

NEBO WATER DISTRICT
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023

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FOR THE YEAR ENDED DECEMBER 31, 2023

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CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Nebo Water District
Nebo, Kentucky

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, 2023, and the related notes to the financial statements, which collectively comprise the 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 financial position of the Nebo Water District of the Hopkins County Fiscal Court, Kentucky, as of December 31, 2023, and the changes in its financial position and cash flows 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 the 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 opinion. 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 on 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.

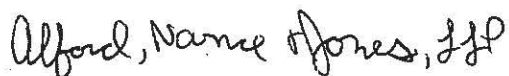
We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 a appropriate operations, economic, or historical context. Our opinion of 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 July 31, 2024, 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.



Alford, Nance & Jones, LLP
July 31, 2024

Nebo Water District
Statement of Net Position
December 31, 2023

<u>Assets</u>	<u>2023</u>
Cash equivalents	\$ 87,735
Customer accounts receivable (less allowance for uncollectible accounts of \$783)	20,681
Unbilled revenue	55,613
Prepayments	5,880
Inventory	57,568
Restricted assets:	
Customer deposit payment account	39,929
Sinking Funds	96,481
Depreciation Fund	52,883
CD - Depreciation Fund	171,449
CD - Sinking Fund	110,926
Capital assets, net of depreciation	<u>1,228,260</u>
Total Assets	<u>1,927,405</u>

<u>Liabilities</u>	
Trade accounts payable	29,028
Accrued liabilities	36,339
Customers' deposits	36,075
Long-term debt due in one year	4,615
Noncurrent liabilities:	
Long-term debt due after one year	<u>44,229</u>
Total Liabilities	<u>150,286</u>

<u>NET POSITION</u>	
<u>Net Position</u>	
Net investment in capital assets	1,177,698
Restricted for:	
Debt Service, Customer Deposits, Equipment Upgrades, Other	431,739
Unrestricted	<u>167,682</u>
Total Net Position	<u>\$ 1,777,119</u>

See accompanying notes to financial statements.

Nebo Water District
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended December 31, 2023

	2023
<u>Operating Revenue</u>	
Water revenues	\$ 1,013,362
Total Operating Revenues	1,013,362
<u>Operating Expenses</u>	
Source of supply purchases	470,600
Salaries and wages	263,611
Administrative and general expenses	137,005
Depreciation	73,492
Pumping expenses	51,872
Payroll and other taxes	21,505
Materials and Supplies	6,554
Total Operating Expenses	1,024,639
<u>Operating Income (Loss)</u>	(11,277)
<u>Nonoperating Revenues (Expenses)</u>	
Investment income	8,214
Interest on debt	(2,454)
Debt amortization	(172)
Total Nonoperating Revenue (Expenses)	5,588
<u>Net Income Before Capital Contributions</u>	(5,689)
<u>Capital Contributions and Grants</u>	93,000
<u>Change in Net Position</u>	87,311
<u>Net Position-Beginning of Year</u>	1,689,808
<u>Net Position-End of Year</u>	\$ 1,777,119

See accompanying notes to financial statements.

Nebo Water District
Statement of Cash Flows
For the Year Ended December 31, 2023

	2023
<u>Cash Flows from Operating Activities</u>	
Cash received from customers	\$ 1,008,985
Cash payments to suppliers for goods and services	(671,393)
Cash payments to employees for services	(278,799)
Net Cash Provided (Used) By Operating Activities	58,793
<u>Cash Flows From Capital and Related Financing Activities</u>	
Principal paid on capital debt	(29,125)
Contributed capital	7,700
Acquisition of property, plant, and equipment	(88,708)
Grants received	85,300
Interest paid on debt	(2,739)
Net Cash Provided (Used) By Capital and Related Financing Activities	(27,572)
<u>Cash Flows From Investing Activities</u>	
Income received on investments	8,214
Net Cash Provided (Used) By Investing Activities	8,214
<u>Net Increase (Decrease) in Cash Equivalents</u>	39,435
<u>Cash Equivalents-Beginning of Year</u>	519,968
<u>Cash Equivalents-End of Year</u>	\$ 559,403
<u>Reconciliation of Operating Income to Net Cash Provided</u>	
<u>By Operating Activities</u>	
Operating Income (Loss)	\$ (11,277)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	73,492
Change in assets and liabilities	
Decrease (increase) in accounts receivable	(4,377)
Decrease (increase) in inventory	(7,217)
Decrease (increase) in prepayments	2,013
Increase (decrease) in accounts payable	142
Increase (decrease) in customer deposits	(300)
Increase (decrease) in accrued liabilities	6,317
Net Cash Provided (Used) By Operating Activities	\$ 58,793
<u>Reconciliation of Total Cash</u>	
Current Assets - Cash	\$ 87,735
Restricted Assets - Cash	471,668
Total Cash	\$ 559,403
<u>Non-cash Investing, Capital and Related Financing Activities - None</u>	

See accompanying notes to financial statements.

Nebo Water District
Notes to the Financial Statements
For the Year Ended December 31, 2023

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Nebo Water District, (the District), was established under the provisions of Chapter 74 of the Kentucky Revised Statutes in July 1962. The Hopkins County Judge Executive appoints a three member commission that oversees the District's water system which renders services based on user charges.

The accounting and reporting policies of the Commission relating to the fund included in the accompanying financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled *Audits of State and Local Governmental Units* and by the Financial Accounting Standards Board (when applicable). The District follows GASB pronouncements as codified under GASB 62. The more significant accounting policies of the District are described below.

Reporting Entity

The District, for financial purposes, includes all of the accounts relevant to the operations of the Nebo Water District owned water system in accordance with generally accepted accounting principles. The District has adhered to the standards set forth in Statement No. 14, as amended by Statement No. 61 of the Governmental Accounting Standards Board in reporting the primary government (including blended component units), discretely presented component units, the reporting entity and related relationships with the District.

Basis of Presentation

The accounts of the District are organized in accordance with the uniform system of accounts adopted by the Public Service Commission of Kentucky. Those accounts are organized on the basis of a proprietary fund type, specifically an enterprise fund. The operations of each fund are summarized by providing a separate set of self balancing accounts which include its assets, deferred outflows, liabilities, deferred inflows, net position, revenues and expenses. The following funds are used by the District:

Proprietary Fund Types

Proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position and cash flow. All assets, deferred outflows, liabilities, and deferred inflows are included on the Statement of Net Position.

Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied. The accounting and financial statements for a proprietary fund are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and all liabilities (whether current or non-current) are included on the statement of net position and the operating statements present increases (revenues) and decreases (expenses) in net total position. Under the accrual basis of accounting, revenues are recognized when earned and can be determined with reasonable accuracy, including

Nebo Water District
Notes to the Financial Statements
For the Year Ended December 31, 2023

unbilled water services which are accrued. Expenses are recognized at the time the liability is incurred.

Operating Revenues/Expenses

Proprietary funds distinguish operating revenues and expense from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations and consist primarily of charges to customers or agencies, cost of sales and services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Budgets

The District adopted a fixed budget for the fiscal year ended December 31, 2023. Flexible budgets prepared for several levels of possible activity are better for proprietary fund planning, control, and evaluation purposes than fixed budgets. For this reason, actual comparison of the fixed operating budget adopted by the District and the actual operating revenues and expenses are not shown in these financial statements.

The District is required to follow budgetary guidelines established by the Public Service Commission and the Department of Rural Development. Those guidelines require:

- 1) The District to submit a proposed budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them for the upcoming year.
- 2) The District is required to submit a budget to the Department of Rural Development for each fiscal year as stipulated in the bond agreement.

For the year ended December 31, 2023, the District has complied with budgetary guidelines.

Cash Equivalents/Investments

Cash equivalents used for operations are deposited with First United Bank. Cash equivalents used for debt service are deposited with Sacramento Deposit Bank. District ordinances authorize the District to invest in obligations of the U.S. Government and its instrumentalities, mutual funds, repurchase agreements, and demand deposits. All investments must be purchased through brokers/dealers or deposited with local financial institutions.

For the purpose of the statement of cash flows, the District considers cash equivalents to be all cash in banks and certificates of deposit with stated maturities of three months or less or available for withdrawal by management.

Compensated Absences

The District recognizes a liability for unpaid compensated absences arising from unpaid sick time in accordance with Governmental Accounting Standards Board (GASB) Statement 16. GASB Statement 16 requires employers to accrue a liability for future vacation, sick, and other leave benefits that meet the following conditions:

- 1) The employer's obligation relating to employees' rights to receive compensation for future absences is attributable to employees' services already rendered.

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For the Year Ended December 31, 2023

- 2) The obligation relates to rights that vest or accumulate.
- 3) Payment of the compensation is probable.
- 4) The amount can be reasonably estimated.

Employees will receive one week of vacation after their first year of employment. After their second year of employment, they will receive 2 weeks of vacation. After their third year of employment, they will receive 2 weeks plus one day for every year thereafter until they reach a maximum of four weeks per year. Vacation leave may not be carried forward from one year to the next. Employees will receive 1 sick day per month after their initial 90 day grace period of employment. They may save these, but at retirement, they can only be paid a maximum of 36 days. They are not to be paid if employee quits or is terminated. Sick days can be paid out upon retirement if the employee is of retirement age.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2023 are recorded as prepaid items.

Capital Assets

Capital assets, which include property, plant and equipment, are stated at historical cost. Donated capital assets are stated at their fair market value on the date donated. Proprietary fund capital assets are recorded in the respective funds and depreciated using the straight line method. Repairs and maintenance are recorded as expenses. Estimated useful lives, in years, for depreciable assets are as follows:

Utility System	20 to 65 years
Furniture, Machinery and Equipment	5 to 10 years
Improvements	5 to 10 years
Vehicles	3 to 5 years

Allowance for Uncollectible Accounts

An allowance for uncollectible accounts has been provided based on prior years' loss experiences as a percentage of revenues billed. Based on past experience, management considers the allowance of \$783 adequate to provide for any losses on collection of the accounts receivable.

Inventory

Inventories are stated at cost using the first-in first-out (FIFO) method. Inventory consists primarily of replacement parts and supplies.

Restricted Assets

The restricted assets have been handled in accordance with the provisions of the various enterprise fund revenue bond resolutions, loan resolutions, loan agreements, or by state or federal laws and regulations. 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. See Note 3 for information describing restricted net position.

Nebo Water District
Notes to the Financial Statements
For the Year Ended December 31, 2023

Estimates

The preparation of the District's financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disaster. During the year ended December 31, 2023, the District contracted with commercial insurance carriers for coverage of all risks mentioned above. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years. There were no significant reductions in coverage during the past three years.

Bond Premiums

Bond premiums on long-term debt are capitalized and amortized to interest expense over the terms of the respective bonds using a method that approximates the effective interest method. Issuance costs are reported as expenses.

Net Position

Net position represents the difference between the total of assets and deferred outflows and the total of liabilities and deferred inflows. Net position is classified into three categories: 1) Net position invested in capital assets consists of capital assets net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent debt proceeds. 2) Restricted net position is reported as restricted when there are limitations imposed on its use either through enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. 3) Unrestricted net position represents amounts that do not meet the definition of "restricted" or "net investment in capital assets".

Reclassifications

Certain 2022 balances have been reclassified to conform to the 2023 presentation.

Adoption of New Accounting Pronouncements

GASB Statement No. 94

GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements* was issued March 2020. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). The effective date of this Statement is for fiscal years beginning after June 15, 2022. Management has not yet determined the effect of this provision on financial reporting.

GASB Statement No. 96

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* was issued May 2020. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement provides the definitions of SBITA and establishes the criteria for financial statement recognition and reporting based to the extent relevant on the standards established in Statement No. 87, *Leases*, as amended. The effective date of this Statement is for fiscal years beginning after June 15, 2022 and all reporting periods thereafter. Management has not yet determined the effect of this provision on financial reporting.

Nebo Water District
Notes to the Financial Statements
For the Year Ended December 31, 2023

Recent Accounting Pronouncements

As of December 31, 2023, the GASB has issued the following statements not yet required to be adopted by the District.

GASB Statement No. 99

GASB Statement No. 99, *Omnibus 2022*, was issued in April 2022 and is effective for fiscal years beginning after June 15, 2022. This statement's objectives are to enhance comparability in accounting and financial reporting and improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The practice issues addressed by this Statement are as follows:

- Classification and reporting of derivative instruments within the scope of Statement No. 53, Accounting and Financial Reporting for Derivative Instruments, that do not meet the definition of either an investment derivative instrument.
- Clarification of provisions in Statement No. 87, Leases, as amended, related to the termination of the lease term, classification of a lease as a short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives.
- Clarification of provisions in Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements, related to (a) the determination of the public-private and public-public partnership (PPP) term and (b) recognition and measurement of installment payments and the transfer of the underlying PPP asset.
- Clarification of provision in Statement No. 96, Subscription-Based Information Technology Arrangements, related to the subscription-based information technology arrangement (SBITA) term, classification of a SBITA as a short-term SBITA, and recognition and measurement of a subscription liability.
- Extension of the period during which the London Interbank Offered Rate (LIBOR) is considered an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap that hedges the interest rate risk of taxable debt.
- Accounting for distribution of benefits as part of the Supplemental Nutrition Assistance Program (SNAP).
- Disclosures related to nonmonetary transactions.
- Pledges of future revenue when resources are not received by the pledging government.
- Clarification of provisions in Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments, as amended, related to the focus of the government-wide financial statements.
- Terminology updates related to certain provision of Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.
- Terminology used in Statement No. 53 to refer to resource flows statements. The District's management has not yet determined the effect this statement will have on the financial statements.

GASB Statement No. 100, Accounting Changes and Error Corrections – An Amendment of GASB Statement No. 62

GASB Statement No. 100, *Accounting Changes and Error Corrections – An Amendment of GASB Statement No. 62*, was issued in June 2022 and is effective for fiscal years beginning after June 15,

Nebo Water District
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For the Year Ended December 31, 2023

2023. This Statement's objective is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistence, and comparable information for making decisions or assessing accountability. The District's management has not yet determined the effect this statement will have on the financial statements.

GASB Statement No. 101, Compensated Absences

GASB Statement No. 101, *Compensated Absences*, was issued in June 2022 and is effective for fiscal years beginning after December 15, 2023. This statement's objective is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. The District's management has not yet determined the effect this statement will have on the financial statements.

Subsequent Events

Date of Management Evaluation

The District has evaluated subsequent events through July 31, 2024, the date which the financial statements were available to be issued.

2. DEPOSITS AND INVESTMENTS

1. Statement of Net Position Cash Presentation

The captions on the statement of net position for cash, investments and restricted assets enumerated as to deposits and investments and the amounts in total are as follows:

	Deposits	Total
Cash equivalents	\$ 87,735	\$ 87,735
Restricted assets:		
Cash equivalents	189,293	189,293
Investments	282,375	282,375
Total	\$ 559,403	\$ 559,403

2. Deposits

First United Bank

At year-end, the carrying amount of the District's deposits held by First United Bank were \$276,978 and the bank balances were \$291,661. Cash on hand consisted of \$50. Of the bank balances, \$250,000 was covered by federal depository insurance, with \$41,661 covered by collateral held by the pledging financial institution's agent or trust department in the District's name.

Sacramento Deposit Bank

At year-end, the carrying amount of the District's deposits held by Sacramento Deposit Bank were \$282,375. Of the bank balances, \$250,000 was covered by federal depository insurance, with \$32,375 uncollateralized.

3. Investments

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The District does not have a formal investment policy that limits

Nebo Water District
Notes to the Financial Statements
For the Year Ended December 31, 2023

investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The custodial credit risk for investments is the risk that a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party if the counterparty to the transaction fails.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the District's investment in a single issuer. The District does not place any limit on the amount that may be invested with one issuer. At December 31, 2023, the District had 100% of its investments in fully collateralized certificates of deposit.

Fair Value of Investments

The District measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices for identical investments in active markets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Level 2 fixed income securities are priced by industry standard vendors, such as ICE Data Services (IDC), using inputs such as benchmark yields, reported trades, broker/dealer quotes, and issuer spreads. At December 31, 2023, the District had 100% of its investments in fully collateralized certificates of deposit, which is valued under Level 1.

Identification

At December 31, 2023, the District had the following investments:

Investment	Maturities	Fair Value Using Level 1
Certificates of Deposit:		
Sacramento Bank	9/10/2024	\$ 171,449
Sacramento Bank	6/30/2025	110,926
Total Investments		\$ 282,375

3. NET POSITION

Net Investment in Capital Assets

A portion of the net position consists of capital assets net of accumulated depreciation and reduced by outstanding debt attributed to the acquisition, construction or improvement of the assets.

Net Investment in Capital Assets

Capital Assets, Net of Depreciation	\$ 1,228,260
Less Revenue Bonds Payable	(50,562)
Total	\$ 1,177,698

Net Position Restricted for Debt Retirement and Customer Deposits

A portion of the net position is reserved for debt retirement and customer deposits. The reserved portion is calculated as follows:

Nebo Water District
Notes to the Financial Statements
For the Year Ended December 31, 2023

	Depreciation Fund	Sinking Fund	Other Restricted	Total
Cash equivalents	\$ 52,883	\$ 96,481	\$ 36,075	\$ 185,439
Investments:				
Certificates of deposit	171,449	110,926	-	282,375
Totals	<u>\$ 224,332</u>	<u>\$ 207,407</u>	<u>\$ 36,075</u>	<u>\$ 467,814</u>

Other Restricted - Restricted for customer deposits and other government assessments

Debt Requirement Restricted Assets

Depreciation Fund	\$ 224,332	
Payment and Escrow Funds	207,407	
Customer Deposit Cash, Equipment Upgrades, and Assessments	<u>36,075</u>	
Total		\$ 467,814

Current Portion of Debt Interest and Customer Deposits

Customer Deposits	\$ (36,075)	
Total		<u>(36,075)</u>

Net Position Restricted for Debt Interest and Customer Meter Deposits \$ 431,739

Customer Deposits

Customer deposits for utility services are segregated and invested on a short-term basis. At December 31, 2023, customer deposits of \$39,929 (including \$3,854 inactive deposits) were deposited in an interest bearing account in First United Bank for the purpose of refunding customer deposits.

Nebo Water District
Notes to the Financial Statements
For the Year Ended December 31, 2023

4. CAPITAL ASSETS

A summary of proprietary fund property, plant and equipment at December 31, 2023 for business-type activities follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 47,470	\$ -	\$ -	\$ 47,470
Construction in progress	32,200	85,300	-	117,500
Total capital assets, not being depreciated	79,670	85,300	-	164,970
Capital assets, being depreciated:				
Buildings	89,751	-	-	89,751
Equipment	495,357	-	-	495,357
Tanks, lines, meters, and hydrants	4,100,094	3,408	-	4,103,502
Total capital assets, being depreciated	4,685,202	3,408	-	4,688,610
Less accumulated depreciation for:				
Buildings	(68,981)	(2,198)	-	(71,179)
Equipment	(461,188)	(11,912)	-	(473,100)
Tanks, lines, meters, and hydrants	(3,021,659)	(59,382)	-	(3,081,041)
Total accumulated depreciation	(3,551,828)	(73,492)	-	(3,625,320)
Total capital assets, being depreciated, net	1,133,374	(70,084)	-	1,063,290
Business-type activities capital assets, net	\$ 1,213,044	\$ 15,216	\$ -	\$ 1,228,260

5. EMPLOYEES' RETIREMENT PLAN

The District has a SIMPLE IRA plan. The Company must make 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% of an employee's salary. Employer matching contributions were \$6,164 for the year ended December 31, 2023.

6. DEBT OBLIGATIONS
Revenue Bonds Payable

Description	Interest Rate	Maturity Date	Balance 12/31/2023	Due in One Year
Kentucky Infrastructure Authority				
B12-03	2.00%	2033	50,562	4,615
Total			50,562	\$ 4,615
Less current portion			(4,615)	
Long-term portion			\$ 45,947	

Kentucky Infrastructure Authority Loan B12-03

A bond resolution dated February 1, 2013, authorized issuance of \$92,000 of refunding revenue bonds maturing in semi-annual installments through 2033. Interest is paid semi-annually on July 1, and December 1, 2.000% per annum and principal is payable semi-annually on July 1, and December 1.

Nebo Water District
Notes to the Financial Statements
For the Year Ended December 31, 2023

Principal and interest requirements of the revenue bonds payable exclusive of unamortized bond premium as of December 31, 2023 are:

<u>Year Ending</u> <u>December 31,</u>	<u>Principal</u>	<u>Interest</u> <u>& Fees</u>	<u>Total</u>
2024	4,615	988	5,603
2025	4,708	896	5,604
2026	4,803	801	5,604
2027	4,900	704	5,604
2028	4,998	606	5,604
2029-33	<u>26,538</u>	<u>1,481</u>	<u>28,019</u>
Total	<u>\$ 50,562</u>	<u>\$ 5,476</u>	<u>\$ 56,038</u>

7. COMMITMENTS

Purchase Contracts

Madisonville Municipal Utilities and Webster County Water District

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, 2023 were \$468,538. Amounts payable to Madisonville Municipal Utilities at year-end for 2023 were \$22,617.

The purchases from Webster County Water District for the year ended December 31, 2023 were \$2,062. Amounts payable to Webster County Water District at year-end for 2023 were \$162.

8. PUBLIC SERVICE COMMISSION REGULATIONS

The District is required to file with the Public Service Commission (PSC) a report of its gross earnings or receipts derived from intra-state business for the preceding calendar year. The District has satisfied this requirement. The District has also filed the 2022 annual PSC Report as required. Further, the PSC requires that all customer deposit refunds be paid with interest. This District has fulfilled this requirement.

9. LITIGATION

The District is not aware of any pending or threatened litigation in which it is involved which would have a material effect on these financial statements.

CERTIFIED PUBLIC ACCOUNTANTS

108 South Main Street, Suite 101, Madisonville, KY 42431 Tel: 270-825-4578 F: 270-821-3521

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
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, 2023, and the related notes to the financial statements, which collectively comprise the Nebo Water District's basic financial statements, and have issued our report thereon dated July 31, 2024.

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 the Nebo Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a deficiency in internal control, described in the accompanying schedule of findings and responses as item 2023-001 that we consider to be a material weakness.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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. The Nebo Water District's 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.



Alford, Nance & Jones, LLP
July 31, 2024

NEBO WATER DISTRICT
Schedule of Findings and Responses
Year Ended December 31, 2023

FINDINGS – FINANCIAL STATEMENT AUDIT

2023 – 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 adjustment, bookkeeping, tax reporting, and financial reporting. Theft could occur or a misstatement made and may not be detected by management in a timely manner.

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 reasonable possible.

NEBO WATER DISTRICT
Schedule of Findings and Responses
Year Ended December 31, 2023

SCHEDULE OF PRIOR AUDIT FINDINGS

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 adjustment, 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.

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 reasonable possible.

FYE 12/31/23: This finding still exists in current year.

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 could 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.

FYE 12/31/23: The District hired a third-party accounting firm to prepare financial statements and provide expertise in this area.

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 the 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.

FYE 12/31/23: The District hired a third-party accounting firm to prepare financial statements and provide expertise in the area of adjusting journal entries and maintaining the accuracy of the trial balance prior to the audit.