

**MARION COUNTY WATER DISTRICT
AUDIT REPORT
DECEMBER 31, 2017 AND 2016**

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INDEPENDENT AUDITOR'S REPORT

June 11, 2018

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, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the general purpose financial statements of Marion County Water District, Lebanon, Kentucky, as of December 31, 2017 and 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedule of district's proportionate share of net pension liability on pages 4-6 and 21 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 11, 2018, on our consideration of the Marion County Water District, Lebanon, Kentucky's internal control over financial reporting and on our test of its compliance with certain provision of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Marion County Water District, Lebanon, Kentucky's internal control over financial reporting and compliance.

Sincerely,

White and Company, P.S.C.

Certified Public Accountants

**MANAGEMENT'S DISCUSSION AND ANALYSIS
MARION COUNTY WATER DISTRICT
DECEMBER 31, 2017**

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, 2017. The District's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosure following this section.

Financial Highlights

- The District's assets and other debits exceeded its liabilities by \$11,837,179 (Net Position) for the fiscal year reported.

Statements of Net Position:

	<u>2017</u>	<u>2016</u>
Utility Plant	11,760,034	12,039,683
Construction in Progress	138,820	-0-
Total Utility Plant	<u>11,898,854</u>	<u>12,039,683</u>
Certificates of Deposit	750,003	750,003
Cash	2,258,472	1,955,926
Net Customer Accounts Receivable	160,901	188,986
Other Current Assets	<u>94,661</u>	<u>88,392</u>
Total Current & Accrued Assets	<u>2,514,034</u>	<u>2,233,304</u>
Deferred Outflows Related to Pensions	<u>211,217</u>	<u>175,519</u>
Total Assets & Deferred Outflows	<u>15,374,108</u>	<u>15,198,509</u>
	<u>2017</u>	<u>2016</u>
Net Position		
Appropriated Retained Earnings	896,645	940,048
Retained Earnings from Income before Contributions	593,681	613,178
Donated Capital	<u>10,346,853</u>	<u>10,266,251</u>
Total Net Position	11,837,179	11,819,477
Deferred Inflows Related to Pensions	68,464	9,025
KIA Loan Payable	440,935	465,499
Citizens National Bank Loan Payable	608,258	648,927
Revenue Bonds Payable	1,292,000	1,314,000
Net Pension Liability	<u>685,188</u>	<u>568,124</u>
Total Long-term Debt	3,026,381	2,996,550
KIA Loan Payable	24,564	24,140
Citizens National Bank Loan Payable	40,668	39,271
Revenue Bonds Payable	22,000	22,000
Other Current and Accrued Liabilities	<u>354,852</u>	<u>288,046</u>
Total Current and Accrued Liabilities	442,084	373,457
Total Net Position & Liabilities	<u>15,374,108</u>	<u>15,198,509</u>

- Total net position as of December 31, 2017 comprised of the following:
 - (1) Appropriated retained earnings of \$896,645.
 - (2) Retained earnings from income before contributions of \$593,681.
 - (3) Donated capital of \$10,346,853.
- The District's general purpose financial statement's retained earnings from income before contributions decreased by \$19,461 from the previous fiscal year.
- The District's general purpose financial statement's donated capital increased by \$80,602 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. In 2017, this increase was solely the result of contributions in aid of construction from customers.

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, 2017 and December 31, 2016. The Income Statements depict the difference between the revenues and expenses for the year 2017. 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

Major increases include total assets and deferred outflows, which increased \$175,599 (1.16%). Of this, cash increased by \$302,546 (15.47%). Net utility plant decreased \$140,829 (11.70%) from the previous fiscal year.

Income Statement:

	<u>2017</u>	<u>2016</u>
Operating Revenue		
Water Revenue	2,697,279	2,610,675
Other Operating Revenue	<u>101,221</u>	<u>91,789</u>
Total Operating Revenue	2,798,500	2,702,464
Operating Expenses		
Purchased Water	1,486,918	1,530,032
Other Operation & Maintenance Expenses	899,268	719,031
Depreciation	<u>500,242</u>	<u>406,055</u>
Total Operating Expenses	<u>2,886,428</u>	<u>2,655,118</u>
Operating Income	(87,928)	47,346
Other Income	86,225	87,073
Other Expenses - Interest	<u>61,197</u>	<u>63,495</u>
Net Income Before Contributions	<u>(62,900)</u>	<u>70,924</u>
Retained Earnings From Income Before Contributions		
Beginning Balance	613,142	659,585
Transfer to/from Appropriated Retained Earnings	<u>43,439</u>	<u>(117,367)</u>
Ending Balance	<u>593,681</u>	<u>613,178</u>

Operating revenues budgeted for 2017 were \$2,781,000. Actual operating revenues for 2017 were \$2,798,500, which was \$17,500 more than the budgeted amount. Actual operating revenues increased \$96,036 from the prior year. This is primarily due to the increased water rate in effect for all of 2017 compared to only being for part of a year for 2016. Total operation and maintenance expenses budgeted before depreciation for 2017 were \$2,385,700. Total operation and maintenance expenses for 2017 before depreciation were \$2,386,186, which was \$486 more than the budgeted amount. Actual operating expenses increased \$231,310 from the prior year primarily due to a significant increase in 2017 pension expense.

Net income before contributions decreased by \$133,824 as compared to 2016. This was primarily due to the increase in pension expense for 2017.

Utility Plant and Debt Administration

Additions to Utility Plant were \$359,413. Accumulated depreciation increased \$500,242 (2017 depreciation expense) causing a net decrease in the District’s Utility Plant of \$140,829. For a detail of Utility Plant, see Note C.

	Utility Plant (Net of Accumulated Depreciation)
Land	\$ 87,222
Construction in Progress	138,820
Distribution Plant	11,428,452
General Plant	244,360
Total Utility Plant	<u>11,898,854</u>

At year-end, the District had a net pension liability of \$685,188. At year-end, the District had a balance owed of \$465,499 for the KIA loan. At year-end, the district had a balance owed of \$648,926 for the Citizens National Bank loan. At year-end the District had \$1,314,000 in outstanding revenue bonds payable. The total bonds and loans payable at year end were \$2,428,425, versus \$2,513,837 the previous year, a decrease of \$85,412 (3.40%). 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 2018 will entail the completion of the St. Rose Road pump station. The District will be working with Makers Mark to complete the upgrade of the one mile of 4 inch main to a 6 inch. This, along with the pump station, will complete Phase I of the water needs of Makers Mark.

Going forward, the District plans to replace its aging telemetry. The cost of this project will be approximately \$412,000.00 and will be funded with District funds. The District will also be working with Makers Mark with Phase II, which includes the 8 inch main line upgrade from the Highway 49 & Highway 52 intersection to the Maker’s Mark property. The District will continue with the 2018 water system improvements. This project has an estimated cost of \$950,000.00 that will be funded through a KIA loan and District funds.

Marion County Water District
Lebanon, Kentucky

Statement of Net Position
December 31, 2017 and 2016

Assets and Other Debits

	2017	2016
Utility Plant (Notes A-3 and C)	11,760,034	12,039,683
Construction in Progress	138,820	0
Total Utility Plant	11,898,854	12,039,683
Other Property and Investments		
Certificates of Deposit - Citizens National Bank	750,003	750,003
Total Other Property and Investments	750,003	750,003
Current and Accrued Assets		
Cash (Note B)	2,258,472	1,955,926
Customer Accounts Receivable, Net of Allowance of 6,750 and 9,467	160,901	188,986
Materials and Supplies Inventory (Note A-2)	76,807	70,744
Prepaid Insurance	16,391	16,391
Accrued Interest Receivable	1,463	1,257
Total Current and Accrued Assets	2,514,034	2,233,304
Deferred Outflows Related to Pensions	211,217	175,519
Total Assets and Deferred Outflows	15,374,108	15,198,509

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

Marion County Water District
Lebanon, Kentucky

Statement of Net Position
December 31, 2017 and 2016

Net Position and Liabilities

	2017	2016
Net Position		
Appropriated Retained Earnings (Note I)	896,645	940,084
Retained Earnings from Income before Contributions	593,681	613,142
Donated Capital	10,346,853	10,266,251
Total Net Position	11,837,179	11,819,477
Deferred Inflows Related to Pensions	68,464	9,025
Long-Term Debt		
KIA Loan Payable (Note D)	440,935	465,499
Citizens National Bank Loan Payable (Note E)	608,258	648,927
Revenue Bonds Payable (Note G)	1,292,000	1,314,000
Net Pension Liability	685,188	568,124
Total Long-Term Debt	3,026,381	2,996,550
Current and Accrued Liabilities		
KIA Loan Payable (Note D)	24,564	24,140
Citizens National Bank Loan Payable (Note E)	40,668	39,271
Revenue Bonds Payable (Note G)	22,000	22,000
Accounts Payable - Trade	184,218	119,444
Accrued County Retirement	7,538	6,417
Accrued Unemployment	534	506
Customer Deposits	35,925	35,351
Other Accrued Liabilities	126,637	126,328
Total Current and Accrued Liabilities	442,084	373,457
Total Net Position, Deferred Inflows, and Liabilities	15,374,108	15,198,509

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

Marion County Water District
Lebanon, Kentucky

Statements of Income
Years Ended December 31, 2017 and 2016

	<u>2017</u>	Percent of Revenue	<u>2016</u>	Percent of Revenue
Operating Revenue				
Metered Sales Residential	2,124,409	75.9%	2,083,006	77.1%
Metered Sales Commercial	530,138	18.9%	488,331	18.1%
Metered Sales Schools	28,251	1.0%	24,194	0.9%
Metered Sales Multi-Family	14,481	0.5%	15,144	0.6%
Miscellaneous Service	39,892	1.4%	36,460	1.3%
Late Charges	61,329	2.2%	55,329	2.0%
Total Operating Revenue	<u>2,798,500</u>	100.0%	<u>2,702,464</u>	100.0%
Operating Expenses				
Operation & Maintenance Expense	2,386,186	85.3%	2,249,063	83.2%
Depreciation	500,242	17.9%	406,055	15.0%
Total Operating Expenses	<u>2,886,428</u>	103.1%	<u>2,655,118</u>	98.2%
Operating Income (Loss)	(87,928)	-3.1%	47,346	1.8%
Other Income				
Interest Income	9,046	0.3%	4,794	0.2%
Collection Fees	38,245	1.4%	36,045	1.3%
Gain (Loss) from Sale of Asset	-	0.0%	8,266	0.3%
Misc. Non-Operating Income	38,934	1.4%	37,968	1.4%
Total Other Income	<u>86,225</u>	3.1%	<u>87,073</u>	3.2%
Other Expenses				
Interest on Long-Term Debt	61,173	2.2%	63,484	2.3%
Other Interest	24	0.0%	11	0.0%
Total Other Expenses	<u>61,197</u>	2.2%	<u>63,495</u>	2.3%
Net Income (Loss) before Contributions	<u>(62,900)</u>	-2.2%	<u>70,924</u>	2.6%

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, 2017 and 2016

	2017	2016
Appropriated Retained Earnings		
Balance - Beginning of Year	940,084	822,717
Transfer to/from Retained Earnings from Income		
before Contributions	(43,439)	117,367
Balance - End of Year	896,645	940,084
Retained Earnings from Income before Contributions		
Balance - Beginning of Year	613,142	659,585
Net Income (Loss) for the Year	(62,900)	70,924
Transfer to/from Appropriated Retained Earnings	43,439	(117,367)
Balance - End of Year	593,681	613,142

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, 2017 and 2016

	2017	2016
Cash Flows from Operating Activities:		
Receipts from Users	2,864,830	2,703,119
Payments to Employees	(418,738)	(411,709)
Payments to Suppliers for Goods and Services	(1,766,107)	(1,803,011)
Net Cash Provided by Operating Activities	679,985	488,399
Cash Flows from Capital and Related Financing Activities:		
Capital Contributions	80,602	70,591
Proceeds from Sale of Fixed Assets	0	8,266
Principal Payments on Long-term Debt	(85,411)	(82,576)
Interest Payments	(61,197)	(63,495)
Payments for Capital Projects	(359,413)	(335,097)
Net Cash Used in Capital and Related Financing Activities	(425,419)	(402,311)
Cash Flows from Investing Activities:		
Interest Income Received	9,046	4,794
Rent and Other Income	38,934	37,968
Purchase of Certificate of Deposit	0	(100,000)
Net Cash (Used in) Provided by Investing Activities	47,980	(57,238)
Cash and Investments, Beginning	1,955,926	1,927,076
Cash and Investments, Ending	2,258,472	1,955,926

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, 2017 and 2016

Reconciliation of Net Income to Net Cash Provided by Operating Activities

	2017	2016
Net Income	(62,900)	70,924
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	500,242	406,055
Gain on Sale of Asset	0	(8,266)
Interest on Debt	61,197	63,495
Misc. Non-Operating Income	(38,934)	(37,968)
Interest Income	(9,046)	(4,794)
Changes in Current Assets & Liabilities:		
Accounts Receivable	28,085	(35,390)
Materials & Supplies Inventory	(6,063)	55,990
Other Assets	(206)	(1,205)
Accounts Payable	64,774	(5,235)
Other Liabilities	2,031	450
Increase in Net Pension Liability	117,064	57,532
Increase in Deferred Outflows Related to Pensions	(35,698)	(82,214)
Increase in Deferred Inflows Related to Pensions	59,439	9,025
	679,985	488,399
Net Cash Provided by Operating Activities		

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

Nature of Operations:

Marion County Water District is a special district of Marion County, Kentucky. It operates a water distribution system in Marion County and southern Nelson County. Water is purchased from the Lebanon Water Company and Campbellsville Water Company and resold to more than 5,900 customers in Marion and Nelson Counties.

Significant Accounting Policies:

- A. The following is a summary of the significant accounting policies of the Marion County Water District:
1. Assets and liabilities and revenues and expenses are recognized on the accrual basis of accounting.
 2. Inventory is recorded at cost.
 3. Utility plant is stated at cost less accumulated depreciation computed on a straight-line method. The distribution plant assets are depreciated mainly over 62.5 years. The general plant assets are depreciated over their estimated useful lives from five to ten years.
 4. Four funds are set up on the company's books: revenue fund, operation and maintenance fund, reserve fund, and sinking fund. All income is deposited to the revenue fund. Funds are transferred monthly from the revenue fund to the operation and maintenance fund sufficient to pay the general expenses of the water system. Transfers are made from the revenue fund to the reserve fund as stipulated by the bond agreements. Contributions in aid of construction are deposited directly to the reserve fund. Transfers from the revenue fund to the sinking fund are made to sufficiently meet the required bond and interest payments to the U S Department of Agriculture-Rural Development.
 5. The District invests its reserves in short-term certificates of deposits with local financial institutions. All certificates of deposit are considered to be cash equivalents.
 6. Operating revenues include all utility service related revenues primarily derived from distributing water to Marion County and Nelson County residents. Non-operating revenues include revenues from rents, outside billings, interest, and other miscellaneous, non-operating revenues.
 7. When the District incurs an expense for which both restricted and unrestricted net assets are available, the District's policy is to expend restricted net assets to the extent available first and then to expend unrestricted net assets.
- B. Cash:

At year end the carrying amount of the District's cash and cash equivalents was \$2,258,472. Of the total cash, \$1,100,005 was covered by Federal Depository Insurance and \$1,158,467 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, 2017 and 2016, were the following restricted funds:

	<u>2017</u>	<u>2016</u>
Reserve Funds	17,545	35,149
Short-Lived Asset Account	<u>129,097</u>	<u>154,932</u>
Total	<u>146,642</u>	<u>190,081</u>

C. Utility Plant:

The following represents the amount of utility plant as of December 31, 2017 and 2016:

	Beginning Balance	Additions	Deletions	Ending Balance
Nondepreciable Assets:				
Land	87,188	34	0	87,222
Construction in Progress	0	138,820	0	138,820
Depreciable Assets:				
Distribution Plant	18,360,278	184,718	222,346	18,322,650
General Plant	<u>822,851</u>	<u>35,841</u>	<u>0</u>	<u>858,692</u>
	19,270,317	359,413	0	19,407,384
Less: Accumulated Depreciation	<u>(7,230,634)</u>	<u>(500,242)</u>	<u>(222,346)</u>	<u>(7,508,530)</u>
	<u>12,039,683</u>	<u>(140,829)</u>	<u>0</u>	<u>11,898,854</u>

\$ 0 and \$0 of interest were capitalized during the years ended December 31, 2017 and 2016, 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, 2017, the KIA Loan has a balance owed of \$465,499.

Maturities for future years are as follows:

<u>Year</u>	<u>Interest</u>	<u>Principal</u>
2018	8,039	24,564
2019	7,607	24,996
2020	7,168	25,435
2021	6,721	25,882
2022	6,266	26,337
2023-2027	24,222	138,795
2028-2032	11,588	151,429
2033-2034	<u>844</u>	<u>48,061</u>
	<u>72,455</u>	<u>465,499</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, 2017, the balance of this loan was \$648,926.

Maturities for future years are as follows:

<u>Year</u>	<u>Interest</u>	<u>Principal</u>
2018	22,064	40,668
2019	20,618	42,115
2020	19,120	43,612
2021	17,569	45,164
2022	15,962	46,770
2023-2027	53,644	260,017
2028-2030	<u>8,930</u>	<u>170,580</u>
	<u>157,907</u>	<u>648,926</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

1,314,000

Maturities for future years are as follows:

2018	22,000
2019	23,000
2020	24,000
2021	25,000
2022	26,000
Thereafter	<u>1,194,000</u>
	<u>1,314,000</u>

A detail of principal payments by year is also presented on page 25.

H. Long-term liability activity for the year ended December 31, 2017, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Net Pension Liability	568,124	117,064	0	685,188	0
KIA Loan Payable	489,639	0	24,140	465,499	24,564
CNB Loan Payable	688,198	0	39,272	648,926	40,668
Revenue Bonds Payable	<u>1,336,000</u>	<u>0</u>	<u>22,000</u>	<u>1,314,000</u>	<u>22,000</u>
Total	<u>3,081,961</u>	<u>117,064</u>	<u>85,412</u>	<u>3,113,613</u>	<u>87,332</u>

Notes to Financial Statements (Continued)

I. Appropriated Retained Earnings:

Appropriated retained earnings at December 31, 2017 and 2016, consist of restricted funds as follows:

	<u>2017</u>	<u>2016</u>
CDs - Reserve Fund	750,003	750,003
Cash - Reserve Fund	17,545	35,149
Cash – Short-Lived Asset Fund	<u>129,097</u>	<u>154,932</u>
	<u>896,645</u>	<u>940,084</u>

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

J. Retirement Plan

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

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

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

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

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

Notes to Financial Statements (Continued)

J. Retirement Plan (Continued)

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

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

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

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

At December 31, 2017 and 2016, the District reported a liability for its proportionate share of the net pension liability for CERS. The amount recognized by the District as its proportionate share of the net pension liability, the related Commonwealth support, and the total portion of the net pension liability that was associated with the District were as follows:

	<u>2017</u>	<u>2016</u>
District's proportionate share of the CERS net pension liability	\$ 685,188	\$ 568,194

Notes to Financial Statements (Continued)

J. Retirement Plan (Continued)

	2017 Deferred Outflows of Resources	2017 Deferred Inflows of Resources	2016 Deferred Outflows of Resources	2016 Deferred Inflows of Resources
Differences between expected and actual experience	\$ 850	\$ 17,393	\$ 5,511	\$ -
Changes of assumptions	126,436	-	66,872	-
Net difference between projected and actual earnings on pension plan investments	54,266	45,791	57,071	-
Changes in proportion and differences between District contributions and proportionate share of contributions	6,969	5,280	9,513	9,025
District contributions subsequent to the measurement date	<u>22,696</u>	<u>-</u>	<u>36,552</u>	<u>-</u>
Total	<u>\$ 211,217</u>	<u>\$ 68,464</u>	<u>\$ 175,519</u>	<u>\$ 9,025</u>

The net pension liability for the plan was measured as of June 30, 2017 and 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The District's proportion of the net pension liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2017, the District's proportion was 0.011706 percent. At June 30, 2016, the District's proportion was 0.011539 percent.

For the year ended December 31, 2017 and 2016, respectively, the District recognized pension expense of \$197,359 and \$33,407 related to CERS. At December 31, 2017 and 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

\$ 22,696 and \$36,552 were reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the years ended December 31, 2017 and 2016, respectively. Other amounts reported as deferred outflows of resources and deferred inflows related to pensions will be recognized in pension expense as follows:

Notes to Financial Statements (Continued)

J. Retirement Plan (Continued)

<u>Year ended December 31:</u>	
2018	52,296
2019	52,473
2020	24,085
2021	(8,797)
2022	-0-

Actuarial assumptions—The total pension liability in the June 30, 2017 and June 30, 2016 actuarial valuation were determined using the following actuarial assumptions, applied to all periods included in the measurement:

	<u>2017</u>	<u>2016</u>
	<u>CERS</u>	<u>CERS</u>
Inflation	3.25%	3.25%
Projected salary increases	4.00%	4.00%
Investment rate of return, net of investment expense & inflation	7.50%	7.50%

For CERS, the mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set-back for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) 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 7.25% for June 30, 2017 and 7.50% for June 30, 2016. The projection of cash flows used to determine the discount rate assumed that contributions from plan employees and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.50% for June 30, 2017 and June 30, 2016. The long-term investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Notes to Financial Statements (Continued)

J. Retirement Plan (Continued)

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

2016	1% Decrease	Current Discount Rate	1% Increase
CERS	6.50%	7.50%	8.50%
District's proportionate share of net pension liability	708,063	568,124	448,301
2017	1% Decrease	Current Discount Rate	1% Increase
CERS	5.25%	6.25%	7.25%
District's proportionate share of net pension liability	864,170	685,188	535,471

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. Management has reviewed subsequent events through June 11, 2018 and there are no additional events requiring disclosure.
- N. Commitments: Marion County Water District began a construction project to upgrade the St. Rose Road pump station. Construction for this project is ongoing as of the audit date. It is anticipated that the completion of the project will cost an additional \$124,481.

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>2017</u>	<u>2016</u>	<u>2015</u>
District's proportion of net pension liability	0.011706%	0.011539%	0.0118755%
District's proportionate share of net pension liability	685,188	568,124	510,592
State of Kentucky's share of net pension liability associate with the District	0	0	0
District's covered-employee payroll	298,547	274,311	282,035
District's proportionate share of the net pension liability as a percentage of its covered payroll	229.51%	207.09%	181.04%
Plan fiduciary net pension as a percentage of the total pension liability	53.30%	55.50%	59.97%

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

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contributions (actuarially determined)	\$ 56,554	\$ 49,064	\$ 48,952
Contributions in relation to the actuarially determined contributions	<u>56,554</u>	<u>49,064</u>	<u>48,952</u>
Contribution deficiency (excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Covered employee payroll	\$ 274,311	\$ 274,311	\$ 282,035
Contributions as a percentage of Covered employee payroll	20.62%	17.89%	17.36%

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

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

COUNTY EMPLOYEES RETIREMENT SYSTEM

NOTE A – CHANGES OF ASSUMPTIONS

- The amortization method changed from 27 years to 28 years.
- Asset valuation method changed from 5-year smoothed market to 20% of the difference between the market value of assets and the expected actuarial value of assets recognized.

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

The following actuarial methods and assumptions were used to determine the actuarially determined contributions effective for fiscal year ending June 30, 2017:

Valuation Date	June 30, 2017
Actuarial Cost Method	Entry age normal
Amortization Method	Level percentage of payroll
Remaining Amortization Period	28 years as of June 30, 2017, closed
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets recognized
Inflation	3.25 percent
Salary Increase	4.0 percent average
Investment Rate of Return	7.5 percent

OTHER SUPPLEMENTARY
INFORMATION

Marion County Water District
Lebanon, Kentucky

Schedules of Operating and Maintenance Expenses
Years Ended December 31, 2017 and 2016

	<u>2017</u>	Percent of Revenue	<u>2016</u>	Percent of Revenue
Source of Supply Expense				
Purchased Water	1,486,918	53.1%	1,530,032	56.6%
Pumping Expense				
Fuel or Power Purchased for Pumping	37,264	1.3%	37,309	1.4%
Transmission & Distribution Expense				
Salaries	165,009	5.9%	142,142	5.3%
Operation Supplies & Expense	37,742	1.3%	31,775	1.2%
Maintenance	<u>80,191</u>	<u>2.9%</u>	<u>87,593</u>	<u>3.2%</u>
Total Transmission & Distribution Expense	282,942	10.1%	261,510	9.7%
Customer Accounts Expense				
Salaries	105,190	3.8%	106,256	3.9%
Contractual Services - Meter Reading	24,939	0.9%	26,465	1.0%
Supplies & Expense	44,054	1.6%	39,540	1.5%
Uncollectible Accounts	<u>2,377</u>	<u>0.1%</u>	<u>5,563</u>	<u>0.2%</u>
Total Customer Accounts Expense	176,560	6.3%	177,824	6.6%
Administrative & General Expense				
Administrative & General Salaries	43,765	1.6%	42,246	1.6%
Office Supplies & Other Expense	20,488	0.7%	18,896	0.7%
Outside Service Employed	16,628	0.6%	13,772	0.5%
Insurance	33,483	1.2%	32,127	1.2%
Employee Benefits & Payroll Taxes	73,408	2.6%	72,018	2.7%
Pension Expense	197,359	7.1%	33,407	1.2%
Regulatory Commission Expense	5,466	0.2%	5,062	0.2%
Regulatory Department of Local Gov't	0	0.0%	1,000	0.0%
Rate Case Expense	0	0.0%	10,399	0.4%
Miscellaneous	<u>11,905</u>	<u>0.4%</u>	<u>13,461</u>	<u>0.5%</u>
Total Administrative & General Expense	<u>402,502</u>	<u>14.4%</u>	<u>242,388</u>	<u>9.0%</u>
Total Operating & Maintenance Expense	<u><u>2,386,186</u></u>	<u><u>85.3%</u></u>	<u><u>2,249,063</u></u>	<u><u>83.2%</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: \$ 1,314,000

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

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, 2017

There were no prior year audit findings.

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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***

June 11, 2018

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, 2017 and 2016, 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 June 11, 2018.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Sincerely,

White and Company, P.S.C.

Certified Public Accountants

WHITE AND COMPANY, P.S.C.
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June 11, 2018

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, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and the Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated November 30, 2017. 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. No new accounting policies were adopted and the application of existing policies was not changed during 2017. 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 each opinion unit's 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 June 11, 2018.

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 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