

Rowan Water, Inc.
Basic Financial Statements
For the Years Ended December 31, 2022 and 2021



Millhuff-Stang, CPA, Inc.
8841 Ohio River Road, Wheelersburg, Ohio 45694 / Phone: 740.876.8548
45 West Second Street, Suite D, Chillicothe, Ohio 45601 / Phone: 740.851.4978
Fax: 888.876.8549
natalie@millhuffstangcpa.com / roush@millhuffstangcpa.com
www.millhuffstangcpa.com

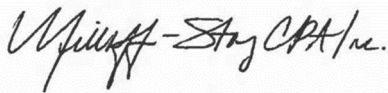
Rowan Water, Inc.
Table of Contents
For the Years Ended December 31, 2022 and 2021

<u>Title</u>	<u>Page</u>
Independent Accountant’s Compilation Report	1
Statements of Financial Position	3
Statements of Activities	5
Statements of Functional Expenses	6
Statements of Cash Flows	8
Notes to the Financial Statements	9

Independent Accountant's Compilation Report

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

Management is responsible for the accompanying financial statements of Rowan Water, Inc., Rowan County, Kentucky (a not-for-profit organization), which comprise the statements of financial position as of December 31, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements in accordance with accounting principles generally accepted in the United States of America. We have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. We did not audit or review the financial statements, nor were we required to perform any procedures to verify the accuracy or the completeness of the information provided by management. We do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.



Millhuff-Stang, CPA, Inc.
Chillicothe, Ohio

March 27, 2023

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Rowan Water, Inc.
Statements of Financial Position
As of December 31, 2022 and December 31, 2021

	2022	2021
Assets:		
Current Assets		
Cash and cash equivalents	\$421,684	\$580,359
Accounts receivable customers (net of allowances for uncollectibles of \$30,261 and \$31,907, respectively)	350,992	352,667
Inventory	204,478	184,624
Total current assets	977,154	1,117,650
Other Assets		
Restricted cash	234,851	226,868
Utility deposits	1,045	1,045
Total other assets	235,896	227,913
Property, Plant and Equipment		
Land and land rights	228,215	220,715
Building	899,538	899,538
Pumping plant	1,196,822	1,338,729
Transmission and distribution lines	18,791,886	18,657,642
Office furniture, fixtures and equipment	72,473	80,694
Machinery and equipment	760,499	802,000
	21,949,433	21,999,318
Less: accumulated depreciation	(11,288,628)	(10,828,659)
Property, plant and equipment (net)	10,660,805	11,170,659
Total assets	\$11,873,855	\$12,516,222

(continued)

See accompanying notes to the financial statements.
See independent accountant's compilation report.

Rowan Water, Inc.
Statements of Financial Position (Continued)
As of December 31, 2022 and December 31, 2021

	2022	2021
Liabilities and Net Assets:		
Current Liabilities		
Accounts payable	\$147,357	\$263,896
Accrued interest payable	71,857	70,566
Other accrued expenses	137,500	123,563
Customer deposits	121,500	121,320
Current portion of finance leases	29,492	29,491
Current portion of long-term debt	214,684	211,742
Total current liabilities	722,390	820,578
Long-Term Debt		
Finance leases, less current portion	37,433	66,925
Notes and bonds payable, less current portion	5,611,932	5,821,127
Total liabilities	6,371,755	6,708,630
Net Assets		
Without donor restrictions	5,502,100	5,807,592
Total net assets	5,502,100	5,807,592
Total liabilities and net assets	\$11,873,855	\$12,516,222

See accompanying notes to the financial statements.
See independent accountant's compilation report.

Rowan Water, Inc.
Statements of Activities
For the Years Ended December 31, 2022 and December 31, 2021

	2022	2021
Changes in Net Assets Without Donor Restrictions:		
Revenues, gains and other support:		
Water sales	\$3,186,619	\$3,160,608
Interest income	11,453	49,236
Miscellaneous	175,885	156,079
Total revenues, gains and other support	3,373,957	3,365,923
Expenses:		
Program services		
Supply operations	1,316,560	1,390,215
Transmission and distribution	1,547,227	1,497,556
Total program expenses	2,863,787	2,887,771
Supporting services		
Administration and general	801,830	810,664
Total expenses	3,665,617	3,698,435
Losses:		
Loss on sale of assets	13,832	29,233
Total expenses and losses	3,679,449	3,727,668
Change in net assets	(305,492)	(361,745)
Net assets, beginning of year	5,807,592	6,169,337
Net assets, end of year	\$5,502,100	\$5,807,592

See accompanying notes to the financial statements.
See independent accountant's compilation report.

Rowan Water, Inc.
Statement of Functional Expenses
For the Year Ended December 31, 2022

	Program Services			Supporting Services	Total Expenses
	Supply Operations	Transmission & Distribution	Total	Administration & General	
Salaries-employees	\$0	\$330,537	\$330,537	\$211,327	\$541,864
Board member fees	0	0	0	24,184	24,184
Employee retirement and benefits	0	188,907	188,907	120,776	309,683
Payroll tax expense	0	26,084	26,084	16,676	42,760
Purchased water	1,316,560	0	1,316,560	0	1,316,560
Purchased power	0	151,840	151,840	0	151,840
Materials and supplies	0	115,469	115,469	20,884	136,353
Contractual services-accounting	0	0	0	42,753	42,753
Contractual services-water	0	8,970	8,970	0	8,970
Contractual services-other	0	15,207	15,207	0	15,207
Transportation expenses	0	57,123	57,123	0	57,123
Insurance	0	0	0	46,079	46,079
Bad debt expense	0	0	0	21,628	21,628
Miscellaneous expenses	0	28,081	28,081	106,678	134,759
Interest expense	0	0	0	178,090	178,090
Depreciation expense	0	625,009	625,009	12,755	637,764
	<u>\$1,316,560</u>	<u>\$1,547,227</u>	<u>\$2,863,787</u>	<u>\$801,830</u>	<u>\$3,665,617</u>

See accompanying notes to the financial statements.
See independent accountant's compilation report.

Rowan Water, Inc.
Statement of Functional Expenses
For the Year Ended December 31, 2021

	Program Services			Supporting Services	Total Expenses
	Supply Operations	Transmission & Distribution	Total	Administration & General	
Salaries-employees	\$0	\$313,539	\$313,539	\$200,459	\$513,998
Board member fees	0	0	0	24,999	24,999
Employee retirement and benefits	0	189,069	189,069	120,881	309,950
Payroll tax expense	0	23,606	23,606	15,092	38,698
Purchased water	1,390,215	0	1,390,215	0	1,390,215
Purchased power	0	135,397	135,397	0	135,397
Materials and supplies	0	113,320	113,320	16,023	129,343
Contractual services-accounting	0	0	0	19,054	19,054
Contractual services-legal	0	705	705	0	705
Contractual services-water	0	15,480	15,480	0	15,480
Contractual services-other	0	23,668	23,668	0	23,668
Transportation expenses	0	30,310	30,310	0	30,310
Insurance	0	0	0	45,236	45,236
Bad debt expense	0	0	0	42,952	42,952
Miscellaneous expenses	0	25,571	25,571	113,110	138,681
Interest expense	0	0	0	200,064	200,064
Depreciation expense	0	626,891	626,891	12,794	639,685
	\$1,390,215	\$1,497,556	\$2,887,771	\$810,664	\$3,698,435

See accompanying notes to the financial statements.
See independent accountant's compilation report.

Rowan Water, Inc.
Statements of Cash Flows
For the Years Ended December 31, 2022 and December 31, 2021

	2022	2021
Cash flows from operating activities		
Cash received from customers	\$3,166,846	\$3,146,502
Cash received from other receipts	175,885	156,079
Cash payments for personal services	(904,554)	(874,186)
Cash payments for contractual services, supplies and materials	(1,911,278)	(1,769,749)
Cash payments for other expenses	(134,759)	(138,681)
Net cash provided by operating activities	392,140	519,965
Cash flows from investing activities		
Purchases of plant and equipment	(141,742)	(117,185)
Interest income received	11,453	49,236
Net cash used in investing activities	(130,289)	(67,949)
Cash flows from financing activities		
Proceeds from issuance of long-term debt	0	2,400,000
Principal payments on long-term debt	(235,744)	(2,581,772)
Interest paid on long-term debt	(176,799)	(237,111)
Net cash used by financing activities	(412,543)	(418,883)
Net change in cash and cash equivalents	(150,692)	33,133
Cash and cash equivalents, beginning of year	807,227	774,094
Cash and cash equivalents, end of year	\$656,535	\$807,227

Noncash Transactions

Vehicle acquisitions under finance leases	\$0	\$64,849
Inception of finance lease for vehicle purchases	0	(32,258)
Finance lease obligations satisfied through inception of new leases	0	18,228
Accrued interest paid through refunded bond issuance	0	(29,996)
Interest expense on refunding bond	0	17,926

See accompanying notes to the financial statements.
See independent accountant's compilation report.

Rowan Water, Inc.
Notes to the Financial Statements
For the Years Ended December 31, 2022 and 2021

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 7,300 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 10 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, 2022 and 2021

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 \$127,200 and \$127,200 at December 31, 2022 and 2021, respectively, which represents cash reserves required by debt covenants. The Company also reports restricted cash balances of \$107,651 and \$99,668 at December 31, 2022 and 2021, respectively, which represents sinking fund contributions 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 2022 and 2021 are \$16,688 and \$15,480, respectively.

Rowan Water, Inc.
Notes to the Financial Statements
For the Years Ended December 31, 2022 and 2021

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 2022 and 2021 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. The Company did not receive any grant funds in 2022 or 2021.

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, 2022 are:

Financial assets:	
Cash	\$656,535
Accounts receivable	350,992
Utility deposits	<u>1,045</u>
Total financial assets	1,008,572
Less contractually-required funds:	
Cash restricted for debt covenants	<u>234,851</u>
Total restricted assets	<u>234,851</u>
Amount available for general expenditures within one year	<u>\$773,721</u>

Rowan Water, Inc.
Notes to the Financial Statements
For the Years Ended December 31, 2022 and 2021

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of December 31, 2021 are:

Financial assets:	
Cash	\$807,227
Accounts receivable	352,667
Utility deposits	<u>1,045</u>
Total financial assets	1,160,939
Less contractually-required funds:	
Cash restricted for debt covenants	<u>226,868</u>
Total restricted assets	<u>226,868</u>
Amount available for general expenditures within one year	<u>\$934,071</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 and sinking fund contributions required by debt covenants. 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, 2022 and 2021, the Company's bank balances were \$692,960 and \$839,994, respectively, of which \$579,408 and \$571,030, respectively, was insured by the banks. The remaining balances were not insured.

Note 5 – Net Assets With Donor Restrictions

At December 31, 2022 and 2021, the Company held no net assets with donor restrictions.

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, 2022 and 2021

Note 8 – Long-Term Debt and Capital Lease Obligations

Long-Term Debt

Long-term debt at December 31, 2022 and 2021 consisted of:

	2022	2021
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.	\$486,139	\$497,173
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.	805,856	823,025
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.	86,559	88,403
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.	1,012,650	1,030,596
2.25% secured promissory note to USDA, Rural Development dated January 30, 2020, due 40 years from the date of this note with annual installments of \$45,948, including interest, maturing December 2061.	1,170,412	1,193,672
3.20% flexible term program series 2021B refunding bonds payable to Kentucky Rural Water Finance Corporation dated July 1, 2021, due 24 years from the date of this note with annual principal and semi-annual interest payments, maturing on July 1, 2044.	2,265,000	2,400,000
Total	5,826,616	6,032,869
Less: principal payments due within one year classified as current liability	(214,684)	(211,742)
	\$5,611,932	\$5,821,127

The Company entered into a bond agreement with Kentucky Rural Water Finance Corporation on July 1, 2021 for \$2,400,000. This agreement requires a monthly sinking fund payment through the term of the bonds.

Maturities of long-term debt are as follows:

2023	\$214,684
2024	230,551
2025	237,540
2026	244,578
2027	251,679
Thereafter	4,647,584
Total	\$5,826,616

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)

Rowan Water, Inc.
Notes to the Financial Statements
For the Years Ended December 31, 2022 and 2021

require that depreciation reserve accounts be established as follows:

- (A) 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.
- (C) 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.
- (D) 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, 2022 and 2021 were \$85,020 and \$75,480, respectively. The amounts in the depreciation reserves at December 31, 2022 and 2021 were \$127,200 and \$127,200, respectively. Depreciation reserves were fully funded as of December 31, 2022.

Finance Leases

In 2019, 2020, and 2021, the Company entered into finance leases for vehicles. Two of the four vehicles from the 2019 and 2020 leases were traded in on leases the Company entered into in 2021. The monthly lease payment for the 2019 leases is \$822 through December 2023. The monthly lease payment for the 2020 leases is \$1,541 through 2025. The monthly lease payment for the 2021 leases is \$859 through August 2025. Leased vehicles were capitalized in the amount of \$278,440 and carried an accumulated depreciation of \$124,213 at December 31, 2022.

Maturities of the capital lease are as follows:

2023	\$38,666
2024	28,802
2025	<u>20,338</u>
Total Payments	87,806
Amount Representing Interest	<u>(20,881)</u>
Capital Lease Obligation	<u>\$66,925</u>

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 2022 and 2021 were \$30,415 and \$33,523, 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 2022 and 2021 amounted to \$460 and \$405, 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 2022 and 2021 amounted to \$92,654 and \$84,735, respectively. These fees are included in miscellaneous revenue on the financial statements.

Note 12 – Accrued Sick Leave

Accrued sick leave balances at December 31, 2022 and 2021 were \$112,185 and \$101,940, respectively.

Note 13 – Subsequent Events

Management has performed an analysis for the activities and transactions subsequent to December 31, 2022 to determine the need for any adjustments or disclosures within the financial statements for the year ended. Management has performed their analysis through March 27, 2023, which is the date the financial statements were available to be issued.

Note 14 – COVID-19

The COVID-19 pandemic, whose effects first became known in January 2020, is having a broad and negative impact on commerce and financial markets around the world. The United States and global markets experienced significant declines in value resulting from uncertainty caused by the pandemic. The Company is closely monitoring its investment portfolio and its liquidity and is actively working to minimize the impact of these declines. The extent of the impact of COVID-19 on the Company's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak and its impacts on the Company's participants, employees, and vendors, all of which at present, cannot be determined. Accordingly, the extent to which COVID-19 may impact the Company's financial position and changes in net assets and cash flows is uncertain and the accompanying financial statements include no adjustments relating to the effects of this pandemic.

Note 15 – New Accounting Implementation

The Company implemented Accounting Standards Update (ASU) No. 2016-02, "Leases", for 2022. Among other things, in the amendments in ASU 2016-02, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date:

- A lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and
- A right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term.

Under the new guidance, lessor accounting is largely unchanged. Certain targeted improvements were made to align, where necessary, lessor accounting with the lessee accounting model and Topic 606, "Revenue from Contracts with Customers."

Changes have been incorporated in the Company's financial statements and note disclosures. However, this implementation did not affect beginning net assets.