

SANITATION DISTRICT NO. 4
OF BOYD COUNTY, KENTUCKY

FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

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INDEPENDENT AUDITORS' REPORT

January 8, 2013

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, 2012 and 2011 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, 2012 and 2011, 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 8, 2013 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.


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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, 2012 AND 2011

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, 2012 and 2011. 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, 2012 and 2011, the District's assets of \$8,387,533 and \$8,337,942 exceeded liabilities of \$2,421,199 and \$2,505,301 by \$5,966,334 and \$5,832,641. This excess includes the value of capital assets plus resources restricted to specific projects by law, regulation, or contractual agreement of \$4,569,942 and \$4,729,384, restricted resources of \$11,180 and \$11,173 which represent money set aside to satisfy loan covenants, and unrestricted resources available to continue District operations into the next fiscal year of \$1,385,212 and \$1,092,084.
- Unrestricted cash balances as of June 30, 2012 and 2011 were \$903,257 and \$723,100 and current liabilities payable from those funds were \$347,178 and \$326,974. Collections of receivables allow timely payment of liabilities.
- The District's overall long-term debt decreased by a net of \$63,037 through the payment of outstanding principal.

SANITATION DISTRICT NO. 4 OF BOYD COUNTY, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
ANNUAL FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2012 AND 2011
"(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, 2011, the District's total revenues increased from a year ago by \$265,155 (9.1%) while total cost of all programs and services (including depreciation) increased by \$57,492 (1.9%). Overall, net operating income increased by \$207,663 for the fiscal year. This increase is the result of rate increases imposed on its customers by the District.

For the year ended June 30, 2012, 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.

SANITATION DISTRICT NO. 4 OF BOYD COUNTY, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
ANNUAL FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2012 AND 2011
"(CONTINUED)"

Reporting the District as a Whole "continued"

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

For the year ended June 30, 2012, treatment expenses increased by 3.9%.

Financial Analysis of the District's Proprietary Fund

At June 30, 2012 and 2011, the District's proprietary fund reported total net assets of \$5,966,334 and \$5,832,641, which is an increase of \$133,693 and a decrease of \$34,849 or 2.3% and 0.6% from the prior year. A portion of total net assets (\$11,180 and \$11,173) 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, 2012 and 2011, the District had a note payable to the Kentucky Infrastructure Authority with a remaining balance of \$175,685 and \$183,722 to be repaid in semiannual installments of \$5,835; and bonds payable to Kentucky Rural Water Finance Corporation with a remaining balance of \$1,864,000 and \$1,919,000 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, 2013. The balance of the note receivable as of June 30, 2012 and 2011 was \$38,443 and \$40,067, respectively.

SANITATION DISTRICT NO. 4 OF BOYD COUNTY, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
ANNUAL FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2012 AND 2011
"(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

	<u>ASSETS</u>	
<u>CURRENT ASSET</u>	<u>2012</u>	<u>2011</u>
Cash	\$ 903,257	\$ 723,100
Accounts Receivable	726,018	641,488
Note Receivable, Current Portion	<u>4,903</u>	<u>1,926</u>
<u>TOTAL CURRENT ASSETS</u>	1,634,178	1,366,514
Restricted Cash (Note 3)	92,243	82,314
Capital Assets, (Net of Accumulated Depreciation of \$2,368,941 and \$2,109,506)	6,609,627	6,832,106
Intangible Assets, (Net of Accumulated Amortization of \$9,735 and \$8,813)	17,945	18,867
Note Receivable, Net of Current Portion	<u>33,540</u>	<u>38,141</u>
<u>TOTAL ASSETS</u>	<u>8,387,533</u>	<u>8,337,942</u>
	<u>LIABILITIES</u>	
<u>CURRENT LIABILITIES</u>		
Accounts Payable	285,156	273,591
Accrued Payroll Liabilities	4,044	5,347
Accrued Interest Payable	42,533	43,641
Accrued Wages Payable	9,781	-
Lawsuit Settlement Payable - Current	40,000	40,000
Bonds Payable - Current	57,000	55,000
Notes Payable - Current	<u>8,197</u>	<u>8,036</u>
<u>TOTAL CURRENT LIABILITIES</u>	<u>446,711</u>	<u>425,615</u>
<u>LONG-TERM LIABILITIES</u>		
Bonds Payable - Net of Current	1,807,000	1,864,000
Notes Payable - Net of Current	<u>167,488</u>	<u>175,686</u>
<u>TOTAL LONG-TERM DEBT</u>	1,974,488	2,039,686
Lawsuit Settlement Payable - Net of Current	<u>-</u>	<u>40,000</u>
<u>TOTAL LONG-TERM LIABILITIES</u>	<u>1,974,488</u>	<u>2,079,686</u>
<u>TOTAL LIABILITIES</u>	<u>2,421,199</u>	<u>2,505,301</u>
	<u>NET ASSETS</u>	
<u>NET ASSETS</u>		
Invested in Capital Assets, net of Related Debt	4,569,942	4,729,384
Restricted for Loan Repayments	11,180	11,173
Unrestricted	<u>1,385,212</u>	<u>1,092,084</u>
<u>TOTAL NET ASSETS</u>	<u>\$ 5,966,334</u>	<u>\$ 5,832,641</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 REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
<u>OPERATING REVENUES</u>		
Service	\$ 3,143,205	\$ 2,892,762
Supplemental Income	-	-
Tap Fees	18,011	5,123
E-One Pump Customers	3,881	-
Rental Income	-	-
Miscellaneous Income	-	505
	<u>3,165,097</u>	<u>2,898,390</u>
<u>OPERATING EXPENSES</u>		
Treatment Expenses	2,526,871	2,430,997
Administrative Expenses	153,305	203,957
Depreciation	259,435	248,031
Amortization	922	923
	<u>2,940,533</u>	<u>2,883,908</u>
	<u>224,564</u>	<u>14,482</u>
<u>NET OPERATING INCOME</u>		
<u>NON-OPERATING REVENUES (EXPENSES)</u>		
Interest Income	2,392	3,944
Reconnection Fees	(3,430)	(2,470)
Interest Expense	(89,833)	(89,926)
	<u>(90,871)</u>	<u>(88,452)</u>
	133,693	(73,970)
<u>INCOME (LOSS) BEFORE GRANTS RECEIVED</u>		
Grants Received	-	39,121
	133,693	(34,849)
<u>CHANGE IN NET ASSETS</u>		
<u>NET ASSETS</u> , Beginning of year	<u>5,832,641</u>	<u>5,867,490</u>
<u>NET ASSETS</u> , End of year	<u>\$ 5,966,334</u>	<u>\$ 5,832,641</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, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Receipts from Customers	\$ 3,080,567	\$ 2,875,141
Payments to Suppliers	(2,338,150)	(2,281,046)
Payments to Employees	<u>(361,983)</u>	<u>(389,148)</u>
<u>NET CASH PROVIDED BY OPERATING ACTIVITIES</u>	<u>380,434</u>	<u>204,947</u>
<u>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</u>		
(Decrease) Increase in Restricted Cash	(9,929)	(459)
Grants Received	-	39,121
Reconnection fees	<u>(3,430)</u>	<u>(2,470)</u>
<u>NET CASH (USED) PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES</u>	<u>(13,359)</u>	<u>36,192</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>		
Principal Paid on Bond and Notes Payable	(63,037)	(59,878)
Interest Paid on Bond and Notes Payable	(90,941)	(90,974)
Purchase of Capital Assets	(40,846)	(347,318)
Payments Received on Notes Receivable	1,624	1,566
Proceeds from Insurance	3,890	
Proceeds from Note Payable	<u>-</u>	<u>35,967</u>
<u>NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES</u>	<u>(189,310)</u>	<u>(460,637)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Interest Income	<u>2,392</u>	<u>4,262</u>
<u>NET INCREASE (DECREASE) IN CASH</u>	180,157	(215,236)
<u>CASH, Beginning of year</u>	<u>723,100</u>	<u>938,336</u>
<u>CASH, End of year</u>	<u>\$ 903,257</u>	<u>\$ 723,100</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, 2012 AND 2011
(CONTINUED)

	<u>2012</u>	<u>2011</u>
<u>RECONCILIATION OF OPERATING INCOME</u>		
<u>TO NET CASH PROVIDED BY</u>		
<u>OPERATING ACTIVITIES</u>		
Operating Income	\$ 224,564	\$ 14,482
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	259,435	248,031
Amortization	922	923
Loss on Disposal of Assets	-	1,485
(Increase) Decrease in:		
Accounts Receivable	(84,530)	(25,214)
(Decrease) Increase in:		
Lawsuit Settlement Payable	(40,000)	(40,000)
Accounts Payable	11,565	8,033
Accrued Wages Payable	9,781	-
Accrued Payroll Liabilities	<u>(1,303)</u>	<u>(2,793)</u>
 <u>TOTAL ADJUSTMENTS</u>	 <u>155,870</u>	 <u>190,465</u>
 <u>NET CASH PROVIDED BY OPERATING</u>		
<u>ACTIVITIES</u>	 <u>\$ 380,434</u>	 <u>\$ 204,947</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, 2012 AND 2011

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, 2012 AND 2011
"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 \$726,018 and \$641,488 to the residents of Boyd County, Kentucky and the Federal Correctional Institution of Ashland, Kentucky, which were not collected as of June 30, 2012 and 2011, 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, 2012 and June 30, 2011 was \$259,435 and \$248,031, 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, 2012 AND 2011
"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, 2012 and June 30, 2011 was \$978 and \$2,464, respectively

NOTE 2 - LONG-TERM DEBT

Revenue bonds and notes payable consist of the following at June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
\$2,274,000 bonds payable in variable annual installments through January 1, 2033; interest from to 4.03% to 4.78%	\$ 1,864,000	\$ 1,919,000
Note payable to Kentucky Infrastructure Authority in semiannual installments of \$5,835 including interest at 2.00% plus service fees.	<u>175,685</u>	<u>183,722</u>
Total debt payable	2,039,685	2,102,722
Less current portion	<u>(65,197)</u>	<u>(63,036)</u>
<u>TOTAL LONG-TERM DEBT</u>	<u>\$ 1,974,488</u>	<u>\$ 2,039,686</u>

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>2010</u>	<u>PROCEEDS</u>	<u>PAYMENTS</u>	<u>BALANCE</u> <u>JUNE 30</u> <u>2011</u>
<u>BUSINESS-TYPE ACTIVITIES:</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>

	<u>BALANCE</u> <u>JULY 1</u> <u>2011</u>	<u>PROCEEDS</u>	<u>PAYMENTS</u>	<u>BALANCE</u> <u>JUNE 30</u> <u>2012</u>
Note Payable	\$ 183,722	\$	\$ (8,037)	\$ 175,685
Bonds Payable	<u>1,919,000</u>	<u> </u>	<u>(55,000)</u>	<u>1,864,000</u>
	<u>\$ 2,102,722</u>	<u>\$</u>	<u>\$ (63,037)</u>	<u>\$ 2,039,685</u>

MATURITIES:

	<u>Note Payable</u>		<u>Bond Payable</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
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
2017	8,877	2,794	68,000	75,273
Thereafter	<u>133,015</u>	<u>18,701</u>	<u>1,553,000</u>	<u>682,323</u>
Total	<u>\$ 175,685</u>	<u>\$ 34,385</u>	<u>\$ 1,864,000</u>	<u>\$ 1,083,631</u>

SANITATION DISTRICT NO. 4 OF BOYD COUNTY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011
"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, 2012 and 2011 is \$82,314 and \$82,314.

As of June 30, 2012 and 2011, the Sewer Bond Interest and Sinking Fund has total funds in the amount of \$82,314 and \$82,314. 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, 2012 AND 2011
"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, 2012 and 2011, restricted cash were as follows:

	<u>2012</u>	<u>2011</u>
Maintenance and Replacement	\$ 10,030	\$ -
Bond and Interest	<u>82,213</u>	<u>82,314</u>
<u>TOTAL RESTRICTED CASH</u>	<u>\$ 92,243</u>	<u>\$ 82,314</u>

NOTE 4 - CASH DEPOSITS WITH FINANCIAL INSTITUTIONS

As of June 30, 2012, the District had deposits of \$356,044 and \$378,263 confirmed by the financial institutions. Of this amount, \$628,263 was covered by federal depository insurance and \$106,044 was secured by collateral held by financial institutions with a par value of \$875,000 and market value of \$388,866.

SANITATION DISTRICT NO. 4 OF BOYD COUNTY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2010
"CONTINUED"

NOTE 5 - CAPITAL ASSETS

	<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>
Capital Assets at Historical Costs:				
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
Total Capital Assets, at Historical Cost	<u>8,596,994</u>	<u>347,318</u>	<u>(2,700)</u>	<u>8,941,612</u>
Less: Accumulated Depreciation:				
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)
Total Accumulated Depreciation	<u>(1,862,690)</u>	<u>(248,031)</u>	<u>1,215</u>	<u>(2,109,506)</u>
Capital Assets, Net	<u>\$ 6,734,304</u>	<u>\$ 99,287</u>	<u>\$ (1,485)</u>	<u>\$ 6,832,106</u>

	<u>BALANCE</u> <u>JULY 1</u> <u>2011</u>	<u>ADDITIONS</u>	<u>DISPOSALS</u>	<u>BALANCE</u> <u>JUNE 30</u> <u>2012</u>
Capital Assets at Historical Costs:				
Land	\$ 30,717	\$	\$	\$ 30,717
Lines and Extensions	7,656,494	540		7,657,034
Equipment	468,624	40,306	(3,890)	505,040
Vehicles	217,635			217,635
Office Buildings	568,142			568,142
Total Capital Assets, at Historical Cost	<u>8,941,612</u>	<u>40,846</u>	<u>(3,890)</u>	<u>8,978,568</u>
Less: Accumulated Depreciation:				
Lines and Extensions	(1,620,375)	(141,576)		(1,761,951)
Equipment	(225,315)	(66,512)		(291,827)
Vehicles	(149,337)	(22,774)		(172,111)
Office Buildings	(114,479)	(28,573)		(143,052)
Total Accumulated Depreciation	<u>(2,109,506)</u>	<u>(259,435)</u>		<u>(2,368,941)</u>
Capital Assets, Net	<u>\$ 6,832,106</u>	<u>\$ (218,589)</u>	<u>\$ (3,890)</u>	<u>\$ 6,609,627</u>

SANITATION DISTRICT NO. 4 OF BOYD COUNTY, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

"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 25% of total revenues for the year ended June 30, 2012. 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 \$15,781 and \$27,206 for the years ended June 30, 2012 and 2011, respectively.

NOTE 8 - NOTE RECEIVABLE

The District is due a 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. 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, 2013. The balance as of June 30, 2012 was \$38,443.

The maturity of the note receivable is as follows:

June 30, 2013	\$ 4,903
June 30, 2014	<u>33,540</u>
<u>TOTAL NOTE RECEIVABLE</u>	<u>\$ 38,443</u>

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, 2012 AND 2011
"CONTINUED"

NOTE 10 - SUBSEQUENT EVENTS

In preparing these financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through January 8, 2013, the date the financial statements were available to be issued.

SANITATION DISTRICT NO. 4 OF BOYD COUNTY, KENTUCKY
SCHEDULE OF OPERATING EXPENSES
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
<u>TREATMENT EXPENSES:</u>		
Treatment	\$ 1,542,617	\$ 1,427,090
Wages	371,764	389,148
Chemicals	166,450	150,468
Employee Benefits	139,295	142,259
Repairs	125,047	144,859
Utilities	118,333	127,319
Payroll Taxes	25,193	16,601
Fuel	21,447	19,945
Contact Labor	8,050	3,921
Laboratory Costs	6,723	6,132
Equipment Rental	1,947	1,611
Miscellaneous	5	1,644
Billing Services	-	-
	<hr/>	<hr/>
<u>TOTAL TREATMENT EXPENSES</u>	<u>\$ 2,526,871</u>	<u>\$ 2,430,997</u>
 <u>ADMINISTRATION:</u>		
Bad Debt Expense	\$ 41,135	\$ 59,705
Insurance	27,218	23,379
Legal and Professional	20,539	22,370
Office Supplies	15,464	22,250
Postage and Delivery	12,866	16,504
Management Fees	11,400	11,400
Engineering	11,100	6,709
Bank Charges	5,807	7,413
Dues and Subscriptions	3,457	1,182
Meals and Entertainment	1,646	1,925
Advertising	978	2,464
Bond Expense	733	733
Miscellaneous	518	545
Travel	312	370
Training Expense	107	330
Supplemental Income Repayment, net	-	26,628
Licenses and Permits	25	50
	<hr/>	<hr/>
<u>TOTAL ADMINISTRATION</u>	<u>\$ 153,305</u>	<u>\$ 203,957</u>

Griffith, DeLaney, Hillman & Company

CERTIFIED PUBLIC ACCOUNTANTS

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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 8, 2013

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

We have audited the financial statements of the Sanitation District No. 4 of Boyd County, Kentucky as of and for the year ended June 30, 2012, and have issued our report thereon dated January 8, 2013. 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.

Internal Control Over Financial Reporting

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District'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 the Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over financing reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described below, that we consider to be significant deficiencies in internal control over financial reporting. 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.

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. 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.

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**:

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