

**RATTLESNAKE RIDGE WATER DISTRICT  
GRAYSON, KENTUCKY  
AUDITED BASIC FINANCIAL STATEMENTS  
For the Years Ended December 31, 2016 and 2015**

RATTLESNAKE RIDGE WATER DISTRICT  
GRAYSON, KENTUCKY  
Years Ended December 31, 2016 and 2015

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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, Kentucky  
Grayson, KY 41143

We have audited the accompanying 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, Kentucky as of and for the year ended December 31, 2016, 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, 2016, 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 30, 2017, 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 30, 2017

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

<b>ASSETS AND DEFERRED OUTFLOWS</b>	2016	2015
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents - Unrestricted	\$ 151,405	\$ 84,003
Cash and Cash Equivalents - Restricted	117,193	77,007
Accounts receivable		
Customers, net	191,361	159,685
Other	-	-
Unbilled Revenue Receivable	91,567	91,567
KRWFC Sinking Fund	53,268	48,854
Inventory	18,539	18,539
Prepaid Expenses	<u>1,100</u>	<u>7,097</u>
<b>TOTAL CURRENT ASSETS</b>	<u>624,433</u>	<u>486,751</u>
<b>PROPERTY, PLANT AND EQUIPMENT</b>		
Nondepreciated Capital Assets:		
Land	13,500	6,500
Construction In Progress	-	616,722
Depreciated Capital Assets:		
Utility Plant in Service	35,984,766	35,279,408
Buildings	92,152	92,153
Other Depreciable Equipment	278,830	278,830
Less: Accumulated Depreciation	<u>(14,005,036)</u>	<u>(13,015,497)</u>
<b>NET PROPERTY, PLANT AND EQUIPMENT</b>	<u>22,364,209</u>	<u>23,258,115</u>
Deferred Outflow of Resources	<u>187,238</u>	<u>89,688</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES</b>	<u><b>\$23,175,880</b></u>	<u><b>\$ 23,834,554</b></u>
<b>LIABILITIES AND NET POSITION</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 29,418	\$ 37,205
Accrued Taxes and Benefits	19,350	20,639
Accrued Interest	22,150	22,150
Accrued Wages and Sick Pay	24,436	26,939
Customer deposits	26,140	26,205
Short-term Note Payable KRWFC	-	-
Current Portion of Long-Term Debt	<u>40,000</u>	<u>35,000</u>
<b>TOTAL CURRENT LIABILITIES</b>	161,494	168,138
<b>NONCURRENT LIABILITIES</b>		
Notes Payable	148,774	194,741
Accrued pension and OPED liabilities	905,050	575,000
Bonds payable	<u>7,370,600</u>	<u>7,578,000</u>
<b>TOTAL NONCURRENT LIABILITIES</b>	<u>8,424,424</u>	<u>8,347,741</u>
Deferred Inflow of Resources	<u>-</u>	<u>64,000</u>
<b>TOTAL LIABILITIES AND DEFERRED INFLOW OF RESOURCES</b>	<b>8,585,918</b>	<b>8,579,879</b>
<b>NET POSITION</b>		
Investment in Capital Assets	14,804,835	15,450,374
Restricted for:		
Capital Projects and Replacement	102,321	76,915
Debt Service	1,272	92
Unrestricted	<u>(318,467)</u>	<u>(272,707)</u>
<b>TOTAL NET POSITION</b>	<u><b>\$14,589,962</b></u>	<u><b>\$ 15,254,675</b></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,

	2016	2015
<b>OPERATING REVENUES</b>		
Water sales	\$ 2,518,262	\$ 2,516,606
Service Charges and Other Revenue	<u>20,790</u>	<u>3,555</u>
<b>Total operating Revenues</b>	<u>2,539,052</u>	<u>2,520,161</u>
<b>OPERATING EXPENSES</b>		
Salaries & Wages	603,056	611,264
Employee Benefits	538,113	309,451
Office Supplies	40,812	45,219
Accounting and Legal	28,565	27,996
Materials & Supplies	333,838	419,681
Utilities and Telephone	288,576	250,367
Insurance	67,167	56,030
Vehicle Expense	32,976	42,981
Testing Expense	14,318	6,241
Depreciation and Amortization	989,539	974,817
Bad Debt Expense	14,950	18,297
Miscellaneous Expense	15,162	2,897
Taxes Other than Income	<u>46,500</u>	<u>47,676</u>
<b>Total operating expense</b>	<u>3,013,571</u>	<u>2,812,916</u>
<b>OPERATING INCOME (LOSS)</b>	(474,519)	(292,755)
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Interest income	186	122
Interest expense	(279,766)	(287,666)
DOT project flow through expense	(414,187)	(213,367)
DOT project flow through income	414,187	213,367
Gain on Sale of Assets	-	-
<b>Net Non-Operating Revenues (Expenses)</b>	<u>(279,580)</u>	<u>(287,544)</u>
<b>NET INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS</b>	(754,099)	(580,299)
Capital Grants	58,235	411,765
Customer Tap Fees	<u>31,150</u>	<u>39,200</u>
<b>CHANGE IN NET POSITION</b>	<u>(664,714)</u>	<u>(129,335)</u>
<b>NET POSITION, BEGINNING OF YEAR</b>	<u>15,254,675</u>	<u>15,977,009</u>
Prior Period Adjustment-GASB 68 Pensions	-	(593,000)
<b>NET POSITION, END OF YEAR</b>	<u>\$ 14,589,962</u>	<u>\$ 15,254,675</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,

	2016	2015
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Receipts From Customers	\$ 2,570,728	\$ 2,519,295
Payments to Suppliers	(787,185)	(969,896)
Payments to Employees	<u>(1,141,169)</u>	<u>(920,714)</u>
<b>Net Cash (Used) Provided by Operating Activities</b>	<b>642,373</b>	<b>628,684</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
KRWFC Sinking Fund	4,414	(544)
Interest Income	<u>186</u>	<u>122</u>
<b>Net Cash (Used) Provided by Investing Activities</b>	<b><u>4,600</u></b>	<b><u>(422)</u></b>
<b>CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Debt Proceeds	-	234,278
Principal Paid on Capital Debt	(253,367)	(277,685)
Purchases of Capital Assets	(95,635)	(675,024)
Contributed Capital-Tap Fees	31,150	39,200
Contributed Capital-Grants	58,235	411,765
Interest Paid on Capital Debt	<u>(279,766)</u>	<u>(287,666)</u>
<b>Net Cash Provided by (Used in) Capital and Financing Activities</b>	<b><u>(539,383)</u></b>	<b><u>(555,133)</u></b>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>107,590</b>	<b>73,129</b>
Cash and Cash Equivalents - At beginning of year	<u>161,009</u>	<u>87,881</u>
<b>CASH AND CASH EQUIVALENTS - AT END OF YEAR</b>	<b><u>\$ 268,598</u></b>	<b><u>\$ 161,009</u></b>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:</b>		
Operating Income (Loss)	\$ (474,519)	\$ (292,755)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation Expense and Amortization Expense	989,539	974,817
Change in Assets and Liabilities:		
Accounts Receivable, Net	(31,676)	866
Accounts Payable and Other Payables	153,097	(51,314)
Inventories	0	-
Prepaid Expense	5,997	-
Customer Deposits	<u>(65)</u>	<u>(2,930)</u>
<b>Net Cash Provided (Used) by Operating Activities</b>	<b><u>\$ 642,373</u></b>	<b><u>\$ 628,684</u></b>

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, 2016 and 2015

**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, 2016 and 2015

**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, 2016 and 2015**

**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>2016</u>	<u>2015</u>
Construction Accounts	\$ 13,600	\$34,668
Capital Improvement Account	-	-
Bond and Interest Sinking Fund	1,272	92
Depreciation Fund	<u>102,321</u>	<u>42,247</u>
TOTAL	<u>\$117,193</u>	<u>\$ 77,007</u>

**NOTE 3: CUSTODIAL CREDIT RISK**

Custodial credit risk is the risk that is 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, 2016, \$17,484 of the bank balance was exposed to custodial credit risk as follows:

Uninsured and collateral held by pledging bank	\$17,484
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**RATTLESNAKE RIDGE WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016 and 2015**

**NOTE 4: FIXED ASSETS**

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	
<b>Cost:</b>				
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	36,273,613	761,301	665,664	36,369,248
<b>Less accumulated depreciation:</b>				
Plant in Service	12,651,218	969,037	-	13,620,255
Other Depreciable Assets	364,277	20,502	-	384,779
Total accumulated Depreciation	13,015,497	989,539	-	14,005,038
<b>Business-Type Activities Capital Assets - Net</b>	<b>\$ 23,258,115</b>	<b>\$ (228,238)</b>	<b>\$ 665,664</b>	<b>\$ 22,364,209</b>

Capital asset activity for the fiscal year ended December 31, 2015 was as follows:

Business-Type Activities	Balance			Balance Dec. 31, 2015
	Jan. 1, 2015	Additions	Deductions	
<b>Cost:</b>				
Land	\$ 6,500	\$ -	\$ -	\$ 6,500
Utility Plant	10,843,860	-	-	10,843,860
Water System	24,293,319	4,051	-	24,297,370
Buildings	86,993	5,159	-	92,152
Equipment	103,234	34,942	-	138,176
Other Depreciable Assets	258,830	20,000	-	278,830
Construction in Progress	5,850	610,872	-	616,722
Totals at historical cost	35,598,589	675,024	-	36,273,613
<b>Less accumulated depreciation:</b>				
Plant in Service	11,694,343	956,875	-	12,651,218
Other Depreciable Assets	346,336	17,941	-	364,277
Total accumulated Depreciation	12,040,680	974,816	-	13,015,497
<b>Business-Type Activities Capital Assets - Net</b>	<b>23,557,908</b>	<b>(299,792)</b>	<b>-</b>	<b>23,258,115</b>

**RATTLESNAKE RIDGE WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2016 and 2015**

**NOTE 5: LONG-TERM DEBT (Continued)**

The following is a summary of Notes Payable for the year ended December 31, 2016:

	<u>Outstanding December 31, 2015</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	85,000	-	5,000	80,000
Corp of Engineers 6.625%, Dated 05/21/84 Maturity: 30 years	71,046	0	2,271	68,774
<b>TOTAL NOTES PAYABLE</b>	<b>\$ 156,046</b>	<b>\$ -</b>	<b>\$ 7,271</b>	<b>\$ 148,774</b>
Less Current Maturities				7,423
<b>TOTAL</b>				<b><u>\$ 141,351</u></b>

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

	Principal	Interest
2017	7,423	7,682
2018	7,584	6,310
2019	12,755	6,272
2020	12,938	5,559
2021	13,132	4,835
2022-2026	59,063	13,027
2027-2029	35,879	2,002
	<u>148,774</u>	<u>45,687</u>

**RATTLESNAKE RIDGE WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2016 and 2015

**NOTE 5: LONG-TERM DEBT**

The following is a summary of revenue bonds payable for the year ended December 31, 2016. 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	\$ 102,000	-	6,000	\$ 96,000
1992 Series	5.00%	365,000	1/1/31	223,500	-	10,500	213,000
1994 Series A	4.50%	434,000	1/1/34	298,000	-	11,000	287,000
1994 Series B	4.50%	197,000	1/1/34	132,000	-	5,000	127,000
1995 Series A	4.50%	445,000	1/1/35	309,000	-	11,000	298,000
1995 Series B	4.50%	100,000	1/1/35	70,000	-	2,400	67,600
2000 Series A	4.50%	900,000	1/1/40	731,000	-	17,000	714,000
2000 Series B	4.50%	425,000	1/1/40	344,000	-	8,000	336,000
2001 Series A	3.25%	900,000	1/1/41	704,000	-	19,000	685,000
2001 Series B	4.50%	600,000	1/1/41	49,100	-	1,100	48,000
2004 Series A	4.38%	1,340,000	1/1/44	1,169,000	-	21,500	1,147,500
2004 Series B	4.38%	549,000	1/1/44	479,000	-	9,000	470,000
2008 Series C	Various	665,000	1/1/25	445,000	-	35,000	410,000
2011 Series A	2.00%	1,336,000	1/1/52	1,271,500	-	22,500	1,249,000
2011 Series B	2.00%	1,146,000	1/1/52	1,086,000	-	21,000	1,065,000
2015 Series	3.00%	200,000	1/1/55	200,000	-	2,500	197,500
				\$ 7,413,100	\$ -	\$ 200,000	\$ 7,410,600
Less Current Maturities							40,000
<b>TOTAL</b>							<u><u>\$ 7,370,600</u></u>

	<u>Principal</u>	<u>Interest</u>
2017	40,000	136,799
2018	214,200	254,594
2019	226,300	246,276
2020	227,000	237,849
2021	241,700	228,823
2022-2026	1,297,900	993,606
2027-2031	1,295,000	746,548
2032-2036	1,321,200	496,860
2037-2041	1,267,300	267,425
2042-2046	738,500	94,661
2047-2051	508,000	28,225
2052-2056	33,500	1,268
	<u><u>\$ 7,410,600</u></u>	<u><u>\$ 3,732,934</u></u>

**RATTLESNAKE RIDGE WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
For the years ended December 31, 2016 and 2015

**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 20<sup>th</sup> 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, 2016 was \$167,500. The District had set aside \$ 1,272 at December 31, 2016 into a restricted account, resulting in the account being under-funded by \$166,228.

**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, 2016 was \$ 786,120. District had set aside \$102,321 at December 31, 2016 into a restrict account, and therefore the account is under-funded by \$ 683,799.

**NOTE 7: DEFINED BENEFIT PENSION PLAN**

**General Information about the Pension Plan**

*Plan description:* Substantially all full-time classified employees of the Water District participate in the County Employees Retirement System ("CERS"). CERS is a cost-sharing, multiple-employer, defined benefit pension plan administered by the Kentucky General Assemble. The plan covers substantially all regular full-time members employed in non-hazardous duty positions of each county and school board, and any additional eligible local agencies electing to participate in the plan. The plan provides for retirement, disability and death benefits to plan members.

CERS issues a publicly available financial report included in the Kentucky Retirement Systems Annual Report that includes financial statements and the required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky, 40601, or by calling (502)564-4646 or at <https://kyret.ky.gov>.

**RATTLESNAKE RIDGE WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
For the years ended December 31, 2016 and 2015

**NOTE 5 – PENSION PLAN (Continued)**

*Benefits provided:* Benefits under the plan will vary based on final compensation, years of service and other factors as fully described in the plan documents.

*Contributions:* Fund for CERS is provided by members who contribution 5% (6.00% for employees hired after September 1, 2008) of their salary through payroll deductions and by employers of members who contribute 17.06% of the members salary. The contribution requirements of CERS are established and may be amended by the CERS Board of Trustees.

*Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions:* At June 30, 2016 the Water District reported a liability for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was based on an actuarial valuation as of June 30, 2015. An expected total pension liability as of June 30, 2015 was determined using standard roll-forward techniques. The Water District's proportion of the net pension liability was based on contributions to CERS during the fiscal year ended June 30, 2015. At June 30, 2015, the Water District's proportion was 0.00336%.

For the year ended June 30, 2016, the Water District recognized pension expense of \$136,413. At June 30, 2016, the Water District reported deferred outflows of resources for City contributions subsequent to the measurement date of \$187,238. These contributions will be recognized as a reduction of the net pension liability in the year ended June 30, 2017.

The Water District reported deferred inflows of resources related to pensions from the net difference between projected and actual earnings on pension plan investments in the amount of \$64,000. These amounts will be recognized in pension expense as follows:

<u>Year</u>	
2016	\$12,800
2017	12,800
2018	12,800
2019	12,800
2020	<u>12,800</u>
	\$ 64,000

**RATTLESNAKE RIDGE WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
For the years ended December 31, 2016 and 2015**

**NOTE 5 – PENSION PLAN (Continued)**

*Actuarial Methods and Assumptions:* The total pension liability for CERS was determined by applying procedures to the actuarial valuation as of June 30, 2015. The financial reporting actuarial valuation as of June 30, 2015, used the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

Valuation Date	June 30, 2015
Experience Study	July 1, 2008 – June 30, 2013
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

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 long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for the System. The most recent analysis, performed for the period covering fiscal years 2008 through 2013 is outlined in a report dated April 30, 2014. Several factors are considered in 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, net of investment expense and inflation) were developed by the investment 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 timeframe. 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 a fundamental change in the market that alters expected returns in future years.

**RATTLESNAKE RIDGE WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
For the years ended December 31, 2016 and 2015

**NOTE 5 – PENSION PLAN (Continued)**

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Combined Equity	44.0%	5.40%
Combined Fixed Income	19.0%	1.50%
Real Return (Diversified Inflation Strategies)	10.0%	3.50%
Real Estate	5.0%	4.50%
Absolute Return (Diversified Hedge Funds)	10.0%	4.25%
Private Equity	10.0%	8.50%
Cash Equivalent	2.0%	-0.25%
Total	100.0%	

*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 local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 28 year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period.

*Sensitivity of the Water District's proportionate share of the net pension liability to changes in the discount rate:* The following presents the net pension liability of the Water District, calculated using the discount rate of percent, as well as what the Water District's net pension liability would be if it were calculated using a discount rate that is 1- percentage-point lower (6.50 percent) or 1- percentage-point higher (8.50 percent) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Library's proportionate share of the net pension liability	679,500	906,000	697,620

*Pension plan fiduciary net position:* Detailed information about the pension plan's fiduciary net position is available in the separately issued CERS financial report which is publically available at <https://kyret.ky.gov>.

**RATTLESNAKE RIDGE WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the years ended December 31, 2016 and 2015**  
**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 2015 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](http://www.KentuckyPlans.com).

Employee contributions to the plan for the year were \$31,175.

**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, 2016**

**Schedule of Insurance in Force**

<b><u>Insurance Coverage</u></b>	<b><u>Amount of Coverage</u></b>	<b><u>Expiration Date of Policy</u></b>
General Liability	\$ 1,000,000	4/1/2017
Umbrella Policy	\$ 1,000,000	4/1/2017
Property - Building & Contents	\$ 7,296,194 100% Co-Insurance	4/1/2017
Employee Theft	\$ 1,125,000	3/4/2017
Automobile	\$ 1,000,000	4/1/2017
Encroachment Bonds	\$ 5,000	
Workers Compensation	Statutory	12/31/2016

**Aged Accounts Receivable**

A detailed schedule of aged accounts receivable is prepared on a monthly basis. At December 31, 2016, accounts receivable were aged as follows:

	<b><u>Amount</u></b>
Current	\$ 189,174
Over 60 Days	8,361
Over 90 Days	94,391
<b>Total</b>	<b><u>\$ 291,926</u></b>

**During 2016, the District carried a reserve for possible uncollected accounts of \$85,615.**

The District had a total of 4,053 customers at December 31, 2016. Of these customers, 4,041 were residential and 12 were commercial.

<b><u>Commissioner</u></b>	<b><u>Term Expires</u></b>
Bill Gilbert, Chairman	2/1/2021
Randy Steagall, Secreta	3/1/2020
George Wells, Treasure	2/8/2020
Steve Ison	10/1/2017
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, 2016

	Reporting Fiscal Year (Measurement Date)	
	2016 (2015)	2015 (2014)
District's proportion of the net pension liability	0.00336%	0.01772%
District's proportionate share of the net pension liability	\$ 906,050	\$ 575,000
District's covered employee payroll	\$ 603,055	\$ 613,228
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	150.243%	93.766%
Plan fiduciary net position as a percentage of the total pension liability	66.80%	66.80%

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, 2016

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

**(1) CHANGES OF ASSUMPTIONS**

The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of December 31 listed below:

2015:

- 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 2016 and 2017, determined as of July 1, 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

**RATTLESNAKE RIDGE COUNTY WATER DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
DECEMBER 31, 2016 (Continued)**

**(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, 2016, 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 30, 2017.

**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 30, 2017

**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, 2016, 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 30, 2017, 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 30, 2017

RATTLESNAKE RIDGE WATER DISTRICT  
MANAGEMENT POINTS, RECOMMENDATIONS, AND RESPONSES  
Year Ended December 31, 2016

***Status of Prior Year Management Points***

**COMPLIANCE REQUIREMENTS**

**2015-01 BOND RESERVE/SINKING FUND REQUIREMENTS**

Status: This is still an issue—will be carried to current year issues. 2016-1

**OTHER POINTS**

**2015-2 PERSONNEL FILES**

Status: This is still an issue—will be carried to current year issues. 2016-2

**2015-3 APPROVAL OF THE MONTHLY BANK STATEMENT**

Status: This is still an issue—will be carried to current year issues. 2016-3

**2015-4 REVIEW/APPROVAL OF BILLING ADJUSTMENTS REPORTS**

Status: This has been resolved.

**2015-5 MISSING INVOICES**

Status: This has been resolved.

***Current Year Management Points***

**2016-1 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.

2016-2 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.

2016-3 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.