

In accordance with chapter 65 and 424 of the Kentucky Revised Statues, the following information and supporting data may be inspected by the general public at 4789 Main Street, Bremen, Ky, Monday through Friday, between the hours of 8:30 a.m. and 4:00 p.m.

Muhlenberg County Water District #3 Commissioners:

Donald Garrett	7809 St. Rte 70	Bremen, KY
Robert Woodburn	5555 St. Rte 175N	Sacramento, KY
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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.

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 5
 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	6,136	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	<u>(1,502)</u>	<u>(350)</u>
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><u>\$ 757,835</u></u>	<u><u>\$ 754,366</u></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	<u>(21,993)</u>	<u>4,973</u>
Total adjustments	<u>53,605</u>	<u>85,083</u>
Net cash provided by operating activities	<u><u>\$ 53,415</u></u>	<u><u>\$ 45,642</u></u>

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