

Fountain Run Water District #1

Financial Statements

December 31, 2015

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INDEPENDENT AUDITOR'S REPORT

Fountain Run Water District #1
Fountain Run, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of Fountain Run Water District #1 as of and for the year ended December 31, 2015 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 Fountain Run Water District #1, as of December 31, 2015, and the respective changes in financial position, and cash flows thereof for the year then

ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3–5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Fountain Run Water District #1's basic financial statements. The supplemental information is presented for additional analysis and is not a required part of the basic financial statements.

The supplemental information is the responsibility of management and is derived from and relates 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 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 supplemental information is 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 February 5, 2016 on our consideration of the Fountain Run Water District #1'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 Fountain Run Water District #1's internal control over financial reporting and compliance.

Campbell, Myers & Rutledge, PLLC

Certified Public Accountants
Glasgow, Kentucky

February 5, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Fountain Run Water District #1, we offer readers of the District's financial statements this narrative overview of the financial activities of the District for the fiscal year ending December 31, 2015. We encourage readers to consider the information presented here in conjunction with the District's financial statements and notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

For the year ending December 31, 2015, total operating and non-operating revenues (including capital contributions) totaled \$263,738. This represents a 2% increase in revenues from the prior year.

Total operating expenses and non-operating revenues/expenses netted to a total expense of \$345,180, a decrease of approximately \$15,600 from the prior year. This decrease in net expense was primarily the result of a decrease in water purchases and an increase in rental income.

Total assets decreased by \$106,478, and total liabilities decreased by \$25,036. These changes resulted in a decrease in net position of \$81,442.

Overview of the Financial Statements

This report consists of this Management's Discussion and Analysis report, the Independent Auditor's Report, Financial Statements and Supplementary Information. The Financial Statements include notes which explain in detail some of the information included in the Financial Statements.

Required Financial Statements

The financial statements of Fountain Run Water District #1 report information of Fountain Run Water District #1 using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities. The Statement of Net Position includes all of Fountain Run Water District #1's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Fountain Run Water District #1 creditors (liabilities). It also provides the basis for evaluation of the capital structure of Fountain Run Water District #1 and assessing the liquidity and financial flexibility of Fountain Run Water District #1.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Position. This statement measures the success of Fountain Run Water District #1's operations over the past year and can be used to determine whether Fountain Run Water District #1 has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness.

The final required financial statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

**Fountain Run Water District #1
Summary of Net Position
December 31, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
Assets		
Total Current Assets	\$ 152,827	\$ 188,444
Total Restricted Assets	109,470	107,870
Net Capital Assets	<u>2,332,558</u>	<u>2,405,019</u>
Total Assets	<u>\$ 2,594,855</u>	<u>\$ 2,701,333</u>
Liabilities		
Total Current Liabilities	\$ 24,376	\$ 25,209
Total Liabilities Payable from Restricted Assets	44,737	45,840
Total Long-term Liabilities	<u>756,000</u>	<u>779,100</u>
Total Liabilities	<u>\$ 825,113</u>	<u>\$ 850,149</u>
Net Position		
Invested in capital assets, net of related debt	\$ 1,553,458	\$ 1,602,819
Restricted	109,470	85,130
Unrestricted	<u>106,814</u>	<u>163,235</u>
Total Net Position	<u>\$ 1,769,742</u>	<u>\$ 1,851,184</u>

The largest portion (88%) of the District's net position reflects its investment in capital assets, less any related debt used to acquire those assets still outstanding. This represents 1% percent decrease from the prior year.

Restricted net position (7%) represent resources that are subject to external restrictions on how they may be used.

The balance (5%) of unrestricted net position may be used to meet the District's ongoing obligations to citizens, consumers and creditors.

**Fountain Run Water District #1
Summary of Changes in Net Position
For the Year Ended December 31, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
Total operating revenues	\$ 261,278	\$ 255,683
Total operating expenses	<u>336,553</u>	<u>341,519</u>
Operating Income	\$ (75,275)	\$ (85,836)
Total non-operating revenue (expenses)	<u>(8,627)</u>	<u>(19,290)</u>
Income before capital contributions	\$ (83,902)	\$ (105,126)
Capital contributions	<u>2,460</u>	<u>3,050</u>
Increase in net position	\$ (81,442)	\$ (102,076)
Net position, beginning of year	<u>1,851,184</u>	<u>1,953,260</u>
Net position, end of year	<u>\$1,769,742</u>	<u>\$1,851,184</u>

Net position decreased by \$81,442, from the prior year.

Capital Asset Changes

At December 31, 2015, the District had invested \$2,332,558 in capital assets net of accumulated depreciation. This amount represents a net decrease of \$72,461 from the previous year. This decrease is the result of having more depreciation expense than capital asset additions during the year.

Budgetary Highlights

The Fountain Run Water District #1 adopts an annual operating budget after careful considerations of prior year and anticipated current year operations. The operating budget includes proposed expenses and the means to finance them. The District's operating budget remains in effect the entire year and is not revised. A budget comparison and analysis is presented on pages 17 and 18 of this report.

Debt Administration

At December 31, 2015, the District had \$779,100 bonds outstanding, a decrease of \$23,100 from the prior year's balance of \$802,200. The District incurred \$23,948 in interest expense associated with long term debt, a decrease of \$4,641 due to the decrease in the principal balance on the bonds.

Request for Information

This financial report is designed to provide our customers and creditors with 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. If you have any questions about this report or need any additional information, please contact the Fountain Run Water District #1 at 226 Main Street, Fountain Run, Kentucky 42133, or by phone (270) 434-4080.

FOUNTAIN RUN WATER DISTRICT #1
Statement of Net Position
December 31, 2015

Assets	Water	Sewer	Total
Current Assets			
Cash	\$ 111,655	\$ 5,241	\$ 116,896
Accounts receivable	16,167	2,011	18,178
Inventory	9,899	2,700	12,599
Prepays	5,154	-	5,154
Total Current Assets	142,875	9,952	152,827
Non-current Assets			
Restricted Assets			
Cash - Depreciation fund	54,709	23,345	78,054
Cash - Bond and interest redemption fund	6,753	5,992	12,745
Cash - Customer deposits	17,905	766	18,671
Total Restricted Assets	79,367	30,103	109,470
Capital Assets			
Land and land rights	28,948	52,433	81,381
Utility plant in service	2,265,717	1,880,702	4,146,419
Furniture and equipment	47,155	15,459	62,614
Accumulated depreciation and amortization	(793,220)	(1,164,636)	(1,957,856)
Net Capital Assets	1,548,600	783,958	2,332,558
Total Non-current Assets	1,627,967	814,061	2,442,028
Total Assets	\$ 1,770,842	\$ 824,013	\$ 2,594,855

FOUNTAIN RUN WATER DISTRICT #1
Statement of Net Position, Concluded
December 31, 2015

Liabilities	Water	Sewer	Total
Current Liabilities			
Accounts payable	\$ 8,068	\$ 335	\$ 8,403
Accrued liabilities	15,698	275	15,973
Total Current Liabilities	23,766	610	24,376
Liabilities Payable from Restricted Assets			
Current maturities of long-term debt	19,000	4,100	23,100
Customer deposits	20,408	1,229	21,637
Total Liabilities Payable from Restricted Assets	39,408	5,329	44,737
Long-term Liabilities			
Long-term debt, less current maturities	712,000	44,000	756,000
Total Long-term Liabilities	712,000	44,000	756,000
 Total Liabilities	 775,174	 49,939	 825,113
Net Position			
Net Position			
Invested in capital assets, net of related debt	817,600	735,858	1,553,458
Restricted for equipment replacement	54,709	23,345	78,054
Restricted for debt retirement	6,753	5,992	12,745
Restricted for customer deposits	17,905	766	18,671
Unrestricted	98,701	8,113	106,814
 Total Net Position	 \$ 995,668	 \$ 774,074	 \$ 1,769,742

FOUNTAIN RUN WATER DISTRICT #1
Statement of Revenues, Expenses and Change in Net Position
For the Year Ended December 31, 2015

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Operating revenues:			
Sales revenue	\$ 236,657	\$ 23,322	\$ 259,979
Miscellaneous service revenue	<u>1,299</u>	<u>-</u>	<u>1,299</u>
Total operating revenues	<u>237,956</u>	<u>23,322</u>	<u>261,278</u>
Operating expenses:			
Water purchases	80,134	-	80,134
Utilities	7,409	3,856	11,265
Repairs and maintenance	3,541	1,144	4,685
Office expense	7,108	142	7,250
Insurance	11,660	-	11,660
Commissioners' fees	6,000	-	6,000
Employees' salaries and wages	84,137	9,915	94,052
Depreciation and amortization	65,280	36,751	102,031
Bad debt expense	734	125	859
Professional fees	5,315	2,100	7,415
Taxes	5,997	181	6,178
Miscellaneous	<u>4,590</u>	<u>434</u>	<u>5,024</u>
Total operating expenses	<u>281,905</u>	<u>54,648</u>	<u>336,553</u>
Operating income	<u>(43,949)</u>	<u>(31,326)</u>	<u>(75,275)</u>
Non-operating revenue (expenses):			
Interest income	654	17	671
Miscellaneous income	650	-	650
Rental income	14,000	-	14,000
Interest expense on bonds	<u>(21,338)</u>	<u>(2,610)</u>	<u>(23,948)</u>
Total non-operating revenue (expenses)	<u>(6,034)</u>	<u>(2,593)</u>	<u>(8,627)</u>
Income/(loss) before capital contributions	<u>(49,983)</u>	<u>(33,919)</u>	<u>(83,902)</u>
Capital contributions			
Tap fees	<u>2,460</u>	<u>-</u>	<u>2,460</u>
Total capital contributions	<u>2,460</u>	<u>-</u>	<u>2,460</u>
Change in net position	(47,523)	(33,919)	(81,442)
Net position:			
Beginning of year, restated	<u>1,043,191</u>	<u>807,993</u>	<u>1,851,184</u>
End of year	<u>\$ 995,668</u>	<u>\$ 774,074</u>	<u>\$ 1,769,742</u>

FOUNTAIN RUN WATER DISTRICT #1
Statement of Cash Flows
For the Year Ended December 31, 2015

	<u>2015</u>
Cash flows from operating activities:	
Cash receipts from customers	\$ 263,694
Cash payments to suppliers for goods and services	(140,732)
Cash payments to employees for services	(94,052)
Net cash provided (used) by operating activities	<u>28,910</u>
Cash flows from capital and related financing activities:	
Principal paid on long-term debt	(23,100)
Interest paid on long-term debt	(23,948)
Additions to capital assets	(29,570)
Sale of capital assets	650
Capital contributions	2,460
Net cash provided (used) in financing activities	<u>(73,508)</u>
Cash flows from investing activities:	
Rental income	14,000
Interest income	671
Net cash provided by (used) in investing activities	<u>14,671</u>
Net increase (decrease) in cash and cash equivalents	(29,927)
Cash and cash equivalents, beginning of year	<u>256,293</u>
Cash and cash equivalents, end of year	<u>\$ 226,366</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ (75,275)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	102,031
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	3,519
(Increase) decrease in prepaids	571
Increase (decrease) in accounts payable	(833)
Increase (decrease) in customer deposits	(1,103)
Net cash provided (used) by operating activities	<u>\$ 28,910</u>

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

FOUNTAIN RUN WATER DISTRICT #1
Notes to Financial Statements
December 31, 2015

Note 1 – Description of Entity and Summary of Significant Accounting Policies

Organization

The Fountain Run Water District #1 was organized to provide water and sewer service within the City of Fountain Run, Kentucky and portions of Allen, Barren and Monroe counties. The District's commissioners are appointed by the Allen, Barren and Monroe County Judge-Executives.

The District grants credit to customers, substantially all of whom are local residents and commercial businesses in Fountain Run, Kentucky.

Measurement Focus and Basis of Accounting

The term *measurement focus* is used to denote what is being measured and reported in the District's financial statements. The District is accounted for on the flow of economic resources measurement focus. Under this measurement focus, all assets and all liabilities associated with the operations are included in the Statement of Net Position.

The term *basis of accounting* is used to determine when a transaction or event is recognized on the District's financial statements. The District uses the full accrual basis of accounting. Under this basis, revenues are recorded when earned and expenses are recorded when incurred, even though actual payment or receipt may not occur until after the period ends.

Financial Statement Presentation

The District has elected under GASB Statement *No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Fund Accounting*, to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles Board, or any Accounting Research Bulletins issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements.

The accounts of the District are organized on the basis of a proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the District's assets, liabilities, net position, revenues and expenses. Enterprise Funds account for activities; (i) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity, (ii) that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues, or (iii) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

On January 1, 2004, the District adopted the provisions of Governmental Accounting Standards Board (GASB) No. 34 "*Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments.*" GASB 34 established standards for external financial reporting for all state and local governmental entities which includes a statement of net position, a statement of activities and changes in net position and a statement of cash flows. It requires the classification of net position into three components: (i) invested in capital assets, net of related debt, (ii) restricted, and (iii) unrestricted.

FOUNTAIN RUN WATER DISTRICT #1
Notes to Financial Statements
December 31, 2015

Note 1 – Description of Entity and Summary of Significant Accounting Policies, Continued

These classifications are defined as follows:

- *Invested in capital assets, net of related debt* - This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

- *Restricted* - This component of net position consists of constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

- *Unrestricted net position* - This component of net position consists of net position that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Use of Restricted Funds

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.

Receivables

The District uses the direct write-off method to account for bad debts. No allowance for bad debts has been provided, as no material write-offs are expected for receivables as of December 31, 2015. The direct write-off method does not significantly depart from generally accepted accounting principles.

Capital Assets

The utility plant in service is stated at cost. The cost of additions to the utility plant and major replacements of retired units of property is capitalized. Cost includes direct labor, outside services, materials and transportation, employee fringe benefits, overhead, and interest on funds borrowed to finance construction. The cost and accumulated depreciation of property sold or retired is deducted from capital assets, and any profit or loss resulting from the disposal is credited or charged in the nonoperating section of the statement of revenues, expenses and changes in net position. The cost of current repairs, maintenance, and minor replacements is charged to expense as incurred. Depreciation has been provided over estimated useful lives of the assets using the straight-line method. Depreciation and amortization expense for the year ending December 31, 2015 was \$102,031.

The estimated useful lives of capital assets are as follows:

Utility Plant	20-63 years
Equipment	5-13 years

Cash and Investments

The District considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents. Investments are reported at fair market value.

FOUNTAIN RUN WATER DISTRICT #1
Notes to Financial Statements
December 31, 2015

**Note 1 – Description of Entity and Summary of Significant Accounting Policies,
Continued**

Long-Term Obligations

Long-term debt and other obligations are reported as liabilities on the Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds.

Operating Revenues and Expenses

Operating revenues consist of those revenues that result from the ongoing principal operations of the District. Operating expenses consist primarily of charges for services. Nonoperating revenues and expenses consist of those revenues and expenses that are related to financing and investing type of activities and result from nonexchange transactions.

Capital Contributions

Transmission and distribution system assets contributed to the District by installers are capitalized at the installers' costs and recorded as capital contributions when received. Also included in capital contributions are various grants received for infrastructure and payments received from customers for tap fees.

Income Taxes

The District is exempt from federal and state income taxes.

Extraordinary and Special Items

Extraordinary items are transactions or other events that are both unusual in nature and infrequent in occurrence. Special items are significant transactions or other events within the control of management that are either unusual in nature or infrequent in occurrence. If such items exist during the reporting period, they are reported separately in the statement of revenues, expenses and changes in net position.

Bond and Interest Redemption Fund

The ordinances authorizing the bond issues require monthly deposits of one-twelfth of the annual bond principal requirement and one-sixth of the semi-annual interest requirement. For the year ending December 31, 2015, the District had complied with this requirement.

Inventory

Inventory is valued at cost using the first in, first out method. Inventory in the Proprietary Funds consists of expendable supplies held for future consumption or capitalization. The cost is recorded as an expense or capital addition as inventory items are consumed.

Use of 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.

Compensated Absences

Accumulated unpaid vacation and sick pay amounts are accrued when benefits vest to employees and the unpaid liability is reflected in accrued liabilities.

FOUNTAIN RUN WATER DISTRICT #1
Notes to Financial Statements
December 31, 2015

Note 1 – Description of Entity and Summary of Significant Accounting Policies, Concluded

Depreciation Fund

The ordinances authorizing the various bond issues of the District require monthly transfers into a water depreciation fund until the maximum requirement of \$30,000 is reached, and a sewer depreciation fund until the maximum requirement of \$13,543 is reached. These funds can be used for capital improvements, expansions and extraordinary repairs. For the year ended December 31, 2015, the District had balances in excess of the required amount in both depreciation funds.

Note 2 – Long-Term Debt

Long-term debt consists of the following at December 31, 2015:

Series 1985 A & B Sewer Revenue Bonds originally issued through the Rural Development of the USDA in the amount of \$114,000; and later purchased by Berkadia Commercial Mortgage, LLC in 2009 due in annual installments on January 1 ranging from \$1,200 to \$6,500 through January 2025; interest rate of 5% due semi-annually on January 1 and July 1.	\$ 48,100
Series 1988 Water Revenue Bonds issued through the Rural Development of the USDA in the amount of \$208,000; due in annual installments on January 1 ranging from \$2,000 to \$12,000 through January 2028; interest rate of 5% due semi-annually on January 1 and July 1.	110,000
Series 2009 Water Revenue Bonds issued through the Rural Development of the USDA in the amount of \$689,000; due in annual installments on January 1 ranging from \$11,000 to \$28,000 through January 2049; interest rate of 2.75% due semi-annually on January 1 and July 1.	<u>621,000</u>
Total debt	<u><u>\$ 779,100</u></u>

Long-term debt activities for the year ended December 31, 2015 are as follows:

	<u>Balance</u> 01/01/15	<u>Additions</u>	<u>Debt Payments</u> <u>and Reductions</u>	<u>Balance</u> 12/31/15	<u>Amount Due</u> <u>within One Year</u>
Sewer Series 1985 A	\$ 44,500	\$ -	\$ (3,500)	\$ 41,000	\$ 3,500
Sewer Series 1985 B	7,700	-	(600)	7,100	600
Water Series 1988	117,000	-	(7,000)	110,000	7,000
Water Series 2009	633,000	-	(12,000)	621,000	12,000
	<u>\$ 802,200</u>	<u>\$ -</u>	<u>\$ (23,100)</u>	<u>\$ 779,100</u>	<u>\$ 23,100</u>

FOUNTAIN RUN WATER DISTRICT #1
Notes to Financial Statements
December 31, 2015

Note 2 – Long-Term Debt, Concluded

Principal and interest maturities of long-term debt are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 23,100	\$ 23,430	\$ 46,530
2017	24,700	22,575	47,275
2018	25,700	21,665	47,365
2019	26,200	20,705	46,905
2020	27,300	19,720	47,020
2021-2025	148,100	82,265	230,365
2026-2030	109,000	57,700	166,700
2031-2035	99,000	44,550	143,550
2036-2040	112,000	31,575	143,575
2041-2045	128,000	16,775	144,775
2046-2047	56,000	2,100	58,100
	<u>\$ 779,100</u>	<u>\$ 343,060</u>	<u>\$ 1,122,160</u>

Arbitrage

The Tax Reform Act of 1986 instituted certain arbitrage restrictions with respect to the issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of all tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service (IRS) at least every five years. During the current year, the District performed calculations of excess investment earnings on various bonds and at December 31, 2015 does not expect to incur a liability.

Note 3 – Cash and Investments

The carrying amount of the District's cash deposits was \$226,366 for the year ending December 31, 2015 and the bank balances were \$260,171. The difference between book and bank balances primarily represents checks that have been issued, but have not cleared the bank. The District has adopted no formal policy that limits allowable deposits or investments. The District's deposits included seven certificates of deposit totaling approximately \$76,000 for 2015 that matured annually. All were with the same financial institution at rates between .3% and 1.40% for the year ending December 31, 2015. All of the District's deposits were either insured by FDIC or by collateral pledged by South Central Bank.

Note 4 – Commitments

The District has plans for sewer rehabilitation project to better serve their sewer customers in Fountain Run. The total cost of the project is projected to cost \$425,000. The District has secured grant and loan funds of \$425,000 for the project in the form of an RUS loan, grant and an ARC grant. As of December 31, 2015 the District has not received any of these funds.

Note 5- Subsequent Events

Management has evaluated subsequent events through February 5, 2016, the date which the financial statements were available to be issued.

FOUNTAIN RUN WATER DISTRICT #1
Notes to Financial Statements
December 31, 2015

Note 6 – Capital Assets

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

<u>Water</u>	Balance 01/01/15	Additions	Deletions	Balance 12/31/15
<i>Capital Assets not being depreciated</i>				
Land and Land Rights	\$ 8,328	\$ 20,620	\$ -	\$ 28,948
Total Non-Depreciable Capital Assets	<u>8,328</u>	<u>20,620</u>	<u>-</u>	<u>28,948</u>
<i>Capital Assets being depreciated</i>				
Miscellaneous Intangible Plant	50,000	-	-	50,000
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	38,639	-	-	38,639
Meters and Meter Installations	181,115	950	-	182,065
Hydrants	11,289	-	-	11,289
Office Equipment and Furniture	8,266	-	-	8,266
Transportation Equipment	23,986	8,000	(5,473)	26,513
Tools, Shop, and Garage Equipment	8,383	-	-	8,383
Communications Equipment	92,035	-	-	92,035
Miscellaneous Equipment	3,993	-	-	3,993
Total Depreciable Capital Assets	<u>2,309,395</u>	<u>8,950</u>	<u>(5,473)</u>	<u>2,312,872</u>
Less: Accumulated Depreciation and Amortization	<u>733,413</u>	<u>65,280</u>	<u>(5,473)</u>	<u>793,220</u>
Total Net Capital Assets	<u>\$ 1,584,310</u>			<u>\$ 1,548,600</u>

<u>Sewer</u>	Balance 01/01/15	Additions	Deletions	Balance 12/31/15
<i>Capital Assets not being depreciated</i>				
Land and Land Rights	\$ 52,433	\$ -	\$ -	\$ 52,433
Total Non-Depreciable Capital Assets	<u>52,433</u>	<u>-</u>	<u>-</u>	<u>52,433</u>
<i>Capital Assets being depreciated</i>				
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	22,536	-	-	22,536
Treatment and Disposal Equipment	38,749	-	-	38,749
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 Depreciable Capital Assets	<u>1,896,161</u>	<u>-</u>	<u>-</u>	<u>1,896,161</u>
Less: Accumulated Depreciation and Amortization	<u>1,127,885</u>	<u>36,751</u>	<u>-</u>	<u>1,164,636</u>
Total Net Capital Assets	<u>\$ 820,709</u>			<u>\$ 783,958</u>

FOUNTAIN RUN WATER DISTRICT #1
Notes to Financial Statements
December 31, 2015

Note 7 – Restatement of Net Position

Beginning net position of the District has been restated for correction of errors, to record inventory at the proper amount and record a liability for compensated absences. Net position was also restated for a change in accounting principle. GASB Statement No. 65 requires that bond issuance costs which were previously capitalized and amortized over the life of the bonds, be expensed in the year of issuance. The effect of the restatement on net position is as follows:

Net position January 1, 2015, as originally reported	\$1,869,613
Inventory	10,861
Compensated absences	(12,951)
GASB 65, bond issuance costs	<u>(16,339)</u>
Net position January 1, 2015, as restated	<u>\$1,851,184</u>

Supplemental Information

FOUNTAIN RUN WATER DISTRICT #1
Statement of Revenues, Expenses and Change
in Net Position – Budget and Actual - Water
For The Year Ended December 31, 2015

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
Operating revenues:			
Water sales	\$ 235,932	\$ 236,657	\$ 725
Service fees and other	<u>2,990</u>	<u>1,299</u>	<u>(1,691)</u>
Total operating revenues	<u>238,922</u>	<u>237,956</u>	<u>(966)</u>
Operating expenses:			
Water purchases	81,755	80,134	1,621
Salaries and benefits	83,786	84,137	(351)
Materials	4,275	7,108	(2,833)
Contractual	20,480	18,724	1,756
Insurance and taxes	17,344	17,657	(313)
Transportation	1,307	-	1,307
Depreciation	68,591	65,280	3,311
Other	<u>313</u>	<u>8,865</u>	<u>(8,552)</u>
Total operating expenses	<u>277,851</u>	<u>281,905</u>	<u>(4,054)</u>
Operating income	<u>(38,929)</u>	<u>(43,949)</u>	<u>(5,020)</u>
Non-operating revenue (expenses):			
Miscellaneous income	-	650	650
Interest income and rent	15,201	14,654	(547)
Interest expense on bonds	<u>(21,675)</u>	<u>(21,338)</u>	<u>337</u>
Total non-operating revenue (expenses)	<u>(6,474)</u>	<u>(6,034)</u>	<u>440</u>
Income before capital contributions	<u>(45,403)</u>	<u>(49,983)</u>	<u>(4,580)</u>
Capital contributions			
Tap fees	<u>550</u>	<u>2,460</u>	<u>1,910</u>
Total capital contributions	<u>550</u>	<u>2,460</u>	<u>1,910</u>
Increase/(Decrease) in net position	<u>\$ (44,853)</u>	<u>\$ (47,523)</u>	<u>\$ (2,670)</u>

FOUNTAIN RUN WATER DISTRICT #1
Statement of Revenues, Expenses and Change
in Net Position – Budget and Actual - Sewer
For The Year Ended December 31, 2015

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
Operating revenues:			
Sewer sales	\$ 22,950	\$ 23,322	\$ 372
Total operating revenues	22,950	23,322	372
Operating expenses:			
Salaries and benefits	9,210	9,915	(705)
Materials	93	142	(49)
Contractual	6,597	5,956	641
Taxes	865	181	684
Transportation	218	-	218
Depreciation	36,942	36,751	191
Other	17	1,703	(1,686)
Total operating expenses	53,942	54,648	(706)
Operating income	(30,992)	(31,326)	(334)
Non-operating revenue (expenses):			
Interest income	14	17	3
Interest expense on bonds	(2,610)	(2,610)	-
Total non-operating revenue (expenses)	(2,596)	(2,593)	3
Income before capital contributions	(33,588)	(33,919)	(331)
Capital contributions			
Tap fees	-	-	-
Total capital contributions	-	-	-
Increase/(Decrease) in net position	\$ (33,588)	\$ (33,919)	\$ (331)

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

Fountain Run Water District #1
Fountain Run, Kentucky

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 Fountain Run Water District #1, as of and for the year ended December 31, 2015 and the related notes to the financial statements, which collectively comprise Fountain Run Water District #1's basic financial statements, and have issued our report thereon dated February 5, 2016

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Fountain Run Water District #1'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 Fountain Run Water District #1's internal control. Accordingly, we do not express an opinion on the effectiveness of Fountain Run Water District #1's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses, 2015-1 and 2015-2.

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. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies, 2015-3.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Fountain Run Water District #1's financial statements are free from 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards*, 2015-4.

We also noted other matters that we reported to management of Fountain Run Water District #1 in a separate letter dated February 5, 2016.

Fountain Run Water District #1's Response to Findings

Fountain Run Water District #1's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Fountain Run Water District #1's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

Campbell, Myers & Rutledge, PLLC

Certified Public Accountants
Glasgow, Kentucky

February 5, 2016

FOUNTAIN RUN WATER DISTRICT #1
Schedule of Findings and Responses
December 31, 2015

2015-1

Criteria:

A general ledger accounting system is essential to ensure proper recording of all accounting transactions.

Condition:

The district utilizes excel to maintain the general ledger, but does not reconcile these accounts to supporting documentation.

Cause:

The District does not utilize accounting software to maintain the general ledger that generates a trial balance.

Effect:

All accounts of the District are not properly accounted for in the general ledger system.

Recommendation:

We recommend the District purchase and utilize accounting software to ensure the proper recording of all accounts and transactions.

Management Response:

Management will purchase and utilize accounting software.

2015-2

Criteria:

Invoices should be reviewed before payment approval.

Condition:

We noted that blank checks were being signed in advance of payment.

Cause:

Invoices were then paid without approval by both check signers.

Effect:

The internal control of having dual signatures on checks is negated when the check is signed in advance of payment.

Recommendation:

We recommend checks made out to vendors be presented to the Treasurer along with invoice at the time of signing, to ensure proper payment approval.

Management Response:

Management will have the Treasurer review invoices and sign checks on a weekly basis, and ensure no blank checks are signed.

2015-3

Criteria:

Payroll time sheets should be maintained by each employee.

Condition:

While performing our audit procedures related to payroll, we noted that employees did not maintain time sheets.

Cause:

Hourly employees are not denoting actual hours worked.

Effect:

Employees performing manual labor are being paid on a salaried basis, but are entitled to overtime pay when applicable according to the United States Department of Labor Fair Labor Standards Act.

Recommendation:

Employees need to maintain their own time sheets denoting hours worked each day to ensure that overtime is paid when applicable.

Management Response:

Management will ensure that employees are filling out their own timesheets for hours worked.

2015-4

Criteria:

Rural Development requires that revenue from customers be deposited into a separate revenue bank account.

Condition:

While performing our audit procedures related to revenue, we determined that revenue deposits were being made into the operating account.

Cause:

Separate accounts were not established under the bond ordinances.

Effect:

The District was not in compliance with Rural Development requirements as of December 31, 2015.

Recommendation:

We recommend that a separate revenue bank account be opened to deposit all water and sewer revenues from customers.

Management Response:

Management will open a revenue account at South Central Bank.