

KIRKSVILLE WATER ASSOCIATION, INC.
RICHMOND, KENTUCKY

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AUDITED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT
FOR THE YEARS ENDED
DECEMBER 31, 2019 AND 2018



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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 financial statements of Kirksville Water Association, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2019 and 2018, 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 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 of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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



We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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, 2019 and 2018, 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.

Change in Accounting Principle

As discussed in Note 2 to the financial statements, in the year ended December 31, 2019, the Organization adopted new accounting guidance, *ASU 2014-09- Revenue from Contracts with Customers (Topic 606)* and *ASU 2016-18- Statement of Cash Flows (Topic 230): Restricted Cash*. Our opinion is not modified with respect to these matters.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 16, 2020 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 16, 2020

KIRKSVILLE WATER ASSOCIATION, INC.
 STATEMENTS OF FINANCIAL POSITION
 DECEMBER 31, 2019 AND 2018

ASSETS

	<u>2019</u>	<u>2018</u>
CURRENT ASSETS		
Cash on hand	\$ 220	\$ 220
Cash - operating accounts	375,562	253,026
Certificate of deposit	181,266	178,127
Accounts receivable - trade, net of allowance	65,815	75,733
Unbilled water revenue	47,850	46,839
Inventory	26,959	37,953
Prepaid expenses	<u>4,592</u>	<u>7,296</u>
 Total Current Assets	 <u>702,264</u>	 <u>599,194</u>
 ASSETS WITH DONOR RESTRICTIONS		
Reserve accounts		
Sinking fund - Rural Development	12,462	12,559
Sinking fund - Kentucky Rural Water Finance Corporation	52,191	51,993
Reserve account	20,000	20,000
Customer deposits - cash	<u>15,108</u>	<u>1,365</u>
 Total Temporarily Restricted Assets	 <u>99,761</u>	 <u>85,917</u>
 FIXED ASSETS		
Property, Plant and Equipment	6,019,991	5,985,285
Less accumulated depreciation	<u>(3,405,589)</u>	<u>(3,236,816)</u>
 Fixed Assets - Net	 <u>2,614,402</u>	 <u>2,748,469</u>
 OTHER ASSETS		
Loan Costs, net of amortization	<u>18,459</u>	<u>19,431</u>
 TOTAL ASSETS	 <u>\$ 3,434,886</u>	 <u>\$ 3,453,011</u>

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

KIRKSVILLE WATER ASSOCIATION, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2019 AND 2018

LIABILITIES AND NET ASSETS

	<u>2019</u>	<u>2018</u>
CURRENT LIABILITIES		
Current portion of long-term debt	\$ 42,593	\$ 42,263
Accounts payable	38,359	37,748
Accrued interest payable	18,156	18,990
Customer deposits	<u>15,254</u>	<u>16,799</u>
Total Current Liabilities	<u>114,362</u>	<u>115,800</u>
LONG-TERM DEBT: LESS CURRENT PORTION		
1994 Note payable - Rural development	53,017	55,523
1999 Note payable - Rural development	77,554	79,540
2004 Note payable - Rural development	80,523	82,289
2004 Note payable - Rural development	55,496	56,733
Kentucky Rural Water Finance Corporation	<u>470,000</u>	<u>505,000</u>
Total Long-Term Debt	<u>736,590</u>	<u>779,085</u>
Total Liabilities	<u>850,952</u>	<u>894,885</u>
NET ASSETS		
Without donor restrictions	2,484,173	2,472,209
With donor restrictions	<u>99,761</u>	<u>85,917</u>
Total Net Assets	<u>2,583,934</u>	<u>2,558,126</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 3,434,886</u></u>	<u><u>\$ 3,453,011</u></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, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS:		
Revenues and gains:		
Sale of water	\$ 934,384	\$ 902,628
Fees and charges	36,504	46,466
Interest income	3,928	3,405
Miscellaneous income	1,800	3,434
Total revenues without donor restrictions	<u>976,616</u>	<u>955,933</u>
Net assets released from restriction:		
Satisfaction of program restrictions	97	1,077
Total revenues, and other support without donor restrictions	<u>976,713</u>	<u>957,010</u>
Expenses:		
Program		
Water purchased	419,248	401,951
Personnel	126,023	112,592
Insurance	12,168	18,159
Postage	10,321	10,163
Plant utilities	17,302	16,364
Commissioner fees	18,600	18,600
Licenses and taxes	1,882	793
Telephone	1,530	1,560
Supplies	8,432	5,748
Legal, professional and clerical services	79,602	77,345
Miscellaneous expense	4,409	8,380
Public service commission assessment	-	1,818
Repairs and maintenance	33,261	30,951
Travel	26,443	25,251
Bank charges	4,703	6,861
Interest on long-term debt	31,080	32,140
Depreciation and amortization	169,745	169,741
Total program expenses	<u>964,749</u>	<u>938,417</u>
Total Expenses	<u>964,749</u>	<u>938,417</u>
Increase in net assets without donor restrictions	<u>11,964</u>	<u>18,593</u>
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS:		
Fees and charges	13,743	359
Interest income	198	35
Net assets released from restriction	(97)	(1,077)
Decrease in net assets with donor restrictions	<u>13,844</u>	<u>(683)</u>
Change in net assets	<u>25,808</u>	<u>17,910</u>
Net assets at beginning of year	<u>2,558,126</u>	<u>2,540,216</u>
Net assets at end of year	<u>\$ 2,583,934</u>	<u>\$ 2,558,126</u>

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, 2019 AND 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Beginning balance, January 1, 2018	\$ 2,453,616	\$ 86,600	\$ 2,540,216
Total revenues and gains	955,933	394	956,327
Total expenses and losses	(938,417)	-	(938,417)
Net assets released from restriction	<u>1,077</u>	<u>(1,077)</u>	<u>-</u>
Ending balance, December 31, 2018	<u>\$ 2,472,209</u>	<u>\$ 85,917</u>	<u>\$ 2,558,126</u>

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Beginning balance, January 1, 2019	\$ 2,472,209	\$ 85,917	\$ 2,558,126
Total revenues and gains	976,616	13,941	990,557
Total expenses and losses	(964,749)	-	(964,749)
Net assets released from restriction	<u>97</u>	<u>(97)</u>	<u>-</u>
Ending balance, December 31, 2019	<u>\$ 2,484,173</u>	<u>\$ 99,761</u>	<u>\$ 2,583,934</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, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Change in net assets	\$ 25,808	\$ 17,910
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation and amortization	169,745	169,742
(Increase) decrease in accounts receivable	9,918	(5,237)
(Increase) decrease in unbilled water revenue	(1,011)	1,249
(Increase) decrease in inventory	10,994	(10,141)
(Increase) decrease in prepaid expenses	2,704	1,271
Increase (decrease) in accounts payable and accruals	(223)	4,450
Increase (decrease) in customer deposits	(1,545)	(1,095)
Net cash provided by operating activities	<u>216,390</u>	<u>178,149</u>
Cash flows from investing activities:		
(Increase) in certificate of deposit	(3,139)	(2,723)
Payment for purchase of fixed assets (net of disposals)	<u>(34,706)</u>	<u>(15,232)</u>
Net cash (used) by investing activities	<u>(37,845)</u>	<u>(17,955)</u>
Cash flows from financing activities:		
Payments on long-term debt	<u>(42,165)</u>	<u>(42,298)</u>
Net cash (used) by financing activities	<u>(42,165)</u>	<u>(42,298)</u>
Net increase in cash, cash equivalents, and restricted cash	136,380	117,896
Cash, cash equivalents, and restricted cash at beginning of year	<u>339,163</u>	<u>221,267</u>
Cash, cash equivalents, and restricted cash at end of year	<u>\$ 475,543</u>	<u>\$ 339,163</u>
Cash paid during the year for:		
Interest	<u>\$ 31,914</u>	<u>\$ 32,768</u>

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, 2019 AND 2018

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” with the amendments of FASB ASU 2016-14 “Presentation of Financial Statements of Not-for-Profit Entities.” Under FASB ASC 958 and ASU 2016-14, the Organization is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restriction and net assets with donor restriction.

Accounts Receivable – Trade

The Organization bills customers monthly. The net accounts receivable at December 31, 2019 and 2018 was \$65,815 and \$75,733, respectively. The Organization uses the allowance for doubtful accounts method to account for bad debt expense based on the aging of the receivables. The allowance for doubtful accounts was \$35,872 and \$32,295 at December 31, 2019 and 2018, respectively.

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, 2019 AND 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition

Revenue is measured on a consideration specified in a contract with a customer. The Organization recognizes revenue when it satisfies a performance obligation by transferring control over the water service to the customer. Water that has been consumed but not billed is recorded in the statement of net position.

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 16, 2020. The Organization has never been audited by the Internal Revenue Service (IRS), however, the tax years of 2017 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 – CHANGE IN ACCOUNTING PRINCIPLE

The Organization adopted ASU 2014-09- *Revenue from Contracts with Customers (Topic 606)* and ASU 2016-18- *Statement of Cash Flows (Topic 230): Restricted Cash*, for the year ended December 31, 2019. ASU 2014-09- *Revenue from Contracts with Customers* changes how revenue from contracts with customers is recognized and reported. It is designed to provide a consistent framework across entities for revenue recognition with added disclosures and the removal of inconsistencies and weaknesses in existing revenue requirements. ASU 2016-18- *Statement of Cash Flows* changes how restricted cash is presented and disclosed to provide a better understanding of operations.

As part of the adoption of ASU 2014-09 the Organization made a prior period adjustment to record the unbilled water revenue (a contract asset account). This adjustment is disclosed in more detail in Note 10.

NOTE 3- CASH, CASH EQUIVALENTS, AND RESTRICTED CASH

The table on the following page provides a reconciliation of cash, cash equivalents, and restricted cash reported withing the statement of financial position that sum to the same total of the same such amounts shown in the statement of cash flows.

	<u>2019</u>	<u>2018</u>
Cash on hand	\$ 220	\$ 220
Cash - operating accounts	375,562	253,026
Sinking fund - Rural Development	12,462	12,559
Sinking fund - Kentucky Rural Water Finance Corporation	52,191	51,993
Reserve account	20,000	20,000
	<hr/>	<hr/>
Total cash, cash equivalents, and resricted cash shown in the statement of cash flows	<u>\$ 460,435</u>	<u>\$ 337,798</u>

KIRKSVILLE WATER ASSOCIATION, INC.
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

NOTE 4 – 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.

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, 2019 and 2018:

	<u>Fair Value</u>	Quoted Prices in Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>December 31, 2018</u>				
Certificate of deposit	\$ 178,127	\$ -	\$ 178,127	\$ -
Total	<u>\$ 178,127</u>	<u>\$ -</u>	<u>\$ 178,127</u>	<u>\$ -</u>
	<u>Fair Value</u>	Quoted Prices in Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>December 31, 2019</u>				
Certificate of deposit	\$ 181,266	\$ -	\$ 181,266	\$ -
Total	<u>\$ 181,266</u>	<u>\$ -</u>	<u>\$ 181,266</u>	<u>\$ -</u>

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

KIRKSVILLE WATER ASSOCIATION, INC.
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

NOTE 5 – UTILITY PLANT

At December 31, 2019 and 2018, the cost and accumulated depreciation of fixed assets were as follows:

	<u>2019</u>	<u>2018</u>
Utility plant	\$ 5,927,589	\$ 5,899,950
Furniture and fixtures	7,687	7,687
Equipment	<u>84,715</u>	<u>77,648</u>
Total	6,019,991	5,985,285
Accumulated depreciation	<u>(3,405,589)</u>	<u>(3,236,816)</u>
Net fixed assets	<u>\$ 2,614,402</u>	<u>\$ 2,748,469</u>

NOTE 6 – LONG-TERM DEBT

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 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>2019</u>	<u>2018</u>
2019	\$ -	\$ 42,263
2020	42,593	42,593
2021	42,937	42,937
2022	47,881	47,881
2023	48,675	48,675
2024	49,069	-
Later Years	<u>548,028</u>	<u>596,999</u>
TOTAL	<u>\$ 779,183</u>	<u>\$ 821,348</u>

NOTE 7 – TAP ON FEES

The Organization requires new customers obtaining services from the existing system to pay a tap on fee. The fee ranges from \$1,156-\$1,420 depending on the size of the pipe required. The Organization received \$22,228 and \$14,445 from their customers for such fees and for the year ending December 31, 2019 and 2018, respectively.

KIRKSVILLE WATER ASSOCIATION, INC.
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

NOTE 8 – UNBILLED WATER REVENUES

The Organization had sales of water to customers which had not been billed yet due to the delayed billing of the utilities. As of December 31, 2019 and 2018 the unbilled water revenues were \$47,850 and \$46,839, respectively. These amounts were include in the bills sent in the first month after the close of the audit year.

NOTE 9 – 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 10 – NET ASSETS WITH DONOR RESTRICTION

Sinking fund – Rural Development: 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.

Sinking fund – Kentucky Rural Water Finance Corporation: The Organization transfers payments monthly from the operating account to this fund to pay the debt service on the KRWFC note.

Reserve account: The Organization treats a portion of their certificates of deposit and a portion of their operating cash as part of the reserve account. The organization allocates funds monthly into reserve to cover the note payments. At December 31, 2019 and 2018 the reserve fund was sufficiently 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.

Net assets with donor restrictions are restricted for the following purposes:

	<u>2019</u>	<u>2018</u>
Subject to expenditure for specified purposes:		
Sinking fund- Rural Development	\$ 12,462	\$ 12,559
Sinking fund- Kentucky Rural Water Finance Corporation	52,191	51,993
Reserve account	20,000	20,000
Customer deposit account	<u>15,108</u>	<u>1,365</u>
Total net assets with donor restriction	<u>\$ 99,761</u>	<u>\$ 85,917</u>

KIRKSVILLE WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

NOTE 11 – LIQUIDITY AND AVAILABILITY

The Organization’s financial assets are available within one year of the balance sheet date for general expenditures as follows:

	<u>2019</u>	<u>2018</u>
Cash in hand	\$ 220	\$ 220
Cash- operating accounts	375,562	253,026
Certificate of deposit	181,266	178,127
Accounts receivable	65,815	75,733
Unbilled water revenue	<u>47,850</u>	<u>46,839</u>
	<u>\$ 670,713</u>	<u>\$ 553,945</u>

NOTE 12 – FINANCIAL STATEMENT RECLASSIFICATIONS

Certain amounts presented in the 2018 financial statements have been reclassified to conform to the current year presentation of the financial statements in accordance with ASU 2016-18. These reclassifications did not affect the change in net assets or alter the beginning or ending net assets of the Organization.

NOTE 13 – PRIOR PERIOD ADJUSTMENT

In accordance with ASU 2014-09 the prior period was adjusted to record the Unbilled water revenue. Effect of this entry is as follows:

	<u>2019</u>	<u>2018</u>
Net assets as previously reported	\$ 2,511,286	\$ 2,492,127
Adjustment due to:		
Recording of contract asset account	<u>46,840</u>	<u>48,089</u>
Restated beginning net assets	<u>\$ 2,558,126</u>	<u>\$ 2,540,216</u>

NOTE 14 – SUBSEQUENT EVENTS

Management of the Organization has considered subsequent events through March 16, 2020, the date this report becomes available for issue.

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*

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

We have audited, in accordance with the auditing standards generally accepted in the United State 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 Kirksville Water Association, Inc. (a non-profit organization) which comprise the statement of financial position as of December 31, 2019, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 16, 2020.

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. 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 the 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 or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be material weaknesses (2019-01).

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*.



Kirksville Water Association, Inc.'s Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Craft, Noble & Company, PLLC

Craft, Noble & Company, PLLC
Richmond, Kentucky
March 16, 2020

**KIRKSVILLE WATER ASSOCIATION, INC.
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2019**

FINDINGS- FINANCIAL STATEMENT AUDIT

2019-1

Criteria:

As discussed in *Standards for Internal Control in the Federal Government* published by the General Accounting Office of the United States, internal control is an integral component of an organization's management that provides reasonable assurance that an objective of the separation of duties is being achieved. Organizations should implement procedures to ensure this objective is achieved.

Condition:

During the audit procedures performed, instances of this objective not being completely achieved were noted.

Cause:

The Organization does not have a large enough staff to obtain the adequate separation of duties that would help detect and prevent fraud, waste, and abuse in the entity.

Effect:

The lack of the separation of duties is a preventive measure. The addition of the separation of duties would lead to a decreased risk for fraud and other activities which could lead to financial statements that are materially misstated.

Organization Response and Corrective Action Plan:

It does not appear that it would be economically feasible for our Organization to enlarge our staff to obtain the requested separation of duties. Thus, it is important that our Board provide oversight and independent review functions.