MARION COUNTY WATER DISTRICT
AUDIT REPORT

DECEMBER 31, 2018 AND 2017

C O N T E N T S

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INDEPENDENT AUDITOR'S REPORT

May 24, 2019

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, 2018 and 2017, 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, 2018 and 2017, 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 A to the financial statements, in 2018, the District adopted new accounting guidance, GASBS No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than 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, schedule of district's proportionate share of net pension liabilities, or the schedules of the district's proportionate share of net other post-employment benefits on pages 4-6, 28, and 30 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 24, 2019, 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, 2018

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, 2018. 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 $11,852,881 (Net Position) for the fiscal year reported.

- Total net position comprised of the following:
  (1) Appropriated retained earnings of $1,027,544.
  (2) Retained earnings from income before contributions of $115,142.
  (3) Donated capital of $10,710,195.

- The District's general purpose financial statement's retained earnings from income before contributions decreased by $478,539 from the previous fiscal year.

- The District's general purpose financial statement's donated capital increased by $363,342 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 2018, this increase was solely the result of contributions in aid of construction from customers.

Statements of Net Position:

	2018	2017
Utility Plant	11,937,667	11,898,854
Construction in Progress	0	138,820
Total Utility Plant	11,937,667	11,898,854
Certificates of Deposit	750,003	750,003
Cash	2,369,661	2,258,472
Net Customer Accounts Receivable	195,395	160,901
Other Current Assets	91,870	94,661
Total Current & Accrued Assets	2,656,926	2,514,034
Deferred Outflows-Regulatory Asset	72,000	-
Deferred Outflows Related to Other Post Employment Benefits	70,152	-
Deferred Outflows Related to Pensions	200,317	211,217
Total Deferred Outflows	342,469	211,217
Total Assets & Deferred Outflows	15,687,065	15,374,108

Statements of Net Position (Continued):

	2018	2017
Net Position		
Appropriated Retained Earnings	1,027,544	896,645
Retained Earnings from Income before Contributions	115,142	593,681
Donated Capital	10,710,195	10,346,853
Total Net Position	11,852,881	11,837,179
Deferred Inflows Related to Other Post Employment Benefits	42,763	-
Deferred Inflows Related to Pensions	58,089	68,464
Total Deferred Inflows	100,852	68,464
KIA Loan Payable	415,939	440,935
Citizens National Bank Loan Payable	566,143	608,258
Revenue Bonds Payable	1,269,000	1,292,000
Due to Lebanon Water Works	36,000	-
Net OPEB Liability	225,433	-
Net Pension Liability	773,347	685,188
Total Long-term Debt	3,285,862	3,026,381
KIA Loan Payable	24,996	24,564
Citizens National Bank Loan Payable	42,115	40,668
Revenue Bonds Payable	23,000	22,000
Due to Lebanon Water Works	24,000	-
Other Current and Accrued Liabilities	333,359	354,852
Total Current and Accrued Liabilities	447,470	442,084
Total Liabilities	3,722,332	3,468,465
Total Net Position, Deferred Inflows and Liabilities	15,687,065	15,374,108

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, 2018 and December 31, 2017. The Income Statements depict the difference between the revenues and expenses for the year 2018. 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 $312,957 (2.04%). Of this, cash increased $111,189 (4.92%). Net utility plant increased $38,813 (.003%) from the previous fiscal year. Further, deferred outflows increased by $131,520 (62.14%) primarily due to the implementation of GASBS Statement No. 75 and the recording of a deferred regulatory asset.

Income Statement:

	2018	2017
Operating Revenue		
Water Revenue	2,818,769	2,697,279
Other Operating Revenue	91,332	101,221
Total Operating Revenue	2,910,101	2,798,500
Operating Expenses		
Purchased Water	1,674,825	1,486,918
Other Operation & Maintenance Expenses	924,190	899,268
Depreciation	420,890	500,242
Total Operating Expenses	3,019,905	2,886,428
Operating Income	(109,804)	(87,928)
Other Income	89,139	86,225
Other Expenses - Interest	58,836	61,197
Legal & Professional Fees-Rate Case	82,086	-
Total Other Expenses	140,922	61,197
Net Income Before Contributions	(161,587)	(62,900)
Retained Earnings From Income Before Contributions Beginning Balance (2018 Restated – Note Q)	407,628	613,142
Transfer to/from Appropriated Retained Earnings	(130,899)	43,439
Ending Balance	115,142	593,681

Operating revenues budgeted for 2018 were $3,212,720. Operating revenues for 2018 were $2,910,101, which was $302,619 less than the budgeted amount. Actual operating revenues increased $111,601 from the prior year. This is primarily due to the increased water rate in effect for most of 2018. Total operation and maintenance expenses budgeted before depreciation for 2018 were $2,733,850. Total operation and maintenance expenses for 2018 before depreciation were $2,599,015, which was $134,835 less than the budgeted amount. Actual operating expenses increased $212,829 from the prior year primarily due to a significant increase in 2018 purchased water expense.

Net income before contributions decreased by $98,687 as compared to 2017. This was primarily due to the increase in purchased water expense for 2018 and the expense of $82,086 incurred in 2018 for legal fees in connection with the Public Service Commission rate case.

Utility Plant and Debt Administration

Additions to Utility Plant were $459,703, and accumulated depreciation increased $420,890 (2018 depreciation expense) causing a net increase in the District's Utility Plant of $38,813. For a detail of Utility Plant, see Note C.

		Utility Plant (Net of Accumulated Depreciation)
Land	$	99,969
Construction in Progress		-0-
Distribution Plant		11,613,772
General Plant		223,926
Total Utility Plant		11,937,667

At year-end, the District had net pension liability of $773,347 and other post employment benefit liability of $225,433. At year-end, the District had a balance owed of $440,935 for the KIA loan. At year-end, the district had a balance owed of $608,258 for the Citizens National Bank loan. At year-end the District had $1,292,000 in outstanding revenue bonds payable. At year-end the District had a balance due to Lebanon Water Works of $60,000. The total bonds, loans, and due to payable at year end were $2,341,193, versus $2,428,425 the previous year, a decrease of $27,232 (1.12%). For a breakdown of the District's current and long-term debt, see Notes D, E, F, G, H and I and the supplemental financial information provided within this report.

Future Projections

The projections for the District for 2019 entail awarding the bid to a contractor for replacing the aging telemetry system. The final budget for this project is $323,000.00 and will be funded with District funds. The District will begin construction of 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. It is anticipated that the pump station at Holy Cross will be replaced with a new above-ground pump station. The estimated cost is $275,000.00 and will be funded with District funds and any KIA funds remaining from the 2018 water system improvements project.

Marion County Water District
Lebanon, Kentucky

Statement of Net Position
December 31, 2018 and 2017

Assets and Other Debits

	2018	2017
Utility Plant (Notes A-3 and C)	11,937,667	11,760,034
Construction in Progress	-	138,820
Total Utility Plant	11,937,667	11,898,854
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)	2,369,661	2,258,472
Customer Accounts Receivable, Net of Allowance of 6,440 and 6,750	195,395	160,901
Materials and Supplies Inventory (Note A-2)	74,016	76,807
Prepaid Insurance	16,391	16,391
Accrued Interest Receivable	1,463	1,463
Total Current and Accrued Assets	2,656,926	2,514,034
Deferred Outflows - Regulatory Asset	72,000	-
Deferred Outflows Related to Other Post Employment Benefits	70,152	-
Deferred Outflows Related to Pensions	200,317	211,217
Total Deferred Outflows	342,469	211,217
Total Assets and Deferred Outflows	15,687,065	15,374,108

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

Marion County Water District
Lebanon, Kentucky

Statement of Net Position
December 31, 2018 and 2017

Net Position and Liabilities

	2018	2017
Net Position		
Appropriated Retained Earnings (Note I)	1,027,544	896,645
Retained Earnings from Income before Contributions	115,142	593,681
Donated Capital	10,710,195	10,346,853
Total Net Position	11,852,881	11,837,179
Deferred Inflows Related to Other Post Employment Benefits	42,763	-
Deferred Inflows Related to Pensions	58,089	68,464
Total Deferred Inflows	100,852	68,464
Long-Term Debt		
KIA Loan Payable (Note D)	415,939	440,935
Citizens National Bank Loan Payable (Note F)	566,143	608,258
Revenue Bonds Payable (Note H)	1,269,000	1,292,000
Due to Lebanon Water Works	36,000	-
Net OPEB Liability	225,433	-
Net Pension Liability	773,347	685,188
Total Long-Term Debt	3,285,862	3,026,381
Current and Accrued Liabilities		
KIA Loan Payable (Note D)	24,996	24,564
Citizens National Bank Loan Payable (Note F)	42,115	40,668
Revenue Bonds Payable (Note H)	23,000	22,000
Due to Lebanon Water Works	24,000	-
Accounts Payable - Trade	159,559	184,218
Accrued County Retirement	5,777	7,538
Accrued Unemployment	980	534
Customer Deposits	35,355	35,925
Other Accrued Liabilities	131,688	126,637
Total Current and Accrued Liabilities	447,470	442,084
Total Net Position, Deferred Inflows, and Liabilities	15,687,065	15,374,108

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

Marion County Water District
Lebanon, Kentucky

Statements of Income
Years Ended December 31, 2018 and 2017

	2018	Percent of Revenue	2017	Percent of Revenue
Operating Revenue				
Metered Sales Residential	2,255,052	77.5%	2,124,409	75.9%
Metered Sales Commercial	513,252	17.6%	530,138	18.9%
Metered Sales Schools	31,170	1.1%	28,251	1.0%
Metered Sales Multi-Family	19,295	0.7%	14,481	0.5%
Miscellaneous Service	35,794	1.2%	39,892	1.4%
Late Charges	55,538	1.9%	61,329	2.2%
Total Operating Revenue	2,910,101	100.0%	2,798,500	100.0%
Operating Expenses				
Operation & Maintenance Expense	2,599,015	89.3%	2,386,186	85.3%
Depreciation	420,890	14.5%	500,242	17.9%
Total Operating Expenses	3,019,905	103.8%	2,886,428	103.1%
Operating Income (Loss)	(109,804)	-3.8%	(87,928)	-3.1%
Other Income				
Interest Income	10,244	0.4%	9,046	0.3%
Collection Fees	33,837	1.2%	38,245	1.4%
Misc. Non-Operating Income	45,058	1.5%	38,934	1.4%
Total Other Income	89,139	3.1%	86,225	3.1%
Other Expenses				
Interest on Long-Term Debt	58,818	2.0%	61,173	2.2%
Other Interest	18	0.0%	24	0.0%
Legal & Professional Fees - Rate Case	82,086	2.8%	-	0.0%
Total Other Expenses	140,922	4.8%	61,197	2.2%
Net Income (Loss) before Contributions	(161,587)	-5.6%	(62,900)	-2.2%

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, 2018 and 2017

	2018	2017
Appropriated Retained Earnings		
Balance - Beginning of Year	896,645	940,084
Transfer to/from Retained Earnings from Income before Contributions	130,899	(43,439)
Balance - End of Year	1,027,544	896,645

	2018	2017
Retained Earnings from Income before Contributions		
Balance - Beginning of Year (2018 Restated - Note Q)	407,628	613,142
Net Income (Loss) for the Year	(161,587)	(62,900)
Transfer to/from Appropriated Retained Earnings	(130,899)	43,439
Balance - End of Year	115,142	593,681

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, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities:		
Receipts from Users	2,909,444	2,864,830
Payments to Employees	(483,387)	(418,738)
Payments to Suppliers for Goods and Services	(2,033,655)	(1,766,107)
Other Payments	(82,086)	0
Net Cash Provided by Operating Activities	310,316	679,985
Cash Flows from Capital and Related Financing Activities:		
Capital Contributions	363,342	80,602
Principal Payments on Long-term Debt	(99,232)	(85,411)
Interest Payments	(58,836)	(61,197)
Payments for Capital Projects	(459,703)	(359,413)
Net Cash Used in Capital and Related Financing Activities	(254,429)	(425,419)
Cash Flows from Investing Activities:		
Interest Income Received	10,244	9,046
Rent and Other Income	45,058	38,934
Net Cash (Used in)Provided by Investing Activities	55,302	47,980
Cash and Investments, Beginning	2,258,472	1,955,926
Cash and Investments, Ending	2,369,661	2,258,472

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, 2018 and 2017

Reconciliation of Net Income to Net Cash Provided by Operating Activities

	2018	2017
Net Income	(161,587)	(62,900)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	420,890	500,242
Interest on Debt	58,836	61,197
Legal & Professional Fees - Rate Case	82,086	-
Misc. Non-Operating Income	(45,058)	(38,934)
Interest Income	(10,244)	(9,046)
Changes in Assets, Deferred Outflows, Liabilities, and Deferred Inflows:		
Accounts Receivable	(34,494)	28,085
Materials & Supplies Inventory	2,791	(6,063)
Other Assets	-	(206)
Accounts Payable	(24,659)	64,774
Other Liabilities	3,166	2,031
Deferred Outflows	2,348	(35,698)
Deferred Inflows	20,066	59,439
Net Pension Liability	88,159	117,064
Net Other Post Employment Benefits Liability	(9,898)	-
Net Cash Provided by Operating Activities	392,402	679,985

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.

Changes in Accounting Principle

Effective January 1, 2018, the District was required to adopt Governmental Accounting Standards Board (GASB) Statement No. 75, “Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions” (GASB 75). GASB 75 replaced the requirements of GASB 45, “Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions”, as amended, and GASB 57, “OPEB Measurement by Agent Employers and Agent Multi-Employer Plans”. GASB 75 requires governments providing other postemployment benefits to recognize their long-term obligation for other postemployment benefits as a liability to more comprehensively and comparably measure the annual costs of other postemployment benefits. Cost-sharing governmental employers, such as the District, are required to report a net other postemployment benefit liability, other postemployment benefit expense and other postemployment benefit-related assets and liabilities based on their proportionate share of the collective amounts for all governments in the plan.

Because GASB Statement No. 75 was implemented for 2018, the beginning net pension was adjusted to reflect the retrospective application. See Note Q for the impact of the adoption of this standard on beginning net position.

B. Cash:

At year end the carrying amount of the District’s cash and cash equivalents was $2,369,661. Of the total cash, $1,100,005 was covered by Federal Depository Insurance and $1,269,656 was covered by collateral agreements and collateral held by the pledging banks’ trust departments in the District’s name.

Bond documents require the maintenance of certain accounts that are restricted as to withdrawal. Included in cash at December 31, 2018 and 2017, were the following restricted funds:

	2018	2017
Reserve Funds	68,312	17,545
Short-Lived Asset Account	209,229	129,097
Total	277,541	146,642

C. Utility Plant:

The following represents the amount of utility plant as of December 31, 2018 and 2017:

	Beginning Balance	**Additions**	**Deletions**	**Ending Balance**
Nondepreciable Assets:				
Land	87,222	12,747	0	99,969
Construction in Progress	138,820	(138,820)	0	0
Depreciable Assets:				
Distribution Plant	18,322,650	563,033	0	18,885,683
General Plant	858,692	22,743	0	881,435
	19,407,384	459,703	0	19,867,087
Less: Accumulated Depreciation	(7,508,530)	(420,890)	(0)	(7,929,420)
	11,898,854	38,813	0	11,937,667

$0 and $0 of interest were capitalized during the years ended December 31, 2018 and 2017, 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, 2018, the KIA Loan has a balance owed of $440,935.

Maturities for future years are as follows:

Year	Interest	Principal
2019	7,607	24,996
2020	7,168	25,435
2021	6,721	25,882
2022	6,266	26,337
2023	5,803	26,800
2024-2028	21,784	141,235
2029-2033	8,927	154,090
2034	141	16,160
	64,417	440,935

E. KIA Fund B Loan Payable:

During 2018, Marion County Water District signed a $950,000 loan from Kentucky Infrastructure Authority to fund two projects – water line replacements on McElroy Pike and Hwy 289. As of the end of the year, it was anticipated that the projects would not begin until 2019. No loan proceeds were received during 2018. Receipt of the proceeds will occur as expenditures are incurred. The loan will have a fixed interest rate of 1.75%. As of December 31, 2018, the KIA Fund B Loan has a balance owed of $0.

F. 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, 2018, the balance of this loan was $608,258.

Maturities for future years are as follows:

Year	Interest	Principal
2019	20,618	42,115
2020	19,120	43,612
2021	17,569	45,164
2022	15,962	46,770
2023	14,299	48,433
2024-2028	44,396	269,265
2029-2030	3,879	112,899
	135,843	608,258

G. 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.

H. 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	1,292,000

Maturities for future years are as follows:

2019	23,000
2020	24,000
2021	25,000
2022	26,000
2023	27,000
Thereafter	1,167,000
	1,292,000

A detail of principal payments by year is also presented on page 35.

I. Due to Lebanon Water Works and Deferred Outflows – Regulatory Asset:

During 2018, Marion County Water District received an Order from the Public Service Commission for Case Number 2017-0047. Per the order, Marion County Water District pays $2,000 per month for 36 months or $72,000 to Lebanon Water Works, Inc. This is not an interest-bearing obligation and there is no imputed interest as no interest will be due to Lebanon Water Works, Inc. At December 31, 2018, the balance of this liability was $60,000.

Further, Marion County Water District has also established a balance sheet item called Deferred Outflows – Regulatory Asset that is equal to the $72,000 of total legal reimbursement fees. The District will be able to recover these costs as a part of its next rate application.

J. Long-term liability activity for the year ended December 31, 2018, was as follows:

	Beginning Balance	**Additions**	**Reductions**	**Ending Balance**	**Due Within One Year**
Net Pension Liability	685,188	88,159	0	773,347	0
Net OPEB Liability	0	225,433	0	225,433	0
KIA Loan Payable	465,499	0	24,564	440,935	24,996
CNB Loan Payable	648,926	0	40,668	608,258	42,115
Due to Lebanon Water Works	0	72,000	12,000	60,000	24,000
Revenue Bonds Payable	1,314,000	0	22,000	1,292,000	23,000
Total	3,113,613	385,592	99,232	3,399,973	114,111

K. Appropriated Retained Earnings:

Appropriated retained earnings at December 31, 2018 and 2017, consist of restricted funds as follows:

	2018	2017
CDs - Reserve Fund	750,003	750,003
Cash - Reserve Fund	68,312	17,545
Cash – Short-Lived Asset Fund	209,229	129,097
	1,027,544	896,645

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.

L. 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

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

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

At December 31, 2018 and 2017, 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:

	2018	2017
District's proportionate share of the CERS net pension liability	$ 773,347	$ 685,188

	2018 Deferred Outflows of Resources	2018 Deferred Inflows of Resources	2017 Deferred Outflows of Resources	2017 Deferred Inflows of Resources
Differences between expected and actual experience	$ 25,224	$ 11,320	$ 850	$ 17,393
Changes of assumptions	75,578	-	126,436	-
Net difference between projected and actual earnings on pension plan investments	35,961	45,234	54,266	45,791
Changes in proportion and differences between District contributions and proportionate share of contributions	37,529	1,535	6,969	5,280
District contributions subsequent to the measurement date	26,025	-	22,696	
Total	$ 200,317	$ 58,089	$ 211,217	$ 68,464

The net pension liability for the plan was measured as of June 30, 2018 and 2017, 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, 2018, the District's proportion was .012698 percent. At June 30, 2017, the District's proportion was 0.011706 percent.

For the year ended December 31, 2018 and 2017, respectively, the District recognized pension expense of $140,536 and $181,299 related to CERS. At December 31, 2018 and 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

$26,025 and $22,696 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, 2018 and 2017, respectively. Other amounts reported as deferred outflows of resources and deferred inflows related to pensions will be recognized in pension expense as follows:

2019	76,881
2020	46,050
2021	(2,577)
2022	(4,151)
2023	-0-

Actuarial assumptions—The total pension liability in the June 30, 2018 and June 30, 2017 actuarial valuation were determined using the following actuarial assumptions, applied to all periods included in the measurement:

	2018	2017
	CERS	CERS
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.

The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by CERS's investment consultant, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Equity	**17.50%**	
U.S. Large Cap	5.00%	4.50%
U.S. Mid Cap	6.00%	4.50%
U.S. Small Cap	6.50%	5.50%
International Equity	**17.50%**	
International Developed	12.50%	6.50%
Emerging Markets	5.00%	7.25%
Global Bonds	4.00%	2.63%
Global IG Credit	2.00%	3.63%
High Yield	7.00%	5.75%
Emerging Market Debt	5.00%	5.50%
Private Credit	10.00%	8.75%
Real Estate	5.00%	7.63%
Absolute Return	10.00%	5.63%
Real Return	10.00%	6.13%
Private Equity	10.00%	8.25%
Cash	2.0%	1.5%
Total	100.0%	6.09%

Discount rate—For CERS, the discount rate used to measure the total pension liability was 7.50% for June 30, 2018 and 7.50% for June 30, 2017. 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, 2018 and June 30, 2017. 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:

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

2018	1% Decrease	Current Discount Rate	1% Increase
CERS	5.25%	6.25%	7.25%
District's proportionate share of net pension liability	973,564	773,347	605,600

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.

M. Postemployment Benefits Other Than Pensions

Plan description – Classified (non-certified) employees of the Kentucky School District are provided OPEBs through the County Employees Retirement System of the State of Kentucky (CERS)—a cost-sharing multiple-employer defined benefit OPEB plan retirement annuity plan coverage for local school districts and other public agencies in the state. CERS was established July 1, 1958 by the state legislature. CERS is a blended component unit of the Commonwealth of Kentucky and therefore is included in the Commonwealth's financial statements. CERS issues a publicly available financial report that can be obtained at https://kyret.ky.gov/About/Board-of-Trustees/Pages/CAFR-and-SAFR.aspx.

The state reports a liability, deferred outflows of resources and deferred inflows of resources, and expense as a result of its statutory requirement to contribute to the CERS Medical Insurance. The following information is about the CERS plans:

Medical Insurance Plan

Plan description –The Kentucky Retirement Systems' Insurance Fund (Insurance Fund) was established to provide hospital and medical insurance for eligible members receiving benefits from KERS, CERS, and SPRS, the state retirement options. The eligible non-Medicare retirees are covered by the Department of Employee Insurance (DEI) plans. The Board contracts with Humana to provide health care benefits to the eligible Medicare retirees through a Medicare Advantage Plan. The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. It is noted that while this insurance fund covers employees eligible through KERS, CERS, and SPRS, only the portion related to CERS is applicable to Marion County Water District since the District does not have or qualify to have employees participate in KERS or SPRS.

Benefits provided – Medical Insurance coverage is provided based on the member's initial participation date and length of service. Members received either a percentage or dollar amount for insurance coverage. The amount of contribution paid by the Insurance Fund is based on years of service. For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

Years of Service	Paid By Insurance Fund (%)
20+	100%
15-19	75%
10-14	50%
4-9	25%
Less than 4	0%

Medical insurance benefits are calculated differently for members who began participating on or after July 1, 2003. Once members reach a vesting period of 10 years, non-hazardous employees whose participation began on or after July 1, 2003 earn $10 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually, which is currently 1.5%, based upon Kentucky Revised Statutes. The Kentucky General Assembly reserves the right to suspend or reduce this benefit if, in its judgment, the welfare of the Commonwealth so demands. Only benefit descriptions applicable to CERS Non-Hazardous have been included with this information since only that portion is applicable to the District.

Contributions – In order to fund the post-retirement healthcare benefit, four and seventy tenths percent (4.70%) of the gross annual payroll of members is contributed for the year ended June 30, 2018 for CERS Non-Hazardous, which is the portion of the plan applicable to the District, and this portion is paid 100% paid by employer contributions. One percent (1.00%) is contributed by employees hired on or after September 1, 2008.

At December 31, 2018, the Marion County Water District reported a liability of $225,433 for its proportionate share of the collective net OPEB liability that reflected a reduction for state OPEB support provided to the District. The collective net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the collective net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2018, the District's proportion was .012697 percent, compared to .011706 as of June 30, 2017.

The amount recognized by the District as its proportionate share of the OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

District's proportionate share of the net OPEB liability	$ 225,433
State's proportionate share of the net OPEB liability associated with the District	-0-
Total	$ 225,433

For the year ended June 30, 2018, the District recognized OPEB expense of $27,840. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 26,271
Changes of assumptions	45,022	521
Net difference between projected and actual earnings on pension plan investments	-	15,528
Changes in proportion and differences between District contributions and proportionate share of contrbutions	13,084	443
District contributions subsequent to the measurement date	12,046	-
Total	70,152	42,763

Of the total amount reported as deferred outflows of resources related to OPEB, $12,046 resulting from District contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the collective net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the District's OPEB expense as follows:

Year ended June 30:	
2019	$ 3,167
2020	3,167
2021	3,167
2021	6,183
2023	401
Thereafter	(743)

Actuarial assumptions – The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	June 30, 2016
Experience Study	July 1, 2008-June 30 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Pay
Remaining Amortization Period	27 Years, Closed
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Investment rate of return	7.50%
Projected salary increases	4.00% average
Inflation rate	3.25%
Payroll Growth Rate	4.00%
Healthcare cost trend rates	
Under 65	Initial trend starting at 7.5% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years
Ages 65 and Older	Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 2 years

Mortality rates were based on the 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 Disability Mortality Table projected with Scale BB to 2013(set back four years for males) is used for period after disability retirement.

The long-term expected rate of return on OPEB plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are 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 by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by CERS's investment consultant, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Equity	**17.50%**	
U.S. Large Cap	5.00%	4.50%
U.S. Mid Cap	6.00%	4.50%
U.S. Small Cap	6.50%	5.50%
International Equity	**17.50%**	
International Developed	12.50%	6.50%
Emerging Markets	5.00%	7.25%
Global Bonds	4.00%	2.63%
Global IG Credit	2.00%	3.63%
High Yield	7.00%	5.75%
Emerging Market Debt	5.00%	5.50%
Private Credit	10.00%	8.75%
Real Estate	5.00%	7.63%
Absolute Return	10.00%	5.63%
Real Return	10.00%	6.13%
Private Equity	10.00%	8.25%
Cash	2.0%	1.5%
Total	100.0%	6.09%

Discount rate - The discount rate used to measure the total OPEB liability was 5.85%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the employer contributions will be made at statutorily required rates. Based on those assumptions, the OPEB plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

The following table presents the District’s proportionate share of the collective net OPEB liability of the System, calculated using the discount rate of 5.85%, as well as what the District’s proportionate share of the collective net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.85%) or 1-percentage-point higher (6.85%) than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
CERS	4.85%	5.85%	6.85%
District's proportionate share of net OPEB liability	292,801	225,433	168,047

Sensitivity of the District's proportionate share of the collective net OPEB liability to changes in the healthcare cost trend rates – The following presents the District's proportionate share of the collective net OPEB liability, as well as what the District's proportionate share of the collective net OPEB liability would be if it were calculated using healthcare cost trend rates that were 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	1% Decrease	Current Trend Rate	1% Increase
Systems' net pension liability	167,837	225,433	293,322

OPEB plan fiduciary net position – Detailed information about the OPEB plan's fiduciary net position is available in the separately issued CERS financial report.

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

O. 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.

P. Subsequent Event:
On May 14, 2019, Marion County Water District awarded a construction project bid to HTI, Inc. for Supervisory Control & Data Acquisition (SCADA) System Replacement. That total project cost is estimated to be $323,000, which includes $26,560 of contingency funds. There are no other material events requiring disclosure.

Q. Net Position, As Restated:
Governmental Accounting Standards Board Statement 75 requires changes to the beginning balances of the Statement of Net Position. Beginning net position of the was decreased $186,053 to reflect the District's proportionate share of the unfunded Other Postemployment Benefits (OPEB) liability of the County Employee Retirement System.

	Proprietary Activities
Beginning Retained Earnings from Income before Contributions as previously reported on December 31, 2017	$ 593,681
Prior period adjustment – Implementation GASB 75:	
Net OPEB Liability (measurement date)	(235,331)
Deferred outflows related to OPEB	61,600
Deferred inflows related to OPEB	(12,322)
Total prior period adjustment	(186,053)
Net Position as restated, January 1, 2018	$ 407,628

R. Special Item:
During 2018, the District incurred substantial legal and accounting fees totaling $82,086 related to its rate case with Lebanon Water Works, Inc. and the Public Service Commission in an effort to protect Marion County Water District customers from paying excessively high water rates. The case was settled during 2018 and the District does not expect to incur these expenses again going forward.

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

	2015	2016	2017	2018
District's proportion of net pension liability	0.011876%	0.011539%	0.011706%	0.012698%
District's proportionate share of the net pension liability	$ 510,592	568,124	685,188	773,347
State of Kentucky's share of the net pension liability associated with the district	-	-	-	-
TOTAL	$ 510,592	568,124	685,188	773,347
District's covered-employee payroll	$ 282,035	274,311	298,547	318,096
District's proportionate share of the net pension liability as a percentage of its covered-payroll	181.04%	207.09%	229.51%	243.12%
Plan fiduciary net position as a percentage of the total pension liability	65.96%	63.46%	55.50%	49.26%

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

	2015	2016	2017	2018
Contractually required contributions (actuarially determined)	$ 37,318	$ 34,501	$ 39,483	$ 48,852
Contributions in relation to the actuarially determined contributions	37,318	34,501	39,483	48,852
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
Covered employee payroll	$ 282,035	$ 274,311	$ 298,547	$ 318,096
Contributions as a percentage of Covered employee payroll	13.23%	12.58%	13.23%	15.36%

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.

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

	2018
District's proportion of net OPEB liability	0.012697%
District's proportionate share of the net OPEB liability	225,433
State of Kentucky's share of the net OPEB liability associated with the district	-
TOTAL	225,433
District's covered-employee payroll	318,096
District's proportionate share of the net OPEB liability as a percentage of its covered-payroll	70.87%
Plan fiduciary net position as a percentage of the total OPEB liability	57.62%

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 MEDICAL INSUARANCE PLAN
COUNTY EMPLOYEES RETIREMENT SYSTEM
FOR THE YEAR ENDED JUNE 30

	2018
Contractually required contributions (actuarially determined)	$ 15,849
Contributions in relation to the actuarially determined contributions	15,849
Contribution deficiency (excess)	$ -
Covered employee payroll	$ 318,096
Contributions as a percentage of Covered employee payroll	4.98%

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

NOTE A – CHANGES OF ASSUMPTIONS

2015
The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2015:

The assumed investment rate of return was decreased from 7.75% to 7.50%

The assumed inflation rate was reduced from 3.5% to 3.255%

The assumed rate of wage inflation was reduced from 1.00% to .75%

Payroll growth assumption was reduced from 4.5% to 4%

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 20013 (set back 1 year for females). For disabled members, the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.

The assumed rates of Retirement, Withdrawal and Disability were updated to more accurately reflect experience.

2016
There were no changes of assumptions for the year ended June 30, 2016.

2017
The following changes were made by the KRS Board of Trustees and reflected in the valuation performed as of June 30, 2017:

The assumed rate of inflation was reduced to 2.30% from 3.25%

The assumed salary increases were reduced to 3.05%, average, from 4.00%, average including inflation.

The assumed investment rate of return was reduced to 6.25% from 7.50%

2018
There were no changes of assumptions for the year ended June 30, 2018.

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

The actuarially determined contribution rates in the schedule of contribution are determined on a biennial basis beginning with the fiscal years ended 2018 and 2017, determined as of July 1, 2016. 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, 2016
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll
Remaining Amortization Period	27 years, Closed
Payroll Growth Rate	4.00%
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	3.25 percent
Salary Increase	4.0 percent, average
Investment Rate of Return	7.5 percent

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.

NOTE C – CHANGES OF BENEFITS

There were no changes in benefits for CERS pension for non-hazardous employees. House Bill 185 was enacted and updated benefit provisions for active members who die in the line of duty. However, this did not impact Marion County Water District as the District does not have any hazardous-duty employees.

OTHER SUPPLEMENTARY INFORMATION

Marion County Water District
Lebanon, Kentucky

Schedules of Operating and Maintenance Expenses
Years Ended December 31, 2018 and 2017

	2018	Percent of Revenue	2017	Percent of Revenue
Source of Supply Expense				
Purchased Water	1,674,825	57.6%	1,486,918	53.1%
Pumping Expense				
Fuel or Power Purchased for Pumping	34,698	1.2%	37,264	1.3%
Transmission & Distribution Expense				
Salaries	163,044	5.6%	165,009	5.9%
Operation Supplies & Expense	39,462	1.4%	37,742	1.3%
Maintenance	94,354	3.2%	80,191	2.9%
Total Transmission & Distribution Expense	296,860	10.2%	282,942	10.1%
Customer Accounts Expense				
Salaries	126,508	4.3%	105,190	3.8%
Contractual Services - Meter Reading	21,776	0.7%	24,939	0.9%
Supplies & Expense	56,380	1.9%	44,054	1.6%
Uncollectible Accounts	4,686	0.2%	2,377	0.1%
Total Customer Accounts Expense	209,350	7.2%	176,560	6.3%
Administrative & General Expense				
Administrative & General Salaries	46,805	1.6%	43,765	1.6%
Office Supplies & Other Expense	21,553	0.7%	20,488	0.7%
Outside Service Employed	13,566	0.5%	16,628	0.6%
Insurance	34,385	1.2%	33,483	1.2%
Employee Benefits & Payroll Taxes	105,557	3.6%	73,408	2.6%
Pension Expense	140,536	4.8%	197,359	7.1%
Regulatory Commission Expense	5,675	0.2%	5,466	0.2%
Regulatory Department of Local Gov't	500	0.0%	0	0.0%
Miscellaneous	14,705	0.5%	11,905	0.4%
Total Administrative & General Expense	383,282	13.2%	402,502	14.4%
Total Operating & Maintenance Expense	2,599,015	89.3%	2,386,186	85.3%

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:

Year	Principal	Year	Principal
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, 2018

There were no prior year audit findings.

WHITE AND COMPANY, P.S.C.
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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*

May 24, 2019

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, 2018 and 2017, and the related notes to the financial statements, which collectively comprise Marion County Water District, Lebanon, Kentucky's basic financial statements and have issued our report thereon dated May 24, 2019.

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

The 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

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May 24, 2019

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, 2018. 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 December 20, 2018. Professional standards also require that we communicate to you the following information related to our audit.

<u>Significant Auditing Findings</u>

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting polices used by Marion County Water District are described in Note A to the financial statements. In 2018 the District adopted new accounting guidance, GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* No other new accounting policies were adopted and the application of existing policies was not changed during 2018. We noted no transactions entered into by Marion County Water District 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 May 24, 2019.

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.

<u>Other Matters</u>

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 are 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. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

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