

Judy Water Association, Inc.

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Financial Statements and
Independent Auditor's Report
December 31, 2021 and 2020

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Independent Auditor's Report

To the Board of Directors
Judy Water Association, Inc.

Report on the Audit of the Financial Statements

Opinion

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, 2021 and 2020, 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.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Judy Water Association, Inc. as of December 31, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Judy Water Association, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management 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, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation

of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Judy Water Association, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Judy Water Association, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Judy Water Association, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 10, 2022 on our consideration of the 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 solely 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 the 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 the Judy Water Association, Inc.'s internal control over financial reporting and compliance.

Faulkner, King & Wenz, PSC

February 10, 2022

**JUDY WATER ASSOCIATION, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2021 AND 2020**

ASSETS

	2021	2020
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,114,706	\$ 1,054,615
Unbilled water revenue	48,473	43,197
Accounts receivable, net of allowance for doubtful accounts of \$3,840 and \$10,527 in 2021 and 2020	83,337	91,202
Accrued interest receivable	0	4
Prepaid expenses	10,464	10,005
 TOTAL CURRENT ASSETS	 1,256,980	 1,199,023
OTHER ASSETS		
Cash restricted due to loan covenants	231,740	231,740
 PROPERTY AND EQUIPMENT		
Water system	8,720,778	8,948,086
Building	195,495	198,845
Vehicles	137,820	137,820
Land	80,900	80,900
Equipment	199,085	219,947
	9,334,078	9,585,598
Less accumulated depreciation	(4,778,996)	(4,812,205)
Net property and equipment	4,555,082	4,773,393
 TOTAL ASSETS	 \$ 6,043,802	 \$ 6,204,156

LIABILITIES AND NET ASSETS

	<u>2021</u>	<u>2020</u>
CURRENT LIABILITIES		
Accounts payable	\$ 60,143	\$ 56,298
Taxes and benefits payable	23,191	14,199
Water deposits payable	7,066	7,766
Accrued interest payable	42,313	43,532
Current portion of long-term debt	<u>43,402</u>	<u>41,433</u>
 TOTAL CURRENT LIABILITIES	 <u>176,115</u>	 <u>163,228</u>
 LONG-TERM LIABILITIES		
Long-term debt	<u>1,380,331</u>	<u>1,423,733</u>
 TOTAL LIABILITIES	 <u>1,556,446</u>	 <u>1,586,961</u>
 NET ASSETS		
Without donor restrictions - general	(2,137,974)	(1,986,135)
Without donor restrictions - contributed capital	6,393,590	6,371,590
With donor restrictions	<u>231,740</u>	<u>231,740</u>
 TOTAL NET ASSETS	 <u>4,487,356</u>	 <u>4,617,195</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 6,043,802</u>	 <u>\$ 6,204,156</u>

JUDY WATER ASSOCIATION, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021	2020
OPERATING INCREASES IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
Water sales	\$ 1,334,276	\$ 1,349,750
Meter sets	22,000	15,000
Miscellaneous income	413	1,320
	1,356,689	1,366,070
OPERATING DECREASES IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
Water purchased	568,098	590,037
Chemicals and supplies	37,101	25,047
Salaries and payroll taxes	290,994	284,345
Retirement	34,582	33,440
Contract labor	2,909	0
Directors fees	22,200	21,900
Office supplies	6,675	6,332
Data processing fees	11,618	11,919
Testing	3,720	6,071
Insurance	71,584	63,981
Telephone and utilities	24,766	22,567
Professional services	14,315	14,015
General expense	17,628	13,305
Regulation expense	2,732	2,711
Repairs and maintenance	30,431	21,489
Meals	8,196	7,425
Bad debt	7,864	10,255
Postage	9,744	8,572
	1,165,157	1,143,411
OPERATING INCREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS BEFORE DEPRECIATION	191,532	222,659
Depreciation	(262,481)	(266,484)
OPERATING DECREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	(70,949)	(43,825)
NONOPERATING INCREASES (DECREASES) IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
Gain on sale of property	6,000	0
Interest income	3,005	9,291
Interest expense	(67,895)	(69,830)
	(58,890)	(60,539)
NET DECREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	\$ (129,839)	\$ (104,364)

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, 2021**

EXPENSES	Program Services	Management & General	Total
Water purchased	\$ 568,098	\$ -	\$ 568,098
Chemicals and supplies	37,101		37,101
Salaries and payroll taxes	210,225	80,769	290,994
Retirement	24,888	9,694	34,582
Contract labor	2,909		2,909
Directors fees		22,200	22,200
Office supplies	3,338	3,337	6,675
Data processing fees	11,618		11,618
Testing	3,720		3,720
Insurance	47,017	24,567	71,584
Telephone and utilities	17,336	7,430	24,766
Professional services		14,315	14,315
General expense	8,814	8,814	17,628
Regulation expense	2,732		2,732
Repairs and maintenance	30,431		30,431
Meals		8,196	8,196
Bad debt	7,864		7,864
Postage	9,744		9,744
Depreciation	262,481		262,481
Interest expense	67,895		67,895
TOTAL EXPENSES	\$ 1,316,211	\$ 179,322	\$ 1,495,533

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**

EXPENSES	Program Services	Management & General	Total
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	6,652	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
TOTAL EXPENSES	\$ 1,313,162	\$ 166,563	\$ 1,479,725

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, 2021 AND 2020**

	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, 2020	\$ (1,866,771)	\$ 1,150,052	\$ 5,206,538	\$ 231,740	\$ 4,721,559
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	-	-	-	-	-
Balances, December 31, 2020	(1,986,135)	1,165,052	5,206,538	231,740	4,617,195
Net change in net assets without donor restrictions	(129,839)	-	-	-	(129,839)
Transfer to net assets without donor restrictions- contributed capital members	(22,000)	22,000	-	-	-
Contributions	-	-	-	-	-
Balances, December 31, 2021	<u>\$ (2,137,974)</u>	<u>\$ 1,187,052</u>	<u>\$ 5,206,538</u>	<u>\$ 231,740</u>	<u>\$ 4,487,356</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, 2021 AND 2020

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating decrease in net assets without donor restrictions	\$ (70,949)	\$ (43,825)
Adjustments to reconcile operating change in net assets without donor restrictions to net cash provided by operating activities:		
Depreciation expense	262,481	266,484
Provision for bad debts	7,864	10,255
Changes in operating assets and liabilities:		
Accounts receivable	1	(14,190)
Unbilled water revenue	(5,276)	(3,765)
Prepaid expenses and other current assets	(459)	(614)
Accounts payable	3,845	7,471
Taxes and benefits payable	8,992	151
Water deposits payable	(700)	(633)
	205,799	221,334
CASH PROVIDED BY OPERATING ACTIVITIES		
CASH FLOWS FROM FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(44,170)	(78,524)
Proceeds from sale of fixed assets	6,000	-
Interest paid on RD loans	(69,114)	(70,995)
Principal payments on borrowings	(41,433)	(39,554)
	(148,717)	(189,073)
CASH USED FOR FINANCING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income received	3,009	9,291
	3,009	9,291
CASH PROVIDED BY INVESTING ACTIVITIES		
NET INCREASE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	60,091	41,552
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH AT BEGINNING OF YEAR	1,286,355	1,244,803
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH AT END OF YEAR	\$ 1,346,446	\$ 1,286,355
TOTAL CASH, CASH EQUIVALENTS, AND RESTRICTED CASH CONSISTS OF:		
Cash and cash equivalents	\$ 1,114,706	\$ 1,054,615
Cash restricted due to loan covenants	231,740	231,740
	\$ 1,346,446	\$ 1,286,355

JUDY WATER ASSOCIATION, INC
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

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, 2021 were not entirely covered by federal depository insurance or by collateral held by the custodial banks in the Association's name. However, as of the date of this report they are entirely covered.

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, 2021 AND 2020

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 \$262,481 and \$266,484 for the years ended December 31, 2021 and 2020, 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 \$3,840 and \$10,527 in 2021 and 2020, respectively.

JUDY WATER ASSOCIATION, INC
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

Note 1 - Significant Accounting Policies (Continued)

The following table presents the balance in the allowance for doubtful accounts as of December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Allowance for Doubtful Accounts:		
Beginning balance	\$10,527	\$ 2,223
Net Charge-offs	(14,551)	(1,951)
Provision	<u>7,864</u>	<u>10,255</u>
Ending balance	<u>\$ 3,840</u>	<u>\$10,527</u>
Accounts receivable balances before allowance for doubtful accounts:		
Beginning of year	<u>\$101,729</u>	<u>\$ 89,490</u>
End of year	<u>\$ 87,177</u>	<u>\$101,729</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.

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, 2022. The Association has never been audited by the Internal Revenue Service (IRS). However, the tax years of 2018 forward could be subject to examination by the IRS or other applicable tax jurisdictions.

JUDY WATER ASSOCIATION, INC
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

Note 2 - Utility Plant in Service

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

	<u>2021</u>	<u>2020</u>
Water towers	\$ 693,269	\$ 693,269
Transmission and distribution mains	7,521,396	7,521,396
Meters and meter installations	506,113	733,421
Total cost	<u>\$8,720,778</u>	<u>\$8,948,086</u>

Note 3 - Long-Term Debt

Long-term debt at December 31, 2021 and 2020 consists of the following:

	<u>2021</u>		<u>2020</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.	\$ 29,093	\$ 855,893	\$ 27,707	\$ 884,986
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>14,309</u>	<u>524,438</u>	<u>13,726</u>	<u>538,747</u>
	<u>\$ 43,402</u>	<u>\$1,380,331</u>	<u>\$ 41,433</u>	<u>\$1,423,733</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.

JUDY WATER ASSOCIATION, INC
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

Note 3 - Long-Term Debt (Continued)

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

Years ended <u>December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022 (included in current liabilities)	\$ 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
2026	52,263	58,285	110,548
Later years	<u>1,185,088</u>	<u>506,412</u>	<u>1,691,500</u>
Total	<u>\$1,423,733</u>	<u>\$ 820,507</u>	<u>\$ 2,244,240</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, 2021 and 2020. 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, 2021 and 2020 were \$364,563 and \$363,209, respectively.

Debt service reserve account - Required deposits of \$9,212 for 2021 and 2020, 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 \$745,557 and \$616,676 as of December 31, 2021 and 2020, respectively.

JUDY WATER ASSOCIATION, INC
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

Note 5 - Liquidity and Availability of Financial Assets

The following reflects the Association's financial assets as of December 31, 2021 and 2020, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the balance sheet date.

	<u>2021</u>	<u>2020</u>
Financial assets at year-end	\$1,478,256	\$1,420,758
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>\$1,246,516</u>	<u>\$1,189,018</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, 2021 AND 2020

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, 2021 and 2020 covered by the SEP. The employer contributed 15% of gross wages in 2021 and 2020. The Association's contribution was \$34,582 and \$33,440 for the years ended December 31, 2021 and 2020, respectively.

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, 2022.

Subsequent events for Judy Water Association, Inc. have been evaluated through February 10, 2022, 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, 2021, 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, 2022.

Report on 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) as a basis for designing 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: 2021-1

- **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.

Report on 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 financial statements. 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, 2022