

**MARION COUNTY WATER DISTRICT  
AUDIT REPORT  
DECEMBER 31, 2015 AND 2014**

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**INDEPENDENT AUDITOR'S REPORT**

March 14, 2016

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, 2015 and 2014, 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, 2015 and 2014, 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.

## **Change in Accounting Principle**

As described in Note M to the financial statements, in 2015, Marion County Water District, Lebanon, Kentucky adopted new accounting guidance, *GASB Statement No. 68, Accounting and Financial Reporting for Pensions*. Our opinion is not modified with respect to this matter.

## **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 4-6 and 22 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 March 14, 2016, 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, 2015**

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, 2015. 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 deferred outflows exceeded its liabilities and deferred inflows by \$11,745,153 (Net Position) for the fiscal year reported.
- Total net position comprised of the following:
  - (1) Appropriated retained earnings of \$822,717.
  - (2) Retained earnings from income before contributions of \$726,776.
  - (3) Donated capital of \$10,195,660.
- The District's general purpose financial statement's retained earnings from income before contributions decreased by \$723 from the previous fiscal year based on the restated beginning balance due to the implementation of GASB Statement No. 68.
- The District's general purpose financial statement's donated capital increased by \$47,487 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, deferred outflows, liabilities, deferred inflows and net position as of December 31, 2015 and December 31, 2014. The Income Statements depict the difference between the revenues and expenses for the year 2015. 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>2015</u>	<u>2014</u>
Utility Plant	11,938,974	12,229,497
Construction in Progress	171,667	-0-
	12,110,641	12,229,497
Certificates of Deposit	650,003	650,003
Cash	1,927,076	1,913,419
Net Customer Accounts Receivable	153,596	157,557
Other Current Assets	143,177	118,699
	2,223,849	2,189,675
Total Current & Accrued Assets	2,223,849	2,189,675
Deferred Outflows Related to Pensions	67,904	-0-
	67,904	-0-
Total Assets & Deferred Outflows	15,052,397	15,069,175

	<u>2015</u>	<u>2014</u>
Net Position		
Appropriated Retained Earnings	822,717	860,717
Retained Earnings from Income before Contributions	726,776	1,093,934
Donated Capital	<u>10,195,660</u>	<u>10,148,173</u>
 Total Net Position	 11,745,153	 12,102,824
 Deferred Inflows Related to Pensions	 42,000	 -0-
KIA Loan Payable	489,639	513,362
Citizens National Bank Loan Payable	688,198	725,076
Revenue Bonds Payable	1,337,000	1,357,000
Net Pension Liability	<u>376,000</u>	<u>-0-</u>
 Total Long-term Debt	 2,890,837	 2,595,438
KIA Loan Payable	23,723	23,313
Citizens National Bank Loan Payable	37,853	36,657
Revenue Bonds Payable	20,000	20,000
Other Current and Accrued Liabilities	<u>292,831</u>	<u>290,943</u>
Total Current and Accrued Liabilities	374,407	370,913
 Total Net Position & Liabilities	 <u>15,052,397</u>	 <u>15,069,175</u>

Total assets and deferred outflows decreased by \$16,778, a decrease of (0.11%). Major increases include cash, which increased \$13,657 (0.71%), other current assets, which increased \$34,174 (1.56%) and net utility plant, which decreased \$118,856 (0.97%) from the previous fiscal year.

Income Statement:

	<u>2015</u>	<u>2014</u>
Operating Revenue		
Water Revenue	2,485,829	2,559,354
Other Operating Revenue	<u>85,343</u>	<u>89,553</u>
Total Operating Revenue	2,571,172	2,648,907
 Operating Expenses		
Purchased Water	1,459,693	1,485,614
Other Operation & Maintenance Expenses	711,484	738,598
Depreciation	<u>452,189</u>	<u>441,914</u>
Total Operating Expenses	<u>2,623,366</u>	<u>2,666,126</u>
 Operating Income	 (52,194)	 (17,219)
 Other Income	 80,046	 84,473
 Other Expenses - Interest	 <u>66,575</u>	 <u>62,812</u>
 Net Income Before Contributions	 <u>(38,723)</u>	 <u>4,442</u>
 Retained Earnings From Income Before Contributions		
Beginning Balance (2015 Restated)	727,499	1,070,498
Transfer to/from Appropriated Retained Earnings	<u>38,000</u>	<u>18,994</u>
Ending Balance	<u>726,776</u>	<u>1,093,934</u>

Operating revenues budgeted for 2015 were \$2,632,000. Operating revenues for 2015 were \$2,571,172, which was \$60,828 less than the budgeted amount. Actual operating revenues decreased \$77,735 from the prior year.

Total operation and maintenance expenses budgeted for 2015 were \$2,293,150. Total operation and maintenance expenses for 2015 were \$2,155,177, which was \$137,973 less than the budgeted amount. Actual operating expenses decreased \$58,760 from the prior year.

Net income before contributions decreased by \$27,165 as compared to 2014.

### Utility Plant and Debt Administration

Additions to Utility Plant were \$333,333. Accumulated depreciation increased \$452,189 causing a total decrease in the District's Utility Plant of \$118,856. For a detail of Utility Plant, see Note C.

	Utility Plant (Net of Accumulated Depreciation)
Land	\$ 82,077
Construction in Progress	171,667
Distribution Plant	11,596,215
General Plant	260,682
Total Utility Plant	<u>12,110,641</u>

At year-end, the District had a balance owed of \$513,362 for the KIA loan. At year-end, the district had a balance owed of \$726,051 for the Citizens National Bank loan. At year-end the District had \$1,357,000 in outstanding revenue bonds payable. The total bonds and loans payable at year end were \$2,596,413, versus \$2,675,408 the previous year, a decrease of \$78,995 (2.95%). The District also reported a net pension liability of \$376,000 as a result of the implementation of GASB Statement No. 68. 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 2016 will entail the continuation of the radio read meter change out program. As of January 1, 2016, the District has changed out approximately 5,000 meters in this program. The District currently has 900 radio read meters in inventory to be changed out in 2016. 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 complete the Danville Highway pump station upgrade at the estimated cost of \$350,000. 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. Based on the 2015 audit that shows a \$38,723 loss, the District may consider applying for a rate increase through the Public Service Commission. The last rate increase for the District was in 2009 with the 12 inch main line extension to Loretto.



Marion County Water District  
Lebanon, Kentucky

Statement of Net Position  
December 31, 2015 and 2014

Assets and Other Debits

	<u>2015</u>	<u>2014</u>
Utility Plant (Notes A-3 and C)	11,938,974	12,229,497
Construction in Progress	171,667	0
Total Utility Plant	<u>12,110,641</u>	<u>12,229,497</u>
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)	1,927,076	1,913,419
Customer Accounts Receivable, Net of Allowance of 7,021 and 7,505	153,596	157,557
Materials and Supplies Inventory (Note A-2)	126,734	104,279
Prepaid Insurance	15,607	13,584
Accrued Interest Receivable	<u>836</u>	<u>836</u>
Total Current and Accrued Assets	<u>2,223,849</u>	<u>2,189,675</u>
Deferred Outflows Related to Pensions	<u>67,904</u>	<u>0</u>
Total Assets and Deferred Outflows	<u><u>15,052,397</u></u>	<u><u>15,069,175</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, 2015 and 2014

Net Position and Liabilities

	2015	2014
Net Position as Restated for 2015		
Appropriated Retained Earnings (Note I)	822,717	860,717
Retained Earnings from Income before Contributions	726,776	1,093,934
Donated Capital	10,195,660	10,148,173
Total Net Position	11,745,153	12,102,824
Deferred Inflows Related to Pensions	42,000	0
Long-Term Debt		
KIA Loan Payable (Note D)	489,639	513,362
Citizens National Bank Loan Payable (Note E)	688,198	725,076
Revenue Bonds Payable (Note G)	1,337,000	1,357,000
Net Pension Liability	376,000	0
Total Long-Term Debt	2,890,837	2,595,438
Current and Accrued Liabilities		
KIA Loan Payable (Note D)	23,723	23,313
Citizens National Bank Loan Payable (Note E)	37,853	36,657
Revenue Bonds Payable (Note G)	20,000	20,000
Accounts Payable - Trade	124,679	114,501
Accrued County Retirement	6,050	4,633
Accrued Unemployment	747	764
Customer Deposits	34,293	33,643
Other Accrued Liabilities	127,062	137,402
Total Current and Accrued Liabilities	374,407	370,913
Total Net Position, Deferred Inflows, and Liabilities	15,052,397	15,069,175

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

Marion County Water District  
Lebanon, Kentucky

Statements of Income  
Years Ended December 31, 2015 and 2014

	<u>2015</u>	Percent of Revenue	<u>2014</u>	Percent of Revenue
<b>Operating Revenue</b>				
Metered Sales Residential	2,050,941	79.8%	2,109,202	79.6%
Metered Sales Commercial	398,159	15.5%	412,229	15.6%
Metered Sales Schools	22,286	0.9%	21,541	0.8%
Metered Sales Multi-Family	14,443	0.6%	16,382	0.6%
Miscellaneous Service	37,580	1.5%	35,451	1.3%
Late Charges	47,763	1.9%	54,102	2.0%
<b>Total Operating Revenue</b>	<u>2,571,172</u>	100.0%	<u>2,648,907</u>	100.0%
<b>Operating Expenses</b>				
Operation & Maintenance Expense	2,171,177	84.4%	2,224,212	84.0%
Depreciation	452,189	17.6%	441,914	16.7%
<b>Total Operating Expenses</b>	<u>2,623,366</u>	102.0%	<u>2,666,126</u>	100.7%
<b>Operating Income (Loss)</b>	(52,194)	-2.0%	(17,219)	-0.7%
<b>Other Income</b>				
Interest Income	3,704	0.1%	4,229	0.2%
Collection Fees	37,589	1.5%	37,419	1.4%
Gain (Loss) from Sale of Asset	-	0.0%	3,500	0.1%
Misc. Non-Operating Income	38,753	1.5%	39,325	1.5%
<b>Total Other Income</b>	<u>80,046</u>	3.1%	<u>84,473</u>	3.2%
<b>Other Expenses</b>				
Interest on Long-Term Debt	66,534	2.6%	62,773	2.4%
Other Interest	41	0.0%	39	0.0%
<b>Total Other Expenses</b>	<u>66,575</u>	2.6%	<u>62,812</u>	2.4%
<b>Net Income (Loss) before Contributions</b>	<u>(38,723)</u>	-1.5%	<u>4,442</u>	0.2%

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, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Appropriated Retained Earnings		
Balance - Beginning of Year	860,717	879,711
Transfer to/from Retained Earnings from Income before Contributions	<u>(38,000)</u>	<u>(18,994)</u>
Balance - End of Year	<u><u>822,717</u></u>	<u><u>860,717</u></u>
Retained Earnings from Income before Contributions		
Balance - Beginning of Year (2015 Restated - Note I)	727,499	1,070,498
Net Income (Loss) for the Year	(38,723)	4,442
Transfer to/from Appropriated Retained Earnings	<u>38,000</u>	<u>18,994</u>
Balance - End of Year	<u><u>726,776</u></u>	<u><u>1,093,934</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, 2015 and 2014

	2015	2014
Cash Flows from Operating Activities:		
Receipts from Users	2,612,722	2,685,685
Payments to Employees	(411,949)	(411,043)
Payments to Suppliers for Goods and Services	(1,798,157)	(1,876,594)
Net Cash Provided by Operating Activities	402,616	398,048
Cash Flows from Capital and Related Financing Activities:		
Capital Contributions	47,487	81,803
Proceeds from Sale of Fixed Assets	0	3,500
Loan Proceeds - KIA	0	68,276
Principal Payments on Long-term Debt	(78,995)	(65,903)
Interest Payments	(66,575)	(62,812)
Payments for Capital Projects	(333,333)	(406,081)
Net Cash Used in Capital and Related Financing Activities	(431,416)	(381,217)
Cash Flows from Investing Activities:		
Interest Income Received	3,704	4,229
Rent and Other Income	38,753	39,325
Net Cash Provided by Investing Activities	42,457	43,554
Cash and Investments, Beginning	1,913,419	1,853,034
Cash and Investments, Ending	1,927,076	1,913,419

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, 2015 and 2014

Reconciliation of Net Income to Net Cash Provided by Operating Activities

	2015	2014
Net Income	(38,723)	4,442
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	452,189	441,914
Gain on Sale of Asset	0	(3,500)
Interest on Debt	66,575	62,812
Misc. Non-Operating Income	(38,753)	(39,325)
Interest Income	(3,704)	(4,229)
Changes in Current Assets & Liabilities:		
Accounts Receivable	3,961	(640)
Materials & Supplies Inventory	(22,455)	(30,857)
Other Assets	(2,023)	(770)
Accounts Payable	10,178	(51,102)
Other Liabilities	(8,290)	19,303
Increase in Deferred Outflows Related to Pensions	(58,339)	0
Increase in Deferred Inflows Related to Pensions	42,000	0
	402,616	398,048

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 \$2,577,079. Of the total cash, \$1,000,000 was covered by Federal Depository Insurance, \$1,577,079 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, 2015 and 2014, were the following restricted funds:

	<u>2015</u>	<u>2014</u>
Reserve Funds	22,757	95,862
Short-Lived Asset Account	<u>149,957</u>	<u>114,852</u>
Total	<u>172,714</u>	<u>210,714</u>

C. Utility Plant:

The following represents the amount of utility plant as of December 31, 2014 and 2015:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deletions</b>	<b>Ending Balance</b>
Nondepreciable Assets:				
Land	81,560	517	0	82,077
Construction in Progress	0	171,667	0	171,667
Depreciable Assets:				
Distribution Plant	17,752,481	144,325	0	17,896,806
General Plant	<u>819,151</u>	<u>16,824</u>	<u>23,634</u>	<u>812,341</u>
	18,653,192	333,333	23,634	18,962,891
Less: Accumulated Depreciation	<u>(6,423,695)</u>	<u>(452,189)</u>	<u>(23,634)</u>	<u>(6,852,250)</u>
	<u>12,229,497</u>	<u>(118,856)</u>	<u>0</u>	<u>12,110,641</u>

\$ 0 and \$4,497 of interest were capitalized during the years ended December 31, 2015 and 2014, 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, 2015, the KIA Loan has a balance owed of \$513,362.

Maturities for the next five years are as follows:

<u>Year</u>	<u>Interest</u>	<u>Principal</u>
2016	8,881	23,723
2017	8,464	24,140
2018	8,039	24,564
2019	7,607	24,996
2020	7,168	25,435
Thereafter	<u>49,641</u>	<u>390,504</u>
	<u>89,800</u>	<u>513,362</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, 2015, the balance of this loan was \$726,051.

Maturities for the next five years are as follows:

<u>Year</u>	<u>Interest</u>	<u>Principal</u>
2016	24,879	37,853
2017	23,461	39,271
2018	22,064	40,668
2019	20,618	42,115
2020	19,120	43,612
Thereafter	<u>96,105</u>	<u>522,532</u>
	<u>206,247</u>	<u>726,051</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

1,357,000

Maturities for the next five years are as follows:

2017	20,000
2018	21,000
2019	22,000
2020	23,000
2021	24,000
Thereafter	<u>1,247,000</u>
	<u>1,357,000</u>

H. Long-term liability activity for the year ended December 31, 2015, 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	174,000	0	0	174,000	0
KIA Loan Payable	536,675	0	23,313	513,362	23,723
CNB Loan Payable	761,733	0	35,682	726,051	37,853
Revenue Bonds Payable	<u>1,377,000</u>	<u>0</u>	<u>20,000</u>	<u>1,357,000</u>	<u>20,000</u>
Total	<u>2,849,408</u>	<u>0</u>	<u>78,995</u>	<u>2,770,413</u>	<u>81,576</u>

Notes to Financial Statements (Continued)

I. Appropriated Retained Earnings:

Appropriated retained earnings at December 31, 2015 and 2014, consist of restricted funds as follows:

	<u>2015</u>	<u>2014</u>
CDs - Reserve Fund	650,003	650,003
Cash - Reserve Fund	22,757	95,862
Cash – Short-Lived Asset Fund	<u>149,957</u>	<u>114,852</u>
	<u>822,717</u>	<u>860,717</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 (2014 Disclosures)

The disclosure below is for the presentation of pensions for 2014. See the continuation of Note J below and Notes M and O for the 2015 disclosures related to pensions.

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.

Notes to Financial Statements (Continued)

J. Retirement Plan (2015 Disclosures)

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

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:

	Required Contributions
Tier 1	5%
Tier 2	5% +1% for insurance
Tier 3	5% +1% for insurance

Notes to Financial Statements (Continued)

J. Retirement Plan (Continued)

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

At December 31, 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:

District's proportionate share of the CERS net pension liability                      \$     376,000

The net pension liability for the plan was measured as of June 30, 2014, 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, 2014, the District's proportion was 0.011595% percent.

For the year ended December 31, 2015, the District recognized pension expense of \$30,000 related to CERS. At December 31, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	42,000
Changes in proportion and differences between District contributions and proportionate share of contributions	-	-
District contributions subsequent to the measurement date	<u>67,904</u>	<u>-</u>
Total	<u>\$ 67,904</u>	<u>\$ 42,000</u>

\$ 67,904 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 year ended December 31, 2016. 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>
2016	8,400
2017	8,400
2018	8,400
2019	8,400
2020	8,400

*Actuarial assumptions*—The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	<u>CERS</u>
Inflation	3.50%
Projected salary increases	4.50%
Investment rate of return, net of investment expense & inflation	7.75%

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 7.75%. 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 7.75%. The long-term investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

*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:

Notes to Financial Statements (Continued)

J. Retirement Plan (Continued)

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
CERS	6.75%	7.75%	8.75%
District's proportionate share of net pension liability	327,484	376,000	424,516

*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. Change in Accounting Principle

Effective January 1, 2015, the District was required to adopt Governmental Accounting Standards Board (GASB) Statement no. 68, “Accounting and Financial Reporting for Pensions” (GASB 68). GASB 68 replaced the requirements of GASB 27, “Accounting for Pensions by State and Local Governmental Employers” and GASB 50, “Pension Disclosures”, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. GASB 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability to more comprehensively and comparably measure the annual costs of pension benefits. Cost-sharing governmental employers, such as the District, are required to report a net pension liability, pension expense and pension-related assets and liabilities based on their proportionate share of the collective amounts for all governments in the plan.

GASB 68 required retrospective application. The District presents two years of financial statements. However, GASB 68 was not adopted until January 1, 2015. Thus, beginning net position for 2015 was adjusted to reflect the retrospective application as of January 1, 2015 based on the available determination date of June 30, 2014. There is not enough information available to retroactively implement GASB 68 for the year ended December 31, 2014. See Note O for the impact of the adoption of this standard on beginning net position.

N. Management has reviewed subsequent events through March 14, 2016. There are no material subsequent events that require 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 \$366,435 to reflect the District's proportionate share of the unfunded pension liability of the County Employee Retirement System. 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, 2014	\$ 1,093,934
Prior period adjustment – Implementation GASB 68:	
Net Pension Liability (measurement date)	(346,000)
Deferred inflows related to pensions	(42,000)
Deferred outflows – District's contributions made during	
the fiscal year for CERS for 2014	<u>21,565</u>
Total prior period adjustment	<u>(366,435)</u>
Beginning Retained Earnings from Income	
before Contributions as restated, December 31, 2014	<u>\$ 727,499</u>

P. Commitment

Extensive renovation of Danville Highway pumping station is ongoing as of the audit date. It is anticipated that the completion of this project will cost an additional \$ 17,198.

**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>2015</u>
District's proportion of net pension liability	.011595%
District's proportionate share of the net pension liability	\$ 376,000
State of Kentucky's share of the net pension liability associated with the District	<u>0</u>
Total	<u>\$ 376,000</u>
District's covered-employee payroll	\$ 282,035
District's proportionate share of the net pension liability as a percentage of its covered-payroll	133.32%
Plan fiduciary net position as a percentage of the total pension liability	65.96%

*Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.*

**COUNTY EMPLOYEES RETIREMENT SYSTEM**

**NOTE A – CHANGES OF ASSUMPTIONS**

The last experience investigation was prepared for the five-year period ending June 30, 2008, 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, 2014
Actuarial Cost Method	Entry age
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	30 years
Asset Valuation Method	5-year smoothed market
Inflation	3.5 percent
Salary Increase	4.5 percent, average, including inflation
Investment Rate of Return	7.75 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, 2015 and 2014

	<u>2015</u>	Percent of Revenue	<u>2014</u>	Percent of Revenue
Source of Supply Expense				
Purchased Water	1,459,693	56.8%	1,485,614	56.1%
Pumping Expense				
Fuel or Power Purchased for Pumping	39,339	1.5%	43,863	1.7%
Transmission & Distribution Expense				
Salaries	140,340	5.5%	141,210	5.3%
Operation Supplies & Expense	32,467	1.3%	46,972	1.8%
Maintenance	<u>93,359</u>	<u>3.6%</u>	<u>89,699</u>	<u>3.4%</u>
Total Transmission & Distribution Expense	266,166	10.4%	277,881	10.5%
Customer Accounts Expense				
Salaries	112,183	4.4%	108,823	4.1%
Contractual Services - Meter Reading	25,949	1.0%	28,648	1.1%
Supplies & Expense	45,768	1.8%	42,367	1.6%
Uncollectible Accounts	<u>5,409</u>	<u>0.2%</u>	<u>2,888</u>	<u>0.1%</u>
Total Customer Accounts Expense	189,309	7.4%	182,726	6.9%
Administrative & General Expense				
Administrative & General Salaries	41,104	1.6%	37,037	1.4%
Office Supplies & Other Expense	18,793	0.7%	24,459	0.9%
Outside Service Employed	10,250	0.4%	9,475	0.4%
Insurance	29,602	1.2%	26,726	1.0%
Employee Benefits & Payroll Taxes	103,811	4.0%	121,790	4.6%
Regulatory Commission Expense	5,098	0.2%	4,871	0.2%
Miscellaneous	<u>8,012</u>	<u>0.3%</u>	<u>9,770</u>	<u>0.4%</u>
Total Administrative & General Expense	<u>216,670</u>	<u>8.4%</u>	<u>234,128</u>	<u>8.8%</u>
Total Operating & Maintenance Expense	<u><u>2,171,177</u></u>	<u><u>84.4%</u></u>	<u><u>2,224,212</u></u>	<u><u>84.0%</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: \$1,357,000

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

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

See accompanying accountant's report.

MARION COUNTY WATER DISTRICT  
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS AND RESPONSES  
DECEMBER 31, 2015

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***

March 14, 2016

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, 2015 and 2014, 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 March 14, 2016.

**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.**  
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March 14, 2016

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, 2015, and have issued our report thereon dated March 14, 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 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 18, 2015. 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 Notes M and 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 March 14, 2016.

### *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