

**NEBO WATER DISTRICT
FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NEBO WATER DISTRICT
Contents
December 31, 2022

	<u>Page</u>
Independent Auditors' Report	1-2
Financial Statements	
Statement of Net Position	3-4
Statement of Revenues, Expenses, and Changes in Net Position	5
Statement of Cash Flows	6-7
Notes to the Financial Statements	8-14
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>	15-16
Schedule of Findings and Responses	17-18



INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners
Nebo Water District

Opinion

We have audited the accompanying financial statements of the Nebo Water District, a component unit of the Hopkins County Fiscal Court, Kentucky, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise Nebo 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 Nebo Water District, as of December 31, 2022, and the respective changes in financial position and cash flows thereof for the year 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 Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Nebo 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 Nebo 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 Nebo 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 Nebo 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 opinion 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 31, 2023, on our consideration of the Nebo 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 solely 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 Nebo 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 the Nebo Water District's internal control over financial reporting and compliance.



Owensboro, Kentucky
March 31, 2023

NEBO WATER DISTRICT
Statement of Net Position
December 31, 2022

Assets

CURRENT ASSETS

Cash	\$	90,687
Accounts receivable, net allowance for doubtful accounts of \$1,267		25,204
Unbilled revenue		46,713
Prepaid insurance		7,893
Inventory		50,351
TOTAL CURRENT ASSETS		220,848

NONCURRENT ASSETS

Restricted Assets

Cash - Customer deposits		37,805
Cash - Depreciation fund		43,079
Cash - Sinking fund		71,339
Investments - Sinking fund		107,651
Investments - Depreciation fund		169,407
Total Restricted Assets		429,281

Capital Assets

Land		47,470
Construction in progress		32,200
Water plant		4,685,202
		4,764,872
Less accumulated depreciation		(3,551,828)
Net Capital Assets		1,213,044

Other Assets

Unamortized debt discount and expense		1,890
TOTAL NONCURRENT ASSETS		1,644,215

TOTAL ASSETS	\$	1,865,063
---------------------	-----------	------------------

See accompanying notes.

NEBO WATER DISTRICT
Statement of Net Position
December 31, 2022

Liabilities and Net Assets

CURRENT LIABILITIES

Accounts payable	\$ 29,171
Taxes payable	505
Interest payable	1,565
Accrued wages	5,159
Accrued vacation	22,793
Current portion of long-term debt	29,125
TOTAL CURRENT LIABILITIES	<u>88,318</u>

NONCURRENT LIABILITIES

Long-term debt, net of current portion	50,562
Customer deposits payable from restricted assets	36,375
TOTAL NONCURRENT LIABILITIES	<u>86,937</u>

TOTAL LIABILITIES

175,255

NET POSITION

Net investment in capital assets	1,133,357
Unrestricted	556,451
TOTAL NET POSITION	<u>1,689,808</u>

TOTAL LIABILITIES AND NET POSITION

\$ 1,865,063

See accompanying notes.

NEBO WATER DISTRICT
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended December 31, 2022

OPERATING REVENUES	
Water sales	\$ 865,976
Tap on fees	11,000
Miscellaneous service revenues	<u>33,319</u>
TOTAL OPERATING REVENUES	<u>910,295</u>
OPERATING EXPENSES	
Audit, accounting, and legal	9,200
Bad debts	1,267
Bank service charges	6,138
Contract services	5,608
Depreciation	73,097
Education and seminars	1,286
Employee benefits	46,061
Insurance	15,065
Materials and supplies	24,412
Miscellaneous expenses	2,307
Office supplies and expense	11,779
Payroll taxes	19,479
Phone and communication	4,599
Postage expense	9,670
Power purchased	17,355
PSC assessment	1,954
Repairs and maintenance	11,472
Salaries and wages	262,367
Sales tax expense	4,038
Transportation	14,555
Uniforms	120
Utilities	2,518
Water purchased	<u>459,978</u>
TOTAL OPERATING EXPENSES	<u>1,004,325</u>
LOSS FROM OPERATIONS	<u>(94,030)</u>
NONOPERATING REVENUES (EXPENSES)	
Grant income	34,200
Interest income	4,258
Interest expense	(2,701)
Amortization of bond issue costs	<u>(540)</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>35,217</u>
CHANGE IN NET POSITION	(58,813)
NET POSITION, BEGINNING OF YEAR	<u>1,748,621</u>
NET POSITION, END OF YEAR	<u><u>\$ 1,689,808</u></u>

See accompanying notes.

NEBO WATER DISTRICT
Statement of Cash Flows
For the Year Ended December 31, 2022

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 930,175
Cash payments to employees for services	(297,291)
Cash payments for goods and services	<u>(615,413)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>17,471</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of capital assets	(44,497)
Interest paid	(1,136)
Payment of long-term debt	(40,536)
Grant contributions	<u>34,200</u>
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(51,969)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest income	<u>4,258</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>4,258</u>
NET DECREASE IN CASH	(30,240)
CASH AT BEGINNING OF YEAR	<u>273,150</u>
CASH AT END OF YEAR	<u><u>\$ 242,910</u></u>

See accompanying notes.

NEBO WATER DISTRICT
Statement of Cash Flows
For the Year Ended December 31, 2022

**RECONCILIATION OF OPERATING INCOME TO NET
CASH PROVIDED BY OPERATING ACTIVITIES**

Net loss from operations	<u>\$ (94,030)</u>
Adjustments to reconcile net loss from operations to net cash provided by operating activities:	
Depreciation	73,097
(Increase) decrease in:	
Accounts receivable	(1,486)
Unbilled revenue	21,741
Prepaid insurance	(349)
Inventory	(4,456)
Increase (decrease) in:	
Accounts payable	12,016
Accrued vacation	5,978
Accrued taxes	176
Accrued payroll	5,159
Customer deposits	(375)
Total adjustments	<u>111,501</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 17,471</u></u>

See accompanying notes.

NEBO WATER DISTRICT
Notes to the Financial Statements
December 31, 2022

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

The Nebo Water District (the “District”) was created on September 2, 1965, under the provisions of chapter 74 of the Kentucky Revised Statutes of the Commonwealth of Kentucky. The principal office is located in Nebo, Kentucky. The Nebo Water District is a component unit of the Hopkins County Fiscal Court, Kentucky and, therefore, is part of the financial reporting entity of the Hopkins County Fiscal Court. The District is comprised of three commissioners who are appointed by the Hopkins County Judge Executive. The District provides water to customers in Hopkins County, Kentucky.

Proprietary Fund

The District is classified as a proprietary fund type. Proprietary funds are accounted for using the economic resources measurement focus; the accounting objectives are the determination of net income, financial position, and cash flows. All assets and liabilities associated with a proprietary funds’ activities are included on its statement of net position.

Basis of Accounting

The District’s financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The District applies all relevant Government Accounting Standards Board (GASB) pronouncements.

The accrual basis of accounting is used for proprietary fund types. The accrual basis of accounting recognizes revenues when earned. Expenses are recorded when incurred.

When both restricted and unrestricted resources are available for use, it is the District’s policy to use restricted resources first, then unrestricted resources as needed.

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.

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.

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.

Accounts Receivable

The District follows a monthly billing cycle. When meter reading is delayed, the service dates are extended and correct in the subsequent months. The District recorded an allowance for doubtful accounts in the amount of \$1,267 for the year ended December 31, 2022. The District has not formally adopted a write off policy.

NEBO WATER DISTRICT
Notes to the Financial Statements
December 31, 2022

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Water Plant

Water plant is stated at original cost (cost of the property to whoever first devoted it to public service). The cost of labor for additions to the water plant constructed by the District's employees is not capitalized.

Capital Assets

Utility plant assets are stated at cost. 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 \$73,097 for 2022. Estimated useful lives of major class of the water plant in service are as follows:

	<u>Years</u>
Communication Equipment	5-7
Distribution Reservoirs	20-40
Hydrants	40
Meters & Meter Installations	10-20
Office Equipment	7
Power Operational Equipment	5-7
Pumping Equipment	10
Structures & Improvements	20-30
Transmission Mains	40
Transportation Equipment	5

Operating Revenue

Operating revenue is recognized upon completion of monthly meter readings. At the end of each month, water service which has been rendered from the latest meter reading to the end of the month is unbilled.

Non-Operating Revenues and Expenses

The District distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and delivering water in connection with the District's principal ongoing operations. The principal operating revenues of the District are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Reclassifications

Certain amounts in the prior-year financial statements have been reclassified to conform with the presentation in the current-year financial statements.

NEBO WATER DISTRICT
Notes to the Financial Statements
December 31, 2022

NOTE B – CASH DEPOSITS AND INVESTMENTS

Cash at year-end consists of the following:

	2022
Cash	\$ 90,687
Cash - Customer deposits	37,805
Cash - Depreciation fund	43,079
Cash - Sinking fund	71,339
	\$ 242,910

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. At December 31, 2022, the amount of insured and uninsured deposits not covered by federal deposit insurance or collateralized by securities was as follows:

	2022
Bank balances	\$ 286,002
FDIC insured	(250,000)
Collateralized by pledged securities	(36,002)
Total custodial credit risk	\$ -

Investments

Investments at year-end was as follows:

	2022		
<u>Investments:</u>	Balance	Matures	Interest Rate
Certificate of deposit	\$ 169,407	9/10/2024	1.20%
Certificate of deposit	107,651	6/30/2025	3.00%
Total investments	\$ 277,058		

Investments are shown on the Statement of Net Position was as follows:

	2022
Investments - Sinking fund	\$ 107,651
Investments - Depreciation fund	169,407
	\$ 277,058

NEBO WATER DISTRICT
Notes to the Financial Statements
December 31, 2022

NOTE B – CASH DEPOSITS AND INVESTMENTS (continued)

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. Informally, the District only allows investment choices that are in compliance with the state statues. The District has not formally adopted deposit and investment policies that limit allowable deposits or investments.

Concentration of Credit Risk

The District's investments consist of collateralized certificate of deposits at a local bank. The District does not have a deposit policy for credit risk.

NOTE C – CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2022 was as follows:

	Balance Dec 31, 2021	Additions	Deletions	Balance Dec. 31, 2022
Capital assets not depreciated:				
Land	\$ 38,258	\$ 9,212	\$ -	\$ 47,470
Construction in progress	-	32,200	-	32,200
Total capital assets not depreciated:	<u>38,258</u>	<u>41,412</u>	<u>-</u>	<u>79,670</u>
Capital assets depreciated:				
Buildings	89,751	-	-	89,751
Equipment	494,157	1,200	-	495,357
Tanks, lines, meters and hydrants	4,098,209	1,885	-	4,100,094
Total capital assets depreciated	<u>4,682,117</u>	<u>3,085</u>	<u>-</u>	<u>4,685,202</u>
Less accumulated depreciation:				
Buildings	66,783	2,198	-	68,981
Equipment	449,328	11,860	-	461,188
Tanks, lines, meters and hydrants	2,962,620	59,039	-	3,021,659
Total accumulated depreciation	<u>3,478,731</u>	<u>73,097</u>	<u>-</u>	<u>3,551,828</u>
Total capital assets depreciated, net	<u>1,203,386</u>	<u>(70,012)</u>	<u>-</u>	<u>1,133,374</u>
Total capital assets, net	<u>\$ 1,241,644</u>	<u>\$ (28,600)</u>	<u>\$ -</u>	<u>\$ 1,213,044</u>

NEBO WATER DISTRICT
Notes to the Financial Statements
December 31, 2022

NOTE D – LONG-TERM DEBT

Long-term debt as of December 31, 2022 consisted of the following:

	2022
Note payable: Kentucky Infrastructural Authority due in semi-annual installments of \$2,802, including interest of 2.0% maturing December 1, 2033. The note is collateralized by the District's service revenue.	\$ 55,087
Note payable: Sacramento Deposit Bank due in a single installment of \$14,950, plus interest of 3.2% maturing September 30, 2023. The note is secured by the District's certificates of deposit held at Sacramento Deposit Bank.	14,950
Note payable: Sacramento Deposit Bank due in semi-annual installments of \$3,275, including interest of 3.0% maturing December 30, 2023. The note is secured by the District's certificates of deposit held at Sacramento Deposit Bank.	9,650
	79,687
Less: Current portion	(29,125)
Long-term debt	\$ 50,562

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

	Interest	Principal	Total
2023	\$ 1,697	\$ 29,125	\$ 30,822
2024	988	4,616	5,604
2025	896	4,708	5,604
2026	801	4,803	5,604
2027	704	4,900	5,604
Thereafter	2,087	31,536	33,623
	\$ 7,174	\$ 79,687	\$ 86,861

The following is a summary of changes in long-term debt for the year ended December 31, 2022:

	Balance Dec. 31, 2021	Additions	Deletions	Balance Dec. 31, 2022	Amount Due within One Year
Long-Term Debt:					
Note Payable - Kentucky Infrastructural Authority	\$ 59,522	\$ -	\$ (4,435)	\$ 55,087	\$ 4,525
Note Payable - Sacramento Deposit Bank	29,501	-	(14,551)	14,950	14,950
Note Payable - Sacramento Deposit Bank	16,200	-	(6,550)	9,650	9,650
	\$ 105,223	\$ -	\$ (25,536)	\$ 79,687	\$ 29,125

Interest expense related to long-term debt was \$2,508 for the year ending December 31, 2022.

On December 21, 2022, the District was approved for a loan of \$1,542,000 for use in their pump station rehabilitation project by the United States Department of Agriculture, Rural Development, bearing an interest rate of 3.50%. As of December 31, 2022, none of the balance was drawn.

NEBO WATER DISTRICT
Notes to the Financial Statements
December 31, 2022

NOTE E – RETIREMENT PLAN

The District has a SIMPLE IRA plan. The Company must contribute a matching contribution to each eligible employee's SIMPLE IRA equal to the employee's salary reduction contributions. However, the matching contributions may not exceed 3%. Employer matching contributions were \$6,514 for the year ended December 31, 2022.

NOTE F – INCOME TAX STATUS

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

NOTE G – SUPPLIER

The District purchases all of its water for resale from either Madisonville Municipal Utilities of Madisonville, Kentucky or Webster County Water District of Dixon, Kentucky.

The purchases from Madisonville Municipal Utilities for the year ended December 31, 2022 were \$448,678. Amounts payable to Madisonville Municipal Utilities at year-end for 2022 were \$23,304.

The purchases from Webster County Water District for the year ended December 31, 2022 were \$2,060. Amounts payable to Webster County Water District at year-end for 2022 were \$141.

NOTE H – COMPENSATED ABSENCES

Employees are entitled to paid vacation and paid sick days, depending on job classification, length of service, and other factors. Accrued vacation was \$22,792 at December 31, 2022.

NOTE I – COMMITMENTS

At December 31, 2022, the District had incurred \$32,200 in construction in progress for a project to upgrade their SCADA system, replace 1,600 meters to include an automated meter reading (AMR) system, and rehabilitate a pump station located near U.S. Highway 41A and Calumet Lane. The project is expected to have a total estimated cost of \$1,557,500 at completion. At December 31, 2022, the District had a remaining commitment for the project of \$1,525,300. The remaining commitment is expected to be funded by a loan (see note D) and a grant. The District was awarded two grants to support this project in the amount of \$160,000 and \$300,000 under the Kentucky Cleaner Water Program from funds provided through the American Rescue Plan Act of 2021, Coronavirus State Fiscal Recovery Fund.

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, 2022, 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.

NEBO WATER DISTRICT
Notes to the Financial Statements
December 31, 2022

NOTE L – SUBSEQUENT EVENTS

The District did not have any subsequent events through March 31, 2023, 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, 2022.



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 GOVERNMENT AUDITING STANDARDS

To the Board of Commissioners
Nebo Water District
Nebo, 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 Nebo Water District, a component unit of the Hopkins County Fiscal Court, Kentucky, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise Nebo Water District's basic financial statements, and have issued our report thereon dated March 31, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Nebo 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 Nebo Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of Nebo 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. 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 2022-001, 2022-002, and 2022-003 that we consider to be material weaknesses.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Nebo 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*.

Nebo Water District's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Nebo Water District's response to the findings identified in our audit and described in the accompanying schedule of findings and responses. Nebo 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 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.

Handwritten signature in cursive script: "Altaden & Company CPAs PSC".

Owensboro, Kentucky
March 31, 2023

NEBO WATER DISTRICT
Schedule of Findings and Responses
Year Ended December 31, 2022

FINDINGS – FINANCIAL STATEMENT AUDIT

2022 – 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.

2022 – 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.

NEBO WATER DISTRICT
Schedule of Findings and Responses
Year Ended December 31, 2022

2022 – 003 Material Weakness:

Adjusting Journal Entries

Condition: The District's trial balance for the year ended December 31, 2022, required a number of material adjusting journal entries in order for the financial statements to be prepared in accordance with accounting principles generally accepted in the United States of America.

Criteria: The District's management is responsible for internal controls over accounting and financial reporting. For trial balances to be both complete and accurate, the District must have effective internal controls over recording, processing, summarizing, and adjusting accounting data.

Cause: The District's accounting and financial reporting staff lack the necessary expertise, relative to the complex nature of accounting principles generally accepted in the United States of America, sufficient to provide reasonable assurance that the trial balances used for preparing the financial statements are complete and accurate prior to audit.

Effect: The District lacks the necessary internal controls over the completeness and accuracy of the trial balance. This condition can result in undetected and uncorrected material misstatements in the financial statements that are not detected by management and may also not be detected by the financial statement audit.

Recommendation: The District should design and implement sufficient internal controls over the completeness and accuracy of the trial balance by obtaining the necessary expertise and continuing education to apply accounting principles generally accepted in the United States of America in the development of the working trial balance that will be used to prepare the District's annual financial statements. This could be achieved through employment of qualified accounting staff or the outsourcing of these control activities to a qualified accounting firm other than the external auditor.

View of Responsible Officials and Planned Corrective Actions: The District concurs with the recommendation, and will strive to prepare and post material adjusting journal entries to the financial statements.