

PUBLIC SERVICE COMMISSION  
ANNUAL REPORT BRANCH  
  
FEB 20 2012  
  
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PARKSVILLE WATER DISTRICT  
  
FINANCIAL STATEMENTS  
  
YEARS ENDED DECEMBER 31, 2011 AND 2010

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

PARKSVILLE WATER DISTRICT  
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# HAROLD D. LANHAM, PSC

*Certified Public Accountants*

*Established 1968*

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## INDEPENDENT AUDITOR'S REPORT

To the Chairman and Commissioners  
Parksville Water District  
Parksville, Kentucky

We have audited the accompanying financial statements of Parksville Water District as of and for the years ended December 31, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of Parksville Water District's management. Our responsibility is to express an opinion 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described more fully in Note A, Parksville Water District has prepared these financial statements using accounting practices prescribed by the Public Service Commission of the Commonwealth of Kentucky, which practices differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of Parksville Water District as of December 31, 2011 and 2010, the changes in financial position or its cash flows for the years then ended. Further, Parksville Water District has not presented a management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Parksville Water District, as of December 31, 2011 and 2010, and the results of its operations and cash flows for the years then ended, on the basis of accounting described in Note A.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 13, 2012 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* and should be considered in assessing the results of our audit.

*Harold D. Lanham, PSC*

Harrodsburg, Kentucky

February 13, 2012

PARKSVILLE WATER DISTRICT  
 Statements of Assets, Liabilities and Equity Capital  
 Regulatory Basis  
 December 31, 2011 and 2010

	2011	2010
Assets		
Current assets		
Cash	\$ 119,929	\$ 159,471
Accounts receivable	46,134	57,903
Prepaid expenses	2,636	8,880
Total current assets	168,699	226,254
Other assets		
Cash restricted	163,865	154,193
Property and equipment		
Utility plant	3,736,074	3,710,925
Structures and improvements	110,885	110,885
Equipment and vehicles	143,883	139,886
	3,990,842	3,961,696
Less accumulated depreciation	(1,553,803)	(1,444,533)
	2,437,039	2,517,163
Land and land rights	18,648	18,648
Net property and equipment	2,455,687	2,535,811
Total assets	\$ 2,788,251	\$ 2,916,258

See accompanying notes and auditors' report

PARKSVILLE WATER DISTRICT  
 Statements of Assets, Liabilities and Equity Capital  
 Regulatory Basis  
 December 31, 2011 and 2010

	2011	2010
Liabilities and equity capital		
Current liabilities		
Accounts payable	\$ 17,078	\$ 15,974
Accrued expenses	34,281	31,752
Customer deposits	19,049	14,320
	70,408	62,046
Long-term debt		
Revenue bonds payable, Rural Development	1,085,600	1,109,100
	1,156,008	1,171,146
Equity capital		
Contributed capital	2,501,313	2,496,363
Retained earnings (deficit)	(869,070)	(751,251)
	1,632,243	1,745,112
Total liabilities and equity capital	\$ 2,788,251	\$ 2,916,258

See accompanying notes and auditors' report

PARKSVILLE WATER DISTRICT  
 Statements of Revenues and Expenses  
 Regulatory Basis  
 Years Ended December 31, 2011 and 2010

	2011	2010
Metered sales	\$ 612,044	\$ 636,060
Other operating revenue	35,266	38,242
	647,310	674,302
Total operating revenues	647,310	674,302
Operating expenses	601,805	585,525
	45,505	88,777
Operating income before depreciation	45,505	88,777
Less depreciation	109,270	108,037
	(63,765)	(19,260)
Operating income (loss)	(63,765)	(19,260)
Other income		
Interest income	431	973
Settlement income	-	38,171
	431	39,144
Total other income	431	39,144
	(63,334)	19,884
Net income (loss) before other expenses	(63,334)	19,884
Other expenses		
Interest expense	54,485	55,555
	(117,819)	(35,671)
Net income (loss)	\$ (117,819)	\$ (35,671)

See accompanying notes and auditors' report

PARKSVILLE WATER DISTRICT  
Statements of Cash Flow  
Regulatory Basis  
Years Ended December 31, 2011 and 2010

	2011	2010
Cash flows from operating activities		
Operating income (loss)	\$ (63,765)	\$ (19,260)
Adjustments to reconcile operating income to net cash provided by (used by) operating activities:		
Depreciation	109,270	108,037
Settlement income	-	38,171
(Increase) decrease in accounts receivable	11,769	(2,791)
(Increase) decrease in prepaid expenses	6,244	(4,349)
(Increase) decrease in restricted cash	(9,672)	(11,141)
(Increase) decrease in customer meter deposits	4,729	3,318
Increase (decrease) in accounts payable	1,104	(13,420)
Increase (decrease) in accrued expenses	2,529	4,275
	62,208	102,840
Cash flows from capital and related financing activities:		
Purchase of property and equipment	(29,146)	(10,030)
Principal payments on long-term debt	(23,500)	(21,400)
Interest expense	(54,485)	(55,555)
Customers' contribution for construction	4,950	9,350
	(102,181)	(77,635)
Cash flows from financing activities		
Interest income	431	973
	431	973
Net increase (decrease) in cash and cash equivalents	(39,542)	26,178
Cash and cash equivalents at beginning of years	159,471	133,293
Cash and cash equivalents at end of years	\$ 119,929	\$ 159,471

See accompanying notes and auditors' report

PARKSVILLE WATER DISTRICT  
Statements of Retained Earnings (Deficit)  
Regulatory Basis  
Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Balance (deficit), beginning of years	\$ (751,251)	\$ (715,580)
Net income (loss) for the years	<u>(117,819)</u>	<u>(35,671)</u>
Balance (deficit), end of years	<u><u>\$ (869,070)</u></u>	<u><u>\$ (751,251)</u></u>

See accompanying notes and auditors' report

PARKSVILLE WATER DISTRICT  
Notes to Financial Statements  
December 31, 2011 and 2010

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.

PARKSVILLE WATER DISTRICT

Notes to Financial Statements

December 31, 2011 and 2010

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, 2011 and 2010 was \$109,270 and \$108,037. 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, 2011 and 2010 was \$28,437 and \$26,047.

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.

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 2007, the District discovered that beginning in August 2005, the City of Danville had increased the wholesale water rates being charged to the District in violation of the Public Service Commission of Kentucky's policy. The District has reached a settlement with the City received a settlement of \$38,171 during the year ending December 31, 2010.

PARKSVILLE WATER DISTRICT

Notes to Financial Statements

December 31, 2011 and 2010

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 \$283,578 and \$313,448 for the years ended December 31, 2011 and 2010 and the respective bank balances totaled \$287,001 and \$328,407 respectively for the years then ended. The bank balances are covered by \$250,000 of FDIC insurance. The remaining bank balances were fully collateralized. The deposits are categorized to give an indication of the level of risk assumed by the District at year end. The categories are described as follows:

- Category 1 Insured or collateralized with securities held by the District or by its agent in the District's name.
- Category 2 Collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.
- Category 3 Uncollateralized

Deposits at December 31, 2011, categorized by level of risk, are:

	Risk Category			Bank Balance	Book Value
	1	2	3		
Unrestricted Deposits					
Operation and Maintenance	\$ 309	\$ 37,001	\$ 0	\$ 37,421	\$ 35,047
Revenue Fund	65,467	0	0	65,467	65,465
Customer Deposits	20,359	0	0	20,248	19,201
Total Unrestricted Deposits	<u>86,135</u>	<u>37,001</u>	<u>0</u>	<u>123,136</u>	<u>119,713</u>
Restricted Deposits					
Depreciation Reserve Fund	125,557	0	0	125,557	125,557
Sinking Fund	38,308	0	0	38,308	38,308
Construction Account	0	0	0	0	0
Total Restricted Deposits	<u>163,865</u>	<u>0</u>	<u>0</u>	<u>163,865</u>	<u>163,865</u>
Total Deposits	<u>\$250,000</u>	<u>\$ 37,001</u>	<u>\$ 0</u>	<u>\$287,001</u>	<u>\$283,578</u>

The District also had \$216 of petty cash on hand for the years ended December 31, 2011 and 2010.

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

## PARKSVILLE WATER DISTRICT

### Notes to Financial Statements

December 31, 2011 and 2010

#### Risk Management

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

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

#### Cash Deposits

Restrictions on cash deposits are as follows:

##### Revenue Fund

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

##### 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, 2011 and 2010, the District was required to transfer at least \$780 per month into the Depreciation Reserve Fund. The required transfer will continue until all of the Waterworks Revenue Bonds are paid in full.

##### Sinking Fund

The District was required to transfer monthly into the Sinking Fund a monthly amount of \$6,498 and \$6,412 for 2011 and 2010, respectively to make required principal and interest payments. The District will be required to transfer \$6,493 monthly during 2012.

PARKSVILLE WATER DISTRICT  
Notes to Financial Statements  
December 31, 2011 and 2010

Subsequent Events

Management has evaluated subsequent events through February 13, 2012, 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. 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 District has received seeking financial assistance to allow them to replace and upgrade the telemetry system during the year ended December 31, 2012. The estimated total cost of the project is \$725,000.

NOTE B – CHANGE IN ACCOUNTING PRINCIPLE

On January 1, 2010, the District's board voted to begin accounting for compensated absences. In prior years compensated absences were not accrued because the amount was determined to be immaterial at the end of the year. The new method of accounting was adopted because of the growth of the amount of compensated absences. The prior year financial statements have been adjusted to apply the new method retrospectively. The following financial statement line items for the years ending December 31, 2010 were affected by the change in accounting principle.

	<u>2010</u>
Accrued expenses before change	\$ 5,705
Accrued expenses after change	31,752
Retained earnings (deficit) before change	(725,204)
Retained earnings (deficit) after change	(751,251)
Operating expenses before change	581,662
Operating expenses after change	585,525
Net income (loss) before change	(31,808)
Net income (loss) after change	\$ (35,671)

PARKSVILLE WATER DISTRICT  
Notes to Financial Statements  
December 31, 2011 and 2010

NOTE C – PROPERTY AND EQUIPMENT

Property and equipment activity for the years ended December 31, 2011 and 2010 are as follows:

	Balance January 1, 2010	Additions	Deductions	Balance December 31, 2010	Additions	Deductions	Balance December 31, 2011
Capital assets not depreciated:							
Land and land rights	\$ 18,648	\$ 0	\$ 0	\$ 18,648	\$ 0	\$ 0	\$ 18,648
Capital assets depreciated:							
Utility plant:							
Pumping equipment	492,413	0	0	492,413	0	0	492,413
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	367,781	9,565	0	377,346	14,550	0	391,896
Hydrants	2,838	0	0	2,838	0	0	2,838
Other plant	137,204	0	0	137,204	10,599	0	147,803
Total utility plant	3,701,360	9,565	0	3,710,925	25,149	0	3,736,074
Structures and improvements	110,885	0	0	110,885	0	0	110,885
Equipment and vehicles	139,421	465	0	139,886	3,997	0	143,883
Total capital assets depreciated	3,951,666	10,030	0	3,961,696	29,146	0	3,990,842
Less accumulated depreciation	1,336,496	108,037	0	1,444,533	109,270	0	1,553,803
Net capital assets depreciated	2,615,170	(98,007)	0	2,517,163	( 80,124)	0	2,437,039
Net property and equipment	<u>\$ 2,633,818</u>	<u>(\$98,007)</u>	<u>\$ 0</u>	<u>\$ 2,535,811</u>	<u>(\$ 80,124)</u>	<u>\$ 0</u>	<u>\$ 2,455,687</u>

PARKSVILLE WATER DISTRICT

Notes to Financial Statements

December 31, 2011 and 2010

NOTE D - 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, 2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>December 31, 2010</u>
1995	5.125%	\$ 544,000	\$ 0	\$ 13,000	\$ 531,000
1999	4.750%	468,000	0	9,000	459,000
2002 Series A	4.500%	97,100	0	1,500	95,600
<b>Total</b>		<u>\$ 1,109,100</u>	<u>\$ 0</u>	<u>\$ 23,500</u>	<u>\$ 1,085,600</u>

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 0	\$ 53,319	\$ 53,319
2013	24,600	52,101	76,701
2014	24,600	50,885	75,485
2015	26,700	49,565	76,265
2016	27,800	48,189	75,989
2016-2020	162,200	217,598	379,798
2021-2025	207,700	170,999	378,699
2026-2030	264,900	111,330	376,230
2031-2035	256,800	41,363	298,163
2036-2040	84,600	5,070	89,670
2041-2043	5,700	0	5,700

PARKSVILLE WATER DISTRICT  
Notes to Financial Statements  
December 31, 2011 and 2010

NOTE E - CHANGES IN CONTRIBUTED CAPITAL

	Contributions and Tap on Fees	Grants	Total
Balance – January 1, 2010	\$ 700,391	\$ 1,786,622	\$ 2,487,013
Additions – 2010	9,350	0	9,350
Balance – December 31, 2010	709,741	1,786,622	2,496,363
Additions – 2011	4,950	0	4,950
Balance – December 31, 2011	<u>\$ 714,691</u>	<u>\$1,786,622</u>	<u>\$ 2,501,313</u>

NOTE F - METER CUSTOMERS

The District had 1,576 meter customers at December 31, 2011 and 1,590 at December 31, 2010.

NOTE G - 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 2011 or 2010. Interest expense for 2011 and 2010 was \$54,485 and \$55,555.

NOTE H – 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 \$15,849 in 2011 and \$15,218 in 2010. The District's employees contributed \$6,793 and \$6,522 in 2011 and 2010, respectively.

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## INDEPENDENT AUDITORS' 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 the financial statements of Parksville Water District as of and for the year ended December 31, 2011, and have issued our report thereon dated February 13, 2012. 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. 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.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Parksville Water District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

*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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies in internal control over financial reporting. 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.

- 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.

#### 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*.

This report is intended solely for the information and use of the governing body, management, Rural Economic & Community Development (RECD), the Public Service Commission of the Commonwealth of Kentucky, Boyle County Fiscal Court, Casey County Fiscal Court and Lincoln County Fiscal Court and is not intended to be and should not be used by anyone other than these specified parties.

*Harold D. Lanham, PSC*

Harrodsburg, Kentucky

February 13, 2012

SUPPLEMENTARY INFORMATION

# HAROLD D. LANHAM, PSC

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## INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL INFORMATION

To the Chairman and Commissioners  
Parksville Water District  
Parksville, Kentucky

Our report on our audit of the financial statements of Parksville Water District as of and for the years ended December 31, 2011 and 2010 appears on page one and two. That audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental information is presented for purposes of additional analysis and is not a required part of the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

*Harold D. Lanham, PSC*

Harrodsburg, Kentucky

February 13, 2012

PARKSVILLE WATER DISTRICT  
 Statements of Operating Expenses  
 Regulatory Basis  
 Years Ended December 31, 2011 and 2010

	2011	2010
Source of supply expense		
Purchased water	\$ 164,495	\$ 172,996
Pumping expense		
Fuel for pumping	32,521	28,013
Transmission and distribution expense		
Operational supplies	15,124	19,456
Operational labor	48,734	44,981
Maintenance	65,693	69,250
Customer accounts expense		
Meter reading labor	14,080	12,574
Accounting and collecting labor	79,844	74,695
Uncollectible accounts	1,583	1,257
Administrative and general		
Salaries	2,602	1,800
Payroll taxes	17,640	16,928
Employee benefits	69,724	68,111
Repairs and maintenance	15,001	15,321
Contractual services	22,397	11,869
Transportation expense	18,601	15,080
Miscellaneous	8,109	9,393
Insurance expense	16,051	14,245
Regulatory commission expense	1,031	1,056
Accounting and auditing	8,500	8,500
Legal	75	-
	\$ 601,805	\$ 585,525

See accompanying notes and auditors' report