

LETCHER COUNTY WATER AND SEWER DISTRICT

REPORT OF AUDITED FINANCIAL STATEMENTS

For The Year Ended December 31, 2019

LETCHER COUNTY WATER AND SEWER DISTRICT

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INDEPENDENT AUDITOR'S REPORT

To Members of the Board
Letcher County Water and Sewer District
3443 US 119 N
Mayking, Kentucky 41837

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the aggregate remaining fund information of the Letcher County Water and Sewer District as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the Letcher County Water and Sewer District's basic financial statements as listed in the table of contents.

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 opinions 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate remaining fund information of the Letcher County Water and Sewer District, as of December 31, 2019, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4–6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Letcher County Water and Sewer District's basic financial statements. The comparative statement of revenues and expenses is presented for purposes of additional analysis and are not a required part of the basic financial statements.

The comparative statement of revenues and expenses are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion,

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 10, 2020, on our consideration of the Letcher County Water and Sewer District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Letcher County Water and Sewer District'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 Letcher County Water and Sewer District's internal control over financial reporting and compliance.

A handwritten signature in cursive script, appearing to read "Chris Gooch".

Chris Gooch
Certified Public Accountant

Hazard, Kentucky

August 10, 2020

LETCHER COUNTY WATER AND SEWER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

For The Year Ended December 31, 2019

As management of the Letcher County Water and Sewer District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the year ended December 31, 2019. This information should be considered in conjunction with the accompanying financial statements and disclosure following this section.

FINANCIAL HIGHLIGHTS

- The beginning cash balance for the District was \$434,893. The ending cash balance for the District was \$433,549.
- The District continues water line extensions and improvements to various locations. The following projects are planned, committed, ongoing or completed: Thornton Water Improvements Project; Deane; Red Star, Hallie, Turkey Creek; Pine, Pert & Cram Creek; Bull & Elk Creek; Millstone; GPS location of Hydrants and Valves; Vicco Interconnect; Hazard Interconnect; Loggy Hollow; Big Cowan Side Roads; Millstone Sewer; Roxana and Premium.
- The District had a total of 3,050 active customers and 3,033 active customers at December 31, 2019 and 2018, respectively.

Management's Discussion and Analysis (MD & A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their *Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* issued June 1999.

Our discussion and analysis of the Letcher County Water and Sewer District's financial performance provides an overview of the District's financial activities for the fiscal year ended December 31, 2019. Please read the MD & A in conjunction with the District's financial statements.

For accounting purposes, the District is classified as an enterprise fund: Enterprise funds account for activities similar to those found in the private business sector, where the determination of net income is necessary or useful to sound financial administration. Enterprise funds are reported using the full accrual method of accounting in which all assets and all liabilities associated with the operation of these funds are included on the balance sheet. The focus of enterprise funds is on income measurement, which, together with the maintenance of equity, is an important financial indicator.

Overview of the Financial Statements

This annual report includes this Management Discussion and Analysis report, the Basic Financial Statements and the Notes to the Financial Statements. The District's financial statements are presented as fund level financial statements because the District only has proprietary funds.

LETCHER COUNTY WATER AND SEWER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

For The Year Ended December 31, 2019

The financial statements of the District report information of the District using accounting methods similar to those used by private sector companies. These statements offer short-term and long-term financial information about the District's activities. The Statement of Net Position includes all of the District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations to the District's creditors (liabilities). It also provides the basis for evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Position. The statement measures the success of the District's operations over the past year and can be used to determine whether the District has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness.

The Statement of Cash Flows reports cash receipts, cash payments, and net changes in cash resulting from operation, investing, and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Financial Analysis

The District's basic financial statements are the Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position. The Statement of Net Position provides a summary of the District's assets and liabilities as of the close of business on December 31, 2019. The Statement of Changes in Net Position summarizes the revenues and sources of those revenues generated during the year ended December 31, 2019 and the expenses incurred in operating the District for the year ended December 31, 2019.

Our analysis below focuses on the net position and the change in net position of the District as a whole and not the individual operations or projects.

	<u>12/31/2019</u>	<u>12/31/2018</u>
Net Position:		
Current Assets	\$ 587,054	\$ 594,154
Noncurrent Assets	<u>25,033,755</u>	<u>25,449,442</u>
<u>Total Assets</u>	<u>\$ 25,620,809</u>	<u>\$ 26,043,596</u>

LETCHER COUNTY WATER AND SEWER DISTRICTMANAGEMENT'S DISCUSSION AND ANALYSISFor The Year Ended December 31, 2019

	<u>12/31/2019</u>	<u>12/31/2018</u>
Current Liabilities	\$ 349,721	\$ 326,303
Noncurrent Liabilities	<u>2,074,795</u>	<u>2,157,629</u>
<u>Total Liabilities</u>	<u>2,424,516</u>	<u>2,483,932</u>
- Net Position -		
Unrestricted (Deficit)	324,682	352,805
Restricted	51,134	50,981
Net Investment in Capital Assets	<u>22,820,477</u>	<u>23,155,878</u>
<u>Total Net Position</u>	<u>\$ 23,196,293</u>	<u>\$ 23,559,664</u>

- Decrease in non-current assets is due to recognition of depreciation expense.
- Decrease in non-current liabilities is due to payment on long-term debt.

Changes in Net Position	<u>12/31/2019</u>	<u>12/31/2018</u>
Revenues	\$ <u>1,555,036</u>	\$ <u>1,559,176</u>
Operating Expenses:		
General	1,407,875	1,223,148
Depreciation & Amortization	<u>830,665</u>	<u>805,421</u>
Total Operating Expenses	<u>2,238,540</u>	<u>2,028,569</u>
Other Income (Expenses)	<u>(81,656)</u>	<u>(65,163)</u>
Increase (Decrease) in Net Position	<u>\$ (765,160)</u>	<u>\$ (534,556)</u>

- Increases in depreciation due to continuing completion of water improvement projects.
- Increases in general expenses include increases in water purchases, salaries and related fringe benefits.

Questions regarding this report should be directed to the District Office at (606) 633-8550.

LETCHER COUNTY WATER AND SEWER DISTRICTSTATEMENT OF NET POSITIONDecember 31, 2019**ASSETS:**

- Current Assets -		
Cash in Banks - Unrestricted	\$	382,415
Accounts Receivable, net of allowance for doubtful accounts		185,833
Other Current Assets		18,806
<u>Total Current Assets</u>		<u>587,054</u>
- Fixed Assets -		
Land, Structure & Equipment, net of depreciation		<u>24,982,621</u>
- Other Assets -		
Cash - Restricted		<u>51,134</u>
<u>Total Assets</u>		<u><u>25,620,809</u></u>

LIABILITIES AND NET POSITION:

- Current Liabilities -		
Accounts Payable		88,425
Payroll Liabilities Payable		7,811
Accrued Compensation		14,720
Customer Deposits		134,130
Other Current Liabilities		17,286
Current Portion of Long-Term Debt		<u>87,349</u>
<u>Total Current Liabilities</u>		<u>349,721</u>
- Long Term Liabilities -		
Bonds/Notes Payable		2,162,144
Less: Current Portion		<u>(87,349)</u>
<u>Total Long-Term Liabilities</u>		<u>2,074,795</u>
<u>Total Liabilities</u>		<u>2,424,516</u>
- Net Position -		
Unrestricted/(Deficit)		324,682
Restricted Assets		51,134
Net Investment in Capital Assets		<u>22,820,477</u>
<u>Total Net Position</u>		<u>23,196,293</u>
<u>Total Liabilities and Net Position</u>	\$	<u><u>25,620,809</u></u>

The accompanying notes are an integral part of these financial statements.

LETCHER COUNTY WATER AND SEWER DISTRICT

STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION

For The Year Ended December 31, 2019

<u>Revenue</u>	
Water and Sewer Operations	\$ 1,429,223
Tap Fees	32,632
Late Fees	68,816
Other Miscellaneous Income	24,365
<u>Total Operating Revenues</u>	<u>1,555,036</u>
<u>Operating Expense</u>	
Salaries and Fringe Benefits	387,013
Office Expense	24,800
Water Consumption	667,217
Electric	51,670
Telephone	10,831
Postage	11,084
Advertisement	549
Legal and Accounting	37,706
Contract Labor	32,202
Water Quality Monitoring	7,615
Repairs and Maintenance	27,652
Vehicle Expense	38,653
Rents	2,722
Operating Supplies	71,612
Bank Fees and NSF	1,154
Insurance and Bonds	35,395
Depreciation Expense	814,755
Amortization Expense	15,910
<u>Total Operating Expense</u>	<u>2,238,540</u>
Excess (Deficiency) of Operating Revenue	
<u>Over Operating Expense</u>	<u>(683,504)</u>
<u>Other Income (Expense)</u>	
Interest Income	2,396
Interest Expense	(84,052)
<u>Total Other Income (Expense)</u>	<u>(81,656)</u>
Net Income (Loss)	(765,160)
Net Position, Beginning of Year	23,559,664
Add: Capital Contributions	401,789
Net Position, End of Year	<u>\$ 23,196,293</u>

The accompanying notes are an integral part of these financial statements.

LETCHER COUNTY WATER AND SEWER DISTRICTSTATEMENT OF CASH FLOWS

For The Year Ended December 31, 2019

<u>Cash Flows from Operating Activities:</u>	
Receipts from customers and users	\$ 1,611,870
Payments to personnel	(380,067)
Payments to suppliers	(988,108)
Payments to contractors	(69,908)
	<u>173,787</u>
<u>Net Cash Provided (Used) by Operating Activities</u>	
<u>Cash Flows From Capital and Related Financing Activities:</u>	
Increase in infrastructure assets - net	(414,825)
Principal paid on bonds	(80,439)
Interest paid on bonds and notes	(84,052)
Capital grants and contributions received	401,789
	<u>(177,527)</u>
<u>Net Cash Provided (Used) for Capital and Related Financing Activities</u>	
<u>Cash Flows from Investing Activities</u>	
Interest revenue	<u>2,396</u>
Net Increase (Decrease) in Cash	(1,344)
Cash and restricted cash, January 1	<u>434,893</u>
Cash and restricted cash, December 31	<u><u>433,549</u></u>
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:</u>	
Operating loss	(683,504)
Adjustments to reconcile operating net cash provided by operating activities:	
Depreciation	814,755
Amortization	15,910
Changes in assets and liabilities	
(Increase) decrease in accounts receivable	7,604
(Increase) decrease in other current assets	(2,001)
Increase (decrease) in accounts payable	(4,018)
Increase (decrease) in payroll tax payable	(2,024)
Increase (decrease) in accrued compensation	8,970
Increase (decrease) in customer deposits	49,230
Increase (decrease) in other current liabilities	(31,135)
	<u>(31,135)</u>
<u>Net Cash Provided (Used) by Operations</u>	<u>\$ 173,787</u>

The accompanying notes are an integral part of these financial statements.

LETCHER COUNTY WATER AND SEWER DISTRICTNOTES TO THE FINANCIAL STATEMENTSDecember 31, 20191. Reporting Entity

Letcher County Water and Sewer District was created by Letcher County Fiscal Court to be governed and operated under the rules and procedures established under KRS Chapter 74, relating to water districts and KRS Chapter 220 relating to sanitation districts. The entity's plans are to expand its operating activities into parts of Letcher County not presently served with water and sewer utility services.

2. Accounting Policies and Procedures

a. Cash

For purposes of the cash flow statement, cash consists of interest bearing checking accounts, restricted and unrestricted.

b. Fixed Assets and Depreciation

Property, plant and equipment are stated at historical or estimable cost. The District does not have a policy determining the threshold for capitalization. Fixed assets are recorded and depreciated using the straight-line method of accounting over the respective assets useful lives as follows:

Equipment	5 – 7 years
Transmission Lines	20 – 40 years
Water Wells, Structures and Improvements	15 – 40 years

c. Allowance for Doubtful Accounts

Letcher County Water and Sewer District's financial statements reflect an allowance account for its customer accounts receivable based on management's estimate of probable losses. An allowance expense in the amount of \$189,423 was recognized in the financial statements for the year ended December 31, 2019.

d. 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

LETCHER COUNTY WATER AND SEWER DISTRICTNOTES TO THE FINANCIAL STATEMENTS (CONTINUED)December 31, 2019

e. Basis of Presentation

GASB 34 creates basic financial statements for reporting on the governmental financial activities. Financial statements include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Letcher County Water and Sewer District is considered a special purpose government engaged in a business-type activity. No governmental type funds are recognized.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. Proprietary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The District has the following fund:

Proprietary Funds (Enterprise Funds)

The Water and Sewer Revenue Funds accounts for revenues and expenses related to customer utility services.

f. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. For its water and sewer enterprise operations the District uses the full-accrual basis of accounting where revenues are recorded when earned and expenses are recognized when incurred.

Revenues – Exchange and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available.

Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year-end.

LETCHER COUNTY WATER AND SEWER DISTRICTNOTES TO THE FINANCIAL STATEMENTS (CONTINUED)December 31, 2019

f. Basis of Accounting (Continued)

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include grants, entitlements and donations. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before it can be recognized.

Unearned Revenue – Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as unearned revenue.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred.

g. Net Position

GASB 63 changed the presentation of the Letcher County Water and Sewer District's financial statements to incorporate the concepts of net position, deferred outflows of resources and deferred inflows of resources. Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. The net position component "investment in capital assets," consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations on its use either through the enabling legislation adopted by the City or through external restrictions imposed by the creditors, grantors or laws or regulations of other governments.

h. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, those revenues are primarily charges for utility services provided.

LETCHER COUNTY WATER AND SEWER DISTRICTNOTES TO THE FINANCIAL STATEMENTS (CONTINUED)December 31, 2019

i. Materials and Supplies

Inventory is currently charged to expense as incurred. Supplies are acquired on an as needed basis.

j. Recently Issued Accounting Pronouncements

The District has implemented the following new accounting pronouncements, where applicable:

- GASB Statement No. 88—Certain Disclosures Related to Debt, including Direct Borrowing and Direct Placements, effective for the District’s fiscal year ending December 31, 2019.

The adoption of the above GASB Statement did not have an impact on the District’s financial position or results of operations.

The District will adopt the following new accounting pronouncements in future years:

- GASB Statement No. 83—Certain Asset Retirement Obligations, Effective for the District’s fiscal year ending December 31, 2020.
- GASB Statement No. 84—Fiduciary Activities, effective for the District’s fiscal year ending December 31, 2020.
- GASB Statement No. 87—Leases, effective for the District’s fiscal year ending December 31, 2022.
- GASB Statement No. 89—Accounting for Interest Cost Incurred Before the End of a Construction Period, effective for the District’s fiscal year ending December 31, 2021.

The impact of these pronouncements on the District’s financial statements has not been determined.

LETCHER COUNTY WATER AND SEWER DISTRICTNOTES TO THE FINANCIAL STATEMENTS (CONTINUED)December 31, 20193. Cash and Cash Equivalents

The carrying amount of cash, including petty cash, was \$433,549 and the bank balance of cash was \$525,102 at December 31, 2019. Cash at December 31, 2019 was comprised of the following:

	<u>Bank</u> <u>Balance</u>	<u>Book</u> <u>Balance</u>	<u>Interest</u> <u>Rate</u>	<u>Financial</u> <u>Institution</u>
Water Operations Account	\$ 97,150	\$ 3,931	0.45%	Community Trust Bank
RD Sinking Fund Account	8	8	0.00%	Community Trust Bank
Revenue Account	376,817	378,233	0.45%	Community Trust Bank
KIA Reserve Account	10,072	10,072	0.10%	Community Trust Bank
Reserve Account	40,799	40,799	0.20%	Community Trust Bank
Elk Creek Phase II	4	4	0.00%	Community Trust Bank
Hallie/Turkey Creek Phase II	172	172	0.00%	Community Trust Bank
Redstar Phase II	19	19	0.00%	Community Trust Bank
AML Prison Waste Water Plant	14	14	0.00%	Community Trust Bank
AML Water Line Ext to Roxana	47	47	0.00%	Community Trust Bank
Petty Cash	-	250	N/a	N/a
<u>Totals</u>	<u>\$ 525,102</u>	<u>\$ 433,549</u>		

Custodial credit risk is the risk that in event of bank failure the deposits may not be returned or that Letcher County Water and Sewer District may not recover collateral securities. The organization's deposits at December 31, 2019 exceeded the amount of the Federal Deposit Insurance Corporation insurance (FDIC). Letcher County Water and Sewer District has a collateral agreement that covers any amounts not insured by FDIC. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. Letcher County Water and Sewer District does not have any investments other than its interest bearing checking accounts. Concentrations of credit risk are the risk of loss attributed to the magnitude of the District's investment in a single issuer. All of the Organization's cash at December 31, 2019 is held at Community Trust Bank.

Foreign currency risk is the risk of changes in exchange rates affecting foreign investments. The District does not hold any foreign investments.

4. Other Current Assets

Other current assets consisted of the following at December 31, 2019:

Prepaid expenses	\$ 15,636
Payroll tax receivable	<u>3,170</u>
	<u>\$ 18,806</u>

LETCHER COUNTY WATER AND SEWER DISTRICTNOTES TO THE FINANCIAL STATEMENTS (CONTINUED)December 31, 20195. Other Current Liabilities

Other current liabilities consisted of the following at December 31, 2019:

Unearned revenue	\$ 13,180
Utility tax payable	3,370
Accrued interest payable	472
Sales tax payable	<u>264</u>
	<u>\$ 17,286</u>

6. Changes in Fixed Assets

Following are changes in fixed assets for Letcher County Water and Sewer District at December 31, 2019:

	<u>12/31/2018</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/2019</u> <u>Balance</u>
<u>Water operations</u>				
<u>Capital assets not being depreciated:</u>				
Land	\$ 30,855	\$ -	\$ -	\$ 30,855
Construction in progress	<u>-</u>	<u>401,789</u>	<u>-</u>	<u>401,789</u>
Total capital assets not being depreciated	30,855	401,789	-	432,644
<u>Capital assets being depreciated:</u>				
Plant and infrastructure	31,500,720	-	-	31,500,720
Building	156,129	-	-	156,129
Office furniture and equipment	30,519	-	-	30,519
Other tangible equipment	128,011	2,636	(5,520)	125,127
Transportation equipment	<u>97,407</u>	<u>10,800</u>	<u>(4,404)</u>	<u>103,803</u>
Total capital assets being depreciated	31,912,786	13,436	(9,924)	31,916,298
<u>Less accumulated depreciation for:</u>				
Plant and infrastructure	(6,709,053)	(791,490)	-	(7,500,543)
Building	(1,511)	(5,504)	-	(7,015)
Office furniture and equipment	(18,332)	(3,336)	-	(21,668)
Other tangible equipment	(90,726)	(8,599)	5,520	(93,805)
Transportation equipment	<u>(69,928)</u>	<u>(6,851)</u>	<u>4,004</u>	<u>(72,775)</u>
Total accumulated depreciation	(6,889,550)	(815,780)	9,524	(7,695,806)
<u>Total capital assets being depreciated, net</u>	<u>25,023,236</u>	<u>(802,344)</u>	<u>(400)</u>	<u>24,220,492</u>
<u>Total Water operations fixed assets</u>	<u>\$ 25,054,091</u>	<u>\$ (400,555)</u>	<u>\$ (400)</u>	<u>\$ 24,653,136</u>

LETCHER COUNTY WATER AND SEWER DISTRICTNOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2019

6. Changes in Fixed Assets (continued)

	12/31/2018			12/31/2019
	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>
<u>Sewer operations</u>				
<u>Capital assets being depreciated:</u>				
Plant and infrastructure	\$ 595,411	\$ -	\$ -	\$ 595,411
Office furniture and equipment	104	-	-	104
Other tangible equipment	5,546	-	(480)	5,066
Transportation equipment	5,895	-	(296)	5,599
Total capital assets being depreciated	<u>606,956</u>	<u>-</u>	<u>(776)</u>	<u>606,180</u>
<u>Less accumulated depreciation for:</u>				
Plant and infrastructure	(251,115)	(14,885)	-	(266,000)
Office furniture and equipment	(104)	-	-	(104)
Other tangible equipment	(5,546)	-	480	(5,066)
Transportation equipment	(5,821)	-	296	(5,525)
Total accumulated depreciation	<u>(262,586)</u>	<u>(14,885)</u>	<u>776</u>	<u>(276,695)</u>
<u>Total capital assets being depreciated, net</u>	<u>344,370</u>	<u>(14,885)</u>	<u>-</u>	<u>329,485</u>
<u>Total Sewer operations fixed assets</u>	<u>344,370</u>	<u>(14,885)</u>	<u>-</u>	<u>329,485</u>
<u>Total fixed assets</u>	<u>\$ 25,398,461</u>	<u>\$ (415,440)</u>	<u>\$ (400)</u>	<u>\$ 24,982,621</u>

Total depreciation & amortization expense for the year ended December 31, 2019 was allocated as follows:

	<u>Depreciation</u>	<u>Amortization</u>	<u>Total</u>
Water operations	\$ 799,870	\$ 15,910	\$ 815,780
Sewer operations	14,885	-	14,885
<u>Total</u>	<u>\$ 814,755</u>	<u>\$ 15,910</u>	<u>\$ 830,665</u>

7. Long-Term Debt

The following is a summary of changes in long-term obligations for the year ended December 31, 2019:

	Balance			Balance	Due Within
	<u>12/31/2018</u>	<u>Additions</u>	<u>Deductions</u>	<u>12/31/2019</u>	<u>One Year</u>
General obligation bonds	\$ 1,877,000	\$ -	\$ (45,500)	\$ 1,831,500	\$ 47,500
Notes from direct borrowing	365,583	-	(34,939)	330,644	39,849
	<u>\$ 2,242,583</u>	<u>\$ -</u>	<u>\$ (80,439)</u>	<u>\$ 2,162,144</u>	<u>\$ 87,349</u>

LETCHER COUNTY WATER AND SEWER DISTRICTNOTES TO THE FINANCIAL STATEMENTS (CONTINUED)December 31, 20197. Long-Term Debt (continued)

The District's outstanding notes from direct borrowing contains provision that in the event of default, outstanding balances become immediately due, with interest rate increases and accrued fees.

If the District defaults on the long term debt, the lenders may assign a receiver to administer on behalf of the District to charge and collect rates sufficient to provide for payment of operating and maintenance expenses and for the payment of principal and interest on the outstanding balances.

Principal and interest requirements to retire the District's long-term obligations are as follows:

	<u>Notes from direct</u>		<u>Bonds</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2020	\$ 39,849	\$ 4,543	\$ 47,500	\$ 81,000
2021	40,249	4,044	50,000	78,867
2022	40,652	3,539	51,000	76,618
2023	41,060	3,030	55,000	74,328
2024	41,472	2,515	56,500	71,852
2025-2029	127,362	4,407	325,500	318,506
2030-2034	-	-	401,500	238,565
2035-2039	-	-	407,000	143,644
2040-2044	-	-	389,500	57,350
2045	-	-	48,000	1,980
Total	\$ 330,644	\$ 22,078	\$ 1,831,500	\$ 1,142,710

A Rural Utilities Service bond, dated May 9, 2005 was issued to defease prior debt of the District used for water infrastructure improvements. The bond issue has an annual interest rate of 4.25%. The total amount of the bond was \$830,000. The bond calls for 40 annual principal payments and semiannual interest payments. The bond agreement also establishes an initial operations and maintenance account of \$25,000 for the first five years of operations with any remainder balance to be transferred to the depreciation reserve account. The funded depreciation reserve establishes monthly payments of \$385, beginning with the first month of the first full fiscal year after the facility becomes operational, until the account reaches \$46,200. At December 31, 2019, the Reserve account's balance was \$40,799.

LETCHER COUNTY WATER AND SEWER DISTRICTNOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2019

7. Long-Term Debt (continued)

Following is the RUS debt service schedule for the Isom Jeremiah infrastructure project:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Balance</u>
				\$ 667,000
2020	16,000	30,015	46,015	651,000
2021	17,000	29,295	46,295	634,000
2022	17,000	28,530	45,530	617,000
2023	18,000	27,765	45,765	599,000
2024	19,000	26,955	45,955	580,000
2025-2029	110,000	121,050	231,050	470,000
2030-2034	136,000	94,050	230,050	334,000
2035-2039	169,000	60,615	229,615	165,000
2040-2043	165,000	18,945	183,945	-
<u>Total</u>	<u>\$ 667,000</u>	<u>\$ 437,220</u>	<u>\$ 1,104,220</u>	

Letcher County Water and Sewer District assumed operations of the City of Blackey Water Treatment Plant beginning July 1, 2006. Assets and related liability of the plant was transferred to the Organization and is reflected in the current period financial statements. The Organization reflects an asset acquired related to the water plant of \$1,111,809, net of depreciation and amortization. Also assumed was a Rural Utility Service long-term debt obligation. Interest is payable annually at 4.5%. Following is the RUS debt service schedule for the Blackey Water Treatment Plant:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Balance</u>
				\$ 337,000
2020	13,000	16,850	29,850	324,000
2021	14,000	16,200	30,200	310,000
2022	14,000	15,500	29,500	296,000
2023	16,000	14,800	30,800	280,000
2024	16,000	14,000	30,000	264,000
2025-2029	93,000	57,100	150,100	171,000
2030-2034	116,000	31,550	147,550	55,000
2035-2036	55,000	3,600	58,600	-
<u>Total</u>	<u>\$ 337,000</u>	<u>\$ 169,600</u>	<u>\$ 506,600</u>	

LETCHER COUNTY WATER AND SEWER DISTRICTNOTES TO THE FINANCIAL STATEMENTS (CONTINUED)December 31, 20197. Long-Term Debt (Continued)

A Rural Utilities Service bond, dated September 13, 2007 was issued for water infrastructure improvements. The bond issue has an annual interest rate of 4.125%. The total amount of the bond was \$1,000,000. The bond calls for 38 annual principal payments and semiannual interest payments.

Following is the RUS debt service schedule for the Camp Branch Sandlick infrastructure project:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Balance</u>
				\$ 827,500
2020	18,500	34,135	52,635	809,000
2021	19,000	33,372	52,372	790,000
2022	20,000	32,588	52,588	770,000
2023	21,000	31,763	52,763	749,000
2024	21,500	30,897	52,397	727,500
2025-2029	122,500	140,356	262,856	605,000
2030-2034	149,500	112,965	262,465	455,500
2035-2039	183,000	79,429	262,429	272,500
2040-2044	224,500	38,405	262,905	48,000
2045	48,000	1,980	49,980	-
<u>Total</u>	<u>\$ 827,500</u>	<u>\$ 535,890</u>	<u>\$ 1,363,390</u>	

Letcher County Water and Sewer District received a loan passed thru the Kentucky Infrastructure Authority from the Environmental Protection Agency in the amount of \$545,692 for construction of water infrastructure in the Little Cowan area of Letcher County. The obligation has a 1% interest rate. Principal and interest will be payable each June 1 and December 1. The loan term is 20 years. The loan requires a replacement reserve account be funded in the amount of \$3,905 each December 1 until the balance reaches \$39,050 and maintained for the life of the system. At December 31, 2019, the KIA Reserve account's balance was \$10,072.

In December 2009, Letcher County Water and Sewer District borrowed an additional \$235,308 from the Kentucky Infrastructure Authority. The total loan from Kentucky Infrastructure Authority was \$781,000.

LETCHER COUNTY WATER AND SEWER DISTRICTNOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2019

7. Long-Term Debt (Continued)

Following is the KIA debt service schedule for the Little Cowan infrastructure project:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Balance</u>
				\$ 330,644
2020	39,849	4,543	44,392	290,795
2021	40,249	4,044	44,293	250,546
2022	40,652	3,539	44,191	209,894
2023	41,060	3,030	44,090	168,834
2024	41,472	2,515	43,987	127,362
2025-2027	<u>127,362</u>	<u>4,407</u>	<u>131,769</u>	-
<u>Total</u>	<u>\$ 330,644</u>	<u>\$ 22,078</u>	<u>\$ 352,722</u>	

Changes in long-term debt for the District are as follows:

	12/31/2018		12/31/2019		Current
	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>	<u>Portion</u>
Rural Utility Service Bond -					
Isom-Jeremiah Project	\$ 682,000	\$ -	\$ (15,000)	\$ 667,000	\$ 16,000
Rural Utility Service Bond -					
Camp Branch-Sandlick Project	845,000	-	(17,500)	\$ 827,500	18,500
Rural Utility Service Bond -					
Blackey Water Treatment Plant	350,000	-	(13,000)	\$ 337,000	13,000
Kentucky Infrastructure Authority -					
Little Cowan Project	<u>365,583</u>	<u>-</u>	<u>(34,939)</u>	<u>\$ 330,644</u>	<u>39,849</u>
Total	<u>\$ 2,242,583</u>	<u>\$ -</u>	<u>\$ (80,439)</u>	<u>\$ 2,162,144</u>	<u>\$ 87,349</u>

8. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. The District carries commercial insurance for risk of loss. The District manages and finances these risks by purchasing commercial insurance for their worker's compensation and employer's liability.

The District did not have settled claims that exceeded the District's commercial insurance coverage in any of the past three years.

LETCHER COUNTY WATER AND SEWER DISTRICTNOTES TO THE FINANCIAL STATEMENTS (CONTINUED)December 31, 20199. Contingencies

The District receives funding from local, state, and federal government agencies. These funds are to be used for designated purposes only. For government agency grants, if the grantor's review indicates that the funds have not been used for the intended purpose, the grantors may request a refund of monies advanced or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantor's satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

10. Concentrations

The District paid \$3.00 per 1,000 gallons for its water purchases in 2019. In February 2020 Knott County Water District increased its rate to \$3.29 per 1,000 gallons and the District adjusted its water rates to offset the increase.

The Blackey Water Treatment Plant ceased operations in August 2010, after that date all water available for usage must be purchased from either the City of Whitesburg, City of Jenkins, Perry County Water and Sewer System or the Knott County Water District.

11. Pension and Health Plans

Employees of the Letcher County Water and Sewer District participate in the Letcher County Fiscal Court's pension and health insurance plans. More information on these plans can be found in Letcher County Fiscal Court's audited financial statements.

12. Subsequent Events

Unknown at the end of the financial reporting period, but prior to the report date, a national emergency was declared related to COVID-19, which led to closings of non-essential services and limitations for public assemblies. While the immediate and long-term financial impact for the District cannot be reasonably estimated, management anticipates monitoring and preparing amendments to future budget projections reflecting any changes in revenues and District activities as a result of the coronavirus impact.

LETCHER COUNTY WATER AND SEWER DISTRICTCOMPARATIVE STATEMENTS OF REVENUES AND EXPENSES

For the Years Ended December 31, 2019 and 2018

	Water Operations		Sewer Operations	
	FYE		FYE	
	12/31/2019	12/31/2018	12/31/2019	12/31/2018
<u>Revenue</u>				
Water and Sewer Operations	\$ 1,423,943	\$ 1,451,740	\$ 5,280	\$ 5,280
Tap Fees	32,632	28,962	-	-
Late Fees	68,816	62,467	-	-
Other Miscellaneous Income	24,365	10,727	-	-
<u>Total Operating Revenues</u>	<u>1,549,756</u>	<u>1,553,896</u>	<u>5,280</u>	<u>5,280</u>
<u>Operating Expense</u>				
Salaries and Fringe Benefits	382,123	289,018	4,890	3,766
Office Expense	24,800	6,861	-	-
Water Consumption	667,217	620,011	-	-
Electric	50,978	52,059	692	707
Telephone	10,831	10,301	-	-
Postage	11,084	11,693	-	-
Advertisement	549	162	-	-
Legal and Accounting	37,432	26,776	274	196
Contract Labor	32,202	25,949	-	3,000
Water Quality Monitoring	7,615	11,244	-	-
Repairs and Maintenance	26,883	22,934	769	656
Vehicle Expense	35,893	32,398	2,760	2,491
Rents	2,722	3,214	-	-
Operating Supplies	69,014	64,310	2,598	1,867
Bank Fees and NSF	1,060	3,482	94	84
Insurance and Bonds	33,271	27,525	2,124	1,757
Travel	-	687	-	-
Depreciation Expense	799,870	774,378	14,885	15,133
Amortization Expense	15,910	15,910	-	-
<u>Total Operating Expense</u>	<u>2,209,454</u>	<u>1,998,912</u>	<u>29,086</u>	<u>29,657</u>
Excess (Deficiency) of Operating Revenue				
<u>Over Operating Expense</u>	<u>(659,698)</u>	<u>(445,016)</u>	<u>(23,806)</u>	<u>(24,377)</u>
<u>Other Income (Expense)</u>				
Interest Income	1,917	1,497	479	374
On Behalf Payments	-	19,314	-	-
Interest Expense	(84,052)	(86,348)	-	-
<u>Total Other Income (Expense)</u>	<u>(82,135)</u>	<u>(65,537)</u>	<u>479</u>	<u>374</u>
Net Income (Loss)	<u>\$ (741,833)</u>	<u>\$ (510,553)</u>	<u>\$ (23,327)</u>	<u>\$ (24,003)</u>

See independent auditor's report.

LETCHER COUNTY WATER AND SEWER DISTRICTSUMMARY SCHEDULE OF PRIOR AUDIT FINDINGSDecember 31, 2019Findings Related to the Financial Statements**2018-001:**

Condition: Significant adjusting entries were made by management to cash accounts of the District after presentation of the financial statements for audit.

Criteria: The District's cash balances should be reconciled from third party statements to underlying general ledger documentation promptly after receiving documentation for which the reconciliation can occur.

Cause: The District was not reconciling its cash balances on a timely basis. Management did not adequately oversee the reconciliation process by setting timelines for review of bank statements, reconciliation forms and other underlying documents.

Effect: Interim periodic financial information provided to the governing board of the District, regulatory and other outside agencies may be misleading.

Recommendations: District management should assure controls are in place which set reconciliation of bank accounts on a prompt basis and there is indication of management review of the reconciliation form and underlying documents.

Management's Response: District management will assure controls are in place which set reconciliation of bank accounts on a prompt basis and there is indication of management review of the reconciliation form and underlying documents.

2018-002:

Condition: When examining documentation supporting a sample of disbursement transactions of the District, we noted the following instances for which underlying information was not complete or paid timely:

<u>Vendor</u>	<u>Amount</u>	<u>Comments</u>
WEX	3,426.75	Paid from statement/no itemized receipts-- 2 months of fuel purchases
The CI Thornburg Co	5,082.80	Paid from statement--Nov through Feb purchases; service charge of \$70.68
WEX	3,511.88	Paid from statement/fuel purchases, no itemized receipt
American Electric Power	9,596.93	Missing invoices totaling \$2,981.59
Breeding's Plumbing & Electric	611.79	Missing invoices 402129 \$22.44 and 402272 \$250.44

LETCHER COUNTY WATER AND SEWER DISTRICTSUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)December 31, 2019**2018-002 (Continued):**

- Criteria: District procedures should establish policies for assuring remittances prepared for payment are accompanied by current and detail documentation for which management or others can readily verify the expense is for allowable purposes.
- Cause: Management is not monitoring outgoing disbursements in a manner allowing an evidentiary process whereby underlying documentation is reviewed and authorized.
- Effect: Without adequate monitoring, the risk is greater expenditures may be for unallowable activities or costs and unnecessary late fees will be assessed.
- Recommendations: The District should assure its monitoring activities include documented review of the underlying documents accompanying its disbursements.
- Management's Response: District management will assure its monitoring activities include documented review of the underlying documents accompanying disbursements.

Findings and Responses for Federal Awards

– NONE –

LETCHER COUNTY WATER AND SEWER DISTRICTSCHEDULE OF FINDINGS AND RESPONSES (Continued)December 31, 2019Findings Related to the Financial Statements**2019-001:**

Condition:	The financial statements originally presented excluded transactions for project related account activity maintained in a separate banking account.
Criteria:	Financial statements should include all activity of the District.
Cause:	The District was not posting to its accounting system activities related for bank accounts specifically created for infrastructure projects.
Effect:	Interim periodic financial information provided to the governing board of the District, regulatory and other outside agencies may be misleading.
Recommendations:	District management should assure controls are in place allowing all transactions.
Management's Response:	District management will periodically compare bank accounts and related activity established to underlying financial statements assuring transaction activity is excluded in its general ledger accounting system.

Chris Gooch

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING
STANDARDS*

To the Members of the Board
Letcher County Water and Sewer District
Mayking, Kentucky 41837

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 the business-type activities and the aggregate remaining fund information of the Letcher County Water and Sewer District, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the Letcher County Water and Sewer District's basic financial statements, and have issued our report thereon dated August 10, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Letcher County Water and Sewer District'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Letcher County Water and Sewer District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Letcher County Water and Sewer District's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2019-001 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Letcher County Water and Sewer District'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*.

District Response to Findings

Letcher County Water and Sewer District's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Letcher County Water and Sewer District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Chris Gooch
Certified Public Accountant

Hazard, Kentucky

August 10, 2020