

Rowan Water, Inc.
Basic Financial Statements
For the Years Ended December 31, 2023 and 2022



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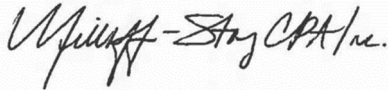
Rowan Water, Inc.
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For the Years Ended December 31, 2023 and 2022

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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. (a not-for-profit organization), which comprise the statements of financial position as of December 31, 2023 and 2022, and the related statements of activities, functional expenses, and cash flows for the year 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 23, 2024

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Rowan Water, Inc.
Statements of Financial Position
As of December 31, 2023 and December 31, 2022

	2023	2022
Assets:		
Current Assets		
Cash and cash equivalents	\$712,502	\$421,684
Accounts receivable customers (net of allowances for uncollectibles of \$29,845 and \$30,261, respectively)	417,185	350,992
Inventory	204,820	204,478
Total current assets	1,334,507	977,154
Other Assets		
Restricted cash	254,248	234,851
Utility deposits	1,045	1,045
Total other assets	255,293	235,896
Property, Plant and Equipment		
Land and land rights	228,215	228,215
Building	899,538	899,538
Pumping plant	1,196,821	1,196,822
Transmission and distribution lines	18,873,341	18,791,886
Office furniture, fixtures and equipment	72,474	72,473
Machinery and equipment	870,863	760,499
	22,141,252	21,949,433
Less: accumulated depreciation	(11,823,222)	(11,288,628)
Property, plant and equipment (net)	10,318,030	10,660,805
Total assets	\$11,907,830	\$11,873,855

(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, 2023 and December 31, 2022

	2023	2022
Liabilities and Net Assets:		
Current Liabilities		
Accounts payable	\$274,165	\$147,357
Accrued interest payable	68,319	71,857
Other accrued expenses	138,519	137,500
Customer deposits	122,230	121,500
Current portion of finance leases	34,128	29,492
Current portion of long-term debt	230,551	214,684
Total current liabilities	867,912	722,390
Long-Term Debt		
Finance leases, less current portion	19,682	37,433
Notes and bonds payable, less current portion	5,375,213	5,611,932
Total liabilities	6,262,807	6,371,755
Net Assets		
Without donor restrictions	5,645,023	5,502,100
Total net assets	5,645,023	5,502,100
Total liabilities and net assets	\$11,907,830	\$11,873,855

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, 2023 and December 31, 2022

	2023	2022
Changes in Net Assets Without Donor Restrictions:		
Revenues, gains and other support:		
Water sales	\$3,798,419	\$3,186,619
Interest income	54,040	11,453
Miscellaneous	172,066	175,885
Gain on disposal of assets	156,596	0
Total revenues, gains and other support	4,181,121	3,373,957
Expenses:		
Program services		
Supply operations	1,547,097	1,316,560
Transmission and distribution	1,646,942	1,547,227
Total program expenses	3,194,039	2,863,787
Supporting services		
Administration and general	844,159	801,830
Total expenses	4,038,198	3,665,617
Losses:		
Loss on disposal of assets	0	13,832
Total expenses and losses	4,038,198	3,679,449
Change in net assets	142,923	(305,492)
Net assets, beginning of year	5,502,100	5,807,592
Net assets, end of year	\$5,645,023	\$5,502,100

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, 2023

	Program Services			Supporting Services	
	Supply Operations	Transmission & Distribution	Total	Administration & General	Total Expenses
Salaries-employees	\$0	\$341,598	\$341,598	\$218,399	\$559,997
Board member fees	0	0	0	28,366	28,366
Employee retirement and benefits	0	192,128	192,128	122,836	314,964
Payroll tax expense	0	26,924	26,924	17,213	44,137
Purchased water	1,547,097	0	1,547,097	0	1,547,097
Purchased power	0	163,128	163,128	0	163,128
Materials and supplies	0	166,605	166,605	12,689	179,294
Contractual services-accounting	0	0	0	54,284	54,284
Contractual services-water	0	12,483	12,483	0	12,483
Contractual services-other	0	37,199	37,199	0	37,199
Transportation expenses	0	55,129	55,129	0	55,129
Insurance	0	0	0	53,010	53,010
Bad debt expense	0	0	0	34,674	34,674
Miscellaneous expenses	0	26,035	26,035	124,114	150,149
Interest expense	0	0	0	165,804	165,804
Depreciation expense	0	625,713	625,713	12,770	638,483
	\$1,547,097	\$1,646,942	\$3,194,039	\$844,159	\$4,038,198

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	
	Supply Operations	Transmission & Distribution	Total	Administration & General	Total Expenses
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
	\$1,316,560	\$1,547,227	\$2,863,787	\$801,830	\$3,665,617

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, 2023 and December 31, 2022

	2023	2022
Cash flows from operating activities		
Cash received from customers	\$3,698,282	\$3,166,846
Cash received from other receipts	172,066	175,885
Cash payments for personal services	(946,445)	(904,554)
Cash payments for contractual services, supplies and materials	(1,975,158)	(1,911,278)
Cash payments for other expenses	(150,149)	(134,759)
Net cash provided by operating activities	798,596	392,140
Cash flows from investing activities		
Purchases of plant and equipment	(97,044)	(141,742)
Interest income received	54,040	11,453
Net cash used in investing activities	(43,004)	(130,289)
Cash flows from financing activities		
Principal payments on long-term debt	(276,035)	(235,744)
Interest paid on long-term debt	(169,342)	(176,799)
Net cash used by financing activities	(445,377)	(412,543)
Net change in cash and cash equivalents	310,215	(150,692)
Cash and cash equivalents, beginning of year	656,535	807,227
Cash and cash equivalents, end of year	\$966,750	\$656,535
 Noncash Transactions		
Vehicle acquisitions under finance leases	\$233,719	\$0
Inception of finance lease for vehicle purchases	(42,068)	0
Trade in value on disposed automotive equipment	69,841	0

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, 2023 and 2022

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, 2023 and 2022

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 \$141,319 and \$127,200 at December 31, 2023 and 2022, respectively, which represents cash reserves required by debt covenants. The Company also reports restricted cash balances of \$112,929 and \$107,651 at December 31, 2023 and 2022, 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 2023 and 2022 are \$10,080 and \$16,688, respectively.

Rowan Water, Inc.
Notes to the Financial Statements
For the Years Ended December 31, 2023 and 2022

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 2023 and 2022 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 2023 or 2022.

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, 2023 are:

Financial assets:	
Cash	\$966,750
Accounts receivable	417,185
Utility deposits	<u>1,045</u>
Total financial assets	1,384,980
Less contractually-required funds:	
Cash restricted for debt covenants	<u>254,248</u>
Total restricted assets	<u>254,248</u>
Amount available for general expenditures within one year	<u>\$1,130,732</u>

Rowan Water, Inc.
Notes to the Financial Statements
For the Years Ended December 31, 2023 and 2022

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>

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, 2023 and 2022, the Company's bank balances were \$1,019,772 and \$692,960, respectively, of which \$588,628 and \$579,408, respectively, was insured by the banks. The remaining balances were not insured.

Note 5 – Net Assets With Donor Restrictions

At December 31, 2023 and 2022, 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, 2023 and 2022

Note 8 – Long-Term Debt and Capital Lease Obligations

Long-Term Debt

Long-term debt at December 31, 2023 and 2022 consisted of:

	2023	2022
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.	\$474,650	\$486,139
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.	788,216	805,856
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.	84,664	86,559
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.	994,234	1,012,650
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.	1,144,000	1,170,412
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.	2,120,000	2,265,000
Total	5,605,764	5,826,616
Less: principal payments due within one year classified as current liability	(230,551)	(214,684)
	\$5,375,213	\$5,611,932

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:

2024	\$230,551
2025	237,540
2026	244,578
2027	251,679
2028	258,835
Thereafter	4,382,581
Total	\$5,605,764

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, 2023 and 2022

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.
- (B) 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.
- (C) 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.
- (D) For the note dated January 30, 2020, the Company is required to deposit \$425 a month into a depreciation reserve account. The Company is required to make these deposits until the balance reaches \$51,000.

The required balances of the depreciation reserve at December 31, 2023 and 2022 were \$124,020 and \$114,300, respectively. The amounts in the depreciation reserves at December 31, 2023 and 2022 were \$141,319 and \$127,200, respectively. Depreciation reserves were fully funded as of December 31, 2023.

Finance Leases

In 2019, 2020, and 2021, the Company entered into finance leases for vehicles. In a prior year, two of the four vehicles from the 2019 and 2020 leases were traded in on leases the Company entered into in 2021. In the current year, the remaining two of the four vehicles from the 2019 lease, one of the four vehicles from the 2020 lease, and both vehicles from the 2021 lease were traded in on leases the Company entered into in 2023. The monthly lease payment for the 2020 leases is \$1,421 through 2025. The monthly lease payment for the 2023 leases is \$2,766 through August 2025. Leased vehicles were capitalized in the amount of \$363,723 and carried an accumulated depreciation of \$109,845 at December 31, 2023.

Maturities of the capital lease are as follows:

2024	\$50,249
2025	<u>28,254</u>
Total Payments	78,503
Amount Representing Interest	<u>(24,693)</u>
Capital Lease Obligation	<u>\$53,810</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 2023 and 2022 were \$32,515 and \$30,415, 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 2023 and 2022 amounted to \$471 and \$460, 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 2023 and 2022 amounted to \$97,758 and \$92,654, respectively. These fees are included in miscellaneous revenue on the financial statements.

Rowan Water, Inc.
Notes to the Financial Statements
For the Years Ended December 31, 2023 and 2022

Note 12 – Accrued Sick Leave

Accrued sick leave balances at December 31, 2023 and 2022 were \$111,294 and \$112,185, respectively.

Note 13 – Subsequent Events

Management has performed an analysis for the activities and transactions subsequent to December 31, 2023 to determine the need for any adjustments or disclosures within the financial statements for the year ended. Management has performed their analysis through March 23, 2024, which is the date the financial statements were available to be issued.