

LETCHER COUNTY WATER AND SEWER DISTRICT

REPORT OF AUDITED FINANCIAL STATEMENTS

For The Year Ended December 31, 2014

LETCHER COUNTY WATER AND SEWER DISTRICT

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For The Year Ended December 31, 2014

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INDEPENDENT AUDITOR'S REPORT

To Members of the Board
Letcher County Water and Sewer District
6 Broadway Street
Whitesburg, Kentucky 41858

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Letcher County Water and Sewer District as of and for the year ended December 31, 2014, 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 of the Letcher County Water and Sewer District, as of December 31, 2014, 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 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 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The comparative statement of revenues and expenses and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the comparative statement of revenues and expenses and the schedule of expenditures of federal awards are 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 July 24, 2015, 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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Letcher County Water and Sewer District's internal control over financial reporting and compliance.

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

Chris Gooch
Certified Public Accountant

Hazard, Kentucky

July 24, 2015

LETCHER COUNTY WATER AND SEWER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

For The Year Ended December 31, 2014

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, 2014. 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 \$359,664. The ending cash balance for the District was \$381,223.
- 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, Ulvah & Hallie; 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; and Premium.
- The District had a total of 2,815 active customers and 2,539 active customers at December 31, 2014 and 2013, 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, 2014. 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 DISTRICTMANAGEMENT'S DISCUSSION AND ANALYSISFor The Year Ended December 31, 2014

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, 2014. The Statement of Changes in Net Position summarizes the revenues and sources of those revenues generated during the year ended December 31, 2014 and the expenses incurred in operating the District for the year ended December 31, 2014.

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.

	12/31/2014	12/31/2013
Net Position:		
Current Assets	\$ 451,396	\$ 491,580
Noncurrent Assets	<u>25,426,603</u>	<u>22,878,581</u>
Total Assets	<u>\$ 25,877,999</u>	<u>\$ 23,370,161</u>

LETCHER COUNTY WATER AND SEWER DISTRICTMANAGEMENT'S DISCUSSION AND ANALYSISFor The Year Ended December 31, 2014

	12/31/2014	12/31/2013
Current Liabilities	\$ 522,719	\$ 519,924
Noncurrent Liabilities	<u>2,530,850</u>	<u>2,606,761</u>
<u>Total Liabilities</u>	<u>3,053,569</u>	<u>3,126,685</u>
- Net Position -		
Unrestricted	4,588	45,690
Restricted	381,080	359,416
Net Investment in Capital Assets	<u>22,438,762</u>	<u>19,838,370</u>
<u>Total Net Position</u>	<u>\$ 22,824,430</u>	<u>\$ 20,243,476</u>

- Decrease in non-current liabilities is due to payment on long-term debt.
- Increase in non-current assets includes recognition of completed and ongoing infrastructure projects, including on-behalf contributions via Letcher County Fiscal Court.

Changes in Net Position	<u>12/31/2014</u>	<u>12/31/2013</u>
Revenues	\$ <u>1,116,468</u>	\$ <u>1,044,325</u>
Operating Expenses:		
General	1,024,714	797,904
Depreciation & Amortization	<u>643,790</u>	<u>508,057</u>
Total Operating Expenses	<u>1,668,504</u>	<u>1,305,961</u>
Other Income (Expenses)	<u>(15,586)</u>	<u>101,167</u>
Increase (Decrease) in Net Position	<u>\$ (567,622)</u>	<u>\$ (160,469)</u>

- Increase in revenue due to continuing expansion of customers from various projects.
- Increases in operating expenses are in part due to an increase of \$163,042 in water purchases.
- Increases in depreciation due to continuing completion of water improvement projects.
- Decrease in other income (expense) is related to a decrease in on behalf payments on debt service by the Letcher County Fiscal Court.

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

LETCHER COUNTY WATER AND SEWER DISTRICTSTATEMENT OF NET POSITIONAt December 31, 2014ASSETS:

- Current Assets -		
Cash in Banks - Unrestricted	\$	250
Accounts Receivable, net of allowance for doubtful accounts		144,414
Other Current Assets		<u>306,732</u>
<u>Total Current Assets</u>		<u>451,396</u>
- Fixed Assets -		
Land, Structure & Equipment, net of depreciation		23,489,405
Construction in Progress		<u>1,556,118</u>
<u>Total Fixed Assets</u>		<u>25,045,523</u>
- Other Assets -		
Cash - Restricted		<u>381,080</u>
<u>Total Assets</u>		<u>25,877,999</u>

LIABILITIES AND NET POSITION:

- Current Liabilities -		
Cash - Deficit		107
Accounts Payable		67,272
Payroll Liabilities Payable		10,281
Accrued Compensation		11,056
Other Current Liabilities		358,092
Current Portion of Long-Term Debt		<u>75,911</u>
<u>Total Current Liabilities</u>		<u>522,719</u>
- Long Term Liabilities -		
Bonds/Notes Payable		2,606,761
Less: Current Portion		<u>(75,911)</u>
<u>Total Long-Term Liabilities</u>		<u>2,530,850</u>
<u>Total Liabilities</u>		<u>3,053,569</u>
- Net Position -		
Unrestricted		4,588
Restricted Assets		381,080
Net Investment in Capital Assets		<u>22,438,762</u>
<u>Total Net Position</u>		<u>22,824,430</u>
<u>Total Liabilities and Net Position</u>	\$	<u>25,877,999</u>

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

LETCHER COUNTY WATER AND SEWER DISTRICTSTATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITIONFor The Year Ended December 31, 2014

<u>Revenue</u>	
Water and Sewer Operations	\$ 1,116,468
<u>Operating Expense</u>	
Salaries and Fringe Benefits	240,625
Office Expense	9,800
Water Consumption	567,153
Electric	28,328
Telephone	8,448
Postage	8,869
Travel	620
Advertisement	1,426
Legal and Accounting	12,495
Contract Labor	29,965
Water Quality Monitoring	4,267
Repairs and Maintenance	19,058
Vehicle Expense	25,079
Rents	2,896
Operating Supplies	35,819
Bank Fees	6,844
Insurance and Bonds	21,811
Sewer Operating Expense	1,211
Depreciation Expense	627,880
Amortization Expense	15,910
<u>Total Operating Expense</u>	<u>1,668,504</u>
Excess (Deficiency) of Operating Revenue <u>Over Operating Expense</u>	<u>(552,036)</u>
<u>Other Income (Expense)</u>	
Interest Income	678
On Behalf Payments - Debt Service	70,063
Tap Fees and Other Miscellaneous Income	9,185
Interest Expense	(95,512)
<u>Total Other Income (Expense)</u>	<u>(15,586)</u>
Net Income (Loss)	(567,622)
Net Position, Beginning of Year - Restated	20,243,476
Add: Capital Contributions	3,148,576
Net Position, End of Year	<u>\$ 22,824,430</u>

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

LETCHER COUNTY WATER AND SEWER DISTRICTSTATEMENT OF CASH FLOWSFor The Year Ended December 31, 2014

<u>Cash Flows from Operating Activities:</u>	
Receipts from customers and users	\$ 1,101,435
Payments to personnel	(236,781)
Payments to suppliers	(689,443)
Payments to contractors	<u>(42,460)</u>
<u>Net Cash Provided (Used) by Operating Activities</u>	<u>132,751</u>
<u>Cash Flows From Capital and Related Financing Activities:</u>	
Increase in infrastructure assets - net	(3,170,148)
Tap fees and other miscellaneous income	9,185
Principal paid on bonds	(74,034)
Interest paid on bonds and notes	(95,512)
On behalf payments received	70,063
Capital grants and contributions received	<u>3,148,576</u>
<u>Net Cash Provided (Used) for Capital and Related Financing Activities</u>	<u>(111,870)</u>
<u>Cash Flows from Investing Activities</u>	
Interest revenue	<u>678</u>
Net Increase (Decrease) in Cash	21,559
Cash and restricted cash, January 1	<u>359,664</u>
Cash and restricted cash, December 31	<u><u>381,223</u></u>
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:</u>	
Operating loss	(552,036)
Restatement of net position	(21,927)
Adjustments to reconcile operating net cash provided by operating activities:	
Depreciation	627,880
Amortization	15,910
Changes in assets and liabilities	
(Increase) decrease in accounts receivable	6,894
(Increase) decrease in other current assets	34,250
Increase (decrease) in accounts payable	14,631
Increase (decrease) in payroll tax payable	1,513
Increase (decrease) in accrued compensation	2,331
Increase (decrease) in other current liabilities	<u>3,305</u>
<u>Net Cash Provided (Used) by Operations</u>	<u>\$ 132,751</u>

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

LETCHER COUNTY WATER AND SEWER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

At December 31, 2014

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 \$28,921 was recognized in the financial statements for the year ended December 31, 2014.

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)At December 31, 2014

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.

g. 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.

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

LETCHER COUNTY WATER AND SEWER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

At December 31, 2014

g. Basis of Accounting (Continued)

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.

Deferred Revenue – Deferred 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 deferred revenue.

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

h. Net Position

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

i. 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.

j. Materials and Supplies

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

LETCHER COUNTY WATER AND SEWER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

At December 31, 2014

3. Cash and Cash Equivalents

The carrying amount of cash, including petty cash, was \$381,223 and the bank balance of cash was \$378,442 at December 31, 2014. Cash at December 31, 2014 was comprised of the following:

	<u>Bank</u> <u>Balance</u>	<u>Book</u> <u>Balance</u>	<u>Interest</u> <u>Rate</u>	<u>Financial</u> <u>Institution</u>
Water Operations Account	\$ 900	\$ (107)	0.25%	Community Trust Bank
RD Operating Reserve Account	12,060	12,060	0.25%	Community Trust Bank
RD Sinking Fund Account	9,728	9,728	0.25%	Community Trust Bank
Depreciation Account	11,179	11,179	0.25%	Community Trust Bank
Revenue Account	315,051	318,589	0.25%	Community Trust Bank
Deane Project	235	235	0.00%	Community Trust Bank
Pine/Pert/Cram Creek Project	-	-	0.09%	Community Trust Bank
Construction Account	18,266	18,266	0.25%	Community Trust Bank
Cumberland River Water Project	10,022	10,022	0.10%	Community Trust Bank
Reserve Account	1,001	1,001	0.09%	Community Trust Bank
Sewer Operations Account	-	-	0.00%	Whitaker Bank
Petty Cash	<u>-</u>	<u>250</u>	N/a	N/a
<u>Totals</u>	<u>\$ 378,442</u>	<u>\$ 381,223</u>		

Custodial credit risk is the risk that in event of bank failure the deposits may not be returned or that Letcher County Water and Sewer District may not recover collateral securities. The organization's deposits at December 31, 2014 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. Over ninety-nine percent of the Organization's cash at December 31, 2014 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, 2014:

Construction accounts receivable	\$ 296,293
Prepaid expenses	<u>10,439</u>
	<u>\$ 306,732</u>

LETCHER COUNTY WATER AND SEWER DISTRICTNOTES TO THE FINANCIAL STATEMENTS (CONTINUED)At December 31, 20145. Other Current Liabilities

Other current liabilities consisted of the following at December 31, 2014:

Construction accounts payable	\$ 296,293
Customer deposits payable	58,170
Utility tax payable	2,799
Accrued interest payable	472
Sales tax payable	<u>358</u>
	<u>\$ 358,092</u>

6. Changes in Fixed Assets

Following are changes in fixed assets for Letcher County Water and Sewer District at December 31, 2014:

	<u>1/1/2014</u>			<u>12/31/2014</u>
	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>
<u>Water operations</u>				
<u>Capital assets not being depreciated:</u>				
Land	\$ 20,855	\$ -	\$ -	\$ 20,855
Construction in Progress	<u>1,202,000</u>	<u>1,151,337</u>	<u>(797,219)</u>	<u>1,556,118</u>
Total capital assets not being depreciated	1,222,855	1,151,337	(797,219)	1,576,973
<u>Capital assets being depreciated:</u>				
Plant and infrastructure	23,918,337	2,808,719	-	26,727,056
Office furniture and equipment	21,096	5,273	-	26,369
Other tangible equipment	69,353	2,038	-	71,391
Transportation equipment	<u>72,034</u>	<u>-</u>	<u>-</u>	<u>72,034</u>
Total capital assets being depreciated	24,080,820	2,816,030	-	26,896,850
<u>Less accumulated depreciation for:</u>				
Plant and infrastructure	(3,115,389)	(607,678)	-	(3,723,067)
Office furniture and equipment	(4,679)	(2,680)	-	(7,359)
Other tangible equipment	(54,574)	(5,376)	-	(59,950)
Transportation equipment	<u>(33,108)</u>	<u>(11,743)</u>	<u>-</u>	<u>(44,851)</u>
Total accumulated depreciation	(3,207,750)	(627,477)	-	(3,835,227)
<u>Total capital assets being depreciated, net</u>	<u>20,873,070</u>	<u>2,188,553</u>	<u>-</u>	<u>23,061,623</u>
<u>Total Water operations fixed assets</u>	<u>\$ 22,095,925</u>	<u>\$ 3,339,890</u>	<u>\$ (797,219)</u>	<u>\$ 24,638,596</u>

LETCHER COUNTY WATER AND SEWER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

At December 31, 2014

6. Changes in Fixed Assets (continued)

	<u>1/1/2014</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/2014</u>
	<u>Balance</u>			<u>Balance</u>
<u>Sewer operations</u>				
<u>Capital assets being depreciated:</u>				
Plant and infrastructure	\$ 595,411	\$ -	\$ -	\$ 595,411
Office furniture and equipment	104	-	-	104
Other tangible equipment	5,546	-	-	5,546
Transportation equipment	6,264	-	-	6,264
Total capital assets being depreciated	607,325	-	-	607,325
<u>Less accumulated depreciation for:</u>				
Plant and infrastructure	(176,688)	(14,885)	-	(191,573)
Office furniture and equipment	(104)	-	-	(104)
Other tangible equipment	(4,415)	(407)	-	(4,822)
Transportation equipment	(2,878)	(1,021)	-	(3,899)
Total accumulated depreciation	(184,085)	(16,313)	-	(200,398)
<u>Total capital assets being depreciated, net</u>	<u>423,240</u>	<u>(16,313)</u>	<u>-</u>	<u>406,927</u>
<u>Total Sewer operations fixed assets</u>	<u>423,240</u>	<u>(16,313)</u>	<u>-</u>	<u>406,927</u>
<u>Total fixed assets</u>	<u>\$ 22,519,165</u>	<u>\$ 3,323,577</u>	<u>\$ (797,219)</u>	<u>\$ 25,045,523</u>

Total depreciation & amortization expense for the year ended December 31, 2014 was allocated as follows:

	<u>Depreciation</u>	<u>Amortization</u>	<u>Total</u>
Water operations	\$ 611,567	\$ 15,910	\$ 627,477
Sewer operations	16,313	-	16,313
<u>Total</u>	<u>\$ 627,880</u>	<u>\$ 15,910</u>	<u>\$ 643,790</u>

7. Long-Term Debt

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

LETCHER COUNTY WATER AND SEWER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

At December 31, 2014

7. Long-Term Debt (continued)

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, 2014, the depreciation – reserve account was \$11,179. Due to a lack of funding, the reserve is not being fully funded currently.

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>
				\$ 737,000
2015	13,000	33,165	46,165	724,000
2016	13,000	32,580	45,580	711,000
2017	14,000	31,995	45,995	697,000
2018	15,000	31,365	46,365	682,000
2019	15,000	30,690	45,690	667,000
2020-2024	87,000	142,560	229,560	580,000
2025-2029	110,000	121,050	231,050	470,000
2030-2034	136,000	94,050	230,050	334,000
2035-2039	169,000	60,615	229,615	165,000
2040-2043	<u>165,000</u>	<u>18,945</u>	<u>183,945</u>	<u>-</u>
<u>Total</u>	<u>\$ 737,000</u>	<u>\$ 597,015</u>	<u>\$ 1,334,015</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>
				\$ 394,000
2015	10,000	19,700	\$ 29,700	384,000
2016	11,000	19,200	30,200	373,000
2017	11,000	18,650	29,650	362,000
2018	12,000	18,100	30,100	350,000
2019	13,000	17,500	30,500	337,000
2020-2024	73,000	77,350	150,350	264,000
2025-2029	93,000	57,100	150,100	171,000
2030-2034	116,000	31,550	147,550	55,000
2035-2036	<u>55,000</u>	<u>3,600</u>	<u>58,600</u>	<u>-</u>
<u>Total</u>	<u>\$ 394,000</u>	<u>\$ 262,750</u>	<u>\$ 656,750</u>	

LETCHER COUNTY WATER AND SEWER DISTRICTNOTES TO THE FINANCIAL STATEMENTS (CONTINUED)At December 31, 20147. 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>
				\$ 909,000
2015	15,000	37,497	\$ 52,497	894,000
2016	15,500	36,878	52,378	878,500
2017	16,500	36,239	52,739	862,000
2018	17,000	35,558	52,558	845,000
2019	17,500	34,857	52,357	827,500
2020-2024	100,000	162,755	262,755	727,500
2025-2029	122,500	140,356	262,856	605,000
2030-2034	149,500	112,965	262,465	455,500
2035-2039	183,000	79,429	262,429	272,500
2040-2044	224,500	38,405	262,905	48,000
2045	<u>48,000</u>	<u>1,980</u>	<u>49,980</u>	-
<u>Total</u>	<u>\$ 909,000</u>	<u>\$ 716,919</u>	<u>\$ 1,625,919</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. Due to a lack of funding, the reserve is not being funded currently.

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:

LETCHER COUNTY WATER AND SEWER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

At December 31, 2014

7. Long-Term Debt (Continued)

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Balance</u>
				\$ 566,761
2015	37,911	6,966	\$ 44,877	528,850
2016	38,291	6,491	44,782	490,559
2017	38,675	6,011	44,686	451,884
2018	39,062	5,527	44,589	412,822
2019	39,454	5,037	44,491	373,368
2020-2024	203,282	17,671	220,953	170,086
<u>2025-2028</u>	<u>170,086</u>	<u>4,812</u>	<u>174,898</u>	-
<u>Total</u>	<u>\$ 566,761</u>	<u>\$ 52,515</u>	<u>\$ 619,276</u>	

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

	<u>1/1/2014 Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/2014 Balance</u>	<u>Current Portion</u>
Rural Utility Service Bond - Isom-Jeremiah Project	\$ 749,000	\$ -	\$ 12,000	\$ 737,000	\$ 13,000
Rural Utility Service Bond - Camp Branch-Sandlick Project	923,500	-	14,500	909,000	15,000
Rural Utility Service Bond - Blackey Water Treatment Plant	404,000	-	10,000	394,000	10,000
Kentucky Infrastructure Authority - Little Cowan Project	<u>604,295</u>	<u>-</u>	<u>37,534</u>	<u>566,761</u>	<u>37,911</u>
Total	<u>\$ 2,680,795</u>	<u>\$ -</u>	<u>\$ 74,034</u>	<u>\$ 2,606,761</u>	<u>\$ 75,911</u>

8. Risk Management

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

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

LETCHER COUNTY WATER AND SEWER DISTRICTNOTES TO THE FINANCIAL STATEMENTS (CONTINUED)At December 31, 20149. 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 pays \$3.00 per 1,000 gallons for its water purchases.

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, City of Vicco or the Knott County Water District.

11. Pension and Health Plans

Employees of the Letcher County Water and Sewer District participate in 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. Restatement of Net Position

Net position was decreased \$20,969 to reflect customer deposits payable not previously recognized and \$958 to write off an old uncollectible receivable for a total decrease of \$21,927.

LETCHER COUNTY WATER AND SEWER DISTRICT

COMPARATIVE STATEMENTS OF REVENUES AND EXPENSES

For the Year Ended December 31, 2014

	Water Operations		Sewer Operations	
	FYE		FYE	
	<u>12/31/2014</u>	<u>12/31/2013</u>	<u>12/31/2014</u>	<u>12/31/2013</u>
<u>Revenue</u>				
Water and Sewer Operations	\$ 1,114,544	\$ 1,038,785	\$ 1,924	\$ 5,540
<u>Operating Expense</u>				
Salaries and Fringe Benefits	236,769	227,050	3,856	3,712
Office Expense	9,800	5,239	-	-
Water Consumption	567,153	404,111	-	-
Electric	27,948	21,948	380	298
Telephone	8,448	7,722	-	-
Postage	8,869	8,432	-	-
Travel	620	-	-	-
Advertisement	1,426	220	-	-
Legal and Accounting	12,405	10,994	90	81
Contract Labor	29,965	22,268	-	-
Water Quality Monitoring	4,267	3,728	-	-
Repairs and Maintenance	18,528	8,637	530	247
Vehicle Expense	23,288	21,356	1,791	1,642
Rents	2,896	2,148	-	-
Operating Supplies	35,819	25,220	-	-
Bank Fees	6,784	2,454	60	170
Insurance and Bonds	20,502	17,335	1,309	1,106
Sewer Operating Expense	-	-	1,211	1,786
Depreciation Expense	611,567	475,859	16,313	16,288
Amortization Expense	15,910	15,910	-	-
<u>Total Operating Expense</u>	<u>1,642,964</u>	<u>1,280,631</u>	<u>25,540</u>	<u>25,330</u>
Excess (Deficiency) of Operating Revenue				
<u>Over Operating Expense</u>	<u>(528,420)</u>	<u>(241,846)</u>	<u>(23,616)</u>	<u>(19,790)</u>
<u>Other Income (Expense)</u>				
Interest Income	536	661	142	186
On Behalf Payments - Debt Service	70,063	169,664	-	-
Tap Fees and Other Miscellaneous Income	9,185	28,127	-	-
Interest Expense	(95,512)	(97,471)	-	-
<u>Total Other Income (Expense)</u>	<u>(15,728)</u>	<u>100,981</u>	<u>142</u>	<u>186</u>
Net Income (Loss)	<u>\$ (544,148)</u>	<u>\$ (140,865)</u>	<u>\$ (23,474)</u>	<u>\$ (19,604)</u>

LETCHER COUNTY WATER AND SEWER DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2014

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantors Number</u>	<u>Program Expenditures</u>
US Department of Interior			
Passed through Kentucky Natural Resources and Environmental Protection Cabinet			
Abandoned Mines Land - Pine/Pert/Cram Creek Water Project	15.252		\$ 860,325
Abandoned Mines Land - Deane Water Project	15.252		<u>1,150,608</u>
<u>Total US Department of Interior</u>			<u>2,010,933</u>
Appalachian Regional Commission			
-Direct-			
Appalachian Regional Development	23.001		<u>15,456</u>
US Department of Agriculture			
-Direct-			
Water and Waste Disposal Systems for Rural Communities	10.760		<u>35,440</u>
<u>Total Federal Awards Expenditures</u>			<u>\$ 2,061,829</u>

NOTE A

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Letcher County Water and Sewer District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in preparation of, the basic financial statements.

LETCHER COUNTY WATER AND SEWER DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For The Year Ended December 31, 2014

-NONE-

LETCHER COUNTY WATER AND SEWER DISTRICTSCHEDULE OF FINDINGS AND QUESTIONED COSTSFor The Year Ended December 31, 2014-SUMMARY OF AUDIT RESULTS-

1. We have issued an unmodified opinion on the financial statements.
2. No material weakness or significant deficiency not identified as a material weakness was disclosed by the audit of the financial statements.
3. No material noncompliance was disclosed in our audit of the financial statements.
4. No material weakness or significant deficiency not identified as a material weakness was disclosed by the audit in internal control over major programs.
5. We have issued an unmodified opinion on compliance for major programs.
6. The audit did not disclose any audit findings which we are required to report under Section .510(a) of A-133.
7. Letcher County Water and Sewer District had the following major program:
 - US Department of Interior
 - Passed through Kentucky Natural Resources and
 - Environmental Protection Cabinet
 - Abandoned Mines Land – Pine/Pert/Cram Creek Water Project CFDA #15.252
 - Abandoned Mines Land – Deane Water Project CFDA #15.252
8. The dollar threshold used to distinguish between major and non-major programs was \$300,000.
9. The auditee qualified as a low-risk auditee under Section .530 of A-133.

LETCHER COUNTY WATER AND SEWER DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For The Year Ended December 31, 2014

-FINDINGS RELATED TO THE FINANCIAL STATEMENTS-

-NONE-

-FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS-

-NONE-

Chris Gooch

Certified Public Accountant
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the Members of the Board
Letcher County Water and Sewer District
Whitesburg, Kentucky 41858

Report on Compliance for Each Major Federal Program

We have audited the Letcher County Water and Sewer District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Letcher County Water and Sewer District's major federal programs for the year ended December 31, 2014. Letcher County Water and Sewer District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Letcher County Water and Sewer District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Letcher County Water and Sewer District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Letcher County Water and Sewer District's compliance.

Opinion on Each Major Federal Program

In our opinion, the Letcher County Water and Sewer District, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014.

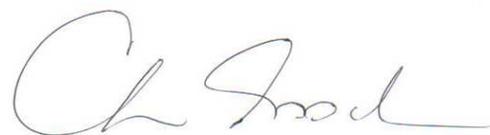
Report on Internal Control over Compliance

Management of the Letcher County Water and Sewer District, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Letcher County Water and Sewer District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Letcher County Water and Sewer District's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Chris Gooch
Certified Public Accountant

Hazard, Kentucky

July 24, 2015

Chris Gooch

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

To the Members of the Board
Letcher County Water and Sewer District
Whitesburg, Kentucky 41858

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 of the Letcher County Water and Sewer District, as of and for the year ended December 31, 2014, 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 July 24, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Letcher County Water and Sewer District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Letcher County Water and Sewer District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Letcher County Water and Sewer District's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

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

Chris Gooch
Certified Public Accountant

Hazard, Kentucky

July 24, 2015