

LETCHER COUNTY WATER AND SEWER DISTRICT

REPORT OF AUDITED FINANCIAL STATEMENTS

For The Year Ended December 31, 2020

DRAFT

LETCHER COUNTY WATER AND SEWER DISTRICT

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For The Year Ended December 31, 2020

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the aggregate remaining fund information of the Letcher County Water and Sewer District, as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the Letcher County Water and Sewer District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate remaining fund information of the Letcher County Water and Sewer District, as of December 31, 2020, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

The comparative statement of revenues and expenses is the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, 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 21, 2021, on our consideration of the Letcher County Water and Sewer District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Letcher County Water and Sewer District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Letcher County Water and Sewer District's internal control over financial reporting and compliance.

Chris Gooch
Certified Public Accountant

Hazard, Kentucky

December 21, 2021

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LETCHER COUNTY WATER AND SEWER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

For The Year Ended December 31, 2020

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, 2020. 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 \$433,549. The ending cash balance for the District was \$510,133.
- 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 3,069 active customers and 3,050 active customers at December 31, 2020 and 2019, 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, 2020. 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, 2020

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, 2020. 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, 2020 and the expenses incurred in operating the District for the year ended December 31, 2020.

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>12/31/2020</u>	<u>12/31/2019</u>
Net Position:		
Current Assets	\$ 699,062	\$ 587,054
Noncurrent Assets	<u>24,214,782</u>	<u>25,033,755</u>
<u>Total Assets</u>	<u>\$ 24,913,844</u>	<u>\$ 25,620,809</u>

LETCHER COUNTY WATER AND SEWER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

For The Year Ended December 31, 2020

	<u>12/31/2020</u>	<u>12/31/2019</u>
Current Liabilities	\$ 404,112	\$ 349,721
Noncurrent Liabilities	<u>1,989,105</u>	<u>2,074,795</u>
<u>Total Liabilities</u>	<u>2,393,217</u>	<u>2,424,516</u>
- Net Position -		
Unrestricted (Deficit)	385,199	324,682
Restricted	38,462	51,134
Net Investment in Capital Assets	<u>22,096,966</u>	<u>22,820,477</u>
<u>Total Net Position</u>	<u>\$ 22,520,627</u>	<u>\$ 23,196,293</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>12/31/2020</u>	<u>12/31/2019</u>
Revenues	<u>\$ 1,712,802</u>	<u>\$ 1,555,036</u>
Operating Expenses:		
General	1,498,624	1,407,875
Depreciation & Amortization	<u>831,961</u>	<u>830,665</u>
Total Operating Expenses	<u>2,330,585</u>	<u>2,238,540</u>
Other Income (Expenses)	<u>(80,153)</u>	<u>(81,656)</u>
Increase (Decrease) in Net Position	<u>\$ (697,936)</u>	<u>\$ (765,160)</u>

- Increase in revenue is due to an increase in the water rate as of March 23, 2020.
- Increases in general expenses include increases in water purchases, repairs and maintenance, 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, 2020ASSETS:

- Current Assets -	
Cash in Banks - Unrestricted	\$ 471,671
Accounts Receivable, net of allowance for doubtful accounts	211,758
Other Current Assets	<u>15,633</u>
<u>Total Current Assets</u>	<u>699,062</u>
- Fixed Assets -	
Land, Structure & Equipment, net of depreciation	<u>24,176,320</u>
- Other Assets -	
Cash - Restricted	<u>38,462</u>
<u>Total Assets</u>	<u>24,913,844</u>

LIABILITIES AND NET POSITION:

- Current Liabilities -	
Accounts Payable	99,401
Payroll Liabilities Payable	8,060
Accrued Compensation	12,716
Customer Deposits	156,560
Other Current Liabilities	37,126
Current Portion of Long-Term Debt	<u>90,249</u>
<u>Total Current Liabilities</u>	<u>404,112</u>
- Long Term Liabilities -	
Bonds/Notes Payable	2,079,354
Less: Current Portion	<u>(90,249)</u>
<u>Total Long-Term Liabilities</u>	<u>1,989,105</u>
<u>Total Liabilities</u>	<u>2,393,217</u>
- Net Position -	
Unrestricted/(Deficit)	385,199
Restricted Assets	38,462
Net Investment in Capital Assets	<u>22,096,966</u>
<u>Total Net Position</u>	<u>22,520,627</u>
<u>Total Liabilities and Net Position</u>	<u>\$ 24,913,844</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, 2020

<u>Revenue</u>	
Water and Sewer Operations	\$ 1,644,461
Tap Fees	23,730
Late Fees	29,974
Other Miscellaneous Income	14,637
<u>Total Operating Revenues</u>	<u>1,712,802</u>
<u>Operating Expense</u>	
Salaries and Fringe Benefits	395,764
Office Expense	14,280
Water Consumption	703,247
Electric	46,272
Telephone	11,117
Postage	11,328
Advertisement	1,645
Legal and Accounting	23,827
Contract Labor	98,880
Water Quality Monitoring	21,206
Repairs and Maintenance	52,958
Vehicle Expense	22,556
Rents	1,560
Operating Supplies	58,331
Bank Fees and NSF	226
Insurance and Bonds	35,427
Depreciation Expense	816,051
Amortization Expense	15,910
<u>Total Operating Expense</u>	<u>2,330,585</u>
Excess (Deficiency) of Operating Revenue Over Operating Expense	<u>(617,783)</u>
<u>Other Income (Expense)</u>	
Interest Income	1,517
Interest Expense	<u>(81,670)</u>
<u>Total Other Income (Expense)</u>	<u>(80,153)</u>
Net Income (Loss)	(697,936)
Net Position, Beginning of Year	23,196,293
Add: Capital Contributions	<u>22,270</u>
Net Position, End of Year	<u>\$ 22,520,627</u>

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, 2020

<u>Cash Flows from Operating Activities:</u>	
Receipts from customers and users	\$ 1,709,307
Payments to personnel	(397,519)
Payments to suppliers	(946,164)
Payments to contractors	<u>(122,707)</u>
<u>Net Cash Provided (Used) by Operating Activities</u>	<u>242,917</u>
<u>Cash Flows From Capital and Related Financing Activities:</u>	
Increase in infrastructure assets - net	(25,660)
Principal paid on bonds	(82,790)
Interest paid on bonds and notes	(81,670)
Capital grants and contributions received	<u>22,270</u>
<u>Net Cash Provided (Used) for Capital and Related Financing Activities</u>	<u>(167,850)</u>
<u>Cash Flows from Investing Activities</u>	
Interest revenue	<u>1,517</u>
Net Increase (Decrease) in Cash	76,584
Cash and restricted cash, January 1	<u>433,549</u>
Cash and restricted cash, December 31	<u><u>510,133</u></u>
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:</u>	
Operating loss	(617,783)
Adjustments to reconcile operating net cash provided by operating activities:	
Depreciation	816,051
Amortization	15,910
Changes in assets and liabilities	
(Increase) decrease in accounts receivable	(25,925)
(Increase) decrease in other current assets	3,173
Increase (decrease) in accounts payable	10,976
Increase (decrease) in payroll tax payable	249
Increase (decrease) in accrued compensation	(2,004)
Increase (decrease) in customer deposits	22,430
Increase (decrease) in other current liabilities	<u>19,840</u>
<u>Net Cash Provided (Used) by Operations</u>	<u>\$ 242,917</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, 2020

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 \$208,890 was recognized in the financial statements for the year ended December 31, 2020.

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 DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2020

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, 2020

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, 2020

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 did not implement any new accounting pronouncements during the year ended December 31, 2020.

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.
- GASB Statement No. 89—Accounting for Interest Cost Incurred Before the End of a Construction Period, effective for the District's fiscal year ending December 31, 2021.

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

3. Cash and Cash Equivalents

The carrying amount of cash, including petty cash, was \$510,133 and the bank balance of cash was \$587,690 at December 31, 2020. Cash at December 31, 2020 was comprised of the following:

	<u>Bank</u>	<u>Book</u>	<u>Interest</u>	<u>Financial</u>
	<u>Balance</u>	<u>Balance</u>	<u>Rate</u>	<u>Institution</u>
Water Operations Account	\$ 91,530	\$ (3,666)	0.25%	Community Trust Bank
RD Sinking Fund Account	8	8	1.52%	Community Trust Bank
Revenue Account	457,698	475,087	0.25%	Community Trust Bank
KIA Reserve Account	10,082	10,082	0.10%	Community Trust Bank
Reserve Account	5,844	5,844	0.10%	Community Trust Bank
Deane Interconnect	10,005	10,005	0.10%	Community Trust Bank
Hallie/Turkey Creek Phase II	172	172	0.00%	Community Trust Bank
Redstar Phase II	19	19	0.00%	Community Trust Bank
AML Prison Waste Water Plant	14	14	0.00%	Community Trust Bank
AML Water Line Ext to Roxana	12,318	12,318	0.10%	Community Trust Bank
Petty Cash	-	250	N/a	N/a
<u>Totals</u>	<u>\$ 587,690</u>	<u>\$ 510,133</u>		

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

December 31, 2020

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, 2020 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, 2020 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 prepaid insurance and other expenses of \$15,633.

5. Other Current Liabilities

Other current liabilities consisted of the following at December 31, 2020:

Unearned revenue	\$ 10,450
Utility tax payable	3,480
Accrued interest payable	472
Construction related payables	22,270
Sales tax payable	<u>454</u>
	<u>\$ 37,126</u>

6. Changes in Fixed Assets

Following are changes in fixed assets for Letcher County Water and Sewer District at December 31, 2020:

	12/31/2019		12/31/2020
	<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	<u>401,789</u>	<u>22,270</u>	<u>424,059</u>
Total capital assets not being depreciated	432,644	22,270	454,914

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

December 31, 2020

6. Changes in Fixed Assets (continued)

	12/31/2019			12/31/2020
	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>
<u>Capital assets being depreciated:</u>				
Plant and infrastructure	31,500,720	-	-	31,500,720
Building	156,129	2,150	-	158,279
Office furniture and equipment	30,519	-	-	30,519
Other tangible equipment	125,127	1,240	-	126,367
Transportation equipment	103,803	-	-	103,803
Total capital assets being depreciated	31,916,298	3,390	-	31,919,688
<u>Less accumulated depreciation for:</u>				
Plant and infrastructure	(7,500,543)	(791,489)	-	(8,292,032)
Building	(7,015)	(5,540)	-	(12,555)
Office furniture and equipment	(21,668)	(3,336)	-	(25,004)
Other tangible equipment	(93,805)	(8,830)	-	(102,635)
Transportation equipment	(72,775)	(7,881)	-	(80,656)
Total accumulated depreciation	(7,695,806)	(817,076)	-	(8,512,882)
<u>Total capital assets being depreciated, net</u>	24,220,492	(813,686)	-	23,406,806
<u>Total Water operations fixed assets</u>	\$ 24,653,136	\$ (791,416)	\$ -	\$ 23,861,720
	12/31/2019			12/31/2020
	<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	(266,000)	(14,885)	-	(280,885)
Office furniture and equipment	(104)	-	-	(104)
Other tangible equipment	(5,066)	-	-	(5,066)
Transportation equipment	(5,525)	-	-	(5,525)
Total accumulated depreciation	(276,695)	(14,885)	-	(291,580)
<u>Total capital assets being depreciated, net</u>	329,485	(14,885)	-	314,600
<u>Total Sewer operations fixed assets</u>	329,485	(14,885)	-	314,600
<u>Total fixed assets</u>	\$ 24,982,621	\$ (806,301)	\$ -	\$ 24,176,320

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

December 31, 2020

6. Changes in Fixed Assets (continued)

Total depreciation & amortization expense for the year ended December 31, 2020 was allocated as follows:

	<u>Depreciation</u>	<u>Amortization</u>	<u>Total</u>
Water operations	\$ 801,166	\$ 15,910	\$ 817,076
Sewer operations	14,885	-	14,885
<u>Total</u>	<u>\$ 816,051</u>	<u>\$ 15,910</u>	<u>\$ 831,961</u>

7. Long-Term Debt

The following is a summary of changes in long-term obligations for the year ended December 31, 2020:

	<u>Balance</u> <u>12/31/2019</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>12/31/2020</u>	<u>Due Within</u> <u>One Year</u>
General obligation bonds	\$ 1,831,500	\$ -	\$ (47,500)	\$ 1,784,000	\$ 50,000
Notes from direct borrowing	330,644	-	(35,290)	295,354	40,249
	<u>\$ 2,162,144</u>	<u>\$ -</u>	<u>\$ (82,790)</u>	<u>\$ 2,079,354</u>	<u>\$ 90,249</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>
2021	\$ 40,249	\$ 4,044	\$ 50,000	\$ 78,867
2022	40,652	3,539	51,000	76,618
2023	41,060	3,030	55,000	74,328
2024	41,472	2,515	56,500	71,852
2025	41,887	1,996	59,500	69,310
2026-2030	90,034	2,411	340,500	303,853
2031-2035	-	-	419,000	219,928
2036-2040	-	-	395,500	126,290
2041-2045	-	-	357,000	40,664
<u>Total</u>	<u>\$ 295,354</u>	<u>\$ 17,535</u>	<u>\$ 1,784,000</u>	<u>\$ 1,061,710</u>

LETCHER COUNTY WATER AND SEWER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2020

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, 2020, the Reserve account's balance was \$5,844.

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>
				\$ 651,000
2021	\$ 17,000	\$ 29,295	\$ 46,295	634,000
2022	17,000	28,530	45,530	617,000
2023	18,000	27,765	45,765	599,000
2024	19,000	26,955	45,955	580,000
2025	20,000	26,100	46,100	560,000
2026-2030	115,000	116,100	231,100	445,000
2031-2035	142,000	87,930	229,930	303,000
2036-2040	177,000	53,010	230,010	126,000
2041-2043	126,000	11,520	137,520	-
<u>Total</u>	<u>\$ 651,000</u>	<u>\$ 407,205</u>	<u>\$ 1,058,205</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>
				\$ 324,000
2021	\$ 14,000	\$ 16,200	\$ 30,200	310,000
2022	14,000	15,500	29,500	296,000
2023	16,000	14,800	30,800	280,000
2024	16,000	14,000	30,000	264,000
2025	17,000	13,200	30,200	247,000
2026-2030	98,000	52,450	150,450	149,000
2031-2035	121,000	25,200	146,200	28,000
2036	28,000	1,400	29,400	-
<u>Total</u>	<u>\$ 324,000</u>	<u>\$ 152,750</u>	<u>\$ 476,750</u>	

LETCHER COUNTY WATER AND SEWER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2020

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>
				\$ 809,000
2021	\$ 19,000	\$ 33,372	\$ 52,372	790,000
2022	20,000	32,588	52,588	770,000
2023	21,000	31,763	52,763	749,000
2024	21,500	30,897	52,397	727,500
2025	22,500	30,010	52,510	705,000
2026-2030	127,500	135,303	262,803	577,500
2031-2035	156,000	106,798	262,798	421,500
2036-2040	190,500	71,880	262,380	231,000
2041-2045	231,000	29,144	260,144	-
<u>Total</u>	<u>\$ 809,000</u>	<u>\$ 501,755</u>	<u>\$ 1,310,755</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, 2020, the KIA Reserve account's balance was \$10,082.

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.

7. Long-Term Debt (Continued)

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Balance</u>
				\$ 295,354
2021	\$ 40,249	\$ 4,044	\$ 44,293	255,105
2022	40,652	3,539	44,191	214,453
2023	41,060	3,030	44,090	173,393
2024	41,472	2,515	43,987	131,921
2025	41,887	1,996	43,883	90,034
2026-2027	90,034	2,411	92,445	-
<u>Total</u>	<u>\$ 295,354</u>	<u>\$ 17,535</u>	<u>\$ 312,889</u>	

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

December 31, 2020

7. Long-Term Debt (Continued)

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

	12/31/2019			12/31/2020	Current
	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>	<u>Portion</u>
Rural Utility Service Bond - Isom-Jeremiah Project	\$ 667,000	\$ -	\$ (16,000)	\$ 651,000	\$ 17,000
Rural Utility Service Bond - Camp Branch-Sandlick Project	827,500	-	(18,500)	\$ 809,000	19,000
Rural Utility Service Bond - Blackey Water Treatment Plant	337,000	-	(13,000)	\$ 324,000	14,000
Kentucky Infrastructure Authority - Little Cowan Project	330,644	-	(35,290)	\$ 295,354	40,249
Total	<u>\$ 2,162,144</u>	<u>\$ -</u>	<u>\$ (82,790)</u>	<u>\$ 2,079,354</u>	<u>\$ 90,249</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 \$3.29 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, 2020

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.

12. Subsequent Events

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

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 initially authorized at \$4,000,000 and \$2,487,495, respectively. In addition, the District anticipates receiving grant assistance to supplant and supplement funding.

LETCHER COUNTY WATER AND SEWER DISTRICT

COMPARATIVE STATEMENTS OF REVENUES AND EXPENSES

For the Years Ended December 31, 2020 and 2019

	<u>Water Operations</u>		<u>Sewer Operations</u>	
	FYE		FYE	
	<u>12/31/2020</u>	<u>12/31/2019</u>	<u>12/31/2020</u>	<u>12/31/2019</u>
<u>Revenue</u>				
Water and Sewer Operations	\$ 1,639,181	\$ 1,423,943	\$ 5,280	\$ 5,280
Tap Fees	23,730	32,632	-	-
Late Fees	29,974	68,816	-	-
Other Miscellaneous Income	14,637	24,365	-	-
<u>Total Operating Revenues</u>	<u>1,707,522</u>	<u>1,549,756</u>	<u>5,280</u>	<u>5,280</u>
<u>Operating Expense</u>				
Salaries and Fringe Benefits	391,129	382,123	4,635	4,890
Office Expense	14,280	24,800	-	-
Water Consumption	703,247	667,217	-	-
Electric	45,652	50,978	620	692
Telephone	11,117	10,831	-	-
Postage	11,328	11,084	-	-
Advertisement	1,645	549	-	-
Legal and Accounting	23,654	37,432	173	274
Contract Labor	98,880	32,202	-	-
Water Quality Monitoring	21,206	7,615	-	-
Repairs and Maintenance	51,486	26,883	1,472	769
Vehicle Expense	20,945	35,893	1,611	2,760
Rents	1,560	2,722	-	-
Operating Supplies	56,647	69,014	1,684	2,598
Bank Fees and NSF	183	1,060	43	94
Insurance and Bonds	33,301	33,271	2,126	2,124
Depreciation Expense	801,166	799,870	14,885	14,885
Amortization Expense	15,910	15,910	-	-
<u>Total Operating Expense</u>	<u>2,303,336</u>	<u>2,209,454</u>	<u>27,249</u>	<u>29,086</u>
Excess (Deficiency) of Operating Revenue <u>Over Operating Expense</u>	<u>(595,814)</u>	<u>(659,698)</u>	<u>(21,969)</u>	<u>(23,806)</u>
<u>Other Income (Expense)</u>				
Interest Income	1,229	1,917	288	479
Interest Expense	(81,670)	(84,052)	-	-
<u>Total Other Income (Expense)</u>	<u>(80,441)</u>	<u>(82,135)</u>	<u>288</u>	<u>479</u>
Net Income (Loss)	<u>\$ (676,255)</u>	<u>\$ (741,833)</u>	<u>\$ (21,681)</u>	<u>\$ (23,327)</u>

See independent auditor's report.

LETCHER COUNTY WATER AND SEWER DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

December 31, 2020

Findings Related to the Financial Statements

2019-001:

Condition: The financial statements originally presented excluded transactions for project related account activity maintained in a separate banking account.

Criteria: Financial statements should include all activity of the District.

Cause: The District was not posting to its accounting system activities related for bank accounts specifically created for infrastructure projects.

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

Recommendations: District management should assure controls are in place allowing all transactions.

Management's Response: District management will periodically compare bank accounts and related activity established to underlying financial statements assuring transaction activity is excluded in its general ledger accounting system.

Findings and Responses for Federal Awards

– NONE –

LETCHER COUNTY WATER AND SEWER DISTRICT

SCHEDULE OF FINDINGS AND RESPONSES

December 31, 2020

Findings Related to the Financial Statements

– NONE –

Findings and Responses for Federal Awards

– NONE –

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the aggregate remaining fund information of the Letcher County Water and Sewer District, as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the Letcher County Water and Sewer District's basic financial statements, and have issued our report thereon dated December 21, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Letcher County Water and Sewer District's internal control over financial reporting (internal control) 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 the Letcher County Water and Sewer District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Letcher County Water and Sewer District's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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 may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Letcher County Water and Sewer District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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 21, 2021

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