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COMMISSION

PARKSVILLE WATER DISTRICT  
FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2013 AND 2012

**HAROLD D. LANHAM, PSC**  
CERTIFIED PUBLIC ACCOUNTANTS

# HAROLD D. LANHAM, PSC

*Certified Public Accountants*

*Established 1968*

Harold D. Lanham, CPA

Shawn D. Lanham, CPA

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113 East Poplar Street  
P.O. Box 307  
Harrodsburg, KY 40330

## INDEPENDENT ACCOUNTANT'S COMPILATION REPORT

Parksville Water District  
Parksville, Kentucky

We have compiled the Commonwealth of Kentucky Public Service Commission Annual Report of Parksville Water District as of December 31, 2013 and for the year then ending included in the accompanying prescribed form. We have not audited or reviewed the accompanying annual report and, accordingly, do not express an opinion or provide any assurance about whether the financial statements are in accordance with the form prescribed by the Commonwealth of Kentucky Public Service Commission.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with requirements prescribed by the Commonwealth of Kentucky Public Service Commission and for designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the compilation in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist management in presenting financial information in the form of the accompanying annual report without undertaking to obtain or provide any assurance that there are no material modifications that should be made.

The annual report was compiled by us from financial statements for the same period that we have audited, as indicated in our report dated February 17, 2014.

This annual report is presented in accordance with the requirements of the Commonwealth of Kentucky Public Service Commission, which differ from accounting principles generally accepted in the United States of America.

This annual report is intended solely for the information and use of the Commonwealth of Kentucky Public Service Commission and is not intended to be and should not be used by anyone other than this specified party.

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

PARKSVILLE WATER DISTRICT  
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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, 2013 and 2012, 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 financial reporting provisions of the Public Service Commission of the Commonwealth of Kentucky. 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 comply with 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, 2013 and 2012, the changes in financial position or its cash flows for the years then ended.

### **Opinion on Regulatory Basis of Accounting**

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Parksville Water District, as of December 31, 2013 and 2012, 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**

#### *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 Information*

Our audit was conducted for the purpose of forming an opinion 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, 2014 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 17, 2014

PARKSVILLE WATER DISTRICT  
 Statements of Assets, Liabilities and Equity Capital  
 Regulatory Basis  
 December 31, 2013 and 2012

	2013	2012
Assets		
Current assets		
Cash	\$ 53,431	\$ 62,573
Accounts receivable	45,994	48,576
Prepaid expenses	2,043	2,043
Total current assets	101,468	113,192
Other assets		
Cash restricted	143,606	155,096
Property and equipment		
Utility plant	3,760,783	3,756,712
Structures and improvements	110,885	110,885
Equipment and vehicles	133,095	134,729
	4,004,763	4,002,326
Less accumulated depreciation	(1,728,682)	(1,624,366)
	2,276,081	2,377,960
Land and land rights	18,648	18,648
Net property and equipment	2,294,729	2,396,608
Total assets	\$ 2,539,803	\$ 2,664,896

See accompanying notes and auditor's report

PARKSVILLE WATER DISTRICT  
 Statements of Assets, Liabilities and Equity Capital  
 Regulatory Basis  
 December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Liabilities and equity capital		
Current liabilities		
Accounts payable	\$ 19,462	\$ 19,655
Accrued expenses	37,816	36,859
Customer deposits	27,776	24,039
Total current liabilities	<u>85,054</u>	<u>80,553</u>
Long-term debt		
Revenue bonds payable, Rural Development	1,036,400	1,061,000
Total liabilities	<u>1,121,454</u>	<u>1,141,553</u>
Equity capital		
Contributed capital	2,524,475	2,518,975
Retained earnings (deficit)	(1,106,126)	(995,632)
Total equity capital	<u>1,418,349</u>	<u>1,523,343</u>
Total liabilities and equity capital	<u><u>\$ 2,539,803</u></u>	<u><u>\$ 2,664,896</u></u>

PARKSVILLE WATER DISTRICT  
 Statements of Revenues and Expenses  
 Regulatory Basis  
 Years Ended December 31, 2013 and 2012

	2013	2012
Metered sales	\$ 592,975	\$ 623,467
Other operating revenue	34,374	33,086
Total operating revenues	<u>627,349</u>	<u>656,553</u>
Operating expenses	579,316	621,842
Operating income before depreciation	<u>48,033</u>	<u>34,711</u>
Less depreciation	106,609	108,177
Operating income (loss)	<u>(58,576)</u>	<u>(73,466)</u>
Other income		
Interest income	200	237
Total other income	<u>200</u>	<u>237</u>
Net income (loss) before other expenses	(58,376)	(73,229)
Other expenses		
Interest expense	52,118	53,333
Net income (loss)	<u>\$ (110,494)</u>	<u>\$ (126,562)</u>

See accompanying notes and auditor's report

PARKSVILLE WATER DISTRICT  
 Statements of Cash Flow  
 Regulatory Basis  
 Years Ended December 31, 2013 and 2012

	2013	2012
Cash flows from operating activities		
Operating income (loss)	\$ (58,576)	\$ (73,466)
Adjustments to reconcile operating income to net cash provided by (used by) operating activities:		
Depreciation	106,609	108,177
(Gain) loss on sale of asset	897	(162)
(Increase) decrease in accounts receivable	2,582	(2,442)
(Increase) decrease in prepaid expenses	-	593
(Increase) decrease in restricted cash	11,490	8,769
Increase (decrease) in customer meter deposits	3,737	4,990
Increase (decrease) in accounts payable	(193)	2,577
Increase (decrease) in accrued expenses	957	2,578
	67,503	51,614
Cash flows from capital and related financing activities:		
Purchase of property and equipment	(5,627)	(50,252)
Proceeds from the sale of property	-	1,316
Principal payments on long-term debt	(24,600)	(24,600)
Interest expense	(52,118)	(53,333)
Customers' contribution for construction	5,500	5,500
Grants awarded	-	12,162
	(76,845)	(109,207)
Cash flows from financing activities		
Interest income	200	237
	200	237
Net increase (decrease) in cash and cash equivalents	(9,142)	(57,356)
Cash and cash equivalents at beginning of years	62,573	119,929
Cash and cash equivalents at end of years	\$ 53,431	\$ 62,573

See accompanying notes and auditor's report

PARKSVILLE WATER DISTRICT  
Statements of Retained Earnings (Deficit)  
Regulatory Basis  
Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Balance (deficit), beginning of years	\$ (995,632)	\$ (869,070)
Net income (loss) for the years	<u>(110,494)</u>	<u>(126,562)</u>
Balance (deficit), end of years	<u><u>\$ (1,106,126)</u></u>	<u><u>\$ (995,632)</u></u>

See accompanying notes and auditor's report

PARKSVILLE WATER DISTRICT  
Notes to Financial Statements  
December 31, 2013 and 2012

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, 2013 and 2012

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, 2013 and 2012 was \$106,609 and \$108,177. 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, 2013 and 2012 was \$33,177 and \$30,817.

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, 2013 and 2012

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 \$196,821 and \$217,453 for the years ended December 31, 2013 and 2012 and the respective bank balances totaled \$215,212 and \$238,606 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, 2013, categorized by level of risk, are:

	Risk Category			Bank Balance	Book Value
	1	2	3		
Unrestricted Deposits					
Operation and Maintenance	\$ 41,487	\$ 0	\$ 0	\$ 41,487	\$ 23,837
Revenue Fund	1,357	0	0	1,357	1,357
Customer Deposits	28,662	0	0	28,662	27,921
Construction	100	0	0	100	100
Total Unrestricted Deposits	<u>71,606</u>	<u>0</u>	<u>0</u>	<u>83,510</u>	<u>53,215</u>
Restricted Deposits					
Depreciation Reserve Fund	103,640	0	0	103,640	103,640
Sinking Fund	39,966	0	0	39,966	39,966
Construction Account	0	0	0	0	0
Total Restricted Deposits	<u>143,606</u>	<u>0</u>	<u>0</u>	<u>143,606</u>	<u>143,606</u>
Total Deposits	<u>\$215,212</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$215,212</u>	<u>\$196,821</u>

PARKSVILLE WATER DISTRICT

Notes to Financial Statements

December 31, 2013 and 2012

The District also had \$216 of petty cash on hand for the years ended December 31, 2013 and 2012.

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 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, 2013 and 2012, 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, 2013 and 2012

Sinking Fund

The District was required to transfer monthly into the Sinking Fund a monthly amount of \$6,392 and \$6,493 for 2013 and 2012, respectively to make required principal and interest payments. The District will be required to transfer \$6,465 monthly during 2014.

Subsequent Events

Management has evaluated subsequent events through February 17, 2014, 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 \$850,000. The District is expecting to issue bonds totaling \$591,000 and receive a grant from Rural Development for \$259,000 that will allow them to replace the telemetry system during the year ended December 31, 2014.

PARKSVILLE WATER DISTRICT  
Notes to Financial Statements  
December 31, 2013 and 2012

NOTE B – PROPERTY AND EQUIPMENT

Property and equipment activity for the years ended December 31, 2013 and 2012 are as follows:

	Balance January 1, 2012	Additions	Deductions	Balance December 31, 2012	Additions	Deductions	Balance December 31, 2013
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	9,185	0	501,598	0	1,556	500,042
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	391,896	13,894	0	405,790	5,627	0	411,417
Hydrants	2,838	0	0	2,838	0	0	2,838
Other plant	147,803	559	3,000	145,362	0	0	145,362
Total utility plant	3,736,074	23,638	3,000	3,756,712	5,627	1,556	3,760,783
Structures and improvements	110,885	0	0	110,885	0	0	110,885
Equipment and vehicles	143,883	26,615	35,769	134,729	0	1,634	133,095
Total capital assets depreciated	3,990,842	50,253	38,769	4,002,326	5,627	3,190	4,004,763
Less accumulated depreciation	1,553,803	108,177	37,614	1,624,366	106,609	2,293	1,728,682
Net capital assets depreciated	2,437,039	( 57,924)	1,155	2,377,960	( 100,982)	897	2,276,081
Net property and equipment	<u>\$ 2,455,687</u>	<u>(\$57,924)</u>	<u>\$ 1,155</u>	<u>\$ 2,396,608</u>	<u>(\$100,982)</u>	<u>\$ 897</u>	<u>\$ 2,294,729</u>

PARKSVILLE WATER DISTRICT

Notes to Financial Statements

December 31, 2013 and 2012

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, 2012</u>	<u>Increases</u>	<u>Decreases</u>	<u>December 31, 2013</u>
1995	5.125%	\$ 517,000	\$ 0	\$ 14,000	\$ 503,000
1999	4.750%	450,000	0	9,000	441,000
2002 Series A	4.500%	94,000	0	1,600	92,400
<b>Total</b>		<u>\$ 1,061,000</u>	<u>\$ 0</u>	<u>\$ 24,600</u>	<u>\$ 1,036,400</u>

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 0	50,885	50,885
2015	26,700	49,565	76,265
2016	27,800	48,189	75,989
2017	29,900	46,709	76,609
2018	30,000	45,226	75,226
2019-2023	180,000	200,303	380,303
2024-2028	228,900	148,874	377,774
2029-2033	292,400	83,070	375,470
2034-2038	199,600	20,692	220,292
2039-2042	21,100	1,486	22,586

PARKSVILLE WATER DISTRICT  
Notes to Financial Statements  
December 31, 2013 and 2012

NOTE D - CHANGES IN CONTRIBUTED CAPITAL

	Contributions and Tap on Fees	Grants	Total
Balance – January 1, 2012	\$ 714,691	\$ 1,786,622	\$ 2,501,313
Additions – 2012	5,500	12,162	17,662
Balance – December 31, 2012	720,191	1,798,784	2,518,975
Additions – 2013	5,500	0	5,500
Balance – December 31, 2013	<u>\$ 725,691</u>	<u>\$1,798,784</u>	<u>\$ 2,524,475</u>

NOTE E - METER CUSTOMERS

The District had 1,598 meter customers at December 31, 2013 and 2012.

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 2013 or 2012. Interest expense for 2013 and 2012 was \$52,118 and \$53,333.

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 \$14,475 in 2013 and \$16,277 in 2012. The District's employees contributed \$6,156 and \$6,976 in 2013 and 2012, respectively.

# HAROLD D. LANHAM, PSC

*Certified Public Accountants*

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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, 2013, and the related notes to the financial statements, and have issued our report thereon dated February 17, 2014. 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 17, 2014

SUPPLEMENTARY INFORMATION

PARKSVILLE WATER DISTRICT  
 Statements of Operating Expenses  
 Regulatory Basis  
 Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Source of supply expense		
Purchased water	\$ 178,110	\$ 180,013
Pumping expense		
Fuel for pumping	37,975	36,752
Transmission and distribution expense		
Operational supplies	6,500	13,004
Operational labor	44,071	49,853
Maintenance	56,986	69,981
Customer accounts expense		
Meter reading labor	12,976	13,480
Accounting and collecting labor	76,463	79,881
Uncollectible accounts	1,615	925
Administrative and general		
Salaries	403	1,988
Payroll taxes	15,769	18,086
Employee benefits	63,727	75,288
Repairs and maintenance	12,070	15,547
Contractual services	19,021	14,723
Transportation expense	12,990	15,836
Miscellaneous	10,600	10,861
Insurance expense	20,368	15,989
Regulatory commission expense	1,172	1,135
Accounting and auditing	8,500	8,500
	<u>\$ 579,316</u>	<u>\$ 621,842</u>

See accompanying notes and auditor's report