

PARKSVILLE WATER DISTRICT
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2019 AND 2018

Lanham & Company, PSC
Certified Public Accountants

PARKSVILLE WATER DISTRICT
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Lanham & Company, PSC

Certified Public Accountants

Established 1968

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INDEPENDENT AUDITOR'S REPORT

To the Chairman and Commissioners
Parksville Water District
Parksville, Kentucky

We have audited the accompanying financial statements of Parksville Water District as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the District's financial statements as listed in the table of contents

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of the Public Service Commission of the Commonwealth of Kentucky, as described in Note A. Management is also responsible 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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described more fully in Note A, the financial statements are prepared by Parksville Water District on the basis of the financial reporting provisions of the Public Service Commission of the Commonwealth of Kentucky, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of the Public Service Commission.

The effects on the financial statements of the variances between the regulatory basis of accounting described in Note A and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles" paragraph, the financial statements referred to in the first paragraph do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of Parksville Water District as of December 31, 2019 and 2018, the changes in financial position or its cash flows for the years then ended.

Unmodified Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Parksville Water District, as of December 31, 2019 and 2018, and the results of its operations and cash flows for the years then ended, on the basis of the financial reporting provisions of the Public Service Commission of the Commonwealth of Kentucky as described in Note A.

Other Matters

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Parksville Water District's basic financial statements. The statements of operating expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The statements of operating expenses are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 statements of operating expenses are 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 February 17, 2020 on our consideration of the Parksville Water District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is 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 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 Parksville Water District's internal control over financial reporting and compliance.

Lanham & Company, PSC
Harrodsburg, Kentucky
February 17, 2020

PARKSVILLE WATER DISTRICT
Statements of Assets, Liabilities and Equity Capital
Regulatory Basis
December 31, 2019 and 2018

| | 2019 | 2018 |
|-------------------------------|----------------------------|----------------------------|
| Assets | | |
| Current assets | | |
| Cash | \$ 108,793 | \$ 145,291 |
| Accounts receivable | 113,830 | 109,733 |
| Prepaid expenses | 7,763 | 9,239 |
| Total current assets | <u>230,386</u> | <u>264,263</u> |
| Other assets | | |
| Cash restricted | <u>198,695</u> | <u>161,157</u> |
| Property and equipment | | |
| Utility plant | 4,811,600 | 4,803,268 |
| Structures and improvements | 116,686 | 116,686 |
| Equipment and vehicles | 154,234 | 151,171 |
| | <u>5,082,520</u> | <u>5,071,125</u> |
| Less accumulated depreciation | <u>(2,394,368)</u> | <u>(2,262,374)</u> |
| | 2,688,152 | 2,808,751 |
| Land and land rights | 18,648 | 18,648 |
| Construction in progress | 2,620 | 2,620 |
| Net property and equipment | <u>2,709,420</u> | <u>2,830,019</u> |
| Total assets | <u><u>\$ 3,138,501</u></u> | <u><u>\$ 3,255,439</u></u> |

See accompanying notes and auditor's report

PARKSVILLE WATER DISTRICT
Statements of Assets, Liabilities and Equity Capital
Regulatory Basis
December 31, 2019 and 2018

| | 2019 | 2018 |
|--|--------------|--------------|
| | <hr/> | <hr/> |
| Liabilities and equity capital | | |
| Current liabilities | | |
| Accounts payable | \$ 15,270 | \$ 58,334 |
| Accrued expenses | 34,112 | 36,716 |
| Customer deposits | 52,999 | 45,887 |
| | <hr/> | <hr/> |
| Total current liabilities | 102,381 | 140,937 |
| Long-term debt | | |
| Revenue bonds payable, Rural Development | 1,401,400 | 1,445,000 |
| | <hr/> | <hr/> |
| Total liabilities | 1,503,781 | 1,585,937 |
| | <hr/> | <hr/> |
| Equity capital | | |
| Contributed capital | 2,821,515 | 2,815,465 |
| Retained earnings (deficit) | (1,186,795) | (1,145,963) |
| | <hr/> | <hr/> |
| Total equity capital | 1,634,720 | 1,669,502 |
| | <hr/> | <hr/> |
| Total liabilities and equity capital | \$ 3,138,501 | \$ 3,255,439 |
| | <hr/> <hr/> | <hr/> <hr/> |

See accompanying notes and auditor's report

PARKSVILLE WATER DISTRICT
Statements of Revenues and Expenses
Regulatory Basis
Years Ended December 31, 2019 and 2018

| | 2019 | 2018 |
|---|-------------|-------------|
| Metered sales | \$ 933,317 | \$ 917,427 |
| Other operating revenue | 39,212 | 39,187 |
| Total operating revenues | 972,529 | 956,614 |
| Operating expenses | 820,237 | 827,899 |
| Operating income before depreciation | 152,292 | 128,715 |
| Less depreciation | 131,994 | 130,439 |
| Operating income (loss) | 20,298 | (1,724) |
| Other income | | |
| Interest income | 475 | 348 |
| Total other income | 475 | 348 |
| Net income (loss) before other expenses | 20,773 | (1,376) |
| Other expenses | | |
| Interest expense | 61,605 | 62,417 |
| Net income (loss) | \$ (40,832) | \$ (63,793) |

See accompanying notes and auditor's report

PARKSVILLE WATER DISTRICT
 Statements of Retained Earnings (Deficit)
 Regulatory Basis
 Years Ended December 31, 2019 and 2018

| | <u>2019</u> | <u>2018</u> |
|---------------------------------------|------------------------------|------------------------------|
| Balance (deficit), beginning of years | \$ (1,145,963) | \$ (1,082,170) |
| Net income (loss) for the years | <u>(40,832)</u> | <u>(63,793)</u> |
| Balance (deficit), end of years | <u><u>\$ (1,186,795)</u></u> | <u><u>\$ (1,145,963)</u></u> |

See accompanying notes and auditor's report

PARKSVILLE WATER DISTRICT
Statements of Cash Flow
Regulatory Basis
Years Ended December 31, 2019 and 2018

| | 2019 | 2018 |
|---|------------|------------|
| Cash flows from operating activities | | |
| Operating income (loss) | \$ 20,298 | \$ (1,724) |
| Adjustments to reconcile operating income to net cash provided by (used by) operating activities: | | |
| Depreciation | 131,994 | 130,439 |
| (Gain) loss on sale of asset | - | 435 |
| (Increase) decrease in accounts receivable | (4,097) | (10,413) |
| (Increase) decrease in prepaid expenses | 1,476 | (8,328) |
| (Increase) decrease in restricted cash | (37,538) | (45,752) |
| Increase (decrease) in customer meter deposits | 7,112 | 3,155 |
| Increase (decrease) in accounts payable | (43,064) | 30,212 |
| Increase (decrease) in accrued expenses | (2,604) | (2,677) |
| Net cash provided by (used in) operating activities | 73,577 | 95,347 |
| Cash flows from capital and related financing activities: | | |
| Purchase of property and equipment | (11,395) | (50,442) |
| (Increase) in construction in progress | - | (2,620) |
| Principal payments on long-term debt | (43,600) | (42,000) |
| Interest expense | (61,605) | (62,417) |
| Customers' contribution for construction | 6,050 | 7,800 |
| Net cash provided by (used in) capital and related financing activities | (110,550) | (149,679) |
| Cash flows from financing activities | | |
| Interest income | 475 | 349 |
| Net cash provided by (used in) financing activities | 475 | 349 |
| Net increase (decrease) in cash and cash equivalents | (36,498) | (53,983) |
| Cash and cash equivalents at beginning of years | 145,291 | 199,274 |
| Cash and cash equivalents at end of years | \$ 108,793 | \$ 145,291 |

See accompanying notes and auditor's report

PARKSVILLE WATER DISTRICT

Notes to Financial Statements

December 31, 2019 and 2018

NOTE A - GENERAL STATEMENT AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

GENERAL STATEMENT

Parksville Water District was established in 1966 under KRS 74.010 to provide water service for public health, convenience, fire protection and comfort to the residents of Boyle, Casey and Lincoln County, Kentucky.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Parksville Water District has been established by the Boyle County Fiscal Court as an independent unit and also appoints three commissioners to serve for four-year terms. The District selects management staff, sets user charges, establishes budgets and controls all aspects of its daily activities.

Basis of Accounting

Parksville Water District prepares its financial statements on the basis of accounting prescribed by the Public Service Commission of the Commonwealth of Kentucky (PSC), which is a comprehensive basis of accounting other than accounting principles generally accepted (GAAP) in the United States of America. The basis of accounting prescribed by the PSC differs from GAAP in the following ways:

- GAAP requires that grants and other contributed capital be reported as income in the year received. The District reports grants and other contributed capital received in the year as an addition in the equity capital section of the Statement of Assets, Liabilities and Equity Capital.
- The District also uses the language prescribed by the PSC for account and statement titles.
- The PSC does not require the presentation of a cash flow statement. A cash flow statement is required to be prepared using the direct method under GAAP. The District has elected to present a cash flow statement using the indirect method.
- The District has also omitted supplementary information required by GAAP including management's discussion and analysis. The supplementary information is not required by the regulatory basis.

Parksville Water District is accounted for on a flow of economic resources measurement focus. With this measurement focus all assets and liabilities associated with the operation of these funds are included on the balance sheet. Equity capital is

PARKSVILLE WATER DISTRICT
Notes to Financial Statements
December 31, 2019 and 2018

segregated into contributed capital and retained earnings components. The operating statements present increases or decreases (e.g. revenues and expenses) in equity capital.

The accrual basis of accounting is utilized by the District. Under this method, revenues are recognized when earned and expenses are recognized when incurred.

Use of Estimates

The preparation of financial statements in conformity with the regulatory basis of accounting requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

The statement of cash flows includes cash on deposit and cash on hand, but does not include any restricted cash.

Property and Equipment

Property and equipment are stated at cost and are depreciated over the estimated useful life of the assets using the straight-line method of depreciation. Depreciation expense for the years ended December 31, 2019 and 2018 was \$131,994 and \$130,439. Listed below is the life for each class of assets:

| <u>Class of Assets</u> | <u>Estimated Useful Life</u> |
|-----------------------------------|------------------------------|
| Structures and improvements | 40-50 years |
| Utility plant | 40-50 years |
| Furniture, fixtures and equipment | 7-10 years |
| Vehicles | 5 years |

Compensated Absences

The amount accrued for compensated absences for the years ended December 31, 2019 and 2018 was \$25,812 and \$29,670.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from balances outstanding at year-end. Based on management's assessment of the credit history with customers having outstanding balances and current relationships with them, it has concluded that realization losses on balances outstanding at year-end will be immaterial.

PARKSVILLE WATER DISTRICT
Notes to Financial Statements
December 31, 2019 and 2018

Commitments and Contingencies

Water Purchase Contract

The District has an agreement with the City of Danville (City) to purchase potable treated water from the City.

Credit Risk

Financial instruments that potentially subject the District to concentrations of credit risk consist principally of temporary cash investments and accounts receivable.

The fair market value of deposits and investments was equivalent to the reported values. All deposits are checking or savings accounts. The carrying amount of the District's bank deposits was \$307,272 and \$306,232 for the years ended December 31, 2019 and 2018 and the respective bank balances totaled \$386,539 and \$392,575 respectively for the years then ended. The bank balances are covered by \$250,000 of FDIC insurance. The remaining bank balances were fully collateralized. The deposits are categorized to give an indication of the level of risk assumed by the District at year end. The categories are described as follows:

Category 1 Insured or collateralized with securities held by the District or by its agent in the District's name.

Category 2 Collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.

Category 3 Uncollateralized

Deposits at December 31, 2019, categorized by level of risk, are:

| | Risk Category | | | Bank | Book |
|-----------------------------|------------------|-------------|-------------|------------------|------------------|
| | 1 | 2 | 3 | Balance | Value |
| Unrestricted Deposits | | | | | |
| Operation and Maintenance | \$45,838 | \$ 0 | \$ 0 | \$45,838 | \$40,678 |
| Revenue Fund | 15,729 | 0 | 0 | 15,729 | 15,801 |
| Customer Deposits | 52,443 | 0 | 0 | 52,443 | 52,098 |
| Construction | 0 | 0 | 0 | 0 | 0 |
| Total Unrestricted Deposits | <u>114,010</u> | <u>0</u> | <u>0</u> | <u>114,010</u> | <u>108,577</u> |
| Restricted Deposits | | | | | |
| Depreciation Reserve Funds | 154,380 | 0 | 0 | 154,380 | 154,381 |
| Sinking Funds | 118,149 | 0 | 0 | 118,149 | 44,314 |
| Total Restricted Deposits | <u>272,529</u> | <u>0</u> | <u>0</u> | <u>272,529</u> | <u>198,695</u> |
| Total Deposits | <u>\$386,539</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$386,539</u> | <u>\$307,272</u> |

PARKSVILLE WATER DISTRICT

Notes to Financial Statements

December 31, 2019 and 2018

The District also had \$216 of petty cash on hand for the years ended December 31, 2019 and 2018.

Accounts receivable are due from individuals located within the same area. The collectability of the receivables could be affected by the economic condition of the region.

Risk Management

The District is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In addition to its general liability insurance, the District carries commercial insurance for various other risks of losses such as workers' compensation. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Cash Deposits

Restrictions on cash deposits are as follows:

Revenue Fund

All revenues of the system are required to be deposited into a Revenue Fund. The Revenue Fund disburses funds as required by Bond Resolution. Amounts sufficient to meet the current expenses of operating and maintaining the system are transferred from the Revenue Fund to the Operations and Maintenance Fund on an as needed basis. The Bond Resolution also requires that within sixty days after the end of each fiscal year, any excess funds in the Revenue Fund are to be transferred to the Depreciation Fund or to the Sinking Fund to purchase or redeem outstanding bonds. The District has determined the funds in the Revenue account were needed for future operational purposes.

Depreciation Reserve Funds

Amounts in the Depreciation Reserve Fund may be withdrawn and used by the District for unusual or extraordinary maintenance, repairs, renewals, and replacements not included in the annual budget of current expenses, constructing future extensions, additions, or improvements to the District, and when necessary, for making payments of principal and interest on bonds if the cash on deposit in the Sinking Fund is not sufficient.

During the years ended December 31, 2019 and 2018, the District was required to transfer at least \$780 per month into the Depreciation Reserve Fund. The required transfer will continue until all of the Waterworks Revenue Bonds are paid in full.

PARKSVILLE WATER DISTRICT
Notes to Financial Statements
December 31, 2019 and 2018

The bonds issued in 2014 added a requirement for a reserve fund for the replacement of short lived assets. The District was required to deposit \$2,514 a month into the short lived assets fund.

Sinking Fund

The District was required to transfer monthly into the Sinking Fund a monthly amount of \$8,673 and \$8,698 for 2019 and 2018, respectively to make required principal and interest payments. The District will be required to transfer \$8,643 monthly during 2020.

Subsequent Events

Management has evaluated subsequent events through February 17, 2020, the date the financial statements were available to be issued.

PARKSVILLE WATER DISTRICT
Notes to Financial Statements
December 31, 2019 and 2018

NOTE B – PROPERTY AND EQUIPMENT

Property and equipment activity for the years ended December 31, 2019 and 2018 are as follows:

| | Balance January 1, 2018 | Additions | Deductions | Balance December 31, 2018 | Additions | Deductions | Balance December 31, 2019 |
|---|-------------------------------|-------------|------------|---------------------------------|-----------|------------|---------------------------------|
| Capital assets not depreciated: | | | | | | | |
| Construction in progress | \$ 0 | \$ 2,620 | \$ 0 | \$ 2,620 | \$ 0 | \$ 0 | \$ 2,620 |
| Land and land rights | 18,648 | 0 | 0 | 18,648 | 0 | 0 | 18,648 |
| Total capital assets not depreciated: | 18,648 | 2,620 | 0 | 21,268 | 0 | 0 | 21,268 |
| Capital assets depreciated: | | | | | | | |
| Utility plant: | | | | | | | |
| Pumping equipment | 680,046 | 0 | 0 | 680,046 | 0 | 0 | 680,046 |
| Distribution reservoirs and standpipes | 424,874 | 0 | 0 | 424,874 | 0 | 0 | 424,874 |
| Transmission and distribution mains | 3,073,214 | 33,170 | 0 | 3,106,384 | 0 | 0 | 3,106,384 |
| Meters | 443,788 | 11,497 | 0 | 455,285 | 8,332 | 0 | 463,617 |
| Hydrants | 2,838 | 0 | 0 | 2,838 | 0 | 0 | 2,838 |
| Other plant | 129,631 | 5,355 | 1,145 | 133,841 | 0 | 0 | 133,841 |
| Total utility plant | 4,754,391 | 50,022 | 1,145 | 4,803,268 | 8,332 | 0 | 4,811,600 |
| Structures and improvements | 116,686 | 0 | 0 | 116,686 | 0 | 0 | 116,686 |
| Equipment and vehicles | 151,150 | 420 | 399 | 151,171 | 3,063 | 0 | 154,234 |
| Total capital assets depreciated | 5,022,227 | 50,442 | 1,544 | 5,071,125 | 11,395 | 0 | 5,082,520 |
| Less accumulated depreciation | 2,133,044 | 130,439 | 1,109 | 2,262,374 | 131,994 | 0 | 2,394,368 |
| Net capital assets depreciated | 2,889,183 | (79,997) | 435 | 2,808,751 | (120,599) | 0 | 2,688,152 |
| Net property and equipment | \$ 2,907,831 | \$ (77,377) | \$ 435 | \$ 2,830,019 | (120,599) | 0 | \$ 2,709,420 |

PARKSVILLE WATER DISTRICT

Notes to Financial Statements

December 31, 2019 and 2018

NOTE C - LONG-TERM DEBT

Parksville Water District Revenue Bonds

The District has authorized the issuance of various bonds to finance the cost of construction of extensions, additions and improvements to the system. The Parksville Water District Revenue Bonds have been purchased by Rural Development of the U.S. Department of Agriculture. The bonds are payable solely on a first lien basis out of gross revenues derived from the operation of the District over forty years. See note A for a discussion of cash requirements and restrictions relating to these bonds.

The bonds are as follows:

| Bond Issue | Interest | December 31, 2018 | Increases | Decreases | December 31, 2019 |
|------------|----------|----------------------|-------------|------------------|----------------------|
| 1995 | 5.125% | \$ 419,000 | \$ 0 | \$ 19,000 | \$ 400,000 |
| 1999 | 4.750% | 387,000 | 0 | 13,000 | 374,000 |
| 2002 | | | | | |
| Series A | 4.500% | 83,000 | 0 | 2,100 | 80,900 |
| 2014 | | | | | |
| Series A | | 477,000 | 0 | 8,500 | 468,500 |
| Series B | | 79,000 | 0 | 1,000 | 78,000 |
| Total | | <u>\$ 1,445,000</u> | <u>\$ 0</u> | <u>\$ 43,600</u> | <u>\$ 1,401,400</u> |

| Bond Issue | Interest | December 31, 2017 | Increases | Decreases | December 31, 2018 |
|------------|----------|----------------------|-------------|------------------|----------------------|
| 1995 | 5.125% | \$ 438,000 | \$ 0 | \$ 19,000 | \$ 419,000 |
| 1999 | 4.750% | 399,000 | 0 | 12,000 | 387,000 |
| 2002 | | | | | |
| Series A | 4.500% | 85,000 | 0 | 2,000 | 83,000 |
| 2014 | | | | | |
| Series A | | 485,000 | 0 | 8,000 | 477,000 |
| Series B | | 80,000 | 0 | 1,000 | 79,000 |
| Total | | <u>\$ 1,487,000</u> | <u>\$ 0</u> | <u>\$ 42,000</u> | <u>\$ 1,445,000</u> |

PARKSVILLE WATER DISTRICT

Notes to Financial Statements

December 31, 2019 and 2018

Future bond payments and sinking fund requirements are required as follows:

| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-----------|------------------|-----------------|--------------|
| 2020 | 0 | 58,496 | 58,496 |
| 2021 | 45,200 | 56,451 | 101,651 |
| 2022 | 47,800 | 54,288 | 102,088 |
| 2023 | 50,900 | 51,969 | 102,869 |
| 2024 | 51,500 | 49,632 | 101,132 |
| 2024-2028 | 299,100 | 208,327 | 507,427 |
| 2029-2033 | 377,200 | 129,341 | 506,541 |
| 2034-2038 | 216,500 | 64,363 | 280,863, |
| 2039-2043 | 109,700 | 37,527 | 147,227 |
| 2044-2048 | 108,500 | 21,208 | 129,708 |
| 2049-2053 | 95,000 | 4,294 | 99,294 |

NOTE D - CHANGES IN CONTRIBUTED CAPITAL

| | <u>Contributions and Tap on Fees</u> | <u>Grants</u> | <u>Total</u> |
|-----------------------------|--|--------------------|---------------------|
| Balance – January 1, 2018 | \$ 749,881 | \$ 2,057,784 | \$ 2,807,665 |
| Additions – 2018 | <u>7,800</u> | <u>0</u> | <u>7,800</u> |
| Balance – December 31, 2018 | 757,681 | 2,057,784 | 2,815,465 |
| Additions – 2019 | <u>6,050</u> | <u>0</u> | <u>6,050</u> |
| Balance – December 31, 2019 | <u>\$ 763,731</u> | <u>\$2,057,784</u> | <u>\$ 2,821,515</u> |

NOTE E - METER CUSTOMERS

The District had 1,604 and 1,599 meter customers at December 31, 2019 and 2018.

NOTE F - INTEREST CAPITALIZATION

Interest costs are capitalized on debt where proceeds were used to finance the construction of assets during the construction process. No interest cost was capitalized during 2019 or 2018. Interest expense for 2019 and 2018 was \$61,605 and \$62,417.

PARKSVILLE WATER DISTRICT

Notes to Financial Statements

December 31, 2019 and 2018

NOTE G – RETIREMENT PLAN

The District adopted a retirement plan which became effective on January 1, 1996. It is a defined contribution plan which provides retirement benefits for each employee who has completed one year of service and has reached his/her 21st birthday. The District contributes seven percent (7%) of the participating employees' gross salaries. Each participating employee contributes three percent (3%). Employees become twenty percent (20%) vested in the District's contributions after one full year of employment with an additional twenty percent (20%) for each additional full year of employment, thereafter becoming fully vested after five (5) full years of employment. The District's contribution to the plan was \$13,748 in 2019 and \$18,049 in 2018. The District's employees contributed \$6,031 and \$7,736 in 2019 and 2018, respectively.

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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*

To the Chairman and Commissioners
Parksville Water District
Parksville, Kentucky

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 Parksville Water District as of and for the year ended December 31, 2019, and the related notes to the financial statements, and have issued our report thereon dated February 17, 2020. The report on the District was adverse due to the use of regulatory basis of accounting, however, the report on the regulatory basis of accounting was unqualified.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Parksville Water District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions 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 entity'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Parksville Water District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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 result of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Lanham & Company, PSC

Harrodsburg, Kentucky

February 17, 2020

SUPPLEMENTARY INFORMATION

PARKSVILLE WATER DISTRICT
Statements of Operating Expenses
Regulatory Basis
Years Ended December 31, 2019 and 2018

| | 2019 | 2018 |
|---------------------------------------|-------------|-------------|
| | <hr/> | <hr/> |
| Source of supply expense | | |
| Purchased water | \$ 321,674 | \$ 313,800 |
| Pumping expense | | |
| Fuel for pumping | 29,005 | 29,506 |
| Transmission and distribution expense | | |
| Operational supplies | 20,762 | 24,421 |
| Operational labor | 34,929 | 43,928 |
| Maintenance | 77,855 | 78,909 |
| Customer accounts expense | | |
| Meter reading labor | 22,385 | 19,674 |
| Accounting and collecting labor | 95,919 | 84,355 |
| Uncollectible accounts | 3,911 | 2,628 |
| Administrative and general | | |
| Payroll taxes | 19,345 | 20,474 |
| Employee benefits | 83,628 | 101,059 |
| Repairs and maintenance | 14,076 | 16,124 |
| Contractual services | 33,783 | 32,987 |
| Transportation expense | 18,970 | 13,767 |
| Miscellaneous | 14,550 | 11,752 |
| Insurance expense | 18,374 | 21,096 |
| Regulatory commission expense | 2,371 | 2,419 |
| Accounting and auditing | 8,700 | 8,700 |
| Legal | - | 2,300 |
| | <hr/> | <hr/> |
| | \$ 820,237 | \$ 827,899 |
| | <hr/> <hr/> | <hr/> <hr/> |

See accompanying notes and auditor's report