

# 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, 2014 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 27, 2015.

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 27, 2015

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, 2014 and 2013, 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, 2014 and 2013, 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, 2014 and 2013, 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 schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The statements of operating expenses are presented for purposes of additional analysis and are also not a required part of the basic financial statements.

The schedule of expenditures of federal awards and 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 schedule of expenditures of federal awards and 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 27, 2015 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 27, 2015

PARKSVILLE WATER DISTRICT  
 Statements of Assets, Liabilities and Equity Capital  
 Regulatory Basis  
 December 31, 2014 and 2013

	2014	2013
Assets		
Current assets		
Cash	\$ 52,668	\$ 53,431
Accounts receivable	66,882	45,994
Grants receivable	38,514	-
Prepaid expenses	842	2,043
Total current assets	158,906	101,468
Other assets		
Cash restricted	168,694	143,606
Property and equipment		
Utility plant	4,623,115	3,760,783
Structures and improvements	110,885	110,885
Equipment and vehicles	134,802	133,095
	4,868,802	4,004,763
Less accumulated depreciation	(1,824,420)	(1,728,682)
	3,044,382	2,276,081
Land and land rights	18,648	18,648
Net property and equipment	3,063,030	2,294,729
Total assets	\$ 3,390,630	\$ 2,539,803

See accompanying notes and auditor's report

PARKSVILLE WATER DISTRICT  
 Statements of Assets, Liabilities and Equity Capital  
 Regulatory Basis  
 December 31, 2014 and 2013

	2014	2013
Liabilities and equity capital		
Current liabilities		
Accounts payable	\$ 70,755	\$ 19,462
Accrued expenses	34,662	37,816
Customer deposits	28,506	27,776
Total current liabilities	133,923	85,054
Long-term debt		
Revenue bonds payable, Rural Development	1,600,700	1,036,400
Total liabilities	1,734,623	1,121,454
Equity capital		
Contributed capital	2,786,225	2,524,475
Retained earnings (deficit)	(1,130,218)	(1,106,126)
Total equity capital	1,656,007	1,418,349
Total liabilities and equity capital	\$ 3,390,630	\$ 2,539,803

See accompanying notes and auditor's report

PARKSVILLE WATER DISTRICT  
 Statements of Revenues and Expenses  
 Regulatory Basis  
 Years Ended December 31, 2014 and 2013

	2014	2013
Metered sales	\$ 735,232	\$ 592,975
Other operating revenue	33,043	34,374
Total operating revenues	768,275	627,349
Operating expenses	629,746	579,316
Operating income before depreciation	138,529	48,033
Less depreciation	104,413	106,609
Operating income (loss)	34,116	(58,576)
Other income		
Interest income	218	200
Total other income	218	200
Net income (loss) before other expenses	34,334	(58,376)
Other expenses		
Interest expense	58,426	52,118
Net income (loss)	\$ (24,092)	\$ (110,494)

See accompanying notes and auditor's report



PARKSVILLE WATER DISTRICT  
Statements of Retained Earnings (Deficit)  
Regulatory Basis  
Years Ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Balance (deficit), beginning of years	\$ (1,106,126)	\$ (995,632)
Net income (loss) for the years	<u>(24,092)</u>	<u>(110,494)</u>
Balance (deficit), end of years	<u><u>\$ (1,130,218)</u></u>	<u><u>\$ (1,106,126)</u></u>

See accompanying notes and auditor's report

PARKSVILLE WATER DISTRICT  
 Statements of Cash Flow  
 Regulatory Basis  
 Years Ended December 31, 2014 and 2013

	2014	2013
Cash flows from operating activities		
Operating income (loss)	\$ 34,116	\$ (58,576)
Adjustments to reconcile operating income to net cash provided by (used by) operating activities:		
Depreciation	104,413	106,609
(Gain) loss on sale of asset	7,395	897
(Increase) decrease in accounts receivable	(20,888)	2,582
(Increase) decrease in grants receivable	(38,514)	-
(Increase) decrease in prepaid expenses	1,201	-
(Increase) decrease in restricted cash	(25,088)	11,490
Increase (decrease) in customer meter deposits	730	3,737
Increase (decrease) in accounts payable	51,293	(193)
Increase (decrease) in accrued expenses	(3,154)	957
	111,504	67,503
Cash flows from capital and related financing activities:		
Purchase of property and equipment	(880,109)	(5,627)
Proceeds from issuance of short-term debt	506,182	-
Proceeds from issuance of long-term debt	591,000	-
Principal payments on short-term debt	(506,182)	-
Principal payments on long-term debt	(26,700)	(24,600)
Interest expense	(58,426)	(52,118)
Customers' contribution for construction	2,750	5,500
Grants awarded	259,000	-
	(112,485)	(76,845)
Cash flows from financing activities		
Interest income	218	200
	218	200
Net increase (decrease) in cash and cash equivalents	(763)	(9,142)
Cash and cash equivalents at beginning of years	53,431	62,573
Cash and cash equivalents at end of years	\$ 52,668	\$ 53,431

See accompanying notes and auditor's report

PARKSVILLE WATER DISTRICT

Notes to Financial Statements

December 31, 2014 and 2013

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, 2014 and 2013

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, 2014 and 2013 was \$104,413 and \$106,609. 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, 2014 and 2013 was \$29,728 and \$33,177.

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, 2014 and 2013

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.

During 2014, the City of Danville proposed an increase in the wholesale water rates being charged to the District. The District has filed a protest with the Public Service Commission of Kentucky which has not been resolved as of this date.

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 \$221,146 and \$196,821 for the years ended December 31, 2014 and 2013 and the respective bank balances totaled \$299,026 and \$215,212 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

PARKSVILLE WATER DISTRICT  
Notes to Financial Statements  
December 31, 2014 and 2013

Deposits at December 31, 2014, categorized by level of risk, are:

	Risk Category			Bank Balance	Book Value
	1	2	3		
Unrestricted Deposits					
Operation and Maintenance Revenue Fund	\$ 28,195	\$ 0	\$ 0	\$ 28,195	\$ 10,556
Customer Deposits	13,136	0	0	13,136	13,136
Construction	29,229	0	0	29,229	28,648
Total Unrestricted Deposits	<u>70,672</u>	<u>0</u>	<u>0</u>	<u>70,672</u>	<u>52,452</u>
Restricted Deposits					
Depreciation Reserve Funds	128,194	0	0	128,194	128,195
Sinking Funds	100,160	0	0	100,160	40,499
Total Restricted Deposits	<u>228,354</u>	<u>0</u>	<u>0</u>	<u>228,354</u>	<u>168,694</u>
Total Deposits	<u>\$299,026</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$299,026</u>	<u>\$221,146</u>

The District also had \$216 of petty cash on hand for the years ended December 31, 2014 and 2013.

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

## PARKSVILLE WATER DISTRICT

### Notes to Financial Statements

December 31, 2014 and 2013

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, 2014 and 2013, the District was required to transfer at least \$970 and \$780 per month into the Depreciation Reserve Fund. The required transfer will continue until all of the Waterworks Revenue Bonds are paid in full.

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 beginning in June of 2014 into the short lived assets fund.

#### Sinking Fund

The District was required to transfer monthly into the Sinking Fund a monthly amount of \$6,465 and \$6,392 for 2014 and 2013, respectively to make required principal and interest payments. The District will be required to transfer \$8,650 monthly during 2015.

#### Subsequent Events

Management has evaluated subsequent events through February 27, 2015, the date the financial statements were available to be issued.

PARKSVILLE WATER DISTRICT  
Notes to Financial Statements  
December 31, 2014 and 2013

NOTE B – PROPERTY AND EQUIPMENT

Property and equipment activity for the years ended December 31, 2014 and 2013 are as follows:

	Balance January 1, 2013	Additions	Deductions	Balance December 31, 2013	Additions	Deductions	Balance December 31, 2014
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	501,598		1,556	500,042	181,355	12,327	669,070
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	692,643	0	3,073,214
Meters	405,790	5,627	0	411,417	3,787	0	415,204
Hydrants	2,838	0	0	2,838	0	0	2,838
Other plant	147,803	0	0	145,362	617	3,743	142,236
Total utility plant	3,756,712	5,627	1,556	3,760,783	878,402	16,070	4,623,115
Structures and improvements	110,885	0	0	110,885	0	0	110,885
Equipment and vehicles	134,729	0	1,634	133,095	1,707	0	134,802
Total capital assets depreciated	4,002,326	5,627	3,190	4,004,763	880,109	16,070	4,868,802
Less accumulated depreciation	1,624,366	106,609	2,293	1,728,682	104,413	8,675	1,824,420
Net capital assets depreciated	2,377,960	( 100,982)	897	2,276,081	775,696	7,395	3,044,382
Net property and equipment	\$ 2,396,608	(\$100,982)	\$ 897	\$ 2,294,729	775,696	\$7,395	\$3,063,030



PARKSVILLE WATER DISTRICT

Notes to Financial Statements

December 31, 2014 and 2013

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.

During 2014, the District issued bonds totaling \$591,000 to finance a new telemetry system and replace various transmission lines. In addition, the District received a grant from Rural Development for \$259,000 that was used in the construction.

The bonds are as follows:

<u>Bond Issue</u>	<u>Interest</u>	<u>December 31, 2013</u>	<u>Increases</u>	<u>Decreases</u>	<u>December 31, 2014</u>
1995	5.125%	\$ 503,000	\$ 0	\$ 15,000	\$ 488,000
1999	4.750%	441,000	0	10,000	431,000
2002					
Series A	4.500%	92,400	0	1,700	90,700
2014					
Series A		0	508,000	0	508,000
Series B		0	83,000	0	83,000
Total		<u>\$ 1,036,400</u>	<u>\$ 591,000</u>	<u>\$ 26,700</u>	<u>\$ 1,600,700</u>

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 0	67,503	67,503
2016	36,300	66,127	102,427
2017	38,400	64,389	102,789
2018	39,000	62,649	101,649
2019	42,000	60,742	102,742
2020-2024	239,000	272,399	511,399
2025-2029	299,100	210,101	509,201
2030-2034	377,200	131,436	508,636
2035-2039	216,500	66,791	283,291
2040-2044	109,700	40,366	150,066
2045-2049	108,500	24,503	133,003
2050-2053	95,000	7,178	102,178

PARKSVILLE WATER DISTRICT  
Notes to Financial Statements  
December 31, 2014 and 2013

NOTE D - CHANGES IN CONTRIBUTED CAPITAL

	Contributions and Tap on Fees	Grants	Total
Balance – January 1, 2013	\$ 720,191	\$ 1,798,784	\$ 2,518,975
Additions – 2012	5,500	0	5,500
Balance – December 31, 2013	725,691	1,798,784	2,524,475
Additions – 2014	2,750	259,000	261,750
Balance – December 31, 2014	<u>\$ 728,441</u>	<u>\$2,057,784</u>	<u>\$ 2,786,225</u>

NOTE E - METER CUSTOMERS

The District had 1,565 and 1,598 meter customers at December 31, 2014 and 2013.

NOTE F - INTEREST CAPITALIZATION

Interest costs are capitalized on debt where proceeds were used to finance the construction of assets during the construction process. Interest cost of 4,283 was capitalized during 2014. Interest expense for 2014 and 2013 was \$58,426 and \$52,118.

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 \$15,845 in 2014 and \$14,475 in 2013. The District's employees contributed \$6,524 and \$6,156 in 2014 and 2013, respectively.

# HAROLD D. LANHAM, PSC

*Certified Public Accountants*

*Established 1968*

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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, 2014, and the related notes to the financial statements, and have issued our report thereon dated February 27, 2015. 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.

Harold D. Lanham, PSC  
Harrodsburg, Kentucky  
February 27, 2015

PARKSVILLE WATER DISTRICT  
 Schedule of Expenditures of Federal Awards  
 December 31, 2014

Federal Grantor Program Title	<u>Federal CFDA Number</u>	<u>Pass Through Contract Number</u>	<u>Federal Expenditures</u>
United States Department of Agriculture (USDA) Rural Development Water and Waste Disposal Systems for Rural Communities	10.760	-	<u>\$ 850,000</u>
Total Federal Financial Assistance			<u><u>\$ 850,000</u></u>

Notes:

Reconciliation to financial statements:

Grants received, page 16

\$ 259,000

Proceeds from issuance of bonds, page 15

591,000

\$ 850,000

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Parksville Water District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in, or used in the preparation of, the basic financial statements may differ from these numbers.

# HAROLD D. LANHAM, PSC

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## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the Chairman and Commissioners  
Parksville Water District  
Parksville, Kentucky

### **Report on Compliance for Each Major Federal Program**

We have audited Parksville Water District's compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of Parksville Water District's major federal programs for the year ended December 31, 2014. Parksville Water District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

### **Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of Parksville Water District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Parksville Water District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Parksville Water District's compliance.

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

In our opinion, Parksville Water District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014.

## Report on Internal Control over Compliance

Management of Parksville Water District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Parksville Water District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of X, State Y's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Harold D. Lanham, PSC  
Harrodsburg, Kentucky  
February 27, 2015

PARKSVILLE WATER DISTRICT  
 Schedule of Findings and Questioned Costs  
 Year ended December 31, 2014

I. Summary of auditors' results

Financial Statements:

Type of auditors' report issued: Unqualified on regulatory basis

Internal control over financial reporting:

Material weaknesses identified \_\_\_\_\_ Yes   X   No

Significant deficiencies identified that are not  
 Considered to be material weaknesses \_\_\_\_\_ Yes   X   No

Non-compliance material to financial statements noted \_\_\_\_\_ Yes   X   No

Federal Awards:

Internal control over major programs:

Material weaknesses identified \_\_\_\_\_ Yes   X   No

Significant deficiencies identified that are not  
 Considered to be material weaknesses \_\_\_\_\_ Yes   X   None reported

Type of auditors' report issued on compliance for major programs:

Unqualified for all major programs.

Any audit findings disclosed that are required to be reported in  
 accordance with Section 510(a) of Circular A-133? \_\_\_\_\_ Yes   X   No

Major Programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
10.760	Water and Waste Disposal Systems for Rural Communities

Dollar threshold used to distinguish between type A  
 and type B programs: \$300,000

Auditee qualified as a low-risk auditee? \_\_\_\_\_ Yes   X   No

II. Findings related to financial statements  
 None

III. Findings and questioned costs for federal awards  
 None

IV. Prior audit findings  
 Prior finding related to segregation of duties was resolved.  
 Prior finding related to financial statement preparation was resolved.



SUPPLEMENTARY INFORMATION

PARKSVILLE WATER DISTRICT  
 Statements of Operating Expenses  
 Regulatory Basis  
 Years Ended December 31, 2014 and 2013

	2014	2013
Source of supply expense		
Purchased water	\$ 170,814	\$ 178,110
Pumping expense		
Fuel for pumping	41,678	37,975
Transmission and distribution expense		
Operational supplies	24,083	6,500
Operational labor	49,263	44,071
Maintenance	52,500	56,986
Customer accounts expense		
Meter reading labor	14,662	12,976
Accounting and collecting labor	79,253	76,463
Uncollectible accounts	1,914	1,615
Administrative and general		
Salaries	276	403
Payroll taxes	17,512	15,769
Employee benefits	70,267	63,727
Repairs and maintenance	17,810	12,070
Contractual services	32,845	19,021
Transportation expense	14,563	12,990
Miscellaneous	10,643	10,600
Insurance expense	20,738	20,368
Regulatory commission expense	1,225	1,172
Accounting and auditing	8,500	8,500
Legal	1,200	-
	\$ 629,746	\$ 579,316

See accompanying notes and auditor's report