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ALLEN COUNTY WATER DISTRICT

**Report On Audit of Financial Statements
and Supplementary Information**

For the Years Ended December 31, 2014 and 2013

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MICHAEL J. MONTGOMERY, M.B.A., C.P.A.

BOBBY D. WEBB, C.P.A.



CHARLES E. McDONOUGH, C.P.A.
(1929 - 1994)

MELISSA J. MONTGOMERY, M.S.

INDEPENDENT AUDITORS' REPORT

To the Commissioners of Allen County Water District
Scottsville, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of Allen County Water District as of and for the years ended December 31, 2014 and 2013 and the related notes to the financial statements which collectively comprise the Districts 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 from 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 statement present fairly in all material respects, the respective financial position of the Allen County Water District, as of December 31, 2013, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 12, 2015 on our consideration of the Allen County Water District's internal control over financial reporting and on our tests of its compliance with certain provisions 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* and should be considered in assessing the results of our audit.

Montgomery & Webb, PSC

Montgomery & Webb, PSC
Certified Public Accountants
Bowling Green, Kentucky

February 12, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Allen County Water District's (the District) financial performance provides an overview of its financial activities for the year ended December 31, 2014. Please read it in conjunction with the District's financial statements, which begins on page 7.

The District's Operations – An Overview

The District engages in various activities classified as "proprietary". These activities are accounted for much like that of a private business and use the full accrual method of accounting for transactions. The major activities include construction, operation and maintenance of water service facilities and the supplying of water to customers in Allen County, Kentucky. The District purchases its water supply from nearby city water utilities. The District operates and maintains the distribution system that supplies its end users.

Basic Financial Statements

In accordance with the Government Accounting Standards Board (GASB) Statement No. 34, the District's financial statements include a statement of net position, statement of revenues, expenses and changes in net position, and a statement of cash flows.

The statement of net position includes the District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to District creditors (liabilities). The difference between the assets and liabilities is shown as net position. This statement also provides the basis of evaluating the capital structure of the District and assessing its liquidity and financial flexibility.

The statement of revenues and expenses and changes in net assets accounts for the current year's revenues and expenses. This statement measures the success of the District's operations over the past year and previous year and determines whether the District has recovered its costs through user fees and other charges.

The final required financial statement is the statement of cash flows. This statement reports cash receipts, cash disbursements, and net changes in cash resulting from operations and investments during the reporting period.

The notes to the basic financial statements provide a description of the accounting policies used to prepare the financial statements and present disclosures required by generally accepted accounting principles that are not otherwise present in the financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Condensed Financial Data

	December 31	
	2014	2013
Current Assets	\$ 4,832,218	\$ 4,890,224
Restricted Assets	1,268,096	1,186,489
Capital Assets, Net of Depreciation	12,550,306	12,221,816
Other Assets	127,308	133,171
Total Assets	18,777,928	18,431,700
Current Liabilities, Including Current Portion of		
Long-Term Debt	421,826	1,050,893
Long-Term Debt	5,140,000	4,489,500
Total Liabilities	5,561,826	5,540,393
Metered Water Sales	2,272,995	2,164,562
Other Operating Revenue	222,004	179,490
Total Operating Revenue	2,494,999	2,344,052
Water Purchased	751,817	658,296
Transmission and Distribution Costs	408,329	255,089
Other Operating Expenses	1,224,999	1,234,668
Total Operating Expenses	2,385,145	2,148,053
Net Non-operating Revenue and (Expenses)	14,941	(128,464)
Grants and Other Capital Contributions	200,000	-0-
Increase in Net Assets	324,795	67,535
Net Assets - End of Year	\$13,216,102	\$12,891,307

Financial Highlights

The District's financial results showed a significant increase from 2013. For the period, the increase in net assets was \$324,795 up from \$67,535 in 2013. Driving the increase in net assets for 2014 was increased revenue along with a \$200,000 grant. During the year, an additional 53 customers were added to the system. Revenue increased by approximately \$151,000 driven by warmer weather and increased residential usage. Operating expenses for the year compared to last year were approximately \$237,000 worse, a result of overall increased water usage and increased labor costs. Non-operational expenses decreased as a result of unrealized gain on investments, in compliance with GASB 31, and the reclassification of tap on fees.

The district added approximately 4,240 feet of lines to service customers in previously non-serviced areas. This expansion was installed by District personnel and self funded.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Significant Transactions and Changes in Individual Funds

There were no individually significant transactions or changes in individual funds.

Actual versus Budget Comparison

During 2014 actual operating revenues were approximately \$2,495,000 nearly \$79,000 less than budgeted revenues, while operating expenses were \$136,000 more than budgeted operating expenses. The revenue variance was caused by less overall commercial usage. The factors mainly drove the decrease of actual expenses over budget: The items were depreciation bought on by fixed plant purchases, increased water expenses and contracted services expenses.

Countering the revenue shortfall and increased expenses was an unbudgeted \$200,000 USDA Grant, resulting in an increase of net assets of approximately \$214,000 over the budget of \$110,100.

Capital Assets and Debt Administration

During the period the district capitalized the old US 231 Pump Station for \$1.2million while also purchasing a vehicle. In 2014 the interim constructed financing was callotORIZED as a long term note in the amount of \$797,000 at an interest rate of 3.0%.

Funding for previous major expansions of the water distribution system has been obtained primarily from loans through United States Department of Agriculture - Rural Development Agency and Kentucky Rural Water Finance Corporation revenue bonds at interest rates varying from 2.3% to 5.00%. Maturity of the loans and revenue bonds range from 2018 through 2052. See Footnote 5 to the financial statements for unpaid balances of the loans and revenue bonds as of December 31, 2014, and for maturity balances over the next 5 years and thereafter. During 2014 the District paid principal on the loans and revenue bonds totaling \$129,000 and interest totaling \$176,006 per statement of cash flows.

Economic Factors and Next Year's Budgets and Rates

Due to its position as the sole provider of water to Allen County residents, other than ground wells and other self-provided methods by individual consumers, the District's operations are considered stable. No increase in the cost of purchased water is anticipated from suppliers in the upcoming year as also no increase in customer fees. Moreover, the District's debt structure consists of long-term, fixed rate financing at rates considered low by historical standards, reinforcing the expectation of stability. The budget for the year calls for an increase of revenue of approximately \$89,000 and decrease of net assets of approximately \$254,695 over 2014 results.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the District's finances and to show its accountability for the money it receives. If you have questions about this report or need additional financial information, contact District Office Manager Sue Carter, P.O. Box 58, 330 New Gallatin Road, Scottsville, KY 42164 or by phone at (270) 622-3040.

Wayne Jackson
Chairman, Board of Commissioners

Gary Wade
Manager

**ALLEN COUNTY WATER DISTRICT
STATEMENT OF NET POSITION
December 31, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
Assets		
Current Assets:		
Cash	\$ 358,027	\$ 580,229
Investments	4,201,780	4,069,923
Accounts Receivable from Customers (Net)	246,183	216,580
Prepaid Insurance	12,834	10,846
Prepaid Expenses	4,800	4,800
Accrued Interest Receivable	<u>8,594</u>	<u>7,846</u>
Total Current Assets	<u>4,832,218</u>	<u>4,890,224</u>
Restricted Assets:		
Cash – Customer’s Deposits	109,803	88,484
Cash – Bond and Interest Redemption Account	779,240	719,916
Cash – Depreciation Reserve Account	367,429	337,929
Cash – Bond Reserve Accounts	<u>11,624</u>	<u>40,160</u>
Total Restricted Assets	<u>1,268,096</u>	<u>1,186,489</u>
Capital Assets Not Being Depreciated:		
Land and Land Rights	86,990	86,990
Construction in Progress	-0-	789,158
Capital Assets Being Depreciated:		
Water Supply and Distribution System	<u>12,463,316</u>	<u>11,345,668</u>
Total Capital Assets	<u>12,550,306</u>	<u>12,221,816</u>
Other Assets:		
Utility Deposits	555	555
Other Deferred Charges, Net of Accumulated Amortization of \$45,509 and \$39,647, respectively	<u>126,753</u>	<u>132,616</u>
Total Other Assets	<u>127,308</u>	<u>133,171</u>
Total Assets	<u>\$18,777,928</u>	<u>\$18,431,700</u>

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

**ALLEN COUNTY WATER DISTRICT
STATEMENT OF NET POSITION (Continued)
December 31, 2014 and 2013**

	2014	2013
Liabilities and Net Assets		
Current Liabilities:		
Notes Payable - Current Portion	\$ 146,500	\$ 129,000
Interim Construction Funding	-0-	687,637
Accounts Payable, Payroll Taxes and Other Payables	103,547	78,868
Customer Deposits	85,240	65,759
Accrued Interest	86,539	89,629
Total Current Liabilities	<u>421,826</u>	<u>1,050,893</u>
Long-Term Liabilities:		
Notes Payable – Net of Current Maturities	5,140,000	4,489,500
Total Liabilities	<u>5,561,826</u>	<u>5,540,393</u>
Net Assets:		
Unrestricted	4,480,832	4,842,308
Invested in Capital Assets, Net of Related Debt	7,588,601	6,983,214
Total Unrestricted Net Assets	<u>12,069,433</u>	<u>11,825,522</u>
Restricted:		
Bond and Interest Redemption Fund	779,240	719,911
Depreciation Fund	367,429	345,874
Total Restricted Net Assets	<u>1,146,669</u>	<u>1,065,785</u>
Total Net Assets	<u>13,216,102</u>	<u>12,891,307</u>
Total Liabilities and Net Assets	<u>\$18,777,928</u>	<u>\$18,431,700</u>

The accompanying notes are an integral part of the financial statements

ALLEN COUNTY WATER DISTRICT
STATEMENTS OF REVENUES AND EXPENSES AND CHANGES IN NET ASSETS
December 31, 2014 and 2013

	2014	2013
<u>Operating Revenues</u>		
Metered Water Sales	\$ 2,272,995	\$ 2,164,562
Forfeited Discounts	53,566	54,177
Pumping Charges for Water Returns to Supplier	18,958	30,286
Miscellaneous Service Revenue	<u>149,480</u>	<u>95,027</u>
Total Operating Revenues	<u>2,494,999</u>	<u>2,344,052</u>
<u>Operating Expenses</u>		
Source of Supply and Pumping	751,817	658,296
Transmission and Distribution	408,329	255,089
Customer Accounts	181,495	168,347
Administrative and General	539,313	638,578
Depreciation	456,098	382,724
Amortization	5,862	5,863
Taxes Other Than Income	<u>42,231</u>	<u>39,156</u>
Total Operating Expenses	<u>2,385,145</u>	<u>2,148,053</u>
Operating Income	<u>109,854</u>	<u>195,999</u>
<u>Non-operating Revenues and (Expenses)</u>		
Interest Income	114,553	114,565
Interest Expense	(176,006)	(225,788)
Unrealized Gain (Loss) on Temp Investments	16,134	(42,589)
Miscellaneous Income/Non-Utility	<u>60,260</u>	<u>25,348</u>
Net Non-operating Revenues and (Expenses)	<u>14,941</u>	<u>(128,464)</u>
Income before Grants and Capital Contributions	<u>124,795</u>	<u>67,535</u>
Grants and Capital Contributions	200,000	-0-
Increase in Net Assets	124,795	67,535
Net Assets – Beginning of Year	<u>12,891,307</u>	<u>12,823,772</u>
Net Assets – End of Year	<u>\$13,216,102</u>	<u>\$ 12,891,307</u>

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

**ALLEN COUNTY WATER DISTRICT
STATEMENTS OF CASH FLOWS
For The Years Ended December 31, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
Cash Flows from Operating Activities and Non-Operating Revenues:		
Receipts from Customers	\$2,525,657	\$2,380,892
Salaries, Wages and Employee Benefits	(793,418)	(745,688)
Purchased Water	(751,817)	(658,296)
Other Operating Expenses	(349,219)	(400,386)
Cash Provided by Operations and Non-Operating Revenues	<u>631,203</u>	<u>576,522</u>
Cash Flows from Capital and Related Financing Activities:		
Purchase of Capital Assets and Deferred Charges	(1,560,304)	(89,940)
Proceeds from Interim Construction Funding	-0-	21,361
Proceeds of Refinance Notes	797,000	266,639
Principal Paid on Revenue Bonds and Notes Payable	(816,637)	(316,238)
Interest Paid on Revenue Bonds and Other Debt	(179,096)	(248,846)
Refinancing of Interim Financing	789,157	-0-
Proceeds USDA Grant	<u>200,000</u>	<u>-0-</u>
Cash Used in Capital and Related Financing Activities	<u>(769,880)</u>	<u>(367,024)</u>
Cash Flows from Investing Activities:		
Interest on Cash Balances	2,850	5,189
Interest on Investments	110,954	111,902
Purchase of Investments	(115,722)	(111,902)
Proceeds on Sale of Fixed Assets	<u>-0-</u>	<u>-0-</u>
Cash Used/Provided by Investing Activities	<u>(1,918)</u>	<u>5,189</u>
Net Decrease/Increase in Cash and Cash Equivalents	(140,595)	214,687
Cash and Cash Equivalents, Beginning of Year	<u>1,766,718</u>	<u>1,552,031</u>
Cash and Cash Equivalents, End of Year	<u>\$1,626,123</u>	<u>\$1,766,718</u>
Less Restricted Cash		
Cash – Customers Deposits	(109,803)	(88,484)
Cash – Bond and Interest Redemption	(779,240)	(719,916)
Cash – Depreciation Reserve	(367,429)	(337,929)
Cash – Bond Reserve	<u>(11,624)</u>	<u>(40,160)</u>
Total Restricted Cash	<u>(1,268,096)</u>	<u>(1,186,489)</u>
Cash and Cash Equivalents, Per Statement of Net Position	<u>\$ 358,027</u>	<u>\$ 580,229</u>

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

**ALLEN COUNTY WATER DISTRICT
STATEMENTS OF CASH FLOWS (Continued)
For The Years Ended December 31, 2014 and 2013**

	2014	2013
Reconciliation of Operating Income to Net Cash Provided by Operating Activities and Non-Operating Revenues:		
Operating Income	\$ 109,854	\$ 195,999
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities and Non-Operating Revenues –		
Depreciation and Amortization Expense	461,960	388,586
(Increase) Decrease in Accounts Receivable	(29,602)	11,492
(Increase) Decrease in Prepaid Insurance	(1,988)	3,590
(Increase) Decrease in Prepaid Expenses	-0-	-0-
Increase (Decrease) in Acc. Payable and Acc. Expenses	44,160	24,922
Capitalized Labor Costs	(13,441)	(73,415)
Gain on Sale of Fixed Asset	-0-	-0-
Other Non-Operating Revenue	<u>60,260</u>	<u>25,348</u>
Net Cash Provided by Operations and Non-Operating Revenues	<u>\$ 631,203</u>	<u>\$ 576,522</u>

Supplemental Disclosures:

Non-Cash Investing and Financial Transactions:

Unrealized Gain/ (Loss) on Investments (Net)	\$ 26,455	\$(42,589)
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The accompanying notes are an integral part of the financial statements.

ALLEN COUNTY WATER DISTRICT NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies:

Organization:

Allen County Water District was organized in 1974 under KRS 74:010 to provide water services to portions of Allen County, Kentucky. The commissioners are appointed by the Allen County Judge, who has no other authority over the District.

The District grants credit to customers, substantially all of whom are local residents and commercial businesses.

Basis of Accounting and Significant Accounting Policies:

The District's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, when applicable, that do not conflict with or contradict GASB pronouncements. The District also has the option to apply FASB pronouncements issued after that date to its business-type activities, except for those that conflict with or contradict GASB pronouncements, and has elected to do so.

In accordance with GASB Statement No. 6, the District is organized and operated on a fund basis. All of its operations are classified as proprietary-enterprise funds since they are financed and conducted in a manner similar to private business enterprises.

Funds are further classified as either unrestricted or restricted depending on the nature and extent of the restrictions. All funds of the District are unrestricted except for the depreciation and sinking funds, which are restricted. See Bond and Interest Redemption Fund and Depreciation Fund for information on those restrictions.

The District's financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Cash Flows:

For purposes of the statement of cash flows, the District considers highly liquid investments with a maturity of three months or less when purchased, and all U.S. government bond funds (not in the investment account) to be cash equivalents.

ALLEN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)

1. Summary of Significant Accounting Policies: (Continued)

Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Risk:

During the course of normal business operations, the Water District is exposed to various risks of loss from catastrophic occurrences. The Water District has purchased third party insurance, with a deductible of \$500, to limit the risk of catastrophic loss.

Utility Plant and Capitalization Policy:

All fixed assets are accounted for as capital assets, and are reported as utility plant in service in the District's balance sheet. All fixed assets are stated at historical cost which includes certain materials, labor, transportation and certain indirect costs. Interest costs on temporary financing, when utilized, are capitalized until such time as the plant under construction becomes operational in accordance with FAS ASC 835-20.

Depreciation:

Depreciation is calculated by the straight-line method to allocate the cost of utility plant assets over their estimated useful lives. The District recognizes one-half of regular annual depreciation in the year of acquisition or disposition of an asset.

The range of estimated useful lives by type of assets are as follows:

Structures (except the office building), pumping equipment, distribution reservoir and standpipes, transmission and distribution mains, services, and hydrants	50 Years
Office building	30 Years
Office furniture, tools, shop and garage equipment, power equipment, meters and communications equipment	10 Years
Transportation equipment	5 Years

Prepaid Expenses:

Payments made that will benefit periods beyond December 31, 20147 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase, and the expenditure is reported in the year in which services are consumed.

ALLEN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)

1. Summary of Significant Accounting Policies: (Continued)

Bond and Interest Redemption Fund:

The ordinance that authorizes the bond issues of the District requires a monthly deposit of 1/6 of the semi-annual interest requirement and 1/12 of the annual principal requirement.

Depreciation Fund:

The ordinances authorizing the bond issues of the District require monthly transfers into a depreciation fund. These funds may be used for capital improvements, expansions and extraordinary repairs, upon the authorization of the Office of Rural Development, United States Department of Agriculture. For the bonds issued in 1978, 1990, 1994 and 1997 the District is required to deposit a cumulative amount of \$765 per month into the fund until a maximum funding of \$91,800 is reached. The maximum funding amount for the first four bond issues was attained during 2000. For the bond issued in 1999, \$970 per month is required to be deposited in the depreciation fund beginning January 1, 2001. The monthly deposit for the 1999 bond issue is required for the life of the bond, currently scheduled for retirement in January 2038. For the years ended December 31, 2014 and 2013 deposits were made into the depreciation fund as required. For the bond issued in 2007 \$750 per month is required to be deposited in the depreciation fund until a maximum funding of \$90,000 is reached. Even though the bonds issued in 1990, 1994, 1997 and 1999 were refinanced the underlying requirements of the bonds remain the same as it relates to the depreciation fund.

Receivables/Bad Debts:

The District uses the allowance method for bad debts. The allowance as of December 31, 2014 is \$10,500.

Other Deferred Charges:

Other deferred charges consist of debt issues costs of \$172,262 as of December 31, 2014 and December 31, 2013, which are amortized by the straight-line method over the life of the bonds, typically 20 or 40 years. The net amortized balance as of December 31, 2014 was \$126,753 and as of December 31, 2013 was \$132,616.

Operating Revenue and Expenses:

Operating revenues and expenses are those that result from providing water services. It also includes all revenue and expenses not related to capital and related financing, non-capital financing, or investing activities.

Income Taxes:

The district is exempt from Federal and State Income taxes under Section 501 of the Internal Revenue code as the district is an adjunct of the Government of Allen County, Kentucky.

ALLEN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)

1. Summary of Significant Accounting Policies: (Continued)

Subsequent Events:

Subsequent events have been evaluated through February 12, 2015, which is the date the financial statements were available to be issued.

2. Cash, Restricted Cash and Investments:

All deposits, certificates of deposit, U.S. Government bond funds, and marketable certificates of deposit are in various accounts with Farmers National Bank, Morgan Keegan as custodian and Hilliard Lyons as custodian, and are carried at cost. The fair market value of marketable certificates of deposit approximate cost. All deposits in banks are insured by FDIC up to \$250,000 per financial institution. All financial instruments held by Morgan Keegan and Hilliard Lyons as custodian are insured by SIPC up to \$500,000 for securities, and \$100,000 for uninvested cash. Hilliard Lyons, additionally, has a third party policy subject to an aggregate limit of \$100 million for all of their customers.

	December 31	
	2014	2013
Insured FDIC and SIPC	\$ 4,160,864	\$ 3,899,927
U. S. Government bond fund	488,163	587,677
Cash on hand	1,000	1,000
Uninsured	1,204,331	1,347,872
	\$ 5,854,358	\$ 5,836,476

Uninsured amounts represent balances at banks in excess of the \$250,000 FDIC limit. At December 31, 2014, all uninsured amounts were secured by U.S. government agency bonds and Kentucky school district bonds held as collateral by the pledging bank in the Water District's name.

ALLEN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)

3. Property and Equipment:

Capital asset activity for the year ended December 31, 2014, was as follows:

	Balance at <u>12/31/2013</u>	<u>Additions</u>	<u>Disposals(1)</u>	Balance at <u>12/31/2014</u>
Capital Assets Not Depreciated:				
Land and Land Rights	\$ 86,990	\$ -0-	\$ -0-	\$ 86,990
Construction Work in Progress	<u>789,158</u>	<u>-0-</u>	<u>(789,158)</u>	<u>-0-</u>
Total Capital Assets Not Depreciated	<u>876,148</u>	<u>-0-</u>	<u>(789,158)</u>	<u>86,990</u>
Capital Assets Depreciated:				
Communications Equipment	45,954	-0-	-0-	45,954
Distribution Reservoir/Standpipes	887,164	229,038	-0-	1,116,202
Hydrants	43,860	-0-	-0-	43,860
Meters	1,207,960	94,795	-0-	1,302,755
Office Building	560,378	-0-	-0-	560,378
Office Furniture and Equipment	139,916	22,523	-0-	162,439
Power Operated Equipment	230,872	507,220	-0-	738,092
Pumping Equipment	377,493	333,074	-0-	710,567
Services	454,991	-0-	-0-	454,991
Structures and Improvements	40,988	363,218	-0-	404,206
Tools, Shop and Garage Equipment	30,830	-0-	-0-	30,830
Transmission/Distribution Mains	12,913,000	-0-	-0-	12,913,000
Transportation Equipment	<u>259,946</u>	<u>23,878</u>	<u>-0-</u>	<u>283,824</u>
Total Capital Assets Depreciated	<u>17,193,352</u>	<u>1,573,746</u>	<u>-0-</u>	<u>18,767,098</u>
Total Capital Assets	<u>\$18,069,500</u>	<u>\$ 1,573,746</u>	<u>\$(789,158)</u>	<u>\$18,854,088</u>

Less Accumulated Depreciation --

	Balance at <u>12/31/2013</u>	<u>Additions</u>	<u>Disposals</u>	Balance at <u>12/31/2014</u>
Communications Equipment	\$ 45,630	\$ 59	\$ -0-	\$ 45,689
Distribution Reservoir/Standpipes	377,557	20,034	-0-	397,591
Hydrants	14,825	877	-0-	15,702
Meters	385,583	53,197	-0-	438,781
Office Building	252,171	18,679	-0-	270,849
Office Furniture and Equipment	121,546	5,145	-0-	126,691
Power Operated Equipment	214,308	56,797	-0-	271,105
Pumping Equipment	114,583	10,881	-0-	125,463
Services	198,557	9,100	-0-	207,658
Structures and Improvements	26,697	4,452	-0-	31,149
Tools, Shop and Garage Equipment	24,413	1,166	-0-	25,579
Transmission/Distribution Mains	3,862,428	258,260	-0-	4,120,688
Transportation Equipment	<u>209,386</u>	<u>17,451</u>	<u>-0-</u>	<u>226,837</u>
Totals at Historical Cost	<u>\$ 5,847,684</u>	<u>\$ 456,098</u>	<u>\$ -0-</u>	<u>\$ 6,303,782</u>
Total Capital Assets	<u>\$12,221,816</u>	<u>\$1,117,648</u>	<u>\$(789,158)</u>	<u>\$12,550,306</u>

(1) Capitalized to various capital asset accounts

ALLEN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)

4. Long-Term Debt:

Long-term debt consists of the following Serial Water Revenue Bonds, payable from bond and interest fund assets, and a term loan from Kentucky Rural Water Finance Corporation.

Series of 1978 due annually with principal payments of \$3,000 for 2015, plus interest at 5%. Principal payments vary until final maturity, 2018	\$ 13,500
Series of 2006 due annually with principal payments of \$22,000 for 2015, plus interest at 4.5%. Principal payments vary until final maturity, 2046	1,501,000
Series of 2012 due annually with principal payments of \$11,500 for 2015, plus interest at 3%. Principal payments vary until final maturity, 2052.	<u>797,000</u>
Total Serial Water Revenue Bonds	<u>2,311,500</u>
Kentucky Rural Water Finance Corporation, term loan with principal payments of \$20,000 for 2015, plus interest at 2.30%. Principal payments and interest rate vary until final maturity, 2022	185,000
Kentucky Rural Water Finance Corporation, term loan with principal payments of \$90,000 for 2015, plus interest at 4.20%. Principal payments and interest rate vary until final maturity, 2038	<u>2,790,000</u>
Total Kentucky Rural Water Finance Bonds	<u>2,975,000</u>
Total Long-Term Debt	<u><u>\$ 5,286,500</u></u>

ALLEN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)

4. Long-Term Debt: (Continued)

The following is a summary of changes in long-term debt for the year ended December 31, 2014 –

	<u>Balance at</u> <u>12/31/2013</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at</u> <u>12/31/2014</u>
Serial Water Revenue Bonds:				
Series of 1978	\$ 16,500	\$ -0-	\$ 3,000	\$ 13,500
Series of 2006	1,522,000	-0-	21,000	1,501,000
Series of 2012	-0-	797,000	-0-	797,000
Ky. Rural Water Mature 2022	205,000	-0-	20,000	185,000
Ky. Rural Water Mature 2038	<u>2,875,000</u>	<u>-0-</u>	<u>85,000</u>	<u>2,790,000</u>
Total long-term debt	<u>\$ 4,618,500</u>	<u>\$ 797,000</u>	<u>\$ 129,000</u>	<u>\$ 5,286,500</u>

The annual debt service requirements to maturity, including principal and interest, for long-term debt as of December 31, 2014, are as follows –

<u>Year Ending December 31</u>	Serial Water Revenue Bonds	
	<u>Principal</u>	<u>Interest</u>
2015	\$ 36,500	\$ 91,388
2016	38,500	89,790
2017	39,500	88,178
2018	41,500	86,488
2019	39,000	84,105
2020 – 2024	220,500	400,745
2025 – 2028	268,500	348,747
2030 – 2033	327,500	295,656
2035 – 2038	399,500	200,800
2040 – 2043	488,000	123,213
2045 – 2046	312,000	33,861
2050 – 2052	<u>100,500</u>	<u>4,582</u>
Total	\$ 2,311,500	\$ 1,847,553

<u>Year Ending December 31</u>	Kentucky Rural Water Loan	
	<u>Principal</u>	<u>Interest</u>
2015	\$ 110,000	\$ 106,566
2016	110,000	102,576
2017	110,000	100,091
2018	115,000	95,718
2019	125,000	91,443
2020 – 2024	620,000	393,085
2025 – 2029	650,000	285,521
2030 – 2034	665,000	158,658
2035 – 2039	<u>470,000</u>	<u>36,922</u>
Total	\$ 2,975,000	\$1,370,580

ALLEN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)

4. Long-Term Debt: (Continued)

<u>Year Ending December 31</u>	Total Long-Term Debt	
	<u>Principal</u>	<u>Interest</u>
2015	\$ 146,500	\$ 197,954
2016	148,500	192,366
2017	149,500	188,269
2018	156,000	182,206
2019	164,000	175,548
2020 – 2024	840,500	793,830
2025 – 2029	918,500	634,268
2030 – 2034	992,500	454,314
2035 – 2039	869,500	237,722
2040 – 2044	488,500	123,213
2045 – 2049	312,000	33,861
2050 – 2052	<u>100,500</u>	<u>4,582</u>
Total	<u>\$ 5,286,500</u>	<u>\$ 3,218,133</u>

6. Defined Benefit Pension Plan:

Effective January 1, 1999, the District adopted a defined benefit pension plan. The plan is a single-employer plan, administered by the District. Assets of the plan are invested primarily in equity mutual funds. Membership in the plan and applicable benefit provisions, annual pension costs and actual assumptions are as follows –

Eligibility Factors, Contribution Methods, and Benefit Provisions –

Provision	As of December 31, 2014
a. Eligible to participate	Full-time employees age 21 or greater, with six months minimum service
b. Contribution Requirements:	
Authorization	By Board of Directors
Actuarially Determined	Yes
Employer Rate	26.59% of covered payroll
Employee Rate	0.00% - employees cannot contribute
c. Period Required to Vest	20% a year after 2 years (100% after 6 years)
d. Eligibility for Distribution	Plan anniversary nearest age 65 and the completion of 5 years of participation.
e. Benefit Determination Base	Highest consecutive 5 year average salary over all service. Annual salary up to \$210,000 considered.
f. Benefit Determination Method	75% of compensation (see determination base, above)
g. Form of Benefit Payments	Single life annuity. Qualified joint and survivor annuity is the required standard option.

ALLEN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)

6. Defined Benefit Pension Plan: (Continued)

Annual Pension Costs:

For the year ended December 31, 2014 the District's annual pension cost and required contributions to pay off the unfunded actuarial liability in 10 years, determined by actuarial valuation, was \$115,687. The full minimum contribution was made by the District resulting in no pension plan obligations at December 31, 2014.

Actuarial Assumptions:

a. Date of Last Actuarial Valuation	January 1, 2014
b. Actuarial Cost Method	Entry age normal cost method
c. Annual Rate of Return on Investments	6.5%, Pre-retirement 5.5%, Post-retirement
d. Projected Salary Increase	4.5% per year

Reconciliation of Net Pension Obligation ("NPO")

	<u>2012</u>	<u>2013</u>	<u>2014</u>
(1) Actuarially Required Contribution ("ARC")	\$ 112,350	\$ 101,730	\$ 102,195
(2) Interest on NPO	- 4,318	- 5,340	- 5,938
(3) Adjustment to (1)	<u>- 5,823</u>	<u>- 7,200</u>	<u>- 8,291</u>
(4) Annual Pension Cost (1)-(2)+(3)	\$ 113,855	\$ 103,590	\$ 104,548
(5) Actual Contrib. Made	\$ 128,443	\$ 118,664	
(6) Increase in NPO (4) - (5)	- 14,588	- 15,074	
(7) NPO at beginning of year	\$ - 61,691	\$ - 76,279	\$ - 91,353
(8) NPO at end of year (6) + (7)	\$ - 76,279	- 91,353	

ALLEN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)

6. Defined Benefit Pension Plan: (Continued)

Required Supplementary Information:

(a)	(b)	(c)	(d)	(e)	(f)	(g)
Actuarial Valuation Date	Actuarial Value of Plan Assets	Entry Age Actuarial Accrued Liability	Unfunded Accrued Liability UAL=(c)-(b)	Funded Ratio (b)/(c)	Annual Covered Payroll	UAL as % of Covered Payroll (d)/(f)
12/31/07	750,811	1,076,033	325,222	69.8%	409,560	79.4%
12/31/08	702,434	1,229,678	527,244	57.1%	410,064	128.6%
12/31/09	988,764	1,418,616	429,852	69.7%	436,413	98.5%
12/31/10	1,080,808	1,432,683	351,875	75.4%	453,035	77.7%
12/31/11	1,226,399	1,561,791	335,392	78.5%	457,474	73.3%
12/31/12	1,084,462	1,437,380	352,918	75.4%	432,435	81.6%
12/31/13	1,286,564	1,565,611	279,047	82.2%	435,144	64.1%

**ALLEN COUNTY WATER DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For The Year Ended December 31, 2014**

DEPARTMENT OF AGRICULTURE

Water and Waste Disposal Systems for Rural Communities – CFDA No. 10.760

None

MICHAEL J. MONTGOMERY, M.B.A., C.P.A.

BOBBY D. WEBB, C.P.A.



CHARLES E. McDONOUGH, C.P.A.
(1929 - 1994)

MELISSA J. MONTGOMERY, M.S.

Independent Auditors' 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*

To the Commissioners of Allen County Water District:

We have audited, 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, the financial statements of Allen County Water District as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated February 12, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Allen County Water District'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 Allen County Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Entity'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 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. We consider the deficiencies described in the accompanying schedule of financial statement findings as 2014-1 to be a material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

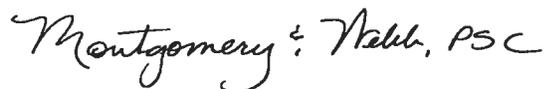
As part of obtaining reasonable assurance about whether Allen County Water District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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*.

Allen County Water District's Response to Findings

The District's response to the findings identified in our audit is described in the accompanying schedule of financial statement findings. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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



Montgomery & Webb, PSC
Certified Public Accountants

Bowling Green, Kentucky
February 12, 2015

**ALLEN COUNTY WATER DISTRICT
SCHEDULE OF FINANCIAL STATEMENT FINDINGS
For The Year Ended December 31, 2014**

- **2014-1 Financial Reporting**

Criteria: The internal control structure should be such that misstatements in the District's financial statements are prevented, or detected and corrected, on a timely basis. Significant proposed audit adjustments were made to cash, capital assets, accounts payable, accrued liabilities, long-term debt, short-term debt, retained earnings, revenues and expenses.

Cause: Certain internal controls were not in place to prevent, or detect and correct, material misstatements.

Effect: Financial statements could contain material undetected errors.

Audit Recommendation: We recommend controls over the financial close process be reviewed to ensure significant amounts are reported correctly and timely in the District's financial statements.

Management Response: The office manager will, in the future, have a closer review of the year-end closing process and ask for technical guidance in areas that are needed in the year-end financial close process.