

Judy Water Association, Inc.

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Financial Statements and
Independent Auditor's Report
December 31, 2019 and 2018

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Independent Auditor's Report

To the Board of Directors
Judy Water Association, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Judy 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, functional expenses, 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 audits 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 Judy 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 described in Note 1 to the financial statements, in 2019, Judy Water Association, Inc. 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 February 3, 2020 on our consideration of Judy Water Association, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Judy Water Association, Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Judy Water Association, Inc.'s internal control over financial reporting and compliance.

Faulkner, King & Wenz, PSC

February 3, 2020

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

ASSETS

	2019	2018
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,013,063	\$ 924,230
Unbilled water revenue	39,432	38,729
Accounts receivable, net of allowance for doubtful accounts of \$2,223 and \$3,740 in 2019 and 2018	87,267	87,749
Accrued interest receivable	4	4
Prepaid expenses	9,391	9,164
 TOTAL CURRENT ASSETS	 1,149,157	 1,059,876
OTHER ASSETS		
Cash restricted due to loan covenants	231,740	231,740
 PROPERTY AND EQUIPMENT		
Water system	8,883,682	8,853,972
Building	198,845	198,845
Vehicles	137,820	108,920
Land	80,900	80,900
Equipment	205,827	205,827
	9,507,074	9,448,464
Less accumulated depreciation	(4,545,721)	(4,276,286)
Net property and equipment	4,961,353	5,172,178
 TOTAL ASSETS	 \$ 6,342,250	 \$ 6,463,794

LIABILITIES AND NET ASSETS

	2019	2018
CURRENT LIABILITIES		
Accounts payable	\$ 48,827	\$ 51,269
Taxes and benefits payable	14,048	12,449
Water deposits payable	8,399	7,349
Accrued interest payable	44,697	45,809
Current portion of long-term debt	39,554	37,761
 TOTAL CURRENT LIABILITIES	 155,525	 154,637
 LONG-TERM LIABILITIES		
Long-term debt	1,465,166	1,504,720
 TOTAL LIABILITIES	 1,620,691	 1,659,357
 NET ASSETS		
Without donor restrictions - general	(1,866,771)	(1,769,393)
Without donor restrictions - contributed capital	6,356,590	6,342,090
With donor restrictions	231,740	231,740
 TOTAL NET ASSETS	 4,721,559	 4,804,437
 TOTAL LIABILITIES AND NET ASSETS	 \$ 6,342,250	 \$ 6,463,794

JUDY WATER ASSOCIATION, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
OPERATING INCREASES IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
Water sales	\$ 1,339,835	\$ 1,302,994
Meter sets	14,500	16,500
Miscellaneous income	1,232	1,033
	<u>1,355,567</u>	<u>1,320,527</u>
OPERATING DECREASES IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
Water purchased	541,894	539,441
Chemicals and supplies	34,118	32,361
Salaries and payroll taxes	282,178	268,953
Retirement	33,440	31,520
Contract labor	15,622	8,935
Directors fees	21,600	21,900
Office supplies	4,704	6,844
Data processing fees	9,393	9,911
Testing	5,800	4,225
Insurance	65,547	65,451
Telephone and utilities	22,941	22,057
Professional services	13,515	19,132
General expense	10,633	8,773
Regulation expense	2,550	2,645
Repairs and maintenance	24,473	19,381
Meals	8,691	8,640
Bad debt	2,691	5,415
Postage	8,704	9,146
	<u>1,108,494</u>	<u>1,084,730</u>
OPERATING INCREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS BEFORE DEPRECIATION	247,073	235,797
Depreciation	<u>(269,435)</u>	<u>(265,140)</u>
OPERATING DECREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>(22,362)</u>	<u>(29,343)</u>
NONOPERATING INCREASES (DECREASES) IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
Interest income	11,159	2,775
Interest expense	<u>(71,675)</u>	<u>(73,437)</u>
	<u>(60,516)</u>	<u>(70,662)</u>
NET DECREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>\$ (82,878)</u>	<u>\$ (100,005)</u>

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

**JUDY WATER ASSOCIATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2019**

EXPENSES	Program Services	Management & General	Total
Water purchased	\$ 541,894	\$ -	\$ 541,894
Chemicals and supplies	34,118		34,118
Salaries and payroll taxes	205,882	76,296	282,178
Retirement	24,400	9,040	33,440
Contract labor	15,622		15,622
Directors fees		21,600	21,600
Office supplies	2,352	2,352	4,704
Data processing fees	9,393		9,393
Testing	5,800		5,800
Insurance	43,108	22,439	65,547
Telephone and utilities	16,059	6,882	22,941
Professional services		13,515	13,515
General expense	5,317	5,317	10,633
Regulation expense	2,550		2,550
Repairs and maintenance	24,473		24,473
Meals		8,691	8,691
Bad debt	2,691		2,691
Postage	8,704		8,704
Depreciation	269,435		269,435
Interest expense	71,675		71,675
TOTAL EXPENSES	\$ 1,283,472	\$ 166,132	\$ 1,449,604

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

**JUDY WATER ASSOCIATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018**

EXPENSES	Program Services	Management & General	Total
Water purchased	\$ 539,441	\$ -	\$ 539,441
Chemicals and supplies	32,361		32,361
Salaries and payroll taxes	199,079	69,874	268,953
Retirement	23,400	8,120	31,520
Contract labor	8,935		8,935
Directors fees		21,900	21,900
Office supplies	3,422	3,422	6,844
Data processing fees	9,911		9,911
Testing	4,225		4,225
Insurance	42,999	22,453	65,451
Telephone and utilities	15,440	6,617	22,057
Professional services		19,132	19,132
General expense	4,387	4,387	8,773
Regulation expense	2,645		2,645
Repairs and maintenance	19,381		19,381
Meals		8,640	8,640
Bad debt	5,415		5,415
Postage	9,146		9,146
Depreciation	265,140		265,140
Interest expense	73,437		73,437
TOTAL EXPENSES	\$ 1,258,763	\$ 164,544	\$ 1,423,307

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

**JUDY WATER ASSOCIATION, INC.
STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

	Net Assets Without Donor Restrictions - General	Net Assets Without Donor Restrictions - Contributed Capital Members	Net Assets Without Donor Restrictions - Contributed Capital Projects	Net Assets With Donor Restrictions	Total
Balances, January 1, 2018	\$ (1,652,888)	\$ 1,119,052	\$ 5,206,538	\$ 231,740	\$ 4,904,442
Net change in net assets without donor restrictions	(100,005)	-	-	-	(100,005)
Transfer to net assets without donor restrictions- contributed capital members	(16,500)	16,500	-	-	-
Contributions	-	-	-	-	-
Balances, December 31, 2018	(1,769,393)	1,135,552	5,206,538	231,740	4,804,437
Net change in net assets without donor restrictions	(82,878)	-	-	-	(82,878)
Transfer to net assets without donor restrictions- contributed capital members	(14,500)	14,500	-	-	-
Contributions	-	-	-	-	-
Balances, December 31, 2019	<u>\$ (1,866,771)</u>	<u>\$ 1,150,052</u>	<u>\$ 5,206,538</u>	<u>\$ 231,740</u>	<u>\$ 4,721,559</u>

The accompanying notes are an integral part of the financial statements

JUDY WATER ASSOCIATION, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating decrease in net assets without donor restrictions	\$ (22,362)	\$ (29,343)
Adjustments to reconcile operating change in net assets without donor restrictions to net cash provided by operating activities:		
Depreciation expense	269,435	265,140
Provision for bad debts	2,691	5,415
Changes in operating assets and liabilities:		
Accounts receivable	(2,209)	(4,159)
Unbilled water revenue	(703)	(1,202)
Prepaid expenses and other current assets	(227)	(67)
Accounts payable	(2,442)	4,242
Taxes and benefits payable	1,599	(1,313)
Water deposits payable	1,050	(1,650)
	246,832	237,063
CASH PROVIDED BY OPERATING ACTIVITIES		
CASH FLOWS FROM FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(58,610)	(67,373)
Interest paid on RD loans	(72,787)	(74,499)
Principal payments on borrowings	(37,761)	(36,049)
Proceeds from tap-on fees	-	-
Proceeds from contributions	-	-
	(169,158)	(177,921)
CASH USED FOR FINANCING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income received	11,159	2,775
	11,159	2,775
CASH PROVIDED BY INVESTING ACTIVITIES		
NET INCREASE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	88,833	61,917
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH AT BEGINNING OF YEAR	1,155,970	1,094,053
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH AT END OF YEAR	\$ 1,244,803	\$ 1,155,970
TOTAL CASH, CASH EQUIVALENTS, AND RESTRICTED CASH CONSISTS OF:		
Cash and cash equivalents	\$ 1,013,063	\$ 924,230
Cash restricted due to loan covenants	231,740	231,740
	\$ 1,244,803	\$ 1,155,970

JUDY WATER ASSOCIATION, INC
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

Note 1 - Significant Accounting Policies

Introduction:

Judy Water Association, Inc. is a water utility which operates in Montgomery County and parts of Bourbon, Bath, Clark, and Nicholas counties in Kentucky, and its sales are primarily to residential customers. The Association was incorporated March 6, 1972 as a nonstock, nonprofit corporation formed under the provisions of Chapter 273 of the Kentucky Revised Statutes (KRS). The Association began providing water services to customers in 1991.

Regulation Requirements:

The Association is subject to the regulatory authority of the Kentucky Public Service Commission (PSC) pursuant to KRS 278.040.

Basis of Accounting:

The accrual basis of accounting is used for financial statement reporting purposes.

Cash and Cash Equivalents:

For purposes of the statement of cash flows, the Association considers all highly liquid debt instruments purchased with a maturity of one year or less to be cash equivalents.

The Association's deposits and investments at December 31, 2019 were entirely covered by federal depository insurance or by collateral held by the custodial banks in the Association's name.

Property, plant and equipment:

Property, plant and equipment are stated at original cost. The cost of repairs and maintenance is charged to the proper expense account as incurred. Property replacements are capitalized and retirements are charged to the proper plant account and depreciation provision.

The thresholds for capitalization are:

Buildings and grounds	\$5,000
Building improvements	\$5,000
Water systems	\$5,000
Land	\$5,000
Vehicles and equipment	\$1,000

Purchased Water Costs:

Water purchases are charged to expense as delivered to the distribution system. The Association has been economically dependent on Mt. Sterling Water and Sewer System as the primary supplier of water. The Association purchases water from Mt. Sterling Water and Sewer System and Kentucky American Water.

JUDY WATER ASSOCIATION, INC
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

Note 1 - Significant Accounting Policies (Continued)

Depreciation:

Depreciation is applied on the straight-line method over the estimated useful life of the asset and is recognized in accordance with ASC 958-360-05 (formerly SFAS No. 93, "Recognition of Depreciation by Not-for-Profit Organizations"). The range of useful lives used in computing depreciation is:

<u>Classification</u>	<u>Range of lives</u>
Buildings and grounds	20-40 years
Building improvements	20-40 years
Water systems	10-30 years
Office equipment	7-10 years
Other equipment	7 years
Vehicles	5 years

Total depreciation expense was \$269,435 and \$265,140 for the years ended December 31, 2019 and 2018, respectively.

Contributed Capital:

Water tap-on fees and grant proceeds from Rural Development, the Department of Housing and Urban Development, the Bourbon County Fiscal Court, the Montgomery County Fiscal Court and other sources are recognized as revenue in the periods received and then reflected as contributed capital in the Statements of Net Assets. Such funds were used in financing capital additions and improvements to the water system.

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.

Account Receivable:

Accounts receivable are stated at the amounts management expects to collect from outstanding charges for water sales less an allowance for doubtful accounts of \$2,223 and \$3,740 in 2019 and 2018, respectively.

The following table presents the balance in the allowance for doubtful accounts as of December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Allowance for Doubtful		
Accounts:		
Beginning balance	\$ 3,740	\$ 1,280
Net Charge-offs	(4,208)	(2,955)
Provision	<u>2,691</u>	<u>5,415</u>
Ending balance	<u>\$ 2,223</u>	<u>\$ 3,740</u>

JUDY WATER ASSOCIATION, INC
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

Note 1 - Significant Accounting Policies (Continued)

Accounts receivable balances before
allowance for doubtful accounts:

Beginning of year	<u>\$91,489</u>	<u>\$90,285</u>
End of year	<u>\$89,490</u>	<u>\$91,489</u>

Revenue Recognition:

Revenue from sales of water and from tap-on fees for new service addresses are exchange transactions and are recognized in the period in which the water is provided to the customer or meters are installed, similar to accounting policies for business enterprises. Customers are billed monthly and payment is expected within 30 days. Revenue from exchange transactions should be recorded as deferred revenue to the extent that it has not been earned, although such instances would be rare for the Association.

Change in Accounting Principles:

Financial statement presentation follows the recommendations of the ASU 2016-14, adopted during 2018, (formerly Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-for-Profit Organizations" and later known as ASC 958-205-05). Under 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 with donor restrictions and net assets without donor restrictions. Net assets were previously reported according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

Accordingly, all net assets of the Association have been recorded as net assets with donor restrictions (formerly temporarily restricted net assets) or net assets without donor restrictions (formerly unrestricted net assets).

During 2019, the Association adopted ASU 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash." This guidance changes how entities present and disclose their restricted cash and cash equivalents. It is designed to improve the information provided by companies for better understanding of their operations.

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The core principle of ASU 2014-09 is to recognize revenues when a customer obtains control of a good or service, in an amount that reflects the consideration to which an entity is expected to be entitled for those goods or services. In August 2015, the FASB issued ASU 2015-14, which deferred the effective date of ASU 2014-09 by one year.

JUDY WATER ASSOCIATION, INC
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

Note 1 - Significant Accounting Policies (Continued)

Effective January 1, 2019, the Association adopted the requirements of ASU 2014-09 and all related amendments (the new revenue standard).

There was no adjustment necessary to the opening balance of net assets as a result of adopting the new revenue standard. For the year ended December 31, 2019, the Association has determined that there are no significant differences between the amounts reported for revenue and contract assets and liabilities using Topic 605 (previously in effect) and the accounting treatment used in accordance with the new revenue standard other than changing its former accounting method for tap-on fees to now include them as revenue in the Statement of Activities. The Statements of Activities and Changes in Net Assets for 2018 have been restated to reflect this change. Adoption of ASU 2014-09 had no other impact on the Association's 2019 or 2018 financial statements.

Capitalized interest:

The Association follows the policy of capitalizing interest as a component of construction cost.

Income Tax Status:

The Association is a nonprofit tax-exempt organization as prescribed by Internal Revenue Code, Section 501 c (12). Accordingly, the financial statements include no provision for income taxes.

The Accounting Standards Codification (ASC) 740-10-50, (formerly the Financial Accounting Standards Board Interpretation (FIN 48), *Accounting for Uncertainty in Income Taxes*) 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 February 3, 2020. The Association has never been audited by the Internal Revenue Service (IRS). However, the tax years of 2016 forward could be subject to examination by the IRS or other applicable tax jurisdictions.

Note 2 - Utility Plant in Service

The cost of Water System assets is summarized below by major categories:

	<u>2019</u>	<u>2018</u>
Water towers	\$ 693,269	\$ 693,269
Transmission and distribution mains	7,521,396	7,521,396
Meters and meter installations	<u>669,017</u>	<u>639,307</u>
Total cost	<u>\$8,883,682</u>	<u>\$8,853,972</u>

JUDY WATER ASSOCIATION, INC
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

Note 3 - Long-Term Debt

Long-term debt at December 31, 2019 and 2018 consists of the following:

	<u>2019</u>		<u>2018</u>	
	<u>Current</u>	<u>Noncurrent</u>	<u>Current</u>	<u>Noncurrent</u>
Rural Development, dated June 14, 2000, annual payment due each June 14, with interest rate of 5%, total interest and principal payment of \$73,342, final payment due June 14, 2040.	\$ 26,388	\$ 912,693	\$ 25,131	\$ 939,082
Rural Development, dated March 18, 2004, annual payment due each March 18, with interest rate of 4.250%, total interest and principal payment of \$37,206, final payment due March 18, 2044.	<u>13,166</u>	<u>552,473</u>	<u>12,630</u>	<u>565,638</u>
	<u>\$ 39,554</u>	<u>\$1,465,166</u>	<u>\$ 37,761</u>	<u>\$1,504,720</u>

The loans are secured by a statutory mortgage lien on the water supply and distribution system as well as all present and future contract rights, accounts receivable, and general intangibles of the Association and is subject to early redemption by the Association prior to maturity. The loan agreements also outline various compliance requirements.

Installments due for principal and interest for each of the next five years and in total are as follows:

<u>Years ended</u> <u>December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020 (included in current liabilities)	\$ 39,554	\$ 70,994	\$ 110,548
2021	41,433	69,115	110,548
2022	43,402	67,146	110,548
2023	45,464	65,084	110,548
2024	47,626	62,922	110,548
Later years	<u>1,287,241</u>	<u>625,353</u>	<u>1,912,594</u>
Total	<u>\$1,504,720</u>	<u>\$ 960,614</u>	<u>\$ 2,465,334</u>

**JUDY WATER ASSOCIATION, INC
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

Note 4 - Special Funds and Restrictions

The debt agreements with Rural Development require the following accounts be maintained by the utility as long as any outstanding debt remains:

General account - All operating funds received shall be deposited in this account. Funds will be used for operating and maintenance expenses and will be transferred to other accounts as needed.

Funded depreciation reserve account - This account was required to be established in the first month of the first full fiscal year after the water facility became operational and also used for the current Bourbon County expansion project. The Association was required to maintain a balance of \$121,200 for the years ended December 31, 2019 and 2018. These funds may be used for debt service or for unusual repairs or improvements if proper approvals are obtained and no funds are available in the general account. The balances as of December 31, 2019 and 2018 were \$357,019 and \$348,817, respectively.

Debt service reserve account - Required deposits of \$9,212 for 2019 and 2018, respectively, were to be made monthly into this account. Funds were to be used to make payments on Rural Development notes payable. The Association is currently required to maintain a minimum balance of \$110,540 for the debt service reserve. The balances in this reserve account were \$575,028 and \$548,794 as of December 31, 2019 and 2018, respectively.

Note 5 - Liquidity and Availability of Financial Assets

The following reflects the Association's financial assets as of December 31, 2019 and 2018, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the balance sheet date.

	<u>2019</u>	<u>2018</u>
Financial assets at year-end	\$1,371,506	\$1,282,452
Less those unavailable for general expenditures within one year, due to:		
Donor-restricted due to payment of long-term debt	<u>231,740</u>	<u>231,740</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$1,139,766</u>	<u>\$1,050,712</u>

JUDY WATER ASSOCIATION, INC
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 6 - Restatement of Change in Net Assets

As outlined in Note 1, effective January 1, 2019 the Association adopted the requirements of ASU 2014-09 and all related amendments (the new revenue standard). For comparison purposes, the accompanying Statement of Activities for 2018 has been restated to retroactively reflect the effect of this change as shown below:

Net decrease in net assets without donor restrictions for 2018, as originally reported	\$ (116,505)
Tap-on fees for 2018	<u>16,500</u>
Net decrease in net assets for 2018, as restated	<u>\$ (100,005)</u>

Note 7 - Commitments and Contingencies

Grants:

The Association has received grants from Rural Development in connection with the construction of water lines. These grants require the fulfillment of certain conditions as set forth in the terms of the grant. Management is not aware of any violations of these conditions.

Water Purchase Contract:

Judy Water Association has entered into an agreement with the Mount Sterling Water and Sewer Commission whereby the Commission will provide potable treated water to the Association. The agreement was amended August 8, 2004 for a term of 42 years and Judy Water Association is to receive up to 15 million gallons of water per month.

Note 8 - Concentration of Credit Risk

The Association sells water to residential, agricultural, and commercial customers in much of rural Montgomery County and parts of Bourbon, Bath, Clark, and Nicholas counties, in Kentucky, and is subject to the credit risks associated with serving an agricultural based area.

Note 9 - Financial Statement Reclassification

Certain amounts presented in the 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 Association.

JUDY WATER ASSOCIATION, INC
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

Note 10 - 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 five fiscal years.

Note 11 - Pension Plan

Judy Water Association, Inc. established a simplified employee pension plan (SEP) in 2005 covering all employees. The Association can contribute a minimum of 3% of gross wages and a maximum of 15% of gross wages. The contribution percentage is determined by the Board of Directors.

The Association had a total of 6 employees at December 31, 2019 and 2018 covered by the SEP. The employer contributed 15% of gross wages in 2019 and 2018. The Association's contribution was \$33,440 and \$31,520 for the years ended December 31, 2019 and 2018, respectively.

Note 12 - Cost Allocation

The statements of functional expenses report certain categories of expenses that are partially attributable to Program Services (water sales and distribution) as well as the Management and General function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include compensation and benefits for management and some office personnel, which are allocated based on estimates of time expended for each function. Additionally, some office and general expenses and cell phone expenses are allocated based on management's estimates.

Note 13 - Subsequent Events

Subsequent events for Judy Water Association, Inc. have been evaluated through February 3, 2020, which is the date the financial statements were available to be issued.

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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 Directors
Judy Water Association, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Judy Water Association, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2019, and the related statements of activities, 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 February 3, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Judy Water Association, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Judy Water Association, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Judy Water Association, Inc.'s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did

not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described below, that we consider to be a significant deficiency.

Finding: 2019-1

- **Condition:** While management is certainly knowledgeable in regard to the numbers reported in the financial statements, identifying and applying new authoritative guidance in regard to information reported in the notes to those statements is outside the scope of management's training and experience.
- **Management Response and Corrective Action Plan:** It does not appear that it would be economically feasible for our organization to enlarge its staff or contract an individual with appropriate skill and knowledge in applying new authoritative guidance. Thus, it is important that our Board provide oversight and independent review functions.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Judy Water Association, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*

Judy Water Association, Inc.'s Response to Findings

Judy Water Association, Inc.'s response to the findings identified in our audit is described in the paragraph above. Judy 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 result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Faulkner, King & Wenz, PSC

February 3, 2020