

**NORTH MCLEAN COUNTY WATER DISTRICT**  
**FINANCIAL STATEMENTS**  
**DECEMBER 31, 2021 AND 2020**

**NORTH MCLEAN COUNTY WATER DISTRICT**  
**Contents**  
**December 31, 2021 and 2020**

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## INDEPENDENT AUDITORS' REPORT

To The Board of Commissioners  
North McLean County Water District

### Opinion

We have audited the accompanying financial statements of the North McLean County Water District, as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise North McLean County Water District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the North McLean County Water District, as of December 31, 2021 and 2020, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of North McLean County Water District, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the North McLean County Water District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 North McLean County Water District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the North McLean County Water District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

#### **Required Supplementary Information**

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 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 opinions on the basic 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 March 22, 2022 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 the effectiveness of the North McLean County Water District's 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, 2022

**NORTH MCLEAN COUNTY WATER DISTRICT**  
**Statements of Net Position**  
**December 31, 2021 and 2020**

	2021	2020
<b>Assets</b>		
<b>CURRENT ASSETS</b>		
Cash in bank	\$ 299,672	\$ 164,573
Investments	188,519	187,029
Accounts receivable	82,536	70,222
Interest receivable	431	431
Inventory	33,214	30,882
Prepaid insurance	10,176	6,605
	<b>614,548</b>	<b>459,742</b>
<b>NONCURRENT ASSETS</b>		
Restricted cash - customer deposits	53,152	55,757
Capital assets:		
Land	20,336	20,336
Utility plant, net	2,238,039	2,301,470
Other assets:		
Refundable electric contract	2,389	2,730
	<b>2,313,916</b>	<b>2,380,293</b>
<b>TOTAL ASSETS</b>	<b>\$ 2,928,464</b>	<b>\$ 2,840,035</b>
<b>Liabilities and Net Assets</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 44,126	\$ 34,665
Taxes payable	4,378	2,236
Current portion of long-term debt	25,419	8,994
	<b>73,923</b>	<b>45,895</b>
<b>NONCURRENT LIABILITIES</b>		
Long-term debt, net of current portion	-	23,551
Customer deposits payable from restricted cash	48,240	46,140
	<b>122,163</b>	<b>115,586</b>
<b>NET POSITION</b>		
Net investment in capital assets	2,258,375	2,321,806
Unrestricted	547,926	402,643
	<b>2,806,301</b>	<b>2,724,449</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 2,928,464</b>	<b>\$ 2,840,035</b>

See accompanying notes.

**NORTH MCLEAN COUNTY WATER DISTRICT**  
**Statements of Revenues, Expenses, and Changes in Net Position**  
**Years Ended December 31, 2021 and 2020**

	2021	2020
<b>OPERATING REVENUES</b>		
Water sales	\$ 958,119	\$ 734,443
Penalties and miscellaneous	24,238	9,960
	982,357	744,403
<b>OPERATING EXPENSES</b>		
Salaries and wages	247,065	241,327
Employee benefits	10,600	9,781
Depreciation	75,192	74,528
Purchased water	425,163	328,148
Purchased power	9,280	8,741
Materials and supplies	32,049	39,429
Contractual services	13,205	14,204
Rents	2,040	2,040
Transportation	18,833	12,950
Insurance	13,235	13,096
Miscellaneous	26,665	23,257
Taxes	19,167	19,665
Bad debt	12,734	2,842
	905,228	790,008
<b>INCOME (LOSS) FROM OPERATIONS</b>	77,129	(45,605)
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Loss on disposal of assets	(4,474)	-
Interest income	2,963	3,950
Interest expense	(889)	(1,742)
	(2,400)	2,208
<b>INCOME (LOSS) BEFORE CONTRIBUTIONS</b>	74,729	(43,397)
<b>CONTRIBUTED CAPITAL REVENUE</b>		
Capital contributions	7,123	6,147
	7,123	6,147
<b>CHANGE IN NET POSITION</b>	81,852	(37,250)
<b>NET POSITION, BEGINNING OF YEAR</b>	2,724,449	2,761,699
<b>NET POSITION, END OF YEAR</b>	\$ 2,806,301	\$ 2,724,449

See accompanying notes.

**NORTH MCLEAN COUNTY WATER DISTRICT**  
**Statements of Cash Flows**  
**Years Ended December 31, 2021 and 2020**

	2021	2020
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers	\$ 959,409	\$ 729,165
Cash payments for goods and services	(553,596)	(453,463)
Cash payments to employees for services	(257,665)	(251,108)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	148,148	24,594
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchase of capital assets	(16,235)	(20,760)
Principal paid on loan	(7,126)	(9,422)
Interest paid	(889)	(1,742)
Capital contributions	7,123	6,147
<b>NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES</b>	(17,127)	(25,777)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Change in investments - net	(1,490)	(2,521)
Interest on investments	2,963	3,950
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	1,473	1,429
<b>NET INCREASE IN CASH</b>	132,494	246
<b>CASH AT BEGINNING OF YEAR</b>	220,330	220,084
<b>CASH AT END OF YEAR</b>	\$ 352,824	\$ 220,330

See accompanying notes.

**NORTH MCLEAN COUNTY WATER DISTRICT**  
**Statements of Cash Flows**  
**Years Ended December 31, 2021 and 2020**

	2021	2020
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Net income (loss) from operations	\$ 77,129	\$ (45,605)
Adjustments to reconcile net income (loss) from operations to net cash provided by operating activities:		
Depreciation	75,192	74,528
(Increase) decrease in:		
Accounts receivable	(12,314)	(15,236)
Inventory	(2,332)	871
Prepaid expenses	(3,571)	42
Refundable electric contract	341	341
Increase (decrease) in:		
Accounts payable	9,461	6,797
Taxes payable	2,142	16
Customer deposits	2,100	2,840
Total adjustments	71,019	70,199
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ 148,148</b>	<b>\$ 24,594</b>

See accompanying notes.



**NORTH MCLEAN COUNTY WATER DISTRICT**  
**Notes to the Financial Statements**  
**December 31, 2021 and 2020**

**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 \$75,192 and \$74,528 for the years 2021 and 2020, 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, 2021 and 2020**

**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 \$12,734 and \$2,842 for 2021 and 2020.

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, 2021 and 2020, cash consisted of the following:

	2021	2020
Cash in bank	\$ 299,672	\$ 164,573
Customer deposit checking	53,152	55,757
	\$ 352,824	\$ 220,330

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, 2021 and 2020, 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, 2021 and 2020, the Districts investments consisted of certificate of deposits in the amount of \$188,519 and \$187,029. 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, 2021 and 2020**

**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, 2021 and 2020, 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.

The District’s cash deposits and investments were insured and collateralized as follows:

	2021	2020
Bank balances	\$ 559,235	\$ 414,610
FDIC coverage	(423,437)	(414,610)
Collateralized by securities	(135,798)	-
Credit risk	\$ -	\$ -

**NOTE C – AMOUNTS DUE TO MCLEAN COUNTY**

The District bills and performs collections for charges on behalf of McLean County. These billings and collections were included in the District’s accounts receivable and payables as follows:

	2021	2020
Accounts receivable - District	\$ 77,814	\$ 70,222
Accounts receivable - County	4,722	-
Total accounts receivable	\$ 82,536	\$ 70,222
	2021	2020
Accounts payable - District	\$ 39,404	\$ 34,665
Accounts payable - County	4,722	-
Total accounts payable	\$ 44,126	\$ 34,665

**NORTH MCLEAN COUNTY WATER DISTRICT**  
**Notes to the Financial Statements**  
**December 31, 2021 and 2020**

**NOTE D – CAPITAL ASSETS**

Capital asset activity for the years ended December 31, 2021 and 2020 was as follows:

	Balance Dec. 31, 2020	Additions	Deletions	Balance Dec. 31, 2021
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	201,181	3,812	8,205	196,788
Water distribution system	3,031,582	12,423	-	3,044,005
Vehicles	69,478	-	-	69,478
Total utility plant depreciated	<u>3,749,782</u>	<u>16,235</u>	<u>8,205</u>	<u>3,757,812</u>
Less accumulated depreciation:				
Buildings and improvements	70,784	11,540	-	82,324
Equipment	115,307	6,083	3,731	117,659
Water distribution system	1,216,777	52,687	-	1,269,464
Vehicles	45,444	4,882	-	50,326
Total accumulated depreciation	<u>1,448,312</u>	<u>75,192</u>	<u>3,731</u>	<u>1,519,773</u>
Total utility plant depreciated, net	<u>2,301,470</u>	<u>(58,957)</u>	<u>4,474</u>	<u>2,238,039</u>
Total capital assets, net	<u>\$ 2,321,806</u>	<u>\$ (58,957)</u>	<u>\$ 4,474</u>	<u>\$ 2,258,375</u>
	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, 2021 and 2020**

**NOTE E – LINE OF CREDIT**

At December 31, 2021 and 2020, the District had a line of credit for \$175,000. The line bears an interest rate of 2.6% at December 31, 2021 and 2020, respectively and matures March 16, 2022. The line is collateralized by certificates of deposit. The unused portion was \$175,000 as of December 31, 2021 and 2020.

**NOTE F – LONG-TERM DEBT**

Long-term debt as of December 31, 2021 and 2020 consisted of the following:

	2021	2020
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.	25,419	32,545
Less: Current portion	(25,419)	(8,994)
Long-term debt	\$ -	\$ 23,551

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

	Interest	Principal	Total
2022	\$ 303	\$ 25,419	\$ 25,722
Total	\$ 303	\$ 25,419	\$ 25,722

The following is a summary of changes in long-term debt for the year ended December 31, 2021:

	Balance Dec. 31, 2020	Additions	Deletions	Balance Dec. 31, 2021	Amount Due within One Year
Long-Term Debt:					
Note Payable - Independence Bank	\$ 32,545	\$ -	\$ (7,126)	\$ 25,419	\$ 25,419
Total Long-Term Debt	\$ 32,545	\$ -	\$ (7,126)	\$ 25,419	\$ 25,419

Interest expense related to long-term debt was \$835 and \$1,023 for the years ending December 31, 2021 and 2020, respectively.

**NOTE G – 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 \$7,123 for 2021 and \$6,147 for 2020.

**NOTE H – INCOME TAX STATUS**

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

**NORTH MCLEAN COUNTY WATER DISTRICT**  
**Notes to the Financial Statements**  
**December 31, 2021 and 2020**

**NOTE I – 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.

Construction Project

On November 8, 2021 the District entered into an agreement with an engineering firm for a construction project to relocate a water line. The project is estimated at a total cost of \$375,766. The Kentucky Department of Transportation is expected to reimburse the District for 100% of the estimated total cost. As of December 31, 2021, the District had not incurred any costs related to the project. The project is expected to begin May 2022.

**NOTE J – 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 K – 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, 2021 and 2020 no amounts were restricted.

**NOTE L – 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 M – SUBSEQUENT EVENTS**

The District's outstanding note payable to Independence Bank was refinanced. The note payable's maturity was extended to March 6, 2024. As of the date of this report, the debt service schedule is as follows:

	Interest	Principal	Total
2022	\$ 326	\$ 5,087	\$ 5,413
2023	407	10,419	10,826
2024	82	5,331	5,413
Total	\$ 815	\$ 20,837	\$ 21,652

**NORTH MCLEAN COUNTY WATER DISTRICT**  
**Notes to the Financial Statements**  
**December 31, 2021 and 2020**

**NOTE M – SUBSEQUENT EVENTS (continued)**

The District also renewed its line of credit, which provides the District up to \$175,000. The line bears an interest rate of 3.1% and matures March 16, 2023. The line is collateralized by certificates of deposit.

The District did not have any other subsequent events through March 22, 2022, 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, 2021.



## **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 North McLean County Water District, which comprise the statement of financial position as of December 31, 2021, and the related statement of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 22, 2022.

### **Report on 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) as a basis for designing 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 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 the 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 were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2021-001 and 2021-002 that we consider to be material weaknesses.

### **Report on Compliance and Other Matter**

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, noncompliance with which could have a direct and material effect on the financial statements. 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*.



## North McLean County Water District's Response to Findings

*Government Auditing Standards* requires the auditor to perform limited procedures on the North McLean County Water District's response to the findings identified in our audit and described in the accompanying schedule of findings. North McLean County Water District response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

### 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 organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Altadena & Company CPAs PSC*

Owensboro, Kentucky

March 22, 2022

**NORTH MCLEAN COUNTY WATER DISTRICT  
Schedule of Findings and Responses  
Year Ended December 31, 2021**

**FINDINGS – FINANCIAL STATEMENT AUDIT**

2021 – 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.

2021 – 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.