

**RATTLESNAKE RIDGE WATER DISTRICT
GRAYSON, KENTUCKY
AUDITED BASIC FINANCIAL STATEMENTS
For the Years Ended December 31, 2014 and 2013**

RATTLESNAKE RIDGE WATER DISTRICT
GRAYSON, KENTUCKY
Years Ended December 31, 2014 and 2013

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CERTIFIED PUBLIC ACCOUNTANT

MEMBER: K.S.C.P.A.
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INDEPENDENT AUDITOR REPORT

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To the Board of Commissioners
Rattlesnake Ridge Water District, Kentucky
Grayson, Kentucky 41143

Report on the Financial Statements

I have audited the accompanying financial statements of the business-type activities of Rattlesnake Ridge Water District, Kentucky as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Rattlesnake Ridge Water District, Kentucky, as of December 31, 2014 and 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic

financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 1, 2015, on our consideration of the Rattlesnake Ridge Water District, Kentucky's internal control over financial reporting and on our 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 our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Rattlesnake Ridge Water District, Kentucky's internal control over financial reporting and compliance.

Donna J. Hendrix, CPA

Donna J. Hendrix, CPA, PSC

Morehead, Kentucky

July 1, 2015

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

ASSETS	2014	2013
CURRENT ASSETS		
Cash and Cash Equivalents - Unrestricted	\$ 85,892	\$ 29,585
Cash and Cash Equivalents - Restricted	1,989	2,713
Accounts receivable		
Customers, net	160,551	146,174
Other	-	-
Unbilled Revenue Receivable	91,567	91,567
KRWFC Sinking Fund	49,398	44,893
Inventory	18,539	9,585
Prepaid Expenses	<u>7,097</u>	<u>7,097</u>
TOTAL CURRENT ASSETS	<u>415,034</u>	<u>331,615</u>
PROPERTY, PLANT AND EQUIPMENT		
Nondepreciated Capital Assets:		
Land	6,500	6,500
Construction In Progress	5,850	-
Depreciated Capital Assets:		
Utility Plant in Service	35,240,415	35,114,914
Buildings	86,993	86,993
Other Depreciable Equipment	258,831	235,830
Less: Accumulated Depreciation	<u>(12,040,680)</u>	<u>(11,075,178)</u>
NET PROPERTY, PLANT AND EQUIPMENT	<u>23,557,908</u>	<u>24,369,059</u>
OTHER ASSETS		
Bond Issue Costs	<u>-</u>	<u>37,438</u>
TOTAL ASSETS	<u>\$ 23,972,942</u>	<u>\$ 24,738,113</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$ 25,667	\$ 154,488
Accrued Taxes and Benefits	40,894	84,118
Accrued Interest	22,150	22,150
Accrued Wages and Sick Pay	26,939	26,939
Customer deposits	29,135	28,485
Short-term Note Payable KRWFC	-	-
Current Portion of Long-Term Debt	<u>35,000</u>	<u>80,383</u>
TOTAL CURRENT LIABILITIES	179,785	396,563
NONCURRENT LIABILITIES		
Notes Payable	244,148	304,043
Bonds payable	<u>7,572,000</u>	<u>7,761,200</u>
TOTAL NONCURRENT LIABILITIES	<u>7,816,148</u>	<u>8,065,243</u>
TOTAL LIABILITIES	7,995,933	8,461,806
NET POSITION		
Investment in Capital Assets	15,706,761	16,223,434
Restricted for:		
Capital Projects and Replacement	1,960	2,441
Debt Service	30	272
Unrestricted	<u>268,259</u>	<u>50,161</u>
TOTAL NET POSITION	<u>\$ 15,977,009</u>	<u>\$ 16,276,307</u>

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

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

	2014	2013
OPERATING REVENUES		
Water sales	\$ 2,414,671	\$ 2,017,501
Service Charges and Other Revenue	<u>16,320</u>	<u>62,177</u>
Total operating Revenues	<u>2,430,991</u>	<u>2,079,678</u>
OPERATING EXPENSES		
Salaries & Wages	526,253	543,472
Employee Benefits	283,935	329,578
Purchased Water	-	5,109
Accounting and Legal	26,612	15,009
Materials & Supplies	201,862	219,776
Utilities and Telephone	292,778	278,983
Insurance	89,300	52,080
Vehicle Expense	46,013	43,519
Testing Expense	24,513	21,941
Depreciation and Amortization	965,502	931,309
Bad Debt Expense	28,511	9,381
Miscellaneous Expense	3,355	1,876
Taxes Other than Income	<u>54,176</u>	<u>64,802</u>
Total operating expense	<u>2,542,810</u>	<u>2,516,836</u>
OPERATING INCOME (LOSS)	(111,819)	(437,158)
NON-OPERATING REVENUES (EXPENSES)		
Interest income	67	69
Interest expense	(291,270)	(316,582)
Gain on Sale of Assets	-	-
Net Non-Operating Revenues (Expenses)	<u>(291,203)</u>	<u>(316,513)</u>
NET INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	(403,022)	(753,671)
Capital Grants	125,063	2,150,576
Customer Tap Fees	<u>16,100</u>	<u>30,800</u>
CHANGE IN NET POSITION	<u>(261,859)</u>	<u>1,427,705</u>
NET POSITION, BEGINNING OF YEAR	<u>16,276,307</u>	<u>14,848,603</u>
Prior Period Adjustment-Write off Bond Issue Costs	(37,438)	-
NET POSITION, END OF YEAR	<u>\$ 15,977,010</u>	<u>\$ 16,276,307</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,

	2014	2013
CASH FLOW FROM OPERATING ACTIVITIES		
Receipts From Customers	\$ 2,445,368	\$ 2,075,506
Payments to Suppliers	(958,313)	(703,096)
Payments to Employees	(810,188)	(873,050)
	676,866	499,360
Net Cash (Used) Provided by Operating Activities	676,866	499,360
CASH FLOW FROM INVESTING ACTIVITIES		
KRWFC Sinking Fund	4,505	5,561
Interest Income	67	69
	4,572	5,630
Net Cash (Used) Provided by Investing Activities	4,572	5,630
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Debt Proceeds	-	213,254
Principal Paid on Capital Debt	(321,396)	(312,129)
Purchases of Capital Assets	(154,351)	(2,233,821)
Contributed Capital-Tap Fees	16,100	30,800
Contributed Capital-Grants	125,063	1,939,402
Interest Paid on Capital Debt	(291,270)	(316,582)
	(625,854)	(679,077)
Net Cash Provided by (Used in) Capital and Financing Activities	(625,854)	(679,077)
NET INCREASE (DECREASE) IN CASH	55,584	(174,087)
Cash and Cash Equivalents - At beginning of year	32,298	206,386
CASH AND CASH EQUIVALENTS - AT END OF YEAR	\$ 87,881	\$ 32,298
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Operating Income (Loss)	\$ (111,819)	\$ (437,158)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation Expense and Amortization Expense	965,502	931,309
Change in Assets and Liabilities:		
Accounts Receivable, Net	(14,377)	(1,400)
Accounts Payable and Other Payables	(172,045)	6,423
Inventories	8,954	435
Prepaid Expense	(0)	(1,255)
Customer Deposits	650	1,005
	676,866	499,360
Net Cash Provided (Used) by Operating Activities	\$ 676,866	\$ 499,360

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

RATTLESNAKE RIDGE WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2014 and 2013

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, 2014 and 2013**

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 re recorded at cost. Depreciation is applied on the straight-lint 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 statement 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, 2014 and 2013**

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>2014</u>	<u>2013</u>
Construction Accounts	\$ 1,635	\$ 2,136
Capital Improvement Account	-	-
Bond and Interest Sinking Fund	30	272
Depreciation Fund	<u>325</u>	<u>325</u>
TOTAL	<u>\$ 1,990</u>	<u>\$ 2,733</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, 2014, \$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, 2014 and 2013

NOTE 4: FIXED ASSETS

Capital asset activity for the fiscal year ended December 31, 2014 was as follows:

Business-Type Activities	Balance			Balance
	Jan. 1, 2014	Additions	Deductions	
Cost:				
Land	\$ 6,500		\$ -	\$ 6,500
Utility Plant	10,843,860		-	10,843,860
Water System	24,168,224	125,095	-	24,293,319
Buildings	86,993		-	86,993
Equipment	102,829	405	-	103,234
Other Depreciable Assets	235,830	23,000	-	258,830
Construction in Progress	-	5,850	-	5,850
Totals at historical cost	<u>35,444,236</u>	<u>154,350</u>	<u>-</u>	<u>35,598,589</u>
Less accumulated depreciation:				
Plant in Service	10,760,536	933,807	-	11,694,343
Other Depreciable Assets	314,641	31,695	-	346,336
Total accumulated Depreciation	<u>11,075,177</u>	<u>965,502</u>	<u>-</u>	<u>12,040,680</u>
Business-Type Activities Capital Assets - Net	<u>\$ 24,369,059</u>	<u>\$ (811,152)</u>	<u>\$ -</u>	<u>\$ 23,557,908</u>

Capital asset activity for the fiscal year ended December 31, 2013 was as follows:

Business-Type Activities	Balance			Balance
	Jan. 1, 2013	Additions	Deductions	
Cost:				
Land	\$ 6,500	\$ -	\$ -	\$ 6,500
Utility Plant	4,766,619	6,077,241	-	10,843,860
Water System	22,651,275	1,516,949	-	24,168,224
Buildings	86,993	-	-	86,993
Equipment	102,829	-	-	102,829
Other Depreciable Assets	232,846	2,984	-	235,830
Construction in Progress	5,363,354	-	5,363,354	-
Totals at historical cost	<u>33,210,416</u>	<u>7,597,174</u>	<u>5,363,354</u>	<u>35,444,236</u>
Less accumulated depreciation:				
Plant in Service	9,861,334	899,202	-	10,760,536
Other Depreciable Assets	297,841	16,800	-	314,641
Total accumulated Depreciation	<u>10,159,175</u>	<u>916,002</u>	<u>-</u>	<u>11,075,177</u>
Business-Type Activities Capital Assets - Net	<u>23,051,241</u>	<u>6,681,172</u>	<u>5,363,354</u>	<u>24,369,059</u>

**RATTLESNAKE RIDGE WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2014 and 2013**

NOTE 5: LONG-TERM DEBT

The following is a summary of revenue bonds payable for the year ended December 31, 2014. 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	\$ 114,000	-	6,000	\$ 108,000
				-			-
1992 Series	5.00%	365,000	1/1/31	243,000	-	9,500	233,500
				-			-
1994 Series A	4.50%	434,000	1/1/34	318,000	-	10,000	308,000
				-			-
1994 Series B	4.50%	197,000	1/1/34	141,500	-	4,500	137,000
				-			-
1995 Series A	4.50%	445,000	1/1/35	329,000	-	10,000	319,000
				-			-
1995 Series B	4.50%	100,000	1/1/35	74,500	-	2,200	72,300
				-			-
2000 Series A	4.50%	900,000	1/1/40	764,000	-	16,000	748,000
				-			-
2000 Series B	4.50%	425,000	1/1/40	360,000	-	8,000	352,000
				-			-
2001 Series A	3.25%	900,000	1/1/41	739,500	-	17,500	722,000
				-			-
2001 Series B	4.50%	600,000	1/1/41	51,200	-	1,000	50,200
				-			-
2004 Series A	4.38%	1,340,000	1/1/44	1,209,500	-	20,000	1,189,500
				-			-
2004 Series B	4.38%	549,000	1/1/44	495,500	-	8,000	487,500
				-			-
2008 Series C	Various	665,000	1/1/25	510,000	-	30,000	480,000
				-			-
2011 Series A	2.00%	1,336,000	1/1/52	1,315,000	-	21,500	1,293,500
				-			-
2011 Series B	2.00%	1,146,000	1/1/52	1,126,500	-	20,000	1,106,500
				<u>\$ 7,791,200</u>	<u>\$ -</u>	<u>\$ 184,200</u>	<u>\$ 7,607,000</u>
Less Current Maturities							<u>35,000</u>
TOTAL							<u><u>\$ 7,572,000</u></u>

	<u>Principal</u>	<u>Interest</u>
2015	35,000	145,568
2016	193,900	266,952
2017	205,000	259,496
2018	211,700	251,632
2019	223,300	243,351
2020-2024	1,225,400	1,080,475
2025-2029	1,263,400	830,417
2030-2034	1,340,000	585,187
2035-2039	1,252,600	348,187
2040-2044	1,013,200	141,659
2045-2049	448,500	42,395
2050-2052	195,000	3,930
	<u>\$ 7,607,000</u>	<u>\$ 4,199,249</u>

**RATTLESNAKE RIDGE WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2014 and 2013**

NOTE 5: LONG-TERM DEBT (Continued)

The following is a summary of Notes Payable for the year ended December 31, 2014:

	<u>Outstanding December 31, 2013</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	\$ 21,545	-	\$ 21,545	\$ -
Commercial Bank- Loan 5.9%, Total \$ 138,255 dated 10/16/13, payable in monthly installments of \$6121, maturity 10/16/15	127,349	-	68,430	58,919
Commercial Bank- Excavator 4.75%, Total \$27,315 dated 7/12/12, payable in monthly installments of \$816, maturity 07/12/14	14,902	-	7,215	7,687
Commercial Bank- 2012 Ford 4.75%, Total \$26,142 dated 6/20/12, payable in monthly installments of \$490, maturity 06/20/14	18,941	-	4,579	14,362
KADD Lease 3%-5.3%, Total 135,000 dated 4/14/05, due in semi-annual installments, maturity 05/01/25	95,000	-	5,000	90,000
Corp of Engineers 6.625%, Dated 05/21/84 Maturity: 30 years	<u>76,689</u>	<u>0</u>	<u>3,508</u>	<u>73,180</u>
TOTAL NOTES PAYABLE	\$ 354,426	\$ -	\$ 110,277	\$ 244,148
Less Current Maturities				<u>89,609</u>
				<u><u>\$ 154,539</u></u>

TOTAL

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

	Principal	Interest
2015	89,609	9,070
2016	8,782	8,074
2017	9,275	7,682
2018	9,275	6,310
2019-2023	67,424	27,843
2024-2028	51,714	11,097
2029	8,069	1,335
	<u><u>244,148</u></u>	<u><u>71,411</u></u>

RATTLESNAKE RIDGE WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2014 and 2013

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, 2014 was \$332,340. The District had set aside \$ 30 at December 31, 2014 into a restricted account, resulting in the account being under-funded by \$332,310

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, 2014 was \$ 221,570. District had set aside \$325 at December 31, 2014 into a restrict account, and therefore the account is under-funded by \$ 221,245.

**RATTLESNAKE RIDGE WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2014 and 2013**

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, 2014, 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, 2013, participating employers contributed 18.89% for January to June and 17.67% 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>
2014	\$103,463	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.

SUPPLEMENTAL INFORMATION

**RATTLESNAKE RIDGE WATER DISTRICT
SUPPLEMENTAL INFORMATION REQUIRED BY RURAL DEVELOPMENT
December 31, 2014**

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	4/1/2015
Umbrella Policy	\$ 1,000,000	4/1/2015
Property - Building & Contents	\$ 7,296,194 100% Co-Insurance	4/1/2015
Employee Theft	\$ 1,125,000	3/4/2015
Automobile	\$ 1,000,000	4/1/2015
Encroachment Bonds	\$ 5,000	
Workers Compensation	Statutory	12/31/2014

Aged Accounts Receivable

A detailed schedule of aged accounts receivable is prepared on a monthly basis. At December 31, 2014, accounts receivable were aged as follows:

	<u>Amount</u>
Current	\$ 162,572
Over 60 Days	6,318
Over 90 Days	58,979
Total	<u>\$ 227,870</u>

During 2014, the District carried a reserve for possible uncollected accounts of \$67,318.

The District had a total of 4,002 customers at December 31, 2014. Of these customers, 3,997 were residential and 5 were commercial.

<u>Commissioner</u>	<u>Term Expires</u>
Bill Gilbert, Chairman	11/14/2016
Larry Carroll, Secretary	2/13/2017
George Wells, Treasure	11/30/2017
Steve Ison	10/1/2017
Jennifer Carter	6/1/2016

DONNA J. HENDRIX
CERTIFIED PUBLIC ACCOUNTANT

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

115 SOUTH MAIN CROSS
FLEMINGSBURG, KY 41041
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550 W. FIRST ST., PO BOX 449
MOREHEAD, KY 40351
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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Commissioners
Rattlesnake Ridge Water District, Kentucky
Grayson, Kentucky 41143

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards, applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Rattlesnake Ridge Water District as of and for the year ended December 31, 2014 and the related notes to the financial statements, which collectively comprise the Rattlesnake Ridge Water District, Kentucky's basic financial statements and have issued our report thereon dated July 1, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Rattlesnake Ridge Water District, Kentucky's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Rattlesnake Ridge Water District, Kentucky's internal control. Accordingly, we do not express an opinion on the effectiveness of the Rattlesnake Ridge Water District, Kentucky's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rattlesnake Ridge Water District, Kentucky'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Donna J. Hendrix, CPA

Donna J. Hendrix, CPA, PSC

Morehead, Kentucky

July 1, 2015

DONNA J. HENDRIX

CERTIFIED PUBLIC ACCOUNTANT

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

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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, 2014, 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 July 1, 2015, 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

DONNA J. HENDRIX, CPA
Morehead, Kentucky

July 1, 2015

RATTLESNAKE RIDGE WATER DISTRICT
MANAGEMENT POINTS, RECOMMENDATIONS, AND RESPONSES
Year Ended December 31, 2014

Status of Prior Year Management Points

MATERIAL WEAKNESS

2013-01 DEFICIENCY IN INTERNAL CONTROL-FRAUD DETECTED

Status: This issue has been resolved.

SIGNIFICANT DEFICIENCY

2013-02 CONTROLS OVER FINANCIAL REPORTING PROCESS

Status: This issue has been resolved.

COMPLIANCE REQUIREMENTS

2013-03 BOND RESERVE/SINKING FUND REQUIREMENTS

Status: This is still an issue—will be carried to current year issues. 2014-1

2013-4 LATE PAYMENTS

Status: This issue has been resolved.

2013-5 PERSONNEL FILES

Status: This is still an issue—will be carried to current year issues. 2014-2

2013-6 APPROVE AND CANCEL INVOICES BEING PAID

Status: This issue has been resolved.

2013-7 APPROVAL OF THE MONTHLY BANK STATEMENT

Status: This is still an issue—will be carried to current year issues. 2014-3

2013-8 MISSING INVOICES

Status: This issue has been resolved.

2013-9 VOID CHECKS NOT PROPERLY VOIDED

Status: This issue has been resolved.

2013-10 Employee Mileage Reimbursements

Status: This issue has been resolved.

2013-11 Skipped check numbers for Accounts Payable

Status: This issue has been resolved.

2013-12 Payroll checks in Ledger incorrect check numbers

Status: This issue has been resolved.

2013-13 Review/Approval of Billing Adjustments reports

Status: This is still an issue—will be carried to current year issues. 2014-4

2013-14 Monthly review of the Financial Statements

Status: This issue has been resolved.

2013-15 Payroll processing days

Status: This issue has been resolved.

Current Year Management Points

2014-1 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.

2014-2 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.

2014-3 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 to review, sign and date the monthly bank statement. This will enhance internal controls.
- Response: All monthly bank statements will be reviewed monthly.

2014-4 Review/Approval of Billing Adjustments reports

- Condition: Currently (effective end of 2013), the Manager is approving all billing adjustments, prior to adjustments being made. However, there is no monthly approval of the billing adjustments journal by the Manager.
- Recommendation: The Monthly Billing Adjustments journal should be printed monthly and approved by the Manager. He should review and sign off on it monthly.
- Response: The Manager will implement immediately.