

**MARION COUNTY WATER DISTRICT  
AUDIT REPORT  
DECEMBER 31, 2014 AND 2013**

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**INDEPENDENT AUDITOR'S REPORT**

January 30, 2015

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, 2014 and 2013, 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, 2014 and 2013, 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 30, 2015, 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, 2014**

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, 2014. The District's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section.

**Financial Highlights**

- The District's assets and other debits exceeded its liabilities by \$12,102,824 (Net Position) for the fiscal year reported.
- Total net position comprised of the following:
  - (1) Appropriated retained earnings of \$860,717.
  - (2) Retained earnings from income before contributions of \$1,093,934.
  - (3) Donated capital of \$10,148,173.
- The District's general purpose financial statement's retained earnings from income before contributions increased by \$23,436 from the previous fiscal year.
- The District's general purpose financial statement's donated capital increased by \$81,803 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, 2014 and December 31, 2013. The Income Statements depict the difference between the revenues and expenses for the year 2014. 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>2014</u>	<u>2013</u>
Utility Plant	12,229,497	12,249,974
Certificates of Deposit	650,003	650,003
Cash	1,913,419	1,853,034
Net Customer Accounts Receivable	157,557	142,036
Other Current Assets	118,699	101,953
Construction in Progress	-0-	15,356
	<u>2,189,675</u>	<u>2,112,379</u>
Total Current & Accrued Assets		
	<u>15,069,175</u>	<u>15,012,356</u>
Total Assets & Other Debits		

	<u>2014</u>	<u>2013</u>
Net Position		
Appropriated Retained Earnings	860,717	879,711
Retained Earnings from Income before Contributions	1,093,934	1,070,498
Donated Capital	<u>10,148,173</u>	<u>10,066,370</u>
 Total Net Position	 12,102,824	 12,016,579
 KIA Loan Payable	 513,362	 479,904
Citizens National Bank Loan Payable	725,076	761,733
Revenue Bonds Payable	<u>1,357,000</u>	<u>1,377,000</u>
 Total Long-term Debt	 2,595,438	 2,618,637
 KIA Loan Payable	 23,313	 0
Citizens National Bank Loan Payable	36,657	35,398
Revenue Bonds Payable	20,000	19,000
Other Current and Accrued Liabilities	<u>290,943</u>	<u>322,742</u>
Total Current and Accrued Liabilities	370,913	377,140
 Total Net Position & Liabilities	 <u>15,069,175</u>	 <u>15,012,356</u>

Total assets and other debits increased by \$56,819, an increase of 0.38%. Significant changes include cash, which increased \$60,385 (3.26%), other current assets, which increased \$16,911 (6.6%) and net utility plant, which decreased \$20,477 (0.17%) from the previous fiscal year.

Income Statement:

	<u>2014</u>	<u>2013</u>
Operating Revenue		
Water Revenue	2,559,354	2,382,468
Other Operating Revenue	<u>89,553</u>	<u>81,398</u>
Total Operating Revenue	2,648,907	2,463,866
Operating Expenses		
Purchased Water	1,485,614	1,289,695
Other Operation & Maintenance Expenses	738,598	731,794
Depreciation	<u>441,914</u>	<u>420,526</u>
Total Operating Expenses	<u>2,666,126</u>	<u>2,442,015</u>
 Operating Income (Loss)	 (17,219)	 21,851
 Other Income	 84,473	 97,953
 Other Expenses - Interest	 <u>62,812</u>	 <u>62,552</u>
 Net Income Before Contributions	 <u>4,442</u>	 <u>57,252</u>
Retained Earnings From Income Before Contributions		
Beginning Balance	1,070,498	1,086,899
 Transfer to/from Appropriated Retained Earnings	 <u>18,994</u>	 <u>(73,653)</u>
Ending Balance	<u>1,093,934</u>	<u>1,070,498</u>

Operating revenues budgeted for 2014 were \$2,590,500. Operating revenues for 2014 were \$2,648,907, which was \$58,407 more than the budgeted amount. Actual operating revenues increased \$185,041 from the prior year. Total operation and maintenance expenses budgeted for 2014 were \$2,206,129. Total operation and maintenance expenses for 2014 were \$2,224,212, which was \$18,083 more than the budgeted amount. Actual operating expenses increased \$224,111 from the prior year.

Net income before contributions decreased by \$52,810 as compared to 2013.

### Utility Plant and Debt Administration

Additions to Utility Plant were \$406,081. Accumulated depreciation increased \$441,914 causing a net decrease in the District's Utility Plant of \$35,833. For a detail of Utility Plant, see Note C.

	Utility Plant (Net of Accumulated Depreciation)
Land	\$ 81,560
Distribution Plant	11,868,495
General Plant	279,442
Total Utility Plant	<u>12,229,497</u>

At year-end, the District had a balance owed of \$536,675 for the KIA loan. At year-end, the district had a balance owed of \$761,733 for the Citizens National Bank loan. At year-end the District had \$1,377,000 in outstanding revenue bonds payable. The total bonds and loans payable at year end were \$2,675,408, versus \$2,673,035 the previous year, an increase of \$2,373 (0.09%). 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 2015 will entail the continuation of the radio read meter change out program. As of January 1, 2015, the District has changed out approximately 4,430 meters in this program. The District currently has 300 radio read meters in inventory to be changed out in 2015. All new purchases of radio read 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 upgrade the Danville Highway pump station at the estimated cost of \$350,000.00 to \$375,000.00. The District also has plans to build a new 500,000 gallon elevated tank on or near the Lebanon Bypass. The possibility exists to combine both projects and acquire a loan through KIA/DWSRF funds for \$1.95% for twenty years. The Highway 49 South relocate will be completed in 2015. This project was funded by the Kentucky Transportation Cabinet due to new road construction.

Marion County Water District  
Lebanon, Kentucky

Statement of Net Position  
December 31, 2014 and 2013

Assets and Other Debits

	<u>2014</u>	<u>2013</u>
Utility Plant (Notes A-3 and C)	12,229,497	12,249,974
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)	1,913,419	1,853,034
Customer Accounts Receivable, Net of Allowance of 7,505 and 6,609	157,557	142,036
Other Accounts Receivable	0	14,880
Materials and Supplies Inventory (Note A-2)	104,279	73,423
Prepaid Insurance	13,584	12,814
Accrued Interest Receivable	836	836
Construction in Progress - KIA Projects	<u>0</u>	<u>15,356</u>
Total Current and Accrued Assets	<u>2,189,675</u>	<u>2,112,379</u>
Total Assets and Other Debits	<u><u>15,069,175</u></u>	<u><u>15,012,356</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, 2014 and 2013

Net Position and Liabilities

	2014	2013
<b>Net Position</b>		
Appropriated Retained Earnings (Note I)	860,717	879,711
Retained Earnings from Income before Contributions	1,093,934	1,070,498
Donated Capital	10,148,173	10,066,370
<b>Total Net Position</b>	12,102,824	12,016,579
<b>Long-Term Debt</b>		
KIA Loan Payable (Note D)	513,362	479,904
Citizens National Bank Loan Payable (Note E)	725,076	761,733
Revenue Bonds Payable (Note G)	1,357,000	1,377,000
<b>Total Long-Term Debt</b>	2,595,438	2,618,637
<b>Current and Accrued Liabilities</b>		
KIA Loan Payable (Note D)	23,313	0
Citizens National Bank Loan Payable (Note E)	36,657	35,398
Revenue Bonds Payable (Note G)	20,000	19,000
Accounts Payable - Trade	114,501	165,603
Accrued County Retirement	4,633	6,461
Accrued Unemployment	764	691
Customer Deposits	33,643	31,783
Accrued Taxes	137,402	118,204
<b>Total Current and Accrued Liabilities</b>	370,913	377,140
<b>Total Net Position and Liabilities</b>	15,069,175	15,012,356

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

Marion County Water District  
Lebanon, Kentucky

Statements of Income  
Years Ended December 31, 2014 and 2013

	<u>2014</u>	Percent of Revenue	<u>2013</u>	Percent of Revenue
<b>Operating Revenue</b>				
Metered Sales Residential	2,109,202	79.6%	1,913,981	77.7%
Metered Sales Commercial	412,229	15.6%	430,541	17.5%
Metered Sales Schools	21,541	0.8%	22,779	0.9%
Metered Sales Multi-Family	16,382	0.6%	15,167	0.6%
Miscellaneous Service	35,451	1.3%	38,280	1.6%
Late Charges	54,102	2.0%	43,118	1.8%
<b>Total Operating Revenue</b>	<u>2,648,907</u>	100.0%	<u>2,463,866</u>	100.0%
<b>Operating Expenses</b>				
Operation & Maintenance Expense	2,224,212	84.0%	2,021,489	82.0%
Depreciation	441,914	16.7%	420,526	17.1%
<b>Total Operating Expenses</b>	<u>2,666,126</u>	100.7%	<u>2,442,015</u>	99.1%
<b>Operating Income (Loss)</b>	(17,219)	-0.7%	21,851	0.9%
<b>Other Income</b>				
Interest Income	4,229	0.2%	4,153	0.2%
Collection Fees	37,419	1.4%	35,904	1.5%
Gain (Loss) from Sale of Asset	3,500	0.1%	0	0.0%
Misc. Non-Operating Income	39,325	1.5%	57,896	2.3%
<b>Total Other Income</b>	<u>84,473</u>	3.2%	<u>97,953</u>	4.0%
<b>Other Expenses</b>				
Interest on Long-Term Debt	62,773	2.4%	62,285	2.5%
Other Interest	39	0.0%	267	0.0%
<b>Total Other Expenses</b>	<u>62,812</u>	2.4%	<u>62,552</u>	2.5%
<b>Net Income before Contributions</b>	<u><u>4,442</u></u>	<u>0.2%</u>	<u><u>57,252</u></u>	<u>2.3%</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, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Appropriated Retained Earnings		
Balance - Beginning of Year	879,711	806,058
Transfer to/from Retained Earnings from Income before Contributions	<u>(18,994)</u>	<u>73,653</u>
Balance - End of Year	<u><u>860,717</u></u>	<u><u>879,711</u></u>
Retained Earnings from Income before Contributions		
Balance - Beginning of Year	1,070,498	1,086,899
Net Income for the Year	4,442	57,252
Transfer to/from Appropriated Retained Earnings	<u>18,994</u>	<u>(73,653)</u>
Balance - End of Year	<u><u>1,093,934</u></u>	<u><u>1,070,498</u></u>

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

Marion County Water District  
Lebanon, Kentucky

Statements of Cash Flows  
For the Years Ended December 31, 2014 and 2013

	2014	2013
Cash Flows from Operating Activities:		
Receipts from Users	2,685,685	2,475,825
Payments to Employees	(411,043)	(394,448)
Payments to Suppliers for Goods and Services	(1,876,594)	(1,459,188)
Net Cash Provided by Operating Activities	398,048	622,189
Cash Flows from Capital and Related Financing Activities:		
Capital Contributions	81,803	61,495
Proceeds from Sale of Fixed Assets	3,500	0
Loan Proceeds - KIA	68,276	479,904
Loan Proceeds - Citizens National Bank	0	820,000
Principal Payments on Long-term Debt	(65,903)	(961,969)
Interest Payments	(62,812)	(62,552)
Payments for Capital Projects	(406,081)	(731,253)
Net Cash Used in Capital and Related Financing Activities	(381,217)	(394,375)
Cash Flows from Investing Activities:		
Interest Income Received	4,229	4,776
Rent and Other Income	39,325	57,896
Net Cash Provided by Investing Activities	43,554	62,672
Cash and Investments, Beginning	1,853,034	1,562,548
Cash and Investments, Ending	1,913,419	1,853,034

Marion County Water District  
Lebanon, Kentucky

Statements of Cash Flows - (Continued)  
For the Years Ended December 31, 2014 and 2013

Reconciliation of Net Income to Net Cash Provided by Operating Activities

	<u>2014</u>	<u>2013</u>
Net Income	4,442	57,252
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	441,914	420,526
Gain on Sale of Asset	(3,500)	0
Interest on Debt	62,812	62,552
Misc. Non-Operating Income	(39,325)	(57,896)
Interest Income	(4,229)	(4,153)
Changes in Current Assets & Liabilities:		
Accounts Receivable	(640)	(23,945)
Materials & Supplies Inventory	(30,857)	123,701
Other Assets	(770)	(1,726)
Accounts Payable	(51,102)	51,478
Other Liabilities	19,303	(5,600)
Net Cash Provided by Operating Activities	<u><u>398,048</u></u>	<u><u>622,189</u></u>

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 5,000 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 \$2,563,422. Of the total cash, \$1,000,000 was covered by Federal Depository Insurance, \$1,563,422 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, 2014 and 2013, were the following restricted funds:

	<u>2014</u>	<u>2013</u>
Reserve Funds	95,862	45,949
Short-Lived Asset Account	<u>114,852</u>	<u>183,759</u>
Total	<u>210,714</u>	<u>229,708</u>

C. Utility Plant:

The following represents the amount of utility plant as of December 31, 2013 and 2014:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deletions</b>	<b>Ending Balance</b>
Nondepreciable Assets:				
Land	74,715	6,845	0	81,560
Construction in Progress	15,356	(15,356)	0	0
Depreciable Assets:				
Distribution Plant	17,388,006	364,475	0	17,752,481
General Plant	<u>774,043</u>	<u>50,117</u>	<u>5,009</u>	<u>819,151</u>
	18,252,120	406,081	5,009	18,653,192
Less: Accumulated Depreciation	<u>(5,986,790)</u>	<u>(441,914)</u>	<u>(5,009)</u>	<u>(6,423,695)</u>
	<u>12,265,330</u>	<u>(35,833)</u>	<u>0</u>	<u>12,229,497</u>

\$4,497 and \$4,481 of interest were capitalized during the years ended December 31, 2014 and 2013, 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. During 2014, additional loan funds totaling \$68,276 were utilized for the Kentucky 49 at Bradfordsville project. The total loaned to the District was \$548,180, and the loan has a fixed interest rate of 1.75%. As of December 31, 2014, the KIA Loan has a balance owed of \$536,675.

Maturities for the next five years are as follows:

<u>Year</u>	<u>Interest</u>	<u>Principal</u>
2015	9,290	23,313
2016	8,881	23,723
2017	8,464	24,140
2018	8,039	24,564
2019	7,607	24,996
Thereafter	<u>56,809</u>	<u>415,939</u>
	<u>99,090</u>	<u>536,675</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, 2014, the balance of this loan was \$761,733.

Maturities for the next five years are as follows:

<u>Year</u>	<u>Interest</u>	<u>Principal</u>
2015	26,075	36,657
2016	24,777	37,955
2017	23,418	39,315
2018	22,023	40,709
2019	20,575	42,157
Thereafter	<u>114,662</u>	<u>564,940</u>
	<u>231,530</u>	<u>761,733</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

1,377,000

Maturities for the next five years are as follows:

2016	20,000
2017	20,000
2018	21,000
2019	22,000
2020	23,000
Thereafter	<u>1,271,000</u>
	<u>1,377,000</u>

H. Long-term liability activity for the year ended December 31, 2014, was as follows:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Due Within One Year</b>
KIA Loan Payable	479,904	68,276	11,505	536,675	23,313
CNB Loan Payable	797,131	0	35,398	761,733	36,657
Revenue Bonds Payable	<u>1,396,000</u>	<u>0</u>	<u>19,000</u>	<u>1,377,000</u>	<u>20,000</u>
Total	<u>2,673,035</u>	<u>68,276</u>	<u>65,903</u>	<u>2,675,408</u>	<u>79,970</u>

Notes to Financial Statements (Continued)

I. Appropriated Retained Earnings:

Appropriated retained earnings at December 31, 2014 and 2013, consist of restricted funds as follows:

	<u>2014</u>	<u>2013</u>
CDs - Reserve Fund	650,003	650,003
Cash - Reserve Fund	95,862	45,949
Cash – Short-Lived Asset Fund	<u>114,852</u>	<u>183,759</u>
	<u>860,717</u>	<u>879,711</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 18.89% of wages from January 1, 2014 through June 30, 2014 and 17.67% of wages from July 1, 2014 through December 31, 2014. The pension expense for 2014 was \$48,927, the pension expense for 2013 was \$51,514, and the pension expense for 2012 was \$48,808.

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.

Notes to Financial Statements (Continued)

M. Change in Accounting Principle

Effective for the year ending December 31, 2014, the District adopted GASB Statement 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 1989, FASB and AICPA Pronouncements*, which codifies all applicable GASB, Financial Accounting Standards Board (“FASB”), and Accounting Principles Board opinions dated according to the title of the statement. This change had no effect on the financial statements.

N. 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 were included in Statement of Income for 2013 as miscellaneous, non-operating income.

O. Management has reviewed subsequent events through January 30, 2015. There are no material subsequent events that require disclosure.

**OTHER SUPPLEMENTARY  
INFORMATION**

Marion County Water District  
Lebanon, Kentucky

Schedules of Operating and Maintenance Expenses  
Years Ended December 31, 2014 and 2013

	<u>2014</u>	Percent of Revenue	<u>2013</u>	Percent of Revenue
Source of Supply Expense				
Purchased Water	1,485,614	56.1%	1,289,695	52.3%
Pumping Expense				
Fuel or Power Purchased for Pumping	43,863	1.7%	39,773	1.6%
Transmission & Distribution Expense				
Salaries	141,210	5.3%	135,705	5.5%
Operation Supplies & Expense	46,972	1.8%	43,786	1.8%
Maintenance	<u>89,699</u>	<u>3.4%</u>	<u>107,137</u>	<u>4.3%</u>
Total Transmission & Distribution Expense	277,881	10.5%	286,628	11.6%
Customer Accounts Expense				
Salaries	108,823	4.1%	107,054	4.3%
Contractual Services - Meter Reading	28,648	1.1%	33,088	1.3%
Supplies & Expense	42,367	1.6%	39,844	1.6%
Uncollectible Accounts	<u>2,888</u>	<u>0.1%</u>	<u>5,639</u>	<u>0.2%</u>
Total Customer Accounts Expense	182,726	6.9%	185,625	7.5%
Administrative & General Expense				
Administrative & General Salaries	37,037	1.4%	36,475	1.5%
Office Supplies & Other Expense	24,459	0.9%	19,391	0.8%
Outside Service Employed	9,475	0.4%	9,970	0.4%
Insurance	26,726	1.0%	24,122	1.0%
Employee Benefits	121,790	4.6%	117,521	4.8%
Regulatory Commission Expense	4,871	0.2%	4,529	0.2%
Miscellaneous	<u>9,770</u>	<u>0.4%</u>	<u>7,760</u>	<u>0.3%</u>
Total Administrative & General Expense	<u>234,128</u>	<u>8.8%</u>	<u>219,768</u>	<u>8.9%</u>
Total Operating & Maintenance Expense	<u><u>2,224,212</u></u>	<u><u>84.0%</u></u>	<u><u>2,021,489</u></u>	<u><u>82.0%</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: \$1,377,000

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>
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
2033	37,000		

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, 2014

There were no prior year audit findings.

**WHITE AND COMPANY, P.S.C.**  
**Certified Public Accountants**  
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**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 30, 2015

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, 2014 and 2013, 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 30, 2015.

**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 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*.

### **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**  
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**Lebanon, Kentucky 40033**  
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January 30, 2015

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, 2014, and have issued our report thereon dated January 30, 2015. 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 9, 2014. 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 2014. 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 30, 2015.

### *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, 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