

Fountain Run Water District #1

Financial Statements

December 31, 2016

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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, 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 Fountain Run Water District #1, as of December 31, 2016, 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 17, 2017 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 17, 2017

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, 2016. 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, 2016, total operating and non-operating revenues (including capital contributions) totaled \$499,851. This represents a 79% increase in revenues from the prior year, primarily due to grant revenue of \$207,692 in the current year.

Total operating expenses and non-operating revenues/expenses netted to a total expense of \$369,821, an increase of approximately \$9,320 from the prior year. This increase in net expense was primarily the result of an increase in water purchases in the current year.

Total assets increased by \$225,943, and total liabilities increased by \$95,289. These changes resulted in an increase in net position of \$130,654.

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, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
Assets		
Total Current Assets	\$ 145,096	\$ 152,827
Total Restricted Assets	155,321	109,470
Net Capital Assets	<u>2,520,381</u>	<u>2,332,558</u>
Total Assets	<u>\$ 2,820,798</u>	<u>\$ 2,594,855</u>
Liabilities		
Total Current Liabilities	\$ 8,732	\$ 24,376
Total Liabilities Payable from Restricted Assets	47,918	36,962
Total Long-term Liabilities	<u>855,977</u>	<u>756,000</u>
Total Liabilities	<u>\$ 912,627</u>	<u>\$ 817,338</u>
Net Position		
Invested in capital assets, net of related debt	\$ 1,656,381	\$ 1,553,458
Restricted	128,403	109,470
Unrestricted	<u>123,387</u>	<u>114,589</u>
Total Net Position (Restated)	<u>\$ 1,908,171</u>	<u>\$ 1,777,517</u>

The largest portion (86%) 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 2% percent decrease from the prior year.

Restricted net position (6%) represent resources that are subject to external restrictions on how they may be used.

The balance (8%) 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, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
Total operating revenues	\$ 271,408	\$ 261,278
Total operating expenses	<u>345,961</u>	<u>336,553</u>
Operating Income	\$ (74,553)	\$ (75,275)
Total non-operating revenue (expenses)	<u>(7,285)</u>	<u>(8,627)</u>
Income before capital contributions	\$ (81,838)	\$ (83,902)
Capital contributions	<u>212,492</u>	<u>2,460</u>
Increase in net position	\$ 130,654	\$ (81,442)
Net position, beginning of year	<u>1,777,517</u>	<u>1,858,959</u>
Net position, end of year	<u>\$1,908,171</u>	<u>\$1,777,517</u>

Net position increased by \$130,654, from the prior year.

Capital Asset Changes

At December 31, 2016, the District had invested \$2,520,381 in capital assets net of accumulated depreciation. This amount represents a net increase of \$187,823 from the previous year. This increase is the result of having more capital asset additions than depreciation expense 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, 2016, the District had \$864,000 bonds outstanding, an increase of \$84,900 from the prior year's balance of \$779,100. The District incurred \$23,236 in interest expense associated with long term debt, and capitalized \$891 of interest expense associated with the construction project. During the year, the District issued a bond for \$133,000 for the sanitary sewer improvement project. In addition to the construction, a portion of the debt issuance was used to pay off old sewer bonds in the amount of \$48,100.

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, 2016

Assets	Water	Sewer	Total
Current Assets			
Cash	\$ 100,441	\$ 5,101	\$ 105,542
Accounts receivable	18,592	3,306	21,898
Inventory	9,802	2,700	12,502
Prepays	5,154	-	5,154
Total Current Assets	133,989	11,107	145,096
Non-current Assets			
Restricted Assets			
Cash - Depreciation fund	58,676	5,393	64,069
Cash - Short lived assets	-	27,100	27,100
Cash - Bond and interest redemption fund	35,734	7,913	43,647
Cash - Customer deposits	18,426	782	19,208
Grant receivable	-	1,297	1,297
Total Restricted Assets	112,836	42,485	155,321
Capital Assets			
Land and land rights	28,948	52,433	81,381
Utility plant in service	2,268,567	2,145,412	4,413,979
Furniture and equipment	47,155	15,459	62,614
Accumulated depreciation and amortization	(857,606)	(1,179,987)	(2,037,593)
Net Capital Assets	1,487,064	1,033,317	2,520,381
Total Non-current Assets	1,599,900	1,075,802	2,675,702
Total Assets	\$ 1,733,889	\$ 1,086,909	\$ 2,820,798

FOUNTAIN RUN WATER DISTRICT #1
Statement of Net Position, Concluded
December 31, 2016

Liabilities	Water	Sewer	Total
Current Liabilities			
Accounts payable	\$ 5,480	\$ 255	\$ 5,735
Accrued liabilities	2,689	308	2,997
Total Current Liabilities	8,169	563	8,732
Liabilities Payable from Restricted Assets			
Current maturities of long-term debt	19,000	2,000	21,000
Customer deposits	13,180	1,265	14,445
Construction accounts payable	-	1,297	1,297
Accrued interest payable	10,456	720	11,176
Total Liabilities Payable from Restricted Assets	42,636	5,282	47,918
Long-term Liabilities			
Long-term debt, less current maturities	712,000	131,000	843,000
Accrued compensated absences	12,977	-	12,977
Total Long-term Liabilities	724,977	131,000	855,977
Total Liabilities	775,782	136,845	912,627
Net Position			
Net Position			
Invested in capital assets, net of related debt	756,064	900,317	1,656,381
Restricted for equipment replacement	58,676	32,493	91,169
Restricted for debt retirement	25,278	7,193	32,471
Restricted for customer deposits	5,246	(483)	4,763
Unrestricted	112,843	10,544	123,387
Total Net Position	\$ 958,107	\$ 950,064	\$ 1,908,171

FOUNTAIN RUN WATER DISTRICT #1
Statement of Revenues, Expenses and Change in Net Position
For the Year Ended December 31, 2016

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Operating revenues:			
Sales revenue	\$ 235,743	\$ 27,394	\$ 263,137
Miscellaneous service revenue	8,271	-	8,271
Total operating revenues	<u>244,014</u>	<u>27,394</u>	<u>271,408</u>
Operating expenses:			
Water purchases	86,385	-	86,385
Purchased power	4,302	4,014	8,316
Repairs and maintenance	4,020	556	4,576
Transportation	861	513	1,374
Office expense	1,868	412	2,280
Insurance	14,479	102	14,581
Commissioners' fees	6,000	-	6,000
Employees' salaries and wages	77,810	11,225	89,035
Payroll taxes	5,963	860	6,823
Depreciation and amortization	64,386	37,265	101,651
Professional fees	10,412	700	11,112
Other taxes	5,714	194	5,908
Analysis fees	2,491	-	2,491
Office utilities	3,365	-	3,365
Miscellaneous	1,581	483	2,064
Total operating expenses	<u>289,637</u>	<u>56,324</u>	<u>345,961</u>
Operating income	<u>(45,623)</u>	<u>(28,930)</u>	<u>(74,553)</u>
Non-operating revenue (expenses):			
Interest income	875	20	895
Rental income	15,680	-	15,680
Loss on disposal of equipment	-	(624)	(624)
Transfers	1,401	(1,401)	-
Interest expense on bonds	<u>(20,969)</u>	<u>(2,267)</u>	<u>(23,236)</u>
Total non-operating revenue (expenses)	<u>(3,013)</u>	<u>(4,272)</u>	<u>(7,285)</u>
Income/(loss) before capital contributions	<u>(48,636)</u>	<u>(33,202)</u>	<u>(81,838)</u>
Capital contributions			
Grant revenue	-	207,692	207,692
Tap fees	<u>3,300</u>	<u>1,500</u>	<u>4,800</u>
Total capital contributions	<u>3,300</u>	<u>209,192</u>	<u>212,492</u>
Change in net position	(45,336)	175,990	130,654
Net position:			
Beginning of year, restated	1,003,443	774,074	1,777,517
End of year	<u>\$ 958,107</u>	<u>\$ 950,064</u>	<u>\$ 1,908,171</u>

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

FOUNTAIN RUN WATER DISTRICT #1
Statement of Cash Flows
For the Year Ended December 31, 2016

Cash flows from operating activities:	
Cash receipts from customers	\$ 267,688
Cash payments to suppliers for goods and services	(151,291)
Cash payments to employees for services	<u>(95,009)</u>
Net cash provided (used) by operating activities	<u>21,388</u>
Cash flows from capital and related financing activities:	
Principal paid on long-term debt	(48,100)
Borrowings from long-term debt issuance	133,000
Interest paid on long-term debt	(12,060)
Additions to capital assets	(290,095)
Capital contributions	<u>212,492</u>
Net cash provided (used) in financing activities	<u>(4,763)</u>
Cash flows from investing activities:	
Rental income	15,680
Interest income	<u>895</u>
Net cash provided by (used) in investing activities	<u>16,575</u>
Net increase (decrease) in cash and cash equivalents	33,200
Cash and cash equivalents, beginning of year	<u>226,366</u>
Cash and cash equivalents, end of year	<u>\$ 259,566</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ (74,553)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	101,651
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	(3,720)
(Increase) decrease in inventory	97
Increase (decrease) in compensated absences	26
Increase (decrease) in accounts payable	<u>(2,113)</u>
Net cash provided (used) by operating activities	<u>\$ 21,388</u>

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

FOUNTAIN RUN WATER DISTRICT #1
Notes to Financial Statements
December 31, 2016

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, 2016

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, 2016. 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, 2016 was \$101,651.

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, 2016

**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.

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, 2016, 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 compensated absences.

FOUNTAIN RUN WATER DISTRICT #1
Notes to Financial Statements
December 31, 2016

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 \$5,000 is reached. These funds can be used for capital improvements, expansions and extraordinary repairs. For the year ended December 31, 2016, 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, 2016:

Series 1988 Water Revenue Bonds issued through 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 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.	621,000
Series 2016 Sewer Revenue Bonds issued through Rural Development of the USDA in the amount of \$133,000; due in annual installments on January 1 ranging from \$2,000 to \$5,000 through January 2056; interest rate of 1.625% due semi-annually on January 1 and July 1.	<u>133,000</u>
Total debt	<u><u>\$ 864,000</u></u>

Long-term debt activities for the year ended December 31, 2016 are as follows:

	Balance 01/01/16	Additions	Debt Payments and Reductions	Balance 12/31/16	Amount Due within One Year
Sewer Series 1985 A	\$ 41,000	\$ -	\$ (41,000)	\$ -	\$ -
Sewer Series 1985 B	7,100	-	(7,100)	-	-
Sewer Series 2016	-	133,000	-	133,000	2,000
Water Series 1988	110,000	-	-	110,000	7,000
Water Series 2009	621,000	-	-	621,000	12,000
	<u>\$ 779,100</u>	<u>\$ 133,000</u>	<u>\$ (48,100)</u>	<u>\$ 864,000</u>	<u>\$ 21,000</u>

A portion of the Sewer Series 2016 bond issued during the year was used to pay off old Sewer Series 1985 A and 1985 B Bonds.

FOUNTAIN RUN WATER DISTRICT #1
Notes to Financial Statements
December 31, 2016

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>
2017	\$ 21,000	\$ 22,485	\$ 43,485
2018	22,000	22,150	44,150
2019	23,000	21,418	44,418
2020	23,500	20,656	44,156
2021	24,500	19,878	44,378
2022-2026	136,500	86,442	222,942
2027-2031	123,000	64,403	187,403
2032-2036	114,000	50,463	164,463
2037-2041	129,500	36,005	165,505
2042-2046	147,000	19,546	166,546
2047-2051	77,000	4,146	81,146
2052-2056	23,000	943	23,943
	<u>\$ 864,000</u>	<u>\$ 368,535</u>	<u>\$ 1,232,533</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, 2016 does not expect to incur a liability.

Note 3 – Cash and Investments

The carrying amount of the District's cash deposits was \$259,566 for the year ending December 31, 2016 and the bank balances were \$260,553. 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 five certificates of deposit that mature annually, totaling approximately \$77,000 for 2016. All were with the same financial institution at rates between .3% and 1.40% for the year ending December 31, 2016. All of the District's deposits were either insured by FDIC or by collateral pledged by South Central Bank.

Note 4 – Commitments

As of December 31, 2016, the District had expended \$207,692 of the \$292,000 in grant funds awarded for the Sanitary Sewer Improvement Project. The District has preliminary approval to utilize remaining grant funds of approximately \$84,000 for the purchase of a backhoe.

Note 5- Subsequent Events

Management has evaluated subsequent events through February 17, 2017, the date which the financial statements were available to be issued.

FOUNTAIN RUN WATER DISTRICT #1
Notes to Financial Statements
December 31, 2016

Note 6 – Capital Assets

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

<u>Water</u>	Balance 01/01/16	Additions	Deletions	Balance 12/31/16
<i>Capital Assets not being depreciated</i>				
Land and Land Rights	\$ 28,948	\$ -	\$ -	\$ 28,948
Total Non-Depreciable Capital Assets	<u>28,948</u>	<u>-</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	182,065	2,850	-	184,915
Hydrants	11,289	-	-	11,289
Office Equipment and Furniture	8,266	-	-	8,266
Transportation Equipment	26,513	-	-	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>2,312,872</u>	<u>2,850</u>	<u>-</u>	<u>2,315,722</u>
Less: Accumulated Depreciation and Amortization	<u>793,220</u>	<u>64,386</u>	<u>-</u>	<u>857,606</u>
Total Net Capital Assets	<u>\$ 1,548,600</u>			<u>\$ 1,487,064</u>

<u>Sewer</u>	Balance 01/01/16	Additions	Deletions	Balance 12/31/16
<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	60,320	-	478,089
Services	188,353	-	-	188,353
Receiving Well and Pump Pits	336,236	-	-	336,236
Pumping Equipment	22,536	226,925	(22,535)	226,926
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>287,245</u>	<u>(22,535)</u>	<u>2,160,871</u>
Less: Accumulated Depreciation and Amortization	<u>1,164,636</u>	<u>37,265</u>	<u>(21,914)</u>	<u>1,179,987</u>
Total Net Capital Assets	<u>\$ 783,958</u>			<u>\$ 1,033,317</u>

During the year the District capitalized \$891 of interest expense associated with the Sanitary Sewer Improvement Project.

FOUNTAIN RUN WATER DISTRICT #1
Notes to Financial Statements
December 31, 2016

Note 7 – Restatement of Net Position

Beginning net position of the District has been restated for correction of errors, to record customer deposits liability at the proper amount. The effect of the restatement on net position is as follows:

Net position January 1, 2016, as originally reported	\$1,769,742
Customer deposit liability	<u>7,775</u>
Net position January 1, 2016, as restated	<u>\$1,777,517</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, 2016

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
Operating revenues:			
Water sales	\$ 238,000	\$ 235,743	\$ (2,257)
Service fees and other	<u>4,000</u>	<u>8,271</u>	<u>4,271</u>
Total operating revenues	<u>242,000</u>	<u>244,014</u>	<u>2,014</u>
Operating expenses:			
Water purchases	84,490	86,385	(1,895)
Salaries and benefits	84,852	83,810	1,042
Materials	4,500	4,020	480
Contractual	19,550	14,714	4,836
Insurance and taxes	17,734	26,156	(8,422)
Transportation	1,600	861	739
Depreciation	68,600	64,386	4,214
Other	<u>3,700</u>	<u>9,305</u>	<u>(5,605)</u>
Total operating expenses	<u>285,026</u>	<u>289,637</u>	<u>(4,611)</u>
Operating income	<u>(43,026)</u>	<u>(45,623)</u>	<u>(2,597)</u>
Non-operating revenue (expenses):			
Miscellaneous	-	1,401	1,401
Interest income and rent	14,600	16,555	1,955
Interest expense on bonds	<u>(21,581)</u>	<u>(20,969)</u>	<u>612</u>
Total non-operating revenue (expenses)	<u>(6,981)</u>	<u>(3,013)</u>	<u>3,968</u>
Income before capital contributions	<u>(50,007)</u>	<u>(48,636)</u>	<u>1,371</u>
Capital contributions			
Tap fees	<u>1,100</u>	<u>3,300</u>	<u>2,200</u>
Total capital contributions	<u>1,100</u>	<u>3,300</u>	<u>2,200</u>
Increase/(Decrease) in net position	<u>\$ (48,907)</u>	<u>\$ (45,336)</u>	<u>\$ 3,571</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, 2016

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
Operating revenues:			
Sewer sales	\$ 23,500	\$ 27,394	\$ 3,894
Total operating revenues	<u>23,500</u>	<u>27,394</u>	<u>3,894</u>
Operating expenses:			
Salaries and benefits	9,210	11,225	(2,015)
Materials	750	556	194
Contractual	8,500	4,714	3,786
Taxes	865	1,054	(189)
Transportation	300	513	(213)
Depreciation	40,250	37,265	2,985
Other	-	997	(997)
Total operating expenses	<u>59,875</u>	<u>56,324</u>	<u>3,551</u>
Operating income	<u>(36,375)</u>	<u>(28,930)</u>	<u>7,445</u>
Non-operating revenue (expenses):			
Miscellaneous	-	(2,025)	(2,025)
Interest income	20	20	-
Interest expense on bonds	<u>(2,637)</u>	<u>(2,267)</u>	<u>370</u>
Total non-operating revenue (expenses)	<u>(2,617)</u>	<u>(4,272)</u>	<u>(1,655)</u>
Income before capital contributions	<u>(38,992)</u>	<u>(33,202)</u>	<u>5,790</u>
Capital contributions			
Grant revenue	292,000	207,692	(84,308)
Tap fees	<u>-</u>	<u>1,500</u>	<u>1,500</u>
Total capital contributions	<u>292,000</u>	<u>209,192</u>	<u>(82,808)</u>
Increase/(Decrease) in net position	<u>\$ 253,008</u>	<u>\$ 175,990</u>	<u>\$ (77,018)</u>



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, 2016 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 17, 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.

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 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted other matters that we reported to management of Fountain Run Water District #1 in a separate letter dated February 17, 2017.

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 17, 2017

**FOUNTAIN RUN WATER DISTRICT #1
Schedule of Prior Year Audit Findings
For the Year Ended June 30, 2016**

Prior Year Findings

2015-1

Prior Year Condition:

The district did not utilize accounting software to maintain the general ledger that generated a trial balance.

Current Year Observation:

During 2016, the District began using Quickbooks to record and reconcile all transactions in the general ledger and generate a trial balance.

2015-2

Prior Year Condition:

Blank checks were signed in advance of payment.

Current Year Observation:

Checks made out to vendors were presented to the Treasurer along with invoice at the time of check signing.

2015-3

Prior Year Condition:

Employees did not maintain signed time sheets denoting hours worked.

Current Year Observation:

Employees presented management with signed time sheets denoting hours worked each week.

2015-4

Prior Year Condition:

A separate bank account was not established for revenue deposits as required by Rural Development.

Current Year Observation:

Management opened and has properly maintained a separate bank for revenue deposits.

