

LETCHER COUNTY WATER AND SEWER DISTRICT

REPORT OF AUDITED FINANCIAL STATEMENTS

For The Year Ended December 31, 2021

LETCHER COUNTY WATER AND SEWER DISTRICT

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For The Year Ended December 31, 2021

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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 Audit of the Financial Statements

Opinions

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, 2021, 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.

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, 2021, 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.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Letcher County Water and Sewer District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Letcher County Water and Sewer District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Letcher County Water and Sewer District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Letcher County Water and Sewer District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 is the responsibility of management and, 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.

Supplementary 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 accompanying comparative statement of revenues and expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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, the comparative statement of revenues and expenses is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 17, 2023, 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 Letcher County Water and Sewer District's internal control over financial reporting and compliance.



Chris Gooch
Certified Public Accountant

Hazard, Kentucky

January 17, 2023

LETCHER COUNTY WATER AND SEWER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

For The Year Ended December 31, 2021

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, 2021. 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 \$510,133. The ending cash balance for the District was \$572,936.
- 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 3,109 active customers and 3,069 active customers at December 31, 2021 and 2020, 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, 2021. 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, 2021

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, 2021. The Statement of Revenues, Expenses and Changes in Net Position summarizes the revenues and sources of those revenues generated during the year ended December 31, 2021 and the expenses incurred in operating the District for the year ended December 31, 2021.

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>12/31/2021</u>	<u>12/31/2020</u>
Net Position:		
Current Assets	\$ 735,736	\$ 699,062
Noncurrent Assets	<u>23,717,394</u>	<u>24,214,782</u>
<u>Total Assets</u>	<u>\$ 24,453,130</u>	<u>\$ 24,913,844</u>

LETCHER COUNTY WATER AND SEWER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

For The Year Ended December 31, 2021

	<u>12/31/2021</u>	<u>12/31/2020</u>
Current Liabilities	\$ 481,674	\$ 404,112
Noncurrent Liabilities	<u>1,902,059</u>	<u>1,989,105</u>
<u>Total Liabilities</u>	<u>2,383,733</u>	<u>2,393,217</u>
- Net Position -		
Unrestricted (Deficit)	345,714	385,199
Restricted	76,992	38,462
Net Investment in Capital Assets	<u>21,646,691</u>	<u>22,096,966</u>
<u>Total Net Position</u>	<u>\$ 22,069,397</u>	<u>\$ 22,520,627</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>12/31/2021</u>	<u>12/31/2020</u>
Revenues	\$ <u>1,612,528</u>	\$ <u>1,712,802</u>
Operating Expenses:		
General	1,469,734	1,498,624
Depreciation & Amortization	<u>832,204</u>	<u>831,961</u>
Total Operating Expenses	<u>2,301,938</u>	<u>2,330,585</u>
Other Income (Expenses)	<u>(77,498)</u>	<u>(80,153)</u>
Increase (Decrease) in Net Position	<u>\$ (766,908)</u>	<u>\$ (697,936)</u>

- Decrease in revenue is due to a decrease in water usage for fiscal year 2021.
- Decreases in general expenses include decreases in contract labor and 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, 2021ASSETS:

- Current Assets -		
Cash in Banks - Unrestricted	\$	495,944
Accounts Receivable, net of allowance for doubtful accounts		175,323
Other Current Assets		64,469
<u>Total Current Assets</u>		<u>735,736</u>
- Fixed Assets -		
Land, Structure & Equipment, net of depreciation		<u>23,640,402</u>
- Other Assets -		
Cash - Restricted		<u>76,992</u>
<u>Total Assets</u>		<u>24,453,130</u>

LIABILITIES AND NET POSITION:

- Current Liabilities -		
Accounts Payable		99,705
Payroll Liabilities Payable		9,369
Accrued Compensation		20,913
Customer Deposits		175,400
Other Current Liabilities		84,635
Current Portion of Long-Term Debt		91,652
<u>Total Current Liabilities</u>		<u>481,674</u>
- Long Term Liabilities -		
Bonds/Notes Payable		1,993,711
Less: Current Portion		(91,652)
<u>Total Long-Term Liabilities</u>		<u>1,902,059</u>
<u>Total Liabilities</u>		<u>2,383,733</u>
- Net Position -		
Unrestricted/(Deficit)		345,714
Restricted Assets		76,992
Net Investment in Capital Assets		21,646,691
<u>Total Net Position</u>		<u>22,069,397</u>
<u>Total Liabilities and Net Position</u>	\$	<u>24,453,130</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, 2021

<u>Revenue</u>	
Water and Sewer Operations	\$ 1,495,914
Tap Fees	23,281
Late Fees	35,061
Other Miscellaneous Income	58,272
<u>Total Operating Revenues</u>	<u>1,612,528</u>
<u>Operating Expense</u>	
Salaries and Fringe Benefits	375,619
Office Expense	13,371
Water Consumption	784,615
Electric	52,227
Telephone	12,878
Postage	12,462
Advertisement	380
Legal and Accounting	5,695
Contract Labor	53,513
Water Quality Monitoring	7,971
Repairs and Maintenance	25,334
Vehicle Expense	36,260
Rents	1,560
Operating Supplies	57,338
Bank Fees and NSF	303
Insurance and Bonds	30,208
Depreciation Expense	816,294
Amortization Expense	15,910
<u>Total Operating Expense</u>	<u>2,301,938</u>
Excess (Deficiency) of Operating Revenue <u>Over Operating Expense</u>	<u>(689,410)</u>
<u>Other Income (Expense)</u>	
Interest Income	1,518
Interest Expense	(79,016)
<u>Total Other Income (Expense)</u>	<u>(77,498)</u>
Net Income (Loss)	(766,908)
Net Position, Beginning of Year	22,520,627
Add: Capital Contributions	315,678
Net Position, End of Year	<u>\$ 22,069,397</u>

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

LETCHER COUNTY WATER AND SEWER DISTRICTSTATEMENT OF CASH FLOWSFor The Year Ended December 31, 2021

<u>Cash Flows from Operating Activities:</u>	
Receipts from customers and users	\$ 1,667,803
Payments to personnel	(366,113)
Payments to suppliers	(1,035,930)
Payments to contractors	<u>(59,208)</u>
<u>Net Cash Provided (Used) by Operating Activities</u>	<u>206,552</u>
<u>Cash Flows From Capital and Related Financing Activities:</u>	
Increase in infrastructure assets - net	(296,286)
Principal paid on bonds and notes	(85,643)
Interest paid on bonds and notes	(79,016)
Capital grants and contributions received	<u>315,678</u>
<u>Net Cash Provided (Used) for Capital and Related Financing Activities</u>	<u>(145,267)</u>
<u>Cash Flows from Investing Activities</u>	
Interest revenue	<u>1,518</u>
Net Increase (Decrease) in Cash	62,803
Cash and restricted cash, January 1	<u>510,133</u>
Cash and restricted cash, December 31	<u><u>572,936</u></u>
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:</u>	
Operating loss	(689,410)
Adjustments to reconcile operating net cash provided by operating activities:	
Depreciation	816,294
Amortization	15,910
Changes in assets and liabilities	
(Increase) decrease in accounts receivable	36,435
(Increase) decrease in other current assets	(48,836)
Increase (decrease) in accounts payable	304
Increase (decrease) in payroll tax payable	1,309
Increase (decrease) in accrued compensation	8,197
Increase (decrease) in customer deposits	18,840
Increase (decrease) in other current liabilities	<u>47,509</u>
<u>Net Cash Provided (Used) by Operations</u>	<u>\$ 206,552</u>

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

LETCHER COUNTY WATER AND SEWER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2021

1. 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 \$244,274 was recognized in the financial statements for the year ended December 31, 2021.

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, 2021

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, 2021

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 District 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 DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2021

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 adopted Statement on Governmental Accounting Standards (GASB Statement) Nos. 84, *Fiduciary Activities*, 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, 90, *Majority Equity Interest*, and 98, *The Annual Comprehensive Financial Report* all of which did not have a material effect on the financial statements.

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

- GASB Statement No. 87—Leases, effective for the District’s fiscal year ending December 31, 2022.

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

3. Cash and Cash Equivalents

The carrying amount of cash, including petty cash, was \$572,936 and the bank balance of cash was \$572,707 at December 31, 2021. Cash at December 31, 2021 was comprised of the following:

	<u>Bank Balance</u>	<u>Book Balance</u>	<u>Interest Rate</u>
Water Operations Account	\$ 3,371	\$ 2,170	0.25%
RD Sinking Fund Account	8	8	0.00%
Revenue Account	492,344	493,524	0.25%
KIA Reserve Account	10,092	10,092	0.10%
Reserve Account	5,850	5,850	0.10%
Carbon Glow Water Project	38,001	38,001	0.15%
Deane Interconnect	22,785	22,785	0.10%
Hallie/Turkey Creek Phase II	172	172	0.00%
Redstar Phase II	19	19	0.00%
AML Prison Waste Water Plant	14	14	0.00%
AML Water Line Ext to Roxana	51	51	0.00%
Petty Cash	-	250	N/a
<u>Totals</u>	<u>\$ 572,707</u>	<u>\$ 572,936</u>	

LETCHER COUNTY WATER AND SEWER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2021

3. Cash and Cash Equivalents (Continued)

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, 2021 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, 2021 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, 2021:

Prepaid insurance	\$ 15,209
Construction related accounts receivable	<u>49,260</u>
	<u>\$ 64,469</u>

5. Other Current Liabilities

Other current liabilities consisted of the following at December 31, 2021:

Unearned revenue	\$ 8,257
Utility tax payable	3,730
Accrued interest payable	289
Construction related payables	72,023
Sales tax payable	<u>336</u>
	<u>\$ 84,635</u>

LETCHER COUNTY WATER AND SEWER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2021

6. Changes in Fixed Assets

	<u>12/31/2020</u>			<u>12/31/2021</u>
	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>
<u>Water operations</u>				
<u>Capital assets not being depreciated:</u>				
Land	\$ 30,855	\$ -	\$ -	\$ 30,855
Construction in progress	424,059	277,678	-	701,737
Total capital assets not being depreciated	454,914	277,678	-	732,592
<u>Capital assets being depreciated:</u>				
Plant and infrastructure	31,500,720	-	-	31,500,720
Building	158,279	-	-	158,279
Office furniture and equipment	30,519	-	-	30,519
Other tangible equipment	126,367	-	-	126,367
Transportation equipment	103,803	18,608	-	122,411
Total capital assets being depreciated	31,919,688	18,608	-	31,938,296
<u>Less accumulated depreciation for:</u>				
Plant and infrastructure	(8,292,032)	(791,489)	-	(9,083,521)
Building	(12,555)	(5,648)	-	(18,203)
Office furniture and equipment	(25,004)	(2,646)	-	(27,650)
Other tangible equipment	(102,635)	(8,715)	-	(111,350)
Transportation equipment	(80,656)	(8,821)	-	(89,477)
Total accumulated depreciation	(8,512,882)	(817,319)	-	(9,330,201)
Total capital assets being depreciated, net	23,406,806	(798,711)	-	22,608,095
<u>Total Water operations fixed assets</u>	<u>\$ 23,861,720</u>	<u>\$ (521,033)</u>	<u>\$ -</u>	<u>\$ 23,340,687</u>
	<u>12/31/2020</u>			<u>12/31/2021</u>
	<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	5,066	-	-	5,066
Transportation equipment	5,599	-	-	5,599
Total capital assets being depreciated	606,180	-	-	606,180
<u>Less accumulated depreciation for:</u>				
Plant and infrastructure	(280,885)	(14,885)	-	(295,770)
Office furniture and equipment	(104)	-	-	(104)
Other tangible equipment	(5,066)	-	-	(5,066)
Transportation equipment	(5,525)	-	-	(5,525)
Total accumulated depreciation	(291,580)	(14,885)	-	(306,465)
Total capital assets being depreciated, net	314,600	(14,885)	-	299,715
<u>Total Sewer operations fixed assets</u>	<u>314,600</u>	<u>(14,885)</u>	<u>-</u>	<u>299,715</u>
<u>Total fixed assets</u>	<u>\$ 24,176,320</u>	<u>\$ (535,918)</u>	<u>\$ -</u>	<u>\$ 23,640,402</u>

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

December 31, 2021

6. Changes in Fixed Assets (continued)

Total depreciation and amortization expense for the year ended December 31, 2021 was allocated as follows:

	<u>Depreciation</u>	<u>Amortization</u>	<u>Total</u>
Water operations	\$ 801,409	\$ 15,910	\$ 817,319
Sewer operations	14,885	-	14,885
<u>Total</u>	<u>\$ 816,294</u>	<u>\$ 15,910</u>	<u>\$ 832,204</u>

7. Long-Term Debt

The following is a summary of changes in long-term obligations for the year ended December 31, 2021:

	<u>Balance</u> <u>12/31/2020</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>12/31/2021</u>	<u>Due Within</u> <u>One Year</u>
General obligation bonds	\$ 1,784,000	\$ -	\$ (50,000)	\$ 1,734,000	\$ 51,000
Notes from direct borrowing	295,354	-	(35,643)	259,711	40,652
	<u>\$ 2,079,354</u>	<u>\$ -</u>	<u>\$ (85,643)</u>	<u>\$ 1,993,711</u>	<u>\$ 91,652</u>

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>borrowing</u>		<u>Bonds</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
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	41,887	1,996	59,500	69,310
2026	42,307	1,471	62,500	66,632
2027-2031	52,333	1,130	354,500	288,518
2032-2036	-	-	437,500	201,053
2037-2041	-	-	383,500	109,067
2042-2045	-	-	274,000	25,465
Total	<u>\$ 259,711</u>	<u>\$ 13,681</u>	<u>\$ 1,734,000</u>	<u>\$ 982,843</u>

LETCHER COUNTY WATER AND SEWER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2021

7. Long-Term Debt (continued)

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, 2021, the Reserve account's balance was \$5,850.

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>
				\$ 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	20,000	26,100	46,100	560,000
2026	21,000	25,200	46,200	539,000
2027-2031	120,000	110,925	230,925	419,000
2032-2036	148,000	81,540	229,540	271,000
2037-2041	185,000	45,045	230,045	86,000
2042-2043	86,000	5,850	91,850	-
<u>Total</u>	<u>\$ 634,000</u>	<u>\$ 377,910</u>	<u>\$ 1,011,910</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>
				\$ 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	17,000	13,200	30,200	247,000
2026	18,000	12,350	30,350	229,000
2027-2031	102,000	47,550	149,550	127,000
2032-2036	127,000	19,150	146,150	-
<u>Total</u>	<u>\$ 310,000</u>	<u>\$ 136,550</u>	<u>\$ 446,550</u>	

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

December 31, 2021

7. 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>
				\$ 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	22,500	30,010	52,510	705,000
2026	23,500	29,082	52,582	681,500
2027-2031	132,500	130,043	262,543	549,000
2032-2036	162,500	100,363	262,863	386,500
2037-2041	198,500	64,022	262,522	188,000
2042-2045	188,000	19,615	207,615	-
<u>Total</u>	<u>\$ 790,000</u>	<u>\$ 468,383</u>	<u>\$ 1,258,383</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, 2021, the KIA Reserve account's balance was \$10,092.

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.

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>
				\$ 259,711
2022	\$ 40,652	\$ 3,539	\$ 44,191	219,059
2023	41,060	3,030	44,090	177,999
2024	41,472	2,515	43,987	136,527
2025	41,887	1,996	43,883	94,640
2026	42,307	1,471	43,778	52,333
2027-2028	52,333	1,130	53,463	-
<u>Total</u>	<u>\$ 259,711</u>	<u>\$ 13,681</u>	<u>\$ 273,392</u>	

LETCHER COUNTY WATER AND SEWER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2021

7. Long-Term Debt (Continued)

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

	12/31/2020				12/31/2021	Current
	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>		<u>Balance</u>	<u>Portion</u>
Rural Utility Service Bond - Isom-Jeremiah Project	\$ 651,000	\$ -	\$ (17,000)		\$ 634,000	\$ 17,000
Rural Utility Service Bond - Camp Branch-Sandlick Project	809,000	-	(19,000)		\$ 790,000	20,000
Rural Utility Service Bond - Blackey Water Treatment Plant	324,000	-	(14,000)		\$ 310,000	14,000
Kentucky Infrastructure Authority - Little Cowan Project	<u>295,354</u>	<u>-</u>	<u>(35,643)</u>		<u>\$ 259,711</u>	<u>40,652</u>
Total	<u>\$ 2,079,354</u>	<u>\$ -</u>	<u>\$ (85,643)</u>		<u>\$ 1,993,711</u>	<u>\$ 91,652</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.

9. 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 \$3.27 per 1,000 gallons and the District adjusted its water rates to offset the increase.

LETCHER COUNTY WATER AND SEWER DISTRICTNOTES TO THE FINANCIAL STATEMENTS (CONTINUED)December 31, 202110. Concentrations (Continued)

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

The District continues to monitor the direct and indirect effects of COVID-19, which has led to closings of non-essential services and limitations for public assemblies. While the immediate and long-term financial impact cannot be reasonably estimated, management anticipates preparing amendments to future budget projections reflecting any significant changes in revenues or expenditures affection the District as a result of the coronavirus.

In August 2021, the Board approved financing of two future projects – the Letcher/Perry water treatment plant and the Lower Cumberland water line extension via Kentucky Infrastructure Authority, loans have been initially authorized at \$4,000,000 and \$2,487,495, respectively. In addition, the District anticipates receiving grant assistance to supplant and supplement funding. At report date, the construction has not started.

On July 28, 2022, an unprecedented flash flood occurred in the service area of the Organization resulting in loss of lives, property and infrastructure damages. While the long-term financial impact for the Organization cannot be reasonably estimated, management anticipates monitoring and preparing amendments to future budget projections reflecting any changes in revenues and operational activities as a result of the flooding.

LETCHER COUNTY WATER AND SEWER DISTRICT
COMPARATIVE STATEMENTS OF REVENUES AND EXPENSES

For the Years Ended December 31, 2021 and 2020

	Water Operations		Sewer Operations	
	FYE		FYE	
	<u>12/31/2021</u>	<u>12/31/2020</u>	<u>12/31/2021</u>	<u>12/31/2020</u>
<u>Revenue</u>				
Water and Sewer Operations	\$ 1,491,114	\$ 1,639,181	\$ 4,800	\$ 5,280
Tap Fees	23,281	23,730	-	-
Late Fees	35,061	29,974	-	-
Other Miscellaneous Income	58,272	14,637	-	-
<u>Total Operating Revenues</u>	<u>1,607,728</u>	<u>1,707,522</u>	<u>4,800</u>	<u>5,280</u>
<u>Operating Expense</u>				
Salaries and Fringe Benefits	371,065	391,129	4,554	4,635
Office Expense	13,371	14,280	-	-
Water Consumption	784,615	703,247	-	-
Electric	51,527	45,652	700	620
Telephone	12,878	11,117	-	-
Postage	12,462	11,328	-	-
Advertisement	380	1,645	-	-
Legal and Accounting	5,654	23,654	41	173
Contract Labor	53,513	98,880	-	-
Water Quality Monitoring	7,971	21,206	-	-
Repairs and Maintenance	24,630	51,486	704	1,472
Vehicle Expense	33,671	20,945	2,589	1,611
Rents	1,560	1,560	-	-
Operating Supplies	55,627	56,647	1,711	1,684
Bank Fees and NSF	243	183	60	43
Insurance and Bonds	28,396	33,301	1,812	2,126
Depreciation Expense	801,409	801,166	14,885	14,885
Amortization Expense	15,910	15,910	-	-
<u>Total Operating Expense</u>	<u>2,274,882</u>	<u>2,303,336</u>	<u>27,056</u>	<u>27,249</u>
Excess (Deficiency) of Operating Revenue				
<u>Over Operating Expense</u>	<u>(667,154)</u>	<u>(595,814)</u>	<u>(22,256)</u>	<u>(21,969)</u>
<u>Other Income (Expense)</u>				
Interest Income	1,230	1,229	288	288
Interest Expense	(79,016)	(81,670)	-	-
<u>Total Other Income (Expense)</u>	<u>(77,786)</u>	<u>(80,441)</u>	<u>288</u>	<u>288</u>
Net Income (Loss)	<u>\$ (744,940)</u>	<u>\$ (676,255)</u>	<u>\$ (21,968)</u>	<u>\$ (21,681)</u>

See independent auditor's report.

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 Letcher County Water and Sewer District, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise Letcher County Water and Sewer District's basic financial statements, and have issued our report thereon dated January 17, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Letcher County Water and Sewer District's internal control over financial reporting (internal control) as a basis for designing 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 Letcher County Water and Sewer District's internal control. Accordingly, we do not express an opinion on the effectiveness of 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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

January 17, 2023