

**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, Torrey 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

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	<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	<u>( 77)</u>	<u>( 445)</u>
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.



#### 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.



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

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:

	2014	2013
Bond and interest redemption fund	\$ 0	\$ 73,332
Bond depreciation fund	0	291,668
Customer meter deposit fund	22,722	23,156
Construction fund	75,928	19,483
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	51,404	36,067	68,491	18,980	54,916	0	73,896
Total	73,685	36,736	68,491	41,930	54,916	0	96,846
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	401,557	1,730	0	403,287	50,671	0	453,958
Total	3,683,990	122,427	22,526	3,783,891	95,651	11,580	3,867,962
Total capital assets	3,757,675	159,163	91,017	3,825,821	150,567	11,580	3,964,808
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	147,606	20,455	0	168,061	23,691	0	191,752
Total accumulated depreciation	1,831,590	85,503	19,027	1,898,066	103,654	11,503	1,990,217
Total business-type activities capital assets, net	\$1,926,085	\$ 73,660	\$ 71,990	\$1,927,755	\$ 46,913	\$ 77	\$1,974,591

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



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	\$ 18,585	\$ 6,056	\$ 5,671	\$ 18,970	\$ 47,532	\$ 17,897	\$ 48,605	\$ 26,047	

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](http://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.