

**MARION COUNTY WATER DISTRICT
AUDIT REPORT
DECEMBER 31, 2021 AND 2020**

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INDEPENDENT AUDITOR'S REPORT

July 1, 2022

To the Commissioners of the
Marion County Water District

Report on the Financial Statements

We have audited the accompanying general-purpose financial statements of Marion County Water District (District), Lebanon, Kentucky, as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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 as of December 31, 2021 and 2020, 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.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Marion County Water District, and to meet our ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide basis for our opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise doubt about Marion County Water District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risk. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Marion County Water District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Marion County Water District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charges with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identify during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of the District's proportionate share of net pension liabilities, and the schedule of the District's proportionate share of net other post-employment benefits on pages 4-8, 30, and 32 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Marion County Water District's general purpose financial statements. The accompanying Schedules of Operation and Maintenance Expenses and the Schedule of Bond Retirements, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards 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 July 1, 2022, 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, 2021**

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, 2021. 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 \$11,855,532 (Net Position) for the fiscal year reported.
- Total net position comprised of the following:
 - (1) Appropriated retained earnings of \$917,573
 - (2) Retained earnings from income before contributions of (\$869,833)
 - (3) Donated capital of \$11,807,792.
- The District's general purpose financial statement's retained earnings from income before contributions decreased by \$509,387 from the previous fiscal year.
- The District's general purpose financial statement's donated capital increased by \$401,508 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 2021, this increase was the result of contributions in aid of construction from KY Transportation Cabinet and customers.

Statements of Net Position:

	<u>2021</u>	<u>2020</u>
Utility Plant	13,454,405	13,377,131
Certificates of Deposit	750,003	750,003
Cash	1,827,874	2,081,745
Net Customer Accounts Receivable	234,201	187,282
Other Current Assets	<u>94,506</u>	<u>90,700</u>
Total Current & Accrued Assets	<u>2,156,581</u>	<u>2,359,727</u>
Deferred Outflows-Regulatory Asset	72,000	72,000
Deferred Outflows Related to Other Post Employment Benefits	212,195	181,039
Deferred Outflows Related to Pensions	<u>234,422</u>	<u>230,979</u>
Total Deferred Outflows	<u>518,617</u>	<u>484,018</u>
Total Assets & Deferred Outflows	<u>16,879,606</u>	<u>16,970,879</u>

Statements of Net Position (Continued):

	<u>2021</u>	<u>2020</u>
Net Position		
Appropriated Retained Earnings	917,573	930,883
Retained Earnings from Income before Contributions	(869,833)	(360,446)
Donated Capital	<u>11,807,792</u>	<u>11,406,284</u>
Total Net Position	11,855,532	11,976,721
Deferred Inflows Related to Other Post Employment Benefits	154,899	67,985
Deferred Inflows Related to Pensions	<u>183,033</u>	<u>25,135</u>
Total Deferred Inflows	337,932	93,120
KIA Loan Payable (Note D)	338,285	364,622
KIA Loan Payable (Note E)	848,548	889,660
Citizens National Bank Loan Payable	432,663	478,843
Revenue Bonds Payable	1,194,000	1,220,000
Net OPEB Liability	299,707	338,178
Net Pension Liability	<u>998,320</u>	<u>1,074,479</u>
Total Long-term Debt	4,111,523	4,365,782
KIA Loan Payable (Note D)	26,337	25,882
KIA Loan Payable (Note E)	41,112	40,402
Citizens National Bank Loan Payable	46,717	45,113
Revenue Bonds Payable	26,000	25,000
Due to Lebanon Water Works	0	12,000
Other Current and Accrued Liabilities	<u>434,453</u>	<u>386,859</u>
Total Current and Accrued Liabilities	574,619	535,256
Total Liabilities	<u>4,686,142</u>	<u>4,901,038</u>
Total Net Position, Deferred Inflows and Liabilities	<u><u>16,879,606</u></u>	<u><u>16,970,879</u></u>

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, 2021 and December 31, 2020. The Income Statements depict the difference between the revenues and expenses for the year 2021. 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

Decreases include total assets and deferred outflows, which decreased \$91,273 (.538%). Of this, net utility plant increased \$77,274 (.578%) from the previous fiscal year. Deferred outflows increased by \$34,599 (7.15%) primarily due to required adjustments pertaining to GASBS Statements Nos. 68 and 75. Further, cash decreased by \$253,871 (12.20%) and Customer Accounts Receivable increased by \$46,919 (25.05%).

Income Statement:	<u>2021</u>	<u>2020</u>
Operating Revenue		
Water Revenue	3,187,707	2,978,895
Other Operating Revenue	<u>118,870</u>	<u>36,880</u>
Total Operating Revenue	<u>3,306,577</u>	<u>3,015,775</u>
Operating Expenses		
Purchased Water	2,196,370	1,918,514
Other Operation & Maintenance Expenses	1,169,876	1,108,347
Depreciation	<u>517,036</u>	<u>496,808</u>
Total Operating Expenses	<u>3,883,282</u>	<u>3,523,669</u>
Operating Income (Loss)	(576,705)	(507,894)
Other Income	124,747	62,613
Other Expenses - Interest	<u>70,739</u>	<u>65,765</u>
Net Income (Loss) Before Contributions	<u>(522,697)</u>	<u>(511,046)</u>
Retained Earnings From Income Before Contributions		
Beginning Balance	(360,446)	156,869
Transfer to/from Appropriated Retained Earnings	<u>13,310</u>	<u>(6,269)</u>
Ending Balance	<u>(869,833)</u>	<u>(360,446)</u>

Operating revenues budgeted for 2021 were \$3,238,430. Operating revenues for 2021 were \$3,306,577, which was \$68,147 more than the budgeted amount. Actual operating revenues increased \$290,802 over the prior year. This is primarily due to the increased water rate in effect for all of 2021. Total operation and maintenance expenses budgeted before depreciation for 2021 were \$3,163,848. Total operation and maintenance expenses for 2021 before depreciation were \$3,366,246, which was \$202,398 more than the budgeted amount. Actual operating expenses increased \$339,385 (excluding depreciation) from the prior year primarily due to an increase of \$277,856 in purchased water expense and a \$32,540 increase in supplies and maintenance expenses. An overall increase in salaries of \$22,018 was experienced due to a new Employee Wage Equalization Plan being approved by the Board effective January 1, 2021 and additional payroll was issued for time worked during the pandemic. However, the costs for the pandemic wages were reimbursed by the Marion County Fiscal Court through American Rescue Plan Act funds in the amount of \$32,210. An additional \$10,863 was received to cover the company matching portions of social security, medicare, and retirement.

Net income before contributions decreased by \$11,651 as compared to 2020. This was primarily due to the increase in operating expenses (excluding depreciation) for 2021 of \$339,385 with an increase in operating revenues of \$290,802.

Utility Plant

Additions to Utility Plant were \$594,310. Accumulated depreciation increased \$517,036 causing a net increase in the District's Utility Plant of \$77,274. For a detail of Utility Plant, see Note C.

		Utility Plant (Net of Accumulated Depreciation)
Land	\$	109,454
Construction in Progress		-0-
Distribution Plant		12,753,994
General Plant		590,957
Total Utility Plant		<u>13,454,405</u>

Debt Administration

At year-end, the District had net pension liability of \$998,320 and other post-employment benefit liability of \$299,707. At year-end, the District had a balance owed of \$364,622 for KIA loan no. B12-06 and a balance owed of \$889,660 for KIA loan no. B18-10. At year-end, the district had a balance owed of \$479,380 for the Citizens National Bank loan. At year-end the District had \$1,220,000 in outstanding revenue bonds payable. The total bonds, loans, and due to payable at year end were \$4,251,689, versus \$4,514,179 the previous year, a decrease of \$262,490 (5.81%). 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 Board is looking at several possible water projects for the District for 2022. They are as follows:

Installation of sub-area master meters in existing areas so that leaks can be isolated and reduce water loss. These meters would report data back to the office via cellular data. Cellular data MIU devices will be added to existing master meters at Big Johns, St. Matthews Cemetery Road, and Scotts Ridge. A new 3" meter and cellular data MIU will be installed at the Maker's Mark Distillery. The District's manpower would be utilized to install these meters for a significant savings. The projected cost of this project would be \$110,000. This project was carried over from 2021 due to PSC approval delay and now is being held up from supply chain delays.

Installation of two thousand (2,000) new residential and commercial water meters for 1/3 of the District's service area. Two thousand (2,000) more would be installed in 2023 and the final two thousand (2,000) would be installed in 2024. The District's manpower would be utilized to install these meters for a significant savings. The projected cost of this project would be \$1,150,000. This cost includes two new mobile meter reading devices, mobile reading software changes to allow reading of the sub-areas by distribution codes and all associated training. This project was carried over from 2021 due to PSC approval delay and now is being held up from supply chain delays.

The \$1,260,000 cost of the sub-area meters and six thousand (6,000) new residential meters will be financed over the next ten to fifteen years. Projected savings, reduced water loss, and increased revenue captured from the new residential meters would offset the loan payments.

The KY 49 – Cowherd Lane KYTC Relocation Project is scheduled to be completed late 2022 or early 2023. This will relocate water lines due to the relocation of Hwy 49. Construction cost is estimated at \$400,000 which is reimbursed by KYTC to MCWD. The design cost is estimated at \$89,300 to also be reimbursed by KYTC.

A KIA funded project has been awarded for the modification of the existing Riley Tank for water quality improvements. This project would pump incoming water into the top of the tank and outgoing water would come out the bottom of the tank for improved water quality. The proposed cost of this project would be \$94,500 and Covid Grant Monies will be used to offset the cost.

A KIA funded project has been awarded for the installation of a new 4 inch line from Riley-Gravel Switch Road to the PRV toward Bradfordsville. An automatic valve and other appurtenances will be installed which will allow Bradfordsville to be served from the Riley Tank. The proposed cost of this project would be \$276,050 and Covid Grant Monies will be used to offset the cost.

A new 8-inch main along Hwy 52 is being considered to increase the level of service to the Hwy 52 area and the Maker's Mark Distillery. This project is estimated at approximately \$1,500,000.

Marion County Water District
Lebanon, Kentucky

Statement of Net Position
December 31, 2021 and 2020

Assets and Other Debits

	2021	2020
Net Utility Plant (Notes A-3 and C)	13,454,405	13,377,131
Other Property and Investments		
Certificates of Deposit	750,003	750,003
Total Other Property and Investments	750,003	750,003
Current and Accrued Assets		
Cash (Note B)	1,660,304	1,900,862
Cash - Restricted (Note B)	167,570	180,883
Total Cash	1,827,874	2,081,745
Customer Accounts Receivable, Net of Allowance of 4,161 and 4,848	234,201	187,282
Materials and Supplies Inventory (Note A-2)	74,528	71,397
Prepaid Insurance	18,243	17,568
Accrued Interest Receivable	1,735	1,735
Total Current and Accrued Assets	2,156,581	2,359,727
Deferred Outflows - Regulatory Asset	72,000	72,000
Deferred Outflows Related to Other Post Employment Benefits	212,195	181,039
Deferred Outflows Related to Pensions	234,422	230,979
Total Deferred Outflows	518,617	484,018
Total Assets and Deferred Outflows	16,879,606	16,970,879

See independent auditor's report and accompanying notes to the financial statements.

Marion County Water District
Lebanon, Kentucky

Statement of Net Position
December 31, 2021 and 2020

Net Position and Liabilities

	2021	2020
Net Position		
Appropriated Retained Earnings (Note I)	917,573	930,883
Retained Earnings from Income before Contributions	(869,833)	(360,446)
Donated Capital	11,807,792	11,406,284
Total Net Position	11,855,532	11,976,721
Deferred Inflows Related to Other Post Employment Benefits	154,899	67,985
Deferred Inflows Related to Pensions	183,033	25,135
Total Deferred Inflows	337,932	93,120
Long-Term Debt		
KIA Loan Payable (Note D)	338,285	364,622
KIA Loan Payable (Note E)	848,548	889,660
Citizens National Bank Loan Payable (Note F)	432,663	478,843
Revenue Bonds Payable (Note H)	1,194,000	1,220,000
Net OPEB Liability	299,707	338,178
Net Pension Liability	998,320	1,074,479
Total Long-Term Debt	4,111,523	4,365,782
Current and Accrued Liabilities		
KIA Loan Payable (Note D)	26,337	25,882
KIA Loan Payable (Note E)	41,112	40,402
Citizens National Bank Loan Payable (Note F)	46,717	45,113
Revenue Bonds Payable (Note H)	26,000	25,000
Due to Lebanon Water Works	0	12,000
Accounts Payable - Trade	214,009	192,560
Accrued County Retirement	14,308	10,829
Accrued Unemployment	2,190	1,772
Customer Deposits	38,183	37,386
Other Accrued Liabilities	165,763	144,312
Total Current and Accrued Liabilities	574,619	535,256
Total Net Position, Deferred Inflows, and Liabilities	16,879,606	16,970,879

See independent auditor's report and accompanying notes to the financial statements.

Marion County Water District
Lebanon, Kentucky

Statements of Income
Years Ended December 31, 2021 and 2020

	<u>2021</u>	Percent of Revenue	<u>2020</u>	Percent of Revenue
Operating Revenue				
Metered Sales Residential	2,530,325	76.5%	2,427,663	80.5%
Metered Sales Commercial	612,623	18.5%	519,192	17.2%
Metered Sales Schools	25,882	0.8%	16,024	0.5%
Metered Sales Multi-Family	18,877	0.6%	16,016	0.5%
Miscellaneous Service	41,189	1.2%	26,688	0.9%
Late Charges	<u>77,681</u>	<u>2.3%</u>	<u>10,192</u>	<u>0.3%</u>
Total Operating Revenue	3,306,577	100.0%	3,015,775	100.0%
Operating Expenses				
Operation & Maintenance Expense	3,366,246	101.8%	3,026,861	100.4%
Depreciation	<u>517,036</u>	<u>15.6%</u>	<u>496,808</u>	<u>16.5%</u>
Total Operating Expenses	<u>3,883,282</u>	<u>117.4%</u>	<u>3,523,669</u>	<u>116.8%</u>
Operating Income (Loss)	(576,705)	-17.4%	(507,894)	-16.8%
Other Income				
Interest Income	12,621	0.4%	13,278	0.4%
Gain (Loss) on Sale of Asset	0	0.0%	(634)	0.0%
Collection Fees	52,046	1.6%	43,477	1.4%
Grant Revenue - ARPA	43,073	1.3%	0	0.0%
Misc. Non-Operating Income	<u>17,007</u>	<u>0.5%</u>	<u>6,492</u>	<u>0.2%</u>
Total Other Income	124,747	3.8%	62,613	2.1%
Other Expenses				
Interest on Long-Term Debt	70,694	2.1%	65,727	2.2%
Other Interest	<u>45</u>	<u>0.0%</u>	<u>38</u>	<u>0.0%</u>
Total Other Expenses	<u>70,739</u>	<u>2.1%</u>	<u>65,765</u>	<u>2.2%</u>
Net Income (Loss) before Contributions	<u><u>(522,697)</u></u>	<u><u>-15.8%</u></u>	<u><u>(511,046)</u></u>	<u><u>-16.9%</u></u>

See independent auditor's report and accompanying notes to the financial statements.

Marion County Water District
Lebanon, Kentucky

Statements of Changes in Net Position
Years Ended December 31, 2021 and 2020

	2021	2020
Appropriated Retained Earnings		
Balance - Beginning of Year	930,883	924,614
Transfer to/from Retained Earnings from Income		
before Contributions	(13,310)	6,269
Balance - End of Year	917,573	930,883
Retained Earnings from Income before Contributions		
Balance - Beginning of Year	(360,446)	156,869
Net Income (Loss) for the Year	(522,697)	(511,046)
Transfer to/from Appropriated Retained Earnings	13,310	(6,269)
Balance - End of Year	(869,833)	(360,446)

See independent auditor's report and accompanying notes to the financial statements.

Marion County Water District
Lebanon, Kentucky

Statements of Cash Flows
For the Years Ended December 31, 2021 and 2020

	2021	2020
Cash Flows from Operating Activities:		
Receipts from Users	3,311,704	3,041,096
Payments to Employees	(597,592)	(597,337)
Payments to Suppliers for Goods and Services	(2,629,283)	(2,405,497)
Net Cash Provided by Operating Activities	84,829	38,262
Cash Flows from Non-Capital and Related Financing Activities:		
Federal Grants	43,073	0
Net Cash Provided by Non-Capital and Related Financing Activities	43,073	0
Cash Flows from Capital and Related Financing Activities:		
Capital Contributions	401,508	171,311
Proceeds from Long-Term Debt	0	950,000
Principal Payments on Long-term Debt	(147,860)	(136,985)
Interest Payments	(70,739)	(65,765)
Proceeds from Sale of Assets	0	0
Payments for Capital Projects and Equipment	(594,310)	(1,286,653)
Net Cash Used in Capital and Related Financing Activities	(411,401)	(368,092)
Cash Flows from Investing Activities:		
Interest Income Received	12,621	13,278
Rent and Other Income	17,007	6,491
Net Cash (Used in) Provided by Investing Activities	29,628	19,769
Cash and Investments, Beginning	2,081,745	2,391,806
Cash and Investments, Ending	1,827,874	2,081,745

See independent auditor's report and accompanying notes to the financial statements.

Marion County Water District
Lebanon, Kentucky

Statements of Cash Flows - (Continued)
For the Years Ended December 31, 2021 and 2020

Reconciliation of Net Income to Net Cash Provided by Operating Activities

	2021	2020
Net Income	(522,697)	(511,046)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	517,036	496,808
Interest on Debt	70,739	65,765
Misc. Non-Operating Income	(17,007)	(6,491)
Grant Income	(43,073)	-
(Gain) or Loss on Sale of Asset	-	634
Interest Income	(12,621)	(13,278)
Changes in Assets, Deferred Outflows, Liabilities, and Deferred Inflows:		
Accounts Receivable	(46,919)	(18,156)
Materials & Supplies Inventory	(3,131)	6,503
Other Assets	(675)	(506)
Accounts Payable	21,449	(134,575)
Other Liabilities	26,145	(1,734)
Deferred Outflows	(34,599)	(145,944)
Deferred Inflows	244,812	(30,037)
Net Pension Liability	(76,159)	200,973
Net Other Post Employment Benefits Liability	(38,471)	129,346
Net Cash Provided by Operating Activities	84,829	38,262

See independent auditor's report and accompanying notes to the 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 6,000 customers in Marion and Nelson Counties.

Significant Accounting Policies:

- A. The following is a summary of the significant accounting policies of the Marion County Water District:
1. Assets and liabilities and revenues and expenses are recognized on the accrual basis of accounting.
 2. Inventory is recorded at cost.
 3. Utility plant is stated at cost less accumulated depreciation computed on a straight-line method. The distribution plant assets are depreciated mainly over 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.

Notes to Financial Statements (Continued)

B. Cash:

At year end the carrying amount of the District's cash and cash equivalents was \$1,827,874. Of the total cash, \$1,100,005 was covered by Federal Depository Insurance, \$715,161 was covered by collateral agreements and collateral held by the pledging banks' trust departments in the District's name, \$996 was petty cash on hand, and the remaining \$11,712 was not collateralized.

Bond documents require the maintenance of certain accounts that are restricted as to withdrawal. Included in cash at December 31, 2021 and 2020, were the following restricted funds:

	<u>2021</u>	<u>2020</u>
Reserve Funds	36,509	21,716
Short-Lived Asset Account	<u>131,061</u>	<u>159,167</u>
Total	<u>167,570</u>	<u>180,883</u>

C. Utility Plant:

The following represents the amount of utility plant as of December 31, 2021 and 2020:

	Beginning Balance	Additions	Deletions	Ending Balance
Nondepreciable Assets:				
Land	109,304	150	0	109,454
Depreciable Assets:				
Distribution Plant	20,779,691	490,777	0	21,270,468
General Plant	<u>1,308,409</u>	<u>103,383</u>	<u>0</u>	<u>1,411,792</u>
	22,197,404	594,310	0	22,791,714
Less: Accumulated Depreciation	<u>(8,820,273)</u>	<u>(517,036)</u>	<u>0</u>	<u>(9,337,309)</u>
	<u>13,377,131</u>	<u>77,274</u>	<u>0</u>	<u>13,454,405</u>

No interest was capitalized during the years ended December 31, 2021 and 2020.

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, 2021, the KIA Loan has a balance owed of \$364,622.

Maturities for future years are as follows:

<u>Year</u>	<u>Interest</u>	<u>Principal</u>
2022	6,266	26,337
2023	5,803	26,800
2024	5,332	27,271
2025	4,853	27,750
2026	4,365	28,238
2027-2031	14,204	148,813
2032-2034	<u>2,097</u>	<u>79,413</u>
	<u>42,920</u>	<u>364,622</u>

Notes to Financial Statements (Continued)

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. All \$950,000 of funding available was utilized during 2020 and the related projects were completed during 2020. The loan has a fixed interest rate of 1.75%. As of December 31, 2021, the KIA Fund B Loan has a balance owed of \$889,660.

Maturities for future years are as follows:

<u>Year</u>	<u>Interest</u>	<u>Principal</u>
2022	15,390	41,112
2023	14,667	41,834
2024	13,932	42,570
2025	13,184	43,318
2026	12,422	44,079
2027-2031	50,215	232,292
2032-2036	29,070	253,439
2037-2040	<u>6,744</u>	<u>191,016</u>
	<u>155,624</u>	<u>889,660</u>

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, 2021, the balance of this loan was \$479,380.

Maturities for future years are as follows:

<u>Year</u>	<u>Interest</u>	<u>Principal</u>
2022	16,015	46,717
2023	14,353	48,379
2024	12,633	50,100
2025	10,851	51,882
2026	9,005	53,727
2027-2030	<u>16,214</u>	<u>228,575</u>
	<u>79,071</u>	<u>479,380</u>

G. Revenue Bonds Payable:

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.

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

1,220,000

Notes to Financial Statements (Continued)

Maturities for future years are as follows:

2022	26,000
2023	27,000
2024	28,000
2025	29,000
2026	30,000
2027-2031	166,000
2032-2036	199,000
2037-2041	237,000
2042-2046	285,000
2047-2049	<u>193,000</u>
	<u>1,220,000</u>

A detail of principal payments by year is also presented on page 38.

H. 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, 2020, the balance of this liability was \$12,000 and at December 31, 2021, the balance of this liability was \$0 as the liability was paid in full.

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.

I. Long-term liability activity for the year ended December 31, 2021, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Net Pension Liability	1,074,479	0	76,159	998,320	0
Net OPEB Liability	338,178	0	38,471	299,707	0
KIA Loan Payable	390,504	0	25,882	364,622	26,337
KIA Loan Payable	930,062	0	40,402	889,660	41,112
CNB Loan Payable	523,956	0	44,576	479,380	46,717
Due to Lebanon Water Works	12,000	0	12,000	0	0
Revenue Bonds Payable	<u>1,245,000</u>	<u>0</u>	<u>25,000</u>	<u>1,220,000</u>	<u>26,000</u>
Total	<u>4,514,179</u>	<u>0</u>	<u>262,490</u>	<u>4,251,689</u>	<u>140,166</u>

Notes to Financial Statements (Continued)

J. Appropriated Retained Earnings:

Appropriated retained earnings at December 31, 2021 and 2020, consist of restricted funds as follows:

	<u>2021</u>	<u>2020</u>
CDs - Reserve Fund	750,003	750,003
Cash - Reserve Fund	36,509	21,713
Cash – Short-Lived Asset Fund	<u>131,061</u>	<u>159,167</u>
	<u>917,573</u>	<u>930,883</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.

K. 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)

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, 2021 and 2020, 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 that was associated with the District were as follows:

	<u>2021</u>	<u>2020</u>
District's proportionate share of the CERS net pension liability	\$ 998,320	\$ 1,074,479

The net pension liability for the plan was measured as of June 30, 2021 and 2020, 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, 2021, the District's proportion was .015658 percent. At June 30, 2020, the District's proportion was 0.014009 percent.

For the year ended December 31, 2021 and 2020, respectively, the District recognized pension expense of \$170,641 and \$208,612 related to CERS. At December 31, 2021 and 2020, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Notes to Financial Statements (Continued)

	2021 Deferred Outflows of Resources	2021 Deferred Inflows of Resources	2020 Deferred Outflows of Resources	2020 Deferred Inflows of Resources
Differences between expected and actual experience	\$ 11,464	\$ 9,689	\$ 26,794	\$ -
Changes of assumptions	13,399	-	41,957	-
Net difference between projected and actual earnings on pension plan investments	38,728	171,788	46,575	19,688
Changes in proportion and differences between District contributions and proportionate share of contributions	117,101	1,556	76,270	5,447
District contributions subsequent to the measurement date	<u>53,730</u>	<u>-</u>	<u>39,383</u>	<u>-</u>
Total	<u>\$ 234,422</u>	<u>\$ 183,033</u>	<u>\$ 230,979</u>	<u>\$ 25,135</u>

\$53,730 and \$39,383 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, 2022 and 2021, respectively. Other amounts reported as deferred outflows of resources and deferred inflows related to pensions will be recognized in pension expense as follows:

	<u>2021</u>
2022	55,198
2023	11,351
2024	(27,224)
2025	(41,666)
2026	-0-

Actuarial assumptions—The total pension liability in the June 30, 2021 and June 30, 2020 actuarial valuation were determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.3%
Payroll Growth Rate	2.0% for CERS Non-Hazardous, and 0.00% for KERS Non-Hazardous and Hazardous
Salary Increases	3.30% to 10.30%, varies by service for CERS Non-Hazardous; 3.55% to 19.05%, varies by service for CERS Hazardous; 3.30% to 15.30%, varies by service for KERS Non-Hazardous;
Investment Rate of Return	3.55% to 20.05%, varies by service for KERS Hazardous 6.25% for CERS Non-Hazardous, and Hazardous, and KERS Hazardous, 5.25% for KERS Non-Hazardous

Notes to Financial Statements (Continued)

The mortality table used for active members was a Pub-2010 General Mortality table, for the Non-Hazardous System, and the Pub-2010 Public Safety Mortality table for the Hazardous system, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. The mortality table used for healthy retired members was a system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvements scale using a base year of 2020. The mortality table used for the disabled members of PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

For CERS, the long-term expected rate of return was determined by using a building block method in which best estimate ranges of expected future real rates of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. The current long-term inflation assumption is 2.3% per annum for both the non-hazardous and hazardous plan.

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
Growth	68.50%	
U.S. Equity	21.75%	5.70%
Non-U.S. Equity	21.75%	6.35%
Private Equity	10.00%	9.70%
Special Credit/High Yield	15.00%	2.80%
Liquidity	11.50%	
Core Bonds	10.00%	0.00%
Cash	1.50%	-0.60%
Diversifying Strategies	20.00%	
Real Estate	10.00%	5.40%
Opportunistic	0.00%	N/A
Real Return	10.00%	4.55%

Discount rate—For CERS, the discount rate used to measure the total pension liability was 6.25% for June 30, 2021 and 6.25% for June 30, 2020. 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 6.25% for June 30, 2021 and 6.25% for June 30, 2020. 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)

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:

2021	1% Decrease	Current Discount Rate	1% Increase
CERS	5.25%	6.25%	7.25%
District's proportionate share of net pension liability	1,280,393	998,320	764,912
2020	1% Decrease	Current Discount Rate	1% Increase
CERS	5.25%	6.25%	7.25%
District's proportionate share of net pension liability	1,325,066	1,074,479	866,983

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.

L. 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.

Notes to Financial Statements (Continued)

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:

<u>Years of Service</u>	<u>Paid By Insurance Fund (%)</u>
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, 2019 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, 2021 and 2020, the District reported a liability of \$299,707 and \$338,178 respectively for its proportionate share of the collective net OPEB liability. The collective net OPEB liability was measured as of June 30, 2021 and 2020, 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, 2021, the District’s proportion was .015655 percent, compared to .014005 as of June 30, 2020.

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:

	<u>2021</u>	<u>2020</u>
District’s proportionate share of the CERS net OPEB liability	\$ 299,707	\$ 338,178

Notes to Financial Statements (Continued)

For the year ended December 31, 2021 and 2020, the District recognized OPEB expense of \$41,480 and \$41,878 respectively. At December 31, 2021 and 2020, the District reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	2021 Deferred Outflows of Resources	2021 Deferred Inflows of Resources	2020 Deferred Outflows of Resources	2020 Deferred Inflows of Resources
Differences between expected and actual experience	\$ 47,129	\$ 89,483	\$ 56,502	\$ 56,547
Changes of assumptions	79,458	279	58,823	358
Net difference between projected and actual earnings on pension plan investments	15,100	61,985	18,141	6,901
Changes in proportion and differences between District contributions and proportionate share of contributions	45,976	3,152	29,759	4,179
District contributions subsequent to the measurement date	<u>24,532</u>	<u>-</u>	<u>17,814</u>	<u>-</u>
Total	<u>\$ 212,195</u>	<u>\$ 154,899</u>	<u>\$ 181,039</u>	<u>\$ 67,985</u>

\$24,532 and \$17,814 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, 2022 and 2021, respectively. 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:	
2022	\$ 20,697
2023	13,551
2024	10,697
2025	(12,181)
2026	-

The total OPEB liability, net OPEB liability, and sensitivity information as of June 30, 2021, were based on an actuarial valuation date of June 30, 2020. The total OPEB liability was rolled-forward from the valuation date (June 30, 2020) to the plan's fiscal year ending June 30, 2021, using generally accepted actuarial principles.

Notes to Financial Statements (Continued)

Actuarial assumptions – The following actuarial assumptions were used in performing the actuarial valuation as of June 30, 2021:

Inflation	2.3%
Payroll Growth Rate	2.0% for CERS Non-Hazardous, and 0.0% KERS Non-Hazardous
Salary Increases	3.3% to 10.3%, varies by service for CERS Non-Hazardous; 3.55% to 19.05%, varies by service for CERS Hazardous; 3.30% to 15.30%, varies by service for KERS Non-Hazardous; and 3.55%-20.05%, varies by service for KERS Hazardous
Investment rate of return	6.25%
Healthcare cost trend rates	
Pre-65	Initial trend starting at 6.30% at January 1, 2023 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Post-65	Initial trend starting at 6.30% at January 1, 2023, then gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Mortality	
Pre-retirement	PUB-2010 General Mortality table, for the Non-Hazardous Plans, and the PUB-2010 Public Safety Mortality table for Hazardous Plans, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010
Post-retirement (non-disabled)	System-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019
Post-retirement (disabled)	PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010

Actuarial assumptions – The following actuarial assumptions were used in performing the actuarial valuation as of June 30, 2020:

Inflation	2.3%
Payroll Growth Rate	2.0% for CERS Non-Hazardous, and 0.0% KERS Non-Hazardous
Salary Increases	3.3% to 10.3%, varies by service for CERS Non-Hazardous; 3.55% to 19.05%, varies by service for CERS Hazardous; 3.30% to 15.30%, varies by service for KERS Non-Hazardous; and 3.55%-20.05%, varies by service for KERS Hazardous
Investment rate of return	6.25%
Healthcare cost trend rates	
Pre-65	Initial trend starting at 6.40% at January 1, 2022 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years.
Post-65	Initial trend starting at 2.90% at January 1, 2022, and increasing to 6.30% in 2023, then gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years.
Mortality	
Pre-retirement	PUB-2010 General Mortality table, for the Non-Hazardous Systems, and the PUB-2010 Public Safety Mortality table for Hazardous Systems, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010

Notes to Financial Statements (Continued)

Post-retirement (non-disabled)	System-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019
Post-retirement (disabled)	PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010

The long-term expected rate of return was determined by using a building block method in which best estimate ranges of expected future real rates of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. The current long-term inflation assumption is 2.3% per annum for both the non-hazardous and hazardous plan.

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
Growth	68.50%	
U.S. Equity	21.75%	5.70%
Non-U.S. Equity	21.75%	6.35%
Private Equity	10.00%	9.70%
Special Credit/High Yield	15.00%	2.80%
Liquidity	11.50%	
Core Bonds	10.00%	0.00%
Cash	1.50%	-0.60%
Diversifying Strategies	20.00%	
Real Estate	10.00%	5.40%
Opportunistic	0.00%	N/A
Real Return	10.00%	4.55%

Discount rate - The discount rate used to measure the total OPEB liability was 5.20%. The single discount rate is based on the expected rate of return on OPEB plan investments of 6.25%, a municipal bond rate of 1.92%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2021. Based on the stated assumptions and the projection of cash flows as of each fiscal year ending, the plan's fiduciary net position and future contributions were projected to be sufficient to finance the future benefit payments of the current plan members. Therefore, the long-term expected rate of return on insurance plan investments was applied to all periods of the projected benefit payments paid from the plan. However, the cost associated with the implicit employer subsidy was not included in the calculation of the plans actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the plan trusts. Therefore, the municipal bond rate was applied to future benefit payments associated with the implicit subsidy.

Notes to Financial Statements (Continued)

The following table presents the District's proportionate share of the collective net OPEB liability of the System, calculated using the discount rate of 5.20% for 2021 and 5.34% for 2020 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 (4.20% for 2021 and 4.34% for 2020) or 1-percentage-point higher (6.20% for 2021 and 6.34% for 2020) than the current rate:

<u>2021</u>	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
CERS	4.20%	5.20%	6.20%
District's proportionate share of net OPEB liability	411,496	299,707	207,966

<u>2020</u>	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
CERS	4.34%	5.34%	6.34%
District's proportionate share of net OPEB liability	434,460	338,178	259,099

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:

<u>2021</u>	<u>1% Decrease</u>	<u>Current Trend Rate</u>	<u>1% Increase</u>
Systems' net pension liability	215,754	299,707	401,040

<u>2020</u>	<u>1% Decrease</u>	<u>Current Trend Rate</u>	<u>1% Increase</u>
Systems' net pension liability	261,834	338,178	430,823

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

Notes to Financial Statements (Continued)

- M. Risk Management:
The District insures against significant losses by commercial insurance. There have been no significant reductions in insurance coverage.
- N. 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.
- O. Operating Lease:
The District is committed under a noncancelable operating lease for the use of its computers and related equipment. Future minimum operating lease commitments are as follows:

2022	18,084
2023	18,084
2024	18,084
2025	9,042

Rent expenditures were \$18,084 and \$9,042 for the years ended December 31, 2021 and 2020, respectively.

- P. Subsequent Events:

On January 6, 2022, the District entered into a Revenue Lease Agreement with Farmers National Bank of Lebanon, Kentucky for financing of up to \$1,600,000 for the purpose of a water meter replacement project.

On January 6, 2022, the District entered into a Revenue Lease Agreement with Farmers National Bank of Lebanon, Kentucky for \$480,638.09 to refinance existing debt.

Prior to the end of 2021, the District filed a proposed rate adjustment case with the Public Service Commission. In March of 2022, the Public Service Commission completed their review and issued their order for Case No. 2021-00394. That order awarded an 18.83% increase and is expected to generate additional revenue of approximately \$583,000.

Management has reviewed subsequent events through July 1, 2022, the date the financial statements were available for release. There were no additional subsequent events requiring disclosure.

REQUIRED SUPPLEMENTARY
INFORMATION

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

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
District's proportion of net pension liability	0.011876%	0.011539%	0.011706%	0.012698%	0.012420%	0.014009%	0.015658%
District's proportionate share of the net pension liability	\$ 510,592	568,124	685,188	773,347	873,504	1,074,479	998,320
State of Kentucky's share of the net pension liability associated with the district	-	-	-	-	-	-	-
TOTAL	<u>\$ 510,592</u>	<u>568,124</u>	<u>685,188</u>	<u>773,347</u>	<u>873,504</u>	<u>1,074,479</u>	<u>998,320</u>
District's covered-employee payroll	\$ 282,035	274,311	298,547	318,096	314,539	397,011	453,879
District's proportionate share of the net pension liability as a percentage of its covered-payroll	181.04%	207.09%	229.51%	243.12%	277.71%	270.64%	219.95%
Plan fiduciary net position as a percentage of the total pension liability	65.96%	63.46%	55.50%	49.26%	50.45%	47.81%	57.33%

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>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Contractually required contributions (actuarially determined)	\$ 37,318	\$ 34,501	\$ 39,483	\$ 48,852	\$ 55,999	\$ 77,253	\$ 92,345
Contributions in relation to the actuarially determined contributions	<u>37,318</u>	<u>34,501</u>	<u>39,483</u>	<u>48,852</u>	<u>55,999</u>	<u>77,253</u>	<u>92,345</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 282,035	\$ 274,311	\$ 298,547	\$ 318,096	\$ 314,539	\$ 397,011	\$ 453,879
Contributions as a percentage of Covered employee payroll	13.23%	12.58%	13.23%	15.36%	17.76%	19.46%	20.35%

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

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
District's proportion of net OPEB liability	0.012697%	0.012420%	0.014005%	0.015655%
District's proportionate share of the net OPEB liability	225,433	208,832	338,178	299,707
State of Kentucky's share of the net OPEB liability associated with the district	-	-	-	-
TOTAL	<u><u>225,433</u></u>	<u><u>208,832</u></u>	<u><u>338,178</u></u>	<u><u>299,707</u></u>
District's covered-employee payroll	318,096	314,539	397,011	453,879
District's proportionate share of the net OPEB liability as a percentage of its covered-payroll	70.87%	66.33%	85.18%	66.03%
Plan fiduciary net position as a percentage of the total OPEB liability	57.62%	60.44%	51.67%	62.91%

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 INSURANCE PLAN
 COUNTY EMPLOYEES RETIREMENT SYSTEM
 FOR THE YEAR ENDED JUNE 30

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Contractually required contributions (actuarially determined)	\$ 15,849	\$ 15,736	\$ 18,898	\$ 24,193
Contributions in relation to the actuarially determined contributions	<u>15,849</u>	<u>15,736</u>	<u>18,898</u>	<u>24,193</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 318,096	\$ 314,539	\$ 397,011	\$ 453,879
Contributions as a percentage of Covered employee payroll	4.98%	5.01%	4.76%	5.33%

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

COUNTY EMPLOYEES RETIREMENT SYSTEM
NET PENSION LIABILITY

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 2013 (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.

2019

The following changes were made by the KRS Board of Trustees and reflected in the valuation performed as of June 30, 2019:

The assumed salary increases were increased to 3.30% to 11.55%, from 3.05% to 18.55%.

COUNTY EMPLOYEES RETIREMENT SYSTEM
NET PENSION LIABILITY (CONTINUED)

2020

Salary increases changed to 3.3% to 10.3%, varying by service for CERS Non-Hazardous.

2021

There were no changes of assumptions for the year ended June 30, 2021.

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 2020 and 2019, determined as of July 1, 2017. 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 contribution rates reported in that schedule:

Valuation Date	June 30, 2019 for CERS Hazardous and CERS Non-Hazardous
Experience Study	July 1, 2013-June 30,2018
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll
Remaining Amortization Period	30 years, Closed <i>Gains/losses incurring after 2019 will be amortized over separate closed 20-year amortization bases</i>
Payroll Growth Rate	2.0% for CERS Non-Hazardous
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30%
Salary Increase	3.30% to 10.30%, varies by service for CERS Non-Hazardous; 3.55% to 19.05%, varies by service for CERS Hazardous; 3.30% to 15.30%, varies by service for KERS Non-Hazardous; 3.55% to 20.05%, varies by service for KERS Hazardous
Investment Rate of Return	6.25% for CERS Non-Hazardous, and Hazardous and KERS Hazardous, 5.25% for KERS Non-Hazardous
Phase-In Provision	Board certified rate is phase into the actuarily determined rate in accordance with HB 362 enacted in 2018 for CERS Nonhazardous and Hazardous

The retiree mortality is a System-specific mortality table based on mortality experience from 2013-2018, projected with ultimate rates from MP-2014 mortality improvement scale using a base year of 2019.

NOTE C – CHANGES OF BENEFITS

There were no changes in benefits for CERS pension for non-hazardous employees.

COUNTY EMPLOYEES RETIREMENT SYSTEM
NET OTHER POST EMPLOYMENT BENEFITS LIABILITY

NOTE A – CHANGES OF ASSUMPTIONS

2017

The assumed investment return was changed from 7.5% to 6.2%

The price inflation assumption was changed from 3.25% to 2.30% which resulted in a .95% decrease in the salary increase assumption at all years of service

The payroll growth assumption (*applicable for the amortization of unfunded actuarial accrued liabilities) was changed from 4.0% to 2.0%

For the non-hazardous plan, the single discount rate changed from 6.89% to 5.84%. For the hazardous plan the single discount rate changed from 7.37% to 5.96%

2018

There were no changes in assumptions.

2019

The payroll growth rate was reduced to 2.0% from 4.0%

The inflation rate was reduced to 2.30% from 3.25%

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

2020

The assumed increase in future health care costs, or trend assumption, was reviewed during the June 30, 2019 valuation process and was updated to better reflect more current expectations relating to anticipated future increases in the medical costs. The anticipated savings from the repeal of the “Cadillac Tax” and “Health Insurer Fee”, which occurred in December of 2019 are reflected in the June 30, 2020 GASB 75 actuarial information. The assumed load on pre-Medicare premiums to reflect the cost of the Cadillac Tax was removed and the Medicare premiums were reduced by 11% to reflect the repeal of the Health Insurer Fee.

2021

The discount rate was changed to 5.20% from 5.34%.

The health care trends changed from to an initial rate of 6.4% from 6.3%.

COUNTY EMPLOYEES RETIREMENT SYSTEM
NET OTHER POST EMPLOYMENT BENEFITS LIABILITY

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

Methods and assumptions used in the actuarially determined contributions – The actuarially determined contribution rates, as a percentage of payroll, used to determine the actuarially determined contribution amounts in the Schedule of Employer Contributions are calculated as the of the indicated valuation date. The following actuarial methods and assumptions (from the indicated actuarial valuations) were used to determine contribution rates reported in that schedule for the year ending June 30, 2020:

Valuation Date	June 30, 2019
Experience Study	July 1, 2013 – June 30, 2018
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll
Remaining Amortization Period	30 years, close period at June 30, 2019, <i>Gains/losses incurring after 2019 will be amortized over separate closed 20-year amortization bases</i>
Payroll Growth Rate	2.00% for CERS Non-Hazardous and Hazardous, and 0.0% for KERS 34
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30%
Salary Increase	3.30% to 11.55%, varies by service for CERS Non-Hazardous; 3.55% to 19.05%, varies by service for CERS Hazardous, 3.30% to 15.30%, varies by service for KERS Non-Hazardous; 3.55% to 20.05%, varies by service for KERS Hazardous
Investment Rate of Return	6.25 %
Mortality	System-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using base year of 2019.
Healthcare Trend Rates	
Pre-65	Initial trend starting at 6.25% at January 1, 2021 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years. The 2020 premiums were known at the time of the valuation and were incorporated into the liability measurement.
Post-65	Initial trend starting at 5.5% at January 1, 2021 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years. The 2020 premiums were known at the time of the valuation and were incorporated into the liability measurement.
Phase-In Provision	Board certified rate is phased into the actuarily determined rate in accordance with HB 362 enacted in 2018 for CER Hazardous and Non-Hazardous.

NOTE C – CHANGES OF BENEFITS

There were no changes in benefits for CERS OPEB.

**SUPPLEMENTARY
INFORMATION**

Marion County Water District
Lebanon, Kentucky

Schedules of Operating and Maintenance Expenses
Years Ended December 31, 2021 and 2020

	<u>2021</u>	Percent of Revenue	<u>2020</u>	Percent of Revenue
Source of Supply Expense				
Purchased Water	2,196,370	66.4%	1,918,514	63.6%
Pumping Expense				
Fuel or Power Purchased for Pumping	36,737	1.1%	32,653	1.1%
Transmission & Distribution Expense				
Salaries	231,342	7.0%	230,209	7.6%
Operation Supplies & Expense	66,241	2.0%	51,803	1.7%
Maintenance	<u>108,420</u>	<u>3.3%</u>	<u>95,788</u>	<u>3.2%</u>
Total Transmission & Distribution Expense	406,003	12.3%	377,800	12.5%
Customer Accounts Expense				
Salaries	154,135	4.7%	130,234	4.3%
Contractual Services - Meter Reading	20,977	0.6%	19,754	0.7%
Supplies & Expense	63,914	1.9%	58,444	1.9%
Uncollectible Accounts	<u>3,788</u>	<u>0.1%</u>	<u>3,178</u>	<u>0.1%</u>
Total Customer Accounts Expense	242,814	7.3%	211,610	7.0%
Administrative & General Expense				
Administrative & General Salaries	52,787	1.6%	55,803	1.9%
Office Supplies & Other Expense	45,464	1.4%	26,385	0.9%
Outside Service Employed	16,560	0.5%	13,400	0.4%
Insurance	36,078	1.1%	33,953	1.1%
Employee Benefits & Payroll Taxes	140,617	4.3%	130,951	4.3%
Pension Expense	170,641	5.2%	208,612	6.9%
Regulatory Commission Expense	6,045	0.2%	6,208	0.2%
Regulatory Department of Local Gov't	500	0.0%	500	0.0%
Miscellaneous	<u>15,630</u>	<u>0.5%</u>	<u>10,472</u>	<u>0.3%</u>
Total Administrative & General Expense	<u>484,322</u>	<u>14.6%</u>	<u>486,284</u>	<u>16.1%</u>
Total Operating & Maintenance Expense	<u><u>3,366,246</u></u>	<u><u>101.8%</u></u>	<u><u>3,026,861</u></u>	<u><u>100.4%</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: \$ 1,220,000

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

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

See accompanying accountant's report.

MARION COUNTY WATER DISTRICT
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS AND RESPONSES
DECEMBER 31, 2021

There were no prior year audit findings.

WHITE AND COMPANY, P.S.C.

**Certified Public Accountants
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Lebanon, Kentucky 40033
(270) 692-2102
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Joseph A. Montgomery, CPA
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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***

July 1, 2022

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, 2021 and 2020, and the related notes to the financial statements, which collectively comprise Marion County Water District's basic financial statements and have issued our report thereon dated July 1, 2022.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Marion County Water District's internal control over financial reporting (internal control) as a basis for designing 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 the Marion County Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Marion County Water District'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.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Marion County Water District'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 financial statements. 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

WHITE AND COMPANY, P.S.C.
Certified Public Accountants
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Email charles.white@whitecpas.com

July 1, 2022

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, 2021. 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 January 7, 2021. 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. No new accounting policies were adopted and the application of existing policies was not changed during 2021. 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 July 1, 2022.

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 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. 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