

APPENDIX 2I

Routing Instructions for Processing Financial Statements

Client: North McLean County Water District
In-charge Accountant: Jared Lindsey, CPA
Engagement Partner: Joe Keller, CPA
Engagement Quality Control Reviewer (if applicable): []

Balance Sheet Date: December 31, 2019

Instructions: This form should accompany the latest draft throughout processing. It should be filed alphabetically with the original copy of the financial statements in the "Unaudited Financial Statements File."

Done by/Date

- 1. Submit Statements to Data Processing. Review original draft of statements, make necessary changes and submit statements to data processing.
2. Type Draft. Type draft on new disk or update disk from prior statements or drafts.
3. Proof Draft. Route to individual responsible for proofing statements. (This individual may be in a separate proofing department or may be the responsible accountant.) Mark changes and corrections and resubmit to data processing.
4. Engagement Partner (or Designated Technical) Review. Obtain Engagement Partner (or designated technical) review and resubmit to data processing if necessary.
5. Engagement Quality Control Review (If Applicable). Obtain an engagement quality control review on statements when required by firm policy. Resubmit to data processing if necessary.
6. Engagement Partner Approval (if Applicable). Obtain Engagement Partner's approval of changes recommended by the engagement quality control reviewer. Resubmit to data processing if necessary.
7. Production. Produce statements and document as follows:

Handwritten signatures and dates: JL 3-6-2020, RL 3/21/20

Original Issue Number of Copies

Subsequent Release Number of Copies

- Bound Basic
Bound Basic and Supplemental Information
Unbound Basic
Unbound Basic and Supplemental Information

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Done by/Date

- 8. Signing Reports. Route to Engagement Partner for signing of report.
9. Delivery. Document delivery of statements as follows:

Blank lines for signature and date.

DATE DELIVERED []
PERSON TO WHOM DELIVERED []

NORTH MCLEAN COUNTY WATER DISTRICT

FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

NORTH MCLEAN COUNTY WATER DISTRICT
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December 31, 2019 and 2018

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INDEPENDENT AUDITORS' REPORT

To The Board of Commissioners
North McLean County Water District
Livermore, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of North McLean County Water District (District), a component unit of the McLean County Fiscal Court, Kentucky, 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.

Auditors' Responsibility

Our responsibility is to express an opinion 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 opinion.

Opinion

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, 2019, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Prior Period Financial Statements

The financial statements of North McLean County Water District as of December 31, 2018, were audited by other auditors whose report dated May 1, 2019, expressed an unmodified opinion on those statements.

Required Supplementary Information

Management has omitted *Management's Discussion and Analysis* that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is 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 March 23, 2020 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.

 Alex V. Cooper CPAs PSC

Owensboro, Kentucky
March 23, 2020

NORTH MCLEAN COUNTY WATER DISTRICT
Statements of Net Position
December 31, 2019 and 2018

	2019	2018
Assets		
CURRENT ASSETS		
Cash in bank	\$ 172,877	\$ 182,703
Investments	184,508	181,189
Accounts receivable	54,986	56,791
Due from other governments	-	48,927
Interest receivable	431	431
Inventory	31,753	32,110
Prepaid insurance	6,647	7,021
TOTAL CURRENT ASSETS	451,202	509,172
NONCURRENT ASSETS		
Restricted cash - customer deposits	47,207	48,067
Capital assets:		
Land	20,336	20,336
Construction in progress	-	260,874
Utility plant, net	2,355,238	2,122,758
Other assets:		
Refundable electric contract	3,071	3,412
TOTAL NONCURRENT ASSETS	2,425,852	2,455,447
TOTAL ASSETS	\$ 2,877,054	\$ 2,964,619
Liabilities and Net Assets		
CURRENT LIABILITIES		
Accounts payable	\$ 27,868	\$ 120,317
Accrued wages	-	4,205
Taxes payable	2,220	6,274
Employee IRA withholding	-	296
Accrued interest payable	-	418
Note payable	41,967	8,672
TOTAL CURRENT LIABILITIES	72,055	140,182
NONCURRENT LIABILITIES		
Note payable	-	41,968
Customer deposits payable from restricted cash	43,300	39,475
TOTAL LIABILITIES	115,355	221,625
NET POSITION		
Net investment in capital assets	2,375,574	2,403,968
Unrestricted	386,125	339,026
TOTAL NET POSITION	2,761,699	2,742,994
TOTAL LIABILITIES AND NET POSITION	\$ 2,877,054	\$ 2,964,619

See accompanying notes.

NORTH MCLEAN COUNTY WATER DISTRICT
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended December 31, 2019 and 2018

	2019	2018
OPERATING REVENUES		
Water sales	\$ 762,288	\$ 706,771
Penalties and miscellaneous	30,244	27,020
TOTAL OPERATING REVENUES	792,532	733,791
OPERATING EXPENSES		
Salaries and wages	236,007	224,751
Employee benefits	9,179	9,277
Depreciation	71,067	66,764
Purchased water	333,674	339,762
Purchased power	10,587	6,855
Materials and supplies	39,291	40,120
Contractual services	14,566	12,757
Rents	2,040	2,040
Transportation expense	14,584	13,974
Insurance	13,385	13,732
Miscellaneous	19,122	23,146
Taxes	20,885	17,510
TOTAL OPERATING EXPENSES	784,387	770,688
INCOME (LOSS) FROM OPERATIONS	8,145	(36,897)
NONOPERATING REVENUES (EXPENSES)		
Loss on disposal of assets	(243)	-
Interest income	6,707	6,016
Interest expense	(2,126)	(3,313)
TOTAL NONOPERATING REVENUES (EXPENSES)	4,338	2,703
INCOME (LOSS) BEFORE CONTRIBUTIONS	12,483	(34,194)
CONTRIBUTED CAPITAL REVENUE		
Capital contributions	6,222	233,285
TOTAL CONTRIBUTED CAPITAL REVENUE	6,222	233,285
CHANGE IN NET POSITION	18,705	199,091
NET POSITION, BEGINNING OF YEAR	2,742,994	2,543,903
NET POSITION, END OF YEAR	\$ 2,761,699	\$ 2,742,994

See accompanying notes.

NORTH MCLEAN COUNTY WATER DISTRICT
Statements of Cash Flows
Years Ended December 31, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 798,162	\$ 728,141
Cash received from other sources	-	6,965
Cash payments for goods and services	(467,206)	(472,388)
Cash payments to employees for services	(254,188)	(232,671)
	76,768	30,047
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	(134,774)	(221,269)
Principal paid on bonds	-	(130,000)
Loan proceeds	-	119,430
Principal paid on loan	(8,673)	(68,790)
Interest paid	(2,544)	(7,851)
Capital contributions	55,149	184,809
	(90,842)	(123,671)
CASH FLOWS FROM INVESTING ACTIVITIES		
Change in investments - net	(3,319)	23,924
Interest on investments	6,707	5,845
	3,388	29,769
NET DECREASE IN CASH	(10,686)	(63,855)
CASH AT BEGINNING OF YEAR	230,770	294,625
CASH AT END OF YEAR	\$ 220,084	\$ 230,770

See accompanying notes.

NORTH MCLEAN COUNTY WATER DISTRICT
Statements of Cash Flows
Years Ended December 31, 2019 and 2018

	2019	2018
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Net income (loss) from operations	\$ 8,145	\$ (36,897)
Adjustments to reconcile net income (loss) from operations to net cash provided by operating activities:		
Depreciation	71,067	66,764
(Increase) decrease in:		
Accounts receivable	1,805	(1,645)
Inventory	357	953
Prepaid insurance	374	(278)
Refundable electric contract	341	(3,412)
Increase (decrease) in:		
Accounts payable	(591)	(1,740)
Accrued wages	(4,205)	4,205
Taxes payable	(4,054)	(804)
Employee IRA withholding	(296)	(59)
Customer deposits	3,825	2,960
Total adjustments	68,623	66,944
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 76,768	\$ 30,047
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:		
Construction in progress in accounts payable	\$ -	\$ 91,858
Capital grant in due from other governments	\$ -	\$ 48,476

See accompanying notes.

NORTH MCLEAN COUNTY WATER DISTRICT
Notes to the Financial Statements
December 31, 2019 and 2018

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

North McLean County Water District is a Kentucky water district organized in 1971. McLean County Fiscal Court appoints the Board of Commissioners that manages the water district. The Water District's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for established GAAP for state and local governments through its pronouncements (statements and interpretations).

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 with the reporting entity is the governing body's ability to exercise significant 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 resource 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 are 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 consists of materials and supplies, and is stated at lower of cost (determined on the first-in, first-out basis) or net realizable value.

Capital Assets

Capital assets purchased or acquired with an original cost of \$500 or more is reported at historical cost. Contributed assets are reported at acquisition value as of the date received. The cost of current repairs and maintenance is charged to expense, while the cost of replacements or betterments is capitalized.

Depreciation is provided on the basis of the estimated useful lives of assets using the straight-line method. Depreciation expense was \$71,067 and \$66,764 for the years 2019 and 2018, respectively. Estimated useful lives of major class of the water plant in service are as follows:

Pumping, distribution equipment, and meters	20-40 years
Transmission and distribution system	60-80 years
Tanks	40-60 years
Vehicles and other equipment	5-15 years

NORTH MCLEAN COUNTY WATER DISTRICT
Notes to the Financial Statements
December 31, 2019 and 2018

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash Flows Information

For the purposes of the Statements of Cash Flows, the District considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Management Estimates

Management uses estimates and assumptions in preparing these financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

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 \$2,133 and \$4,105 for 2019 and 2018.

Regulation

The District’s utility operations are subject to regulation with respect to rates, service, maintenance of accounting records and various other matters by the Commonwealth of Kentucky, Public Service Commission. The District’s accounting policies recognize the financial effects of the rate making and accounting practices and policies of the Public Service Commission.

Reclassifications

Prior year financial statement balances presented in previously issued financial statements were reclassified to be consistent with the current year financial statement presentation.

NOTE B – CASH DEPOSITS AND INVESTMENTS

Cash Deposits

As of December 31, 2019 and 2018, cash consisted of the following:

	2019	2018
Cash in bank	\$ 172,877	\$ 182,703
Customer deposit checking	47,207	48,067
	\$ 220,084	\$ 230,770

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District’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, 2019 and 2018, all deposits including the certificate of deposits held as investments were covered by FDIC insurance or a properly executed collateral security agreement.

NORTH MCLEAN COUNTY WATER DISTRICT
Notes to the Financial Statements
December 31, 2019 and 2018

NOTE B – CASH DEPOSITS AND INVESTMENTS

Investments

As of December 31, 2019 and 2018, the Districts investments consisted of certificate of deposits in the amount of \$184,508 and \$181,188. The certificates have maturities of greater than 90 days at various interest rates.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. Under Kentucky Revised Statutes Section 66.480, the District is authorized to invest in obligations of the United States and 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 or of its agencies, obligations of any corporation of the United State government, certificates of deposit, commercial paper rated in one of the three highest categories by nationally recognized rating agencies and shares in mutual funds. The District's investment policy only allows investment choices that are in compliance with the state statutes. At December 31, 2019 and 2018, all investments held by the District were insured or collateralized with securities held by the District or by its agent in the District's name.

NOTE C – CAPITAL ASSETS

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

	Balance Dec. 31, 2018	Additions	Deletions	Balance Dec. 31, 2019
Capital assets not depreciated:				
Land	\$ 20,336	\$ -	\$ -	\$ 20,336
Construction in progress	260,874	19,791	280,665	-
Total capital assets not depreciated:	<u>281,210</u>	<u>19,791</u>	<u>280,665</u>	<u>20,336</u>
Utility plant depreciated:				
Buildings and improvements	166,876	280,665	-	447,541
Equipment	191,439	3,287	3,466	191,260
Water distribution system	3,003,224	19,836	-	3,023,060
Vehicles	69,478	-	-	69,478
Total utility plant depreciated	<u>3,431,017</u>	<u>303,788</u>	<u>3,466</u>	<u>3,731,339</u>
Less accumulated depreciation:				
Buildings and improvements	51,186	8,058	-	59,244
Equipment	111,628	4,343	3,225	112,746
Water distribution system	1,109,766	53,784	-	1,163,550
Vehicles	35,679	4,882	-	40,561
Total accumulated depreciation	<u>1,308,259</u>	<u>71,067</u>	<u>3,225</u>	<u>1,376,101</u>
Total utility plant depreciated, net	<u>2,122,758</u>	<u>232,721</u>	<u>241</u>	<u>2,355,238</u>
Total capital assets, net	<u>\$ 2,403,968</u>	<u>\$ 252,512</u>	<u>\$ 280,906</u>	<u>\$ 2,375,574</u>

NORTH MCLEAN COUNTY WATER DISTRICT
Notes to the Financial Statements
December 31, 2019 and 2018

NOTE C – CAPITAL ASSETS

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

	Balance Dec. 31, 2017	Additions	Deletions	Balance Dec. 31, 2018
Capital assets not depreciated:				
Land	\$ 17,186	\$ 3,150	\$ -	\$ 20,336
Construction in progress	-	260,874	-	260,874
Total capital assets not depreciated:	<u>17,186</u>	<u>264,024</u>	<u>-</u>	<u>281,210</u>
Utility plant depreciated:				
Buildings and improvements	166,876	-	-	166,876
Equipment	189,102	2,856	519	191,439
Water distribution system	2,985,507	17,717	-	3,003,224
Vehicles	55,732	28,529	14,783	69,478
Total utility plant depreciated	<u>3,397,217</u>	<u>49,102</u>	<u>15,302</u>	<u>3,431,017</u>
Less accumulated depreciation:				
Buildings and improvements	46,596	4,590	-	51,186
Equipment	108,042	4,105	519	111,628
Water distribution system	1,055,391	54,375	-	1,109,766
Vehicles	46,768	3,694	14,783	35,679
Total accumulated depreciation	<u>1,256,797</u>	<u>66,764</u>	<u>15,302</u>	<u>1,308,259</u>
Total utility plant depreciated, net	<u>2,140,420</u>	<u>(17,662)</u>	<u>-</u>	<u>2,122,758</u>
Total capital assets, net	<u>\$ 2,157,606</u>	<u>\$ 246,362</u>	<u>\$ -</u>	<u>\$ 2,403,968</u>

NOTE D – LINE OF CREDIT

During April 2018, the District signed a promissory note for \$175,000. The notes bears an interest rate of 2.6% and matures April 16, 2020. The note is collateralized by certificates of deposit. The unused portion of the note was \$175,000 as of December 31, 2019 and 2018.

NOTE E – LONG-TERM DEBT

Long-term debt as of December 31, 2019 and 2018 consisted of the following:

	2019	2018
Note payable from Independence Bank due in 3 payments of \$4,965, including interest of 2.6% and one balloon payment of \$42,510 maturing March 6, 2020. The note is collateralized by the District's inventory, accounts receivable, and revenue.	\$ 41,967	\$ 50,640
Less: Current portion	<u>(41,967)</u>	<u>(8,672)</u>
Long-term debt	<u>\$ -</u>	<u>\$ 41,968</u>

NORTH MCLEAN COUNTY WATER DISTRICT
Notes to the Financial Statements
December 31, 2019 and 2018

NOTE E – LONG-TERM DEBT

Annual debt service requirements are as follows for the year ending December 31:

	Interest	Principal	Total
2020	\$ <u>543</u>	\$ <u>41,967</u>	\$ <u>42,510</u>

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

	Balance Dec. 31, 2018	Additions	Deletions	Balance Dec. 31, 2019	Amount Due within One Year
Long-Term Debt:					
Note Payable - Independence Bank	\$ 50,640	\$ -	\$ (8,673)	\$ 41,967	\$ 41,967
Total Long-Term Debt	\$ 50,640	\$ -	\$ (8,673)	\$ 41,967	\$ 41,967

Interest expense related to long-term debt was \$1,257 and \$2,794 for the years ending December 31, 2019 and 2018, respectively.

NOTE F – CONTRIBUTED CAPITAL REVENUE

With approval of the District, customers have in some cases constructed their own water lines and donated them to the District for future maintenance, control, etc. These assets have been recorded on the District's books and are being depreciated under the same policy as utility plant. Contributed capital revenue was \$6,222 for 2019 and \$233,285 for 2018.

NOTE G – INCOME TAX STATUS

The District is exempt from federal and state income taxes and, accordingly, no provision for such taxes has been made.

NOTE H – PURCHASE COMMITMENTS

Water Purchases

The District is committed to purchasing water each month from the McLean County Regional Water Commission until approximately October 2055. Other than an emergency situation, the District may not purchase water from any other source without prior approval by the commission.

NOTE I – 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 the Financial Statements
December 31, 2019 and 2018

NOTE J – NET POSITION

Net position comprises the various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net position is classified in the following three components: invested in capital assets; restricted and unrestricted net assets. Invested in capital assets consists of all capital assets, net of accumulated depreciation. Restricted net position consists of net position for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates. Unrestricted net position consists of all other net assets not included in the above categories. As of December 31, 2019 and 2018 no amounts were restricted.

NOTE K – 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.

NOTE L – SUBSEQUENT EVENTS

The District did not have subsequent events through March 23, 2020, which is the date the financial statements were available to be issued, for events requiring recording or disclosure in the financial statements for the year ended December 31, 2019.



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 Board of Commissioners
North McLean County Water District
Livermore, Kentucky

We have audited, in accordance with the 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 the North McLean County Water 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 March 23, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the North McLean County Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 a 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2019-001 and 2019-002 that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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, 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*.

District's Response to Findings

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. 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

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.

 Alex & Company CPAs PSC

Owensboro, Kentucky
March 23, 2020

NORTH MCLEAN COUNTY WATER DISTRICT
Schedule of Findings and Responses
Year Ended December 31, 2019

FINDINGS – FINANCIAL STATEMENT AUDIT

2019 – 001 Material Weakness:

Segregation of Duties

Condition: The small size of the District’s bookkeeping staff limits segregation of duties

Criteria: The District does not have adequate segregation of duties.

Cause: Limited number of personnel.

Effect: The District only has two office employees who handle receipts, disbursements, utility billing and adjustments, bookkeeping, tax reporting, and financial reporting. Theft could occur or a misstatement made and may not be detected by management in a timely manner. Material adjusting entries were required for the current year.

Recommendation: We recommend office staff review each other’s work and that duties be segregated as much as possible for the small organization.

View of Responsible Officials and Planned Corrective Actions: The District does not feel it is economically feasible to hire additional office staff. Office staff will review each other’s work and try to segregate duties as much as reasonably possible.

2019 – 002 Material Weakness:

Financial Reporting

Condition: District personnel lack the expertise in financial reporting to draft the financial statements and related note disclosures.

Criteria: The District should have adequate controls in place over financial reporting to ensure that the financial statements are not materially misstated.

Cause: Lack of personnel with financial reporting expertise.

Effect: The financial statements or related note disclosures could contain a material departure from GAAP.

Recommendation: We recommend that the District carefully review the draft financial statements for errors.

View of Responsible Officials and Planned Corrective Actions: The District will carefully review the draft financial statements for errors.