

PUBLIC SERVICE COMMISSION
ANNUAL REPORT BRANCH
OCT 15 2012
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EXAMINED BY _____

**RATTLESNAKE RIDGE WATER DISTRICT
GRAYSON, KENTUCKY
AUDITED BASIC FINANCIAL STATEMENTS
For the Years Ended December 31, 2011 and 2010**



Penny R. Stanfield, CPA & Co., PLLC

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**RATTLESNAKE RIDGE WATER DISTRICT
GRAYSON, KENTUCKY
December 31, 2011 and 2010**

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Penny R. Stanfield, CPA & Co., PLLC

Certified Public Accountant

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Rattlesnake Ridge Water District
Grayson, Kentucky 41143

I have audited the accompanying financial statements of Rattlesnake Ridge Water District as of and for the years ended December 31, 2011 and 2010, which comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my 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 I 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Rattlesnake Ridge Water District as of December 31, 2011 and 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued a report dated August 17, 2012, on my consideration of the Rattlesnake Ridge Water District's internal control and over financial reporting on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my 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 my audit.

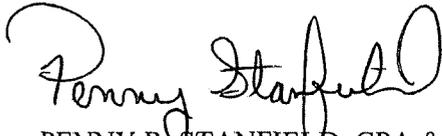
The Rattlesnake Ridge Water District has not presented a management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

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My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Rattlesnake Ridge Water District's financial statements as a whole. The accompanying supplemental information on page 15 is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying 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 also not a required part of the financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



PENNY R. STANFIELD, CPA & CO., PLLC
Maysville, Kentucky

August 17, 2012

**RATTLESNAKE RIDGE WATER DISTRICT
STATEMENTS OF NET ASSETS
PROPRIETARY FUND
December 31, 2011 and 2010**

	2011	2010
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents - Unrestricted	\$ 10,170	\$ 37,142
Cash and Cash Equivalents - Restricted	448,825	2,687,948
Accounts Receivable - Customers	262,239	234,153
Less Allowance for Doubtful Accounts	(86,402)	(72,270)
Unbilled Revenue Receivable	59,458	43,083
Accounts Receivable - Other	909	-
KRWFC Sinking Fund	50,985	46,439
Inventory	12,592	10,935
Prepaid Expenses	4,752	4,752
	763,528	2,992,182
TOTAL CURRENT ASSETS		
PROPERTY, PLANT AND EQUIPMENT		
Nondepreciated Capital Assets:		
Land	6,500	6,500
Construction in Progress	3,306,049	215,905
Depreciated Capital Assets:		
Utility Plant in Service	27,472,154	27,393,851
Buildings	86,993	93,493
Other Depreciable Equipment	201,304	231,494
Less: Accumulated Depreciation	(9,352,966)	(8,580,774)
	21,720,034	19,360,469
NET PROPERTY, PLANT AND EQUIPMENT		
OTHER ASSETS		
Bond Issue Costs, Net of Amortization of \$6,989	23,587	25,333
	23,587	25,333
TOTAL ASSETS		
	\$ 22,507,149	\$ 22,377,984
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 143,745	\$ 113,740
Accrued Taxes and Benefits	65,614	46,528
Accrued Interest	122,687	127,589
Accrued Wages and Sick Leave	36,114	38,404
Customer Deposits	25,880	29,108
Short-term Note Payable KRWFC	2,482,000	2,482,000
Current Portion of Long-Term Debt	213,040	177,424
	3,089,080	3,014,793
TOTAL CURRENT LIABILITIES		
LONG-TERM LIABILITIES		
Notes Payable	184,179	246,407
Bonds Payable	5,593,700	5,728,000
	5,777,879	5,974,407
TOTAL LONG-TERM LIABILITIES		
TOTAL LIABILITIES		
	8,866,959	8,989,200
NET ASSETS		
Investment in Capital Assets, Net of Related Debt	15,729,115	13,208,638
Restricted Net Assets	448,825	2,687,948
Unrestricted Net Assets	(2,537,750)	(2,507,802)
	13,640,190	13,388,784
TOTAL NET ASSETS		
TOTAL LIABILITIES AND NET ASSETS		
	\$ 22,507,149	\$ 22,377,984

The accompanying notes are an integral part of these financial statements.

RATTLESNAKE RIDGE WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUND

For the Years Ended December 31, 2011 and 2010

	2011	2010
OPERATING REVENUES		
Water Sales	\$ 1,893,571	\$ 1,866,173
Service Charges and Other Revenue	56,892	13,347
Total Operating Revenues	1,950,463	1,879,520
OPERATING EXPENSES		
Salaries & Wages	590,806	571,788
Employee Benefits	290,149	202,090
Purchased Water	3,664	1,791
Accounting and Legal	9,475	12,794
Materials & Supplies	280,500	273,464
Utilities and Telephone	232,540	217,459
Insurance	41,088	63,938
Vehicle Expense	50,472	38,332
Testing Expense	15,528	11,950
Depreciation and Amortization	805,484	793,346
Miscellaneous Expense	399	807
Taxes Other Than Income	50,902	54,806
Total Operating Expenses	2,371,007	2,242,565
OPERATING LOSS	(420,544)	(363,045)
NON-OPERATING REVENUES (EXPENSES)		
Interest Income	174	445
Interest Expense	(270,219)	(264,993)
Gain on Sale of Assets	-	-
Net Non-Operating Revenues (Expenses)	(270,045)	(264,548)
Income (Loss) Before Capital Contributions	(690,589)	(627,593)
Capital Grants	912,550	201,320
Customer Tap Fees	29,445	40,824
CHANGE IN NET ASSETS	251,406	(385,449)
NET ASSETS, BEGINNING OF YEAR	13,388,784	13,774,233
NET ASSETS, END OF YEAR	\$ 13,640,190	\$ 13,388,784

The accompanying notes are an integral part of these financial statements.

RATTLESNAKE RIDGE WATER DISTRICT
STATEMENTS OF CASH FLOWS
PROPRIETARY FUND
For The Years Ended December 31, 2011 and 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts From Customers	\$ 1,915,997	\$ 1,882,360
Payments to Suppliers	(593,424)	(573,431)
Payments to Employees	(931,857)	(828,684)
	390,716	480,245
CASH FLOWS FROM INVESTING ACTIVITIES		
KRWFC Sinking Fund	(4,547)	379
Interest Income	174	445
	(4,373)	824
CASH FLOWS FROM CAPITAL AND RELATED FINANCING		
ACTIVITIES		
Debt Proceeds	-	2,560,565
Principal Paid on Capital Debt	(160,912)	(155,169)
Purchases of Capital Assets	(3,163,302)	(399,831)
Contributed Capital-Tap Fees	29,445	40,824
Contributed Capital - Grants	912,550	201,320
Interest Paid on Capital Debt	(270,219)	(264,993)
	(2,652,438)	1,982,716
NET INCREASE (DECREASE) IN CASH	(2,266,095)	2,463,785
Cash and Cash Equivalents - At Beginning of Year	2,725,090	261,305
CASH AND CASH EQUIVALENTS - AT END OF YEAR	\$ 458,995	\$ 2,725,090
Reconciliation of Operating Income (Loss) to Net Cash Provided		
(Used) by Operating Activities:		
Operating Income (Loss)	\$ (420,544)	\$ (363,045)
Adjustments to Reconcile Operating Income to Net Cash		
Provided (Used) by Operating Activities:		
Depreciation and Amortization Expense	805,484	793,346
Change in Assets and Liabilities:		
Accounts Receivable, Net	(31,238)	616
Accounts Payable and Other Payables	41,899	39,754
Inventory	(1,657)	-
Prepaid Expense	-	7,350
Customer Deposits	(3,228)	2,224
	\$ 390,716	\$ 480,245

The accompanying notes are an integral part of these financial statements.

RATTLESNAKE RIDGE WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Rattlesnake Ridge Water District (District) is a water utility which serves areas of Carter, Elliott, Lawrence and Morgan Counties. Its sales are primarily to residential customers. The District is a corporate body set forth in Kentucky Revised Statutes (KRS) 74.070 which was created November, 1961. The District began operations in 1983. The District is subject to the regulatory authority of the Kentucky Public Service Commission pursuant to KRS 278.040.

The accounting policies of the District conform to accounting principles generally accepted in the United States of America as applicable to governments. The following is a summary of the more significant policies.

The Reporting Entity

The District, for financial purposes, includes all of the funds relevant to the operations of the District. The financial statements presented herein do not include agencies which have been formed under applicable state laws or separate and distinct units of government apart from the Rattlesnake Ridge Water District.

The financial statements of the District would include those of separately administered organizations that are controlled by or dependent on the District. Control or dependence is determined on the basis of financial interdependency, selection of government authority, designation of management, ability to significantly influence operations, accountability of fiscal matters, scope of public service and financing relations.

Based on the foregoing criteria there are no other organizations included in these financial statements.

The District, presented as an enterprise fund, does not apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or after November 30, 1989.

Enterprise Funds

Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprise where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The financial statements of the District are prepared using the economic resources measurement focus for the proprietary fund financial statements.

RATTLESNAKE RIDGE WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Enterprise Funds (Continued)

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. With the measurement focus, all assets and all liabilities associated with the operations are included on the balance sheet.

Basis of Accounting

The accounts of the District are maintained on the accrual basis of accounting. The District's financial statements include the operations of all entities for which the District exercises oversight responsibility. Oversight responsibility includes, but is not limited to financial interdependency, selection of the governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters.

Inventory

Inventory is valued at the lower of cost or market.

Fixed Assets

Fixed assets purchased are capitalized at the time of purchase. Such assets are recorded at cost. Depreciation is applied on the straight-line method over the estimated useful life of the asset, using rates determined by reference to Utility Standards Rates (NARUC). Asset lives range from:

<u>Class</u>	<u>Life</u>
Lines and tanks	40 years
Building	31.5 years
Pumps	10 years
Equipment	5-7 years

The District's capitalization policy is to capitalize expenditures costing more than \$500 with an estimated useful life greater than one year. All other fixed assets are expensed.

Power Costs

The cost of power purchases for pumping water is charged to expense as used.

Income Tax Status

The District is a political subdivision created under Kentucky Revised Statutes 74.012, and as such, is exempt from federal and state income taxes. Accordingly, the financial statements include no provision for income taxes.

**RATTLESNAKE RIDGE WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010**

Cash Flows

For purposes of the statement of cash flows, the District uses the direct method of reporting net cash flows from operating activities, and considers certificates of deposit with a maturity of six months or less to be cash equivalents.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Net Assets

Net assets represent the difference between assets and liabilities in the statement of net assets. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are legal limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, laws or regulations of other governments. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, and then unrestricted resources as they are needed.

NOTE 2: RESTRICTED CASH AND CASH EQUIVALENT

The District's restricted cash is composed of the following:

	<u>2011</u>	<u>2010</u>
Construction Accounts	\$ 302,239	\$2,494,456
Capital Improvement Account	1,449	1,448
Bond and Interest Sinking Fund	128,325	175,282
Depreciation Fund	<u>16,812</u>	<u>16,762</u>
TOTAL	<u>\$ 448,825</u>	<u>\$2,687,948</u>

NOTE 3: CUSTODIAL CREDIT RISK

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's cash and cash equivalents consist of checking and savings accounts with local banks. The District does not have a deposit policy for custodial credit risk. As of December 31, 2011, \$100,747 was exposed to custodial credit risk as follows:

Uninsured and collateral held by pledging bank	\$100,747
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RATTLESNAKE RIDGE WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE 4: FIXED ASSETS

Capital asset activity for the fiscal year ended December 31, 2011 was as follows:

Business-Type Activities	Balance Jan. 1, 2011	Additions	Deductions	Balance Dec. 31, 2011
Cost:				
Land	\$ 6,500	\$ -	\$ -	\$ 6,500
Utility Plant	4,755,386	10,613	-	4,765,999
Water System	22,548,374	54,952	-	22,603,326
Buildings	86,993	-	-	86,993
Equipment	96,591	6,238	-	102,829
Other Depreciable Assets	231,495	1,354	(31,545)	201,304
Construction in Progress	215,904	3,090,145	-	3,306,049
Totals at historical cost	27,941,243	3,163,302	(31,545)	31,073,000
Less accumulated depreciation:				
Plant in Service	8,320,277	764,608	-	9,084,885
Other Depreciable Assets	260,497	39,129	(31,545)	268,081
Total accumulated depreciation	8,580,774	803,737	(31,545)	9,352,966
Business-Type Activities Capital Assets - Net	\$ 19,360,469	\$ 2,359,565	\$ -	\$ 21,720,034

Capital asset activity for the fiscal year ended December 31, 2010 was as follows:

Business-Type Activities	Balance Jan. 1, 2010	Additions	Deductions	Balance Dec. 31, 2010
Cost:				
Land	\$ 6,500	\$ -	\$ -	\$ 6,500
Utility Plant	4,748,285	7,101	-	4,755,386
Water System	22,466,529	81,845	-	22,548,374
Buildings	86,993	-	-	86,993
Equipment	54,003	42,588	-	96,591
Other Depreciable Assets	178,602	52,893	-	231,495
Construction in Progress	500	215,404	-	215,904
Totals at historical cost	27,541,412	399,831	-	27,941,243
Less accumulated depreciation:				
Plant in Service	7,559,092	761,185	-	8,320,277
Other Depreciable Assets	230,083	30,414	-	260,497
Total accumulated depreciation	7,789,175	791,599	-	8,580,774
Business-Type Activities Capital Assets - Net	\$ 19,752,237	\$ (391,768)	\$ -	\$ 19,360,469

RATTLESNAKE RIDGE WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE 5: LONG-TERM DEBT

The following is a summary of revenue bonds payable for the year ended December 31, 2011. The revenues of the District are pledged as collateral for the following debt:

	<u>Rate</u>	<u>Original Issue</u>	<u>Maturity Date</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
1989 Series	5.00%	\$ 195,000	1/1/28	\$ 135,000	\$ -	\$ 5,000	\$ 130,000
1992 Series	5.00%	365,000	1/1/31	276,500	-	8,000	268,500
1994 Series A	4.50%	434,000	1/1/34	353,000	-	8,000	345,000
1994 Series B	4.50%	197,000	1/1/34	158,000	-	4,000	154,000
1995 Series A	4.50%	445,000	1/1/35	364,000	-	8,000	356,000
1995 Series B	4.50%	100,000	1/1/35	82,400	-	1,900	80,500
2000 Series A	4.50%	900,000	1/1/40	821,000	-	13,000	808,000
2000 Series B	4.50%	425,000	1/1/40	387,000	-	6,000	381,000
2001 Series A	3.25%	900,000	1/1/41	804,500	-	15,500	789,000
2001 Series B	4.50%	60,000	1/1/41	54,900	-	900	54,000
2004 Series A	4.38%	1,340,000	1/1/44	1,280,500	-	16,500	1,264,000
2004 Series B	4.38%	549,000	1/1/44	525,000	-	7,000	518,000
2008 Series C	Various	665,000	1/1/25	610,000	-	30,000	580,000
				\$ 5,851,800	\$ -	\$ 123,800	\$ 5,728,000
							<u>134,300</u>
							<u>\$ 5,593,700</u>

Less Current Maturities

TOTAL

	<u>Principal</u>	<u>Interest</u>
2012	134,300	244,225
2013	137,400	238,736
2014	136,600	233,132
2015	147,700	227,166
2016	151,400	220,851
2017-2021	875,700	997,866
2022-2026	1,024,900	785,747
2027-2031	986,000	566,308
2032-2036	971,700	348,619
2037-2041	871,300	153,236
2042-2044	291,000	20,020
	<u>\$ 5,728,000</u>	<u>\$ 4,035,906</u>

RATTLESNAKE RIDGE WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE 5: LONG-TERM DEBT (Continued)

The following is a summary of Notes Payable for the year ended December 31, 2011:

	<u>Outstanding</u> <u>December 31, 2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>Outstanding</u> <u>December 31, 2011</u>
Commercial Bank - Computers 5.25 %, Total \$3,140 dated 10/12/10, payable monthly installments of \$683, maturity 10/15/12	\$ 34,940	\$ -	\$ 6,549	\$ 28,391
Commercial Bank - 2007 Chevy 6%, Total \$25,675 dated 1/11/11, payable in monthly installments of \$303, maturity 1/11/13	6,711	-	3,248	3,463
Commercial Bank -2009 Chevy 5.95%, Total \$23,745 dated 8/17/11, payable in monthly installments of \$692, maturity 8/17/13	18,077	-	5,050	13,027
Commercial Bank -Backhoe 6.5%, Total \$25,935 dated 11/4/10, payable in monthly installments of \$600, maturity 11/4/11	6,385	-	6,385	-
Commercial Bank -Excavator 5.95%, Total \$4,242 dated 6/10/10, payable in monthly installments of \$823, maturity 6/15/12	38,908	-	7,721	31,187
KADD Lease 3%-5.3%, Total \$135,000 Dated 4/14/05, due in semi-annual installments, matures 5/1/25	110,000	-	5,000	105,000
Corp of Engineers 6.625%,Dated 5/21/84 Maturity: 30 years	<u>85,010</u>	<u>-</u>	<u>3,159</u>	<u>81,851</u>
TOTAL NOTES PAYABLE	\$ 300,031	\$ -	\$ 37,112	262,919
Less Current Maturities				78,740
TOTAL				<u>\$ 184,179</u>

The following is a schedule of long-term debt maturities:

	<u>Principal</u>	<u>Interest</u>
2012	78,740	11,879
2013	13,979	8,929
2014	8,508	8,394
2015	8,641	8,074
2016	8,782	7,682
2017-2021	61,377	31,546
2022-2026	66,608	13,038
2027-2029	16,284	2,002
	<u>\$ 262,919</u>	<u>\$ 91,544</u>

**RATTLESNAKE RIDGE WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010**

NOTE 6: RESERVES

The Rattlesnake Ridge Water District is required to comply with the bond agreements of all bond issues as follows:

A. SINKING FUND

On or before the 20th day of each month and after the required payment to the Operation and Maintenance Fund Account, the District is required to set aside an amount into a special account known as the "Rattlesnake Ridge Water District, Bond and Interest Sinking Fund". The amount to be set aside and paid into the Sinking Fund each month shall be sums equal to the following amounts:

- (1) A sum equal to one-sixth (1/6) of the interest becoming due on the next succeeding interest due date, with respect to all outstanding Bond Issues.
- (2) A sum equal to one-twelfth (1/12) of the principal of all such bonds maturing on the next succeeding January 1.

The required balance at December 31, 2011 was \$210,081. The District set aside \$128,325 at December 31, 2011 into the restricted account, resulting in the account being under-funded by \$81,756.

B. DEPRECIATION FUND

The District is required to deposit \$1,840 each month into the Depreciation Fund account as well as the proceeds from the sale of any equipment no longer usable or needed, fees or charges collected from potential customers to aid in the financing of the cost of extensions, additions and/or improvements to the project, plus the proceeds of any property damage insurance not immediately used to replace damaged or destroyed property. Monies in the Depreciation Fund shall be available and shall be withdrawn and used, upon appropriate certification to Rural Development, for the purpose of paying the cost of constructing replacements, extensions, additions and/or improvements to the project. The required balance at December 31, 2011 was \$272,100, however, the District had authorized withdraws of \$98,718. The District had set aside \$16,812 at December 31, 2011 into a restricted account, and therefore the account is under-funded by \$156,570.

**RATTLESNAKE RIDGE WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010**

NOTE 7: RETIREMENT PLANS

The District had a SEP plan for January and February 2011, which provides retirement benefits for all full-time employees with one year of service. The District contributed \$5,381 during 2011, which is seven percent of the eligible employees' gross salaries. Eligible employees also contributed \$3,290 during the year.

The District began participating in the County Employees' Retirement System (CERS) effective March 1, 2011. Under the provisions of Kentucky Revised Statute 61.645, the Board of Trustees of Kentucky Retirement Systems administers the CERS. The plan issues separate financial statements which may be obtained by request from Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601.

Plan Description – CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the System. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living (COLA) adjustments are provided at the discretion of state legislature.

Contributions – For the year ended December 31, 2011, plan members were required to contribute 5.00% of wages. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contributions rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended December 31, 2011, participating employers contributed 16.93% for January to June and 18.96% for July through December of each employee's wages, which is equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

The required contribution (employee and employer) and the actual percentage contributed for the District for the current year is as follows:

<u>Year</u>	<u>Required Contribution</u>	<u>Percentage Contributed</u>
2011	\$ 93,946	100%

NOTE 8: RISK MANAGEMENT

The District is exposed to various risks of losses related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District carries commercial insurance coverage for the risks to the extent deemed prudent by District's management.

**RATTLESNAKE RIDGE WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010**

NOTE 9: CONSTRUCTION COMMITMENT

The District has continued construction on a system improvements project, the Phase VIIIIB project. The project will be funded by federal and state grants and a federal loan. The estimated costs and funding sources for the project will be the following:

ARC Grant	\$ 400,000
CDBG Grant	1,000,000
IEDF	1,000,000
RUS Grant	1,100,000
RUS Loan	2,482,000
Local Funds and Tap Fees	<u>14,000</u>
	<u>\$ 5,996,000</u>

Cost of the Project is estimated as follows:

Engineering	\$ 566,000
Construction	5,058,913
Other Costs	120,000
Contingency	<u>251,087</u>
	<u>\$ 5,996,000</u>

NOTE 10: NOTE PAYABLE KRWFC

The District obtained interim financing from Kentucky Rural Water Financing Corporation on December 16, 2010, in the amount of \$2,482,000 at 2.5% to finance the construction project until the RUS Loan funds are available. The loan matured on November 1, 2011. However, the note was refinanced under the original terms with the maturity date extended until October 1, 2012.

SUPPLEMENTAL INFORMATION

**RATTLESNAKE RIDGE WATER DISTRICT
SUPPLEMENTAL INFORMATION REQUIRED BY RURAL DEVELOPMENT
December 31, 2011**

Schedule of Insurance in Force

<u>Insurance Coverage</u>	<u>Amount of Coverage</u>	<u>Expiration Date of Policy</u>
General Liability	\$1,000,000	04-01-12
Umbrella Policy	\$1,000,000	04-01-12
Property - Building & Contents	\$7,296,194 100% Co-Insurance	04-01-12
Employee Theft	\$1,125,000	03-04-12
Automobile	\$1,000,000	04-01-12
Encroachment Bonds	\$5,000	
Workers Compensation	Statutory	12-31-11

Aged Accounts Receivable

A detailed schedule of aged accounts receivable is prepared on a monthly basis. At December 31, 2011, accounts receivable were aged as follows:

	<u>Amount</u>
Current	\$167,251
Over 60 Days	8,908
Over 90 Days	<u>86,080</u>
Total	<u>\$262,239</u>

At December 31, 2011, the District carried a reserve for possible uncollectible accounts of \$86,402.

<u>Commissioner</u>	<u>Term Expires</u>
Bill Gilbert, Chairman	11/14/2012
Larry Carroll, Secretary	02/13/2013
Ben Harmon, Treasurer	11/30/2013
Jennifer Carter	06/01/2012
Chuck Horton	02/01/2012

**RATTLESANKE RIDGE WATER DISTRICT
GRAYSON, KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2011**

<u>Federal Grant/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Cash/ Pass-Through Grantor's Number</u>	<u>Program or Award Amount</u>	<u>Expenditures</u>
Department of Housing and Urban Development Community Development Block Grant	14.228	08-012	\$ 1,000,000	\$ 339,940
Department of Agriculture Water and Waste Disposal Systems for Rural Communities	10.760	00611-037311	2,482,000	2,233,171
Department of Homeland Security Disaster Grants -Public Assistance	97.036	FEMA-DR- 1925-KY	23,130	23,130
TOTAL FEDERAL AWARDS			<u><u>\$ 3,505,130</u></u>	<u><u>\$ 2,596,241</u></u>

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Rattlesnake Ridge 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 this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.



Penny R. Stanfield, CPA & Co., PLLC

Certified Public Accountant

**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***

Board of Commissioners
Rattlesnake Ridge Water District
Grayson, Kentucky 41143

I have audited the financial statements of Rattlesnake Ridge Water District as of and for the year ended December 31, 2011, which collectively comprise the Rattlesnake Ridge Water District's basic financial statements and have issued my report thereon dated August 17, 2012. I conducted my 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

Management of Rattlesnake Ridge Water District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing my audit, I considered Rattlesnake Ridge Water District's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Rattlesnake Ridge Water District's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of Rattlesnake Ridge Water'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.

My 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. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

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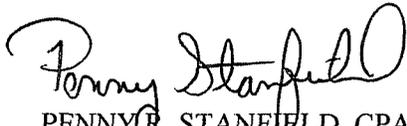
Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rattlesnake Ridge Water District's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2011-1.

I noted certain matters that I reported to management of Rattlesnake Ridge Water District in a separate letter dated August 17, 2012.

Rattlesnake Ridge Water District's response to the findings identified in my audit is described in the accompanying schedule of findings and questioned costs. I did not audit Rattlesnake Ridge Water District's response and, accordingly, I express no opinion on it.

This report is intended solely for the information and use of management, the Board of Commissioners, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



PENNY R. STANFIELD, CPA & CO., PLLC
Maysville, Kentucky
August 17, 2012



Penny R. Stanfield, CPA & Co., PLLC

Certified Public Accountant

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Commissioners
Rattlesnake Ridge Water District
Grayson, Kentucky 41143

Compliance

I have audited Rattlesnake Ridge 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 Rattlesnake Ridge Water District's major federal programs for the year ended December 31, 2011. Rattlesnake Ridge 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. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Rattlesnake Ridge Water District's management. My responsibility is to express an opinion on Rattlesnake Ridge Water District's compliance based on my audit.

I conducted my 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 I 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 Rattlesnake Ridge Water District's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on Rattlesnake Ridge Water District's compliance with those requirements.

In my opinion, Rattlesnake Ridge Water District complied, in all material respects, with the 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, 2011.

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Internal Control Over Compliance

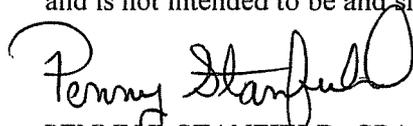
Management of Rattlesnake Ridge Water District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing my audit, I considered Rattlesnake Ridge Water District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine my auditing procedures for the purpose of expressing my opinion on compliance 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, I do not express an opinion on the effectiveness of Rattlesnake Ridge Water District'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.

My consideration of the 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 deficiencies, significant deficiencies, or material weaknesses. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses, as defined above.

Rattlesnake Ridge Water District's response to the findings in my audit, if any, is described in the accompanying schedule of findings and questioned costs. I did not audit Rattlesnake Ridge Water District's response and, accordingly, I express no opinion on the response.

This report is intended solely for the information and use of the management, the Board of Commissioners, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



PENNY R. STANFIELD, CPA & CO., PLLC
Maysville, Kentucky

August 17, 2012

**RATTLESNAKE RIDGE WATER DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2011**

SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Rattlesnake Ridge Water District.
2. No significant deficiencies relating to the audit of the financial statements are reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Governmental Auditing Standards. No material weaknesses are reported.
3. One instance of noncompliance material to the financial statements of Rattlesnake Ridge Water District was disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.
5. The auditor's report on compliance for the major federal award programs for Rattlesnake Ridge Water District expresses an unqualified opinion on all major federal programs.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule.
7. The programs tested as major programs included:

<u>Program Title</u>	<u>CFDA No.</u>
Water and Waste Disposal Systems for Rural Communities	10.760
Community Development Block Grant/State's Program	14.228

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The auditee did not qualify as a low-risk auditee.

FINDINGS-FINANACIAL STATEMENT AUDIT

2011-1 BOND RESERVE/SINKING FUND REQUIREMENTS

Condition: The bond agreements with Rural Development contain requirements for regularly setting aside money into separate cash accounts for depreciation reserves and the sinking fund. The District has established the separate accounts; however, the accounts have not been funded in the manner set forth by Rural Development.

Recommendation: The District must resume funding both the sinking fund and depreciation reserve on a monthly basis as required by bond covenants and no withdraws should be made from the reserve account unless authorized.

**RATTLESNAKE RIDGE WATER DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2011**

Response: The District will make an effort to be in compliance with the bond covenants.

**FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS
AUDIT**

None

STATUS OF PRIOR YEAR FINDINGS

There were no prior year audit findings related to federal awards.