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**KIRKSVILLE WATER ASSOCIATION, INC.
RICHMOND, KENTUCKY**

**AUDITED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT
FOR THE YEARS ENDED
DECEMBER 31, 2012 AND 2011**



CRAFT, NOBLE & COMPANY
PLLC



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Kirksville Water Association, Inc.
Richmond, Kentucky

Report on the Financial Statements

We have audited the accompanying statements of financial position of Kirksville Water Association, Inc., as of December 31, 2012 and 2011, and the related statements of activities, changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.



Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kirksville Water Association, Inc. as of December 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



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Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2013 on our consideration of Kirksville Water Association, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Kirksville Water Association, Inc.'s internal control over financial reporting and compliance.

Craft, Noble & Company, PLLC

Craft, Noble & Company, PLLC

Richmond, Kentucky

March 28, 2013

KIRKSVILLE WATER ASSOCIATION, INC.
 STATEMENTS OF FINANCIAL POSITION
 DECEMBER 31, 2012 AND 2011

ASSETS

	<u>2012</u>	<u>2011</u>
CURRENT ASSETS		
Cash on hand	\$ 220	\$ 220
Cash - operating account	132,177	56,236
Certificate of deposit	211,475	210,143
Accounts receivable - trade, net	63,675	61,891
Inventory	18,365	16,586
Prepaid insurance	<u>7,960</u>	<u>8,931</u>
Total Current Assets	<u>433,872</u>	<u>354,007</u>
TEMPORARILY RESTRICTED ASSETS		
Reserve accounts		
Sinking fund - cash	5,317	31,009
Certificate of deposit	37,277	37,054
Customer deposits - cash	<u>1,932</u>	<u>3,279</u>
Total Temporarily Restricted Assets	<u>44,526</u>	<u>71,342</u>
FIXED ASSETS		
Property, Plant and Equipment	5,507,355	5,320,617
Less accumulated depreciation	<u>(2,288,384)</u>	<u>(2,142,449)</u>
Fixed Assets - Net	<u>3,218,971</u>	<u>3,178,168</u>
OTHER ASSETS		
Loan Costs, net of amortization	<u>25,262</u>	<u>-</u>
TOTAL ASSETS	<u><u>\$ 3,722,631</u></u>	<u><u>\$ 3,603,517</u></u>

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

KIRKSVILLE WATER ASSOCIATION, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2012 AND 2011

LIABILITIES AND NET ASSETS

	<u>2012</u>	<u>2011</u>
CURRENT LIABILITIES		
Current portion of long-term debt	\$ 46,814	\$ 40,435
Accounts payable and accrued liabilities	43,679	29,932
Customer deposits	<u>18,551</u>	<u>19,770</u>
 Total Current Liabilities	 <u>109,044</u>	 <u>90,137</u>
 LONG-TERM DEBT: LESS CURRENT PORTION		
1975 Note payable - Rural development	-	37,864
1989 Note payable - Rural development	-	445,219
1994 Note payable - Rural development	69,203	71,234
1999 Note payable - Rural development	90,282	91,644
2000 Note payable - Rural development	-	223,813
2004 Note payable - Rural development	91,335	92,660
2004 Note payable - Rural development	63,931	64,859
Kentucky Rural Water Finance Corporation	<u>683,750</u>	<u>-</u>
 Total Long-Term Debt	 <u>998,501</u>	 <u>1,027,293</u>
 Total Liabilities	 <u>1,107,545</u>	 <u>1,117,430</u>
 NET ASSETS		
Unrestricted net assets	(372,287)	(377,337)
Temporarily restricted net assets	44,526	71,342
Contributions in aid of construction	2,139,202	2,000,856
Tap on fees	<u>803,645</u>	<u>791,226</u>
 Total Net Assets	 <u>2,615,086</u>	 <u>2,486,087</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 3,722,631</u>	 <u>\$ 3,603,517</u>

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

KIRKSVILLE WATER ASSOCIATION, INC.
 STATEMENTS OF ACTIVITIES
 FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
OPERATING INCREASES IN UNRESTRICTED NET ASSETS		
Sale of water	\$ 793,906	\$ 753,421
Miscellaneous income	24,286	19,485
	818,192	772,906
OPERATING DECREASES IN UNRESTRICTED NET ASSETS		
Water purchased	324,592	305,760
Personnel	107,908	110,633
Insurance	17,295	14,164
Postage	6,325	7,164
Plant utilities	13,176	14,010
Commissioner fees	18,600	18,600
Taxes	7,808	7,664
Telephone	1,894	1,223
Supplies	6,518	6,223
Legal, professional and clerical services	63,760	68,519
Miscellaneous expense	7,887	14,481
Public service commission assessment	1,356	1,221
Repairs and maintenance	41,307	38,773
Travel	19,054	20,920
Advertising	1,082	2,378
Bank charges	2,677	4,967
Total	641,239	636,700
Depreciation	145,935	142,573
Total Operating Expenses	787,174	779,273
Operating Revenue/(Loss)	31,018	(6,367)
NON-OPERATING INCREASES (DECREASES) IN UNRESTRICTED NET ASSETS		
Interest income	1,645	3,131
Interest on long-term debt	(54,331)	(59,270)
Interest on customer deposits	(98)	(121)
Total Other Income (Expenses)	(52,784)	(56,260)
NET INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	\$ (21,766)	\$ (62,627)

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

KIRKSVILLE WATER ASSOCIATION, INC.
 STATEMENTS OF CHANGES IN NET ASSETS
 FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>Unrestricted net assets</u>	<u>Temporarily restricted net assets</u>	<u>Contributions in aid of construction</u>	<u>Tap on fees</u>
Beginning balance, January 1, 2011	\$ (328,874)	\$ 85,506	\$ 1,983,975	\$ 777,881
Increase (decrease) in net assets	(62,627)	-	-	-
Contributions	-	-	16,881	13,345
Transfers to/(from) temporarily restricted net assets	<u>14,164</u>	<u>(14,164)</u>	<u>-</u>	<u>-</u>
Ending balance, December 31, 2011	<u>\$ (377,337)</u>	<u>\$ 71,342</u>	<u>\$ 2,000,856</u>	<u>\$ 791,226</u>
	<u>Unrestricted net assets</u>	<u>Temporarily restricted net assets</u>	<u>Contributions in aid of construction</u>	<u>Tap on fees</u>
Beginning balance, January 1, 2012	\$ (377,337)	\$ 71,342	\$ 2,000,856	\$ 791,226
Increase (decrease) in net assets	(21,766)	-	-	-
Contributions	-	-	138,346	12,419
Transfers to/(from) temporarily restricted net assets	<u>26,816</u>	<u>(26,816)</u>	<u>-</u>	<u>-</u>
Ending balance, December 31, 2012	<u>\$ (372,287)</u>	<u>\$ 44,526</u>	<u>\$ 2,139,202</u>	<u>\$ 803,645</u>

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

KIRKSVILLE WATER ASSOCIATION, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Operating revenue/(loss)	\$ 31,018	\$ (6,367)
Adjustments to reconcile operating increase (decrease) in unrestricted net assets to net cash provided by operating activities:		
Depreciation	145,935	142,573
(Increase) decrease in accounts receivable	(1,784)	6,354
(Increase) decrease in inventory	(1,779)	(532)
(Increase) decrease in prepaid expenses	971	(3,258)
(Increase) decrease in other assets	(25,262)	-
Increase in accounts payable and accruals	12,528	683
Net cash provided by operating activities	161,627	139,453
Cash flows from investing activities:		
Interest income received	1,645	3,131
(Increase) in certificate of deposit	(1,332)	(2,639)
Decrease in temporarily restricted assets	26,816	14,164
Payment for purchase of fixed assets	(186,738)	(121,384)
Net cash (used) by investing activities	(159,609)	(106,728)
Cash flows from financing activities:		
Tap on fees	12,419	13,345
Interest paid	(54,429)	(55,350)
Contribution in aid of construction	138,346	16,881
Distributions on notes payable	725,000	-
Principal payment on debt	(747,413)	(47,723)
Net cash provided (used) by financing activities	73,923	(72,847)
Net increase (decrease) in cash and cash equivalents	75,941	(40,122)
Cash and cash equivalents at beginning of year	56,456	96,578
Cash and cash equivalents at end of year	\$ 132,397	\$ 56,456

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

KIRKSVILLE WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Kirksville Water Association, Inc. is a non-profit organization exempt from income tax under Section 501 (c)(12) of the U. S. Internal Revenue Code. The Organization was formed to provide water to rural parts of Madison County, Kentucky not being served by other water districts.

Basis of Accounting

The financial statements of Kirksville Water Association, Inc. are prepared on the accrual basis whereby revenues are recognized when earned and expenditures are recognized when incurred.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Accounting Standards Codification FASB ASC 958, "Financial Statements of Not-For-Profit Organizations." Under FASB ASC 958, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Accounts Receivable – Trade

The Organization bills customers monthly. The gross accounts receivable at December 31, 2012 and 2011 was \$63,675 and \$61,891, respectively. The Organization uses the allowance for doubtful accounts method to account for bad debt expense based on the aging of the receivables. There was no allowance for doubtful accounts at December 31, 2012 or 2011.

Property, Plant and Equipment

Property and equipment are stated at cost. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in income for that period. The cost of maintenance and repairs is charged to expense as incurred; significant renewals and betterments are capitalized. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets. The major classes of assets are the distribution pipelines, water towers, meters and fittings, pump stations and small equipment.

Inventory

Inventory consists principally of water meters, fittings, service and main pipeline, and is recorded at the lower of cost or market on the first-in, first-out method.

Cash Equivalents

Cash equivalents consist of short-term, highly liquid investments which are readily convertible into cash within ninety (90) days of purchase.

Concentrations

The Organization purchases all water for resale from the City of Richmond.

KIRKSVILLE WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

The Financial Accounting Standards Board (FASB) has issued (ASC 740-10), Accounting for Uncertainty in Income Taxes, which requires entities to disclose known or anticipated positions of income tax uncertainty. The Organization is not aware of any uncertain income tax positions as of March 28, 2013. The Organization has never been audited by the Internal Revenue Service (IRS), however, the tax years of 2009 forward could be subject to examination by the IRS or other applicable tax jurisdictions.

Estimates

The 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 reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 – FAIR VALUE MEASUREMENTS

FASB issued FASB ASC 820, *Fair Value Measurements and Disclosures* in order to establish a single definition of fair value and a framework for measuring fair value in Generally Accepted Accounting Principles (GAAP) that is intended to result in increased consistency and comparability in fair value measurements. FASB ASC 820 also expands disclosures about fair value measurements. FASB ASC 820 applies whenever other authoritative literature requires (or permits) certain assets or liabilities to be measured for fair value, but does not expand the use of fair value.

FASB ASC 820 defines fair value as the exchange price that would be received on the measurement date to sell an asset or the price paid to transfer a liability in the principal or most advantageous market available to the entity in an orderly transaction between participants. FASB ASC 820 also establishes a three level fair value hierarchy that describes the inputs that are used to measure assets and liabilities.

Level 1 – Asset and liability fair values are based on quoted prices in active markets for identical assets and liabilities.

Level 2 – Asset and liability fair values are based on observable inputs that include quoted market prices for similar assets or liabilities; quoted market prices that are not in an active market; or other inputs that are observable in the market and can be corroborated by observable market data for substantially the full term of the assets and liabilities. Level 2 assets and liabilities include certificates of deposit.

Level 3 – Assets and liabilities are financial instruments whose value is calculated by the use of pricing models and/or discounted cash flow methodologies, as well as financial instruments for which the determination of fair value requires significant management judgment or estimation. These methodologies may result in a significant portion of the fair value being derived from unobservable data.

KIRKSVILLE WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying statements of financial position measured at fair value on a recurring basis and the level within the FASB ASC 820 fair value hierarchy in which the fair value measurements fall at December 31, 2012 and 2011:

	<u>Fair Value</u>	<u>Quoted Prices in Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
<u>December 31, 2012</u>				
Certificate of deposit	\$ 211,475	\$ -	\$ 211,475	\$ -
Certificate of deposit – temporarily restricted	<u>37,277</u>	<u>-</u>	<u>37,277</u>	<u>-</u>
Total	<u>\$ 247,197</u>	<u>\$ -</u>	<u>\$ 247,197</u>	<u>\$ -</u>
	<u>Fair Value</u>	<u>Quoted Prices in Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
<u>December 31, 2011</u>				
Certificate of deposit	\$ 210,143	\$ -	\$ 210,143	\$ -
Certificate of deposit – temporarily restricted	<u>37,054</u>	<u>-</u>	<u>37,054</u>	<u>-</u>
Total	<u>\$ 247,197</u>	<u>\$ -</u>	<u>\$ 247,197</u>	<u>\$ -</u>

Fair values are estimated based on stated interest rates of the certificates of deposit.

NOTE 3 – LONG-TERM DEBT

The Organization borrowed \$345,000 from Rural Development. The note is dated July 15, 1975, and bears 5% interest. The Organization is obligated to make payments of \$1,691 per month until the principal and interest are fully paid. Final payment is due forty (40) years from date of the note. This note was refinanced into the Kentucky Rural Water Finance Corporation (KRWFC) loan dated December 11, 2012.

The Organization borrowed another \$635,000 from Rural Development. The date of the note is September 25, 1989. The interest rate is 6% and it is to be paid back in forty (40) years. Annual payments are \$42,774, which includes principal and interest. This note was refinanced into the KRWFC loan dated December 11, 2012.

In April 1994, the Organization borrowed \$93,500 from Rural Development. The note, dated April 1, 1994, bears interest at 4.5% and is for a forty (40) year term. The loan document required interest-only payment for 1995 and 1996 and annual payments thereafter in the amount of \$5,181 due each April 1.

The Organization borrowed \$102,300 from Rural Development. This note is dated February 11, 1999 and bears an interest rate of 4.5%. Annual payments of \$5,669 began February 2003.

In November 2000, the Organization borrowed \$250,900 from Rural Development. The loan has an interest rate of 5.5%. Annual payments of \$15,877 began November 2004. This note was refinanced into the KRWFC loan dated December 11, 2012.

KIRKSVILLE WATER ASSOCIATION, INC.
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

NOTE 3 – LONG-TERM DEBT (CONTINUED)

In May 2004, the Organization borrowed \$100,000 from Rural Development. The loan has an interest rate of 4.375%. Annual payments of \$5,445 began May 2005.

In May 2004, the Organization borrowed \$70,000 from Rural Development. The loan has an interest rate of 4.375%. Annual payments of \$3,812 began May 2005.

In December 2012, the Organization borrowed \$725,000 from Kentucky Rural Water Finance Corporation. The loan carries an average interest rate of 3.573%. Monthly payments range between \$710 and \$6,161 and matures in January 2039.

All notes are collateralized by the assets of the Organization.

The principal repayment requirements at December 31, relating to the above notes payable are as follows:

	<u>2012</u>	<u>2011</u>
2012	\$ -	\$ 40,435
2013	46,814	42,640
2014	50,816	44,967
2015	37,330	29,765
2016	36,356	28,345
2017	41,229	-
Later years	<u>832,770</u>	<u>881,576</u>
 TOTAL	 <u>\$ 1,045,315</u>	 <u>\$ 1,067,728</u>

NOTE 4 – CONTRIBUTIONS IN AID OF CONSTRUCTION

To aid in the cost of construction of the water system, the Organization has received federal grants and contributions from customers. During the years ended December 31, 2012 and 2011 the Organization received \$138,346 and \$16,881, respectively.

NOTE 5 – TAP ON FEES

The Organization requires new customers obtaining services from the existing system to pay a tap on fee in the amount of \$785 and \$1,000 for a standard meter setting in 2011 and 2012, respectively. For the year ending December 31, 2012, the Organization received \$12,419 from their customers for such fees and for the year ending December 31, 2011, \$13,345 was received.

KIRKSVILLE WATER ASSOCIATION, INC.
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

NOTE 6 – UTILITY PLANT

At December 31, 2012 and 2011, the cost and accumulated depreciation of fixed assets were as follows:

	<u>2012</u>	<u>2011</u>
Utility plant	\$ 5,430,845	\$ 5,246,876
Furniture and fixtures	7,687	7,687
Equipment	<u>68,823</u>	<u>66,054</u>
Total	5,494,535	5,320,617
Accumulated depreciation	<u>(2,288,384)</u>	<u>(2,142,449)</u>
Net fixed assets	<u>\$ 3,218,971</u>	<u>\$ 3,178,168</u>

NOTE 7 – TEMPORARILY RESTRICTED ASSETS

Sinking fund: The Organization periodically transfers funds from the operating account to the Sinking fund to pay the Rural Development notes. The sinking fund is also used to fund the Rural Development reserve requirement.

Reserve account: Rural Development has a current reserve requirement of \$82,404. Annual transfers of \$3,744 are required until the reserve is fully funded. The Organization treats a portion of their certificates of deposit as part of the reserve account. At December 31, 2012 and 2011 the reserve was fully funded.

Customer deposits account: The Organization uses this account to account for customer deposits for water service and to refund customers who leave the Organization.

NOTE 8 – RISK MANAGEMENT

The Organization is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. In addition to its general liability insurance, the Organization also carries commercial insurance for all other risks of losses such as workers' compensation. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past four fiscal years.

NOTE 9 – SUBSEQUENT EVENTS

Management of the Organization has considered subsequent events through March 28, 2013, the date this report becomes available for issue.

Report on Internal Control over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed
In Accordance With *Government Auditing Standards*

To the Board of Commissioners of
Kirksville Water Association, Inc.
Richmond, Kentucky

We have audited the financial statements of Kirksville Water Association, Inc. (a non-profit organization) as of and for the year ended December 31, 2012, and have issued our report thereon dated March 28, 2013. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Kirksville Water Association's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Kirksville Water Association's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or 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.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we did identify a deficiency in internal control over financial reporting that we consider to be a significant deficiency. A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described below to be a significant deficiency in internal control over financial reporting.

Organization Structure

The size of the Organization's accounting staff precludes certain internal controls that would be preferred if the accounting staff were large enough to provide optimum segregation of duties.



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Compliance and Other Matters

As part of obtaining reasonable assurance about whether Kirksville Water Association's financial statements are free of 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 that are required to be reported under *Government Auditing Standards*.

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

Craft, Noble & Company, PLLC

Craft, Noble & Company, PLLC
March 28, 2013