

MCKINNEY WATER DISTRICT
AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2020

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, 2020, 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, 2020, 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 2019 financial statements, and we expressed an unmodified opinion on the respective financial statements of the business-type activities in our report dated March 24, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2019, 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 22, 2021, 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 22, 2021

MCKINNEY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2020

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, 2020. 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, 2020, the District's assets (page 7) exceeded liabilities by \$1,418,668. This amount includes \$666,414 of resources that are invested in capital assets, net of related debt. \$363,425 of these resources are restricted for debt service, customer deposit refunds, or by enabling legislation. \$388,829 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, 2020 were \$251,809 and current liabilities payable from unrestricted resources (i.e. excluding principal and interest on long term debt and customer deposits) were \$56,728.
- Net position decreased by \$64,834 (page 8) which is a decrease compared to the decrease of \$27,494 in the prior year. The current year decrease is net of depreciation expense of \$92,570, a non-cash expense. The District's net operating loss was \$35,844 in the current year compared to net operating income of \$4,543 in the prior year. The primary reason for the decline this year is due to an increase in purchased water costs.
- The District's total debt decreased \$35,200 for the year ended December 31, 2020 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 18.

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. 26% of the District's net position is restricted for customer deposit refunds, debt service, and system maintenance. The remaining 27% of the District's net position is unrestricted.

MCKINNEY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2020

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>2020</u>	<u>2019</u>
Current and other assets	\$ 909,302	\$ 930,475
Capital assets	<u>1,466,214</u>	<u>1,537,456</u>
Total assets	<u>2,375,516</u>	<u>2,467,931</u>
Long-term debt outstanding	799,800	835,000
Other liabilities	<u>157,048</u>	<u>149,429</u>
Total liabilities	<u>956,848</u>	<u>984,429</u>
Net Position:		
Net investment in capital assets	666,414	702,456
Restricted	363,425	354,893
Unrestricted (deficit)	<u>388,829</u>	<u>426,153</u>
Total net position	<u>\$ 1,418,668</u>	<u>\$ 1,483,502</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>2020</u>	<u>2019</u>
Revenues:		
Charges for Services	\$ 944,317	\$ 924,822
Rental Income	1,800	1,800
Interest Earnings	3,327	2,412
Miscellaneous	<u>11,669</u>	<u>29,090</u>
Total Revenues	<u>961,113</u>	<u>958,124</u>
Expenses:		
Operating Expenses Excluding Depreciation	901,060	858,290
Depreciation	92,570	92,879
Interest and Amortization	<u>32,317</u>	<u>34,449</u>
Total Expenses	<u>1,025,947</u>	<u>985,618</u>
Increase (Decrease) in Net Position	<u>\$ (64,834)</u>	<u>\$ (27,494)</u>

During the fiscal year ended December 31, 2020, the water loss percentage increased significantly from approximately 21% in 2019 to approximately 32% in 2020.

MCKINNEY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2020

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	\$ 23,044
Distribution system	1,216,778
Office furniture and fixtures	14,336
Buildings and improvements	4,241
Capitalized design and interest cost	204,106
Construction in progress	<u>3,709</u>
Total capital assets, net of depreciation	<u>\$ 1,466,214</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	\$ 282,000
RDA 1999 Series A Bond	87,600
RDA 1999 Series B Bond	60,700
RDA 2000 Series A Bond	<u>369,500</u>
Total debt outstanding	<u>\$ 799,800</u>

The District's outstanding debt decreased \$35,200 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.

As discussed in Note 9, the uncertainty resulting from the COVID-19 pandemic may delay collections of accounts receivable balances.

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, 2020
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2019)

	2020	2019
<u>ASSETS</u>		
Current Assets:		
Cash (Note 3)	\$ 196,560	\$ 259,963
Certificates of Deposit (Note 3)	55,249	54,595
Accounts Receivable (Net of Allowance)	84,251	77,655
Inventory (Note 2)	65,457	44,169
Prepaid Expenses (Note 2)	6,739	7,024
Total Current Assets	408,256	443,406
Non-current Assets:		
Restricted Cash (Note 3)	280,050	268,689
Restricted Certificates of Deposit (Note 3)	220,996	218,380
Total Restricted Assets	501,046	487,069
Capital Assets (Note 4):		
Land and Right of Ways	23,044	18,044
Distribution System	3,651,508	3,636,116
Other Tangible Assets	110,821	110,821
Office Furniture and Fixtures	58,861	58,861
Building and Improvements	43,178	43,178
Capitalized Design and Interest Costs	566,950	566,950
Construction in Process	3,709	2,773
Less: Accumulated Depreciation	(2,991,857)	(2,899,287)
Capital Assets, Net	1,466,214	1,537,456
Total Assets	\$ 2,375,516	\$ 2,467,931

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

MCKINNEY WATER DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2020
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2019)

	2020	2019
<u>LIABILITIES</u>		
Current Liabilities:		
Accounts Payable	\$ 52,407	\$ 48,566
Other Current Liabilities	4,321	3,986
Total Current Liabilities	56,728	52,552
Current Liabilities Payable From Restricted Assets:		
Customer Deposits	84,830	80,670
Accrued Interest on Debt	15,490	16,207
Current Portion - Debt (Note 5)	37,100	35,200
Total Current Liabilities Payable From Restricted Assets	137,420	132,077
Non-Current Liabilities:		
Long-Term Debt (Note 5)	762,700	799,800
Total Liabilities	956,848	984,429
<u>NET POSITION</u>		
Net Investment in Capital Assets	666,414	702,456
Restricted For:		
Customer Deposits	118,089	119,959
Debt Service	77,576	77,488
Construction & Maintenance	167,760	157,446
Unrestricted	388,829	426,153
Total Net Position	1,418,668	1,483,502
Total Liabilities and Net Position	\$ 2,375,516	\$ 2,467,931

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, 2020
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2019)

	<u>2020</u>	<u>2019</u>
Operating Revenue:		
Water Sales	\$ 933,817	\$ 917,472
Connection Fees	10,500	7,350
Rental Income	1,800	1,800
Other Operating Revenue	<u>11,669</u>	<u>29,090</u>
Total Operating Revenue	957,786	955,712
Operating Expenses	<u>901,060</u>	<u>858,290</u>
Net Operating Income Before Depreciation	56,726	97,422
Depreciation (Note 2)	<u>92,570</u>	<u>92,879</u>
Net Operating Income	(35,844)	4,543
Non-Operating Income (Expenses):		
Interest Income	3,327	2,412
Interest Expense:		
On Long-Term Debt	(30,932)	(32,374)
Paid on Customer Deposits	<u>(1,385)</u>	<u>(2,075)</u>
Total Non-Operating Income (Expenses)	<u>(28,990)</u>	<u>(32,037)</u>
Change in Net Position	(64,834)	(27,494)
Net Position - Beginning of Year	<u>1,483,502</u>	<u>1,510,996</u>
Net Position - End of Year	<u>\$ 1,418,668</u>	<u>\$ 1,483,502</u>

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, 2020
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2019)

	<u>Tap Fees</u>	<u>Contributions In Aid Of Construction</u>	<u>Retained Deficit</u>	<u>Total</u>
Balance at January 1, 2019	\$ 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	211,363	2,190,707	(918,568)	1,483,502
2020 Net Income (Loss)	<u>-</u>	<u>-</u>	<u>(64,834)</u>	<u>(64,834)</u>
Balance at December 31, 2020	<u>\$ 211,363</u>	<u>\$ 2,190,707</u>	<u>\$ (983,402)</u>	<u>\$ 1,418,668</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, 2020
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2019)

	<u>2020</u>	<u>2019</u>
Source of Supply Expense:		
Water Purchases	\$ 481,852	\$ 410,156
Operation Supplies and Expense	<u>5,803</u>	<u>8,518</u>
Total	487,655	418,674
Transmission and Distribution Expense:		
Maintenance of Mains	<u>10,047</u>	<u>56,145</u>
Total	10,047	56,145
Customer Accounts Expense:		
Credit Card Processing Fees	6,829	6,787
Supplies and Postage	<u>26,071</u>	<u>31,665</u>
Total	32,900	38,452
Administrative and General:		
Salaries	216,787	196,553
Contract Labor	59,218	60,245
Insurance	10,003	12,915
Miscellaneous Expense:		
Utilities	18,838	16,153
Advertising	34	-
Bad Debts	12,214	3,030
Miscellaneous	1,626	-
Vehicle Gas	7,047	10,460
Payroll Taxes	17,016	15,603
Legal and Professional	6,025	6,020
Commissioners' Board and Director Fees	18,930	21,250
Other Licenses and Taxes	<u>2,720</u>	<u>2,790</u>
Total	<u>370,458</u>	<u>345,019</u>
Total Operating Expenses	<u>\$ 901,060</u>	<u>\$ 858,290</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, 2020
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2019)

	<u>2020</u>	<u>2019</u>
Cash Flows From Operating Activities:		
Receipts From Customers	\$ 955,350	\$ 944,813
Payments to Suppliers	(684,084)	(627,553)
Payments to Employees	(216,787)	(196,553)
Payments of Payroll and Other Taxes	<u>(17,016)</u>	<u>(15,603)</u>
Net Cash Provided by (Used in) Operating Activities	<u>37,463</u>	<u>105,104</u>
Cash Flows From Non-Capital Financing Activities:		
Interest Paid on Customer Deposits	<u>(1,385)</u>	<u>(2,075)</u>
Net Cash Provided by (Used in) Non-Capital Financing Activities	<u>(1,385)</u>	<u>(2,075)</u>
Cash Flows From Capital and Related Financing Activities:		
Purchase of Fixed Assets/Construction in Progress	(21,328)	(4,443)
Retirement of Bonds	(35,200)	(33,600)
Interest Paid on Bonds	<u>(31,649)</u>	<u>(33,056)</u>
Net Cash Used in Financing Activities	<u>(88,177)</u>	<u>(71,099)</u>
Cash Flows From Investing Activities:		
Purchase of Certificates of Deposit	(3,270)	(2,315)
Interest Received	<u>3,327</u>	<u>2,412</u>
Net Cash Provided by (Used in) Investing Activities	<u>57</u>	<u>97</u>
Net Increase (Decrease) in Cash	(52,042)	32,027
Cash at Beginning of Year	<u>528,652</u>	<u>496,625</u>
Cash at End of Year	<u>\$ 476,610</u>	<u>\$ 528,652</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, 2020
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2019)

Continued

	2020	2019
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:		
Operating Income (Loss)	\$ (35,844)	\$ 4,543
Depreciation	92,570	92,879
Decrease (Increase) in Accounts Receivable, Net	(6,596)	(16,019)
Decrease (Increase) in Inventory	(21,288)	3,997
Decrease (Increase) in Prepaid Expenses	285	1,517
Increase (Decrease) in Accounts Payable	3,841	16,888
Increase (Decrease) in Customer Deposits	4,160	5,120
Increase (Decrease) in Other Current Liabilities	335	(3,821)
	<u>\$ 37,463</u>	<u>\$ 105,104</u>
Net Cash Provided by (Used in) Operating Activities	<u>\$ 37,463</u>	<u>\$ 105,104</u>

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

MCKINNEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

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, 2020

- 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 22 2021, 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, 2020, have not been evaluated by the District.

3. CASH & INVESTMENTS

Cash is composed of the following as of December 31, 2020, with restriction for use noted:

Cash on Hand		\$	120	
Cash on Deposit - Operating Account	A		68,255	
Cash on Deposit - Revenue Account	B		128,185	
Cash on Deposit - Customer Deposits	C		92,422	
Cash on Deposit - Construction Account	F		200	
Savings Accounts:				
Debt Service Account	D		130,166	
Depreciation Reserve Account	E		<u>57,262</u>	
TOTAL			<u>\$ 476,610</u>	

The District’s investments at December 31, 2020 are as follows:

Type of Investment	Fair Value	Cost	Interest Rate	Maturity Date
PBK Bank Certificates of Deposit:				
CD - Revenue	B \$ 55,249	\$ 55,249	1.25%	03/12/21
CD - Customer Deposits	C 110,498	110,498	1.25%	03/12/21
CD - Depreciation Reserve	E <u>110,498</u>	<u>110,498</u>	1.25%	03/12/21
Total Certificates of Deposit	<u>\$ 276,245</u>	<u>\$ 276,245</u>		

MCKINNEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

At December 31, 2020, the bank balance of the District's deposits and investments was \$773,441. Of the bank balance, \$250,000 is insured by the FDIC, \$365,270 is collateralized by pledged securities held in the District's name, and \$158,171 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, 2020.
- (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, 2020 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Land and Land Rights	\$ 18,044	\$ 5,000	\$ -	\$ 23,044
Transmission Lines	2,624,575	-	-	2,624,575
Services	116,142	-	-	116,142
Meters	177,104	15,392	-	192,496
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	58,861	-	-	58,861
Buildings and Improvements	43,178	-	-	43,178
Capitalized Design and Interest Costs	566,950	-	-	566,950
Construction in Process	2,773	936	-	3,709
Total	4,436,743	21,328	-	4,458,071
Less Accumulated Depreciation For:				
Transmission Lines	(1,813,004)	(36,913)	-	(1,849,917)
Services	(93,478)	(2,700)	-	(96,178)
Meters	(98,257)	(3,306)	-	(101,563)
Hydrants	(12,408)	(169)	-	(12,577)
Pumps	(122,669)	(12,458)	-	(135,127)
Water Tank	(272,884)	(13,165)	-	(286,049)
Other Tangible Plant	(55,500)	(8,640)	-	(64,140)
Office Furniture and Fixtures	(42,372)	(2,153)	-	(44,525)
Buildings and Improvements	(38,377)	(560)	-	(38,937)
Capitalized Design and Interest Costs	(350,338)	(12,506)	-	(362,844)
Total Accumulated Depreciation	(2,899,287)	(92,570)	-	(2,991,857)
Capital Assets, Net	\$ 1,537,456	\$ (71,242)	\$ -	\$ 1,466,214

MCKINNEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

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, 2020 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.	\$ 282,000
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.	87,600
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.	60,700
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>369,500</u>
Total Outstanding Bonds	<u>799,800</u>
LESS: Current Portion	<u>(37,100)</u>
Long-Term Debt	<u><u>\$ 762,700</u></u>

The annual requirements to amortize all bonds outstanding as of December 31, 2020, are as follows:

Year Ending	Principal	Interest	Total
<u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	42,600	24,472	67,072
2026-30	247,700	93,966	341,666
2031-35	203,300	43,077	246,377
2036-40	<u>149,000</u>	<u>13,712</u>	<u>162,712</u>
Total	<u><u>\$ 799,800</u></u>	<u><u>\$ 289,596</u></u>	<u><u>\$ 1,089,396</u></u>

Long-term liability activity for the year ended December 31, 2020 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	\$ 299,000	\$ -	\$ (17,000)	\$ 282,000	\$ 18,000
RDA 1999 Series A Bonds	90,700	-	(3,100)	87,600	3,300
RDA 1999 Series B Bonds	62,800	-	(2,100)	60,700	2,300
RDA 2000 Series A Bonds	<u>382,500</u>	-	<u>(13,000)</u>	<u>369,500</u>	<u>13,500</u>
Long-term Debt Total	<u><u>\$ 835,000</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (35,200)</u></u>	<u><u>\$ 799,800</u></u>	<u><u>\$ 37,100</u></u>

MCKINNEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

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, 1,843

(C) Water Loss (Gallons):	
Water Purchases	147,976,100
Water Sold and Used in Operations	<u>100,100,800</u>
Line loss	47,875,300
Percentage of Line Loss	32.35%

(D) Customer accounts receivable aging at December 31, 2020 is as follows:

Current	\$ 81,598
30-59 Days	(2,587)
60-89 Days	5,240
Over 90 Days	<u>86,970</u>
	<u>\$ 171,221</u>

(E) Accounts Receivable is comprised of the following as of December 31, 2020:

Customers	\$ 171,221
Allowance for Bad Debts	<u>(86,970)</u>
	<u>\$ 84,251</u>

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

(F) The District's water purchases for the year ended December 31, 2020 were as follows:

1. City of Eubank 28,483,100 gallons
2. City of Stanford 119,493,000 gallons

8. COMMITMENTS

As of December 31, 2020, there is a water tank construction project in the early planning and design stage. In March 2021, Kentucky Infrastructure Authority (KIA) approved the conditional commitment of the project in the amount of approximately \$2.99 million to be funded with a KIA Fund F loan in the amount of \$2.49 million, with anticipated grant funding to finance the remaining portion of the project. The loan agreement has not been finalized as of the date of this report.

MCKINNEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

9. COVID-19 UNCERTAINTY

During 2020, the World Health Organization characterized an outbreak of a novel strain of coronavirus (COVID-19) as a pandemic. Multiple jurisdictions in the U.S. have declared a state of emergency, including the Commonwealth of Kentucky. As a result of this pandemic, the PSC issued an order on May 16, 2020, suspending until further notice the ability of utilities to shut off service due to nonpayment and the assessment of late payment fees. On September 21, 2020, the PSC lifted the moratorium on disconnects for nonpayment beginning October 20, 2020, subject to certain conditions, and continued the moratorium on the assessment of late payment charges for residential customers only until December 31, 2020. Under the terms of the October 20, 2020 order, utilities were required to create payment plans for all residential customers with respect to arrearages accumulated from service rendered on or after March 16, 2020 and before October 1, 2020, to the extent that past due balances exist. The term of the default payment plans shall be no less than six months and no longer than two years. As a result of these orders, service fees decreased, and accounts receivable collections may be delayed when compared to previous years.

COMPLIANCE SECTION

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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, 2020, 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 22, 2021.

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 a 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. AU-C Section 265 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, 2020, the District's cash and certificates of deposit were held at one local bank in the amount of \$773,441. Of this amount, \$250,000 was insured by the Federal Deposit Insurance Corporation (FDIC), \$365,270 was collateralized, and \$158,171 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 22, 2021