SANITATION DISTRICT NO. 4
OF BOYD COUNTY, KENTUCKY

FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

TOGETHER WITH INDEPENDENT AUDITOR'S REPORTS

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Sanitation District No. 4 of Boyd County, Kentucky (the "District") as of and for the years ended June 30, 2021 and 2020, 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 misstatement, 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 financial statements are free from 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 judgment, 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Sanitation District No. 4 of Boyd County, Kentucky as of June 30, 2021 and 2020, and the changes in financial position and 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 information on pages 5 through 7 and the Schedule of District's Proportionate Share of the Net Pension and OPEB Liability and the Schedule of Pension and OPEB Contributions on pages 28 through 33 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Sanitation District No. 4 of Boyd County, Kentucky's basic financial statements. The schedule of operating expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedules of operating expenses is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of operating expenses is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 8, 2022, on our consideration of Sanitation District No. 4 of Boyd County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 the effectiveness of the District's 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 the District's internal control over financial reporting and compliance.

Kelley Galloway Smith Goolsby, PSC

Ashland, Kentucky
January 8, 2022

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 year ended June 30, 2021 and 2020. Please read it in conjunction with the accompanying basic financial statements. It is our intent that this discussion provides 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, 2021 and 2020, the District's assets and deferred outflows of $19,742,252 and $19,686,353 exceeded liabilities and deferred inflows of $14,060,546 and $14,748,411 by $5,681,706 and $4,937,942, respectively. This excess includes the net investment in capital assets of $5,153,372 and $5,014,311, restricted resources of $14,881 and $14,863, which represent money set aside to satisfy loan covenants, and unrestricted resources available to continue District operations into the next fiscal year of $513,453 and $(91,232), respectively.

- Current assets (consisting primarily of unrestricted cash balances, accounts receivable, grant receivable) as of June 30, 2021 and 2020 were $1,851,910 and $1,559,287 and current liabilities payable from those funds were $1,004,455 and 1,376,549, respectively.

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 consist 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 the services it provides, these services are reported in the proprietary fund.

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.

Net position for the period ending June 30, 2021 as compared to June 30, 2020

	June 30, 2021	June 30, 2020
Current Assets	$ 1,851,910	$ 1,559,287
Noncurrent Assets	17,476,755	17,727,195
Total Assets	19,328,665	19,286,482
Deferred Outflows	413,587	399,871
Current Liabilities	1,004,455	1,376,549
Noncurrent Liabilities	12,978,625	13,242,567
Total Liabilities	13,983,080	14,619,116
Deferred Inflows	77,466	129,295

Net position		
Net investment in capital assets	5,153,372	5,014,311
Restricted	14,881	14,863
Unrestricted	513,453	(91,232)
Total Net position	$ 5,681,706	$ 4,937,942

The following table presents a summary of revenue and expense for the fiscal years ended June 30, 2021 and 2020, respectively.

	2021 Amount	2020 Amount
Revenues:		
Services	$ 5,184,067	$ 4,167,241
Miscellaneous income	10,347	96,175
Grant income	29,229	-
Interest income	393	3,952
Total revenues	5,224,036	4,267,368
Expenses:		
Treatment expenses	3,597,327	3,442,383
Administration expenses	193,551	188,097
Depreciation	438,100	366,587
Amortization	7,249	7,249
Interest expense	384,478	353,094
Total expenses	4,620,705	4,357,410
Income (Loss) before capital contributions	603,331	(90,042)
Capital contributions	140,433	1,193,742
Revenue over (under) expenses	$ 743,764	$ 1,103,700

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, 2021, the Districts operating revenues increased from a year ago by $930,998 (21.84%) while operating expenses of all programs and services including depreciation increased by $231,911 (5.79%). Overall, net operating income was $958,187 for the fiscal year 2021 compared to $259,100 in fiscal year 2020.

Treatment expenses were $3,597,327 for the year ended June 30, 2021 compared to $3,442,383 for the year ended June 30, 2020.

Financial Analysis of the District's Proprietary Fund

At June 30, 2021 and 2020, the District's proprietary fund reported total net assets of $5,681,706 and $4,937,942 this is an increase of $743,764 or 15.06%.

Capital Assets

The District made several capital asset purchases with a total cost of $115,244. Of this amount, $11,233 was purchased with their prior cash balance and $104,011 was purchased with grant proceeds. At June 30, 2021 and 2020, the District had $16,952,383 and $17,275,239 in capital assets, net of depreciation, respectively.

Debt

At June 30, 2021 and 2020, the District had bonds and notes payable to Kentucky Rural Water Finance Corporation and Kentucky Bond Corporation with remaining balances of $11,799,011 and $12,260,928 (net of discount), respectively.

Economic Factors and Next Year's Rates

In considering the District's budget for year 2022, the District expects no significant changes, except for the additional customers related to the line expansion. In addition, rates will be reevaluated due to increased costs.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, 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
STATEMENTS OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2021 AND 2020

	2021	2020
Assets		
Current assets:		
Cash and cash equivalents	$ 585,111	$ 246,357
Accounts receivable (Net of allowance for bad debt of $190,515 and $190,515, respectively)	1,236,222	928,481
Grant receivable	29,229	384,449
Other assets	1,348	-
Total current assets	1,851,910	1,559,287
Noncurrent assets:		
Restricted cash and cash equivalents	524,372	451,956
Capital assets, net of accumulated depreciation	16,952,383	17,275,239
Total noncurrent assets	17,476,755	17,727,195
Total assets	19,328,665	19,286,482
Deferred Outflows of Resources		
Deferred outflows - OPEB related	184,478	119,524
Deferred outflows - pension related	229,109	280,347
Total deferred outflows of resources	413,587	399,871
Total assets and deferred outflows	$ 19,742,252	$ 19,686,353
Liabilities		
Current liabilities:		
Accounts payable	$ 424,788	$ 839,730
Accrued payroll liabilities	3,451	4,444
Accrued interest payable	83,639	51,447
Accrued wages payable	5,800	11,531
Accrued other payroll payable	610	230
Bonds payable - current	486,167	469,167
Total current liabilities	1,004,455	1,376,549
Noncurrent liabilities:		
Bonds payable, net of current portion (less - bond issuance discounts)	11,312,844	11,791,761
Net OPEB liability	398,787	279,945
Net pension liability	1,266,994	1,170,861
Total noncurrent liabilities	12,978,625	13,242,567
Total liabilities	13,983,080	14,619,116
Deferred Inflows of Resources		
Deferred inflows OPEB related	72,728	101,198
Deferred inflows pension related	4,738	28,097
Total deferred inflows of resources	77,466	129,295
Net Position		
Net investment in capital assets	5,153,372	5,014,311
Restricted for loan repayment	14,881	14,863
Unrestricted	513,453	(91,232)
Total net position	5,681,706	4,937,942
Total liabilities, deferred inflows and net position	$ 19,742,252	$ 19,686,353

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

SANITATION DISTRICT NO. 4 OF BOYD COUNTY, KENTUCKY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUND
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

	2021	2020
Operating revenues:		
Services	$ 5,184,067	$ 4,167,241
Miscellaneous income	10,347	96,175
Total operating revenues	5,194,414	4,263,416
Operating expenses:		
Treatment expenses	3,597,327	3,442,383
Administrative expenses	193,551	188,097
Depreciation	438,100	366,587
Amortization	7,249	7,249
Total operating expenses	4,236,227	4,004,316
Operating income (loss)	958,187	259,100
Nonoperating revenues (expenses):		
Interest income	393	3,952
Interest expense	(384,478)	(353,094)
Grant income	29,229	-
Total nonoperating revenue (expense)	(354,856)	(349,142)
Income (Loss) before capital contributions	603,331	(90,042)
Tap fees	3,200	5,975
Capital Grants	137,233	1,187,767
Change in net position	743,764	1,103,700
Net position, Beginning of the year	4,937,942	3,834,242
Net position, End of year	$ 5,681,706	$ 4,937,942

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

SANITATION DISTRICT NO. 4 OF BOYD COUNTY, KENTUCKY
STATEMENTS OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2021 AND 2020

	2021	2020
Cash flows from operating activities:		
Receipts from customers	$ 4,886,673	$ 4,048,322
Payments to supplies	(3,751,707)	(2,859,408)
Payments to employees	(312,375)	(324,545)
Net cash provided by operating activities	822,591	864,369
Cash flows from capital and related financing activities:		
Proceeds from issuance of debt	-	8,649,473
Principal paid on long term debt	(469,166)	(7,509,083)
Interest paid on long term debt	(352,286)	(334,960)
Capital contributions	524,882	809,293
Purchases of capital assets	(115,244)	(2,518,703)
Net cash used for capital and related financing activities	(411,814)	(903,980)
Cash flows from investing activities:		
Interest income	393	3,952
Net cash provided by investing activities	393	3,952
Net increase (decrease) in cash and cash equivalents	411,170	(35,659)
Cash and cash equivalents, Beginning of the year	698,313	733,972
Cash and cash equivalents, End of year	$ 1,109,483	$ 698,313
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	$ 958,187	$ 259,100
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	438,100	366,587
Amortization	7,249	7,249
Net OPEB adjustment	25,418	7,930
Net pension adjustment	124,012	139,448
Change in assets and liabilities:		
Accounts receivable	(307,741)	(215,094)
Other assets	(1,348)	-
Accounts payable	(414,942)	295,524
Accrued payroll liabilities	(613)	(282)
Accrued wages	(5,731)	3,907
Total adjustments	(135,596)	605,269
Net cash provided by operating activities	$ 822,591	$ 864,369
Reconciliation of cash:		
Cash and cash equivalents	$ 585,111	$ 246,357
Restricted cash and cash equivalents	524,372	451,956
Cash and cash equivalents, End of year	$ 1,109,483	$ 698,313

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

The financial statements of the Sanitation District No. 4 of Boyd County, Kentucky ("the District") have been prepared in accordance with generally accepted accounting principles in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body of governmental accounting and financial reporting. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The more significant of these accounting policies are described below, and where appropriate, subsequent pronouncements will be referenced.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Sanitation District No. 4 of Boyd County, Kentucky is a Sanitation District created and existing pursuant to the provisions of Section 220.010 through 220.54 of the Kentucky Revised Statutes.

The District was created by ordinance of the Boyd County Fiscal Court on December 30, 1978, duly certified and recorded as provided in KRS 220.110. The purpose of the District is to provide sanitation sewer services to a portion of Boyd County, Kentucky.

The District is governed by a Board of Directors consisting of three members, who are appointed by the County Judge of Boyd County, Kentucky. The Board of Directors is a corporate body, having the right, power and duty to make provision for "the collection and disposal of sewage and other liquid wastes produced within the District and to establish rates or charges and make reasonable regulations with regard to such service." It is authorized to finance its proper undertakings through the issuance of "Sanitation District (Revenue) Bonds."

Under Section 115 of the Internal Revenue Code of 1986, the District is exempt from income taxes; therefore, no provision has been made.

Reporting Entity

The District's basic financial statements include the accounts of all District operations. The criteria for including organizations as component units within the District's reporting entity, as set forth in Section 2100 of the Governmental Accounting Standards Board (GASB) *Codification of Governmental Accounting and Financial Standards*, include whether:

- the District is legally separate (can sue and be sued in their own name)
- the District holds the corporate powers of the organization
- the District appoints a voting majority of the organization's board
- the District is able to impose its will on the organization
- the organization has the potential to impose financial benefit/burden on the District
- there is fiscal dependency by the organization on the District

Based on the aforementioned criteria, the District has no component units.

Basis of Accounting

The District's operations are classified as an Enterprise Fund that accounts for the acquisition, operation, and maintenance of activities that are similar to a business. The Enterprise Fund is accounted for on the accrual basis of accounting. Revenues are recognized in the period earned, and expenses are recognized at the time liabilities are incurred. The Enterprise Fund distinguishes *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an Enterprise Fund's principal ongoing operations. The principal operating revenue of the District are charges to customers for sales and services. The District also recognizes connection fees intended to recover the costs of connecting new customers to the utility system as operating revenue. Operating expenses for an Enterprise Fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported revenues and expenses during the reporting period. Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for account balances deemed not collectible, and the time period used to depreciate the capital assets. Actual results could differ from estimated amounts.

Advertising Expense

Advertising expense for the years ended June 30, 2021 and 2020 was $-0- and $792, respectively.

Assets, Liabilities, and Net Position

Cash and cash equivalents. For purposes of reporting cash flows, cash and cash equivalents consist of cash on hand, cash on deposit with banks, and certificates of deposit with an original maturity of less than three months (including amounts held in restricted asset accounts).

Accounts Receivables. Accounts receivable consists of billings of $1,236,222 and $928,481 to the residents of Boyd County, Kentucky and the Federal Correctional Institution of Ashland, Kentucky, which were not collated as of June 30, 2021 and 2020, 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, 2021 and 2020 was $190,515 and $190;515, respectively.

Grant Receivable. Grant receivable consists of amounts disbursed that have not yet been reimbursed with approved grant funds.

Restricted Assets. Certain proceeds of revenue bonds, as well as certain resources set aside for their payment, including reserve requirements, are classified as restricted assets on the statement of net position since their use is limited by applicable bond and note indentures.

Capital Assets. Expenditures for items having a useful life greater than one year are capitalized. Capital assets are stated at historical cost. Depreciation is provided over the estimated useful lives of the related assets using the straight-line method as follows:

Buildings and property	10-60 years
Furniture, fixtures and equipment	3-10 years

Depreciation expense for the years ended June 30, 2021 and 2020 was $438,100 and $366,587, 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.

Long-Term Obligations. Long-term liabilities reported in the statement of net position include principal outstanding on notes.

Net Position. Net position is reported in three categories: net investment in capital assets; restricted net position; and unrestricted net position. Net investment in capital assets, represents capital assets, less accumulated depreciation, less outstanding principal of related debt. Restricted net position reflects funds held in various reserve accounts to meet the various covenants as may be specified and defined in the revenue bond and note indentures or as deemed appropriate by management. All other net position is considered unrestricted.

Bond Issuance Costs

Debt issuance costs are expensed in the period they are incurred. Bond issuance costs were $-0- and $9,891 for the years ended June 30, 2021 and 2020, respectively.

Long-Term Liabilities

In the financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable business-type activities, or proprietary fund type statement of net position. Initial issuance costs are deferred and amortized over the life of the bonds using the straight-line method.

Interest Expense

Interest expense incurred during the construction of financed projects is capitalized during the construction period. Interest in the amount of $170,513 was capitalized for the year ended June 30, 2020. Interest expense was $384,478 and $353,094 for the years ended June 30, 2021 and 2020, respectively.

Encumbrances

The District does not use a system of encumbrances in their accounting and reporting methods.

Capital Grants/Contributions

Grants that are restricted to the purchase of property, plant and equipment are recorded as other income, per GASB 33. The District received capital grants of $137,233 and $1,187,767 for the years ended June 30, 2021 and 2020, respectively.

Tap fees are also recorded as capital contribution income, per GASB 33. These fees represent the increased value in property, plant and equipment resulting from the addition of customers to the utility distribution system. The total amount of tap fees was $3,200 and $5,975 for the years ended June 30, 2021 and 2020, respectively.

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time.

Pension

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the pension plan's fiduciary net position and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the OPEB plan's fiduciary net position and additions to/deductions from the plans' fiduciary net position have been determined on the same basis as they are reported by plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

Recent Accounting Pronouncements

In February 2017, the GASB issued Statement No. 84, *Fiduciary Activities* ("GASB 84"). GASB 84 establishes criteria for identifying fiduciary activities of all state and local governments. Generally, the focus of the criteria relates to (1) whether a government is controlling the assets of the fiduciary activity, and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and post-employment benefit arrangements that are fiduciary activities. Additionally, GASB 84 describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust, or an equivalent arrangement, that meets specific criteria. Finally, it provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. The District adopted GASB No. 84 effective July 1, 2020 with no material impact to the financial statements.

In June 2017, the GASB issued Statement No. 87, *Leases* ("GASB 87"), which establishes standards of accounting and financial reporting for leases by lessees and lessors. GASB 87 (1) increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract; and (2) establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Additionally, under GASB 87, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. GASB 87 will be effective for the District beginning with its year ending June 30, 2022 and will be applied retroactively by restating financial statements. Management is currently evaluating the impact of this Statement on its financial statements.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* ("GASB 89"), which seeks to (1) enhance the relevance and comparability of information concerning capital assets and the cost of borrowing for a reporting period, and (2) simplify accounting for interest cost incurred during the period of construction. In particular, GASB 89 establishes accounting requirements for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus, and, thus, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. GASB 89 will be effective for the District beginning with its year ending June 30, 2022. Management is currently evaluating the impact of this Statement on its financial statements.

In January 2020, the GASB issued Statement No. 92, *Omnibus* 2020 ("GASB 92"). GASB 92 establishes accounting and financial reporting requirements for specific issues related to leases, intra-entity transfers of assets, postemployment benefits, government acquisitions, risk financing and insurance-related activities of public entity risk pools, fair value measurements, and derivative instruments. Provisions related to insurance-related activities of public entity risk pools and derivative instruments were effective upon issuance. All other provisions will be effective for the District beginning with its year ending June 30, 2022. Adoption of the provisions required upon issuance did not have a material effect on the District's financial statements. Management is currently evaluating the impact of the remaining provisions of this Statement on its financial statements.

In May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements* ("GASB 96"). GASB 96 provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for governments. The Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset, an intangible asset, and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended. GASB 96 will be effective for the District beginning with its year ending June 30, 2023. Management is currently evaluating the impact of this Statement on its financial statements.

(2) CASH AND INVESTMENTS

Custodial credit risk for deposits is the risk that in the event of a bank failure, the District's funds on deposit with the banks may not be returned to the District.

At June 30, 2021, the carrying amount of the District's deposits was $1,109,483 and the bank balances totaled $1,110,373. The bank balances are categorized as follows:

Amount insured by the FDIC	$ 911,155
Amount collateralized with securities held by the bank in the District's name	199,218
Uncollateralized	-
Total	$ 1,110,373

(3) RESTRICTED ASSETS AND RESERVE NET ASSETS

The District 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, 2021 and 2020, restricted cash was as follows:

	2021	2020
Reserve Fund	$ -	$ 18,210
Depreciation Reserve	234,600	234,421
Bond and Interest	289,772	199,325
	$ 524,372	$ 451,956

(4) CAPITAL ASSETS

Changes in Capital Assets. The following is a summary of changes in capital assets and accumulated depreciation for the year ended June 30, 2021 and 2020:

June 30, 2021	Balance July 1, 2020	Additions	Deletions	Balance June 30, 2021
Non-depreciable:				
Land	$ 30,717	$ -	$ -	$ 30,717
Construction in progress	4,893,801	104,011	4,997,812	-
Depreciable:				
Lines and extensions	7,582,394	-	-	7,582,394
2015A BCFC sewer lines	8,076,931	-	-	8,076,931
Route 5 Expansion	-	4,997,812	-	4,997,812
Equipment	681,150	11,233	-	692,383
Vehicles	315,947	-	-	315,947
Office building	624,863	-	-	624,863
	22,205,803	5,113,056	4,997,812	22,321,047
Accumulated depreciation:				
Lines and extensions	2,852,698	140,854	-	2,993,552
2015A BCFC sewer lines	807,695	161,539	-	969,234
Route 5 Expansion	-	74,967	-	74,967
Equipment	605,636	24,938	-	630,574
Vehicles	293,745	17,763	-	311,508
Office building	370,790	18,039	-	388,829
	4,930,564	438,100	-	5,368,664
	$ 17,275,239	$ 4,674,956	$ 4,997,812	$ 16,952,383

June 30, 2020	Balance July 1, 2019	Additions	Deletions	Balance June 30, 2020
Non-depreciable:				
Land	$ 30,717	$ -	$ -	$ 30,717
Construction in progress	2,376,223	2,517,578	-	4,893,801
Depreciable:				
Lines and extensions	7,582,394	-	-	7,582,394
2015A BCFC sewer lines	8,076,931	-	-	8,076,931
Equipment	681,150	-	-	681,150
Vehicles	315,947	-	-	315,947
Office building	623,738	1,125	-	624,863
	19,687,100	2,518,703	-	22,205,803
Accumulated depreciation:				
Lines and extensions	2,711,844	140,854	-	2,852,698
2015A BCFC sewer lines	646,156	161,539	-	807,695
Equipment	577,473	28,163	-	605,636
Vehicles	275,982	17,763	-	293,745
Office building	352,522	18,268	-	370,790
	4,563,977	366,587	-	4,930,564
	$ 15,123,123	$ 2,152,116	$ -	$ 17,275,239

(5) LONG-TERM DEBT

Revenue bonds and notes payable consist of the following at June 30, 2021 and 2020:

	2021	2020
$2,274,000 bonds payable in variable annual installments through January 1, 2033; with an interest rate from 4.03% to 4.78%.	$ 1,257,000	$ 1,336,000
$8,715,000 bonds payable in variable annual installments through January 1, 2038, with an interest rate from 2.00% to 3.75%.	6,986,250	7,325,417
$3,730,000 bonds payable in variable annual installments through January 1, 2058, with an interest rate of 1.875%.	3,679,000	3,730,000
	11,922,250	12,391,417
Less portion classified as current liability	(486,167)	(469,167)
Less discount on bonds	(123,239)	(130,489)
	$ 11,312,844	$ 11,791,761

June 30, 2021	Beginning Balance	Additional Proceeds	Reductions/ Payments	Ending Balance	Due Within One Year
Bonds payable	$ 12,391,417	$ -	$ (469,167)	$ 11,922,250	$ 486,167
Less: Discounts on bonds	(130,489)	-	7,250	(123,239)	-
Total long-term liabilities	$ 12,260,928	$ -	$ (461,917)	$ 11,799,011	$ 486,167

June 30, 2020	Beginning Balance	Additional Proceeds	Reductions/ Payments	Ending Balance	Due Within One Year
Bonds payable	$ 9,070,500	$ 3,730,000	$ (409,083)	$ 12,391,417	$ 469,167
Less: Discounts on bonds	(137,738)	-	7,249	(130,489)	-
	8,932,762	3,730,000	(401,834)	12,260,928	469,167
Loans payable	2,180,527	4,919,473	(7,100,000)	-	-
	2,180,527	4,919,473	(7,100,000)	-	-
Total long-term liabilities	$ 11,113,289	$ 8,649,473	$ (7,501,834)	$ 12,260,928	$ 469,167

During the year ended June 30, 2020, the District paid off the $3,370,000 construction loan with a $3,730,000 construction loan. The second construction loan was then paid off with a $3,730,000 bond issuance.

The annual requirements to amortize the District's bond indebtedness as of June 30, 2021 (including interest payments) are as follows:

Fiscal Year	Principal	Interest	Servicing Fees	Total
2022	$ 486,167	$ 356,938	$ 18,566	$ 861,671
2023	498,583	344,059	17,693	860,335
2024	515,750	329,311	16,800	861,861
2025	533,167	312,933	15,884	861,984
2026	551,250	295,884	14,936	862,070
2027 - 2031	3,070,667	1,195,713	59,326	4,325,706
2032 - 2036	3,163,917	651,263	29,350	3,844,530
2037 - 2041	879,249	252,697	1,643	1,133,589

2042 - 2046	534,000	189,075	-	723,075
2047 - 2051	627,000	135,628	-	762,628
2052 - 2056	735,500	72,891	-	808,391
2057 - 2058	327,000	9,234	-	336,234
	$ 11,922,250	$ 4,145,626	$ 174,198	$ 16,242,074

The 2015A bond issue was sold at a discount of $166,735. This amount is being amortized over the life of the bond.

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 Bond Interest and Sinking Fund account as of June 30, 2020 and 2019 is $71,877 and $71,117, respectively. As of June 30, 2020 and 2019 the Sewer Bond Interest and Sinking Fund has total funds in the amount of $86,759 and $85,980, respectively, which exceeds the minimum requirement. 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.

The 2015A bond issuance set up a Sinking Fund that was sully funded at the time of issuance. As of June 30, 2021 and 2020 the Sinking Fund related 2015A bond issuance has total funds in the amount of $113,345 and $113,345, respectively. The Sinking Fund is in compliance with the Kentucky Rural Water Finance Corporation requirement.

The 2019 bond issuance provides that monthly payments be made into this account that are equal to one-twelfth (1/12) of the next debt service requirement. As of June 30, 2021 and 2020 the Sinking Fund related to the Route 5 Expansion has total funds in the amount of $89,668 and $-0-, respectively. The Sinking Fund is in compliance with the Kentucky Rural Water Finance Corporation requirement.

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 District. 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 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 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 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 and interest due on the outstanding bonds, as same fall due, such excess may be used for redemption of prepayment of any outstanding bonds, subject to the terms and conditions set forth therein, prior to maturity.

Operation and Maintenance Fund – Sums sufficient to meet current expenses of operating and maintaining the system shall be transferred monthly from the Reserve Fund and deposited into the Operation and Maintenance Fund. 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 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 are to be deposited to establish a sinking fund for the repayment of USDA loan.

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. The balance of the depreciation reserve at June 30, 2021 and 2020 was $234,600 and $234,421, respectively.

(6) CONCENTRATIONS OF CREDIT

The District's revenues are generated from services extended to residents and customers in Boyd County, Kentucky. The billings to the Federal Correction Institution in Boyd County, Kentucky account for a total of 22.32% of total revenues for the year ended June 30, 2021. Management believes the nature of the contracts with all customers is adequate to minimize credit risk.

(7) RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omission; injuries to employees; and natural disasters. The District provides for risk financing by purchasing coverage from commercial insurance companies. Commercial coverage with respect to workers' compensation is provided under a retrospectively rated contract in which the initial premium is adjusted based upon the actual experience during the period of coverage.

(8) RETIREMENT PLANS

County Employees Retirement System

Plan description: Substantially all full-time classified employees of the District participate in the County Employees Retirement System ("CERS"). CERS is a cost-sharing, multiple-employer, defined benefit pension plan administered by the Kentucky General Assembly. The plan covers substantially all regular full-time members employed in non-hazardous duty positions of each county and school board, and any additional eligible local agencies electing to participate in the plan. The plan provides for retirement, disability and death benefits to plan members.

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 provided: Benefits under the plan will vary based on final compensation, years of service and other factors as fully described in the plan documents.

Contributions: Funding for CERS is provided by members, who contribute 5.00% (6.00% for employees hired after September 1, 2008) of their salary through payroll deductions, and by employers of members. For the year ending June 30, 2021, employers were required to contribute 24.06% (19.30% - pension, 4.76% insurance) of the member's salary. During the year ending June 30, 2021 and 2020, the District contributed $88,890 and $81,666 to the CERS pension plan, respectively. The contribution requirements of CERS are established and may be amended by the CERS Board of Trustees.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to CERS

At June 30, 2021, the District reported a liability for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020. The total pension liability used to calculate the net pension liability was based on an actuarial valuation as of June 30, 2019. An expected total pension liability as of June 30, 2020 was determined using standard roll-forward techniques. The District's proportion of the net pension liability was based on contributions to CERS during the fiscal year ended June 30, 2020. At June 30, 2020 and 2019, the District's proportion was 0.016519% and 0.016648%, respectively.

For the year ended June 30, 2021, the District recognized pension expense of approximately $124,013. At June 30, 2021, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

2021	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 31,595	$ -
Changes of assumptions	49,474	-
Net difference between projected and actual earnings on investments	31,705	-
Changes in proportion and differences between District contributions and proportionate share of contributions	27,845	4,738
District contributions subsequent to the measurement date	88,490	-
	$ 229,109	$ 4,738

The $88,490 reported as deferred outflows of resources resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2022.

Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed five year period. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions are amortized over the average service life of all members. These will be recognized in pension expense as follows:

Year	
2022	$ 68,044
2023	39,986
2024	15,117
2025	12,734
	$ 135,881

For the year ended June 30, 2020, the District recognized pension expense of approximately $221,112. At June 30, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

2020	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 29,896	$ 4,947
Changes of assumptions	118,504	-
Net difference between projected and actual earnings on investments	-	18,875
Changes in proportion and differences between District contributions and proportionate share of contributions	50,281	4,275
District contributions subsequent to the measurement date	81,666	-
	$ 280,347	$ 28,097

The $81,666 reported as deferred outflows of resources resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2021.

Actuarial Methods and Assumptions: The total pension liability for CERS was determined by applying procedures to the actuarial valuation as of June 30, 2019. The financial reporting actuarial valuation as of June 30, 2020, used the following actuarial methods and assumptions:

Valuation Date	June 30, 2019
Measurement Date	June 30, 2020
Experience Study	July 1, 2013 - June 30, 2018
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll
Remaining Amortization Period	24 years, closed
Payroll growth	2.00%
Asset Valuation Method	20% of the difference between the market value of assets and the expected market value of assets is recognized
Inflation	2.30%
Salary Increase	3.30% to 10.30%, varies by service
Investment Rate of Return	6.25%, net of pension plan investment expense, including inflation

As a result of the 2018 experience study, the salary increase assumptions, retirement rate assumptions, mortality assumptions, withdrawal rates, and rates of disablement were updated for the 2019 actuarial valuation.

The mortality table used for active members is PUB-2010 General Mortality Table projected with ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. For healthy retired members and beneficiaries, a system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019 is utilized. For disabled members, the mortality table used is the PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

The long-term expected rate of return was determined by using a building-block method in which best-estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. The target allocation and best estimates of arithmetic real rate of return for each major asset class are summarized in the below tables.

The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by CERS's investment consultant, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Growth	**62.50%**	
US Equity	18.75%	4.50%
Non-US Equity	18.75%	5.25%
Private US Equity	10.00%	6.65%
Specialty Credit/High Yield	15.00%	3.90%
Liquidity	**14.50%**	
Core Bonds	13.50%	(0.25)%
Cash	1.00%	(0.75)%
Diversifying Strategies	**23.00%**	
Real Estate	5.00%	5.30%
Opportunistic	3.00%	2.25%

Real Return	15.00%	3.95%
Total	**100.00%**	**3.96%**

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

Sensitivity of the District's proportionate share of the net pension liability to changes in the discount rate: 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 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 (5.25%) or 1-percentage-point higher (7.25%) than the current rate:

2021	1% Decrease (5.25%)	Current discount rate (6.25%)	1% Increase (7.25%)
District's proportionate share of the net pension liability	$ 1,562,479	$ 1,266,994	$ 1,022,321

2020	1% Decrease (5.25%)	Current discount rate (6.25%)	1% Increase (7.25%)
District's proportionate share of the net pension liability	$ 1,464,415	$ 1,170,861	$ 926,187

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 publicly available at https://kyret.ky.gov.

Payables to the pension plan: At June 30, 2021 and 2020, there was a total payable to the CERS pension plan of $7,165 and $6,037, respectively.

(9) OTHER POSTEMPLOYMENT BENEFIT ("OPEB") PLANS

County Employees Retirement System Insurance Fund

Plan description: The County Employees Retirement System ("CERS") Insurance Fund was established to provide post-employment healthcare benefits to eligible members and dependents. The CERS 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 provided: 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 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 premium.

Percentage of contribution ranges from 0% for less than 4 years of service to 100% for 20 years or more of service. For members who initiated participation in the CERS system after 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 plans. Non-hazardous retirees receive $10 toward the monthly premium for each full year of service.

Contributions: CERS allocates a portion of the employer contributions to the health insurance benefit plans. For the year ending June 30, 2021, CERS allocated 4.76% of the 24.06% actuarially required contribution rate paid by employers for 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, 2021 and 2020, the District contributed $21,824 and $20,142, respectively, to the CERS Insurance Fund. The contribution requirements of CERS are established and may be amended by the CERS Board of Trustees.

Implicit Subsidy: The fully-insured premiums KRS pays for the Kentucky Employees' Health Plan are blended rates based on the combined experience of active and retired members. Because the average cost of providing health care benefits to retirees under age 65 is higher than the average cost of providing health care benefits to active employees, there is an implicit employer subsidy for the non-Medicare eligible retirees. This implicit subsidy is included in the calculation of the total OPEB liability.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to CERS Insurance Fund

At June 30, 2021, the District reported a liability for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2020. The total OPEB liability used to calculate the net OPEB liability was based on an actuarial valuation as of June 30, 2019. An expected total pension liability as of June 30, 2020 was determined using standard roll-forward techniques. The District's proportion of the net OPEB liability was based on contributions to CERS during the fiscal year ended June 30, 2020. At June 30 2020 and 2019, the District's proportion was 0.016515% and 0.016644%, respectively.

For the year ended June 30, 2021, the District recognized OPEB expense of $55,541, including an implicit subsidy of $8,299. At June 30, 2021, the District reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

2021	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 66,629	$ 66,681
Changes of assumptions	69,365	422
Net difference between projected and actual earnings on investments	13,255	-
Changes in proportion and differences between District contributions and proportionate share of contributions	13,405	5,625
District contributions subsequent to the measurement date	21,824	-
	$ 184,478	$ 72,728

Of the total amount reported as deferred outflows of resources related to OPEB, $21,824 resulting from District contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the collective net OPEB liability in the year ended June 30, 2022.

Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed five year period. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB are amortized over the average service life of all members. These will be recognized in OPEB expense as follows:

Year		
2022	$	23,391
2023		27,314
2024		19,796
2025		19,542
2026		(117)
Thereafter		-
	$	89,926

For the year ended June 30, 2020, the District recognized OPEB expense of $32,940, including an implicit subsidy of $4,868. At June 30, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

2020	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 84,466
Changes of assumptions	82,838	554
Net difference between projected and actual earnings on investments	-	12,434
Changes in proportion and differences between District contributions and proportionate share of contributions	16,544	3,744
District contributions subsequent to the measurement date	20,142	-
	$ 119,524	$ 101,198

Of the total amount reported as deferred outflows of resources related to OPEB, $20,142 resulting from District contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the collective net OPEB liability in the year ended June 30, 2021.

Actuarial Methods and Assumptions: The total OPEB liability in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	June 30, 2019
Measurement Date	June 30, 2020
Experience Study	July 1, 2013 - June 30, 2018
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Pay
Remaining Amortization Period	24 Years, Closed
Payroll Growth Rate	2.00%
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30%
Salary Increase	3.30% to 10.30%, varies by service
Investment Rate of Return	6.25%
Healthcare Trend Rates	
Pre-65	Initial trend starting at 6.40% at January 1, 2022 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years
Post-65	Initial trend starting at 2.90% at January 1, 2022 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years

Mortality	
Pre-retirement	PUB-2010 General Mortality table, for the Non-Hazardous Systems, and the PUB-2010 Public Safety Mortality table for the Hazardous Systems, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010
Post-retirement (non- disabled)	System-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019
Post-retirement (disabled)	PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010

As a result of the 2018 experience study, the salary increase assumptions, retirement rate assumptions, mortality assumptions, withdrawal rates, and rates of disablement were updated for the 2019 actuarial valuation.

The assumed increase in future health care costs, or trend assumption, was reviewed during the June 30, 2019 valuation process and was updated to better reflect more current expectations relating to anticipated future increases in the medical costs. The anticipated savings from the repeal of the "Cadillac Tax" and "Health Insurer Fee", which occurred in December 2019 are reflected in the June 30, 2020 GASB 75 actuarial information. The assumed load on pre-Medicare premiums to reflect the cost of the Cadillac Tax was removed and the Medicare premiums were reduced by 11% to reflect the repeal of the Health Insurer Fee.

Senate Bill 249 passed during the 2020 legislative session and changed the funding period for the amortization of the unfunded liability to 30 years as of June 30, 2019. Gains and losses incurring in future years will be amortized over separate 20-year amortization bases. This change does not impact the calculation of the Total OPEB Liability and only impacts the calculation of the contribution rates that would be payable starting July 1, 2020.

The long-term expected rate of return was determined by using a building-block method in which best-estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. The target allocation and best estimates of arithmetic real rate of return for each major asset class are summarized in the below tables.

The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by CERS's investment consultant, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Growth	**62.50%**	
US Equity	18.75%	4.50%
Non-US Equity	18.75%	5.25%
Private US Equity	10.00%	6.65%
Specialty Credit/High Yield	15.00%	3.90%
Liquidity	**14.50%**	
Core Bonds	13.50%	(0.25)%
Cash	1.00%	(0.75)%
Diversifying Strategies	**23.00%**	

Real Estate	5.00%	5.30%
Opportunistic	3.00%	2.25%
Real Return	15.00%	3.95%
Total	**100.00%**	**3.96%**

Discount rate: The discount rate used to measure the total OPEB liability was 5.34% and 5.68%, respectively. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 2.45%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2020. However, the cost associated with the implicit employer subsidy was not included in the calculation of the KRS' actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the KRS' trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

The following table presents the District's proportionate share of the collective net OPEB liability of the System, calculated using the discount rate of 5.34% and 5.68%, respectively, as well as what the District's proportionate share of the collective net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.34%) and (4.68%), respectively or 1-percentage-point higher (6.34%) and (6.68%), respectively than the current rate:

2021	1% Decrease (4.34%)	Current discount rate (5.34%)	1% Increase (6.34%)
District's proportionate share of the net OPEB liability	$ 512,324	$ 398,787	$ 305,535

2020	1% Decrease (4.68%)	Current discount rate (5.68%)	1% Increase (6.68%)
District's proportionate share of the net OPEB liability	$ 375,011	$ 279,945	$ 201,617

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

2021	1% Decrease	Current trend rate	1% Increase
District's proportionate share of the net OPEB liability	$ 308,761	$ 398,787	$ 508,036

2020	1% Decrease	Current trend rate	1% Increase
District's proportionate share of the net OPEB liability	$ 208,196	$ 279,945	$ 366,948

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

Payables to the OPEB plan: At June 30, 2021 and 2020, there was a total payable to the CERS OPEB plan of $1,767 and $1,489, respectively.

(10) COMMITMENTS AND CONTINGENCIES

On January 30, 2020, the World Health Organization ("WHO") announced a global health emergency because of a new strain of coronavirus (the "COVID-19 outbreak") and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the District's financial condition. Management is actively monitoring the global situation on its financial condition. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the District is not able to estimate the effects of the COVID-19 outbreak on its future financial condition.

(10) SUBSEQUENT EVENT

On October 20, 2021, the District issued Financing Program Revenue Bonds, Series 2021E in the amount of $1,225,000 for the purpose of refunding the Series 2003A Bonds. The refunding resulted in a net present value cash flow savings of $254,781.

REQUIRED SUPPLEMENTARY INFORMATION

SANITATION DISTRICT NO. 4 OF BOYD COUNTY, KENTUCKY
SCHEDULE OF DISTRICT'S PROPORTIONATE
SHARE OF THE NET PENSION AND OPEB LIABILITY
FOR THE YEAR ENDED JUNE 30, 2021

	Reporting Fiscal Year (Measurement Date) 2021 (2020)	Reporting Fiscal Year (Measurement Date) 2020 (2019)	Reporting Fiscal Year (Measurement Date) 2019 (2018)	Reporting Fiscal Year (Measurement Date) 2018 (2017)	Reporting Fiscal Year (Measurement Date) 2017 (2016)	Reporting Fiscal Year (Measurement Date) 2016 (2015)	Reporting Fiscal Year (Measurement Date) 2015 (2014)
COUNTY EMPLOYEES RETIREMENT SYSTEM - PENSION:							
District's proportion of the net pension liability	0.016519%	0.016648%	0.015457%	0.015670%	0.015270%	0.016140%	0.014491%
District's proportionate share of the net pension liability	$ 1,266,994	$ 1,170,861	$ 941,378	$ 917,155	$ 751,596	$ 693,823	$ 470,000
District's covered payroll	$ 423,140	$ 419,932	$ 383,101	$ 381,498	$ 254,215	$ 272,666	$ 332,446
District's proportionate share of the net pension liability as a percentage of its covered payroll	299.427%	278.821%	245.726%	240.409%	295.654%	254.459%	141.376%
Plan fiduciary net position as a percentage of the total pension liability	47.810%	50.450%	53.540%	53.300%	55.500%	59.970%	66.800%
COUNTY EMPLOYEES RETIREMENT SYSTEM - OPEB:							
District's proportion of the net OPEB liability	0.016515%	0.016644%	0.015456%	0.015670%			
District's proportionate share of the net OPEB liability	$ 398,787	$ 279,945	$ 274,418	$ 315,000			
District's covered payroll	$ 423,140	$ 419,932	$ 383,101	$ 381,498			
District's proportionate share of the net OPEB liability as a percentage of its covered payroll	94.245%	66.664%	71.631%	82.569%			
Plan fiduciary net position as a percentage of the total OPEB liability	51.670%	60.440%	57.620%	53.300%			

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

SANITATION DISTRICT NO. 4 OF BOYD COUNTY, KENTUCKY
SCHEDULE OF PENSION AND OPEB CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2021

	2021	2020	2019	2018	2017	2016	2015	2014
COUNTY EMPLOYEES RETIREMENT SYSTEM - PENSION:								
Contractually required contribution	$ 88,490	$ 81,666	$ 68,113	$ 55,473	$ 53,219	$ 31,573	$ 34,765	$ 45,678
Contributions in relation to the contractually required contribution	88,490	81,666	68,113	55,473	53,219	31,573	34,765	45,678
Contribution deficiency (excess)	-	-	-	-	-	-	-	-
District's covered payroll	$ 458,497	$ 423,140	$419,932	$383,101	$381,498	$254,215	$272,666	$332,446
District's contributions as a percentage of its covered payroll	19.30%	19.30%	16.22%	14.48%	13.95%	12.42%	12.75%	13.74%

	2021	2020	2019	2018	2017
COUNTY EMPLOYEES RETIREMENT SYSTEM - OPEB:					
Contractually required contribution	$ 21,824	$ 20,142	$ 22,088	$ 18,006	$ 18,045
Contributions in relation to the contractually required contribution	21,824	20,142	22,088	18,006	18,045
Contribution deficiency (excess)	-	-	-	-	-
District's covered payroll	$ 458,497	$ 423,140	$419,932	$383,101	$381,498
District's contributions as a percentage of its covered payroll	4.76%	4.76%	5.26%	4.70%	4.73%

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

(1) CHANGES OF ASSUMPTIONS

CERS

The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2015:

- The assumed investment rate of return was decreased from 7.75% to 7.50%.
- The assumed rate of inflation was reduced from 3.50% to 3.25%.
- The assumed rate of wage inflation was reduced from 1.00% to 0.75%.
- Payroll growth assumption was reduced from 4.50% to 4.00%.
- The 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 healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.
- The assumed rates of Retirement, Withdrawal and Disability were updated to more accurately reflect experience.

The following changes were made by the Board of Trustees and reflected in the valuation performed as of June 30, 2017:

- Decreased the price inflation assumption to 2.30%.
- Decreased the assumed rate of return to 6.25%.
- Decreased the payroll growth assumption to 2.00%.

The following changes were made by the Board of Trustees and reflected in the valuation performed as of June 30, 2019:

- The assumed salary increase was changed from 4.00% (average) to 3.30%-10.30% (varies by service).
- The mortality table used for pre-retirement is PUB-2010 General Mortality Table, for the Non-Hazardous Systems, and PUB-2010 Public Safety Mortality Table for the Hazardous Systems, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.
- The mortality table used for post-retirement (non-disabled) is a system specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019.
- The mortality table used for post-retirement (disabled) is PUB-2010 Disabled Mortality Table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2010.

Senate Bill 249 passed during the 2020 legislative session and changed the funding period for the amortization of the unfunded liability to 30 years as of June 30, 2019. Gains and losses incurring in future years will be amortized over separate 20-year amortization bases. This change does not impact the calculation of the Total Pension Liability and only impacts the calculation of the contribution rates that would be payable starting July 1, 2020. There were no other material plan provision changes.

(2) METHOD AND ASSUMPTIONS USED IN CALCULATIONS OF ACTUARIALLY DETERMINED CONTRIBUTIONS

CERS

The following actuarial methods and assumptions were used to determine the actuarially determined contribution rates reported in the most recent year of that schedule:

Experience Study	July 1, 2013 – June 30, 2018
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll
Remaining Amortization Period	25 years, closed
Payroll growth	2.00%
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30%
Salary Increase	3.30% to 11.55%, varies by service
Investment Rate of Return	6.25%, net of pension plan investment expense, including inflation
Mortality	RP-2000 Combined Mortality Table, projected to 2013 with Scale BB (set back 1 year for females)

(3) CHANGES OF BENEFITS

CERS

During the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. Benefits paid to the spouses of deceased members have been increased from 25% of the member's final rate of pay to 75% of the member's average pay. If the member does not have a surviving spouse, benefits paid to surviving dependent children have been increased from 10% of the member's final pay rate to 50% of average pay for one child, 65% of average pay for two children, or 75% of average pay for three children. The Total Pension Liability as of June 30, 2019 is determined using these updated benefit provisions.

(1) CHANGES OF ASSUMPTIONS

CERS Insurance Fund

The following changes were made by the Board of Trustees and reflected in the valuation performed as of June 30, 2017:

- Decreased the price inflation assumption to 2.30%
- Decreased the assumed rate of return to 6.25%
- Decreased the payroll growth assumption to 2.00%.

The following changes were made by the Board of Trustees and reflected in the valuation performed as of June 30, 2019:

- The assumed salary increase was changed from 4.00% (average) to 3.30%-10.30 % (varies by service.)
- The mortality table used for pre-retirement is PUB-2010 General Mortality Table, for the Non-Hazardous Systems, and PUB-2010 Public Safety Mortality Table for the Hazardous Systems, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.
- The mortality table used for post-retirement (non-disabled) is a system specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019.
- The mortality table used for post-retirement (disabled) is PUB-2010 Disabled Mortality Table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2010.

Senate Bill 249 passed during the 2020 legislative session and changed the funding period for the amortization of the unfunded liability to 30 years as of June 30, 2019. Gains and losses incurring in future years will be amortized over separate 20-year amortization bases. This change does not impact the calculation of the Total OPEB Liability and only impacts the calculation of the contribution rates that would be payable starting July 1, 2020. There were no other material plan provision changes.

(2) METHOD AND ASSUMPTIONS USED IN CALCULATIONS OF ACTUARIALLY DETERMINED CONTRIBUTIONS

CERS Insurance Fund

The following actuarial methods and assumptions, for actuarially determined contributions effective for fiscal year ending June 30, 2020:

Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Pay
Remaining Amortization Period	25 Years, Closed
Payroll Growth Rate	2.00%
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30%

Salary Increase	3.30% to 11.55%, varies by service
Investment Rate of Return	6.25%
Healthcare Trend Rates	
Pre-65	Initial trend starting at 7.00% at January 1, 2020 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years
Post-65	Initial trend starting at 5.00% at and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years
Mortality	RP-2000 Combined Mortality Table, projected to 2013 with Scale BB (set back 1 year for females)
Phase-in Provision	Board certified rate is phased into the actuarially determined rate in accordance with HB 362 enacted in 2018 for CERS non-hazardous and hazardous

(3) CHANGES OF BENEFITS

CERS

During the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. The system shall now pay 100% of the insurance premium for spouses and children of all active members who die in the line of duty. The total OPEB liability as of June 30, 2019, is determined using these updated benefit provisions.

SUPPLEMENTAL INFORMATION

SANITATION DISTRICT NO. 4 OF BOYD COUNTY, KENTUCKY
SCHEDULES OF OPERATING EXPENSES
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

	2021	2020
Treatment expenses:		
Treatment	$ 2,003,532	$ 1,953,750
Wages	456,074	475,830
Chemicals	219,433	218,244
Employee benefits	403,538	371,575
Utilities	168,561	160,215
Repairs	157,599	110,558
Surcharges	86,438	72,789
Payroll taxes	30,503	32,876
Fuel	14,033	12,840
Miscellaneous	3,910	2,718
Billing services	33,736	14,353
Equipment Rental	6,096	4,041
Laboratory costs	10,544	9,474
Contract labor	3,330	3,120
Total treatment expenses	$ 3,597,327	$ 3,442,383
Administration expenses:		
Bad debt expense	$ 55,549	$ 35,787
Insurance	39,033	39,059
Legal and professional	35,835	39,283
Office supplies	20,902	13,508
Postage and delivery	16,682	16,814
Directors fees	16,200	14,275
Bank charges	11,123	10,631
Miscellaneous	(7,552)	9,631
Dues and subscriptions	888	912
Training expense	750	1,266
Meals and entertainment	925	953
Bond expense	3,216	5,186
Advertising	-	792
Total administrative expenses	$ 193,551	$ 188,097

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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 *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Sanitation District No. 4
of Boyd County, Kentucky
Ashland, 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 *Government 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 (the "District") as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 8, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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.

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 material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a material weakness (see 2021-001).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from 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 amounts. 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 matters that are required to be reported under *Government Auditing Standards*.

District's Response to Findings

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

Kelley Galloway Smith Goolsby, PSC

Ashland, Kentucky
January 8, 2022

SANITATION DISTRICT NO. 4 OF BOYD COUNTY, KENTUCKY

SCHEDULE OF FINDINGS AND RESPONSES

FOR THE YEAR ENDED JUNE 30, 2021

(A) SUMMARY OF AUDIT RESULTS

- The auditor's report expresses an unmodified opinion on the financial statements of the Sanitation District No. 4 of Boyd County, Kentucky.
- A material weakness relating to the audit of the financial statements is reported in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*.
- No instances of noncompliance material to the financial statements of Sanitation District No. 4 of Boyd County, Kentucky were disclosed during the audit.

(B) FINDINGS RELATING TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS

SEGREGATION OF DUTIES (Finding 2021-001)

Condition: Due to the limited number of employees, an adequate segregation of duties has not been established. Specifically, one individual has duties relating to cash receipts, cash disbursements, payroll, and all other accounting and recording activities.

Criteria: Effective internal controls would dictate that many of these functions be separated and the board oversee all cash accounts in order to adequately protect the District's assets.

Effect: An improper segregation of duties can subject the District to intentional or unintentional losses due to errors or irregularities.

Recommendation: The District should continue to review the internal control structure and segregate duties wherever possible. Additionally, the activity in all cash accounts should be reviewed by the board.

Management's Response and Corrective Action: Management and the Board of Directors will remain aware of the integrity of the employees and provide appropriate supervision.