

NORTH MCLEAN COUNTY WATER DISTRICT

AUDIT REPORT

FOR THE YEARS ENDED
DECEMBER 31, 2016 AND 2015

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Board of Commissioners
North McLean County Water District
McLean County, Kentucky

Independent Auditor's Report

Report on the Financial Statements

We have audited the accompanying statements of net position of North McLean County Water District as of December 31, 2016 and 2015, and the related statements of revenue and expenses and changes in net position, and cash flows, and the related notes to the financial statements, for the years then ended.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness

of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of North McLean County Water District as of December 31, 2016 and 2015, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not part of the financial statements, is required by the Government Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinions on the financial statements are not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 11, 2017 on our consideration of North McLean County Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering North McLean County Water District's internal control over financial reporting and compliance.

Hoyer and Meiss, PLLC

May 11, 2017

NORTH MCLEAN COUNTY WATER DISTRICT
STATEMENTS OF NET POSITION
December 31, 2016 and 2015

ASSETS	2016	2015
CURRENT ASSETS		
Cash in bank	\$ 264,374	\$ 258,791
Customer deposit checking	39,255	38,397
Certificates of deposit	171,647	170,131
Accounts receivable	58,446	47,899
Due from other governments	515	433
Inventory	32,187	31,422
Interest receivable	260	157
Prepaid insurance	7,673	6,545
TOTAL CURRENT ASSETS	574,357	553,775
NONCURRENT ASSETS		
Restricted Assets:		
Sinking fund reserve	30,549	31,389
Replacement and extension fund	41,297	39,464
Capital Assets:		
Utility plant	3,407,317	3,376,405
Accumulated depreciation	(1,203,964)	(1,139,221)
TOTAL NONCURRENT ASSETS	2,275,199	2,308,037
TOTAL ASSETS	2,849,556	2,861,812
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable	55,520	16,556
Taxes payable	8,602	7,675
Employee IRA withholding	174	-
Customer deposits	3,000	3,000
Bonds payable	12,000	11,000
TOTAL CURRENT LIABILITIES	79,296	38,231
NONCURRENT LIABILITIES		
7 5/8% Revenue Bond, Series 1985	118,000	130,000
Customer deposits	30,005	30,005
TOTAL NONCURRENT LIABILITIES	148,005	160,005
TOTAL LIABILITIES	227,301	198,236
NET POSITION		
Net investment in capital assets	2,073,353	2,096,184
Restricted for debt requirements	56,000	56,000
Unrestricted	492,902	511,392
TOTAL NET POSITION	\$ 2,622,255	\$ 2,663,576

The notes to the financial statements are an integral part of these statements.

NORTH MCLEAN COUNTY WATER DISTRICT
 STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
 December 31, 2016 and 2015

	2016	2015
OPERATING REVENUES		
Water sales	\$ 597,720	\$ 593,502
Penalties and miscellaneous	19,915	19,520
TOTAL OPERATING REVENUES	<u>617,635</u>	<u>613,022</u>
OPERATING EXPENSES		
Salaries and wages	181,418	185,486
Depreciation	64,743	63,466
Purchased water	301,542	272,860
Purchased power	4,986	4,536
Materials and supplies	25,368	26,071
Contractual services	30,518	34,571
Rents	2,060	2,398
Transportation expenses	10,260	15,408
Insurance	12,636	11,610
Miscellaneous	3,393	1,817
Advertising	560	626
Taxes	16,020	16,382
TOTAL OPERATING EXPENSES	<u>653,504</u>	<u>635,231</u>
OPERATING INCOME (LOSS)	<u>(35,869)</u>	<u>(22,209)</u>
NON-OPERATING REVENUES (EXPENSES)		
Interest income	3,438	3,065
Interest expense	(10,871)	(11,550)
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>(7,433)</u>	<u>(8,485)</u>
CHANGE IN NET POSITION BEFORE CONTRIBUTIONS	(43,302)	(30,694)
CAPITAL CONTRIBUTIONS	<u>1,981</u>	<u>6,113</u>
CHANGE IN NET POSITION	(41,321)	(24,581)
NET POSITION- BEGINNING	<u>2,663,576</u>	<u>2,688,157</u>
NET POSITION- ENDING	<u>\$ 2,622,255</u>	<u>\$ 2,663,576</u>

The notes to the financial statements are an integral part of these statements.

NORTH MCLEAN COUNTY WATER DISTRICT
 STATEMENTS OF CASH FLOWS
 For the Years Ended December 31, 2016 and 2015

	2016	2015
Cash Flows from Operating Activities		
Receipts from customers	\$ 601,604	\$ 608,466
Other receipts	5,402	6,569
Payments to suppliers	(369,171)	(385,878)
Payments to employees	(181,418)	(185,486)
Net cash provided (used) by operating activities	<u>56,417</u>	<u>43,671</u>
Cash Flows from Noncapital Financing Activities		
Net cash provided(used) by noncapital financing activities	<u>-</u>	<u>-</u>
Cash Flows from Capital & Related Financing Activities		
Purchase of capital assets	(30,912)	(12,044)
Principal paid on bonds	(11,000)	(10,000)
Interest paid	(10,871)	(11,550)
Capital contributions	1,981	6,113
Net cash provided (used) by capital & related financing activities	<u>(50,802)</u>	<u>(27,481)</u>
Cash Flows from Investing Activities		
Decrease(increase) in certificates of deposit	(1,636)	(1,355)
Interest on investments	3,335	3,077
Net cash provided (used) by investing activities	<u>1,699</u>	<u>1,722</u>
Net increase (decrease) in cash & cash equivalents	7,314	17,912
Balances- Beginning of year	<u>336,717</u>	<u>318,805</u>
Balances- End of year	<u>\$ 344,031</u>	<u>\$ 336,717</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) By Operating Activities:		
Operating income (loss)	\$ (35,869)	\$ (22,209)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation expense	64,743	63,466
(Increase) decrease in:		
Accounts receivable	(10,629)	1,803
Inventories	(765)	454
Prepaid insurance	(1,128)	(237)
Increase (decrease) in:		
Accounts payable	38,964	(192)
Taxes payable	927	376
Employee IRA withholding	174	-
Customer deposits	-	210
Net cash provided (used) by operating activities	<u>\$ 56,417</u>	<u>\$ 43,671</u>

The notes to the financial statements are an integral part of these statements.

NORTH MCLEAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2016 and 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

North McLean County Water District is a Kentucky water district that was organized in 1971. McLean County Fiscal Court appoints the Board of Commissioners that manages the water district. Accounting policies of the water district conform to generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The district applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. The district's only fund is a proprietary fund which applies Financial Accounting Standards Board (FASB) Statements and Interpretations and Pronouncements issued on or before November 30, 1989, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units.

REPORTING ENTITY

In evaluating how to define the District for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic- but not the only- criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibilities include, but are not limited to the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities. Based upon the application of these criteria, there are no component units required to be reported by the District.

PROPRIETARY FUND ACCOUNTING

The activities of the Water District are similar to those found in the private sector. Proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Proprietary funds distinguish operating revenues and expenses from non-operating revenues and expenses. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

INVENTORY

Inventory is stated at cost determined on a "first-in, first-out basis." Inventory consists mainly of supplies to be used for future repair and maintenance.

UTILITY PLANT IN SERVICE

Utility plant in service is stated at cost. Depreciation has been provided using the straight line method. Pumping, distribution equipment, and meters are being depreciated over a 20 to 40 year life. The transmission lines are being depreciated over a 60 to 80 year life and tanks are being depreciated over a 40 to 60 year life. Vehicles and other equipment are depreciated over 5 to 15 years.

NORTH MCLEAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2016 and 2015

CONTRIBUTION IN AID OF CONSTRUCTION

With approval of the water district, customers have in some cases constructed their own water lines and donated them to the district for future maintenance, control, etc. Those assets have been recorded on the water district's books and are being depreciated under the same policy as other assets.

The water district has implemented GASB Statement No. 33, which requires capital contributions to be recognized as revenue effective for periods beginning after June 15, 2000.

CASH AND EQUIVALENTS

For purposes of the statements of cash flows, the district considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Below is a reconciliation of cash on the statements of net position to cash on the statements of cash flows.

	2016	2015
Cash in bank	\$ 264,374	\$ 258,791
Customer deposit checking	39,255	38,397
Sinking fund reserve	4,137	5,098
Replacement fund	36,265	34,431
	<u>\$ 344,031</u>	<u>\$ 336,717</u>

CASH AND INVESTMENTS

Cash includes amounts in bank accounts. The only investments include certificates of deposit. These investments are reported at cost, which reasonably estimates fair value.

KRS 66.480 authorizes the district to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

COMPENSATED ABSENCES

The District does not allow employees to accumulate unused personal or vacation days. Sick leave is earned at the rate of one day per month with a maximum accumulation of sixty days. Sick leave may only be used pursuant to a doctor's excuse and may not be converted to cash. No liability has been recorded in the accompanying financial statements. The District's policy is to recognize the cost of compensated absences when paid to employees.

NORTH MCLEAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2016 and 2015

CAPITALIZED INTEREST

The District capitalizes net interest cost as part of the cost of constructing various utility projects when material. All interest was expensed since no construction projects were financed during the current year.

ACCOUNTS RECEIVABLE

The District has not provided for an allowance for bad debts. It is management's opinion based on prior history that any uncollectible accounts would have no significant effect on the financial statements. Uncollectible accounts are written off annually directly to sales. Bad debt expense was \$2,294 for 2016 and \$749 for 2015.

2. DEPOSITS AND INVESTMENTS

A. Deposits

The District maintains deposits with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to law, the depository institution should pledge sufficient securities as collateral which, together with FDIC insurance equals or exceeds the amount on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge of securities should be evidenced by an agreement that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (C) an official record of the depository institution. This agreement, signed by both parties, must be sufficient to create an enforceable and perfected security interest in the collateral under Kentucky law.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240 (4). As of December 31, 2016 all deposits including the certificates of deposit held as investments were covered by FDIC insurance or a properly executed collateral security agreement.

B. Investments

As of December 31, 2016, the District had the following investment:

<u>Investment</u>	<u>Maturity</u>		<u>Fair Value (Cost)</u>
Certificates of Deposit	Greater than 90 days	\$	203,092

Interest Rate Risk

The District does not have a formal investment policy that limits its investment maturities as a means of managing its exposure to losses arising from changes in interest rates. In general, non-negotiable certificates of deposit are not subject to interest rate risk.

NORTH MCLEAN COUNTY WATER DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 For the Years Ended December 31, 2016 and 2015

Credit Risk

KRS 66.489 limits the District's investments in the following: obligations of the United States and of its agencies and instrumentalities, including obligations subject to repurchase agreements, obligations and contracts for future delivery or purchase of obligations backed by the United States or its agencies and obligations of any corporation of the United States Government. Certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution insured by the Federal Deposit Insurance Corporation or similar entity. Uncollateralized certificates of deposit issued by a bank or savings and loan institutions rated in one of the three highest categories by a nationally recognized rating agency. Bankers' acceptances for banks rated in one of the three highest categories by a nationally recognized rating agency. Commercial paper rated in the highest category by a nationally recognized rating agency. Bonds or certificates of indebtedness of this state and of its agencies and instrumentalities, securities issued by a state or local government, or any instrumentality or agency thereof, in the United States and rated in one of the three highest categories by a nationally recognized rating agency. Shares of mutual funds meeting specific characteristics outlined in the statute shall be eligible investments. Also, the District is limited to investing no more than 20% in any one of the preceding investments as allowed by KRS 66.480. The District had no investment policy that would further limit its investments choices. In general, non-negotiable certificates of deposit are not subject to investment credit risk.

3. RESTRICTED ASSETS

Under the terms of the revenue bond ordinances, certain funds were created to set aside money for future bond payments. The funds that were created and a brief description follows:

Replacement and Extension Fund- Monthly transfers will be made in the amount of \$125.00 until the sum of \$32,000.00 is accumulated.

1985 Sinking Fund- Monthly transfers will be made to equal the next bond and interest payment until the sum of \$24,000.00 is accumulated. During 2016 and 2015, transfers were made to provide for the next bond and interest payment.

When restricted and unrestricted resources are available for use, it is the district's policy to use restricted resources first.

A summary of the changes in restricted assets is as follows:

	1985 Sinking Fund	Reserve Replacement Fund
BALANCE, JANUARY 1, 2015	\$ 31,999	\$ 37,796
CASH RECEIPTS		
Transfers from operations	20,681	1,500
Interest income	223	168
CASH DISBURSEMENTS		
Bond and interest payments	21,514	-
BALANCE, DECEMBER 31, 2015	31,389	39,464
CASH RECEIPTS		
Transfers from operations	20,732	1,656
Interest income	179	177
CASH DISBURSEMENTS		
Bond and interest payments	21,751	-
BALANCE, DECEMBER 31, 2016	\$ 30,549	\$ 41,297

NORTH MCLEAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2016 and 2015

4. PROPERTY AND EQUIPMENT

A summary of the property and equipment as of December 31, 2016 and 2015, is as follows:

	Jan. 1 2015	Increases	Decreases	Dec. 31 2015
Capital assets not being depreciated:				
Land	\$ 17,186	\$ -	\$ -	\$ 17,186
Total capital assets not being depreciated	17,186	-	-	17,186
Capital assets being depreciated:				
Buildings and improvements	166,876	-	-	166,876
Equipment	185,283	5,932	2,174	189,041
Water distribution system	2,941,378	6,112	-	2,947,490
Vehicles	56,563	-	751	55,812
Total capital assets being depreciated	3,350,100	12,044	2,925	3,359,219
Less accumulated depreciation for:				
Buildings and improvements	32,778	4,606	-	37,384
Equipment	100,430	3,579	2,174	101,835
Water distribution system	903,961	53,252	-	957,213
Vehicles	41,511	2,029	751	42,789
Total accumulated depreciation	1,078,680	63,466	2,925	1,139,221
Total capital assets being depreciated, net	2,271,420	(51,422)	-	2,219,998
Capital assets, net	\$ 2,288,606	\$ (51,422)	\$ -	\$ 2,237,184

	Jan. 1 2016	Increases	Decreases	Dec. 31 2016
Capital assets not being depreciated:				
Land	\$ 17,186	\$ -	\$ -	\$ 17,186
Construction in progress	-	1,500	-	1,500
Total capital assets not being depreciated	17,186	1,500	-	18,686
Capital assets being depreciated:				
Buildings and improvements	166,876	-	-	166,876
Equipment	189,041	713	-	189,754
Water distribution system	2,947,490	28,699	-	2,976,189
Vehicles	55,812	-	-	55,812
Total capital assets being depreciated	3,359,219	29,412	-	3,388,631
Less accumulated depreciation for:				
Buildings and improvements	37,384	4,606	-	41,990
Equipment	101,835	3,944	-	105,779
Water distribution system	957,213	54,163	-	1,011,376
Vehicles	42,789	2,030	-	44,819
Total accumulated depreciation	1,139,221	64,743	-	1,203,964
Total capital assets being depreciated, net	2,219,998	(35,331)	-	2,184,667
Capital assets, net	\$ 2,237,184	\$ (33,831)	\$ -	\$ 2,203,353

5. LONG-TERM DEBT

Revenue Bonds

The 1985 bondholders hold a statutory mortgage lien against the assets of the water district. There is also a pledge of net revenues of the water district for future bond and interest payments.

NORTH MCLEAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2016 and 2015

The annual requirements to amortize revenue bonds outstanding as of December 31, 2016, follows:

	Series 1985			Totals	
	Interest Jan. 1	Interest July 1	Principal Jan. 1	Interest	Principal
	2017	\$ -	\$ 4,956	\$ -	\$ 4,956
2018	4,956	4,499	12,000	9,455	12,000
2019	4,499	4,003	13,000	8,502	13,000
2020	4,003	3,469	14,000	7,472	14,000
2021	3,469	2,898	15,000	6,367	15,000
2022-2025	7,511	4,613	76,000	12,124	76,000
	\$ 24,438	\$ 24,438	\$ 130,000	\$ 48,876	\$ 130,000

Changes in Long-Term Liabilities

The following is a summary of changes in long-term liabilities for the year ended December 31, 2016:

	Amount of Original Obligation	Range of Final Maturity Dates	Range of Interest Rates	Balance Jan 1, 2016	Issued	Retired	Balance Dec 31, 2016	Amount Due within One Year
1985 Revenue bonds	\$ 245,000	2016-2025	7 5/8%	\$ 141,000	\$ -	\$ (11,000)	\$ 130,000	\$ 12,000
Customer Deposits				33,005	2,765	(2,765)	33,005	3,000
TOTAL LONG TERM LIABILITIES				\$ 174,005	\$ 2,765	\$ (13,765)	\$ 163,005	\$ 15,000

NORTH MCLEAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2016 and 2015

6. INCOME TAXES

The water district is a local government unit which is exempt from income taxes.

7. PURCHASE COMMITMENTS

The water district was committed to purchasing a minimum of 3,000,000 gallons of water each month from the City of Calhoun until approximately August 2016. The District's water purchases from the City of Calhoun exceeded this minimum amount each month

8. RESTRICTED NET ASSETS

The District's net assets equivalent to the restricted assets of the revenue bonds has been restricted for revenue bond retirement.

9. RISK MANAGEMENT

The District is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. The District has obtained insurance coverage through a commercial insurance company.

OTHER REPORTS

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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*

Board of Commissioners
North McLean County Water District
Livermore, KY 42352

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 statement of net position of North McLean County Water District as of and for the year ended December 31, 2016, and the statements of revenues, expenses and changes in net position, and cash flows, and the related notes to the financial statements, and have issued our report thereon dated May 11, 2017.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether North McLean County Water District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance 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*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered North McLean County Water District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of North McLean County Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of North McLean County Water 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies in internal control, that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies to be significant deficiencies in internal control over financial reporting.

- With an office staff of only two employees, the bookkeeping, payroll, cash collections, accounts receivable, and disbursements of funds can not be completely segregated.
- The auditee lacks the expertise in financial reporting to draft its own financial statements and related note disclosures.
- The District's controls related to water purchases were operating ineffectively. As a result, personnel did not realize during the year that they were not receiving a monthly bill from one of the District's suppliers.

The District offered the following responses:

- The District does not feel it is economically feasible to hire additional staff.
- District personnel will carefully review the draft financial statements for errors.
- The District will improve internal controls over water purchases to ensure meter readings are compared to bills received. Personnel will follow up on any discrepancies.

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 significant deficiencies or material weaknesses and therefore, significant deficiencies or material weaknesses may exist that were not identified. However, we consider the combination of the significant deficiencies described above to be a material weakness.

North McLean County Water District's Response to Findings

North McLean County Water District's response to the findings identified in our audit is described above. North McLean County Water 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

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


May 11, 2017

NORTH MCLEAN COUNTY WATER DISTRICT
ANALYTICAL PROCEDURES

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Water sold	597,720	593,502	584,071	554,037	599,587	595,071	592,923	552,774	565,385	602,693
Water cost	(301,542)	(272,860)	(271,697)	(260,664)	(276,054)	(267,386)	(276,905)	(237,872)	(250,359)	(261,841)
Gross profit	296,178	320,642	312,374	293,373	323,533	327,685	316,018	314,902	315,026	340,852
Operating expenses	(287,219)	(298,905)	(299,117)	(272,465)	(267,187)	(259,706)	(244,585)	(222,132)	(224,201)	(216,331)
Interest expense	(10,871)	(11,550)	(12,200)	(13,052)	(13,344)	(13,878)	(14,335)	(15,310)	(16,209)	(17,108)
Depreciation	(64,743)	(63,466)	(64,012)	(63,016)	(61,685)	(76,791)	(59,518)	(53,452)	(55,422)	(47,286)
Other non-operating expense	-	-	-	-	-	-	-	(35,525)	-	-
Interest income	3,438	3,065	3,200	3,287	3,473	3,922	5,080	6,116	11,181	19,459
Late payment penalties/ misc.	19,915	19,520	18,895	19,749	20,839	18,969	21,565	55,556	16,877	16,879
Net income before contributions & grants	(43,302)	(30,694)	(40,860)	(32,124)	5,629	201	24,225	50,155	47,252	96,465
Capital contributions & grants	1,981	6,113	4,902	205,616	4,131	5,930	451,635	8,740	112,594	161,123
Net income (loss)	(41,321)	(24,581)	(35,958)	173,492	9,760	6,131	475,860	58,895	159,846	257,588
Gross profit %	49.55%	54.03%	53.48%	52.95%	53.96%	55.07%	53.30%	56.97%	55.72%	56.55%
Current assets	574,357	553,775	537,598	533,372	570,711	539,013	520,850	503,910	429,035	351,906
Less current liabilities	79,296	38,231	37,047	43,195	41,611	35,635	35,252	26,876	35,986	36,129
Current working capital	495,061	515,544	500,551	490,177	529,100	503,378	485,598	477,034	393,049	315,777
Total cash & CD's	547,122	538,172	518,905	518,677	559,600	522,012	503,609	456,481	429,774	348,400
Gallons purchased (1,000)	125,779	119,298	118,443	113,036	119,604	117,160	123,464	120,882	126,262	134,587
Less gallons sold/ used	100,795	99,936	97,107	93,450	99,225	100,544	102,637	99,393	102,683	114,849
Gallons lost	24,984	19,362	21,336	19,586	20,379	16,616	20,827	21,489	23,579	19,738
Water loss %	19.86%	16.23%	18.01%	17.33%	17.04%	14.18%	16.87%	17.78%	18.67%	14.67%