

NORTH MCLEAN COUNTY WATER DISTRICT
FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NORTH MCLEAN COUNTY WATER DISTRICT
Contents
December 31, 2020 and 2019

	<u>Page</u>
Independent Auditors' Report	1-2
Financial Statements	
Statements of Net Position	3
Statements of Revenues, Expenses, and Changes in Net Position	4
Statements of Cash Flows	5-6
Notes to the Financial Statements	7-12
Independent Auditors' 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>	13-14
Schedule of Findings and Responses	15



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 years ended December 31, 2020 and 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, 2020 and 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

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 22, 2021 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.



Owensboro, Kentucky
March 22, 2021

NORTH MCLEAN COUNTY WATER DISTRICT
Statements of Net Position
December 31, 2020 and 2019

	2020	2019
Assets		
CURRENT ASSETS		
Cash in bank	\$ 164,573	\$ 172,877
Investments	187,029	184,508
Accounts receivable	70,222	54,986
Interest receivable	431	431
Inventory	30,882	31,753
Prepaid insurance	6,605	6,647
TOTAL CURRENT ASSETS	459,742	451,202
NONCURRENT ASSETS		
Restricted cash - customer deposits	55,757	47,207
Capital assets:		
Land	20,336	20,336
Utility plant, net	2,301,470	2,355,238
Other assets:		
Refundable electric contract	2,730	3,071
TOTAL NONCURRENT ASSETS	2,380,293	2,425,852
TOTAL ASSETS	\$ 2,840,035	\$ 2,877,054
Liabilities and Net Assets		
CURRENT LIABILITIES		
Accounts payable	\$ 34,665	\$ 27,868
Taxes payable	2,236	2,220
Current portion of long-term debt	8,994	41,967
TOTAL CURRENT LIABILITIES	45,895	72,055
NONCURRENT LIABILITIES		
Long-term debt, net of current portion	23,551	-
Customer deposits payable from restricted cash	46,140	43,300
TOTAL LIABILITIES	115,586	115,355
NET POSITION		
Net investment in capital assets	2,321,806	2,375,574
Unrestricted	402,643	386,125
TOTAL NET POSITION	2,724,449	2,761,699
TOTAL LIABILITIES AND NET POSITION	\$ 2,840,035	\$ 2,877,054

See accompanying notes.

NORTH MCLEAN COUNTY WATER DISTRICT
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended December 31, 2020 and 2019

	2020	2019
OPERATING REVENUES		
Water sales	\$ 731,601	\$ 762,288
Penalties and miscellaneous	9,960	30,244
TOTAL OPERATING REVENUES	741,561	792,532
OPERATING EXPENSES		
Salaries and wages	241,327	236,007
Employee benefits	9,781	9,179
Depreciation	74,528	71,067
Purchased water	328,148	333,674
Purchased power	8,741	10,587
Materials and supplies	39,429	39,291
Contractual services	14,204	14,566
Rents	2,040	2,040
Transportation	12,950	14,584
Insurance	13,096	13,385
Miscellaneous	23,257	19,122
Taxes	19,665	20,885
TOTAL OPERATING EXPENSES	787,166	784,387
INCOME (LOSS) FROM OPERATIONS	(45,605)	8,145
NONOPERATING REVENUES (EXPENSES)		
Loss on disposal of assets	-	(243)
Interest income	3,950	6,707
Interest expense	(1,742)	(2,126)
TOTAL NONOPERATING REVENUES (EXPENSES)	2,208	4,338
INCOME (LOSS) BEFORE CONTRIBUTIONS	(43,397)	12,483
CONTRIBUTED CAPITAL REVENUE		
Capital contributions	6,147	6,222
TOTAL CONTRIBUTED CAPITAL REVENUE	6,147	6,222
CHANGE IN NET POSITION	(37,250)	18,705
NET POSITION, BEGINNING OF YEAR	2,761,699	2,742,994
NET POSITION, END OF YEAR	\$ 2,724,449	\$ 2,761,699

See accompanying notes.

NORTH MCLEAN COUNTY WATER DISTRICT
Statements of Cash Flows
Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 729,165	\$ 798,162
Cash payments for goods and services	(453,463)	(467,206)
Cash payments to employees for services	<u>(251,108)</u>	<u>(254,188)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>24,594</u>	<u>76,768</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	(20,760)	(134,774)
Principal paid on loan	(9,422)	(8,673)
Interest paid	(1,742)	(2,544)
Capital contributions	<u>6,147</u>	<u>55,149</u>
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(25,777)</u>	<u>(90,842)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Change in investments - net	(2,521)	(3,319)
Interest on investments	<u>3,950</u>	<u>6,707</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>1,429</u>	<u>3,388</u>
NET INCREASE (DECREASE) IN CASH	246	(10,686)
CASH AT BEGINNING OF YEAR	<u>220,084</u>	<u>230,770</u>
CASH AT END OF YEAR	<u><u>\$ 220,330</u></u>	<u><u>\$ 220,084</u></u>

See accompanying notes.

NORTH MCLEAN COUNTY WATER DISTRICT
Statements of Cash Flows
Years Ended December 31, 2020 and 2019

	2020	2019
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Net income (loss) from operations	\$ (45,605)	\$ 8,145
Adjustments to reconcile net income (loss) from operations to net cash provided by operating activities:		
Depreciation	74,528	71,067
(Increase) decrease in:		
Accounts receivable	(15,236)	1,805
Inventory	871	357
Prepaid insurance	42	374
Refundable electric contract	341	341
Increase (decrease) in:		
Accounts payable	6,797	(591)
Accrued wages	-	(4,205)
Taxes payable	16	(4,054)
Employee IRA withholding	-	(296)
Customer deposits	2,840	3,825
Total adjustments	70,199	68,623
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 24,594	\$ 76,768

See accompanying notes.

NORTH MCLEAN COUNTY WATER DISTRICT
Notes to the Financial Statements
December 31, 2020 and 2019

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

North McLean County Water District (District) is a Kentucky water district organized in 1971. McLean County Fiscal Court appoints the Board of Commissioners that manages the District. 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).

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 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 \$74,528 and \$71,067 for the years 2020 and 2019, 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, 2020 and 2019

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 \$2,842 and \$2,133 for 2020 and 2019.

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.

NOTE B – CASH DEPOSITS AND INVESTMENTS

Cash Deposits

As of December 31, 2020 and 2019, cash consisted of the following:

	2020	2019
Cash in bank	\$ 164,573	\$ 172,877
Customer deposit checking	55,757	47,207
	\$ 220,330	\$ 220,084

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, 2020 and 2019, all deposits including the certificate of deposits held as investments were covered by FDIC insurance or a properly executed collateral security agreement.

Investments

As of December 31, 2020 and 2019, the Districts investments consisted of certificate of deposits in the amount of \$187,029 and \$184,508. The certificates have maturities of greater than 90 days at various interest rates.

NORTH MCLEAN COUNTY WATER DISTRICT
Notes to the Financial Statements
December 31, 2020 and 2019

NOTE B – CASH DEPOSITS AND INVESTMENTS

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, 2020 and 2019, 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, 2020 was as follows:

	Balance Dec. 31, 2019	Additions	Deletions	Balance Dec. 31, 2020
Capital assets not depreciated:				
Land	\$ 20,336	\$ -	\$ -	\$ 20,336
Construction in progress	-	-	-	-
Total capital assets not depreciated:	<u>20,336</u>	<u>-</u>	<u>-</u>	<u>20,336</u>
Utility plant depreciated:				
Buildings and improvements	447,541	-	-	447,541
Equipment	191,260	12,238	2,317	201,181
Water distribution system	3,023,060	8,522	-	3,031,582
Vehicles	69,478	-	-	69,478
Total utility plant depreciated	<u>3,731,339</u>	<u>20,760</u>	<u>2,317</u>	<u>3,749,782</u>
Less accumulated depreciation:				
Buildings and improvements	59,244	11,540	-	70,784
Equipment	112,746	4,878	2,317	115,307
Water distribution system	1,163,550	53,227	-	1,216,777
Vehicles	40,561	4,883	-	45,444
Total accumulated depreciation	<u>1,376,101</u>	<u>74,528</u>	<u>2,317</u>	<u>1,448,312</u>
Total utility plant depreciated, net	<u>2,355,238</u>	<u>(53,768)</u>	<u>-</u>	<u>2,301,470</u>
Total capital assets, net	<u>\$ 2,375,574</u>	<u>\$ (53,768)</u>	<u>\$ -</u>	<u>\$ 2,321,806</u>

NORTH MCLEAN COUNTY WATER DISTRICT
Notes to the Financial Statements
December 31, 2020 and 2019

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>

NOTE D – LINE OF CREDIT

At December 31, 2020 and 2019, the District had a line of credit for \$175,000. The line bears an interest rate of 2.6% at December 31, 2020 and 2019, respectively and matures March 16, 2022. The line is collateralized by certificates of deposit. The unused portion was \$175,000 as of December 31, 2020 and 2019.

NOTE E – LONG-TERM DEBT

Long-term debt as of December 31, 2020 and 2019 consisted of the following:

	2020	2019
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

NORTH MCLEAN COUNTY WATER DISTRICT
Notes to the Financial Statements
December 31, 2020 and 2019

NOTE E – LONG-TERM DEBT

	2020	2019
Note payable from Independence Bank due in 3 payments of \$4,891, including interest of 2.6% and one balloon payment of \$23,832 maturing March 6, 2022. The note is collateralized by the District's inventory, accounts receivable, and revenue.	32,545	-
	32,545	41,967
Less: Current portion	(8,994)	(41,967)
Long-term debt	\$ 23,551	\$ -

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

	Interest	Principal	Total
2021	\$ 757	\$ 8,994	\$ 9,751
2022	303	23,551	23,854
Total	\$ 1,060	\$ 32,545	\$ 33,605

The following is a summary of changes in long-term debt for the year ended December 31, 2020:

	Balance Dec. 31, 2019	Additions	Deletions	Balance Dec. 31, 2020	Amount Due within One Year
Long-Term Debt:					
Note Payable - Independence Bank	\$ 41,967	\$ -	\$ (9,422)	\$ 32,545	\$ 8,994
Total Long-Term Debt	\$ 41,967	\$ -	\$ (9,422)	\$ 32,545	\$ 8,994

Interest expense related to long-term debt was \$1,023 and \$1,257 for the years ending December 31, 2020 and 2019, 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 \$6,147 for 2020 and \$6,222 for 2019.

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.

NORTH MCLEAN COUNTY WATER DISTRICT
Notes to the Financial Statements
December 31, 2020 and 2019

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.

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, 2020 and 2019 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 22, 2021, 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, 2020.



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, 2020, 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 22, 2021.

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) as a basis for designing 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 2020-001 and 2020-002 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.

Altaden & Company CPAs PSC

Owensboro, Kentucky
March 22, 2021

NORTH MCLEAN COUNTY WATER DISTRICT
Schedule of Findings and Responses
Year Ended December 31, 2020

FINDINGS – FINANCIAL STATEMENT AUDIT

2020 – 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.

2020 – 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.