

NORTH MCLEAN COUNTY WATER DISTRICT
FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

NORTH MCLEAN COUNTY WATER DISTRICT
Contents
December 31, 2023 and 2022

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INDEPENDENT AUDITORS' REPORT

To The Board of Commissioners
North McLean County Water District

Opinion

We have audited the accompanying financial statements of the North McLean County Water District, a component unit of the McLean County Fiscal Court, Kentucky, as of and for the years ended December 31, 2023 and 2022, and the related notes to the financial statements, which collectively comprise North McLean County Water District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the North McLean County Water District, as of December 31, 2023 and 2022, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our 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. 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 North McLean County Water District, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the North McLean County Water District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the North McLean County Water District's ability to continue as a going concern for a reasonable period of time.

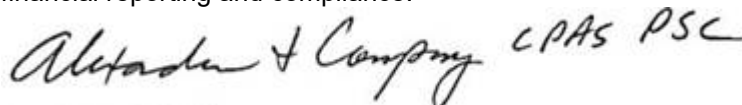
We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 17, 2024 on our consideration of North McLean County Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the North McLean County Water District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering North McLean County Water District's internal control over financial reporting and compliance.



Owensboro, Kentucky
May 17, 2024

NORTH MCLEAN COUNTY WATER DISTRICT
Statements of Net Position
December 31, 2023 and 2022

	2023	2022
Assets		
CURRENT ASSETS		
Cash in bank	\$ 389,980	\$ 405,487
Investments	244,759	189,598
Accounts receivable	73,912	91,718
Interest receivable	-	431
Inventory	55,933	39,940
Prepaid expenses	14,737	6,822
TOTAL CURRENT ASSETS	779,321	733,996
NONCURRENT ASSETS		
Restricted cash - customer deposits	57,102	54,917
Capital assets:		
Land	20,336	20,336
Construction in progress	41	-
Utility plant, net	2,596,210	2,607,445
Other assets:		
Operating right-of-use lease asset, net	14,057	-
Refundable electric contract	1,707	2,048
TOTAL NONCURRENT ASSETS	2,689,453	2,684,746
TOTAL ASSETS	\$ 3,468,774	\$ 3,418,742
Liabilities and Net Assets		
CURRENT LIABILITIES		
Accounts payable	\$ 57,140	\$ 52,474
Taxes payable	4,553	5,216
Current portion of lease liability	2,642	-
Current portion of long-term debt	5,321	10,419
TOTAL CURRENT LIABILITIES	69,656	68,109
NONCURRENT LIABILITIES		
Lease liability, net of current portion	12,007	-
Long-term debt, net of current portion	-	5,321
Customer deposits payable from restricted cash	52,120	50,085
TOTAL NONCURRENT LIABILITIES	64,127	55,406
TOTAL LIABILITIES	133,783	123,515
NET POSITION		
Net investment in capital assets	2,616,587	2,627,781
Unrestricted	718,404	667,446
TOTAL NET POSITION	3,334,991	3,295,227
TOTAL LIABILITIES AND NET POSITION	\$ 3,468,774	\$ 3,418,742

See accompanying notes.

NORTH MCLEAN COUNTY WATER DISTRICT
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended December 31, 2023 and 2022

	2023	2022
OPERATING REVENUES		
Water sales	\$ 1,000,720	\$ 1,039,503
Penalties and miscellaneous	46,286	20,096
TOTAL OPERATING REVENUES	1,047,006	1,059,599
OPERATING EXPENSES		
Salaries and wages	267,872	259,026
Employee benefits	11,700	10,900
Depreciation	83,845	76,289
Purchased water	481,258	496,418
Purchased power	10,941	11,339
Materials and supplies	35,826	31,621
Office expenses	37,580	37,968
Contractual services	33,838	45,194
Transportation	14,933	14,252
Insurance	14,131	12,943
Miscellaneous	7,597	7,564
Payroll taxes	20,904	20,096
Bad debt	1,162	1,457
TOTAL OPERATING EXPENSES	1,021,587	1,025,067
INCOME FROM OPERATIONS	25,419	34,532
NONOPERATING REVENUES (EXPENSES)		
Gain on disposal of equipment	-	6,000
Interest income	7,848	3,903
Interest expense	(2,592)	(799)
TOTAL NONOPERATING REVENUES (EXPENSES)	5,256	9,104
INCOME BEFORE CONTRIBUTIONS	30,675	43,636
CONTRIBUTED CAPITAL	9,089	445,290
CHANGE IN NET POSITION	39,764	488,926
NET POSITION, BEGINNING OF YEAR	3,295,227	2,806,301
NET POSITION, END OF YEAR	\$ 3,334,991	\$ 3,295,227

See accompanying notes.

NORTH MCLEAN COUNTY WATER DISTRICT
Statements of Cash Flows
Years Ended December 31, 2023 and 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	\$ 1,065,685	\$ 1,050,805
Cash payments for goods and services	(675,980)	(671,240)
Cash payments to employees for services	(279,572)	(269,926)
NET CASH PROVIDED BY OPERATING ACTIVITIES	110,133	109,639
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from insurance claims	-	6,000
Purchase of capital assets	(72,651)	(57,362)
Principal paid on loan	(10,419)	(9,679)
Interest paid	(2,592)	(799)
Capital contributions	9,089	56,957
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	(76,573)	(4,883)
CASH FLOWS FROM INVESTING ACTIVITIES		
Change in investments - net	(55,161)	(1,079)
Interest on investments	8,279	3,903
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(46,882)	2,824
NET INCREASE (DECREASE) IN CASH	(13,322)	107,580
CASH AND RESTRICTED CASH AT BEGINNING OF YEAR	460,404	352,824
CASH AND RESTRICTED CASH AT END OF YEAR	\$ 447,082	\$ 460,404

See accompanying notes.

NORTH MCLEAN COUNTY WATER DISTRICT
Statements of Cash Flows
Years Ended December 31, 2023 and 2022

	2023	2022
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Net income from operations	<u>\$ 25,419</u>	<u>\$ 34,532</u>
Adjustments to reconcile net income from operations to net cash provided by operating activities:		
Depreciation	83,845	76,289
Lease amortization	2,163	-
(Increase) decrease in:		
Accounts receivable	17,806	(9,182)
Inventory	(15,993)	(6,726)
Prepaid expenses	(7,915)	3,354
Refundable electric contract	341	341
Increase (decrease) in:		
Accounts payable	4,666	8,348
Taxes payable	(663)	838
Customer deposits	2,035	1,845
Operating lease liability	(1,571)	-
Total adjustments	<u>84,714</u>	<u>75,107</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 110,133</u></u>	<u><u>\$ 109,639</u></u>

See accompanying notes.

NORTH MCLEAN COUNTY WATER DISTRICT
Notes to the Financial Statements
December 31, 2023 and 2022

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

North McLean County Water District (District) is a Kentucky water district organized in 1971. McLean County Fiscal Court appoints the Board of Commissioners that manages the District. The District's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations).

Reporting Entity

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

Proprietary Fund Accounting

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

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

Inventory

Inventory consists of materials and supplies, and is stated at lower of cost (determined on the first-in, first-out basis) or net realizable value.

Capital Assets

Capital assets purchased or constructed are reported at cost. Contributed assets are reported at acquisition value as of the date received. The District capitalizes assets over \$1,000 when the useful life is greater than one year. 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 \$83,845 and \$76,289 for the years 2023 and 2022, respectively. Estimated useful lives of major class of the water plant in service are as follows:

Pumping, distribution equipment, and meters	20-40 years
Transmission and distribution system	60-80 years
Tanks	40-60 years
Vehicles and other equipment	5-15 years

NORTH MCLEAN COUNTY WATER DISTRICT
Notes to the Financial Statements
December 31, 2023 and 2022

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Noncash financing activities for 2023 and 2022, representing water lines donated to the District were \$0 and \$388,333, respectively.

Management Estimates

Management uses estimates and assumptions in preparing these financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

Accounts Receivable

The District has not provided for an allowance for bad debts. It is management’s opinion based on prior history that any uncollectible accounts would have no significant effect on the financial statements. Uncollectible accounts are written off annually and are recorded to bad debt expense. Bad debt expense was \$1,162 and \$1,457 for 2023 and 2022, respectively.

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.

Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

NOTE B – CASH DEPOSITS AND INVESTMENTS

Cash Deposits

As of December 31, 2023 and 2022, cash deposits consisted of the following:

	2023	2022
Cash in bank	\$ 389,980	\$ 405,487
Restricted cash - customer deposits	57,102	54,917
	\$ 447,082	\$ 460,404

Investments

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

NORTH MCLEAN COUNTY WATER DISTRICT
Notes to the Financial Statements
December 31, 2023 and 2022

NOTE B – CASH DEPOSITS AND INVESTMENTS (continued)

Investments (continued)

rated in one of the three highest categories by nationally recognized rating agencies and shares in mutual funds.

As of December 31, 2023 and 2022, the District's investments consisted of certificate of deposits in the amount of \$244,759 and \$189,598, respectively. The certificates have maturities of greater than 90 days at various interest rates.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the District's cash deposits or investments 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, 2023 and 2022, all deposits including the certificate of deposits held as investments were covered by FDIC insurance or a properly executed collateral security agreement. At December 31, 2023 and 2022, all investments held by the District were insured or collateralized with securities held by the District or by its agent in the District's name.

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

	2023	2022
Bank balances	\$ 703,024	\$ 668,660
FDIC coverage	(428,020)	(424,517)
Collateralized by securities	(275,004)	(244,143)
Credit risk	\$ -	\$ -

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. The District's investment policy only allows investment choices that are in compliance with the state statutes.

NOTE C – AMOUNTS DUE TO MCLEAN COUNTY

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

	2023	2022
Accounts receivable - District	\$ 68,434	\$ 86,277
Accounts receivable - County	5,478	5,441
Total accounts receivable	\$ 73,912	\$ 91,718
Accounts payable - District	\$ 50,209	\$ 47,033
Accounts payable - County	6,931	5,441
Total accounts payable	\$ 57,140	\$ 52,474

NORTH MCLEAN COUNTY WATER DISTRICT
Notes to the Financial Statements
December 31, 2023 and 2022

NOTE D – CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2023 and 2022 was as follows:

	Balance Dec. 31, 2022	Additions	Deletions	Balance Dec. 31, 2023
Capital assets not depreciated:				
Land	\$ 20,336	\$ -	\$ -	\$ 20,336
Construction in progress	-	41	-	41
Total capital assets not depreciated:	<u>20,336</u>	<u>41</u>	<u>-</u>	<u>20,377</u>
Utility plant depreciated:				
Buildings and improvements	449,982	-	-	449,982
Equipment	196,903	57,975	-	254,878
Water distribution system	3,486,129	14,636	-	3,500,765
Vehicles	69,478	-	-	69,478
Total utility plant depreciated	<u>4,202,492</u>	<u>72,611</u>	<u>-</u>	<u>4,275,103</u>
Less accumulated depreciation:				
Buildings and improvements	94,230	12,028	-	106,258
Equipment	122,501	10,483	-	132,984
Water distribution system	1,324,292	58,482	-	1,382,774
Vehicles	54,024	2,853	-	56,877
Total accumulated depreciation	<u>1,595,047</u>	<u>83,846</u>	<u>-</u>	<u>1,678,893</u>
Total utility plant depreciated, net	<u>2,607,445</u>	<u>(11,235)</u>	<u>-</u>	<u>2,596,210</u>
Total capital assets, net	<u>\$ 2,627,781</u>	<u>\$ (11,194)</u>	<u>\$ -</u>	<u>\$ 2,616,587</u>
	Balance Dec. 31, 2021	Additions	Deletions	Balance Dec. 31, 2022
Capital assets not depreciated:				
Land	\$ 20,336	\$ -	\$ -	\$ 20,336
Construction in progress	-	45,138	45,138	-
Total capital assets not depreciated:	<u>20,336</u>	<u>45,138</u>	<u>45,138</u>	<u>20,336</u>
Utility plant depreciated:				
Buildings and improvements	447,541	2,441	-	449,982
Equipment	196,788	1,130	1,015	196,903
Water distribution system	3,044,005	442,124	-	3,486,129
Vehicles	69,478	-	-	69,478
Total utility plant depreciated	<u>3,757,812</u>	<u>445,695</u>	<u>1,015</u>	<u>4,202,492</u>
Less accumulated depreciation:				
Buildings and improvements	82,324	11,906	-	94,230
Equipment	117,659	5,857	1,015	122,501
Water distribution system	1,269,464	54,828	-	1,324,292
Vehicles	50,326	3,698	-	54,024
Total accumulated depreciation	<u>1,519,773</u>	<u>76,289</u>	<u>1,015</u>	<u>1,595,047</u>
Total utility plant depreciated, net	<u>2,238,039</u>	<u>369,406</u>	<u>-</u>	<u>2,607,445</u>
Total capital assets, net	<u>\$ 2,258,375</u>	<u>\$ 414,544</u>	<u>\$ 45,138</u>	<u>\$ 2,627,781</u>

NORTH MCLEAN COUNTY WATER DISTRICT
Notes to the Financial Statements
December 31, 2023 and 2022

NOTE E – LINE OF CREDIT

At December 31, 2023, the District had a line of credit for \$175,000. The line bears an interest rate of 6% at December 31, 2023 and matures March 16, 2024. The line is collateralized by certificates of deposit. The unused portion was \$175,000 as of December 31, 2023.

At December 31, 2022, the District had a line of credit for \$175,000. The line bears an interest rate of 3.1% at December 31, 2022 and matures March 16, 2023. The line is collateralized by certificates of deposit. The unused portion was \$175,000 as of December 31, 2022.

NOTE F – LONG-TERM DEBT

Long-term debt as of December 31, 2023 and 2022 consisted of the following:

	2023	2022
Note payable from Independence Bank due in 4 payments of \$5,413, including interest of 3.1% maturing March 6, 2024. The note is collateralized by the District's inventory, accounts receivable, and revenue.	\$ 5,321	\$ 15,740
	5,321	15,740
Less: Current portion	(5,321)	(10,419)
Long-term debt	\$ -	\$ 5,321

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

	Interest	Principal	Total
2024	\$ 82	\$ 5,321	\$ 5,403
Total	\$ 82	\$ 5,321	\$ 5,403

The following is a summary of changes in long-term debt for the year ended December 31, 2023 and 2022:

	Balance Dec. 31, 2022	Additions	Subtractions	Balance Dec. 31, 2023	Amount Due within One Year
Long-Term Debt:					
Note Payable - Independence Bank	\$ 15,740	\$ -	\$ (10,419)	\$ 5,321	\$ 5,321
Total Long-Term Debt	\$ 15,740	\$ -	\$ (10,419)	\$ 5,321	\$ 5,321
	Balance Dec. 31, 2021	Additions	Subtractions	Balance Dec. 31, 2022	Amount Due within One Year
Long-Term Debt:					
Note Payable - Independence Bank	\$ 25,419	\$ -	\$ (9,679)	\$ 15,740	\$ 10,419
Total Long-Term Debt	\$ 25,419	\$ -	\$ (9,679)	\$ 15,740	\$ 10,419

Interest expense related to long-term debt was \$407 and \$799 for the years ending December 31, 2023 and 2022, respectively.

NORTH MCLEAN COUNTY WATER DISTRICT
Notes to the Financial Statements
December 31, 2023 and 2022

NOTE G – LEASES

Describe	Date	Payment Terms	Payment Amount	Interest Rate	Total Lease Liability	Balance December 31, 2023
Office Space	5/1/2023	5 years	\$ 19,895	8%	\$ 16,220	\$ 14,649

Office space was leased beginning in May 1, 2023 for a term of five years at a fixed interest rate of 8%. This lease does not have a renewal options.

The total amount of lease assets and the related accumulated amortization are as follows:

	2023
Operating right-of-use asset	\$ 16,220
Less: accumulated amortization	(2,163)
Carrying value	\$ 14,057

The following schedule details minimum lease payments to maturity for the District's lease payable at December 31, 2023:

Year Ending December 31	Principal	Interest
2024	\$ 2,642	\$ 1,078
2025	3,054	852
2026	3,511	591
2027	4,016	292
2028	1,426	34
	\$ 14,649	\$ 2,847

NOTE H – CONTRIBUTED CAPITAL

With approval of the District, customers have in some cases constructed their own water lines and donated them to the District for future maintenance, control, etc. These assets have been recorded on the District's books and are being depreciated under the same policy as utility plant. Contributed capital revenue was \$9,089 for 2023 and \$445,290 for 2022, respectively.

NOTE I – INCOME TAX STATUS

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

NOTE J – COMMITMENTS

Water Purchases

The District is committed to purchasing water each month from the McLean County Regional Water Commission until approximately October 2055. Other than an emergency situation, the District may not purchase water from any other source without prior approval by the commission.

NORTH MCLEAN COUNTY WATER DISTRICT
Notes to the Financial Statements
December 31, 2023 and 2022

NOTE J – COMMITMENTS (continued)

Engineering Service Contract

The District entered into an engineering service contract on June 15, 2023. Under the contract, the total commitment to the engineer is \$70,730 for preliminary design and planning, preparation of plans, preparation of bid proposals, and construction contract administration. This contract is related to a Kentucky Department of Transportation project in which the District is expected to be reimbursed for 100% of costs incurred during the project. The title of the project is the Hwy 250 and Hwy 431 turning lanes project. As of December 31, 2023, the District's remaining commitment under the contract was \$70,730.

NOTE K – COMPENSATED ABSENCES

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

NOTE L – 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, 2023 and 2022 no amounts were restricted.

NOTE M – RISK MANAGEMENT

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

NOTE N – SUBSEQUENT EVENTS

Line of Credit Renewal

In March 2024, the District renewed its line of credit. The line of credit has a maximum credit limit of \$175,000, matures March 16, 2025, bears an interest rate of 7.5%, and is collateralized by a deposit account.

The District did not have any other subsequent events through May 17, 2024, 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, 2023.



**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
North McLean County Water District
Livermore, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of North McLean County Water District, a component unit of the McLean County Fiscal Court, Kentucky, which comprise the statement of financial position as of December 31, 2023, and the related statement of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 17, 2024.

Report on Internal Control over Financial Reporting

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

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

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2023-001 and 2023-002 that we consider to be material weaknesses.

Report on Compliance and Other Matter

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

North McLean County Water District's Response to Findings

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

Purpose of This Report

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

A handwritten signature in cursive script that reads "Altada & Company CPAs PSC".

Owensboro, Kentucky
May 17, 2024

NORTH MCLEAN COUNTY 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 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.

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 believes it is not 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.

2023 – 002 Material Weakness:

Financial Reporting

Condition: District personnel lack the expertise to prepare the records and the financial statements in accordance with Generally Accepted Accounting Principles (GAAP).

Criteria: The District should have adequate controls in place over financial reporting to ensure that the records and financial statements are prepared in accordance with GAAP.

Cause: The District does not have personnel with financial reporting expertise, specifically a knowledge of GAAP.

Effect: The records or financial statements could contain a material departure from GAAP. During the 2023, material adjusting entries were required to prepare the records and financial statements in accordance with GAAP.

Recommendation: We recommend the District carefully review our proposed corrections and the financial statements to ensure both the records and financial statements are accurate.

View of Responsible Officials and Planned Corrective Actions: The District believes it is not economically feasible to hire personnel with GAAP financial reporting expertise. The District will continue to prepare the records in accordance with GAAP to the best of their ability and will carefully review the financial statements.