

SANITATION DISTRICT NO. 4  
OF BOYD COUNTY, KENTUCKY

FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

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## INDEPENDENT AUDITORS' REPORT

May 18, 2017

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, 2016 and 2015, 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, 2016 and 2015, 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 6 - 9 and 25 - 27 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 May 18, 2017 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*  
GRIFFITH, DELANEY, HILLMAN & COMPANY  
Certified Public Accountants

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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, 2016 AND 2015

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, 2016 and 2015. 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, 2016 and 2015, the District's assets of \$16,786,064 and \$8,399,574 exceeded liabilities of \$11,058,940 and \$2,592,872 by \$5,727,124 and \$5,806,702. This excess includes the value of capital assets plus resources restricted to specific projects by law, regulation, or contractual agreement of \$3,666,145 and \$4,503,198, restricted resources of \$11,440 and \$11,368 which represent money set aside to satisfy loan covenants, and unrestricted resources available to continue District operations into the next fiscal year of \$2,049,539 and \$1,292,136.
- Unrestricted cash balances as of June 30, 2016 and 2015 were \$730,408 and \$621,471 and current liabilities payable from those funds were \$465,550 and \$447,972. Collections of receivables allow timely payment of liabilities.
- The District's overall long-term debt increased by a net of \$8,228,487 through the issuance of Revenue Bonds for the purchase of assets from 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, 2016 AND 2015**

**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 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, 2015, the District's total revenues increased from a year ago by \$149,563 (4.33%) while total cost of all programs and services (including depreciation) increased by \$715,067 (22.82%). Overall, net operating income decreased by \$569,967 for the fiscal year.

For the year ended June 30, 2016, the District's total revenues decreased from a year ago by \$37,275 (1.0%) while total cost of all programs and services including depreciation increased by \$551,261 (15.47%). Overall, net operating income decreased by \$79,578 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, 2016 AND 2015**

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

For the year ended June 30, 2015, treatment expenses decreased by 7.34%.

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

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

At June 30, 2016 and 2015, the District's proprietary fund reported total net assets of \$5,727,124 and \$5,806,702, which is a decrease of \$79,578 or (.68%) and an increase of \$39,757 or (1.37%) from the prior year. A portion of total net assets \$11,440 and \$11,368 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 existing sewer system capital assets for \$8,076,931 from Boyd County Fiscal Court.

**Debt**

At June 30, 2016 and 2015, the District had bonds payable to Kentucky Rural Water Finance Corporation and Kentucky Bond Corporation with remaining balances of \$10,215,166 and \$1,685,000 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, 2015. The Board amended the note receivable from Ritchie Investments, LLC to the following terms: 84 payments due of \$483.73 to be debited directly from Ritchie Investments, LLC bank account starting January 02, 2015 and ending December 02, 2020. The balance of the note receivable as of June 30, 2016 and 2015 was \$23,607 and \$28,236, respectively.



SANITATION DISTRICT NO. 4 OF BOYD COUNTY, KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
ANNUAL FINANCIAL STATEMENTS  
FOR THE FISCAL YEARS ENDED JUNE 30, 2016 AND 2015

**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, 2016 AND 2015**

	<b><u>ASSETS</u></b>	<b><u>2016</u></b>	<b><u>2015</u></b>
<b><u>CURRENT ASSETS</u></b>			
Cash	\$	730,408	\$ 621,471
Accounts Receivable		1,010,652	984,049
Note Receivable, Current Portion		4,842	4,629
<b><u>TOTAL CURRENT ASSETS</u></b>		<b>1,745,902</b>	<b>1,610,149</b>
<b><u>NONCURRENT ASSETS</u></b>			
Restricted Cash (Note 3)		955,944	561,294
Capital Assets, (Net of Accumulated Depreciation of \$3,456,508 and \$3,058,073)		13,881,311	6,126,098
Note Receivable, Net of Current Portion		18,765	23,607
<b><u>TOTAL NONCURRENT ASSETS</u></b>		<b>14,856,020</b>	<b>6,710,999</b>
<b><u>TOTAL ASSETS</u></b>		<b>16,601,922</b>	<b>8,321,148</b>
<b><u>DEFERRED OUTFLOW OF RESOURCES</u></b>			
Intangible Assets, (Net of Accumulated Amortization of \$13,426 and \$12,503)		14,254	15,177
Pension Contributions		169,888	63,249
<b><u>TOTAL DEFERRED OUTFLOW OF RESOURCES</u></b>		<b>184,142</b>	<b>78,426</b>
<b><u>LIABILITIES</u></b>			
<b><u>CURRENT LIABILITIES</u></b>			
Accounts Payable		419,921	402,354
Accrued Payroll Liabilities		4,224	3,373
Accrued Interest Payable		37,636	38,926
Accrued Wages Payable		3,769	3,319
Bonds Payable - Current		366,833	64,000
<b><u>TOTAL CURRENT LIABILITIES</u></b>		<b>832,383</b>	<b>511,972</b>
<b><u>NONCURRENT LIABILITIES</u></b>			
Bonds Payable - Net of Current		9,848,333	1,621,000
Less - Deferred Financing Costs		(363,779)	(62,100)
Net Pension Liability		693,823	470,000
<b><u>TOTAL NONCURRENT LIABILITIES</u></b>		<b>10,178,377</b>	<b>2,028,900</b>
<b><u>TOTAL LIABILITIES</u></b>		<b>11,010,760</b>	<b>2,540,872</b>
<b><u>DEFERRED INFLOW OF RESOURCES</u></b>			
Deferred Pension Expense		48,180	52,000
<b><u>TOTAL DEFERRED INFLOW OF RESOURCES</u></b>		<b>48,180</b>	<b>52,000</b>
<b><u>NET POSITION</u></b>			
<b><u>NET POSITION</u></b>			
Invested in Capital Assets, net of Related Debt		3,666,145	4,503,198
Restricted for Loan Repayments		11,440	11,368
Unrestricted		2,049,539	1,292,136
<b><u>TOTAL NET POSITION</u></b>		<b>\$ 5,727,124</b>	<b>\$ 5,806,702</b>

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, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
<b><u>OPERATING REVENUES</u></b>		
Service	\$ 3,976,239	\$ 4,061,686
Tap Fees	800	3,150
E-One Pump Customers	7,641	3,445
Miscellaneous Income	48,701	2,608
	<hr/>	<hr/>
<b><u>TOTAL OPERATING REVENUES</u></b>	<b>4,033,381</b>	<b>4,070,889</b>
<b><u>OPERATING EXPENSES</u></b>		
Treatment Expenses	3,090,977	3,040,943
Administrative Expenses	201,428	181,953
Depreciation	398,435	259,767
Amortization	18,242	923
	<hr/>	<hr/>
<b><u>TOTAL OPERATING EXPENSES</u></b>	<b>3,709,082</b>	<b>3,483,586</b>
<b><u>NET OPERATING INCOME</u></b>	<b>324,299</b>	<b>587,303</b>
<b><u>NON-OPERATING REVENUES (EXPENSES)</u></b>		
Interest Income	2,238	2,005
Loss on Sale of Assets	-	-
Interest Expense	(406,115)	(80,350)
	<hr/>	<hr/>
<b><u>TOTAL NON-OPERATING REVENUES (EXPENSES)</u></b>	<b>(403,877)</b>	<b>(78,345)</b>
<b><u>NET (LOSS) INCOME</u></b>	<b>(79,578)</b>	<b>508,958</b>
<b><u>CHANGE IN NET POSITION</u></b>	<b>(79,578)</b>	<b>508,958</b>
<b><u>NET POSITION</u></b> , Beginning of year	<b>5,806,702</b>	<b>5,297,744</b>
<b><u>NET POSITION</u></b> , End of year	<b>\$ 5,727,124</b>	<b>\$ 5,806,702</b>

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, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>		
Receipts from Customers	\$ 3,958,077	\$ 3,837,463
Payments to Suppliers	(2,682,802)	(2,726,643)
Payments to Employees	(428,672)	(432,432)
<b><u>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</u></b>	<u>846,603</u>	<u>678,388</u>
<b><u>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</u></b>		
(Decrease) Increase in Restricted Cash	(394,650)	(270,870)
<b><u>NET CASH (USED) BY NON-CAPITAL FINANCING ACTIVITIES</u></b>	<u>(394,650)</u>	<u>(270,870)</u>
<b><u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u></b>		
Principal Paid on Bond and Notes Payable	(184,834)	(62,000)
Interest Paid on Bond and Notes Payable	(407,401)	(81,599)
Purchase of Capital Assets	(8,153,648)	(168,886)
Capitalized Debt Issuance Cost	(318,999)	-
Proceeds Received From 2015A Rev. Bonds	8,715,000	-
Payments Received on Notes Receivable	4,628	4,425
<b><u>NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES</u></b>	<u>(345,254)</u>	<u>(308,060)</u>
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>		
Interest Income	2,238	2,005
<b><u>NET INCREASE IN CASH</u></b>	108,937	101,463
<b><u>CASH</u></b> , Beginning of year	<u>621,471</u>	<u>520,008</u>
<b><u>CASH</u></b> , End of year	<u>\$ 730,408</u>	<u>\$ 621,471</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, 2016 AND 2015  
(CONTINUED)

	<u>2016</u>	<u>2015</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	\$ 324,299	\$ 587,303
Adjustments to reconcile operating Income to net cash provided by operating activities:		
Depreciation	398,435	259,767
Amortization	18,242	923
Net Pension Adjustment	113,364	(10,450)
Depreciation Recapture Disposed Assets -	-	
(Increase) Decrease in:		
Accounts Receivable	(26,605)	(233,326)
(Decrease) Increase in:		
Lawsuit Settlement Payable	-	-
Accounts Payable	17,567	83,675
Accrued Wages Payable	450	(4,521)
Accrued Payroll Liabilities	851	(4,983)
	522,304	91,085
<b><u>TOTAL ADJUSTMENTS</u></b>		
<b><u>NET CASH PROVIDED BY OPERATING</u></b>		
<b><u>ACTIVITIES</u></b>	\$ 846,603	\$ 678,388

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, 2016 AND 2015**

**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.

SANITATION DISTRICT NO. 4 OF BOYD COUNTY, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015

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 \$1,010,652 and \$984,049 to the residents of Boyd County, Kentucky and the Federal Correctional Institution of Ashland, Kentucky, which were not collected as of June 30, 2016 and 2015, 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, 2016 was \$105,656.

**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, 2016 and June 30, 2015 was \$398,435 and \$259,767, 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, 2016 AND 2015**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES "CONTINUED"**

**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, 2016 and June 30, 2015 was \$-0- and \$231, respectively

**NOTE 2 - LONG-TERM DEBT**

Revenue bonds and notes payable consist of the following at June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
\$2,274,000 bonds payable in variable annual installments through January 1, 2033; interest from 4.03% to 4.78%	\$ 1,621,000	\$ 1,685,000
\$8,715,000 bonds payable in Variable annual installments Through January 1, 2038; interest from 2.00% to 3.75%	<u>8,594,166</u>	<u>-</u>
Total Bonds Payable	10,215,166	1,685,000
Less current portion	<u>(366,833)</u>	<u>(64,000)</u>
Total Long-Term Bonds Payable	9,848,333	1,621,000
Less- Deferred Financing Costs	<u>(363,779)</u>	<u>-</u>
Long-Term Bonds Payable Net of Deferred Financing Costs	<u>9,484,554</u>	<u>1,621,000</u>



SANITATION DISTRICT NO. 4 OF BOYD COUNTY, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015

NOTE 2 - LONG-TERM DEBT "CONTINUED"

	<u>BALANCE</u>			<u>BALANCE</u>
	<u>JULY 1</u>	<u>PROCEEDS</u>	<u>PAYMENTS</u>	<u>JUNE 30</u>
<u>BUSINESS-TYPE ACTIVITIES:</u>	<u>2014</u>			<u>2015</u>
Bonds Payable	\$ <u>1,747,000</u>	\$ <u>-</u>	\$ <u>(62,000)</u>	\$ <u>1,685,000</u>

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

MATURITIES:

	<u>Bond Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2017	\$ 366,833	\$ 313,900
2018	383,167	327,105
2019	395,167	317,955
2020	409,083	308,432
2021	418,167	300,095
Thereafter	<u>8,242,749</u>	<u>2,611,540</u>
<u>Total</u>	<u>\$ 10,215,166</u>	<u>\$ 4,179,027</u>

SANITATION DISTRICT NO. 4 OF BOYD COUNTY, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015  
"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, 2016 and 2015 is \$83,076 and \$82,293.

As of June 30, 2016 and 2015, the Sewer Bond Interest and Sinking Fund has total funds in the amount of \$83,076 and \$82,293. 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, 2016 AND 2015**

**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 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.

**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.

**Depreciation Reserve**

The Board has designated 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, 2016 and 2015, restricted cash were as follows:

	<u>2016</u>	<u>2015</u>
Maintenance and Replacement	\$ 34,449	\$ 17,143
Depreciation Reserve	729,702	461,858
Bond and Interest	<u>191,793</u>	<u>82,293</u>
<b><u>TOTAL RESTRICTED CASH</u></b>	<b><u>\$ 955,944</u></b>	<b><u>\$ 561,294</u></b>

**NOTE 4 - CASH DEPOSITS WITH FINANCIAL INSTITUTIONS**

As of June 30, 2016, the District had deposits of \$1,596,663 confirmed by the financial institutions. Of this amount, \$1,003,682 was covered by federal depository insurance, \$592,981 was secured by collateral with a market value of \$96,259 held by PNC bank and \$705,803 held by Kentucky Farmers Bank. From time to time some balances may not be collateralized.

**SANITATION DISTRICT NO. 4 OF BOYD COUNTY, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**

**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>2015</u>
<b>Capital Assets at Historical Costs:</b>				
Land	\$ 30,717	\$ -	\$ -	\$ 30,717
Lines and Extensions	7,685,894	-	-	7,685,894
Equipment	548,393	52,326	-	600,719
Vehicles	244,033	-	-	244,033
Office Buildings	598,000	-	-	598,000
Construction In Progress	11,748	128,308	(11,748)	128,308
<b>Total Capital Assets, at Historical Cost</b>	<b>9,118,785</b>	<b>180,634</b>	<b>(11,748)</b>	<b>9,287,671</b>
<b>Less: Accumulated Depreciation:</b>				
Lines and Extensions	(2,045,817)	(143,129)	-	(2,188,946)
Equipment	(410,277)	(63,607)	-	(473,884)
Vehicles	(175,255)	(20,041)	-	(195,296)
Office Buildings	(208,357)	(32,990)	-	(241,347)
Total Accumulated Depreciation	(2,839,706)	(259,767)	-	(3,099,473)
<b>Capital Assets, Net</b>	<b>\$ 6,279,079</b>	<b>\$ ( 79,133)</b>	<b>\$ (11,748)</b>	<b>\$ 6,188,198</b>

	<u>BALANCE</u> <u>JULY 1</u> <u>2016</u>	<u>ADDITIONS</u>	<u>DISPOSALS</u>	<u>BALANCE</u> <u>JUNE 30</u> <u>2016</u>
<b>Capital Assets at Historical Costs:</b>				
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	128,308	69,532	-	197,840
<b>Total Capital Assets, at Historical Cost</b>	<b>9,287,671</b>	<b>8,153,648</b>	<b>(103,500)</b>	<b>17,337,819</b>
<b>Less: Accumulated Depreciation:</b>				
Lines and Extensions	(2,230,295)	(140,206)	41,400	(2,329,101)
2015A BCFC Sewer Assets	-	(161,539)	-	(161,539)
Equipment	(473,704)	(53,134)	-	(526,838)
Vehicles	(195,296)	(12,341)	-	(207,637)
Office Buildings	(200,178)	(31,215)	-	(231,393)
Total Accumulated Depreciation	(3,099,473)	(398,435)	41,400	(3,456,508)
<b>Capital Assets, Net</b>	<b>\$ 6,188,198</b>	<b>\$7,755,213</b>	<b>\$ (62,100)</b>	<b>\$ 13,881,311</b>

**SANITATION DISTRICT NO. 4 OF BOYD COUNTY, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**

**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 21% of total revenues for the year ended June 30, 2016. 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 \$2,692 and \$9,993 for the years ended June 30, 2016 and 2015, 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.

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 percentage for members in non-hazardous duty positions is 5.00%. The employers' contribution percentage for members in nonhazardous duty positions is 17.06%. The contribution requirements of CERS are established and may be amended by the CERS Board of Trustees.

At June 30, 2016, the District reported a liability of \$693,823 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, 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 .01614%.

For the year ended June 30, 2016, the Commission recognized pension expense of \$170,354. At June 30, 2016, the Commission reported deferred outflows of resources for the Commission's contributions subsequent to the measurement date of \$169,888. These contributions will be recognized as a reduction of the net pension liability in the year ended June 30, 2017.

SANITATION DISTRICT NO. 4 OF BOYD COUNTY, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015

NOTE 7 - EMPLOYEES RETIREMENT PLAN (CONTINUED)

	Deferred Outflows of Resources	Deferred Inflows of Resources
<u>Nonhazardous</u>		
Difference between expected actual experience	\$ 5,766	\$
Changes in assumptions	69,964	
Net difference between projected and actual earnings on investments	6,220	
Changes in proportion and differences between Commission contributions and proportionate share of contributions	42,459	
Commission contributions subsequent to The measurement date	<u>169,888</u>	
 TOTAL	 <u>\$ 294,297</u>	 <u>\$</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	\$	12,045
2017		12,045
2018		12,045
2019		<u>12,045</u>
Total	\$	<u>48,180</u>

Actuarial Assumptions and Methods

Total pension liability for CERS was determined by actuarial valuation as of June 30, 2015 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	6.75 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.

SANITATION DISTRICT NO. 4 OF BOYD COUNTY, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

"CONTINUED"

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 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:

	<u>1% Decrease (6.50%)</u>	<u>Current Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
Commission's share of the net pension liability:			
Nonhazardous	\$ 885,905.00	\$ 693,823.00	\$ 529,545.00

Pension Plan Fiduciary Net Position

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

SANITATION DISTRICT NO. 4 OF BOYD COUNTY, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

"CONTINUED"

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 \$484 including interest of 4.5% per annum, with a maturity date of December 2, 2020. The balance as of June 30, 2016 was \$23,607.

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, 2015, 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, 2015 in the amount of \$4,085,000 and General Obligation Bonds, Series 2006 dated December 29, 2006, with an outstanding balance at June 30, 2015 of \$3,460,000. The excess of \$531,931 would be accrued interest on the borrowed funds. On July 01, 2016, 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 - 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. Subsequent to year-end the note receivable from Ritchie Investments, LLC was paid in full. 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, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
<b><u>TREATMENT EXPENSES:</u></b>		
Treatment	\$ 1,772,592	\$ 1,819,892
Wages	429,122	427,911
Chemicals	275,446	293,178
Employee Benefits	271,497	169,514
Utilities	143,349	134,597
Repairs	97,909	75,449
Surcharges	31,370	37,369
Payroll Taxes	29,181	30,144
Fuel	11,188	15,774
Miscellaneous	2,295	21,036
Billing Services	11,471	2,365
Equipment Rental	4,480	2,581
Laboratory Costs	7,897	8,013
Contact Labor	3,180	3,120
	<u>\$ 3,090,977</u>	<u>\$ 3,040,943</u>
<b><u>TOTAL TREATMENT EXPENSES</u></b>		
 <b><u>ADMINISTRATION:</u></b>		
Bad Debt Expense	\$ 61,892	\$ 43,765
Engineering	-	560
Insurance	37,037	37,240
Legal and Professional	34,203	40,063
Office Supplies	16,856	12,373
Postage and Delivery	15,524	13,746
Director Fees	12,300	12,300
Bank Charges	9,477	8,245
Miscellaneous	3,408	2,972
Dues and Subscriptions	841	4,890
Training Expense	6,847	3,489
Meals and Entertainment	840	1,298
Travel	862	-
Bond Expense	1,341	781
Advertising	-	231
	<u>\$ 201,428</u>	<u>\$ 181,953</u>
<b><u>TOTAL ADMINISTRATION</u></b>		

(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>2015</u>	<u>2014</u>
Portion of the net Pension liability (asset)	0.01614%	0.014491%
Proportionate share of The net pension liability (asset)	\$ 470	\$ 532
Covered employee payroll	\$ 428	\$ 465
Proportionate share of the Pension liability (asset) As a percentage of its Covered employee payroll	109.81%	114.41%
Plan fiduciary net pension As a percentage of the Total pension liability	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>2015</u>	<u>2014</u>
Contractually required Contribution	\$ 170	\$ 63
Contributions in relation To the contractually Required contribution	\$ 170	\$ 63
Contribution deficiency (Excess)	\$ -	\$ -
Covered employee payroll	\$ 428	\$ 465
Contributions as a Percentage of covered Employee payroll	39.72%	13.55%

(See accompanying notes and independent auditors report)

# Griffith, De Laney, 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

May 18, 2017

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, 2016, 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 May 18, 2017.

## 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:**

- 2016-1. 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.
- 2016-2. 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.

- 2016-1 Management and the Board of Directors will remain aware of the integrity of the employees and provide appropriate supervision.
- 2016-2 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**

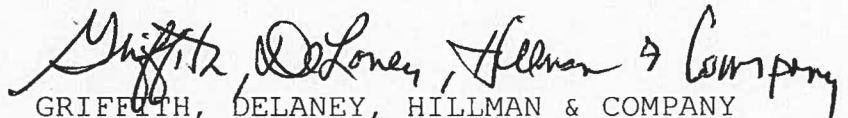
As part of obtaining reasonable assurance about whether Sanitation District No. 4 of Boyd County, Kentucky's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement accounts.

The Board of Directors  
Sanitation District No. 4 of Boyd County, Kentucky  
Boyd County, Kentucky  
May 18, 2017  
Page 3

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