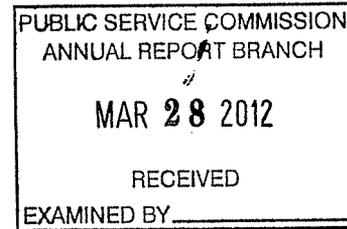


CONTENTS



Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-5
Balance Sheets	6-7
Statements of Income	8
Statements of Changes in Equity Capital	9
Statements of Cash Flows	10-11
Notes to Financial Statements	12-15
Schedules of Operating and Maintenance Expenses	16
Schedule of Bond Retirement – Series of 1989	17
Schedule of Bond Retirement – Series of 1992A	18
Schedule of Bond Retirement – Series of 1993	19
Schedule of Bond Retirement – Series of 1996	20
Schedule of Bond Retirement – Series of 2000	21
Schedule of Bond Retirement – Series of 2009	22
Schedule of Expenditures of Federal Awards	23
Notes to Schedule of Expenditures of Federal Awards	24
Schedule of Findings and Questioned Costs	25
Schedule of Prior Year Audit Findings	26
Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	27-28
Independent Auditor's Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	29-30
Letter to Those Charged with Governance	31-32

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INDEPENDENT AUDITOR'S REPORT

February 3, 2012

To the Commissioners of the
Marion County Water District

We have audited the accompanying general purpose financial statements of Marion County Water District, Lebanon, Kentucky, as of and for the years ended December 31, 2011 and 2010, listed in the table of contents. These financial statements are the responsibility of the Marion County Water District'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 the 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 the 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Marion County Water District as of December 31, 2011 and 2010, and the respective 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 3, 2012, on our consideration of Marion County Water District'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 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government 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 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Marion County Water District's financial statements as a whole. The Schedules of Operating and Maintenance Expenses and Schedules of Bond Retirements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The combining and individual nonmajor fund financial statements and the schedule of federal expenditures and awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Sincerely,

White and Company, P.S.C.

Certified Public Accountants

**MANAGEMENT'S DISCUSSION AND ANALYSIS
MARION COUNTY WATER DISTRICT
DECEMBER 31, 2011**

Within this section of the Marion County Water District's annual financial report, the District's management provides narrative discussion and analysis of the financial activities of the District for the fiscal year ended December 31, 2011. The District's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosure following this section.

Financial Highlights

- The District's assets and other debits exceeded its liabilities by \$11,713,765 (Equity Capital) for the fiscal year reported.
- Total equity capital comprised of the following:
 - (1) Appropriated retained earnings of \$817,991.
 - (2) Retained earnings from income before contributions of \$986,391.
 - (3) Donated capital of \$9,909,383.
- The District's general purpose financial statement's retained earnings from income before contributions increased by \$139,378 from the previous fiscal year.
- The District's general purpose financial statement's donated capital increased by \$919,914 from the previous fiscal year. Donated capital primarily consists of contributions in aid of construction from federal USDA grant funds, KY Legislature grant funds, and customers for water line construction and projects.

Overview of the Financial Statements

Management's Discussion and Analysis introduces the District's general purpose financial statements. The general purpose financial statements include: (1) Balance Sheets, (2) Income Statements, (3) Statements of Changes in Equity Capital, (4) Statements of Cash Flows, and (5) Notes to the Financial Statements. The Balance Sheets show the total assets, liabilities and equity capital as of December 31, 2011 and December 31, 2010. The Income Statements depict the difference between the revenues and expenses for the year 2011. The Statements of Changes in Equity Capital show the change in the appropriated retained earnings and retained earnings from income before contributions. The District includes in this report additional information to supplement the basic financial statements.

The District as a Whole

Balance Sheet:

	<u>2011</u>	<u>2010</u>
Utility Plant	11,997,991	11,164,619
Certificates of Deposit	650,003	638,292
Cash	1,633,782	1,443,475
Net Customer Accounts Receivable	147,322	151,137
Other Current Assets	349,299	159,400
Construction in Progress	0	448,353
 Total Current & Accrued Assets	 2,130,403	 2,202,365
 Total Assets & Other Debits	 14,778,397	 14,005,276

	<u>2011</u>	<u>2010</u>
Equity Capital		
Appropriated Retained Earnings	817,991	788,559
Retained Earnings from Income before Contributions	986,391	847,013
Donated Capital	<u>9,909,383</u>	<u>8,989,469</u>
Total Equity Capital	11,713,765	10,625,041
Bonds Payable	<u>2,735,100</u>	<u>3,005,200</u>
Total Long-term Debt	2,735,100	3,005,200
Revenue Bonds Payable	62,600	47,000
Other Current and Accrued Liabilities	<u>266,932</u>	<u>328,035</u>
Total Current and Accrued Liabilities	329,532	375,035
Total Equity Capital & Liabilities	<u>14,778,397</u>	<u>14,005,276</u>

Total assets and other debits increased by \$773,121, an increase of 5.52%. Major increases include cash, which increased \$190,307 (13.18%), net utility plant, which increased \$833,372 (7.46%) and certificates of deposit, which increased \$11,711 (1.83%) from the previous fiscal year.

Income Statement:

	<u>2011</u>	<u>2010</u>
Operating Revenue		
Water Revenue	2,407,665	2,418,514
Other Operating Revenue	<u>82,685</u>	<u>73,244</u>
Total Operating Revenue	2,490,350	2,491,758
Operating Expenses		
Purchased Water	1,289,191	1,343,526
Other Operation & Maintenance Expenses	624,331	618,176
Depreciation	<u>380,748</u>	<u>344,832</u>
Total Operating Expenses	<u>2,294,270</u>	<u>2,306,534</u>
Operating Income	196,080	185,224
Other Income	72,292	85,541
Other Expenses - Interest	<u>99,562</u>	<u>97,935</u>
Net Income Before Contributions	<u>168,810</u>	<u>172,830</u>
Retained Earnings From Income Before Contributions		
Beginning Balance	847,013	755,847
Transfer to/from Appropriated Retained Earnings	<u>(29,432)</u>	<u>(81,664)</u>
Ending Balance	<u>986,391</u>	<u>847,013</u>

Operating revenues budgeted for 2011 were \$2,491,850. Operating revenues for 2011 were \$2,490,350, which was \$1,500 less than the budgeted amount. Operating revenues decreased \$1,408. Total operation and maintenance expenses budgeted for 2011 were \$2,009,200. Total operation and maintenance expenses for 2011 were \$1,913,522, which was \$95,678 less than the budgeted amount. Total operating expenses decreased \$12,264.

Net income before contributions decreased by \$4,020.

Utility Plant and Debt Administration

Additions to Utility Plant were \$1,214,120. Accumulated depreciation increased \$380,748 causing a total increase in the District's Utility Plant of \$833,372. For a detail of Utility Plant, see Note C. The large increase of the Utility Plant was due to the completion of the 12" Lebanon Bypass Project.

At year-end, the District had \$2,797,700 in outstanding bonds payable versus \$3,052,200 the previous year, a decrease of \$254,500 (8.34%). For a breakdown of the District's current and long-term debt, see Notes D, E, and F and the supplemental financial information provided within this report.

Future Projections

The projections for the District for 2012 will entail the continuation of the radio read meter change out program. As of January 1, 2012, the District has changed out approximately 2,340 meters in this program. The District currently has 1,250 radio read meters in inventory. These meters were purchased from the balance of the contingency funds from the Lebanon Bypass Project in the amount of \$315,727.40 and Marion County Water District funds of \$8,872.00.

Going forward, the District will proceed to acquire funds to replace some of its aging infrastructure. The District plans to improve its infrastructure or pay off or decrease higher interest rate Rural Development bonds as excess funding allows.

Marion County Water District
Lebanon, Kentucky

Balance Sheets
December 31, 2011 and 2010

Assets and Other Debits

	<u>2011</u>	<u>2010</u>
Utility Plant (Notes A-3 and C)	11,997,991	11,164,619
Other Property and Investments		
Certificates of Deposit - Citizens National Bank	<u>650,003</u>	<u>638,292</u>
Total Other Property and Investments	650,003	638,292
Current and Accrued Assets		
Cash (Note B)	1,633,782	1,443,475
Customer Accounts Receivable, Net of Allowance of 5,383 and 5,165	147,322	151,137
Other Accounts Receivable	24,975	8,943
Materials and Supplies Inventory (Note A-2)	311,460	138,410
Prepaid Insurance	10,833	10,554
Accrued Interest Receivable	2,031	1,493
Construction in Progress - KIA Projects	<u>0</u>	<u>448,353</u>
Total Current and Accrued Assets	<u>2,130,403</u>	<u>2,202,365</u>
Total Assets and Other Debits	<u><u>14,778,397</u></u>	<u><u>14,005,276</u></u>

The accompanying notes are an integral part of these financial statements.

Marion County Water District
Lebanon, Kentucky

Balance Sheets
December 31, 2011 and 2010

Equity Capital and Liabilities

	<u>2011</u>	<u>2010</u>
Equity Capital		
Appropriated Retained Earnings (Note H)	817,991	788,559
Retained Earnings from Income before Contributions	986,391	847,013
Donated Capital	<u>9,909,383</u>	<u>8,989,469</u>
Total Equity Capital	11,713,765	10,625,041
Long-Term Debt		
Revenue Bonds Payable (Note F)	<u>2,735,100</u>	<u>3,005,200</u>
Total Long-Term Debt	2,735,100	3,005,200
Current and Accrued Liabilities		
Revenue Bonds Payable (Note F)	62,600	47,000
Accounts Payable - Trade	103,062	170,055
Accrued County Retirement	4,995	5,101
Accrued Unemployment	443	476
Customer Deposits	28,226	26,679
Accrued Taxes	<u>130,206</u>	<u>125,724</u>
Total Current and Accrued Liabilities	<u>329,532</u>	<u>375,035</u>
Total Equity Capital and Liabilities	<u><u>14,778,397</u></u>	<u><u>14,005,276</u></u>

The accompanying notes are an integral part of these financial statements.

Marion County Water District
Lebanon, Kentucky

Statements of Income
Years Ended December 31, 2011 and 2010

	<u>2011</u>	Percent of <u>Revenue</u>	<u>2010</u>	Percent of <u>Revenue</u>
Operating Revenue				
Metered Sales Residential	1,960,741	78.7%	2,022,922	81.2%
Metered Sales Commercial	410,078	16.5%	358,135	14.4%
Metered Sales Schools	20,343	0.8%	21,198	0.9%
Metered Sales Multi-Family	16,503	0.7%	16,259	0.7%
Miscellaneous Service	37,458	1.5%	36,135	1.5%
Late Charges	45,227	1.8%	37,109	1.5%
	<u>2,490,350</u>	<u>100.0%</u>	<u>2,491,758</u>	<u>100.0%</u>
Operating Expenses				
Operation & Maintenance Expense	1,913,522	76.8%	1,961,702	78.7%
Depreciation	380,748	15.3%	344,832	13.8%
	<u>2,294,270</u>	<u>92.1%</u>	<u>2,306,534</u>	<u>92.6%</u>
Operating Income	196,080	7.9%	185,224	7.4%
Other Income				
Interest Income	8,523	0.3%	12,348	0.5%
Collection Fees	32,071	1.3%	39,527	1.6%
Gain from Sale of Asset	-	0.0%	2,486	0.1%
Misc. Non-Operating Income	31,698	1.3%	31,180	1.3%
Total Other Income	72,292	2.9%	85,541	3.4%
Other Expenses				
Interest on Long-Term Debt	99,137	4.0%	97,549	3.9%
Other Interest	425	0.0%	386	0.0%
	<u>99,562</u>	<u>4.0%</u>	<u>97,935</u>	<u>3.9%</u>
Net Income before Contributions	<u>168,810</u>	<u>6.8%</u>	<u>172,830</u>	<u>6.9%</u>

The accompanying notes are an integral part of these financial statements.

Marion County Water District
Lebanon, Kentucky

Statements of Changes in Equity Capital
Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Appropriated Retained Earnings Balance - Beginning of Year	788,559	706,895
Transfer to/from Retained Earnings from Income before Contributions	<u>29,432</u>	<u>81,664</u>
Balance - End of Year	<u><u>817,991</u></u>	<u><u>788,559</u></u>
Retained Earnings from Income before Contributions Balance - Beginning of Year	847,013	755,847
Net Income for the Year	168,810	172,830
Transfer to/from Appropriated Retained Earnings	<u>(29,432)</u>	<u>(81,664)</u>
Balance - End of Year	<u><u>986,391</u></u>	<u><u>847,013</u></u>

The accompanying notes are an integral part of these financial statements.

Marion County Water District
Lebanon, Kentucky

Statements of Cash Flows
For the Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash Flows from Operating Activities:		
Receipts from Users	2,510,205	2,518,702
Payments to Employees	(338,133)	(346,978)
Payments to Suppliers for Goods and Services	<u>(1,809,821)</u>	<u>(1,642,838)</u>
Net Cash Provided by Operating Activities	362,251	528,886
Cash Flows from Capital and Related Financing Activities:		
Capital Contributions	919,914	643,301
Proceeds from Farmers National Bank Loan	0	190,492
Proceeds from Sale of Fixed Assets	0	2,681
Proceeds from Bond Issuance	0	1,433,000
Principal Payments on Long-term Debt	(254,500)	(44,400)
Principal Payments on Other Debt	0	(1,120,306)
Interest Payments	(99,562)	(103,901)
Payments for Capital Projects	<u>(765,768)</u>	<u>(1,277,292)</u>
Net Cash Used by Capital and Related Financing Activities	(199,916)	(276,425)
Cash Flows from Investing Activities:		
Interest Income Received	7,985	14,502
Rent Income	31,698	31,180
Investment Purchases: Certificates of Deposit	<u>(11,711)</u>	<u>(100,000)</u>
Net Cash Provided by Investing Activities	27,972	(54,318)
Cash and Investments, Beginning	<u>1,443,475</u>	<u>1,245,332</u>
Cash and Investments, Ending	<u><u>1,633,782</u></u>	<u><u>1,443,475</u></u>

The accompanying notes are an integral part of these financial statements.

Marion County Water District
Lebanon, Kentucky

Statements of Cash Flows - (Continued)
For the Years Ended December 31, 2011 and 2010

Reconciliation of Net Income to Net Cash Provided by Operating Activities

	<u>2011</u>	<u>2010</u>
Net Income	168,810	172,830
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	380,748	344,832
Interest on Debt	99,562	97,935
Misc. Non-Operating Income	(31,698)	(31,180)
Interest Income	(8,523)	(12,348)
Gain on Sale of Fixed Assets	0	(2,486)
Changes in Current Assets & Liabilities:		
Accounts Receivable	(12,217)	(12,583)
Materials & Supplies Inventory	(173,050)	(93,123)
Other Assets	(279)	(329)
Accounts Payable	(66,993)	58,642
Other Liabilities	5,891	6,696
Net Cash Provided by Operating Activities	<u>362,251</u>	<u>528,886</u>

The accompanying notes are an integral part of these financial statements.

Notes to Financial Statements

Nature of Operations:

Marion County Water District is a special district of Marion County, Kentucky. It operates a water distribution system in Marion County and southern Nelson County. Water is purchased from the Lebanon Water Company and Campbellsville Water Company and resold to more than 5,000 customers in Marion and Nelson Counties.

Significant Accounting Policies:

- A. The following is a summary of the significant accounting policies of the Marion County Water District:
1. Assets and liabilities and revenues and expenses are recognized on the accrual basis of accounting.
 2. Inventory is recorded at cost.
 3. Utility plant is stated at cost less accumulated depreciation computed on a straight-line method. The distribution plant assets are depreciated mainly over 50 years. The general plant assets are depreciated over their estimated useful lives from four to ten years.
 4. Four funds are set up on the company's books: revenue fund, operation and maintenance fund, reserve fund, and sinking fund. All income is deposited to the revenue fund. Funds are transferred monthly from the revenue fund to the operation and maintenance fund sufficient to pay the general expenses of the water system. Transfers are made from the revenue fund to the reserve fund as stipulated by the bond agreements. Contributions in aid of construction are deposited directly to the reserve fund. Transfers from the revenue fund to the sinking fund are made to sufficiently meet the required bond and interest payments to the Farmers Home Administration.
 5. The District invests its reserves in short-term certificates of deposits with local financial institutions. All certificates of deposit are considered to be cash equivalents.
 6. *Operating revenues include all utility service related revenues primarily derived from distributing water to Marion County and Nelson County residents. Non-operating revenues include revenues from rents, outside billings, interest, and other miscellaneous, non-operating revenues.*
 7. When the District incurs an expense for which both restricted and unrestricted net assets are available, the District's policy is to expend restricted net assets to the extent available first and then to expend unrestricted net assets.

B. Cash:

At year end the carrying amount of the District's cash and cash equivalents was \$2,395,382. Of the total cash, \$1,000,000 was covered by Federal Depository Insurance, \$1,367,036 was covered by collateral agreements and collateral held by the pledging banks' trust departments in the District's name, and the District was under-collateralized by the remaining \$28,346 at Farmer's National Bank.

Notes to Financial Statements (Continued)

B. Cash (Continued):

Bond documents require the maintenance of certain accounts that are restricted as to withdrawal. Included in cash at December 31, 2011 and 2010, were the following restricted funds:

	<u>2011</u>	<u>2010</u>
Reserve Funds	85,217	150,267
Short-Lived Asset Account	<u>82,772</u>	<u>0</u>
Total	<u>167,989</u>	<u>150,267</u>

C. Utility Plant:

The following represents the amount of utility plant as of December 31, 2010 and 2011:

	Beginning Balance	Additions	Deletions	Ending Balance
Nondepreciable Assets:				
Land	40,870	11,335	0	52,205
Depreciable Assets:				
Distribution Plant	15,292,290	1,157,613	0	16,449,903
General Plant	<u>703,958</u>	<u>45,172</u>	<u>0</u>	<u>749,130</u>
	16,037,118	1,214,120	0	17,251,238
Less: Accumulated Depreciation	<u>(4,872,499)</u>	<u>(380,748)</u>	<u>0</u>	<u>(5,253,247)</u>
	<u>11,164,619</u>	<u>833,372</u>	<u>0</u>	<u>11,997,991</u>

Interest of \$0 and \$19,220 was capitalized during the years ended December 31, 2011 and 2010, respectively.

- D. The 2009 Series Revenue Bond Issue are Build America Bonds whereby the United States Treasury refunds to the Marion County Water District 35% of the interest paid on these bonds and thus reducing the effective rate of interest from 3.5% to 2.275% per annum.

E. Revenue Bonds Payable:

Water Revenue Bond Series of 1989 - Interest due semiannually January 1 and July 1 at 5% with varying principal payments due January 1 of each year through 2027	420,000
Water Revenue Bond Series of 1992A - Interest due semiannually January 1 and July 1 at 5% with varying principal payments due January 1 of each year through 2032	368,000
Water Revenue Bond Series of 1993 - Interest due semiannually January 1 and July 1 at 4.50% with varying principal payments due January 1 of each year through 2032	172,500

Notes to Financial Statements (Continued)

E. Revenue Bonds Payable (Continued):

Water Revenue Bond Series of 1996 - Interest due semiannually January 1 and July 1 at 4.50% with varying principal payments due January 1 of each year through 2035	102,700
Water Revenue Bond Series of 2000 - Interest due semiannually January 1 and July 1 at 4.75% with varying principal payments due January 1 of each year through 2039	301,500
Water Revenue Bond Series of 2009 - Interest due semiannually January 1 and July 1 at 3.25% with varying principal payments due January 1 of each year through 2050	<u>1,433,000</u>
	<u>2,797,700</u>

Maturities for the next five years are as follows:

2013	62,600
2014	66,300
2015	68,400
2016	71,500
2017	75,600
Thereafter	<u>2,453,300</u>
	<u>2,797,700</u>

F. Long-term liability activity for the year ended December 31, 2011, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue Bonds Payable	<u>3,052,200</u>	<u>0</u>	<u>254,500</u>	<u>2,797,700</u>	<u>62,600</u>
Total	<u>3,052,200</u>	<u>0</u>	<u>254,500</u>	<u>2,797,700</u>	<u>62,600</u>

G. Appropriated Retained Earnings:

Appropriated retained earnings at December 31, 2011 and 2010, consist of restricted funds as follows:

	<u>2011</u>	<u>2010</u>
CDs - Reserve Fund	650,003	638,292
Cash - Reserve Fund	85,217	150,267
Cash - Short-Lived Asset Fund	<u>82,771</u>	<u>0</u>
	<u>817,991</u>	<u>788,559</u>

These funds are restricted in accordance with the provisions of the six outstanding bond issues. Reserve funds must be maintained at a level of \$285,900. The bond provisions allow the District to invest these funds in interest-bearing obligations maturing no later than three years after the date of investment.

Notes to Financial Statements (Continued)

- H. Marion County Water District began participating in the County Employees' Retirement System in January 2003, pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute.

All Marion County Water District employees are considered to be nonhazardous employees. Benefits fully vest on reaching five years of service. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Employees hired prior to September 15, 2008 are required to contribute 5% of their salary to the plan and employees hired after September 15, 2008 are required to contribute 6% of their salary to the plan.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, Kentucky, 40601-6124, or by telephone at (502) 564-4646.

The District contributed 16.93% of wages from January 1, 2011 through June 30, 2011 and 18.96% of wages from July 1, 2011 through December 31, 2011. The pension expense for 2011 was \$40,653, and the pension expense for 2010 was \$39,045.

- I. Risk Management: The District insures against significant losses by commercial insurance. There have been no significant reductions in insurance coverage.
- J. The District generates approximately 96% of its revenues from water sales. Of the water sold, approximately, 99% is purchased from the Lebanon Water Works, a division of the City of Lebanon.
- K. Management has reviewed subsequent events through February 3, 2012. There are no material subsequent events that require disclosure.

Marion County Water District
Lebanon, Kentucky

Schedules of Operating and Maintenance Expenses
Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>Percent of Revenue</u>	<u>2010</u>	<u>Percent of Revenue</u>
Source of Supply Expense				
Purchased Water	1,289,191	51.8%	1,343,526	53.9%
Pumping Expense				
Fuel or Power Purchased for Pumping	37,356	1.5%	40,707	1.6%
Transmission & Distribution Expense				
Salaries	106,835	4.3%	116,837	4.7%
Operation Supplies & Expense	35,716	1.4%	30,527	1.2%
Maintenance	<u>63,247</u>	<u>2.5%</u>	<u>53,535</u>	<u>2.1%</u>
Total Transmission & Distribution Expense	205,798	8.3%	200,899	8.1%
Customer Accounts Expense				
Salaries	99,789	4.0%	98,649	4.0%
Contractual Services - Meter Reading	48,026	1.9%	51,608	2.1%
Supplies & Expense	32,988	1.3%	33,094	1.3%
Uncollectible Accounts	<u>4,357</u>	<u>0.2%</u>	<u>6,009</u>	<u>0.2%</u>
Total Customer Accounts Expense	185,160	7.4%	189,360	7.6%
Administrative & General Expense				
Administrative & General Salaries	35,148	1.4%	36,264	1.5%
Office Supplies & Other Expense	20,482	0.8%	16,606	0.7%
Outside Service Employed	11,293	0.5%	6,190	0.2%
Insurance	21,449	0.9%	20,744	0.8%
Employee Benefits	96,226	3.9%	96,105	3.9%
Regulatory Commission Expense	3,858	0.2%	3,475	0.1%
Miscellaneous	<u>7,561</u>	<u>0.3%</u>	<u>7,826</u>	<u>0.3%</u>
Total Administrative & General Expense	<u>196,017</u>	<u>7.9%</u>	<u>187,210</u>	<u>7.5%</u>
Total Operating & Maintenance Expense	<u><u>1,913,522</u></u>	<u><u>76.8%</u></u>	<u><u>1,961,702</u></u>	<u><u>78.7%</u></u>

See accompanying accountants' report.

DESIGNATION OF BOND: "Marion County Water District System Revenue Bond, Series of 1989," (Number R-1)

AMOUNT DUE: \$420,000

CHARACTER OF BOND: Single, non-negotiable bond in fully registered form, payable to the United States of America, Farmers Home Administration, as specifically provided in that certain Resolution adopted by the Commission of the Marion County Water District on September 13, 1989.

DATE: May 30, 1990

DENOMINATION: \$778,000

PAYABLE AS TO PRINCIPAL IN ANNUAL INSTALLMENTS ON JANUARY 1 OF THE RESPECTIVE YEARS AS FOLLOWS:

<u>YEAR</u>	<u>PRINCIPAL</u>	<u>YEAR</u>	<u>PRINCIPAL</u>
2013	20,000	2021	30,000
2014	21,000	2022	31,000
2015	22,000	2023	33,000
2016	23,000	2024	34,000
2017	24,000	2025	36,000
2018	26,000	2026	38,000
2019	27,000	2027	27,000
2020	28,000		

INTEREST RATE: Five percentum (5%) per annum, payable semiannually on each January 1 and July 1, beginning July 1, 1990, to maturity of principal.

See accompanying accountant's report.

DESIGNATION OF BOND: "Marion County Water District Water System Revenue Bonds, Series of 1992A," (Numbered R-1)

AMOUNT DUE: \$368,000

CHARACTER OF BOND: Single, non-negotiable bond in fully registered form, payable to the United States of America, Farmers Home Administration, as specifically provided in that certain Resolution adopted by the Commission of the Marion County Water District on August 20, 1992.

DATE: March 31, 1993

DENOMINATION: \$500,000

PAYABLE AS TO PRINCIPAL IN ANNUAL INSTALLMENTS ON JANUARY 1 OF THE RESPECTIVE YEARS AS FOLLOWS:

<u>YEAR</u>	<u>PRINCIPAL</u>	<u>YEAR</u>	<u>PRINCIPAL</u>
2013	11,000	2023	18,000
2014	12,000	2024	19,000
2015	12,000	2025	20,000
2016	13,000	2026	21,000
2017	14,000	2027	22,000
2018	14,000	2028	23,000
2019	15,000	2029	25,000
2020	16,000	2030	25,000
2021	16,000	2031	27,000
2022	18,000	2032	27,000

INTEREST RATE: Five percentum (5%) per annum, payable semiannually on each January 1 and July 1 to maturity of principal.

See accompanying accountant's report.

DESIGNATION OF BOND: "Marion County Water District Water System Revenue Bonds, Series of 1993," (Numbered R-1)

AMOUNT DUE: \$172,500

CHARACTER OF BOND: Single, non-negotiable bond in fully registered form, payable to the United States of America, Farmers Home Administration, as specifically provided in that certain Resolution adopted by the Commission of Marion County Water District on March 9, 1993.

DATE: June 20, 1994

DENOMINATION: \$235,000

PAYABLE AS TO PRINCIPAL IN ANNUAL INSTALLMENTS ON JANUARY 1 OF THE RESPECTIVE YEARS AS FOLLOWS:

<u>YEAR</u>	<u>PRINCIPAL</u>	<u>YEAR</u>	<u>PRINCIPAL</u>
2013	5,500	2023	9,000
2014	5,500	2024	9,000
2015	6,000	2025	9,500
2016	6,000	2026	10,000
2017	6,500	2027	10,000
2018	7,000	2028	10,500
2019	7,000	2029	11,000
2020	7,500	2030	11,500
2021	8,000	2031	12,000
2022	8,000	2032	13,000

INTEREST RATE: Four and one-half percentum (4-1/2%) per annum, payable semiannually on each January 1 and July 1, beginning July 1, 1994, to maturity of principal.

See accompanying accountant's report.

DESIGNATION OF BOND: "Marion County Water District Water System Revenue Bonds, Series of 1996," (Numbered R-1)

AMOUNT DUE: \$102,700

CHARACTER OF BOND: Single, non-negotiable bond in fully registered form, payable to the United States of America, Farmers Home Administration, as specifically provided in that certain Resolution adopted by the Commission of Marion County Water District on January 19, 1996.

DATE: January 19, 1996

DENOMINATION: \$131,000

PAYABLE AS TO PRINCIPAL IN ANNUAL INSTALLMENTS ON JANUARY 1 OF THE RESPECTIVE YEARS AS FOLLOWS:

<u>YEAR</u>	<u>PRINCIPAL</u>	<u>YEAR</u>	<u>PRINCIPAL</u>
2013	2,600	2025	4,500
2014	2,800	2026	4,700
2015	2,900	2027	4,900
2016	3,000	2028	5,100
2017	3,100	2029	5,300
2018	3,300	2030	5,600
2019	3,400	2031	5,800
2020	3,600	2032	6,100
2021	3,700	2033	6,300
2022	3,900	2034	6,700
2023	4,100	2035	7,000
2024	4,300		

INTEREST RATE: Four and one-half percentum (4-1/2%) per annum, payable semiannually on each January 1 and July 1, beginning July 1, 1997, to maturity of principal.

See accompanying accountant's report.

DESIGNATION OF BOND: "Marion County Water District Water System Revenue Bonds, Series of 2000," Numbered R-1

AMOUNT DUE: \$301,500

CHARACTER OF BOND: Single, non-negotiable bond in fully registered form, payable to the United States Department of Agriculture, Rural Development, as specifically provided in that certain Resolution adopted by the Commission of Marion County Water District on June 28, 2000.

DATE: June 28, 2000

DENOMINATION: \$350,000

PAYABLE AS TO PRINCIPAL IN ANNUAL INSTALLMENTS ON JANUARY 1 OF THE RESPECTIVE YEARS AS FOLLOWS:

<u>YEAR</u>	<u>PRINCIPAL</u>	<u>YEAR</u>	<u>PRINCIPAL</u>
2013	5,500	2027	11,000
2014	6,000	2028	11,500
2015	6,500	2029	12,000
2016	6,500	2030	12,500
2017	7,000	2031	13,500
2018	7,000	2032	13,500
2019	7,500	2033	14,500
2020	8,000	2034	15,000
2021	8,500	2035	16,000
2022	8,500	2036	16,500
2023	9,000	2037	17,500
2024	9,500	2038	18,500
2025	10,000	2039	19,500
2026	10,500		

INTEREST RATE: Four and seventy-five hundredths percentum (4.75%) per annum payable semiannually on each January 1 and July 1, beginning June 1, 2001, to maturity of principal.

See accompanying accountant's report.

DESIGNATION OF BOND: "Marion County Water District, Water System Revenue Bond, Taxable Series of 2009 (Build America Bonds-Direct Payment to Issuer)," Numbered R-1

AMOUNT DUE: \$1,433,000

CHARACTER OF BOND: Single, non-negotiable bond in fully registered form, payable to the United States Department of Agriculture, Rural Development, as specifically provided in that certain Resolutions adopted by the Commission of Marion County Water District on October 20, 2009, and May 11, 2010.

DATE: June 9, 2010

DENOMINATION: \$1,433,000

PAYABLE AS TO PRINCIPAL IN ANNUAL INSTALLMENTS ON JANUARY 1 OF THE RESPECTIVE YEARS AS FOLLOWS:

<u>YEAR</u>	<u>PRINCIPAL</u>	<u>YEAR</u>	<u>PRINCIPAL</u>
2013	18,000	2032	36,000
2014	19,000	2033	37,000
2015	19,000	2034	38,000
2016	20,000	2035	40,000
2017	21,000	2036	41,000
2018	22,000	2037	43,000
2019	22,000	2038	44,000
2020	23,000	2039	46,000
2021	24,000	2040	47,000
2022	25,000	2041	49,000
2023	26,000	2042	51,000
2024	27,000	2043	53,000
2025	28,000	2044	55,000
2026	29,000	2045	57,000
2027	30,000	2046	59,000
2028	31,000	2047	61,000
2029	32,000	2048	63,000
2030	33,000	2049	65,000
2031	34,000	2050	65,000

INTEREST RATE: Three and twenty-five hundredths percentum (3.25%) per annum payable semiannually on each January 1 and July 1, beginning June 1, 2013, to maturity of principal.

See accompanying accountant's report.

Marion County Water District
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2011

	<u>Federal CFDA Number</u>	<u>Expenditures</u>
<u>U.S. Department of Agriculture</u>		
Water and Waste Disposal Systems	10.760	603,895

MARION COUNTY WATER DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Marion County Water District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

MARION COUNTY WATER DISTRICT
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED DECEMBER 31, 2011

Section I – Summary of Auditor’s Results

Financial Statements

Type of audit issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ X Yes _____ None Reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs?

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ Yes X None Reported

Type of auditor’s report issued on compliance for major programs (unqualified):

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? _____ Yes X No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
10.760	Water and Waste Disposal Systems

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? X Yes _____ No

Section II – Financial Statement of Findings

2011-1 Lack of Controls Over Financial Reporting:

During the planning and performance of the audit, it was determined that there is not an effective system of controls over financial reporting. Financial reporting includes drafting the financial statements and notes to the financial statements. It was noted that the District does not have a person with the expertise to draft the financial statements and notes to the financial statements.

Section III – Federal Award Findings and Questioned Costs

No matters were reported.

MARION COUNTY WATER DISTRICT
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
DECEMBER 31, 2011

2010-1 Lack of Controls Over Financial Reporting:

During the planning and performance of the audit, it was determined that there is not an effective system of controls over financial reporting. Financial reporting includes drafting the financial statements and notes to the financial statements. It was noted that the District does not have a person with the expertise to draft the financial statements and notes to the financial statements.

2010-1 Current Year Status:

The District was unable to correct this deficiency. Management feels that the costs of correcting this internal control matter outweigh the benefits.

WHITE AND COMPANY, P.S.C.

**Certified Public Accountants
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Charles M. White, CPA

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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**

February 3, 2012

To the Commissioners of the
Marion County Water District

We have audited the general purpose financial statements of Marion County Water District as of and for the years ended December 31, 2011 and 2010, and have issued our report thereon dated February 3, 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 Marion County Water District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Marion County Water District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Marion County Water District'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 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, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting. [2011-1]. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Marion County Water District's general purpose 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*.

We noted certain matters that we reported to management of Marion County Water District in a separate letter dated February 3, 2012.

Marion County Water District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Marion County Water District's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, the Commissioners, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

White and Company, P.S.C.

Certified Public Accountants

WHITE AND COMPANY, P.S.C.

**Certified Public Accountants
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Charles M. White, CPA

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL
EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

February 3, 2012

To the Commissioners of the
Marion County Water District

Compliance

We have audited Marion County Water District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Marion County Water District's major federal programs for the year ended December 31, 2011. Marion County Water District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Marion County Water District's management. Our responsibility is to express an opinion on Marion County Water District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Marion County Water District's compliance with those requirements and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Marion County Water District's compliance with those requirements.

In our opinion, Marion County Water District, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011.

Internal Control over Compliance

Management of Marion County Water District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contract, and grants applicable to federal programs. In planning and performing our audit, we considered Marion County Water District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Marion County Water District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance 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 compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Commissioners, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

White and Company, P.S.C.

Certified Public Accountants

WHITE AND COMPANY, P.S.C.
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Charles M. White, CPA

Email cmwcpa@windstream.net

February 3, 2012

To the Commissioners of the
Marion County Water District

We have audited the financial statements of the Marion County Water District as of and for the year ended December 31, 2011, and have issued our report thereon dated February 3, 2012. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and OMB Circular A-133), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated November 16, 2011. Professional standards also require that we communicate to you the following information related to our audit.

Significant Auditing Findings:

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting polices used by Marion County Water District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2011. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the useful lives of capital assets for computation of depreciation. We evaluated the key factors and assumptions used to develop the computation of depreciation in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated February 3, 2012.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were not such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Information in Documents Containing Audited Financial Statements

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of American, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

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

Sincerely,

White and Company, P.S.C.

Certified Public Accountants