

SANITATION DISTRICT NO. 4
OF BOYD COUNTY, KENTUCKY

FINANCIAL STATEMENTS
AND
SUPPLEMENTAL INFORMATION
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016
TOGETHER WITH INDEPENDENT AUDITORS' REPORT

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INDEPENDENT AUDITORS' REPORT

March 26, 2018

Board of Directors
Sanitation District No. 4 of Boyd County, Kentucky
Ashland, Kentucky

We have audited the accompanying financial statements of the business-type activities of Sanitation District No. 4 of Boyd County, Kentucky ("the District") as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the 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 misstatements, 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 general purpose financial statements are free of 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 judgement, 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 Sanitation District No. 4 of Boyd County, Kentucky as of June 30, 2017 and 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the years 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 and supplemental schedules on pages 5 - 7 and 21 - 23 to 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 Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated March 26, 2018 on our consideration of Sanitation District No. 4 of Boyd County, Kentucky's internal control over financial reporting and 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 Sanitation District No. 4 of Boyd County, Kentucky's internal control over financial reporting and compliance.


GRIFFITH, DELANEY, HILLMAN & COMPANY
Certified Public Accountants

Griffith, De Laney, Hillman & Company

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SANITATION DISTRICT NO. 4 OF BOYD COUNTY, KENTUCKY MANAGEMENT'S DISCUSSION AND ANALYSIS ANNUAL FINANCIAL STATEMENTS FOR THE FISCAL YEARS ENDED JUNE 30, 2017 AND 2016

Our discussion and analysis of Sanitation District No. 4 of Boyd County, Kentucky's financial performance provides an overview of the District's financial activities for the fiscal years ended June 30, 2017 and 2016. Please read it in conjunction with the accompanying basic financial statements. It is our intent that this discussion provide all parties interested in the District's financial condition, especially the users of the facilities, a better understanding of the District's operations and financial status.

The District reports its financial statements in a required model format issued by the Governmental Accounting Standards Board.

Financial Highlights

- As of June 30, 2017 and 2016, the District's assets of \$15,967,864 and \$16,666,154 exceeded liabilities of \$10,704,136 and \$11,071,982 by \$5,263,728 and \$5,594,172. This excess includes the value of capital assets plus resources restricted to specific projects by law, regulation, or contractual agreement of \$3,740,489 and \$3,666,145, restricted resources of \$11,586 and \$11,440 which represent money set aside to satisfy loan covenants, and unrestricted resources available to continue District operations into the next fiscal year of \$1,511,653 and \$1,916,587.
- Unrestricted cash balances as of June 30, 2017 and 2016 were \$421,707 and \$730,408 and current liabilities payable from those funds were \$426,796 and \$465,550. Collections of receivables allow timely payment of liabilities.

Overview of the Financial Statements

The District's basic financial statements include: (1) fund financial statements, and (2) notes to the financial statements. These financial statements present information about business-type activities, which consists principally of the fees the District charges its users to cover all or most of the cost of the services it provides.

Fund Financial Statements

The fund financial statements provide detailed information about the proprietary fund. When the District charges customers for services it provides, these services are generally reported in proprietary funds.

SANITATION DISTRICT NO. 4 OF BOYD COUNTY, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
ANNUAL FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2017 AND 2016

Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the District's enterprise funds (a component of proprietary funds) are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows for proprietary funds.

Notes to the financial statements

The accompanying notes to the financial statements provide information essential to a full understanding of the fund financial statements. The notes to the financial statements begin immediately following the basic financial statements.

Reporting the District as a Whole

One of the most important questions asked about the District's finances is, "Is the District as a whole better off or worse off as a result of this year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position report information about the District as a whole and about its activities in a way that helps answer this question.

Our discussion begins with an analysis of overall revenues and expenses and their treatment. An overwhelming majority of the District's revenue is received from charges for services.

For the year ended June 30, 2017, the District's total revenues decreased from a year ago by \$148,723 (3.7%) while total cost of all programs and services including depreciation decreased by \$38,809 (0.74%). Overall, net operating income decreased by \$170,723 for the fiscal year.

For the year ended June 30, 2017, treatment expenses increased by 2.22%.

For the year ended June 30, 2016, treatment expenses increased by 1.65%.

Financial Analysis of the District's Proprietary Fund

At June 30, 2017 and 2016, the District's proprietary fund reported total net assets of \$5,263,728 and \$5,727,124, is a decrease of \$330,444 or (5.91%) and an increase of \$79,578 or (0.68%) from the prior year. A portion of total net assets \$11,586 and \$11,440 is restricted as to use due to loan covenant requirements.

Capital Assets

The District was able to make several capital asset purchases that caused the District to incur additional debt. The District purchased Vehicles for \$88,814.

Debt

At June 30, 2017 and 2016, the District had bonds payable to Kentucky Rural Water Finance Corporation and Kentucky Bond Corporation with remaining balances of \$9,848,834 and \$10,215,166 respectively requiring annual installments of principal and semiannual installments of interest.

SANITATION DISTRICT NO. 4 OF BOYD COUNTY, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
ANNUAL FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2017 AND 2016

Contacting the District's Financial Management

This financial report is designed to provide our citizen's, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's Superintendent, at Sanitation District No. 4 of Boyd County, Kentucky, 239 W. Little Garner Road, Ashland, KY, 41102, telephone number (606) 928-3936.

SANITATION DISTRICT NO. 4 OF BOYD COUNTY, KENTUCKY
STATEMENT OF NET POSITION
JUNE 30, 2017 AND 2016

ASSETS

	<u>2017</u>	<u>2016</u>
<u>CURRENT ASSETS</u>		
Cash	\$ 421,707	\$ 730,408
Accounts Receivable	721,461	904,996
Note Receivable, Current Portion	-	4,842
<u>TOTAL CURRENT ASSETS</u>	1,143,168	1,640,246
<u>NONCURRENT ASSETS</u>		
Restricted Cash (Note 3)	1,044,366	955,944
Capital Assets, (Net of Accumulated Depreciation of \$3,820,558 and \$3,456,508)	13,589,323	13,881,311
Note Receivable, Net of Current Portion	-	18,765
<u>TOTAL NONCURRENT ASSETS</u>	14,633,689	14,856,020
<u>TOTAL ASSETS</u>	15,776,857	16,496,266

DEFERRED OUTFLOW OF RESOURCES

Pension Contributions	191,007	169,888
<u>TOTAL DEFERRED OUTFLOW OF RESOURCES</u>	191,007	169,888

LIABILITIES

CURRENT LIABILITIES

Accounts Payable	379,779	419,921
Accrued Payroll Liabilities	4,472	4,224
Accrued Interest Payable	36,266	37,636
Accrued Wages Payable	6,279	3,769
Bonds Payable - Current	383,167	366,833
<u>TOTAL CURRENT LIABILITIES</u>	809,963	832,383

NONCURRENT LIABILITIES

Bonds Payable - Net of Current	9,465,667	9,848,333
Less – Deferred Financing Costs	(346,460)	(350,737)
Net Pension Liability	751,596	693,823
<u>TOTAL NONCURRENT LIABILITIES</u>	9,870,803	10,191,419

TOTAL LIABILITIES

	10,680,766	11,023,802
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DEFERRED INFLOW OF RESOURCES

Deferred Pension Expense	23,370	48,180
<u>TOTAL DEFERRED INFLOW OF RESOURCES</u>	23,370	48,180

NET POSITION

NET POSITION

Invested in Capital Assets, net of Related Debt	3,740,489	3,666,145
Restricted for Loan Repayments	11,586	11,440
Unrestricted	1,511,653	1,916,587
<u>TOTAL NET POSITION</u>	\$ 5,263,728	\$ 5,594,172

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

SANITATION DISTRICT NO. 4 OF BOYD COUNTY, KENTUCKY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<u>OPERATING REVENUES</u>		
Service	\$ 3,744,827	\$ 3,870,583
Tap Fees	100	800
E-One Pump Customers	3,407	7,641
Miscellaneous Income	<u>15,214</u>	<u>48,701</u>
<u>TOTAL OPERATING REVENUES</u>	<u>3,763,548</u>	<u>3,927,725</u>
<u>OPERATING EXPENSES</u>		
Treatment Expenses	3,159,626	3,090,977
Administrative Expenses	178,391	201,428
Depreciation	389,500	398,435
Amortization	<u>17,320</u>	<u>45,538</u>
<u>TOTAL OPERATING EXPENSES</u>	<u>3,744,837</u>	<u>3,736,378</u>
<u>NET OPERATING INCOME</u>	<u>18,711</u>	<u>191,347</u>
<u>NON-OPERATING REVENUES (EXPENSES)</u>		
Interest Income	1,586	2,238
Gain on Sale of Assets	16,106	-
Interest Expense	<u>(366,847)</u>	<u>(406,115)</u>
<u>TOTAL NON-OPERATING REVENUES (EXPENSES)</u>	<u>(349,155)</u>	<u>(403,877)</u>
<u>NET (LOSS) INCOME</u>	(330,444)	(212,530)
<u>CHANGE IN NET POSITION</u>	(330,444)	(212,530)
<u>NET POSITION</u> , Beginning of year (Restated)	<u>5,594,172</u>	<u>5,806,702</u>
<u>NET POSITION</u> , End of year	<u>\$ 5,263,728</u>	<u>\$ 5,594,172</u>

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

SANITATION DISTRICT NO. 4 OF BOYD COUNTY, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Receipts from Customers	\$ 3,452,126	\$ 3,958,077
Payments to Suppliers	(2,440,727)	(2,682,802)
Payments to Employees	<u>(443,656)</u>	<u>(428,672)</u>
<u>NET CASH PROVIDED BY OPERATING ACTIVITIES</u>	<u>567,743</u>	<u>846,603</u>
<u>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</u>		
Decrease (Increase) in Restricted Cash	<u>(88,423)</u>	<u>(394,650)</u>
<u>NET CASH (USED) BY NON-CAPITAL FINANCING ACTIVITIES</u>	<u>(88,423)</u>	<u>(394,650)</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>		
Principal Paid on Bond and Notes Payable	(366,332)	(184,834)
Interest Paid on Bond and Notes Payable	(365,477)	(407,401)
Purchase of Capital Assets	(97,511)	(8,153,648)
Proceeds from Sale of Assets	16,106	-
Capitalized Debt Issuance Cost	-	(318,999)
Proceeds Received From 2015A Rev. Bonds	-	8,715,000
Payments Received on Notes Receivable	<u>23,607</u>	<u>4,628</u>
<u>NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES</u>	<u>(789,607)</u>	<u>(345,254)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Interest Income	<u>1,586</u>	<u>2,238</u>
<u>NET (DECREASE) INCREASE IN CASH</u>	<u>(308,701)</u>	<u>108,937</u>
<u>CASH</u> , Beginning of year	<u>730,408</u>	<u>621,471</u>
<u>CASH</u> , End of year	<u>\$ 421,707</u>	<u>\$ 730,408</u>

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

SANITATION DISTRICT NO. 4 OF BOYD COUNTY, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2017 AND 2016
(CONTINUED)

	<u>2017</u>	<u>2016</u>
<u>RECONCILIATION OF OPERATING INCOME</u>		
<u>TO NET CASH PROVIDED BY</u>		
<u>OPERATING ACTIVITIES</u>		
Operating Income	\$ 18,711	\$ 191,347
Adjustments to reconcile operating Income to net cash provided by operating activities:		
Depreciation	389,500	398,435
Amortization (Net)	1,536	36,278
Net Pension Adjustment	11,844	113,364
(Increase) Decrease in:		
Accounts Receivable	183,537	88,311
(Decrease) Increase in:		
Accounts Payable	(40,142)	17,567
Accrued Wages Payable	2,509	450
Accrued Payroll Liabilities	248	851
	<u>549,032</u>	<u>655,256</u>
<u>TOTAL ADJUSTMENTS</u>		
	<u>549,032</u>	<u>655,256</u>
<u>NET CASH PROVIDED BY OPERATING</u>		
<u>ACTIVITIES</u>	<u>\$ 567,743</u>	<u>\$ 846,603</u>

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

SANITATION DISTRICT NO. 4 OF BOYD COUNTY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Sanitation District No. 4 of Boyd County, Kentucky (“the District”) conform to generally accepted accounting principles as applicable to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant policies:

A. Organization

The District was created in accordance with the provisions of Section 220.100 of the Kentucky Revised Statutes by an ordinance of the Boyd County Fiscal Court on December 30, 1978. The purpose of the district is to provide sanitation sewer services to a portion of Boyd County, Kentucky.

B. Reporting Entity

The criteria used to determine the scope of the reporting entity and its component units are oversight responsibility including selection of the governing authority, designation of management and ability to significantly influence operations; accountability for fiscal matters including budgetary authority, surplus/deficits, responsibility for debt; fiscal management and revenue characteristics; scope of public service; and any special financing relationships. Based on the above criteria, it is determined that the reporting entity is Sanitation District No. 4 of Boyd County, Kentucky.

C. Basis of Presentation - Fund Accounting

The accounts of the District are organized on the basis of funds each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures, or expenses, as appropriate.

Proprietary Funds

Enterprise Funds

Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for accountability, capital maintenance, public policy, management control, or other purposes.

D. Basis of Accounting

All proprietary funds are accounted for using the accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized when obligations are incurred.

E. Encumbrance Accounting

The District does not use encumbrance accounting. Since effective budgetary control and accountability and cash planning and control can be facilitated without encumbrance accounting, this is not considered a significant departure from generally accepted accounting principles. There were no unperformed contracts in process at year end which otherwise might have resulted in the need to encumber estimated expenditures.

F. Receivables

Accounts receivable consists of billings of \$721,461 and \$904,996 to the residents of Boyd County, Kentucky and the Federal Correctional Institution of Ashland, Kentucky, which were not collected as of June 30, 2017 and 2016, respectively. An allowance for doubtful accounts is used on the indirect write off method and monitored for non-pay customers. The balance for doubtful accounts for June 30, 2017 was \$146,904.

SANITATION DISTRICT NO. 4 OF BOYD COUNTY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES “CONTINUED”

G. Capital Assets

Capital assets, which included property, plant and equipment, are reported in the fund financial statements at historical cost.

Depreciation recorded as an allocated expense in the Statement of Revenues, Expenses and Changes in Fund Net Position with accumulated depreciation reflected in the Statement of Net Position. Depreciation is computed using the straight-line method over the following estimated useful lives:

Equipment	3-10 years
Buildings and property	10-60 years

Depreciation expense for the years ended June 30, 2017 and June 30, 2016 was \$389,500 and \$398,435, respectively.

Capital additions, improvements and major renewals are capitalized, whereas maintenance, repairs and minor renewals are charged to expenses when they are incurred. In the case of disposals, the assets and related reserves are removed from the accounts and the net amount less any proceeds from disposals, is charged or credited to revenues.

H. Cash and Cash Equivalents

For purposes of the statement of cash flows, the proprietary fund type considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

I. Use of 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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

J. Equity Classifications

In the fund financial statements, equity is classified as net position and displayed in three components:

- Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balance of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted net position - Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- Unrestricted net position - All other net position that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

K. Advertising Expense

Advertising expense for the years ended June 30, 2017 and June 30, 2016 was \$1,079 and \$-0- respectively.

SANITATION DISTRICT NO. 4 OF BOYD COUNTY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 2 – LONG-TERM DEBT

Revenue bonds and notes payable consist of the following at June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
\$2,274,000 bonds payable in variable annual installments through January 1, 2033; interest from 4.03% to 4.78%	\$ 1,553,000	\$ 1,621,000
\$8,715,000 bonds payable in Variable annual installments Through January 1, 2038; interest from 2.00% to 3.75%	<u>8,295,834</u>	<u>8,594,166</u>
Total Bonds Payable	9,848,834	10,215,166
Less current portion	<u>(383,167)</u>	<u>(366,833)</u>
Total Long-Term Bonds Payable	9,465,667	9,848,333
Less- Deferred Financing Costs	<u>(346,460)</u>	<u>(363,779)</u>
Long-Term Bonds Payable Net of Deferred Financing Costs	<u>\$ 9,119,207</u>	<u>\$ 9,484,554</u>

	<u>BALANCE JULY 1 2015</u>	<u>PROCEEDS</u>	<u>PAYMENTS</u>	<u>BALANCE JUNE 30 2016</u>
<u>BUSINESS-TYPE ACTIVITIES:</u>				
Bonds Payable	\$ <u>1,685,000</u>	\$ <u>8,715,000</u>	\$ <u>(184,834)</u>	\$ <u>10,215,166</u>

	<u>BALANCE JULY 1 2016</u>	<u>PROCEEDS</u>	<u>PAYMENTS</u>	<u>BALANCE JUNE 30 2017</u>
Bonds Payable	\$ <u>10,215,166</u>	\$ <u>-0-</u>	\$ <u>(366,332)</u>	\$ <u>9,848,834</u>

MATURITIES:

	<u>Bond Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2018	\$ 383,167	\$ 327,105
2019	395,167	317,955
2020	409,083	308,433
2021	418,167	300,095
2022	433,167	287,956
Thereafter	<u>\$ 7,810,083</u>	<u>\$ 2,321,888</u>
<u>Total</u>	<u>\$ 9,848,834</u>	<u>\$ 3,863,432</u>

SANITATION DISTRICT NO. 4 OF BOYD COUNTY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 2 – LONG-TERM DEBT “CONTINUED”

Bond and Interest Sinking Fund

The Kentucky Rural Water Finance Corporation Public Projects Refunding Revenue Bonds Ordinance of 2003 provides that monthly payments be made into this account that are equal to one-sixth (1/6) of the next interest payment plus one-twelfth (1/12) of the next principal payment. The required amount to be deposited in the Sewer Bond Interest and Sinking Fund account as of June 30, 2017 and 2016 is \$82,352 and \$83,076.

As of June 30, 2017 and 2016, the Sewer Bond Interest and Sinking Fund has total funds in the amount of \$82,352 and \$83,076. The Sewer Bond Interest and Sinking Fund is in compliance with the Kentucky Rural Water Finance Corporation Public Projects Refunding Revenue Bonds Ordinance of 2003.

Revenue Fund

The Governmental Agency covenants and agrees that it will deposit in the Revenue Fund, promptly as received from time to time, all revenues of the System, as same may be extended and improved from time to time. The moneys in the Revenue Fund shall be used, disbursed and applied by the Governmental Agency only for the purpose in the manner and order of priorities specified in this Assistance Agreement, all as permitted by the Act, and in accordance with previous contractual commitments.

Sinking Fund

The Governmental Agency is obligated upon the issuance of the obligations to provide for the debt service requirements of the obligations.

If the Governmental Agency for any reason shall fail to make any monthly deposit as required, then an amount equal to the deficiency shall be set apart and deposited into the Sinking Fund out of the first available revenues in the ensuing months, which amount shall be in addition to the monthly deposit otherwise required during such succeeding months. Whenever there shall accumulate in the Sinking Fund amounts in excess of the requirements during the next twelve months for paying the principal of and interest due on the outstanding bonds, as same fall due, such excess may be used for redemption or prepayment of any Outstanding Bonds, subject to the terms and conditions set forth therein, prior to maturity.

Operation and Maintenance Fund

There shall next be transferred monthly from the Revenue Fund and deposited into said Operation and Maintenance Fund, sums sufficient to meet the current expenses of operating and maintaining the System. The balance maintained in said Operation and Maintenance Fund shall not be in excess of the amount required to cover anticipated System expenditures for a two-month period pursuant to the Governmental Agency's annual budget.

Surplus Funds

Subject to the provisions for the disposition of the income and revenues of the System as set forth herein above, which provisions are cumulative, and after paying or providing for the payment of debt service on any subordinate obligations, there shall be transferred, within sixty days after the end of each fiscal year, the balance of excess funds in the Revenue Fund on such date to the Sinking Fund to be applied to the maximum extent feasible to the prompt purchase or redemption of Outstanding Bonds.

Reserve Fund

Under the terms of the United States Department of Agriculture, the District is required to establish a Reserve Fund account into which monthly payments of \$1,441 is to be deposited to establish a sinking fund for the repayment of USDA loan.

SANITATION DISTRICT NO. 4 OF BOYD COUNTY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 2 – LONG-TERM DEBT “CONTINUED”

Depreciation Reserve

The Board has temporarily suspended the designated payment for \$22,000 a month to be placed in the depreciation reserve account to be used for major repairs and maintenance of the sewer system. This account is restricted by the Board of Directors to offset for depreciation expense of the system itself.

NOTE 3 – RESTRICTED ASSETS AND RESERVED NET ASSETS

The proprietary fund has a portion of its net assets restricted in connection with assets restricted in use, bond interest and redemption. Restricted net assets includes the excess of restricted cash over liabilities payable from restricted cash.

As of June 30, 2017 and 2016, restricted cash were as follows:

	<u>2017</u>	<u>2016</u>
Reserve Fund	\$ 53,213	\$ 34,449
Depreciation Reserve	800,084	729,702
Bond and Interest	<u>191,069</u>	<u>191,793</u>
<u>TOTAL RESTRICTED CASH</u>	<u>\$ 1,044,366</u>	<u>\$ 955,944</u>

NOTE 4 – CASH DEPOSITS WITH FINANCIAL INSTITUTIONS

As of June 30, 2017, the District had deposits of \$1,648,777 confirmed by the financial institutions. Of this amount, \$754,145 was covered by federal depository insurance, \$550,084 was secured by collateral with a market value of \$750,000 held by Town Square Ban. From time to time some balances may not be collateralized.

NOTE 5 – CAPITAL ASSETS

	<u>BALANCE</u> <u>JULY 1</u> <u>2015</u>	<u>ADDITIONS</u>	<u>DISPOSALS</u>	<u>BALANCE</u> <u>JUNE 30</u> <u>2016</u>
<u>Capital Assets at Historical Costs:</u>				
Land	\$ 30,717	\$ -	\$ -	\$ 30,717
Lines and Extensions	7,685,894	-	(103,500)	7,582,394
2015A BCFC Sewer Lines	-	8,076,931	-	8,076,931
Equipment	600,719	6,385	-	607,104
Vehicles	244,033	-	-	244,033
Office Buildings	598,000	800	-	598,800
CIP	<u>128,308</u>	<u>69,532</u>	<u>-</u>	<u>197,840</u>
<u>Total Capital Assets,</u>				
<u>at Historical Cost</u>	<u>9,287,671</u>	<u>8,153,648</u>	<u>(103,500)</u>	<u>17,337,819</u>
<u>Less: Accumulated Depreciation:</u>				
Lines and Extensions	(2,230,295)	(140,206)	81,219	(2,289,282)
2015A BCFC Sewer Assets	-	(161,539)	-	(161,539)
Equipment	(473,704)	(53,134)	2,333	(524,505)
Vehicles	(195,296)	(12,341)	-	(207,637)
Office Buildings	<u>(200,178)</u>	<u>(31,215)</u>	<u>(42,152)</u>	<u>(273,545)</u>
Total Accumulated Depreciation	<u>(3,099,473)</u>	<u>(398,435)</u>	<u>41,400</u>	<u>(3,456,508)</u>
<u>Capital Assets, Net</u>	<u>\$ 6,188,198</u>	<u>\$ 7,755,213</u>	<u>\$ (62,100)</u>	<u>\$ 13,881,311</u>

SANITATION DISTRICT NO. 4 OF BOYD COUNTY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 5 – CAPITAL ASSETS “CONTINUED”

	<u>BALANCE</u> <u>JULY 1</u> <u>2016</u>	<u>ADDITIONS</u>	<u>DISPOSALS</u>	<u>BALANCE</u> <u>JUNE 30</u> <u>2017</u>
Capital Assets at Historical Costs:				
Land	\$ 30,717	\$ -	\$ -	\$ 30,717
Lines and Extensions	7,582,394	-	-	7,582,394
2015A BCFC Sewer Lines	8,076,931	-	-	8,076,931
Equipment	607,104	-	(8,550)	598,554
Vehicles	244,033	88,814	(16,900)	315,947
Office Buildings	598,800	-	-	598,800
CIP	197,840	8,698	-	206,538
Total Capital Assets, at Historical Cost	<u>17,337,819</u>	<u>97,512</u>	<u>(25,450)</u>	<u>17,409,881</u>
Less: Accumulated Depreciation:				
Lines and Extensions	(2,289,282)	(140,854)	-	(2,430,136)
2015A BCFC Sewer Assets	(161,539)	(161,539)	-	(323,078)
Equipment	(524,505)	(28,985)	8,550	(544,940)
Vehicles	(207,637)	(27,881)	16,900	(218,618)
Office Buildings	(273,545)	(30,241)	-	(303,786)
Total Accumulated Depreciation	<u>(3,456,508)</u>	<u>(389,500)</u>	<u>25,450</u>	<u>(3,820,558)</u>
Capital Assets, Net	<u>\$ 13,881,311</u>	<u>\$ (291,988)</u>	<u>\$ -</u>	<u>\$ 13,589,323</u>

NOTE 6 – CONCENTRATIONS OF CREDIT RISK

The District's revenues are generated from services extended to residents and customers in Boyd County, KY. The billings to the Federal Correction Institution in Boyd County, Kentucky account for a total of 19.18% of total revenues for the year ended June 30, 2017. Management believes the nature of the contracts with all customers is adequate to minimize credit risk.

NOTE 7 – EMPLOYEES RETIREMENT PLAN

SIMPLE PLAN

One employee of the District remains and was grand-fathered in under a Savings Incentive Match Plan for Employees of Small Employers (SIMPLE). The District pays an amount of 5.0% of the employee's salary. The expenses of the District were \$2,830 and \$2,632 for the years ended June 30, 2017 and 2016, respectively.

COUNTY EMPLOYEE RETIREMENT SYSTEM (CERS)

The Commission has elected to participate in the County Employees Retirement System. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

CERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601 or by calling (502) 696-8800.

SANITATION DISTRICT NO. 4 OF BOYD COUNTY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 7 – EMPLOYEES RETIREMENT PLAN “CONTINUED”

Contributions

Funding for CERS is provided by members who contribute a percentage of their salary through payroll deductions and by employers of members who contribute a percentage of the member's salary. The contribution percentages for members in non-hazardous duty positions are 5.00% (6.00% for employees hired after September 1, 2008). The employers' contribution percentages for members in non-hazardous duty positions are 18.68% (13.95% pension, 4.73% insurance). The contribution requirements of CERS are established and may be amended by the CERS Board of Trustees .

At June 30, 2017, the District reported a liability of \$751,596 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Commission's proportion of the net pension liability was based on a projection of the Commission's long-term share of contributions to the pension plan relative to the projected contributions of all participating organizations, actuarially determined. At June 30, 2016 the Commission's proportion for nonhazardous was .01527%.

For the year ended June 30, 2017, the Commission recognized pension expense of \$63,553. At June 30, 2017, the Commission reported deferred outflows of resources for the Commission's contributions subsequent to the measurement date of \$191,007. These contributions will be recognized as a reduction of the net pension liability in the year ended June 30, 2017.

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
<u>Nonhazardous</u>		
Difference between expected actual experience	\$ 3,281	\$
Changes in assumptions	39,816	
Net difference between projected and actual earnings on investments	70,658	
Changes in proportion and differences between Commission contributions and proportionate share of contributions	25,543	23,370
Commission contributions subsequent to The measurement date	<u>51,709</u>	<u> </u>
TOTAL	<u>\$ 191,007</u>	<u>\$ 23,370</u>

The deferred outflows of resources relate to the Board's contributions to the CERS plan subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending June 30:	
2016	\$ 5,842
2017	5,842
2018	5,843
2019	<u>5,843</u>
Total	<u>\$ 23,370</u>

SANITATION DISTRICT NO. 4 OF BOYD COUNTY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 7 – EMPLOYEES RETIREMENT PLAN “CONTINUED”

Actuarial Assumptions and Methods

Total pension liability for CERS was determined by actuarial valuation as of June 30, 2017 using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25 percent
Salary Increase	4.0 percent, average, including inflation
Investment Rate of Return	7.5 percent, net of pension plan investment expense, including inflation

The rates of mortality for the period after service retirement are according to the 1983 Group Annuity Mortality Table for all retired members and beneficiaries as of June 30, 2006, and the 1994 Group Annuity Mortality Table for all other members. The Group Annuity Mortality Table set forward five years is used for the period after disability retirement.

Actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2005 to June 30, 2008.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major class are summarized in the following table:

	<u>Target Allocation</u>	<u>Long Term Nominal Rate of Return</u>
Combined Equity	44%	5.40%
Combined Fixed Income	19%	1.50%
Real Return (Diversified Inflation Strategies)	10%	3.50%
Real Estate	5%	4.50%
Absolute Return (Diversified Hedge Funds)	10%	4.25%
Private Equity	10%	8.50%
Cash Equivalent	<u>2%</u>	-0.25%
TOTAL	<u>100%</u>	

Discount Rate

The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The following presents the Board's proportionate share of the net pension liability calculated using the discount rate of (7.50%), as well as what the Board's proportionate share of the net pension liability

SANITATION DISTRICT NO. 4 OF BOYD COUNTY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 7 – EMPLOYEES RETIREMENT PLAN “CONTINUED”

would be if it were calculated using a discount rate that is 1 percentage point lower (6.50%) or 1 percentage point higher (8.50%) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Commission's share of the net pension liability:			
Nonhazardous	\$ 938,750	\$ 751,596	\$ 594,357

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued CERS financial report.

NOTE 8 – NOTE RECEIVABLE

The District's note receivable from Ritchie Investments, LLC for the sale of and secured by the office building located at 831 State Route 716, Ashland, Boyd County, Kentucky has been paid in full. The balance as of June 30, 2017 was \$-0-.

NOTE 9 – RELATED PARTY TRANSACTIONS

On April 1, 2009, Sanitation District No. 4 of Boyd County (the District) assumed the operations of the rural Boyd County Sanitary Sewer System, which encompassed responsibility for customer billings, maintenance, repair and utilization of the system. Boyd County Fiscal Court retained ownership of the sewer facilities, property and equipment, and maintained responsibility for all existing sewer related debt.

On May 6, 2017, Sanitation District No. 4 of Boyd County entered into a Revenue Lease Agreement to refinance certain obligations of the Boyd County Fiscal Court. This agreement was completed and the District issued Revenue Bonds 2015A in the amount of \$8,715,000 of which \$8,076,931 was surrendered to Boyd County Fiscal Court for the extinguishment of a KADD loan dated May 12, 2005, with a principle balance at June 30, 2017 in the amount of \$4,085,000 and General Obligation Bonds, Series 2006 dated December 29, 2006, with an outstanding balance at June 30, 2017 of \$3,460,000. The excess of \$531,931 would be accrued interest on the borrowed funds. On July 01, 2017, the assets for the above referenced debts were transferred, and recorded for \$8,076,931 on the financial statements of the District.

NOTE 10 - RECLASSIFICATIONS

Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements.

NOTE 11 - PRIOR PERIOD ADJUSTMENTS

Net position as of the end of the prior fiscal year has been adjusted to decrease accounts receivable, increase amortization expense and increase accrued amortization. The corrections had no effect on the results of the current years activities; however, the cumulative effect decreased net position by \$132,952.

NOTE 12 - SUBSEQUENT EVENTS

In preparing these financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through the date of this report. Nothing further to note.

REQUIRED SUPPLEMENTARY INFORMATION

SANITATION DISTRICT NO. 4 OF BOYD COUNTY, KENTUCKY
SCHEDULE OF OPERATING EXPENSES
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<u>TREATMENT EXPENSES:</u>		
Treatment	\$ 1,820,081	\$ 1,772,592
Wages	446,164	429,122
Chemicals	267,245	275,446
Employee Benefits	189,780	271,497
Utilities	149,608	143,349
Repairs	142,609	97,909
Surcharges	66,025	31,370
Payroll Taxes	35,888	29,181
Fuel	11,182	11,188
Miscellaneous	12,568	2,295
Billing Services	2,759	11,471
Equipment Rental	4,480	4,480
Laboratory Costs	8,057	7,897
Contact Labor	3,180	3,180
	<u>3,180</u>	<u>3,180</u>
<u>TOTAL TREATMENT EXPENSES</u>	<u>\$ 3,159,626</u>	<u>\$ 3,090,977</u>
<u>ADMINISTRATION:</u>		
Bad Debt Expense	\$ 41,372	\$ 61,892
Engineering	-	-
Insurance	37,525	37,037
Legal and Professional	33,810	34,203
Office Supplies	12,955	16,856
Postage and Delivery	14,639	15,524
Director Fees	12,300	12,300
Bank Charges	11,218	9,477
Miscellaneous	4,832	3,408
Dues and Subscriptions	663	841
Training Expense	5,847	6,847
Meals and Entertainment	1,370	840
Travel	-	862
Bond Expense	781	1,341
Advertising	1,079	-
	<u>1,079</u>	<u>-</u>
<u>TOTAL ADMINISTRATION</u>	<u>\$ 178,391</u>	<u>\$ 201,428</u>

(See accompanying notes and independent auditors report)

SANITATION DISTRICT NO. 4 OF BOYD COUNTY, KENTUCKY
SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

COUNTY EMPLOYEES RETIREMENT SYSTEM (CERS) DEFERRED COMPENSATION PLAN
(AMOUNTS IN THOUSANDS)

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Portion of the net Pension liability (asset)	0.01527%	0.01614%	0.014491%
Proportionate share of The net pension liability (asset)	\$ 694	\$ 470	\$ 532
Covered employee payroll	\$ 429	\$ 428	\$ 465
Proportionate share of the Pension liability (asset) As a percentage of its Covered employee payroll	161.77%	109.81%	114.41%
Plan fiduciary net pension As a percentage of the Total pension liability	55.50%	59.97%	66.80%

(See accompanying notes and independent auditors report)

SANITATION DISTRICT NO. 4 OF BOYD COUNTY, KENTUCKY
SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS

COUNTY EMPLOYEES RETIREMENT SYSTEM (CERS) DEFERRED COMPENSATION PLAN
(AMOUNTS IN THOUSANDS)

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required Contribution	\$ 81	\$ 170	\$ 63
Contributions in relation To the contractually Required contribution	\$ 81	\$ 170	\$ 63
Contribution deficiency (Excess)	\$ -	\$ -	\$ -
Covered employee payroll	\$ 429	\$ 428	\$ 465
Contributions as a Percentage of covered Employee payroll	18.88%	39.72%	13.55%

(See accompanying notes and independent auditors report)

Griffith, DeLaney, Hillman & Company

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INDEPENDENT AUDITORS' 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

March 26, 2018

The Board of Directors
Sanitation District No. 4
Boyd County, Kentucky

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 *Governmental Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Sanitation District No. 4 of Boyd County, Kentucky as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Sanitation District No. 4 of Boyd County Kentucky's basic financial statements and have issued our report thereon dated March 26, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Sanitation District No. 4 of Boyd County, Kentucky'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 Sanitation District No. 4 of Boyd County, Kentucky's internal control. Accordingly, we do not express an opinion on the effectiveness of the Sanitation District No. 4 of Boyd County, Kentucky's internal control.

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 a material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified.

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.

Given these limitations, during the 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. We did identify certain deficiencies in internal control, described below, that we consider significant deficiencies.

Districts Findings:

- 2017-1. Because of the size of the Sanitation District No. 4 of Boyd County, Kentucky and the small number of persons it employs; it is not possible from a practical perspective to achieve segregation of duties in many areas. As a result, a highly structured internal control system cannot exist. Management and the Board of Directors should remain aware of the integrity of the employees and the need to provide appropriate supervision.
- 2017-2. The staff is competent, capable and performs daily and monthly functions well. The staff is unable, however, to prepare full accrual basis financial statements with full disclosure in accordance with generally accepted accounting principles. The staff reviews draft financial statements for material errors and reasonableness in amounts.

Districts Response to Findings:

Sanitation District No. 4 of Boyd County, Kentucky response to the findings identified in our audit is described below. Sanitation District No. 4 of Boyd County, Kentucky response was not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

- 2017-1 Management and the Board of Directors will remain aware of the integrity of the employees and provide appropriate supervision.
- 2017-2 The staff will review draft financial statements for material errors and reasonableness in the totals. The Board will review closer the financials and budget comparisons. The CPA outside consultant will advise the board and management the changes to the financials as they come about and assist the management on proper recording and preparation of GAAP financials.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Sanitation District No. 4 of Boyd County, Kentucky's financial statements are free of 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 accounts.

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 matter 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.


GRIFFITH/ DELANEY/ HILLMAN & COMPANY
Certified Public Accountants