

**RATTLESNAKE RIDGE WATER DISTRICT
GRAYSON, KENTUCKY
AUDITED BASIC FINANCIAL STATEMENTS
For the Years Ended December 31, 2017 and 2016**

RATTLESNAKE RIDGE WATER DISTRICT
GRAYSON, KENTUCKY
Years Ended December 31, 2017 and 2016

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the business-type activities of Rattlesnake Ridge Water District, Kentucky as of and for the year ended December 31, 2017, 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's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes 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 governmental activities of the Rattlesnake Ridge Water District, Kentucky, as of December 31, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

The schedule of the District's proportionate share of net pension liability and schedule of District contributions are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of the District's proportionate share of net pension liability and schedule of District contributions are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 25, 2018, 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.

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

Donna J. Hendrix, CPA

Donna J. Hendrix, CPA, PSC

Morehead, Kentucky

May 25, 2018

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

ASSETS AND DEFERRED OUTFLOWS	2017	2016
CURRENT ASSETS		
Cash and Cash Equivalents - Unrestricted	\$ 251,080	\$ 151,405
Cash and Cash Equivalents - Restricted	118,859	117,193
Accounts receivable		
Customers, net	174,463	191,361
Other	-	-
Unbilled Revenue Receivable	78,986	91,567
KRWFC Sinking Fund	52,617	53,268
Inventory	12,610	18,539
Prepaid Expenses	<u>1,100</u>	<u>1,100</u>
TOTAL CURRENT ASSETS	<u>689,716</u>	<u>624,433</u>
PROPERTY, PLANT AND EQUIPMENT		
Nondepreciated Capital Assets:		
Land	16,558	13,500
Construction In Progress	71,270	-
Depreciated Capital Assets:		
Utility Plant in Service	35,991,414	35,984,766
Buildings	95,678	92,152
Other Depreciable Equipment	278,830	278,830
Less: Accumulated Depreciation	<u>(14,968,653)</u>	<u>(14,005,036)</u>
NET PROPERTY, PLANT AND EQUIPMENT	<u>21,485,097</u>	<u>22,364,209</u>
Deferred Outflow of Resources	<u>281,322</u>	<u>187,238</u>
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	<u>\$ 22,456,135</u>	<u>\$ 23,175,880</u>
 LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable	\$ 20,196	\$ 29,418
Accrued Taxes and Benefits	18,537	19,350
Accrued Interest	22,150	22,150
Accrued Wages and Sick Pay	24,436	24,436
Customer deposits	60,762	26,140
Short-term Note Payable KRWFC	-	-
Current Portion of Long-Term Debt	<u>40,000</u>	<u>40,000</u>
TOTAL CURRENT LIABILITIES	186,082	161,494
 NONCURRENT LIABILITIES		
Notes Payable	141,351	148,774
Accrued pension and OPED liabilities	1,145,666	905,050
Bonds payable	<u>7,156,600</u>	<u>7,370,600</u>
TOTAL NONCURRENT LIABILITIES	<u>8,443,617</u>	<u>8,424,424</u>
Deferred Inflow of Resources	<u>-</u>	<u>-</u>
TOTAL LIABILITIES AND DEFERRED INFLOW OF RESOURCES	<u>8,629,699</u>	<u>8,585,918</u>
 NET POSITION		
Investment in Capital Assets	14,147,146	14,804,835
Restricted for:		
Capital Projects and Replacement	102,487	102,321
Debt Service	1,972	1,272
Unrestricted	<u>(425,170)</u>	<u>(318,467)</u>
TOTAL NET POSITION	<u>\$ 13,826,436</u>	<u>\$ 14,589,962</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,

	2017	2016
OPERATING REVENUES		
Water sales	\$ 2,365,094	\$ 2,518,262
Service Charges and Other Revenue	<u>14,138</u>	<u>20,790</u>
Total operating Revenues	<u>2,379,232</u>	<u>2,539,052</u>
OPERATING EXPENSES		
Salaries & Wages	624,656	603,056
Employee Benefits	495,042	538,113
Office Supplies	44,455	40,812
Accounting and Legal	24,637	28,565
Materials & Supplies	309,830	333,838
Utilities and Telephone	296,088	288,576
Insurance	25,873	67,167
Vehicle Expense	29,818	32,976
Testing Expense	30,571	14,318
Depreciation and Amortization	963,617	989,539
Bad Debt Expense	16,289	14,950
Miscellaneous Expense	2,186	15,162
Taxes Other than Income	<u>44,812</u>	<u>46,500</u>
Total operating expense	<u>2,907,875</u>	<u>3,013,571</u>
OPERATING INCOME (LOSS)	(528,643)	(474,519)
NON-OPERATING REVENUES (EXPENSES)		
Interest income	417	186
Interest expense	(269,499)	(279,766)
DOT project flow through expense	(7,070)	(414,187)
DOT project flow through income	7,070	414,187
Gain on Sale of Assets	-	-
Net Non-Operating Revenues (Expenses)	<u>(269,083)</u>	<u>(279,580)</u>
NET INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	(797,726)	(754,099)
Capital Grants	1,950	58,235
Customer Tap Fees	<u>32,250</u>	<u>31,150</u>
CHANGE IN NET POSITION	<u>(763,526)</u>	<u>(664,714)</u>
NET POSITION, BEGINNING OF YEAR	<u>14,589,962</u>	<u>15,254,675</u>
 NET POSITION, END OF YEAR	 <u>\$ 13,826,436</u>	 <u>\$ 14,589,962</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,

	2017	2016
CASH FLOW FROM OPERATING ACTIVITIES		
Receipts From Customers	\$ 2,362,334	\$ 2,570,728
Payments to Suppliers	(780,028)	(787,185)
Payments to Employees	<u>(939,504)</u>	<u>(1,141,169)</u>
Net Cash (Used) Provided by Operating Activities	642,801	642,373
CASH FLOW FROM INVESTING ACTIVITIES		
KRWFC Sinking Fund	(651)	4,414
Interest Income	<u>417</u>	<u>186</u>
Net Cash (Used) Provided by Investing Activities	<u>(234)</u>	<u>4,600</u>
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Debt Proceeds	-	-
Principal Paid on Capital Debt	(221,423)	(253,367)
Purchases of Capital Assets	(84,502)	(95,635)
Contributed Capital-Tap Fees	32,250	31,150
Contributed Capital-Grants	1,950	58,235
Interest Paid on Capital Debt	<u>(269,499)</u>	<u>(279,766)</u>
Net Cash Provided by (Used in) Capital and Financing Activities	<u>(541,225)</u>	<u>(539,383)</u>
NET INCREASE (DECREASE) IN CASH	101,342	107,590
Cash and Cash Equivalents - At beginning of year	<u>268,598</u>	<u>161,009</u>
CASH AND CASH EQUIVALENTS - AT END OF YEAR	<u>\$ 369,939</u>	<u>\$ 268,598</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Operating Income (Loss)	\$ (528,643)	\$ (474,519)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation Expense and Amortization Expense	963,617	989,539
Change in Assets and Liabilities:		
Accounts Receivable, Net	29,479	(31,676)
Accounts Payable and Other Payables	149,655	153,097
Inventories	(5,929)	-
Prepaid Expense	-	5,997
Customer Deposits	<u>34,622</u>	<u>(65)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 642,801</u>	<u>\$ 642,373</u>

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, 2017 and 2016

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, 2017 and 2016

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 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, 2017 and 2016**

Net Position

Net Position represent the difference between assets and liabilities in the statement of net assets. Net position 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 position is 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>2017</u>	<u>2016</u>
Construction Accounts	\$ 14,400	\$13,600
Capital Improvement Account	-	-
Bond and Interest Sinking Fund	1,972	1,272
Depreciation Fund	<u>102,487</u>	<u>102,321</u>
TOTAL	<u>\$118,859</u>	<u>\$ 117,193</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, 2017, \$429,355 of the bank balance was exposed to custodial credit risk as follows:

Uninsured and collateral held by pledging bank	\$429,355
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RATTLESNAKE RIDGE WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 4: FIXED ASSETS

Capital asset activity for the fiscal year ended December 31, 2017 was as follows:

Business-Type Activities	Balance			Balance Dec. 31, 2017
	Jan. 1, 2017	Additions	Deductions	
Cost:				
Land	\$ 13,500	\$ 3,058	\$ -	\$ 16,558
Utility Plant	10,843,860	-	-	10,843,860
Water System	24,963,034	6,649	-	24,969,683
Buildings	92,152	3,526	-	95,678
Equipment	177,871	-	-	177,871
Other Depreciable Assets	278,830	-	-	278,830
Construction in Progress	-	71,270	-	71,270
Totals at historical cost	<u>36,369,248</u>	<u>84,503</u>	<u>-</u>	<u>36,453,750</u>
Less accumulated depreciation:				
Plant in Service	13,620,255	764,148	-	14,384,403
Other Depreciable Assets	384,779	199,469	-	584,248
Total accumulated Depreciation	<u>14,005,038</u>	<u>963,617</u>	<u>-</u>	<u>14,968,985</u>
Business-Type Activities Capital Assets - Net	\$ 22,364,209	\$ (879,113)	\$ -	\$ 21,484,766

Capital asset activity for the fiscal year ended December 31, 2016 was as follows:

Business-Type Activities	Balance			Balance Dec. 31, 2016
	Jan. 1, 2016	Additions	Deductions	
Cost:				
Land	\$ 6,500	\$ 7,000	\$ -	\$ 13,500
Utility Plant	10,843,860	-	-	10,843,860
Water System	24,297,370	665,664	-	24,963,034
Buildings	92,152	-	-	92,152
Equipment	138,176	39,695	-	177,871
Other Depreciable Assets	278,830	-	-	278,830
Construction in Progress	616,722	48,942	665,664	-
Totals at historical cost	<u>36,273,613</u>	<u>761,301</u>	<u>665,664</u>	<u>36,369,248</u>
Less accumulated depreciation:				
Plant in Service	12,651,218	969,037	-	13,620,255
Other Depreciable Assets	364,277	20,502	-	384,779
Total accumulated Depreciation	<u>13,015,497</u>	<u>989,539</u>	<u>-</u>	<u>14,005,038</u>
Business-Type Activities Capital Assets - Net	23,258,115	(228,238)	665,664	22,364,209

**RATTLESNAKE RIDGE WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016**

NOTE 5: LONG-TERM DEBT (Continued)

The following is a summary of Notes Payable for the year ended December 31, 2017:

	<u>Outstanding December 31, 2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
KADD Lease 3%-5.3%, Total 135,000 dated 4/14/05, due in semi-annual installments, maturity 05/01/25	80,000	-	5,000	75,000
Corp of Engineers 6.625%, Dated 05/21/84 Maturity: 30 years	<u>68,774</u>	<u>0</u>	<u>2,422</u>	<u>66,351</u>
TOTAL NOTES PAYABLE	\$ 148,774	\$ -	\$ 7,422	\$ 141,351
Less Current Maturities				<u>7,584</u>
				<u><u>\$ 133,767</u></u>

TOTAL

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

	Principal	Interest
2018	7,584	6,310
2019	12,755	6,272
2020	12,938	5,559
2021	13,132	4,835
2022	13,340	4,097
2022-2027	50,326	9,909
2028-2029	<u>31,276</u>	<u>1,023</u>
	<u><u>141,351</u></u>	<u><u>38,005</u></u>

RATTLESNAKE RIDGE WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 5: LONG-TERM DEBT

The following is a summary of revenue bonds payable for the year ended December 31, 2017. 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	\$ 96,000	-	7,000	\$ 89,000
1992 Series	5.00%	365,000	1/1/31	213,000	-	11,000	202,000
1994 Series A	4.50%	434,000	1/1/34	287,000	-	11,000	276,000
1994 Series B	4.50%	197,000	1/1/34	127,000	-	5,000	122,000
1995 Series A	4.50%	445,000	1/1/35	298,000	-	11,000	287,000
1995 Series B	4.50%	100,000	1/1/35	67,600	-	2,500	65,100
2000 Series A	4.50%	900,000	1/1/40	714,000	-	19,000	695,000
2000 Series B	4.50%	425,000	1/1/40	336,000	-	9,000	327,000
2001 Series A	3.25%	900,000	1/1/41	685,000	-	19,000	666,000
2001 Series B	4.50%	600,000	1/1/41	48,000	-	1,200	46,800
2004 Series A	4.38%	1,340,000	1/1/44	1,147,500	-	22,500	1,125,000
2004 Series B	4.38%	549,000	1/1/44	470,000	-	9,500	460,500
2008 Series C	Various	665,000	1/1/25	410,000	-	40,000	370,000
2011 Series A	2.00%	1,336,000	1/1/52	1,249,000	-	23,000	1,226,000
2011 Series B	2.00%	1,146,000	1/1/52	1,065,000	-	21,000	1,044,000
2015 Series	3.00%	200,000	1/1/55	197,500		2,500	195,000
				\$ 7,410,600	\$ -	\$ 214,200	\$ 7,196,400
Less Current Maturities							40,000
TOTAL							<u>\$ 7,156,400</u>

	<u>Principal</u>	<u>Interest</u>
2018	40,000	251,632
2019	226,300	246,276
2020	227,000	237,849
2021	241,700	228,823
2022	246,900	219,334
2023-2027	1,297,500	942,933
2028-2032	1,313,700	697,342
2033-2037	1,305,100	449,202
2038-2042	1,194,700	224,840
2043-2047	658,500	75,032
2048-2052	419,500	19,145
2053-2056	25,500	765
	<u>\$ 7,196,400</u>	<u>\$ 3,593,172</u>

RATTLESNAKE RIDGE WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2017 and 2016

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, 2017 was \$174,200. The District had set aside \$ 1,972 at December 31, 2017 into a restricted account, resulting in the account being under-funded by \$172,228.

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, 2017 was \$ 797,400. District had set aside \$102,487 at December 31, 2017 into a restrict account, and therefore the account is under-funded by \$ 694,913.

NOTE 7: DEFINED BENEFIT PENSION PLAN

DEFINED BENEFIT PENSION PLAN

General Information about the Pension Plan

Plan description- Regular, Full-time, employees of the Commission are provided with pensions through the County Employees Retirement System (CERS)- a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System. The assets of CERS are pooled with two other retirement systems Kentucky Retirement System administers, KERS & SPRS. Although invested as a whole each system's assets are used only for the members of that plan. Kentucky Revised Statute (KRS) chapter 61 grants the authority to establish and amend the benefits terms to the Kentucky Retirement System's Board of Trustees (Board). Kentucky retirement System issues a publicly available financial report that can be obtained on their website.

RATTLESNAKE RIDGE WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2017 and 2016

NOTE 7: DEFINED BENEFIT PENSION PLAN (CONTINUED)

Benefits provided- CERS provides retirement, insurance, disability and death benefits. Retirement benefits are determined from an average of the five highest years of compensation for those whose participation began before September 01, 2008. For those who began participation on or after September 01, 2008 retirement benefits are determined as an average of the last complete five years. A percentage is then taken from those averages based on the employee's months of service. Employees are eligible for service-related disability benefits with at least 60 months of service. If the member is receiving monthly benefits based on at least four years of service, then a \$5,000 death benefit is payable to the member's designated beneficiary. For those employees whose participation began prior to July 01, 2003, CERS will pay a portion of the monthly premium for single coverage based upon service credit accrued at retirement. For those employees whose participation began on or after July 01, 2003 and before September 01, 2008, employees are required to earn at least 10 years of service credit to be eligible for insurance benefits. Employees whose participation began on or after September 01, 2008 must earn at least 15 years of service credit to be eligible for insurance benefits.

Cost of living adjustments to monthly retirement allowance must be approved by the Kentucky State Legislature (Legislature) and requires the system to be either 100% funded or appropriations are made to cover the increase are by the legislature.

Contributions- Employees are required to contribute 5% of their annual pay. Employees whose participation began on or after September 01, 2008 are required to contribute an additional 1%. This additional 1% is credited to the insurance fund and is non-refundable. The District's contractually required contribution rate for the year ended June 30, 2017 was 18.68% of annual payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to pension plan from the District were \$94,064 for the year ended December 31, 2017.

Pension Liabilities Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.

At December 31, 2017, The District reported a liability of \$1,145,666 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's portion of the net pension liability was based on the District's proportionate share of retirement contributions for the year ended December 31, 2017. At June 30, 2016 the District's proportionate share was 0.02107%.

RATTLESNAKE RIDGE WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2017 and 2016

NOTE 7: DEFINED BENEFIT PENSION PLAN (CONTINUED)

For the year ended December 31, 2017 the District recognized pension expense of \$214,983. At June 30, 2016 the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual		
Earnings on pension plan investments	\$ -0-	\$ 0
District's contributions subsequent		
To the measure date	<u>281,322</u>	<u>-0-</u>
Total	\$ 281,322	\$ 0

\$281,322 reported as deferred outflows of resources related to pension resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended</u>	<u>Amount</u>
December 31, 2018	\$ 0
December 31, 2019	0
December 31, 2020	0
December 31, 2021	0
December 31, 2022	0
Thereafter	<u>-0-</u>
Total	\$ 0

Actuarial assumptions- The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25%
Salary Increases	4.0% average including inflation
Investment rate of return	7.50% net of pension plan investment expense Including inflation

Mortality rates were based on the 1983 Group Annuity Mortality Table for all retired members and beneficiaries as of June 30, 2006 and the 1994 Group Annuity Mortality Table for all other members. The Group Mortality Table set forward 5 years is used for the period after disability retirement.

**RATTLESNAKE RIDGE WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2017 and 2016**

NOTE 7: DEFINED BENEFIT PENSION PLAN (CONTINUED)

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2005-June 30, 2008.

The long-term expected return on system assets is reviewed as part of the regular experience studies prepared every five years. The most recent analysis, performed for the period covering fiscal years 2005 through 2008 is outlined in a report dated August 25, 2009. Several factors are considered evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best estimate ranges of expected future real rates of return (expected return and net of investment expense) were developed by the invest consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer time frame. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation a change in the inflation assumption or fundamental change in the market that alters expected returns in future years. The target allocation and best estimates of rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Unexpected Nominal Return</u>
Domestic Equity	30%	8.45%
International Equity	22%	8.85%
Emerging Market Equity	5%	10.5%
Private Equity	7%	11.25%
Real Estate	5%	7.00%
Core US Fixed Income	10%	5.25%
High Yield US Fixed Income	5%	7.25%
Non US Fixed Income	5%	5.5%
Commodities	5%	7.75%
TIPS	5%	5.00%
Cash	<u>1%</u>	3.25%
	100%	

Discount Rate- The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from the District will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**RATTLESNAKE RIDGE WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2017 and 2016**

NOTE 7: DEFINED BENEFIT PENSION PLAN (CONTINUED)

Sensitivity of the District's proportionate share of the net pension liability to changes in the discount rate- The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.75%) than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
	<u>6.75%</u>	<u>7.75%</u>	<u>8.75%</u>
Center's Proportionate Share of the net pension liability	\$997,887	\$1,145,666	\$1,293,445

Pension plan fiduciary net position- Detailed information about the pension plan's fiduciary net position is available in the separate issued CERS financial report.

KENTUCKY EMPLOYEES DEFERRED COMPENSATION PLAN

Kentucky Public Employees' Deferred Compensation Authority (KDC) is authorized under the Kentucky Revised Statutes (18A.230-18A.275) to provide administration of tax-deferred supplemental retirement plans for all state, public school and university employees, and employees of local political subdivisions that have elected to participate. It is an agency attached to the Personnel Cabinet of the Commonwealth of Kentucky for administrative purposes only.

A 457(b) pre-tax plan is a governmental deferred compensation plan that allows participants to make tax-deferred contributions each pay period, which are then invested and potentially grow usually until retirement. The Kentucky Public Employees' Deferred Compensation Authority (KDC) 457(b) Deferred Compensation Plan allows State employees to get the same benefit through a program that is specifically tailored to the needs of Kentucky public employees. A minimum monthly payroll contribution of \$30 per plan is required. The internal Revenue Service's maximum elective deferrals for 2017 is \$18,000 for those under age 50, \$18,000 age 50 and up, and \$36,000 for special catch-up contributions. You can learn more about the plan by visiting the Kentucky Deferred Comp website at www.KentuckyPlans.com.

Employee contributions to the plan for the year were \$32,344.

RATTLESNAKE RIDGE WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2017 and 2016

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.

NOTE 9: CONTINGENCIES

The District had elected to be recognized as a reimbursing employer for state unemployment compensation purposes. Accordingly, the District will become liable for direct payment of unemployment benefits as they become due.

NOTE 10: PENDING LEGAL ISSUES

There is a pending legal issue. The matter is disputed by the District. The outcome is unknown.

SUPPLEMENTAL INFORMATION

**RATTLESNAKE RIDGE WATER DISTRICT
SUPPLEMENTAL INFORMATION REQUIRED BY RURAL DEVELOPMENT
December 31, 2017**

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	4/1/2018
Umbrella Policy	\$ 1,000,000	4/1/2018
Property - Building & Contents	\$ 7,296,194 100% Co-Insurance	4/1/2018
Employee Theft	\$ 1,125,000	3/4/2018
Automobile	\$ 1,000,000	4/1/2018
Encroachment Bonds	\$ 5,000	
Workers Compensation	Statutory	12/31/2017

Aged Accounts Receivable

A detailed schedule of aged accounts receivable is prepared on a monthly basis. At December 31, 2017, accounts receivable were aged as follows:

	<u>Amount</u>
Current	\$ 174,118
Over 60 Days	9,201
Over 90 Days	108,998
Total	<u>\$ 292,317</u>

During 2017, the District carried a reserve for possible uncollected accounts of \$116,854.

The District had a total of 4,072 customers at December 31, 2017. Of these customers, 4,059 were residential and 13 were commercial.

<u>Commissioner</u>	<u>Term Expires</u>
Bill Gilbert, Chairman	2/1/2021
Randy Steagall, Secretary	3/1/2020
George Wells, Treasurer	2/8/2020
Steve Ison	7/31/2021
Mike Copley	5/1/2020

RATTLESNAKE RIDGE WATER DISTRICT
SCHEDULE OF WATER DISTRICT'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
FOR THE YEAR ENDED DECEMBER 31, 2017

	Reporting Fiscal Year (Measurement Date)		
	2017 (2016)	2016 (2015)	2015 (2014)
District's proportion of the net pension liability	2.32700%	2.10700%	0.01772%
District's proportionate share of the net pension liability	\$ 1,145,666	\$ 906,050	\$ 575,000
District's covered employee payroll	\$ 624,849	\$ 603,055	\$ 613,228
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	183.351%	150.243%	93.766%
Plan fiduciary net position as a percentage of the total pension liability	8.29%	6.20%	3.77%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

RATTLESNAKE RIDGE WATER DISTRICT
 SCHEDULE OF PENSION CONTRIBUTIONS
 FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution:	\$ 66,108	\$ 62,917	\$ 76,784
Contributions in relation to the contractually required contribution:	<u>66,108</u>	<u>62,917</u>	<u>76,784</u>
Contribution deficiency (excess):	-	-	-
District's covered-employee payroll:	624,849	603,055	613,228
District's proportionate share of the pension contributions as a percentage of its covered-employee payroll:	10.58%	10.43%	12.52%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

RATTLESNAKE RIDGE WATER DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
December 31, 2017

(1) CHANGES OF ASSUMPTIONS

The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30 listed below:

2016:

- The assumed investment rate of return was decreased from 7.75% to 7.50%.
- The assumed rate of inflation was reduced from 3.50% to 3.25%.
- The assumed rate of wage inflation was reduced from 1.00% to 0.75%.
- Payroll growth assumption was reduced from 4.50% to 4.00%.
- The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
- For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.
- The assumed rates of Retirement, Withdrawal and Disability were updated to more accurately reflect experience.

(2) METHOD AND ASSUMPTIONS USED IN CALCULATIONS OF ACTUARIALLY DETERMINED CONTRIBUTIONS

The actuarially determined contribution rates are determined on a biennial basis beginning with the fiscal years ended 2017, determined as of June 30, 2015. The amortization period of the unfunded liability has been reset as of July 1, 2013 to a closed 30-year period. The following actuarial methods and assumptions were used to determine contribution rates reported in that schedule:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	28 years
Asset valuation method	5-year smoothed market
Inflation	3.25 percent
Salary increase	4.00, average, including inflation
Investment rate of return	7.50 percent, net of pension plan investment expense, including inflation

(3) CHANGES OF BENEFITS

The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30 listed below:

2009: A new benefit tier for members who first participate on or after September 1, 2008 was introduced which included the following changes:

1. Tiered Structure for benefit accrual rates
2. New retirement eligibility requirements
3. Different rules for the computation of final average compensation

2014: As cash balance plan was introduced for member whose participation date is on or after January 1, 2014.

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 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

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 governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Rattlesnake Ridge Water District District as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Rattlesnake Ridge Water District District, Kentucky's basic financial statements and have issued our report thereon dated May 25, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Rattlesnake Ridge Water District 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 District, Kentucky's internal control. Accordingly, we do not express an opinion on the effectiveness of the Rattlesnake Ridge Water District 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
May 25, 2018

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, 2017, 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 May 25, 2018, 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

May 25, 2018

RATTLESNAKE RIDGE WATER DISTRICT
MANAGEMENT POINTS, RECOMMENDATIONS, AND RESPONSES
Year Ended December 31, 2017

Status of Prior Year Management Points

COMPLIANCE REQUIREMENTS

2016-01 BOND RESERVE/SINKING FUND REQUIREMENTS

Status: This is still an issue—will be carried to current year issues. 2017-1

OTHER POINTS

2016-2 PERSONNEL FILES

Status: This has been resolved.

2016-3 APPROVAL OF THE MONTHLY BANK STATEMENT

Status: This has been resolved.

Current Year Management Points

2017-1 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.