

Rowan Water, Inc.
Single Audit
For the Year Ended December 31, 2018



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Rowan Water, Inc.
Table of Contents
For the Years Ended December 31, 2018

| Title | Page |
|--|------|
| Independent Auditor's Report..... | 1 |
| Financial Statements: | |
| Statement of Financial Position | 3 |
| Statement of Activities | 5 |
| Statement of Functional Expenses | 6 |
| Statement of Cash Flows..... | 7 |
| Notes to the Financial Statements | 8 |
| Schedule of Expenditures of Federal Awards | 15 |
| Notes to the Schedule of Expenditures of Federal Awards | 16 |
| Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i> | 17 |
| Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance | 19 |
| Schedule of Findings and Questioned Costs | 21 |

Independent Auditor's Report

Board of Directors
Rowan Water, Inc.
1765 Christy Creek
Morehead, Kentucky 40351

Report on the Financial Statements

We have audited the accompanying financial statements of Rowan Water, Inc., (the Company), 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.

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 audit. 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. Those standards require that we plan and perform the audit 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 Rowan Water, Inc., as of December 31, 2018 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

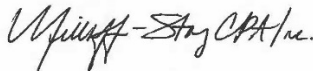
As discussed in note 14 to the financial statements, during 2018, the Company adopted new accounting guidance in FASB ASU 2016-14, "Not for Profit Entities: Presentation of the Financial Statements of Not for Profit Entities". The 2018 financial statements have been restated due to this implementation. We did not modify our opinion regarding this matter.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of federal awards expenditures, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of federal awards expenditures is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 11, 2019 on our consideration of the Company'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 the Company'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 Company's internal control over financial reporting and compliance.



Millhuff-Stang, CPA, Inc.
Portsmouth, Ohio

June 11, 2019

Rowan Water, Inc.
Statement of Financial Position
December 31, 2018

Assets:

Current Assets

| | |
|--|----------------|
| Cash and cash equivalents | \$521,117 |
| Accounts receivable customers (net of allowance for uncollectibles of \$20,629) | 300,375 |
| Inventory | <u>138,403</u> |
| Total current assets | 959,895 |

Other Assets

| | |
|--------------------|----------------|
| Restricted cash | 380,661 |
| Utility deposits | <u>1,045</u> |
| Total other assets | <u>381,706</u> |

Property, Plant and Equipment

| | |
|--|---------------------|
| Land and land rights | 220,715 |
| Building | 899,538 |
| Pumping plant | 1,338,729 |
| Transmission and distribution lines | 16,373,310 |
| Office furniture, fixtures and equipment | 64,369 |
| Machinery and equipment | 708,733 |
| Construction work in progress | <u>1,449,304</u> |
| | 21,054,698 |
| Less: accumulated depreciation | <u>(10,153,953)</u> |
| Property, plant and equipment (net) | <u>10,900,745</u> |

Total assets \$12,242,346

(continued)

See accompanying notes to the financial statements.

Rowan Water, Inc.
Statement of Financial Position (Continued)
December 31, 2018

| | <u>2018</u> |
|-------------------------------------|----------------------------|
| Liabilities and Net Assets: | |
| Current Liabilities | |
| Accounts payable | \$117,233 |
| Accrued interest payable | 101,869 |
| Other accrued expenses | 149,132 |
| Customer deposits | 99,550 |
| Current portion of long-term debt | <u>144,266</u> |
| Total current liabilities | <u>612,050</u> |
| Long-Term Debt | |
| Notes payable, less current portion | <u>5,113,847</u> |
| Total liabilities | 5,725,897 |
| Net Assets | |
| With donor restrictions | 44,985 |
| Without donor restrictions | <u>6,471,464</u> |
| Total net assets | <u>6,516,449</u> |
| Total liabilities and net assets | <u><u>\$12,242,346</u></u> |

See accompanying notes to the financial statements.

Rowan Water, Inc.
Statement of Activities
For the Year Ended December 31, 2018

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|----------------------------------|-------------------------------|--------------------|
| Revenues, gains and other support: | | | |
| Water sales | \$2,923,521 | \$0 | \$2,923,521 |
| Federal grants in aid of construction | 0 | 403,298 | 403,298 |
| Membership fees | 448 | 0 | 448 |
| Interest income | 7,484 | 0 | 7,484 |
| Miscellaneous | 139,547 | 0 | 139,547 |
| Support provided by expiring purpose restrictions | 389,457 | (389,457) | 0 |
| Total revenues, gains and other support | 3,460,457 | 13,841 | 3,474,298 |
| Expenses: | | | |
| Program services | | | |
| Supply operations | 1,127,647 | 0 | 1,127,647 |
| Transmission and distribution | 1,490,262 | 0 | 1,490,262 |
| Total program expenses | 2,617,909 | 0 | 2,617,909 |
| Supporting services | | | |
| Administration and general | 776,812 | 0 | 776,812 |
| Total expenses | 3,394,721 | 0 | 3,394,721 |
| Change in net assets | 65,736 | 13,841 | 79,577 |
| Net assets, beginning of year-restated | 6,405,728 | 31,144 | 6,436,872 |
| Net assets, end of year | <u>\$6,471,464</u> | <u>\$44,985</u> | <u>\$6,516,449</u> |

See accompanying notes to the financial statements.

Rowan Water, Inc.
Statement of Functional Expenses
For the Year Ended December 31, 2018

| | Program Services | | | Supporting Services | |
|----------------------------------|----------------------|--------------------------------|--------------------|-----------------------------|--------------------|
| | Supply Operations | Transmission & Distribution | Total | Administration & General | Total Expenses |
| Salaries-employees | \$0 | \$338,828 | \$338,828 | \$216,627 | \$555,455 |
| Board member fees | 0 | 0 | 0 | 24,483 | 24,483 |
| Employee retirement and benefits | 0 | 217,838 | 217,838 | 139,274 | 357,112 |
| Payroll tax expense | 0 | 19,424 | 19,424 | 12,419 | 31,843 |
| Purchased water | 1,127,647 | 0 | 1,127,647 | 0 | 1,127,647 |
| Purchased power | 0 | 122,448 | 122,448 | 0 | 122,448 |
| Materials and supplies | 0 | 156,857 | 156,857 | 14,256 | 171,113 |
| Contractual services-accounting | 0 | 0 | 0 | 13,525 | 13,525 |
| Contractual services-legal | 0 | 5,110 | 5,110 | 0 | 5,110 |
| Contractual services-water | 0 | 22,140 | 22,140 | 0 | 22,140 |
| Contractual services-other | 0 | 19,178 | 19,178 | 0 | 19,178 |
| Transportation expenses | 0 | 51,088 | 51,088 | 0 | 51,088 |
| Insurance | 0 | 0 | 0 | 47,127 | 47,127 |
| Bad debt expense | 0 | 0 | 0 | 17,784 | 17,784 |
| Miscellaneous expenses | 0 | 38,741 | 38,741 | 77,847 | 116,588 |
| Interest expense | 0 | 0 | 0 | 203,248 | 203,248 |
| Depreciation expense | 0 | 498,610 | 498,610 | 10,222 | 508,832 |
| | <u>\$1,127,647</u> | <u>\$1,490,262</u> | <u>\$2,617,909</u> | <u>\$776,812</u> | <u>\$3,394,721</u> |

See accompanying notes to the financial statements.

Rowan Water, Inc.
Statement of Cash Flows
For the Year Ended December 31, 2018

| | |
|--|-------------------------|
| Cash flows from operating activities | |
| Cash received from customers | \$2,889,308 |
| Cash received from other receipts | 139,547 |
| Cash payments for personal services | (943,252) |
| Cash payments for contractual services, supplies and materials | (1,600,207) |
| Cash payments for other expenses | <u>(116,588)</u> |
| Net cash provided by operating activities | 368,808 |
| Cash flows from investing activities | |
| Purchases of plant and equipment | (994,103) |
| Interest income received | <u>7,484</u> |
| Net cash used in investing activities | (986,619) |
| Cash flows from financing activities | |
| Proceeds from issuance of long-term debt | 532,891 |
| Principal payments on long-term debt | (146,633) |
| Interest paid on long-term debt | (199,955) |
| Capital contributions - membership fees | 448 |
| Capital contributions - federal grants in aid of construction | <u>403,298</u> |
| Net cash provided by financing activities | <u>590,049</u> |
| Net decrease in cash and cash equivalents | (27,762) |
| Cash and cash equivalents, beginning of year-restated | <u>929,540</u> |
| Cash and cash equivalents, end of year | <u><u>\$901,778</u></u> |

See accompanying notes to the financial statements.

Note 1 – Description of the Organization

Rowan Water, Inc. (the Company) was established in 1968 to serve customers outside the city limits of Morehead, Kentucky. The Company started with a couple hundred customers and has now grown to over 6,800 customers. The Company serves Rowan, Carter, Elliot, Morgan and Fleming Counties. Rowan Water also sells water to Olive Hill and Fleming Water. The Company is a non-profit corporation with no political affiliation. The Company has 11 employees. The Company has over 700 miles of water line in the ground to maintain. The Company has 11 tanks and 11 pump stations.

Note 2 – Summary of Significant Accounting Policies

The Company prepares its financial statements in accordance with generally accepted accounting principles promulgated in the United States of America (U.S. GAAP) for not-for-profit entities. The significant accounting and reporting policies used by the Company are described subsequently to enhance the usefulness and understandability of the financial statements.

Basis of Accounting

The Company prepares its financial statements using the accrual basis of accounting and accounting principles generally accepted in the United States of America.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Net Assets

The financial statements report net assets and changes in net assets in two classes that are based upon the existence or absence of restrictions on use that are placed by its donors, as follows:

Net assets without donor restrictions – Net assets without donor restrictions are resources available to support operations. The only limits on the use of these net assets are the broad limits resulting for the nature of the Company, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.

Net assets with donor restrictions – Net assets with donor restrictions are resources that are restricted by a donor for use for a particular purpose or in a particular future period. Some donor-imposed restrictions are temporary in nature, and the restriction will expire when the resources are used in accordance with the donor's instructions or when the stipulated time has passed. Other donor-imposed restrictions are perpetual in nature; the Company must continue to use the resources in accordance with the donor's instructions.

An organization's unspent contributions are included in this class if the donor limited their use, as are its donor-restricted endowment funds and its beneficial interest in a perpetual charitable trust held by a bank trustee.

Rowan Water, Inc.
Notes to the Financial Statements
For the Year Ended December 31, 2018

When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the financial statements by reclassifying the net assets from net assets with donor restrictions to net assets without donor restrictions. Net assets restricted for acquisition of buildings or equipment (or less commonly, the contribution of those assets directly) are reported as net assets with donor restrictions until the specified asset is placed in service by the Company, unless the donor provides more specific directions about the period of its use.

Net assets with donor restrictions are further discussed in note 6.

Classification of Transactions

All revenues and net gains are reported as increases in net assets without donor restrictions in the statement of activities unless the donor specified the use of the related resources for a particular purpose or in a future period. All expenses and net losses other than losses on endowment investments are reported as decreases in net assets without donor restrictions. Net gains on endowment investments increase net assets with donor restrictions, and net losses on endowment investments reduce that net asset class.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Company considers unrestricted cash and all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents.

Restricted Cash and Cash Equivalents

The Company is required to disclose limits on certain assets due to external restrictions or contractual requirements. The Company reports a restricted cash balance of \$44,985 which represents unspent grant proceeds received from the United States Department of Agriculture. The Company also reports a restricted cash balance of \$335,676 which represents cash reserves required by debt covenants.

Accounts Receivable

Accounts receivable are primarily amounts owed on December billings, including delinquencies from previous months. This balance has been reported net of an allowance for uncollectible accounts, estimated based on past experience.

Inventory

Inventory is stated at the lower of cost or market using the first-in, first-out (FIFO) method.

Plant, Property, and Equipment

Utility plant is stated at original cost, net of contributions, which is the cost when first dedicated to public service. Such costs include applicable supervisory and overhead costs. All other fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The Company maintains a capitalization threshold of five thousand dollars for all items added to the utility plant with an estimated useful life of three or more years.

The cost of maintenance and repairs, including renewals of minor items of property, is charged to operating expense. The cost of replacement of depreciable property units, as distinguished from minor items, is charged to the utility plant. The company capitalizes labor on certain capitalized assets constructed by the Company. The amounts capitalized for 2018 is \$4,800.

Rowan Water, Inc.
Notes to the Financial Statements
For the Year Ended December 31, 2018

Provisions for depreciation have been made on the basis of estimated lives of assets, using the straight-line method. Depreciable lives for the various assets are as follows:

| | |
|-------------------------------|-------------|
| Building | 45 Years |
| Pumping plant | 10-25 Years |
| Transmission and distribution | 10-50 Years |
| Furniture and fixtures | 5-10 Years |
| Equipment | 3-7 Years |

Interest incurred during construction periods on funds used to finance construction of capital assets is capitalized as part of the cost of those assets. Interest capitalized in 2018 was \$0.

Grant Revenue

Federal grants in aid of construction consist of federal grants for the construction of water mains to serve customers. The Company capitalizes the costs of such mains. The review could result in the disallowance of expenditures under the terms of the grant or reductions of future grant funds. Based on prior experience, the Company's management believes that costs ultimately disallowed, if any, would not materially affect the financial position of the organization.

Expense Recognition and Allocation

The cost of providing the Company's programs and activities is summarized on a functional basis in the statement of activities and statement of functional expenses. Expenses that can be identified with a specific program or support service are charged directly to that program or support service. General and administrative expenses include those costs that are not directly identifiable with any specific program, but which provide for the overall support and direction of the Company.

Income Tax Status

The Company is exempt from Federal income taxes under Section 501(c)(12) of the Internal Revenue Code of 1954; accordingly, the accompanying financial statements include no provision for such taxes.

Note 3 – Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of December 31, 2018 are:

| | |
|--|------------------|
| Financial assets: | |
| Cash | \$901,778 |
| Accounts receivable | 300,375 |
| Utility deposits | <u>1,045</u> |
| Total financial assets | 1,203,198 |
| Less financial assets held to meet donor-imposed restrictions: | |
| Purpose-restricted net assets | 44,985 |
| Less contractually-required funds: | |
| Cash restricted for debt covenants | <u>335,676</u> |
| Amount available for general expenditures within one year | <u>\$822,537</u> |

The above table reflects donor-restricted and contractually-restricted funds as unavailable because the Company is

Rowan Water, Inc.
Notes to the Financial Statements
For the Year Ended December 31, 2018

required to separately hold these funds to be used for specific construction projects or for the set-aside of debt reserves. As part of the Company's liquidity management plan, the Company holds all unrestricted cash in demand deposit accounts.

Note 4 – Long-Term Debt

Long-term debt at December 31, 2018 consisted of:

| | |
|--|--------------------|
| 5% secured promissory note dated July 19, 1991, due to USDA, Rural Development 40 years from the date of this note with annual installments of \$76,959, including interest, until maturity. | \$721,755 |
| 5% secured promissory note dated September 15, 1992, due to USDA, Rural Development 40 years from the date of this note with annual installments of \$22,886, including interest, until maturity. | 226,402 |
| 4.5% secured promissory note to USDA, Rural Development dated May 13, 1998, due 40 years from the date of this note with payments of \$68,155, including interest, maturing May 2038. | 885,478 |
| 4.5% secured promissory note dated May 9, 2001, due to USDA, Rural Development 40 years from the date of this note with annual installments of \$10,322 including interest, until maturity. | 274,746 |
| 4.5% secured promissory note to USDA, Rural Development dated January 27, 2004, due 40 years from the date of this note with annual installments of \$17,953, including interest, maturing January 2044. | 398,493 |
| 4.5% secured promissory note to USDA, Rural Development dated January 27, 2004, due 40 years from the date of this note with annual installments of \$6,400, including interest, maturing January 2044. | 176,333 |
| 4.125% secured promissory note dated October 24, 2007, due to USDA, Rural Development 40 years from the date of this note with annual installments of \$31,076, including interest, until maturity. | 527,720 |
| 2.75% secured promissory note to USDA, Rural Development dated July 11, 2012, due 40 years from the date of this note with annual installments of \$18,596, including interest, maturing July 2052. | 871,820 |
| 2.75% secured promissory note to USDA, Rural Development dated July 11, 2012, due 40 years from the date of this note with annual installments of \$2,641, including interest, maturing July 2052. | 93,644 |
| 2.625% secured promissory note to USDA, Rural Development dated September 15, 2017, due 40 years from the date of this note with annual installments of \$44,993, including interest, maturing September 2057. | <u>1,081,722</u> |
| Total | 5,258,113 |
| Less: principal payments due within one year classified as current liability | <u>(144,266)</u> |
| | <u>\$5,113,847</u> |

Rowan Water, Inc.
Notes to the Financial Statements
For the Year Ended December 31, 2018

Maturities of long-term debt are as follows:

| | |
|------------|--------------------|
| 2019 | \$144,266 |
| 2020 | 150,378 |
| 2021 | 156,747 |
| 2022 | 163,399 |
| 2023 | 170,345 |
| Thereafter | <u>4,472,978</u> |
| Total | <u>\$5,258,113</u> |

Operating facilities, together with all revenue and service charges which may arise from operations of the Company, are pledged as security for the notes payable to USDA, Rural Development.

The notes payable agreements with the United States Department of Agriculture, Rural Development (USDA, RD) require that depreciation reserve accounts be established as follows:

- (A) For the notes dated July 19, 1991, and September 15, 1992, the Company is required to deposit \$835 a month, starting January 1, 1993, in a depreciation reserve account until the balance reaches \$100,200.
- (B) For the note dated May 13, 1998, the Company is required to deposit \$570 a month into a depreciation reserve account. The Company is required to make these deposits starting January 2000 until the balance reaches \$68,400.
- (C) For the notes dated January 27, 2004, the Company is required to deposit \$320 a month into a depreciation reserve account. The Company is required to make these deposits until the balance reaches \$38,400.
- (D) For the note dated October 24, 2007, the Company is required to deposit \$265 a month into a depreciation reserve account. The Company is required to make these deposits until the balance reaches \$31,800.
- (E) For the note dated May 9, 2001, the Company is required to deposit \$170 a month into a depreciation reserve account. The Company is required to make these deposits until the balance reaches \$20,400.
- (F) For the note dated July 11, 2012, the Company is required to deposit \$410 a month into a depreciation reserve account. The Company is required to make these deposits until the balance reaches \$49,200.
- (G) For the note dated September 15, 2017, the Company is required to deposit \$385 a month into a depreciation reserve account. The Company is required to make these deposits until the balance reaches \$46,200.

The required balance of the depreciation reserve at December 31, 2018 was \$278,800. The amount in the depreciation reserve at December 31, 2018 was \$335,676.

Note 5 – Pension Plan

Pension benefits are provided for substantially all employees through an insurance company, under a defined contribution pension plan. The Company contributes 7% of each employee's gross salary to a Simple IRA. The Company's pension contributions for 2018 were \$30,054.

Rowan Water, Inc.
Notes to the Financial Statements
For the Year Ended December 31, 2018

Note 6 – Net Assets With Donor Restrictions

At December 31, 2018, net assets with donor restrictions are available for the following purpose:

| | |
|---|-----------------|
| Purpose restrictions, available for spending: | |
| Capital projects | <u>\$44,985</u> |
| Total net assets with donor restrictions | <u>\$44,985</u> |

Note 7 – Commitments

Under its wholesale water agreement, the Company is committed to purchase its water from another local utility. The rates paid for such purchases are subject to review and revision. The Company has also entered into a long-term water resale contract with a local water district whereby the Company is committed to provide water, as provided in the contract, to the district over the next 25 years.

Note 8 – Group Concentration of Credit Risk

The Company is located in Morehead, Kentucky. Its service area includes portions of several counties surrounding the City. The Company requires a deposit from its members when services are provided to rental property. Such deposits are applied to unpaid bills in the event of default.

Note 9 – Membership Fees

The Company uses the membership fees account to record membership fees collected from new customers (members). Membership fees collected in 2018 amounted to \$448.

Note 10 – Tap-On Fees

The Company uses the tap-on fees account to record tap fees collected from new customers (members). Tap fees collected in 2018 amounted to \$46,720.

Note 11 – Bank Deposits

The Company maintains bank accounts at US Bank and Morehead Community Federal Credit Union. Accounts at these institutions are insured up to \$250,000 per bank. As of December 31, 2018, the Company's bank balance was \$906,291, of which \$461,151 was insured by the banks. The remaining balances were not insured.

Note 12 – Accrued Sick Leave

Accrued sick leave balance at December 31, 2018 was \$131,216.

Note 13 – Subsequent Events

Management has performed an analysis for the activities and transactions subsequent to December 31, 2018 to determine the need for any adjustments or disclosures within the financial statements for the year ended. Management has performed their analysis through June 11, 2019, which is the date the financial statements were available to be issued.

Note 14 – Implementation of New Accounting Pronouncement/Change in Beginning Balances

Implementation of New Accounting Pronouncements

For the year ended December 31, 2018, the Company was required to implement ASU No. 2016-14, "Not-for-Profit

Rowan Water, Inc.
Notes to the Financial Statements
For the Year Ended December 31, 2018

Entities (Topic 958): Presentation of Financial Statements of Not-for Profit Entities.”

These amendments change presentation and disclosure requirements for not-for-profit entities to provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users.

These include qualitative and quantitative requirements in the following areas:

- Net Asset Classes;
- Investment Return;
- Expenses;
- Liquidity and Availability of Resources; and
- Presentation of Operating Cash Flows.

This implementation has been incorporated within the Company’s financial statements and disclosures, including reclassification of previously reported net assets, but this implementation did not require a restatement of beginning net assets.

The changes have the following effect on net assets at January 1, 2018:

| Net Asset Class | As Originally Presented | After Adoption of ASU 2016-14 |
|---------------------------------------|----------------------------|----------------------------------|
| Unrestricted net assets | \$6,436,872 | \$0 |
| Net assets without donor restrictions | 0 | 6,405,728 |
| Net assets with donor restrictions | 0 | 31,144 |
| Total net assets | <u>\$6,436,872</u> | <u>\$6,436,872</u> |

Restatement of Beginning Cash and Cash Equivalents – Statement of Cash Flows

Cash and cash equivalents reported on the statement of cash flows at December 31, 2017 was restated to also include amounts reported as restricted cash on the statement of net position. This change had the following effect:

| | |
|---|------------------|
| Cash and cash equivalents, as reported, December 31, 2017 | \$562,988 |
| Correction for restricted cash | <u>366,552</u> |
| Cash and cash equivalents, as corrected, January 1, 2018 | <u>\$929,540</u> |

Rowan Water, Inc.
Schedule of Federal Awards Expenditures
For the Year Ended December 31, 2018

| Federal Grantor Pass-Through Grantor Program/Cluster Title | Federal CFDA Number | Pass Through Entity Identifying Number | Total Federal Expenditures |
|--|---------------------------|--|----------------------------------|
| United States Department of Agriculture | | | |
| <i>Direct from Federal Government:</i> | | | |
| Water and Waste Disposal Systems for Rural Communities | 10.760 | N | <u>\$922,373</u> |
| Total United States Department of Agriculture | | | <u>922,373</u> |
| Total Federal Awards Expenditures | | | <u>\$922,373</u> |

N - direct from the federal government

See the accompanying notes to the schedule of federal awards expenditures.

Rowan Water, Inc.
Notes to the Schedule of Federal Awards Expenditures
For the Year Ended December 31, 2018

Note 1 – Basis of Presentation

The accompanying schedule of federal awards expenditures (the schedule) includes the federal grant activity of Rowan Water, Inc. (the Company) under programs of the federal government for the year ended December 31, 2018. The information on this schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the Company, it is not intended to and does not present the financial position, changes in financial position, or cash flows, where applicable, of the Company.

Note 2 – Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement. The Company has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

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*

Independent Auditor's Report

Board of Directors
Rowan Water, Inc.
1765 Christy Creek
Morehead, Kentucky 40351

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 Rowan Water, Inc., (the Company), which comprise the statement of financial position as of December 31, 2018, and the related statement 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 June 11, 2019, wherein we noted the Company adopted new accounting guidance FASB ASU 2016-14, "Not for Profit Entities: Presentation of the Financial Statements for Not for Profit Entities".

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Company'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company'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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Company'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Rowan Water, Inc.

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*

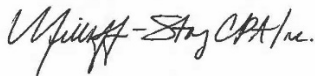
Page 2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Company'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*.

Purpose of this Report

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



Millhuff-Stang, CPA, Inc.
Portsmouth, Ohio

June 11, 2019

**Report on Compliance For Each Major Federal Program and on Internal Control Over Compliance
Required by the Uniform Guidance**

Independent Auditor's Report

Board of Directors
Rowan Water, Inc.
1765 Christy Creek
Morehead, Kentucky 40351

Report on Compliance for Each Major Program

We have audited Rowan Water, Inc.'s, (the Company) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Company's major federal program for the year ended December 31, 2018. The Company's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Company's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Company's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Company's compliance.

Opinion on Each Major Federal Program

In our opinion, the Company complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2018.

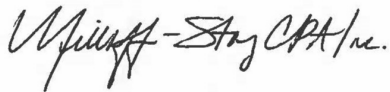
Report on Internal Control Over Compliance

Management of the Company is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Company's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Millhuff-Stang, CPA, Inc.
Portsmouth, Ohio

June 11, 2019

Rowan Water, Inc.
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2018

Section I – Summary of Auditor’s Results

| | | |
|---|---|--|
| <i>Financial Statements</i> | | |
| Type of financial statement opinion: | | Unmodified |
| Internal control over financial reporting: | | |
| | Material weakness(es) identified? | No |
| | Significant deficiency(ies) identified that are not considered to be material weaknesses? | No |
| Noncompliance material to financial statements noted? | | No |
| | | |
| <i>Federal Awards</i> | | |
| Internal control over major program(s): | | |
| | Material weakness(es) identified? | No |
| | Significant deficiency(ies) identified? | No |
| Type of auditor’s report issued on compliance for major programs: | | Unmodified |
| Any auditing findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? | | No |
| Identification of major program(s): | | Water and Waste Disposal Systems for Rural Communities, CFDA #10.760 |
| Dollar threshold used to distinguish between type A and type B programs: | | Type A: > \$750,000 Type B: all others |
| Auditee qualified as low-risk auditee? | | No |

Section II – Financial Statement Findings

None

Section III – Federal Award Findings and Questioned Costs

None