

Judy Water Association, Inc.

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Financial Statements and  
Independent Auditor's Report  
December 31, 2020 and 2019

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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, 2020 and 2019, 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, 2020 and 2019, 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 10, 2021 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 10, 2021

**JUDY WATER ASSOCIATION, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2020 AND 2019**

**ASSETS**

	<b>2020</b>	<b>2019</b>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 1,054,615	\$ 1,013,063
Unbilled water revenue	43,197	39,432
Accounts receivable, net of allowance for doubtful accounts of \$10,527 and \$2,223 in 2020 and 2019	91,202	87,267
Accrued interest receivable	4	4
Prepaid expenses	10,005	9,391
 TOTAL CURRENT ASSETS	 1,199,023	 1,149,157
<b>OTHER ASSETS</b>		
Cash restricted due to loan covenants	231,740	231,740
 <b>PROPERTY AND EQUIPMENT</b>		
Water system	8,948,086	8,883,682
Building	198,845	198,845
Vehicles	137,820	137,820
Land	80,900	80,900
Equipment	219,947	205,827
	9,585,598	9,507,074
Less accumulated depreciation	(4,812,205)	(4,545,721)
Net property and equipment	4,773,393	4,961,353
 <b>TOTAL ASSETS</b>	 \$ 6,204,156	 \$ 6,342,250

## LIABILITIES AND NET ASSETS

	<u>2020</u>	<u>2019</u>
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 56,298	\$ 48,827
Taxes and benefits payable	14,199	14,048
Water deposits payable	7,766	8,399
Accrued interest payable	43,532	44,697
Current portion of long-term debt	<u>41,433</u>	<u>39,554</u>
 TOTAL CURRENT LIABILITIES	 <u>163,228</u>	 <u>155,525</u>
 <b>LONG-TERM LIABILITIES</b>		
Long-term debt	<u>1,423,733</u>	<u>1,465,166</u>
 TOTAL LIABILITIES	 <u>1,586,961</u>	 <u>1,620,691</u>
 <b>NET ASSETS</b>		
Without donor restrictions - general	(1,986,135)	(1,866,771)
Without donor restrictions - contributed capital	6,371,590	6,356,590
With donor restrictions	<u>231,740</u>	<u>231,740</u>
 TOTAL NET ASSETS	 <u>4,617,195</u>	 <u>4,721,559</u>
 <b>TOTAL LIABILITIES AND NET ASSETS</b>	 <u>\$ 6,204,156</u>	 <u>\$ 6,342,250</u>

**JUDY WATER ASSOCIATION, INC.**  
**STATEMENTS OF ACTIVITIES**  
**FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

	2020	2019
<b>OPERATING INCREASES IN NET ASSETS WITHOUT DONOR RESTRICTIONS</b>		
Water sales	\$ 1,349,750	\$ 1,339,835
Meter sets	15,000	14,500
Miscellaneous income	1,320	1,232
	1,366,070	1,355,567
<b>OPERATING DECREASES IN NET ASSETS WITHOUT DONOR RESTRICTIONS</b>		
Water purchased	590,037	541,894
Chemicals and supplies	25,047	34,118
Salaries and payroll taxes	284,345	282,178
Retirement	33,440	33,440
Contract labor	0	15,622
Directors fees	21,900	21,600
Office supplies	6,332	4,704
Data processing fees	11,919	9,393
Testing	6,071	5,800
Insurance	63,981	65,547
Telephone and utilities	22,567	22,941
Professional services	14,015	13,515
General expense	13,305	10,633
Regulation expense	2,711	2,550
Repairs and maintenance	21,489	24,473
Meals	7,425	8,691
Bad debt	10,255	2,691
Postage	8,572	8,704
	1,143,411	1,108,494
<b>OPERATING INCREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS BEFORE DEPRECIATION</b>	222,659	247,073
Depreciation	(266,484)	(269,435)
<b>OPERATING DECREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS</b>	(43,825)	(22,362)
<b>NONOPERATING INCREASES (DECREASES) IN NET ASSETS WITHOUT DONOR RESTRICTIONS</b>		
Interest income	9,291	11,159
Interest expense	(69,830)	(71,675)
	(60,539)	(60,516)
<b>NET DECREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS</b>	\$ (104,364)	\$ (82,878)

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, 2020**

<b>EXPENSES</b>	<b>Program Services</b>	<b>Management &amp; General</b>	<b>Total</b>
Water purchased	\$ 590,037	\$ -	\$ 590,037
Chemicals and supplies	25,047		25,047
Salaries and payroll taxes	208,093	76,252	284,345
Retirement	24,400	9,040	33,440
Contract labor	0		0
Directors fees		21,900	21,900
Office supplies	3,166	3,166	6,332
Data processing fees	11,919		11,919
Testing	6,071		6,071
Insurance	42,639	21,342	63,981
Telephone and utilities	15,797	6,770	22,567
Professional services		14,015	14,015
General expense	6,653	6,653	13,305
Regulation expense	2,711		2,711
Repairs and maintenance	21,489		21,489
Meals		7,425	7,425
Bad debt	10,255		10,255
Postage	8,572		8,572
Depreciation	266,484		266,484
Interest expense	69,830		69,830
<b>TOTAL EXPENSES</b>	<b>\$ 1,313,162</b>	<b>\$ 166,563</b>	<b>\$ 1,479,725</b>

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**

<b>EXPENSES</b>	<b>Program Services</b>	<b>Management &amp; General</b>	<b>Total</b>
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
<b>TOTAL EXPENSES</b>	<b>\$ 1,283,472</b>	<b>\$ 166,132</b>	<b>\$ 1,449,604</b>

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, 2020 AND 2019**

	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
<b>Balances, January 1, 2019</b>	<b>\$ (1,769,393)</b>	<b>\$ 1,135,552</b>	<b>\$ 5,206,538</b>	<b>\$ 231,740</b>	<b>\$ 4,804,437</b>
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	-	-	-	-	-
<b>Balances, December 31, 2019</b>	<b>(1,866,771)</b>	<b>1,150,052</b>	<b>5,206,538</b>	<b>231,740</b>	<b>4,721,559</b>
Net change in net assets without donor restrictions	(104,364)	-	-	-	(104,364)
Transfer to net assets without donor restrictions- contributed capital members	(15,000)	15,000	-	-	-
Contributions	-	-	-	-	-
<b>Balances, December 31, 2020</b>	<b><u>\$ (1,986,135)</u></b>	<b><u>\$ 1,165,052</u></b>	<b><u>\$ 5,206,538</u></b>	<b><u>\$ 231,740</u></b>	<b><u>\$ 4,617,195</u></b>

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, 2020 AND 2019**

	<b>2020</b>	<b>2019</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Operating decrease in net assets without donor restrictions	\$ (43,825)	\$ (22,362)
Adjustments to reconcile operating change in net assets without donor restrictions to net cash provided by operating activities:		
Depreciation expense	266,484	269,435
Provision for bad debts	10,255	2,691
Changes in operating assets and liabilities:		
Accounts receivable	(14,190)	(2,209)
Unbilled water revenue	(3,765)	(703)
Prepaid expenses and other current assets	(614)	(227)
Accounts payable	7,471	(2,442)
Taxes and benefits payable	151	1,599
Water deposits payable	(633)	1,050
	<b>221,334</b>	<b>246,832</b>
<b>CASH PROVIDED BY OPERATING ACTIVITIES</b>		
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Acquisition and construction of capital assets	(78,524)	(58,610)
Interest paid on RD loans	(70,995)	(72,787)
Principal payments on borrowings	(39,554)	(37,761)
Proceeds from tap-on fees	-	-
Proceeds from contributions	-	-
	<b>(189,073)</b>	<b>(169,158)</b>
<b>CASH USED FOR FINANCING ACTIVITIES</b>		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest income received	9,291	11,159
	<b>9,291</b>	<b>11,159</b>
<b>CASH PROVIDED BY INVESTING ACTIVITIES</b>		
<b>NET INCREASE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH</b>	<b>41,552</b>	<b>88,833</b>
<b>CASH, CASH EQUIVALENTS, AND RESTRICTED CASH AT BEGINNING OF YEAR</b>	<b>1,244,803</b>	<b>1,155,970</b>
<b>CASH, CASH EQUIVALENTS, AND RESTRICTED CASH AT END OF YEAR</b>	<b>\$ 1,286,355</b>	<b>\$ 1,244,803</b>
<b>TOTAL CASH, CASH EQUIVALENTS, AND RESTRICTED CASH CONSISTS OF:</b>		
Cash and cash equivalents	\$ 1,054,615	\$ 1,013,063
Cash restricted due to loan covenants	231,740	231,740
	<b>\$ 1,286,355</b>	<b>\$ 1,244,803</b>

**JUDY WATER ASSOCIATION, INC**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020 AND 2019**

**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, (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 or net assets without donor restrictions.

**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, 2020 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

**JUDY WATER ASSOCIATION, INC**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020 AND 2019**

**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 Kentucky American Water.

**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 \$266,484 and \$269,435 for the years ended December 31, 2020 and 2019, 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 \$10,527 and \$2,223 in 2020 and 2019, respectively.

**JUDY WATER ASSOCIATION, INC**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020 AND 2019**

**Note 1 - Significant Accounting Policies (Continued)**

The following table presents the balance in the allowance for doubtful accounts as of December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Allowance for Doubtful		
Accounts:		
Beginning balance	\$ 2,223	\$ 3,740
Net Charge-offs	(1,951)	(4,208)
Provision	<u>10,255</u>	<u>2,691</u>
Ending balance	<u>\$10,527</u>	<u>\$ 2,223</u>
Accounts receivable balances before allowance for doubtful accounts:		
Beginning of year	<u>\$ 89,490</u>	<u>\$91,489</u>
End of year	<u>\$101,729</u>	<u>\$89,490</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:**

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, 2020 AND 2019**

**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. Adoption of ASU 2014-09 had no other impact on the Association's 2019 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 10, 2021. The Association has never been audited by the Internal Revenue Service (IRS). However, the tax years of 2017 forward could be subject to examination by the IRS or other applicable tax jurisdictions.

**Note 2 - Utility Plant in Service**

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

	<u>2020</u>	<u>2019</u>
Water towers	\$ 693,269	\$ 693,269
Transmission and distribution mains	7,521,396	7,521,396
Meters and meter installations	<u>733,421</u>	<u>669,017</u>
Total cost	<u>\$8,948,086</u>	<u>\$8,883,682</u>

**JUDY WATER ASSOCIATION, INC**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020 AND 2019**

**Note 3 - Long-Term Debt**

Long-term debt at December 31, 2020 and 2019 consists of the following:

	<u>2020</u>		<u>2019</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.	\$ 27,707	\$ 884,986	\$ 26,388	\$ 912,693
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>13,726</u>	<u>538,747</u>	<u>13,166</u>	<u>552,473</u>
	<u>\$ 41,433</u>	<u>\$1,423,733</u>	<u>\$ 39,554</u>	<u>\$1,465,166</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>
2021 (included in current liabilities)	\$ 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
2025	49,890	60,658	110,548
Later years	<u>1,237,351</u>	<u>564,698</u>	<u>1,802,049</u>
Total	<u>\$1,465,166</u>	<u>\$ 889,623</u>	<u>\$ 2,354,789</u>



**JUDY WATER ASSOCIATION, INC**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020 AND 2019**

**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, 2020 and 2019. 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, 2020 and 2019 were \$363,209 and \$357,019, respectively.

Debt service reserve account - Required deposits of \$9,212 for 2020 and 2019, 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 \$616,676 and \$575,028 as of December 31, 2020 and 2019, respectively.

**Note 5 - Liquidity and Availability of Financial Assets**

The following reflects the Association's financial assets as of December 31, 2020 and 2019, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the balance sheet date.

	<u>2020</u>	<u>2019</u>
Financial assets at year-end	\$1,420,758	\$1,371,506
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>\$1,189,018</u>	<u>\$1,139,766</u>

**JUDY WATER ASSOCIATION, INC**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020 AND 2019**

**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.

**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, 2020 and 2019 covered by the SEP. The employer contributed 15% of gross wages in 2020 and 2019. The Association's contribution was \$33,440 and \$33,440 for the years ended December 31, 2020 and 2019, respectively.

**JUDY WATER ASSOCIATION, INC**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020 AND 2019**

**Note 10 - 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 11 - Subsequent Events**

On March 11, 2020, the World Health Organization declared the coronavirus (COVID-19) outbreak to be a global pandemic. COVID-19 continues to spread across the globe and is impacting worldwide economic activity. The continued spread of the disease represents a significant risk that operations could be disrupted in the near future. The extent to which COVID-19 impacts Judy Water Association, Inc. will depend upon future developments, which are uncertain and cannot be predicted. As a result, Judy Water Association, Inc. has not yet determined the impact this disruption may have on its financial statements for the year ending December 31, 2021.

Subsequent events for Judy Water Association, Inc. have been evaluated through February 10, 2021, 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, 2020, 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 10, 2021.

**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: 2020-1

- **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 10, 2021