.

Being the same property conveyed to Susan C. Hawkins, M.D. and Joseph Y. Hawkins, wife and husband, from Dorotha Mae Clark, an unmarried person, by deed dated September 28, 2002, of record in Deed Book 500, page 135, office of the Muhlenberg County Court Clerk.

**Muhlenberg County WD3
New Office Location
Bremen, Kentucky
Location Map**



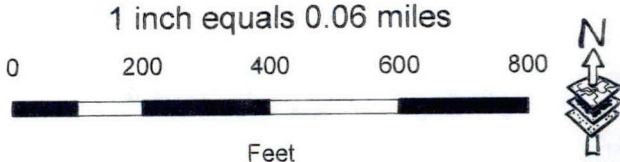
New Location
Longitude: -87 13.291367
Latitude: 37 21.720443

Legend

-  Building Site Location
-  Bremen

NOTE:
There are no Flood Plains in the project area.

Prepared by: Kyle Cunningham, GIS Specialist
Pennyriple Area Development District
Date: July 2015
File Name: Bremen - MuhlenbergCty-WD3 - New Location-Location Map.mxd



Muhlenberg County WD3 New Office Location Bremen, Kentucky Aerial Map

New Location
Longitude: -87 13.291367
Latitude: 37 21.720443



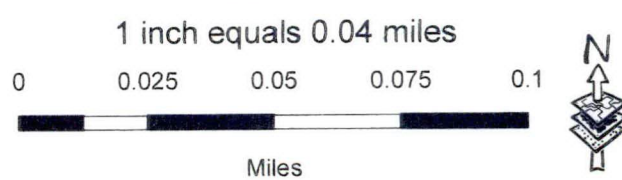
Legend

-  Building Site Location
-  Bremen

NOTE:
There are no Flood Plains in the project area.

Source: Esri, DigitalGlobe, GeoEye, AeroGRID, USDA, USGS, AEX, Getac, IGN, GDB, the GIS User Community






Prepared by: Kyle Cunningham, GIS Specialist
Pennyrile Area Development District
Date: July 2015
File Name: Bremen - MuhlenbergCty-WD3 - New Location-Aerial Map.mxd



**Muhlenberg County WD3
New Office Location
Bremen, Kentucky
TOPO Map**

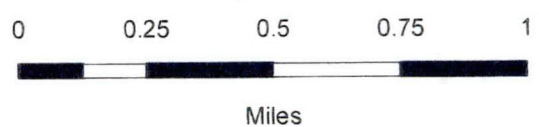
**New Location
Longitude: -87 13.291367
Latitude: 37 21.720443**

Legend

-  Building Site Location
-  Bremen
- DFIRM - Muhlenberg**
- Flood Zone Area**
-  AE
-  0.2 PCT CHANCE
-  A

NOTE:
There are no Flood Plains in the project area.

1 inch equals 2,000 feet



Prepared by: Kyle Cunningham, GIS Specialist
Pennyrile Area Development District
Date: July 2015
File Name: Bremen - MuhlenbergCty-WD3 - New Location-TOPO Map.mxd

Exhibit C

	2014 BUDGET			
	<i>2012 Actual</i>	<i>2013 Budget</i>	<i>% Increase</i>	<i>2014 Budget</i>
Operating Income				
Water Revenues	\$ 792,775.35	\$ 832,414.11	2%	\$ 849,062.39
Resale	186,237.19	195,549.04	2%	\$ 199,460.02
Forfeited Discounts	16,684.51	17,351.89	2%	\$ 17,698.93
Misc.	16,624.08	6,923.51	3%	\$ 7,131.22
Total Operating Income	\$1,012,321.13	\$1,052,238.55		\$1,073,352.56
Operating Expenses				
Purchased Water	\$ 452,217.65	\$ 432,549.03	3%	\$ 445,525.50
Source of Supply	11,019.83	11,350.42	35%	\$ 15,323.07
Transportation and Distribution	131,848.98	142,396.89	20%	\$ 170,876.27
Customer Accounts	151,448.37	155,991.82	15%	\$ 179,390.59
Administration an General	109,845.99	113,141.36	10%	\$ 124,455.50
Taxes	16,394.03	16,885.85	15%	\$ 19,418.73
Misc.	2,700.00	2,786.00	10%	\$ 3,064.60
Interest	0.26	10.00	0%	\$ 10.00
Depreciation	87,795.61	84,031.15	1%	\$ 84,871.46
Total Operating Expense	\$ 963,270.72	\$ 959,142.52		\$1,042,935.71
Gross Operating Income	\$ 49,050.41	\$ 93,096.03		\$ 30,416.84
Non-operating Income				
Interest Income	\$ 11,716.52	\$ 12,575.42	1%	\$ 12,701.17
Net Income (Loss)	\$ 60,766.93	\$ 105,671.45		\$ 43,118.02

approved budget

2014 Annual Budget

Total Operating Income	\$1,052,813.97	4%
Operating Expenses		
Purchased Water	\$432,549.03	2%
Source of Supply	\$11,350.42	3%
Trans & Main	\$142,396.89	8%
Customer Accts	\$155,991.82	3%
Admin & Gen	\$113,141.36	3%
Depreciation Expense	\$84,031.15	
Taxes	\$16,885.85	3%
Interest Expense	\$10.00	
Total Expenses	\$956,356.52	
Net Operating Income	\$96,457.45	
Interest Income	9000.00	
Misc. Expense	\$2,788.00	
Net Profit	\$102,671.45	

KACO Jan 12, 2015

*Rob Brown called reduce income by
100,000 = 952,813.97 They need normal costs only
not including projects (ie Stark St)*

2013 Annual Budget

Total Operating Income	\$1,052,813.97	4%
Operating Expenses		
Purchased Water	\$432,549.03	2%
Source of Supply	\$11,350.42	3%
Trans & Main	\$142,398.89	8%
Customer Accts	\$155,991.82	3%
Admin & Gen	\$113,141.36	3%
Depreciation Expense	\$84,031.15	
Taxes	\$16,885.85	3%
Interest Expense	\$10.00	
Total Expenses	\$956,356.52	
Net Operating Income	\$96,457.45	
Interest Income	\$12,000.00	
Misc. Expense	\$2,786.00	
Net Profit	\$105,671.45	

2012 Annual Budget			
Total Operating Income			\$948026.40
Operating Expenses			
Purchased Water		\$405428.64	
Source of Supply		\$ 28954.25	
Transportation & Distribution		\$144367.84	
Customer Accounts		\$142983.62	
Admin & Gen		\$141478.44	
Depreciation Expense		\$ 86070.50	
Taxes		\$ 19195.36	
Interest Expense		\$ 40.00	
Total Expenses		\$968518.65	
Net Operating Income			- \$ 20492.25
Interest Income			\$ 3000.00
Misc. Expense			\$ 2400.00
Net Profit			-\$ 19892.25

2011
 Wages \$257,014.88
 Payroll Taxes \$ 17,055.21
 Pension & Benefits \$ 81,043.95

 TOTAL \$355,144.04

2011 Annual Budget

Total Operating Income **\$888479.52**

Operating Expenses

Purchased Water \$ 450084.58

Source of Supply \$ 15225.00

Trans & Main \$ 134370.41

Customer Accts \$ 133264.00

Admin & Gen \$ 117064.82

Depreciation Expense \$ 70016.83

Taxes 17830.36

Interest Expense \$ 225.00

Total Expenses **\$938101.00**

Net Operating Income **\$ -49621.48**

Interest Income \$ 22000.00

Misc. Expense 2700.00

Net Profit **\$ -30321.48**

Exhibit D

EDGAR COUNTY BANK & TRUST CO
177 W WOOD ST
PARIS, IL 61944

PHONE:217-465-4154

MUHLENBERG COUNTY WATER DIST 3
PO BOX 67
BREMEN KY 42325

LOAN: 80265

AS OF: 06/22/15

* L O A N P A Y M E N T *

PAGE :

LOAN TYPE:	CAPITAL LEASES	MATURITY DATE:	05/20/16
PRINCIPAL BALANCE:	19,655.12	ORIGINAL LOAN DATE:	07/01/14
CURRENT RATE:	2.1038	ORIGINAL LOAN AMOUNT:	40,298.06
INTEREST THRU 06/22/15:	2.22	INTEREST PAID 2015:	266.88
ONE DAY'S INTEREST:	1.14	DATE OF LAST PAYMENT:	06/08/15
		LAST PAYMENT AMOUNT:	1,771.94

DATE PAYMENT DUE:	07/20/15
PRINCIPAL DUE:	1,738.70
INTEREST DUE:	33.24

TOTAL AMOUNT DUE: * 1,771.94 *

PAID

JUL 1 2015
23622

~~1055~~
224-1 (1738.70)
427-3 (33.24)
7771



KENTUCKY INFRASTRUCTURE AUTHORITY

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

John E. Covington III
Executive Director

Steven L. Beshear
Governor

July 6, 2015

Don Garrett, Chief Executive Officer
Muhlenberg County Water District #3
4789 Main Street
Bremen, KY 42325

KENTUCKY INFRASTRUCTURE AUTHORITY INFRASTRUCTURE REVOLVING LOAN FUND CONDITIONAL COMMITMENT LETTER (B16-001)

Dear Mr. Garrett:

The Kentucky Infrastructure Authority ("the Authority") commends your efforts to improve public service facilities in your community. On July 2, 2015, the Authority approved your loan for the Muhlenberg County Water District #3 New Administrative Building project, subject to the conditions stated below. The total cost of the project shall not exceed \$391,000 of which the Authority loan shall provide \$250,000 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 Muhlenberg County Water District #3 upon satisfactory performance of the conditions set forth in this letter. You must meet the conditions set forth in this letter and enter into an Assistance Agreement by July 2, 2016 (twelve months from the date of this letter). 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 \$250,000.
2. The loan shall bear interest at the rate of 1.75 percent per annum commencing with the first draw of funds.
3. The loan shall be repaid over a period not to exceed 20 years from the date of the last draw of funds.
4. Interest shall be payable on the 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.

5. Full principal payments will commence on June 1, or December 1, immediately succeeding the date of the last draw of funds, provided that if such June 1, or December 1, shall be less than three months since the date of the last draw of funds, then the first principal payment date shall be the June 1, or December 1, which is at least six months from the date of the last draw of funds. Full payments will be due each six months thereafter until the loan is repaid.
6. A loan servicing fee of 0.20% of the annual outstanding loan balance shall be payable to the Authority as a part of each interest payment.
7. Loan funds will only be disbursed after execution of the Assistance Agreement as project costs are incurred.
8. The Authority requires that an annual financial audit be provided for the life of the loan.
9. The final Assistance Agreement must be approved by ordinance or resolution, as applicable, of the city council or appropriate governing board.

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.

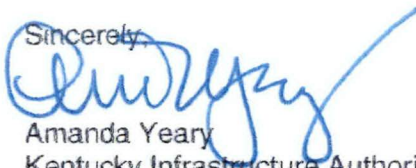
1. Upon completion of final design of the facilities in the attached project description, favorable approval shall be obtained of such design by all appropriate parties as required by Kentucky statute or administrative regulation.
2. Applicant must provide certification from their legal counsel stating that they have prepared construction specifications in accordance with all applicable state wage rate laws, and that the procurement procedures, including those for construction, land, equipment and professional services that are a part of the project, are in compliance with applicable state and local procurement laws.
3. Documentation of final funding commitments from all parties other than the Authority as reflected in the Attachment A description shall be provided prior to preparation of the Assistance Agreement and disbursement of the loan monies. Rejections of any anticipated project funding, or any new funding sources not reflected in Attachment A shall be immediately reported and may cause this loan to be subject to further consideration.

4. Upon receipt of construction bids a tabulation of such bids and engineer's recommendations on compliance with bid specifications and recommendation for award, shall be forwarded to the Authority for final approval and sizing of this loan and the project.
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. Any special conditions listed in Attachment A must be satisfied before the project is presented before the Committee.
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. Based on the final "as bid" project budget, the borrower must provide satisfactory proof, based on then existing conditions, that the revenue projections in the attached descriptions are still obtainable and that the projections of operating expenses have not materially changed. The "as bid" project budget shall be reviewed and approved by your consultant engineer.
8. 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 Authority.
9. Documentation of Clearinghouse Endorsement and Clearinghouse Comments.
10. The Borrower must complete and return the attached "Authorization for Electronic Deposit of Vendor Payment" form to the Authority.
11. Implement the Kentucky Uniform System of Accounting (KUSoA), or an alternative approved by the Authority and assure that rates and charges for services are based upon the cost of providing such service.
12. Final Design Plans in an AutoCAD Drawing File Format (DWG), referenced to the appropriate (North, South or Single) Kentucky State Plane Coordinate System (NAD83-Survey Feet) on a Compact Disc (CD). The recipient shall provide the Authority a digital copy (pdf) of the record drawings from the project within three months of construction completion.

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

Mr. Garrett
July 6, 2015
Page 4

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,

Amanda Yeary
Kentucky Infrastructure Authority

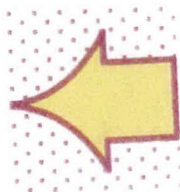
Attachments

cc: Jeremy Johnston, Studio 725
Ben Tooley, MCWD
Dirk Bedarff, Peck, Shaffer & Williams LLP
State and Local Debt Office, DLG
Borrower File - Muhlenberg County Water District #3 - B16-001

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

Date



**AUTHORIZATION FOR ELECTRONIC DEPOSIT
OF BORROWER PAYMENT
KENTUCKY INFRASTRUCTURE AUTHORITY
(FUND B16-001)**

Borrower Information:

Name: _____

Address: _____

City: _____ State: KY Zip: _____

Federal I.D. # _____

Contact Name: _____ Telephone: _____

Email: _____

Financial Institution Information:

Bank Name: _____

Branch: _____ Phone No: _____

City: _____ State: ____ Zip: _____

Transit / ABA No.: _____

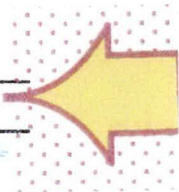
Account Name: _____

Account Number: _____

I, the undersigned, authorize payments directly to the account indicated above and to correct any errors which may occur from the transactions. I also authorize the Financial Institution to post these transactions to that account.

Signature: _____ Date: _____

Name Printed: _____ Job Title: _____



Please return completed form to:

**Kentucky Infrastructure Authority
1024 Capital Center Drive, Suite 340
Frankfort, KY 40601
phone: 502-573-0260
fax: 502-573-0157**

ATTACHMENT A

**Muhlenberg County Water District #3
B16-001**

EXECUTIVE SUMMARY		Reviewer	Jami Johnson	
KENTUCKY INFRASTRUCTURE AUTHORITY		Date	July 2, 2015	
FUND B, INFRASTRUCTURE		KIA Loan Number	B16-001	
REVOLVING LOAN FUND		WRIS Number	WX21177038	
BORROWER	MUHLENBERG COUNTY WATER DISTRICT #3 MUHLENBERG COUNTY			
BRIEF DESCRIPTION				
The Water District plans to build roughly a 2,700 square foot office building which will house the administrative staff and the superintendent. It will also provide a meeting place for the board of directors as well as providing a location for the bill payment and customer interaction. The Water District has undertaken this project because their current building is quickly becoming a hazard to employees and customers.				
PROJECT FINANCING		PROJECT BUDGET		
Fund B Loan	\$250,000	RD Fee %	Actual %	
Local Funds	141,000	Administrative Expenses		\$5,000
TOTAL	\$391,000	Construction		386,000
		TOTAL		\$391,000
REPAYMENT	Rate	1.75%	Est. Annual Payment	\$15,369
	Term	20 Years	1st Payment	6 Mo. after first draw
PROFESSIONAL SERVICES	Engineer	Studio 725		
	Bond Counsel	Peck, Shaffer, & Williams, a division of Dinsmore & Shohl, LLP		
PROJECT SCHEDULE	Bid Opening	Aug-15		
	Construction Start	Aug-15		
	Construction Stop	Feb-16		
DEBT PER CUSTOMER	Existing	\$14		
	Proposed	\$116		
OTHER DEBT	See Attached			
OTHER STATE-FUNDED PROJECTS LAST 5 YRS	See Attached			
RESIDENTIAL RATES				
		<u>Users</u>	<u>Avg. Bill</u>	
	Current	2,115	\$42.99 (for 4,000 gallons)	
	Additional	0	\$42.99 (for 4,000 gallons)	
REGIONAL COORDINATION	This project is consistent with regional planning recommendations.			
CASHFLOW	Cash Flow Before Debt Service	Debt Service	Cash Flow After Debt Service	Coverage Ratio
Audited 2012	148,426	0	148,426	n/a
Audited 2013	133,968	0	133,968	n/a
Audited 2014	181,394	12,860	168,534	14.1
Projected 2015	165,375	21,504	143,872	7.7
Projected 2016	148,796	17,163	131,633	8.7
Projected 2017	131,119	15,369	115,750	8.5
Projected 2018	113,530	15,369	98,161	7.4
Projected 2019	95,413	15,369	80,044	6.2

Reviewer: Jami Johnson
Date: July 2, 2015
Loan Number: B16-001

**KENTUCKY INFRASTRUCTURE AUTHORITY
INFRASTRUCTURE REVOLVING LOAN FUND (FUND "B")
MUHLENBERG COUNTY WATER DISTRICT #3, MUHLENBERG COUNTY
PROJECT REVIEW
WX21177038**

I. PROJECT DESCRIPTION

Muhlenberg County Water District #3 is requesting a \$250,000 Fund B Loan for the New Administrative Building Project. The District plans to build a 2,700 square foot office building which will house the administrative staff and the superintendent. It will also provide a meeting place for the board of directors as well as providing a location for bill payment and customer interaction. The District has undertaken this project because their current building is quickly becoming a hazard to employees and customers.

The District purchases approximately 275 million gallons (MG) of water annually from Central City Municipal Water and Sewer System and provides approximately 66 MG of water to Sacramento Water Works. The District is regulated by the Public Service Commission.

II. PROJECT BUDGET

	Total
Administrative Expenses	\$ 5,000
Construction	386,000
Total	\$ 391,000

III. PROJECT FUNDING

	Amount	%
Fund B Loan	\$ 250,000	64%
Local Funds	141,000	36%
Total	\$ 391,000	100%

IV. KIA DEBT SERVICE

Amortized Loan Amount	\$	250,000
Interest Rate		1.75%
Loan Term (Years)		20
Estimated Annual Debt Service	\$	14,869
Administrative Fee (0.20%)		500
Total Estimated Annual Debt Service	\$	15,369

V. PROJECT SCHEDULE

Bid Opening	August 2015
Construction Start	August 2015
Construction Stop	February 2016

VI. RATE STRUCTURE

A. Customers

<u>Customers</u>	<u>Current</u>
Residential	2,027
Commercial	88
Total	2,115

B. Rates

	<u>Current</u>	<u>Prior</u>
Date of Last Rate Increase	03/17/13	01/01/02
Minimum (2,000)	\$25.31	\$17.75
Next 8,000 Gallons	8.84	5.45
Next 10,000 Gallons	8.18	5.16
Next 30,000 Gallons	7.53	4.79
Over 50,000 Gallons	6.87	4.51
Cost for 4,000 gallons	\$42.99	\$28.65
Increase %	50.1%	
Affordability Index (Rate/MHI)	1.3%	

4/7/2013
7/12/12
15.21
4.18
3.89
3.52
3.24

VII. DEMOGRAPHICS

Based on current Census data from the American Community Survey 5-Year Estimate 2008-2012, the Utility's service area population was 4,965 with a Median Household Income (MHI) of \$38,409. The median household income for the Commonwealth is \$42,610. The project will qualify for a 1.75% interest rate because the utility's service area MHI is below 80% of the State's MHI.

Year	Population				Unemployment	
	City	% Change	County	% Change	Date	Rate
1980	4,631		32,238		June 2004	8.7%
1990	4,689	1.3%	31,318	-2.9%	June 2009	11.7%
2000	4,398	-6.2%	31,839	1.7%	June 2013	10.7%
2010	4,312	-2.0%	31,499	-1.1%	June 2014	8.8%
Current	4,427	2.7%	31,427	-0.2%		

VIII. FINANCIAL ANALYSIS (See Exhibit 1)

Financial information was obtained from the audited financial statements for the years ended December 31, 2012 through 2014. Percentage references in the History section below are based on whole dollar amounts and not the rounded amounts presented.

HISTORY

Revenues increased 43% from \$1.0 million in 2012 to \$1.5 million in 2014 while operating expenses increased 45% from \$876 thousand to \$1.3 million during the same period. The debt coverage ratio was 14.1 for 2014.

The balance sheet reflects a current ratio of 11.6 and number of months of operating expenses in unrestricted cash is 8.2.

PROJECTIONS

Projections are based on the following assumptions:

- 1) Revenues remain flat.
- 2) Expenses will increase 3%.
- 3) Debt service coverage is 8.7 in 2016 when principal and interest repayments begin.

Based on the proforma assumptions, the utility shows adequate cash flow to repay the KIA Fund B loan.

REPLACEMENT RESERVE

The annual replacement cost is \$600. This amount should be added to the replacement account each December 1 until the balance reaches \$6,000 and maintained for the life of the loan.

IX. DEBT OBLIGATIONS

	<u>Outstanding</u>	<u>Maturity</u>
Lease on Equipment	30,020	2016
Total	30,020	

X. OTHER STATE OR FEDERAL FUNDING IN PAST FIVE YEARS

<u>Description</u>	<u>Funding Source</u>	<u>Amount</u>	<u>Type</u>
Generator Project	Coal Severance	100,000	Grant
Main Replacement	Coal Severance	75,000	Grant

XI. CONTACTS

Legal Applicant

Name	Muhlenberg County Water District #3
Address	4789 Main Street Bremen, KY 42325
Authorized Official	Don Garrett (Chief Executive Officer)
Phone	(270) 525-6333
Email	muhlenbergwater@bellsouth.net

Project Contact - Applicant

Name	Ben Tooley
Representing	Muhlenberg Water
Address	P.O. Box 67 Bremen, KY 42325
Phone	(270) 525-6333
Email	ben@muhlenbergwater.com

Consulting Engineer

Name	Jeremy Johnston
Firm	Studio 725
Address	227 Twin Hills Drive Greenville KY 42345
Phone	(270) 338-7692

XII. RECOMMENDATIONS

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

MUHLENBERG COUNTY WATER DISTRICT #3
FINANCIAL SUMMARY (DECEMBER YEAR END)

	Audited 2012	Audited 2013	Audited 2014	Projected 2015	Projected 2016	Projected 2017	Projected 2018	Projected 2019
Balance Sheet								
Assets								
Current Assets	908,283	664,117	1,098,798	1,123,807	1,151,034	1,175,084	1,195,718	1,212,725
Other Assets	2,314,400	2,335,394	2,073,242	2,358,385	2,477,337	2,456,508	2,421,808	2,372,214
Total	2,920,683	2,999,511	3,170,040	3,482,192	3,628,371	3,631,592	3,617,524	3,584,939
Liabilities & Equity								
Current Liabilities	85,786	65,857	94,421	89,990	86,128	90,398	82,868	85,038
Long Term Liabilities	18,585	18,970	27,773	145,988	252,658	241,837	230,828	219,825
Total Liabilities	104,374	84,827	122,194	235,978	340,784	332,203	323,496	314,863
Net Assets	2,816,289	2,904,584	3,047,846	3,246,214	3,287,586	3,299,388	3,293,827	3,270,276
Cash Flow								
Revenues	1,013,184	1,252,418	1,450,895	1,450,865	1,450,865	1,450,895	1,450,895	1,450,895
Operating Expenses	875,942	1,123,398	1,274,425	1,290,521	1,307,100	1,324,777	1,342,368	1,380,483
Other Income	11,184	4,948	4,924	5,001	5,001	5,001	5,001	5,001
Cash Flow Before Debt Service	148,426	133,968	181,394	165,375	148,796	131,119	113,530	85,413
Debt Service								
Existing Debt Service	0	0	12,860	13,819	1,794	0	0	0
Proposed KIA Loan	0	0	0	7,685	15,369	15,369	15,369	15,369
Total Debt Service	0	0	12,860	21,504	17,163	15,369	15,369	15,369
Cash Flow After Debt Service	148,426	133,968	168,534	143,872	131,633	115,750	98,161	80,044
Ratios								
Current Ratio	7.1	9.9	11.8	12.5	13.1	13.0	12.9	12.8
Debt to Equity	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Days Sales in Accounts Receivable	48.4	45.1	43.7	43.7	43.7	43.7	43.7	43.7
Months Operating Expenses in Unrestricted Cash	8.0	4.9	8.2	8.3	8.5	8.6	8.6	8.6
Debt Coverage Ratio	n/a	n/a	14.1	7.7	8.7	8.5	7.4	6.2

↑
Rate
Increase

Exhibit E

Current Year: 2015
 Comparative Year: 2014
 Period: June
 Period Begin: 06/01/15
 Period End: 06/30/15

Muhlenberg County Water District #3
Income Statement

Account	Title	Current Period	Comparative Period	% Variance	Current YTD Balance	Comparative YTD Balance	% Variance
Utility Operating Income							
Operating Revenues:							
Metered Water Reven		\$97,670.58	\$103,914.31	-6	545,267.33	543,358.64	0
00231-0002	Customer Contr To Be Refunded	\$0.00	\$0.00	N/A	0.00	0.00	N/A
00466-0000	Sales For Resale	\$26,699.75	\$29,689.54	-10	133,442.55	156,027.91	-14
00470-0000	Forfeited Discounts	\$1,488.00	\$1,348.68	10	11,064.60	10,443.05	6
00471-0000	Misc. Service Revenues	\$1,063.32	\$1,515.29	-30	7,807.78	9,005.96	-13
Total Operating Revenues		\$126,921.65	\$136,467.82	-7	697,582.26	718,835.56	-3
Operating Expenses:							
Source of Supply/Ope		\$61,387.30	\$69,761.43	-12	361,578.65	386,462.84	-6
Source of Supply/Mair		\$3,009.93	\$1,608.49	87	7,886.30	5,838.36	35
Transmission & Distrit		\$10,130.85	\$6,671.28	52	32,838.48	32,996.53	0
Transmission & Distrit		\$10,555.82	\$8,999.64	17	48,970.90	49,058.43	0
Customer Accounts E:		\$18,930.14	\$16,574.37	14	87,967.36	82,116.94	7
Administrative and Ge		\$14,889.89	\$14,550.93	2	68,095.26	81,191.55	-16
00403-0000	Depreciation Expenses	\$8,637.86	\$7,102.87	22	51,827.16	42,617.22	22
00408-0012	Payroll Taxes	\$1,575.97	\$1,353.19	16	10,215.91	10,326.97	-1
Total Operating Expenses		\$129,117.76	\$126,622.20	2	669,380.02	690,608.84	-3
Operating Income		(\$2,196.11)	\$9,845.62	-122	28,202.24	28,226.72	0

Other Income & Deductions

Account	Title	Current Period	Comparative Period	% Variance	Current YTD Balance	Comparative YTD Balance	% Variance
Other Income							
00419-0000	Interest & Dividend Income	\$34.20	\$17.40	97	2,465.04	2,565.63	-4
00421-0000	Non Utility Income	\$325.50	\$310.50	5	1,555.50	1,539.00	1
	Total Other Income	\$359.70	\$327.90	10	4,020.54	4,104.63	-2
Other Income Deductions:							
00426-0000	Misc. Non-Utility Expense	\$300.00	\$300.00	0	1,500.00	1,800.00	-17
	Total Other Inc. Deductions	\$300.00	\$300.00	0	1,500.00	1,800.00	-17
	Total Other Income and Deductions	\$59.70	\$27.90	114	2,520.54	2,304.63	9
Interest Expense							
	Interest Charges	\$38.19	\$0.24	> 999	232.05	18.68	> 999
	Total Interest Charges	\$38.19	\$0.24	> 999	232.05	18.68	> 999
	Income Before Exre Items	\$21.51	\$27.66	-22	2,288.49	2,285.95	0
	Net Income	(\$2,174.60)	\$9,873.28	-122	30,490.73	30,512.67	0

**Muhlenberg County Water District #3
Balance Sheet**

Fiscal Year: 2015
 Comparative Year: 2014
 Include Thru: June

Account	2015 Beginning Balance	Previous Period Balance	2015 YTD 06/30/15	2014 YTD 06/30	Difference
Assests and Other Debits					
Utility Plant					
00105-0000 General Plant	537,088.68	537,088.68	559,986.88	491,727.70	68,259.18
Construction in Progress	73,896.29	93,949.29	94,021.29	21,330.00	72,691.29
Total Utility Plant	610,984.97	631,037.97	654,008.17	513,057.70	140,950.47
Accum Prov for Depr & Amort	1,990,222.68	2,033,411.98	2,042,049.84	1,940,689.01	101,360.83
Net Utility Plant	(1,379,237.71)	(1,402,374.01)	(1,388,041.67)	(1,427,631.31)	39,589.64
Other Property and Investments					
00126-0001 Sinking Fund - CD	0.00	0.00	0.00	0.00	0.00
00126-0002 Sinking Fund - CD	0.00	0.00	0.00	0.00	0.00
00127-0001 Reserve Depr Fund - MMDA	0.00	0.00	0.00	0.00	0.00
00127-0002 Reserve Depr Fund - CD	0.00	0.00	0.00	0.00	0.00
00127-0003 Reserve Depr Fund - CD	0.00	0.00	0.00	0.00	0.00
Total	0.00	0.00	0.00	0.00	0.00
Current & Accured Assets					
00131-0001 Cash on hand	2,140.67	2,640.67	2,640.67	1,640.67	1,000.00
00131-0002 Cash in Bank - General Fund	172,274.71	228,532.76	187,061.34	103,872.34	83,189.00
00131-0003 Cash Payroll Account	1,069.04	1,069.04	1,069.04	1,069.04	0.00
00131-0004 Cash General Fund CD	118,275.24	118,835.51	118,835.51	117,714.56	1,120.95
00131-0005 Cash General Fund CD	33,330.92	33,355.75	33,360.85	33,300.86	59.99

Account		2015 Beginning Balance	Previous Period Balance	2015 YTD 06/30/15	2014 YTD 06/30	Difference
00132-0000	Customer Meter Deposit	22,722.15	22,618.96	22,899.21	22,721.85	177.36
00131-0006	Cash General Fund CD	73,786.73	74,038.24	74,038.35	73,531.88	506.47
00134-0000	Construction Fund	75,828.25	75,828.25	75,828.25	70,866.29	4,961.96
00131-0007	Cash Credit Union	2,414.00	0.00	0.00	0.00	0.00
00131-0008	Cash General Fund CD	60,193.74	60,295.91	60,316.91	40,114.06	20,202.85
00131-0009	Health Reimbursement Account	108,516.58	0.00	3,500.00	108,107.84	(104,607.84)
00141-0000	Customer Accounts Receivable	173,609.22	169,934.85	185,358.01	187,886.52	(2,528.51)
00131-0010	Cash - General Fund CD	71,202.25	71,219.70	71,223.45	71,180.72	42.73
00131-0011	Cash-General Fund CD	222,828.47	223,878.20	223,878.20	221,766.42	2,111.78
00134-0001	Construction Fund-431 Project	100.00	108,969.41	108,897.41	100.00	108,797.41
00142-0000	Other Accounts Receivable	0.00	(3,228.67)	(3,974.10)	(55,706.02)	51,731.92
00151-0000	Plant Materials and Supplies	45,486.17	31,904.57	31,933.47	59,677.85	(27,744.38)
00162-0000	Prepayments	9,219.09	9,219.09	9,219.09	8,987.93	231.16
00162-0001	Prepayments	2,452.30	0.00	0.00	0.00	0.00
	Total	1,195,449.53	1,229,112.24	1,206,085.66	1,066,832.81	139,252.85
	Deferred Debits					
00186-0001	Deferred Rate Case Expense	0.00	0.00	0.00	0.00	0.00
	Total	0.00	0.00	0.00	0.00	0.00
	Total Asset & Other Debits	(183,788.18)	(173,261.77)	(181,956.01)	(360,798.50)	178,842.49

Liabilities and Other Credits

Equity Capital

Propriety Interest						
00215-0000	Unappropriated Retained Earnings	1,861,557.27	1,861,557.27	1,861,557.27	1,784,207.96	77,349.31
	Donated Capital	1,186,286.19	1,186,936.19	1,186,936.19	1,122,973.24	63,962.95
	Total Paid in Capital	3,047,843.46	3,048,493.46	3,048,493.46	2,907,181.20	141,312.26

Retained Earnings

Account		2015 Beginning Balance	Previous Period Balance	2015 YTD 06/30/15	2014 YTD 06/30	Difference
Retained Earnings						
00435-0000	Balance Trans. from Income	0.00	0.00	0.00	0.00	0.00
	Total Retained Earnings	0.00	0.00	0.00	0.00	0.00
	Total Equity	(3,047,843.46)	(3,048,493.46)	(3,048,493.46)	(2,907,181.20)	(141,312.26)
	Liabilities					
	Long Term Debt					
00221-0000	Bonds-GECC	0.00	0.00	0.00	0.00	0.00
	Total	0.00	0.00	0.00	0.00	0.00
	Current and Accrued Liabilities					
00231-0000	Accounts Payable	64,436.57	69,922.40	80,429.95	55,047.93	25,382.02
00235-0000	Customer Deposits	18,585.00	18,480.00	18,760.00	18,550.00	210.00
00237-0000	Interest Accrued	0.88	0.88	0.88	0.88	0.00
00237-0002	Interest Accrued	16.50	16.50	16.50	0.00	16.50
00241-0000	Tax Collections Payable	0.00	0.00	0.00	0.00	0.00
	Total	83,038.95	88,419.78	99,207.33	73,598.81	25,608.52
	Deferred Credits					
00242-0000	Misc. Cur & Accr. Liabilities	0.00	0.00	0.00	0.00	0.00
00242-0007	AFLAC Insurance Plans	639.47	696.22	648.52	596.38	52.14
00242-0009	Eye Med	98.43	81.04	81.02	29.88	51.14
	Total	737.90	777.26	729.54	626.26	103.28
Operating Reserves						

Account		2015 Beginning Balance	Previous Period Balance	2015 YTD 06/30/15	2014 YTD 06/30	Difference
00263-0000	Pension and Benefits Reserve	6,839.57	6,839.57	6,839.57	6,904.58	(65.01)
	Total	6,839.57	6,839.57	6,839.57	6,904.58	(65.01)

Contributions In Aid of Construction

	Total	0.00	0.00	0.00	0.00	0.00
	Total Liab. & Other Credits	3,138,459.88	3,144,530.07	3,155,269.90	2,988,310.85	166,959.05

Exhibit F

Annual Report

Report

of

**Muhlenberg County Water District #3
Bremen, Kentucky**

For The Years Ended December 31, 2014 and 2013



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INDEPENDENT AUDITORS' REPORT

To the Commissioners
Muhlenberg County Water District Number 3
Bremen, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of Muhlenberg County Water District Number 3 as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Muhlenberg County Water District Number 3 as of December 31, 2014 and 2013, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-7 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 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 3, 2015, on our consideration of Muhlenberg County Water District Number 3's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Muhlenberg County Water District Number 3's internal control over financial reporting and compliance.

Alexander, Tony and Knight, P.C.

Madisonville, Kentucky
February 3, 2015

Muhlenberg County Water District Number 3
Statement of Net Position
December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<u>Assets</u>		
Current assets		
Cash and cash equivalents	\$ 866,032	\$ 458,434
Accounts receivable	173,609	154,609
Material and parts inventory	45,486	32,086
Prepaid expenses	<u>11,671</u>	<u>8,988</u>
Total current assets	<u>1,096,798</u>	<u>654,117</u>
Noncurrent assets		
Restricted cash and cash equivalents	98,650	407,639
Capital assets:		
Nondepreciable	96,846	41,930
Depreciable, net of accumulated depreciation	<u>1,877,746</u>	<u>1,885,825</u>
Total noncurrent assets	<u>2,073,242</u>	<u>2,335,394</u>
Total assets	<u>3,170,040</u>	<u>2,989,511</u>
<u>Liabilities</u>		
Current liabilities payable from current assets		
Accounts payable	64,434	55,046
Construction project payable	0	2,290
Accrued taxes and other payables	2,298	1,716
Accrued interest payable	17	0
Capital lease-due within one year	20,832	0
Accumulated compensated absences	<u>6,840</u>	<u>6,905</u>
	<u>94,421</u>	<u>65,957</u>
Current liabilities payable from restricted assets		
Customer deposits	<u>5,215</u>	<u>5,204</u>
	<u>5,215</u>	<u>5,204</u>
Total current liabilities	<u>99,636</u>	<u>71,161</u>
Long-term liabilities		
Capital lease-due after one year	9,188	0
Customer deposits	<u>13,370</u>	<u>13,766</u>
Total noncurrent liabilities	<u>22,558</u>	<u>13,766</u>
Total liabilities	<u>122,194</u>	<u>84,927</u>
<u>Net Position</u>		
Invested in capital assets, net of related debt	1,944,555	1,925,465
Unrestricted	<u>1,103,291</u>	<u>979,119</u>
Total net position	<u>\$3,047,846</u>	<u>\$2,904,584</u>

The accompanying notes are an integral part of these statements.

Muhlenberg County Water District Number 3
Statement of Revenues, Expenses and Changes in Fund Net Position
Years Ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Operating revenues		
Water sales	\$1,406,002	\$1,214,872
Other operating revenues	<u>44,893</u>	<u>37,546</u>
Total operating revenues	<u>1,450,895</u>	<u>1,252,418</u>
Operating expenses		
Purchased water	737,878	647,240
Salaries and wages	258,597	238,654
Depreciation	103,654	85,503
Employee benefits	77,367	85,267
Transportation	18,439	15,345
Contract services	34,096	24,638
Taxes	19,772	17,966
Purchased power	27,868	23,741
Materials and supplies	44,314	25,939
Insurance	18,641	16,452
Miscellaneous	31,462	23,815
Regulatory commission expense	2,445	1,809
Uncollectible accounts	<u>3,546</u>	<u>2,532</u>
Total operating expenses	<u>1,378,079</u>	<u>1,208,901</u>
Operating income (loss)	72,816	43,517
Nonoperating revenues (expenses)		
Interest income	5,001	5,393
Interest expense	(391)	(6)
Gains (losses) on disposition of capital assets	(77)	(445)
Total nonoperating revenues (expenses)	<u>4,533</u>	<u>4,942</u>
Income (loss) before contributions	77,349	48,459
Capital contributions-state	57,873	32,886
Capital contributions-tap fees	5,850	6,950
Capital contributions-customers	<u>2,190</u>	<u>0</u>
Change in net position	143,262	88,295
Net position beginning of year	<u>2,904,584</u>	<u>2,816,289</u>
Net position end of year	<u>\$3,047,846</u>	<u>\$2,904,584</u>

The accompanying notes are an integral part of these statements.

Muhlenberg County Water District Number 3
Statement of Cash Flows
Years Ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<u>Cash flows from operating activities</u>		
Cash received from customers	\$1,383,456	\$1,182,899
Cash payments to suppliers for goods and services	(1,018,845)	(858,740)
Cash payments to employees for services	(258,597)	(238,654)
Other operating revenues	<u>44,893</u>	<u>37,546</u>
Net cash provided (used) by operating activities	150,907	122,666
<u>Cash flows from capital and related financing activities</u>		
Acquisition and construction of capital assets	(110,331)	(132,674)
Interest paid on customer deposits	(21)	(6)
Interest paid on capital lease	(353)	0
Principal paid on capital lease	(12,507)	0
Capital contributions received from customers	8,040	6,950
Capital contributions from state	57,873	32,886
Proceeds received on disposition of capital assets	<u>0</u>	<u>3,054</u>
Net cash provided (used) for capital and related financing activities	(57,299)	(89,790)
<u>Cash flows from investing activities</u>		
Interest earned on bank deposits	<u>5,001</u>	<u>5,393</u>
Net cash provided (used) for investing activities	5,001	5,393
Net increase (decrease) in cash and cash equivalents	98,609	38,654
Cash and cash equivalents at beginning of year	<u>866,073</u>	<u>827,419</u>
Cash and cash equivalents at end of year	<u>\$ 964,682</u>	<u>\$ 866,073</u>
<u>Reconciliation of operating income to net cash provided (used) by operating activities</u>		
Operating income (loss)	\$ 72,816	\$ 43,517
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	103,654	85,503
Change in assets and liabilities:		
(Increase) decrease in accounts receivable	(19,000)	(29,441)
(Increase) decrease in other receivables	0	9,272
(Increase) decrease in inventory	(13,400)	(7,183)
(Increase) decrease in prepaid expenses	(2,683)	(1,172)
Increase (decrease) in accounts payable	9,388	21,680
Increase (decrease) in accrued expenses	582	307
Increase (decrease) in customer deposits	(385)	385
Increase (decrease) in accumulated compensated absences	(65)	183
Total adjustments	<u>78,091</u>	<u>79,534</u>
Net cash provided by operating activities	<u>\$ 150,907</u>	<u>\$ 123,051</u>

The accompanying notes are an integral part of these statements.

Muhlenberg County Water District Number 3
Notes to Financial Statements
December 31, 2014 and 2013

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Muhlenberg County Water District Number 3 (the "District") conform to Generally Accepted Accounting Principles (GAAP) as applicable to governments. The District's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. The following is a summary of the more significant policies:

The Financial Reporting Entity

Muhlenberg County Water District Number 3 was created on April 24, 1967, under the provisions of Chapter 74 of the Kentucky Revised Statutes of the Commonwealth of Kentucky. The principal office of the District is located at Bremen, Kentucky. The District is composed of three commissioners who are appointed by the Muhlenberg County Judge Executive and provides water to its members in and around Muhlenberg County, Kentucky.

In evaluating how to define the government, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GASB Statement No. 14 - *The Financial Reporting Entity*.

Basis of Presentation, Measurement Focus, and Basis of Accounting

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. Enterprise Funds account for activities 1) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or 2) that are required by laws or regulations that the activities costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or 3) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

The transactions of the District are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net position. Net position is required to be displayed in three components: 1) invested in capital assets, net of related debt, 2) restricted, and 3) unrestricted. Invested in capital assets, net of related debt is capital assets net of accumulated depreciation and reduced by outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Restricted net position are those with constraints placed on their use by either: 1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or 2) imposed by law through constitutional provisions or enabling legislation. Net position not otherwise classified as restricted, are shown as unrestricted. The statements of revenue, expenses, and changes in net position present increases (revenues) and decreases (expenses) in net position.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. The accounts of the District are maintained on the accrual basis of accounting. Its revenues are recognized when they are earned, and its expenses are recognized when they are incurred.

· Muhlenberg County Water District Number 3
 Notes to Financial Statements
December 31, 2014 and 2013

NOTE A - SUMMARY OF ACCOUNTING POLICIES continued

Proprietary 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 a proprietary fund's principal ongoing operations. The principal operating revenues and expenses of the District's enterprise fund are charges to customers for 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.

Unbilled water receivables for utility services provided through December 31 are included in the financial statements.

When both restricted and unrestricted resources are available for use, the District generally first uses restricted resources, then unrestricted resources as they are needed.

Cash and Cash Equivalents

All cash except for a small amount kept "on hand" is deposited in financial institutions. Deposits are interest bearing checking accounts and certificates of deposit. Unrestricted cash is available to be expended for normal operating expenses. Restricted cash is limited to payments of bond principal and interest, emergency capital improvements, and other designated purposes. Cash and cash equivalents are defined as being all monies on deposit in banks and investments with a maturity of 90 days or less.

Inventory

Inventory consists primarily of replacement parts and supplies. Inventory is stated at the lower of cost or market. Cost is determined primarily by the first-in, first-out method.

Capital Assets

Capital assets, which include property, plant, and equipment, are recorded at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. No interest was capitalized during the years ended December 31, 2014 and 2013.

Capital assets of the District are depreciated using a straight-line method over the following estimated useful lives:

Structures, improvements and water system	10 to 65 years
Furniture, machinery and equipment	2 to 10 years
Vehicles	5 years

Muhlenberg County Water District Number 3
Notes to Financial Statements
December 31, 2014 and 2013

NOTE A - SUMMARY OF ACCOUNTING POLICIES continued

Restricted Net Position

Restricted net position is cash set aside for the repayment of debt in compliance with bond covenants and cash restricted for future operations in compliance with escrow reserve agreements. The District currently doesn't have any restricted net position.

Long-Term Liabilities

Long-term debt is reported as liabilities in the statement of net position. Long-term debt is reported at face value.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Uncollectible Accounts

All accounts receivable are considered by management to be collectible, therefore no provision for uncollectible accounts has been established. Uncollectible accounts are expensed using the direct write-off method.

Use of Estimates

The preparation of financial statements in accordance with accounting principals generally accepted in the United States requires management to make estimates that affect amounts reported in the financial statements during the reporting period. Actual results could differ from those estimates.

NOTE B - DEPOSITS

The District maintains deposits with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to law, the depository institution should pledge sufficient securities as collateral which, together with FDIC insurance, equals or exceeds the amount 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 of securities should be evidenced by an agreement that is (1) in writing, (2) 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 (3) an official record of the depository institution. This agreement, signed by both parties, must be sufficient to create an enforceable and perfected security interest in the collateral under Kentucky law.

Muhlenberg County Water District Number 3
 Notes to Financial Statements
December 31, 2014 and 2013

NOTE B - DEPOSITS continued

Deposits are categorized to give an indication of risk assumed by the District at the end of the year. Category 1 includes deposits that are insured, Category 2 includes collateralized deposits held by the pledging institution's trust department or agent in the District's name, and Category 3 includes uncollateralized and uninsured deposits.

On December 31, 2014, the reconciled balance of the District's deposits totaled \$964,682 and the bank balances were \$975,408. Of the bank balances \$593,525 was covered by federal depository insurance (category 1). Also of the bank balances, \$381,883 was collateralized by additional securities held by the pledging depository institution's trust department or agent in the District's name (category 2).

On December 31, 2013, the reconciled balance of the District's deposits totaled \$866,073 and the bank balances were \$876,462. Of the bank balances \$573,349 was covered by federal depository insurance (category 1). Also of the bank balances, \$303,113 was collateralized by additional securities held by the pledging depository institution's trust department or agent in the District's name (category 2).

NOTE C - PREPAID EXPENSES

Prepaid expenses include prepaid insurance, which represents the amount of unexpired insurance, which the District had previously paid for at the balance sheet date. Prepaid expenses also include prepaid payroll taxes, which have been paid prior to employee withholding.

At December 31, 2014, the District's prepaid expenses consisted of \$9,219 of insurance and \$2,452 of payroll taxes. At December 31, 2013, the District's prepaid expenses consisted of \$8,988 of insurance.

NOTE D - RESTRICTED CASH AND CASH EQUIVALENTS

The District has cash set aside for the repayment of debt (which has been fully paid), cash restricted for future operations, cash set aside for future capital assets, and cash set aside for repayment of customer deposits.

Restricted balances as of December 31 are as follows:

	<u>2014</u>	<u>2013</u>
Bond and interest redemption fund	\$ 0	\$ 73,332
Bond depreciation fund	0	291,668
Customer meter deposit fund	22,722	23,156
Construction fund	<u>75,928</u>	<u>19,483</u>
Totals	<u>\$ 98,650</u>	<u>\$ 407,639</u>

Muhlenberg County Water District Number 3
Notes to Financial Statements
December 31, 2014 and 2013

NOTE E - CAPITAL ASSETS

Capital asset activities for the years ended December 31, 2014 and 2013, were as follows:

	Balances 12/31/12	Transfers/ Additions	Transfers/ Retirements	Balances 12/31/13	Transfers/ Additions	Transfers/ Retirements	Balances 12/31/14
Business-type activities:							
Capital assets not being depreciated							
Land & land rights	\$ 22,281	\$ 669	\$ 0	\$ 22,950	\$ 0	\$ 0	\$ 22,950
Construction in progress	<u>51,404</u>	<u>36,067</u>	<u>68,491</u>	<u>18,980</u>	<u>54,916</u>	<u>0</u>	<u>73,896</u>
Total	<u>73,685</u>	<u>36,736</u>	<u>68,491</u>	<u>41,930</u>	<u>54,916</u>	<u>0</u>	<u>96,846</u>
Capital assets being depreciated							
Structures, improvements, & water system	3,154,996	117,648	21,908	3,250,736	3,024	1,107	3,252,653
Office furniture & equipment	47,889	3,049	618	50,320	14,368	10,473	54,215
Vehicles & equipment	79,548	0	0	79,548	27,588	0	107,136
Machinery & equipment	<u>401,557</u>	<u>1,730</u>	<u>0</u>	<u>403,287</u>	<u>50,671</u>	<u>0</u>	<u>453,958</u>
Total	<u>3,683,990</u>	<u>122,427</u>	<u>22,526</u>	<u>3,783,891</u>	<u>95,651</u>	<u>11,580</u>	<u>3,867,962</u>
Total capital assets	<u>3,757,675</u>	<u>159,163</u>	<u>91,017</u>	<u>3,825,821</u>	<u>150,567</u>	<u>11,580</u>	<u>3,964,808</u>
Less accumulated depreciation for:							
Structures, improvements, & water system	1,567,023	60,210	18,409	1,608,824	72,587	1,030	1,680,381
Office furniture & equipment	39,224	3,086	618	41,692	3,875	10,473	35,094
Vehicles & equipment	77,737	1,752	0	79,489	3,501	0	82,990
Machinery & equipment	<u>147,606</u>	<u>20,455</u>	<u>0</u>	<u>168,061</u>	<u>23,691</u>	<u>0</u>	<u>191,752</u>
Total accumulated depreciation	<u>1,831,590</u>	<u>85,503</u>	<u>19,027</u>	<u>1,898,066</u>	<u>103,654</u>	<u>11,503</u>	<u>1,990,217</u>
Total business-type activities capital assets, net	<u>\$1,926,085</u>	<u>\$ 73,660</u>	<u>\$ 71,990</u>	<u>\$1,927,755</u>	<u>\$ 46,913</u>	<u>\$ 77</u>	<u>\$1,974,591</u>

NOTE F - LONG-TERM LIABILITIES

During 2014, the District entered into an agreement with a financial institution to finance the leasing of equipment. The lease agreement qualifies as a capital lease for accounting purposes. The equipment has an original cost of \$42,527. Monthly payments of \$1,772, including interest at a rate of 2.1038% began in June 2014 and will continue through May 2016. The debt service requirements to maturity are as follows:

Year Ended	
<u>December 31</u>	
2015	\$ 21,263
2016	<u>9,238</u>
Total minimum lease payments	30,501
Less amounts representing interest	(481)
Present value of minimum lease payments	<u>\$ 30,020</u>

Muhlenberg County Water District Number 3
 Notes to Financial Statements
December 31, 2014 and 2013

NOTE F - LONG-TERM LIABILITIES continued

Amortization expense associated with capital leases is presented with depreciation expense. The gross amount of equipment leased under capital leases is \$42,527 with accumulated depreciation of \$2,126 as of December 31, 2014.

Long-term liability activity

Long-term liability activity for the years ended December 31, 2014 and 2013, were as follows:

	Balances			Balances			Balances		Amounts
	<u>12/31/12</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/13</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/14</u>	<u>One Year</u>	Due Within
Capital Lease	\$ 0	\$ 0	\$ 0	\$ 0	\$ 42,527	\$ 12,507	\$ 30,020	\$ 20,832	
Customer Deposits	18,585	6,056	5,671	18,970	5,005	5,390	18,585	5,215	
Business-type Activities Long- Term Liabilities	<u>\$ 18,585</u>	<u>\$ 6,056</u>	<u>\$ 5,671</u>	<u>\$ 18,970</u>	<u>\$ 47,532</u>	<u>\$ 17,897</u>	<u>\$ 48,605</u>	<u>\$ 26,047</u>	

NOTE G - ACCUMULATED COMPENSATED ABSENCES

Effective March 2011 employees are no longer permitted to accumulate earned but unused vacation days beyond one year. The employees must use or cash out their yearly allotment of vacation time earned by the annual anniversary date of their employment.

NOTE H - EMPLOYEES' PENSION PLAN

Plan description

The District and covered employees contribute to the County Employers Retirement System (CERS), a cost-sharing, multiple-employer defined benefit plan administered by the Board of Trustees of the Kentucky Retirement Systems.

The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under circumstances. Cost-of-living adjustments are provided at the discretion of the State legislature. Kentucky Revised Statute Section 61.645 assigns the authority to establish and amend benefit provisions to the Board of Trustees of the Kentucky Retirement Systems.

The CERS financial statements and other supplementary information are contained in the publicly available annual financial report of the Kentucky Retirement Systems. Copies of the report are sent to each participating employer as well as distributed to legislative personnel, state libraries and other interested parties. Copies may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West 1260 Louisville Road, Frankfort, Kentucky 40601 or by calling 1-502-928-4646 or on the internet at www.kyret.com.

Muhlenberg County Water District Number 3
Notes to Financial Statements
December 31, 2014 and 2013

NOTE H - EMPLOYEES' PENSION PLAN continued

Funding policy

Per Kentucky Revised Statute 61.565, normal contribution and past service contribution rates shall be determined by the Board of Trustees of the Kentucky Retirement Systems on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board.

For the year ended December 31, 2014, plan members hired prior to September 1, 2008 were required to contribute 5% of their annual creditable compensation. Plan members hired subsequent to September 1, 2008 were required to contribute 6% of their annual creditable compensation.

The District is required to contribute at an actuarially determined rate. The District was required to contribute 17.67% of each employee's creditable compensation for the final six months of the year ended December 31, 2014. The District was required to contribute 18.89% of each employee's creditable compensation for the first six months of the year ended December 31, 2014 and for the final six months of the year ended December 31, 2013. The District was required to contribute 19.55% of each employee's creditable compensation for the first six months of the year ended December 31, 2013 and for the final six months of the year ended December 31, 2012. The District was required to contribute 18.96% of each employee's creditable compensation for the first six months of the year ended December 31, 2012. The District's contributions to CERS for the years ended December 31, 2014, 2013, and 2012 were \$37,814, \$40,375, and \$35,971, respectively.

NOTE I - RISK MANAGEMENT

The District is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; and injuries to employees. The District purchases commercial insurance for all risks of losses. Settlements resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE J - CONSTRUCTION IN PROGRESS AND CONSTRUCTION PROJECTS PAYABLE

During 2014, the District incurred \$53,316 in labor, excavating, legal, and materials cost related to the Clark Street Line Replacement project. These costs are considered construction in progress until the line replacement is complete.

During 2013, the District incurred an additional \$17,087 of cost related to the HWY 431 Water Line Relocation project. This project was completed and \$26,659 was capitalized. Also, the District incurred \$18,980 in engineering services related to the Clark Street Line Replacement project. These costs are considered construction in progress until the line replacement is completed. The District also owes an additional \$300 in engineering costs for services performed during December 2013. Also during 2013, 249 radio read meters was placed into service and \$41,832 was capitalized.

- Muhlenberg County Water District Number 3
Notes to Financial Statements
December 31, 2014 and 2013

NOTE K – CAPITAL CONTRIBUTIONS-STATE

The District has entered into an utility relocation contract with the Kentucky Transportation Cabinet, Department of Highways in regards to the HWY 431 Water Line Relocation project that has been completed. The District incurred and paid for \$26,659 of engineering costs during 2012 and 2013 and this amount was reimbursed during and subsequent to year end of 2013.

Also, The District has entered into an utility replacement contract with the Commonwealth of Kentucky, Kentucky Infrastructure Authority through Muhlenberg County Fiscal Court in regards to the Clark Street Line Replacement project. In 2014, the District incurred and paid \$53,316 of labor, excavating, legal, and materials cost and \$56,445 has been reimbursed during the year. In 2013, the District incurred and paid for \$18,980 of engineering costs and \$18,555 has been reimbursed during and subsequent to year end.

NOTE L – CHANGES IN PRESENTATION OF COMPARITIVE STATEMENTS

For the year ended December 31, 2014, the District's Statement of Cash Flows present customer deposits collected and refunded as Cash Flow From Operating Activities. For the year ended December 31, 2013, customer deposits collected and refunded were presented as Cash Flows From Capital and Related Financing Activities. For comparative purposes, the 2013 deposit collections and refunds are presented to correspond with 2014.

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COMMISSION**

Report

of

**Muhlenberg County Water District #3
Bremen, Kentucky**

For The Years Ended December 31, 2013 and 2012

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**PUBLIC SERVICE
COMMISSION**

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INDEPENDENT AUDITORS' REPORT

To the Commissioners
Muhlenberg County Water District Number 3
Bremen, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of Muhlenberg County Water District Number 3 as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Muhlenberg County Water District Number 3 as of December 31, 2013 and 2012, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-7 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 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 13, 2014, on our consideration of Muhlenberg County Water District Number 3's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Muhlenberg County Water District Number 3's internal control over financial reporting and compliance.

Alexander, Ince & Knight PLLC

Madisonville, Kentucky
February 13, 2014

MUHLENBERG COUNTY WATER DISTRICT NUMBER 3
Management's Discussion and Analysis
December 31, 2013 and 2012

The discussion and analysis of the Muhlenberg County Water District Number 3's financial performance provides an overview and analysis of the District's financial activities for the years ended December 31, 2013 and 2012. It should be read in conjunction with the accompanying basic financial statements.

Financial Highlights for the Year 2013

- * The District's net position increased \$88.3 thousand or 3.1% from \$2.816 million to \$2.905 million.
- * Income before capital contributions was \$48.5 thousand for the year ended December 31, 2013.

Overview Of The Financial Statements

This report consists of this management's discussion and analysis, basic financial statements, and notes to the financial statements. The basic financial statements are reported using the full accrual basis of accounting.

Basic financial statements:

The Statements of Net Position include information on the District's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to District creditors (liabilities). In simple terms, this statement presents a snap-shot view of the assets the District owns, the liabilities it owes and the net difference. The net difference is further separated into amounts restricted for specific purposes and unrestricted amounts.

The Statements of Revenues, Expenses, and Changes in Fund Net Assets include the District's revenues and expenses for the years ended December 31, 2013 and 2012. This statement provides information on the District's operations and can be used to determine whether the District has recovered all of its actual and projected costs through user fees and other charges.

The Statements 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.

The notes to the financial statements provide additional disclosures required by governmental accounting standards and provide information to assist the reader in understanding the District's financial condition.

District Financial Analysis

A summary of the District's Statements of Net Position is presented below.

Table 1
Condensed Statements of Net Position
(in thousands)

	<u>2013</u>	<u>2012</u>	<u>dollar</u> <u>change</u>	<u>percent</u> <u>change</u>	<u>2011</u>	<u>dollar</u> <u>change</u>	<u>percent</u> <u>change</u>
Current assets	\$ 654.1	\$ 606.3	\$ 47.8	7.9%	\$ 525.3	\$ 81.0	15.4%
Capital assets	1,927.8	1,926.1	1.7	0.1%	1,891.1	35.0	1.9%
Other noncurrent assets	<u>407.6</u>	<u>388.3</u>	19.3	5.0%	<u>382.6</u>	5.7	1.5%
Total assets	<u>2,989.5</u>	<u>2,920.7</u>	68.8	2.4%	<u>2,799.0</u>	121.7	4.3%
Current liabilities	71.1	91.1	(20.0)	(21.9%)	49.0	42.1	85.9%
Long-term liabilities	<u>13.8</u>	<u>13.3</u>	0.5	3.8%	<u>11.4</u>	1.9	16.7%
Total liabilities	<u>84.9</u>	<u>104.4</u>	(19.5)	(18.7%)	<u>60.4</u>	44.0	72.8%
Net assets invested in capital assets, net of related debt	1,925.5	1,883.8	41.7	2.2%	1,891.1	(7.3)	(0.4%)
Unrestricted net position	<u>979.1</u>	<u>932.5</u>	46.6	5.0%	<u>847.5</u>	85.0	10.0%
Total net position	<u>\$2,904.6</u>	<u>\$2,816.3</u>	\$ 88.3	3.1%	<u>\$2,738.6</u>	\$ 77.7	2.8%

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 \$2.905 million at the close of the current year.

2012 to 2013

As shown in table 1, the District's total assets increased by \$68,800 from \$2,920,700 to \$2,989,500. Current assets increased \$47,800 primarily due to increases in cash and cash equivalents which increased \$19,300 and accounts receivable which increased \$29,400. Accounts receivable balance is higher as the District had a significant adjusted purchased water rate increase during the year. The District's purchased water supplier increased rates during the year and the District adjusted it's rates accordingly. Capital assets increased \$1,700 as capital asset acquisitions kept pace with depreciation expense. Other noncurrent assets, which includes restricted cash, increased \$19,300 as the District had a positive cash flow during the year.

The District's current liabilities decreased \$20,000 due to an increase of \$20,000 in accounts payable and a decrease of \$40,000 in construction projects payable. Accounts payable were higher then the prior year as the District's water cost is significantly higher due to the supplier's rate increase. Construction projects payable are lower as the District had purchased a large number of meters at the end of the prior year yet had not paid for them nor installed the meters.

The District's total net position increased \$88,300 due to the net effect of the increase in total assets and decrease in total liabilities referred to above.

2011 to 2012

As shown in table 1, the District's total assets increased by \$121,700 from \$2,799,000 to \$2,920,700. Current assets increased \$81,000 primarily due to increases in cash and cash equivalents which increased \$63,900 and accounts receivable which increased \$13,950. Accounts receivable balance is higher as the District had a rate increase during the year. Capital assets increased \$35,000 primarily due to capital asset acquisitions outpacing depreciation expense.

The District's current liabilities increased \$42,100 due primarily to an increase of \$42,300 in construction projects payable as meters were acquired prior to year end but not yet paid.

The District's total net position increased \$77,700 due to the net effect of the increases in total assets and total liabilities referred to above.

A summary of the District's Statements of Revenues, Expenses and Changes in Net Position is presented below.

Table 2
Condensed Statements of Revenues, Expenses and Changes in Net Position
(in thousands)

	<u>2013</u>	<u>2012</u>	<u>dollar change</u>	<u>percent change</u>	<u>2011</u>	<u>dollar change</u>	<u>percent change</u>
Operating revenues	\$1,252.4	\$1,013.2	\$ 239.2	23.6%	\$ 938.6	\$ 74.6	7.9%
Nonoperating revenues	<u>5.4</u>	<u>11.2</u>	(5.8)	(0.5%)	<u>10.8</u>	0.4	3.7%
Total revenues	<u>1,257.8</u>	<u>1,024.4</u>	233.4	22.8%	<u>949.4</u>	75.0	7.9%
Operating expenses	1,208.9	963.7	245.2	25.4%	939.0	24.7	2.6%
Nonoperating expenses	<u>0.4</u>	<u>0.0</u>	0.4	0.0%	<u>0.0</u>	(0.0)	(0.0%)
Total expenses	<u>1,209.3</u>	<u>963.7</u>	245.6	25.5%	<u>939.0</u>	24.7	2.6%
Income (loss) before capital contributions	48.5	60.7	(12.2)	(20.1%)	10.4	50.3	483.7%
Capital contributions	<u>39.8</u>	<u>17.0</u>	22.8	134.1%	<u>104.8</u>	(87.8)	(83.8%)
Changes in net position	88.3	77.7	10.6	13.6%	115.2	(37.5)	(32.6%)
Beginning net position	<u>2,816.3</u>	<u>2,738.6</u>	77.7	2.8%	<u>2,623.4</u>	115.2	4.4%
Ending net position	<u>\$2,904.6</u>	<u>\$2,816.3</u>	\$ 88.3	3.1%	<u>\$2,738.6</u>	\$ 77.7	2.8%

2012 to 2013

As shown in table 2, the District's total revenues increased \$233,400. Water sales increased \$239,200 as the District passed through to customers a 17% purchased water rate increase from the District's supplier.

The District's total expenses increased \$245,600 from the prior year. Purchased water increased \$224,500 due to the 17% rate increase from the District's supplier. Salaries and wages increased \$17,800 due to wage increases and a higher amount of overtime. Employee benefits were \$10,700 higher due to increases in pension cost. Materials and supplies decreased \$10,500 as the District experienced a lower rate of repair work during the year. Contract services decreased \$5,700 compared to the prior year as the prior year had increased building maintenance and increased water testing.

Capital contributions increased \$22,800 due to increased activity for a line relocation project and a line replacement project. The District is receiving state grant monies for these projects.

Changes in net position increased \$88,300 due to the net effect of the above changes.

2011 to 2012

As shown in table 2, the District's total revenues increased \$74,800. Water sales increased \$68,000 as the District had a 5.05% water rate increase during the year.

The District's total expenses increased \$24,700 from the prior year. Purchased water increased \$18,000. The District experienced high water loss early in 2012 which attributed to the increased water cost. Salaries and wages decreased \$13,700 due to employees being required to cash out accumulated compensated absences during 2011. Beginning in 2011, employees are now only allowed to accumulate one year of compensated absences and there was a significant higher amount cashed out in 2011. Materials and supplies increased \$17,000 as the District experienced a higher rate of repair work during the year. Contract services increased \$9,000 during the year due to building maintenance and increased water testing.

Capital contributions decreased \$87,800 due to a \$100,000 grant received from Muhlenberg County Fiscal Court in the prior year and not in 2012.

Changes in net position increased \$77,700 due to the net effect of the above changes.

Capital Assets and Debt Administration

Capital Assets

At December 31, 2013 the District had \$1,927,755 invested in capital assets, net of accumulated depreciation, including land, structures, improvements and water system, and office furniture and equipment. This amount represents a net increase (additions, retirements, depreciation) of \$1,670 from the prior year.

Significant additional expenditures during the year included normal additional expenditures on meters which totaled approximately \$80,300 and the completion of the highway 431 line relocation project.

At December 31, 2012 the District had \$1,926,085 invested in capital assets, net of accumulated depreciation, including land, structures, improvements and water system, and office furniture and equipment. This amount represents a net increase (additions, retirements, depreciation) of \$35,019 from the prior year.

Significant additional expenditures during the year included normal additional expenditures on meters which totaled approximately \$63,700.

A comparison of the District's capital assets over the past three years is presented in Note E of the financial statements.

Long-Term Debt

At December 31, 2013, the District had \$18,970, net reductions of \$385, in long-term liabilities which included customer deposits. There were no new borrowings.

At December 31, 2012, the District had \$25,307, net reductions of \$68, in long-term liabilities which included customer deposits and accumulated compensated absences. There were no new borrowings.

Additional information on the District's long-term debt can be found in Note F of the financial statements.

Currently Known Facts, Decisions, or Conditions

There are no currently known facts, decisions, or conditions that District management expects to have a significant effect on financial position or results of operations.

Requests For Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Muhlenberg County Water District Number 3, 4789 Main Street, Bremen, Kentucky 42325.

Muhlenberg County Water District Number 3
Statement of Net Position
December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 458,434	\$ 439,104
Accounts receivable	154,609	125,168
Other receivables	0	9,272
Material and parts inventory	32,086	24,903
Prepaid expenses	<u>8,988</u>	<u>7,816</u>
Total current assets	<u>654,117</u>	<u>606,263</u>
Noncurrent assets		
Restricted cash and cash equivalents	407,639	388,315
Capital assets:		
Nondepreciable	41,930	73,685
Depreciable, net of accumulated depreciation	<u>1,885,825</u>	<u>1,852,400</u>
Total noncurrent assets	<u>2,335,394</u>	<u>2,314,400</u>
Total assets	<u>2,989,511</u>	<u>2,920,663</u>
Liabilities		
Current liabilities payable from current assets		
Accounts payable	55,046	35,358
Construction project payable	2,290	42,300
Accrued taxes and other payables	1,716	1,409
Accumulated compensated absences	<u>6,905</u>	<u>6,722</u>
	<u>65,957</u>	<u>85,789</u>
Current liabilities payable from restricted assets		
Customer deposits	<u>5,204</u>	<u>5,297</u>
	<u>5,204</u>	<u>5,297</u>
Total current liabilities	<u>71,161</u>	<u>91,086</u>
Long-term liabilities		
Customer deposits	<u>13,766</u>	<u>13,288</u>
Total noncurrent liabilities	<u>13,766</u>	<u>13,288</u>
Total liabilities	<u>84,927</u>	<u>104,374</u>
Net Position		
Invested in capital assets, net of related debt	1,925,465	1,883,785
Unrestricted	<u>979,119</u>	<u>932,504</u>
Total net position	<u>\$2,904,584</u>	<u>\$2,816,289</u>

The accompanying notes are an integral part of these statements.

Muhlenberg County Water District Number 3
 Statement of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Operating revenues		
Water sales	\$1,214,872	\$ 979,013
Other operating revenues	<u>37,546</u>	<u>34,171</u>
Total operating revenues	<u>1,252,418</u>	<u>1,013,184</u>
Operating expenses		
Purchased water	647,240	422,690
Salaries and wages	238,654	220,790
Depreciation	85,503	87,796
Employee benefits	85,267	74,546
Transportation	15,345	12,676
Contract services	24,638	30,396
Taxes	17,966	16,394
Purchased power	23,741	25,560
Materials and supplies	25,939	36,418
Insurance	16,452	15,149
Miscellaneous	23,815	18,006
Regulatory commission expense	1,809	1,646
Uncollectible accounts	<u>2,532</u>	<u>1,671</u>
Total operating expenses	<u>1,208,901</u>	<u>963,738</u>
Operating income (loss)	43,517	49,446
Nonoperating revenues (expenses)		
Interest income	5,393	8,957
Interest expense	(6)	0
Gains (losses) on sale of capital assets	<u>(445)</u>	<u>2,227</u>
Total nonoperating revenues (expenses)	<u>4,942</u>	<u>11,184</u>
Income (loss) before contributions	48,459	60,630
Capital contributions-state	32,886	9,272
Capital contributions-tap fees	6,950	6,025
Capital contributions-customers	<u>0</u>	<u>1,723</u>
Change in net position	88,295	77,650
Net position beginning of year	<u>2,816,289</u>	<u>2,738,639</u>
Net position end of year	<u><u>\$2,904,584</u></u>	<u><u>\$2,816,289</u></u>

The accompanying notes are an integral part of these statements.

Muhlenberg County Water District Number 3
Statement of Cash Flows
Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<u>Cash flows from operating activities</u>		
Cash received from customers	\$1,182,899	\$ 963,390
Cash payments to suppliers for goods and services	(859,125)	(658,046)
Cash payments to employees for services	(238,654)	(220,790)
Other operating revenues	<u>37,546</u>	<u>34,171</u>
Net cash provided (used) by operating activities	122,666	118,725
<u>Cash flows from capital and related financing activities</u>		
Acquisition and construction of capital assets	(132,674)	(69,289)
Interest paid on customer deposits	(6)	(9)
Customer deposits collected	6,056	5,810
Customer deposits refunded	(5,671)	(4,585)
Capital contributions received from customers	6,950	7,748
Capital contributions from state	32,886	0
Proceeds received on disposition of capital assets	<u>3,054</u>	<u>2,227</u>
Net cash provided (used) for capital and related financing activities	(89,405)	(58,098)
<u>Cash flows from investing activities</u>		
Interest earned on bank deposits	<u>5,393</u>	<u>8,957</u>
Net cash provided (used) for investing activities	5,393	8,957
Net increase (decrease) in cash and cash equivalents	38,654	69,584
Cash and cash equivalents at beginning of year	<u>827,419</u>	<u>757,835</u>
Cash and cash equivalents at end of year	<u>\$ 866,073</u>	<u>\$ 827,419</u>
<u>Reconciliation of operating income to net cash provided (used) by operating activities</u>		
Operating income (loss)	\$ 43,517	\$ 49,446
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	85,503	87,796
Change in assets and liabilities:		
(Increase) decrease in accounts receivable	(29,441)	(13,952)
(Increase) decrease in other receivables	9,272	(9,272)
(Increase) decrease in inventory	(7,183)	6,304
(Increase) decrease in prepaid expenses	(1,172)	(119)
Increase (decrease) in accounts payable	21,680	(270)
Increase (decrease) in accrued expenses	307	85
Increase (decrease) in compensated absences	<u>183</u>	<u>(1,293)</u>
Total adjustments	<u>79,149</u>	<u>69,279</u>
Net cash provided by operating activities	<u>\$ 122,666</u>	<u>\$ 118,725</u>

The accompanying notes are an integral part of these statements.

Muhlenberg County Water District Number 3
Notes to Financial Statements
December 31, 2013 and 2012

NOTE A - SUMMARY OF ACCOUNTING POLICIES

The accounting policies of the Muhlenberg County Water District Number 3 conform to Generally Accepted Accounting Principles (GAAP) as applicable to governments. The District applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989 unless those pronouncements conflict with or contradict Governmental Accounting Standards Board (GASB) pronouncements, in which case, GASB prevails. The following is a summary of the more significant policies:

1. The Financial Reporting Entity

Muhlenberg County Water District Number 3 (the "District") was created on April 24, 1967, under the provisions of Chapter 74 of the Kentucky Revised Statutes of the Commonwealth of Kentucky. The principal office of the District is located at Bremen, Kentucky. The District is composed of three commissioners who are appointed by the Muhlenberg County Judge Executive and provides water to its members in and around Muhlenberg County, Kentucky.

In evaluating how to define the government, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GASB Statement No. 14 - *The Financial Reporting Entity*.

2. Basis of Presentation, Measurement Focus, and Basis of Accounting

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 activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the District's assets, liabilities, net position, revenues, and expenses. Enterprise Funds account for activities 1) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or 2) that are required by laws or regulations that the activities costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or 3) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

The transactions of the District are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statements of net position. Net position is required to be displayed in three components: 1) invested in capital assets, net of related debt, 2) restricted, and 3) unrestricted. Invested in capital assets, net of related debt is capital assets net of accumulated depreciation and reduced by outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Restricted net position are those with constraints placed on their use by either: 1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or 2) imposed by law through constitutional provisions or enabling legislation. Net position not otherwise classified as restricted, are shown as unrestricted. The statements of revenue, expenses, and changes in net position present increases (revenues) and decreases (expenses) in net position.

Muhlenberg County Water District Number 3
Notes to Financial Statements
December 31, 2013 and 2012

NOTE A - SUMMARY OF ACCOUNTING POLICIES continued

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. The accounts of the District are maintained on the accrual basis of accounting. Its revenues are recognized when they are earned, and its expenses are recognized when they are incurred.

Proprietary 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 a proprietary fund's principal ongoing operations. The principal operating revenues and expenses of the District's enterprise fund are charges to customers for 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.

Unbilled water receivables for utility services provided through December 31 are included in the financial statements.

When both restricted and unrestricted resources are available for use, the District generally first uses restricted resources, then unrestricted resources as they are needed.

3. Cash and Cash Equivalents

All cash except for a small amount kept "on hand" is deposited in financial institutions. Deposits are interest bearing checking accounts and certificates of deposit. Unrestricted cash is available to be expended for normal operating expenses. Restricted cash is limited to payments of bond principal and interest, emergency capital improvements, and other designated purposes. Cash and cash equivalents are defined as being all monies on deposit in banks and investments with a maturity of 90 days or less.

4. Inventory

Inventory consists primarily of replacement parts and supplies. Inventory is stated at the lower of cost or market. Cost is determined primarily by the first-in, first-out method.

5. Capital Assets

Capital assets, which include property, plant, and equipment, are recorded at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. No interest was capitalized during the years ended December 31, 2013 and 2012.

Muhlenberg County Water District Number 3
 Notes to Financial Statements
December 31, 2013 and 2012

NOTE A - SUMMARY OF ACCOUNTING POLICIES continued

Capital assets of the District are depreciated using a straight-line method over the following estimated useful lives:

Structures, improvements and water system	10 to 65 years
Furniture, machinery and equipment	2 to 10 years
Vehicles	5 years

6. Restricted Net Position

Restricted net position is cash set aside for the repayment of debt in compliance with bond covenants and cash restricted for future operations in compliance with escrow reserve agreements. The District currently doesn't have any restricted net position.

7. Long-Term Liabilities

Long-term debt is reported as liabilities in the statement of net position. Long-term debt is reported at face value.

8. Uncollectible Accounts

All accounts receivable are considered by management to be collectible, therefore no provision for uncollectible accounts has been established. Uncollectible accounts are expensed using the direct write-off method.

9. Use of Estimates

The preparation of financial statements in accordance with accounting principals generally accepted in the United States requires management to make estimates that affect amounts reported in the financial statements during the reporting period. Actual results could differ from those estimates.

NOTE B - DEPOSITS

The District maintains deposits with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to law, the depository institution should pledge sufficient securities as collateral which, together with FDIC insurance, equals or exceeds the amount 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 of securities should be evidenced by an agreement that is (1) in writing, (2) 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 (3) an official record of the depository institution. This agreement, signed by both parties, must be sufficient to create an enforceable and perfected security interest in the collateral under Kentucky law.

Deposits are categorized to give an indication of risk assumed by the District at the end of the year. Category 1 includes deposits that are insured, Category 2 includes collateralized deposits held by the pledging institution's trust department or agent in the District's name, and Category 3 includes uncollateralized and uninsured deposits.

Muhlenberg County Water District Number 3
 Notes to Financial Statements
December 31, 2013 and 2012

NOTE B - DEPOSITS continued

On December 31, 2013, the reconciled balance of the District's deposits totaled \$866,073 and the bank balances were \$876,462. Of the bank balances \$573,349 was covered by federal depository insurance (category 1). Also of the bank balances, \$303,113 was collateralized by additional securities held by the pledging depository institution's trust department or agent in the District's name (category 2).

On December 31, 2012, the reconciled balance of the District's deposits totaled \$827,279 and the bank balances were \$836,881. Of the bank balances \$553,190 was covered by federal depository insurance (category 1). Also of the bank balances, \$283,691 was collateralized by additional securities held by the pledging depository institution's trust department or agent in the District's name (category 2).

NOTE C - PREPAID EXPENSES

Prepaid expenses include prepaid insurance, which represents the amount of unexpired insurance, which the District had previously paid for at the balance sheet date.

At December 31, 2013, the District's prepaid expenses consisted of \$8,988 of insurance. At December 31, 2012, the District's prepaid expenses consisted of \$7,816 of insurance.

NOTE D - RESTRICTED CASH AND CASH EQUIVALENTS

The District has cash set aside for the repayment of debt (which has been fully paid), cash restricted for future operations, cash set aside for future capital assets, and cash set aside for repayment of customer deposits.

Restricted balances as of December 31 are as follows:

	<u>2013</u>	<u>2012</u>
Bond and interest redemption fund	\$ 73,332	\$ 72,831
Bond depreciation fund	291,668	289,111
Customer meter deposit fund	23,156	22,798
Construction fund	<u>19,483</u>	<u>3,575</u>
Totals	<u>\$ 407,639</u>	<u>\$ 388,315</u>

Muhlenberg County Water District Number 3
 Notes to Financial Statements
December 31, 2013 and 2012

NOTE E - CAPITAL ASSETS

Capital asset activities for the years ended December 31, 2013 and 2012, were as follows:

	Balances 12/31/11	Transfers/ Additions	Transfers/ Retirements	Balances 12/31/12	Transfers/ Additions	Transfers/ Retirements	Balances 12/31/13
Business-type activities:							
Capital assets not being depreciated							
Land & land rights	\$ 22,281	\$ 0	\$ 0	\$ 22,281	\$ 669	\$ 0	\$ 22,950
Construction in progress	0	51,404	0	51,404	36,067	68,491	18,980
Total	22,281	51,404	0	73,685	36,736	68,491	41,930
Capital assets being depreciated							
Structures, improvements, & water system	3,105,862	66,099	16,965	3,154,996	117,648	21,908	3,250,736
Office furniture & equipment	46,084	1,805	0	47,889	3,049	618	50,320
Vehicles & equipment	79,548	0	0	79,548	0	0	79,548
Machinery & equipment	398,050	3,507	0	401,557	1,730	0	403,287
Total	3,629,544	71,411	16,965	3,683,990	122,427	22,526	3,783,891
Total capital assets	3,651,825	122,815	16,965	3,757,675	159,163	91,017	3,825,821
Less accumulated depreciation for:							
Structures, improvements, & water system	1,525,138	58,850	16,965	1,567,023	60,210	18,409	1,608,824
Office furniture & equipment	36,181	3,043	0	39,224	3,086	618	41,692
Vehicles & equipment	72,349	5,388	0	77,737	1,752	0	79,489
Machinery & equipment	127,091	20,515	0	147,606	20,455	0	168,061
Total accumulated depreciation	1,760,759	87,796	16,965	1,831,590	85,503	19,027	1,898,066
Total business-type activities capital assets, net	\$1,891,066	\$ 35,019	\$ 0	\$1,926,085	\$ 73,660	\$ 71,990	\$1,927,755

Muhlenberg County Water District Number 3
 Notes to Financial Statements
December 31, 2013 and 2012

NOTE F - LONG-TERM LIABILITIES

Long-term liability activity

Long-term liability activity for the years ended December 31, 2013 and 2012, were as follows:

	Balances			Balances			Balances	Amounts
	<u>12/31/11</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/12</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/13</u>	<u>Due Within</u>
								<u>One Year</u>
Customer Deposits	17,360	5,810	4,585	18,585	6,056	5,671	18,970	5,204
Business-type Activities Long- Term Liabilities	\$ 17,360	\$ 5,810	\$ 4,585	\$ 18,585	\$ 6,056	\$ 5,671	\$ 18,970	\$ 5,204

NOTE G - ACCUMULATED COMPENSATED ABSENCES

Effective March 2011 employees are no longer permitted to accumulate earned but unused vacation days beyond one year. The employees must use or cash out their yearly allotment of vacation time earned by the annual anniversary date of their employment.

NOTE H - EMPLOYEES' PENSION PLAN

Plan description

The District and covered employees contribute to the County Employers Retirement System (CERS), a cost-sharing, multiple-employer defined benefit plan administered by the Board of Trustees of the Kentucky Retirement Systems.

The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under circumstances. Cost-of-living adjustments are provided at the discretion of the State legislature. Kentucky Revised Statute Section 61.645 assigns the authority to establish and amend benefit provisions to the Board of Trustees of the Kentucky Retirement Systems.

The CERS financial statements and other supplementary information are contained in the publicly available annual financial report of the Kentucky Retirement Systems. Copies of the report are sent to each participating employer as well as distributed to legislative personnel, state libraries and other interested parties. Copies may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West 1260 Louisville Road, Frankfort, Kentucky 40601 or by calling 1-502-928-4646 or on the internet at www.kyret.com.

Muhlenberg County Water District Number 3
Notes to Financial Statements
December 31, 2013 and 2012

NOTE H - EMPLOYEES' PENSION PLAN continued

Funding policy

Per Kentucky Revised Statute 61.565, normal contribution and past service contribution rates shall be determined by the Board of Trustees of the Kentucky Retirement Systems on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board.

For the year ended December 31, 2013, plan members hired prior to September 1, 2008 were required to contribute 5% of their annual creditable compensation. Plan members hired subsequent to September 1, 2008 were required to contribute 6% of their annual creditable compensation.

The District is required to contribute at an actuarially determined rate. The District was required to contribute 18.89% of each employee's creditable compensation for the final six months of the year ended December 31, 2013. The District was required to contribute 19.55% of each employee's creditable compensation for the first six months of the year ended December 31, 2013 and for the final six months of the year ended December 31, 2012. The District was required to contribute 18.96% of each employee's creditable compensation for the first six months of the year ended December 31, 2012 and for the final six months of the year ended December 31, 2011. The District was required to contribute 16.93% of each employee's creditable compensation for the first six months of the year ended December 31, 2011. The District's contributions to CERS for the years ended December 31, 2013, 2012, and 2011 were \$40,375, \$35,971, and \$36,920, respectively.

NOTE I - RISK MANAGEMENT

The District is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; and injuries to employees. The District purchases commercial insurance for all risks of losses. Settlements resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Muhlenberg County Water District Number 3
Notes to Financial Statements
December 31, 2013 and 2012

NOTE J - CONSTRUCTION IN PROGRESS AND CONSTRUCTION PROJECTS PAYABLE

During 2013, the District incurred an additional \$17,087 of cost related to the HWY 431 Water Line Relocation project. This project was completed and \$26,659 was capitalized. Also, the District incurred \$18,980 in engineering services related to the Clark Street Line Replacement project. These costs are considered construction in progress until the line replacement is completed. The District also owes an additional \$300 in engineering costs for services performed during December 2013. Also during 2013, 249 radio read meters was placed into service and \$41,832 was capitalized.

During 2012, the District incurred \$9,272 of cost related to the HWY 431 Water Line Relocation project. Engineering services have been performed and are estimated to be completed during 2013. These costs are considered construction in progress until the line relocation is completed. The District also owes an additional \$300 in engineering costs for services performed during December 2012. These costs are also included in construction in progress. During December 2012 the District received an order of 250 radio read meters with a cost of \$42,000. One of the meters was placed in service during December 2012 while the other 249 meters were not in service. \$42,000 of cost incurred with the purchase of the radio read meters is still payable at year end and \$41,832 of costs are in construction in progress.

NOTE K - CAPITAL CONTRIBUTIONS-STATE AND OTHER RECEIVABLES

The District has entered into an utility relocation contract with the Kentucky Transportation Cabinet, Department of Highways in regards to the HWY 431 Water Line Relocation project that has been completed. The District incurred and paid for \$26,659 of engineering costs during 2012 and 2013 and this amount was reimbursed during and subsequent to year end. Also, The District has entered into an utility replacement contract with the Commonwealth of Kentucky, Kentucky Infrastructure Authority in regards to the Clark Street Line Replacement project. The District incurred and paid for \$18,980 of engineering costs during 2013 and \$18,555 has been reimbursed during and subsequent to year end.

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

To The Commissioners
Muhlenberg County Water District Number 3
Bremen, Kentucky

We have audited, 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, the financial statements of Muhlenberg County Water District Number 3 as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, and have issued our report thereon dated February 13, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Muhlenberg County Water District Number 3's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Muhlenberg County Water District Number 3's internal control. Accordingly, we do not express an opinion on the effectiveness of Muhlenberg County Water District Number 3's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, as discussed below, that we consider to be significant deficiencies.

2013-1 Segregation of Duties

Condition: The internal control relating to receipts and disbursements is inadequate due to a lack of segregation of duties.

Criteria: Adequate segregation of duties is essential to an adequate internal control over financial reporting by allocating various duties among employees.

Effect: The lack of proper segregation of duties may permit errors or irregularities to go undetected.

Cause: There is a small number of accounting personnel. The cost versus benefit relationship prevents the District from hiring enough accounting personnel to properly segregate key accounting functions.

Recommendation: While the small number of employees that exist will never provide proper segregation of duties, the District should continually review job responsibilities for better accounting controls.

Response: The District concurs with the recommendation and will continually review job responsibilities to improve accounting controls when possible.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Muhlenberg County Water District Number 3'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*.

Muhlenberg County Water District Number 3's Response to Findings

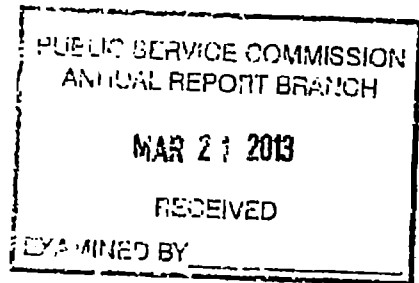
Muhlenberg County Water District Number 3's response to the findings identified in our audit is described above. Muhlenberg County Water District Number 3's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purposes.

Alexander, Toney : Knight PLLC

Madisonville, Kentucky
February 13, 2014



Report

of

**Muhlenberg County Water District #3
Bremen, Kentucky**

For The Years Ended December 31, 2012 and 2011

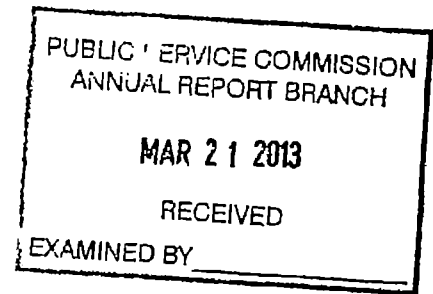


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Alexander, Toney & Knight PLLC

CERTIFIED PUBLIC ACCOUNTANTS

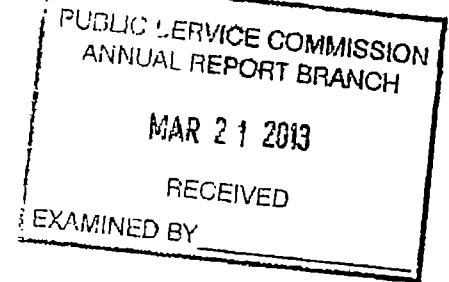
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Independent Auditor's Report

To the Commissioners
Muhlenberg County Water District Number 3
Bremen, Kentucky



Report on the Financial Statements

We have audited the accompanying financial statements of Muhlenberg County Water District Number 3 as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Muhlenberg County Water District Number 3 as of December 31, 2012 and 2011, and the changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 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 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 8, 2013, on our consideration of Muhlenberg County Water District Number 3's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Muhlenberg County Water District Number 3's internal control over financial reporting and compliance.

Alexander, Toney & Knight PLLC

Madisonville, Kentucky
February 8, 2013

MUHLENBERG COUNTY WATER DISTRICT NUMBER 3
Management's Discussion and Analysis
December 31, 2012 and 2011

The discussion and analysis of the Muhlenberg County Water District Number 3's financial performance provides an overview and analysis of the District's financial activities for the years ended December 31, 2012 and 2011. It should be read in conjunction with the accompanying basic financial statements.

Financial Highlights for the Year 2012

- * The District's net position increased \$77.7 thousand or 2.8% from \$2.739 million to \$2.816 million.
- * Income before capital contributions was \$60.6 thousand for the year ended December 31, 2012.

Overview Of The Financial Statements

This report consists of this management's discussion and analysis, basic financial statements, and notes to the financial statements. The basic financial statements are reported using the full accrual basis of accounting.

Basic financial statements:

The Statements of Net Position include information on the District's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to District creditors (liabilities). In simple terms, this statement presents a snap-shot view of the assets the District owns, the liabilities it owes and the net difference. The net difference is further separated into amounts restricted for specific purposes and unrestricted amounts.

The Statements of Revenues, Expenses, and Changes in Fund Net Assets include the District's revenues and expenses for the years ended December 31, 2012 and 2011. This statement provides information on the District's operations and can be used to determine whether the District has recovered all of its actual and projected costs through user fees and other charges.

The Statements 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.

The notes to the financial statements provide additional disclosures required by governmental accounting standards and provide information to assist the reader in understanding the District's financial condition.

District Financial Analysis

A summary of the District's Statements of Net Position is presented below.

Table 1
Condensed Statements of Net Position
(in thousands)

	<u>2012</u>	<u>2011</u>	<u>dollar change</u>	<u>percent change</u>	<u>2010</u>	<u>dollar change</u>	<u>percent change</u>
Current assets	\$ 606.3	\$ 525.3	\$ 81.0	15.4%	\$ 516.5	\$ 8.8	1.7%
Capital assets	1,926.1	1,891.1	35.0	1.9%	1,947.0	(55.9)	(2.9%)
Other noncurrent assets	<u>388.3</u>	<u>382.6</u>	5.7	1.5%	<u>375.0</u>	7.6	2.0%
Total assets	<u>2,920.7</u>	<u>2,799.0</u>	121.7	4.3%	<u>2,838.5</u>	(39.5)	(1.4%)
Current liabilities	91.1	49.0	42.1	85.9%	181.7	(132.7)	(73.0%)
Long-term liabilities	<u>13.3</u>	<u>11.4</u>	1.9	16.7%	<u>33.4</u>	(22.0)	(65.9%)
Total liabilities	<u>104.4</u>	<u>60.4</u>	44.0	72.8%	<u>215.1</u>	(154.7)	(71.9%)
Net assets invested in capital assets, net of related debt	1,883.8	1,891.1	(7.3)	(0.4%)	1,947.0	(55.9)	(2.9%)
Unrestricted net assets	<u>932.5</u>	<u>847.5</u>	85.0	10.0%	<u>676.4</u>	171.1	25.3%
Total net assets	<u><u>\$2,816.3</u></u>	<u><u>\$2,738.6</u></u>	\$ 77.7	2.8%	<u><u>\$2,623.4</u></u>	\$ 115.2	4.4%

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 \$2.816 million at the close of the current year.

2011 to 2012

As shown in table 1, the District's total assets increased by \$121,700 from \$2,799,000 to \$2,920,700. Current assets increased \$81,000 primarily due to increases in cash and cash equivalents which increased \$63,900 and accounts receivable which increased \$13,950. Accounts receivable balance is higher as the District had a rate increase during the year. Capital assets increased \$35,000 primarily due to capital asset acquisitions outpacing depreciation expense.

The District's current liabilities increased \$42,100 due primarily to an increase of \$42,300 in construction projects payable as meters were acquired prior to year end but not yet paid.

The District's total net position increased \$77,700 due to the net effect of the increases in total assets and total liabilities referred to above.

2010 to 2011

As shown in table 1, the District's total assets decreased by \$39,500 from \$2,838,500 to \$2,799,000. Current assets increased \$8,800 primarily due to increases in accounts receivable which increased \$8,200. Accounts receivable balance is higher as the District had a rate increase during the year. Capital assets decreased \$55,900 primarily due to depreciation expense outpacing capital asset acquisitions.

The District's current liabilities decreased \$132,700 due primarily to a decrease of \$132,000 in construction projects payable. The District eliminated the payable partly upon receiving \$100,000 in grant monies from McLean County. Noncurrent liabilities decreased \$22,000 as accumulated compensated absences decreased \$21,900. The District changed its policy regarding accumulation of earned but unused vacation days. Accumulation is now limited to the annual anniversary date of each employee.

The District's total net position increased \$115,200 due to the net effect of the decreases in total assets and total liabilities referred to above. Net assets invested in capital assets net of related debt, a component of total net position, decreased \$55,900 reflecting the same decrease in capital assets.

A summary of the District's Statements of Revenues, Expenses and Changes in Net Position is presented below.

Table 2
Condensed Statements of Revenues, Expenses and Changes in Net Position
(in thousands)

	<u>2012</u>	<u>2011</u>	dollar <u>change</u>	percent <u>change</u>	<u>2010</u>	dollar <u>change</u>	percent <u>change</u>
Operating revenues	\$1,013.2	\$ 938.6	\$ 74.6	7.9%	\$ 889.8	\$ 48.8	5.5%
Nonoperating revenues	<u>11.2</u>	<u>10.8</u>	0.4	3.7%	<u>13.6</u>	(2.8)	(20.6%)
Total revenues	<u>1,024.4</u>	<u>949.4</u>	75.0	7.9%	<u>903.4</u>	46.0	5.1%
Operating expenses	963.7	939.0	24.7	2.6%	929.3	9.7	1.0%
Nonoperating expenses	<u>0.0</u>	<u>0.0</u>	(0.0)	0.0%	<u>0.0</u>	(0.0)	0.0%
Total expenses	<u>963.7</u>	<u>939.0</u>	24.7	2.6%	<u>929.3</u>	9.7	1.0%
Income (loss) before capital contributions	60.7	10.4	50.3	483.7%	(25.9)	36.3	140.2%
Capital contributions	<u>17.0</u>	<u>104.8</u>	(87.8)	(83.8%)	<u>11.0</u>	93.8	852.7%
Changes in net position	77.7	115.2	(37.5)	(32.6%)	(14.9)	130.1	873.2%
Beginning net position	<u>2,738.6</u>	<u>2,623.4</u>	115.2	4.4%	<u>2,638.3</u>	(14.9)	(0.6%)
Ending net position	<u>\$2,816.3</u>	<u>\$2,738.6</u>	\$ 77.7	2.8%	<u>\$2,623.4</u>	\$ 115.2	4.4%

2011 to 2012

As shown in table 2, the District's total revenues increased \$74,800. Water sales increased \$68,000 as the District had a 5.05% water rate increase during the year.

The District's total expenses increased \$24,700 from the prior year. Purchased water increased \$18,000. The District experienced high water loss early in 2012 which attributed to the increased water cost. Salaries and wages decreased \$13,700 due to employees being required to cash out accumulated compensated absences during 2011. Beginning in 2011, employees are now only allowed to accumulate one year of compensated absences and there was a significant higher amount cashed out in 2011. Materials and supplies increased \$17,000 as the District experienced a higher rate of repair work during the year. Contract services increased \$9,000 during the year due to building maintenance and increased water testing.

Capital contributions decreased \$87,800 due to a \$100,000 grant received from Muhlenberg County Fiscal Court in the prior year and not in 2012.

Changes in net position increased \$77,700 due to the net effect of the above changes.

2010 to 2011

As shown in table 2, the District's total revenues increased \$46,000. Water sales increased \$45,500 as the District had a 5.05% water rate increase during the year. Nonoperating revenues decreased \$2,800. Interest income decreased \$5,500 as interest rates dropped in 2011. Also fully depreciated meters were scrapped for \$2,648.

The District's total expenses increased \$9,700 from the prior year. Purchased water decreased \$16,000 as the District is taking a more aggressive approach toward water loss management. Salaries and wages increased \$19,700 due to employees being required to cash out accumulated compensated absences. Materials and supplies decreased \$14,500 as the District enforced a more strict budget to reduce expenses. Depreciation expense increased \$7,200 as a full year of depreciation was incurred on new capital assets installed in prior years.

Capital contributions increased \$93,800 due to a \$100,000 grant from Muhlenberg County Fiscal Court.

Changes in net position increased \$115,200 due to the net effect of the above changes.

Capital Assets and Debt Administration

Capital Assets

At December 31, 2012 the District had \$1,883,785 invested in capital assets, net of accumulated depreciation, including land, structures, improvements and water system, and office furniture and equipment. This amount represents a net decrease (additions, retirements, depreciation) of \$7,281 from the prior year.

Significant additional expenditures during the year included normal additional expenditures on meters which totaled approximately \$63,700.

At December 31, 2011 the District had \$1,891,066 invested in capital assets, net of accumulated depreciation, including land, structures, improvements and water system, and office furniture and equipment. This amount represents a net decrease (additions, retirements, depreciation) of \$55,957 from the prior year. The increase is primarily due to \$88,293 depreciation expense in 2011 and capital asset additions during the year totaling \$32,336.

Significant additions during the year included normal additional expenditures on meters which totaled approximately \$19,900.

A comparison of the District's capital assets over the past three years is presented in Note E of the financial statements.

Long-Term Debt

At December 31, 2012, the District had \$25,307, net reductions of \$68, in long-term liabilities which included customer deposits and accumulated compensated absences. There were no new borrowings.

At December 31, 2011, the District had \$25,375, net reductions of \$21,222, in long-term liabilities which included customer deposits and accumulated compensated absences. There were no new borrowings.

Additional information on the District's long-term debt can be found in Note F of the financial statements.

Currently Known Facts, Decisions, or Conditions

There are no currently known facts, decisions, or conditions that District management expects to have a significant effect on financial position or results of operations.

Requests For Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Muhlenberg County Water District Number 3, 4789 Main Street, Bremen, Kentucky 42325.

Muhlenberg County Water District Number 3
Statement of Net Position
December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<u>Assets</u>		
Current assets		
Cash and cash equivalents	\$ 439,104	\$ 375,196
Accounts receivable	125,168	111,216
Other receivables	9,272	0
Material and parts inventory	24,903	31,207
Prepaid expenses	<u>7,816</u>	<u>7,697</u>
Total current assets	<u>606,263</u>	<u>525,316</u>
Noncurrent assets		
Restricted cash and cash equivalents	388,315	382,639
Capital assets:		
Nondepreciable	73,685	22,281
Depreciable, net of accumulated depreciation	<u>1,852,400</u>	<u>1,868,785</u>
Total noncurrent assets	<u>2,314,400</u>	<u>2,273,705</u>
Total assets	<u>2,920,663</u>	<u>2,799,021</u>
<u>Liabilities</u>		
Current liabilities payable from current assets		
Accounts payable	35,358	33,674
Construction project payable	42,300	0
Accrued taxes and other payables	1,409	1,324
Accumulated compensated absences	<u>6,722</u>	<u>8,015</u>
	<u>85,789</u>	<u>43,013</u>
Current liabilities payable from restricted assets		
Customer deposits	5,297	5,991
Accrued interest-customer deposits	<u>0</u>	<u>9</u>
	<u>5,297</u>	<u>6,000</u>
Total current liabilities	<u>91,086</u>	<u>49,013</u>
Long-term liabilities		
Customer deposits	<u>13,288</u>	<u>11,369</u>
Total noncurrent liabilities	<u>13,288</u>	<u>11,369</u>
Total liabilities	<u>104,374</u>	<u>60,382</u>
<u>Net Position</u>		
Invested in capital assets, net of related debt	1,883,785	1,891,066
Unrestricted	<u>932,504</u>	<u>847,573</u>
Total net position	<u>\$2,816,289</u>	<u>\$2,738,639</u>

The accompanying notes are an integral part of these statements.

Muhlenberg County Water District Number 3
Statement of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating revenues		
Water sales	\$ 979,013	\$ 910,618
Other operating revenues	<u>34,171</u>	<u>28,022</u>
Total operating revenues	<u>1,013,184</u>	<u>938,640</u>
Operating expenses		
Purchased water	422,690	404,768
Salaries and wages	220,790	234,526
Depreciation	87,796	88,293
Employee benefits	74,546	81,917
Transportation	12,676	14,081
Contract services	30,396	21,155
Taxes	16,394	19,455
Purchased power	25,560	21,256
Materials and supplies	36,418	19,225
Insurance	15,149	14,685
Miscellaneous	18,006	16,060
Regulatory commission expense	1,646	1,360
Uncollectible accounts	<u>1,671</u>	<u>2,049</u>
Total operating expenses	<u>963,738</u>	<u>938,830</u>
Operating income (loss)	49,446	(190)
Nonoperating revenues (expenses)		
Interest income	8,957	8,132
Interest expense	0	(182)
Gains (losses) on sale of capital assets	<u>2,227</u>	<u>2,648</u>
Total nonoperating revenues (expenses)	<u>11,184</u>	<u>10,598</u>
Income (loss) before contributions	60,630	10,408
Capital contributions-state	9,272	100,000
Capital contributions-tap fees	6,025	1,950
Capital contributions-customers	<u>1,723</u>	<u>2,866</u>
Change in net position	77,650	115,224
Net position beginning of year	<u>2,738,639</u>	<u>2,623,415</u>
Net position end of year	<u><u>\$2,816,289</u></u>	<u><u>\$2,738,639</u></u>

The accompanying notes are an integral part of these statements.

Muhlenberg County Water District Number 3
Statement of Cash Flows
Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<u>Cash flows from operating activities</u>		
Cash received from customers	\$ 963,390	\$ 900,331
Cash payments to suppliers for goods and services	(658,046)	(640,412)
Cash payments to employees for services	(220,790)	(234,526)
Other operating revenues	<u>34,171</u>	<u>28,022</u>
Net cash provided (used) by operating activities	118,725	53,415
<u>Cash flows from capital and related financing activities</u>		
Acquisition and construction of capital assets	(69,289)	(164,627)
Interest paid on customer deposits	(9)	(183)
Customer deposits collected	5,810	6,126
Customer deposits refunded	(4,585)	(5,356)
Capital contributions received from customers	7,748	4,816
Proceeds from grant	0	100,000
Gain on disposition of capital assets	2,227	2,648
Capital contributions refunded to customers	<u>0</u>	<u>(1,502)</u>
Net cash provided (used) for capital and related financing activities	(58,098)	(58,078)
<u>Cash flows from investing activities</u>		
Interest earned on bank deposits	<u>8,957</u>	<u>8,132</u>
Net cash provided (used) for investing activities	8,957	8,132
Net increase (decrease) in cash and cash equivalents	69,584	3,469
Cash and cash equivalents at beginning of year	<u>757,835</u>	<u>754,366</u>
Cash and cash equivalents at end of year	<u>\$ 827,419</u>	<u>\$ 757,835</u>
<u>Reconciliation of operating income to net cash provided (used) by operating activities</u>		
Operating income (loss)	\$ 49,446	(\$ 190)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	87,796	88,293
Change in assets and liabilities:		
(Increase) decrease in accounts receivable	(13,952)	(8,238)
(Increase) decrease in other receivables	(9,272)	1,786
(Increase) decrease in inventory	6,304	(6,365)
(Increase) decrease in prepaid expenses	(119)	(185)
Increase (decrease) in accounts payable	(270)	88
Increase (decrease) in accrued expenses	85	219
Increase (decrease) in compensated absences	<u>(1,293)</u>	<u>(21,993)</u>
Total adjustments	<u>69,279</u>	<u>53,605</u>
Net cash provided by operating activities	<u>\$ 118,725</u>	<u>\$ 53,415</u>

The accompanying notes are an integral part of these statements.

Muhlenberg County Water District Number 3
Notes to Financial Statements
December 31, 2012 and 2011

NOTE A - SUMMARY OF ACCOUNTING POLICIES

The accounting policies of the Muhlenberg County Water District Number 3 conform to Generally Accepted Accounting Principles (GAAP) as applicable to governments. The District applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989 unless those pronouncements conflict with or contradict Governmental Accounting Standards Board (GASB) pronouncements, in which case, GASB prevails. The following is a summary of the more significant policies:

1. The Financial Reporting Entity

Muhlenberg County Water District Number 3 (the "District") was created on April 24, 1967, under the provisions of Chapter 74 of the Kentucky Revised Statutes of the Commonwealth of Kentucky. The principal office of the District is located at Bremen, Kentucky. The District is composed of three commissioners who are appointed by the Muhlenberg County Judge Executive and provides water to its members in and around Muhlenberg County, Kentucky.

In evaluating how to define the government, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GASB Statement No. 14 - *The Financial Reporting Entity*.

2. Basis of Presentation, Measurement Focus, and Basis of Accounting

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 activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the District's assets, liabilities, net assets, revenues, and expenses. Enterprise Funds account for activities 1) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or 2) that are required by laws or regulations that the activities costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or 3) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

The transactions of the District are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statements of net position. Net assets are required to be displayed in three components: 1) invested in capital assets, net of related debt, 2) restricted, and 3) unrestricted. Invested in capital assets, net of related debt is capital assets net of accumulated depreciation and reduced by outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Restricted net assets are those with constraints placed on their use by either: 1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or 2) imposed by law through constitutional provisions or enabling legislation. All net assets not otherwise classified as restricted, are shown as unrestricted. The statements of revenue, expenses, and changes in net position present increases (revenues) and decreases (expenses) in net assets.

Muhlenberg County Water District Number 3
Notes to Financial Statements
December 31, 2012 and 2011

NOTE A - SUMMARY OF ACCOUNTING POLICIES continued

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. The accounts of the District are maintained on the accrual basis of accounting. Its revenues are recognized when they are earned, and its expenses are recognized when they are incurred.

Proprietary 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 a proprietary fund's principal ongoing operations. The principal operating revenues and expenses of the District's enterprise fund are charges to customers for 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.

Unbilled water receivables for utility services provided through December 31 are included in the financial statements.

When both restricted and unrestricted resources are available for use, the District generally first uses restricted resources, then unrestricted resources as they are needed.

3. Cash and Cash Equivalents

All cash except for a small amount kept "on hand" is deposited in financial institutions. Deposits are interest bearing checking accounts and certificates of deposit. Unrestricted cash is available to be expended for normal operating expenses. Restricted cash is limited to payments of bond principal and interest, emergency capital improvements, and other designated purposes. Cash and cash equivalents are defined as being all monies on deposit in banks and investments with a maturity of 90 days or less.

4. Inventory

Inventory consists primarily of replacement parts and supplies. Inventory is stated at the lower of cost or market. Cost is determined primarily by the first-in, first-out method.

5. Capital Assets

Capital assets, which include property, plant, and equipment, are recorded at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. No interest was capitalized during the years ended December 31, 2012 and 2011.

Muhlenberg County Water District Number 3
 Notes to Financial Statements
December 31, 2012 and 2011

NOTE A - SUMMARY OF ACCOUNTING POLICIES continued

Capital assets of the District are depreciated using a straight-line method over the following estimated useful lives:

Structures, improvements and water system	10 to 65 years
Furniture, machinery and equipment	2 to 10 years
Vehicles	5 years

6. Restricted Net Assets

Restricted net assets are cash set aside for the repayment of debt in compliance with bond covenants and cash restricted for future operations in compliance with escrow reserve agreements. The District currently doesn't have any restricted net assets.

7. Long-Term Liabilities

Long-term debt is reported as liabilities in the statement of net assets. Long-term debt is reported at face value.

8. Uncollectible Accounts

All accounts receivable are considered by management to be collectible, therefore no provision for uncollectible accounts has been established. Uncollectible accounts are expensed using the direct write-off method.

9. Use of Estimates

The preparation of financial statements in accordance with accounting principals generally accepted in the United States requires management to make estimates that affect amounts reported in the financial statements during the reporting period. Actual results could differ from those estimates.

NOTE B - DEPOSITS

The District maintains deposits with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to law, the depository institution should pledge sufficient securities as collateral which, together with FDIC insurance, equals or exceeds the amount 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 of securities should be evidenced by an agreement that is (1) in writing, (2) 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 (3) an official record of the depository institution. This agreement, signed by both parties, must be sufficient to create an enforceable and perfected security interest in the collateral under Kentucky law.

Deposits are categorized to give an indication of risk assumed by the District at the end of the year. Category 1 includes deposits that are insured, Category 2 includes collateralized deposits held by the pledging institution's trust department or agent in the District's name, and Category 3 includes uncollateralized and uninsured deposits.

Muhlenberg County Water District Number 3
 Notes to Financial Statements
December 31, 2012 and 2011

NOTE B - DEPOSITS continued

On December 31, 2012, the reconciled balance of the District's deposits totaled \$827,279 and the bank balances were \$836,881. Of the bank balances \$553,190 was covered by federal depository insurance (category 1). Also of the bank balances, \$283,691 was collateralized by additional securities held by the pledging depository institution's trust department or agent in the District's name (category 2).

On December 31, 2011, the reconciled balance of the District's deposits totaled \$757,835 and the bank balances were \$767,468. Of the bank balances \$517,936 was covered by federal depository insurance (category 1). Also of the bank balances, \$249,532 was collateralized by additional securities held by the pledging depository institution's trust department or agent in the District's name (category 2).

NOTE C - PREPAID EXPENSES

Prepaid expenses include prepaid insurance, which represents the amount of unexpired insurance, which the District had previously paid for at the balance sheet date.

At December 31, 2012, the District's prepaid expenses consisted of \$7,816 of insurance. At December 31, 2011, the District's prepaid expenses consisted of \$7,697 of insurance.

NOTE D - RESTRICTED CASH AND CASH EQUIVALENTS

The District has cash set aside for the repayment of debt (which has been fully paid), cash restricted for future operations, cash set aside for future capital assets, and cash set aside for repayment of customer deposits.

Restricted balances as of December 31 are as follows:

	<u>2012</u>	<u>2011</u>
Bond and interest redemption fund	\$ 72,831	\$ 71,875
Bond depreciation fund	289,111	285,631
Customer meter deposit fund	22,798	21,558
Construction fund	<u>3,575</u>	<u>3,575</u>
Totals	<u>\$ 388,315</u>	<u>\$ 382,639</u>

Muhlenberg County Water District Number 3
 Notes to Financial Statements
December 31, 2012 and 2011

NOTE E - CAPITAL ASSETS

Capital asset activities for the years ended December 31, 2012 and 2011, were as follows:

	Balances <u>12/31/10</u>	Transfers/ <u>Additions</u>	Transfers/ <u>Retirements</u>	Balances <u>12/31/11</u>	Transfers/ <u>Additions</u>	Transfers/ <u>Retirements</u>	Balances <u>12/31/12</u>
Business-type activities:							
Capital assets not being depreciated							
Land & land rights	\$ 22,281	\$ 0	\$ 0	\$ 22,281	\$ 0	\$ 0	\$ 22,281
Construction in progress	31,524	0	31,524	0	51,404	0	51,404
Total	<u>53,805</u>	<u>0</u>	<u>31,524</u>	<u>22,281</u>	<u>51,404</u>	<u>0</u>	<u>73,685</u>
Capital assets being depreciated							
Structures, improvements, & water system	3,057,124	57,850	9,112	3,105,862	66,099	16,965	3,154,996
Office furniture & equipment	42,917	3,167	0	46,084	1,805	0	47,889
Vehicles & equipment	79,548	0	0	79,548	0	0	79,548
Machinery & equipment	<u>395,207</u>	<u>2,843</u>	<u>0</u>	<u>398,050</u>	<u>3,507</u>	<u>0</u>	<u>401,557</u>
Total	<u>3,574,796</u>	<u>63,860</u>	<u>9,112</u>	<u>3,629,544</u>	<u>71,411</u>	<u>16,965</u>	<u>3,683,990</u>
Total capital assets	<u>3,628,601</u>	<u>63,860</u>	<u>40,636</u>	<u>3,651,825</u>	<u>122,815</u>	<u>16,965</u>	<u>3,757,675</u>
Less accumulated depreciation for:							
Structures, improvements, & water system	1,476,782	57,468	9,112	1,525,138	58,850	16,965	1,567,023
Office furniture & equipment	33,392	2,789	0	36,181	3,043	0	39,224
Vehicles & equipment	64,928	7,421	0	72,349	5,388	0	77,737
Machinery & equipment	<u>106,476</u>	<u>20,615</u>	<u>0</u>	<u>127,091</u>	<u>20,515</u>	<u>0</u>	<u>147,606</u>
Total accumulated depreciation	<u>1,681,578</u>	<u>88,293</u>	<u>9,112</u>	<u>1,760,759</u>	<u>87,796</u>	<u>16,965</u>	<u>1,831,590</u>
Total business-type activities capital assets, net	<u>\$1,947,023</u>	<u>(\$ 24,433)</u>	<u>\$ 31,524</u>	<u>\$1,891,066</u>	<u>\$ 35,019</u>	<u>\$ 0</u>	<u>\$1,926,085</u>

Muhlenberg County Water District Number 3
Notes to Financial Statements
December 31, 2012 and 2011

NOTE F - LONG-TERM LIABILITIES

Long-term liability activity

Long-term liability activity for the years ended December 31, 2012 and 2011, were as follows:

	Balances			Balances			Balances		Amounts
	<u>12/31/10</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/11</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/12</u>	<u>12/31/11</u>	Due Within
									One Year
Customer Deposits	16,590	6,126	5,356	17,360	5,810	4,585	18,585		5,297
Accumulated Compensated Absences	<u>30,007</u>	<u>11,874</u>	<u>33,866</u>	<u>8,015</u>	<u>14,503</u>	<u>15,796</u>	<u>6,722</u>	<u>6,722</u>	<u>6,722</u>
Business-type Activities Long- Term Liabilities	<u>\$ 46,597</u>	<u>\$ 18,000</u>	<u>\$ 39,222</u>	<u>\$ 25,375</u>	<u>\$ 20,313</u>	<u>\$ 20,381</u>	<u>\$ 25,307</u>	<u>\$ 12,019</u>	

NOTE G - ACCUMULATED COMPENSATED ABSENCES

Effective March 2011 employees are no longer permitted to accumulate earned but unused vacation days beyond one year. The employees must use or cash out their yearly allotment of vacation time earned by the annual anniversary date of their employment.

NOTE H - EMPLOYEES' PENSION PLAN

Plan description

The District and covered employees contribute to the County Employers Retirement System (CERS), a cost-sharing, multiple-employer defined benefit plan administered by the Board of Trustees of the Kentucky Retirement Systems.

The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under circumstances. Cost-of-living adjustments are provided at the discretion of the State legislature. Kentucky Revised Statute Section 61.645 assigns the authority to establish and amend benefit provisions to the Board of Trustees of the Kentucky Retirement Systems.

The CERS financial statements and other supplementary information are contained in the publicly available annual financial report of the Kentucky Retirement Systems. Copies of the report are sent to each participating employer as well as distributed to legislative personnel, state libraries and other interested parties. Copies may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West 1260 Louisville Road, Frankfort, Kentucky 40601 or by calling 1-502-928-4646 or on the internet at www.kyret.com.

Muhlenberg County Water District Number 3
Notes to Financial Statements
December 31, 2012 and 2011

NOTE H - EMPLOYEES' PENSION PLAN continued

Funding policy

Per Kentucky Revised Statute 61.565, normal contribution and past service contribution rates shall be determined by the Board of Trustees of the Kentucky Retirement Systems on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board.

For the year ended December 31, 2012, plan members hired prior to September 1, 2008 were required to contribute 5% of their annual creditable compensation. Plan members hired subsequent to September 1, 2008 were required to contribute 6% of their annual creditable compensation.

The District is required to contribute at an actuarially determined rate. The District was required to contribute 19.55% of each employee's creditable compensation for the final six months of the year ended December 31, 2012. The District was required to contribute 18.96% of each employee's creditable compensation for the first six months of the year ended December 31, 2012 and for the final six months of the year ended December 31, 2011. The District was required to contribute 16.93% of each employee's creditable compensation for the first six months of the year ended December 31, 2011 and for the final six months of the year ended December 31, 2010. The District was required to contribute 16.16% of each employee's creditable compensation for the first six months of the year ended December 31, 2010. The District's contributions to CERS for the years ended December 31, 2012, 2011, and 2010 were \$35,971, \$36,920, and \$31,556, respectively.

NOTE I - RISK MANAGEMENT

The District is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; and injuries to employees. The District purchases commercial insurance for all risks of losses. Settlements resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE J - MAJOR SUPPLIER

The District purchases 100% of water resold from Central City, Kentucky.

NOTE K - GAINS (LOSSES) ON DISPOSITIONS OF ASSETS

2012

During 2012, the District scrapped fully depreciated meters for \$2,227.

2011

During 2011, the District scrapped fully depreciated meters for \$2,648.

Muhlenberg County Water District Number 3
Notes to Financial Statements
December 31, 2012 and 2011

NOTE L - CONSTRUCTION IN PROGRESS AND CONSTRUCTION PROJECTS PAYABLE

The District incurred \$9,272 of cost related to the line relocation project on Clark Street. Engineering services have been performed and are estimated to be completed during 2013. These costs are considered construction in progress until the line relocation is completed. The District also owes an additional \$300 in engineering costs for services performed during December 2012. These costs are also included in construction in progress. During December 2012 the District received an order of 250 radio read meters with a cost of \$42,000. One of the meters was placed in service during December 2012 while the other 249 meters were not in service. \$42,000 of cost incurred with the purchase of the radio read meters is still payable at year end and \$41,832 of costs are in construction in progress.

NOTE M - CAPITAL CONTRIBUTIONS-STATE AND OTHER RECEIVABLES

The District has entered into an utility relocation contract with the Kentucky Transportation Cabinet, Department of Highways in regards to the line relocation project being performed on Clark Street. The District incurred and paid for \$9,272 of engineering costs during 2012 and this amount was reimbursed subsequent to year end.

Alexander, Toney & Knight PLLC

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards (for a Governmental Entity)*

To The Commissioners
Muhlenberg County Water District Number 3
Bremen, Kentucky

We have audited, 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, the financial statements of Muhlenberg County Water District Number 3 as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, and have issued our report thereon dated February 8, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Muhlenberg County Water District Number 3's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Muhlenberg County Water District Number 3's internal control. Accordingly, we do not express an opinion on the effectiveness of Muhlenberg County Water District Number 3's internal control.

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. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, as discussed below, that we consider to be significant deficiencies.

2012-1 Segregation of Duties

Condition: The internal control relating to receipts and disbursements is inadequate due to a lack of segregation of duties.

Criteria: Adequate segregation of duties is essential to an adequate internal control over financial reporting by allocating various duties among employees.

Effect: The lack of proper segregation of duties may permit errors or irregularities to go undetected.

Cause: There is a small number of accounting personnel. The cost versus benefit relationship prevents the District from hiring enough accounting personnel to properly segregate key accounting functions.

Recommendation: While the small number of employees that exist will never provide proper segregation of duties, the District should continually review job responsibilities for better accounting controls.

Response: The District concurs with the recommendation and will continually review job responsibilities to improve accounting controls when possible.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Muhlenberg County Water District Number 3'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*.

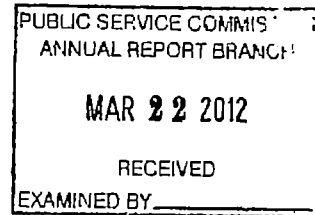
Muhlenberg County Water District Number 3's Response to Findings

Muhlenberg County Water District Number 3's response to the findings identified in our audit is described above. Muhlenberg County Water District Number 3's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purposes.

Alexander, Toney & Knight PLLC
Madisonville, Kentucky
February 8, 2013



Report

of

**Muhlenberg County Water District #3
Bremen, Kentucky**

For The Years Ended December 31, 2011 and 2010

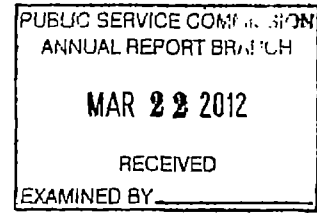


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INDEPENDENT AUDITORS' REPORT

To the Commissioners
Muhlenberg County Water District Number 3
Bremen, Kentucky

We have audited the accompanying financial statements of Muhlenberg County Water District Number 3 as of and for the years ended December 31, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of Muhlenberg County Water District Number 3's management. Our responsibility is to express an opinion 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 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 above present fairly, in all material respects, the financial position of Muhlenberg County Water District Number 3, as of December 31, 2011 and 2010, and the changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 9, 2012, on our consideration of Muhlenberg County Water District Number 3's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and 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 3 through 7 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 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.

Alexander, Toney & Knight PLLC

Madisonville, Kentucky

February 9, 2012

MUHLENBERG COUNTY WATER DISTRICT NUMBER 3
Management's Discussion and Analysis
December 31, 2011 and 2010

The discussion and analysis of the Muhlenberg County Water District Number 3's financial performance provides an overview and analysis of the District's financial activities for the years ended December 31, 2011 and 2010. It should be read in conjunction with the accompanying basic financial statements.

Financial Highlights for the Year 2011

- * The District's net assets increased \$115.2 thousand or 4.4% from \$2.623 million to \$2.739 million.
- * Income before capital contributions was \$10.4 thousand for the year ended December 31, 2011.

Overview Of The Financial Statements

This report consists of this management's discussion and analysis, basic financial statements, and notes to the financial statements. The basic financial statements are reported using the full accrual basis of accounting.

Basic financial statements:

The Statements of Net Assets include information on the District's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to District creditors (liabilities). In simple terms, this statement presents a snap-shot view of the assets the District owns, the liabilities it owes and the net difference. The net difference is further separated into amounts restricted for specific purposes and unrestricted amounts.

The Statements of Revenues, Expenses, and Changes in Fund Net Assets include the District's revenues and expenses for the years ended December 31, 2011 and 2010. This statement provides information on the District's operations and can be used to determine whether the District has recovered all of its actual and projected costs through user fees and other charges.

The Statements 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.

The notes to the financial statements provide additional disclosures required by governmental accounting standards and provide information to assist the reader in understanding the District's financial condition.

District Financial Analysis

A summary of the District's Statements of Net Assets is presented below.

Table 1
Condensed Statements of Net Assets
(in thousands)

	<u>2011</u>	<u>2010</u>	<u>dollar</u> <u>change</u>	<u>percent</u> <u>change</u>	<u>2009</u>	<u>dollar</u> <u>change</u>	<u>percent</u> <u>change</u>
Current assets	\$ 525.3	\$ 516.5	\$ 8.8	1.7%	\$ 654.7	(\$ 138.2)	(21.1%)
Capital assets	1,891.1	1,947.0	(55.9)	(2.9%)	1,682.0	265.0	15.8%
Other noncurrent assets	<u>382.6</u>	<u>375.0</u>	7.6	2.0%	<u>375.5</u>	(0.5)	(0.1%)
Total assets	<u>2,799.0</u>	<u>2,838.5</u>	(39.5)	(1.4%)	<u>2,712.2</u>	126.3	4.7%
Current liabilities	49.0	181.7	(132.7)	(73.0%)	45.6	136.1	298.5%
Long-term liabilities	<u>11.4</u>	<u>33.4</u>	(22.0)	(65.9%)	<u>28.3</u>	5.1	18.0%
Total liabilities	<u>60.4</u>	<u>215.1</u>	(154.7)	(71.9%)	<u>73.9</u>	141.2	191.1%
Net assets invested in capital assets, net of related debt	1,891.1	1,947.0	(55.9)	(2.9%)	1,682.0	265.0	15.8%
Unrestricted net assets	<u>847.5</u>	<u>676.4</u>	171.1	25.3%	<u>956.3</u>	(279.9)	(29.3%)
Total net assets	<u>\$2,738.6</u>	<u>\$2,623.4</u>	\$ 115.2	4.4%	<u>\$2,638.3</u>	(\$ 14.9)	(0.6%)

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 \$2.739 million at the close of the current year.

2010 to 2011

As shown in table 1, the District's total assets decreased by \$39,500 from \$2,838,500 to \$2,799,000. Current assets increased \$8,800 primarily due to increases in accounts receivable which increased \$8,200. Accounts receivable balance is higher as the District had a rate increase during the year. Capital assets decreased \$55,900 primarily due to depreciation expense outpacing capital asset acquisitions.

The District's current liabilities decreased \$132,700 due primarily to a decrease of \$132,000 in construction projects payable. The District eliminated the payable partly upon receiving \$100,000 in grant monies from McLean County. Noncurrent liabilities decreased \$22,000 as accumulated compensated absences decreased \$21,900. The District changed it's policy regarding accumulation of earned but unused vacation days. Accumulation is now limited to the annual anniversary date of each employee.

The District's total net assets increased \$115,200 due to the net effect of the decreases in total assets and total liabilities referred to above. Net assets invested in capital assets net of related debt, a component of total net assets, decreased \$55,900 reflecting the same decrease in capital assets.

2009 to 2010

As shown in table 1, the District's total assets increased by \$126,300 from \$2,712,200 to \$2,838,500. Current assets decreased \$138,200 primarily due to decreases in O & M cash balances which decreased \$141,000. The decrease in O & M cash balances is due to the use of cash reserves on major capital projects. The District began conversion to radio-read meters during the current year. Capital assets increased \$265,000 primarily due to additions to capital assets, which included the above project and the purchase and installation of generators outpacing depreciation expense.

The District's current liabilities increased \$136,100 due primarily to an increase of \$132,000 in construction projects payable. Included in the liability are payables of \$95,000 for five generators purchased and \$37,000 for meters purchased in December 2010. Noncurrent liabilities increased \$5,100 as accumulated compensated absences increased \$5,200.

The District's total net assets decreased \$14,900 due to the net effect of the increases in total assets and total liabilities referred to above. Net assets invested in capital assets net of related debt, a component of total net assets, increased \$265,000 reflecting the same increase in capital assets. Unrestricted net assets decreased by similar amounts as total net assets remained similar to the prior year.

A summary of the District's Statements of Revenues, Expenses and Changes in Fund Net Assets is presented below.

Table 2
Condensed Statements of Revenues, Expenses and Changes in Fund Net Assets
(in thousands)

	2011	2010	dollar change	percent change	2009	dollar change	percent change
Operating revenues	\$ 938.6	\$ 889.8	\$ 48.8	5.5%	\$ 866.8	\$ 23.0	2.7%
Nonoperating revenues	10.8	13.6	(2.8)	(20.6%)	26.3	(12.7)	(48.3%)
Total revenues	<u>949.4</u>	<u>903.4</u>	46.0	5.1%	<u>893.1</u>	10.3	1.2%
Operating expenses	939.0	929.3	9.7	1.0%	900.1	29.2	3.2%
Nonoperating expenses	0.0	0.0	(0.0)	0.0%	8.2	(8.2)	100.0%
Total expenses	<u>939.0</u>	<u>929.3</u>	9.7	1.0%	<u>908.3</u>	21.0	2.3%
Income (loss) before capital contributions	10.4	(25.9)	36.3	140.2%	(15.2)	(10.7)	(70.4%)
Capital contributions	<u>104.8</u>	<u>11.0</u>	93.8	852.7%	<u>5.3</u>	5.7	107.5%
Changes in net assets	115.2	(14.9)	130.1	873.2%	(9.9)	(5.0)	(50.5%)
Beginning net assets	<u>2,623.4</u>	<u>2,638.3</u>	(14.9)	(0.6%)	<u>2,648.2</u>	(9.9)	(0.4%)
Ending net assets	<u>\$2,738.6</u>	<u>\$2,623.4</u>	\$ 115.2	4.4%	<u>\$2,638.3</u>	(\$ 14.9)	(0.6%)

2010 to 2011

As shown in table 2, the District's total revenues increased \$46,000. Water sales increased \$45,500 as the District had a 5.05% water rate increase during the year. Nonoperating revenues decreased \$2,800. Interest income decreased \$5,500 as interest rates dropped in 2011. Also fully depreciated meters were scrapped for \$2,648.

The District's total expenses increased \$9,700 from the prior year. Purchased water decreased \$16,000 as the District is taking a more aggressive approach toward water loss management. Salaries and wages increased \$19,700 due to employees being required to cash out accumulated compensated absences. Materials and supplies decreased \$14,500 as the District enforced a more strict budget to reduce expenses. Depreciation expense increased \$7,200 as a full year of depreciation was incurred on new capital assets installed in prior years.

Capital contributions increased \$93,800 due to a \$100,000 grant from Muhlenberg County Fiscal Court.

Changes in net assets increased \$115,200 due to the net effect of the above changes.

2009 to 2010

As shown in table 2, the District's total revenues increased \$10,300. Water sales increased \$24,000 as the District experienced higher sales from commercial customers. Nonoperating revenues decreased \$12,700. Interest income decreased \$6,700 as cash balances and interest rates dropped in 2010. Also, non-capital grants of \$6,000 received in the prior year were not received in the current year.

The District's total expenses increased \$21,000 from the prior year. Employee benefits increased \$8,000 due to rising health insurance costs and higher contribution rates of the employee pension plan. Depreciation expense increased \$11,000 as a full year of depreciation was experienced on major capital projects put into service in 2009. Materials and supplies increased \$9,000 as higher supply costs were experienced.

Capital contributions increased \$5,700 due to increase in tap fees and increase in customer contributions.

Changes in net assets decreased \$14,900 due to the net effect of the above changes.

Capital Assets and Debt Administration

Capital Assets

At December 31, 2011 the District had \$1,891,066 invested in capital assets, net of accumulated depreciation, including land, structures, improvements and water system, and office furniture and equipment. This amount represents a net decrease (additions, retirements, depreciation) of \$55,957 from the prior year. The decrease is primarily due to \$88,293 depreciation expense in 2011 and capital asset additions during the year totaling \$32,336.

Significant additional expenditures during the year included normal additional expenditures on meters which totaled approximately \$19,900.

At December 31, 2010 the District had \$1,947,023 invested in capital assets, net of accumulated depreciation, including land, structures, improvements and water system, and office furniture and equipment. This amount represents a net increase (additions, retirements, depreciation) of \$265,072 from the prior year. The increase is primarily due to \$81,074 depreciation expense in 2010 and significant additions during the year.

Significant additions during the year included the placing in service of two major capital projects. The capitalized cost of five generators placed into service was \$95,176. The capitalized cost of the radio-read meter system placed into service was \$200,944. Other significant additions included normal additional expenditures on meters which totaled approximately \$23,993 and pumping equipment additions which totaled \$12,495.

A comparison of the District's capital assets over the past three years is presented in Note E of the financial statements.

Long-Term Debt

At December 31, 2011, the District had \$25,375, net reductions of \$21,222, in long-term liabilities which included customer deposits and accumulated compensated absences. There were no new borrowings.

At December 31, 2010, the District had \$46,597, net additions of \$4,902, in long-term liabilities which included customer deposits and accumulated compensated absences. There were no new borrowings.

Additional information on the District's long-term debt can be found in Note F of the financial statements.

Currently Known Facts, Decisions, or Conditions

There are no currently known facts, decisions, or conditions that District management expects to have a significant effect on financial position or results of operations.

Requests For Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Muhlenberg County Water District Number 3, 4789 Main Street, Bremen, Kentucky 42325.

Muhlenberg County Water District Number 3
Statement of Net Assets
December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
<u>Assets</u>		
Current assets		
Cash and cash equivalents	\$ 375,196	\$ 379,336
Accounts receivable	111,216	102,978
Other receivables	0	1,786
Material and parts inventory	31,207	24,842
Prepaid expenses	<u>7,697</u>	<u>7,512</u>
Total current assets	<u>525,316</u>	<u>516,454</u>
Noncurrent assets		
Restricted cash and cash equivalents	382,639	375,030
Capital assets:		
Nondepreciable	22,281	53,805
Depreciable, net of accumulated depreciation	<u>1,868,785</u>	<u>1,893,218</u>
Total noncurrent assets	<u>2,273,705</u>	<u>2,322,053</u>
Total assets	<u>2,799,021</u>	<u>2,838,507</u>
<u>Liabilities</u>		
Current liabilities payable from current assets		
Accounts payable	33,674	33,405
Construction project payable	0	132,472
Accrued taxes and other payables	1,324	2,607
Accumulated compensated absences	<u>8,015</u>	<u>7,141</u>
	<u>43,013</u>	<u>175,625</u>
Current liabilities payable from restricted assets		
Customer deposits	5,991	6,050
Accrued interest-customer deposits	<u>9</u>	<u>10</u>
	<u>6,000</u>	<u>6,060</u>
Total current liabilities	<u>49,013</u>	<u>181,685</u>
Long-term liabilities		
Accumulated compensated absences	0	22,867
Customer deposits	<u>11,369</u>	<u>10,540</u>
Total noncurrent liabilities	<u>11,369</u>	<u>33,407</u>
Total liabilities	<u>60,382</u>	<u>215,092</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	1,891,066	1,947,023
Unrestricted	<u>847,573</u>	<u>676,392</u>
Total net assets	<u>\$2,738,639</u>	<u>\$2,623,415</u>

The accompanying notes are an integral part of these statements.

Muhlenberg County Water District Number 3
Statement of Revenues, Expenses and Changes in Fund Net Assets
Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Operating revenues		
Water sales	\$ 910,618	\$ 865,141
Other operating revenues	<u>28,022</u>	<u>24,696</u>
Total operating revenues	<u>938,640</u>	<u>889,837</u>
Operating expenses		
Purchased water	404,768	420,965
Salaries and wages	234,526	214,825
Depreciation	88,293	81,074
Employee benefits	81,917	78,252
Transportation	14,081	11,037
Contract services	21,155	19,360
Taxes	19,455	16,282
Purchased power	21,256	20,797
Materials and supplies	19,225	33,729
Insurance	14,685	14,706
Miscellaneous	16,060	14,486
Regulatory commission expense	1,360	1,373
Uncollectible accounts	<u>2,049</u>	<u>2,392</u>
Total operating expenses	<u>938,830</u>	<u>929,278</u>
Operating income (loss)	(190)	(39,441)
Nonoperating revenues (expenses)		
Interest income	8,132	13,604
Interest expense	(182)	(77)
Gains (losses) on sale of capital assets	<u>2,648</u>	<u>0</u>
Total nonoperating revenues (expenses)	<u>10,598</u>	<u>13,527</u>
Income (loss) before contributions	10,408	(25,914)
Capital contributions-county	100,000	0
Capital contributions-tap fees	1,950	6,100
Capital contributions-customers	<u>2,866</u>	<u>4,912</u>
Change in net assets	115,224	(14,902)
Net assets at beginning of year	<u>2,623,415</u>	<u>2,638,317</u>
Net assets at end of year	<u><u>\$2,738,639</u></u>	<u><u>\$2,623,415</u></u>

The accompanying notes are an integral part of these statements.

Muhlenberg County Water District Number 3
Statement of Cash Flows
Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
<u>Cash flows from operating activities</u>		
Cash received from customers	\$ 900,331	\$ 860,029
Cash payments to suppliers for goods and services	(640,412)	(624,258)
Cash payments to employees for services	(234,526)	(214,825)
Other operating revenues	<u>28,022</u>	<u>24,696</u>
Net cash provided (used) by operating activities	53,415	45,642
<u>Cash flows from capital and related financing activities</u>		
Acquisition and construction of capital assets	(164,627)	(213,574)
Interest paid on customer deposits	(183)	(78)
Customer deposits collected	6,126	5,881
Customer deposits refunded	(5,356)	(5,951)
Capital contributions received from customers	4,816	12,864
Proceeds from grant	100,000	0
Gain on disposition of capital assets	2,648	0
Capital contributions refunded to customers	(1,502)	(350)
Net cash provided (used) for capital and related financing activities	(58,078)	(201,208)
<u>Cash flows from investing activities</u>		
Interest earned on bank deposits	<u>8,132</u>	<u>13,604</u>
Net cash provided (used) for investing activities	8,132	13,604
Net increase (decrease) in cash and cash equivalents	3,469	(141,962)
Cash and cash equivalents at beginning of year	<u>754,366</u>	<u>896,328</u>
Cash and cash equivalents at end of year	<u>\$ 757,835</u>	<u>\$ 754,366</u>

<u>Reconciliation of operating income to net cash provided (used) by operating activities</u>		
Operating income (loss)	(\$ 190)	(\$ 39,441)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	88,293	81,074
Change in assets and liabilities:		
(Increase) decrease in accounts receivable	(8,238)	(2,720)
(Increase) decrease in other receivables	1,786	(1,786)
(Increase) decrease in inventory	(6,365)	1,185
(Increase) decrease in prepaid expenses	(185)	130
Increase (decrease) in accounts payable	88	1,966
Increase (decrease) in accrued expenses	219	261
Increase (decrease) in compensated absences	(21,993)	<u>4,973</u>
Total adjustments	<u>53,605</u>	<u>85,083</u>
Net cash provided by operating activities	<u>\$ 53,415</u>	<u>\$ 45,642</u>

The accompanying notes are an integral part of these statements.

Muhlenberg County Water District Number 3
Notes to Financial Statements
December 31, 2011 and 2010

NOTE A - SUMMARY OF ACCOUNTING POLICIES

The accounting policies of the Muhlenberg County Water District Number 3 conform to Generally Accepted Accounting Principles (GAAP) as applicable to governments. The District applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989 unless those pronouncements conflict with or contradict Governmental Accounting Standards Board (GASB) pronouncements, in which case, GASB prevails. The following is a summary of the more significant policies:

1. The Financial Reporting Entity

Muhlenberg County Water District Number 3 (the "District") was created on April 24, 1967, under the provisions of Chapter 74 of the Kentucky Revised Statutes of the Commonwealth of Kentucky. The principal office of the District is located at Bremen, Kentucky. The District is composed of three commissioners who are appointed by the Muhlenberg County Judge Executive and provides water to its members in and around Muhlenberg County, Kentucky.

In evaluating how to define the government, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GASB Statement No. 14 - *The Financial Reporting Entity*.

2. Basis of Presentation, Measurement Focus, and Basis of Accounting

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 activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the District's assets, liabilities, net assets, revenues, and expenses. Enterprise Funds account for activities 1) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or 2) that are required by laws or regulations that the activities costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or 3) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

The transactions of the District are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statements of net assets. Net assets are required to be displayed in three components: 1) invested in capital assets, net of related debt, 2) restricted, and 3) unrestricted. Invested in capital assets, net of related debt is capital assets net of accumulated depreciation and reduced by outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Restricted net assets are those with constraints placed on their use by either: 1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or 2) imposed by law through constitutional provisions or enabling legislation. All net assets not otherwise classified as restricted, are shown as unrestricted. The statements of revenue, expenses, and changes in fund net assets present increases (revenues) and decreases (expenses) in net assets.

Muhlenberg County Water District Number 3
Notes to Financial Statements
December 31, 2011 and 2010

NOTE A - SUMMARY OF ACCOUNTING POLICIES continued

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. The accounts of the District are maintained on the accrual basis of accounting. Its revenues are recognized when they are earned, and its expenses are recognized when they are incurred.

Proprietary 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 a proprietary fund's principal ongoing operations. The principal operating revenues and expenses of the District's enterprise fund are charges to customers for 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.

Unbilled water receivables for utility services provided through December 31 are included in the financial statements.

When both restricted and unrestricted resources are available for use, the District generally first uses restricted resources, then unrestricted resources as they are needed.

3. Cash and Cash Equivalents

All cash except for a small amount kept "on hand" is deposited in financial institutions. Deposits are interest bearing checking accounts and certificates of deposit. Unrestricted cash is available to be expended for normal operating expenses. Restricted cash is limited to payments of bond principal and interest, emergency capital improvements, and other designated purposes. Cash and cash equivalents are defined as being all monies on deposit in banks and investments with a maturity of 90 days or less.

4. Inventory

Inventory consists primarily of replacement parts and supplies. Inventory is stated at the lower of cost or market. Cost is determined primarily by the first-in, first-out method.

5. Capital Assets

Capital assets, which include property, plant, and equipment, are recorded at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. No interest was capitalized during the years ended December 31, 2011 and 2010.

Muhlenberg County Water District Number 3
 Notes to Financial Statements
December 31, 2011 and 2010

NOTE A - SUMMARY OF ACCOUNTING POLICIES continued

Capital assets of the District are depreciated using a straight-line method over the following estimated useful lives:

Structures, improvements and water system	10 to 65 years
Furniture, machinery and equipment	2 to 10 years
Vehicles	5 years

6. Restricted Net Assets

Restricted net assets are cash set aside for the repayment of debt in compliance with bond covenants and cash restricted for future operations in compliance with escrow reserve agreements. The District currently doesn't have any restricted net assets.

7. Long-Term Liabilities

Long-term debt is reported as liabilities in the statement of net assets. Long-term debt is reported at face value.

8. Uncollectible Accounts

All accounts receivable are considered by management to be collectible, therefore no provision for uncollectible accounts has been established. Uncollectible accounts are expensed using the direct write-off method.

9. Use of Estimates

The preparation of financial statements in accordance with accounting principals generally accepted in the United States requires management to make estimates that affect amounts reported in the financial statements during the reporting period. Actual results could differ from those estimates.

NOTE B - DEPOSITS

The District maintains deposits with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to law, the depository institution should pledge sufficient securities as collateral which, together with FDIC insurance, equals or exceeds the amount 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 of securities should be evidenced by an agreement that is (1) in writing, (2) 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 (3) an official record of the depository institution. This agreement, signed by both parties, must be sufficient to create an enforceable and perfected security interest in the collateral under Kentucky law.

Deposits are categorized to give an indication of risk assumed by the District at the end of the year. Category 1 includes deposits that are insured, Category 2 includes collateralized deposits held by the pledging institution's trust department or agent in the District's name, and Category 3 includes uncollateralized and uninsured deposits.

Muhlenberg County Water District Number 3
 Notes to Financial Statements
December 31, 2011 and 2010

NOTE B - DEPOSITS continued

On December 31, 2011, the reconciled balance of the District's deposits totaled \$757,835 and the bank balances were \$767,468. Of the bank balances \$517,936 was covered by federal depository insurance (category 1). Also of the bank balances, \$249,532 was collateralized by additional securities held by the pledging depository institution's trust department or agent in the District's name (category 2).

On December 31, 2010, the reconciled balance of the District's deposits totaled \$754,366 and the bank balances were \$756,588. Of the bank balances \$698,419 was covered by federal depository insurance (category 1). Also of the bank balances, \$58,169 was collateralized by additional securities held by the pledging depository institution's trust department or agent in the District's name (category 2).

NOTE C - PREPAID EXPENSES

Prepaid expenses include prepaid insurance, which represents the amount of unexpired insurance, which the District had previously paid for at the balance sheet date.

At December 31, 2011, the District's prepaid expenses consisted of \$7,697 of insurance. At December 31, 2010, the District's prepaid expenses consisted of \$7,512 of insurance.

NOTE D - RESTRICTED CASH AND CASH EQUIVALENTS

The District has cash set aside for the repayment of debt (which has been fully paid), cash restricted for future operations, cash set aside for future capital assets, and cash set aside for repayment of customer deposits.

Restricted balances as of December 31 are as follows:

	<u>2011</u>	<u>2010</u>
Bond and interest redemption fund	\$ 71,875	\$ 70,822
Bond depreciation fund	285,631	282,050
Customer meter deposit fund	21,558	20,907
Construction fund	<u>3,575</u>	<u>1,251</u>
Totals	<u>\$ 382,639</u>	<u>\$ 375,030</u>

Muhlenberg County Water District Number 3
Notes to Financial Statements
December 31, 2011 and 2010

NOTE E - CAPITAL ASSETS

Capital asset activities for the years ended December 31, 2011 and 2010, were as follows:

	Balances 12/31/09	Transfers/ Additions	Transfers/ Retirements	Balances 12/31/10	Transfers/ Additions	Transfers/ Retirements	Balances 12/31/11
Business-type activities:							
Capital assets not being depreciated							
Land & land rights	\$ 22,281	\$ 0	\$ 0	\$ 22,281	\$ 0	\$ 0	\$ 22,281
Construction in progress	<u>0</u>	<u>300,680</u>	<u>269,156</u>	<u>31,524</u>	<u>0</u>	<u>31,524</u>	<u>0</u>
Total	<u>22,281</u>	<u>300,680</u>	<u>269,156</u>	<u>53,805</u>	<u>0</u>	<u>31,524</u>	<u>22,281</u>
Capital assets being depreciated							
Structures, improvements, & water system	2,862,224	216,756	21,856	3,057,124	57,850	9,112	3,105,862
Office furniture & equipment	43,587	1,345	2,015	42,917	3,167	0	46,084
Vehicles & equipment	79,548	0	0	79,548	0	0	79,548
Machinery & equipment	<u>298,759</u>	<u>96,521</u>	<u>73</u>	<u>395,207</u>	<u>2,843</u>	<u>0</u>	<u>398,050</u>
Total	<u>3,284,118</u>	<u>314,622</u>	<u>23,944</u>	<u>3,574,796</u>	<u>63,860</u>	<u>9,112</u>	<u>3,629,544</u>
Total capital assets	<u>3,306,399</u>	<u>615,302</u>	<u>293,100</u>	<u>3,628,601</u>	<u>63,860</u>	<u>40,636</u>	<u>3,651,825</u>
Less accumulated depreciation for:							
Structures, improvements, & water system	1,447,037	51,601	21,856	1,476,782	57,468	9,112	1,525,138
Office furniture & equipment	33,080	2,327	2,015	33,392	2,789	0	36,181
Vehicles & equipment	57,507	7,421	0	64,928	7,421	0	72,349
Machinery & equipment	<u>86,824</u>	<u>19,725</u>	<u>73</u>	<u>106,476</u>	<u>20,615</u>	<u>0</u>	<u>127,091</u>
Total accumulated depreciation	<u>1,624,448</u>	<u>81,074</u>	<u>23,944</u>	<u>1,681,578</u>	<u>88,293</u>	<u>9,112</u>	<u>1,760,759</u>
Total business-type activities capital assets, net	<u>\$1,681,951</u>	<u>\$ 534,228</u>	<u>\$ 269,156</u>	<u>\$1,947,023</u>	<u>(\$ 24,433)</u>	<u>\$ 31,524</u>	<u>\$1,891,066</u>

Muhlenberg County Water District Number 3
Notes to Financial Statements
December 31, 2011 and 2010

NOTE F - LONG-TERM LIABILITIES

Long-term liability activity

Long-term liability activity for the years ended December 31, 2011 and 2010, were as follows:

	Balances			Balances			Balances	Amounts
	<u>12/31/09</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/10</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/11</u>	<u>Due Within</u>
								<u>One Year</u>
Customer Deposits	16,660	5,881	5,951	16,590	6,126	5,356	17,360	5,991
Accumulated Compensated Absences	<u>25,035</u>	<u>11,925</u>	<u>6,953</u>	<u>30,007</u>	<u>11,874</u>	<u>33,866</u>	<u>8,015</u>	<u>8,015</u>
Business-type Activities Long- Term Liabilities	<u>\$ 41,695</u>	<u>\$ 17,806</u>	<u>\$ 12,904</u>	<u>\$ 46,597</u>	<u>\$ 18,000</u>	<u>\$ 39,222</u>	<u>\$ 25,375</u>	<u>\$ 14,006</u>

NOTE G - ACCUMULATED COMPENSATED ABSENCES

2011

Effective March 2011 employees are no longer permitted to accumulate earned but unused vacation days beyond one year. The employees must use or cash out their yearly allotment of vacation time earned by the annual anniversary date of their employment.

2010

It is the District's policy to permit employees to accumulate a limited amount of earned but unused vacation days, which will be paid to employees upon separation from the District's service.

NOTE H - EMPLOYEES' PENSION PLAN

Plan description

The District and covered employees contribute to the County Employers Retirement System (CERS), a cost-sharing, multiple-employer defined benefit plan administered by the Board of Trustees of the Kentucky Retirement Systems.

The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under circumstances. Cost-of-living adjustments are provided at the discretion of the State legislature. Kentucky Revised Statute Section 61.645 assigns the authority to establish and amend benefit provisions to the Board of Trustees of the Kentucky Retirement Systems.

The CERS financial statements and other supplementary information are contained in the publicly available annual financial report of the Kentucky Retirement Systems. Copies of the report are sent to each participating employer as well as distributed to legislative personnel, state libraries and other interested parties. Copies may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West 1260 Louisville Road, Frankfort, Kentucky 40601 or by calling 1-502-928-4646 or on the internet at www.kyret.com.

Muhlenberg County Water District Number 3
Notes to Financial Statements
December 31, 2011 and 2010

NOTE H - EMPLOYEES' PENSION PLAN continued

Funding policy

Per Kentucky Revised Statute 61.565, normal contribution and past service contribution rates shall be determined by the Board of Trustees of the Kentucky Retirement Systems on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board.

For the year ended December 31, 2011, plan members were required to contribute 5% of their annual creditable compensation.

The District is required to contribute at an actuarially determined rate. The District was required to contribute 18.96% of each employee's creditable compensation for the final six months of the year ended December 31, 2011. The District was required to contribute 16.93% of each employee's creditable compensation for the first six months of the year ended December 31, 2011 and for the final six months of the year ended December 31, 2010. The District was required to contribute 16.16% of each employee's creditable compensation for the first six months of the year ended December 31, 2010 and for the final six months of the year ended December 31, 2009. The District was required to contribute 13.50% of each employee's creditable compensation for the first six months of the year ended December 31, 2009. The District's contributions to CERS for the years ended December 31, 2011, 2010, and 2009 were \$36,920, \$31,556, and \$29,828, respectively.

NOTE I - RISK MANAGEMENT

The District is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; and injuries to employees. The District purchases commercial insurance for all risks of losses. Settlements resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE J - MAJOR SUPPLIER

The District purchases 100% of water resold from Central City, Kentucky.

NOTE K - GAINS (LOSSES) ON DISPOSITIONS OF ASSETS

During 2011, the District scrapped 268 fully depreciated meters for \$2,648.

Muhlenberg County Water District Number 3
Notes to Financial Statements
December 31, 2011 and 2010

NOTE L - CONSTRUCTION IN PROGRESS AND CONSTRUCTION PROJECTS PAYABLE

2010

The District incurred \$95,176 of cost related to the purchase and installation of five generators. The generators have been placed in service and the related costs are payable at December 31, 2010. The District has also begun a project to purchase and install radio-read meters and to convert some existing meters to radio-read meters. At year-end, radio read meters with a cost of \$31,524 have not yet been placed into service. \$37,296 of cost incurred with the purchase of radio read meters is still payable at year-end.

NOTE M - CAPITAL CONTRIBUTIONS-COUNTY

The District received grant monies from Muhlenberg County Fiscal Court in the amount of \$100,000. This amount was designated for the purchase and installation of five generators that were received by the District during 2010.

NOTE N - OTHER RECEIVABLES

2010

Other receivables in the amount of \$1,786 are due to overpayment of the District's payroll taxes in December 2010 and overpayment of payroll taxes due to the HIRE Act. Corrected payroll tax forms were filed for refunds in the same amount.

Alexander, Toney & Knight PLLC

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

To The Commissioners
Muhlenberg County Water District Number 3
Bremen, Kentucky

We have audited the financial statements of Muhlenberg County Water District Number 3, as of and for the years ended December 31, 2011 and 2010, and have issued our report thereon dated February 9, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Muhlenberg County Water District Number 3's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Muhlenberg County Water District Number 3's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Muhlenberg County Water District Number 3'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. However, we identified certain deficiencies in internal control over financial reporting, as discussed below, that we consider to be significant deficiencies in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

2011-1 Segregation of Duties

Condition: The internal control relating to receipts and disbursements is inadequate due to a lack of segregation of duties.

Criteria: Adequate segregation of duties is essential to an adequate internal control over financial reporting by allocating various duties among employees.

Effect: The lack of proper segregation of duties may permit errors or irregularities to go undetected.

Cause: There is a small number of accounting personnel. The cost versus benefit relationship prevents the District from hiring enough accounting personnel to properly segregate key accounting functions.

Recommendation: While the small number of employees that exist will never provide proper segregation of duties, the District should continually review job responsibilities for better accounting controls.

Response: The District concurs with the recommendation and will continually review job responsibilities to improve accounting controls when possible.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Muhlenberg County Water District Number 3'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*.

Muhlenberg County Water District 3's response to the findings identified in our audit is described above. We did not audit Muhlenberg County Water District 3's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the District's management and is not intended to be and should not be used by anyone other than these specified parties.

Alexander, Toney & Knight PLLC

Madisonville, Kentucky

February 9, 2012