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**RATTLESNAKE RIDGE WATER DISTRICT
GRAYSON, KENTUCKY
AUDITED BASIC FINANCIAL STATEMENTS
For the Years Ended December 31, 2012 and 2011**

RATTLESNAKE RIDGE WATER DISTRICT
GRAYSON, KENTUCKY
Years Ended December 31, 2012 and 2011

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DONNA J. HENDRIX
CERTIFIED PUBLIC ACCOUNTANT

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INDEPENDENT AUDITOR'S REPORT

To The 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, 2012 and 2011, which comprise the District's basic financial statements, as listed in the accompanying 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 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, 2012 and 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year 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 April 30, 2013, on my consideration of Rattlesnake Ridge Water District's internal control over financial reporting and on my 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 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.

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 relate 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.



DONNA J. HENDRIX, CPA

Morehead, Kentucky

April 30, 2013

RATTLESNAKE RIDGE WATER DISTRICT
STATEMENTS OF NET ASSETS
PROPRIETARY FUND
DECEMBER 31,

ASSETS	2012	2011
CURRENT ASSETS		
Cash and Cash Equivalents - Unrestricted	\$ 7,841	\$ 10,170
Cash and Cash Equivalents - Restricted	198,545	448,825
Accounts receivable		
Customers, net	150,346	175,837
Other	909	909
Unbilled Revenue Receivable	59,458	59,458
KRWFC Sinking Fund	50,454	50,985
Inventory	9,150	12,592
Prepaid Expenses	<u>5,842</u>	<u>4,752</u>
 TOTAL CURRENT ASSETS	 <u>482,545</u>	 <u>763,528</u>
PROPERTY, PLANT AND EQUIPMENT		
Nondepreciated Capital Assets:		
Land	6,500	6,500
Construction In Progress	5,363,354	3,306,049
Depreciated Capital Assets:		
Utility Plant in Service	27,520,723	27,472,154
Buildings	86,993	86,993
Other Depreciable Equipment	232,846	201,304
Less: Accumulated Depreciation	<u>(10,159,175)</u>	<u>(9,352,966)</u>
 NET PROPERTY, PLANT AND EQUIPMENT	 <u>23,051,241</u>	 <u>21,720,034</u>
OTHER ASSETS		
Bond Issue Costs, Net of Amortization of \$9,855	<u>40,305</u>	<u>23,587</u>
 TOTAL ASSETS	 <u><u>\$23,574,090</u></u>	 <u><u>\$ 22,507,149</u></u>
 LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 160,911	\$ 143,745
Accrued Taxes and Benefits	36,131	65,614
Accrued Interest	144,260	122,687
Accrued Wages and Sick Pay	26,939	36,114
Customer deposits	27,480	25,880
Short-term Note Payable KRWFC	-	2,482,000
Current Portion of Long-Term Debt	<u>187,783</u>	<u>213,040</u>
 TOTAL CURRENT LIABILITIES	 583,503	 3,089,080
LONG-TERM LIABILITIES		
Notes Payable	203,684	184,179
Bonds payable	<u>7,938,300</u>	<u>5,593,700</u>
 TOTAL LONG-TERM LIABILITIES	 <u>8,141,984</u>	 <u>5,777,879</u>
 TOTAL LIABILITIES	 8,725,487	 8,866,959
NET ASSETS		
Investment in Capital Assets, Net of Related Debt	14,721,474	15,729,115
Restricted Net Assets	198,545	448,825
Unrestricted Net Assets	<u>(71,415)</u>	<u>(2,537,750)</u>
TOTAL NET ASSETS	<u>14,848,603</u>	<u>13,640,190</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u><u>\$23,574,090</u></u>	 <u><u>\$ 22,507,149</u></u>

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

RATTLESNAKE RIDGE WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES
IN NET ASSETS
PROPRIETARY FUND
for the years ended December 31,

	2012	2011
OPERATING REVENUES		
Water sales	\$ 2,022,798	\$ 1,893,571
Service Charges and Other Revenue	<u>37,873</u>	<u>56,892</u>
Total operating Revenues	<u>2,060,671</u>	<u>1,950,463</u>
OPERATING EXPENSES		
Salaries & Wages	580,614	590,806
Employee Benefits	298,324	290,149
Purchased Water	4,169	3,664
Accounting and Legal	10,354	9,475
Materials & Supplies	272,930	280,500
Utilities and Telephone	260,648	232,540
Insurance	53,426	41,088
Vehicle Expense	60,554	50,472
Testing Expense	23,506	15,528
Depreciation and Amortization	809,075	805,484
Miscellaneous Expense	53	399
Taxes Other than Income	<u>48,754</u>	<u>50,902</u>
Total operating expense	<u>2,422,406</u>	<u>2,371,007</u>
OPERATING INCOME (LOSS)	(361,735)	(420,544)
NON-OPERATING REVENUES (EXPENSES)		
Interest income	66	174
Interest expense	(282,594)	(270,219)
Gain on Sale of Assets	-	-
Net Non-Operating Revenues (Expenses)	<u>(282,528)</u>	<u>(270,045)</u>
NET INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	(644,263)	(690,589)
Capital Grants	1,820,287	912,550
Customer Tap Fees	<u>32,390</u>	<u>29,445</u>
CHANGE IN NET ASSETS	<u>1,208,414</u>	<u>251,406</u>
NET ASSETS, BEGINNING OF YEAR	<u>13,640,190</u>	<u>13,388,784</u>
NET ASSETS, END OF YEAR	<u>\$ 14,848,603</u>	<u>\$ 13,640,190</u>

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

RATTLESNAKE RIDGE WATER DISTRICT
STATEMENTS OF CASH FLOWS
PROPRIETARY FUND
for the years ended December 31,

	2012	2011
CASH FLOW FROM OPERATING ACTIVITIES		
Receipts From Customers	\$ 2,035,180	\$ 1,915,997
Payments to Suppliers	(698,962)	(593,424)
Payments to Employees	<u>(878,937)</u>	<u>(931,857)</u>
Net Cash (Used) Provided by Operating Activities	457,281	390,716
CASH FLOW FROM INVESTING ACTIVITIES		
KRWFC Sinking Fund	531	(4,547)
Interest Income	<u>66</u>	<u>174</u>
Net Cash (Used) Provided by Investing Activities	<u>597</u>	<u>(4,373)</u>
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Debt Proceeds	-	-
Principal Paid on Capital Debt	(143,152)	(160,912)
Purchases of Capital Assets	(2,137,416)	(3,163,302)
Contributed Capital-Tap Fees	32,390	29,445
Contributed Capital-Grants	1,820,287	912,550
Interest Paid on Capital Debt	<u>(282,594)</u>	<u>(270,219)</u>
Net Cash Provided by (Used in) Capital and Financing Activities	<u>(710,485)</u>	<u>(2,652,438)</u>
NET INCREASE (DECREASE) IN CASH	(252,607)	(2,266,095)
Cash and Cash Equivalents - At beginning of year	<u>458,994</u>	<u>2,725,090</u>
CASH AND CASH EQUIVALENTS - AT END OF YEAR	<u><u>\$ 206,386</u></u>	<u><u>\$ 458,994</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Operating Income (Loss)	\$ (361,735)	\$ (420,544)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation Expense and Amortization Expense	809,075	805,484
Change in Assets and Liabilities:		
Accounts Receivable, Net	25,491	(31,238)
Accounts Payable and Other Payables	(12,618)	41,899
Inventories	(3,442)	(1,657)
Prepaid Expense	(1,090)	-
Customer Deposits	<u>1,600</u>	<u>(3,228)</u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$ 457,281</u></u>	<u><u>\$ 390,715</u></u>

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

SUPPLEMENTAL INFORMATION

RATTLESNAKE RIDGE WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2012 and 2011

NOTE 1: ORGANIZATION AND ACCOUNTING POLICIES

The Rattlesnake Ridge Water District (District) is a water utility which serves areas of Carter, Elliot, 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 in 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 operation 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
For the years ended December 31, 2012 and 2011

Note 1: ORGANIZATION AND ACCOUNTING POLICIES

Basis of Accounting

The District maintains its accounting records on the accrual basis during the year. 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 maintained at 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.

Cash Flows

For purposes of the statement of cash flows, the District uses the direct method of reporting net cash flow 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.

**RATTLESNAKE RIDGE WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2012 and 2011**

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, 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>2012</u>	<u>2011</u>
Construction Accounts	\$ 1,799	\$ 302,239
Capital Improvement Account	-	1,449
Bond and Interest Sinking Fund	179,913	128,325
Depreciation Fund	<u>16,832</u>	<u>16,812</u>
TOTAL	<u>\$198,545</u>	<u>\$ 448,825</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 have a deposit policy for custodial credit risk. As of December 31, 2012, \$0 of the bank balance was exposed to custodial credit risk as follows:

Uninsured and collateral held by pledging bank \$0

RATTLESNAKE RIDGE WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 4: FIXED ASSETS

Capital asset activity for the fiscal year ended December 31, 2012 was as follows:

Business-Type Activities	Balance Jan. 1, 2012	Additions	Deductions	Balance Dec. 31, 2012
Cost:				
Land	\$ 6,500	\$ -	\$ -	\$ 6,500
Utility Plant	4,765,999	620	-	4,766,619
Water System	22,603,326	47,949	-	22,651,275
Buildings	86,993	-	-	86,993
Equipment	102,829	-	-	102,829
Other Depreciable Assets	201,304	31,542	-	232,846
Construction in Progress	3,306,049	2,057,305	-	5,363,354
Totals at historical cost	31,073,000	2,137,416	-	33,210,416
Less accumulated depreciation:				
Plant in Service	9,084,885	776,449	-	9,861,334
Other Depreciable Assets	268,081	29,760	-	297,841
Total accumulated Depreciation	9,352,966	806,209	-	10,159,175
Business-Type Activities Capital Assets - Net	\$ 21,720,034	\$ 1,331,207	\$ -	\$ 23,051,241

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:				
Land & Land Rights	-	-	-	-
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

RATTLESNAKE RIDGE WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 5: LONG-TERM DEBT

The following is a summary of revenue bonds payable for the year ended December 31, 2012. 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	\$ 130,000	-	5,000	\$ 125,000
1992 Series	5.00%	365,000	1/1/31	268,500	-	8,000	260,500
1994 Series A	4.50%	434,000	1/1/34	345,000	-	9,000	336,000
1994 Series B	4.50%	197,000	1/1/34	154,000	-	4,000	150,000
1995 Series A	4.50%	445,000	1/1/35	356,000	-	9,000	347,000
1995 Series B	4.50%	100,000	1/1/35	80,500	-	1,900	78,600
2000 Series A	4.50%	900,000	1/1/40	808,000	-	14,000	794,000
2000 Series B	4.50%	425,000	1/1/40	381,000	-	16,000	365,000
2001 Series A	3.25%	900,000	1/1/41	789,000	-	7,000	782,000
2001 Series B	4.50%	60,000	1/1/41	54,000	-	900	53,100
2004 Series A	4.38%	1,340,000	1/1/44	1,264,000	-	17,500	1,246,500
2004 Series B	4.38%	549,000	1/1/44	518,000	-	7,000	511,000
2008 Series C	Various	665,000	1/1/25	580,000	-	35,000	545,000
2011 Series A	2.00%	1,336,000	1/1/52	-	1,336,000	-	1,336,000
2011 Series B	2.00%	1,146,000	1/1/52	-	1,146,000	-	1,146,000
				\$ 5,728,000	\$ 2,482,000	\$ 134,300	\$ 8,075,700
Less Current Maturities							137,400
TOTAL							\$ 7,938,300

	<u>Principal</u>	<u>Interest</u>
2013	137,400	236,736
2014	177,100	282,367
2015	189,200	265,581
2016	193,900	268,426
2017	205,000	260,944
2018-2022	1,141,600	1,179,283
2023-2027	1,280,500	935,638
2028-2032	1,294,200	690,322
2033-2037	1,281,600	443,367
2038-2042	1,167,200	218,259
2043-2047	626,500	68,973
2048-2052	381,500	15,485
	\$ 8,075,700	\$ 4,867,381

RATTLESNAKE RIDGE WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 5: LONG-TERM DEBT (Continued)

The following is a summary of Notes Payable for the year ended December 31, 2012:

	<u>Outstanding December 31, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Commercial Bank- Computers 4.99%, Total \$22,720 dated 10/15/12, payable monthly installments of \$681, Maturity 10/15/14	\$ 28,391	-	\$ 6,256	\$ 22,135
Commercial Bank- 2007 Chevy 6%, Total \$ 25,675 dated 1/11/11, payable in monthly installments of \$303, maturity 1/11/13	3,463	-	3,463	-
Commercial Bank- 2009 Chevy 5.95%, Total \$15,627 dated 8/17/11, payable in monthly installments of \$692, maturity 08/17/13	13,027	-	7,608	5,419
Commercial Bank- Excavator 4.75%, Total \$27,315 dated 7/12/12, payable in monthly installments of \$816, maturity 07/12/14	31,187	-	7,434	23,753
Commercial Bank- 2012 Ford 4.75%, Total \$26,142 dated 6/20/12, payable in monthly installments of \$490, maturity 06/20/14	-	26,142	1,947	24,195
KADD Lease 3%-5.3%, Total 135,000 dated 4/14/05, due in semi-annual installments, maturity 05/01/25	105,000	-	5,000	100,000
Corp of Engineers 6.625%, Dated 05/21/84 Maturity: 30 years	81,851	0	3,286	78,565
TOTAL NOTES PAYABLE	\$ 262,919	\$ 26,142	\$ 34,994	\$ 254,067
Less Current Maturities				50,383
TOTAL				<u>\$ 203,684</u>

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

	Principal	Interest
2013	50,383	11,356
2014	42,012	9,070
2015	8,641	8,074
2016	8,782	7,682
2017	9,275	6,310
2018-2022	67,424	27,843
2023-2027	56,714	11,097
2028-2029	10,837	1,335
	<u>254,067</u>	<u>82,767</u>

RATTLESNAKE RIDGE WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2012 and 2011

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 of the reserve at December 31, 2012 was \$282,600. The District had set aside \$179,913 at December 31, 2012 into a restricted account, resulting in the account being under-funded by \$102,687

B. DEPRECIATION FUND

The District is required to deposit \$2600 each month into the Depreciation Fund account 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, 2012 was \$ 187,770. District had set aside \$16,832 at December 31, 2012 into a restrict account, and therefore the account is under-funded by \$ 170,938.

**RATTLESNAKE RIDGE WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2012 and 2011**

NOTE 7: RETIREMENT PLAN

The District participates in the County Employees' Retirement System (CERS), 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 multi-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, 2012, 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, 2012, participating employers contributed 18.96% for January to June and 19.55% for July to 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>
2012	\$98,961	100%

NOTE 8: 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. The District carries commercial insurance for the risks to the extent deemed prudent by district's management.

**RATTLESNAKE RIDGE WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2012 and 2011**

NOTE 9: CONSTRUCTION COMMITMENT

The District has continued construction on a system improvements project, the Phase VIII B 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>

**RATTLESNAKE RIDGE WATER DISTRICT
SUPPLEMENTAL INFORMATION REQUIRED BY RURAL DEVELOPMENT
December 31, 2012**

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	4/1/2013
Umbrella Policy	\$ 1,000,000	4/1/2013
Property - Building & Contents	\$ 7,296,194 100% Co-Insurance	4/1/2013
Employee Theft	\$ 1,125,000	3/4/2013
Automobile	\$ 1,000,000	4/1/2013
Encroachment Bonds	\$ 5,000	
Workers Compensation	Statutory	12/31/2012

Aged Accounts Receivable

A detailed schedule of aged accounts receivable is prepared on a monthly basis. At December 31, 2012, accounts receivable were aged as follows:

	<u>Amount</u>
Current	\$ 154,719
Over 60 Days	4,687
Over 90 Days	20,506
Total	<u>\$ 179,913</u>

During 2012, the District carried a reserve for possible uncollected accounts of \$29,426.

The District had a total of 4,015 customers at December 31, 2012. Of these customers, 4,005 were residential and 10 were commercial.

<u>Commissioner</u>	<u>Term Expires</u>
Bill Gilbert, Chairman	11/14/2016
Larry Carroll, Secretary	2/13/2013
Ben Harmon, Treasurer	11/30/2013
Bernie McDaniel	2/1/2016
Jennifer Carter	6/1/2014

**RATTLESNAKE RIDGE WATER DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

<u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE</u>		<u>FEDERAL CFDA NUMBER</u>	<u>PASS-THROUGH GRANTOR'S NUMBER/AWARD NUMBER</u>	<u>PROGRAM OR AWARD AMOUNT</u>	<u>EXPENDITURES</u>
Department of Housing and Urban Development	*	14.228	08-012	\$ 1,000,000	\$ 645,261
Community Development Block Grant					645,261
Total Department of Housing and Urban Development					645,261
US Department of Agriculture					
Department of Agriculture					
Water and Waste Disposal Systems for Rural Communities	*	10.760	00611-037311 (loan)	1,146,000	248,829
ARRA-Water and Waste Disposal Systems for Rural Communities	*	10.760		600,000	600,000
Water and Waste Disposal Systems for Rural Communities	*	10.760		500,000	500,000
Water and Waste Disposal Systems for Rural Communities	*	10.760		200,000	40,628
					1,389,457
Total US Department of Agriculture					1,389,457
TOTAL FEDERAL AWARDS AND EXPENDITURES					\$ 2,034,718

* Tested as major program or cluster

Note A - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of 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.

DONNA J. HENDRIX
CERTIFIED PUBLIC ACCOUNTANT

MEMBER: K.S.C.P.A.
A.I.C.P.A.

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

Board of Commissioners
Rattlesnake Ridge Water District
Grayson, Kentucky 41143

We have audited the financial statements of Rattlesnake Ridge Water District, as of and for the year ended December 31, 2012, which collectively comprise the Rattlesnake Ridge Water District's basic financial statements and have issued our report thereon dated April 30, 2013. 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

Management of Rattlesnake Ridge Water District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Rattlesnake Ridge Water District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Rattlesnake Ridge Water District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Rattlesnake Ridge Water 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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entities 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 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rattlesnake Ridge Water District's financial statements are free of material misstatement, we 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 our audit, and accordingly, we do not express such an opinion. The results of our 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 2012-1.

I noted certain matters that I reported to management of Rattlesnake Ridge Water District in a separate letter dated April 30, 2013.

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 the Board of Commissioners and management of Rattlesnake Ridge Water District, 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.



Donna J. Hendrix, CPA
Morehead, KY

April 30, 2013

DONNA J. HENDRIX
CERTIFIED PUBLIC ACCOUNTANT

MEMBER: K.S.C.P.A.
A.I.C.P.A.

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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

We have audited Rattlesnake Ridge Water District's compliance with the types of compliance requirements described in the U. S. Office of Management and Budget (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, 2012. 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. Our responsibility is to express an opinion on Rattlesnake Ridge Water District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Rattlesnake Ridge Water District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Rattlesnake Ridge Water District's compliance with those requirements.

In our 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, 2012.

Internal Control Over Compliance

Management of Rattlesnake Ridge Water District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we 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 in order to determine our auditing procedures for the purpose of expressing our 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, we 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.

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

Rattlesnake Ridge Water District's responses to the findings identified in our audit, if any, is described in the accompanying schedule of findings and questioned costs. We did not audit Rattlesnake Ridge Water District's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, the Board of Commissioners, others within the entity, 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.

A handwritten signature in cursive script that reads "Donna J. Hendrix, CPA".

Donna J. Hendrix, CPA
Morehead, KY
April 30, 2013

RATTLESNAKE RIDGE WATER DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2012

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 include:

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

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-FINANCIAL STATEMENT AUDIT

2012-1 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.

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

Recommendations from the prior year have not been implemented. The finding from 2011-1 from 2011 audit is repeated in the 2012-1 finding.

DONNA J. HENDRIX
CERTIFIED PUBLIC ACCOUNTANT

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Board of Commissioners
Rattlesnake Ridge Water District
Grayson, Kentucky 41143

In planning and performing my audit of the basic financial statements of Rattlesnake Ridge Water District for the year ended December 31, 2012, I considered the District's internal control structure to determine my auditing procedures for the purpose of expressing an opinion on the general purpose financial statements and not to provide assurance on the internal control structure.

However, during my audit, I became aware of several matters that are opportunities for increasing operating efficiency. The memorandum that accompanies this letter summarizes my comments and suggestions regarding those matters. This letter does not affect my report dated April 30, 2013, on the financial statements of the Rattlesnake Ridge Water District.

I will review the status of these comments and suggestions with various District personnel, and I will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.



DONNA J. HENDRIX, CPA
Morehead, Kentucky

April 30, 2013

RATTLESNAKE RIDGE WATER DISTRICT
MANAGEMENT POINTS, RECOMMENDATIONS, AND RESPONSES
Year Ended December 31, 2012

Status of Prior Year Management Points

2011-2 LATE PAYMENTS

Status: This is still an issue—will be carried to current year issues. 2012-2

2011-3 PERSONNEL FILES

Status: This is still an issue—will be carried to current year issues. 2012-3

2011-4 CHECK TO “CASH”

Status: This issue has been resolved.

2011-5 APPROVE AND CANCEL INVOICES BEING PAID

Status: This is still an issue—will be carried to current year issues. 2012-4

Current Year Management Points

2012-2 LATE PAYMENTS

Condition: Federal tax deposits, school taxes, and retirement contributions are being paid late, resulting in significant penalties and interest.

Recommendation: All payments should be remitted on a timely basis to avoid penalties.

Response: The District will make an effort to properly submit and pay all tax filings and retirement contributions on a timely basis.

2012-3 PERSONNEL FILES

Condition: While reviewing personnel files, I found that Form I-9 had not been completed by employees.

Recommendation: Personnel files must be complete and current.

Response: The District will obtain I-9's for each employee.

2012-4 APPROVE AND CANCEL INVOICES BEING PAID

- Condition: I discovered that paid invoices have no indication of approval noted and are not cancelled properly.
- Recommendation: I recommend having the person signing the check initial the invoice to indicate approval and mark invoices with a "paid" stamp to cancel the invoice.
- Response: All invoices will be initialed to indicate approval and a "paid" stamp will be purchased and put into use.

2012-5 APPROVAL OF THE MONTHLY BANK STATEMENT

- Condition: I discovered that the monthly bank statement is not being reviewed and approved.
- Recommendation: I recommend having the Treasurer review, sign and date the monthly bank statement. This will enhance internal controls.
- Response: All monthly bank statements will be reviewed monthly.

2012-6 RECONCILIATION OF THE MONTHLY BANK STATEMENTS

- Condition: I discovered that some of the miscellaneous bank accounts are not being reconciled monthly.
- Recommendation: All bank accounts should be reconciled monthly.
- Response: All bank statements will be reconciled monthly.

2012-7 MISSING INVOICES

- Condition: While performing the disbursement tests, I found a few invoices were missing from the files.
- Recommendation: There should be an invoice required for each payment issued. All invoices should then be properly filed.
- Response: All invoices will be filed properly in the future.

2012-8 VOID CHECKS NOT PROPERLY VOIDED

Condition: There were several void checks found that were not voided properly. It still had the signature line on the void check.

Recommendation: The signature line should be cut off of the void check and the void check should be properly filed.

Response: All void checks will have the signature line removed in the future.