

MCKINNEY WATER DISTRICT
AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2019

KERBAUGH, RODES & BUTLER, PLLC
CERTIFIED PUBLIC ACCOUNTANTS
DANVILLE, KENTUCKY

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Kerbaugh, Rodes & Butler, PLLC

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INDEPENDENT AUDITOR'S REPORT

Chairman and Commissioners
McKinney Water District
McKinney, Kentucky 40448

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the McKinney Water District (the District) as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the District, as of December 31, 2019, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3 through 5 be presented to supplement the basic financial statements. Such 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

We have previously audited the District's 2018 financial statements, and we expressed an unmodified opinion on the respective financial statements of the business-type activities in our report dated March 27, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 24, 2020, 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.

Kerbaugh, Rodes & Butler, PLLC

Kerbaugh, Rodes & Butler, PLLC
Certified Public Accountants

Danville, Kentucky
March 24, 2020

MCKINNEY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2019

The management of McKinney Water District (the District) presents this narrative to help our readers review the accompanying annual financial statements for the year ended December 31, 2019. We have prepared this overview and analysis of the District's financial activities to add additional information to the financial schedules and the note disclosures. Our analysis will examine the financial highlights for this fiscal year and help explain the format for our readers.

Financial Highlights

- At December 31, 2019, the District's assets (page 7) exceeded liabilities by \$1,483,502. This amount includes \$702,456 of resources that are invested in capital assets, net of related debt. \$356,493 of these resources are restricted for debt service, customer deposit refunds, or by enabling legislation. \$424,553 of these resources are unrestricted and are available to fund the District's outstanding obligations and future programs.
- Unrestricted cash and certificate of deposit balances (page 6) as of December 31, 2019 were \$314,558 and current liabilities payable from unrestricted resources (i.e. excluding principal and interest on long term debt and customer deposits) were \$52,552.
- Net position decreased by \$27,494 (page 8) which is a decrease compared to the decrease of \$10,141 in the prior year. The current year decrease is net of depreciation expense of \$92,879, a non-cash expense. The District's net operating income was \$4,543 in the current year compared to net operating income of \$23,683 in the prior year. The primary reason for the decline this year is due to an increase in repairs and maintenance costs.
- The District's total debt decreased \$33,600 for the year ended December 31, 2019 which is equal to the scheduled payments for the year.

Overview of the Financial Statements

This discussion and analysis is intended to introduce the District's financial statements. Basic financial statements include two major sections: 1) government-wide financial statements, and 2) notes to the financial statements.

The District is a special-purpose governmental entity. It utilizes the accrual basis of accounting applicable to all *proprietary fund types*. Revenues are recognized when earned regardless of when received and expenses are recognized when incurred regardless of when paid.

Notes to the Financial Statements

Notes provide additional information that is essential to a full understanding of the information included in the financial statements. Notes provide additional details about the balances and transactions in the District's financial statements and are presented on pages 13 through 17.

Government-wide Financial Analysis

Net position may serve over time as a useful indicator of a government's financial position. 47% of the District's net position reflects its investment in capital assets (e.g. distribution system, equipment, etc.), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its customers; consequently, these assets are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. 24% of the District's net position is restricted for customer deposit refunds, debt service, and system maintenance. The remaining 29% of the District's net position is unrestricted.

MCKINNEY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2019

The first statement in the government-wide statements is the Statement of Net Position. The following table summarizes the Statement of Net Position (pages 6-7).

	<u>2019</u>	<u>2018</u>
Current and other assets	\$ 930,475	\$ 885,628
Capital assets	<u>1,537,456</u>	<u>1,625,892</u>
Total assets	<u>2,467,931</u>	<u>2,511,520</u>
Long-term debt outstanding	801,400	835,000
Other liabilities	<u>183,029</u>	<u>165,524</u>
Total liabilities	<u>984,429</u>	<u>1,000,524</u>
Net Position:		
Net investment in capital assets	702,456	757,292
Restricted	356,493	341,819
Unrestricted (deficit)	<u>424,553</u>	<u>411,885</u>
Total net position	<u>\$ 1,483,502</u>	<u>\$ 1,510,996</u>

The second statement in the government-wide statements is the Statement of Revenues, Expenses, and Changes in Net Position. The following table outlines the major components of this statement.

	<u>2019</u>	<u>2018</u>
Revenues:		
Charges for Services	\$ 924,822	\$ 881,674
Rental Income	1,800	1,800
Interest Earnings	2,412	972
Miscellaneous	<u>29,090</u>	<u>24,786</u>
Total Revenues	<u>958,124</u>	<u>909,232</u>
Expenses:		
Operating Expenses Excluding Depreciation	858,290	796,938
Depreciation	92,879	87,639
Interest and Amortization	<u>34,449</u>	<u>34,796</u>
Total Expenses	<u>985,618</u>	<u>919,373</u>
Increase (Decrease) in Net Position	<u>\$ (27,494)</u>	<u>\$ (10,141)</u>

During the fiscal year ended December 31, 2019, the water loss percentage remained constant at approximately 21%.

MCKINNEY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2019

Capital Asset and Debt Administration

The District invests substantial resources in capital assets that support the services provided to its customers. All of the District's outstanding debt has been used to acquire or construct capital assets.

Capital Assets

The District's capital assets, net of accumulated depreciation are summarized below:

Land and right of ways	\$ 18,044
Distribution system	1,278,737
Office furniture and fixtures	16,489
Buildings and improvements	4,801
Capitalized design and interest cost	216,612
Construction in progress	<u>2,773</u>
Total capital assets, net of depreciation	<u>\$ 1,537,456</u>

Long Term Debt

The principal outstanding on the District's long-term debt is summarized in the following table.

RDA 1992 Series D Bond	\$ 299,000
RDA 1999 Series A Bond	90,700
RDA 1999 Series B Bond	62,800
RDA 2000 Series A Bond	<u>382,500</u>
Total debt outstanding	<u>\$ 835,000</u>

The District's outstanding debt decreased \$33,600 for the year equal to the amount of the scheduled payments.

Economic Factors for Next Year

Historically, the District has struggled with the impact of water losses on its operations. Going forward, keeping water losses at an acceptable level will be the primary factor in whether the District's operating results are positive or negative. The District will continue to monitor its water losses and take the necessary action to keep them at an acceptable level.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide customers and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's office, McKinney, KY 40448, telephone number (606) 346-2220.

MCKINNEY WATER DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2019
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2018)

	2019	2018
<u>ASSETS</u>		
Current Assets:		
Cash (Note 3)	\$ 259,963	\$ 245,294
Certificates of Deposit (Note 3)	54,595	54,132
Accounts Receivable (Net of Allowance)	77,655	61,636
Inventory (Note 2)	44,169	48,166
Prepaid Expenses (Note 2)	7,024	8,541
Total Current Assets	443,406	417,769
Non-current Assets:		
Restricted Cash (Note 3)	268,689	251,331
Restricted Certificates of Deposit (Note 3)	218,380	216,528
Total Restricted Assets	487,069	467,859
Capital Assets (Note 4):		
Land and Right of Ways	18,044	18,044
Distribution System	3,636,116	3,636,116
Other Tangible Assets	110,821	110,821
Office Furniture and Fixtures	58,861	57,191
Building and Improvements	43,178	43,178
Capitalized Design and Interest Costs	566,950	566,950
Construction in Process	2,773	-
Less: Accumulated Depreciation	(2,899,287)	(2,806,408)
Capital Assets, Net	1,537,456	1,625,892
Total Assets	\$ 2,467,931	\$ 2,511,520

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

MCKINNEY WATER DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2019
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2018)

	2019	2018
<u>LIABILITIES</u>		
Current Liabilities:		
Accounts Payable	\$ 48,566	\$ 31,678
Other Current Liabilities	3,986	7,807
Total Current Liabilities	52,552	39,485
Current Liabilities Payable From Restricted Assets:		
Customer Deposits	80,670	75,550
Accrued Interest on Debt	16,207	16,889
Current Portion - Debt (Note 5)	35,200	33,600
Total Current Liabilities Payable From Restricted Assets	132,077	126,039
Non-Current Liabilities:		
Long-Term Debt (Note 5)	799,800	835,000
Total Liabilities	984,429	1,000,524
<u>NET POSITION</u>		
Net Investment in Capital Assets	702,456	757,292
Restricted For:		
Customer Deposits	119,959	117,296
Debt Service	77,488	77,012
Construction & Maintenance	157,446	147,511
Unrestricted	426,153	411,885
Total Net Position	1,483,502	1,510,996
Total Liabilities and Net Position	\$ 2,467,931	\$ 2,511,520

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

MCKINNEY WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2019
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2018)

	2019	2018
Operating Revenue:		
Water Sales	\$ 917,472	\$ 871,174
Connection Fees	7,350	10,500
Rental Income	1,800	1,800
Other Operating Revenue	29,090	24,786
Total Operating Revenue	955,712	908,260
Operating Expenses	858,290	796,938
Net Operating Income Before Depreciation	97,422	111,322
Depreciation (Note 2)	92,879	87,639
Net Operating Income	4,543	23,683
Non-Operating Income (Expenses):		
Interest Income	2,412	972
Interest Expense:		
On Long-Term Debt	(32,374)	(33,746)
Paid on Customer Deposits	(2,075)	(1,050)
Total Non-Operating Income (Expenses)	(32,037)	(33,824)
Change in Net Position	(27,494)	(10,141)
Net Position - Beginning of Year	1,510,996	1,521,137
Net Position - End of Year	\$ 1,483,502	\$ 1,510,996

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

MCKINNEY WATER DISTRICT
STATEMENT OF CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2019
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2018)

	<u>Tap Fees</u>	<u>Contributions In Aid Of Construction</u>	<u>Retained Deficit</u>	<u>Total</u>
Balance at January 1, 2018	\$ 211,363	\$ 2,190,707	\$ (880,933)	\$ 1,521,137
2018 Net Income (Loss)	<u>-</u>	<u>-</u>	<u>(10,141)</u>	<u>(10,141)</u>
Balance at December 31, 2018	211,363	2,190,707	(891,074)	1,510,996
2019 Net Income (Loss)	<u>-</u>	<u>-</u>	<u>(27,494)</u>	<u>(27,494)</u>
Balance at December 31, 2019	<u>\$ 211,363</u>	<u>\$ 2,190,707</u>	<u>\$ (918,568)</u>	<u>\$ 1,483,502</u>

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

MCKINNEY WATER DISTRICT
STATEMENT OF OPERATING EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2019
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2018)

	<u>2019</u>	<u>2018</u>
Source of Supply Expense:		
Water Purchases	\$ 410,156	\$ 381,685
Operation Supplies and Expense	<u>8,518</u>	<u>6,560</u>
Total	418,674	388,245
Transmission and Distribution Expense:		
Maintenance of Mains	<u>56,145</u>	<u>29,635</u>
Total	56,145	29,635
Customer Accounts Expense:		
Credit Card Processing Fees	6,787	7,968
Supplies and Postage	<u>31,665</u>	<u>33,288</u>
Total	38,452	41,256
Administrative and General:		
Salaries	196,553	192,265
Contract Labor	60,245	51,146
Insurance	12,915	10,270
Miscellaneous Expense:		
Utilities	16,153	16,149
Advertising	-	309
Bad Debts	3,030	6,393
Miscellaneous	-	2,521
Vehicle Gas	10,460	10,280
Payroll Taxes	15,603	15,566
Legal and Professional	6,020	8,543
Commissioners' Board and Director Fees	21,250	20,990
Other Licenses and Taxes	<u>2,790</u>	<u>3,370</u>
Total	<u>345,019</u>	<u>337,802</u>
Total Operating Expenses	<u>\$ 858,290</u>	<u>\$ 796,938</u>

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

MCKINNEY WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2019
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2018)

	<u>2019</u>	<u>2018</u>
Cash Flows From Operating Activities:		
Receipts From Customers	\$ 944,813	\$ 918,177
Payments to Suppliers	(627,553)	(573,434)
Payments to Employees	(196,553)	(192,265)
Payments of Payroll and Other Taxes	<u>(15,603)</u>	<u>(15,566)</u>
Net Cash Provided by (Used in) Operating Activities	<u>105,104</u>	<u>136,912</u>
Cash Flows From Non-Capital Financing Activities:		
Interest Paid on Customer Deposits	<u>(2,075)</u>	<u>(1,050)</u>
Net Cash Provided by (Used in) Non-Capital Financing Activities	<u>(2,075)</u>	<u>(1,050)</u>
Cash Flows From Capital and Related Financing Activities:		
Purchase of Fixed Assets/Construction in Progress	(4,443)	(49,275)
Retirement of Bonds	(33,600)	(37,200)
Interest Paid on Bonds	<u>(33,056)</u>	<u>(34,524)</u>
Net Cash Used in Financing Activities	<u>(71,099)</u>	<u>(120,999)</u>
Cash Flows From Investing Activities:		
Purchase of Certificates of Deposit	(2,315)	(874)
Interest Received	<u>2,412</u>	<u>972</u>
Net Cash Provided by (Used in) Investing Activities	<u>97</u>	<u>98</u>
Net Increase (Decrease) in Cash	32,027	14,961
Cash at Beginning of Year	<u>496,625</u>	<u>481,664</u>
Cash at End of Year	<u>\$ 528,652</u>	<u>\$ 496,625</u>

Continued

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

MCKINNEY WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2019
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2018)

Continued

	2019	2018
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:		
Operating Income (Loss)	\$ 4,543	\$ 23,683
Depreciation	92,879	87,639
Decrease (Increase) in Accounts Receivable, Net	(16,019)	5,842
Decrease (Increase) in Inventory	3,997	(4,379)
Decrease (Increase) in Prepaid Expenses	1,517	5,771
Increase (Decrease) in Accounts Payable	16,888	13,738
Increase (Decrease) in Customer Deposits	5,120	4,075
Increase (Decrease) in Other Current Liabilities	(3,821)	543
Net Cash Provided by (Used in) Operating Activities	\$ 105,104	\$ 136,912

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

MCKINNEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

1. GENERAL

McKinney Water District, (the "District") is a governmental entity operated under the control of the Lincoln County Fiscal Court. The District provides water services to the rural sections of Lincoln and Casey counties.

Prior to December of 1992, the District operated as two separate legal entities: the McKinney Water Association, Inc. and the McKinney Water District. In December of 1992, pursuant to an order of the Public Service Commission of the Commonwealth of Kentucky, the District was merged with the Association, and the District annexed the territory of the Association. The District also assumed all rights and obligations of the Association.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. Measurement focus is a term used to describe *which* transactions are recorded within the various financial statements. Basis of accounting refers to *when* transactions are recorded regardless of the measurement focus applied.

The District utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net position.

The District uses the accrual method of accounting which focuses on the measurement of net income similar to the approach used by commercial enterprises, and revenues are recorded when earned and expenses are recorded when incurred. The District distinguishes operating revenues and expenses 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 ongoing operations. The principal operating revenues of the utility are charges to customers for water service. Also, the District recognizes as operating revenue, the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

- B. Cash includes amounts in demand deposits only.
- C. Investments consist of certificates of deposit only and are stated at cost which approximates fair value.
- D. Receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. All receivables in excess of 90 days old comprise the accounts receivable allowance for uncollectibles.
- E. Property and equipment are stated at cost and are depreciated over the estimated useful life of the asset using the straight-line method of depreciation. Transmission lines are being depreciated over a 50 year life; office furniture and equipment over a 10 year life; pumping equipment over a 20 year life; structures and improvements over a 35 year life; meters and installations over a 35 year life; hydrants over a 40 year life; water tanks over a 30 year life; transportation equipment over a 7 year life; tools, shop and garage equipment over a 15 year life; and communications equipment over a 10 year life. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.
- F. Material inventory is stated at cost using the first-in, first-out (FIFO) method.
- G. Prepaid items include payments made to vendors that will benefit periods beyond the end of the fiscal year.
- H. Restricted assets represent cash for which use is limited by certain applicable bond covenants.

MCKINNEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

- I. Net position represents the differences between assets and liabilities in the statement of net position and is displayed in three components.
 - 1. Net investment in capital assets consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets.
 - 2. Net position is reported as restricted when there are legal limitations imposed on their use by District legislation or external restrictions by creditors, grantors, laws or regulations of other governmental entities.
 - 3. Unrestricted net position consists of all other net position that does not meet the definition of “restricted” or “net investment in capital assets.”
- J. 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 they are needed.
- K. The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make use of estimates that affect reported amounts in the financial statements. Actual results could differ from estimates.
- L. The District has evaluated and considered the need to recognize or disclose subsequent events through March 24, 2020, which represents the date that these financial statements were available to be issued. Subsequent events past this date, as they pertain to the year ended December 31, 2019, have not been evaluated by the District.

3. CASH & INVESTMENTS

Cash is composed of the following as of December 31, 2019, with restriction for use noted:

Cash on Hand		\$	120
Cash on Deposit - Operating Account	A		48,531
Cash on Deposit - Revenue Account	B		211,312
Cash on Deposit - Customer Deposits	C		91,438
Cash on Deposit - Construction Account	F		100
Savings Accounts:			
Debt Service Account	D		128,895
Depreciation Reserve Account	E		48,256
TOTAL			\$ 528,652

The District’s investments at December 31, 2019 are as follows:

Type of Investment	Fair Value	Cost	Interest Rate	Maturity Date
PBK Bank Certificates of Deposit:				
CD - Revenue	B \$ 54,595	\$ 54,595	1.00%	03/12/21
CD - Customer Deposits	C 109,190	109,190	1.00%	03/12/21
CD - Depreciation Reserve	E 109,190	109,190	1.00%	03/12/21
Total Certificates of Deposit	\$ 272,975	\$ 272,975		

MCKINNEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

At December 31, 2019, the bank balance of the District's deposits and investments was \$815,955. Of the bank balance, \$250,000 is insured by the FDIC, \$423,334 is collateralized by pledged securities held in the District's name, and \$142,621 is uninsured and uncollateralized.

- (A) The operating and maintenance account, required by the Rural Development (RD) bond resolutions, is used to meet the current expenses of operating and maintaining the system.
- (B) The revenue account, required by the RD bond resolutions, is used for the deposit of all funds collected and for the disbursement of funds to the proper bank accounts.
- (C) The customer deposit account is used to account for deposits received from customers.
- (D) The district is required to transfer monthly to the debt service account that amount which is necessary to meet the semi-annual installments for principal and interest on the RD bonds outstanding.
- (E) The district is required to transfer \$600 monthly to the reserve account until \$62,880 is accumulated in the fund. The use of such fund is restricted to paying the cost of repairing or replacing, making extension or improvements or when necessary for payment of principal and interest. Whenever payments are made from the fund, the monthly payment shall be resumed until the balance again reaches \$62,880. Once the balance in this account is fully funded, monthly transfers are then at the option of the District. The account is fully funded as of December 31, 2019.
- (F) The construction account is used to account for various grant and loan receipts, and related capital expenditures for various projects funded by the grants and loans.

4. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2019 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Land and Land Rights	\$ 18,044	\$ -	\$ -	\$ 18,044
Transmission Lines	2,624,575	-	-	2,624,575
Services	116,142	-	-	116,142
Meters	177,104	-	-	177,104
Hydrants	13,925	-	-	13,925
Pumps	261,616	-	-	261,616
Water Tank	442,754	-	-	442,754
Other Tangible Plant	110,821	-	-	110,821
Office Furniture and Fixtures	57,191	1,670	-	58,861
Buildings and Improvements	43,178	-	-	43,178
Capitalized Design and Interest Costs	566,950	-	-	566,950
Construction in Process	-	2,773	-	2,773
Total	4,432,300	4,443	-	4,436,743
Less Accumulated Depreciation For:				
Transmission Lines	(1,776,092)	(36,912)	-	(1,813,004)
Services	(90,778)	(2,700)	-	(93,478)
Meters	(94,987)	(3,270)	-	(98,257)
Hydrants	(12,239)	(169)	-	(12,408)
Pumps	(110,211)	(12,458)	-	(122,669)
Water Tank	(259,719)	(13,165)	-	(272,884)
Other Tangible Plant	(46,860)	(8,640)	-	(55,500)
Office Furniture and Fixtures	(39,960)	(2,412)	-	(42,372)
Buildings and Improvements	(37,730)	(647)	-	(38,377)
Capitalized Design and Interest Costs	(337,832)	(12,506)	-	(350,338)
Total Accumulated Depreciation	(2,806,408)	(92,879)	-	(2,899,287)
Capital Assets, Net	\$ 1,625,892	\$ (88,436)	\$ -	\$ 1,537,456

MCKINNEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

5. LONG-TERM DEBT

The District issues bonds and pledges income derived from the acquired or constructed assets to pay debt service. The District's debt at December 31, 2019 consists of the following:

USDA (Rural Development) - \$537,000 Principal amount Series D bonds dated 1992 due in annual installments of \$5,700 to \$29,000 through 2032. Interest is due semi-annually at a rate of 5% on the unpaid balance as of January 1, and July 1 of each year.	\$ 299,000
USDA (Rural Development) - \$130,000 Principal amount Series A bonds dated 1999 due in annual installments of \$1,400 to \$6,900 through 2038. Interest is due semi-annually at a rate of 3.25% on the unpaid balance as of January 1, and July 1 of each year.	90,700
USDA (Rural Development) - \$90,000 Principal amount Series B bonds dated 1999 due in annual installments of \$900 to \$4,700 through 2038. Interest is due semi-annually at a rate of 3.25% on the unpaid balance as of January 1, and July 1 of each year.	62,800
USDA (Rural Development) - \$550,000 Principal amount Series 2000 bonds dated 2000 due in annual installments of \$7,500 to \$24,500 through 2040. Interest is due semi-annually at a rate of 3.25% on the unpaid balance as of January 1, and July 1 of each year.	<u>382,500</u>
Total Outstanding Bonds	835,000
LESS: Current Portion	<u>(35,200)</u>
Long-Term Debt	<u><u>\$ 799,800</u></u>

The annual requirements to amortize all bonds outstanding as of December 31, 2019, are as follows:

Year Ending	Principal	Interest	Total
December 31,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 35,200	\$ 32,370	\$ 67,570
2021	37,100	30,929	68,029
2022	38,700	29,408	68,108
2023	39,100	27,818	66,918
2024	42,300	26,214	68,514
2025-29	236,000	103,718	339,718
2030-34	226,400	51,940	278,340
2035-39	155,700	18,772	174,472
2040	24,500	796	25,296
Total	<u>\$ 835,000</u>	<u>\$ 321,965</u>	<u>\$ 1,156,965</u>

Long-term liability activity for the year ended December 31, 2019 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
RDA 1992 Series D Bonds	\$ 315,000	\$ -	\$ (16,000)	\$ 299,000	\$ 17,000
RDA 1999 Series A Bonds	93,700	-	(3,000)	90,700	3,100
RDA 1999 Series B Bonds	64,900	-	(2,100)	62,800	2,100
RDA 2000 Series A Bonds	<u>395,000</u>	<u>-</u>	<u>(12,500)</u>	<u>382,500</u>	<u>13,000</u>
Long-term Debt Total	<u>\$ 868,600</u>	<u>\$ -</u>	<u>\$ (33,600)</u>	<u>\$ 835,000</u>	<u>\$ 35,200</u>

MCKINNEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

6. RISK MANAGEMENT

The District is exposed to a variety of accidental losses, and has attempted to minimize its risk by carrying commercial insurance. There have been no significant reductions in coverage from coverage in the prior year.

7. OTHER MATTERS

(A) The District has not been assessed or paid any property, intangible or franchise tax in prior years. Since there is some uncertainty about the taxability of a "water district", the financial statements do not reflect any liability for unpaid taxes, if any.

(B) Active Meter Customers - December 31, 1,830

(C) Water Loss (Gallons):	
Water Purchases	123,849,300
Water Sold and Used in Operations	<u>97,400,200</u>
Line loss	26,449,100
Percentage of Line Loss	21.36%

(D) Customer accounts receivable aging at December 31, 2019 is as follows:

Current	\$ 79,912
30-59 Days	(3,678)
60-89 Days	1,421
Over 90 Days	<u>75,042</u>
	<u>\$ 152,697</u>

(E) Accounts Receivable is comprised of the following as of December 31, 2019:

Customers	\$ 152,697
Allowance for Bad Debts	<u>(75,042)</u>
	<u>\$ 77,655</u>

All accounts receivable 90 days and older have been included in the allowance for uncollectible accounts.

8. COMMITMENTS

As of December 31, 2019, there is a water tank construction project in the early design stage. Project costs and funding sources have not yet been determined.

COMPLIANCE SECTION

Kerbaugh, Rodes & Butler, PLLC

Certified Public Accountants

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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

Chairman and Commissioners
McKinney Water District
McKinney, KY

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 business-type activities of McKinney Water District (the District) as of and for the year ended December 31, 2019, 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 24, 2020..

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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 reasonable possibility that a material misstatement of the District'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 have not been identified. We did identify the following deficiency in internal control that we consider to be a material weakness.

1. As is common within the system of internal control of most small organizations, the accounting function of the District does not prepare the financial statements complete with footnotes in accordance with accounting principles generally accepted in the United States of America (GAAP). Accordingly, the

District has not established internal controls over the preparation of its financial statements. This condition is considered to be a material weakness of the District's system of internal control over financial reporting.

During the course of performing an audit, it is not unusual for the auditor to prepare various journal entries to present the financial statements in accordance with the accrual basis of accounting. This reliance on the auditor to perform this function is considered to be a material weakness in the system of internal control. SAS No. 115 does not make exceptions for reporting deficiencies that are adequately mitigated with non-audit services rendered by the auditor or deficiencies for which the remedy would be cost prohibitive.

Communication of the deficiency above helps to emphasize that the responsibility for financial reporting rests entirely with the District and not the auditor. Stated another way, if an organization is unable to issue, without the auditor's involvement, complete financial statements with footnotes in accordance with generally accepted accounting principles and free of material misstatement, that inability is a symptom of a material weakness in the system of internal control.

Management's response – Management engages consultants who possess industry knowledge and expertise to provide financial and other professional services. Based on the auditor's unmodified opinion and after reading the financial statements, management believes the financial statements to be materially correct. Further, management does not think that the addition of an employee or consultant to oversee the annual financial reporting process is necessary nor would it be cost effective.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards*.

1. As of December 31, 2019, the District's cash and certificates of deposit were held at one local bank in the amount of \$815,955. Of this amount, \$250,000 was insured by the Federal Deposit Insurance Corporation (FDIC), \$423,334 was collateralized, and \$142,61 was uninsured and uncollateralized. KRS 66.480 requires that all public funds held in banking institutions be insured by FDIC or collateralized, to the extent uninsured, by any obligation, including surety bonds, permitted by KRS 41.240(4).

The District's Response to Findings

The District's response to the finding identified in our audit is described above. We did not audit the District's response and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Kerbaugh, Rodes & Butler, PLLC

Kerbaugh, Rodes & Butler, PLLC
Certified Public Accountants

Danville, Kentucky
March 24, 2020