

**NORTHEAST WOODFORD COUNTY  
WATER DISTRICT  
Versailles, Kentucky**

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**FINANCIAL STATEMENTS  
December 31, 2023 and 2022**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners  
Northeast Woodford County Water District  
Versailles, Kentucky

### Report on the Audit of the Financial Statements

#### **Opinion**

We have audited the accompanying financial statements of the Northeast Woodford County Water District (the District) as of and for the years ended December 31, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the 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 Northeast Woodford 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 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 Northeast Woodford County Water District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### **Responsibilities of Management for the Financial Statements**

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the 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 auditors' 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 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 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 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 the Management 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 is 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 21, 2024, on our consideration of the 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 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 District's internal control over financial reporting and compliance.

**RFH**

RFH, PLLC  
Lexington, Kentucky  
March 21, 2024

**NORTHEAST WOODFORD COUNTY WATER DISTRICT**  
**STATEMENTS OF NET POSITION**  
**December 31,**

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<b>ASSETS</b>	<b>2023</b>	<b>2022</b>
<b>Current assets</b>		
Cash	\$ 383,728	\$ 259,748
Certificates of deposit	475,128	454,676
Accounts receivable, net	86,540	59,264
Prepaid expenses	2,500	2,500
Inventory	<u>13,330</u>	<u>14,783</u>
Total current assets	<u>961,226</u>	<u>790,971</u>
<b>Restricted assets</b>		
Cash	<u>105,548</u>	<u>101,705</u>
<b>Fixed assets</b>		
Land and land rights	2,000	2,000
Construction in progress	168,318	168,318
Property, plant and equipment	3,391,977	3,385,046
Less accumulated depreciation	<u>(1,801,069)</u>	<u>(1,715,429)</u>
Total fixed assets	<u>1,761,226</u>	<u>1,839,935</u>
TOTAL ASSETS	<u>\$ 2,828,000</u>	<u>\$ 2,732,611</u>
<b>LIABILITIES AND NET POSITION</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 111,754	\$ 100,707
Accrued interest payable	7,303	7,849
Payroll liabilities	1,529	1,529
Customer deposits	8,660	7,756
Current portion of bonds and notes payable	<u>21,000</u>	<u>19,000</u>
Total current liabilities	<u>150,246</u>	<u>136,841</u>
<b>Long-term debt</b>		
Bonds and notes payable	<u>608,000</u>	<u>629,000</u>
<b>Net position</b>		
Net investment in capital assets	1,132,226	1,191,935
Restricted	105,548	101,705
Unrestricted	<u>831,980</u>	<u>673,130</u>
Total net position	<u>2,069,754</u>	<u>1,966,770</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 2,828,000</u>	<u>\$ 2,732,611</u>

The accompanying notes are an integral  
part of the financial statements.

**NORTHEAST WOODFORD COUNTY WATER DISTRICT  
STATEMENTS OF REVENUES, EXPENSES AND CHANGES  
IN NET POSITION  
for the years ended December 31,**

	<b>2023</b>	<b>2022</b>
<b>OPERATING REVENUES</b>		
Water sales	\$ 791,800	\$ 709,079
Penalties	13,874	12,468
Other income	<u>2,380</u>	<u>2,150</u>
Total operating revenues	<u>808,054</u>	<u>723,697</u>
<b>OPERATING EXPENSES</b>		
Water purchased	412,087	462,877
Customer billing and bookkeeping	43,836	40,975
Meter reading	56,100	53,725
Utilities	11,712	13,383
Repairs	44,821	64,726
Commissioners' fees	18,199	18,200
Payroll taxes	1,390	1,393
Insurance and bonds	5,299	5,606
Telephone	880	808
Professional services	12,630	9,120
Computer expenses	5,679	3,344
PSC assessment	945	981
Other expense	<u>9,720</u>	<u>6,617</u>
Total operating expenses	<u>623,298</u>	<u>681,755</u>
Operating income before depreciation	184,756	41,942
Depreciation expense	<u>(85,640)</u>	<u>(64,235)</u>
<b>OPERATING INCOME (LOSS)</b>	99,116	(22,293)
Non-operating income (expenses)		
Interest income	861	1,668
Interest expense	(21,943)	(22,313)
Gain (Loss) on investments	<u>20,326</u>	<u>(9,176)</u>
<b>INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS</b>	98,360	(52,114)
Capital contributions		
Tap fees	4,624	2,723
Grant income	<u>-</u>	<u>100,000</u>
Change in net position	102,984	50,609
Net position, beginning	<u>1,966,770</u>	<u>1,916,161</u>
<b>NET POSITION, ENDING</b>	<u>\$ 2,069,754</u>	<u>\$ 1,966,770</u>

The accompanying notes are an integral part of the financial statements.

**NORTHEAST WOODFORD COUNTY WATER DISTRICT**  
**STATEMENTS OF CASH FLOWS**  
for the years ended December 31,

	<b>2023</b>	<b>2022</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 781,682	\$ 712,686
Payments to suppliers	(475,063)	(538,426)
Payments for commissioners' fees and contract labor	<u>(118,135)</u>	<u>(112,900)</u>
Net cash provided by operating activities	<u>188,484</u>	<u>61,360</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Capital contributions	4,624	2,723
Grant proceeds	-	100,000
Purchases of capital assets	(24,531)	(287,191)
Debt proceeds	-	32,557
Principal paid on bonds payable	(19,000)	(18,000)
Interest paid on bonds payable	<u>(22,489)</u>	<u>(22,830)</u>
Net cash (used) by capital and related financing activities	<u>(61,396)</u>	<u>(192,741)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments	(126)	(465,689)
Proceeds from sales and maturities of investments	-	545,840
Interest and dividends	<u>861</u>	<u>1,992</u>
Net cash provided by investing activities	<u>735</u>	<u>82,143</u>
Net increase (decrease) in cash	127,823	(49,238)
Balances, beginning of the year	<u>361,453</u>	<u>410,691</u>
<b>BALANCES, END OF THE YEAR</b>	<u><b>\$ 489,276</b></u>	<u><b>\$ 361,453</b></u>
<b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>		
Operating income (loss)	\$ 99,116	\$ (22,293)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation expense	85,640	64,235
Change in assets and liabilities:		
Receivables, net	(27,276)	(11,996)
Inventory	(5,478)	(5,130)
Prepaid expenses	-	4,850
Accounts and other payables	35,578	30,709
Customer deposits	<u>904</u>	<u>985</u>
Net cash provided by operating activities	<u>\$ 188,484</u>	<u>\$ 61,360</u>
Non-cash changes in capital assets	<u>\$ (17,600)</u>	<u>\$ (9,892)</u>

The accompanying notes are an integral part of the financial statements.

**NORTHEAST WOODFORD COUNTY WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2023 and 2022**

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**1. ORGANIZATION AND ACCOUNTING POLICIES**

The Northeast Woodford County Water District (the District) was created and organized as a public body incorporated in Woodford County, Kentucky, pursuant to Chapter 74 of the Kentucky Revised Statutes by the fiscal court of Woodford County to operate a water distribution system.

The Northeast Woodford County Water District's financial statements include the operations of all entities for which the District exercises oversight responsibility. Oversight responsibility includes, but is not limited to, financial interdependency, selection of the governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters. The entities included in the financial statements are the general operations of the Northeast Woodford County Water District.

There are no other entities that are subject to the District's oversight responsibility as indicated above.

The District maintains its accounting records on the cash basis during the year. Adjustments are made to the accrual basis from memorandum records at year end.

Fixed assets are recorded at cost. Depreciation has been provided using the straight-line method over the estimated useful life of the asset. Land and land rights are not depreciated.

For purposes of the statement of cash flows, the District defines cash and cash equivalents to include cash on hand and cash in banks.

Investments at December 31, 2023 and 2022 consisted of certificates of deposit held in brokerage accounts and valued at fair value.

Inventories are stated at lower of cost or market.

The District charges all uncollectible accounts directly against earnings. The reserve for accounts receivable represents accounts past due more than ninety days that are thought to be uncollectible. The reserve balance was \$5,000 at December 31, 2023 and 2022.

The District's financial statements are presented in conformity with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, "*Basic Financial Statements - and Management's Discussion and Analysis - dfor State and Local Governments.*" The District has not prepared the Management's Discussion and Analysis required by GASB 34.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

In 2022, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 87, "*Leases.*" GASB Statement No. 87 enhances the relevance and consistency of information of the entity's leasing activities. It establishes requirements for lease accounting based on the principle that leases are financings of the right to use an underlying asset. A lessee is required to recognize a lease payable and an intangible right to use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. These changes had no effect on the financial statements.



**NORTHEAST WOODFORD COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2023 and 2022**

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**1. ORGANIZATION AND ACCOUNTING POLICIES (CONTINUED)**

Effective January 1, 2023, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 96, *Subscription-based Information Technology Arrangements*. GASB Statement No. 96 requires recognition of a right-to-use subscription asset – an intangible asset – and a corresponding subscription liability for subscription-based information technology arrangements (SBITA) that were previously classified as operating expenses. It establishes uniform guidance for SBITA accounting based on the foundational principle that SBITA are financings of the right to use vendor-provided information technology assets. These changes had no effect on the financial statements.

The District has evaluated and considered the need to recognize or disclose subsequent events through March 21, 2024, which represents the date that these financial statements were available for issuance. Subsequent events past this date, as they pertain to the fiscal year ended December 31, 2023, have not been evaluated by the District.

**2. CASH AND INVESTMENTS**

The bank balances of Northeast Woodford County Water District’s deposits and investments at December 31, 2023, totaled \$975,614. \$902,900 was covered by FDIC insurance, and \$72,714 was held in collateral pledged in the District’s name. Deposits and investments were entirely covered by federal depository insurance or by collateral held by the custodial banks in the District’s name.

KRS 66.480 authorizes the District to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which have a physical presence in Kentucky and are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4). The Statute also authorizes investment in mutual funds, exchange traded funds, individual equity securities and high-quality corporate bonds that are managed by a professional investment manager and subject to additional requirements outlined in KRS 66.480. The District does not have a formal investment policy but follows Kentucky Revised Statutes for investing funds.

The District maintains several bank accounts and investment accounts in accordance with the Bond Resolution. The following schedule presents the detail by account.

	<b>2023</b>	<b>2022</b>
Revenue Fund		
Cash-checking	\$ 60,583	\$ 65,609
Operation and Maintenance Fund		
Cash-checking	259,329	135,842
Construction Fund		
Cash-checking	9,747	5,133
Customer Credit		
Cash-savings	54,024	52,993
Edward Jones Investment Account		
Cash-investments	171	-
	<b>\$ 383,728</b>	<b>\$ 259,748</b>

**NORTHEAST WOODFORD COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2023 and 2022**

**2. CASH AND INVESTMENTS (CONTINUED)**

Operation and Maintenance Fund Edward Jones Investment Account Certificates of deposit	<u>\$ 475,128</u>	<u>\$ 454,676</u>
Bond and Interest Reserve Fund Cash-checking	\$ 29,910	\$ 26,955
Depreciation Reserve Fund Cash-savings	<u>75,638</u>	<u>74,750</u>
	<u>\$ 105,548</u>	<u>\$ 101,705</u>

**Statement of Cash Flows**

The Statement of Cash Flows includes the following:

	<b>2023</b>	<b>2022</b>
Cash	\$ 383,728	\$ 259,748
Restricted Cash	<u>105,548</u>	<u>101,705</u>
	<u>\$ 489,276</u>	<u>\$ 361,453</u>

**Investment Valuation**

The District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The District does not have any investments that are measured using Level 2 or 3 inputs.

For those investments measured at fair value, the investments' fair value measurements are as follows at December 31, 2023 and 2022:

	<b>Fair Value Measurements Using</b>			
	<b>Fair Value</b>	<b>Level 1 Inputs</b>	<b>Level 2 Inputs</b>	<b>Level 3 Inputs</b>
Certificates of Deposit	<u>\$ 475,128</u>	<u>\$ 475,128</u>	<u>\$ -</u>	<u>\$ -</u>

	<b>Fair Value Measurements Using</b>			
	<b>Fair Value</b>	<b>Level 1 Inputs</b>	<b>Level 2 Inputs</b>	<b>Level 3 Inputs</b>
Certificates of Deposit	<u>\$ 454,676</u>	<u>\$ 454,676</u>	<u>\$ -</u>	<u>\$ -</u>

**NORTHEAST WOODFORD COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2023 and 2022**

**3. PROPERTY, PLANT, AND EQUIPMENT**

A summary of capital asset activity during the years ended December 31, 2023 and 2022:

	<b>Balance 12/31/2022</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance 12/31/2023</b>
Capital assets not depreciated:				
Land right of way	\$ 2,000	\$ -	\$ -	\$ 2,000
Construction in progress	<u>168,318</u>	<u>-</u>	<u>-</u>	<u>168,318</u>
Total	<u>170,318</u>	<u>-</u>	<u>-</u>	<u>170,318</u>
Capital assets that are depreciated:				
Cost of system	3,325,853	6,931	-	3,332,784
Equipment	<u>59,193</u>	<u>-</u>	<u>-</u>	<u>59,193</u>
Total	<u>3,385,046</u>	<u>6,931</u>	<u>-</u>	<u>3,391,977</u>
Less accumulated depreciation	<u>1,715,429</u>	<u>85,640</u>	<u>-</u>	<u>1,801,069</u>
Capital assets, net	<u>\$ 1,839,935</u>	<u>\$ 78,709</u>	<u>\$ -</u>	<u>\$ 1,761,226</u>

	<b>Balance 12/31/2021</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance 12/31/2022</b>
Capital assets not depreciated:				
Land right of way	\$ 2,000	\$ -	\$ -	\$ 2,000
Construction in progress	<u>105,693</u>	<u>62,625</u>	<u>-</u>	<u>168,318</u>
Total	<u>107,693</u>	<u>62,625</u>	<u>-</u>	<u>170,318</u>
Capital assets that are depreciated:				
Cost of system	3,123,930	201,923	-	3,325,853
Equipment	<u>46,442</u>	<u>12,751</u>	<u>-</u>	<u>59,193</u>
Total	<u>3,170,372</u>	<u>214,674</u>	<u>-</u>	<u>3,385,046</u>
Less accumulated depreciation	<u>1,651,194</u>	<u>64,235</u>	<u>-</u>	<u>1,715,429</u>
Capital assets, net	<u>\$ 1,626,871</u>	<u>\$ 213,064</u>	<u>\$ -</u>	<u>\$ 1,839,935</u>

**4. BONDS AND NOTES PAYABLE**

The District issued \$611,000 of Waterworks Revenue Bonds in 1995. These bonds bear interest at the rate of 5.75% with the interest payable January 1 and July 1 of each year. The bonds mature serially on January 1 of each year. The U.S. Department of Agriculture, Rural Economic & Community Development (formerly Farmers Home Administration) holds the bonds.

**NORTHEAST WOODFORD COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2023 and 2022**

**4. BONDS AND NOTES PAYABLE (CONTINUED)**

During 2018, the District entered into a debt service agreement with the Kentucky Infrastructure Authority (KIA) to borrow \$400,000 to replace a pump station and to replace and extend waterline. This amount will be repaid over a period of 20 years, at an interest rate of 1.75%. Payments will be made every six months, beginning six months after the first draw of funds. The District will also be required to pay a .20% annual administrative fee and to set up a replacement reserve account.

The District has begun to pay interest on the note. Principal payments are expected to start once the final draw is made.

Principal amounts due are as follows:

Year	<u>Issued</u>		<u>Total Requirement For Year</u>	<u>Bonds Outstanding End of Year</u>
	<u>Principal</u>	<u>Interest</u>		
2024	\$ 21,000	\$ 14,001	\$ 35,001	\$ 233,000
2025	22,000	12,765	34,765	\$ 211,000
2026	23,000	11,471	34,471	\$ 188,000
2027	25,000	10,091	35,091	\$ 163,000
2028	26,000	8,625	34,625	\$ 137,000
2029-2033	<u>137,000</u>	<u>11,069</u>	<u>155,199</u>	\$ -
Totals	254,000	<u>\$ 75,153</u>	<u>\$ 329,153</u>	
KIA	<u>375,000</u>			
Totals	<u>\$ 629,000</u>			

The following is a summary of direct borrowings and placements for the year ended December 31, 2023 and 2022:

	<u>Balance December 31, 2022</u>	<u>Issued</u>	<u>Principal Payments</u>	<u>Balance December 31, 2023</u>
Series 1995	\$ 273,000	\$ -	\$ (19,000)	\$ 254,000
KIA Note	<u>375,000</u>	<u>-</u>	<u>-</u>	<u>375,000</u>
Totals	<u>\$ 648,000</u>	<u>\$ -</u>	<u>\$ (19,000)</u>	<u>\$ 629,000</u>

  

	<u>Balance December 31, 2021</u>	<u>Issued</u>	<u>Principal Payments</u>	<u>Balance December 31, 2022</u>
Series 1995	\$ 291,000	\$ -	\$ (18,000)	\$ 273,000
KIA Note	<u>342,443</u>	<u>32,557</u>	<u>-</u>	<u>375,000</u>
Totals	<u>\$ 633,443</u>	<u>\$ 32,557</u>	<u>\$ (18,000)</u>	<u>\$ 648,000</u>

**NORTHEAST WOODFORD COUNTY WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2023 and 2022**

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**5. COMPLIANCE WITH BOND RESOLUTION**

The bond and note resolutions require the District to maintain certain reserves as follows:

Reserve Fund – The bond requires this reserve to receive a monthly transfer of \$495 until a balance of \$59,400 is accumulated. In addition, this reserve is to receive all proceeds collected from potential customers to aid in construction of extensions and any property damage insurance proceeds. Funds may be used only for the purpose of paying the cost of unusual or extraordinary maintenance and repairs not included in the budget and cost of constructing extensions or improvements to the system. The KIA note requires this reserve to receive an annual payment of \$1,000 until a balance of \$20,000 is accumulated. The balances of this reserve were \$75,638 and \$74,750 at December 31, 2023 and 2022, respectively.

Bond and Interest Sinking Fund – This reserve is to receive a monthly transfer of 1/6 of the next interest payment due and 1/12 of the next principal payment due. In addition, this reserve is to receive any excess revenues at the close of each year after provision of anticipated operating expenses for a two-month period. This reserve can only be used to pay debt service on the bond issue. The District met the bond requirements during the current year. The balance of this reserve was \$29,910 and \$26,955 at December 31, 2023 and 2022, respectively.

**6. 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 disasters. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.



**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  
Northeast Woodford County Water District  
Versailles, 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 Northeast Woodford County Water District (the District), as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 21, 2024.

**Report on Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Northeast Woodford 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 the Northeast Woodford County Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 certain 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 Northeast Woodford 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*.

## **Northeast Woodford County Water District's Response to Findings**

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

**RFH**

RFH, PLLC  
Lexington, Kentucky  
March 21, 2024

**NORTHEAST WOODFORD COUNTY WATER DISTRICT**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**December 31, 2023**

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**FINDING:**

2023-001 (Recurring)

*Criteria:* The District is required to have internal controls in place that enable it to prepare complete financial statements, including note disclosures, in compliance with generally accepted accounting principles.

*Condition:* Management engaged the auditor to prepare cash to accrual adjustments and draft financial statements, including the related notes to the financial statements. Management reviewed, approved and accepted responsibility for the adjustments and the financial statements prior to their issuance.

*Cause:* The District lacks personnel with the expertise to apply generally accepted accounting principles in preparing its financial statements including note disclosures and thus, does not have the internal control procedures required to draft the financial statements in conformity with generally accepted accounting principles.

*Effect:* Management engaged the auditor to prepare cash to accrual adjustments and draft financial statements, including the related notes to the financial statements. Management reviewed, approved and accepted responsibility for the adjustments and the financial statements prior to their issuance.

*Recommendation:* We recommend management review the costs and benefits involved to retain a consultant with the required expertise to prepare the financial statements on the accrual basis of accounting, including preparing all cash to accrual adjustments.

*Management's Response:* Management has determined that it is more cost effective to continue to engage the auditor to adjust the books to the accrual basis and to draft the financial statements and related notes. Management has reviewed and accepts responsibility for the adjustments and financial statements.