

LETCHER COUNTY WATER AND SEWER DISTRICT

REPORT OF AUDITED FINANCIAL STATEMENTS

For The Year Ended December 31, 2024

LETCHER COUNTY WATER AND SEWER DISTRICT

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For The Year Ended December 31, 2024

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Chris Gooch
Certified Public Accountant
P.O. Box 1536
Hazard, Kentucky 41702
(606) 436-5700 FAX: (606) 436-5701
chrisgooch@chrisgoochcpa.com

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, 2024, 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, 2024, 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 as listed in the table of contents 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 December 4, 2025, 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

December 4, 2025

LETCHER COUNTY WATER AND SEWER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

For The Year Ended December 31, 2024

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, 2024. 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 \$1,531,950. The ending cash balance for the District was \$1,744,188.
- 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; Carbon Glow, Roxana and Premium.
- The District had a total of 2,945 active customers and 3,058 active customers at December 31, 2024 and 2023, respectively.
- On July 28, 2022, an unprecedented flash flood occurred in the service area of the District resulting in loss of lives, property, and infrastructure damages. The damage to the District's infrastructure resulted in a \$1,000,000 payout from their insurance provider and \$1,373,450 in flood damage assistance from EKSAFE funds. As of December 31, 2024, the District has expended approximately \$1,568,344 in flood repairs.

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 provide an overview of the District's financial activities for the fiscal year ended December 31, 2024. 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, 2024

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 creditworthiness.

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, 2024. 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, 2024, and the expenses incurred in operating the District for the year ended December 31, 2024.

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

	<u>12/31/2024</u>	<u>12/31/2023</u>
Net Position:		
Current Assets	\$ 920,745	\$ 789,559
Noncurrent Assets	<u>22,995,269</u>	<u>23,553,060</u>
Total Assets	<u>\$ 23,916,014</u>	<u>\$ 24,342,619</u>

LETCHER COUNTY WATER AND SEWER DISTRICTMANAGEMENT'S DISCUSSION AND ANALYSISFor The Year Ended December 31, 2024

	<u>12/31/2024</u>	<u>12/31/2023</u>
Current Liabilities	\$ 742,243	\$ 823,923
Noncurrent Liabilities	<u>1,717,377</u>	<u>1,810,651</u>
Total Liabilities	<u>2,459,620</u>	<u>2,634,574</u>
 - Net Position -		
Unrestricted (Deficit)	276,474	6,696
Restricted	<u>1,259,416</u>	<u>1,215,987</u>
Net Investment in Capital Assets	<u>19,920,504</u>	<u>20,485,362</u>
Total Net Position	<u>\$ 21,456,394</u>	<u>\$ 21,708,045</u>

- Decrease in noncurrent assets is due in part to recognition of depreciation and amortization of \$833,183
- Increase in current assets reflect an increase in cash balances of \$212,238 at December 31, 2024.

Changes in Net Position	<u>12/31/2024</u>	<u>12/31/2023</u>
Revenues	<u>\$ 1,667,126</u>	<u>\$ 1,476,170</u>
 Operating Expenses:		
General	<u>1,727,785</u>	<u>1,514,514</u>
Depreciation & Amortization	<u>833,183</u>	<u>836,534</u>
 Total Operating Expenses	<u>2,560,968</u>	<u>2,351,048</u>
 Other Income (Expenses)	<u>159,812</u>	<u>733,394</u>
 Increase (Decrease) in Net Position	<u>\$ (734,030)</u>	<u>\$ (141,484)</u>

- The increase in revenue is due to an increase in the water rate from \$28.08 to \$34.18 for the first 2,000 gallons as of November 17, 2023.
- Decreases in other income (expense) includes insurance proceeds of \$1,096,966 in the prior year.

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

LETCHER COUNTY WATER AND SEWER DISTRICT

STATEMENT OF NET POSITION

December 31, 2024

ASSETS:

- Current Assets -

Cash in Banks - Unrestricted	\$ 484,772
Accounts Receivable, net of allowance for doubtful accounts	235,636
Other Current Assets	200,337
<u>Total Current Assets</u>	<u>920,745</u>

- Fixed Assets -

Land, Structure & Equipment, net of depreciation	<u>21,735,853</u>
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- Other Assets -

Cash - Restricted	<u>1,259,416</u>
<u>Total Assets</u>	<u>23,916,014</u>

LIABILITIES AND NET POSITION:

- Current Liabilities -

Accounts Payable	169,513
Payroll Liabilities Payable	11,276
Accrued Compensation	36,906
Customer Deposits	216,368
Other Current Liabilities	210,208
Current Portion of Long-Term Debt	97,972
<u>Total Current Liabilities</u>	<u>742,243</u>

- Long Term Liabilities -

Bonds/Notes Payable	1,815,349
Less: Current Portion	(97,972)
<u>Total Long-Term Liabilities</u>	<u>1,717,377</u>

<u>Total Liabilities</u>	<u>2,459,620</u>
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- Net Position -

Unrestricted/(Deficit)	276,474
Restricted Assets	1,259,416
Net Investment in Capital Assets	19,920,504
<u>Total Net Position</u>	<u>21,456,394</u>

<u>Total Liabilities and Net Position</u>	<u>\$ 23,916,014</u>
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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, 2024

Revenue

Water and Sewer Operations	\$ 1,604,055
Tap Fees	12,493
Late Fees	50,578
Total Operating Revenues	1,667,126

Operating Expense

Salaries and Fringe Benefits	439,877
Office Expense	19,460
Water Consumption	860,901
Electric	62,521
Telephone	13,029
Postage	16,912
Advertisement	736
Legal and Accounting	21,691
Contract Labor	108,813
Water Quality Monitoring	9,153
Repairs and Maintenance	16,542
Vehicle Expense	44,174
Rents	2,340
Operating Supplies	69,880
Travel	917
Insurance and Bonds	40,839
Depreciation Expense	817,273
Amortization Expense	15,910
Total Operating Expense	2,560,968

**Excess (Deficiency) of Operating Revenue
Over Operating Expense**

(893,842)

Other Income (Expense)

Interest Income	2,795
Insurance proceeds	126,224
EKSAFE	950,163
Gain/(loss) on disposal of fixed assets	4,675
Infrastructure flood repairs	(852,408)
Interest Expense	(71,637)
Total Other Income (Expense)	159,812

Net Income (Loss)

(734,030)

Net Position, Beginning of Year

21,708,045

Add: Capital Contributions

482,379

Net Position, End of Year

\$ 21,456,394

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

LETCHER COUNTY WATER AND SEWER DISTRICT

STATEMENT OF CASH FLOWS

For The Year Ended December 31, 2024

Cash Flows from Operating Activities:

Receipts from customers and users	\$ 1,684,837
Payments to personnel	(436,271)
Payments to suppliers	(1,279,690)
Payments to contractors	<u>(130,504)</u>
<u>Net Cash Provided (Used) by Operating Activities</u>	<u>(161,628)</u>

Cash Flows From Capital and Related Financing Activities:

Increase in infrastructure assets - net	(231,963)
Gain/(loss) on disposal of fixed assets	4,675
Principal paid on bonds and notes	(36,362)
Interest paid on bonds and notes	(71,637)
Infrastructure repairs - net	223,979
Capital grants and contributions received	<u>482,379</u>
<u>Net Cash Provided (Used) for Capital and Related Financing Activities</u>	<u>371,071</u>

Cash Flows from Investing Activities

Interest revenue	<u>2,795</u>
Net Increase (Decrease) in Cash	212,238
Cash and restricted cash, January 1	<u>1,531,950</u>
Cash and restricted cash, December 31	<u>1,744,188</u>

Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:

Operating Income (Loss)	(893,842)
Adjustments to reconcile operating net cash provided by operating activities:	
Depreciation	817,273
Amortization	15,910
Changes in assets and liabilities	
(Increase) decrease in accounts receivable	(107)
(Increase) decrease in other current assets	37,730
Increase (decrease) in accounts payable	87,381
Increase (decrease) in payroll tax payable	2,947
Increase (decrease) in accrued compensation	659
Increase (decrease) in customer deposits	17,818
Increase (decrease) in other current liabilities	<u>(247,397)</u>
<u>Net Cash Provided (Used) by Operations</u>	<u>\$ (161,628)</u>

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

LETCHER COUNTY WATER AND SEWER DISTRICTNOTES TO THE FINANCIAL STATEMENTSDecember 31, 20241. 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 plans 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 \$1,211,118 was recognized in the financial statements for the year ended December 31, 2024.

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, 2024

e. Basis of Presentation

GASB 34 creates basic financial statements for reporting on 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, 2024

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, 2024

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 the following new accounting pronouncement in the current year:

- GASB Statement No. 101—*Compensated Absences*, effective for fiscal years beginning after December 15, 2023.

The impact of this pronouncement is reflected in the current financial statements and notes, where applicable and management is assessing the impact of future pronouncements on the District's financial statements.

The District is evaluating the financial statement effects of the following:

- GASB Statement No. 102 – *Certain Risk Disclosures*, effective for fiscal years beginning after June 15, 2024.
- GASB Statement No. 103 – *Financial Reporting Model Improvements*, effective for fiscal years beginning after June 15, 2025.

k. Compensated Absences

The District recognizes a liability for compensated absences for leave time that (1) has been earned for services previously rendered by employees, (2) accumulates and is allowed to be carried over to subsequent years, and (3) is more likely than not to be used as time off or settled during or on separation from employment.

Vacation is accrued at the rate of 1.54 hours per payroll period for employees during year 1, with an additional .30 hours added for each of service thereafter. Vacation hours may be paid to the employee upon termination.

Full-time employees shall be eligible to accrue sick leave at the rate of 40 hours awarded on January 1st of each year. Employees hired during the year are awarded 1.54 hours per payroll period remaining in the year. Sick leave may be accumulated and carried over from year to year, but it is lost upon termination.

The net change in compensated absences is as follows:

At June 30, 2024	\$ 30,765
At June 30, 2025	<u>36,906</u>
Net increase (decrease)	<u><u>\$ 6,141</u></u>

LETCHER COUNTY WATER AND SEWER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2024

3. Cash and Cash Equivalents

The carrying amount of cash, including petty cash, was \$1,744,188 and the bank balance of cash was \$1,755,522 at December 31, 2024. Cash at December 31, 2024 was comprised of the following:

	<u>Bank Balance</u>	<u>Book Balance</u>	<u>Interest Rate</u>
Revenue Account	\$ 475,212	\$ 479,593	0.25%
Water Operations Account	20,644	4,764	0.25%
Debit Card Account	249	164	0.00%
KIA Reserve Account	10,123	10,123	0.10%
RD Sinking Fund Account	8	8	0.00%
Reserve Account	5,868	5,868	0.10%
ARC Emergency Repairs	1,301	1,301	0.10%
Carbon Glow Water Project	195,466	195,466	0.15%
AML Prison Waste Water Plant	17	17	0.00%
Deane Interconnect	1,569	1,569	0.10%
Hallie/Turkey Creek Phase II	13,595	13,595	0.00%
Redstar Phase II	19	19	0.00%
Flood Recovery Project	1,030,954	1,030,954	0.15%
EDA Grant for Prison	497	497	0.00%
Petty Cash	-	250	N/a
Totals	\$ 1,755,522	\$ 1,744,188	

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, 2024 exceeded the amount of the Federal Deposit Insurance Corporation insurance (FDIC). Letcher County Water and Sewer District have 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, 2024 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, 2024:

Prepaid insurance	\$ 20,802
Construction related accounts receivable	168,322
Receivable from Perry County	11,213
	\$ 200,337

LETCHER COUNTY WATER AND SEWER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2024

5. Other Current Liabilities

Other current liabilities consisted of the following at December 31, 2024:

Unearned revenue	\$ 2,602
Utility tax payable	4,122
Accrued interest payable	34,477
Construction related payables	168,322
Sales tax payable	685
	<u>685</u>
	<u><u>\$ 210,208</u></u>

6. Changes in Fixed Assets

	<u>12/31/2023</u>	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/2024</u>	<u>Balance</u>
Water operations						
<u><u>Capital assets not being depreciated:</u></u>						
Land	\$ 30,855	\$	-	\$	-	\$ 30,855
Construction in progress	749,632	214,262	-	-	-	963,894
Total capital assets not being depreciated	<u>780,487</u>	<u>214,262</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>994,749</u>
<u><u>Capital assets being depreciated:</u></u>						
Plant and infrastructure	31,768,890	-	-	-	-	31,768,890
Building	158,279	5,500	-	-	-	163,779
Office furniture and equipment	45,744	-	-	-	-	45,744
Other tangible equipment	126,367	2,525	-	-	-	128,892
Transportation equipment	149,716	42,368	(80,304)	-	-	111,780
Total capital assets being depreciated	<u>32,248,996</u>	<u>50,393</u>	<u>(80,304)</u>	<u>-</u>	<u>-</u>	<u>32,219,085</u>
<u><u>Less accumulated depreciation for:</u></u>						
Plant and infrastructure	(10,674,320)	(798,193)	-	-	(11,472,513)	(11,472,513)
Building	(29,499)	(5,923)	-	-	(35,422)	(35,422)
Office furniture and equipment	(30,855)	(2,115)	-	-	(32,970)	(32,970)
Other tangible equipment	(124,663)	(850)	-	-	(125,513)	(125,513)
Transportation equipment	(103,018)	(11,217)	47,612	-	(66,623)	(66,623)
Total accumulated depreciation	<u>(10,962,355)</u>	<u>(818,298)</u>	<u>47,612</u>	<u>-</u>	<u>(11,733,041)</u>	<u>(11,733,041)</u>
Total capital assets being depreciated, net	<u>21,286,641</u>	<u>(767,905)</u>	<u>(32,692)</u>	<u>-</u>	<u>20,486,044</u>	<u>20,486,044</u>
Total Water operations fixed assets	<u>\$ 22,067,128</u>	<u>\$ (553,643)</u>	<u>\$ (32,692)</u>	<u>\$</u>	<u>21,480,793</u>	<u>21,480,793</u>
Sewer operations						
<u><u>Capital assets being depreciated:</u></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	-	-	(3,990)	-	1,609
Total capital assets being depreciated	<u>606,180</u>	<u>-</u>	<u>-</u>	<u>(3,990)</u>	<u>-</u>	<u>602,190</u>
<u><u>Less accumulated depreciation for:</u></u>						
Plant and infrastructure	(325,540)	(14,885)	-	-	(340,425)	(340,425)
Office furniture and equipment	(104)	-	-	-	-	(104)
Other tangible equipment	(5,066)	-	-	-	-	(5,066)
Transportation equipment	(5,525)	-	3,990	-	(1,535)	(1,535)
Total accumulated depreciation	<u>(336,235)</u>	<u>(14,885)</u>	<u>3,990</u>	<u>-</u>	<u>(347,130)</u>	<u>(347,130)</u>
Total capital assets being depreciated, net	<u>269,945</u>	<u>(14,885)</u>	<u>-</u>	<u>-</u>	<u>255,060</u>	<u>255,060</u>
Total Sewer operations fixed assets	<u>269,945</u>	<u>(14,885)</u>	<u>-</u>	<u>-</u>	<u>255,060</u>	<u>255,060</u>
Total fixed assets	<u>\$ 22,337,073</u>	<u>\$ (568,528)</u>	<u>\$ (32,692)</u>	<u>\$</u>	<u>21,735,853</u>	<u>21,735,853</u>

LETCHER COUNTY WATER AND SEWER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2024

6. Changes in Fixed Assets (continued)

Total depreciation and amortization expense for the year ended December 31, 2024 was allocated as follows:

	<u>Depreciation</u>	<u>Amortization</u>	<u>Total</u>
Water operations	\$ 802,388	\$ 15,910	\$ 818,298
Sewer operations	<u>14,885</u>	<u>-</u>	<u>14,885</u>
Total	<u>\$ 817,273</u>	<u>\$ 15,910</u>	<u>\$ 833,183</u>

7. Long-Term Debt and Lease Obligations

The following is a summary of changes in long-term obligations for the year ended December 31, 2024:

	Balance			<u>Balance</u>	<u>Due Within</u>
	<u>12/31/2023</u>	<u>Additions</u>	<u>Deductions</u>	<u>12/31/2024</u>	<u>One Year</u>
General obligation bonds	\$ 1,628,000	\$ -	\$ -	\$ 1,628,000	\$ 56,500
Notes from direct borrowing	<u>223,711</u>	<u>-</u>	<u>(36,362)</u>	<u>187,349</u>	<u>41,472</u>
	<u>\$ 1,851,711</u>	<u>\$ -</u>	<u>\$ (36,362)</u>	<u>\$ 1,815,349</u>	<u>\$ 97,972</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>Bonds</u>		
	<u>borrowing</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2025	\$ 41,472	\$ 2,515	\$	56,500	\$ 71,852
2026	41,887	1,996	\$	59,500	69,310
2027	42,307	1,471	\$	62,500	66,632
2028	42,731	940	\$	64,500	63,817
2029	18,952	190	\$	68,500	60,917
2030-2034	-	-	\$	384,500	255,885
2035-2039	-	-	\$	418,000	162,194
2040-2044	-	-	\$	417,500	75,329
2045-2046	-	-	\$	96,500	5,961
Total	<u>\$ 187,349</u>	<u>\$ 7,112</u>	<u>\$ 1,628,000</u>	<u>\$ 831,897</u>	

LETCHER COUNTY WATER AND SEWER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2024

7. Long-Term Debt and Lease Obligations (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, 2024, the Reserve account's balance was \$5,868.

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>
				\$ 599,000
2025	\$ 19,000	\$ 26,955	\$ 45,955	580,000
2026	20,000	26,100	46,100	560,000
2027	21,000	25,200	46,200	539,000
2028	22,000	24,255	46,255	517,000
2029	23,000	23,265	46,265	494,000
2030-2034	130,000	99,900	229,900	364,000
2035-2039	162,000	67,905	229,905	202,000
2040-2044	202,000	28,035	230,035	-
Total	\$ 599,000	\$ 321,615	\$ 920,615	

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>
				\$ 280,000
2025	\$ 16,000	\$ 14,000	\$ 30,000	264,000
2026	17,000	13,200	30,200	247,000
2027	18,000	12,350	30,350	229,000
2028	18,000	11,450	29,450	211,000
2029	20,000	10,550	30,550	191,000
2030-2034	111,000	37,100	148,100	80,000
2035-2037	80,000	7,600	87,600	-
Total	\$ 280,000	\$ 106,250	\$ 386,250	

LETCHER COUNTY WATER AND SEWER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2024

7. Long-Term Debt and Lease Obligations (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>
				\$ 749,000
2025	\$ 21,500	\$ 30,897	\$ 52,397	727,500
2026	22,500	30,010	52,510	705,000
2027	23,500	29,082	52,582	681,500
2028	24,500	28,112	52,612	657,000
2029	25,500	27,102	52,602	631,500
2030-2034	143,500	118,885	262,385	488,000
2035-2039	176,000	86,689	262,689	312,000
2040-2044	215,500	47,294	262,794	96,500
2045-2046	<u>96,500</u>	<u>5,961</u>	<u>102,461</u>	-
Total	\$ 749,000	\$ 404,032	\$ 1,153,032	

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, 2024, the KIA Reserve account's balance was \$10,123.

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>
				\$ 187,349
2025	\$ 41,472	\$ 2,515	\$ 43,987	145,877
2026	41,887	1,996	43,883	103,990
2027	42,307	1,471	43,778	61,683
2028	42,731	940	43,671	18,952
2029	<u>18,952</u>	<u>190</u>	<u>19,142</u>	-
Total	\$ 187,349	\$ 7,112	\$ 194,461	

LETCHER COUNTY WATER AND SEWER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2024

7. Long-Term Debt and Lease Obligations (Continued)

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

	<u>12/31/2023</u>			<u>12/31/2024</u>		<u>Current Portion</u>
	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>		
Rural Utility Service Bond -						
Isom-Jeremiah Project	\$ 599,000	\$ -	\$ -	\$ 599,000	\$ 19,000	
Rural Utility Service Bond -						
Camp Branch-Sandlick Project	749,000	-	-	749,000		21,500
Rural Utility Service Bond -						
Blackey Water Treatment Plant	280,000	-	-	280,000		16,000
Kentucky Infrastructure Authority -						
Little Cowan Project	<u>223,711</u>	<u>-</u>	<u>(36,362)</u>	<u>187,349</u>		<u>41,472</u>
Total	<u>\$ 1,851,711</u>	<u>\$ -</u>	<u>\$ (36,362)</u>	<u>\$ 1,815,349</u>		<u>\$ 97,972</u>

Lessee

The District has a policy to recognize a lease liability and a right-to-use asset (lease asset) in the financial statements with an initial, individual value of \$5,000 or more with a lease term greater than one year. Variable payments based on future performance or usage of the underlying assets are not included in the measurement of the lease liability.

At the commencement of a lease, the lease liability is measured at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made.

Lease assets are recorded at the amount of the initial measurement of the lease liabilities and modified by any lease payments made to the lessor at or before the commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease term along with any initial direct costs that are ancillary charges necessary to place the lease assets into service. Lease assets are amortized using the straight-line method over the shorter of the lease term or the useful life of the underlying asset, unless the lease contains a purchase option that the District has determined is reasonably certain of being exercised. In this case, the lease asset is amortized over the useful life of the underlying asset.

Key estimates and judgments related to leases include how the District determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The District uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the District generally uses its estimated incremental borrowing rate as the discount rate for leases.

LETCHER COUNTY WATER AND SEWER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2024

7. Long-Term Debt and Lease Obligations (Continued)

- The lease term includes the noncancelable period of the lease, plus any option periods that are reasonably certain to be exercised.
- Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the District is reasonably certain to exercise. The District monitors changes in circumstances that would require a remeasurement of a lease and will remeasure any lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Lease assets are reported as right-to-use along with other capital assets and lease liabilities are reported on the statement of net position.

Lessor

When the District is a lessor for leases of buildings and land it recognizes a lease receivable and deferred inflows of resources in the financial statements. The District has a policy to recognize a lease receivable in the financial statements with an initial, individual value of \$5,000 or more with a lease term greater than one year.

At the commencement of a lease, the lease receivable is measured at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflows of resources are initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflows of resources are recognized as revenue over the life of the lease term in a systematic and rational method.

Key estimates and judgments include how the District determines (1) the discount rate it uses to discount the expected lease receipts to present value, (2) lease term, and (3) lease receipts.

- The District generally uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancelable period of the lease plus any option periods that are likely to be exercised.
- Lease receipts included in the measurement of the lease receivable is composed of fixed payments from the lessee.

The District monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease receivable and deferred inflows of resources if certain changes occur that are expected to significantly affect the amount of the lease receivable.

Consideration of current leases acting as lessor or lessee indicated no agreements meeting the District's criteria were subject to disclosure.

LETCHER COUNTY WATER AND SEWER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2024

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.

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 the Kentucky Infrastructure Authority, loans were 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.

As part of the flood recovery efforts, the District received \$1,373,450 in EKSAFE funds and \$1,000,000 in insurance proceeds for damages to infrastructure. As of December 31, 2024, the District has expended approximately \$1,568,344 in flood repairs.

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 DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2024

10. 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.

LETCHER COUNTY WATER AND SEWER DISTRICTCOMPARATIVE STATEMENTS OF REVENUES AND EXPENSESFor the Years Ended December 31, 2024 and 2023

	Water Operations		Sewer Operations	
	FYE		FYE	
	12/31/2024	12/31/2023	12/31/2024	12/31/2023
<u>Revenue</u>				
Water and Sewer Operations	\$ 1,601,056	\$ 1,400,269	\$ 2,999	\$ 5,280
Tap Fees	12,493	27,237	-	-
Late Fees	50,578	42,122	-	-
Other Miscellaneous Income	-	1,262	-	-
<u>Total Operating Revenues</u>	<u>1,664,127</u>	<u>1,470,890</u>	<u>2,999</u>	<u>5,280</u>
<u>Operating Expense</u>				
Salaries and Fringe Benefits	434,235	390,093	5,642	5,302
Office Expense	19,460	16,233	-	-
Water Consumption	860,901	757,517	-	-
Electric	61,760	42,399	761	659
Telephone	13,029	14,314	-	-
Postage	16,912	15,889	-	-
Advertisement	736	668	-	-
Legal and Accounting	21,533	16,815	158	127
Contract Labor	106,323	59,971	2,490	-
Water Quality Monitoring	9,153	7,301	-	-
Repairs and Maintenance	16,119	17,640	423	925
Vehicle Expense	40,295	39,578	3,879	5,296
Rents	2,340	2,340	-	-
Operating Supplies	68,084	81,729	1,796	6,258
Travel	917	180	-	-
Bank Fees and NSF	-	70	-	-
Insurance and Bonds	38,240	31,208	2,599	2,002
Depreciation Expense	802,388	805,739	14,885	14,885
Amortization Expense	<u>15,910</u>	<u>15,910</u>	<u>-</u>	<u>-</u>
<u>Total Operating Expense</u>	<u>2,528,335</u>	<u>2,315,594</u>	<u>32,633</u>	<u>35,454</u>
Excess (Deficiency) of Operating Revenue Over Operating Expense	<u>(864,208)</u>	<u>(844,704)</u>	<u>(29,634)</u>	<u>(30,174)</u>
<u>Other Income (Expense)</u>				
Interest Income	2,795	2,817	-	-
Insurance proceeds	126,224	1,096,966	-	-
EKSAFE	950,163	423,287	-	-
Gain/(loss) on disposal of assets	4,675	(924)	-	-
Infrastructure flood repairs	(852,408)	(715,936)	-	-
Interest Expense	(71,637)	(72,816)	-	-
<u>Total Other Income (Expense)</u>	<u>159,812</u>	<u>733,394</u>	<u>-</u>	<u>-</u>
Net Income (Loss)	<u>\$ (704,396)</u>	<u>\$ (111,310)</u>	<u>\$ (29,634)</u>	<u>\$ (30,174)</u>

See independent auditor's report.

Chris Gooch
 Certified Public Accountant
 P.O. Box 1536
 Hazard, Kentucky 41702
 (606) 436-5700 FAX: (606) 436-5701
 chrisgooch@chrisgoochcpa.com

**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, 2024, 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 December 4, 2025.

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

December 4, 2025