

Fountain Run Water District #1
Financial Statements
December 31, 2023

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INDEPENDENT AUDITOR'S REPORT

Fountain Run Water District #1
Fountain Run, Kentucky

Report on the Financial Statements

Opinions

We have audited the accompanying financial statements of Fountain Run Water District #1 as of and for the year ended December 31, 2023 and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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, 2023, 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.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Fountain Run Water District #1 and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Fountain Run Water District #1's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an

auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Fountain Run Water District #1's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Fountain Run Water District #1's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4–6 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.

Supplementary 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. Such 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. The 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 24, 2024 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 the effectiveness of Fountain Run Water District's 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

Glasgow, Kentucky

February 24, 2024

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, 2023. 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, 2023, total operating and non-operating revenues (including capital contributions) totaled \$396,319. This represents \$1,352 increase in revenues from the prior year.

Total operating expenses and non-operating expenses totaled \$400,365, a decrease of \$34,938 from the prior year due to decreased water purchases as well as decreased office repairs and maintenance.

Total assets decreased by \$32,858, and total liabilities decreased by \$28,812. These changes resulted in a decrease in net position of \$4,046.

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. This 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, 2023 and 2022**

	<u>2023</u>	<u>2022</u>
Assets		
Total Current Assets	\$ 376,866	\$ 321,625
Total Restricted Assets	150,335	145,024
Net Capital Assets	<u>1,903,709</u>	<u>1,997,119</u>
Total Assets	<u>\$ 2,430,910</u>	<u>\$ 2,463,768</u>
Liabilities		
Total Current Liabilities	\$ 32,067	\$ 35,975
Total Liabilities Payable from Restricted Assets	36,341	35,770
Total Long-term Liabilities	<u>692,093</u>	<u>717,568</u>
Total Liabilities	<u>\$ 760,501</u>	<u>\$ 789,313</u>
Net Position		
Invested in capital assets, net of related debt	\$ 1,205,709	\$ 1,272,619
Restricted	141,494	135,754
Unrestricted	<u>323,206</u>	<u>266,082</u>
Total Net Position	<u>\$ 1,670,409</u>	<u>\$ 1,674,455</u>

The largest portion (72%) of the District's net position reflects its investment in capital assets, less any related debt used to acquire those assets still outstanding.

Restricted net position (9%) represents resources that are subject to external restrictions on how they may be used.

The balance (19%) 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, 2023 and 2022**

	<u>2023</u>	<u>2022</u>
Total operating revenues	\$ 370,957	\$ 367,518
Total operating expenses	<u>382,585</u>	<u>416,712</u>
Operating Income	(11,628)	(49,194)
Total non-operating revenue (expenses)	<u>6,457</u>	<u>4,709</u>
Income before capital contributions	(5,171)	(44,485)
Capital contributions	<u>1,125</u>	<u>4,149</u>
Increase in net position	(4,046)	(40,336)
Net position, beginning of year	<u>1,674,455</u>	<u>1,714,791</u>
Net position, end of year	<u>\$ 1,670,409</u>	<u>\$ 1,674,455</u>

Net position decreased by \$4,046, from the prior year.

Capital Asset Changes

At December 31, 2023, the District had invested \$1,903,709 in capital assets net of accumulated depreciation. This amount represents a net decrease of \$93,410 from the previous year. This decrease is the result of having more depreciation expense than capital asset additions during the year. During the year the District set 1 new meter.

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, 2023, the District had \$698,000 bonds outstanding, a decrease of \$26,500 from the previous year. The District incurred \$17,780 in interest expense associated with long term debt.

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, 2023

Assets	Water	Sewer	Total
Current Assets			
Cash	\$ 242,656	\$ 55,073	\$ 297,729
Accounts receivable	26,080	2,784	28,864
Inventory	20,097	2,700	22,797
Prepays	5,154	-	5,154
Other receivable	<u>22,322</u>	<u>-</u>	<u>22,322</u>
Total Current Assets	<u>316,309</u>	<u>60,557</u>	<u>376,866</u>
Non-current Assets			
Restricted Assets			
Cash - Depreciation fund	65,361	6,009	71,370
Cash - Short lived assets	-	31,006	31,006
Cash - Bond and interest redemption fund	<u>32,120</u>	<u>15,839</u>	<u>47,959</u>
Total Restricted Assets	<u>97,481</u>	<u>52,854</u>	<u>150,335</u>
Capital Assets			
Land and land rights	28,948	52,433	81,381
Utility plant in service	2,302,799	2,195,817	4,498,616
Furniture and equipment	47,155	15,459	62,614
Accumulated depreciation and amortization	<u>(1,210,173)</u>	<u>(1,528,729)</u>	<u>(2,738,902)</u>
Net Capital Assets	<u>1,168,729</u>	<u>734,980</u>	<u>1,903,709</u>
Total Non-current Assets	<u>1,266,210</u>	<u>787,834</u>	<u>2,054,044</u>
Total Assets	<u>\$ 1,582,519</u>	<u>\$ 848,391</u>	<u>\$ 2,430,910</u>

FOUNTAIN RUN WATER DISTRICT #1
Statement of Net Position, Concluded
December 31, 2023

Liabilities	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Current Liabilities			
Accounts payable	\$ 8,540	\$ 268	\$ 8,808
Accrued liabilities	4,150	-	4,150
Customer deposits	<u>17,563</u>	<u>1,546</u>	<u>19,109</u>
Total Current Liabilities	<u>30,253</u>	<u>1,814</u>	<u>32,067</u>
Liabilities Payable from Restricted Assets			
Current maturities of long-term debt	25,000	2,500	27,500
Accrued interest payable	<u>7,895</u>	<u>946</u>	<u>8,841</u>
Total Liabilities Payable from Restricted Assets	<u>32,895</u>	<u>3,446</u>	<u>36,341</u>
Long-term Liabilities			
Long-term debt, less current maturities	556,000	114,500	670,500
Accrued compensated absences	<u>21,593</u>	<u>-</u>	<u>21,593</u>
Total Long-term Liabilities	<u>577,593</u>	<u>114,500</u>	<u>692,093</u>
Total Liabilities	<u>640,741</u>	<u>119,760</u>	<u>760,501</u>
Net Position			
Net Position			
Invested in capital assets, net of related debt	587,729	617,980	1,205,709
Restricted for equipment replacement	65,361	37,015	102,376
Restricted for debt retirement	24,225	14,893	39,118
Unrestricted	<u>264,463</u>	<u>58,743</u>	<u>323,206</u>
Total Net Position	<u>\$ 941,778</u>	<u>\$ 728,631</u>	<u>\$ 1,670,409</u>

FOUNTAIN RUN WATER DISTRICT #1
Statement of Revenues, Expenses and Change in Net Position
For the Year Ended December 31, 2023

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Operating revenues:			
Sales revenue	\$ 324,421	\$ 34,710	\$ 359,131
Miscellaneous service revenue	<u>10,519</u>	<u>1,307</u>	<u>11,826</u>
Total operating revenues	<u>334,940</u>	<u>36,017</u>	<u>370,957</u>
Operating expenses:			
Water purchases	88,764	-	88,764
Purchased power	12,127	509	12,636
Repairs and maintenance	14,775	1,138	15,913
Transportation	2,186	644	2,830
Office expense	10,397	254	10,651
Insurance	15,430	-	15,430
Commissioners' salaries	6,000	-	6,000
Employees' salaries and wages	84,392	15,401	99,793
Payroll taxes and other	9,761	1,178	10,939
Depreciation and amortization	48,784	54,520	103,304
Professional fees	8,750	-	8,750
Analysis fees	5,511	-	5,511
Office utilities	200	-	200
Miscellaneous	<u>1,811</u>	<u>53</u>	<u>1,864</u>
Total operating expenses	<u>308,888</u>	<u>73,697</u>	<u>382,585</u>
Operating income	<u>26,052</u>	<u>(37,680)</u>	<u>(11,628)</u>
Non-operating revenue (expenses):			
Interest income	1,699	104	1,803
Rental income	22,434	-	22,434
Interest expense on bonds	<u>(15,878)</u>	<u>(1,902)</u>	<u>(17,780)</u>
Total non-operating revenue (expenses)	<u>8,255</u>	<u>(1,798)</u>	<u>6,457</u>
Income/(loss) before capital contributions	<u>34,307</u>	<u>(39,478)</u>	<u>(5,171)</u>
Capital contributions:			
Tap fees	<u>1,125</u>	<u>-</u>	<u>1,125</u>
Total capital contributions	<u>1,125</u>	<u>-</u>	<u>1,125</u>
Change in net position	35,432	(39,478)	(4,046)
Net position:			
Beginning of year	<u>906,346</u>	<u>768,109</u>	<u>1,674,455</u>
End of year	<u>\$ 941,778</u>	<u>\$ 728,631</u>	<u>\$ 1,670,409</u>

FOUNTAIN RUN WATER DISTRICT #1
Statement of Cash Flows
For the Year Ended December 31, 2023

Cash flows from operating activities:	
Cash receipts from customers	\$ 375,000
Cash payments to suppliers for goods and services	(187,276)
Cash payments to employees for services	(103,768)
Net cash provided (used) by operating activities	83,956
 Cash flows from capital and related financing activities:	
Principal paid on long-term debt	(26,500)
Interest paid on long-term debt	(18,209)
Additions to capital assets	(9,894)
Capital contributions	1,125
Net cash provided (used) in financing activities	(53,478)
 Cash flows from investing activities:	
Rental income	22,434
Interest income	1,803
Net cash provided by (used) in investing activities	24,237
 Net increase (decrease) in cash and cash equivalents	
Cash and cash equivalents, beginning of year	54,715
Cash and cash equivalents, end of year	393,349
	\$ 448,064
 Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ (11,628)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	103,304
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	3,994
(Increase) decrease in other receivable	(6,889)
(Increase) decrease in inventory	(2,942)
Increase (decrease) in customer deposits	49
Increase (decrease) in compensated absences	2,025
Increase (decrease) in accounts payable	(3,957)
Net cash provided (used) by operating activities	\$ 83,956

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

FOUNTAIN RUN WATER DISTRICT #1
Notes to Financial Statements
December 31, 2023

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).

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, 2023

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, 2023. 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, 2023 was \$103,304.

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, 2023

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, 2023, the District had complied with this requirement.

Inventory

Inventory is valued at the lower of cost or net realizable value, 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, 2023

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 \$42,360 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, 2023, 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, 2023:

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.	\$ 54,000
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.	527,000
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>117,000</u>
Total debt	<u>\$ 698,000</u>

Long-term debt activities for the year ended December 31, 2023 are as follows:

	Balance 01/01/23	Additions	Debt Payments and Reductions	Balance 12/31/23	Amount Due within One Year
Water Series 1988	\$ 63,000	\$ -	\$ (9,000)	\$ 54,000	\$ 10,000
Water Series 2009	542,000	-	(15,000)	527,000	15,000
Sewer Series 2016	119,500	-	(2,500)	117,000	2,500
	<u>\$ 724,500</u>	<u>\$ -</u>	<u>\$ (26,500)</u>	<u>\$ 698,000</u>	<u>\$ 27,500</u>

FOUNTAIN RUN WATER DISTRICT #1
Notes to Financial Statements
December 31, 2023

Note 2 - Long-Term Debt, Concluded

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

	Principal	Interest	Total
2024	27,500	17,319	44,819
2025	27,500	16,403	43,903
2026	29,500	15,451	44,951
2027	29,500	14,460	43,960
2028	31,500	13,431	44,931
2029-2033	106,000	58,323	164,323
2034-2038	120,000	44,900	164,900
2039-2043	135,500	29,687	165,187
2044-2048	155,000	12,330	167,330
2049-2053	22,000	2,047	24,047
2054-2056	14,000	342	14,342
	\$ 698,000	\$ 224,693	\$ 922,693

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, 2023 does not expect to incur a liability.

Note 3 - Cash and Investments

The carrying amount of the District's cash deposits was \$448,064 for the year ending December 31, 2023 and the bank balances were \$450,867. 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 \$84,077 for 2023. All of the District's deposits were either insured by FDIC or by collateral pledged by the financial institution.

Note 4 - Subsequent Events

Management has evaluated subsequent events through February 24, 2024, the date which the financial statements were available to be issued.

FOUNTAIN RUN WATER DISTRICT #1
Notes to Financial Statements
December 31, 2023

Note 5 – Capital Assets

Capital asset activity for the year ended December 31, 2023 was as follows:

<u>Water</u>	Balance 01/01/23	Additions	Deletions	Balance 12/31/23
<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	5,270	-	863,264
Services	38,639	-	-	38,639
Meters and Meter Installations	200,416	1,124	-	201,540
Hydrants	11,289	3,500	-	14,789
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	100,872	-	-	100,872
Miscellaneous Equipment	3,993	-	-	3,993
Total Depreciable Capital Assets	<u>2,340,060</u>	<u>9,894</u>	<u>-</u>	<u>2,349,954</u>
Less: Accumulated Depreciation and Amortization	<u>1,161,389</u>	<u>48,784</u>	<u>-</u>	<u>1,210,173</u>
Total Net Capital Assets	<u>\$ 1,207,619</u>			<u>\$ 1,168,729</u>
<u>Sewer</u>	Balance 01/01/23	Additions	Deletions	Balance 12/31/23
<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	10,531	-	-	10,531
Collection Sewers - Force	51,576	-	-	51,576
Collection Sewers - Gravity	478,089	-	-	478,089
Services	188,353	-	-	188,353
Receiving Well and Pump Pits	336,236	-	-	336,236
Pumping Equipment	226,926	-	-	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	88,600	-	-	88,600
Total Depreciable Capital Assets	<u>2,211,276</u>	<u>-</u>	<u>-</u>	<u>2,211,276</u>
Less: Accumulated Depreciation and Amortization	<u>1,474,209</u>	<u>54,520</u>	<u>-</u>	<u>1,528,729</u>
Total Net Capital Assets	<u>\$ 789,500</u>			<u>\$ 734,980</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, 2023

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
Operating revenues:			
Water sales	\$ 320,000	\$ 324,421	\$ 4,421
Service fees and other	<u>1,300</u>	<u>10,519</u>	<u>9,219</u>
Total operating revenues	<u>321,300</u>	<u>334,940</u>	<u>13,640</u>
Operating expenses:			
Water purchases	105,000	88,764	16,236
Salaries and benefits	113,400	90,392	23,008
Repairs and maintenance	17,800	14,775	3,025
Utilities	9,700	17,838	(8,138)
Insurance and administrative	24,284	33,941	(9,657)
Depreciation	52,000	48,784	3,216
Other	<u>11,294</u>	<u>14,394</u>	<u>(3,100)</u>
Total operating expenses	<u>333,478</u>	<u>308,888</u>	<u>24,590</u>
Operating income	<u>(12,178)</u>	<u>26,052</u>	<u>38,230</u>
Non-operating revenue (expenses):			
Interest income and rent	22,934	24,133	1,199
Interest expense on bonds	<u>(18,000)</u>	<u>(15,878)</u>	<u>2,122</u>
Total non-operating revenue (expenses)	<u>4,934</u>	<u>8,255</u>	<u>3,321</u>
Income before capital contributions	<u>(7,244)</u>	<u>34,307</u>	<u>41,551</u>
Capital contributions			
Tap fees	<u>2,300</u>	<u>1,125</u>	<u>(1,175)</u>
Total capital contributions	<u>2,300</u>	<u>1,125</u>	<u>(1,175)</u>
Change in net position	(4,944)	35,432	40,376
Net position:			
Beginning of year	<u>906,346</u>	<u>906,346</u>	<u>-</u>
End of year	<u>\$ 901,402</u>	<u>\$ 941,778</u>	<u>\$ 40,376</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, 2023

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
Operating revenues:			
Sewer sales	\$ 33,400	\$ 36,017	\$ 2,617
Total operating revenues	<u>33,400</u>	<u>36,017</u>	<u>2,617</u>
Operating expenses:			
Salaries and benefits	13,208	15,401	(2,193)
Repairs and maintenance	7,062	1,138	5,924
Insurance and administrative	3,149	1,178	1,971
Utilities	1,600	509	1,091
Depreciation	52,500	54,520	(2,020)
Other	7,057	951	6,106
Total operating expenses	<u>84,576</u>	<u>73,697</u>	<u>10,879</u>
Operating income	<u>(51,176)</u>	<u>(37,680)</u>	<u>13,496</u>
Non-operating revenue (expenses):			
Interest income	70	104	34
Interest expense on bonds	<u>(2,050)</u>	<u>(1,902)</u>	<u>148</u>
Total non-operating revenue (expenses)	<u>(1,980)</u>	<u>(1,798)</u>	<u>182</u>
Income before capital contributions	<u>(53,156)</u>	<u>(39,478)</u>	<u>13,678</u>
Capital contributions			
Tap fees	<u>1,360</u>	<u>-</u>	<u>(1,360)</u>
Total capital contributions	<u>1,360</u>	<u>-</u>	<u>(1,360)</u>
Change in net position	(51,796)	(39,478)	12,318
Net position:			
Beginning of year	768,109	768,109	-
End of year	<u>\$ 716,313</u>	<u>\$ 728,631</u>	<u>\$ 12,318</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, 2023 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 24, 2024.

Report on 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) as a basis for designing 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 and therefore material weaknesses and significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and responses as item 2023-001 and 2023-002 that we consider to be material weaknesses.

Report on 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*.

Fountain Run Water District #1's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on Fountain Run Water District #1's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The Fountain Run Water District #1's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 24, 2024

FOUNTAIN RUN WATER DISTRICT #1
Schedule of Findings and Responses
December 31, 2023

2023-001 Material Weakness

Criteria: Segregation of duties between employees is essential to maintain strong internal controls over financial reporting.

Condition: The District did not maintain proper segregation of duties between employees related to cash deposits, cash disbursements, and recording and reconciling transactions in the general ledger.

Effect: The District was exposed to misappropriation of assets.

Recommendation: We recommend that the District allow a Board member with check signing authority to sign disbursements.

Management Response: Management understands the importance and will ensure the District allows for segregation of duties.

2023-002 Material Weakness

Criteria: Internal controls over payroll processes are essential to maintain accuracy and integrity of the data.

Condition: The District calculates and maintains all payroll checks and monthly and quarterly reports manually.

Effect: There were inaccuracies in the payroll reported on the manual reports as compared to what was recorded in the general ledger, additionally, the District inadvertently overpaid quarterly payroll taxes due in January 2023.

Recommendation: We recommend that the District seek an outside payroll accountant to process weekly payroll and prepare and remit all related payroll taxes on their behalf.

Management Response: Management understands the importance and will seek a qualified accounting office to provide payroll services.

