

Judy Water Association, Inc.

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Financial Statements and
Independent Auditor's Report
December 31, 2018 and 2017

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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, 2018 and 2017, 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, 2018 and 2017, 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 2018, Judy Water Association, Inc. adopted new accounting guidance, ASU 2016-14, *Not-for Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2019 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 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

January 31, 2019

JUDY WATER ASSOCIATION, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2018 AND 2017

ASSETS

	2018	2017
CURRENT ASSETS		
Cash and cash equivalents	\$ 924,230	\$ 862,313
Unbilled water revenue	38,729	37,527
Accounts receivable, net of allowance for doubtful accounts of \$3,740 and \$1,280 in 2018 and 2017	87,749	89,005
Accrued interest receivable	4	4
Prepaid expenses	9,164	9,097
 TOTAL CURRENT ASSETS	 1,059,876	 997,946
OTHER ASSETS		
Cash restricted due to loan covenants	231,740	231,740
 PROPERTY AND EQUIPMENT		
Water system	8,853,972	8,786,599
Building	198,845	198,845
Vehicles	108,920	108,920
Land	80,900	80,900
Equipment	205,827	205,827
	9,448,464	9,381,091
Less accumulated depreciation	(4,276,286)	(4,011,146)
Net property and equipment	5,172,178	5,369,945
 TOTAL ASSETS	 \$ 6,463,794	 \$ 6,599,631

LIABILITIES AND NET ASSETS

	<u>2018</u>	<u>2017</u>
CURRENT LIABILITIES		
Accounts payable	\$ 51,269	\$ 47,027
Taxes and benefits payable	12,449	13,762
Water deposits payable	7,349	8,999
Accrued interest payable	45,809	46,871
Current portion of long-term debt	<u>37,761</u>	<u>36,050</u>
 TOTAL CURRENT LIABILITIES	 <u>154,637</u>	 <u>152,709</u>
 LONG-TERM LIABILITIES		
Long-term debt	<u>1,504,720</u>	<u>1,542,480</u>
 TOTAL LIABILITIES	 <u>1,659,357</u>	 <u>1,695,189</u>
 NET ASSETS		
Without donor restrictions - general	(1,769,393)	(1,652,888)
Without donor restrictions - contributed capital	6,342,090	6,325,590
With donor restrictions	<u>231,740</u>	<u>231,740</u>
 TOTAL NET ASSETS	 <u>4,804,437</u>	 <u>4,904,442</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u><u>\$ 6,463,794</u></u>	 <u><u>\$ 6,599,631</u></u>

JUDY WATER ASSOCIATION, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
OPERATING INCREASES IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
Water sales	\$ 1,302,994	\$ 1,320,248
Miscellaneous income	1,033	2,135
	1,304,027	1,322,383
OPERATING DECREASES IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
Water purchased	539,441	532,744
Chemicals and supplies	32,361	19,205
Salaries and payroll taxes	268,953	274,154
Retirement	31,520	31,520
Contract labor	8,935	2,208
Directors fees	21,900	21,900
Office supplies	6,844	5,687
Data processing fees	9,911	9,128
Testing	4,225	4,780
Insurance	65,451	64,718
Telephone and utilities	22,057	20,695
Professional services	19,132	13,015
General expense	8,773	10,376
Regulation expense	2,645	2,658
Repairs and maintenance	19,381	15,228
Meals	8,640	7,222
Bad debt	5,415	1,887
Postage	9,146	8,525
	1,084,730	1,045,650
OPERATING INCREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS BEFORE DEPRECIATION	219,297	276,733
Depreciation	(265,140)	(273,627)
OPERATING INCREASE (DECREASE) IN NET ASSETS WITHOUT DONOR RESTRICTIONS	(45,843)	3,106
NONOPERATING INCREASES (DECREASES) IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
Interest income	2,775	2,771
Interest expense	(73,437)	(75,118)
	(70,662)	(72,347)
NET DECREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	\$ (116,505)	\$ (69,241)

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.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2017**

EXPENSES	Program Services	Management & General	Total
Water purchased	\$ 532,744	\$ -	\$ 532,744
Chemicals and supplies	19,205		19,205
Salaries and payroll taxes	201,536	72,618	274,154
Retirement	23,400	8,120	31,520
Contract labor	2,208		2,208
Directors fees		21,900	21,900
Office supplies	2,844	2,844	5,687
Data processing fees	9,128		9,128
Testing	4,780		4,780
Insurance	42,555	22,164	64,718
Telephone and utilities	14,487	6,209	20,695
Professional services		13,015	13,015
General expense	5,188	5,188	10,376
Regulation expense	2,658		2,658
Repairs and maintenance	15,228		15,228
Meals		7,222	7,222
Bad debt	1,887		1,887
Postage	8,525		8,525
Depreciation	273,627		273,627
Interest expense	75,118		75,118
TOTAL EXPENSES	\$ 1,235,117	\$ 159,278	\$ 1,394,395

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, 2018 AND 2017**

	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, 2017	\$ (1,583,647)	\$ 1,105,552	\$ 5,205,239	\$ 231,740	\$ 4,958,884
Net change in net assets without donor restrictions	(69,241)				(69,241)
Transfer to net assets with donor restrictions	-			-	-
Contributions	-	13,500	1,299	-	14,799
Balances, December 31, 2017	(1,652,888)	1,119,052	5,206,538	231,740	4,904,442
Net change in net assets without donor restrictions	(116,505)				(116,505)
Transfer to net assets with donor restrictions	-			-	-
Contributions	-	16,500	-	-	16,500
Balances, December 31, 2018	<u>\$ (1,769,393)</u>	<u>\$ 1,135,552</u>	<u>\$ 5,206,538</u>	<u>\$ 231,740</u>	<u>\$ 4,804,437</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, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating Increase (Decrease) in net assets without donor restrictions	\$ (45,843)	\$ 3,106
Adjustments to reconcile operating change in net assets without donor restrictions to net cash provided by operating activities:		
Depreciation expense	265,140	273,627
Provision for bad debts	5,415	1,887
Changes in operating assets and liabilities:		
Accounts receivable	(4,159)	(5,060)
Unbilled water revenue	(1,202)	1,825
Prepaid expenses and other current assets	(67)	(20)
Accounts payable	4,242	(31,019)
Taxes and benefits payable	(1,313)	1,261
Water deposits payable	(1,650)	1,700
	220,563	247,307
CASH PROVIDED BY OPERATING ACTIVITIES		
CASH FLOWS FROM FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(67,373)	(51,805)
Interest paid on RD loans	(74,499)	(76,132)
Principal payments on borrowings	(36,049)	(34,415)
Proceeds from tap-on fees	16,500	13,500
Proceeds from contributions	-	1,299
	(161,421)	(147,553)
CASH USED FOR FINANCING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income received	2,775	2,771
	2,775	2,771
CASH PROVIDED BY INVESTING ACTIVITIES		
NET INCREASE IN CASH	61,917	102,525
CASH AT BEGINNING OF YEAR	1,094,053	991,528
CASH AT END OF YEAR	\$ 1,155,970	\$ 1,094,053
CASH CONSISTS OF:		
Cash - without donor restrictions	\$ 924,230	\$ 862,313
Cash - with donor restrictions	231,740	231,740
	\$ 1,155,970	\$ 1,094,053

JUDY WATER ASSOCIATION, INC
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

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.

Basis of presentation:

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). The financial statements for 2017 have been restated accordingly, with no change in previously reported net assets or decrease in net assets.

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.

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

JUDY WATER ASSOCIATION, INC
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

Note 1 - Significant Accounting Policies (Continued)

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 City of North Middletown.

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 \$265,140 and \$273,627 for the years ended December 31, 2018 and 2017, 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 accounted for as contributed capital and were used in financing capital 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 \$3,740 and \$1,280 in 2018 and 2017, respectively.

The following table presents the balance in the allowance for doubtful accounts as of December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Allowance for Doubtful		
Accounts:		
Beginning balance	\$ 1,280	\$ 1,757
Net Charge-offs	(2,955)	(2,364)
Provision	<u>5,415</u>	<u>1,887</u>
Ending balance	<u>\$ 3,740</u>	<u>\$ 1,280</u>

JUDY WATER ASSOCIATION, INC
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

Note 1 - Significant Accounting Policies (Continued)

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 January 31, 2019. The Association has never been audited by the Internal Revenue Service (IRS). However, the tax years of 2015 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>2018</u>	<u>2017</u>
Water towers	\$ 693,269	\$ 693,269
Transmission and distribution mains	7,521,396	7,521,396
Meters and meter installations	639,307	571,934
Total cost	<u>\$8,853,972</u>	<u>\$8,786,599</u>

Note 3 - Long-Term Debt

Long-term debt at December 31, 2018 and 2017 consists of the following:

	<u>2018</u>		<u>2017</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.	\$ 25,131	\$ 939,082	\$ 23,935	\$ 964,212
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>12,630</u>	<u>565,638</u>	<u>12,115</u>	<u>578,268</u>
	<u>\$ 37,761</u>	<u>\$1,504,720</u>	<u>\$ 36,050</u>	<u>\$1,542,480</u>

JUDY WATER ASSOCIATION, INC
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

Note 3 - Long-Term Debt (Continued)

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>
2019 (included in current liabilities)	\$ 37,761	\$ 72,787	\$ 110,548
2020	39,554	70,994	110,548
2021	41,433	69,115	110,548
2022	43,402	67,146	110,548
2023	45,461	65,087	110,548
Later years	<u>1,334,870</u>	<u>688,274</u>	<u>2,023,144</u>
Total	<u>\$1,542,481</u>	<u>\$1,033,403</u>	<u>\$ 2,575,884</u>

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, 2018 and 2017. 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, 2018 and 2017 were \$348,817 and \$347,599, respectively.

Debt service reserve account - Required deposits of \$9,212 for 2018 and 2017, 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 \$548,794 and \$478,583 as of December 31, 2018 and 2017, respectively.

JUDY WATER ASSOCIATION, INC
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

Note 5 - Liquidity and Availability of Financial Assets

The following reflects the Association's financial assets as of December 31, 2018 and 2017, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the balance sheet date.

	<u>2018</u>	<u>2017</u>
Financial assets at year-end	\$1,282,452	\$1,220,589
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>\$1,050,712</u>	<u>\$ 988,849</u>

Note 6 - 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 7 - 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 8 - 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.

JUDY WATER ASSOCIATION, INC
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

Note 9 - 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, 2018 and 2017 covered by the SEP. The employer contributed 15% of gross wages in 2018 and 2017. The Association's contribution was \$31,520 and \$31,520 for the years ended December 31, 2018 and 2017, respectively.

Note 10 - Cash and Cash Equivalents

The Association's deposits and investments at December 31, 2018 were entirely covered by federal depository insurance or by collateral held by the custodial banks in the Association's name.

Note 11 - 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 12 - Subsequent Events

Subsequent events for Judy Water Association, Inc. have been evaluated through January 31, 2019, 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, 2018, 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 January 31, 2019.

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 on the next page, that we consider to be a significant deficiency.

Finding: 2018-1

- 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

January 31, 2019