PARKSVILLE WATER DISTRICT

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

HAROLD D. LANHAM, PSC
CERTIFIED PUBLIC ACCOUNTANTS

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, 2015 and 2014, 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 meet the requirements of the Public Service Commission.

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

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles" paragraph, the financial statements referred to in the first paragraph do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of Parksville Water District as of December 31, 2015 and 2014, 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, 2015 and 2014, 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 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 17, 2016 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, 2016

PARKSVILLE WATER DISTRICT
Statements of Assets, Liabilities and Equity Capital
Regulatory Basis
December 31, 2015 and 2014

	2015	2014
Assets		
Current assets		
Cash	$ 75,295	$ 52,668
Accounts receivable	109,502	98,828
Grants receivable	-	38,514
Prepaid expenses	1,762	842
Total current assets	186,559	190,852
Other assets		
Cash restricted	164,965	168,694
Property and equipment		
Utility plant	4,613,247	4,623,115
Structures and improvements	116,686	110,885
Equipment and vehicles	141,126	134,802
	4,871,059	4,868,802
Less accumulated depreciation	(1,913,130)	(1,824,420)
	2,957,929	3,044,382
Land and land rights	18,648	18,648
Net property and equipment	2,976,577	3,063,030
Total assets	$ 3,328,101	$ 3,422,576

See accompanying notes and auditor's report

PARKSVILLE WATER DISTRICT
Statements of Assets, Liabilities and Equity Capital
Regulatory Basis
December 31, 2015 and 2014

	2015	2014
Liabilities and equity capital		
Current liabilities		
Accounts payable	$ 25,867	$ 70,755
Accrued expenses	38,073	34,662
Customer deposits	33,736	28,506
Total current liabilities	97,676	133,923
Long-term debt		
Revenue bonds payable, Rural Development	1,564,400	1,600,700
Total liabilities	1,662,076	1,734,623
Equity capital		
Contributed capital	2,792,600	2,786,225
Retained earnings (deficit)	(1,126,575)	(1,098,272)
Total equity capital	1,666,025	1,687,953
Total liabilities and equity capital	$ 3,328,101	$ 3,422,576

See accompanying notes and auditor's report

PARKSVILLE WATER DISTRICT
Statements of Revenues and Expenses
Regulatory Basis
Years Ended December 31, 2015 and 2014

	2015	2014
Metered sales	$ 859,787	$ 742,242
Other operating revenue	37,859	33,043
Total operating revenues	897,646	775,285
Operating expenses	727,700	629,746
Operating income before depreciation	169,946	145,539
Less depreciation	130,961	104,413
Operating income (loss)	38,985	41,126
Other income		
Interest income	235	218
Total other income	235	218
Net income (loss) before other expenses	39,220	41,344
Other expenses		
Interest expense	67,523	58,426
Net income (loss)	$ (28,303)	$ (17,082)

See accompanying notes and auditor's report

PARKSVILLE WATER DISTRICT
Statements of Retained Earnings (Deficit)
Regulatory Basis
Years Ended December 31, 2015 and 2014

	2015	2014
Balance (deficit), beginning of years	$ (1,098,272)	$ (1,081,190)
Net income (loss) for the years	(28,303)	(17,082)
Balance (deficit), end of years	$ (1,126,575)	$ (1,098,272)

See accompanying notes and auditor's report

PARKSVILLE WATER DISTRICT
Statements of Cash Flow
Regulatory Basis
Years Ended December 31, 2015 and 2014

	2015	2014
Cash flows from operating activities		
Operating income (loss)	$ 38,985	$ 41,126
Adjustments to reconcile operating income to net cash provided by (used by) operating activities:		
Depreciation	130,961	104,413
(Gain) loss on sale of asset	398	7,395
(Increase) decrease in accounts receivable	(10,674)	(27,898)
(Increase) decrease in grants receivable	38,514	(38,514)
(Increase) decrease in prepaid expenses	(920)	1,201
(Increase) decrease in restricted cash	3,729	(25,088)
Increase (decrease) in customer meter deposits	5,230	730
Increase (decrease) in accounts payable	(44,888)	51,293
Increase (decrease) in accrued expenses	3,411	(3,154)
Net cash provided by (used in) operating activities	164,746	111,504
Cash flows from capital and related financing activites:		
Purchase of property and equipment	(44,506)	(880,109)
Proceeds from the sale of property	(400)	-
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	(36,300)	(26,700)
Interest expense	(67,523)	(58,426)
Customers' contribution for construction	6,375	2,750
Grants awarded	-	259,000
Net cash provided by (used in) capital and related financing activities	(142,354)	(112,485)
Cash flows from financing activities		
Interest income	235	218
Net cash provided by (used in) financing activities	235	218
Net increase (decrease) in cash and cash equivalents	22,627	(763)
Cash and cash equivalents at beginning of years	52,668	53,431
Cash and cash equivalents at end of years	$ 75,295	$ 52,668

See accompanying notes and auditor's report

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 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, 2015 and 2014 was $130,961 and $104,413. Listed below is the life for each class of assets:

Class of Assets	Estimated Useful Life
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, 2015 and 2014 was $32,974 and $29,728.

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.

Change in Accounting Principle

During 2015, the District changed its accounting principle relating to unbilled customer accounts receivable to accrue the amount as it was earned, not billed. Previously accounts receivable were accrued as they were billed; any unbilled

amounts were determined to be immaterial at the end of each year. The new method of accounting was adopted because the recent water rate increases have also increased the amount of unbilled accounts receivable to a material amount at the end of the year. The 2014 financial statements have been adjusted to apply the new method retrospectively. The following financial statement line items for the years ending December 31, 2015 and 2014 were affected by the change in accounting principle.

	2015	2014
Accounts receivable before change	$ 73,177	$ 66,882
Accounts receivable after change	109,502	98,828
Retained earnings (deficit) before change	(1,162,900)	(1,130,218)
Retained earnings (deficit) after change	(1,126,575)	(1,098,272)
Metered sales before change	857,909	735,232
Metered sales after change	859,787	742,242
Net income (loss) before change	(30,181)	(24,092)
Net income (loss) after change	$ (28,303)	$ (17,082)

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. Those increased rates went into effect in May 2015.

The Public Service Commission (PSC) previously denied the City of Danville's request to recover expenses related to the above rate case brought before the PSC. The City of Danville has filed an appeal in the Franklin Circuit Court for those rate case expenses which are expected to be in excess of $20,000.00. If successful, the City of Danville would seek to collect the additional expenses through a surcharge or additional rate increase.

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 $240,044 and $221,146 for the years ended December 31, 2015 and 2014 and the respective bank balances totaled $335,510 and $299,026 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, 2015, categorized by level of risk, are:

	Risk Category				
	1	2	3	Bank Balance	Book Value
Unrestricted Deposits					
Operation and Maintenance	$ 48,168	$ 0	$ 0	$ 48,168	$ 23,300
Revenue Fund	17,897	0	0	17,897	17,900
Customer Deposits	34,429	0	0	34,429	33,879
Construction	0	0	0	0	0
Total Unrestricted Deposits	100,494	0	0	100,494	75,079
Restricted Deposits					
Depreciation Reserve Funds	121,714	0	0	121,714	121,714
Sinking Funds	113,302	0	0	113,302	43,251
Total Restricted Deposits	235,016	0	0	235,016	164,965
Total Deposits	$335,510	$ 0	$ 0	$335,510	$240,044

The District also had $216 of petty cash on hand for the years ended December 31, 2015 and 2014.

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

Risk Management

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

Cash Deposits

Restrictions on cash deposits are as follows:

Revenue Fund

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

Depreciation Reserve Funds

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

During the years ended December 31, 2015 and 2014, 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.

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 $8,650 and $6,465 for 2015 and 2014, respectively to make required principal and interest payments. The District will be required to transfer $8,689 monthly during 2016.

Subsequent Events

Management has evaluated subsequent events through February 17, 2016, the date the financial statements were available to be issued.

NOTE B – PROPERTY AND EQUIPMENT

Property and equipment activity for the years ended December 31, 2015 and 2014 are as follows:

	Balance January 1, 2014	Additions	Deductions	Balance December 31, 2014	Additions	Deductions	Balance December 31, 2015
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	500,042	181,355	12,327	669,070	0	290	668,780
Distribution reservoirs and standpipes	320,553	0	0	320,553	0	0	320,553
Transmission and distribution mains	2,380,571	692,643	0	3,073,214	0	0	3,073,214
Meters	411,417	3,787	0	415,204	8,332	0	423,536
Hydrants	2,838	0	0	2,838	0	0	2,838
Other plant	148,362	617	3,743	142,236	810	18,720	124,326
Total utility plant	3,760,783	878,402	16,070	4,623,115	9,142	19,010	4,613,247
Structures and improvements	110,885	0	0	110,885	5,801	0	116,686
Equipment and vehicles	133,095	1,707	0	134,802	29,566	23,242	141,126
Total capital assets depreciated	4,004,763	880,109	16,070	4,868,802	44,509	42,252	4,871,059
Less accumulated depreciation	1,728,682	104,413	8,675	1,824,420	130,961	42,251	1,913,130
Net capital assets depreciated	2,276,081	775,696	7,395	3,044,382	(86,452)	1	2,957,929
Net property and equipment	$ 2,294,729	775,696	$ 7,395	$ 3,063,030	(86,452)	1	$2,976,577

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:

Bond Issue	Interest	December 31, 2014	Increases	Decreases	December 31, 2015
1995	5.125%	$ 488,000	$ 0	$ 16,000	$ 472,000
1999	4.750%	431,000	0	10,000	421,000
2002 Series A	4.500%	90,700	0	1,800	88,900
2014 Series A		508,000	0	7,500	500,500
Series B		83,000	0	1,000	82,000
Total		$ 1,600,700	$ 0	$ 36,300	$ 1,564,400

Bond Issue	Interest	December 31, 2013	Increases	Decreases	December 31, 2014
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		$ 1,036,400	$ 591,000	$ 26,700	$ 1,600,700

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

	Principal	Interest	Total
2016	$ 0	65,869	65,869
2017	38,400	64,132	102,532
2018	39,000	62,376	101,376
2019	42,000	60,470	102,470
2020	43,600	58,496	102,096
2021-2025	250,100	259,475	509,575
2026-2030	313,700	193,963	507,663
2031-2035	353,000	113,298	466,298
2036-2040	194,000	56,621	250,621
2041-2045	107,600	34.097	141,697
2046-2050	111,500	17,822	129,322
2051-2053	71,500	2,124	73,624

NOTE D - CHANGES IN CONTRIBUTED CAPITAL

	Contributions and Tap on Fees	Grants	Total
Balance – January 1, 2014	$ 725,691	$ 1,798,784	$ 2,524,475
Additions – 2014	2,750	259,000	261,750
Balance – December 31, 2014	728,441	2,057,784	2,786,225
Additions – 2015	6,375	0	6,375
Balance – December 31, 2015	$ 734,816	$2,057,784	$ 2,792,600

NOTE E - METER CUSTOMERS

The District had 1,581 and 1,565 meter customers at December 31, 2015 and 2014.

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 2015 and 2014 was $67,523 and $58,426.

NOTE G – RETIREMENT PLAN

The District adopted a retirement plan which became effective on January 1, 1996. It is a defined contribution plan which provides retirement benefits for each employee who has completed one year of service and has reached his/her 21st birthday. The District contributes seven percent (7%) of the participating employees' gross salaries. Each participating employee contributes three percent (3%). Employees become twenty percent (20%) vested in the District's contributions after one full year of employment with an additional twenty percent (20%) for each additional full year of employment, thereafter becoming fully vested after five (5) full years of employment. The District's contribution to the plan was $13,519 in 2015 and $15,845 in 2014. The District's employees contributed $5,793 and $6,524 in 2015 and 2014, respectively.

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Chairman and Commissioners
Parksville Water District
Parksville, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Parksville Water District as of and for the year ended December 31, 2015, and the related notes to the financial statements, and have issued our report thereon dated February 17, 2016. 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.

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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 17, 2016

SUPPLEMENTARY INFORMATION

PARKSVILLE WATER DISTRICT
Statements of Operating Expenses
Regulatory Basis
Years Ended December 31, 2015 and 2014

	2015	2014
Source of supply expense		
Purchased water	$ 258,279	$ 170,814
Pumping expense		
Fuel for pumping	30,487	41,678
Transmission and distribution expense		
Operational supplies	19,432	24,083
Operational labor	43,215	49,263
Maintenance	77,599	52,500
Customer accounts expense		
Meter reading labor	13,852	14,662
Accounting and collecting labor	81,967	79,253
Uncollectible accounts	1,452	1,914
Administrative and general		
Salaries	355	276
Payroll taxes	17,879	17,512
Employee benefits	70,944	70,267
Repairs and maintenance	17,491	17,810
Contractual services	34,390	32,845
Transportation expense	12,248	14,563
Miscellaneous	10,004	10,643
Insurance expense	20,146	20,738
Regulatory commission expense	1,460	1,225
Accounting and auditing	9,500	8,500
Legal	7,000	1,200
	$ 727,700	$ 629,746

See accompanying notes and auditor's report