

SANITATION DISTRICT NO. 4  
OF BOYD COUNTY, KENTUCKY

FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

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## INDEPENDENT AUDITORS' REPORT

January 25, 2012

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 year ended June 30, 2011 and 2010 as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general purpose 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Sanitation District No. 4 of Boyd County, Kentucky as of June 30, 2011 and 2010, and the changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated January 25, 2012 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 laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and supplemental schedule on pages 5 - 8 and 21 are not a required part of the basic financial statements but are supplementary information required by the GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the method of measurement and presentation of the supplementary information. However, the information in the schedule has not been subjected to the auditing procedures applied in the audit of the basic financial statements and we offer no opinion on it.

  
GRIFFITH, DELANEY, HILLMAN & COMPANY

**SANITATION DISTRICT NO. 4 OF BOYD COUNTY, KENTUCKY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**ANNUAL FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEARS ENDED JUNE 30, 2011 AND 2010**

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, 2011 and 2010. 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, 2011 and 2010, the District's assets of \$8,337,942 and \$8,432,510 exceeded liabilities of \$2,505,301 and \$2,565,020 by \$5,832,641 and \$5,867,490. This excess includes the value of capital assets plus resources restricted to specific projects by law, regulation, or contractual agreement of \$4,729,384 and \$4,607,671, restricted resources of \$11,173 and \$11,166 which represent money set aside to satisfy loan covenants, and unrestricted resources available to continue District operations into the next fiscal year of \$1,092,084 and \$1,248,653.
- Unrestricted cash balances as of June 30, 2011 and 2010 were \$723,100 and \$938,336 and current liabilities payable from those funds were \$326,974 and \$321,576. Collections of receivables allow timely payment of liabilities.
- The District's overall long-term debt increased by a net of \$23,911 through the payment of outstanding principal and the acquisition of additional debt for the completion of construction projects.

SANITATION DISTRICT NO. 4 OF BOYD COUNTY, KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
ANNUAL FINANCIAL STATEMENTS  
FOR THE FISCAL YEARS ENDED JUNE 30, 2011 AND 2010  
"(CONTINUED)"

**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. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets 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 Fund Net Assets and the Statement of Revenues, Expenses and Changes in Fund Net Assets 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, 2010, the District's total revenues increased from a year ago by \$1,823,446 (98.1%) while total cost of all programs and services (including depreciation) increased by \$1,286,931 (77.3%). Overall, net operating income increased by \$535,677 for the fiscal year.

For the year ended June 30, 2011, the District's total revenues decreased from a year ago by \$784,701 (21.3%) while total cost of all programs and services (including depreciation) increased by \$26,932 (0.9%). Overall, net operating income decreased by \$811,633 for the fiscal year. This decrease is the result of the loss of supplemental income from the Boyd County Fiscal Court.

SANITATION DISTRICT NO. 4 OF BOYD COUNTY, KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
ANNUAL FINANCIAL STATEMENTS  
FOR THE FISCAL YEARS ENDED JUNE 30, 2011 AND 2010  
"(CONTINUED)"

**Reporting the District as a Whole "continued"**

For the year ended June 30, 2010, treatment expenses increased by 90.7%, which can be attributed to the District expanding the service area and an overall increase in costs.

For the year ended June 30, 2011, treatment expenses decreased by 2.6%.

**Financial Analysis of the Commission's Proprietary Fund**

At June 30, 2011 and 2010, the District's proprietary fund reported total net assets of \$5,832,641 and \$5,867,490, which is an decrease of \$34,849 and a increase of \$907,979 or 0.6% and 18.3% from the prior year. A portion of total net assets (\$11,173 and \$11,166) is restricted as to use due to loan covenant requirements.

**Capital Assets**

The District was able to make several capital asset purchases without incurring additional debt.

**Debt**

At June 30, 2011 and 2010, the District had a note payable to the Kentucky Infrastructure Authority with a remaining balance of \$183,722 and \$155,633 to be repaid in semiannual installments of \$5,835; and bonds payable to Kentucky Rural Water Finance Corporation with a remaining balance of \$1,919,000 and \$1,971,000 requiring annual installments of principal and semiannual installments of interest.

**Note Receivable**

On September 7, 2007, the District sold the office building at 831 State Route 716, Ashland, Boyd County, Kentucky to Ritchie Investments, LLC for \$230,000. A promissory note was accepted for \$46,000 to be repaid in sixty (60) monthly installments of \$279 including interest of 4% per annum with a balloon payment due on October 5, 2012. The balance of the note receivable as of June 30, 2011 and 2010 was \$40,067 and \$41,633, respectively.

SANITATION DISTRICT NO. 4 OF BOYD COUNTY, KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
ANNUAL FINANCIAL STATEMENTS  
FOR THE FISCAL YEARS ENDED JUNE 30, 2011 AND 2010  
"(CONTINUED)"

**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, 831 State Route 716, Ashland, KY, 41102, telephone number (606) 928-3936.



**SANITATION DISTRICT NO. 4 OF BOYD COUNTY, KENTUCKY**  
**STATEMENT OF FUND NET ASSETS**  
**JUNE 30, 2011 AND 2010**

**ASSETS**

<b><u>CURRENT ASSET</u></b>	<b><u>2011</u></b>	<b><u>2010</u></b>
Cash	\$ 723,100	\$ 938,336
Accounts Receivable	641,488	616,274
Note Receivable, Current Portion	1,926	1,711
Accrued Interest Receivable	-	318
	<hr/>	<hr/>
<b><u>TOTAL CURRENT ASSETS</u></b>	<b>1,366,514</b>	<b>1,556,639</b>
Restricted Cash (Note 3)	82,314	81,855
Capital Assets, (Net of Accumulated Depreciation of \$2,109,506 and \$1,862,690)	6,832,106	6,734,304
Intangible Assets, (Net of Accumulated Amortization of \$8,813 and \$7,890)	18,867	19,790
Note Receivable, Net of Current Portion	38,141	39,922
	<hr/>	<hr/>
<b><u>TOTAL ASSETS</u></b>	<b>8,337,942</b>	<b>8,432,510</b>

**LIABILITIES**

<b><u>CURRENT LIABILITIES</u></b>		
Accounts Payable	273,591	265,558
Accrued Payroll Liabilities	5,347	8,140
Accrued Interest Payable	43,641	44,689
Lawsuit Settlement Payable - Current	40,000	40,000
Bonds Payable - Current	55,000	52,000
Notes Payable - Current	8,036	7,878
	<hr/>	<hr/>
<b><u>TOTAL CURRENT LIABILITIES</u></b>	<b>425,615</b>	<b>418,265</b>
<b><u>LONG-TERM LIABILITIES</u></b>		
Bonds Payable - Net of Current	1,864,000	1,919,000
Notes Payable - Net of Current	175,686	147,755
	<hr/>	<hr/>
<b><u>TOTAL LONG-TERM DEBT</u></b>	<b>2,039,686</b>	<b>2,066,755</b>
Lawsuit Settlement Payable - Net of Current	40,000	80,000
	<hr/>	<hr/>
<b><u>TOTAL LONG-TERM LIABILITIES</u></b>	<b>2,079,686</b>	<b>2,146,755</b>
	<hr/>	<hr/>
<b><u>TOTAL LIABILITIES</u></b>	<b>2,505,301</b>	<b>2,565,020</b>

**NET ASSETS**

<b><u>NET ASSETS</u></b>		
Invested in Capital Assets, net of Related Debt	4,729,384	4,607,671
Restricted for Loan Repayments	11,173	11,166
Unrestricted	1,092,084	1,248,653
	<hr/>	<hr/>
<b><u>TOTAL NET ASSETS</u></b>	<b>\$ 5,832,641</b>	<b>\$ 5,867,490</b>

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

SANITATION DISTRICT NO. 4 OF BOYD COUNTY, KENTUCKY  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
<b><u>OPERATING REVENUES</u></b>		
Service	\$ 2,892,762	\$ 3,081,734
Supplemental Income	-	575,108
Tap Fees	5,123	21,022
Rental Income	-	5,052
Miscellaneous Income	505	175
	<u>2,898,390</u>	<u>3,683,091</u>
<b><u>OPERATING EXPENSES</u></b>		
Treatment Expenses	2,430,997	2,494,883
Administrative Expenses	203,957	141,477
Depreciation	248,031	219,684
Amortization	923	923
	<u>2,883,908</u>	<u>2,856,967</u>
<b><u>NET OPERATING INCOME</u></b>	<u>14,482</u>	<u>826,115</u>
<b><u>NON-OPERATING REVENUES (EXPENSES)</u></b>		
Interest Income	3,944	8,098
Reconnection Fees	(2,470)	(1,490)
Interest Expense	(89,926)	(94,023)
	<u>(88,452)</u>	<u>(87,415)</u>
<b><u>(LOSS) INCOME BEFORE GRANTS RECEIVED</u></b>	<u>(73,970)</u>	<u>738,700</u>
Grants Received	39,121	169,279
<b><u>CHANGE IN NET ASSETS</u></b>	<u>(34,849)</u>	<u>907,979</u>
<b><u>NET ASSETS, Beginning of year</u></b>	<u>5,867,490</u>	<u>4,959,511</u>
<b><u>NET ASSETS, End of year</u></b>	<u>\$ 5,832,641</u>	<u>\$ 5,867,490</u>

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

SANITATION DISTRICT NO. 4 OF BOYD COUNTY, KENTUCKY  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
FOR THE YEAR ENDED JUNE 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>		
Receipts from Customers	\$ 2,875,141	\$ 3,511,408
Payments to Suppliers	(2,281,046)	(2,211,396)
Payments to Employees	<u>(389,148)</u>	<u>(384,642)</u>
<b><u>NET CASH PROVIDED BY OPERATING ACTIVITIES</u></b>	<u>204,947</u>	<u>915,370</u>
<b><u>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</u></b>		
Increase in Restricted Cash	(459)	(518)
Grants Received	39,121	169,279
Reconnection fees	<u>(2,470)</u>	<u>(1,490)</u>
<b><u>NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES</u></b>	<u>36,192</u>	<u>167,271</u>
<b><u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u></b>		
Principal Paid on Bond and Notes Payable	(59,878)	(66,141)
Interest Paid on Bond and Notes Payable	(90,974)	(95,010)
Purchase of Capital Assets	(347,318)	(748,308)
Payments Received on Notes Receivable	1,566	1,644
Proceeds from Note Payable	<u>35,967</u>	<u>155,633</u>
<b><u>NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES</u></b>	<u>(460,637)</u>	<u>(752,182)</u>
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>		
Interest Income	<u>4,262</u>	<u>11,438</u>
<b><u>NET (DECREASE) INCREASE IN CASH</u></b>	(215,236)	341,897
<b><u>CASH</u></b> , Beginning of year	<u>938,336</u>	<u>596,439</u>
<b><u>CASH</u></b> , End of year	<u>\$ 723,100</u>	<u>\$ 938,336</u>

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

SANITATION DISTRICT NO. 4 OF BOYD COUNTY, KENTUCKY  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
FOR THE YEAR ENDED JUNE 30, 2011 AND 2010  
(CONTINUED)

	<u>2011</u>	<u>2010</u>
<b><u>RECONCILIATION OF OPERATING INCOME</u></b>		
<b><u>TO NET CASH PROVIDED BY</u></b>		
<b><u>OPERATING ACTIVITIES</u></b>		
Operating Income	\$ 14,482	\$ 826,115
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	248,031	219,684
Amortization	923	923
Loss on Disposal of Assets	1,485	
(Increase) Decrease in:		
Accounts Receivable	(25,214)	(171,683)
(Decrease) Increase in:		
Lawsuit Settlement Payable	(40,000)	(40,000)
Accounts Payable	8,033	77,503
Accrued Payroll Liability	(2,793)	2,828
 <b><u>TOTAL ADJUSTMENTS</u></b>	 <u>190,465</u>	 <u>89,255</u>
 <b><u>NET CASH PROVIDED BY OPERATING</u></b>		
<b><u>ACTIVITIES</u></b>	 <u>\$ 204,947</u>	 <u>\$ 915,370</u>

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

**SANITATION DISTRICT NO. 4 OF BOYD COUNTY, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011 AND 2010**

**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; score 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.

SANITATION DISTRICT NO. 4 OF BOYD COUNTY, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

"CONTINUED"

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES "CONTINUED"

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 \$641,488 and \$616,274 to the residents of Boyd County, Kentucky and the Federal Correctional Institution of Ashland, Kentucky, which were not collected as of June 30, 2011 and 2010, respectively. No allowance is required as all amounts are deemed to be collectible.

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 Assets with accumulated depreciation reflected in the Statement of Fund Net Assets. 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, 2011 and June 30, 2010 was \$248,031 and \$219,684, 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.

SANITATION DISTRICT NO. 4 OF BOYD COUNTY, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

"CONTINUED"

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES "CONTINUED"

J. Equity Classifications

In the fund financial statements, equity is classified as net assets 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 assets - Consists of net assets 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 assets - All other net assets 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, 2011 and June 30, 2010 was \$2,464 and \$2,231, respectively

NOTE 2 - LONG-TERM DEBT

Revenue bonds and notes payable consist of the following at June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
\$2,274,000 bonds payable in variable annual installments through January 1, 2033; interest from to 4.03% to 4.78%	\$ 1,919,000	\$ 1,971,000
Note payable to Kentucky Infrastructure Authority in semiannual installments of \$5,835 including interest at 2.00% plus service fees.	<u>183,722</u>	<u>155,633</u>
Total debt payable	2,102,722	2,126,633
Less current portion	<u>(63,036)</u>	<u>(59,878)</u>
<b><u>TOTAL LONG-TERM DEBT</u></b>	<b><u>\$ 2,039,686</u></b>	<b><u>\$ 2,066,755</u></b>

SANITATION DISTRICT NO. 4 OF BOYD COUNTY, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010 AND 2011  
"CONTINUED"

NOTE 2 - LONG-TERM DEBT "CONTINUED"

	<u>BALANCE</u> <u>JULY 1</u> <u>2009</u>	<u>PROCEEDS</u>	<u>PAYMENTS</u>	<u>BALANCE</u> <u>JUNE 30</u> <u>2010</u>
<u>BUSINESS-TYPE ACTIVITIES:</u>				
Note Payable	\$ 17,141		\$ (17,141)	\$ -0-
Note Payable	-	155,633	-0-	155,633
Bonds Payable	<u>2,020,000</u>	<u>                    </u>	<u>(49,000)</u>	<u>1,971,000</u>
	<u>\$ 2,037,141</u>	<u>\$ 155,633</u>	<u>\$ (66,141)</u>	<u>\$ 2,126,633</u>

	<u>BALANCE</u> <u>JULY 1</u> <u>2010</u>	<u>PROCEEDS</u>	<u>PAYMENTS</u>	<u>BALANCE</u> <u>JUNE 30</u> <u>2011</u>
Note Payable	\$ 155,633	\$ 35,967	\$ (7,878)	\$ 183,722
Bonds Payable	<u>1,971,000</u>	<u>                    </u>	<u>(52,000)</u>	<u>1,919,000</u>
	<u>\$ 2,126,633</u>	<u>\$ 35,967</u>	<u>\$ (59,878)</u>	<u>\$ 2,102,722</u>

MATURITIES:

	<u>Note Payable</u>		<u>Bond Payable</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 8,036	\$ 3,634	\$ 55,000	\$ 87,282
2013	8,198	3,473	57,000	85,065
2014	8,362	3,308	60,000	82,768
2015	8,531	3,140	62,000	80,350
2016	8,702	2,969	64,000	77,852
Thereafter	<u>141,893</u>	<u>21,495</u>	<u>1,621,000</u>	<u>757,596</u>
<b>Total</b>	<u>\$ 183,722</u>	<u>\$ 38,019</u>	<u>\$ 1,919,000</u>	<u>\$ 1,170,913</u>



SANITATION DISTRICT NO. 4 OF BOYD COUNTY, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

"CONTINUED"

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, 2011 and 2010 is \$82,314 and \$81,855.

As of June 30, 2011 and 2010, the Sewer Bond Interest and Sinking Fund has total funds in the amount of \$82,314 and \$81,855. 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.

SANITATION DISTRICT NO. 4 OF BOYD COUNTY, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

"CONTINUED"

NOTE 2 - LONG-TERM DEBT "CONTINUED"

Surplus Funds

Subject to the provisions for the disposition of the income and revenues of the System as set forth hereinabove, 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.

Maintenance and Replacement Reserve

Under the terms of the Kentucky Infrastructure Authority Assistance Agreement, the District is required to establish a Maintenance and Replacement Reserve account into which \$1,000 is to be deposited each December 1 beginning December 1, 2010 until the balance in the reserve reaches \$10,000. Amounts in this account may be used for extraordinary maintenance expenses related to the Stephens Meade Project or for the unbudgeted costs of replacing worn or obsolete portions of the Project.

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, 2011 and 2010, restricted cash were as follows:

	<u>2011</u>	<u>2010</u>
Bond and Interest	\$ 82,314	\$ 81,855
<b><u>TOTAL RESTRICTED CASH</u></b>	<b><u>\$ 82,314</u></b>	<b><u>\$ 81,855</u></b>

NOTE 4 - CASH DEPOSITS WITH FINANCIAL INSTITUTIONS

As of June 30, 2011, the District had deposits of \$326,477 and \$233,351 confirmed by the financial institutions. Of this amount, \$483,351 was covered by federal depository insurance and \$76,477 was secured by collateral held by financial institutions with a par value of \$875,000 and market value of \$502,136.

**SANITATION DISTRICT NO. 4 OF BOYD COUNTY, KENTUCKY**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2011 AND 2010**

**"CONTINUED"**

**NOTE 5 - CAPITAL ASSETS**

	<u>BALANCE</u> <u>JULY 1</u> <u>2009</u>	<u>ADDITIONS</u>	<u>DISPOSALS</u>	<u>BALANCE</u> <u>JUNE 30</u> <u>2010</u>
<b><u>Capital Assets at Historical Costs:</u></b>				
Land	\$ 30,717	\$	\$	\$ 30,717
Lines and Extensions	7,095,467			7,095,467
Equipment	202,382	92,501		294,883
Vehicles	136,039	84,296		220,335
Office Buildings	384,081	184,061		568,142
Stephens Meade Project		387,450		387,450
<b><u>Total Capital Assets, at Historical Cost</u></b>	<b><u>7,848,686</u></b>	<b><u>748,308</u></b>		<b><u>8,596,994</u></b>
<b><u>Less: Accumulated Depreciation:</u></b>				
Lines and Extensions	(1,351,550)	(120,219)		(1,471,769)
Equipment	(145,889)	(31,415)		(177,304)
Vehicles	(87,684)	(29,889)		(117,573)
Office Buildings	(57,883)	(25,561)		(83,444)
Stephens Meade Project		(12,600)		(12,600)
<b>Total Accumulated Depreciation</b>	<b><u>(1,643,006)</u></b>	<b><u>(219,684)</u></b>		<b><u>(1,862,690)</u></b>
<b><u>Capital Assets, Net</u></b>	<b><u>\$ 6,205,680</u></b>	<b><u>\$ 528,624</u></b>	<b><u>\$</u></b>	<b><u>\$ 6,734,304</u></b>

	<u>BALANCE</u> <u>JULY 1</u> <u>2010</u>	<u>ADDITIONS</u>	<u>DISPOSALS</u>	<u>BALANCE</u> <u>JUNE 30</u> <u>2011</u>
<b><u>Capital Assets at Historical Costs:</u></b>				
Land	\$ 30,717	\$	\$	\$ 30,717
Lines and Extensions	7,482,917	173,577		7,656,494
Equipment	294,883	173,741		468,624
Vehicles	220,335		(2,700)	217,635
Office Buildings	568,142			568,142
<b><u>Total Capital Assets, at Historical Cost</u></b>	<b><u>8,596,994</u></b>	<b><u>347,318</u></b>	<b><u>(2,700)</u></b>	<b><u>8,941,612</u></b>
<b><u>Less: Accumulated Depreciation:</u></b>				
Lines and Extensions	(1,484,369)	(136,006)		(1,620,375)
Equipment	(177,304)	(48,011)		(225,315)
Vehicles	(117,573)	(32,979)	1,215	(149,337)
Office Buildings	(83,444)	(31,035)		(114,479)
<b>Total Accumulated Depreciation</b>	<b><u>(1,862,690)</u></b>	<b><u>(248,031)</u></b>	<b><u>1,215</u></b>	<b><u>(2,109,506)</u></b>
<b><u>Capital Assets, Net</u></b>	<b><u>\$ 6,734,304</u></b>	<b><u>\$ 99,287</u></b>	<b><u>\$ (1,485)</u></b>	<b><u>\$ 6,832,106</u></b>

SANITATION DISTRICT NO. 4 OF BOYD COUNTY, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

"CONTINUED"

**NOTE 6 - CONCENTRATIONS OF CREDIT RISK**

The District's revenues are generated from services extended to Boyd County, KY. The billings to the Federal Correction Institution in Boyd County, Kentucky account for a total of 43% of total revenues for the year ended June 30, 2011. Management believes the nature of the contracts with all customers is adequate to minimize credit risk.

**NOTE 7 - EMPLOYEE BENEFITS**

**SIMPLE PLAN**

The employees of the District are covered under a Savings Incentive Match Plan for Employees of Small Employers (SIMPLE). All employees of the District are eligible to participate in the plan. The District pays an amount up to 3% of the employee's salary. The expenses of the District were \$27,206 and \$16,356 for the years ended June 30, 2011 and 2010, respectively.

**NOTE 8 - NOTE RECEIVABLE**

The District is due a note receivable from Ritchie Investments, LLC dated September 7, 2007 for the sale of and secured by the office building located at 831 State Route 716, Ashland, Boyd County, Kentucky. The note is payable in sixty (60) monthly installments of \$279 including interest of 4% per annum with a balloon payment due on October 5, 2012. The balance as of June 30, 2011 was \$40,067.

The maturity of the note receivable is as follows:

June 30, 2012	\$ 1,926
June 30, 2013	<u>38,141</u>
<b><u>TOTAL NOTE RECEIVABLE</u></b>	<b><u>\$ 40,067</u></b>

**NOTE 9 - 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.

SANITATION DISTRICT NO. 4 OF BOYD COUNTY, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011 AND 2010  
"CONTINUED"

**NOTE 10 - CONSTRUCTION IN PROGRESS**

The District has committed to the extension of lines under the Stephens Meade Project which was projected to cost \$475,000. This project is being funded by proceeds from the American Recovery and Reinvestment Act of 2009 in the amount of \$400,000, administered by the Kentucky Infrastructure Authority, with the remainder to be funded by local monies.

As of June 30, 2011, the District expended \$491,816 to complete this project.

The agreement to receive these funds is structured to forgive 52% of the proceeds with the remaining 48% to be repaid with semi-annual installments of \$5,835 over 20 years at 2% interest per annum. As of June 30, 2011, District had received \$400,000 from the KIA, \$191,600 recorded as a note payable and \$208,400 recorded as grants received.

**NOTE 11 - SUBSEQUENT EVENTS**

In preparing these financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through January 26, 2012, the date the financial statements were available to be issued.

The District previously received a portion of the net profits license fees collected by the Boyd County Fiscal Court to assist in operations of the District. This supplemental income ceased during the year ended June 30, 2011, and the Boyd County Fiscal Court requested the District and the District agreed to repay \$313,000 towards the Fiscal Court's bond obligation.

**SANITATION DISTRICT NO. 4 OF BOYD COUNTY, KENTUCKY**  
**SCHEDULE OF OPERATING EXPENSES**  
**FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
<b><u>TREATMENT EXPENSES:</u></b>		
Treatment	\$ 1,427,090	\$ 1,473,640
Wages	389,148	384,642
Chemicals	150,468	125,813
Repairs	144,859	263,538
Employee Benefits	142,259	66,905
Utilities	127,319	107,988
Payroll Taxes	16,601	28,241
Fuel	19,945	13,530
Laboratory Costs	6,132	9,108
Contact Labor	3,921	10,310
Miscellaneous	1,644	6,106
Equipment Rental	1,611	3,203
Billing Services	-	1,859
	<hr/>	<hr/>
<b><u>TOTAL TREATMENT EXPENSES</u></b>	<b><u>\$ 2,430,997</u></b>	<b><u>\$ 2,494,883</u></b>
<b><u>ADMINISTRATION:</u></b>		
Bad Debt Expense	\$ 59,705	\$ 35,858
Supplemental Income Repayment, net	26,628	-
Insurance	23,379	8,315
Legal and Professional	22,370	22,379
Office Supplies	22,250	21,937
Postage and Delivery	16,504	17,688
Management Fees	11,400	11,250
Bank Charges	7,413	5,143
Engineering	6,709	4,485
Advertising	2,464	2,231
Meals and Entertainment	1,925	1,864
Dues and Subscriptions	1,182	3,027
Bond Expense	733	731
Miscellaneous	545	-
Travel	370	949
Training Expense	330	5,629
Licenses and Permits	50	-
	<hr/>	<hr/>
<b><u>TOTAL ADMINISTRATION</u></b>	<b><u>\$ 203,957</u></b>	<b><u>\$ 141,486</u></b>

# Griffith, DeLaney, Hillman & Company

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## 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

January 25, 2012

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

We have audited the financial statements of the business-like activities of Sanitation District No. 4 of Boyd County, Kentucky, as of the and for the year ended June 30, 2011, which collectively comprise Sanitation District No. 4 of Boyd County, Kentucky's basic financial statements and have issued our reported thereon dated January 26, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of American and the standards applicable to the financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we consider Sanitation District No. 4 of Boyd County, Kentucky's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Sanitation District #4 of Boyd County, Kentucky's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Sanitation District No. 4 of Boyd County, Kentucky's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

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.

2. Under the terms of the Kentucky Infrastructure Authority Assistance Agreement, the District is required to establish a Maintenance and Replacement Reserve account into which \$1,000 is to be deposited each December 1 beginning December 1, 2010 until the balance in the reserve reaches \$10,000. This reserve account has not yet been established.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects Sanitation District No. 4 of Boyd County, Kentucky's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Sanitation District No. 4 of Boyd County, Kentucky's financial statements that is more than inconsequential will not be prevented or detected by Sanitation District No. 4 of Boyd County, Kentucky's internal control. We consider the deficiency described in the preceding paragraph to be a significant deficiency in internal control of financial reporting.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Sanitation District No. 4 of Boyd County, Kentucky's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe the significant deficiency described above is a material weakness.

#### **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 an instance of noncompliance or other matter that is required to be reported under **Government Auditing Standards**:

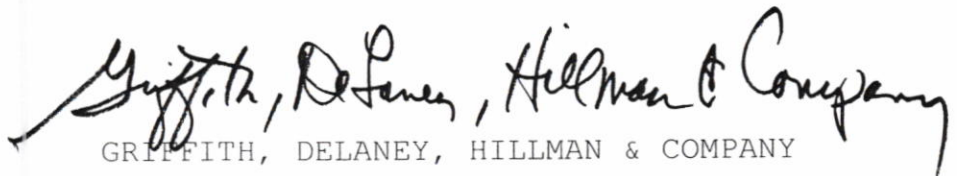
1. Under the terms of the Kentucky Infrastructure Authority Assistance Agreement, the District is required to establish a Maintenance and Replacement Reserve account into which \$1,000



The Board of Directors  
Sanitation District No. 4 of Boyd County, Kentucky  
Boyd County, Kentucky  
January 25, 2012  
Page 3

is to be deposited December 1 beginning December 1, 2010 until the balance in the reserve reaches \$10,000. This reserve account has not yet been established.

This report is intended solely for the information and use of management, Board of Directors, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

  
GRIFFITH, DELANEY, HILLMAN & COMPANY