

MARION COUNTY WATER DISTRICT
LEBANON, KENTUCKY

AUDIT REPORT

DECEMBER 31, 2013 AND 2012

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COMMISSION**

MARION COUNTY WATER DISTRICT
AUDIT REPORT
DECEMBER 31, 2013 AND 2012

C O N T E N T S

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WHITE AND COMPANY, P.S.C.

**Certified Public Accountants
219 South Proctor Knott Avenue
Lebanon, Kentucky 40033
(270) 692-2102
(270) 692-3615
Fax (270) 692-2101**

Charles M. White, CPA

Email cmwcpa@windstream.net

INDEPENDENT AUDITOR'S REPORT

January 27, 2014

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, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the District's basic 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 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 of 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 respective financial position of the general purpose financial statements of Marion County Water District, Lebanon, Kentucky, as of December 31, 2013 and 2012, and the respective changes in financial position, and, where applicable, 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 4-6 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 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Marion County Water District, Lebanon, Kentucky's basic financial statements. The Schedules of Operating and Maintenance Expenses and Schedule of Bond Retirements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedules of Operating and Maintenance Expenses and Schedule of Bond Retirements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedules of Operating and Maintenance Expenses and Schedule of Bond Retirements information are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2014, on our consideration of the Marion County Water District, Lebanon, Kentucky's internal control over financial reporting and on our test of its compliance with certain provision 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 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 Marion County Water District, Lebanon, Kentucky's internal control financial reporting and compliance.

Sincerely,

White and Company, P.S.C.

Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS
MARION COUNTY WATER DISTRICT
DECEMBER 31, 2013

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, 2013. 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 \$12,016,579 (Net Position) for the fiscal year reported.
- Total net position comprised of the following:
 - (1) Appropriated retained earnings of \$879,711.
 - (2) Retained earnings from income before contributions of \$1,070,498.
 - (3) Donated capital of \$10,066,370.
- The District's general purpose financial statement's retained earnings from income before contributions decreased by \$16,401 from the previous fiscal year.
- The District's general purpose financial statement's donated capital increased by \$61,495 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.
- During 2013, the Marion Adjustment Center closed. This customer represented approximately 6% of the District's water revenue. However, due to an increased water rate, the District did not incur a significant loss for commercial water revenue during 2013, and the District does not expect a significant commercial water revenue loss during 2014.

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) Statements of Net Position, (2) Income Statements, (3) Statements of Changes in Net Position, (4) Statements of Cash Flows, and (5) Notes to the Financial Statements. The Statements of Net Position show the total assets, liabilities and net position as of December 31, 2013 and December 31, 2012. The Income Statements depict the difference between the revenues and expenses for the year 2013. The Statements of Changes in Net Position 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

Statements of Net Position:

| | <u>2013</u> | <u>2012</u> |
|----------------------------------|--------------------------|--------------------------|
| Utility Plant | 12,249,974 | 11,954,425 |
| Certificates of Deposit | 650,003 | 650,003 |
| Cash | 1,853,034 | 1,562,548 |
| Net Customer Accounts Receivable | 142,036 | 132,781 |
| Other Current Assets | 101,953 | 209,861 |
| Construction in Progress | <u>15,356</u> | <u>178</u> |
| Total Current & Accrued Assets | <u>2,112,379</u> | <u>1,905,368</u> |
| Total Assets & Other Debits | <u><u>15,012,356</u></u> | <u><u>14,509,796</u></u> |

| | <u>2013</u> | <u>2012</u> |
|--|-------------------|-------------------|
| Net Position | | |
| Appropriated Retained Earnings | 879,711 | 806,058 |
| Retained Earnings from Income before Contributions | 1,070,498 | 1,086,899 |
| Donated Capital | <u>10,066,370</u> | <u>10,004,875</u> |
| Total Net Position | 12,016,579 | 11,897,832 |
| KIA Loan Payable | 479,904 | 0 |
| Citizens National Bank Loan Payable | 761,733 | 0 |
| Revenue Bonds Payable | <u>1,377,000</u> | <u>2,289,800</u> |
| Total Long-term Debt | 2,618,637 | 2,289,800 |
| Citizens National Bank Loan Payable | 35,398 | 0 |
| Revenue Bonds Payable | 19,000 | 45,300 |
| Other Current and Accrued Liabilities | <u>322,742</u> | <u>276,864</u> |
| Total Current and Accrued Liabilities | 377,140 | 322,164 |
| Total Net Position & Liabilities | <u>15,012,356</u> | <u>14,509,796</u> |

Total assets and other debits increased by \$502,560, an increase of 3.47%. Major increases include cash, which increased \$290,486 (18.59%), net utility plant, which increased \$295,549 (2.47%) and other current assets, which decreased \$107,908 (51.42%) from the previous fiscal year. The primary reason for the decrease in other current assets is the result of a decrease in inventory due to the change out of several radio read meters on hand at the end of 2012.

Income Statement:

| | <u>2013</u> | <u>2012</u> |
|--|------------------|------------------|
| Operating Revenue | | |
| Water Revenue | 2,382,468 | 2,426,824 |
| Other Operating Revenue | <u>81,398</u> | <u>78,502</u> |
| Total Operating Revenue | 2,463,866 | 2,505,326 |
| Operating Expenses | | |
| Purchased Water | 1,289,695 | 1,315,096 |
| Other Operation & Maintenance Expenses | 731,794 | 686,010 |
| Depreciation | <u>420,526</u> | <u>406,482</u> |
| Total Operating Expenses | <u>2,442,015</u> | <u>2,407,588</u> |
| Operating Income | 21,851 | 97,738 |
| Other Income | 97,953 | 66,463 |
| Other Expenses - Interest | <u>62,552</u> | <u>75,626</u> |
| Net Income Before Contributions | <u>57,252</u> | <u>88,575</u> |
| Retained Earnings From Income Before Contributions | | |
| Beginning Balance | 1,086,899 | 986,391 |
| Transfer to/from Appropriated Retained Earnings | <u>(73,653)</u> | <u>11,933</u> |
| Ending Balance | <u>1,070,498</u> | <u>1,086,899</u> |

Operating revenues budgeted for 2013 were \$2,550,600. Operating revenues for 2013 were \$2,463,866, which was \$86,734 less than the budgeted amount. Actual operating revenues decreased \$41,460 from the prior year. Total operation and maintenance expenses budgeted for 2013 were \$2,043,025. Total operation and maintenance expenses for 2013 were \$2,021,489, which was \$21,536 less than the budgeted amount. Actual operating expenses increased \$34,427 from the prior year.

Net income before contributions decreased by \$31,323 as compared to 2012.

Utility Plant and Debt Administration

Additions to Utility Plant were \$716,075. Accumulated depreciation increased \$420,526 causing a total increase in the District's Utility Plant of \$295,549. For a detail of Utility Plant, see Note C.

| | Utility Plant (Net of Accumulated Depreciation) |
|---------------------|---|
| Land | \$ 74,715 |
| Distribution Plant | 17,388,006 |
| General Plant | 774,043 |
| Total Utility Plant | <u>18,236,764</u> |

At year-end, the District had a balance owed of \$479,904 for the KIA loan. At year-end, the district had a balance owed of \$797,131 for the Citizens National Bank loan. At year-end the District had \$1,396,000 in outstanding revenue bonds payable. The total bonds and loans payable at year end were \$2,673,035, versus \$2,335,100 the previous year, an increase of \$337,935 (14.47%). For a breakdown of the District's current and long-term debt, see Notes D, E, F, G and H and the supplemental financial information provided within this report.

Future Projections

The projections for the District for 2014 will entail the continuation of the radio read meter change out program. As of January 1, 2014, the District has changed out approximately 3,564 meters in this program. The District currently has 600 radio read conversion registers in inventory. All new purchases of meters will come from District funds, since all contingency funds from past projects have been depleted.

Going forward, the District will proceed to acquire funds to replace some of its aging infrastructure. The District has plans to start construction of the 5,870 feet of 6 inch main line improvements between Narrows Road and the Bradfordsville community on Hwy. 49. Engineering costs for this project have already been incurred. Also the District will install 2,480 feet of 3 inch main line on Whitlock Pike, which is not currently being served. The funds for these projects will be furnished through the remaining \$68,276 of funds from the Kentucky Infrastructure Authority (KIA) loan. The District will contribute approximately \$100,000 of their funds to complete these two projects. There will be two water line relocation projects in 2014, Hwy. 49 South and Hwy. 429, St. Rose Road, due to new road construction. The Kentucky Transportation Cabinet will fund both of these projects.

Marion County Water District
Lebanon, Kentucky

Statement of Net Position
December 31, 2013 and 2012

Assets and Other Debits

| | <u>2013</u> | <u>2012</u> |
|--|--------------------------|--------------------------|
| Utility Plant (Notes A-3 and C) | 12,249,974 | 11,954,425 |
| Other Property and Investments | | |
| Certificates of Deposit - Citizens National Bank | <u>650,003</u> | <u>650,003</u> |
| Total Other Property and Investments | 650,003 | 650,003 |
| Current and Accrued Assets | | |
| Cash (Note B) | 1,853,034 | 1,562,548 |
| Customer Accounts Receivable, Net of | | |
| Allowance of 6,609 and 4,840 | 142,036 | 132,781 |
| Other Accounts Receivable | 14,880 | 190 |
| Materials and Supplies Inventory (Note A-2) | 73,423 | 197,124 |
| Prepaid Insurance | 12,814 | 11,088 |
| Accrued Interest Receivable | 836 | 1,459 |
| Construction in Progress - KIA Projects | <u>15,356</u> | <u>178</u> |
| Total Current and Accrued Assets | <u>2,112,379</u> | <u>1,905,368</u> |
| Total Assets and Other Debits | <u><u>15,012,356</u></u> | <u><u>14,509,796</u></u> |

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

Marion County Water District
Lebanon, Kentucky

Statement of Net Position
December 31, 2013 and 2012

Equity Capital and Liabilities

| | <u>2013</u> | <u>2012</u> |
|--|--------------------------|--------------------------|
| Net Position | | |
| Appropriated Retained Earnings (Note I) | 879,711 | 806,058 |
| Retained Earnings from Income before Contributions | 1,070,498 | 1,086,899 |
| Donated Capital | <u>10,066,370</u> | <u>10,004,875</u> |
| Total Net Position | 12,016,579 | 11,897,832 |
| Long-Term Debt | | |
| KIA Loan Payable (Note D) | 479,904 | 0 |
| Citizens National Bank Loan Payable (Note E) | 761,733 | 0 |
| Revenue Bonds Payable (Note G) | <u>1,377,000</u> | <u>2,289,800</u> |
| Total Long-Term Debt | 2,618,637 | 2,289,800 |
| Current and Accrued Liabilities | | |
| Citizens National Bank Loan Payable (Note E) | 35,398 | |
| Revenue Bonds Payable (Note G) | 19,000 | 45,300 |
| Accounts Payable - Trade | 165,603 | 114,125 |
| Accrued County Retirement | 6,461 | 4,901 |
| Accrued Unemployment | 691 | 482 |
| Customer Deposits | 31,783 | 30,173 |
| Accrued Taxes | <u>118,204</u> | <u>127,183</u> |
| Total Current and Accrued Liabilities | <u>377,140</u> | <u>322,164</u> |
| Total Net Position and Liabilities | <u><u>15,012,356</u></u> | <u><u>14,509,796</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, 2013 and 2012

| | <u>2013</u> | <u>Percent of Revenue</u> | <u>2012</u> | <u>Percent of Revenue</u> |
|---------------------------------|------------------|-----------------------------------|------------------|-----------------------------------|
| Operating Revenue | | | | |
| Metered Sales Residential | 1,913,981 | 77.7% | 1,967,471 | 78.5% |
| Metered Sales Commercial | 430,541 | 17.5% | 423,185 | 16.9% |
| Metered Sales Schools | 22,779 | 0.9% | 20,900 | 0.8% |
| Metered Sales Multi-Family | 15,167 | 0.6% | 15,268 | 0.6% |
| Miscellaneous Service | 38,280 | 1.6% | 37,643 | 1.5% |
| Late Charges | 43,118 | 1.8% | 40,859 | 1.6% |
| | <u>2,463,866</u> | | <u>2,505,326</u> | |
| Total Operating Revenue | 2,463,866 | 100.0% | 2,505,326 | 100.0% |
| Operating Expenses | | | | |
| Operation & Maintenance Expense | 2,021,489 | 82.0% | 2,001,106 | 79.9% |
| Depreciation | 420,526 | 17.1% | 406,482 | 16.2% |
| | <u>2,442,015</u> | | <u>2,407,588</u> | |
| Total Operating Expenses | 2,442,015 | 99.1% | 2,407,588 | 96.1% |
| Operating Income | 21,851 | 0.9% | 97,738 | 3.9% |
| Other Income | | | | |
| Interest Income | 4,153 | 0.2% | 6,706 | 0.3% |
| Collection Fees | 35,904 | 1.5% | 32,337 | 1.3% |
| Gain (Loss) from Sale of Asset | - | 0.0% | (15,078) | -0.6% |
| Misc. Non-Operating Income | 57,896 | 2.3% | 42,498 | 1.7% |
| Total Other Income | 97,953 | 4.0% | 66,463 | 2.7% |
| Other Expenses | | | | |
| Interest on Long-Term Debt | 62,285 | 2.5% | 75,378 | 3.0% |
| Other Interest | 267 | 0.0% | 248 | 0.0% |
| | <u>62,552</u> | | <u>75,626</u> | |
| Total Other Expenses | 62,552 | 2.5% | 75,626 | 3.0% |
| Net Income before Contributions | <u>57,252</u> | <u>2.3%</u> | <u>88,575</u> | <u>3.5%</u> |

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

Marion County Water District
Lebanon, Kentucky

Statements of Changes in Net Position
Years Ended December 31, 2013 and 2012

| | <u>2013</u> | <u>2012</u> |
|--|------------------|------------------|
| Appropriated Retained Earnings | | |
| Balance - Beginning of Year | 806,058 | 817,991 |
| Transfer to/from Retained Earnings from Income | | |
| before Contributions | <u>73,653</u> | <u>(11,933)</u> |
| Balance - End of Year | <u>879,711</u> | <u>806,058</u> |
| Retained Earnings from Income before Contributions | | |
| Balance - Beginning of Year | 1,086,899 | 986,391 |
| Net Income for the Year | 57,252 | 88,575 |
| Transfer to/from Appropriated Retained Earnings | <u>(73,653)</u> | <u>11,933</u> |
| Balance - End of Year | <u>1,070,498</u> | <u>1,086,899</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, 2013 and 2012

| | <u>2013</u> | <u>2012</u> |
|---|-------------------------|-------------------------|
| Cash Flows from Operating Activities: | | |
| Receipts from Users | 2,475,825 | 2,576,989 |
| Payments to Employees | (394,448) | (373,565) |
| Payments to Suppliers for Goods and Services | <u>(1,459,188)</u> | <u>(1,503,528)</u> |
| Net Cash Provided by Operating Activities | 622,189 | 699,896 |
| Cash Flows from Capital and Related Financing Activities: | | |
| Capital Contributions | 61,495 | 95,492 |
| Proceeds from Sale of Fixed Assets | 0 | 2,624 |
| Loan Proceeds - KIA | 479,904 | 0 |
| Loan Proceeds - Citizens National Bank | 820,000 | 0 |
| Principal Payments on Long-term Debt | (961,969) | (462,600) |
| Interest Payments | (62,552) | (75,626) |
| Payments for Capital Projects | <u>(731,253)</u> | <u>(380,796)</u> |
| Net Cash Used in Capital and Related Financing Activities | (394,375) | (820,906) |
| Cash Flows from Investing Activities: | | |
| Interest Income Received | 4,776 | 7,278 |
| Rent and Other Income | <u>57,896</u> | <u>42,498</u> |
| Net Cash Provided by Investing Activities | 62,672 | 49,776 |
| Cash and Investments, Beginning | <u>1,562,548</u> | <u>1,633,782</u> |
| Cash and Investments, Ending | <u><u>1,853,034</u></u> | <u><u>1,562,548</u></u> |

Marion County Water District
Lebanon, Kentucky

Statements of Cash Flows - (Continued)
For the Years Ended December 31, 2013 and 2012

Reconciliation of Net Income to Net Cash Provided by Operating Activities

| | <u>2013</u> | <u>2012</u> |
|--|----------------|----------------|
| Net Income | 57,252 | 88,575 |
| Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities: | | |
| Depreciation | 420,526 | 406,482 |
| Interest on Debt | 62,552 | 75,626 |
| Misc. Non-Operating Income | (57,896) | (42,498) |
| Interest Income | (4,153) | (6,706) |
| Loss on Sale of Fixed Assets | | 15,078 |
| Changes in Current Assets & Liabilities: | | |
| Accounts Receivable | (23,945) | 39,326 |
| Materials & Supplies Inventory | 123,701 | 114,336 |
| Other Assets | (1,726) | (255) |
| Accounts Payable | 51,478 | 11,063 |
| Other Liabilities | <u>(5,600)</u> | <u>(1,131)</u> |
| Net Cash Provided by Operating Activities | <u>622,189</u> | <u>699,896</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 \$2,503,037. Of the total cash, \$1,000,000 was covered by Federal Depository Insurance, \$1,503,037 was covered by collateral agreements and collateral held by the pledging banks' trust departments in the District's name.

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, 2013 and 2012, were the following restricted funds:

| | <u>2013</u> | <u>2012</u> |
|---------------------------|----------------|----------------|
| Reserve Funds | 45,949 | 57,317 |
| Short-Lived Asset Account | <u>183,759</u> | <u>98,738</u> |
| Total | <u>229,708</u> | <u>156,055</u> |

C. Utility Plant:

The following represents the amount of utility plant as of December 31, 2012 and 2013:

| | Beginning Balance | Additions | Deletions | Ending Balance |
|-----------------------------------|------------------------------|------------------|------------------|---------------------------|
| Nondepreciable Assets: | | | | |
| Land | 59,708 | 15,007 | 0 | 74,715 |
| Depreciable Assets: | | | | |
| Distribution Plant | 16,705,574 | 682,432 | 0 | 17,388,006 |
| General Plant | <u>755,407</u> | <u>18,636</u> | <u>0</u> | <u>774,043</u> |
| | 17,520,689 | 716,075 | 0 | 18,236,764 |
| Less: Accumulated Depreciation | <u>(5,566,264)</u> | <u>(420,526)</u> | <u>0</u> | <u>(5,986,790)</u> |
| | <u>11,954,425</u> | <u>295,549</u> | <u>0</u> | <u>12,249,974</u> |

\$4,481 and \$0 of interest were capitalized during the years ended December 31, 2013 and 2012, respectively.

D. KIA Loan Payable:

During 2013, Marion County Water District upgraded the Highway 84 water line. This project was funded by a Kentucky Infrastructure Authority (KIA) loan. The loan was not to exceed \$548,180 and has a fixed interest rate of 1.75%. At the end of 2013, the Highway 84 water line upgrade was complete; additional loan funds totaling \$83,632 remained, and the District received approval to use these loan funds for the District's newest project, Kentucky 49 at Bradfordsville. As of December 31, 2013, the KIA Loan has a balance owed of \$479,904.

Principal payments for the KIA Loan Payable do not begin until all funds (\$548,180) have been drawn by the District. It is anticipated that the remaining funds will be utilized during 2014 and that principal payments will commence by December of 2014.

E. Citizens National Bank Loan Payable

On April 12, 2013, Marion County Water District refinanced three outstanding revenue bonds into one loan with Citizen's National Bank with a principal balance of \$820,000 at a fixed 3.5% interest rate. The loan requires monthly payments of \$5,228 through October 2030. At December 31, 2013, the balance of this loan was \$797,131.

Notes to Financial Statements (Continued)

E. Citizens National Bank Loan Payable (continued)

Maturities for the next five years are as follows:

| <u>Year</u> | <u>Interest</u> | <u>Principal</u> |
|-------------|-----------------|------------------|
| 2014 | 27,334 | 35,398 |
| 2015 | 26,075 | 36,657 |
| 2016 | 24,777 | 37,955 |
| 2017 | 23,418 | 39,315 |
| 2018 | 22,023 | 40,709 |
| Thereafter | <u>135,237</u> | <u>607,097</u> |
| | <u>258,864</u> | <u>797,131</u> |

- F. 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.

G. Revenue Bonds Payable:

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

1,396,000

Maturities for the next five years are as follows:

| | |
|------------|------------------|
| 2015 | 19,000 |
| 2016 | 20,000 |
| 2017 | 20,000 |
| 2018 | 21,000 |
| 2019 | 22,000 |
| Thereafter | <u>1,294,000</u> |
| | <u>1,396,000</u> |

H. Long-term liability activity for the year ended December 31, 2013, was as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|-----------------------|------------------------------|------------------|-------------------|---------------------------|--------------------------------|
| KIA Loan Payable | 0 | 479,904 | 0 | 479,904 | * |
| CNB Loan Payable | 0 | 820,000 | 22,869 | 797,131 | 35,398 |
| Revenue Bonds Payable | <u>2,335,100</u> | <u>0</u> | <u>939,100</u> | <u>1,396,000</u> | <u>19,000</u> |
| Total | <u>2,335,100</u> | <u>1,299,904</u> | <u>961,969</u> | <u>2,673,035</u> | <u>54,398</u> |

* At December 31, 2013, the KIA Loan funds had not been fully drawn. Based on the terms of the loan, no principal payments are due until all loan funds have been drawn.

Notes to Financial Statements (Continued)

I. Appropriated Retained Earnings:

Appropriated retained earnings at December 31, 2013 and 2012, consist of restricted funds as follows:

| | <u>2013</u> | <u>2012</u> |
|-------------------------------|----------------|----------------|
| CDs - Reserve Fund | 650,003 | 650,003 |
| Cash - Reserve Fund | 45,949 | 57,317 |
| Cash - Short-Lived Asset Fund | <u>183,759</u> | <u>98,738</u> |
| | <u>879,711</u> | <u>806,058</u> |

These funds are restricted in accordance with the provisions of the bond issuance of 2010 and the Citizens National Bank loan payable. Reserve funds must be maintained at a level of \$135,000. Further, the District is required to deposit \$12,114 into the Short-Lived Asset Fund account monthly. The funds in this account may be used by the District to replace or add short-lived assets to the District's water system; they may not be used for general operating expenses. The debt provisions allow the District to invest these funds in interest-bearing obligations maturing no later than three years after the date of investment.

J. 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 19.55% of wages from January 1, 2013 through June 30, 2013 and 18.89% of wages from July 1, 2013 through December 31, 2013. The pension expense for 2013 was \$51,514, the pension expense for 2012 was \$48,808, and the pension expense for 2011 was \$40,653.

K. Risk Management: The District insures against significant losses by commercial insurance. There have been no significant reductions in insurance coverage.

L. 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.

M. Insurance Recovery: The District received \$16,000 of insurance proceeds due to vandalism of a water tank and a landslide near a water tank during 2013. These proceeds have been including in Statement of Income for 2013 as miscellaneous, non-operating income.

Notes to Financial Statements (Continued)

N. Management has reviewed subsequent events through January 27, 2014. There are no material subsequent events that require disclosure.

O. Commitments:

At December 31, 2013, the District has an open project for Kentucky 49 at Bradfordsville, Kentucky water line relocation. It is anticipated that the cost of completion of this project is \$217,502.

Marion County Water District
Lebanon, Kentucky

Schedules of Operating and Maintenance Expenses
Years Ended December 31, 2013 and 2012

| | <u>2013</u> | Percent of <u>Revenue</u> | <u>2012</u> | Percent of <u>Revenue</u> |
|---|-------------------------|---------------------------------|-------------------------|---------------------------------|
| Source of Supply Expense | | | | |
| Purchased Water | 1,289,695 | 52.3% | 1,315,096 | 52.5% |
| Pumping Expense | | | | |
| Fuel or Power Purchased for Pumping | 39,773 | 1.6% | 40,633 | 1.6% |
| Transmission & Distribution Expense | | | | |
| Salaries | 135,705 | 5.5% | 121,126 | 4.8% |
| Operation Supplies & Expense | 43,786 | 1.8% | 37,614 | 1.5% |
| Maintenance | <u>107,137</u> | <u>4.3%</u> | <u>85,789</u> | <u>3.4%</u> |
| Total Transmission & Distribution Expense | 286,628 | 11.6% | 244,529 | 9.8% |
| Customer Accounts Expense | | | | |
| Salaries | 107,054 | 4.3% | 104,163 | 4.2% |
| Contractual Services - Meter Reading | 33,088 | 1.3% | 40,026 | 1.6% |
| Supplies & Expense | 39,844 | 1.6% | 34,692 | 1.4% |
| Uncollectible Accounts | <u>5,639</u> | <u>0.2%</u> | <u>9,745</u> | <u>0.4%</u> |
| Total Customer Accounts Expense | 185,625 | 7.5% | 188,626 | 7.5% |
| Administrative & General Expense | | | | |
| Administrative & General Salaries | 36,475 | 1.5% | 35,693 | 1.4% |
| Office Supplies & Other Expense | 19,391 | 0.8% | 17,494 | 0.7% |
| Outside Service Employed | 9,970 | 0.4% | 11,435 | 0.5% |
| Insurance | 24,122 | 1.0% | 20,946 | 0.8% |
| Employee Benefits | 117,521 | 4.8% | 112,329 | 4.5% |
| Regulatory Commission Expense | 4,529 | 0.2% | 4,424 | 0.2% |
| Miscellaneous | <u>7,760</u> | <u>0.3%</u> | <u>9,901</u> | <u>0.4%</u> |
| Total Administrative & General Expense | <u>219,768</u> | <u>8.9%</u> | <u>212,222</u> | <u>8.5%</u> |
| Total Operating & Maintenance Expense | <u><u>2,021,489</u></u> | <u><u>82.0%</u></u> | <u><u>2,001,106</u></u> | <u><u>79.9%</u></u> |

See accompanying accountants' 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:

\$1,396,000

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

There were no prior year audit findings.

WHITE AND COMPANY, P.S.C.

**Certified Public Accountants
219 South Proctor Knott Avenue
Lebanon, Kentucky 40033
(270) 692-2102
(270) 692-3615
Fax (270) 692-2101**

Charles M. White, CPA

Email cmwcpa@windstream.net

**INDEPENDENT AUDITOR'S 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***

January 27, 2014

To the Commissioners of the
Marion County Water District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the general purpose financial statements of Marion County Water District, Lebanon, Kentucky as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise Marion County Water District, Lebanon, Kentucky's basic financial statements and have issued our report thereon dated January 27, 2014.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Marion County Water District, Lebanon, Kentucky's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Marion County Water District, Lebanon, Kentucky's Response to Findings

Marion County Water District, Lebanon, Kentucky's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Marion County Water District, Lebanon, Kentucky's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Sincerely,

White and Company, P.S.C.

Certified Public Accountants

WHITE AND COMPANY, P.S.C.
Certified Public Accountants
219 South Proctor Knott Avenue
Lebanon, Kentucky 40033
(270) 692-2102
(270) 692-3615
Fax (270) 692-2101

Charles M. White, CPA

Email cmwcpa@windstream.net

January 27, 2014

To the Commissioners of the
Marion County Water District

We have audited the general purpose financial statements of the Marion County Water District, Lebanon, Kentucky as of and for the year ended December 31, 2013, and have issued our report thereon dated January 27, 2014. 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 21, 2013. 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 policies 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 2013. 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 clearly 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, a disagreement with management is 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 January 27, 2014.

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 Matters

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 America, 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