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PARKSVILLE WATER DISTRICT
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2012 AND 2011

HAROLD D. LANHAM, PSC
CERTIFIED PUBLIC ACCOUNTANTS

PARKSVILLE WATER DISTRICT
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HAROLD D. LANHAM, PSC

Certified Public Accountants

Established 1968

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INDEPENDENT AUDITOR'S REPORT

To the Chairman and Commissioners
Parksville Water District
Parksville, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of Parksville Water District as of and for the years ended December 31, 2012 and 2011, as listed in the table of contents and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the regulatory basis of accounting prescribed by the Public Service Commission of the Commonwealth of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express 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 principles 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.

Opinions

As described more fully in Note A, Parksville Water District has prepared these financial statements using accounting practices prescribed by the Public Service Commission of the Commonwealth of

Kentucky, which differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above 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, 2012 and 2011, the changes in financial position or its cash flows for the years then ended. Further, Parksville Water District has not presented a management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

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, 2012 and 2011, and the results of its operations and cash flows for the years then ended, on the basis of accounting described in Note A.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 14, 2013 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.

Harold D. Lanham, PSC
Harrodsburg, Kentucky
February 14, 2013

PARKSVILLE WATER DISTRICT
 Statements of Assets, Liabilities and Equity Capital
 Regulatory Basis
 December 31, 2012 and 2011

	2012	2011
Assets		
Current assets		
Cash	\$ 62,573	\$ 119,929
Accounts receivable	48,576	46,134
Prepaid expenses	2,043	2,636
Total current assets	113,192	168,699
Other assets		
Cash restricted	155,096	163,865
Property and equipment		
Utility plant	3,756,712	3,736,074
Structures and improvements	110,885	110,885
Equipment and vehicles	134,729	143,883
	4,002,326	3,990,842
Less accumulated depreciation	(1,624,366)	(1,553,803)
	2,377,960	2,437,039
Land and land rights	18,648	18,648
Net property and equipment	2,396,608	2,455,687
Total assets	\$ 2,664,896	\$ 2,788,251

See accompanying notes and auditor's report

PARKSVILLE WATER DISTRICT
 Statements of Assets, Liabilities and Equity Capital
 Regulatory Basis
 December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Liabilities and equity capital		
Current liabilities		
Accounts payable	\$ 19,655	\$ 17,078
Accrued expenses	36,859	34,281
Customer deposits	24,039	19,049
Total current liabilities	<u>80,553</u>	<u>70,408</u>
Long-term debt		
Revenue bonds payable, Rural Development	1,061,000	1,085,600
Total liabilities	<u>1,141,553</u>	<u>1,156,008</u>
Equity capital		
Contributed capital	2,518,975	2,501,313
Retained earnings (deficit)	(995,632)	(869,070)
Total equity capital	<u>1,523,343</u>	<u>1,632,243</u>
Total liabilities and equity capital	<u><u>\$ 2,664,896</u></u>	<u><u>\$ 2,788,251</u></u>

See accompanying notes and auditor's report

PARKSVILLE WATER DISTRICT
 Statements of Revenues and Expenses
 Regulatory Basis
 Years Ended December 31, 2012 and 2011

	2012	2011
Metered sales	\$ 623,467	\$ 612,044
Other operating revenue	33,086	35,266
	656,553	647,310
Total operating revenues		
Operating expenses	621,842	601,805
	34,711	45,505
Operating income before depreciation		
Less depreciation	108,177	109,270
	(73,466)	(63,765)
Operating income (loss)		
Other income		
Interest income	237	431
Settlement income	-	-
	237	431
Total other income		
Net income (loss) before other expenses	(73,229)	(63,334)
Other expenses		
Interest expense	53,333	54,485
	\$ (126,562)	\$ (117,819)
Net income (loss)		

See accompanying notes and auditor's report

PARKSVILLE WATER DISTRICT
Statements of Cash Flow
Regulatory Basis
Years Ended December 31, 2012 and 2011

	2012	2011
Cash flows from operating activities		
Operating income (loss)	\$ (73,466)	\$ (63,765)
Adjustments to reconcile operating income to net cash provided by (used by) operating activities:		
Depreciation	108,177	109,270
(Gain) loss on sale of asset	(162)	-
(Increase) decrease in accounts receivable	(2,442)	11,769
(Increase) decrease in prepaid expenses	593	6,244
(Increase) decrease in restricted cash	8,769	(9,672)
Increase (decrease) in customer meter deposits	4,990	4,729
Increase (decrease) in accounts payable	2,577	1,104
Increase (decrease) in accrued expenses	2,578	2,529
	51,614	62,208
Cash flows from capital and related financing activities:		
Purchase of property and equipment	(50,252)	(29,146)
Proceeds from the sale of property	1,316	-
Principal payments on long-term debt	(24,600)	(23,500)
Interest expense	(53,333)	(54,485)
Customers' contribution for construction	5,500	4,950
Grants awarded	12,162	-
	(109,207)	(102,181)
Cash flows from financing activities		
Interest income	237	431
	237	431
Net increase (decrease) in cash and cash equivalents	(57,356)	(39,542)
Cash and cash equivalents at beginning of years	119,929	159,471
Cash and cash equivalents at end of years	\$ 62,573	\$ 119,929

See accompanying notes and auditor's report

PARKSVILLE WATER DISTRICT
Statements of Retained Earnings (Deficit)
Regulatory Basis
Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Balance (deficit), beginning of years	\$ (869,070)	\$ (751,251)
Net income (loss) for the years	<u>(126,562)</u>	<u>(117,819)</u>
Balance (deficit), end of years	<u><u>\$ (995,632)</u></u>	<u><u>\$ (869,070)</u></u>

See accompanying notes and auditor's report

PARKSVILLE WATER DISTRICT
Notes to Financial Statements
December 31, 2012 and 2011

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 existing GAAP hierarchy provides that accounting guidance should first be sought in statements of the Governmental Accounting Standards Board (GASB). If the GASB has not issued a standard applicable to a situation, then pronouncements of the Financial Accounting Standards Board (FASB) and Accounting Principles Board (APB) issued on or before November 30, 1989 are presumed to apply. 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 cash flow statement is required to be prepared using the direct method under GAAP. The District has prepared its cash flow statement using the indirect method.
- The District has also omitted supplementary information required by GAAP including management's discussion and analysis. The required supplementary information is not required by the regulatory basis.

PARKSVILLE WATER DISTRICT

Notes to Financial Statements

December 31, 2012 and 2011

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 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, 2012 and 2011 was \$108,177 and \$109,270. 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, 2012 and 2011 was \$30,817 and \$28,437.

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, 2012 and 2011

Commitments and Contingencies

Water Purchase Contract

On October 7, 1994, the City of Danville (City) entered into an agreement with the District to provide potable treated water. The agreement is for 40 years and the District is to purchase a minimum of 500,000 gallons per month.

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 \$217,453 and \$283,578 for the years ended December 31, 2012 and 2011 and the respective bank balances totaled \$238,606 and \$287,001 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, 2011, categorized by level of risk, are:

	Risk Category			Bank Balance	Book Value
	1	2	3		
Unrestricted Deposits					
Operation and Maintenance	\$ 46,984	\$ 0	\$ 0	\$ 46,984	\$ 26,412
Revenue Fund	11,702	0	0	11,702	11,760
Customer Deposits	24,824	0	0	24,824	24,185
Total Unrestricted Deposits	<u>83,510</u>	<u>0</u>	<u>0</u>	<u>83,510</u>	<u>62,357</u>
Restricted Deposits					
Depreciation Reserve Fund	116,662	0	0	116,662	116,662
Sinking Fund	38,434	0	0	38,434	38,434
Construction Account	0	0	0	0	0
Total Restricted Deposits	<u>155,096</u>	<u>0</u>	<u>0</u>	<u>155,096</u>	<u>155,096</u>
Total Deposits	<u>\$238,606</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$238,606</u>	<u>\$217,453</u>

PARKSVILLE WATER DISTRICT
Notes to Financial Statements
December 31, 2012 and 2011

The District also had \$216 of petty cash on hand for the years ended December 31, 2012 and 2011.

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.

In August of 2011, the District's main pumping station was damaged due to a flood caused by line break. The District received an insurance recovery of \$23,906 for the damage. The pump station was repaired for a cost of \$30,007. The cost of the repairs has been offset by the insurance recovery received and included in operating expenses.

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.

PARKSVILLE WATER DISTRICT

Notes to Financial Statements

December 31, 2012 and 2011

Depreciation Reserve Fund

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, 2012 and 2011, 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.

Sinking Fund

The District was required to transfer monthly into the Sinking Fund a monthly amount of \$6,493 and \$6,498 for 2012 and 2011, respectively to make required principal and interest payments. The District will be required to transfer \$6,392 monthly during 2013.

Subsequent Events

Management has evaluated subsequent events through February 14, 2013, the date the financial statements were available to be issued.

In February of 2009, a portion of the District's telemetry system was damaged in an ice storm. A FEMA grant was received during 2012 for \$12,162, the estimated cost of the damage due to the ice storm damage. Management determined that repairing the damaged portion of the telemetry system was not cost effective and that the entire system needed to be replaced. The estimated total cost of the project is \$725,000. The District is expecting to issue bonds totaling \$508,000 and receive a grant from Rural Development for \$217,000 that will allow them to replace the telemetry system during the year ended December 31, 2013.

PARKSVILLE WATER DISTRICT
Notes to Financial Statements
December 31, 2012 and 2011

NOTE B – PROPERTY AND EQUIPMENT

Property and equipment activity for the years ended December 31, 2012 and 2011 are as follows:

	Balance January 1, 2011	Additions	Deductions	Balance December 31, 2011	Additions	Deductions	Balance December 31, 2012
Capital assets not depreciated:							
Land and land rights	\$ 18,648	\$ 0	\$ 0	\$ 18,648	\$ 0	\$ 0	\$ 18,648
Capital assets depreciated:							
Utility plant:							
Pumping equipment	492,413	0	0	492,413	9,185	0	501,598
Distribution reservoirs and standpipes	320,553	0	0	320,553	0	0	320,553
Transmission and distribution mains	2,380,571	0	0	2,380,571	0	0	2,380,571
Meters	377,346	14,550	0	391,896	13,894	0	405,790
Hydrants	2,838	0	0	2,838	0	0	2,838
Other plant	137,204	10,599	0	147,803	559	3,000	145,362
Total utility plant	3,710,925	25,149	0	3,736,074	23,638	3,000	3,756,712
Structures and improvements	110,885	0	0	110,885	0	0	110,885
Equipment and vehicles	139,886	3,997	0	143,883	26,615	35,769	134,729
Total capital assets depreciated	3,961,696	29,146	0	3,990,842	50,253	38,769	4,002,326
Less accumulated depreciation	1,444,533	109,270	0	1,553,803	108,177	37,614	1,624,366
Net capital assets depreciated	2,517,163	(80,124)	0	2,437,039	(57,924)	1,155	2,377,960
Net property and equipment	<u>\$ 2,535,811</u>	<u>(\$80,124)</u>	<u>\$ 0</u>	<u>\$ 2,455,687</u>	<u>(\$ 57,924)</u>	<u>\$ 1,155</u>	<u>\$ 2,396,608</u>

PARKSVILLE WATER DISTRICT

Notes to Financial Statements

December 31, 2012 and 2011

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:

<u>Bond Issue</u>	<u>Interest</u>	<u>December 31, 2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>December 31, 2012</u>
1995	5.125%	\$ 531,000	\$ 0	\$ 14,000	\$ 517,000
1999	4.750%	459,000	0	9,000	450,000
2002 Series A	4.500%	95,600	0	1,600	94,000
Total		\$ 1,085,600	\$ 0	\$ 24,600	\$ 1,061,000

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 0	52,101	52,101
2014	24,600	50,885	75,485
2015	26,700	49,565	76,265
2016	27,800	48,189	75,989
2017	29,900	46,709	76,609
2018-2022	169,600	209,209	378,809
2023-2027	218,300	160,198	378,498
2028-2032	278,600	97,541	376,141
2033-2037	228,700	30,266	258,966
2038-2042	56,800	2,436	59,236

PARKSVILLE WATER DISTRICT
Notes to Financial Statements
December 31, 2012 and 2011

NOTE D - CHANGES IN CONTRIBUTED CAPITAL

	Contributions and Tap on Fees	Grants	Total
Balance – January 1, 2011	\$ 709,741	\$ 1,786,622	\$ 2,496,363
Additions – 2011	4,950	0	4,950
Balance – December 31, 2011	714,691	1,786,622	2,501,313
Additions – 2012	5,500	12,162	17,662
Balance – December 31, 2012	<u>\$ 720,191</u>	<u>\$1,798,784</u>	<u>\$ 2,518,975</u>

NOTE E - METER CUSTOMERS

The District had 1,598 meter customers at December 31, 2012 and 1,576 at December 31, 2011.

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 2012 or 2011. Interest expense for 2012 and 2011 was \$53,333 and \$54,485.

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 \$16,277 in 2012 and \$15,849 in 2011. The District's employees contributed \$6,976 and \$6,793 in 2012 and 2011, respectively.

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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*

INDEPENDENT AUDITOR'S REPORT

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, 2012, and the related notes to the financial statements, and have issued our report thereon dated February 14, 2013. 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify certain deficiencies in internal control, as listed below, that we consider to be significant deficiencies.

- Because of limited personnel and the overlapping of duties, Parksville Water District is unable to maintain a complete segregation of duties.
- A system of internal control over financial reporting includes controls over financial statement preparation, including footnote disclosures. Due to limited personnel and a lack of experience, the District retained our firm to prepare the financial statements including footnote disclosures.

Management's Response and Corrective Action Plan: It does not appear that it would be economically feasible for our organization to enlarge its staff or contract an individual with appropriate skill and knowledge in applying new authoritative guidance. Thus is important that our Board provide oversight and independent review functions.

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*.

Parksville Water District's Response to Findings

Parksville Water District's response to the findings identified in our audit is described in the paragraphs above. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the 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.

Harold D. Lanham, PSC
Harrodsburg, Kentucky
February 14, 2013

SUPPLEMENTARY INFORMATION

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INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTAL INFORMATION

To the Chairman and Commissioners
Parksville Water District
Parksville, Kentucky

Our report on our audit of the financial statements of Parksville Water District as of and for the years ended December 31, 2012 and 2011 appears on page one and two. That audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental information is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Harold D. Lanham, PSC
Harrodsburg, Kentucky
February 14, 2013

PARKSVILLE WATER DISTRICT
 Statements of Operating Expenses
 Regulatory Basis
 Years Ended December 31, 2012 and 2011

	2012	2011
Source of supply expense		
Purchased water	\$ 180,013	\$ 164,495
Pumping expense		
Fuel for pumping	36,752	32,521
Transmission and distribution expense		
Operational supplies	13,004	15,124
Operational labor	49,853	48,734
Maintenance	69,981	65,693
Customer accounts expense		
Meter reading labor	13,480	14,080
Accounting and collecting labor	79,881	79,844
Uncollectible accounts	925	1,583
Administrative and general		
Salaries	1,988	2,602
Payroll taxes	18,086	17,640
Employee benefits	75,288	69,724
Repairs and maintenance	15,547	15,001
Contractual services	14,723	22,397
Transportation expense	15,836	18,601
Miscellaneous	10,861	8,109
Insurance expense	15,989	16,051
Regulatory commission expense	1,135	1,031
Accounting and auditing	8,500	8,500
Legal	-	75
	\$ 621,842	\$ 601,805

See accompanying notes and auditor's report