

Rowan Water, Inc.
Regular Audit
For the Year Ended December 31, 2019



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Rowan Water, Inc.
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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, 2019, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

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.

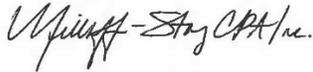
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2019 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 17, 2020 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 17, 2020

Rowan Water, Inc.
Statements of Financial Position
As of December 31, 2019 and December 31, 2018

	2019	2018
Assets:		
Current Assets		
Cash and cash equivalents	\$472,475	\$521,117
Accounts receivable customers (net of allowances for uncollectibles of \$17,025 and \$20,629, respectively)	280,034	300,375
Inventory	129,951	138,403
Total current assets	882,460	959,895
Other Assets		
Restricted cash	335,943	380,661
Utility deposits	1,045	1,045
Total other assets	336,988	381,706
Property, Plant and Equipment		
Land and land rights	220,715	220,715
Building	899,538	899,538
Pumping plant	1,338,729	1,338,729
Transmission and distribution lines	17,805,159	16,373,310
Office furniture, fixtures and equipment	64,369	64,369
Machinery and equipment	705,456	708,733
Construction work in progress	0	1,449,304
	21,033,966	21,054,698
Less: accumulated depreciation	(10,444,804)	(10,153,953)
Property, plant and equipment (net)	10,589,162	10,900,745
Total assets	\$11,808,610	\$12,242,346

(continued)

See accompanying notes to the financial statements.

Rowan Water, Inc.
Statements of Financial Position (Continued)
As of December 31, 2019 and December 31, 2018

	2019	2018
Liabilities and Net Assets:		
Current Liabilities		
Accounts payable	\$258,804	\$117,233
Accrued interest payable	98,811	101,869
Other accrued expenses	120,240	149,132
Customer deposits	101,910	99,550
Current portion of capital lease	15,085	0
Current portion of long-term debt	150,378	144,266
Total current liabilities	745,228	612,050
Long-Term Debt		
Capital lease, less current portion	45,255	0
Notes payable, less current portion	4,963,456	5,113,847
Total liabilities	5,753,939	5,725,897
Net Assets		
With donor restrictions	0	44,985
Without donor restrictions	6,054,671	6,471,464
Total net assets	6,054,671	6,516,449
Total liabilities and net assets	\$11,808,610	\$12,242,346

See accompanying notes to the financial statements.

Rowan Water, Inc.
Statements of Activities
For the Year Ended December 31, 2019
(With Summarized Information For the Year Ended December 31, 2018)

	2019			2018
	Without Donor Restrictions	With Donor Restrictions	Total	
Revenues, gains and other support:				
Water sales	\$2,889,030	\$0	\$2,889,030	\$2,923,521
Federal grants in aid of construction	0	70,702	70,702	403,298
Membership fees	1,265	0	1,265	448
Interest income	10,521	0	10,521	7,484
Gain on sale of assets	8,750	0	8,750	0
Miscellaneous	184,512	0	184,512	139,547
Support provided by expiring purpose restrictions	115,687	(115,687)	0	0
Total revenues, gains and other support	3,209,765	(44,985)	3,164,780	3,474,298
Expenses:				
Program services				
Supply operations	1,332,616	0	1,332,616	1,127,647
Transmission and distribution	1,517,657	0	1,517,657	1,490,262
Total program expenses	2,850,273	0	2,850,273	2,617,909
Supporting services				
Administration and general	776,285	0	776,285	776,812
Total expenses	3,626,558	0	3,626,558	3,394,721
Change in net assets	(416,793)	(44,985)	(461,778)	79,577
Net assets, beginning of year	6,471,464	44,985	6,516,449	6,436,872
Net assets, end of year	<u>\$6,054,671</u>	<u>\$0</u>	<u>\$6,054,671</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, 2019

	Program Services			Supporting Services	
	Supply Operations	Transmission & Distribution	Total	Administration & General	Total Expenses
Salaries-employees	\$0	\$309,407	\$309,407	\$197,817	\$507,224
Board member fees	0	0	0	25,473	25,473
Employee retirement and benefits	0	197,636	197,636	126,357	323,993
Payroll tax expense	0	25,843	25,843	16,522	42,365
Purchased water	1,332,616	0	1,332,616	0	1,332,616
Purchased power	0	125,860	125,860	0	125,860
Materials and supplies	0	220,979	220,979	16,070	237,049
Contractual services-accounting	0	0	0	17,094	17,094
Contractual services-legal	0	2,000	2,000	0	2,000
Contractual services-water	0	19,955	19,955	0	19,955
Contractual services-other	0	27,409	27,409	0	27,409
Transportation expenses	0	61,346	61,346	0	61,346
Insurance	0	0	0	54,300	54,300
Bad debt expense	0	0	0	19,489	19,489
Miscellaneous expenses	0	19,394	19,394	91,280	110,674
Interest expense	0	0	0	199,297	199,297
Depreciation expense	0	507,828	507,828	12,586	520,414
	<u>\$1,332,616</u>	<u>\$1,517,657</u>	<u>\$2,850,273</u>	<u>\$776,285</u>	<u>\$3,626,558</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.
Statements of Cash Flows
For the Years Ended December 31, 2019 and December 31, 2018

	2019	2018
Cash flows from operating activities		
Cash received from customers	\$2,892,242	\$2,889,308
Cash received from other receipts	184,512	139,547
Cash payments for personal services	(927,947)	(943,252)
Cash payments for contractual services, supplies and materials	(1,727,606)	(1,600,207)
Cash payments for other expenses	(110,674)	(116,588)
Net cash provided by operating activities	310,527	368,808
Cash flows from investing activities		
Purchases of plant and equipment	(139,741)	(994,103)
Interest income received	10,521	7,484
Net cash used in investing activities	(129,220)	(986,619)
Cash flows from financing activities		
Proceeds from issuance of long-term debt	0	532,891
Principal payments on long-term debt	(144,279)	(146,633)
Interest paid on long-term debt	(202,355)	(199,955)
Capital contributions - membership fees	1,265	448
Capital contributions - federal grants in aid of construction	70,702	403,298
Net cash provided (used) by financing activities	(274,667)	590,049
Net decrease in cash and cash equivalents	(93,360)	(27,762)
Cash and cash equivalents, beginning of year	901,778	929,540
Cash and cash equivalents, end of year	\$808,418	\$901,778
 Noncash Transactions		
Trade-in allowance on excavator purchase	\$28,550	\$0
Inception of capital lease for vehicle purchases	60,340	0
Trade-in allowance on vehicle purchases	40,000	0
Total noncash transactions	\$128,890	\$0

See accompanying notes to the financial statements.

Rowan Water, Inc.
Notes to the Financial Statements
For the Years Ended December 31, 2019 and 2018

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 Years Ended December 31, 2019 and 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 5.

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 restricted cash balances of \$335,943 and \$335,676 at December 31, 2019 and 2018, respectively, which represents cash reserves required by debt covenants. The Company also reports a restricted cash balance of \$44,985 at December 31, 2018, which represents unspent grant proceeds received from the United States Department of Agriculture.

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 2019 and 2018 are \$5,943 and \$4,800, respectively.

Rowan Water, Inc.
Notes to the Financial Statements
For the Years Ended December 31, 2019 and 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 2019 and 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, 2019 are:

Financial assets:	
Cash	\$808,418
Accounts receivable	280,034
Utility deposits	<u>1,045</u>
Total financial assets	1,089,497
Less contractually-required funds:	
Cash restricted for debt covenants	<u>335,943</u>
Amount available for general expenditures within one year	<u>\$753,554</u>

Rowan Water, Inc.
Notes to the Financial Statements
For the Years Ended December 31, 2019 and 2018

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 tables reflect donor-restricted and contractually-restricted funds as unavailable because the Company is 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 – 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, 2019 and 2018, the Company's bank balances were \$810,031 and \$906,291, respectively, of which \$464,952 and \$461,151, respectively, was insured by the banks. The remaining balances were not insured.

Note 5 – Net Assets With Donor Restrictions

At December 31, 2019, the Company held no 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 6 – 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 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.

Rowan Water, Inc.
Notes to the Financial Statements
For the Years Ended December 31, 2019 and 2018

Note 8 – Long-Term Debt and Capital Lease Obligations

Long-Term Debt

Long-term debt at December 31, 2019 and 2018 consisted of:

	2019	2018
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.	\$680,883	\$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.	214,836	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.	857,169	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.	267,216	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.	390,105	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.	172,620	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.	517,946	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.	855,994	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.	91,944	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.	1,064,910	1,081,722
Total	5,113,623	5,258,113
Less: principal payments due within one year classified as current liability	(150,378)	(144,266)
	\$4,963,245	\$5,113,847

Rowan Water, Inc.
Notes to the Financial Statements
For the Years Ended December 31, 2019 and 2018

Maturities of long-term debt are as follows:

2020	\$150,378
2021	156,747
2022	163,399
2023	170,345
2024	177,596
Thereafter	<u>4,295,158</u>
Total	<u>\$5,113,623</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 notes 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 balances of the depreciation reserve at December 31, 2019 and 2018 were \$283,800 and \$278,800, respectively. The amounts in the depreciation reserves at December 31, 2019 and 2018 were \$335,943 and \$335,676, respectively.

Capital Lease

In 2019, the Company entered into a capital lease for vehicles. The lease requires a monthly payment of \$1,644 through December 2023. The lease is secured by the vehicles which were recognized in the accounting records with an original purchase price of \$100,340. These vehicles carried an accumulated depreciation of \$3,345 at December 31, 2019.

Maturities of the capital lease are as follows:

2020	\$19,728
2021	19,728
2022	19,728
2023	<u>19,728</u>
Total Payments	78,912
Amount Representing Interest	<u>(18,572)</u>
Capital Lease Obligation	<u>\$60,340</u>

Rowan Water, Inc.
Notes to the Financial Statements
For the Years Ended December 31, 2019 and 2018

Note 9 – 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 2019 and 2018 were \$32,181 and \$30,054, respectively.

Note 10 – Membership Fees

The Company uses the membership fees account to record membership fees collected from new customers (members). Membership fees collected in 2019 and 2018 amounted to \$1,265 and \$448, respectively.

Note 11 – Tap-On Fees

The Company uses the tap-on fees account to record tap fees collected from new customers (members). Tap fees collected in 2019 and 2018 amounted to \$58,958 and \$46,720, respectively.

Note 12 – Accrued Sick Leave

Accrued sick leave balances at December 31, 2019 and 2018 were \$99,979 and \$131,216, respectively.

Note 13 – Subsequent Events

Management has performed an analysis for the activities and transactions subsequent to December 31, 2019 to determine the need for any adjustments or disclosures within the financial statements for the year ended. Management has performed their analysis through March 30, 2020, which is the date the financial statements were available to be issued.

In January 2020, the Company entered into an agreement with the United States Department of Agriculture, Rural Development, for funding for the purpose of acquisition, construction, enlargement, or capital improvement of a water system to serve the Company's service area. This agreement provides for loan funding up to \$1,222,000 and grant funding up to \$500,000.

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, 2019, 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 17, 2020.

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*

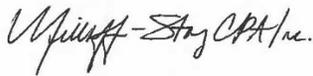
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Compliance and Other Matters

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 17, 2020