

ALLEN COUNTY WATER DISTRICT

FINANCIAL STATEMENTS

DECEMBER 31, 2019

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1 - 2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3 - 5
BASIC FINANCIAL STATEMENTS:	
Statement of net position	6 - 7
Statement of revenues, expenses and changes in net position	8
Statement of cash flows	9 - 10
Notes to financial statements	11 - 24
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of investment returns	25
Schedule of changes in the employers' net pension liability and related ratios	26
Schedule of District contributions	27
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 <i>GOVERNMENT AUDITING STANDARDS</i>	28-29
SCHEDULE OF FINANCIAL STATEMENT FINDINGS	30-31



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, 2019, 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, 2019, 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.

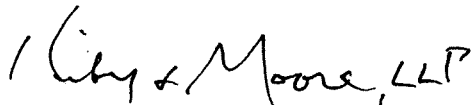
Other Matters

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 May 15, 2020, 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.



Bowling Green, Kentucky
May 15, 2020

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, 2019. 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	
	2019	2018
Current assets	\$ 3,512,357	\$ 3,755,404
Restricted assets	1,639,953	1,570,924
Capital assets, net of depreciation	12,177,271	12,311,615
Other assets	555	555
Deferred outflows of resources	94,084	141,835
Total assets and deferred outflows	<u>\$ 17,424,220</u>	<u>\$ 17,780,333</u>
Current liabilities, including current portion of long-term debt	\$ 469,488	\$ 511,724
Non-current liabilities	<u>4,525,038</u>	<u>4,845,352</u>
Total liabilities	<u>4,994,526</u>	<u>5,357,076</u>
Deferred inflow of resources	<u>170,679</u>	<u>78,214</u>
Total net position	<u>12,259,015</u>	<u>12,345,043</u>
Total liabilities, deferred inflows and net position	<u>\$ 17,424,220</u>	<u>\$ 17,780,333</u>

Condensed Statement of Revenues, Expenses and Changes in Net Position

Metered water sales	\$ 2,280,366	\$ 2,300,335
Other operating revenue	<u>246,450</u>	<u>196,541</u>
Total operating revenue	<u>2,526,816</u>	<u>2,496,876</u>
Water purchased	709,705	789,298
Transmission and distribution costs	584,153	659,829
Other operating expenses	<u>1,347,143</u>	<u>1,442,789</u>
Total operating expenses	<u>2,641,001</u>	<u>2,891,916</u>
Net non-operating (expenses) and revenue	<u>28,157</u>	<u>(12,681)</u>
Change in net position	<u>(86,028)</u>	<u>(407,721)</u>
Net position, beginning of year	12,345,043	12,827,764
Prior period adjustment	<u>—</u>	<u>(75,000)</u>
Net position, beginning of year, restated	<u>12,345,043</u>	<u>12,752,764</u>
Net position, end of year	<u>\$ 12,259,015</u>	<u>\$ 12,345,043</u>

Financial Highlights

The District's net position decreased \$86,028 in 2019, compared to \$407,721 in 2018. Total operating revenue increased \$29,940 and total operating expenses decreased \$250,915 from the prior year. Operating expense decreases in 2019 occurred in water purchased (\$79,593) and engineering contract service costs (\$94,005).

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Actual versus Budget Comparison

During 2019, actual total operating revenue was \$2,526,816, \$75,184 less than budgeted revenues, while actual operating expenses exceeded budgeted operating expenses by \$63,001. The unfavorable revenue budget variance was sales to residential customers (\$138,306). Driving the unfavorable cost variance to budget was increased purchased water costs (\$84,705).

The above factors resulted in a change in net position of (\$86,028) versus a budget of \$4,500.

Capital Assets and Debt Administration

During 2019, the District acquired 3.4 acres of land (\$132,500) located at 3500 Veterans Memorial Highway, Scottsville, Kentucky, as the future site for a new District elevated water tank. The District also purchased a new office computer system (\$26,548), meters (\$211,778), and a Chevrolet vehicle (\$29,154).

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 2020 through 2052. See Footnote 4 to the financial statements for unpaid balances of the loans and revenue bonds as of December 31, 2019, and for maturity balances over the next 5 years and thereafter. During 2019, the District paid principal on the loans and revenue bonds totaling \$164,000 and interest totaling \$136,884 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, 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, 2019

Assets and Deferred Outflows of Resources

Current assets:

Cash and cash equivalents	\$ 399,280
Investments	2,864,593
Accounts receivable from customers (net)	222,356
Prepaid insurance	16,417
Prepaid expenses	4,800
Accrued interest receivable	<u>4,911</u>
Total current assets	<u>3,512,357</u>

Restricted assets:

Cash – customer’s deposits	129,168
Cash – bond and interest redemption account	1,003,366
Cash – depreciation reserve account	495,273
Cash – bond reserve accounts	<u>12,146</u>
Total restricted assets	<u>1,639,953</u>

Capital assets not being depreciated:

Land and land rights	314,512
----------------------	---------

Capital assets being depreciated, net of accumulated depreciation of \$8,727,016

Water supply and distribution system	<u>11,862,759</u>
Total capital assets	<u>12,177,271</u>

Other assets:

Utility deposits	<u>555</u>
------------------	------------

Deferred outflows of resources:

Deferred cost of pension	<u>94,084</u>
--------------------------	---------------

Total assets and deferred outflows of resources	<u>\$ 17,424,220</u>
---	----------------------

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

ALLEN COUNTY WATER DISTRICT

STATEMENT OF NET POSITION (Continued)
December 31, 2019

Liabilities, Deferred Inflows of Resources, and Net Position

Current Liabilities:

Notes payable - current portion	\$ 171,000
Accounts payable, payroll taxes and other payables	77,827
Customer deposits	102,891
Accrued interest	87,103
Other accrued liabilities	<u>30,667</u>
Total current liabilities	<u>469,488</u>

Non-current liabilities:

Notes payable – net of current maturities	4,336,000
Net pension liability	<u>189,038</u>
Total non-current liabilities	<u>4,525,038</u>

Total liabilities	<u>4,994,526</u>
-------------------	------------------

Deferred inflows of resources:

Pension, other deferrals	<u>170,679</u>
--------------------------	----------------

Net position:

Unrestricted	3,090,104
Invested in capital assets, net of related debt	<u>7,670,271</u>
Total unrestricted net position	<u>10,760,375</u>

Restricted:

Bond and interest redemption fund	1,003,367
Depreciation fund	<u>495,273</u>
Total restricted net position	<u>1,498,640</u>

Total net position	<u>12,259,015</u>
--------------------	-------------------

Total liabilities, deferred inflows of resources, and net position	<u>\$ 17,424,220</u>
---	----------------------

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, 2019

Operating revenues	
Metered water sales	\$ 2,280,366
Forfeited discounts	50,093
Pumping charges for water returns to supplier	16,845
Miscellaneous service revenue	<u>179,512</u>
Total operating revenues	<u>2,526,816</u>
Operating expenses	
Source of supply and pumping	709,705
Transmission and distribution	584,153
Customer accounts	90,310
Administrative and general	671,375
Depreciation	546,044
Taxes other than income	<u>39,414</u>
Total operating expenses	<u>2,641,001</u>
Operating income (loss)	(<u>114,185</u>)
Non-operating revenues and (expenses)	
Interest income	75,875
Interest expense	(134,441)
Unrealized gain on investments	77,816
Non-utility income	8,128
Miscellaneous	<u>779</u>
Net non-operating revenues and (expenses)	<u>28,157</u>
Decrease in net position	(86,028)
Net position, beginning of year	<u>12,345,043</u>
Net position, end of year	<u>\$ 12,259,015</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, 2019

CASH FLOWS FROM OPERATING ACTIVITIES:

Receipts from customers	\$ 2,536,832
Salaries, wages and employee benefits	(841,487)
Purchased water	(705,853)
Other operating expenses	(594,800)
Net cash provided by operating activities	<u>394,692</u>

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

Purchase of capital assets and deferred charges	(411,699)
Principal paid on revenue bonds and notes payable	(164,000)
Interest paid on revenue bonds and other debt	(136,884)
Net cash used in capital and related financing activities	<u>(712,583)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Interest received	79,213
Proceeds from sale, matured investments	573,882
Interest reinvested	(72,754)
Net cash provided by investing activities	<u>580,341</u>

Net increase in cash and cash equivalents 262,450

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

Cash and cash equivalents, end of year \$ 2,039,233

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current cash and cash equivalents	\$ 399,280
Restricted cash and cash equivalents	<u>1,639,953</u>
	<u><u>\$ 2,039,233</u></u>

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, 2019

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

Operating income (loss)	(\$ 114,185)
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	546,044
Other non-operating revenue	8,907
Decrease in deferred outflows of resources	47,751
Increase in deferred inflows of resources	92,465
Decrease in accounts receivable	10,016
Increase in prepaid insurance	(198)
Decrease in accounts payable and accrued expenses	(38,529)
Decrease in customer deposits	(8,264)
Decrease in pension liability	(149,315)
Net cash provided by operating activities	<u>\$ 394,692</u>

SUPPLEMENTAL DISCLOSURES:

Non-Cash Investing, Capital and Financing Activities:

Unrealized gain on investments (net)	<u>\$ 77,816</u>
--------------------------------------	------------------

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

ALLEN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

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, 2019

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, 2019

1. Summary of Significant Accounting Policies: (Continued)

Prepaid Expenses:

Payments made that will benefit periods beyond December 31, 2019 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, 2019, 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, 2019 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, 2019

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.

Subsequent Events

Subsequent events have been evaluated through May 15, 2020, which is the date the financial statements were available to be issued.

2. Cash, Restricted Cash and Investments:

All deposits, certificates of deposit, U.S. Government bond funds, and marketable certificates of deposit are in various accounts with Farmers National Bank and Baird 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 Baird as custodian are insured by SIPC up to \$500,000 for securities, and including up to \$250,000 for cash. Baird, additionally, offers coverage in excess of SPIC limits through an insurance policy, with an aggregate coverage limit of \$250 million, purchased through Lloyd's of London.

	December 31 2019
Insured FDIC and SIPC	\$ 3,300,223
Cash on hand	1,000
Uninsured	<u>1,664,511</u>
	<u>\$ 4,965,734</u>

ALLEN COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

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

Uninsured amounts represent balances at banks in excess of the \$250,000 FDIC limit. At December 31, 2019, all uninsured amounts were secured by Kentucky school district bonds held as collateral by the pledging bank in the District's name.

3. Property and Equipment:

Capital asset activity for the year ended December 31, 2019, was as follows:

	Balance at 12/31/2018	Increases	Decreases	Balance at 12/31/2019
Capital assets not depreciated:				
Land and land rights	\$ 178,292	\$ 136,220	\$ —	\$ 314,512
Construction work in progress	—	—	—	—
Total capital assets not depreciated	<u>178,292</u>	<u>136,220</u>	<u>—</u>	<u>314,512</u>
Capital assets depreciated:				
Communications equipment	55,248	—	—	55,248
Distribution reservoir/standpipes	1,384,313	—	—	1,384,313
Hydrants	43,860	—	—	43,860
Meters	1,555,629	211,779	—	1,767,408
Office building	560,378	—	—	560,378
Office furniture and equipment	194,644	26,547	—	221,191
Power operated equipment	847,382	—	—	847,382
Pumping equipment	713,281	—	—	713,281
Services	454,991	—	—	454,991
Structures and improvements	1,230,921	—	—	1,230,921
Tools, shop and garage equipment	60,427	8,000	—	68,427
Transmission/distribution mains	12,913,000	—	—	12,913,000
Transportation equipment	300,221	29,154	—	329,375
Total capital assets depreciated	<u>20,314,295</u>	<u>275,480</u>	<u>—</u>	<u>20,589,775</u>
Total capital assets	<u>\$ 20,492,587</u>	<u>\$ 411,700</u>	<u>\$ —</u>	<u>\$ 20,904,287</u>

ALLEN COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

3. Property and Equipment: (Continued)

Less Accumulated Depreciation –

	Balance at 12/31/2018	Increases	Decreases	Balance at 12/31/2019
Communications equipment	\$ 48,713	\$ 1,888	\$ —	\$ 50,601
Distribution reservoir/standpipes	498,328	30,296	—	528,624
Hydrants	19,211	877	—	20,088
Meters	709,248	87,437	—	796,685
Office building	345,566	18,680	—	364,246
Office furniture and equipment	156,570	11,258	—	167,828
Power operated equipment	485,954	63,050	—	549,004
Pumping equipment	182,499	14,265	—	196,764
Services	244,057	9,100	—	253,157
Structures and improvements	43,695	24,618	—	68,313
Tools, shop and garage equipment	36,534	3,981	—	40,515
Transmission/distribution mains	5,153,729	258,260	—	5,411,989
Transportation equipment	256,868	22,334	—	279,202
Totals at historical cost	<u>8,180,972</u>	<u>546,044</u>	<u>—</u>	<u>8,727,016</u>
Total capital assets	<u>\$ 12,311,615</u>	<u>(\$ 134,344)</u>	<u>\$ —</u>	<u>\$ 12,177,271</u>

4. Long-Term Debt:

Long-term debt consists of the following Serial Water Revenue Bonds, issued through USDA Rural Development, payable from bond and interest fund assets, and term loans from Kentucky Rural Water Finance Corporation.

Series of 2006 due annually with principal payments of \$26,000 for 2019, plus interest at 4.5%. Principal payments vary until final maturity, 2046. \$ 1,381,000

Series of 2012 due annually with principal payments of \$13,000 for 2019, plus interest at 3%. Principal payments vary until final maturity, 2052. 736,000

Total Serial Water Revenue Bonds 2,117,000

Kentucky Rural Water Finance Corporation, term loan with principal payments of \$25,000 for 2019, plus interest at 4.30%. Principal payments and interest rate vary until final maturity, 2022. 75,000

Kentucky Rural Water Finance Corporation, term loan with principal payments of \$100,000 for 2019, plus interest at 3.20%. Principal payments and interest rate vary until final maturity, 2038. 2,315,000

Total Kentucky Rural Water Finance Bonds 2,390,000

Total Long-Term Debt \$ 4,507,000

ALLEN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

4. Long-Term Debt: (Continued)

The following is a summary of changes in long-term debt for the year ended December 31, 2019:

	Balance at 12/31/2018	Increases	Decreases	Balance at 12/31/2019	Amounts Due in One Year
Long-term debt:					
Series of 2006	\$ 1,407,000	\$ —	(\$ 26,000)	\$ 1,381,000	\$ 27,500
Series of 2012	749,000	—	(13,000)	736,000	13,500
Ky. Rural Water, mature 2022	100,000	—	(25,000)	75,000	25,000
Ky. Rural Water, mature 2038	2,415,000	—	(100,000)	2,315,000	105,000
Total long-term debt	<u>\$ 4,671,000</u>	<u>\$ —</u>	<u>(\$ 164,000)</u>	<u>\$ 4,507,000</u>	<u>\$ 171,000</u>

The annual debt service requirements to maturity, including principal and interest, for long-term debt as of December 31, 2019, are as follows:

<u>Year Ending December 31</u>	<u>Serial Water Revenue Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2020	\$ 41,000	\$ 83,404
2021	42,500	81,731
2022	44,000	79,995
2023	45,500	78,195
2024	47,500	76,324
2025 – 2029	268,500	350,618
2030 – 2034	327,500	290,381
2035 – 2039	399,500	216,577
2040 – 2044	488,500	125,914
2045 – 2048	312,000	33,814
2049 – 2052	100,500	4,582
Total	<u>\$ 2,117,000</u>	<u>\$ 1,421,535</u>

<u>Year Ending December 31</u>	<u>Kentucky Rural Water Loan</u>	
	<u>Principal</u>	<u>Interest</u>
2020	\$ 130,000	\$ 87,089
2021	130,000	82,785
2022	135,000	78,401
2023	110,000	74,289
2024	115,000	70,519
2025 – 2029	650,000	285,521
2030 – 2034	665,000	158,657
2035 – 2038	455,000	103,921
Total	<u>\$ 2,390,000</u>	<u>\$ 941,182</u>

ALLEN COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

4. Long-Term Debt: (Continued)

<u>Year Ending December 31</u>	<u>Total Long-Term Debt</u>	
	<u>Principal</u>	<u>Interest</u>
2020	\$ 171,000	\$ 170,493
2021	172,500	164,516
2022	179,000	158,396
2023	155,500	152,484
2024	162,500	146,843
2025 – 2029	918,500	636,139
2030 – 2034	992,500	449,038
2035 – 2039	854,500	320,498
2040 – 2044	488,500	125,914
2045 – 2048	312,000	33,814
2049 – 2052	100,500	4,582
Total	<u>\$ 4,507,000</u>	<u>\$ 2,362,717</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, 2019</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	53.3% 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, 2019

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, 2019, the following employees were covered by the benefit terms:

Retirees	1
Terminated – Vested	3
Active employees	<u>4</u>
	<u>8</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 2019, the District's contributions were approximately 53.3% of annual covered payroll.

Net Pension Liability

The District net pension liability was measured as of December 31, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2019.

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, 2019

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 5.90% rate.

ALLEN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

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 5.90% 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 <u>4.90%</u>	Current Discount Rate <u>5.90%</u>	1% Increase <u>6.90%</u>
Total Pension Liability	\$ 595,073	\$ 524,906	\$ 465,797
Net Pension Liability	\$ 259,205	\$ 189,038	\$ 129,929

ALLEN COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

5. Defined Benefit Pension Plan: (continued)

Changes in the Net Pension Liability

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at 12/31/2018	\$ 1,306,256	\$ 967,904	\$ 338,352
Changes for the year:			
a) Service cost	60,268		60,268
b) Interest	59,933		59,933
c) Differences between expected and actual experience	(72,848)		(72,848)
d) Employer contributions		100,170	(100,170)
e) Employee contributions		0	0
f) Net investment income		96,497	(96,497)
g) Benefits and refunds	(828,703)	(828,703)	0
h) Admin expenses	0	(0)	0
i) Assumption change	0		0
j) Other	0	0	0
Net changes	(781,350)	(632,036)	(152,369)
Balances at 12/31/2019	\$ 524,906	\$ 335,868	\$ 189,038

GASB 68 Pension Expense and Deferred Outflows/Inflows

For the year ended December 31, 2019, the Allen County Water District recognized pension expense of \$91,072. At December 31, 2019, 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	\$ 9,429	\$ 106,245
Changes of assumptions	18,600	0
Net difference between projected and actual earnings on pension plan investments	66,055	64,434
Total	\$ 94,084	\$ 170,679

ALLEN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

5. Defined Benefit Pension Plan: (continued)

Pension Expense/(Income) under GASB 68

	2019
1. Service cost	\$ 60,268
2. Interest on total pension liability	59,933
3. Current period benefit changes	0
4. Offset for employee contributions	0
5. Projected earnings on plan assets	(39,236)
6. Other changes in plan net position	0
7. Rec. of outflow (inflow) due to liabilities	(12,433)
8. Rec. of outflow (inflow) due to assets	22,540
9. Total pension expense (income)	\$ 91,072

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 12/31/18	\$ (338,352)	\$ 141,835	\$ (78,214)	\$ (274,731)
2. Contributions during measuring period	100,170			100,170
3. Pension expense	(80,964)	(47,751)	37,643	(91,072)
4. Addition to deferred Outflows	0	0		0
5. Addition to deferred Inflows	130,108		(130,108)	0
6. Balance at 12/31/19	\$ (189,038)	\$ 94,084	\$ (170,679)	\$ (265,633)

ALLEN COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

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
2020	(10,844)
2021	(11,346)
2022	(2,035)
2023	(23,886)
2024	(12,438)
Thereafter	(16,046)
Total	(76,595)

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

In October, 2019, the District accepted bids from Southern Contractor of KY, LLC (\$281,900) and Caldwell Tanks, Inc. (\$1,674,000) for water lines and new elevated water tank project. Total estimated project costs of \$2,450,000 will be financed by a loan from the Kentucky Infrastructure Authority (KIA), dated March 2, 2020. The loan interest rate is 2% and principal and interest are payable in 40 semi-annual installments of \$74,616, on December 1 and June 1, beginning December 1, 2021 (estimated).

In April, 2020, the District received initial KIA loan draws in the amounts of \$196,042 and \$307,012 for requests for reimbursement, dated March 3, 2020 and March 23, 2020, respectively.

REQUIRED SUPPLEMENTARY INFORMATION

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

FY ending <u>December 31.</u>	Annual Money-weighted <u>Rate of Return</u>
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%
2019	16.0%

The amounts shown are net of investment expenses.

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

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

Plan Year ending December 31	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Total Pension Liability										
Service Cost	60,268	63,147	57,857	84,332	78,657	72,178	63,941	75,412	75,048	72,327
Interest	59,933	87,176	94,971	109,857	117,383	103,920	98,204	97,887	102,914	97,275
Benefit Changes	0	0	0	0	0	0	0	0	0	0
Difference between Actual & Expected Experience	-72,848	471	12,944	-36,375	-41,355	33,664	-42,655	104,516	-48,854	-25,265
Assumption changes	0	0	0	31,000	0	0	141,611	0		
Benefit Payments	-828,703	-308,269	-268,408	-540,773	-5,866	-5,866	-132,870	-402,226	0	-130,270
Net Change in Total Pension Liability	-781,350	-157,475	-102,636	-351,959	148,819	203,896	128,231	-124,411	129,108	14,067
Total Pension Liability - Beginning	1,306,256	1,463,731	1,566,367	1,918,326	1,769,507	1,565,611	1,437,380	1,561,791	1,432,683	1,418,616
Total Pension Liability - Ending	524,906	1,306,256	1,463,731	1,566,367	1,918,326	1,769,507	1,565,611	1,437,380	1,561,791	1,432,683
Plan Fiduciary Net Position										
Contributions - Employee	0	0	0	0	0	0	0	0	0	0
Contributions - Employer	100,170	92,103	90,405	119,540	121,814	115,687	118,664	128,443	130,401	138,591
Net Investment Income	96,497	-36,915	123,674	88,337	-3,756	99,633	216,308	131,846	15,190	83,723
Benefit Payments	-828,703	-308,269	-268,408	-540,773	-5,866	-5,866	-132,870	-402,226	0	-130,270
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	-632,036	-253,081	-54,329	-332,896	112,192	209,454	202,102	-141,937	145,591	92,044
Plan Fiduciary Net Position - Beginning	967,904	1,220,985	1,275,314	1,608,210	1,496,018	1,286,564	1,084,462	1,226,399	1,080,808	988,764
Plan Fiduciary Net Position - Ending	335,868	967,904	1,220,985	1,275,314	1,608,210	1,496,018	1,286,564	1,084,462	1,226,399	1,080,808
Net Pension Liability - Ending	189,037	338,352	242,746	291,053	310,116	273,489	279,047	352,918	335,392	351,875
Plan Fiduciary Net Position as a Percentage of Total Pension Liability										
	63.99%	74.10%	83.42%	81.42%	83.83%	84.54%	82.18%	75.45%	78.53%	75.44%
Covered Employee Payroll	187,801	330,208	364,279	338,419	482,355	472,873	435,144	432,435	457,474	453,035
Net Pension Liability as a Percentage of Covered Employee Payroll										
	101%	102%	67%	86%	64%	58%	64%	82%	73%	78%

Notes to Schedule:

Changes of assumptions: At 1/1/2017, assumed mortality changed from the RP 2000 Combined Healthy Mortality Table projected 20 years with Scale AA, to RP 2014 Mortality Table. At 1/1/2014, assumed mortality changed from the UP 1994 Table to the RP 2000 Combined Healthy Mortality Table projected 20 years with Scale AA. At 1/1/2014, assumed pre-retirement discount rate lowered from 7.0% to 6.5%.

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

Plan Year ending December 31	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Actuarially determined contribution	100,170	92,103	90,405	119,540	109,247	102,195	101,730	112,350	113,516	117,965
Contributions in relation to the actuarially determined contribution	100,170	92,103	90,405	119,540	121,814	115,687	118,664	128,443	130,401	138,591
Contribution deficiency (excess)	0	0	0	0	(12,567)	(13,492)	(16,934)	(16,093)	(16,885)	(20,626)
Covered-employee payroll	187,801	330,208	364,279	338,419	482,355	472,873	435,144	432,435	457,474	453,035
Contributions as a percentage of covered-employee payroll	53.3%	27.9%	24.8%	35.3%	25.3%	24.5%	27.3%	29.7%	28.5%	30.6%

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:

15 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).



**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, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated May 15, 2020.

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 2019-1 and 2019-2 to be material weaknesses.

Compliance and Other Matters

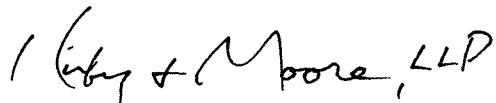
As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material 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
May 15, 2020

ALLEN COUNTY WATER DISTRICT

SCHEDULE OF FINANCIAL STATEMENT FINDINGS For the Year Ended December 31, 2019

- **2019-1 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.

- **2019-2 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, 2019

- **2019-2 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.