

**Fountain Run Water District #1**  
**Financial Statements**  
**December 31, 2025**



## Table of Contents

|                                                                                                                                                                                                                           | <u>Page</u> |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|
| Independent Auditor's Report                                                                                                                                                                                              | 1 - 3       |
| Management's Discussion and Analysis                                                                                                                                                                                      | 4 - 6       |
| Statement of Net Position                                                                                                                                                                                                 | 7 - 8       |
| Statement of Revenues, Expenses and Change in Net Position                                                                                                                                                                | 9           |
| Statement of Cash Flows                                                                                                                                                                                                   | 10          |
| Notes to Financial Statements                                                                                                                                                                                             | 11 - 16     |
| 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 <i>Government Auditing Standards</i> | 17 – 18     |



CAMPBELL, MYERS AND RUTLEDGE, PLLC

R. Brent Billingsley, CPA ▪ Jenna B. Glass, CPA ▪ Lane S. Norris, CPA ▪ Ryan A. Mosier, CPA

Jordan T. Constant, CPA ▪ Cindy L. Greer, CPA ▪ L. Joe Rutledge, CPA

## 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, 2025 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, 2025, 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.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2026 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

March 27, 2026

## **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, 2025. 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, 2025, total operating and non-operating revenues (including capital contributions) totaled \$684,834. This represents a \$280,407 increase in revenues from the prior year, mainly due to grant revenue received in 2025.

Total operating expenses and non-operating expenses totaled \$458,415, an increase of \$17,912 from the prior year mainly due to increased depreciation expense in the water department.

Total assets increased by \$200,040, and total liabilities decreased by \$26,379. These changes resulted in an increase in net position of \$226,419.

### **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, 2025 and 2024**

|                                                  | <u>2025</u>         | <u>2024</u>         |
|--------------------------------------------------|---------------------|---------------------|
| Assets                                           |                     |                     |
| Total Current Assets                             | \$ 436,261          | \$ 409,016          |
| Total Restricted Assets                          | 154,871             | 154,905             |
| Net Capital Assets                               | 1,991,864           | 1,819,035           |
| <b>Total Assets</b>                              | <b>\$ 2,582,996</b> | <b>\$ 2,382,956</b> |
| Liabilities                                      |                     |                     |
| Total Current Liabilities                        | \$ 33,778           | \$ 38,044           |
| Total Liabilities Payable from Restricted Assets | 37,429              | 35,883              |
| Total Long-term Liabilities                      | 651,036             | 674,695             |
| <b>Total Liabilities</b>                         | <b>\$ 722,243</b>   | <b>\$ 748,622</b>   |
| Net Position                                     |                     |                     |
| Invested in capital assets, net of related debt  | \$ 1,348,864        | \$ 1,148,535        |
| Restricted                                       | 146,942             | 146,522             |
| Unrestricted                                     | 364,947             | 339,277             |
| <b>Total Net Position</b>                        | <b>\$ 1,860,753</b> | <b>\$ 1,634,334</b> |

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 (8%) represents resources that are subject to external restrictions on how they may be used.

The balance (20%) 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, 2025 and 2024**

|                                        | <u>2025</u>                | <u>2024</u>                |
|----------------------------------------|----------------------------|----------------------------|
| Total operating revenues               | \$ 388,112                 | \$ 379,185                 |
| Total operating expenses               | <u>442,466</u>             | <u>423,643</u>             |
| Operating Income                       | (54,354)                   | (44,458)                   |
| Total non-operating revenue (expenses) | <u>10,739</u>              | <u>8,383</u>               |
| Income before capital contributions    | (43,615)                   | (36,075)                   |
| Capital contributions                  | <u>270,034</u>             | <u>-</u>                   |
| Increase in net position               | 226,419                    | (36,075)                   |
| Net position, beginning of year        | <u>1,634,334</u>           | <u>1,670,409</u>           |
| Net position, end of year              | <u><u>\$ 1,860,753</u></u> | <u><u>\$ 1,634,334</u></u> |

Net position increased by \$226,419, from the prior year.

**Capital Asset Changes**

At December 31, 2025, the District had invested \$1,991,864 in capital assets net of accumulated depreciation. This amount represents a net increase of \$172,829 from the previous year. This increase is the result of having more capital asset additions during the year than depreciation expense.

**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.

**Debt Administration**

At December 31, 2025, the District had \$643,000 bonds outstanding, a decrease of \$27,500 from the previous year. The District incurred \$15,949 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, 2025**

| <b>Assets</b>                             | <u>Water</u>        | <u>Sewer</u>       | <u>Total</u>        |
|-------------------------------------------|---------------------|--------------------|---------------------|
| <b>Current Assets</b>                     |                     |                    |                     |
| Cash                                      | \$ 268,287          | \$ 72,751          | \$ 341,038          |
| Accounts receivable                       | 31,111              | 3,280              | 34,391              |
| Inventory                                 | 45,717              | 2,700              | 48,417              |
| Prepays                                   | 5,154               | -                  | 5,154               |
| Other receivable                          | 7,261               | -                  | 7,261               |
| Total Current Assets                      | <u>357,530</u>      | <u>78,731</u>      | <u>436,261</u>      |
| <b>Non-current Assets</b>                 |                     |                    |                     |
| Restricted Assets                         |                     |                    |                     |
| Cash - Depreciation fund                  | 67,427              | 6,014              | 73,441              |
| Cash - Short lived assets                 | -                   | 33,006             | 33,006              |
| Cash - Bond and interest redemption fund  | 32,169              | 16,255             | 48,424              |
| Total Restricted Assets                   | <u>99,596</u>       | <u>55,275</u>      | <u>154,871</u>      |
| Capital Assets                            |                     |                    |                     |
| Land and land rights                      | 28,948              | 52,433             | 81,381              |
| Utility plant in service                  | 2,588,857           | 2,195,817          | 4,784,674           |
| Furniture and equipment                   | 65,905              | 15,459             | 81,364              |
| Accumulated depreciation and amortization | <u>(1,317,981)</u>  | <u>(1,637,574)</u> | <u>(2,955,555)</u>  |
| Net Capital Assets                        | <u>1,365,729</u>    | <u>626,135</u>     | <u>1,991,864</u>    |
| Total Non-current Assets                  | <u>1,465,325</u>    | <u>681,410</u>     | <u>2,146,735</u>    |
| Total Assets                              | <u>\$ 1,822,855</u> | <u>\$ 760,141</u>  | <u>\$ 2,582,996</u> |

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

**FOUNTAIN RUN WATER DISTRICT #1**  
**Statement of Net Position, Concluded**  
**December 31, 2025**

| <b>Liabilities</b>                                | <u>Water</u>            | <u>Sewer</u>          | <u>Total</u>            |
|---------------------------------------------------|-------------------------|-----------------------|-------------------------|
| <b>Current Liabilities</b>                        |                         |                       |                         |
| Accounts payable                                  | \$ 9,472                | \$ -                  | \$ 9,472                |
| Accrued liabilities                               | 4,042                   | -                     | 4,042                   |
| Customer deposits                                 | 18,227                  | 2,037                 | 20,264                  |
| Total Current Liabilities                         | <u>31,741</u>           | <u>2,037</u>          | <u>33,778</u>           |
| <b>Liabilities Payable from Restricted Assets</b> |                         |                       |                         |
| Current maturities of long-term debt              | 27,000                  | 2,500                 | 29,500                  |
| Accrued interest payable                          | 7,024                   | 905                   | 7,929                   |
| Total Liabilities Payable from Restricted Assets  | <u>34,024</u>           | <u>3,405</u>          | <u>37,429</u>           |
| <b>Long-term Liabilities</b>                      |                         |                       |                         |
| Long-term debt, less current maturities           | 504,000                 | 109,500               | 613,500                 |
| Accrued compensated absences                      | 37,536                  | -                     | 37,536                  |
| Total Long-term Liabilities                       | <u>541,536</u>          | <u>109,500</u>        | <u>651,036</u>          |
| <br>Total Liabilities                             | <br><u>607,301</u>      | <br><u>114,942</u>    | <br><u>722,243</u>      |
| <br><b>Net Position</b>                           |                         |                       |                         |
| <b>Net Position</b>                               |                         |                       |                         |
| Invested in capital assets, net of related debt   | 834,729                 | 514,135               | 1,348,864               |
| Restricted for equipment replacement              | 67,427                  | 39,020                | 106,447                 |
| Restricted for debt retirement                    | 25,145                  | 15,350                | 40,495                  |
| Unrestricted                                      | <u>288,253</u>          | <u>76,694</u>         | <u>364,947</u>          |
| <br><b>Total Net Position</b>                     | <br><u>\$ 1,215,554</u> | <br><u>\$ 645,199</u> | <br><u>\$ 1,860,753</u> |

**FOUNTAIN RUN WATER DISTRICT #1**  
**Statement of Revenues, Expenses and Change in Net Position**  
**For the Year Ended December 31, 2025**

|                                            | <u>Water</u>        | <u>Sewer</u>      | <u>Total</u>        |
|--------------------------------------------|---------------------|-------------------|---------------------|
| <b>Operating revenues:</b>                 |                     |                   |                     |
| Sales revenue                              | 342,454             | \$ 35,707         | \$ 378,161          |
| Miscellaneous service revenue              | 9,951               | -                 | 9,951               |
| Total operating revenues                   | <u>352,405</u>      | <u>35,707</u>     | <u>388,112</u>      |
| <b>Operating expenses:</b>                 |                     |                   |                     |
| Water purchases                            | 108,948             | -                 | 108,948             |
| Purchased power                            | 14,409              | -                 | 14,409              |
| Repairs and maintenance                    | 5,866               | 943               | 6,809               |
| Transportation                             | 2,434               | 198               | 2,632               |
| Office expense                             | 16,687              | -                 | 16,687              |
| Insurance                                  | 18,721              | -                 | 18,721              |
| Commissioners' salaries                    | 5,900               | -                 | 5,900               |
| Employees' salaries and wages              | 99,347              | 16,767            | 116,114             |
| Payroll taxes and other                    | 8,438               | 1,283             | 9,721               |
| Depreciation and amortization              | 67,416              | 54,423            | 121,839             |
| Professional fees                          | 13,140              | -                 | 13,140              |
| Analysis fees                              | 5,733               | -                 | 5,733               |
| Bad debt                                   | 1,488               | -                 | 1,488               |
| Miscellaneous                              | 325                 | -                 | 325                 |
| Total operating expenses                   | <u>368,852</u>      | <u>73,614</u>     | <u>442,466</u>      |
| Operating income                           | <u>(16,447)</u>     | <u>(37,907)</u>   | <u>(54,354)</u>     |
| <b>Non-operating revenue (expenses):</b>   |                     |                   |                     |
| Interest income                            | 4,254               | -                 | 4,254               |
| Rental income                              | 22,434              | -                 | 22,434              |
| Interest expense on bonds                  | (14,129)            | (1,820)           | (15,949)            |
| Total non-operating revenue (expenses)     | <u>12,559</u>       | <u>(1,820)</u>    | <u>10,739</u>       |
| Income/(loss) before capital contributions | <u>(3,888)</u>      | <u>(39,727)</u>   | <u>(43,615)</u>     |
| <b>Capital contributions:</b>              |                     |                   |                     |
| Grant revenue                              | 259,117             | -                 | 259,117             |
| Tap fees                                   | 10,917              | -                 | 10,917              |
| Total capital contributions                | <u>270,034</u>      | <u>-</u>          | <u>270,034</u>      |
| Change in net position                     | 266,146             | (39,727)          | 226,419             |
| <b>Net position:</b>                       |                     |                   |                     |
| Beginning of year                          | 949,408             | 684,926           | 1,634,334           |
| End of year                                | <u>\$ 1,215,554</u> | <u>\$ 645,199</u> | <u>\$ 1,860,753</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, 2025**

**Cash flows from operating activities:**

|                                                   |               |
|---------------------------------------------------|---------------|
| Cash receipts from customers                      | \$ 388,969    |
| Cash payments to suppliers for goods and services | (214,560)     |
| Cash payments to employees for services           | (116,173)     |
| Net cash provided (used) by operating activities  | <u>58,236</u> |

**Cash flows from capital and related financing activities:**

|                                                  |                 |
|--------------------------------------------------|-----------------|
| Principal paid on long-term debt                 | (27,500)        |
| Interest paid on long-term debt                  | (16,403)        |
| Additions to capital assets                      | (294,668)       |
| Capital contributions                            | 270,034         |
| Net cash provided (used) in financing activities | <u>(68,537)</u> |

**Cash flows from investing activities:**

|                                                     |               |
|-----------------------------------------------------|---------------|
| Rental income                                       | 22,434        |
| Interest income                                     | 4,254         |
| Net cash provided by (used) in investing activities | <u>26,688</u> |

**Net increase (decrease) in cash and cash equivalents** 16,387

Cash and cash equivalents, beginning of year 479,522

**Cash and cash equivalents, end of year** \$ 495,909

**Reconciliation of operating income to  
net cash provided by operating activities:**

|                                                                                            |                         |
|--------------------------------------------------------------------------------------------|-------------------------|
| Operating income                                                                           | \$ (54,354)             |
| Adjustments to reconcile operating income to<br>net cash provided by operating activities: |                         |
| Depreciation and amortization                                                              | 121,839                 |
| Changes in assets and liabilities:                                                         |                         |
| (Increase) decrease in accounts receivable                                                 | 177                     |
| (Increase) decrease in other receivable                                                    | 15,061                  |
| (Increase) decrease in inventory                                                           | (26,062)                |
| Increase (decrease) in customer deposits                                                   | 680                     |
| Increase (decrease) in compensated absences                                                | 5,841                   |
| Increase (decrease) in accounts payable                                                    | (4,946)                 |
| Net cash provided (used) by operating activities                                           | <u><u>\$ 58,236</u></u> |

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

**FOUNTAIN RUN WATER DISTRICT #1**  
**Notes to Financial Statements**  
**December 31, 2025**

**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, 2025**

**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, 2025. 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, 2025 was \$121,839.

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, 2025**

**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, 2025, 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. Upon termination, employees are paid for all unused vacation and 50% of sick accruals.

|                      | Balance<br>01/01/25 | Net Additions/<br>(Reductions) | Balance<br>12/31/25 |
|----------------------|---------------------|--------------------------------|---------------------|
| Compensated Absences | \$ 31,695           | \$ 5,841                       | \$ 37,536           |

**FOUNTAIN RUN WATER DISTRICT #1**  
**Notes to Financial Statements**  
**December 31, 2025**

**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, 2025, 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, 2025:

|                                                                                                                                                                                                                                                                            |                   |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|
| 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.     | \$ 34,000         |
| 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. | 497,000           |
| 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.  | 112,000           |
| Total debt                                                                                                                                                                                                                                                                 | <u>\$ 643,000</u> |

Long-term debt activities for the year ended December 31, 2025 are as follows:

|                   | Balance<br>01/01/25 | Additions   | Debt Payments<br>and Reductions | Balance<br>12/31/25 | Amount Due<br>within One Year |
|-------------------|---------------------|-------------|---------------------------------|---------------------|-------------------------------|
| Water Series 1988 | \$ 44,000           | \$ -        | \$ (10,000)                     | \$ 34,000           | \$ 11,000                     |
| Water Series 2009 | 512,000             | -           | (15,000)                        | 497,000             | 16,000                        |
| Sewer Series 2016 | 114,500             | -           | (2,500)                         | 112,000             | 2,500                         |
|                   | <u>\$ 670,500</u>   | <u>\$ -</u> | <u>\$ (27,500)</u>              | <u>\$ 643,000</u>   | <u>\$ 29,500</u>              |

**FOUNTAIN RUN WATER DISTRICT #1**  
**Notes to Financial Statements**  
**December 31, 2025**

**Note 2 - Long-Term Debt, Concluded**

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

|           | Principal         | Interest          | Total             |
|-----------|-------------------|-------------------|-------------------|
| 2026      | 29,500            | 15,451            | 44,951            |
| 2027      | 29,500            | 14,460            | 43,960            |
| 2028      | 31,500            | 13,431            | 44,931            |
| 2029      | 20,000            | 12,662            | 32,662            |
| 2030      | 21,000            | 12,176            | 33,176            |
| 2031-2035 | 111,000           | 53,148            | 164,148           |
| 2036-2040 | 126,000           | 39,051            | 165,051           |
| 2041-2045 | 143,500           | 23,016            | 166,516           |
| 2046-2050 | 103,500           | 6,223             | 109,723           |
| 2051-2055 | 23,000            | 1,316             | 24,316            |
| 2056      | 4,500             | 37                | 4,537             |
|           | <u>\$ 643,000</u> | <u>\$ 190,971</u> | <u>\$ 833,971</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, 2025 does not expect to incur a liability.

**Note 3 - Cash and Investments**

The carrying amount of the District's cash deposits was \$495,909 for the year ending December 31, 2025 and the bank balances were \$496,139. 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. All 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 March 27, 2026, the date which the financial statements were available to be issued.

**FOUNTAIN RUN WATER DISTRICT #1**  
**Notes to Financial Statements**  
**December 31, 2025**

**Note 5 – Capital Assets**

Capital asset activity for the year ended December 31, 2025 was as follows:

| <u>Water</u>                                       | Balance<br>01/01/25 | Additions      | Deletions      | Balance<br>12/31/25 |
|----------------------------------------------------|---------------------|----------------|----------------|---------------------|
| <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             | 195,680        | -              | 1,016,331           |
| Pumping Equipment                                  | 99,326              | -              | -              | 99,326              |
| Transmission Mains                                 | 863,264             | 11,758         | -              | 875,022             |
| Services                                           | 38,639              | -              | -              | 38,639              |
| Meters and Meter Installations                     | 201,540             | 6,132          | -              | 207,672             |
| Hydrants                                           | 14,789              | 81,098         | (8,610)        | 87,277              |
| 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                            | 22,743              | -              | -              | 22,743              |
| Total Depreciable Capital Assets                   | <u>2,368,704</u>    | <u>294,668</u> | <u>(8,610)</u> | <u>2,654,762</u>    |
| Less: Accumulated Depreciation<br>and Amortization | <u>1,259,175</u>    | <u>67,416</u>  | <u>(8,610)</u> | <u>1,317,981</u>    |
| Total Net Capital Assets                           | <u>\$ 1,138,477</u> |                |                | <u>\$ 1,365,729</u> |
|                                                    |                     |                |                |                     |
| <u>Sewer</u>                                       | Balance<br>01/01/25 | Additions      | Deletions      | Balance<br>12/31/25 |
| <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<br>and Amortization | <u>1,583,151</u>    | <u>54,423</u>  | <u>-</u>       | <u>1,637,574</u>    |
| Total Net Capital Assets                           | <u>\$ 680,558</u>   |                |                | <u>\$ 626,135</u>   |



CAMPBELL, MYERS AND RUTLEDGE, PLLC

R. Brent Billingsley, CPA ■ Jenna B. Glass, CPA ■ Lane S. Norris, CPA ■ Ryan A. Mosier, CPA

Jordan T. Constant, CPA ■ Cindy L. Greer, CPA ■ L. Joe Rutledge, CPA

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, 2025 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 March 27, 2026.

**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. 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 or significant deficiencies may exist that were not identified.

## **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*.

### **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

March 27, 2026

