

**ALLEN COUNTY WATER DISTRICT**

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

**For the Year Ended December 31, 2017**



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(1929 - 1994)

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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 statements of Allen County Water District as of and for the year ended December 31, 2017 and the related notes to the financial statements which collectively comprise the District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express 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.

## Opinion

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, 2017, 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. Pages 27 through 29 are presented to support the 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, 2018 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, 2018



## 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, 2017. 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	
	2017	2016
Current Assets	\$ 4,444,278	\$ 4,978,056
Restricted Assets	1,501,786	1,424,879
Capital Assets, Net of Depreciation	12,241,262	11,972,508
Other Assets	555	555
Deferred Outflows of Resources	79,861	92,765
Total Assets	<u>18,267,742</u>	<u>18,468,763</u>
Current Liabilities, Including Current Portion of		
Long-Term Debt	430,932	439,307
Non-Current Liabilities	4,913,746	5,128,053
Total Liabilities	<u>5,344,678</u>	<u>5,567,360</u>
Deferred Inflow of resources	<u>95,300</u>	<u>65,822</u>
Metered Water Sales	2,254,171	2,409,408
Other Operating Revenue	264,174	204,453
Total Operating Revenue	<u>2,518,345</u>	<u>2,613,861</u>
Water Purchased	622,108	785,295
Transmission and Distribution Costs	476,565	414,230
Other Operating Expenses	1,306,544	1,367,048
Total Operating Expenses	<u>2,405,217</u>	<u>2,566,573</u>
Net Non-operating (Expenses) and Revenue	<u>(120,945)</u>	<u>( 20,439)</u>
Increase/(Decrease) in Net Assets	<u>( 7,817)</u>	<u>26,849</u>
Prior Period Adjustment – Adoption GASB 65	<u>0</u>	<u>(120,890)</u>
Net Assets - End of Year	<u>\$12,827,764</u>	<u>\$12,835,581</u>

### Financial Highlights

The District's financial results showed a decrease from 2016. For the period the decrease in net assets was (\$34,666), down from \$26,849 in 2016. Driving the decrease in net assets for 2017 was a decrease in sales along with a significant increase in transmission and distribution costs, an increase in interest expense, and a decrease in nonutility revenue. During the year, there were 12 fewer customers. Revenue was down with an approximate \$95,000 decrease year over year. Operating expenses for the year compared to last year were approximately \$161,000 lower, a result of decreased water usage and increased labor costs. Non-operating accounts showed an approximate \$100,000 decrease due to a \$35,000 increase in interest expense and a \$36,500 decrease in nonutility income.

The district took part in a KDOT safety project. This project was funded by the Commonwealth of Kentucky.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

### Significant Transactions and Changes in Individual Funds

During the period the District self-funded the construction of a new shop building. The current cost of \$763,489 (construction in progress) was funded by the investment account.

### Actual versus Budget Comparison

During 2017 actual total operating revenue was approximately \$2,518,345, \$93,455 less than budgeted revenues, while actual operating expenses were less than budgeted operating expenses by \$137,483. The decrease in net assets variance was caused by decreased sales and rising non-operating costs. Driving the unfavorable cost variance to budget was increased interest costs (\$35,000) due to refinancing and a decrease in non-utility income (\$36,500 unfavorable).

The above factors resulted in a change in net assets being (\$7,817) versus a budget of \$22,600.

### Capital Assets and Debt Administration

During the period the district only had one major purchase, that being a service truck. As mentioned above, a new shop is nearing completion and will be capitalized in 2018 at a cost of approximately \$775,000.

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, 2017, and for maturity balances over the next 5 years and thereafter. During 2017 the District paid principal on the loans and revenue bonds totaling \$154,500 and interest totaling \$187,590 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 decrease of revenue of approximately \$7,000 and of net assets increase of approximately \$42,000 over 2017 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, 2017**

**Assets and Deferred Outflows of Resources**

Current Assets:

Cash	\$ 631,018
Investments	3,539,054
Accounts Receivable from Customers (Net)	244,561
Prepaid Insurance	14,242
Prepaid Expenses	4,800
Accrued Interest Receivable	<u>10,603</u>
Total Current Assets	<u>4,444,278</u>

Restricted Assets:

Cash – Customer's Deposits	135,133
Cash – Bond and Interest Redemption Account	911,946
Cash – Depreciation Reserve Account	442,904
Cash – Bond Reserve Accounts	<u>11,803</u>
Total Restricted Assets	<u>1,501,786</u>

Capital Assets Not Being Depreciated:

Land and Land Rights	86,990
Construction in Progress	763,489

Capital Assets Being Depreciated, Net of Accumulated

Depreciation of \$7,711,064	
Water Supply and Distribution System	<u>11,390,783</u>
Total Capital Assets	<u>12,241,262</u>

Other Assets:

Utility Deposits	<u>555</u>
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Deferred Outflows of Resources:

Deferred Cost of Pension	<u>79,861</u>
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Total Assets	<u>\$18,267,742</u>
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The accompanying notes are an integral part of the financial statements.

**ALLEN COUNTY WATER DISTRICT**  
**STATEMENT OF NET POSITION (Continued)**  
**December 31, 2017**

**Liabilities, Deferred Inflows of Resources, and Net Assets**

Current Liabilities:	
Notes Payable - Current Portion	\$ 166,000
Accounts Payable, Payroll Taxes and Other Payables	63,310
Customer Deposits	109,105
Accrued Interest	<u>92,517</u>
Total Current Liabilities	<u>430,932</u>
Non-Current Liabilities:	
Notes Payable – Net of Current Maturities	4,671,000
Net Pension Liability	<u>242,746</u>
Non-Current Liabilities	<u>4,913,746</u>
Total Liabilities	<u>5,344,678</u>
Deferred Inflows of Resources:	
Pension, Other Deferrals	<u>95,300</u>
Net Assets:	
Unrestricted	4,068,652
Invested in Capital Assets, Net of Related Debt	<u>7,404,262</u>
Total Unrestricted Net Assets	<u>11,472,914</u>
Restricted:	
Bond and Interest Redemption Fund	911,946
Depreciation Fund	<u>442,904</u>
Total Restricted Net Assets	<u>1,354,850</u>
Total Net Assets	<u>12,827,764</u>
Total Liabilities and Net Assets	<u>\$ 18,267,742</u>

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

**ALLEN COUNTY WATER DISTRICT**  
**STATEMENT OF REVENUES AND EXPENSES AND CHANGES IN NET ASSETS**  
**For the Year Ended December 31, 2017**

<u>Operating Revenues</u>	
Metered Water Sales	\$ 2,254,171
Forfeited Discounts	40,431
Pumping Charges for Water Returns to Supplier	25,035
Miscellaneous Service Revenue	<u>198,708</u>
Total Operating Revenues	<u>2,518,345</u>
<u>Operating Expenses</u>	
Source of Supply and Pumping	622,108
Transmission and Distribution	476,565
Customer Accounts	138,245
Administrative and General	625,480
Depreciation	498,265
Taxes Other Than Income	<u>44,554</u>
Total Operating Expenses	<u>2,405,217</u>
Operating Income	<u>113,128</u>
<u>Non-operating Revenues and (Expenses)</u>	
Interest Income	82,237
Gain on Sale of Asset	2,253
Interest Expense	( 205,312)
Unrealized Gain (Loss) on Temp Investments	( 12,756)
Non-Utility Income	<u>12,633</u>
Net Non-operating Revenues and (Expenses)	<u>( 120,945)</u>
Decrease in Net Assets	<u><u>\$ ( 7,817)</u></u>
Decrease in Net Assets	<u><u>\$ ( 7,817)</u></u>
Net Assets – Beginning of Year	<u>12,835,581</u>
Net Assets – End of Year	<u><u>\$ 12,827,764</u></u>

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

**ALLEN COUNTY WATER DISTRICT  
STATEMENT OF CASH FLOWS  
For The Year Ended December 31, 2017**

**Cash Flows from Operating Activities and**

**Non-Operating Revenues:**

Receipts from Customers	\$ 2,612,342
Salaries, Wages and Employee Benefits	( 784,459)
Purchased Water	( 622,108)
Other Operating Expenses	( 553,397)
Cash Provided by Operations and Non-Operating Revenues	<u>652,378</u>

**Cash Flows from Capital and Related Financing Activities:**

Sale of Capital Assets	2,253
Purchase of Capital Assets and Deferred Charges	( 758,019)
Principal Paid on Revenue Bonds and Notes Payable	( 154,500)
Interest Paid on Revenue Bonds and Other Debt	( 187,590)
Cash Used in Capital and Related Financing Activities	<u>( 1,097,856)</u>

**Cash Flows from Investing Activities:**

Interest on Cash Balances	2,464
Interest on Investments	80,667
Sale of Investments	<u>713,690</u>
Cash Provided By Investing Activities	<u>796,821</u>

Net Increase in Cash and Cash Equivalents 351,343

Cash and Cash Equivalents, Beginning of Year 1,781,461

Cash and Cash Equivalents, End of Year 2,132,804

**Less Restricted Cash**

Cash – Customers Deposits	( 135,133)
Cash – Bond and Interest Redemption	( 911,946)
Cash – Depreciation Reserve	( 442,904)
Cash – Bond Reserve	<u>( 11,803)</u>
Total Restricted Cash	<u>( 1,501,786)</u>

Cash and Cash Equivalents, Per Statement of Net Position \$ 631,018

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



**ALLEN COUNTY WATER DISTRICT**  
**STATEMENT OF CASH FLOWS (Continued)**  
**For The Year Ended December 31, 2017**

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

Operating Income	\$ 113,128
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities and Non-Operating Revenues –	
Depreciation	489,265
Decrease in Accounts Receivable	81,364
Increase in Prepaid Insurance	490
Decrease in Acc. Payable and Acc. Expenses	( 37,597)
Other Non-Operating Revenue	<u>5,728</u>
Net Cash Provided by Operations and Non-Operating Revenue	<u>\$ 652,378</u>

**Supplemental Disclosures:**

**Non-Cash Investing and Financial Transactions:**

Unrealized Gain on Investments (Net)	\$ 12,756
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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, 2017 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, 2017 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, 2017 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>2017</u>
Insured FDIC and SIPC	\$ 3,555,267
U. S. Government bond fund	414,891
Cash on hand	1,000
Uninsured	<u>1,700,701</u>
	<u>\$ 5,671,859</u>

Uninsured amounts represent balances at banks in excess of the \$250,000 FDIC limit. At December 31, 2017, 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, 2017, was as follows:

	Balance at 12/31/2016	Additions	Disposals	Balance at 12/31/2017
Capital Assets Not Depreciated:				
Land and Land Rights	\$ 86,990	\$ -0-	\$ -0-	\$ 86,990
Construction Work in Progress	90,752	672,737	-0-	763,489
Total Capital Assets Not Depreciated	<u>177,742</u>	<u>672,737</u>	<u>-0-</u>	<u>850,479</u>
Capital Assets Depreciated:				
Communications Equipment	45,954	9,294	-0-	55,248
Distribution Reservoir/Standpipes	1,172,117	-0-	-0-	1,172,117
Hydrants	43,860	-0-	-0-	43,860
Meters	1,418,909	53,418	-0-	1,472,327
Office Building	560,378	-0-	-0-	560,378
Office Furniture and Equipment	185,221	6,000	-0-	191,221
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	60,427	-0-	-0-	60,427
Transmission/Distribution Mains	12,913,000	-0-	-0-	12,913,000
Transportation Equipment	294,121	25,570	-0-	319,691
Total Capital Assets Depreciated	<u>19,007,565</u>	<u>94,282</u>	<u>-0-</u>	<u>19,101,847</u>
Total Capital Assets	<u>\$19,185,307</u>	<u>\$ 767,019</u>	<u>\$ -0-</u>	<u>\$19,952,326</u>

Less Accumulated Depreciation –

	Balance at 12/31/2016	Additions	Disposals	Balance at 12/31/2017
Communications Equipment	\$ 45,806	\$ 988	\$ -0-	\$ 46,794
Distribution Reservoir/Standpipes	444,103	26,052	-0-	470,155
Hydrants	17,456	877	-0-	18,333
Meters	564,461	69,708	-0-	634,169
Office Building	308,208	18,679	-0-	326,887
Office Furniture and Equipment	139,399	8,493	-0-	147,892
Power Operated Equipment	375,797	52,421	-0-	428,218
Pumping Equipment	153,968	14,266	-0-	168,234
Services	225,858	9,100	-0-	234,958
Structures and Improvements	47,317	8,084	-0-	55,401
Tools, Shop and Garage Equipment	29,274	3,647	-0-	32,921
Transmission/Distribution Mains	4,637,209	258,260	-0-	4,895,469
Transportation Equipment	223,943	27,690	-0-	251,633
Totals at Historical Cost	<u>7,212,799</u>	<u>498,265</u>	<u>-0-</u>	<u>7,711,064</u>
Total Capital Assets	<u>\$11,972,508</u>	<u>\$ 268,754</u>	<u>\$ -0-</u>	<u>\$12,241,262</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	\$ 3,500
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	1,432,000
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>761,500</u>
Total Serial Water Revenue Bonds	<u>2,197,000</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	125,000
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>2,515,000</u>
Total Kentucky Rural Water Finance Bonds	<u>2,640,000</u>
Total Long-Term Debt	<u>\$ 4,837,000</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, 2017 –

	Balance at <u>12/31/2016</u>	<u>Additions</u>	<u>Deductions</u>	Balance at <u>12/31/2017</u>
Serial Water Revenue Bonds:				
Series of 1978	\$ 7,000	\$ -0-	\$ 3,500	\$ 3,500
Series of 2006	1,456,000	-0-	24,000	1,432,000
Series of 2012	773,500	-0-	12,000	761,500
Ky. Rural Water Mature 2022	145,000	-0-	20,000	125,000
Ky. Rural Water Mature 2038	<u>2,610,000</u>	-0-	<u>95,000</u>	<u>2,515,000</u>
Total long-term debt	<u>\$ 4,991,500</u>	<u>\$ -0-</u>	<u>\$ 154,500</u>	<u>\$ 4,837,000</u>

The annual debt service requirements to maturity, including principal and interest, for long-term debt as of December 31, 2017, are as follows –

<u>Year Ending December 31</u>	Serial Water Revenue Bonds	
	<u>Principal</u>	<u>Interest</u>
2018	\$ 41,000	\$ 86,488
2019	39,000	84,105
2020	41,000	82,900
2021	42,500	80,100
2022	44,000	78,205
2023 – 2027	247,500	360,500
2028 – 2032	303,000	311,295
2033 – 2037	368,500	222,068
2038 – 2042	451,000	151,861
2043 – 2047	457,000	98,260
2048 – 2053	<u>162,500</u>	<u>21,380</u>
Total	<u>\$ 2,197,000</u>	<u>\$ 1,577,162</u>

<u>Year Ending December 31</u>	Kentucky Rural Water Loan	
	<u>Principal</u>	<u>Interest</u>
2018	\$ 125,000	\$ 95,718
2019	125,000	91,443
2020	130,000	87,089
2021	130,000	82,784
2022	135,000	78,401
2023 – 2027	600,000	330,544
2028 – 2033	680,000	211,019
2034 – 2037	620,000	82,249
2038 – 2042	<u>95,000</u>	<u>1,995</u>
Total	<u>\$ 2,640,000</u>	<u>\$ 1,061,242</u>



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

4. Long-Term Debt: (Continued)

<u>Year Ending December 31</u>	<u>Total Long-Term Debt</u>	
	<u>Principal</u>	<u>Interest</u>
2018	\$ 166,000	\$ 182,206
2019	164,000	175,548
2020	171,000	169,989
2021	172,500	162,884
2022	179,000	156,606
2023 – 2027	847,500	691,104
2028 – 2032	983,000	522,314
2033 – 2037	988,500	304,317
2038 – 2042	546,000	153,856
2043 – 2047	457,000	98,260
2048 – 2052	162,500	21,320
Total	<u>\$ 4,837,000</u>	<u>\$ 2,638,404</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. Amended effective December 31, 2015 and adopted December 1, 2015, membership in the plan and applicable benefit provisions, annual pension costs and actual assumptions are as follows –

*Eligibility Factors, Contribution Methods, and Benefit Provisions –*

<u>Provision</u>	<u>As of December 31, 2017</u>
a. Eligible to participate	Full-time employees age 21 or greater, with six months minimum service. The plan was closed to new entrants effective December 31, 2015.
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)

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

5. Defined Benefit Pension Plan: (continued)

g. Form of Benefit Payments

Single life annuity. Qualified joint and survivor annuity is the required standard option.

*Employees covered by benefit terms*

At the measurement date of December 31, 2017, the following employees were covered by the benefit terms:

Retirees	1
Terminated – Vested	4
Active employees	<u>8</u>
	<u>13</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 2017, the District's contributions were approximately 26.71% 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 5.85% 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 5.85% 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>4.85%</u>	Current Single Rate Assumed <u>5.85%</u>	1% Increase to <u>6.85%</u>
Total Pension Liability	1,665,837	1,463,731	1,292,655
Net Pension Liability	444,852	242,746	71,670

**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 12/31/2016	\$ 1,566,367	\$ 1,275,314	\$ 291,053
Changes for the year:			
a) Service cost	57,857		57,857
b) Interest	94,971		94,971
c) Differences between expected and actual experience	12,944		12,944
d) Employer contributions		90,405	( 90,405)
e) Employee contributions		0	0
f) Net investment income		123,674	(123,674)
g) Benefits and refunds	(268,408)	(268,408)	0
h) Admin expenses	0	0	0
i) Assumption change	0		0
j) Other	0	0	0
Net changes	(102,636)	( 54,329)	( 48,307)
Balances at 12/31/2017	\$ 1,463,731	\$ 1,220,985	\$ 242,746

*GASB 68 Pension Expense and Deferred Outflows/Inflows*

For the year ended December 31, 2017, the Allen County Water District recognized pension expense of \$137,510. At December 31, 2017, 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	\$ 11,650	\$ 58,049
Changes of assumptions	24,800	0
Net difference between projected and actual earnings on pension plan investments	43,411	37,251
Total	\$ 79,861	\$ 95,300

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

5. Defined Benefit Pension Plan: (continued)

Pension Expense/(Income) under GASB 68

	2017
1. Service cost	\$ 57,857
2. Interest on total pension liability	94,971
3. Current period benefit changes	0
4. Offset for employee contributions	0
5. Projected earnings on plan assets	( 77,110)
6. Other changes in plan net position	0
7. Rec. of outflow (inflow) due to liabilities	( 3,379)
8. Rec. of outflow (inflow) due to assets	12,141
9. Total pension expense (income)	\$ 84,480

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 12/31/16	\$ (291,053)	\$ 92,765	\$ ( 65,822)	\$ (264,110)
2. Contributions during measuring period	90,405			90,405
3. Pension expense	( 75,718)	( 25,848)	17,086	( 84,480)
4. Addition to deferred outflows	( 12,944)	12,944		0
5. Addition to deferred inflows	46,564		( 46,564)	0
6. Balance at 12/31/17	\$ (242,746)	\$ 79,861	\$ ( 95,300)	\$ (258,185)

**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
2018	8,762
2019	8,762
2020	(12,189)
2021	(12,691)
2022	( 3,379)
Thereafter	( 4,704)
Total	(15,439)

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. Subsequent Events

Subsequent events have been evaluated through February 5, 2018, 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
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%
2017	10.4%

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.

**Appendix E - continued**

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

Plan Year ending December 31	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
<b>Total Pension Liability</b>										
Service Cost	57,857	84,332	78,657	72,178	63,941	75,412	75,048	72,327	71,972	67,573
Interest	94,971	109,857	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	0	0
Difference between Actual & Expected Experience	12,944	-36,375	-41,355	33,664	-42,655	104,516	-48,854	-25,265	28,370	8,385
Assumption changes	0	31,000	0	0	141,611	0	0	0	0	0
Benefit Payments	-268,408	-540,773	-5,866	-5,866	-132,870	-402,226	0	-130,270	0	0
Net Change in Total Pension Liability	-102,636	-351,959	148,819	203,896	128,231	-124,411	129,108	14,067	188,938	153,645
<b>Total Pension Liability - Beginning</b>	<b>1,566,367</b>	<b>1,918,326</b>	<b>1,769,507</b>	<b>1,565,611</b>	<b>1,437,380</b>	<b>1,561,791</b>	<b>1,432,683</b>	<b>1,418,616</b>	<b>1,229,678</b>	<b>1,076,033</b>
<b>Total Pension Liability - Ending</b>	<b>1,463,731</b>	<b>1,566,367</b>	<b>1,918,326</b>	<b>1,769,507</b>	<b>1,565,611</b>	<b>1,437,380</b>	<b>1,561,791</b>	<b>1,432,683</b>	<b>1,418,616</b>	<b>1,229,678</b>
<b>Plan Fiduciary Net Position</b>										
Contributions - Employee	0	0	0	0	0	0	0	0	0	0
Contributions - Employer	90,405	119,540	121,814	115,687	118,664	128,443	130,401	138,591	152,078	103,001
Net Investment Income	123,674	88,337	-3,756	99,633	215,308	131,846	15,190	83,723	134,252	-151,378
Benefit Payments	-268,408	-540,773	-5,866	-5,866	-132,870	-402,226	0	-130,270	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	-54,329	-332,896	112,192	209,454	202,102	-141,937	145,591	92,044	286,330	-48,377
<b>Plan Fiduciary Net Position - Beginning</b>	<b>1,275,314</b>	<b>1,608,210</b>	<b>1,496,018</b>	<b>1,286,564</b>	<b>1,084,462</b>	<b>1,226,399</b>	<b>1,080,808</b>	<b>988,764</b>	<b>702,434</b>	<b>750,811</b>
<b>Plan Fiduciary Net Position - Ending</b>	<b>1,220,985</b>	<b>1,275,314</b>	<b>1,608,210</b>	<b>1,496,018</b>	<b>1,286,564</b>	<b>1,084,462</b>	<b>1,226,399</b>	<b>1,080,808</b>	<b>988,764</b>	<b>702,434</b>
<b>Net Pension Liability - Ending</b>	<b>242,746</b>	<b>291,053</b>	<b>310,116</b>	<b>273,489</b>	<b>279,047</b>	<b>352,918</b>	<b>335,392</b>	<b>351,875</b>	<b>429,852</b>	<b>527,244</b>
<b>Plan Fiduciary Net Position as a Percentage of Total Pension Liability</b>	<b>83.42%</b>	<b>81.42%</b>	<b>83.83%</b>	<b>84.54%</b>	<b>82.18%</b>	<b>75.45%</b>	<b>78.53%</b>	<b>75.44%</b>	<b>69.70%</b>	<b>57.12%</b>
<b>Covered Employee Payroll</b>	<b>364,279</b>	<b>338,419</b>	<b>482,355</b>	<b>472,873</b>	<b>435,144</b>	<b>432,435</b>	<b>457,474</b>	<b>453,035</b>	<b>436,413</b>	<b>410,064</b>
<b>Net Pension Liability as a Percentage of Covered Employee Payroll</b>	<b>67%</b>	<b>86%</b>	<b>64%</b>	<b>58%</b>	<b>64%</b>	<b>82%</b>	<b>73%</b>	<b>78%</b>	<b>98%</b>	<b>129%</b>

**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%.

Appendix E - continued

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

Plan Year ending December 31	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Actuarially determined contribution	90,405	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	90,405	119,540	121,814	115,687	118,664	128,443	130,401	138,591	152,078	103,001
Contribution deficiency (excess)	0	0	(12,567)	(13,492)	(16,934)	(16,093)	(16,885)	(20,626)	(25,300)	0
Covered-employee payroll	364,279	338,419	482,355	472,873	435,144	432,435	457,474	453,035	436,413	410,064
Contributions as a percentage of covered-employee payroll	24.8%	35.3%	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:

17 years

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 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).

**ALLEN COUNTY WATER DISTRICT  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
For the Year Ended December 31, 2017**

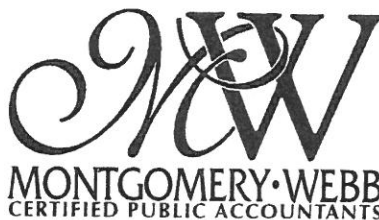
DEPARTMENT OF AGRICULTURE

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.



PROFESSIONAL SERVICE CORPORATION

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, 2017, 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, 2018.

**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 2017-1 and 2017-2 to be a material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

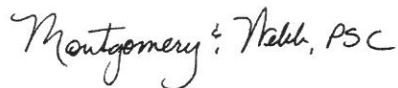
As part of obtaining reasonable assurance about whether Allen County Water District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct 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, 2018

**ALLEN COUNTY WATER DISTRICT  
SCHEDULE OF FINANCIAL STATEMENT FINDINGS  
For The Year Ended December 31, 2017**

• **2017-1 Internal Controls**

Condition: The District does not have in place procedures for internal control which would prevent or detect a misstatement of the financial statements.

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.

• **2017-2 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, 2017**

• **2017-2 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.