

**MARION COUNTY WATER DISTRICT  
AUDIT REPORT  
DECEMBER 31, 2016 AND 2015**

## CONTENTS

Independent Auditor's Report	1-3
Management's Discussion and Analysis	4-7
Statements of Net Position	8-9
Statements of Income	10
Statements of Changes in Net Position	11
Statements of Cash Flows	12-13
Notes to Financial Statements	14-22
Required Supplementary Information:	
Schedule of District's Proportionate Share of Net Pension Liability – County Employees Retirement System	23
Schedule of Contributions to the County Employees Retirement System	24
Notes to Required Supplementary Information – District's Proportionate Share of Net Pension Liabilities	25
Other Supplementary Information:	
Schedules of Operating and Maintenance Expenses	26
Schedule of Bond Retirement – Series of 2009	27
Schedule of Prior Year Audit Findings and Responses	28
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 <i>Government Auditing Standards</i>	29-30
Letter to Those Charged with Governance	31-33

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

Charles M. White, CPA  
Joseph A. Montgomery, CPA  
Stephanie A. Abell, CPA

Email [charles.white@whitecpas.com](mailto:charles.white@whitecpas.com)

**INDEPENDENT AUDITOR'S REPORT**

May 17, 2017

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, 2016 and 2015, 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 the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, 2016 and 2015, 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 and schedule of district's proportionate share of net pension liability on pages 4-7 and 23 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 as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated May 17, 2017, 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 over 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, 2016**

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, 2016. 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 \$11,819,477 (Net Position) for the fiscal year reported.
- Total net position comprised of the following:
  - (1) Appropriated retained earnings of \$940,084.
  - (2) Retained earnings from income before contributions of \$613,142.
  - (3) Donated capital of \$10,266,251.
- The District's general purpose financial statement's retained earnings from income before contributions decreased by \$46,407 from the previous fiscal year.
- The District's general purpose financial statement's donated capital increased by \$70,591 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) 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, 2016 and December 31, 2015. The Income Statements depict the difference between the revenues and expenses for the year 2016. 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>2016</u>	<u>2015</u>
Utility Plant	12,039,683	11,938,974
Certificates of Deposit	750,003	650,003
Cash	1,955,926	1,927,076
Net Customer Accounts Receivable	188,986	153,596
Other Current Assets	88,392	143,177
Construction in Progress	<u>-0-</u>	<u>171,667</u>
Total Current & Accrued Assets	<u>2,233,304</u>	<u>2,395,516</u>
Deferred Outflows Related to Pensions	<u>175,519</u>	<u>93,305</u>
Total Assets & Deferred Outflows	<u>15,198,509</u>	<u>15,077,798</u>
Net Position		
Appropriated Retained Earnings	940,084	822,717
Retained Earnings from Income before Contributions	613,142	659,585
Donated Capital	<u>10,266,251</u>	<u>10,195,660</u>
Total Net Position	11,819,477	11,677,962
Deferred Inflows Related to Pensions	9,025	0
KIA Loan Payable	465,499	489,639
Citizens National Bank Loan Payable	648,927	688,198
Revenue Bonds Payable	1,314,000	1,337,000
Net Pension Liability	<u>568,124</u>	<u>510,592</u>
Total Long-term Debt	2,996,550	3,025,429
KIA Loan Payable	24,140	23,723
Citizens National Bank Loan Payable	39,271	37,853
Revenue Bonds Payable	22,000	20,000
Other Current and Accrued Liabilities	<u>288,046</u>	<u>292,831</u>
Total Current and Accrued Liabilities	373,457	374,407
Total Net Position & Liabilities	<u>15,198,509</u>	<u>15,077,798</u>

Other current assets decreased by \$54,785, a decrease of (38.26%). Major increases include total assets and deferred outflows, which increased \$120,711 (0.80%), cash, which increased \$28,850 (1.50%) and net utility plant, which increased \$100,709 (0.84%) from the previous fiscal year.

Income Statement:

	<u>2016</u>	<u>2015</u>
Operating Revenue		
Water Revenue	2,610,675	2,485,829
Other Operating Revenue	<u>91,789</u>	<u>85,343</u>
Total Operating Revenue	2,702,464	2,571,172
Operating Expenses		
Purchased Water	1,530,032	1,459,693
Other Operation & Maintenance Expenses	719,031	778,675
Depreciation	<u>406,055</u>	<u>452,189</u>
Total Operating Expenses	<u>2,655,118</u>	<u>2,690,557</u>
Operating Income	47,346	(119,385)
Other Income	87,073	80,046
Other Expenses - Interest	<u>63,495</u>	<u>66,575</u>
Net Income Before Contributions	<u><u>70,924</u></u>	<u><u>(105,914)</u></u>
Retained Earnings From Income Before Contributions		
Beginning Balance	659,585	727,499
Transfer to/from Appropriated Retained Earnings	<u>(117,367)</u>	<u>38,000</u>
Ending Balance	<u><u>613,142</u></u>	<u><u>659,585</u></u>

Operating revenues budgeted for 2016 were \$2,631,000. Operating revenues for 2016 were \$2,702,464, which was \$71,464 more than the budgeted amount. Actual operating revenues increased \$131,292 from the prior year. Total operation and maintenance expenses before depreciation budgeted for 2016 were \$2,281,400. Total operation and maintenance expenses before depreciation for 2016 were \$2,249,063, which was \$32,337 less than the budgeted amount. Actual operating expenses before depreciation decreased \$35,439 from the prior year.

Net income before contributions increased by \$176,838 as compared to 2015.



## Utility Plant and Debt Administration

Additions to Utility Plant were \$335,097. Accumulated depreciation increased \$406,055 causing a total increase in the District's Utility Plant of \$70,958. For a detail of Utility Plant, see Note C.

	Utility Plant (Net of Accumulated Depreciation)
Land	\$ 87,188
Construction in Progress	-0-
Distribution Plant	11,700,560
General Plant	251,935
Total Utility Plant	<u>12,039,683</u>

At year-end, the District had a net pension liability of \$568,124. At year-end, the District had a balance owed of \$489,639 for the KIA loan. At year-end, the district had a balance owed of \$688,198 for the Citizens National Bank loan. At year-end the District had \$1,336,000 in outstanding revenue bonds payable. The total pension liability, bonds, and loans payable at year end were \$3,081,961, versus \$3,107,005 the previous year, a decrease of \$25,044 (.81%). 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 2017 will entail the continuation of the radio read meter change out program. As of January 1, 2017, the District has changed out approximately 5,300 meters in this program. The District currently has 600 radio read meters in inventory to be changed out in 2017. All new purchases of radio read meters will come from District funds, since all contingency funds from past projects have been depleted. The District will complete the meter change out to all radio read meters by the end of 2017.

Going forward, the District will proceed to acquire funds to replace some of its aging infrastructure. The District has plans to upgrade the St. Rose Road pump station, which serves approximately 600 customers. The District also has plans to build a new 500,000 gallon elevated tank on or near the Lebanon Bypass. Funding for this tank may be in the form of a Rural Development loan and grant combination. The District will be working with Makers Mark to install an 8 inch main line from the Highway 49 & Highway 52 intersection along Highway 52 to Makers Mark to meet their future water needs.

Marion County Water District  
Lebanon, Kentucky

Statement of Net Position  
December 31, 2016 and 2015

Assets and Other Debits

	<u>2016</u>	<u>2015</u>
Utility Plant (Notes A-3 and C)	12,039,683	11,938,974
Construction in Progress	0	171,667
Total Utility Plant	<u>12,039,683</u>	<u>12,110,641</u>
Other Property and Investments		
Certificates of Deposit - Citizens National Bank	<u>750,003</u>	<u>650,003</u>
Total Other Property and Investments	750,003	650,003
Current and Accrued Assets		
Cash (Note B)	1,955,926	1,927,076
Customer Accounts Receivable, Net of Allowance of 9,467 and 7,021	188,986	153,596
Materials and Supplies Inventory (Note A-2)	70,744	126,734
Prepaid Insurance	16,391	15,607
Accrued Interest Receivable	<u>1,257</u>	<u>836</u>
Total Current and Accrued Assets	<u>2,233,304</u>	<u>2,223,849</u>
Deferred Outflows Related to Pensions	<u>175,519</u>	<u>93,305</u>
Total Assets and Deferred Outflows	<u><u>15,198,509</u></u>	<u><u>15,077,798</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, 2016 and 2015

Net Position and Liabilities

	2016	2015
Net Position as Restated for 2016		
Appropriated Retained Earnings (Note I)	940,084	822,717
Retained Earnings from Income before Contributions	613,142	659,585
Donated Capital	10,266,251	10,195,660
Total Net Position	11,819,477	11,677,962
Deferred Inflows Related to Pensions	9,025	0
Long-Term Debt		
KIA Loan Payable (Note D)	465,499	489,639
Citizens National Bank Loan Payable (Note E)	648,927	688,198
Revenue Bonds Payable (Note G)	1,314,000	1,337,000
Net Pension Liability	568,124	510,592
Total Long-Term Debt	2,996,550	3,025,429
Current and Accrued Liabilities		
KIA Loan Payable (Note D)	24,140	23,723
Citizens National Bank Loan Payable (Note E)	39,271	37,853
Revenue Bonds Payable (Note G)	22,000	20,000
Accounts Payable - Trade	119,444	124,679
Accrued County Retirement	6,417	6,050
Accrued Unemployment	506	747
Customer Deposits	35,351	34,293
Other Accrued Liabilities	126,328	127,062
Total Current and Accrued Liabilities	373,457	374,407
Total Net Position, Deferred Inflows, and Liabilities	15,198,509	15,077,798

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

Marion County Water District  
Lebanon, Kentucky

Statements of Income  
Years Ended December 31, 2016 and 2015

	<u>2016</u>	Percent of Revenue	<u>2015</u>	Percent of Revenue
Operating Revenue				
Metered Sales Residential	2,083,006	77.1%	2,050,941	79.8%
Metered Sales Commercial	488,331	18.1%	398,159	15.5%
Metered Sales Schools	24,194	0.9%	22,286	0.9%
Metered Sales Multi-Family	15,144	0.6%	14,443	0.6%
Miscellaneous Service	36,460	1.3%	37,580	1.5%
Late Charges	55,329	2.0%	47,763	1.9%
	<u>2,702,464</u>	100.0%	<u>2,571,172</u>	100.0%
Operating Expenses				
Operation & Maintenance Expense	2,249,063	83.2%	2,238,368	87.1%
Depreciation	406,055	15.0%	452,189	17.6%
	<u>2,655,118</u>	98.2%	<u>2,690,557</u>	104.6%
Operating Income (Loss)	47,346	1.8%	(119,385)	-4.6%
Other Income				
Interest Income	4,794	0.2%	3,704	0.1%
Collection Fees	36,045	1.3%	37,589	1.5%
Gain (Loss) from Sale of Asset	8,266	0.3%	0	0.0%
Misc. Non-Operating Income	37,968	1.4%	38,753	1.5%
Total Other Income	87,073	3.2%	80,046	3.1%
Other Expenses				
Interest on Long-Term Debt	63,484	2.3%	66,534	2.6%
Other Interest	11	0.0%	41	0.0%
	<u>63,495</u>	2.3%	<u>66,575</u>	2.6%
Net Income (Loss) before Contributions	<u>70,924</u>	2.6%	<u>(105,914)</u>	-4.1%

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, 2016 and 2015

	2016	2015
Appropriated Retained Earnings		
Balance - Beginning of Year	822,717	860,717
Transfer to/from Retained Earnings from Income		
before Contributions	117,367	(38,000)
Balance - End of Year	940,084	822,717
Retained Earnings from Income before Contributions		
Balance - Beginning of Year (2015 Restated - Note I)	659,585	727,499
Net Income (Loss) for the Year	70,924	(105,914)
Transfer to/from Appropriated Retained Earnings	(117,367)	38,000
Balance - End of Year	613,142	659,585

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, 2016 and 2015

	2016	2015
Cash Flows from Operating Activities:		
Receipts from Users	2,703,119	2,612,722
Payments to Employees	(411,709)	(411,949)
Payments to Suppliers for Goods and Services	(1,803,011)	(1,798,157)
Net Cash Provided by Operating Activities	488,399	402,616
Cash Flows from Capital and Related Financing Activities:		
Capital Contributions	70,591	47,487
Proceeds from Sale of Fixed Assets	8,266	0
Principal Payments on Long-term Debt	(82,576)	(78,995)
Interest Payments	(63,495)	(66,575)
Payments for Capital Projects	(335,097)	(333,333)
Net Cash Used in Capital and Related Financing Activities	(402,311)	(431,416)
Cash Flows from Investing Activities:		
Interest Income Received	4,794	3,704
Rent and Other Income	37,968	38,753
Purchase of Certificate of Deposit	(100,000)	
Net Cash (Used in) Provided by Investing Activities	(57,238)	42,457
Cash and Investments, Beginning	1,927,076	1,913,419
Cash and Investments, Ending	1,955,926	1,927,076

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, 2016 and 2015

Reconciliation of Net Income to Net Cash Provided by Operating Activities

	2016	2015
Net Income	70,924	(105,914)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	406,055	452,189
Gain on Sale of Asset	(8,266)	0
Interest on Debt	63,495	66,575
Misc. Non-Operating Income	(37,968)	(38,753)
Interest Income	(4,794)	(3,704)
Changes in Current Assets & Liabilities:		
Accounts Receivable	(35,390)	3,961
Materials & Supplies Inventory	55,990	(22,455)
Other Assets	(1,205)	(2,023)
Accounts Payable	(5,235)	10,178
Other Liabilities	450	(8,290)
Increase in Net Pension Liability	57,532	144,157
Increase in Deferred Outflows Related to Pensions	(82,214)	(93,305)
Increase in Deferred Inflows Related to Pensions	9,025	0
	488,399	402,616

The accompanying notes are an integral part of these 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 5,900 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 62.5 years. The general plant assets are depreciated over their estimated useful lives from five 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 U S Department of Agriculture-Rural Development.
  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 \$2,705,929. Of the total cash, \$1,100,005 was covered by Federal Depository Insurance and \$1,605,924 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, 2016 and 2015, were the following restricted funds:

	<u>2016</u>	<u>2015</u>
Reserve Funds	35,149	22,757
Short-Lived Asset Account	<u>154,932</u>	<u>149,957</u>
Total	<u>190,081</u>	<u>172,714</u>

C. Utility Plant:

The following represents the amount of utility plant as of December 31, 2015 and 2016:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deletions</b>	<b>Ending Balance</b>
Nondepreciable Assets:				
Land	82,077	5,111	0	87,188
Construction in Progress	171,667	(171,667)	0	0
Depreciable Assets:				
Distribution Plant	17,896,806	471,862	8,390	18,360,278
General Plant	<u>812,341</u>	<u>29,791</u>	<u>19,281</u>	<u>822,851</u>
	18,962,891	335,097	27,671	19,270,317
Less: Accumulated Depreciation	<u>(6,852,250)</u>	<u>(406,055)</u>	<u>(27,671)</u>	<u>(7,230,634)</u>
	<u>12,110,641</u>	<u>(70,958)</u>	<u>0</u>	<u>12,039,683</u>

\$ 0 and \$0 of interest were capitalized during the years ended December 31, 2016 and 2015, respectively.

D. KIA Loan Payable:

During 2013, Marion County Water District upgraded the Highway 84 water line. During 2014, additional loan funds totaling \$68,276 were utilized for the Kentucky 49 at Bradfordsville project. These projects were funded by a Kentucky Infrastructure Authority (KIA) loan. The total loaned to the District was \$548,180, and the loan has a fixed interest rate of 1.75%. As of December 31, 2016, the KIA Loan has a balance owed of \$489,639.

Maturities for the next five years are as follows:

<u>Year</u>	<u>Interest</u>	<u>Principal</u>
2017	8,464	24,140
2018	8,039	24,564
2019	7,607	24,996
2020	7,168	25,435
2021	6,721	25,882
Thereafter	<u>42,920</u>	<u>364,622</u>
	<u>80,919</u>	<u>489,639</u>

Notes to Financial Statements (Continued)

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, 2016, the balance of this loan was \$688,198.

Maturities for the next five years are as follows:

<u>Year</u>	<u>Interest</u>	<u>Principal</u>
2017	23,461	39,271
2018	22,064	40,668
2019	20,618	42,115
2020	19,120	43,612
2021	17,569	45,164
Thereafter	<u>78,536</u>	<u>477,368</u>
	<u>181,368</u>	<u>688,198</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

1,336,000

Maturities for the next five years are as follows:

2017	22,000
2018	23,000
2019	24,000
2020	25,000
2021	26,000
Thereafter	<u>1,216,000</u>
	<u>1,336,000</u>

H. Long-term liability activity for the year ended December 31, 2016, was as follows:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Due Within One Year</b>
Net Pension Liability	510,592	57,532	0	568,124	0
KIA Loan Payable	513,362	0	23,723	489,639	24,140
CNB Loan Payable	726,051	0	37,853	688,198	39,271
Revenue Bonds Payable	<u>1,357,000</u>	<u>0</u>	<u>21,000</u>	<u>1,336,000</u>	<u>22,000</u>
Total	<u>3,107,005</u>	<u>57,532</u>	<u>82,576</u>	<u>3,081,961</u>	<u>85,411</u>

Notes to Financial Statements (Continued)

I. Appropriated Retained Earnings:

Appropriated retained earnings at December 31, 2016 and 2015, consist of restricted funds as follows:

	<u>2016</u>	<u>2015</u>
CDs - Reserve Fund	750,003	650,003
Cash - Reserve Fund	35,149	22,757
Cash – Short-Lived Asset Fund	<u>154,932</u>	<u>149,957</u>
	<u>940,084</u>	<u>822,717</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. Retirement Plan

The District’s employees are provided with the County Employees Retirement System.

**General information about the County Employees Retirement System Non-Hazardous (“CERS”)**

*Plan description*—Employees whose positions do not require a degree beyond a high school diploma are covered by the CERS, a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. Under the provisions of the Kentucky Revised Statute (“KRS”) Section 61.645, the Board of Trustees of the Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained from <http://kyret.ky.gov/>.

*Benefits provided*—CERS provides retirement, health insurance, death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five years’ service. For retirement purposes, employees are grouped into three tiers, based on hire date:

Tier 1	Participation date	Before September 1, 2008
	Unreduced retirement	27 years service or 65 years old
	Reduced retirement	At least 5 years service and 55 years old At least 25 years service and any age
Tier 2	Participation date	September 1, 2008 - December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old OR age 57+ and sum of service years plus age equal 87
	Reduced retirement	At least 10 years service or 60 years old
Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old OR age 57+ and sum of service years plus age equal 87
	Reduced retirement	Not Available

Notes to Financial Statements (Continued)

J. Retirement Plan (Continued)

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years' service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits.

Contributions—Required contributions by the employee are based on the tier:

	<u>Required Contributions</u>
Tier 1	5%
Tier 2	5% +1% for insurance
Tier 3	5% +1% for insurance

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At December 31, 2016 and 2015, the District reported a liability for its proportionate share of the net pension liability for CERS. The amount recognized by the District as its proportionate share of the net pension liability, the related Commonwealth support, and the total portion of the net pension liability that was associated with the District were as follows:

	<u>2016</u>	<u>2015</u>
District's proportionate share of the CERS net pension liability	\$ 568,194	\$ 510,592

## Notes to Financial Statements (Continued)

## J. Retirement Plan (Continued)

	<b>2015 Deferred Outflows of Resources</b>	<b>2015 Deferred Inflows of Resources</b>	<b>2016 Deferred Outflows of Resources</b>	<b>2016 Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 4,243	\$ -	\$ 5,511	\$ -
Changes of assumptions	51,488	-	66,872	-
Net difference between projected and actual earnings on pension plan investments	4,577	-	57,071	-
Changes in proportion and differences between District contributions and proportionate share of contributions	7,229	-	9,513	9,025
District contributions subsequent to the measurement date	<u>25,768</u>	<u>-</u>	<u>36,552</u>	<u>-</u>
Total	<u>\$ 93,305</u>	<u>\$ -</u>	<u>\$ 175,519</u>	<u>\$ 9,025</u>

The net pension liability for the plan was measured as of June 30, 2015 and 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The District's proportion of the net pension liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2016, the District's proportion was 0.0115402 percent. At June 30, 2015, the District's proportion was 0.0118755 percent.

For the year ended December 31, 2016 and 2015, respectively, the District recognized pension expense of \$49,807 and \$83,511 related to CERS. At December 31, 2016 and 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

\$ 25,768 and \$27,175 were reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the years ended December 31, 2016 and 2017, respectively. Other amounts reported as deferred outflows of resources and deferred inflows related to pensions will be recognized in pension expense as follows:

Notes to Financial Statements (Continued)

J. Retirement Plan (Continued)

<u>Year ended December 31:</u>	
2017	1,805
2018	1,805
2019	1,805
2020	1,805
2021	1,805

*Actuarial assumptions*—The total pension liability in the June 30, 2015 and June 30, 2016 actuarial valuation were determined using the following actuarial assumptions, applied to all periods included in the measurement:

	<u>2016</u>	<u>2015</u>
	<u>CERS</u>	<u>CERS</u>
Inflation	3.25%	3.25%
Projected salary increases	4.00%	4.00%
Investment rate of return, net of investment expense & inflation	7.50%	7.50%

For CERS, Mortality rates for the period after service retirement are according to the 1983 Group Annuity Mortality Table for all retired employees and beneficiaries as of June 30, 2006 and the 1994 Group Annuity Mortality Table for all other employees. The Group Annuity Mortality Table set forward five years is used for the period after disability retirement.

For CERS, the long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. The most recent analysis, performed for the period covering fiscal years 2005 through 2008, is outlined in a report dated August 25, 2009. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

*Discount rate*—For CERS, the discount rate used to measure the total pension liability was 7.50% for June 30, 2016 and June 30, 2015. The projection of cash flows used to determine the discount rate assumed that contributions from plan employees and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.50% for June 30, 2016 and June 30, 2015. The long-term investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Notes to Financial Statements (Continued)

J. Retirement Plan (Continued)

*Sensitivity of CERS proportionate share of net pension liability to changes in the discount rate*—The following table presents the net pension liability of the District, calculated using the discount rates selected by each pension system, as well as what the District’s net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

2015	1% Decrease	Current Discount Rate	1% Increase
CERS District's proportionate share of net pension liability	6.50%  651,832	7.50%  510,592	8.50%  389,629
2016	1% Decrease	Current Discount Rate	1% Increase
CERS District's proportionate share of net pension liability	6.50%  708,063	7.50%  568,124	8.50%  448,301

*Pension plan fiduciary net position*— Detailed information about the pension plan’s fiduciary net position is available in the separately issued financial reports of CERS.

- 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. On May 9, 2017, Marion County Water District voted to approve the St. Rose Pump Station Upgrade project. The project is expected to cost \$300,000 and the District anticipates using available funds on hand to finance the project.

Management has reviewed subsequent events through May 17, 2017 and there are no additional events requiring disclosure.

Notes to Financial Statements (Continued)

O. Net Position, As Restated

Governmental Accounting Standards Board statement 68 requires changes to the beginning balances of the Statement of Net Position. Beginning net position of the government activities was decreased \$67,191 to reflect the District's proportionate share of the unfunded pension liability of the County Employee Retirement System as of their proportionate share of the net pension liability of June 30, 2015 as opposed to June 30, 2014, which was previously reported. The only component of Net Position impacted by this change is the District's Retained Earnings from Income before Contributions.

Beginning Retained Earnings from Income	
before Contributions as previously reported on December 31, 2015	\$ 726,776
Prior period adjustment – Implementation GASB 68:	
Increase in Net Pension Liability (measurement date)	(134,592)
Increase in Deferred outflows	25,401
Decrease in Deferred inflows	
Total prior period adjustment	<u>42,000</u>
Beginning Retained Earnings from Income	
before Contributions as restated, December 31, 2015	<u>\$ 659,585</u>



REQUIRED SUPPLEMENTARY  
INFORMATION

MARION COUNTY WATER DISTRICT  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE  
 OF THE NET PENSION LIABILITY  
 COUNTY EMPLOYEES RETIREMENT SYSTEM  
 FOR THE YEAR ENDED JUNE 30

	<u>2016</u>	<u>2015</u>
District's proportion of net pension liability	0.0115402%	0.0118755%
District's proportionate share of net pension liability	568,124	510,592
State of Kentucky's share of net pension liability associate with the District	0	0
District's covered-employee payroll	274,311	282,035
District's proportionate share of the net pension liability as a percentage of its covered payroll	207.09%	181.04%
Plan fiduciary net pension as a percentage of the total pension liability	55.50%	59.97%

*Note: Schedule is intended to show information for the last 10 fiscal years. Additional years are not displayed.*

MARION COUNTY WATER DISTRICT  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF CONTRIBUTIONS TO THE  
 COUNTY EMPLOYEES RETIREMENT SYSTEM  
 FOR THE YEAR ENDED JUNE 30

	<u>2016</u>	<u>2015</u>
Contractually required contributions (actuarially determined)	\$ 49,064	\$ 48,952
Contributions in relation to the actuarially determined contributions	<u>49,064</u>	<u>48,952</u>
Contribution deficiency (excess)	<u>\$ 0</u>	<u>\$ 0</u>
Covered employee payroll	\$ 274,311	\$ 282,035
Contributions as a percentage of Covered employee payroll	17.89%	17.36%

*Note: Marion County Water District operates on an annual basis. The County Employees Retirement System rate typically changes each July 1. The rate listed for each year is a blended rate based on contributions paid as a percentage of covered payroll.*

*Note: Schedule is intended to show information for the last 10 fiscal years. Additional years are not displayed.*

**COUNTY EMPLOYEES RETIREMENT SYSTEM**

**NOTE A – CHANGES OF ASSUMPTIONS**

The last experience investigation was prepared for the five-year period ending June 30, 2013, and based on the results of an actuarial study and adopted by the board.

**NOTE B – METHOD AND ASSUMPTIONS USED IN CALCULATIONS OF ACTUARIALLY DETERMINED CONTRIBUTIONS**

The actuarially determined contribution rates in the schedule are determined on a biennial basis beginning with the fiscal years ended 2014 and 2015, determined as of July 1, 2013. The amortization period of the unfunded liability has been reset as of July 1, 2013 to a closed 30-year period. The following actuarial methods and assumptions were used to determine the rates reported in that schedule:

Valuation Date	June 30, 2015 and June 30, 2016
Actuarial Cost Method	Entry age
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	27 years as of June 30, 2016
Asset Valuation Method	5-year smoothed market
Inflation	3.25 percent
Salary Increase	4.0 percent, average, including inflation
Investment Rate of Return	7.5 percent, net of pension plan investment expense, including inflation

OTHER SUPPLEMENTARY  
INFORMATION

Marion County Water District  
Lebanon, Kentucky

Schedules of Operating and Maintenance Expenses  
Years Ended December 31, 2016 and 2015

	<u>2016</u>	Percent of Revenue	<u>2015</u>	Percent of Revenue
Source of Supply Expense				
Purchased Water	1,530,032	56.6%	1,459,693	56.8%
Pumping Expense				
Fuel or Power Purchased for Pumping	37,309	1.4%	39,339	1.5%
Transmission & Distribution Expense				
Salaries	142,142	5.3%	140,340	5.5%
Operation Supplies & Expense	31,775	1.2%	32,467	1.3%
Maintenance	<u>87,593</u>	<u>3.2%</u>	<u>93,359</u>	<u>3.6%</u>
Total Transmission & Distribution Expense	261,510	9.7%	266,166	10.4%
Customer Accounts Expense				
Salaries	106,256	3.9%	112,183	4.4%
Contractual Services - Meter Reading	26,465	1.0%	25,949	1.0%
Supplies & Expense	39,540	1.5%	45,768	1.8%
Uncollectible Accounts	<u>5,563</u>	<u>0.2%</u>	<u>5,409</u>	<u>0.2%</u>
Total Customer Accounts Expense	177,824	6.6%	189,309	7.4%
Administrative & General Expense				
Administrative & General Salaries	42,246	1.6%	41,104	1.6%
Office Supplies & Other Expense	18,896	0.7%	18,793	0.7%
Outside Service Employed	13,772	0.5%	10,250	0.4%
Insurance	32,127	1.2%	29,602	1.2%
Employee Benefits & Payroll Taxes	105,425	3.9%	171,002	6.7%
Regulatory Commission Expense	5,062	0.2%	5,098	0.2%
Regulatory Department of Local Gov't	1,000	0.0%	0	0.0%
Rate Case Expense	10,399	0.4%	0	0.0%
Miscellaneous	<u>13,461</u>	<u>0.5%</u>	<u>8,012</u>	<u>0.3%</u>
Total Administrative & General Expense	<u>242,388</u>	<u>9.0%</u>	<u>283,861</u>	<u>11.0%</u>
Total Operating & Maintenance Expense	<u><u>2,249,063</u></u>	<u><u>83.2%</u></u>	<u><u>2,238,368</u></u>	<u><u>87.1%</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: \$1,336,000

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

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, 2016

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**  
**Fax (270) 692-2101**

Charles M. White, CPA  
Joseph A. Montgomery, CPA  
Stephanie A. Abell, CPA

Email charles.white@whitecpas.com

**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***

May 17, 2017

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, 2016 and 2015, 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 May 17, 2017.

**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. 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 from 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*.

### **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**  
**Fax (270) 692-2101**

Charles M. White, CPA  
Joseph A. Montgomery, CPA  
Stephanie A. Abell, CPA

Email charles.white@whitecpas.com

May 17, 2017

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 for the year ended December 31, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and the Uniform Guidance), 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 30, 2016. 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 A to the financial statements. As described in Note O to the financial statements, Marion County Water District changed accounting policies related accounting and reporting for pensions by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 68, *Accounting and Financial Reporting for Pensions*, in 2015. Accordingly, the cumulative effect of the accounting change as of the beginning of the year is reported in the government-wide financial statements. 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 May 17, 2017.

### *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

We applied certain limited procedures to the Management's Discussion and Analysis and the Schedule of District's Proportionate Share of Net Pension Liability, which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the Schedules of Operating and Maintenance Expenses and Schedule of Bond Retirements, which accompany the financial statements but are not RSI. With respect to this supplementary information, 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 our audit of the financial statements. We compared and then reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restrictions on Use

This information is intended solely for the use of the Commissioners of Marion County Water District and management of Marion County Water District as 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