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Commission

ALLEN COUNTY WATER DISTRICT

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

For the Year Ended December 31, 2015

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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 statement of Allen County Water District as of and for the year ended December 31, 2015 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 statements present fairly in all material respects, the respective financial position of the Allen County Water District, as of December 31, 2015, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Notes 1 and 5, the District adopted Governmental Accounting Standards Board (GASB) No. 68, *Accounting and Financial Reporting for Pensions*, and GASB statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – and amendment of GASB statement No. 68*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 7 be presented to supplement the basic financial statements, schedule of investment returns, schedule of the components of net pension liability along with related ratios, and comparison of actual employer contributions to the actuarially determined contributions based on the plan's funding policy.

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 5, 2016 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 5, 2016

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, 2015. Please read it in conjunction with the District's financial statements, which begins on page 8.

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	
	2015	2014
Current Assets	\$ 4,912,949	\$ 4,832,218
Restricted Assets	1,344,722	1,268,096
Capital Assets, Net of Depreciation	12,249,005	12,550,306
Other Assets	121,445	127,308
Deferred Outflows of Resources	83,812	-0-
Total Assets	<u>18,711,933</u>	<u>18,777,928</u>
Current Liabilities, Including Current Portion of Long-Term Debt	443,474	421,826
Non-Current Liabilities	5,301,616	5,140,000
Total Liabilities	5,745,090	5,561,826
Deferred Inflow of resources	37,220	-0-
Metered Water Sales	2,273,395	2,272,995
Other Operating Revenue	197,848	222,004
Total Operating Revenue	2,471,243	2,494,999
Water Purchased	727,917	751,817
Transmission and Distribution Costs	374,831	408,329
Other Operating Expenses	1,289,316	1,224,999
Total Operating Expenses	2,392,064	2,385,145
Net Non-operating (Expenses) and Revenue	(102,134)	14,941
Grants and Other Capital Contributions	-0-	200,000
Decrease/ Increase in Net Assets	(22,955)	324,795
Prior Period Adjustment – Adoption GASB 68	(263,524)	-0-
Net Assets - End of Year	<u>\$12,929,623</u>	<u>\$13,216,102</u>

Financial Highlights

The District's financial results showed a decrease from 2014. For the period, the decrease, before the prior period adjustment, in net assets was \$(22,955) down from \$324,765 in 2014. Driving the decrease in net assets for 2015 was near flat sales with increased costs, in particular salaries, depreciation, and interest expense. During the year, an additional 88 customers were added to the system. Revenue was flat with an approximate \$7,000 increase year over year. Operating expenses for the year compared to last year were approximately \$7,000 worse, a result of overall decreased water usage countering increased labor costs. Non-operating accounts showed an approximate \$32,000 increase in interest expense plus a reduction of a near \$14,000 in interest income.

The district added approximately 3,951 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 2015 actual total water revenues were approximately \$2,471,000 nearly \$113,000 less than budgeted revenues, while operating expenses were approximately \$40,000 more than budgeted operating expenses. The revenue variance was caused by less overall residential usage. The following factors mainly drove the decrease of actual expenses over budget: The items were depreciation brought on by fixed plant purchases, and labor cost increases.

The above factors resulted in net assets being (\$22,955) versus a budget of \$70,000.

Capital Assets and Debt Administration

During the period the district only had one major purchase, that being a service truck.

Funding for 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 4 to the financial statements for unpaid balances of the loans and revenue bonds as of December 31, 2015, and for maturity balances over the next 5 years and thereafter. During 2015 the District paid principal on the loans and revenue bonds totaling \$146,500 and interest totaling \$197,955 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 \$134,000 and of net assets of approximately \$220,000 over 2015 results.

Adoption of GASB 68

The District adopted GASB 68, *Accounting and Financial Reporting for Pensions*, for the year ended December 31, 2015.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

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, 2015**

Assets and Deferred Outflows of Resources

Current Assets:	
Cash	\$ 324,224
Investments	4,314,148
Accounts Receivable from Customers (Net)	244,608
Prepaid Insurance	12,428
Prepaid Expenses	4,800
Accrued Interest Receivable	<u>12,741</u>
Total Current Assets	<u>4,912,949</u>
Restricted Assets:	
Cash – Customer’s Deposits	122,524
Cash – Bond and Interest Redemption Account	818,054
Cash – Depreciation Reserve Account	392,472
Cash – Bond Reserve Accounts	<u>11,672</u>
Total Restricted Assets	<u>1,344,722</u>
Capital Assets Not Being Depreciated:	
Land and Land Rights	86,990
Construction in Progress	55,915
Capital Assets Being Depreciated:	
Water Supply and Distribution System of \$472,271	<u>12,106,100</u>
Total Capital Assets	<u>12,249,005</u>
Other Assets:	
Utility Deposits	555
Other Deferred Charges, Net of Accumulated Amortization of \$51,372	<u>120,890</u>
Total Other Assets	<u>121,445</u>
Deferred Outflows of Resources:	
Deferred Cost of Pension	<u>83,812</u>
Total Assets	<u>\$ 18,711,933</u>

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

ALLEN COUNTY WATER DISTRICT
STATEMENT OF NET POSITION (Continued)
December 31, 2015

Liabilities, Deferred Inflows of Resources, and Net Assets

Current Liabilities:	
Notes Payable - Current Portion	\$ 148,500
Accounts Payable, Payroll Taxes and Other Payables	101,514
Customer Deposits	96,114
Accrued Interest	<u>97,346</u>
Total Current Liabilities	<u>443,474</u>
Non-Current Liabilities:	
Notes Payable – Net of Current Maturities	4,991,500
Net Pension Liability	<u>310,116</u>
Total Non-Current Liabilities	<u>5,301,616</u>
Total Liabilities	<u>5,745,090</u>
Deferred Inflows of Resources:	
Pension, Other Deferrals	<u>37,220</u>
Net Assets:	
Unrestricted	4,636,733
Invested in Capital Assets, Net of Related Debt	<u>7,082,363</u>
Total Unrestricted Net Assets	<u>11,719,096</u>
Restricted:	
Bond and Interest Redemption Fund	818,055
Depreciation Fund	<u>392,472</u>
Total Restricted Net Assets	<u>1,210,527</u>
Total Net Assets	<u>12,929,623</u>
Total Liabilities and Net Assets	<u>\$ 18,711,933</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
For the Year Ended December 31, 2015

<u>Operating Revenues</u>	
Metered Water Sales	\$ 2,273,395
Forfeited Discounts	49,258
Pumping Charges for Water Returns to Supplier	14,127
Miscellaneous Service Revenue	<u>134,463</u>
Total Operating Revenues	<u>2,471,243</u>
<u>Operating Expenses</u>	
Source of Supply and Pumping	727,917
Transmission and Distribution	374,831
Customer Accounts	221,601
Administrative and General	545,212
Depreciation	472,271
Amortization	5,862
Taxes Other Than Income	<u>44,370</u>
Total Operating Expenses	<u>2,392,064</u>
Operating Income	<u>79,179</u>
<u>Non-operating Revenues and (Expenses)</u>	
Interest Income	100,994
Interest Expense	(208,762)
Unrealized Gain (Loss) on Temp Investments	(2,833)
Gain on Sale of Equipment	2,327
Miscellaneous Income/Non-Utility	<u>6,140</u>
Net Non-operating Revenues and (Expenses)	<u>(102,134)</u>
Decrease in Net Assets	\$(<u>22,955</u>)
Decrease in Net Assets	\$(22,955)
Net Assets – Beginning of Year	13,216,102
Prior Period Adjustments (See Note 6)	<u>(263,524)</u>
Net Assets – End of Year	<u>\$ 12,929,623</u>

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

**ALLEN COUNTY WATER DISTRICT
STATEMENTS OF CASH FLOWS
For The Year Ended December 31, 2015**

Cash Flows from Operating Activities and	
Non-Operating Revenues:	
Receipts from Customers	\$2,478,958
Salaries, Wages and Employee Benefits	(850,264)
Purchased Water	(727,917)
Other Operating Expenses	(337,512)
Cash Provided by Operations and Non-Operating Revenues	<u>563,265</u>
Cash Flows from Capital and Related Financing Activities:	
Purchase of Capital Assets and Deferred Charges	(159,960)
Proceeds of Refinance Notes	-0-
Principal Paid on Revenue Bonds and Notes Payable	(146,500)
Interest Paid on Revenue Bonds and Other Debt	(197,955)
Cash Used in Capital and Related Financing Activities	<u>(504,415)</u>
Cash Flows from Investing Activities:	
Interest on Cash Balances	2,103
Interest on Investments	100,994
Purchase of Investments	(121,451)
Proceeds on Sale of Fixed Assets	<u>2,327</u>
Cash Used By Investing Activities	<u>(16,027)</u>
Net Increase in Cash and Cash Equivalents	42,823
Cash and Cash Equivalents, Beginning of Year	<u>1,626,123</u>
Cash and Cash Equivalents, End of Year	<u>1,668,946</u>
Less Restricted Cash	
Cash – Customers Deposits	(122,524)
Cash – Bond and Interest Redemption	(818,054)
Cash – Depreciation Reserve	(392,472)
Cash – Bond Reserve	(11,672)
Total Restricted Cash	<u>(1,344,722)</u>
Cash and Cash Equivalents, Per Statement of Net Position	<u>\$ 324,224</u>

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

**ALLEN COUNTY WATER DISTRICT
STATEMENTS OF CASH FLOWS (Continued)
For The Year Ended December 31, 2015**

**Reconciliation of Operating Income to Net Cash Provided by
Operating Activities and Non-Operating Revenues:**

Operating Income	\$ 79,179
Adjustments to Reconcile Operating Income to Net Cash	
Provided by Operating Activities and Non-Operating Revenues –	
Depreciation and Amortization Expense	478,134
Change in Deferred Outflows – Pension	(83,812)
Decrease in Accounts Receivable	1,575
Change in Deferred Inflows – Pension	46,592
Decrease in Prepaid Insurance	406
Change in Pension Liability	37,220
Increase in Acc. Payable and Acc. Expenses	8,841
Capitalized Labor Costs	(11,010)
Gain on Sale of Fixed Asset	-0-
Other Non-Operating Revenue	<u>6,140</u>
Net Cash Provided by Operations and Non-Operating Revenue	<u>\$ 563,265</u>

Supplemental Disclosures:

Non-Cash Investing and Financial Transactions:

Unrealized (Loss) on Investments (Net)	\$(2,833)
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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, 2015 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 year ended December 31, 2015 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, 2015 was \$10,500.

Other Deferred Charges:

Other deferred charges consist of debt issues costs of \$172,262 as of December 31, 2015, 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, 2015 was \$120,890.

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)

Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net assets that applies to a future period and will not be recognized as an outflow of resource (expense) until that time.

Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net assets that applies to a future period and will not be recognized as an inflow of resource (revenue) until that time.

Impact of Recently Issued Accounting Pronouncements

During the fiscal year ended December 31, 2015, the District implemented GASB Statements No. 67, *Financial Reporting for Pension Plans – An Amendment to GASB No. 25*, and No. 68, *Accounting and Financial Reporting for Pensions – An Amendment to GASB Statement No. 27*. The requirements of these new standards and their effect on the financial statements are more fully explained in Notes 5 and 6.

During the fiscal year ended December 31, 2015, the District implemented GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. This requires the District to record pension contributions after the measurement date to be recorded as a deferred outflow of resources. The effect on the District’s financial statements is an increase in deferred outflows of resources of \$46,592 for the amount paid after the measurement date.

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.

	<u>December 31</u>
	2015
Insured FDIC and SIPC	\$ 4,528,240
U. S. Government bond fund	207,448
Cash on hand	1,000
Uninsured	<u>1,249,237</u>
	<u>\$ 5,985,925</u>

ALLEN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)

2. Cash, Restricted Cash, and Investments (Continued)

Uninsured amounts represent balances at banks in excess of the \$250,000 FDIC limit. At December 31, 2015, 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, 2015, was as follows:

	<u>Balance at</u> <u>12/31/2014</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at</u> <u>12/31/2015</u>
Capital Assets Not Depreciated:				
Land and Land Rights	\$ 86,990	\$ -0-	\$ -0-	\$ 86,990
Construction Work in Progress	-0-	55,915	-0-	55,915
Total Capital Assets Not Depreciated	<u>86,990</u>	<u>55,915</u>	<u>-0-</u>	<u>142,905</u>
Capital Assets Depreciated:				
Communications Equipment	45,954	-0-	-0-	45,954
Distribution Reservoir/Standpipes	1,116,202	-0-	-0-	1,116,202
Hydrants	43,860	-0-	-0-	43,860
Meters	1,302,755	66,270	-0-	1,369,025
Office Building	560,378	-0-	-0-	560,378
Office Furniture and Equipment	162,439	3,418	-0-	165,857
Power Operated Equipment	738,092	3,008	-0-	741,100
Pumping Equipment	710,567	2,714	-0-	713,281
Services	454,991	-0-	-0-	454,991
Structures and Improvements	404,206	-0-	-0-	404,206
Tools, Shop and Garage Equipment	30,830	6,017	-0-	36,847
Transmission/Distribution Mains	12,913,000	-0-	-0-	12,913,000
Transportation Equipment	283,824	33,628	(49,286)	268,166
Total Capital Assets Depreciated	<u>18,767,098</u>	<u>115,055</u>	<u>(49,286)</u>	<u>18,832,867</u>
Total Capital Assets	<u>\$18,854,088</u>	<u>\$ 170,970</u>	<u>\$(49,286)</u>	<u>\$18,975,772</u>

Less Accumulated Depreciation –

	<u>Balance at</u> <u>12/31/2014</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at</u> <u>12/31/2015</u>
Communications Equipment	\$ 45,689	\$ 59	\$ -0-	\$ 45,747
Distribution Reservoir/Standpipes	397,591	22,324	-0-	419,915
Hydrants	15,702	877	-0-	16,579
Meters	438,781	60,370	-0-	499,150
Office Building	270,849	18,679	-0-	289,529
Office Furniture and Equipment	126,691	5,569	-0-	132,260
Power Operated Equipment	271,105	52,271	-0-	323,376
Pumping Equipment	125,463	14,239	-0-	139,702
Services	207,658	9,100	-0-	216,758
Structures and Improvements	31,149	8,084	-0-	39,233
Tools, Shop and Garage Equipment	25,579	1,227	-0-	26,806
Transmission/Distribution Mains	4,120,688	258,260	-0-	4,378,949
Transportation Equipment	226,837	21,212	(49,286)	198,763
Totals at Historical Cost	<u>6,303,782</u>	<u>472,271</u>	<u>(49,286)</u>	<u>6,726,767</u>
Total Capital Assets	<u>\$12,550,306</u>	<u>\$(301,301)</u>	<u>\$ -0-</u>	<u>\$12,249,005</u>

**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 \$3,500 for 2016, plus interest at 5%. Principal payments vary until final maturity, 2018	\$ 10,500
Series of 2006 due annually with principal payments of \$23,000 for 2016, plus interest at 4.5%. Principal payments vary until final maturity, 2046	1,479,000
Series of 2012 due annually with principal payments of \$12,000 for 2016, plus interest at 3%. Principal payments vary until final maturity, 2052.	<u>785,500</u>
Total Serial Water Revenue Bonds	<u>2,275,000</u>
Kentucky Rural Water Finance Corporation, term loan with principal payments of \$20,000 for 2016, plus interest at 2.30%. Principal payments and interest rate vary until final maturity, 2022	165,000
Kentucky Rural Water Finance Corporation, term loan with principal payments of \$90,000 for 2016, plus interest at 4.20%. Principal payments and interest rate vary until final maturity, 2038	<u>2,700,000</u>
Total Kentucky Rural Water Finance Bonds	<u>2,865,000</u>
Total Long-Term Debt	<u>\$ 5,140,000</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, 2015 –

	<u>Balance at</u> <u>12/31/2014</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at</u> <u>12/31/2015</u>
Serial Water Revenue Bonds:				
Series of 1978	\$ 13,500	\$ -0-	\$ 3,000	\$ 10,500
Series of 2006	1,501,000	-0-	22,000	1,479,000
Series of 2012	797,000	-0-	11,500	785,500
Ky. Rural Water Mature 2022	185,000	-0-	20,000	165,000
Ky. Rural Water Mature 2038	2,790,000	-0-	90,000	2,700,000
Total long-term debt	<u>\$ 5,286,500</u>	<u>\$ -0-</u>	<u>\$ 146,500</u>	<u>\$ 5,140,000</u>

The annual debt service requirements to maturity, including principal and interest, for long-term debt as of December 31, 2015, are as follows –

<u>Year Ending December 31</u>	<u>Serial Water Revenue Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2016	\$ 38,500	\$ 89,790
2017	39,500	88,178
2018	41,500	86,488
2019	39,000	84,105
2020	41,000	82,900
2021 – 2025	229,000	392,586
2026 – 2030	279,500	340,042
2031 – 2035	341,000	266,068
2036 – 2040	415,500	179,846
2041 – 2045	508,500	111,260
2046 – 2051	234,000	30,320
2051 – 2052	<u>68,000</u>	<u>4,582</u>
Total	<u>\$ 2,275,000</u>	<u>\$ 1,756,165</u>

<u>Year Ending December 31</u>	<u>Kentucky Rural Water Loan</u>	
	<u>Principal</u>	<u>Interest</u>
2016	\$ 110,000	\$ 102,576
2017	110,000	100,091
2018	115,000	95,718
2019	125,000	91,443
2020	130,000	87,089
2021 – 2025	625,000	372,398
2026 – 2030	660,000	261,390
2031 – 2035	650,000	132,936
2036 – 2038	<u>340,000</u>	<u>20,373</u>
Total	<u>\$ 2,865,000</u>	<u>\$1,264,014</u>

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>
2016	\$ 148,500	\$ 192,366
2017	149,500	188,269
2018	156,500	182,206
2019	164,000	175,548
2020	171,000	169,989
2021 – 2025	854,000	764,984
2026 – 2030	939,500	601,432
2031 – 2035	991,000	399,004
2036 – 2040	755,500	200,219
2041 – 2045	508,500	111,260
2046 – 2051	234,000	30,320
2052 – 2053	<u>68,000</u>	<u>4,582</u>
Total	<u>\$ 5,140,000</u>	<u>\$ 3,020,179</u>

5. 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, 2015
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)**

5. Defined Benefit Pension Plan: (continued)

Employees covered by benefit terms

At the measurement date of December 31, 2015, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	1
Inactive employees entitled to but not yet receiving benefits	3
Active employees	<u>12</u>
	<u>16</u>

Contributions – The board of commissioners establishes amounts based on an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned during the year, with an additional amount to finance any unfunded accrued liability for past service costs. For 2015, the District’s contributions were approximately 25.76% of annual covered pensions.

Net Pension Liability

The District net pension liability was measured as of January 1, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2016.

Actuarial Cost Methods and Assumptions

COST METHOD: The “entry age normal cost method” has been used in determining retirement cost.

PRE-RETIREMENT MORTALITY: Deaths have been projected on the basis of the RP 2000 Healthy Lives Table projected to 2020 with Scale AA. Mortality rates at a few sample ages are:

<u>AGE</u>	<u>MORTALITY RATES PER 1,000</u>	
	<u>Males</u>	<u>Females</u>
25	.308	.156
30	.402	.216
35	.699	.381
40	.919	.522
45	1.161	.814
50	1.487	1.189
55	2.469	2.314
60	4.887	4.573

**ALLEN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)**

5. Defined Benefit Pension Plan: (continued)

POST-RETIREMENT MORTALITY: The RP 2000 Healthy Living Table projected to 2020 with Scale AA was used. The life expectancy according to this table is as follows:

<u>AGE</u>	<u>MALES</u>	<u>FEMALES</u>
55	28.04 years	29.88 years
60	19.17 years	21.02 years

VOLUNTARY TERMINATIONS: We have assumed that voluntary terminations will be in accordance with the following sample rates:

<u>AGE</u>	<u>TERMINATION RATE PER 100</u>
25	14.87
30	9.89
35	6.89
40	2.79
45	1.66
50	.44
55	.00

EXPECTED RETIREMENT PATTERNS Retirement was assumed to occur on the Normal Retirement Date.

ASSUMED INVESTMENT RETURN: 6.5% annually, pre-retirement.
5.5% annually, post-retirement.
This is equivalent to a single 6.05% rate.

SALARY/GROWTH: 4.5% annually.

Cost of Living Adjustment (COLA)

The board of trustees has the right to declare ad hoc cost of living adjustments (COLA) each year, but are not required to do so. The history of COLA's granted, in the opinion of the actuary, makes the COLA substantively automatic, and a 3% COLA is included in the determination of the Total Pension Liability.

**ALLEN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)**

5. Defined Benefit Pension Plan: (continued)

Long-Term Expected Return on Plan Assets

The Long-Term Expected Rate of Return on pension plan investments was determined using a building block method in which best-estimate ranges of expected future real rates of return. The target allocation and the long term expected rates of return are shown in the table below:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic Fixed Income	40%	1.75%
International Fixed Income		
Domestic Equity	60%	5.50%
Foreign Equity		
Cash		
Subtotal	100%	4.00%
Assumed Inflation		2.50%
Total		6.50%

Single Discount Rate

A discount rate of 6.50% was used before retirement and 5.50% after retirement. This translates to a single discount rate of 6.05% used to measure the Total Pension Liability.

Regarding the sensitivity of the Net Pension Liability to changes in the single discount rate, the following presents the plan's net pension liability, calculated using a single discount rate of 6.05%, as well as what the plan's net pension liability would be if it were calculated using a single discount rate that is 1-percentage point lower or 1-percentage point higher.

	1% Decrease to <u>5.05%</u>	Current Single Rate Assumed <u>6.05%</u>	1% Increase to <u>7.05%</u>
Total Pension Liability	2,169,517	1,918,326	1,702,740
Net Pension Liability	561,307	310,116	94,530

**ALLEN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)**

5. Defined Benefit Pension Plan: (continued)

Changes in the Net Pension Liability

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at 12/31/2014	\$ 1,769,507	\$ 1,496,018	\$ 273,489
Changes for the year:			
a) Service cost	78,657		78,657
b) Interest	117,383		117,383
c) Differences between expected and actual experience	(41,355)		(41,355)
d) Employer contributions		121,814	(121,814)
e) Employee contributions		0	0
f) Net investment income		(3,756)	3,756
g) Benefits and refunds	(5,866)	(5,866)	0
h) Admin expenses	0	(0)	0
i) Assumption change	0		0
j) Other	0	0	0
Net changes	148,819	112,192	36,627
Balances at 12/31/2015	\$ 1,918,326	\$ 1,608,210	\$ 310,116

GASB 68 Pension Expense and Deferred Outflows/Inflows

For the year ended December 31, 2015, the Allen County Water District recognized pension expense of \$111,849. At December 31, 2015, the Water District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experiences	0	37,220
Changes of assumptions	0	0
Net difference between projected and actual earnings on pension plan investments	83,812	0
Total	83,812	37,220

**ALLEN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)**

5. Defined Benefit Pension Plan: (continued)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending December 31:	Net deferred Outflow of Resources
2016	16,818
2017	16,818
2018	16,818
2019	16,818
2020	(4,136)
Thereafter	(16,544)
Total	46,592

6. Prior Period Adjustment

As a result of adopting GASB Statements No. 67 and No. 68, the District has recorded a prior period adjustment to the unrestricted net position as of December 31, 2015 of \$263,524 which decreased the net beginning position from \$4,480,832 to \$4,217,308.

7. Subsequent Events

Subsequent events have been evaluated through February 15, 2016, which is the date the financial statements were available to be issued.

SUPPLEMENTAL INFORMATION



**Schedule of Required Supplementary Information
Schedule of Investment Returns**

FY ending December 31,	Annual Money-weighted Rate of Return
2006	-
2007	-
2008	2.6%
2009	-18.9%
2010	8.4%
2011	1.3%
2012	12.1%
2013	20.1%
2014	7.4%
2015	-0.2%

The amounts shown are net of investment expenses.

The actuary calculated these rates with the information that was provided, therefore, these rates are annual money-weighted. Monthly money-weighted returns are not available, and the difference between the above and monthly money-weighted returns is estimated to be insignificant.

Schedules of Required Supplementary Information
Schedule of Changes in the Employers' Net Pension Liability and Related Ratios

Plan Year ending December 31	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Total Pension Liability										
Service Cost	78,657	72,178	63,941	75,412	75,048	72,327	71,972	67,573		
Interest	117,383	103,920	98,204	97,887	102,914	97,275	88,596	77,687		
Benefit Changes	0	0	0	0	0	0	0	0		
Difference between Actual & Expected Experience	-41,355	33,664	-42,655	104,516	-48,854	-25,265	28,370	8,385		
Assumption changes	0	0	141,611	0						
Benefit Payments	-5,866	-5,866	-132,870	-402,226	0	-130,270	0	0		
Net Change in Total Pension Liability	148,819	203,896	128,231	-124,411	129,108	14,067	188,938	153,645	0	0
Total Pension Liability - Beginning	1,769,507	1,565,611	1,437,380	1,561,791	1,432,683	1,418,616	1,229,678	1,076,033		
Total Pension Liability - Ending	1,918,326	1,769,507	1,565,611	1,437,380	1,561,791	1,432,683	1,418,616	1,229,678	1,076,033	
Plan Fiduciary Net Position										
Contributions - Employee	0	0	0	0	0	0	0	0	0	0
Contributions - Employer	121,814	115,687	118,664	128,443	130,401	138,591	152,078	103,001	115,818	
Net Investment Income	-3,756	99,633	216,308	131,846	15,190	83,723	134,252	-151,378	17,530	
Benefit Payments	-5,866	-5,866	-132,870	-402,226	0	-130,270	0	0	0	
Administrative Expense	0	0	0	0	0	0	0	0	0	
Other	0	0	0	0	0	0	0	0	0	
Net Change in Plan Net Position	112,192	209,454	202,102	-141,937	145,591	92,044	286,330	-48,377	133,348	0
Plan Fiduciary Net Position - Beginning	1,496,018	1,286,564	1,084,462	1,226,399	1,080,808	988,764	702,434	750,811	617,463	
Plan Fiduciary Net Position - Ending	1,608,210	1,496,018	1,286,564	1,084,462	1,226,399	1,080,808	988,764	702,434	750,811	617,463
Net Pension Liability - Ending	310,116	273,489	279,047	352,918	335,392	351,875	429,852	527,244	325,222	
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	83.83%	84.54%	82.18%	75.45%	78.53%	75.44%	69.70%	57.12%	69.78%	
Covered Employee Payroll	482,355	472,873	435,144	432,435	457,474	453,035	436,413	410,064	409,560	381,020
Net Pension Liability as a Percentage of Covered Employee Payroll	64%	58%	64%	82%	73%	78%	98%	129%	79%	-162%

Notes to Schedule:

Changes of assumptions: At 1/1/2014, assumed mortality changed from the UP 1994 Table to the RP 2000 Combined Healthy Mortality Table projected 20 years with Scale AA. At 1/1/2014, assumed pre-retirement discount rate lowered from 7.0% to 6.5%.

Schedules of Required Supplementary Information
Schedule of Allen County Water District Contributions

Plan Year ending December 31	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Actuarially determined contribution	109,247	102,195	101,730	112,350	113,516	117,965	126,778	103,001		
Contributions in relation to the actuarially determined contribution	121,814	115,687	118,664	128,443	130,401	138,591	152,078	103,001		
Contribution deficiency (excess)	(12,567)	(13,492)	(16,934)	(16,093)	(16,885)	(20,626)	(25,300)	0		
Covered-employee payroll	482,355	472,873	435,144	432,435	457,474	453,035	436,413	410,064	409,560	381,020
Contributions as a percentage of covered-employee payroll	25.3%	24.5%	27.3%	29.7%	28.5%	30.6%	34.8%	25.1%		

Notes to Schedule:

Valuation date: Actuarially determined contributions are calculated as of December 31 after the valuation date.

Actuarial cost method: Entry Age Normal

Amortization method: Level Dollar over 20 years from January 1, 2014.

Remaining amortization period: 18

Asset valuation method: Market Value

Assumed inflation: 2.50% per year. No cost-of-living-adjustments provided.

Assumed salary increases: 4.50% per year

Assumed investment return: 6.50% before retirement, 5.50% after retirement (7.0% prior to January 1, 2014).

Assumed retirement age: Age 65.

Mortality: RP 2000 Combined Healthy Mortality Table, projected to the year 2020 with Scale AA. (UP94 before 1/1/2014).

**ALLEN COUNTY WATER DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended December 31, 2015**

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, 2015 and 2014, 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 5, 2016.

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 2015-1 and 2015-2 to be a material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

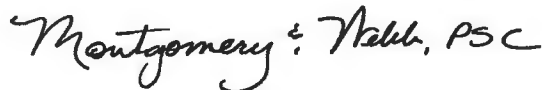
As part of obtaining reasonable assurance about whether Allen County Water District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct 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 5, 2016

**ALLEN COUNTY WATER DISTRICT
SCHEDULE OF FINANCIAL STATEMENT FINDINGS
For The Year Ended December 31, 2015**

• **2015-1 Internal Controls**

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.

• **2015-2 Financial Reporting**

Condition: The District does not have control over the preparation of the financial statements, including footnote disclosures, which would prevent or detect a misstatement in the financial statements. The independent auditor cannot be a compensating control for the client.

Criteria: Statement on Auditing Standards (SAS 115) states that a control deficiency exists when an entity does not have controls in place which would prevent or detect a misstatement in the financial statements.

Cause: Available funds do not allow for such staffing.

Effect: Lack of accountability and possible misstatement of financial statements, including footnote disclosures.

Recommendation: The District should designate an individual who possesses suitable skill, knowledge, and/or experience to review the financial statements, including footnote disclosures, and take responsibility for these financial statements.

Views of Responsible Officials and Planned Corrective Actions: It is not feasible for the District to invest the resources for a member of the financial accounting staff to obtain the training necessary to obtain the knowledge related to Financial Accounting Standards Board (FASB) and Governmental Accounting Standards Board (GASB) pronouncements and to remain current with this knowledge.