

MCKINNEY WATER DISTRICT
AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2023 AND 2022

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

CONTENTS

	<u>PAGE</u>
Independent Auditor's Report	1-2
Management's Discussion & Analysis	3-5
Financial Statements:	
Statements of Net Position	6-7
Statements of Revenues, Expenses and Changes in Net Position	8
Statements of Changes in Net Position	9
Statements of Operating Expenses	10
Statements of Cash Flows	11-12
Notes to Financial Statements	13-19
Compliance Section:	
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 <i>Government Auditing Standards</i>	20-21

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INDEPENDENT AUDITOR'S REPORT

Chairman and Commissioners
McKinney Water District
McKinney, Kentucky 40448

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the McKinney 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 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 Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the 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.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards*

will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding 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

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 is the responsibility of management and, 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 8, 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.

Kerbaugh, Rodes & Butler, PLLC

Kerbaugh, Rodes & Butler, PLLC
Certified Public Accountants

Danville, Kentucky
March 8, 2024

**MCKINNEY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

The management of McKinney Water District (the District) presents this narrative to help our readers review the accompanying annual financial statements for the years ended December 31, 2023 and 2022. 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, 2023, the District's assets (page 7) exceeded liabilities by \$1,281,609. This amount includes \$595,360 of resources that are invested in capital assets, net of related debt. \$322,678 of these resources are restricted for debt service, customer deposit refunds, or by enabling legislation. \$363,571 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, 2023 were \$191,092 and current liabilities payable from unrestricted resources (i.e. excluding principal and interest on long term debt and customer deposits) were \$57,088.
- Net position increased by \$5,572 (page 8) which is an increase compared to the decrease of \$42,349 in the prior year. The current year increase is net of depreciation expense of \$89,376, a non-cash expense. The District's net operating loss was \$411 in the current year compared to a net operating loss of \$14,591 in the prior year. The primary reasons for the increase this year is due to an increase in water sales of \$52,385, which was partially offset by an increase in maintenance costs of \$27,935 and an increase in water purchases of \$14,866.
- The District's total debt decreased in accordance with the scheduled principal payments.

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 19.

Financial Analysis

Net position may serve over time as a useful indicator of a government's financial position. 46.45% 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. 25.18% of the District's net position is restricted for customer deposit refunds, debt service, and system maintenance. The remaining 28.37% of the District's net position is unrestricted.

**MCKINNEY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

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

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Current and other assets	\$ 856,766	\$ 832,754	\$ 795,646
Capital assets	<u>1,280,260</u>	<u>1,332,636</u>	<u>1,390,611</u>
Total assets	<u>2,137,026</u>	<u>2,165,390</u>	<u>2,186,257</u>
Long-term debt outstanding	684,900	724,000	724,000
Other liabilities	<u>170,517</u>	<u>165,353</u>	<u>143,871</u>
Total liabilities	<u>855,417</u>	<u>889,353</u>	<u>867,871</u>
Net Position:			
Net investment in capital assets	595,360	608,636	666,611
Restricted	322,678	384,026	333,035
Unrestricted	<u>363,571</u>	<u>283,375</u>	<u>318,740</u>
Total net position	<u>\$ 1,281,609</u>	<u>\$ 1,276,037</u>	<u>\$ 1,318,386</u>

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

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Revenues:			
Charges for Services	\$ 1,075,746	\$ 1,020,481	\$ 939,325
Interest Earnings	5,855	206	1,131
Miscellaneous	<u>41,324</u>	<u>35,588</u>	<u>37,768</u>
Total Revenues	<u>1,122,925</u>	<u>1,056,275</u>	<u>978,224</u>
Expenses:			
Operating Expenses Excluding Depreciation	1,028,105	981,685	956,386
Depreciation	89,376	88,975	92,622
Interest and Amortization	<u>30,352</u>	<u>27,964</u>	<u>29,498</u>
Total Expenses	<u>1,147,833</u>	<u>1,098,624</u>	<u>1,078,506</u>
Change in net position before capital contributions	(24,908)	(42,349)	(100,282)
Capital contributions-water loss surcharge	<u>30,480</u>	<u>-</u>	<u>-</u>
Increase (Decrease) in Net Position	<u>\$ 5,572</u>	<u>\$ (42,349)</u>	<u>\$ (100,282)</u>

During the year ended December 31, 2023, the water loss percentage remained consistent from approximately 27% in 2022 to approximately 27% in 2023. During the year ended December 31, 2022, the water loss percentage decreased from approximately 31% in 2021 to approximately 27% in 2022.

**MCKINNEY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

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:

	2023	2022	2021
Land and right of ways	\$ 23,044	\$ 23,044	\$ 23,044
Distribution system	1,051,161	1,099,641	1,146,338
Office furniture and fixtures	12,007	12,240	14,651
Buildings and improvements	2,559	3,121	3,681
Capitalized design and interest cost	166,584	179,092	191,599
Construction in progress	24,905	15,498	11,298
Total capital assets, net of depreciation	<u>\$ 1,280,260</u>	<u>\$ 1,332,636</u>	<u>\$ 1,390,611</u>

Long Term Debt

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

	2023	2022	2021
RDA 1992 Series D Bond	\$ 226,000	\$ 245,000	\$ 245,000
RDA 1999 Series A Bond	77,300	80,900	80,900
RDA 1999 Series B Bond	53,600	56,100	56,100
RDA 2000 Series A Bond	328,000	342,000	342,000
Total debt outstanding	<u>\$ 684,900</u>	<u>\$ 724,000</u>	<u>\$ 724,000</u>

The District's outstanding debt decreased in accordance with the scheduled principal payments in 2023. The District's outstanding debt remained the same during the year ended December 31, 2022 compared to 2021 because the debt payments due January 1, 2022 were withdrawn from the bank on December 31, 2021. Therefore 2021 reflected two years-worth of principal 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
STATEMENTS OF NET POSITION
DECEMBER 31, 2023 AND 2022**

	2023	2022
<u>ASSETS</u>		
Current Assets:		
Cash (Note 3)	\$ 134,417	\$ 61,411
Certificates of Deposit (Note 3)	56,675	55,507
Accounts Receivable (Net of Allowance)	98,681	80,422
Inventory (Note 2)	79,295	94,025
Prepaid Expenses (Note 2)	12,491	10,483
Total Current Assets	381,559	301,848
Non-current Assets:		
Restricted Cash (Note 3)	248,509	308,879
Restricted Certificates of Deposit (Note 3)	226,698	222,027
Total Restricted Assets	475,207	530,906
Capital Assets (Note 4):		
Land and Right of Ways	23,044	23,044
Distribution System	3,703,688	3,678,308
Other Tangible Assets	117,676	117,676
Office Furniture and Fixtures	63,649	61,436
Building and Improvements	43,178	43,178
Capitalized Design and Interest Costs	566,950	566,950
Construction in Process	24,905	15,498
Less: Accumulated Depreciation	(3,262,830)	(3,173,454)
Capital Assets, Net	1,280,260	1,332,636
Total Assets	\$ 2,137,026	\$ 2,165,390

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

**MCKINNEY WATER DISTRICT
STATEMENTS OF NET POSITION
DECEMBER 31, 2023 AND 2022**

	2023	2022
<u>LIABILITIES</u>		
Current Liabilities:		
Accounts Payable	\$ 52,259	\$ 53,200
Other Current Liabilities	4,829	4,773
Total Current Liabilities	57,088	57,973
Current Liabilities Payable From Restricted Assets:		
Customer Deposits	100,322	93,437
Accrued Interest on Debt	13,107	13,943
Current Portion - Debt (Note 5)	42,300	39,100
Total Current Liabilities Payable From Restricted Assets	155,729	146,480
Non-Current Liabilities:		
Long-Term Debt (Note 5)	642,600	684,900
Total Liabilities	855,417	889,353
<u>NET POSITION</u>		
Net Investment in Capital Assets	595,360	608,636
Restricted For:		
Customer Deposits	29,252	119,757
Debt Service	76,584	77,986
Construction & Maintenance	213,642	186,283
Unrestricted	366,771	283,375
Total Net Position	1,281,609	1,276,037
Total Liabilities and Net Position	\$ 2,137,026	\$ 2,165,390

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

MCKINNEY WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
Operating Revenue:		
Water Sales	\$ 1,051,866	\$ 999,481
Connection Fees	23,880	21,000
Other Operating Revenue	<u>41,324</u>	<u>35,588</u>
Total Operating Revenue	1,117,070	1,056,069
Operating Expenses	<u>1,028,105</u>	<u>981,685</u>
Net Operating Income Before Depreciation	88,965	74,384
Depreciation	<u>89,376</u>	<u>88,975</u>
Net Operating Income	(411)	(14,591)
Non-Operating Income (Expenses):		
Interest Income	5,855	206
Interest Expense:		
On Long-Term Debt	(26,180)	(27,852)
Paid on Customer Deposits	<u>(4,172)</u>	<u>(112)</u>
Total Non-Operating Income (Expenses)	<u>(24,497)</u>	<u>(27,758)</u>
Change in Net Position Before Capital Contributions	(24,908)	(42,349)
Capital contributions-water loss surcharge	<u>30,480</u>	<u>-</u>
Change in Net Position	5,572	(42,349)
Net Position - Beginning of Year	<u>1,276,037</u>	<u>1,318,386</u>
Net Position - End of Year	<u>\$ 1,281,609</u>	<u>\$ 1,276,037</u>

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

**MCKINNEY WATER DISTRICT
STATEMENTS OF CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

	<u>Tap Fees</u>	<u>Contributions In Aid Of Construction</u>	<u>Retained Deficit</u>	<u>Total</u>
Balance at January 1, 2022	\$ 211,363	\$ 2,190,707	\$ (1,083,684)	\$ 1,318,386
2022 Net Income (Loss)	<u>-</u>	<u>-</u>	<u>(42,349)</u>	<u>(42,349)</u>
Balance at December 31, 2022	211,363	2,190,707	(1,126,033)	1,276,037
Capital Contributions-Water Loss surcharge	-	30,480	-	30,480
2023 Net Income (Loss)	<u>-</u>	<u>-</u>	<u>(24,908)</u>	<u>(24,908)</u>
Balance at December 31, 2023	<u>\$ 211,363</u>	<u>\$ 2,221,187</u>	<u>\$ (1,150,941)</u>	<u>\$ 1,281,609</u>

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

**MCKINNEY WATER DISTRICT
STATEMENTS OF OPERATING EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

	<u>2023</u>	<u>2022</u>
Source of Supply Expense:		
Water Purchases	\$ 520,156	\$ 505,290
Operation Supplies and Expense	<u>7,001</u>	<u>7,782</u>
Total	527,157	513,072
Transmission and Distribution Expense:		
Maintenance of Mains	<u>59,216</u>	<u>31,281</u>
Total	59,216	31,281
Customer Accounts Expense:		
Credit Card Processing Fees	11,172	10,081
Supplies and Postage	<u>35,364</u>	<u>31,251</u>
Total	46,536	41,332
Administrative and General:		
Salaries	251,726	239,524
Contract Labor	41,140	49,196
Insurance	10,552	11,903
Miscellaneous Expense:		
Utilities	16,565	15,670
Bad Debts	2,234	6,310
Miscellaneous	941	-
Vehicle Gas	22,461	21,623
Payroll Taxes	20,012	18,899
Legal and Professional	6,775	9,343
Commissioners' Board and Director Fees	20,400	20,600
Other Licenses and Taxes	<u>2,390</u>	<u>2,932</u>
Total	<u>395,196</u>	<u>396,000</u>
Total Operating Expenses	<u>\$ 1,028,105</u>	<u>\$ 981,685</u>

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

**MCKINNEY WATER DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

	<u>2023</u>	<u>2022</u>
Cash Flows From Operating Activities:		
Receipts From Customers	\$ 1,105,696	\$ 1,050,915
Payments to Suppliers	(744,530)	(735,072)
Payments to Employees	(251,726)	(239,524)
Payments of Payroll and Other Taxes	<u>(20,012)</u>	<u>(18,899)</u>
Net Cash Provided by (Used in) Operating Activities	<u>89,428</u>	<u>57,420</u>
Cash Flows From Non-Capital Financing Activities:		
Interest Paid on Customer Deposits	<u>(4,172)</u>	<u>(112)</u>
Net Cash Provided by (Used in) Non-Capital Financing Activities	<u>(4,172)</u>	<u>(112)</u>
Cash Flows From Capital and Related Financing Activities:		
Purchase of Fixed Assets/Construction in Progress	(37,000)	(31,000)
Proceeds from water loss surcharge	30,480	-
Retirement of Bonds	(39,100)	-
Interest Paid on Bonds	<u>(27,016)</u>	<u>(13,909)</u>
Net Cash Used in Financing Activities	<u>(72,636)</u>	<u>(44,909)</u>
Cash Flows From Investing Activities:		
Purchase of Certificates of Deposit	(5,839)	(186)
Interest Received	<u>5,855</u>	<u>206</u>
Net Cash Provided by (Used in) Investing Activities	<u>16</u>	<u>20</u>
Net Increase (Decrease) in Cash	12,636	12,419
Cash at Beginning of Year	<u>370,290</u>	<u>357,871</u>
Cash at End of Year	<u>\$ 382,926</u>	<u>\$ 370,290</u>

Continued

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

**MCKINNEY WATER DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

Continued

	2023	2022
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:		
Operating Income (Loss)	\$ (411)	\$ (14,591)
Depreciation	89,376	88,975
Decrease (Increase) in Accounts Receivable, Net	(18,259)	(8,469)
Decrease (Increase) in Inventory	14,730	(12,155)
Decrease (Increase) in Prepaid Expenses	(2,008)	(3,879)
Increase (Decrease) in Accounts Payable	(941)	3,757
Increase (Decrease) in Customer Deposits	6,885	3,315
Increase (Decrease) in Other Current Liabilities	56	467
Net Cash Provided by (Used in) Operating Activities	<u>\$ 89,428</u>	<u>\$ 57,420</u>
Schedule of cash and cash equivalents:		
Beginning of period:		
Unrestricted cash and cash equivalents	\$ 61,411	\$ 117,192
Restricted cash and cash equivalents	308,879	240,679
Total cash and cash equivalents	<u>\$ 370,290</u>	<u>\$ 357,871</u>
End of period:		
Unrestricted cash and cash equivalents	\$ 134,417	\$ 61,411
Restricted cash and cash equivalents	248,509	308,879
Total cash and cash equivalents	<u>\$ 382,926</u>	<u>\$ 370,290</u>

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

**MCKINNEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022**

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 costs incurred during the construction phase of capital assets to be expensed as incurred.
- 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, 2023 AND 2022**

- J. 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.”
- K. 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.
- L. 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.
- M. The District has evaluated and considered the need to recognize or disclose subsequent events through March 8, 2024, 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, 2023, have not been evaluated by the District.

3. CASH & INVESTMENTS

Cash is composed of the following as of December 31, 2023 and 2022, with restriction for use noted:

		2023		2022
Cash on Hand		\$ 120	\$	120
Cash on Deposit - Operating Account	A	20,390		6,398
Cash on Deposit - Revenue Account	B	113,907		54,893
Cash on Deposit - Customer Deposits	C	16,225		102,180
Cash on Deposit - Construction Account	F	1,000		400
Cash on Deposit - Water Loss Surcharge Account	G	15,019		-
Savings - Debt Service Account	D	131,992		131,030
Savings - Depreciation Reserve Account	E	84,273		75,269
TOTAL		\$ 382,926	\$	370,290

The District’s investments at December 31, 2023 are as follows:

Type of Investment		Fair Value		Cost	Interest Rate	Maturity Date
PBK Bank Certificates of Deposit:						
CD - Revenue	B	\$ 56,675	\$	56,675	2.75%	03/12/24
CD - Customer Deposits	C	113,349		113,349	2.75%	03/12/24
CD - Depreciation Reserve	E	113,349		113,349	2.75%	03/12/24
Total Certificates of Deposit		\$ 283,373	\$	283,373		

**MCKINNEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022**

The District's investments at December 31, 2022 are as follows:

<u>Type of Investment</u>		<u>Fair Value</u>	<u>Cost</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
PBK Bank Certificates of Deposit:					
CD - Revenue	B	\$ 55,507	\$ 55,507	0.05%	03/12/23
CD - Customer Deposits	C	111,014	111,014	0.05%	03/12/23
CD - Depreciation Reserve	E	111,013	111,013	0.05%	03/12/23
Total Certificates of Deposit		<u>\$ 277,534</u>	<u>\$ 277,534</u>		

At December 31, 2023, the bank balance of the District's deposits and investments was \$676,440. Of the bank balance, \$250,000 is insured by the FDIC and \$426,440 is collateralized by pledged securities held in the District's name. At December 31, 2022, the bank balance of the District's deposits and investments was \$658,749. Of the bank balance, \$250,000 was insured by the FDIC, \$339,988 was collateralized by pledged securities held in the District's name, and \$68,761 was 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 was fully funded as of December 31, 2023 and 2022.
- (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.
- (G) The District is required to charge a water loss surcharge of \$4.05 per active meter for 48 months or until \$362,362 has been assessed. The water loss surcharge account is used to account for the surcharge receipts and related expenditures provided by the detailed spending plan to eliminate unaccounted-for water loss.

**MCKINNEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022**

4. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2023 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Land and Land Rights	\$ 23,044	\$ -	\$ -	\$ 23,044
Transmission Lines	2,624,575	-	-	2,624,575
Services	116,142	-	-	116,142
Meters	219,296	25,380	-	244,676
Hydrants	13,925	-	-	13,925
Pumps	261,616	-	-	261,616
Water Tank	442,754	-	-	442,754
Other Tangible Plant	117,676	-	-	117,676
Office Furniture and Fixtures	61,436	2,213	-	63,649
Buildings and Improvements	43,178	-	-	43,178
Capitalized Design and Interest Costs	566,950	-	-	566,950
Construction in Process	15,498	9,407	-	24,905
Total	4,506,090	37,000	-	4,543,090
Accumulated Depreciation	(3,173,454)	(89,376)	-	(3,262,830)
Capital Assets, Net	\$ 1,332,636	\$ (52,376)	\$ -	\$ 1,280,260

Capital asset activity for the year ended December 31, 2022 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Land and Land Rights	\$ 23,044	\$ -	\$ -	\$ 23,044
Transmission Lines	2,624,575	-	-	2,624,575
Services	116,142	-	-	116,142
Meters	192,496	26,800	-	219,296
Hydrants	13,925	-	-	13,925
Pumps	261,616	-	-	261,616
Water Tank	442,754	-	-	442,754
Other Tangible Plant	117,676	-	-	117,676
Office Furniture and Fixtures	61,436	-	-	61,436
Buildings and Improvements	43,178	-	-	43,178
Capitalized Design and Interest Costs	566,950	-	-	566,950
Construction in Process	11,298	4,200	-	15,498
Total	4,475,090	31,000	-	4,506,090
Accumulated Depreciation	(3,084,479)	(88,975)	-	(3,173,454)
Capital Assets, Net	\$ 1,390,611	\$ (57,975)	\$ -	\$ 1,332,636

**MCKINNEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022**

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, 2023 and 2022, consists of the following:

	2023	2022
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.	\$ 226,000	\$ 245,000
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.	77,300	80,900
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.	53,600	56,100
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.	328,000	342,000
Total Outstanding Bonds	684,900	724,000
LESS: Current Portion	(42,300)	(39,100)
Long-Term Debt	\$ 642,600	\$ 684,900

The annual requirements to amortize all bonds outstanding as of December 31, 2023, are as follows:

Year Ending	Principal	Interest	Total
December 31,			
2024	\$ 42,300	\$ 26,214	\$ 68,514
2025	42,600	24,472	67,072
2026	45,900	22,720	68,620
2027	47,100	20,826	67,926
2028	49,600	18,875	68,475
2029-33	246,900	61,924	308,824
2034-38	162,000	24,037	186,037
2039-40	48,500	2,373	50,873
Total	\$ 684,900	\$ 201,441	\$ 886,341

Long-term liability activity for the year ended December 31, 2023 was as follows:

	Beginning Balance	Increases	Reductions	Ending Balance	Due Within One Year
RDA 1992 Series D Bonds	\$ 245,000	\$ -	\$ (19,000)	\$ 226,000	\$ 21,000
RDA 1999 Series A Bonds	80,900	-	(3,600)	77,300	3,700
RDA 1999 Series B Bonds	56,100	-	(2,500)	53,600	2,600
RDA 2000 Series A Bonds	342,000	-	(14,000)	328,000	15,000
Long-term Debt Total	\$ 724,000	\$ -	\$ (39,100)	\$ 684,900	\$ 42,300

**MCKINNEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022**

Long-term liability activity for the year ended December 31, 2022 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	\$ 245,000	\$ -	\$ -	\$ 245,000	\$ 19,000
RDA 1999 Series A Bonds	80,900	-	-	80,900	3,600
RDA 1999 Series B Bonds	56,100	-	-	56,100	2,500
RDA 2000 Series A Bonds	342,000	-	-	342,000	14,000
Long-term Debt Total	<u>\$ 724,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 724,000</u>	<u>\$ 39,100</u>

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.

	<u>2023</u>	<u>2022</u>
(B) Active Meter Customers - December 31,	1,885	1,884
(C) Water Loss (Gallons):		
Water Purchases	143,242,200	146,513,400
Water Sold and Used in Operations	<u>104,302,000</u>	<u>107,637,900</u>
Line loss	38,940,200	38,875,500
Percentage of Line Loss	27.18%	26.53%

(D) Customer accounts receivable aging at December 31, 2023 and 2022 is as follows:

	<u>2023</u>	<u>2022</u>
Current	\$ 106,327	\$ 87,078
30-59 Days	(8,856)	(8,154)
60-89 Days	1,210	1,498
Over 90 Days	<u>101,423</u>	<u>99,793</u>
	<u>\$ 200,104</u>	<u>\$ 180,215</u>

(E) Accounts Receivable is comprised of the following as of December 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Customers	\$ 200,104	\$ 180,215
Allowance for Bad Debts	<u>(101,423)</u>	<u>(99,793)</u>
	<u>\$ 98,681</u>	<u>\$ 80,422</u>

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

**MCKINNEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022**

(F) The District's water purchases (in gallons) for the year ended December 31, 2023 and 2022, were as follows:

	<u>2023</u>	<u>2022</u>
City of Eubank	27,331,200	27,115,400
City of Stanford	<u>115,911,000</u>	<u>119,398,000</u>
Total Gallons Purchased	<u><u>143,242,200</u></u>	<u><u>146,513,400</u></u>

8. COMMITMENTS

As of December 31, 2023, 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.

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, 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 8, 2024.

Report on 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) 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 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 were not 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 material weakness 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.

2. Due to the limited number of employees within the District, there exists a lack of adequate segregation of duties related to recordkeeping and custody of assets. Due to the fact that the District is not in the financial position to hire additional employees, we recommend that the commission continue to be involved in the financial review process on an ongoing basis and continue to review all procedures to assure that maximum segregation of accounting and asset custodial duties occurs whenever possible.

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.

Report on 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 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 matter that are required to be reported under *Government Auditing Standards*.

The District's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the District's response to the findings identified in our audit. The 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 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 8, 2024