

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

---

**DECEMBER 31, 2025 AND 2024**

**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, 2025 and 2024, 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, 2025 and 2024, 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 4 through 6 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.

#### ***Supplementary Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

#### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 2026, 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 25, 2026

**MCKINNEY WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEARS ENDED DECEMBER 31, 2025 AND 2024**

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, 2025 and 2024. 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, 2025, the District's assets (page 7) exceeded liabilities by \$3,980,448. This amount includes \$2,717,593 of resources that are invested in capital assets, net of related debt. \$462,066 of these resources are restricted for debt service, customer deposit refunds, or construction and maintenance. \$800,789 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 7) as of December 31, 2025 were \$35,993 and current liabilities payable from unrestricted resources (i.e. excluding principal and interest on long term debt and customer deposits) were \$1,012,673 (page 8).
- Net position increased by \$2,584,871 (page 8) which is an increase compared to the increase of \$113,968 in the prior year. The current year increase is net of depreciation expense of \$78,969, a non-cash expense. The primary reason for the increase this year is capital contributions of \$2,807,424. Capital contributions were made up of grants from the Lincoln County Fiscal Court for \$462,000, CDBG for \$1,578,800, the Appalachian Regional Commission for \$234,209, the City of Danville for \$439,037 and water loss surcharges required by the Kentucky Public Service Commission of \$93,378. The District's net operating loss was \$163,838 in the current year compared to a net operating loss of \$31,277 in the prior year. The primary reasons for the decrease this year is due to an increase in water sales of \$64,232, which was offset by an increase in contract labor of \$75,968, maintenance costs of \$4,453, and an increase in water purchases of \$37,616.
- The District's total debt increased \$814,315 resulting from new Rural Water Financing Agency Bonds issued for \$845,000, partially offset by payments made in accordance with 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 14 through 20.

**Financial Analysis**

Net position may serve over time as a useful indicator of a government's financial position. 68.27% 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. 11.61% of the District's net position is restricted for customer deposit refunds, debt

**MCKINNEY WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEARS ENDED DECEMBER 31, 2025 AND 2024**

service, and construction and system maintenance. The remaining 20.12% of the District's net position is unrestricted.

The first statement in the financial statements is the Statement of Net Position. The following table summarizes the Statement of Net Position (pages 7-8).

	2025	2024	2023
Current and other assets	\$ 2,045,317	\$ 1,000,823	\$ 856,766
Capital assets	<u>4,613,947</u>	<u>1,218,235</u>	<u>1,280,260</u>
Total assets	<u>6,659,264</u>	<u>2,219,058</u>	<u>2,137,026</u>
Long-term debt outstanding	1,456,915	642,600	684,900
Other liabilities	<u>1,221,901</u>	<u>180,881</u>	<u>170,517</u>
Total liabilities	<u>2,678,816</u>	<u>823,481</u>	<u>855,417</u>
Net Position:			
Net investment in capital assets	2,717,593	575,635	595,360
Restricted	462,066	483,036	322,678
Unrestricted	<u>800,789</u>	<u>336,906</u>	<u>363,571</u>
Total net position	<u>\$ 3,980,448</u>	<u>\$ 1,395,577</u>	<u>\$ 1,281,609</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.

	2025	2024	2023
Revenues:			
Charges for Services	\$ 1,190,687	\$ 1,139,077	\$ 1,075,746
Interest Earnings	19,880	7,933	5,855
Miscellaneous	<u>29,271</u>	<u>36,428</u>	<u>41,324</u>
Total Revenues	<u>1,239,838</u>	<u>1,183,438</u>	<u>1,122,925</u>
Expenses:			
Operating Expenses Excluding Depreciation	1,304,827	1,126,684	1,028,105
Depreciation	78,969	80,098	89,376
Bond issuance costs	31,863	-	-
Interest and Amortization	<u>46,732</u>	<u>29,894</u>	<u>30,352</u>
Total Expenses	<u>1,462,391</u>	<u>1,236,676</u>	<u>1,147,833</u>
Change in net position before capital contributions	(222,553)	(53,238)	(24,908)
Capital contributions	<u>2,807,424</u>	<u>167,206</u>	<u>30,480</u>
Increase (Decrease) in Net Position	<u>\$ 2,584,871</u>	<u>\$ 113,968</u>	<u>\$ 5,572</u>

During the year ended December 31, 2025, the water loss percentage increased slightly from approximately 26% in 2024 to approximately 28% in 2025. During the year ended December 31, 2024, the water loss percentage decreased slightly from approximately 27% in 2023 to approximately 26% in 2024.

**MCKINNEY WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEARS ENDED DECEMBER 31, 2025 AND 2024**

**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:

	2025	2024	2023
Land and right of ways	\$ 23,044	\$ 23,044	\$ 23,044
Distribution system	915,536	982,948	1,051,161
Office furniture and fixtures	7,307	9,570	12,007
Buildings and improvements	1,958	2,182	2,559
Capitalized design and interest cost	148,443	157,513	166,584
Construction in progress	3,517,659	42,978	24,905
Total capital assets, net of depreciation	<u>\$ 4,613,947</u>	<u>\$ 1,218,235</u>	<u>\$ 1,280,260</u>

*Long Term Debt*

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

	2025	2024	2023
RDA 1992 Series D Bonds	\$ 184,000	\$ 205,000	\$ 226,000
RDA 1999 Series A Bonds	69,700	73,600	77,300
RDA 1999 Series B Bonds	48,300	51,000	53,600
RDA 2000 Series A Bonds	298,000	313,000	328,000
RWFA Series 2025 C Bonds	845,000	-	-
Bond premium Series 2025 C	11,915	-	-
Total debt outstanding	<u>\$ 1,456,915</u>	<u>\$ 642,600</u>	<u>\$ 684,900</u>

The District's outstanding debt increased with the issuance of the Rural Water Financing Agency Series 2025 C Bonds, partially offset by payments in accordance with scheduled principal payments in 2025. The District's outstanding debt decreased in accordance with the scheduled principal payments in 2024.

**Economic Factors for Next Year**

The District has two projects in process that will be in the construction phase next year. See Note 8 for commitments related to this project.

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, 2025 AND 2024**

	2025	2024
<u>ASSETS</u>		
Current Assets:		
Cash (Note 3)	\$ 35,993	\$ 100,993
Certificates of Deposit (Note 3)	-	58,257
Accounts Receivable (Net of Allowance)	122,511	95,576
Grants Receivable	503,918	-
Inventory (Note 2)	89,593	85,134
Prepaid Expenses (Note 2)	10,942	17,609
Total Current Assets	762,957	357,569
Non-current Assets:		
Restricted Cash (Note 3)	1,042,841	410,226
Restricted Certificates of Deposit (Note 3)	239,519	233,028
Total Restricted Assets	1,282,360	643,254
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	3,517,659	42,978
Less: Accumulated Depreciation	(3,421,897)	(3,342,928)
Capital Assets, Net	4,613,947	1,218,235
Total Assets	\$ 6,659,264	\$ 2,219,058

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

**MCKINNEY WATER DISTRICT  
STATEMENTS OF NET POSITION  
DECEMBER 31, 2025 AND 2024**

	2025	2024
<u>LIABILITIES</u>		
Current Liabilities:		
Accounts Payable	\$ 61,692	\$ 58,320
Accounts Payable - Contractors	791,070	-
Retainage Payable - Contractors	152,287	-
Other Current Liabilities	7,624	4,943
Total Current Liabilities	1,012,673	63,263
Current Liabilities Payable From Restricted Assets:		
Customer Deposits	115,455	105,338
Accrued Interest on Debt	30,773	12,280
Unearned grant revenue	63,000	-
Current Portion - Debt (Note 5)	45,900	42,600
Total Current Liabilities Payable From Restricted Assets	255,128	160,218
Non-Current Liabilities:		
Long-Term Debt (Note 5)	1,411,015	600,000
Total Liabilities	2,678,816	823,481
<u>NET POSITION</u>		
Net Investment in Capital Assets	2,717,593	575,635
Restricted For:		
Customer Deposits	30,686	31,112
Debt Service	58,036	78,094
Construction & Maintenance	373,344	373,830
Unrestricted	800,789	336,906
Total Net Position	3,980,448	1,395,577
Total Liabilities and Net Position	\$ 6,659,264	\$ 2,219,058

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, 2025 AND 2024**

	2025	2024
Operating Revenue:		
Water Sales	\$ 1,170,079	\$ 1,105,847
Connection Fees	20,608	33,230
Other Operating Revenue	29,271	36,428
Total Operating Revenue	1,219,958	1,175,505
Operating Expenses	1,304,827	1,126,684
Net Operating Income Before Depreciation	(84,869)	48,821
Depreciation	78,969	80,098
Net Operating Income (Loss)	(163,838)	(31,277)
Non-Operating Income (Expenses):		
Interest Income	19,880	7,933
Bond issuance costs	(31,863)	
Interest Expense:		
On Long-Term Debt	(42,089)	(24,516)
Paid on Customer Deposits	(4,643)	(5,378)
Total Non-Operating Income (Expenses)	(58,715)	(21,961)
Change in Net Position Before Capital Contributions	(222,553)	(53,238)
Capital contributions	2,807,424	167,206
Change in Net Position	2,584,871	113,968
Net Position - Beginning of Year	1,395,577	1,281,609
Net Position - End of Year	\$ 3,980,448	\$ 1,395,577

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, 2025 AND 2024**

	<u>Tap Fees</u>	<u>Contributions In Aid Of Construction</u>	<u>Retained Deficit</u>	<u>Total</u>
Balance at January 1, 2024	\$ 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
Net Income (Loss)	<u>-</u>	<u>-</u>	<u>(53,238)</u>	<u>(53,238)</u>
Balance at December 31, 2024	211,363	2,388,393	(1,204,179)	1,395,577
Capital Contributions-Government	-	2,714,046	-	2,714,046
Capital Contributions-Water Loss surcharge	-	93,378	-	93,378
Net Income (Loss)	<u>-</u>	<u>-</u>	<u>(222,553)</u>	<u>(222,553)</u>
Balance at December 31, 2025	<u>\$ 211,363</u>	<u>\$ 5,195,817</u>	<u>\$ (1,426,732)</u>	<u>\$ 3,980,448</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, 2025 AND 2024**

	<u>2025</u>	<u>2024</u>
Source of Supply Expense:		
Water Purchases	\$ 577,385	\$ 539,769
Operation Supplies and Expense	<u>9,872</u>	<u>7,970</u>
Total	587,257	547,739
Transmission and Distribution Expense:		
Maintenance of Mains	<u>83,098</u>	<u>78,645</u>
Total	83,098	78,645
Customer Accounts Expense:		
Credit Card Processing Fees	24,670	13,803
Supplies and Postage	<u>71,016</u>	<u>43,032</u>
Total	95,686	56,835
Administrative and General:		
Salaries	285,076	276,237
Contract Labor	122,066	46,098
Insurance	14,348	11,821
Miscellaneous Expense:		
Utilities	20,546	17,368
Advertising	-	365
Bad Debts	3,274	7,920
Miscellaneous	202	1,211
Vehicle Gas	22,926	26,476
Payroll Taxes	19,850	21,132
Legal and Professional	8,578	8,078
Commissioners' Board and Director Fees	21,210	22,235
Other Licenses and Taxes	<u>20,710</u>	<u>4,524</u>
Total	<u>538,786</u>	<u>443,465</u>
Total Operating Expenses	<u><u>\$ 1,304,827</u></u>	<u><u>\$ 1,126,684</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, 2025 AND 2024**

	<u>2025</u>	<u>2024</u>
Cash Flows From Operating Activities:		
Receipts From Customers	\$ 1,203,140	\$ 1,183,626
Payments to Suppliers	(991,640)	(834,097)
Payments to Employees	(285,076)	(276,237)
Payments of Payroll and Other Taxes	<u>(19,850)</u>	<u>(21,132)</u>
Net Cash Provided by (Used in) Operating Activities	<u>(93,426)</u>	<u>52,160</u>
Cash Flows From Non-Capital Financing Activities:		
Interest Paid on Customer Deposits	<u>(4,643)</u>	<u>(5,378)</u>
Net Cash Provided by (Used in) Non-Capital Financing Activities	<u>(4,643)</u>	<u>(5,378)</u>
Cash Flows From Capital and Related Financing Activities:		
Purchase of Fixed Assets/Construction in Progress	(2,531,324)	(18,073)
Proceeds from Grants	2,273,128	75,000
Proceeds from Water Loss Surcharge	93,378	92,206
Proceeds from issuance of bonds	856,915	-
Retirement of Bonds	(42,600)	(42,300)
Bond issuance costs	(31,863)	
Interest Paid on Bonds	<u>(23,596)</u>	<u>(25,343)</u>
Net Cash Used in Financing Activities	<u>594,038</u>	<u>81,490</u>
Cash Flows From Investing Activities:		
Purchase of Certificates of Deposit	(6,892)	(7,912)
Proceeds from matured Certificates of Deposit	58,658	-
Interest Received	<u>19,880</u>	<u>7,933</u>
Net Cash Provided by (Used in) Investing Activities	<u>71,646</u>	<u>21</u>
Net Increase (Decrease) in Cash	567,615	128,293
Cash at Beginning of Year	<u>511,219</u>	<u>382,926</u>
Cash at End of Year	<u>\$ 1,078,834</u>	<u>\$ 511,219</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, 2025 AND 2024**

**Continued**

	<u>2025</u>	<u>2024</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:		
Operating Income (Loss)	\$ (163,838)	\$ (31,277)
Depreciation	78,969	80,098
Decrease (Increase) in Accounts Receivable, Net	(26,935)	3,105
Decrease (Increase) in Inventory	(4,459)	(5,839)
Decrease (Increase) in Prepaid Expenses	6,667	(5,118)
Increase (Decrease) in Accounts Payable	3,372	6,061
Increase (Decrease) in Customer Deposits	10,117	5,016
Increase (Decrease) in Other Current Liabilities	<u>2,681</u>	<u>114</u>
Net Cash Provided by (Used in) Operating Activities	<u>\$ (93,426)</u>	<u>\$ 52,160</u>
Non-Cash Financing and Investing Activities:		
Construction in process, paid subsequent to year-end	\$ 943,357	\$ -
Schedule of cash and cash equivalents:		
Beginning of period:		
Unrestricted cash and cash equivalents	\$ 100,993	\$ 134,417
Restricted cash and cash equivalents	<u>410,226</u>	<u>248,509</u>
Total cash and cash equivalents	<u>\$ 511,219</u>	<u>\$ 382,926</u>
End of period:		
Unrestricted cash and cash equivalents	\$ 35,993	\$ 100,993
Restricted cash and cash equivalents	<u>1,042,841</u>	<u>410,226</u>
Total cash and cash equivalents	<u>\$ 1,078,834</u>	<u>\$ 511,219</u>

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

**MCKINNEY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2025 AND 2024**

**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, 2025 AND 2024**

- 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 25, 2026, 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, 2025, have not been evaluated by the District.

**3. CASH & INVESTMENTS**

Cash is composed of the following as of December 31, 2025 and 2024, with restriction for use noted:

		2025	2024
Cash on Hand		\$ 120	\$ 120
Cash on Deposit - Operating Account	A	4,349	22,044
Cash on Deposit - Revenue Account	B	31,524	78,829
Cash on Deposit - Customer Deposits	C	26,381	19,936
Cash on Deposit - Construction Account	F	627,157	57,794
Cash on Deposit - Water Loss Surcharge Account	G	196,304	106,244
Savings - Debt Service Account	D	135,718	132,974
Savings - Depreciation Reserve Account	E	57,281	93,278
TOTAL		\$ 1,078,834	\$ 511,219

The District’s investments at December 31, 2025 are as follows:

Type of Investment		Fair Value	Cost	Interest Rate	Maturity Date
PBK Bank Certificates of Deposit:					
CD - Customer Deposits	C	\$ 119,760	\$ 119,760	2.75%	03/12/26
CD - Depreciation Reserve	E	119,759	119,759	2.75%	03/12/26
Total Certificates of Deposit		\$ 239,519	\$ 239,519		

**MCKINNEY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2025 AND 2024**

The District's investments at December 31, 2024 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	\$ 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		<u>\$ 291,285</u>	<u>\$ 291,285</u>		

At December 31, 2025, the bank balance of the District's deposits and investments was \$1,431,685. Of the bank balance, \$250,000 is insured by the FDIC and \$1,181,685 is collateralized by pledged securities held in the District's name. At December 31, 2024, the bank balance of the District's deposits and investments was \$813,705. Of the bank balance, \$250,000 was insured by the FDIC, \$563,705 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, 2025 and 2024.
- (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, 2025 AND 2024**

**4. CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2025 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	42,978	3,474,681	-	3,517,659
Total	4,561,163	3,474,681	-	8,035,844
Accumulated Depreciation	(3,342,928)	(78,969)	-	(3,421,897)
Capital Assets, Net	\$ 1,218,235	\$ 3,395,712	\$ -	\$ 4,613,947

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	\$ 1,280,260	\$ (62,025)	\$ -	\$ 1,218,235

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, 2025 AND 2024**

**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, 2025 and 2024, consists of the following:

	2025	2024
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.	\$ 184,000	\$ 205,000
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.	69,700	73,600
USDA (Rural Development) - \$90,000 Principal amount Series B bonds dated 1999 due in annual installments of \$900 to \$4,700 through 2038. Interest is due semi-annually at a rate of 3.25% on the unpaid balance as of January 1, and July 1 of each year.	48,300	51,000
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.	298,000	313,000
RWFA (Rural Water Financing Agency) - \$845,000 Principal amount Series 2025 C bonds due in annual installments of \$15,000 to \$55,000 through 2055. Interest is due semi-annually at a rate of 5.20% on the unpaid balance as of February 1, and August 1 of each year.	845,000	-
Total Outstanding Bonds	1,445,000	642,600
Bond premium, Series 2025 C	11,915	-
LESS: Current Portion	(45,900)	(42,600)
Long-Term Debt	\$ 1,411,015	\$ 600,000

The annual requirements to amortize all bonds outstanding as of December 31, 2025, are as follows:

Year Ending	Principal	Interest	Total
<u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2026	\$ 45,900	\$ 70,894	\$ 116,794
2027	62,100	79,826	141,926
2028	64,600	77,095	141,695
2029	65,800	74,266	140,066
2030	69,300	71,380	140,680
2031-35	288,300	324,157	612,457
2036-40	264,000	301,749	565,749
2041-45	150,000	285,890	435,890
2046-50	190,000	281,430	471,430
2051-55	245,000	280,400	525,400
Total	\$ 1,445,000	\$ 1,847,087	\$ 3,292,087

**MCKINNEY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2025 AND 2024**

Long-term liability activity for the year ended December 31, 2025 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	\$ 205,000	\$ -	\$ (21,000)	\$ 184,000	\$ 23,000
RDA 1999 Series A Bonds	73,600	-	(3,900)	69,700	4,100
RDA 1999 Series B Bonds	51,000	-	(2,700)	48,300	2,800
RDA 2000 Series A Bonds	313,000	-	(15,000)	298,000	16,000
RWFA Series 2025C Bonds	-	845,000	-	845,000	-
Bonds payable total	642,600	845,000	(42,600)	1,445,000	45,900
Bond premium, Series 2025C	-	11,915	-	11,915	-
Long-term Debt Total	<u>\$ 642,600</u>	<u>\$ 856,915</u>	<u>\$ (42,600)</u>	<u>\$ 1,456,915</u>	<u>\$ 45,900</u>

Long-term liability activity for the year ended December 31, 2024 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	\$ 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	<u>\$ 684,900</u>	<u>\$ -</u>	<u>\$ (42,300)</u>	<u>\$ 642,600</u>	<u>\$ 42,600</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>2025</u>	<u>2024</u>
(B) Active Meter Customers - December 31,	1,935	1,909
(C) Water Loss (Gallons):		
Water Purchases	148,963,400	142,894,800
Water Sold and Used in Operations	<u>106,590,300</u>	<u>105,579,600</u>
Line loss	42,373,100	37,315,200
Percentage of Line Loss	28.45%	26.11%

**MCKINNEY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2025 AND 2024**

(E) Customer accounts receivable aging at December 31, 2025 and 2024 is as follows:

	2025	2024
Current	\$ 120,677	\$ 105,224
30-59 Days	1,941	(10,518)
60-89 Days	(107)	870
Over 90 Days	106,840	104,608
	\$ 229,351	\$ 200,184

(F) Accounts Receivable is comprised of the following as of December 31, 2025 and 2024:

	2025	2024
Customers	\$ 229,351	\$ 200,184
Allowance for credit losses	(106,840)	(104,608)
	\$ 122,511	\$ 95,576

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

(F) The District's water purchases (in gallons) for the year ended December 31, 2025 and 2024, were as follows:

	2025	2024
City of Eubank	34,944,700	33,360,800
City of Stanford	114,018,700	109,534,000
Total Gallons Purchased	148,963,400	142,894,800

**8. COMMITMENTS**

As of December 31, 2025, there is a water tank construction in process. Project costs are expected to be \$5,092,641. At December 31, 2025, the District incurred \$1,905,773 in costs on this project. The project is being funded with the following sources:

	Estimated Funding
KIA Fund F Loan	\$ 2,491,916
ARC Grant	500,000
CDBG Grant	1,750,000
Cleaner Water Grant	287,289
Local	63,436
Total Estimated Funding	\$ 5,092,641

As of December 31, 2025, there is a water line extension project in process. Project costs are expected to be \$2,001,801. At December 31, 2025, the District incurred \$1,611,886 in costs on this project. The project is being funded with the following sources:

	Estimated Funding
RWFA Bonds	\$ 825,052
City of Danville Grant	576,749
Cares Act Grant	600,000
Total Estimated Funding	\$ 2,001,801

## **COMPLIANCE SECTION**

**MCKINNEY WATER DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2025**

Grant/Program Title	Federal Assistance Listing Number	Contract Number	Expenditures	Passed Through To Subrecipients
A. U.S. Housing and Urban Development:				
Passed through Commonwealth of Kentucky,				
Department for Local Government and Lincoln County Fiscal Court:				
Community Development Block Grant	14.228		\$ 1,578,800	\$ -
			<u>1,578,800</u>	<u>-</u>
B. U.S. Department of the Treasury:				
Passed through Commonwealth of Kentucky,				
Department for Local Government and Lincoln County Fiscal Court:				
COVID 19 - Coronavirus State and Local Fiscal Recovery Funds	21.027		462,000	-
			<u>462,000</u>	<u>-</u>
C. Appalachian Regional Commission:				
Passed through Commonwealth of Kentucky,				
Department for Local Government:				
Appalachian Regional Development	23.002	KY-21486-A-302-24	234,209	-
			<u>234,209</u>	<u>-</u>
			<u>\$ 2,275,009</u>	<u>\$ -</u>

See accompanying notes to schedule of expenditures of federal awards.

**MCKINNEY WATER DISTRICT**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2025**

**1. BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards (schedule) includes the federal award activity of the District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operation of the District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the District.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance wherein certain types of expenditures are not allowable or are limited as to reimbursement. The District has elected not to use the 15 percent de-minimis indirect cost rate as allowed under the Uniform Guidance.

# 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, 2025, 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 25, 2026.

### 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 questioned costs as items 2025-001 and 2025-002 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 questioned costs. 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 25, 2026

# Kerbaugh, Rodes & Butler, PLLC

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## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Chairman and Commissioners  
McKinney Water District

### Report on Compliance for Each Major Federal Program

#### *Opinion on Each Major Federal Program*

We have audited the McKinney Water District's (the District's) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of District's major federal programs for the year ended December 31, 2025. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2025.

#### *Basis for Opinion on Each Major Federal Program*

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for each major federal program. Our audit does not provide a legal determination of the District's compliance with the compliance requirements referred to above.

#### *Responsibilities of Management for Compliance*

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the District's federal programs.

#### *Auditor's Responsibilities for the Audit of Compliance*

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the District's compliance based on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the District's compliance with the requirements of each major federal program as a whole.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 District's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the District's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

#### **Report on Internal Control over Compliance**

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Kerbaugh, Rodes & Butler, PLLC*

Kerbaugh, Rodes & Butler, PLLC  
Certified Public Accountants

Danville, Kentucky  
March 25, 2026

**MCKINNEY WTAER DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2025**

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**Section I-Summary of Auditor’s Results**

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**Financial Statements**

Type of auditor’s report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	Yes
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No

**Federal Awards**

Internal control over major programs:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	None reported
Type of auditor’s report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.228	Community Development Block Grants

Dollar threshold used to distinguish Between type A and type B programs:	\$ <u>750,000</u>
Auditee qualified as low-risk auditee?	No

**MCKINNEY WTAER DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2025**

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**Section II – Financial Statement Findings**

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**2025-001 - 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.

**2025-002 - 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.

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**Section III – Federal Award Findings and Questioned Costs**

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No matters were reported.

**MCKINNEY WTAER DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2025**

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**Section IV – Prior Year Audit Findings**

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Prior year financial statement findings related to the District’s ability to prepare financial statements and issues concerning segregation of duties. Management has determined that the addition of an employee(s) to prepare financial statements and/or to segregate processes would not be cost effective for the District. Therefore, the findings related to the ability to prepare financial statements and segregation of duties were repeated in the current year audit.