

Fountain Run Water District #1  
Fountain Run, Kentucky

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Audited Financial Statements  
For the Years Ended  
December 31, 2012 and 2011

**JAMES D. SPURLOCK**  
*Certified Public Accountant*

Fountain Run Water District #1  
Audit Report  
December 31, 2012

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**INDEPENDENT AUDITOR'S REPORT**

To the Commissioners  
Fountain Run Water District #1  
Fountain Run, Kentucky

I have audited the accompanying financial statements of Fountain Run Water District #1 as of and for the years ended December 31, 2012 and 2011 as listed in the table of contents. These financial statements are the responsibility of the Fountain Run Water District #1's management. My responsibility is to express an opinion on these financial statements based on my audit.

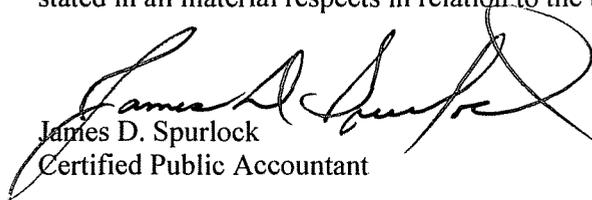
I conducted my audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audits provide a reasonable basis for my opinion.

In my opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Fountain Run Water District #1 as of December 31, 2012 and 2011, and the results of its operations, changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated March 29, 2013, on my consideration of the Fountain Run Water District #1's internal control over financial reporting and on my tests of its compliance with certain of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of my audits.

The management's discussion and analysis and budgetary comparison information on pages 3 through 5 and 20 through 21, respectively, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming an opinion on the financial statements that comprise the Fountain Run Water District #1's basic financial statements. The accompanying schedule of operating expenses is presented for purposes of additional analysis and is not required parts of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



James D. Spurlock  
Certified Public Accountant

March 29, 2013

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

Our discussion and analysis of Fountain Run Water District #1 financial performance provides an overview of the District's financial activities for the year ending December 31, 2012. This information is presented in conjunction with the audited financial statements that follow this section.

### **FINANCIAL HIGHLIGHTS**

Operating revenues for the year ending December 31, 2012, were \$275,820 or a decrease of 1.83 % from the previous year. The primary reason for the increase was due to a increase in water usage because of an unusual dry summer.

Operating expenses for the year ending December 31, 2012, were \$326,446 or an increase of 4.38% over previous year's expenses. The majority of the increase was due to increased administrative salaries from the hiring of new administrative employee.

Total assets for the year ending December 31, 2012, were \$2,963,788 or a decrease of 2.85 % from the previous year. Total liabilities were \$907,338 or an decrease of 2.20% from the previous year.

### **OVERVIEW OF THE FININCIAL STATEMENTS**

This report consists of management's discussion and analysis, financial statements and supplementary information. The financial statements include notes, which explain in detail some of the information included in the financial statements.

The financial statements present the financial position of Fountain Run Water District #1 as of December 31, 2012 and 2011, and the changes in its net assets and cash flows for the years then ended in conformity with generally accepted accounting principles.

Each year's revenues and expenses were accounted for in the statement of revenues, expenses and changes in net assets. This statement measures the success of Fountain Run Water District's operations over the past two years.

## **CAPITAL ASSET CHANGE**

Capital assets for the year ending December 31, 2012, were \$2,599,912. This amount was less than the previous year due to increased depreciation exceeding capital asset additions. Net change in capital assets was a decrease of \$102,320.

## **DEBT ADMINISTRATION**

Bonds outstanding for the year ending December 31, 2012 were \$861,900. This amount was less than the previous year. Principal payments on bonds amounted to \$19,500 for the year.

## **REQUEST FOR INFORMATION**

This analysis is designed to provide a general overview of Fountain Run Water District #1's finances and to demonstrate Fountain Run Water District #1's accountability for the funds it receives whether from water and sewer sales or contributed capital. If you have any questions about this report or any need for additional information, please contact Fountain Run Water District at 226 Main Street, Fountain Run, Kentucky, or by telephone at (270) 434-4080.

**Fountain Run Water District #1  
Balance Sheet  
December 31, 2012 and 2011**

Assets

	2012			2011		
	Water Division	Sewer Division	Total	Water Division	Sewer Division	Total
<b>Current Assets:</b>						
Cash and Cash Equivalents	\$ 166,304	\$ 22,445	\$ 188,749	\$ 160,341	\$ 20,013	\$ 180,354
Accounts Receivable - Note 1	19,889	4,447	24,336	18,037	4,257	22,294
Inventory	559	-	559	195	-	195
Prepaid Insurance	5,039	-	5,039	4,823	-	4,823
Restricted Cash and Cash Equivalents	100,898	26,480	127,378	96,969	25,459	122,428
<b>Total Current Assets</b>	<u>292,689</u>	<u>53,372</u>	<u>346,061</u>	<u>280,365</u>	<u>49,729</u>	<u>330,094</u>
<b>Utility Plant - Note 1:</b>						
Plant in Service	2,309,361	1,945,929	4,255,290	2,308,568	1,945,929	4,254,497
Less:						
Accumulated Depreciation	(603,251)	(1,052,127)	(1,655,378)	(538,338)	(1,013,927)	(1,552,265)
<b>Net Utility Plant in Service</b>	<u>1,706,110</u>	<u>893,802</u>	<u>2,599,912</u>	<u>1,770,230</u>	<u>932,002</u>	<u>2,702,232</u>
<b>Deferred Debits:</b>						
Unamortized Debt Expense Net - Note 1	15,026	2,789	17,815	15,532	3,022	18,554
<b>Total Assets</b>	<u>\$2,013,825</u>	<u>\$ 949,963</u>	<u>\$2,963,788</u>	<u>\$ 2,066,127</u>	<u>\$ 984,753</u>	<u>\$3,050,880</u>

The Notes to the Financial Statements are an Integral Part of this Statement.

Liabilities and Net Assets

	2012			2011		
	Water Division	Sewer Division	Total	Water Division	Sewer Division	Total
<b>Current Liabilities:</b>						
Rural Development Bonds-Note 3	\$ 17,000	\$ -	\$ 17,000	\$ 16,000	\$ -	\$ 16,000
Accounts Payable	7,109	333	7,442	8,149	489	8,638
Customer Deposits	21,076	2,650	23,726	20,730	2,570	23,300
Payroll Taxes Payable	1,776	212	1,988	1,311	367	1,678
Accrued Interest	11,713	-	11,713	11,975	-	11,975
Other Current Liabilities	550	19	569	751	14	765
<b>Total Current Liabilities</b>	<b>59,224</b>	<b>3,214</b>	<b>62,438</b>	<b>58,916</b>	<b>3,440</b>	<b>62,356</b>
<b>Long-Term Liabilities - Note 3:</b>						
Rural Development Bonds	785,000	59,900	844,900	802,000	63,400	865,400
<b>Net Assets:</b>						
Invested in Capital Assets, Net of Related Debt	892,397	833,902	1,726,299	940,255	868,602	1,808,857
Restricted	100,898	26,480	127,378	96,969	25,459	122,428
Unrestricted	176,306	26,467	202,773	167,987	23,852	191,839
<b>Total Net Assets</b>	<b>1,169,601</b>	<b>886,849</b>	<b>2,056,450</b>	<b>1,205,211</b>	<b>917,913</b>	<b>2,123,124</b>
<b>Total Liabilities and Net Assets</b>	<b>\$2,013,825</b>	<b>\$ 949,963</b>	<b>\$2,963,788</b>	<b>\$ 2,066,127</b>	<b>\$ 984,753</b>	<b>\$3,050,880</b>

**Fountain Run Water District #1**  
**Statement of Revenues, Expenses and Changes in Net Assets**  
**For the Years Ended December 31, 2012 and 2011**

	2012			2011		
	Water Division	Sewer Division	Total	Water Division	Sewer Division	Total
<b>Operating Revenues:</b>						
Metered Sales	\$ 243,660	\$ -	\$ 243,660	\$ 239,650	\$ -	\$ 239,650
Miscellaneous Service Revenue	4,920	-	4,920	3,140	-	3,140
Flat Rate Revenue	-	27,240	27,240	-	28,076	28,076
<b>Total Operating Revenues</b>	<b>248,580</b>	<b>27,240</b>	<b>275,820</b>	<b>242,790</b>	<b>28,076</b>	<b>270,866</b>
<b>Operating Expenses:</b>						
Operating Expenses (Schedule):						
Source of Supply	84,962	-	84,962	84,007	-	84,007
Water Treatment	630	-	630	1,568	-	1,568
Transmission and Distribution	49,684	-	49,684	48,443	-	48,443
Operation	-	9,279	9,279	-	8,588	8,588
Maintenance	-	4,976	4,976	-	5,294	5,294
Customer Accounts	5,269	-	5,269	5,569	-	5,569
Administrative and General	59,780	1,904	61,684	50,165	1,556	51,721
Depreciation	64,913	38,200	103,113	63,087	38,251	101,338
Taxes	5,934	915	6,849	5,359	849	6,208
<b>Total Operating Expenses</b>	<b>271,172</b>	<b>55,274</b>	<b>326,446</b>	<b>258,198</b>	<b>54,538</b>	<b>312,736</b>
<b>Net Income (Loss) from Operations</b>	<b>(22,592)</b>	<b>(28,034)</b>	<b>(50,626)</b>	<b>(15,408)</b>	<b>(26,462)</b>	<b>(41,870)</b>
<b>Nonoperating Revenues (Expenses):</b>						
Amortization	(506)	(232)	(738)	(506)	(232)	(738)
Interest Income	758	22	780	1,684	80	1,764
Interest Expense	(23,428)	(3,170)	(26,598)	(23,951)	(3,347)	(27,298)
Miscellaneous Income	200	50	250	847	-	847
Loss on Sale of Assets	-	-	-	(1,151)	-	(1,151)
Rental Income	9,408	-	9,408	9,408	-	9,408
<b>Total Nonoperating Revenues (Expenses), Net</b>	<b>(13,568)</b>	<b>(3,330)</b>	<b>(16,898)</b>	<b>(13,669)</b>	<b>(3,499)</b>	<b>(17,168)</b>
<b>Income (Loss) Before Capital Contributions</b>	<b>(36,160)</b>	<b>(31,364)</b>	<b>(67,524)</b>	<b>(29,077)</b>	<b>(29,961)</b>	<b>(59,038)</b>
<b>Capital Contributions:</b>						
Tap Fees	550	300	850	4,450	-	4,450
<b>Total Capital Contributions</b>	<b>550</b>	<b>300</b>	<b>850</b>	<b>4,450</b>	<b>-</b>	<b>4,450</b>
<b>Change in Net Assets</b>	<b>(35,610)</b>	<b>(31,064)</b>	<b>(66,674)</b>	<b>(24,627)</b>	<b>(29,961)</b>	<b>(54,588)</b>
<b>Net Assets, Beginning of Year</b>	<b>1,205,211</b>	<b>917,913</b>	<b>2,123,124</b>	<b>1,229,838</b>	<b>947,874</b>	<b>2,177,712</b>
<b>Net Assets, End of Year</b>	<b>\$1,169,601</b>	<b>\$ 886,849</b>	<b>\$2,056,450</b>	<b>\$ 1,205,211</b>	<b>\$ 917,913</b>	<b>\$2,123,124</b>

The Notes to the Financial Statements are an Integral Part of this Statement.

**Fountain Run Water District #1**  
**Statement of Cash Flows**  
**For the Years Ended December 31, 2012 and 2011**

	2012			2011		
	Water Division	Sewer Division	Total	Water Division	Sewer Division	Total
<b>OPERATING ACTIVITIES</b>						
Cash Receipts from Customers	\$ 247,074	\$ 27,130	\$ 274,204	\$ 249,078	\$ 28,171	\$ 277,249
Cash Paid to Suppliers for Goods and Services	(128,555)	(8,169)	(136,724)	(127,514)	(6,828)	(134,342)
Cash Paid to Employees	(79,060)	(9,210)	(88,270)	(69,078)	(9,210)	(78,288)
Net Cash Provided by Operating Activities	39,459	9,751	49,210	52,486	12,133	64,619
<b>NONCAPITAL FINANCING ACTIVITIES</b>						
Other Income/Expenses	200	50	250	847	-	847
Net Cash Provided by Noncapital Financing Activities	200	50	250	847	-	847
<b>CAPITAL AND RELATED FINANCING ACTIVITIES</b>						
Purchases of Utility Plant Assets	(793)	-	(793)	(30,753)	(2,901)	(33,654)
Proceeds from Asset Sales	-	-	-	480	-	480
Payments on Bonds	(16,000)	(3,500)	(19,500)	-	(3,500)	(3,500)
Interest Paid	(23,690)	(3,170)	(26,860)	(11,977)	(3,347)	(15,324)
Grants	-	-	-	30,988	-	30,988
Cash Contributed in Aid of Construction	550	300	850	4,450	-	4,450
Net Cash (Used) by Financing Activities	(39,933)	(6,370)	(46,303)	(6,812)	(9,748)	(16,560)
<b>INVESTING ACTIVITIES</b>						
Interest Received	758	22	780	1,684	80	1,764
Rent Income	9,408	-	9,408	9,408	-	9,408
Net Cash Provided from Investing Activities	10,166	22	10,188	11,092	80	11,172
Net Increase (Decrease) in Cash	9,892	3,453	13,345	57,613	2,465	60,078
Cash and Cash Equivalents, Beginning of Year	257,310	45,472	302,782	199,697	43,007	242,704
Cash and Cash Equivalents, End of Year	\$ 267,202	\$ 48,925	\$ 316,127	\$ 257,310	\$ 45,472	\$ 302,782

The Notes to the Financial Statements are an Integral Part of this Statement.

**Fountain Run Water District #1**  
**Statement of Cash Flows (Continued)**  
**For the Years Ended December 31, 2012 and 2011**

	2012			2011		
	Water Division	Sewer Division	Total	Water Division	Sewer Division	Total
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES:						
Operating Activities:						
Net Income (Loss) from Operations	\$ (22,592)	\$ (28,034)	\$ (50,626)	\$ (15,408)	\$ (26,462)	\$ (41,870)
Adjustment to Reconcile Net Income from Operations to Net Cash Provided by Operating Activities:						
Depreciation	64,913	38,200	103,113	63,087	38,251	101,338
Changes in Assets and Liabilities:						
Accounts Receivable	(1,852)	(190)	(2,042)	4,388	(185)	4,203
Inventory	(364)	-	(364)	-	-	-
Prepaid Insurance	(216)	-	(216)	515	-	515
Accounts Payable	(1,040)	(155)	(1,195)	(1,340)	174	(1,166)
Customer Deposits	346	80	426	1,580	200	1,780
Payroll Taxes Payable	465	(155)	310	(427)	154	(273)
Other Current Liabilities	(201)	5	(196)	91	1	92
Net Cash Provided by Operating Activities	<u>\$ 39,459</u>	<u>\$ 9,751</u>	<u>\$ 49,210</u>	<u>\$ 52,486</u>	<u>\$ 12,133</u>	<u>\$ 64,619</u>

The Notes to the Financial Statements are an Integral Part of this Statement.

**Fountain Run Water District #1**  
**Notes to Financial Statements**  
**For the Years Ended December 31, 2012 and 2011**

Note 1 - Summary of Significant Accounting Policies

a. Reporting Entity

The Fountain Run Water District #1 is a governmental unit having oversight responsibilities over all activities related to water and sewer services within the City of Fountain Run and portions of Allen, Barren and Monroe counties. The District is not included in any other governmental reporting entity as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards, because District commissioners have decision making authority, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters.

b. Basis of Accounting

The Fountain Run Water District #1 utilizes the accrual basis of accounting for financial reporting purposes. Under this method, income is recognized when earned and expenses are recognized when incurred.

c. System of Accounts

The Water Division has adopted the Uniform System of Accounts for Class C Water Utilities 1996 as prescribed by the National Association of Regulatory Utility Commissioners.

The Sewer Division utilizes the Uniform System of Accounts for Class C and D Sewer Utilities as prescribed by the Utility Regulatory Commission of the Commonwealth of Kentucky.

d. Utility Plant

Plant additions and improvements are capitalized at cost. The cost and accumulated depreciation applicable to plant dispositions are removed from the respective accounts.

Depreciation is computed on the straight-line method with estimated useful lives ranging from five to fifty years.

**Fountain Run Water District #1**  
**Notes to Financial Statements (Continued)**  
**For the Years Ended December 31, 2012 and 2011**

Note 1 - Summary of Significant Accounting Policies - (Continued)

d. Utility Plant (Continued)

Water Utility Plant

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

	Balance 12/31/2011	Additions	Disposals	Balance 12/31/2012
Miscellaneous Intangible Plant	\$ 50,000	\$ -	\$ -	\$ 50,000
Land and Land Rights	8,328	-	-	8,328
Structures and Improvements	113,718	-	-	113,718
Distribution Reservoirs and Standpipes	820,651	-	-	820,651
Pumping Equipment	99,326	-	-	99,326
Transmission Mains	857,994	-	-	857,994
Services	37,736	-	-	37,736
Meters and Meter Installations	178,117	-	-	178,117
Hydrants	11,289	-	-	11,289
Office Equipment and Furniture	3,462	343	-	3,805
Transportation Equipment	23,986	-	-	23,986
Tools, Shop, and Garage Equipment	8,383	-	-	8,383
Communications Equipment	92,035	-	-	92,035
Miscellaneous Equipment	3,543	450	-	3,993
Total Plant in Service	<u>2,308,568</u>	<u>793</u>	<u>-</u>	<u>2,309,361</u>

Sewer Utility Plant

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

	Balance 12/31/2011	Additions	Disposals	Balance 12/31/2012
Land and Land Rights	\$ 52,433	\$ -	\$ -	\$ 52,433
Structures and Improvements	7,337	-	-	7,337
Collection Sewers - Force	51,576	-	-	51,576
Collection Sewers - Gravity	417,769	-	-	417,769
Services	188,353	-	-	188,353
Receiving Well and Pump Pits	336,236	-	-	336,236
Pumping Equipment	20,565	-	-	20,565
Treatment and Disposal Equipment	38,055	-	-	38,055
Other Treatment and Disposal Equipment	776,757	-	-	776,757
Office Equipment and Furniture	2,112	-	-	2,112
Tools, Shop, and Garage Equipment	13,347	-	-	13,347
Power Operated Equipment	41,389	-	-	41,389
Total Cost	<u>\$1,945,929</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$1,945,929</u>

**Fountain Run Water District #1**  
**Notes to Financial Statements (Continued)**  
**For the Years Ended December 31, 2012 and 2011**

Note 1 - Summary of Significant Accounting Policies - (Continued)

d. Utility Plant (Continued)

Water Utility Plant

Accumulated Depreciation activity for the year ended December 31, 2012 was as follows:

	Balance 12/31/2011	Additions	Disposals	Balance 12/31/2012
Miscellaneous Intangible Plant	\$ 43,500	\$ 1,000	\$ -	\$ 44,500
Land and Land Rights	-			
Structures and Improvements	53,660	2,366	-	56,026
Distribution Reservoirs and Standpipes	98,393	16,413	-	114,806
Pumping Equipment	22,648	14,899	-	37,547
Transmission Mains	208,110	17,160	-	225,270
Services	16,874	755	-	17,629
Meters and Meter Installations	60,731	3,959	-	64,690
Hydrants	6,792	226	-	7,018
Office Equipment and Furniture	3,245	96	-	3,341
Transportation Equipment	7,325	3,703	-	11,028
Tools, Shop, and Garage Equipment	6,872	467	-	7,339
Communications Equipment	7,067	3,612	-	10,679
Miscellaneous Equipment	3,121	257	-	3,378
Total Cost	<u>\$ 538,338</u>	<u>\$ 64,913</u>	<u>\$ -</u>	<u>\$ 603,251</u>

Sewer Utility Plant

Accumulated Depreciation activity for the year ended December 31, 2012 was as follows:

	Balance 12/31/2011	Additions	Disposals	Balance 12/31/2012
Land and Land Rights	\$ -	\$ -	\$ -	\$ -
Structures and Improvements	7,251	86	-	7,337
Collection Sewers - Force	19,775	1,032	-	20,807
Collection Sewers - Gravity	209,619	8,355	-	217,974
Services	95,983	3,767	-	99,750
Receiving Well and Pump Pits	171,447	6,725	-	178,172
Pumping Equipment	15,592	1,492	-	17,084
Treatment and Disposal Equipment	36,506	77	-	36,583
Other Treatment and Disposal Equipment	403,796	15,535	-	419,331
Office Equipment and Furniture	2,074	8	-	2,082
Tools, Shop, and Garage Equipment	13,198	38	-	13,236
Power Operated Equipment	38,686	1,085	-	39,771
Total Cost	<u>\$1,013,927</u>	<u>\$ 38,200</u>	<u>\$ -</u>	<u>\$ 1,052,127</u>

**Fountain Run Water District #1**  
**Notes to Financial Statements (Continued)**  
**For the Years Ended December 31, 2012 and 2011**

Note 1 - Summary of Significant Accounting Policies - (Continued)

e. Income Recognition

Income from sales of water and sewer is recognized when billed to consumers. All consumers are billed on a monthly basis.

f. Accounts Receivable

Accounts receivable are shown at net realizable value. No allowance is provided for doubtful accounts since accounts considered uncollectible are charged directly to expense.

g. Unamortized Debt Expense

Unamortized debt expense is amortized on a straight-line basis over the life of the bond issues which is 38 years.

h. Estimates

Preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

i. Inventory

Inventory is valued at cost on a first-in first-out basis.

j. Reclassification

December 31, 2011, information has been reclassified where appropriate to conform with December 31, 2012 presentation.

Note 2 - Special Funds

The Rural Development (formerly FMHA, Farmers Home Administration) bond resolutions of 1985, 1988 and 2009 require the District to establish certain funds for the System's operations. These funds are the revenue fund, operations and maintenance fund, depreciation fund, bonds sinking fund and construction fund.

All revenues are to be deposited on a daily basis to a revenue fund. These funds are to be distributed monthly to the operations and maintenance fund, depreciation fund and the bond sinking fund as discussed below.

Presently the District does not utilize the revenue fund. Current revenues are deposited directly to the operations and maintenance fund. Distributions are made from this fund to the other funds. Amounts are expensed from the operations and maintenance fund to pay the reasonable necessary monthly cost of operating and maintaining the plant. This fund is reported on the balance sheet as cash and working funds.

**Fountain Run Water District #1**  
**Notes to Financial Statements (Continued)**  
**For the Years Ended December 31, 2012 and 2011**

Note 2 - Special Funds - (Continued)

The bond covenants require deposits of \$250 per month into the depreciation fund until all outstanding bonds are paid or until a maximum of \$30,000 is accumulated. In addition all proceeds of collection fees collected from potential customers to aid in the financing of the cost of future extensions addition or improvements to the system plus proceeds of any property damage insurance are to be deposited into this fund. Disbursements from this fund are restricted to expenditures for unusual or extraordinary repairs, renewals, replacements, extension improvements and additions to the utility plant. Also, money may be expensed from this fund to make payments of principal and interest on bonds if the moneys on deposit in the sinking fund are not sufficient to make such payments.

Each month sufficient deposits are made into the bonds sinking fund to pay when due the principal and interest on bonds dated 1985, 1988 and 2009 as required by the bond resolutions. The bonds sinking fund is restricted to the payment of interest and principal on the bonds outstanding under authority of the bond resolutions.

As of December 31, 2012 and 2011 all of the funds were insured by the Federal Deposit Insurance Corporation.

Note 3 - Long-Term Debt

Long-Term Debt as of December 31, 2012, and 2011 consisted of the following:

Water Division

1988 Rural Development bond issue maturing in annual installments in accordance with the following schedule:

Maturity Date January 1,	Interest Rate	Amount	Maturity Date January 1,	Interest Rate	Amount
2012	5%	\$ 5,000	2021	5%	8,000
2013	5%	6,000	2022	5%	9,000
2014	5%	6,000	2023	5%	9,000
2015	5%	6,000	2024	5%	10,000
2016	5%	7,000	2025	5%	10,000
2017	5%	7,000	2026	5%	11,000
2018	5%	7,000	2027	5%	11,000
2019	5%	8,000	2028	5%	12,000
2020	5%	8,000			
Balance Due December 31, 2011					140,000
Maturing January 1, 2012					(5,000)
Balance Due December 31, 2012					<u>\$ 135,000</u>

**Fountain Run Water District #1**  
**Notes to Financial Statements (Continued)**  
**For the Years Ended December 31, 2012 and 2011**

Note 3 - Long-Term Debt (Continued)

The District at its option shall have the right to prepay, on any interest payment date on and after January 1, 2001, in inverse chronological order of the installments due on this bond, the entire principal amount of this bond then remaining unpaid, or such lesser portion thereof, in a multiple of \$1,000.00 as the District may determine, at a price in an amount equivalent to the principal amount to be prepaid plus accrued interest to the date of prepayment, without any prepayment premium.

The future annual debt requirements to amortize the 1988 bonds as of December 31, 2012 are as follows:

Year Ending December 31,	Amount
2013	\$ 12,600
2014	12,300
2015	12,000
2016	12,675
2017	12,325
2018-2028	<u>133,875</u>
Total Principal and Interest	195,775
Less Interest	(60,775)
Balance Due December 31, 2012	<u><u>\$ 135,000</u></u>

2009 Rural Development bond issue maturing in annual installments in accordance with the following schedule:

Maturity Date January 1,	Interest Rate	Amount	Maturity Date January 1,	Interest Rate	Amount
2012	2.50%	\$ 11,000	2031	2.50%	\$ 18,000
2013	2.50%	11,000	2032	2.50%	19,000
2014	2.50%	11,000	2033	2.50%	19,000
2015	2.50%	12,000	2034	2.50%	20,000
2016	2.50%	12,000	2035	2.50%	20,000
2017	2.50%	12,000	2036	2.50%	21,000
2018	2.50%	13,000	2037	2.50%	21,000
2019	2.50%	13,000	2038	2.50%	22,000
2020	2.50%	13,000	2039	2.50%	22,000
2021	2.50%	14,000	2040	2.50%	23,000
2022	2.50%	14,000	2041	2.50%	24,000
2023	2.50%	15,000	2042	2.50%	24,000
2024	2.50%	15,000	2043	2.50%	25,000
2025	2.50%	15,000	2044	2.50%	26,000
2026	2.50%	16,000	2045	2.50%	26,000
2027	2.50%	16,000	2046	2.50%	27,000
2028	2.50%	17,000	2047	2.50%	28,000
2029	2.50%	17,000	2048	2.50%	<u>28,000</u>
2030	2.50%	18,000			
Balance Due December 31, 2011					678,000
Maturing January 1, 2012					(11,000)
Balance Due December 31, 2012					<u><u>\$ 667,000</u></u>

**Fountain Run Water District #1**  
**Notes to Financial Statements (Continued)**  
**For the Years Ended December 31, 2012 and 2011**

Note 3 - Long-Term Debt (Continued)

So long as all of the current bonds are owned by Rural Development, all or any of the current bonds, or in multiple of \$100, may be prepaid at any time in inverse chronological order of the principal maturities due, at par plus accrued interest without any prepayment penalty.

The future annual debt requirements to amortize the 2009 bonds as of December 31, 2012 are as follows:

	<u>Year Ending December 31,</u>	<u>Amount</u>
	2013	\$ 27,538
	2014	27,262
	2015	27,975
	2016	27,675
	2017	27,375
	2018-2048	<u>877,137</u>
Total Principal and Interest		1,014,962
Less Interest		<u>(347,962)</u>
Balance Due December 31, 2012		<u><u>\$ 667,000</u></u>

**Fountain Run Water District #1**  
**Notes to Financial Statements (Continued)**  
**For the Years Ended December 31, 2012 and 2011**

Note 3 - Long-Term Debt (Continued)

Sewer Division

1985 Rural Development bond issue maturing in annual installments in accordance with the following schedule:

	Maturity Date January 1,	Interest Rate	Series A	Series B	Total Amount
	2013	5%	\$ 3,000	\$ 500	\$ 3,500
	2014	5%	3,000	600	3,600
	2015	5%	3,500	600	4,100
	2016	5%	3,500	600	4,100
	2017	5%	3,500	600	4,100
	2018	5%	4,000	700	4,700
	2019	5%	4,000	700	4,700
	2020	5%	4,500	700	5,200
	2021	5%	4,500	800	5,300
	2022	5%	5,000	800	5,800
	2023	5%	5,000	900	5,900
	2024	5%	5,000	900	5,900
	2025	5%	5,500	1,000	6,500
Balance Due December 31, 2011			54,000	9,400	63,400
Maturing January 1, 2013			(3,000)	(500)	(3,500)
Balance Due December 31, 2012			<u>\$ 51,000</u>	<u>\$ 8,900</u>	<u>\$ 59,900</u>

All bonds maturing on and after January 1, 1999 shall be subject to prepayment by the District on any interest payment date falling on and after January 1, 1998, upon terms of par plus accrued interest, without any prepayment penalty.

So long as all bonds are held by Rural Development, all or any bonds may be prepaid at any time in inverse chronological order at face amount plus accrued interest without any prepayment penalty.

The future annual debt requirements to amortize the 1985 bonds as of December 31, 2012, are as follows:

Year Ending December 31,	Amount
2013	\$ 6,595
2014	6,915
2015	6,710
2016	6,505
2017	6,403
2018-2025	48,027
Total Principal and Interest	81,155
Less Interest	(21,255)
Balance Due December 31, 2012	<u>\$ 59,900</u>

**Fountain Run Water District #1**  
**Notes to Financial Statements (Continued)**  
**For the Years Ended December 31, 2012 and 2011**

Note 4 - Schedule of Cash Deposits with Financial Institutions

		Cash Balance	FDIC Insured	*Secured
Water Division	South Central Bank of Monroe County Fountain Run, Kentucky	\$ 264,442	\$ 258,649	\$ 5,793
Sewer Division	South Central Bank of Monroe County Fountain Run, Kentucky	\$ 49,041	\$ -	\$ 49,041
Total		\$ 313,483	\$ 258,649	\$ 54,834

\*\$100,000 par value FNMA bonds were pledged as collateral to secure bank deposits.

**Fountain Run Water District #1**  
**Schedule of Operating Expenses**  
**For the Years Ended December 31, 2012 and 2011**

	2012			2011		
	Water Division	Sewer Division	Total	Water Division	Sewer Division	Total
Source of Supply:						
Purchased Water	\$ 84,962	\$ -	\$ 84,962	\$ 84,007	\$ -	\$ 84,007
Water Treatment:						
Operation Supplies	630	-	630	1,568	-	1,568
Transmission and Distribution:						
Operation Labor	41,040	-	41,040	41,498	-	41,498
Purchased Power	2,845	-	2,845	2,800	-	2,800
Supplies	340	-	340	999	-	999
Maintenance of Mains	1,448	-	1,448	400	-	400
Maintenance of Meters	1,203	-	1,203	429	-	429
Transportation Expense	2,808	-	2,808	2,317	-	2,317
Total	49,684	-	49,684	48,443	-	48,443
Operation:						
Supervision and Engineering	-	4,605	4,605	-	4,605	4,605
Power Purchased	-	3,756	3,756	-	3,771	3,771
Supplies	-	619	619	-	-	-
Transportation Expense	-	299	299	-	212	212
Total	-	9,279	9,279	-	8,588	8,588
Maintenance:						
Supervision and Engineering	-	4,605	4,605	-	4,605	4,605
Collection Sewer System	-	371	371	-	539	539
Pumping System	-	-	-	-	150	150
Total	-	4,976	4,976	-	5,294	5,294
Customer Accounts:						
Bad Debts	40	-	40	-	-	-
Supplies and Expense	5,229	-	5,229	5,569	-	5,569
Total	5,269	-	5,269	5,569	-	5,569
Administrative and General:						
Administrative and General Salaries	32,020	-	32,020	21,580	-	21,580
Commissioners	6,000	-	6,000	6,000	-	6,000
Office Supplies and Expense	683	45	728	437	139	576
Professional Fees	5,440	1,565	7,005	4,499	1,304	5,803
Insurance	9,775	102	9,877	10,185	102	10,287
Advertising	146	-	146	1,003	11	1,014
Miscellaneous	1,253	-	1,253	988	-	988
Utilities	4,332	-	4,332	4,711	-	4,711
Maintenance	131	192	323	762	-	762
Total	59,780	1,904	61,684	50,165	1,556	51,721
Total Operating Expenses	\$ 200,325	\$ 16,159	\$ 216,484	\$ 189,752	\$ 15,438	\$ 205,190

**Fountain Run Water District #1**  
**Statement of Revenues and Expenses - Actual and Budget**  
**For the Years Ended December 31, 2012 and 2011**

	2012			2011		
	Actual	Budget	Variance	Actual	Budget	Variance
<u>Operating Revenues</u>						
Metered Water Sales	\$ 243,660	\$ 236,032	\$ 7,628	\$ 239,650	\$ 242,240	\$ (2,590)
Miscellaneous Service Revenues	4,920	5,380	(460)	3,140	2,565	575
Total Operating Revenues	<u>248,580</u>	<u>241,412</u>	<u>7,168</u>	<u>242,790</u>	<u>244,805</u>	<u>(2,015)</u>
<u>Operating Expenses</u>						
Salaries & Wages, Employees	73,060	73,060	-	63,078	62,362	(716)
Salaries & Wages, Commissioners	6,000	6,000	-	6,000	6,000	-
Purchased Water	84,962	84,855	(107)	84,007	87,090	3,083
Purchased Power	2,845	2,971	126	2,800	2,949	149
Materials and Supplies	1,023	2,286	1,263	1,436	2,437	1,001
Contractual Services-Professional	5,440	5,400	(40)	4,499	4,394	(105)
Contractual Services-Testing	630	717	87	1,568	1,038	(530)
Contractual Services-Other	12,343	12,217	(126)	11,871	11,695	(176)
Transportation Expense	2,808	2,083	(725)	2,317	2,572	255
Insurance	9,775	9,656	(119)	10,185	9,671	(514)
Advertising	146	368	222	1,003	1,617	614
Miscellaneous Expense	1,293	454	(839)	988	526	(462)
Depreciation	64,913	65,382	469	63,087	68,283	5,196
Taxes, Other than Income	5,934	6,064	130	5,359	5,204	(155)
Total Operating Expenses	<u>271,172</u>	<u>271,513</u>	<u>341</u>	<u>258,198</u>	<u>265,838</u>	<u>7,640</u>
Operating Income (Loss)	<u>(22,592)</u>	<u>(30,101)</u>	<u>7,509</u>	<u>(15,408)</u>	<u>(21,033)</u>	<u>5,625</u>
<u>NonOperating Revenues &amp; Expenses</u>						
Amortization	(506)	(506)	-	(506)	(506)	-
Interest Income	758	707	51	1,684	1,651	33
Interest Expense	(23,428)	(23,430)	2	(23,951)	(23,950)	(1)
Rent Income	9,408	9,408	-	9,408	9,408	-
Loss from Disposition of Utility Property	-	-	-	(1,151)	480	(1,631)
NonUtility Income	200	125	75	847	120	727
Total NonOperating Revenues and Expenses	<u>(13,568)</u>	<u>(13,696)</u>	<u>128</u>	<u>(13,669)</u>	<u>(12,797)</u>	<u>(872)</u>
Income (Loss) Before Capital Contributions	<u>\$ (36,160)</u>	<u>\$ (43,797)</u>	<u>\$ 7,637</u>	<u>\$ (29,077)</u>	<u>\$ (33,830)</u>	<u>\$ 4,753</u>

**Fountain Run Water District #1**  
**Statement of Revenues and Expenses-Sewer - Actual and Budget**  
**For the Years Ended December 31, 2012 and 2011**

	2012			2011		
	Actual	Budget	Variance	Actual	Budget	variance
<u>Operating Revenues</u>						
Sewer Revenue	\$ 27,240	\$ 27,277	\$ (37)	\$ 28,076	\$ 27,038	\$ 1,038
<u>Operating Expenses</u>						
Salaries & Wages, Employees	9,210	9,210	-	9,210	9,210	-
Purchased Power	3,756	3,758	2	3,771	3,773	2
Materials and Supplies	664	420	(244)	828	828	-
Contractual Services-Professional	1,565	1,565	-	1,304	1,294	(10)
Contractual Services-Other	563	290	(273)	-	-	-
Transportation Expense	299	-	(299)	212	319	107
Insurance	102	102	-	102	102	-
Advertising	-	-	-	11	11	-
Depreciation	38,200	38,200	-	38,251	38,311	60
Taxes, Other than Income	915	915	-	849	705	(144)
Total Operating Expenses	55,274	54,460	(814)	54,538	54,553	15
Operating Income (Loss)	(28,034)	(27,183)	(851)	(26,462)	(27,515)	1,053
<u>NonOperating Revenues &amp; Expenses</u>						
Amortization	(232)	(232)	-	(232)	(232)	-
Interest Income	22	22	-	80	100	(20)
Interest Expense	(3,170)	(3,170)	-	(3,347)	(3,345)	(2)
NonUtility Income	50	-	50	-	-	-
Total NonOperating Revenues and Expenses	(3,330)	(3,380)	50	(3,499)	(3,477)	(22)
Income (Loss) Before Capital Contributions	\$ (31,364)	\$ (30,563)	\$ (801)	\$ (29,961)	\$ (30,992)	\$ 1,031

**JAMES D. SPURLOCK**

*Certified Public Accountant*

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

To the Commissioners  
Fountain Run Water District #1  
Fountain Run, Kentucky

I have audited the financial statements of Fountain Run Water District #1 as of and for the year ended December 31, 2012, and have issued my report thereon dated March 29, 2013. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing my audit, I considered Fountain Run Water District #1's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Fountain Run Water District #1's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of Fountain Run Water District #1's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Fountain Run Water District #1's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

  
James D. Spurlock  
Certified Public Accountant

March 29, 2013

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PUBLIC SERVICE  
COMMISSION

**JAMES D. SPURLOCK**

*Certified Public Accountant*

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**INDEPENDENT AUDITOR'S REPORT**

To the Commissioners  
Fountain Run Water District #1  
Fountain Run, Kentucky

I have audited the accompanying financial statements of Fountain Run Water District #1 as of and for the years ended December 31, 2012 and 2011 as listed in the table of contents. These financial statements are the responsibility of the Fountain Run Water District #1's management. My responsibility is to express an opinion on these financial statements based on my audit.

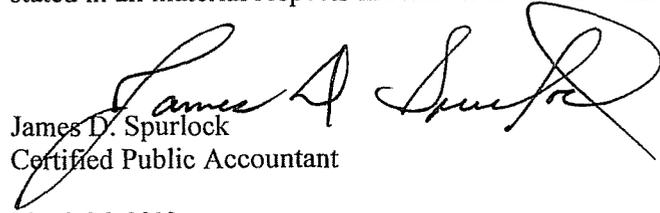
I conducted my audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audits provide a reasonable basis for my opinion.

In my opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Fountain Run Water District #1 as of December 31, 2012 and 2011, and the results of its operations, changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated March 26, 2013, on my consideration of the Fountain Run Water District #1's internal control over financial reporting and on my tests of its compliance with certain of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of my audits.

The management's discussion and analysis and budgetary comparison information on pages 3 through 5 and 20 through 21, respectively, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming an opinion on the financial statements that comprise the Fountain Run Water District #1's basic financial statements. The accompanying schedule of operating expenses is presented for purposes of additional analysis and is not required parts of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



James D. Spurlock  
Certified Public Accountant

March 26, 2013