

ALLEN COUNTY WATER DISTRICT

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

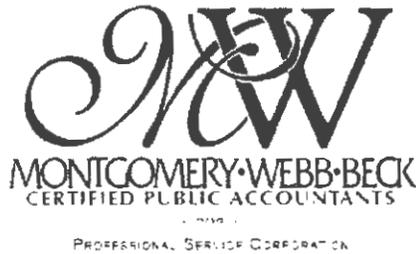
For the Year Ended December 31, 2016



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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion 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 opinion.

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, 2016, 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.

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 6 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 10, 2017 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, & Beck, PSC
Certified Public Accountants
Bowling Green, Kentucky

February 10, 2017

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, 2016. 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 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	
	2016	2015
Current Assets	\$ 4,978,056	\$ 4,912,949
Restricted Assets	1,424,879	1,344,722
Capital Assets, Net of Depreciation	11,972,508	12,249,005
Other Assets	555	121,445
Deferred Outflows of Resources	92,765	83,812
Total Assets	<u>18,468,763</u>	<u>18,711,933</u>
Current Liabilities, Including Current Portion of Long-Term Debt	439,307	443,474
Non-Current Liabilities	5,128,053	5,301,616
Total Liabilities	5,567,360	5,745,090
Deferred Inflow of resources	65,822	37,220
Metered Water Sales	2,409,408	2,273,395
Other Operating Revenue	204,453	197,848
Total Operating Revenue	2,613,861	2,471,243
Water Purchased	785,295	727,917
Transmission and Distribution Costs	414,230	374,831
Other Operating Expenses	1,367,048	1,289,316
Total Operating Expenses	2,566,573	2,392,064
Net Non-operating (Expenses) and Revenue	(20,439)	(102,134)
Increase/Decrease in Net Assets	26,849	(22,955)
Prior Period Adjustment – Adoption GASB 65	(120,890)	(263,524)
Net Assets - End of Year	<u>\$12,835,581</u>	<u>\$12,929,622</u>

Financial Highlights

The District's financial results showed an increase from 2015. For the period the increase, before the prior period adjustment, in net assets was \$26,849, up from \$(22,955) in 2015. Driving the increase in net assets for 2016 was an increase in sales along with a significant decrease in nonoperational expenses and revenue, a decrease in interest expense, and an increase in nonutility revenue. During the year, an additional 88 customers were added to the system. Revenue was up with an approximate \$143,000 increase year over year. Operating expenses for the year compared to last year were approximately \$174,500 higher, a result of overall increased water usage due to water loss, increased labor costs and contract services. Non-operating accounts showed an approximate \$82,000 increase due to a \$39,000 reduction in interest expense and a \$43,000 increase in nonutility income.

The district added approximately 3,900 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 2016 actual total operating revenue was approximately \$2,614,000 just \$8,000 more than budgeted revenues, while actual operating expenses were more than budgeted operating expenses. The decrease in net assets variance was caused by flat sales and rising operating costs. Driving the unfavorable cost variance to budget was increased water purchases (\$35,000 unfavorable to budget) due to water loss. (\$32,000 unfavorable), and contract services (\$75,000 unfavorable).

The above factors resulted in net assets being \$26,849 versus a budget of \$208,000.

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, 2016, and for maturity balances over the next 5 years and thereafter. During 2016 the District paid principal on the loans and revenue bonds totaling \$154,500 and interest totaling \$192,523 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 reinforces this statement as the year calls for an increase of revenue of approximately \$2,000 and of net assets of approximately \$4,000 over 2016 results.

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 DeAnn Marquez, 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, 2016**

Assets and Deferred Outflows of Resources

Current Assets:	
Cash	\$ 356,582
Investments	4,265,500
Accounts Receivable from Customers (Net)	325,925
Prepaid Insurance	13,752
Prepaid Expenses	4,800
Accrued Interest Receivable	<u>11,497</u>
Total Current Assets	<u>4,978,056</u>
 Restricted Assets:	
Cash – Customer’s Deposits	133,706
Cash – Bond and Interest Redemption Account	861,821
Cash – Depreciation Reserve Account	417,622
Cash – Bond Reserve Accounts	<u>11,730</u>
Total Restricted Assets	<u>1,424,879</u>
 Capital Assets Not Being Depreciated:	
Land and Land Rights	86,990
Construction in Progress	90,752
Capital Assets Being Depreciated, Net of Accumulated Depreciation of \$7,212,799	
Water Supply and Distribution System	<u>11,794,766</u>
Total Capital Assets	<u>11,972,508</u>
 Other Assets:	
Utility Deposits	<u>555</u>
 Deferred Outflows of Resources:	
Deferred Cost of Pension	<u>92,765</u>
 Total Assets	 <u>\$18,468,763</u>

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

**ALLEN COUNTY WATER DISTRICT
STATEMENT OF NET POSITION (Continued)
December 31, 2016**

Liabilities, Deferred Inflows of Resources, and Net Assets

Current Liabilities:	
Notes Payable - Current Portion	\$ 154,500
Accounts Payable, Payroll Taxes and Other Payables	76,302
Customer Deposits	107,068
Accrued Interest	74,795
Accrued Expenses	<u>26,642</u>
Total Current Liabilities	<u>439,307</u>
Non-Current Liabilities:	
Notes Payable – Net of Current Maturities	4,837,000
Net Pension Liability	<u>291,053</u>
Non-Current Liabilities	<u>5,128,053</u>
Total Liabilities	<u>5,567,360</u>
Deferred Inflows of Resources:	
Pension, Other Deferrals	<u>65,822</u>
Net Assets:	
Unrestricted	4,575,130
Invested in Capital Assets, Net of Related Debt	<u>6,981,008</u>
Total Unrestricted Net Assets	<u>11,556,138</u>
Restricted:	
Bond and Interest Redemption Fund	861,821
Depreciation Fund	<u>417,622</u>
Total Restricted Net Assets	<u>1,279,443</u>
Total Net Assets	<u>12,835,581</u>
Total Liabilities and Net Assets	<u>\$ 18,468,763</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, 2016

<u>Operating Revenues</u>	
Metered Water Sales	\$ 2,409,408
Forfeited Discounts	51,093
Pumping Charges for Water Returns to Supplier	34,583
Miscellaneous Service Revenue	<u>118,777</u>
Total Operating Revenues	<u>2,613,861</u>
<u>Operating Expenses</u>	
Source of Supply and Pumping	785,295
Transmission and Distribution	414,230
Customer Accounts	186,561
Administrative and General	654,727
Depreciation	486,033
Taxes Other Than Income	<u>39,727</u>
Total Operating Expenses	<u>2,566,573</u>
Operating Income	<u>47,288</u>
<u>Non-operating Revenues and (Expenses)</u>	
Interest Income	90,576
Customer Reimbursement	(4,612)
Interest Expense	(169,972)
Unrealized Gain (Loss) on Temp Investments	14,508
Miscellaneous Income/Non-Utility	<u>49,061</u>
Net Non-operating Revenues and (Expenses)	<u>(20,439)</u>
Increase in Net Assets	<u>\$ 26,849</u>
Increase in Net Assets	\$ 26,849
Net Assets – Beginning of Year	12,929,622
Prior Period Adjustments (See Note 7)	<u>(120,890)</u>
Net Assets – End of Year	<u>\$ 12,835,581</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, 2016**

Cash Flows from Operating Activities and	
Non-Operating Revenues:	
Receipts from Customers	\$ 2,586,217
Salaries, Wages and Employee Benefits	(839,730)
Purchased Water	(785,295)
Other Operating Expenses	<u>(458,879)</u>
Cash Provided by Operations and Non-Operating Revenues	<u>502,313</u>
 Cash Flows from Capital and Related Financing Activities:	
Purchase of Capital Assets and Deferred Charges	(203,850)
Principal Paid on Revenue Bonds and Notes Payable	(148,401)
Interest Paid on Revenue Bonds and Other Debt	<u>(192,523)</u>
Cash Used in Capital and Related Financing Activities	<u>(544,774)</u>
 Cash Flows from Investing Activities:	
Interest on Cash Balances	2,369
Interest on Investments	89,451
Sale of Investments	<u>63,156</u>
Cash Provided By Investing Activities	<u>154,976</u>
Net Increase in Cash and Cash Equivalents	112,515
Cash and Cash Equivalents, Beginning of Year	<u>1,668,946</u>
Cash and Cash Equivalents, End of Year	<u>1,781,461</u>
 Less Restricted Cash	
Cash – Customers Deposits	(133,706)
Cash – Bond and Interest Redemption	(861,821)
Cash – Depreciation Reserve	(417,622)
Cash – Bond Reserve	<u>(11,730)</u>
Total Restricted Cash	<u>(1,424,879)</u>
Cash and Cash Equivalents, Per Statement of Net Position	<u>\$ 356,582</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, 2016**

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

Operating Income	\$ 47,288
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities and Non-Operating Revenues –	
Depreciation	486,033
Change in Deferred Outflows – Pension	(8,953)
Increase in Accounts Receivable	(81,317)
Change in Deferred Inflows – Pension	28,602
Increase in Prepaid Insurance	(1,324)
Change in Pension Liability	19,063
Increase in Acc. Payable and Acc. Expenses	4,091
Capitalized Labor Costs	(5,686)
Other Non-Operating Revenue	14,516
Net Cash Provided by Operations and Non-Operating Revenue	<u>\$ 502,313</u>

Supplemental Disclosures:

Non-Cash Investing and Financial Transactions:

Unrealized Gain on Investments (Net)	\$ 14,508
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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, 2016 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, 2016 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, 2016 was \$10,500.

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.

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>
	<u>2016</u>
Insured FDIC and SIPC	\$ 3,960,742
U. S. Government bond fund	726,810
Cash on hand	1,000
Uninsured	<u>1,358,410</u>
	<u>\$ 6,046,962</u>

Uninsured amounts represent balances at banks in excess of the \$250,000 FDIC limit. At December 31, 2016, 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, 2016, was as follows:

	Balance at 12/31/2015	Additions	Disposals	Balance at 12/31/2016
Capital Assets Not Depreciated:				
Land and Land Rights	\$ 86,990	\$ -0-	\$ -0-	\$ 86,990
Construction Work in Progress	<u>55,915</u>	<u>90,752</u>	<u>55,915</u>	<u>90,752</u>
Total Capital Assets Not Depreciated	<u>142,905</u>	<u>90,752</u>	<u>(55,915)</u>	<u>177,742</u>
Capital Assets Depreciated:				
Communications Equipment	45,954	-0-	-0-	45,954
Distribution Reservoir/Standpipes	1,116,202	55,915	-0-	1,172,117
Hydrants	43,860	-0-	-0-	43,860
Meters	1,369,025	49,884	-0-	1,418,909
Office Building	560,378	-0-	-0-	560,378
Office Furniture and Equipment	165,857	19,364	-0-	185,221
Power Operated Equipment	741,100	-0-	-0-	741,100
Pumping Equipment	713,281	-0-	-0-	713,281
Services	454,991	-0-	-0-	454,991
Structures and Improvements	404,206	-0-	-0-	404,206
Tools, Shop and Garage Equipment	36,847	23,580	-0-	60,427
Transmission/Distribution Mains	12,913,000	-0-	-0-	12,913,000
Transportation Equipment	<u>268,166</u>	<u>25,955</u>	<u>-0-</u>	<u>294,121</u>
Total Capital Assets Depreciated	<u>18,832,867</u>	<u>174,698</u>	<u>-0-</u>	<u>19,007,565</u>
Total Capital Assets	<u>\$18,975,772</u>	<u>\$ 265,450</u>	<u>\$(55,915)</u>	<u>\$19,185,307</u>

Less Accumulated Depreciation –

	Balance at 12/31/2015	Additions	Disposals	Balance at 12/31/2016
Communications Equipment	\$ 45,747	\$ 59	\$ -0-	\$ 45,806
Distribution Reservoir/Standpipes	419,915	24,188	-0-	444,103
Hydrants	16,579	877	-0-	17,456
Meters	499,150	65,311	-0-	564,461
Office Building	289,529	18,679	-0-	308,208
Office Furniture and Equipment	132,260	7,139	-0-	139,399
Power Operated Equipment	323,376	52,421	-0-	375,797
Pumping Equipment	139,702	14,266	-0-	153,968
Services	216,758	9,100	-0-	225,858
Structures and Improvements	39,233	8,084	-0-	47,317
Tools, Shop and Garage Equipment	26,806	2,468	-0-	29,274
Transmission/Distribution Mains	4,378,949	258,260	-0-	4,637,209
Transportation Equipment	<u>198,763</u>	<u>25,180</u>	<u>-0-</u>	<u>223,943</u>
Totals at Historical Cost	<u>6,726,767</u>	<u>486,032</u>	<u>-0-</u>	<u>7,212,799</u>
Total Capital Assets	<u>\$12,249,005</u>	<u>\$ (220,582)</u>	<u>\$(55,915)</u>	<u>\$11,972,508</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 2017, plus interest at 5%. Principal payments vary until final maturity, 2018	\$ 7,000
Series of 2006 due annually with principal payments of \$24,000 for 2017, plus interest at 4.5%. Principal payments vary until final maturity, 2046	1,456,000
Series of 2012 due annually with principal payments of \$12,000 for 2017, plus interest at 3%. Principal payments vary until final maturity, 2052.	<u>773,500</u>
Total Serial Water Revenue Bonds	<u>2,236,500</u>
Kentucky Rural Water Finance Corporation, term loan with principal payments of \$20,000 for 2017, plus interest at 2.30%. Principal payments and interest rate vary until final maturity, 2022	145,000
Kentucky Rural Water Finance Corporation, term loan with principal payments of \$95,000 for 2017, plus interest at 4.20%. Principal payments and interest rate vary until final maturity, 2038	<u>2,610,000</u>
Total Kentucky Rural Water Finance Bonds	<u>2,755,000</u>
Total Long-Term Debt	<u>\$ 4,991,500</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, 2016 –

	Balance at <u>12/31/2015</u>	<u>Additions</u>	<u>Deductions</u>	Balance at <u>12/31/2016</u>
Serial Water Revenue Bonds:				
Series of 1978	\$ 10,500	\$ -0-	\$ 3,500	\$ 7,000
Series of 2006	1,479,000	-0-	23,000	1,456,000
Series of 2012	785,500	-0-	12,000	773,500
Ky. Rural Water Mature 2022	165,000	-0-	20,000	145,000
Ky. Rural Water Mature 2038	<u>2,700,000</u>	<u>-0-</u>	<u>90,000</u>	<u>2,610,000</u>
Total long-term debt	<u>\$ 5,140,000</u>	<u>\$ -0-</u>	<u>\$ 148,500</u>	<u>\$ 4,991,500</u>

The annual debt service requirements to maturity, including principal and interest, for long-term debt as of December 31, 2016, are as follows –

<u>Year Ending December 31</u>	Serial Water Revenue Bonds	
	<u>Principal</u>	<u>Interest</u>
2017	\$ 39,500	\$ 88,178
2018	41,500	86,488
2019	39,000	84,105
2020	41,000	82,900
2021	42,500	80,100
2022 – 2026	238,000	380,560
2027 – 2031	291,000	332,500
2032 – 2036	354,500	232,068
2037 – 2041	433,000	161,861
2042 – 2046	525,000	108,260
2047 – 2051	157,500	28,320
2052 – 2053	<u>34,000</u>	<u>1,035</u>
Total	<u>\$ 2,236,500</u>	<u>\$ 1,666,375</u>

<u>Year Ending December 31</u>	Kentucky Rural Water Loan	
	<u>Principal</u>	<u>Interest</u>
2017	\$ 115,000	\$ 99,331
2018	120,000	95,718
2019	130,000	91,443
2020	130,000	87,089
2021	130,000	82,784
2022 – 2026	605,000	351,605
2027 – 2031	670,000	236,601
2032 – 2036	635,000	107,491
2037 – 2032	<u>220,000</u>	<u>8,610</u>
Total	<u>\$ 2,755,000</u>	<u>\$ 1,160,672</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	
	Principal	Interest
2017	\$ 154,500	\$ 187,509
2018	161,500	182,206
2019	169,000	175,548
2020	171,000	169,989
2021	172,500	162,884
2022 – 2026	843,000	732,165
2027 – 2031	961,000	569,101
2032 – 2036	989,500	339,559
2037 – 2041	653,000	170,471
2042 – 2046	525,000	108,260
2047 – 2051	157,500	28,320
2052 – 2053	34,000	1,035
Total	\$ 4,991,500	\$ 2,827,047

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, 2016
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, 2016, the following employees were covered by the benefit terms:

Retirees	1
Terminated – Vested	6
Active employees	<u>8</u>
	<u>15</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 2016, 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, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2017.

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 2014 Table projected. 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	.484	.173
30	.452	.218
35	.523	.286
40	.628	.396
45	.973	.657
50	1.686	1.102
55	2.788	1.673
60	4.688	2.442

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

5. Defined Benefit Pension Plan: (continued)

POST-RETIREMENT MORTALITY: The RP 2014 Table was used. The life expectancy according to this table is as follows:

<u>AGE</u>	<u>MALES</u>	<u>FEMALES</u>
55	28.90 years	31.36 years
60	20.01 years	22.00 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 5.88% 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 5.88% 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>4.88%</u>	Current Single Rate Assumed <u>5.88%</u>	1% Increase to <u>6.88%</u>
Total Pension Liability	1,761,885	1,566,367	1,399,887
Net Pension Liability	486,571	291,053	124,573

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 12/31/2015	\$ 1,918,326	\$ 1,608,210	\$ 310,116
Changes for the year:			
a) Service cost	84,332		84,332
b) Interest	109,857		109,857
c) Differences between expected and actual experience	(36,375)		(36,375)
d) Employer contributions		119,540	(119,540)
e) Employee contributions		0	0
f) Net investment income		88,337	(88,337)
g) Benefits and refunds	(540,773)	(540,773)	0
h) Admin expenses	0	(0)	0
i) Assumption change	31,000		31,000
j) Other	0	0	0
Net changes	(351,959)	(332,896)	(19,063)
Balances at 12/31/2016	\$ 1,566,367	\$ 1,275,314	\$ 291,053

GASB 68 Pension Expense and Deferred Outflows/Inflows

For the year ended December 31, 2016, the Allen County Water District recognized pension expense of \$137,510. At December 31, 2016, 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	65,822
Changes of assumptions	27,900	0
Net difference between projected and actual earnings on pension plan investments	64,865	0
Total	92,765	65,822

ALLEN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)

5. Defined Benefit Pension Plan: (continued)

Pension Expense/(Income) under GASB 68

	2016
1. Service cost	\$ 84,332
2. Interest on total pension liability	109,857
3. Current period benefit changes	0
4. Offset for employee contributions	0
5. Projected earnings on plan assets	(90,844)
6. Other changes in plan net position	0
7. Rec. of outflow (inflow) due to liabilities	(4,673)
8. Rec. of outflow (inflow) due to assets	21,454
9. Total pension expense (income)	\$ 120,126

Summary of Balance Sheet Items

	(A) Net Pension (Liability)	(B) Deferred Outflow of Resources	(C) Deferred (Inflow) of Resources	(D) Total Assets (A)+(B)+(C)
1. Balance at 12/31/15	(310,116)	83,812	(37,220)	(263,524)
2. Contributions during measuring period	119,540			119,540
3. Pension expense	(103,345)	(24,554)	7,773	(120,126)
4. Addition to deferred outflows	(33,507)	33,507		0
5. Addition to deferred inflows	36,375		(36,375)	0
6. Balance at 12/31/16	(291,053)	92,765	(65,822)	(264,110)

ALLEN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)

5. Defined Benefit Pension Plan: (continued)

GASB 68 Pension Expenses and Deferred Outflows/Inflows

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	16,781
2017	16,781
2018	16,781
2019	(4,172)
2020	(4,671)
Thereafter	(14,557)
Total	26,943

6. Retirement Plan (457 Plan)

During the year, the organization established a 457 (b) plan. All new hires of the organization will be eligible for the matching provision of the plan while current employees, eligible for the defined pension plans, may invest in the plan but are not eligible for the matching provision. Those new hires eligible for the matching provision of the plan are not eligible for the organization's defined benefit plan.

7. Prior Period Adjustment

As a result of the late adoption of GASB Statements No. 65, the District has recorded a prior period adjustment to the unrestricted net position as of December 31, 2016 of \$120,890, which decreased the net beginning position from \$4,636,733 to \$4,515,843.

8. Subsequent Events

Subsequent events have been evaluated through February 15, 2017, 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
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%
2016	6.3%

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	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Total Pension Liability										
Service Cost	84,332	78,657	72,178	63,941	75,412	75,048	72,327	71,972	67,573	
Interest	109,857	117,383	103,920	98,704	97,887	102,914	97,275	88,596	77,687	
Benefit Changes	0	0	0	0	0	0	0	0	0	
Difference between Actual & Expected Experience	-36,375	-41,355	33,664	-42,655	104,516	-48,854	-25,265	28,370	8,385	
Assumption changes	31,000	0	0	141,611	0					
Benefit Payments	-540,773	-5,866	-5,866	-132,870	-402,226	0	-130,270	0	0	
Net Change in Total Pension Liability	-351,959	148,819	203,896	128,231	-124,411	129,108	14,067	188,938	153,645	0
Total Pension Liability - Beginning	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	
Total Pension Liability - Ending	1,566,367	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	119,540	121,814	115,687	118,664	128,443	130,401	138,591	152,078	103,001	115,818
Net Investment Income	88,337	-3,756	99,533	216,308	131,846	15,190	83,723	134,252	-151,378	17,530
Benefit Payments	-540,773	-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	0
Other	0	0	0	0	0	0	0	0	0	0
Net Change in Plan Net Position	-332,896	112,192	209,454	202,102	-141,937	145,591	92,044	286,330	-48,377	133,348
Plan Fiduciary Net Position - Beginning	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
Plan Fiduciary Net Position - Ending	1,275,314	1,608,210	1,496,018	1,286,564	1,084,462	1,226,399	1,080,808	988,764	702,434	750,811
Net Pension Liability - Ending	291,053	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	81.42%	83.83%	84.54%	82.18%	75.45%	78.53%	75.44%	69.70%	57.12%	69.78%
Covered Employee Payroll	338,419	482,355	472,873	435,144	432,435	457,474	453,035	436,413	410,064	409,560
Net Pension Liability as a Percentage of Covered Employee Payroll	86%	64%	58%	64%	82%	73%	78%	98%	129%	79%

Notes to Schedule:

Changes of assumptions: At 1/1/2017, assumed mortality changed from the RP 2000 Combined Healthy Mortality Table projected 20 years with Scale AA, to RP 2014 Mortality Table. 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>2016</u>	<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>
Actuarially determined contribution	119,540	109,247	102,195	101,730	112,350	113,516	117,965	126,778	103,001	
Contributions in relation to the actuarially determined contribution	119,540	121,814	115,687	118,664	128,443	130,401	138,591	152,078	103,001	
Contribution deficiency (excess)	0	(12,567)	(13,492)	(16,934)	(16,093)	(16,885)	(20,626)	(25,300)	0	
Covered-employee payroll	338,419	482,355	472,873	435,144	432,435	457,474	453,035	436,413	410,064	409,560
Contributions as a percentage of covered-employee payroll	35.3%	25.3%	24.5%	27.3%	29.7%	28.5%	30.6%	34.8%	25.1%	

Notes to Schedule:

<p>Valuation date:</p> <p>Actuarial cost method:</p> <p>Amortization method:</p> <p>Remaining amortization period:</p> <p>Asset valuation method:</p> <p>Assumed inflation:</p> <p>Assumed salary increases:</p> <p>Assumed investment return:</p> <p>Assumed retirement age:</p> <p>Mortality:</p>	<p>Actuarially determined contributions are calculated as of December 31 after the valuation date.</p> <p>Entry Age Normal</p> <p>Level Dollar over 20 years from January 1, 2014.</p> <p>18</p> <p>Market Value</p> <p>2.50% per year. No cost-of-living-adjustments provided.</p> <p>4.50% per year</p> <p>6.50% before retirement, 5.50% after retirement (7.0% prior to January 1, 2014).</p> <p>Age 65.</p> <p>RP 2014 Mortality Table. (Before 1/1/2017 used RP 2000 Combined Healthy Mortality Table, projected to the year 2020 with Scale AA, and used UP94 before 1/1/2014).</p>
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**ALLEN COUNTY WATER DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended December 31, 2016**

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.
ERNEST R. BECK, C.P.A.



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

MELISSA J. MONTGOMERY, M.S.

Independent Auditor's Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With *Government Auditing Standards*

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 year ended December 31, 2016, 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 10, 2017.

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 2016-1 and 2016-2 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, & Beck, PSC
Certified Public Accountants
Bowling Green, Kentucky

February 10, 2017

**ALLEN COUNTY WATER DISTRICT
SCHEDULE OF FINANCIAL STATEMENT FINDINGS
For The Year Ended December 31, 2016**

• **2016-1 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.

• **2016-2 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.

ALLEN COUNTY WATER DISTRICT
SCHEDULE OF FINANCIAL STATEMENT FINDINGS (continued)
For The Year Ended December 31, 2016

- **2016-2 Financial Reporting (continued)**

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. Management was instructed adequately to have the knowledge necessary related to FASB and GASB pronouncements as it relates to the financial statements and footnotes to take responsibility.