

**ALLEN COUNTY WATER DISTRICT**  
**FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

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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 (the "District") as of and for the year ended December 31, 2018, 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 referred to above present fairly, in all material respects, the financial position of the Allen County Water District, as of December 31, 2018, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 5 and pension schedules on pages 25 through 27 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2019, on our consideration of the 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* in considering the District's internal control over financial reporting and compliance.

*1 Kirby & Moore, LLP*

Bowling Green, Kentucky  
March 27, 2019



## 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, 2018. Please read it in conjunction with the District's financial statements, which begins on page 6.

### 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 Statement of Net Position

	December 31	
	2018	2017
Current assets	\$ 3,755,404	\$ 4,444,278
Restricted assets	1,570,924	1,501,786
Capital assets, net of depreciation	12,311,615	12,241,262
Other assets	555	555
Deferred outflows of resources	141,835	79,861
Total assets and deferred outflows	<u>\$ 17,780,333</u>	<u>\$ 18,267,742</u>
Current liabilities, including current portion of long-term debt	\$ 511,724	\$ 430,932
Non-current liabilities	4,845,352	4,913,746
Total liabilities	<u>5,357,076</u>	<u>5,344,678</u>
Deferred inflow of resources	78,214	95,300
Total net position	<u>12,345,043</u>	<u>12,827,764</u>
Total liabilities, deferred inflows and net position	<u>\$ 17,780,333</u>	<u>\$ 18,267,742</u>

### Condensed Statement of Revenues, Expenses and Changes in Net Position

Metered water sales	\$ 2,300,335	\$ 2,254,171
Other operating revenue	196,541	264,174
Total operating revenue	<u>2,496,876</u>	<u>2,518,345</u>
Water purchased	789,298	622,108
Transmission and distribution costs	659,829	476,565
Other operating expenses	1,442,789	1,306,544
Total operating expenses	<u>2,891,916</u>	<u>2,405,217</u>
Net non-operating (expenses) and revenue	( 12,681)	( 120,945)
Change in net position	( 407,721)	( 7,817)
Net position, beginning of year	12,827,764	12,835,581
Prior period adjustment	( 75,000)	—
Net position, beginning of year, restated	<u>12,752,764</u>	<u>—</u>
Net position, end of year	<u>\$ 12,345,043</u>	<u>\$ 12,827,764</u>

### Financial Highlights

The District's financial results showed a decrease from 2017. Net position decreased \$407,982 in 2018, compared to \$7,817 in 2017. Driving the significant decrease in net assets for 2018 was a \$167,192 increase in purchased water, a \$112,390 increase in engineering contract service costs and a \$57,160 decrease in commercial customer sales.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

### Actual versus Budget Comparison

During 2018, actual total operating revenue was \$2,496,876, \$14,624 less than budgeted revenues, while actual operating expenses exceeded budgeted operating expenses by \$502,916. The decrease in net assets variance was caused by decreased sales to commercial customers and rising operating costs. Driving the unfavorable cost variance to budget was increased purchased water costs (\$198,298), and engineering costs of \$101,340.

The above factors resulted in a change in net assets of (\$407,721) versus a budget of (\$35,000).

### Capital Assets and Debt Administration

During 2018, the District completed construction of a new shop building. Capitalized construction costs totaled \$862,055 as of April, 2018, of which \$763,489 represented construction in progress costs funded in the prior year. The District also purchased a rehab tank for HWY 98 (\$212,196), skid-steer loader (\$52,096) and mini excavator (\$54,186) in 2018.

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, 2018, and for maturity balances over the next 5 years and thereafter. During 2018, the District paid principal on the loans and revenue bonds totaling \$166,000 and interest totaling \$179,740 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.

### 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

ALLEN COUNTY WATER DISTRICT

STATEMENT OF NET POSITION

December 31, 2018

Assets and Deferred Outflows of Resources

Current assets:	
Cash	\$ 205,859
Investments	3,287,905
Accounts receivable from customers (net)	232,372
Prepaid insurance	16,219
Prepaid expenses	4,800
Accrued interest receivable	8,249
Total current assets	<u>3,755,404</u>
Restricted assets:	
Cash – customer’s deposits	137,304
Cash – bond and interest redemption account	952,861
Cash – depreciation reserve account	468,820
Cash – bond reserve accounts	11,939
Total restricted assets	<u>1,570,924</u>
Capital assets not being depreciated:	
Land and land rights	178,292
Capital assets being depreciated, net of accumulated depreciation of \$8,180,972	
Water supply and distribution system	12,133,323
Total capital assets	<u>12,311,615</u>
Other assets:	
Utility deposits	<u>555</u>
Deferred outflows of resources:	
Deferred cost of pension	<u>141,835</u>
Total assets and deferred outflows of resources	<u>\$ 17,780,333</u>

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

ALLEN COUNTY WATER DISTRICT

STATEMENT OF NET POSITION (Continued)  
December 31, 2018

Liabilities, Deferred Inflows of Resources, and Net Position

Current Liabilities:

Notes payable - current portion	\$ 164,000
Accounts payable, payroll taxes and other payables	72,023
Customer deposits	111,155
Accrued interest	89,546
Other accrued liabilities	<u>75,000</u>
Total current liabilities	<u>511,724</u>

Non-current liabilities:

Notes payable – net of current maturities	4,507,000
Net pension liability	<u>338,352</u>
Total non-current liabilities	<u>4,845,352</u>

Total liabilities	<u>5,357,076</u>
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Deferred inflows of resources:

Pension, other deferrals	<u>78,214</u>
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Net position:

Unrestricted	3,282,746
Invested in capital assets, net of related debt	<u>7,640,616</u>
Total unrestricted net position	<u>10,923,362</u>

Restricted:

Bond and interest redemption fund	952,861
Depreciation fund	<u>468,820</u>
Total restricted net position	<u>1,421,681</u>

Total net position	<u>12,345,043</u>
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Total liabilities, deferred inflows of resources, and net position	<u>\$ 17,780,333</u>
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The accompanying notes are an integral part of the financial statements.

**ALLEN COUNTY WATER DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES**  
**AND**  
**CHANGES IN NET POSITION**  
**For the Year Ended December 31, 2018**

Operating revenues	
Metered water sales	\$ 2,300,335
Forfeited discounts	39,855
Pumping charges for water returns to supplier	2,378
Miscellaneous service revenue	<u>154,308</u>
Total operating revenues	<u>2,496,876</u>
Operating expenses	
Source of supply and pumping	789,298
Transmission and distribution	659,829
Customer accounts	124,307
Administrative and general	754,883
Depreciation	517,082
Taxes other than income	<u>46,517</u>
Total operating expenses	<u>2,891,916</u>
Operating income (loss)	( <u>395,040</u> )
Non-operating revenues and (expenses)	
Interest income	81,747
Gain on sale of asset	72,942
Interest expense	( 176,769 )
Unrealized gain (loss) on temp investments	( 39,510 )
Non-utility income	48,645
Miscellaneous	<u>264</u>
Net non-operating revenues and (expenses)	( <u>12,681</u> )
Decrease in net position	( <u>407,721</u> )
Net position, beginning of year	12,827,764
Prior period adjustment	( <u>75,000</u> )
Net position, beginning of year, restated	<u>12,752,764</u>
Net position, end of year	<u>\$ 12,345,043</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, 2018

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Receipts from customers	\$ 2,557,711
Salaries, wages and employee benefits	( 854,387)
Purchased water	( 789,298)
Other operating expenses	( 553,233)
Net cash provided by operating activities	<u>360,793</u>

**CASH FLOWS FROM CAPITAL AND RELATED  
FINANCING ACTIVITIES:**

Sale of capital assets	72,942
Purchase of capital assets and deferred charges	( 741,756)
Principal paid on revenue bonds and notes payable	( 164,000)
Interest paid on revenue bonds and other debt	( 179,740)
Net cash used in capital and related financing activities	<u>( 1,012,554)</u>

**CASH FLOWS FROM INVESTING ACTIVITIES:**

Interest on cash balances	2,354
Interest on investments	81,747
Sale of investments	<u>211,639</u>
Net cash provided by investing activities	<u>295,740</u>

Net increase in cash and cash equivalents ( 356,021)

Cash and cash equivalents, beginning of year 2,132,804

Cash and cash equivalents, end of year 1,776,783

**LESS RESTRICTED CASH**

Cash – customers deposits	( 137,304)
Cash – bond and interest redemption	( 952,861)
Cash – depreciation reserve	( 468,820)
Cash – bond reserve	( 11,939)
Total restricted cash	<u>( 1,570,924)</u>

Cash and cash equivalents, per statement of net position \$ 205,859

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, 2018**

**RECONCILIATION OF OPERATING INCOME TO NET  
CASH PROVIDED BY OPERATING ACTIVITIES:**

Operating income (loss)	(\$ 395,040)
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	517,082
Decrease in accounts receivable	12,189
Increase in prepaid insurance	1,977
Decrease in accounts payable and accounts expenses	10,769
Other non-operating revenue	213,816
Net cash provided by operating activities	<u>\$ 360,793</u>

**SUPPLEMENTAL DISCLOSURES:**

**Non-Cash Investing, Capital and Financing Activities:**

Unrealized loss on investments (net)	\$ 39,510
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The accompanying notes are an integral part of the financial statements.

**ALLEN COUNTY WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2018**

1. Summary of Significant Accounting Policies:

Organization:

Allen County Water District (the "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).

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

December 31, 2018

### 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 District is exposed to various risks of loss from catastrophic occurrences. The 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.

#### 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

**ALLEN COUNTY WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2018**

1. Summary of Significant Accounting Policies: (Continued)

Prepaid Expenses:

Payments made that will benefit periods beyond December 31, 2018 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.

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, 2018, 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, 2018 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.

**ALLEN COUNTY WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2018**

1. Summary of Significant Accounting Policies: (Continued)

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.

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>2018</u>
Insured FDIC and SIPC	\$ 2,752,837
U. S. Government bond fund	965,536
Cash on hand	1,000
Uninsured	<u>1,345,316</u>
	<u>\$ 5,064,689</u>

Uninsured amounts represent balances at banks in excess of the \$250,000 FDIC limit. At December 31, 2018, 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 District's name.



# ALLEN COUNTY WATER DISTRICT

## NOTES TO FINANCIAL STATEMENTS

December 31, 2018

### 3. Property and Equipment:

Capital asset activity for the year ended December 31, 2018, was as follows:

	Balance at 12/31/2017	Increases	Decreases	Balance at 12/31/2018
Capital assets not depreciated:				
Land and land rights	\$ 86,990	\$ 91,302	\$ —	\$ 178,292
Construction work in progress	<u>763,489</u>	<u>189,317</u>	<u>952,806</u>	<u>—</u>
Total capital assets not depreciated	<u>850,479</u>	<u>280,619</u>	<u>952,806</u>	<u>178,292</u>
Capital assets depreciated:				
Communications equipment	55,248	—	—	55,248
Distribution reservoir/standpipes	1,172,117	212,196	—	1,384,313
Hydrants	43,860	—	—	43,860
Meters	1,472,327	83,302	—	1,555,629
Office building	560,378	—	—	560,378
Office furniture and equipment	191,221	3,423	—	194,644
Power operated equipment	741,100	106,282	—	847,382
Pumping equipment	713,281	—	—	713,281
Services	454,991	—	—	454,991
Structures and improvements	404,206	862,055	35,340	1,230,921
Tools, shop and garage equipment	60,427	—	—	60,427
Transmission/distribution mains	12,913,000	—	—	12,913,000
Transportation equipment	<u>319,691</u>	<u>—</u>	<u>19,470</u>	<u>300,221</u>
Total capital assets depreciated	<u>19,101,847</u>	<u>1,267,258</u>	<u>54,810</u>	<u>20,314,295</u>
Total capital assets	<u>\$ 19,952,326</u>	<u>\$ 1,547,877</u>	<u>\$ 1,007,616</u>	<u>\$ 20,492,587</u>

Less Accumulated Depreciation —

	Balance at 12/31/2017	Increases	Decreases	Balance at 12/31/2018
Communications equipment	\$ 46,794	\$ 1,919	\$ —	\$ 48,713
Distribution reservoir/standpipes	470,155	28,173	—	498,328
Hydrants	18,333	878	—	19,211
Meters	634,169	75,079	—	709,248
Office building	326,887	18,679	—	345,566
Office furniture and equipment	147,892	8,678	—	156,570
Power operated equipment	428,218	57,736	—	485,954
Pumping equipment	168,234	14,265	—	182,499
Services	234,958	9,099	—	244,057
Structures and improvements	55,401	15,998	27,704	43,695
Tools, shop and garage equipment	32,921	3,613	—	36,534
Transmission/distribution mains	4,895,469	258,260	—	5,153,729
Transportation equipment	<u>251,633</u>	<u>24,705</u>	<u>19,470</u>	<u>256,868</u>
Totals at historical cost	<u>7,711,064</u>	<u>517,082</u>	<u>47,174</u>	<u>8,180,972</u>
Total capital assets	<u>\$ 12,241,262</u>	<u>\$ 1,030,795</u>	<u>\$ 960,442</u>	<u>\$ 12,311,615</u>

**ALLEN COUNTY WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2018**

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 2018, plus interest at 5%. Principal payments vary until final maturity, 2018.	\$ -0-
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Series of 2006 due annually with principal payments of \$25,000 for 2018, plus interest at 4.5%. Principal payments vary until final maturity, 2046.	1,407,000
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Series of 2012 due annually with principal payments of \$12,500 for 2018, plus interest at 3%. Principal payments vary until final maturity, 2052.	<u>749,000</u>
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Total Serial Water Revenue Bonds	<u>2,156,000</u>
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Kentucky Rural Water Finance Corporation, term loan with principal payments of \$25,000 for 2018, plus interest at 2.30%. Principal payments and interest rate vary until final maturity, 2022.	100,000
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Kentucky Rural Water Finance Corporation, term loan with principal payments of \$100,000 for 2018, plus interest at 4.20%. Principal payments and interest rate vary until final maturity, 2038.	<u>2,415,000</u>
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Total Kentucky Rural Water Finance Bonds	<u>2,515,000</u>
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Total Long-Term Debt	<u>\$ 4,671,000</u>
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# ALLEN COUNTY WATER DISTRICT

## NOTES TO FINANCIAL STATEMENTS

December 31, 2018

### 4. Long-Term Debt: (Continued)

The following is a summary of changes in long-term debt for the year ended December 31, 2018:

	Balance at 12/31/2017	Additions	Deductions	Balance at 12/31/2018
Serial Water Revenue Bonds:				
Series of 1978	\$ 3,500	\$ —	\$ 3,500	\$ —
Series of 2006	1,432,000	—	25,000	1,407,000
Series of 2012	761,500	—	12,500	749,000
Ky. Rural Water, mature 2022	125,000	—	25,000	100,000
Ky. Rural Water, mature 2038	2,515,000	—	100,000	2,415,000
Total long-term debt	<u>\$ 4,837,000</u>	<u>\$ —</u>	<u>\$ 166,000</u>	<u>\$ 4,671,000</u>

The annual debt service requirements to maturity, including principal and interest, for long-term debt as of December 31, 2018, are as follows:

Year Ending December 31	Serial Water Revenue Bonds	
	Principal	Interest
2019	\$ 39,000	\$ 84,105
2020	41,000	82,900
2021	42,500	80,100
2022	44,000	78,205
2023	45,500	76,400
2024 – 2028	258,000	350,970
2029 – 2033	315,000	298,508
2034 – 2038	383,500	206,415
2039 – 2043	469,500	132,601
2044 – 2048	386,000	83,050
2049 – 2052	132,000	17,420
Total	<u>\$ 2,156,000</u>	<u>\$ 1,490,674</u>

Year Ending December 31	Kentucky Rural Water Loan	
	Principal	Interest
2019	\$ 125,000	\$ 91,443
2020	130,000	87,089
2021	130,000	82,784
2022	135,000	78,401
2023	110,000	74,289
2024 – 2028	625,000	308,691
2029 – 2033	690,000	184,912
2034 – 2038	570,000	58,015
Total	<u>\$ 2,515,000</u>	<u>\$ 965,624</u>

**ALLEN COUNTY WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2018**

4. Long-Term Debt: (Continued)

<u>Year Ending December 31</u>	<u>Total Long-Term Debt</u>	
	<u>Principal</u>	<u>Interest</u>
2019	\$ 164,000	\$ 175,548
2020	171,000	169,989
2021	172,500	162,884
2022	179,000	156,606
2023	155,500	150,689
2024 – 2028	883,000	659,661
2029 – 2033	1,005,000	483,420
2034 – 2038	953,500	264,430
2039 – 2043	469,500	132,601
2044 – 2048	386,000	83,050
2049 – 2052	132,000	17,420
Total	<u>\$ 4,671,000</u>	<u>\$ 2,456,298</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, 2018</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	27.9% 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**  
**December 31, 2018**

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, 2018, the following employees were covered by the benefit terms:

Retirees	1
Terminated – Vested	4
Active employees	<u>7</u>
	<u>12</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 2018, the District's contributions were approximately 27.9% of annual covered pensions.

*Net Pension Liability*

The District net pension liability was measured as of December 31, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2018.

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:

**ALLEN COUNTY WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2018**

**5. Defined Benefit Pension Plan: (continued)**

<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

**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 5.84% rate.



**ALLEN COUNTY WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2018**

5. Defined Benefit Pension Plan: (continued)

**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.

*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 5.84% 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 4.84%	Current Discount Rate 5.84%	1% Increase 6.84%
Total Pension Liability	\$1,482,478	\$1,306,256	\$1,156,229
Net Pension Liability	\$ 574,574	\$ 338,352	\$ 188,325

**ALLEN COUNTY WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2018

5. Defined Benefit Pension Plan: (continued)

*Changes in the Net Pension Liability*

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at 12/31/2017	\$ 1,463,731	\$ 1,220,985	\$ 242,746
Changes for the year:			
a) Service cost	63,147		63,147
b) Interest	87,176		87,176
c) Differences between expected and actual experience	471		471
d) Employer contributions		92,103	( 92,103)
e) Employee contributions		0	0
f) Net investment income		(36,915)	36,915
g) Benefits and refunds	(308,269)	(308,269)	0
h) Admin expenses	0	( 0)	0
i) Assumption change	0		0
j) Other	0	0	0
Net changes	(157,475)	(253,081)	95,606
Balances at 12/31/2018	\$ 1,306,256	\$ 967,904	\$ 338,352

*GASB 68 Pension Expense and Deferred Outflows/Inflows*

For the year ended December 31, 2018, the Allen County Water District recognized pension expense of \$108,649. At December 31, 2018, 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	\$ 10,775	\$ 50,276
Changes of assumptions	21,700	0
Net difference between projected and actual earnings on pension plan investments	109,360	27,938
Total	\$ 141,835	\$ 78,214

**ALLEN COUNTY WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2018**

5. Defined Benefit Pension Plan: (continued)

Pension Expense/(Income) under GASB 68

	2018
1. Service cost	\$ 63,147
2. Interest on total pension liability	87,176
3. Current period benefit changes	0
4. Offset for employee contributions	0
5. Projected earnings on plan assets	( 72,339)
6. Other changes in plan net position	0
7. Rec. of outflow (inflow) due to liabilities	( 3,327)
8. Rec. of outflow (inflow) due to assets	33,992
9. Total pension expense (income)	\$ 108,649

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 12/31/17	\$ (242,746)	\$ 79,861	\$ ( 95,300)	\$ (258,185)
2. Contributions during measuring period	92,103			92,103
3. Pension expense	( 77,984)	( 47,751)	17,086	( 108,649)
4. Addition to deferred Outflows	( 109,725)	109,725		0
5. Addition to deferred Inflows	0		0	0
6. Balance at 12/31/18	\$ (338,352)	\$ 141,835	\$ ( 78,214)	\$ (274,731)

**ALLEN COUNTY WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2018**

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
2019	30,665
2020	9,714
2021	9,212
2022	18,523
2023	(3,337)
Thereafter	( 1,166)
Total	63,621

6. Retirement Plan (457 Plan)

The District established a 457 (b) plan. All new hires of the District 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 District's defined benefit plan.

7. Subsequent Events

Subsequent events have been evaluated through March 27, 2019, which is the date the financial statements were available to be issued.

8. Prior Period Adjustment

The District has recorded a \$75,000 accrued liability at December 31, 2018, payable to the District's supplier of water, relating to supplier billing errors in 2017. The District has recorded a prior period adjustment, resulting in a restatement of beginning net position.

## **REQUIRED SUPPLEMENTARY INFORMATION**

Schedule of Required Supplementary Information  
Schedule of Investment Returns

FY ending December 31,	Annual Money-weighted Rate of Return
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%
2018	-3.3%

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.



# 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	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
<b>Total Pension Liability</b>										
Service Cost	63,147	57,857	84,332	78,657	72,178	63,941	75,412	75,048	72,327	71,972
Interest	87,176	94,971	109,857	117,383	103,920	98,204	97,887	102,914	97,275	88,596
Benefit Changes	0	0	0	0	0	0	0	0	0	0
Difference between Actual & Expected Experience	471	12,944	-36,375	-41,355	33,664	-42,655	104,516	-48,854	-25,265	28,370
Assumption changes	0	0	31,000	0	0	141,611	0	0	0	0
Benefit Payments	-308,269	-268,408	-540,773	-5,866	-5,866	-132,870	-402,226	0	-130,270	0
Net Change in Total Pension Liability	-157,475	-102,636	-351,959	148,819	203,896	128,231	-124,411	129,108	14,067	188,938
<b>Total Pension Liability - Beginning</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>Total Pension Liability - Ending</b>	<b>1,306,256</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>Plan Fiduciary Net Position</b>										
Contributions - Employee	0	0	0	0	0	0	0	0	0	0
Contributions - Employer	92,103	90,405	119,540	121,814	115,687	118,664	128,443	130,401	138,591	152,078
Net Investment Income	-36,915	123,674	88,337	-3,756	99,633	216,308	131,846	15,190	83,723	134,252
Benefit Payments	-308,269	-268,408	-540,773	-5,866	-5,866	-132,870	-402,226	0	-130,270	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	-253,081	-54,329	-332,896	112,192	209,454	202,102	-141,937	145,591	92,044	286,330
<b>Plan Fiduciary Net Position - Beginning</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>Plan Fiduciary Net Position - Ending</b>	<b>967,904</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>Net Pension Liability - Ending</b>	<b>338,352</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>Plan Fiduciary Net Position as a Percentage of Total Pension Liability</b>	<b>74.10%</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>Covered Employee Payroll</b>	<b>330,208</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>Net Pension Liability as a Percentage of Covered Employee Payroll</b>	<b>102%</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>

### 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	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Actuarially determined contribution	92,103	90,405	119,540	109,247	102,195	101,730	112,350	113,516	117,965	126,778
Contributions in relation to the actuarially determined contribution	92,103	90,405	119,540	121,814	115,687	118,664	128,443	130,401	138,591	152,078
Contribution deficiency (excess)	0	0	0	(12,567)	(13,492)	(16,934)	(16,093)	(16,885)	(20,626)	(25,300)
Covered-employee payroll	330,208	364,279	338,419	482,355	472,873	435,144	432,435	457,474	453,035	436,413
Contributions as a percentage of covered-employee payroll	27.9%	24.8%	35.3%	25.3%	24.5%	27.3%	29.7%	28.5%	30.6%	34.8%

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: 16 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.

(1/1/2014 to 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).



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

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 ( the "District") as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 27, 2019.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the 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 the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District'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 2018-1 and 2018-2 to be material weaknesses.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the 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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Bowling Green, Kentucky  
March 27, 2019

**ALLEN COUNTY WATER DISTRICT  
SCHEDULE OF FINANCIAL STATEMENT FINDINGS  
For The Year Ended December 31, 2018**

• **2018-1 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.

• **2018-2 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 a District 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, 2018**

- **2018-2 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 Governmental Accounting Standards Board (GASB) pronouncements and to remain current with this knowledge. Management was instructed adequately to have the knowledge necessary related to GASB pronouncements as it relates to the financial statements and footnotes to accept responsibility for them.