

**MCKINNEY WATER DISTRICT**  
**AUDITED FINANCIAL STATEMENTS**  

---

**DECEMBER 31, 2024 AND 2023**

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

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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, 2024 and 2023, 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, 2024 and 2023, 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 22, 2025, 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, 2025

**MCKINNEY WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEARS ENDED DECEMBER 31, 2024 AND 2023**

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, 2024 and 2023. 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, 2024, the District's assets (page 7) exceeded liabilities by \$1,395,577. This amount includes \$575,635 of resources that are invested in capital assets, net of related debt. \$483,036 of these resources are restricted for debt service, customer deposit refunds, or construction and maintenance. \$336,906 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, 2024 were \$159,250 and current liabilities payable from unrestricted resources (i.e. excluding principal and interest on long term debt and customer deposits) were \$63,263 (page 7).
- Net position increased by \$113,968 (page 8) which is an increase compared to the increase of \$5,572 in the prior year. The current year increase is net of depreciation expense of \$76,562, a non-cash expense. The District's net operating loss was \$31,277 in the current year compared to a net operating loss of \$411 in the prior year. The primary reasons for the increase this year is due to an increase in water sales of \$53,981, which was partially offset by an increase in maintenance costs of \$19,429, an increase in water purchases of \$19,613, and capital contributions of \$167,206. Capital contributions were made up of a grant from the Lincoln County Fiscal Court of \$75,000 and water loss surcharges required by the Kentucky Public Service Commission of \$92,206.
- 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. 41.25% 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. 34.61% of the District's net position is restricted for customer deposit refunds, debt service, and construction and system maintenance. The remaining 24.14% of the District's net position is unrestricted.

**MCKINNEY WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEARS ENDED DECEMBER 31, 2024 AND 2023**

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>2024</u>	<u>2023</u>	<u>2022</u>
Current and other assets	\$ 1,000,823	\$ 856,766	\$ 832,754
Capital assets	<u>1,218,235</u>	<u>1,280,260</u>	<u>1,332,636</u>
Total assets	<u>2,219,058</u>	<u>2,137,026</u>	<u>2,165,390</u>
Long-term debt outstanding	642,600	684,900	724,000
Other liabilities	<u>180,881</u>	<u>170,517</u>	<u>165,353</u>
Total liabilities	<u>823,481</u>	<u>855,417</u>	<u>889,353</u>
Net Position:			
Net investment in capital assets	575,635	595,360	608,636
Restricted	483,036	322,678	384,026
Unrestricted	<u>336,906</u>	<u>363,571</u>	<u>283,375</u>
Total net position	<u>\$ 1,395,577</u>	<u>\$ 1,281,609</u>	<u>\$ 1,276,037</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>2024</u>	<u>2023</u>	<u>2022</u>
Revenues:			
Charges for Services	\$ 1,139,077	\$ 1,075,746	\$ 1,020,481
Interest Earnings	7,933	5,855	206
Miscellaneous	<u>36,428</u>	<u>41,324</u>	<u>35,588</u>
Total Revenues	<u>1,183,438</u>	<u>1,122,925</u>	<u>1,056,275</u>
Expenses:			
Operating Expenses Excluding Depreciation	1,126,684	1,028,105	981,685
Depreciation	80,098	89,376	88,975
Interest and Amortization	<u>29,894</u>	<u>30,352</u>	<u>27,964</u>
Total Expenses	<u>1,236,676</u>	<u>1,147,833</u>	<u>1,098,624</u>
Change in net position before capital contributions	(53,238)	(24,908)	(42,349)
Capital contributions	<u>167,206</u>	<u>30,480</u>	<u>-</u>
Increase (Decrease) in Net Position	<u>\$ 113,968</u>	<u>\$ 5,572</u>	<u>\$ (42,349)</u>

During the year ended December 31, 2024, the water loss percentage decreased slightly from approximately 27% in 2023 to approximately 26% in 2024. During the year ended December 31, 2023, the water loss percentage remained consistent from approximately 27% in 2022 to approximately 27% in 2023.

**MCKINNEY WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEARS ENDED DECEMBER 31, 2024 AND 2023**

**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:

	2024	2023	2022
Land and right of ways	\$ 23,044	\$ 23,044	\$ 23,044
Distribution system	982,948	1,051,161	1,099,641
Office furniture and fixtures	9,570	12,007	12,240
Buildings and improvements	2,182	2,559	3,121
Capitalized design and interest cost	157,513	166,584	179,092
Construction in progress	42,978	24,905	15,498
Total capital assets, net of depreciation	\$ 1,218,235	\$ 1,280,260	\$ 1,332,636

*Long Term Debt*

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

	2024	2023	2022
RDA 1992 Series D Bond	\$ 205,000	\$ 226,000	\$ 245,000
RDA 1999 Series A Bond	73,600	77,300	80,900
RDA 1999 Series B Bond	51,000	53,600	56,100
RDA 2000 Series A Bond	313,000	328,000	342,000
Total debt outstanding	\$ 642,600	\$ 684,900	\$ 724,000

The District's outstanding debt decreased in accordance with the scheduled principal payments in 2024. The District's outstanding debt decreased in accordance with the scheduled principal payments in 2023.

**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, 2024 AND 2023**

	2024	2023
<u>ASSETS</u>		
Current Assets:		
Cash (Note 3)	\$ 100,993	\$ 134,417
Certificates of Deposit (Note 3)	58,257	56,675
Accounts Receivable (Net of Allowance)	95,576	98,681
Inventory (Note 2)	85,134	79,295
Prepaid Expenses (Note 2)	17,609	12,491
Total Current Assets	357,569	381,559
Non-current Assets:		
Restricted Cash (Note 3)	410,226	248,509
Restricted Certificates of Deposit (Note 3)	233,028	226,698
Total Restricted Assets	643,254	475,207
Capital Assets (Note 4):		
Land and Right of Ways	23,044	23,044
Distribution System	3,703,688	3,703,688
Other Tangible Assets	117,676	117,676
Office Furniture and Fixtures	63,649	63,649
Building and Improvements	43,178	43,178
Capitalized Design and Interest Costs	566,950	566,950
Construction in Process	42,978	24,905
Less: Accumulated Depreciation	(3,342,928)	(3,262,830)
Capital Assets, Net	1,218,235	1,280,260
Total Assets	\$ 2,219,058	\$ 2,137,026

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

**MCKINNEY WATER DISTRICT  
STATEMENTS OF NET POSITION  
DECEMBER 31, 2024 AND 2023**

	2024	2023
<u>LIABILITIES</u>		
Current Liabilities:		
Accounts Payable	\$ 58,320	\$ 52,259
Other Current Liabilities	4,943	4,829
Total Current Liabilities	63,263	57,088
Current Liabilities Payable From Restricted Assets:		
Customer Deposits	105,338	100,322
Accrued Interest on Debt	12,280	13,107
Current Portion - Debt (Note 5)	42,600	42,300
Total Current Liabilities Payable From Restricted Assets	160,218	155,729
Non-Current Liabilities:		
Long-Term Debt (Note 5)	600,000	642,600
Total Liabilities	823,481	855,417
<u>NET POSITION</u>		
Net Investment in Capital Assets	575,635	595,360
Restricted For:		
Customer Deposits	31,112	29,252
Debt Service	78,094	76,584
Construction & Maintenance	373,830	197,622
Unrestricted	336,906	382,791
Total Net Position	1,395,577	1,281,609
Total Liabilities and Net Position	\$ 2,219,058	\$ 2,137,026

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, 2024 AND 2023**

	<u>2024</u>	<u>2023</u>
Operating Revenue:		
Water Sales	\$ 1,105,847	\$ 1,051,866
Connection Fees	33,230	23,880
Other Operating Revenue	<u>36,428</u>	<u>41,324</u>
Total Operating Revenue	1,175,505	1,117,070
Operating Expenses	<u>1,126,684</u>	<u>1,028,105</u>
Net Operating Income Before Depreciation	48,821	88,965
Depreciation	<u>80,098</u>	<u>89,376</u>
Net Operating Income (Loss)	(31,277)	(411)
Non-Operating Income (Expenses):		
Interest Income	7,933	5,855
Interest Expense:		
On Long-Term Debt	(24,516)	(26,180)
Paid on Customer Deposits	<u>(5,378)</u>	<u>(4,172)</u>
Total Non-Operating Income (Expenses)	<u>(21,961)</u>	<u>(24,497)</u>
Change in Net Position Before Capital Contributions	(53,238)	(24,908)
Capital contributions	<u>167,206</u>	<u>30,480</u>
Change in Net Position	113,968	5,572
Net Position - Beginning of Year	<u>1,281,609</u>	<u>1,276,037</u>
Net Position - End of Year	<u>\$ 1,395,577</u>	<u>\$ 1,281,609</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, 2024 AND 2023**

	<u>Tap Fees</u>	<u>Contributions In Aid Of Construction</u>	<u>Retained Deficit</u>	<u>Total</u>
Balance at January 1, 2023	\$ 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	211,363	2,221,187	(1,150,941)	1,281,609
Capital Contributions-Government	-	75,000	-	75,000
Capital Contributions-Water Loss surcharge	-	92,206	-	92,206
2024 Net Income (Loss)	<u>-</u>	<u>-</u>	<u>(53,238)</u>	<u>(53,238)</u>
Balance at December 31, 2024	<u>\$ 211,363</u>	<u>\$ 2,388,393</u>	<u>\$ (1,204,179)</u>	<u>\$ 1,395,577</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, 2024 AND 2023**

	<u>2024</u>	<u>2023</u>
Source of Supply Expense:		
Water Purchases	\$ 539,769	\$ 520,156
Operation Supplies and Expense	<u>7,970</u>	<u>7,001</u>
Total	547,739	527,157
Transmission and Distribution Expense:		
Maintenance of Mains	<u>78,645</u>	<u>59,216</u>
Total	78,645	59,216
Customer Accounts Expense:		
Credit Card Processing Fees	13,803	11,172
Supplies and Postage	<u>43,032</u>	<u>35,364</u>
Total	56,835	46,536
Administrative and General:		
Salaries	276,237	251,726
Contract Labor	46,098	41,140
Insurance	11,821	10,552
Miscellaneous Expense:		
Utilities	17,368	16,565
Advertising	365	-
Bad Debts	7,920	2,234
Miscellaneous	1,211	941
Vehicle Gas	26,476	22,461
Payroll Taxes	21,132	20,012
Legal and Professional	8,078	6,775
Commissioners' Board and Director Fees	22,235	20,400
Other Licenses and Taxes	<u>4,524</u>	<u>2,390</u>
Total	<u>443,465</u>	<u>395,196</u>
Total Operating Expenses	<u><u>\$ 1,126,684</u></u>	<u><u>\$ 1,028,105</u></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, 2024 AND 2023**

	<u>2024</u>	<u>2023</u>
Cash Flows From Operating Activities:		
Receipts From Customers	\$ 1,183,626	\$ 1,105,696
Payments to Suppliers	(834,097)	(744,530)
Payments to Employees	(276,237)	(251,726)
Payments of Payroll and Other Taxes	<u>(21,132)</u>	<u>(20,012)</u>
Net Cash Provided by (Used in) Operating Activities	<u>52,160</u>	<u>89,428</u>
Cash Flows From Non-Capital Financing Activities:		
Interest Paid on Customer Deposits	<u>(5,378)</u>	<u>(4,172)</u>
Net Cash Provided by (Used in) Non-Capital Financing Activities	<u>(5,378)</u>	<u>(4,172)</u>
Cash Flows From Capital and Related Financing Activities:		
Purchase of Fixed Assets/Construction in Progress	(18,073)	(37,000)
Proceeds from Grants	75,000	-
Proceeds from Water Loss Surcharge	92,206	30,480
Retirement of Bonds	(42,300)	(39,100)
Interest Paid on Bonds	<u>(25,343)</u>	<u>(27,016)</u>
Net Cash Used in Financing Activities	<u>81,490</u>	<u>(72,636)</u>
Cash Flows From Investing Activities:		
Purchase of Certificates of Deposit	(7,912)	(5,839)
Interest Received	<u>7,933</u>	<u>5,855</u>
Net Cash Provided by (Used in) Investing Activities	<u>21</u>	<u>16</u>
Net Increase (Decrease) in Cash	128,293	12,636
Cash at Beginning of Year	<u>382,926</u>	<u>370,290</u>
Cash at End of Year	<u>\$ 511,219</u>	<u>\$ 382,926</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, 2024 AND 2023**

Continued

	2024	2023
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:		
Operating Income (Loss)	\$ (31,277)	\$ (411)
Depreciation	80,098	89,376
Decrease (Increase) in Accounts Receivable, Net	3,105	(18,259)
Decrease (Increase) in Inventory	(5,839)	14,730
Decrease (Increase) in Prepaid Expenses	(5,118)	(2,008)
Increase (Decrease) in Accounts Payable	6,061	(941)
Increase (Decrease) in Customer Deposits	5,016	6,885
Increase (Decrease) in Other Current Liabilities	114	56
Net Cash Provided by (Used in) Operating Activities	<u>\$ 52,160</u>	<u>\$ 89,428</u>
 Schedule of cash and cash equivalents:		
Beginning 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>
 End of period:		
Unrestricted cash and cash equivalents	\$ 100,993	\$ 134,417
Restricted cash and cash equivalents	410,226	248,509
Total cash and cash equivalents	<u>\$ 511,219</u>	<u>\$ 382,926</u>

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

**MCKINNEY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2024 AND 2023**

**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 62.5 year life; office furniture and equipment over a 10 year life; pumping equipment over a 20 year life; structures and improvements over a 37.5 year life; meters and installations over a 15 year life; hydrants over a 50 year life; water tanks over a 45 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 or orders by the Kentucky Public Service Commission.

**MCKINNEY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2024 AND 2023**

- 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 22, 2025, 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, 2024, have not been evaluated by the District.

**3. CASH & INVESTMENTS**

Cash is composed of the following as of December 31, 2024 and 2023, with restriction for use noted:

		2024		2023
Cash on Hand		\$ 120		\$ 120
Cash on Deposit - Operating Account	A	22,044		20,390
Cash on Deposit - Revenue Account	B	78,829		113,907
Cash on Deposit - Customer Deposits	C	19,936		16,225
Cash on Deposit - Construction Account	F	57,794		1,000
Cash on Deposit - Water Loss Surcharge Account	G	106,244		15,019
Savings - Debt Service Account	D	132,974		131,992
Savings - Depreciation Reserve Account	E	93,278		84,273
TOTAL		\$ 511,219		\$ 382,926

The District’s investments at December 31, 2024 are as follows:

Type of Investment		Fair Value		Cost	Interest Rate	Maturity Date
PBK Bank Certificates of Deposit:						
CD - Revenue	B	\$ 58,257	\$	58,257	2.75%	03/12/25
CD - Customer Deposits	C	116,514		116,514	2.75%	03/12/25
CD - Depreciation Reserve	E	116,514		116,514	2.75%	03/12/25
Total Certificates of Deposit		\$ 291,285	\$	291,285		

**MCKINNEY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2024 AND 2023**

The District's investments at December 31, 2023 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	\$ 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	<u>113,349</u>	<u>113,349</u>	2.75%	03/12/24
Total Certificates of Deposit		<u>\$ 283,373</u>	<u>\$ 283,373</u>		

At December 31, 2024, the bank balance of the District's deposits and investments was \$813,705. Of the bank balance, \$250,000 is insured by the FDIC and \$563,705 is collateralized by pledged securities held in the District's name. At December 31, 2023, the bank balance of the District's deposits and investments was \$676,440. Of the bank balance, \$250,000 was insured by the FDIC, \$426,440 was collateralized by pledged securities held in the District's name.

- (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, 2024 and 2023.
- (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, 2024 AND 2023**

**4. CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2024 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	244,676	-	-	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	63,649	-	-	63,649
Buildings and Improvements	43,178	-	-	43,178
Capitalized Design and Interest Costs	566,950	-	-	566,950
Construction in Process	24,905	18,073	-	42,978
Total	4,543,090	18,073	-	4,561,163
Accumulated Depreciation	(3,262,830)	(80,098)	-	(3,342,928)
Capital Assets, Net	<u>\$ 1,280,260</u>	<u>\$ (62,025)</u>	<u>\$ -</u>	<u>\$ 1,218,235</u>

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	<u>\$ 1,332,636</u>	<u>\$ (52,376)</u>	<u>\$ -</u>	<u>\$ 1,280,260</u>

During 2024, management reviewed the estimated useful lives in calculating depreciation for all fixed assets. The lives previously used were compared to actual results experienced by the District and to industry standards as published by the National Association of Regulatory Utility Commissioners. Management determined that the estimated lives used were too short and revised the estimated lives in calculating depreciation accordingly. The revisions in useful lives resulted in a decrease in depreciation expense of \$7,808 for 2024 from what it would have been had the estimated useful lives previously used continued.

**MCKINNEY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2024 AND 2023**

**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, 2024 and 2023, consists of the following:

	2024	2023
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.	\$ 205,000	\$ 226,000
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.	73,600	77,300
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.	51,000	53,600
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.	313,000	328,000
Total Outstanding Bonds	642,600	684,900
LESS: Current Portion	(42,600)	(42,300)
Long-Term Debt	\$ 600,000	\$ 642,600

The annual requirements to amortize all bonds outstanding as of December 31, 2024, are as follows:

Year Ending	Principal	Interest	Total
December 31,			
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	50,800	16,826	67,626
2030-34	226,400	51,940	278,340
2035-39	155,700	18,772	174,472
2040	24,500	796	25,296
Total	\$ 642,600	\$ 175,227	\$ 817,827

Long-term liability activity for the year ended December 31, 2024 was as follows:

	Beginning Balance	Increases	Reductions	Ending Balance	Due Within One Year
RDA 1992 Series D Bonds	\$ 226,000	\$ -	\$ (21,000)	\$ 205,000	\$ 21,000
RDA 1999 Series A Bonds	77,300	-	(3,700)	73,600	3,900
RDA 1999 Series B Bonds	53,600	-	(2,600)	51,000	2,700
RDA 2000 Series A Bonds	328,000	-	(15,000)	313,000	15,000
Long-term Debt Total	\$ 684,900	\$ -	\$ (42,300)	\$ 642,600	\$ 42,600

**MCKINNEY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2024 AND 2023**

Long-term liability activity for the year ended December 31, 2023 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	\$ -	\$ (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	<u>\$ 724,000</u>	<u>\$ -</u>	<u>\$ (39,100)</u>	<u>\$ 684,900</u>	<u>\$ 42,300</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>2024</u>	<u>2023</u>
(B) Active Meter Customers - December 31,	1,909	1,885
(C) Water Loss (Gallons):		
Water Purchases	142,894,800	143,242,200
Water Sold and Used in Operations	<u>105,579,600</u>	<u>104,302,000</u>
Line loss	37,315,200	38,940,200
Percentage of Line Loss	26.11%	27.18%

(D) Customer accounts receivable aging at December 31, 2024 and 2023 is as follows:

	<u>2024</u>	<u>2023</u>
Current	\$ 105,224	\$ 106,327
30-59 Days	(10,518)	(8,856)
60-89 Days	870	1,210
Over 90 Days	<u>104,608</u>	<u>101,423</u>
	<u>\$ 200,184</u>	<u>\$ 200,104</u>

(E) Accounts Receivable is comprised of the following as of December 31, 2024 and 2023:

	<u>2024</u>	<u>2023</u>
Customers	\$ 200,184	\$ 200,104
Allowance for Bad Debts	<u>(104,608)</u>	<u>(101,423)</u>
	<u>\$ 95,576</u>	<u>\$ 98,681</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, 2024 AND 2023**

(F) The District's water purchases (in gallons) for the year ended December 31, 2024 and 2023, were as follows:

	<u>2024</u>	<u>2023</u>
City of Eubank	33,360,800	27,331,200
City of Stanford	<u>109,534,000</u>	<u>115,911,000</u>
Total Gallons Purchased	<u><u>142,894,800</u></u>	<u><u>143,242,200</u></u>

**8. COMMITMENTS**

As of December 31, 2024, 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**

# Kerbaugh, Rodes & Butler, PLLC

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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 McKinney Water District (the District) as of and for the year ended December 31, 2024, 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, 2025.

### 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 identified certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2024-001 and 2024-002 that we consider to be material weaknesses.

### 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 and described in the accompanying schedule of findings and responses. 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 22, 2025

**MCKINNEY WATER DISTRICT  
SCHEDULE OF FINDINGS AND RESPONSES  
DECEMBER 31, 2024**

**2024-001 - The District should have internal controls in place that enable it to prepare complete financial statements (recurring)**

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

*Condition:* Management engaged the auditor to prepare draft financial statements, including the related notes to the financial statements.

*Cause:* The District lacks personnel with the expertise to draft the financial statements, including the related note disclosures, in conformity with the accounting principles generally accepted in the United States of America.

*Effect:* The auditor prepared draft financial statements, including the related notes to the financial statements. Management reviewed, approved and accepted responsibility for the financial statements prior to their issuance.

*Recommendation:* We recommend management review the costs and benefits involved to retain a consultant with the required expertise to prepare the financial statements.

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

**2024-002 - Lack of segregation of duties (recurring)**

*Criteria:* The basic premise of segregation of duties is that no one employee should have access to both physical assets and the related accounting records or to all phases of a transaction. In addition, proper segregation of duties should include oversight of the finance personnel activity by individuals with knowledge of internal controls and accounting regulations, who were not involved in the original transaction.

*Condition:* During the audit, we noted that the District lacks segregation of duties in multiple accounting functions.

*Cause:* The District has a limited number of employees. The District has one individual who has the primary responsibility for the finance and accounting function.

*Effect:* There is a lack of oversight over transactions being recorded.

*Recommendation:* We recommend that the District continue to provide oversight and monitoring of the financial reporting functions. A common method for achieving this goal is for a Commissioner to review the District's bank statements and other financial information on a monthly basis. While not a preventative control, this increased oversight can detect irregularities in the financial reporting function that are caused by a lack of segregation of duties within a relatively short period of time.

*Response:* The District does not believe the addition of an employee for the purpose of improving segregation of duties is cost-beneficial to the District. The District will continue to monitor the accounting functions through the review of the monthly bills and financial statements.