

KIRKSVILLE WATER ASSOCIATION, INC.
RICHMOND, KENTUCKY

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AUDITED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT
FOR THE YEARS ENDED
DECEMBER 31, 2023 AND 2022



CRAFT, WANINGER, NOBLE
& COMPANY, PLLC

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INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the accompanying financial statements of Kirksville Water Association, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2023 and 2022, and the related statements of activities, changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

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, 2023 and 2022, 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.

Basis for Opinion

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. 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 Kirksville Water Association, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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 Kirksville Water Association, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

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 opinion. 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, including omissions, 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.

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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 Kirksville Water Association, Inc.'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 Kirksville Water Association, Inc.'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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated May 29, 2024 on our consideration of Kirksville Water Association, Inc. internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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, Waninger, Noble & Company, PLLC

Craft, Waninger, Noble & Company, PLLC
Richmond, Kentucky
May 29, 2024

KIRKSVILLE WATER ASSOCIATION, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2023 AND 2022

ASSETS	<u>2023</u>	<u>2022</u>
CURRENT ASSETS		
Cash on hand	\$ 1,020	\$ 1,020
Cash - operating accounts	79,685	129,616
Cash - money market and certificates of deposit	126,938	100,041
Accounts receivable - trade, net of allowance	96,478	84,144
Accounts receivable - sale of property rights	45,000	45,000
Unbilled water revenue	44,974	48,569
Inventory	55,276	49,013
Prepaid expenses	2,518	3,991
	<hr/>	<hr/>
Total Current Assets	451,889	461,394
CURRENT ASSETS WITH DONOR RESTRICTIONS		
Reserve accounts		
Sinking fund - Rural Development	12,494	13,051
Sinking fund - Kentucky Rural Water Finance Corporation	57,300	56,364
Reserve account	20,000	20,000
Customer deposits - cash	8,744	10,108
	<hr/>	<hr/>
Total Current Assets With Donor Restrictions	98,538	99,523
FIXED ASSETS		
Property, Plant and Equipment	8,273,750	8,127,521
Less accumulated depreciation	(4,136,727)	(3,914,432)
	<hr/>	<hr/>
Fixed Assets - Net	4,137,023	4,213,089
OTHER ASSETS		
Loan Costs, net of amortization	14,571	15,543
Accounts receivable - sale of property rights	45,000	90,000
	<hr/>	<hr/>
TOTAL ASSETS	<u>\$ 4,747,021</u>	<u>\$ 4,879,549</u>

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

KIRKSVILLE WATER ASSOCIATION, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2023 AND 2022

LIABILITIES AND NET ASSETS

	<u>2023</u>	<u>2022</u>
CURRENT LIABILITIES		
Accounts payable	\$ 51,705	\$ 54,981
Accrued interest payable	14,869	15,965
Current portion of long-term debt	53,911	53,238
Customer deposits	8,511	9,952
	128,996	134,136
LONG-TERM DEBT: LESS CURRENT PORTION		
1994 Note payable - Rural development	40,834	44,036
1999 Note payable - Rural development	68,096	70,591
2004 Note payable - Rural development	71,586	73,804
2004 Note payable - Rural development	50,097	51,650
Kentucky Rural Water Finance Corporation	320,000	360,000
First Trust Bank - Auto Loan	8,271	13,115
First Trust Bank - Office Loan	-	-
	558,884	613,196
Total Long-Term Debt	558,884	613,196
Total Liabilities	687,880	747,332
NET ASSETS		
Without donor restrictions	3,960,603	4,032,694
With donor restrictions	98,538	99,523
	4,059,141	4,132,217
Total Net Assets	4,059,141	4,132,217
TOTAL LIABILITIES AND NET ASSETS	\$ 4,747,021	\$ 4,879,549

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

KIRKSVILLE WATER ASSOCIATION, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS:		
Revenues and gains:		
Sale of water	\$ 1,098,475	\$ 1,026,043
Fees and charges	19,589	26,244
Miscellaneous income	4,150	12,827
Total revenues without donor restrictions	1,122,214	1,065,114
Net assets released from restriction:		
Satisfaction of program restrictions	95,682	345,402
Total revenues, and other support without donor restrictions	1,217,896	1,410,516
Expenses:		
Program expenses	1,289,987	1,223,821
Management and general expenses	-	-
Fundraising expenses	-	-
Total Expenses	1,289,987	1,223,821
Increase in net assets without donor restrictions	(72,091)	186,695
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS:		
Grant Revenue	60,642	316,931
Fees and charges	29,856	31,012
Interest income	4,199	455
Net assets released from restriction	(95,682)	(345,402)
Increase (Decrease) in net assets with donor restrictions	(985)	2,996
Change in net assets	(73,076)	189,691
Net assets at beginning of year	4,132,217	3,942,526
Net assets at end of year	\$ 4,059,141	\$ 4,132,217

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, 2023 AND 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Beginning balance, January 1, 2022	\$ 3,845,999	\$ 96,527	\$ 3,942,526
Total revenues and gains	1,065,114	348,398	1,413,512
Total expenses and losses	(1,223,821)	-	(1,223,821)
Net assets released from restriction	<u>345,402</u>	<u>(345,402)</u>	<u>-</u>
Ending balance, December 31, 2022	<u>\$ 4,032,694</u>	<u>\$ 99,523</u>	<u>\$ 4,132,217</u>

	Without Donor Restrictions	With Donor Restrictions	Total
Beginning balance, January 1, 2023	\$ 4,032,694	\$ 99,523	\$ 4,132,217
Total revenues and gains	1,122,214	94,697	1,216,911
Total expenses and losses	(1,289,987)	-	(1,289,987)
Net assets released from restriction	<u>95,682</u>	<u>(95,682)</u>	<u>-</u>
Ending balance, December 31, 2023	<u>\$ 3,960,603</u>	<u>\$ 98,538</u>	<u>\$ 4,059,141</u>

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

KIRKSVILLE WATER ASSOCIATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2023

	<u>Program Services</u>	<u>Management & General</u>	<u>Fundraising</u>	<u>Totals</u>
Water Purchased	\$ 542,451	\$ -	\$ -	\$ 542,451
Personnel	274,852	-	-	274,852
Insurance	21,870	-	-	21,870
Postage	347	-	-	347
Plant utilities	21,708	-	-	21,708
Commissioner fees	18,000	-	-	18,000
Advertising	1,558	-	-	1,558
Licenses and taxes	4,018	-	-	4,018
Telephone	4,428	-	-	4,428
Supplies	13,239	-	-	13,239
Legal and professional fees	51,997	-	-	51,997
Miscellaneous expenses	22,263	-	-	22,263
Repairs and maintenance	61,115	-	-	61,115
Travel	1,612	-	-	1,612
Bank charges	1,399	-	-	1,399
Interest on long-term debt	25,863	-	-	25,863
Depreciation and amortization	223,267	-	-	223,267
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL EXPENSES	<u>\$ 1,289,987</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,289,987</u>

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

KIRKSVILLE WATER ASSOCIATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2022

	<u>Program Services</u>	<u>Management & General</u>	<u>Fundraising</u>	<u>Totals</u>
Water Purchased	\$ 495,457	\$ -	\$ -	\$ 495,457
Personnel	263,276	-	-	263,276
Insurance	19,248	-	-	19,248
Postage	3,826	-	-	3,826
Plant utilities	19,651	-	-	19,651
Commissioner fees	18,600	-	-	18,600
Advertising	1,761	-	-	1,761
Licenses and taxes	5,075	-	-	5,075
Telephone	4,106	-	-	4,106
Supplies	24,792	-	-	24,792
Legal and professional fees	42,418	-	-	42,418
Miscellaneous expenses	23,818	-	-	23,818
Repairs and maintenance	73,865	-	-	73,865
Travel	18,270	-	-	18,270
Bank charges	1,417	-	-	1,417
Interest on long-term debt	30,439	-	-	30,439
Depreciation and amortization	177,802	-	-	177,802
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL EXPENSES	<u>\$ 1,223,821</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,223,821</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, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities:		
Change in net assets	\$ (73,076)	\$ 189,691
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	223,267	177,802
(Increase) decrease in accounts receivable	32,666	36,871
(Increase) decrease in unbilled water revenue	3,595	1,120
(Increase) decrease in inventory	(6,263)	(4,358)
(Increase) decrease in prepaid expenses	1,473	(437)
Increase (decrease) in accounts payable and accruals	(4,371)	11,423
Increase (decrease) in customer deposits	(1,441)	(59)
Net cash provided by operating activities	<u>175,850</u>	<u>412,053</u>
Cash flows from investing activities:		
Payment for purchase of fixed assets	<u>(146,229)</u>	<u>(496,510)</u>
Net cash (used) by investing activities	<u>(146,229)</u>	<u>(496,510)</u>
Cash flows from financing activities:		
Proceeds from issuance of long-term-debt	-	19,500
Payments for long-term-debt	<u>(53,640)</u>	<u>(219,312)</u>
Net cash provided (used) by financing activities	<u>(53,640)</u>	<u>(199,812)</u>
Net increase (decrease) in cash, cash equivalents, and restricted cash	(24,019)	(284,269)
Cash, cash equivalents, and restricted cash at beginning of year	<u>330,200</u>	<u>614,469</u>
Cash, cash equivalents, and restricted cash at end of year	<u>\$ 306,181</u>	<u>\$ 330,200</u>
Cash paid during the year for:		
Interest	<u>\$ 24,767</u>	<u>\$ 30,258</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, 2023 AND 2022

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 Association 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 Association 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

The Association bills customers monthly. The net accounts receivable at December 31, 2023 and 2022 was \$96,478 and \$84,144, respectively. The Association 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 \$45,126 and \$53,765 at December 31, 2023 and 2022, respectively.

The Association sold the rights to service a property development during 2021 for an amount of \$225,000. The Association received \$45,000 for the years ended December 31, 2023 and 2022, respectively. They will continue to receive \$45,000 annually until the amount is received in full in 2025.

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.

KIRKSVILLE WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Concentrations

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

Revenue Recognition

Revenue is measured on a consideration specified in a contract with a customer. The Association 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 Association is not aware of any uncertain income tax positions as of May 29, 2024. The Association has never been audited by the Internal Revenue Service (IRS), however, the tax years of 2020 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.

Allocation of Expenses

The Association considers all expenses to be program related. All staff are hired to help with the operations of the Association and spend a majority of their time on customer payments, all software and supplies purchased are used to help with the Water services.

NOTE 2 – CASH, CASH EQUIVALENTS, AND RESTRICTED CASH

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

	<u>2023</u>	<u>2022</u>
Cash on hand	\$ 1,020	\$ 1,020
Cash - operating accounts	79,685	129,616
Cash - money market	126,938	100,041
Sinking fund - Rural Development	12,494	13,051
Sinking fund - Kentucky Rural Water Finance Corporation	57,300	56,364
Reserve account	20,000	20,000
Customer deposits	8,744	10,108
	<hr/>	<hr/>
Total cash, cash equivalents, and restricted cash shown in the statement of cash flows	<u>\$ 306,181</u>	<u>\$ 330,200</u>

KIRKSVILLE WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

NOTE 3 – UTILITY PLANT

At December 31, 2023 and 2022, the cost and accumulated depreciation of fixed assets were as follows:

	<u>2023</u>	<u>2022</u>
Buildings and utility plants	\$ 8,002,526	\$ 7,904,697
Furniture, fixtures, and equipment	204,953	156,553
Vehicles	66,271	66,271
Total	8,273,750	8,127,521
Accumulated depreciation	(4,136,727)	(3,914,432)
Net fixed assets	\$ 4,137,023	\$ 4,213,089

NOTE 4 – LONG-TERM DEBT

In April 1994, the Association 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 Association 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 Association 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 Association 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 Association borrowed \$725,000 from Kentucky Rural Water Finance Corporation. The loan carries and average interest rate of 3.573%. Monthly payments range between \$710 and \$6,161 and matures in January 2039.

In November 2021, the Association borrowed \$174,250 from First Trust Bank. The loan has an interest rate of 4.5%. Monthly payments of \$1,103 began December 2021 and matures in November of 2028. This loan was paid off during the year ending December 31, 2022.

In June 2022, the Association borrowed \$19,500 from First Trust Bank. The loan has an interest rate of 5.95%. Monthly payments of \$458 began in July 2022 and matures in June 2026.

All notes are collateralized by the assets of the Association.

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

	<u>2023</u>	<u>2022</u>
2023	\$ -	\$ 53,238
2024	53,911	53,911
2025	54,619	54,619
2026	58,045	58,048
2027	55,362	55,362
2028	55,833	-
Later Years	335,025	391,256
TOTAL	\$ 612,795	\$ 666,434

KIRKSVILLE WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

NOTE 5 – TAP ON FEES

The Association 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 Association received \$29,856 and \$31,012 from their customers for such fees and for the years ending December 31, 2023 and 2022, respectively.

NOTE 6 – UNBILLED WATER REVENUES

The Association had sales of water to customers which had not been billed yet due to the delayed billing of the utilities. As of December 31, 2023 and 2022 the unbilled water revenues were \$44,974 and \$48,569, respectively. These amounts were included in the bills sent in the first month after the close of the audit year.

NOTE 7 – CONTRACT BALANCES

The following tables provides information about the receivables and contract assets from contracts with customers.

Receivables- Water services	Balance Beginning of Year	Revenue Recognized	Revenue Received	Balance End of Year
Year ending December 31, 2023	\$ 84,144	\$ 1,098,475	\$ 1,086,141	\$ 96,478
Year ending December 31, 2022	\$ 76,015	\$ 1,026,043	\$ 1,017,914	\$ 84,144

Contract asset- Unbilled water revenues	Balance Beginning of Year	Net Change	Balance End of Year
Year ending December 31, 2023	\$ 48,569	\$ (3,595)	\$ 44,974
Year ending December 31, 2022	\$ 49,689	\$ (1,120)	\$ 48,569

The contract asset relates to water service contracts. The revenues are recorded when the water services are provided monthly. Given the delay between the water consumption and the billing there is unbilled water revenues which are shown on the financial statements.

NOTE 8 – GRANT INCOME

During the year ending December 31, 2023 and 2022, The Association recognized grant income in the amounts of \$60,642 and \$316,931, respectively. These grant funds from the State of Kentucky are restricted for improvements to the utility plants. As the Association incurred these expenses they requested reimbursement from the state. As of the year ended December 31, 2023, the grant was in the next phase with the expenses recorded as Construction in Progress.

NOTE 9 – NET ASSETS WITH DONOR RESTRICTION

Sinking fund – Rural Development: The Association 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 Association transfers payments monthly from the operating account to this fund to pay the debt service on the KRWFC note.

Reserve account: The Association treats a portion of their certificates of deposit and a portion of their operating cash as part of the reserve account. The Association allocates funds monthly into reserve to cover the note payments. At December 31, 2023 and 2022 the reserve fund was sufficiently funded.

KIRKSVILLE WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

NOTE 9 – NET ASSETS WITH DONOR RESTRICTION (CONTINUED)

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

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

	<u>2023</u>	<u>2022</u>
Subject to expenditure for specified purposes:		
Sinking fund- Rural Development	\$ 12,494	\$ 13,051
Sinking fund- Kentucky Rural Water Finance Corporation	57,300	56,364
Reserve account	20,000	20,000
Customer deposit account	<u>8,744</u>	<u>10,108</u>
Total net assets with donor restriction	<u>\$ 98,538</u>	<u>\$ 99,523</u>

NOTE 10 – LIQUIDITY AND AVAILABILITY

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

	<u>2023</u>	<u>2022</u>
Cash in hand	\$ 1,020	\$ 1,020
Cash- operating accounts	79,685	129,616
Investments	126,938	100,041
Accounts receivable	141,478	129,144
Unbilled water revenue	<u>44,974</u>	<u>48,569</u>
	<u>\$ 394,095</u>	<u>\$ 408,390</u>

NOTE 11 – RISK MANAGEMENT

The Association 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 Association 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 12 – SUBSEQUENT EVENTS

Management of the Association has considered subsequent events through May 29, 2024, 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, 2023, and the related statements of activities, changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 29, 2024.

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 audit 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 Association'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 (2023-001).

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 the financial statement amount. 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

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

Purpose of this Report

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

Craft, Waninger, Noble & Company, PLLC

Craft, Waninger, Noble & Company, PLLC
Richmond, Kentucky
May 29, 2024

KIRKSVILLE WATER ASSOCIATION, INC.
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2023

FINDINGS- FINANCIAL STATEMENT AUDIT

2023-001

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 Association's management that provides reasonable assurance that an objective of the separation of duties is being achieved. Associations 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 Association 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.

Association Response and Corrective Action Plan:

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