

SANITATION DISTRICT NO. 4
OF BOYD COUNTY, KENTUCKY

FINANCIAL STATEMENTS
AND
SUPPLEMENTAL INFORMATION
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

TOGETHER WITH INDEPENDENT AUDITOR'S REPORT

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	3-4
MANAGEMENT'S DISCUSSION AND ANALYSIS	5-7
FINANCIAL STATEMENTS:	
STATEMENT OF NET POSITION - PROPRIETARY FUND	8
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION - PROPRIETARY FUND	9
STATEMENT OF CASH FLOWS - PROPRIETARY FUND	10-11
NOTES TO FINANCIAL STATEMENTS	12-24
REQUIRED SUPPLEMENTAL SCHEDULES:	
SCHEDULE OF OPERATING EXPENSES	25
SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION AND OPEB LIABILITY	26
SCHEDULE OF PENSION AND OPEB CONTRIBUTIONS	27
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <u>GOVERNMENT AUDITING STANDARDS</u>	28-29

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INDEPENDENT AUDITOR'S REPORT

February 18, 2019

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, 2018 and 2017, 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, 2018 and 2017, 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 required supplemental schedules on pages 5 - 7 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 February 18, 2019 on our consideration of Sanitation District No. 4 of Boyd County, Kentucky's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.

The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Sanitation District No. 4 of Boyd County, Kentucky's internal control over financial reporting and compliance.


GRIFFITH, DELANEY, HILLMAN & COMPANY
Certified Public Accountants

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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, 2018 AND 2017

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, 2018 and 2017. 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, 2018 and 2017, the District's assets of \$15,560,121 and \$15,967,864 exceeded liabilities of \$10,899,677 and \$10,931,192 by \$4,660,444 and \$5,036,672. This excess includes the value of capital assets plus resources restricted to specific projects by law, regulation, or contractual agreement of \$3,790,328 and \$3,740,489, restricted resources of \$12,195 and \$11,586 which represent money set aside to satisfy loan covenants, and unrestricted resources available to continue District operations into the next fiscal year of \$857,921 and \$1,284,597.
- Unrestricted cash balances as of June 30, 2018 and 2017 were \$334,947 and \$421,707 and current liabilities payable from those funds were \$416,255 and \$426,796. Collections of receivables allow timely payment of liabilities.

Overview of the Financial Statements

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

Fund Financial Statements

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

SANITATION DISTRICT NO. 4 OF BOYD COUNTY, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
ANNUAL FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2018 AND 2017

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, 2018, the District's total revenues increased from a year ago by \$27,840 (0.7%) while total cost of all programs and services including depreciation decreased by \$153,432 (3.54%). Overall, net operating loss decreased by \$175,697 for the fiscal year.

For the year ended June 30, 2018, treatment expenses decreased by 3.98%.

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

Financial Analysis of the District's Proprietary Fund

At June 30, 2018 and 2017, the District's proprietary fund reported total net assets of \$4,660,444 and \$5,036,672, is a decrease of \$376,228 or (7.46%) and a decrease of \$330,444 or (5.91%) from the prior year. A portion of total net assets \$12,195 and \$11,586 is restricted as to use due to loan covenant requirements.

Capital Assets

The District was able to make several capital asset purchases with a cost of \$53,000 without causing the District to incur additional debt.

Debt

At June 30, 2018 and 2017, the District had bonds payable to Kentucky Rural Water Finance Corporation and Kentucky Bond Corporation with remaining balances of \$9,465,667 and \$9,848,834 respectively requiring annual installments of principal and semiannual installments of interest.

SANITATION DISTRICT NO. 4 OF BOYD COUNTY, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
ANNUAL FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2018 AND 2017

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, 2018 AND 2017

	<u>ASSETS</u>	<u>2018</u>	<u>2017</u>
<u>CURRENT ASSETS</u>			
Cash		\$ 334,947	\$ 421,707
Accounts Receivable (Net of allowance for bad debt of 190,155 and 146,904)		815,910	721,461
<u>TOTAL CURRENT ASSETS</u>		<u>1,150,857</u>	<u>1,143,168</u>
<u>NONCURRENT ASSETS</u>			
Restricted Cash (Note 3)		747,665	1,044,366
Capital Assets, (Net of Accumulated Depreciation of \$4,206,886 and \$3,820,558)		13,255,995	13,589,323
<u>TOTAL NONCURRENT ASSETS</u>		<u>14,003,660</u>	<u>14,633,689</u>
<u>TOTAL ASSETS</u>		<u>15,154,517</u>	<u>15,776,857</u>
<u>DEFERRED OUTFLOW OF RESOURCES</u>			
Pension Contributions		319,251	191,007
Pension Contributions OPEB		86,353	-
<u>TOTAL DEFERRED OUTFLOW OF RESOURCES</u>		<u>405,604</u>	<u>191,007</u>
	<u>LIABILITIES</u>		
<u>CURRENT LIABILITIES</u>			
Accounts Payable		369,816	379,779
Accrued Payroll Liabilities		4,592	4,472
Accrued Interest Payable		34,833	36,266
Accrued Wages Payable		7,014	6,279
Bonds Payable - Current		395,167	383,167
<u>TOTAL CURRENT LIABILITIES</u>		<u>811,422</u>	<u>809,963</u>
<u>NONCURRENT LIABILITIES</u>			
Bonds Payable - Net of Current		9,070,500	9,465,667
Less – Deferred Financing Costs		(329,140)	(346,460)
Net Pension Liabilities		917,155	751,596
Net OPEB Liabilities		315,000	227,056
<u>TOTAL NONCURRENT LIABILITIES</u>		<u>9,973,515</u>	<u>10,097,859</u>
<u>TOTAL LIABILITIES</u>		<u>10,784,937</u>	<u>10,907,822</u>
<u>DEFERRED INFLOW OF RESOURCES</u>			
Deferred Inflows - Pension Related		98,247	23,370
Deferred Inflows - OPEB Related		16,493	-
<u>TOTAL DEFERRED INFLOW OF RESOURCES</u>		<u>114,740</u>	<u>23,370</u>
	<u>NET POSITION</u>		
<u>NET POSITION</u>			
Invested in Capital Assets, net of Related Debt		3,790,328	3,740,489
Restricted for Loan Repayments		12,195	11,586
Unrestricted		857,921	1,284,597
<u>TOTAL NET POSITION</u>		<u>\$ 4,660,444</u>	<u>\$ 5,036,672</u>

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, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
<u>OPERATING REVENUES</u>		
Service	\$ 3,802,225	\$ 3,744,827
Tap Fees	-	100
E-One Pump Customers	4,034	3,407
Miscellaneous Income	<u>28</u>	<u>15,214</u>
<u>TOTAL OPERATING REVENUES</u>	<u>3,806,287</u>	<u>3,763,548</u>
<u>OPERATING EXPENSES</u>		
Treatment Expenses	3,252,007	3,386,682
Administrative Expenses	183,280	178,391
Depreciation	386,328	389,500
Amortization	<u>17,320</u>	<u>17,320</u>
<u>TOTAL OPERATING EXPENSES</u>	<u>3,838,935</u>	<u>3,971,893</u>
<u>NET OPERATING (LOSS)</u>	<u>(32,648)</u>	<u>(208,345)</u>
<u>NON-OPERATING REVENUES (EXPENSES)</u>		
Interest Income	2,793	1,586
Gain on Sale of Assets	-	16,106
Interest Expense	<u>(346,373)</u>	<u>(366,847)</u>
<u>TOTAL NON-OPERATING REVENUES (EXPENSES)</u>	<u>(343,580)</u>	<u>(349,155)</u>
<u>NET (LOSS) INCOME</u>	<u>(376,228)</u>	<u>(557,500)</u>
<u>CHANGE IN NET POSITION</u>	<u>(376,228)</u>	<u>(557,500)</u>
<u>NET POSITION</u> , Beginning of year (Restated)	<u>5,036,672</u>	<u>5,594,172</u>
<u>NET POSITION</u> , End of year	<u>\$ 4,660,444</u>	<u>\$ 5,036,672</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, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Receipts from Customers	\$ 3,896,674	\$ 3,452,126
Payments to Suppliers	(3,052,673)	(2,440,728)
Payments to Employees	(446,282)	(443,656)
	<u>397,719</u>	<u>567,742</u>
<u>NET CASH PROVIDED BY OPERATING ACTIVITIES</u>		
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>		
Principal Paid on Bond and Notes Payable	(383,167)	(366,332)
Interest Paid on Bond and Notes Payable	(347,806)	(365,477)
Purchase of Capital Assets	(53,000)	(97,511)
Proceeds from Sale of Assets	-	16,106
Payments Received on Notes Receivable	-	23,607
	<u>(783,973)</u>	<u>(789,607)</u>
<u>NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES</u>		
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Interest Income	2,793	1,586
	<u>(383,461)</u>	<u>(220,279)</u>
<u>NET (DECREASE) IN CASH</u>		
<u>CASH</u> , Beginning of year	<u>1,466,073</u>	<u>1,686,352</u>
<u>CASH</u> , End of year	<u>\$ 1,082,612</u>	<u>\$ 1,466,073</u>
 <u>RECONCILIATION OF CASH:</u>		
Cash, Including Time Deposits	\$ 334,947	\$ 421,707
Restricted Cash, Including Time Deposits	<u>747,665</u>	<u>1,044,366</u>
CASH, June 30, 2018	<u>\$ 1,082,612</u>	<u>\$ 1,466,073</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, 2018 AND 2017
(CONTINUED)

	<u>2018</u>	<u>2017</u>
<u>RECONCILIATION OF OPERATING LOSS</u>		
<u>TO NET CASH PROVIDED BY</u>		
<u>OPERATING ACTIVITIES</u>		
Operating Loss	\$ (32,648)	\$ (208,345)
Adjustments to reconcile operating Income to net cash provided by operating activities:		
Depreciation	386,328	389,500
Amortization (Net)	17,320	1,536
Net Pension Adjustment	130,276	238,900
(Increase) Decrease in:		
Accounts Receivable	(94,449)	183,537
(Decrease) Increase in:		
Accounts Payable	(9,963)	(40,142)
Accrued Wages Payable	735	2,509
Accrued Payroll Liabilities	120	247
	430,367	776,087
<u>TOTAL ADJUSTMENTS</u>		
<u>NET CASH PROVIDED BY OPERATING</u>		
<u>ACTIVITIES</u>	\$ 397,719	\$ 567,742

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, 2018 AND 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Organization

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

B. Reporting Entity

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

C. Basis of Presentation - Fund Accounting

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

Proprietary Funds

Enterprise Funds

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

D. Basis of Accounting

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

E. Encumbrance Accounting

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

F. Receivables

Accounts receivable consists of billings of \$815,910 and \$721,461 to the residents of Boyd County, Kentucky and the Federal Correctional Institution of Ashland, Kentucky, which were not collected as of June 30, 2018 and 2017, 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, 2018 and 2017 respectfully was \$190,515 and \$146,904.

SANITATION DISTRICT NO. 4 OF BOYD COUNTY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES “CONTINUED”

G. Capital Assets

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

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

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

Depreciation expense for the years ended June 30, 2018 and June 30, 2017 was \$386,328 and \$389,500, respectively.

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

H. Cash and Cash Equivalents

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

I. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

J. Equity Classifications

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

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

K. Advertising Expense

Advertising expense for the years ended June 30, 2018 and June 30, 2017 was \$138 and \$1,079, respectively.

SANITATION DISTRICT NO. 4 OF BOYD COUNTY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 2 – LONG-TERM DEBT

Revenue bonds and notes payable consist of the following at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
\$2,274,000 bonds payable in variable annual installments through January 1, 2033; interest from 4.03% to 4.78%	\$ 1,484,000	\$ 1,553,000
\$8,715,000 bonds payable in Variable annual installments Through January 1, 2038; interest from 2.00% to 3.75%	<u>7,981,667</u>	<u>8,295,834</u>
Total Bonds Payable	9,465,667	9,848,834
Less current portion	<u>(395,167)</u>	<u>(383,167)</u>
Total Long-Term Bonds Payable	9,070,500	9,465,667
Less- Deferred Financing Costs	<u>(329,140)</u>	<u>(346,460)</u>
Long-Term Bonds Payable Net of Deferred Financing Costs	<u>\$ 8,741,360</u>	<u>\$ 9,119,207</u>

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

	<u>BALANCE</u> <u>JULY 1</u> <u>2017</u>	<u>PROCEEDS</u>	<u>PAYMENTS</u>	<u>BALANCE</u> <u>JUNE 30</u> <u>2018</u>
Bonds Payable	\$ 9,848,834	\$ -0-	\$ (383,167)	\$ 9,465,667

MATURITIES:

	<u>Bond Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2019	\$ 395,167	\$ 317,955
2020	409,083	308,433
2021	418,167	300,095
2022	433,167	287,956
2023	444,083	276,071
Thereafter	<u>\$ 7,366,000</u>	<u>\$ 2,267,740</u>
Total	<u>\$ 9,465,667</u>	<u>\$ 3,758,250</u>

SANITATION DISTRICT NO. 4 OF BOYD COUNTY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

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, 2018 and 2017 is \$82,528 and \$82,352.

As of June 30, 2018 and 2017, the Sewer Bond Interest and Sinking Fund has total funds in the amount of \$82,528 and \$82,352. The Sewer Bond Interest and Sinking Fund is in compliance with the Kentucky Rural Water Finance Corporation Public Projects Refunding Revenue Bonds Ordinance of 2003.

Revenue Fund

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

Sinking Fund

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

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

Operation and Maintenance Fund

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

Surplus Funds

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

Reserve Fund

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

SANITATION DISTRICT NO. 4 OF BOYD COUNTY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 2 – LONG-TERM DEBT “CONTINUED”

Depreciation Reserve

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

NOTE 3 – RESTRICTED ASSETS AND RESERVED NET ASSETS

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

As of June 30, 2018 and 2017, restricted cash were as follows:

	<u>2018</u>	<u>2017</u>
Reserve Fund	\$ 45,598	\$ 53,213
Depreciation Reserve	510,823	800,084
Bond and Interest	<u>191,244</u>	<u>191,069</u>
<u>TOTAL RESTRICTED CASH</u>	<u>\$ 747,665</u>	<u>\$ 1,044,366</u>

NOTE 4 – CASH DEPOSITS WITH FINANCIAL INSTITUTIONS

As of June 30, 2018, the District had deposits of \$950,679 confirmed by the financial institutions. Of this amount, \$689,856 was covered by federal depository insurance, \$260,823 was secured by collateral with a market value of \$350,000 held by Town Square Bank. From time to time some balances may not be collateralized.

NOTE 5 – CAPITAL ASSETS

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

SANITATION DISTRICT NO. 4 OF BOYD COUNTY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 5 – CAPITAL ASSETS “CONTINUED”

	<u>BALANCE</u> <u>JULY 1</u> <u>2017</u>	<u>ADDITIONS</u>	<u>DISPOSALS</u>	<u>BALANCE</u> <u>JUNE 30</u> <u>2018</u>
<u>Capital Assets at Historical Costs:</u>				
Land	\$ 30,717	\$ -	\$ -	\$ 30,717
Lines and Extensions	7,582,394	-	-	7,582,394
2015A BCFC Sewer Lines	8,076,931	-	-	8,076,931
Equipment	598,554	32,657	-	631,211
Vehicles	315,947	-	-	315,947
Office Buildings	598,800	20,343	-	619,143
CIP	<u>206,538</u>	<u>-</u>	<u>-</u>	<u>206,538</u>
<u>Total Capital Assets, at Historical Cost</u>	<u>17,409,881</u>	<u>53,000</u>	<u>-</u>	<u>17,462,881</u>
<u>Less: Accumulated Depreciation:</u>				
Lines and Extensions	(2,430,136)	(140,854)	-	(2,570,990)
2015A BCFC Sewer Assets	(323,078)	(161,539)	-	(484,617)
Equipment	(544,940)	(21,026)	-	(565,966)
Vehicles	(218,618)	(32,322)	-	(250,940)
Office Buildings	<u>(303,786)</u>	<u>(30,587)</u>	<u>-</u>	<u>(334,373)</u>
Total Accumulated Depreciation	<u>(3,820,558)</u>	<u>(386,328)</u>	<u>-</u>	<u>(4,206,886)</u>
<u>Capital Assets, Net</u>	<u>\$ 13,589,323</u>	<u>\$ (333,328)</u>	<u>\$ -</u>	<u>\$ 13,255,995</u>

NOTE 6 – CONCENTRATIONS OF CREDIT RISK

The District's revenues are generated from services extended to residents and customers in Boyd County, KY. The billings to the Federal Correction Institution in Boyd County, Kentucky account for a total of 16.85% of total revenues for the year ended June 30, 2018. 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 \$2,797 and \$2,830 for the years ended June 30, 2018 and 2017, respectively.

COUNTY EMPLOYEE RETIREMENT SYSTEM (CERS)

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

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

SANITATION DISTRICT NO. 4 OF BOYD COUNTY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 7 – EMPLOYEES RETIREMENT PLAN “CONTINUED”

Contributions

Funding for CERS is provided by members who contribute a percentage of their salary through payroll deductions and by employers of members who contribute a percentage of the member's salary. The contribution percentages for members in non-hazardous duty positions are 5.00% (6.00% for employees hired after September 1, 2008). The employers' contribution percentages for members in non-hazardous duty positions are 19.18% (14.48% pension, 4.70% insurance). The contribution requirements of CERS are established and may be amended by the CERS Board of Trustees.

At June 30, 2018, the District reported a liability of \$751,596 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating organizations, actuarially determined. At June 30, 2017 the District proportion for nonhazardous was .01567%.

For the year ended June 30, 2018, the District's recognized pension expense of \$63,553. At June 30, 2018, the District's reported deferred outflows of resources for the District's contributions subsequent to the measurement date of \$191,007. These contributions will be recognized as a reduction of the net pension liability in the year ended June 30, 2018.

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
<u>Nonhazardous</u>		
Difference between expected actual experience	\$ 1,138	\$
Changes in assumptions	169,240	
Net difference between projected and actual earnings on investments	72,638	
Changes in proportion and differences between District's contributions and proportionate share of contributions	21,363	98,247
District's contributions subsequent to The measurement date	<u>54,872</u>	<u> </u>
TOTAL	<u>\$ 319,251</u>	<u>\$ 98,247</u>

The deferred outflows of resources relate to the District'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, 2018. 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:	
2019	\$ 24,561
2020	24,562
2021	24,562
2022	<u>24,562</u>
Total	<u>\$ 98,247</u>

SANITATION DISTRICT NO. 4 OF BOYD COUNTY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 7 – EMPLOYEES RETIREMENT PLAN “CONTINUED”

Actuarial Assumptions and Methods

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

Inflation	2.30 percent
Salary Increase	3.05 percent, average, including inflation
Investment Rate of Return	6.25 percent, net of pension plan investment expense, including inflation

For mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For the healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (setback 1 year for females). For disabled members, the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (setback 4 years for males) is used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2008 to June 30, 2013.

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>Asset Class</u>	<u>Target Location</u>	<u>Long Term Expected Real Rate of Return</u>
US Equity*	17.5%	5.97%
International Equity*	17.5%	7.85%
Global Bonds	4.0%	2.63%
Global Credit	2.0%	3.63%
High Yield	7.0%	5.75%
Emerging Market Debt	5.0%	5.50%
Private Credit	10.0%	8.75%
Real Estate*	5.0%	7.63%
Absolute Return	10.0%	5.63%
Real Return*	10.0%	6.13%
Private Equity	10.0%	8.25%
Cash	2.0%	1.85%
Total	<u>100.0%</u>	6.56%

**Long - Term Expected Real Rates of Return may vary by plans depending on the risk tolerance of the plan.*

Discount Rate

The discount rate used to measure the total pension liability was 6.25%. 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. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 6.25%.

SANITATION DISTRICT NO. 4 OF BOYD COUNTY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 7 – EMPLOYEES RETIREMENT PLAN “CONTINUED”

The Long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of (6.25%), 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 (5.25%) or 1 percentage point higher (7.25%) than the current rate:

	1% Decrease <u>(5.25%)</u>	Current Discount Rate <u>(6.25%)</u>	1% Increase <u>(7.25%)</u>
District's's share of the net pension liability:			
Nonhazardous	\$ 1,156,730	\$ 917,155	\$ 716,752

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued CERS financial report which is publically available at <https://kyret.ky.gov>.

NOTE 8 – OTHER POSTEMPLOYMENT BENEFIT ("OPEB") PLANS

Plan Description – The County Employees Retirement System (CERS") Insurance Fund was established to provide post-employment benefits to eligible members and dependents. This system consists of two plans -Nonhazardous and Hazardous. Each Insurance Fund is a cost-sharing, multiple employer defined benefit plan administered by the Kentucky Retirement Systems' (KRS) board of trustees.

CERS issues a publicly available financial report included in the Kentucky Retirement Systems Annual Report that includes financial statements and the required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort Kentucky, 40601, or by calling (502) 564-4646 or at <https://kyret.ky.gov>.

Benefits – CERS health insurance benefits are subject to various participation dates to determine eligibility and health insurance contribution rates. For Employees who initiated participation in the CERS system prior to July 1, 2003 KRS pays a percentage of the monthly contribution rate for the insurance coverage based on the retired member's years of service and type of service. Non- hazardous members receive a contribution subsidy for only the member's health insurance Hazardous members receive a contribution subsidy for both the member and dependent coverage.

Percentage of contribution range from 0% for less than 4 years of service to up to 100% for 20 years or more of service. For members who initiated participation in the CERS system JULY 1, 2003 until August 31, 2008, members must have 120 months of service in a state administered retirement system to qualify for participation in the KRS health plans. Members who began participating with KRS on or after September 1, 2008, must have 180 months of service upon retirement to participate in the KRS health plan. Non-hazardous retirees receive \$10 toward the monthly premium for each full year of service.

Hazardous retirees receive \$15 toward the monthly premium and the hazardous retiree's spouse may also receive this contribution up the retiree's death. The monthly insurance benefit has been increased annually by the Cost of Living Adjustment (COLA) since July 2004.

SANITATION DISTRICT NO. 4 OF BOYD COUNTY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 8 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) "Continued"

Contributions – CERS allocates a portion of the employer contributions to the health insurance benefit plans. For the year ending June 30, 2018, CERS allocated 4.70% of the 19.18% non-hazardous and 9.35% of the 31.55% hazardous actuarially required contribution rate paid by employers for the funding the healthcare benefit. In addition, 1.00% of the contributions by employees hired after September 1, 2008 are allocated to the health insurance plan. During the year ending June 30, 2018, the Board contributed \$17,811 to the CERS Nonhazardous insurance Trust Fund. The contribution requirements of the CERS are established and may be amended by the CERS Board of Trustees.

OPEB Liability – For the period ending June 30, 2018, the Board reported a liability of \$315,000 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The District's proportion of the net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating entities, actuarially determined. The District's proportionate share at June 30, 2017 was .002% for non-hazardous and .355% for hazardous.

For the year ended June 30, 2018, the Board recognized OPEB expense of \$17,810 for nonhazardous in total. The Board also reported deferred outflows of resources and deferred inflows of resources related to pensions as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
<u>Nonhazardous</u>		
Difference between expected and actual experience	\$	\$ 875
Changes in Assumptions	68,542	
Difference between projected and actual investment earning		14,887
Changes in proportionate share of liabilities		731
Deferred Contributions	17,811	
Total	\$ 86,353	\$ 16,493

Actuarial Assumptions and Methods

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

- Inflation 2.30 percent
- Salary Increases 3.05 percent, average, including inflation
- Investment Rate of Return 6.25 percent, net of pension plan investment expense, including inflation

For mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For the healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (setback 1 year for females). For disabled members, the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (setback 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and the margin will be reviewed again, when the next experience investigation is conducted.

SANITATION DISTRICT NO. 4 OF BOYD COUNTY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 8 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) "Continued"

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2008 – June 30, 2013.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. Several factors are considered in evaluating the long-term rate of return assumptions including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were 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 then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which cover a longer time frame. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The target allocation and best estimates of arithmetic real rates of return for each major class are summarized in the table on the following page.

<u>Asset Class</u>	<u>Target Location</u>	<u>Long Term Expected Real Rate of Return</u>
US Equity*	17.5%	5.97%
International Equity*	17.5%	7.85%
Global Bonds	4.0%	2.63%
Global Credit	2.0%	3.63%
High Yield	7.0%	5.75%
Emerging Market Debt	5.0%	5.50%
Private Credit	10.0%	8.75%
Real Estate*	5.0%	7.63%
Absolute Return	10.0%	5.63%
Real Return*	10.0%	6.13%
Private Equity	10.0%	8.25%
Cash	2.0%	1.85%
Total	<u>100.0%</u>	6.56%

Long -Term Expected Real Rates of Return may vary by plans depending on the risk tolerance of the plan.

Discount Rate

The discount rates used to measure the total net OPEB liability were 5.84% and 5.96% for nonhazardous and hazardous, respectively. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 26-year amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 3.56%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2017. Future contributions are projected in accordance with the District's current funding policy, which includes the requirement that each participating employer in the System contribute the actuarially determined contribution rate, which is determined using a closed funding period (26 year as of June 30, 2017).

SANITATION DISTRICT NO. 4 OF BOYD COUNTY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 8 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) "Continued"

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate
The following presents the District's proportionate share of the net OPEB liability calculated using the discount rates of 5.84%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower, (4.84%), or 1 percentage point higher, (6.84%), than the current rate:

	<u>1% Decrease</u> <u>(4.84%)</u>	<u>Discount Rate</u> <u>(5.84%)</u>	<u>1% Increase</u> <u>(6.84%)</u>
District's Share of the Net pension liability	<u>\$ 400,821</u>	<u>\$ 315,000</u>	<u>\$ 243,585</u>

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate

The following presents the District's proportionate share of the net OPEB liability, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percentage point lower or 1 percentage point higher than the current health care cost trend rates:

	<u>1% Decrease</u> <u>(4.84%)</u>	<u>Discount Rate</u> <u>(5.84%)</u>	<u>1% Increase</u> <u>(6.84%)</u>
District's Share of the Net pension liability	<u>\$ 241,622</u>	<u>\$ 315,000</u>	<u>\$ 410,389</u>

OPEB Plan Fiduciary Net Position

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

NOTE 9 - PRIOR PERIOD ADJUSTMENT

The City adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*, replaces Statement No. 45, *Accounting and Financial Reporting by Employers for*

Postemployment Benefits Other than Pensions and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple Employer Plans*. It establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures for other postemployment benefits ("OPEB").

The following page contains the reconciliations for the adjustments made to the June 30, 2017 Net Positions for the required implementation of GASB 75 to conform to the current year presentation for comparative purposes:

	<u>Net position as previously reported at June 30, 2017</u>	<u>CERS net OPEB liability (measurement date as of June 30, 2016)</u>	<u>Deferred outflows -City CERS OPEB Contributions made during Fiscal year 2017</u>	<u>Total prior period adjustment</u>	<u>Net position as restated, June 30, 2017</u>
Total	<u>\$ 5,263,728</u>	<u>\$ (227,056)</u>	<u>\$ -0-</u>	<u>\$ (224,056)</u>	<u>\$ 5,036,672</u>

SANITATION DISTRICT NO. 4 OF BOYD COUNTY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

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. 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, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
<u>TREATMENT EXPENSES:</u>		
Treatment	\$ 1,816,383	\$ 1,820,081
Wages	440,740	446,164
Chemicals	301,573	267,245
Employee Benefits	320,342	189,780
Utilities	160,909	149,608
Repairs	44,884	142,609
Surcharges	61,787	66,025
Payroll Taxes	32,177	35,888
Fuel	12,229	11,182
Miscellaneous	33,575	12,568
Billing Services	6,931	2,759
Equipment Rental	4,189	4,480
Laboratory Costs	9,258	8,057
Contact Labor	<u>7,030</u>	<u>3,180</u>
<u>TOTAL TREATMENT EXPENSES</u>	<u>\$ 3,252,007</u>	<u>\$ 3,159,626</u>
<u>ADMINISTRATION:</u>		
Bad Debt Expense	\$ 43,611	\$ 41,372
Engineering	-	-
Insurance	38,964	37,525
Legal and Professional	38,353	33,810
Office Supplies	11,980	12,955
Postage and Delivery	13,693	14,639
Director Fees	12,300	12,300
Bank Charges	10,434	11,218
Miscellaneous	7,114	4,832
Dues and Subscriptions	1,114	663
Training Expense	3,488	5,847
Meals and Entertainment	1,531	1,370
Travel	-	-
Bond Expense	560	781
Advertising	<u>138</u>	<u>1,079</u>
<u>TOTAL ADMINISTRATION</u>	<u>\$ 183,280</u>	<u>\$ 178,391</u>

(See accompanying notes and independent auditor's report)

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

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

	Reporting Fiscal Year (Measurement Date)			
	2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)
<u>PENSION</u>				
Portion of the net Pension liability (asset)	0.01567%	0.01527%	0.01614%	0.014491%
Proportionate share of The net pension liability (asset)	\$ 752	\$ 694	\$ 470	\$ 532
Covered employee payroll	\$ 446	\$ 429	\$ 428	\$ 465
Proportionate share of the Pension liability (asset) As a percentage of its Covered employee payroll	168.61%	161.77%	109.81%	114.41%
Plan fiduciary net pension As a percentage of the Total pension liability	53.30%	55.50%	59.97%	66.80%
<u>OPEB</u>				
Portion of the net OPEB liability(asset)	0.01567%			
Proportionate share of The net OPEB liability	\$ 315			
Covered employee payroll	\$ 446			
Proportionate share of the OPEB liability (asset) As a percentage of its Covered employee payroll	70.62%			
Plan fiduciary net OPEB As a percentage of the Total pension liability	53.30%			

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

(See accompanying notes and independent auditor's report)

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

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
<u>PENSION</u>					
Contractually required Contribution	\$ 55	\$ 52	\$ 81	\$ 170	\$ 63
Contributions in relation To the contractually Required contribution	\$ 55	\$ 52	\$ 81	\$ 170	\$ 63
Contribution deficiency (Excess)		\$ -	\$ -	\$ -	\$ -
Covered employee payroll	\$ 379	\$ 446	\$ 429	\$ 428	\$ 465
Contributions as a Percentage of covered Employee payroll	14.5%	11.6%	18.88%	39.72%	13.55%
<u>OPEB</u>					
Contractually required Contribution	\$ 18	\$ 17			
Contributions in relation To the contractually Required contribution	\$ 18	\$ 17			
Contribution deficiency (Excess)	\$ -	\$ -			
Covered employee payroll	\$ 379	\$ 446			
Contributions as a Percentage of covered Employee payroll	4.7%	3.8%			

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

(See accompanying notes and independent auditor's report)

Griffith, DeLaney, Hillman & Company

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

February 18, 2019

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, 2018, 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 February 18, 2019.

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:

- 2018-1. 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.
- 2018-2. 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.

- 2018-1 Management and the Board of Directors will remain aware of the integrity of the employees and provide appropriate supervision.
- 2018-2 The staff will review draft financial statements for material errors and reasonableness in the totals. The Board will review closer the financials and budget comparisons. The CPA outside consultant will advise the board and management the changes to the financials as they come about and assist the management on proper recording and preparation of GAAP financials.

Compliance and Other Matters

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

However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matter that are required to be reported under Government Auditing Standards.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


GRIFFITH, DELANEY, HILLMAN & COMPANY
Certified Public Accountants