

**NORTH MCLEAN COUNTY WATER DISTRICT**

**AUDIT REPORT**

**FOR THE YEARS ENDED  
DECEMBER 31, 2015 AND 2014**

## TABLE OF CONTENTS

<b>Independent Auditor's Report</b>	1-2
<b>Basic Financial Statements</b>	
Statements of Net Position	3
Statements of Revenues, Expenses, and Changes in Net Position	4
Statements of Cash Flows	5
<b>Notes to Financial Statements</b>	6-12
<b>Other Report:</b>	
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	13-14

# HOOVER AND MORRIS, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

P.O. BOX 399

LIVERMORE, KENTUCKY 42352

Phone (270) 278-5118 Fax (270) 278-2416

CHESTER HOOVER, CPA  
chestercpa@bellsouth.net

MELISSA HOOVER MORRIS, CPA  
melissamorriscpa@bellsouth.net

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

## Independent Auditor's Report

### **Report on the Financial Statements**

We have audited the accompanying statements of net position of North McLean County Water District as of December 31, 2015 and 2014, and the related statements of revenue and expenses and changes in net position, and cash flows, and the related notes to the financial statements, for the years then ended.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

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

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of North McLean County Water District as of December 31, 2015 and 2014, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

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

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated May 17, 2016 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.

*Hover and Meris, PLLC*

May 17, 2016

NORTH MCLEAN COUNTY WATER DISTRICT  
STATEMENTS OF NET POSITION  
December 31, 2015 and 2014

ASSETS	2015	2014
<b>CURRENT ASSETS</b>		
Cash in bank	\$ 258,791	\$ 241,191
Customer deposit checking	38,397	38,980
Certificates of deposit	170,131	168,939
Accounts receivable	47,899	49,637
Due from other governments	433	498
Inventory	31,422	31,876
Interest receivable	157	169
Prepaid insurance	6,545	6,308
<b>TOTAL CURRENT ASSETS</b>	<b>553,775</b>	<b>537,598</b>
<b>NONCURRENT ASSETS</b>		
Restricted Assets:		
Sinking fund reserve	31,389	31,999
Replacement and extension fund	39,464	37,796
Capital Assets:		
Utility plant	3,376,405	3,367,286
Accumulated depreciation	(1,139,221)	(1,078,680)
<b>TOTAL NONCURRENT ASSETS</b>	<b>2,308,037</b>	<b>2,358,401</b>
<b>TOTAL ASSETS</b>	<b>2,861,812</b>	<b>2,895,999</b>
<b>LIABILITIES AND NET POSITION</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	16,556	16,748
Taxes payable	7,675	7,299
Customer deposits	3,000	3,000
Bonds payable	11,000	10,000
<b>TOTAL CURRENT LIABILITIES</b>	<b>38,231</b>	<b>37,047</b>
<b>NONCURRENT LIABILITIES</b>		
7 5/8% Revenue Bond, Series 1985	130,000	141,000
Customer deposits	30,005	29,795
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>160,005</b>	<b>170,795</b>
<b>TOTAL LIABILITIES</b>	<b>198,236</b>	<b>207,842</b>
<b>NET POSITION</b>		
Net investment in capital assets	2,096,184	2,137,606
Restricted for debt requirements	56,000	56,000
Unrestricted	511,392	494,551
<b>TOTAL NET POSITION</b>	<b>\$ 2,663,576</b>	<b>\$ 2,688,157</b>

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

NORTH MCLEAN COUNTY WATER DISTRICT  
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
December 31, 2015 and 2014

	2015	2014
<b>OPERATING REVENUES</b>		
Water sales	\$ 593,502	\$ 584,071
Penalties and miscellaneous	19,520	18,895
<b>TOTAL OPERATING REVENUES</b>	<b>613,022</b>	<b>602,966</b>
<b>OPERATING EXPENSES</b>		
Salaries and wages	185,486	164,451
Depreciation	63,466	64,012
Purchased water	272,860	271,697
Purchased power	4,536	5,400
Materials and supplies	26,071	36,422
Contractual services	34,571	37,301
Rents	2,398	2,120
Transportation expenses	15,408	18,033
Insurance	11,610	12,622
Employee benefits	-	5,964
Miscellaneous	1,817	1,928
Advertising	626	96
Taxes	16,382	14,780
<b>TOTAL OPERATING EXPENSES</b>	<b>635,231</b>	<b>634,826</b>
<b>OPERATING INCOME (LOSS)</b>	<b>(22,209)</b>	<b>(31,860)</b>
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Interest income	3,065	3,200
Interest expense	(11,550)	(12,200)
<b>TOTAL NON-OPERATING REVENUES (EXPENSES)</b>	<b>(8,485)</b>	<b>(9,000)</b>
<b>CHANGE IN NET POSITION BEFORE CONTRIBUTIONS</b>	<b>(30,694)</b>	<b>(40,860)</b>
<b>CAPITAL CONTRIBUTIONS</b>	<b>6,113</b>	<b>4,902</b>
<b>CHANGE IN NET POSITION</b>	<b>(24,581)</b>	<b>(35,958)</b>
<b>NET POSITION- BEGINNING</b>	<b>2,688,157</b>	<b>2,724,115</b>
<b>NET POSITION- ENDING</b>	<b>\$ 2,663,576</b>	<b>\$ 2,688,157</b>

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

NORTH MCLEAN COUNTY WATER DISTRICT  
STATEMENTS OF CASH FLOWS  
For the Years Ended December 31, 2015 and 2014

	2015	2014
<b>Cash Flows from Operating Activities</b>		
Receipts from customers	\$ 608,466	\$ 593,291
Other receipts	6,569	6,332
Payments to suppliers	(385,878)	(411,992)
Payments to employees	(185,486)	(163,771)
Net cash provided (used) by operating activities	<u>43,671</u>	<u>23,860</u>
<b>Cash Flows from Noncapital Financing Activities</b>		
Net cash provided(used) by noncapital financing activities	<u>-</u>	<u>-</u>
<b>Cash Flows from Capital &amp; Related Financing Activities</b>		
Purchase of capital assets	(12,044)	(10,517)
Principal paid on bonds	(10,000)	(9,000)
Interest paid	(11,550)	(12,200)
Capital contributions	6,113	4,902
Net cash provided (used) by capital & related financing activities	<u>(27,481)</u>	<u>(26,815)</u>
<b>Cash Flows from Investing Activities</b>		
Decrease(increase) in certificates of deposit	(1,355)	(1,493)
Interest on investments	3,077	3,185
Net cash provided (used) by investing activities	<u>1,722</u>	<u>1,692</u>
Net increase (decrease) in cash & cash equivalents	17,912	(1,263)
Balances- Beginning of year	<u>318,805</u>	<u>320,068</u>
Balances- End of year	<u>\$ 336,717</u>	<u>\$ 318,805</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) By Operating Activities:</b>		
Operating income (loss)	\$ (22,209)	\$ (31,860)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation expense	63,466	64,012
(Increase) decrease in:		
Accounts receivable	1,803	(4,043)
Inventories	454	(2,362)
Prepaid insurance	(237)	(35)
Due from employee	-	971
Increase (decrease) in:		
Accounts payable	(192)	(3,975)
Taxes payable	376	743
Employee IRA withholding	-	(291)
Customer deposits	210	700
Net cash provided (used) by operating activities	<u>\$ 43,671</u>	<u>\$ 23,860</u>

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

NORTH MCLEAN COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
For the Years Ended December 31, 2015 and 2014

---

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

REPORTING ENTITY

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

PROPRIETARY FUND ACCOUNTING

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

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

INVENTORY

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

UTILITY PLANT IN SERVICE

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

NORTH MCLEAN COUNTY WATER DISTRICT  
 NOTES TO FINANCIAL STATEMENTS  
 For the Years Ended December 31, 2015 and 2014

---

**CONTRIBUTION IN AID OF CONSTRUCTION**

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

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

**CASH AND EQUIVALENTS**

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

	2015	2014
Cash in bank	\$ 258,791	\$ 241,191
Customer deposit checking	38,397	38,980
Sinking fund reserve	5,098	5,871
Replacement fund	34,431	32,763
	\$ 336,717	\$ 318,805

**CASH AND INVESTMENTS**

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

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

**ESTIMATES**

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

**COMPENSATED ABSENCES**

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

**CAPITALIZED INTEREST**

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

NORTH MCLEAN COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
For the Years Ended December 31, 2015 and 2014

---

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 \$749 for 2015 and \$2,238 for 2014.

2. DEPOSITS AND INVESTMENTS

A. Deposits

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

*Custodial Credit Risk - Deposits*

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240 (4). As of December 31, 2015 all deposits including the certificates of deposit held as investments were covered by FDIC insurance or a properly executed collateral security agreement.

B. Investments

As of December 31, 2015, the District had the following investment:

<u>Investment</u>	<u>Maturity</u>		<u>Fair Value (Cost)</u>
Certificates of Deposit	Greater than 90 days	\$	201,455

*Interest Rate Risk*

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

*Credit Risk*

KRS 66.489 limits the District's investments in the following: obligations of the United States and of its agencies and instrumentalities, including obligations subject to repurchase agreements, obligations and contracts for future delivery or purchase of obligations backed by the United States or its agencies and obligations of any corporation of the United States Government. Certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution insured by the Federal Deposit Insurance Corporation or similar entity. Uncollateralized certificates of deposit issued by a bank or savings and loan institutions rated in one of the three highest categories by a nationally recognized rating agency. Bankers' acceptances for banks rated in one of the three highest categories by a nationally recognized rating agency. Commercial paper rated in the highest category by a nationally recognized rating agency. Bonds or

NORTH MCLEAN COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
For the Years Ended December 31, 2015 and 2014

---

certificates of indebtedness of this state and of its agencies and instrumentalities, securities issued by a state or local government, or any instrumentality or agency thereof, in the United States and rated in one of the three highest categories by a nationally recognized rating agency. Shares of mutual funds meeting specific characteristics outlined in the statute shall be eligible investments. Also, the District is limited to investing no more than 20% in any one of the preceding investments as allowed by KRS 66.480. The District had no investment policy that would further limit its investments choices. In general, non-negotiable certificates of deposit are not subject to investment credit risk.

**3. RESTRICTED ASSETS**

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

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

1985 Sinking Fund- Monthly transfers will be made to equal the next bond and interest payment until the sum of \$24,000.00 is accumulated. During 2015 and 2014, transfers were made to provide for the next bond and interest payment.

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

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

	1985 Sinking Fund	Reserve Replacement Fund	
BALANCE, JANUARY 1, 2014	\$ 32,170	\$ 36,137	
CASH RECEIPTS			
Transfers from operations	20,681	1,500	
Interest income	348	159	
CASH DISBURSEMENTS			
Bond and interest payments	21,200	-	
BALANCE, DECEMBER 31, 2014	31,999	37,796	
CASH RECEIPTS			
Transfers from operations	20,681	1,500	
Interest income	223	168	
CASH DISBURSEMENTS			
Bond and interest payments	21,514	-	
BALANCE, DECEMBER 31, 2015	\$ 31,389	\$ 39,464	

NORTH MCLEAN COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
For the Years Ended December 31, 2015 and 2014

4. PROPERTY AND EQUIPMENT

A summary of the property and equipment as of December 31, 2015 and 2014, is as follows:

	Jan. 1 2014	Increases	Decreases	Dec. 31 2014
Capital assets not being depreciated:				
Land	\$ 17,186	\$ -	\$ -	\$ 17,186
Total capital assets not being depreciated	17,186	-	-	17,186
Capital assets being depreciated:				
Buildings and improvements	166,876	-	-	166,876
Equipment	185,283	-	-	185,283
Water distribution system	2,934,486	6,892	-	2,941,378
Vehicles	56,563	-	-	56,563
Total capital assets being depreciated	3,343,208	6,892	-	3,350,100
Less accumulated depreciation for:				
Buildings and improvements	28,172	4,606	-	32,778
Equipment	95,997	4,433	-	100,430
Water distribution system	851,018	52,943	-	903,961
Vehicles	39,481	2,030	-	41,511
Total accumulated depreciation	1,014,668	64,012	-	1,078,680
Total capital assets being depreciated, net	2,328,540	(57,120)	-	2,271,420
Capital assets, net	\$ 2,345,726	\$ (57,120)	\$ -	\$ 2,288,606
	Jan. 1 2015	Increases	Decreases	Dec. 31 2015
Capital assets not being depreciated:				
Land	\$ 17,186	\$ -	\$ -	\$ 17,186
Total capital assets not being depreciated	17,186	-	-	17,186
Capital assets being depreciated:				
Buildings and improvements	166,876	-	-	166,876
Equipment	185,283	5,932	2,174	189,041
Water distribution system	2,941,378	6,112	-	2,947,490
Vehicles	56,563	-	751	55,812
Total capital assets being depreciated	3,350,100	12,044	2,925	3,359,219
Less accumulated depreciation for:				
Buildings and improvements	32,778	4,606	-	37,384
Equipment	100,430	3,579	2,174	101,835
Water distribution system	903,961	53,252	-	957,213
Vehicles	41,511	2,029	751	42,789
Total accumulated depreciation	1,078,680	63,466	2,925	1,139,221
Total capital assets being depreciated, net	2,271,420	(51,422)	-	2,219,998
Capital assets, net	\$ 2,288,606	\$ (51,422)	\$ -	\$ 2,237,184

5. LONG-TERM DEBT

Revenue Bonds

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

NORTH MCLEAN COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
For the Years Ended December 31, 2015 and 2014

The annual requirements to amortize revenue bonds outstanding as of December 31, 2015, follows:

	Series 1985			Totals	
	Interest Jan. 1	Interest July 1	Principal Jan. 1	Interest	Principal
	2016	\$ -	\$ 5,376	\$ -	\$ 5,376
2017	5,376	4,956	11,000	10,332	11,000
2018	4,956	4,499	12,000	9,455	12,000
2019	4,499	4,003	13,000	8,502	13,000
2020	4,003	3,469	14,000	7,472	14,000
2021-2025	10,980	7,511	91,000	18,491	91,000
	\$ 29,814	\$ 29,814	\$ 141,000	\$ 59,628	\$ 141,000

Changes in Long-Term Liabilities

The following is a summary of changes in long-term liabilities for the year ended December 31, 2015:

	Amount of Original Obligation	Range of Final Maturity Dates	Range of Interest Rates	Balance Jan 1, 2015	Issued	Retired	Balance Dec 31, 2015	Amount Due within One Year
1985 Revenue bonds	\$ 245,000	2015-2025	7 5/8%	\$ 151,000	\$ -	\$ (10,000)	\$ 141,000	\$ 11,000
Customer Deposits				32,795	2,835	(2,625)	33,005	3,000
<b>TOTAL LONG TERM LIABILITIES</b>				\$ 183,795	\$ 2,835	\$ (12,625)	\$ 174,005	\$ 14,000

NORTH MCLEAN COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
For the Years Ended December 31, 2015 and 2014

---

**6. INCOME TAXES**

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

**7. PURCHASE COMMITMENTS**

The water district is committed to purchasing a minimum of 3,000,000 gallons of water each month from the City of Calhoun until approximately August 1, 2016. The District's water purchases from the City of Calhoun exceeded this minimum amount each month

**8. RESTRICTED NET ASSETS**

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

**9. RISK MANAGEMENT**

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

## OTHER REPORTS

# HOOVER AND MORRIS, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

P.O. BOX 399

LIVERMORE, KENTUCKY 42352

Phone (270) 278-5118 Fax (270) 278-2416

CHESTER HOOVER, CPA  
chestercpa@bellsouth.net

MELISSA HOOVER MORRIS, CPA  
melissamorriscpa@bellsouth.net

## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the statement of net position of North McLean County Water District as of and for the year ended December 31, 2015, and the statements of revenues, expenses and changes in net position, and cash flows, and the related notes to the financial statements, and have issued our report thereon dated May 17, 2016.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether North McLean County Water District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered North McLean County Water District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of North McLean County Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of North McLean County Water District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies in internal control, that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies to be significant deficiencies in internal control over financial reporting.

- With an office staff of only two employees, the bookkeeping, payroll, cash collections, accounts receivable, and disbursements of funds can not be completely segregated.
- The auditee lacks the expertise in financial reporting to draft its own financial statements and related note disclosures.

The District offered the following responses:

- The District does not feel it is economically feasible to hire additional staff.
- District personnel will carefully review the draft financial statements for errors.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, significant deficiencies or material weaknesses may exist that were not identified. However, we consider the combination of the significant deficiencies described above to be a material weakness.

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

North McLean County Water District's response to the findings identified in our audit is described above. North McLean County Water District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

#### Purpose of this Report

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

*Hoover and Maris, PLLC*

May 17, 2016