

EXHIBIT D

Financial Statements and
Required Supplementary Information

2015

Bullitt County Sanitation District

June 30, 2015



Strothman+Co

Financial Statements and
Required Supplementary Information

Bullitt County Sanitation District

June 30, 2015

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Independent Auditors' Report

To the Board of Commissioners
Bullitt County Sanitation District
Hillview, Kentucky

Report on the Financial Statement

We have audited the accompanying financial statements of the business-type activities of Bullitt County Sanitation District (the "District"), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's 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.

Auditors' 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 auditors' 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 auditors consider 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 opinion.

Opinion

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 the Bullitt County Sanitation District as of June 30, 2015, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management of the District has omitted the management discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board ("GASB"), 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. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on page 18 and the pension liability and contributions information on pages 19 and 20 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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 a report dated June 29, 2016, on our consideration of the District'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 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 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.

Strothman and Company

Jeffersonville, Indiana
June 29, 2016

Statement of Net Position

Bullitt County Sanitation District

June 30, 2015

Assets and Deferred Outflows of Resources

Current Assets

Cash	\$ 13,960
Accounts receivable	244,474

Total Current Assets 258,434

Noncurrent Assets

Cash - restricted	51,666
Capital Assets, net of accumulated depreciation	2,378,107
Debt issuance costs, net of amortization	60,604

Total Noncurrent Assets 2,490,377

Deferred Outflows of Resources

Deferred pension contributions after measurement date	48,736
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Total Assets and Deferred Outflows of Resources \$ 2,797,547

Liabilities and Net Position

Current Liabilities

Accounts payable	\$ 321,227
Payroll liabilities	20,228
Current maturities of bonds and notes payable	73,344

Total Current Liabilities 414,799

Noncurrent Liabilities

Unfunded pension liability	386,000
Bonds and notes payable	1,703,514

Total Noncurrent Liabilities 2,089,514

Total Liabilities 2,504,313

Deferred Inflows of Resources

Differences between projected and actual earnings on pension plan	43,000
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Total Liabilities and Deferred Inflows of Resources \$ 2,547,313

Net Position

Investment in capital assets, net of related debt	\$ 661,853
Restricted	51,666
Unrestricted	(463,285)

Total Net Position \$ 250,234

See Notes to Financial Statements

Statement of Revenues, Expenses and Changes in Net Position

Bullitt County Sanitation District

Year Ended June 30, 2015

Operating Revenues	
Sewer service fees	\$ 1,379,001
Impact fees	<u>39,343</u>
Total Operating Revenues	1,418,344
Operating Expenses	
Chemicals	15,899
Collection system maintenance	79,733
Contract labor	83,021
Lab testing fee	128,752
Utilities	226,244
Salaries and wages	325,031
Motor vehicle expense	85,789
Depreciation	306,453
Hospitalization insurance	66,256
Insurance	99,145
Legal and professional services	23,838
Sludge disposal	80,550
Office expense	5,685
Licenses and permits	12,120
Equipment rent	1,288
Payroll taxes	44,917
Postage	1,529
Telephone	11,041
Maintenance and repairs	69,188
Amortization	6,562
Miscellaneous	<u>35,549</u>
Total Operating Expenses	<u>1,708,590</u>
	Operating Loss (290,246)
Non-Operating Revenues (Expenses)	
Miscellaneous income	40,365
Hunters Hollow Grant	125,000
Bank charges	(444)
Interest expense	<u>(70,194)</u>
Total Non-Operating Revenues (Expenses)	<u>94,727</u>
	Change in Net Position (195,519)
Total Net Position - Beginning, as restated	<u>445,753</u>
Total Net Position - Ending	<u>\$ 250,234</u>

See Notes to Financial Statements

Statement of Cash Flows

Bullitt County Sanitation District

Year Ended June 30, 2015

Cash Flows From Operating Activities

Receipts from customers	\$ 1,414,168
Payments to suppliers	(903,166)
Payments to employees	(318,151)
Receipts from other activities	<u>168,732</u>

Net Cash Provided By Operating Activities 361,583

Cash Flows From Capital and Related Financing Activities

Debt issuance costs	
Purchase of capital assets	(292,882)
Principal paid on bonds and notes payable	(74,760)
Interest paid on bonds and notes payable	<u>(70,194)</u>

Net Cash Used In Capital and Related Financing Activities (437,836)

Net Decrease in Cash (76,253)

Cash Beginning of Year 141,879

Cash Beginning of Year \$ 65,626

Shown in the financial statements as:

Cash	\$ 13,960
Restricted cash	<u>51,666</u>

Total Cash \$ 65,626

Reconciliation of Operating Loss to Net Cash Provided by Operating Activities

Operating Loss \$ (290,246)

Adjustments to reconcile operating loss to net cash provided by operating activities

Depreciation expense	306,453
Other receipts	164,921
Amortization expense	6,562
Change in Assets and Liabilities	
Receivables, net	(4,176)
Other current assets	3,811
Deferred outflows	2,821
Accounts payable	167,378
Payroll liabilities	12,059
Deferred inflows	43,000
Unfunded pension liability	<u>(51,000)</u>

Net Cash Provided By Operating Activities \$ 361,583

See Notes to Financial Statements

Bullitt County Sanitation District

June 30, 2015

Note A--Summary of Significant Accounting Policies

Reporting Entity--The Bullitt County Sanitation District (the "District") is a special district established by ordinance of Bullitt County Fiscal Court on April 1, 1997 pursuant to KRS Chapter 67.715 and implemented in accordance with KRS Chapter 220. The District is supervised and managed by three board members with staggered 4 year terms, who are appointed by the Bullitt County Fiscal Court. Collection and disposal of sewage and other liquid waste are performed within the boundaries of Bullitt County so as to prevent and reduce pollution of streams and provide for the general public health, safety, and welfare.

The District's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The Governmental Accounting Standards Board ("GASB") is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board ("FASB") issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements.

Financial Statements-Fund Financial Statements--The financial transactions of the District are reported as a single fund, accounted for by a separate set of self-balancing accounts that comprise its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses. The District uses the following fund type:

Proprietary Funds

The focus of proprietary fund measurement is based upon determination of operating income, changes in net assets, financial position and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. The District is an Enterprise fund which is required to account for operations for which a fee is charged to external users for goods and services and the activity (a) is financed with debt that is solely secured by a pledge of the net revenues, (b) has third party requirements that the cost of providing services, including capital costs, be recovered with fees and charges or (c) establishes fees and charges based on a pricing policy.

Proprietary funds distinguish operating revenues and expenses from non-operating revenue items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District are fees charged to customers for the disposal of sewage and other liquid waste; and related connection fees. Operating expenses include the cost of sales, wages, operating and administrative expenses and depreciation of capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenues and expenses.

Basis of Accounting--Basis of accounting refers to the point at which revenues or expenditures are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied. The accounting records are maintained on the accrual basis of accounting. Using this method, revenues are recognized when earned and expenditures are recognized when incurred.

Continued

Bullitt County Sanitation District

June 30, 2015

Note A--Summary of Significant Accounting Policies--Continued

Cash and Cash Equivalents--For purposes of reporting cash flows, the District considers all cash on hand, cash accounts which are not subject to withdrawal restrictions or penalties and certificates of deposit with original maturities of 90 days or less to be cash or cash equivalents. All cash accounts are insured and collateralized.

Restricted Cash and Investments--The District is required by various bond agreements and ordinances to restrict cash amounts as mandated to meet funding requirements by those agreements and ordinances. The policy of the District regarding improvements, expansion and major renovation projects is to restrict an amount of cash to adequately fund the projects. As of June 30, 2015, the District had restricted cash and investment in the amount of \$51,666.

Capital Assets--Capital assets purchased or acquired are reported at historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. The District maintains a capitalization threshold of \$1,000. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over their useful lives ranging from 5 to 50 years.

Impairment of Capital Assets--In accordance with GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, management evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Such events or changes in circumstances that may be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations, other changes in environmental factors, technology changes or evidence of obsolescence, changes in the manner of duration of use of a capital assets and construction stoppage. A capital asset is generally considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstance is outside the normal life cycle of the capital asset. No impairment losses were recognized in the year ended June 30, 2015.

Revenues--All revenues are accrued when earned. Service charges are billed monthly through Louisville Water Company and collected in the following month. Grants to proprietary funds, which finance either capital or current operations, are reported as non-operating revenue based on GASB No. 33. In applying GASB No. 33 to grant revenues, the provider recognizes liabilities and expenses and the recipient recognizes receivables and revenues when the applicable eligibility requirements, including time requirements, are met. Resources transmitted before the eligibility requirements have been met are reported as advances by the provider and as deferred revenue by the recipient.

Expenditures--Expenses are recognized when incurred. Inventory costs if any are reported in the period when the inventory items are used, rather than in the period purchased.

Bond Issuance Costs--Bond issue costs are capitalized and amortized over the life of the respective bond issue using the straight-line method, which approximates the effective interest method, pursuant to the election of regulatory operation under GASB 62, as they are deemed recoverable through future rates.

Continued

Bullitt County Sanitation District

June 30, 2015

Note A--Summary of Significant Accounting Policies--Continued

Compensated Absences--After completion of one year of continuous service each full-time regular employee is granted vacation benefits in varying amounts to specified maximum depending on their tenure. Employees earn three days of vacation time per year for each year of employment between years one and ten, five days per year for years eleven to fifteen, and ten days per year for each year after fifteen years. Employees may not carry over unused vacation from one calendar year to the next. Any unused hours at the end of a calendar year will roll over into sick time. All vacation time is paid at the employee's regular rate of pay. Upon separation, an employee who has been employed for at least six continuous months shall receive pay for the unused balance of his/her accrued vacation leave.

Estimates--The preparation of financial statements in accordance with generally accepted accounting principles requires the District's management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosures at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events--In preparing these financial statements, management of the District evaluated events and transactions for potential recognition or disclosure through June 29, 2016, the date the financial statements were available to be issued.

Note B--Deposits

The District's maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation ("FDIC") in accordance with KRS 66.480(1Xd). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the District and the depository institution, signed by both parties, that is (a) in writing. (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The District does not have a collateral security agreement with the depository institution because deposits have been historically well below FDIC threshold.

Custodial Credit Risk - Deposits--Custodial credit risk is the risk that in the event of a depository institution failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2015, all deposits were covered by FDIC insurance.

Bullitt County Sanitation District

June 30, 2015

Note C--Accounts Receivable and Bad Debts

Accounts receivable consist of amounts due from Louisville Water Company for service fees and amounts due from individuals related to services provided. Management allows for estimated losses on accounts receivable based on prior bad debt experience and a review of existing receivables. Uncollectible accounts receivable are charged against the allowance account when management determines that collections on the account are doubtful. No allowance for doubtful accounts has been recorded for the year ended June 30, 2015.

Note D--Capital Assets

Plant and equipment are stated at cost less accumulated depreciation. Depreciation has been provided over the estimated useful lives of the assets on the straight-line method of cost allocation. Maintenance, repairs and minor replacements are charged to expense as incurred; major renewals and betterments are capitalized. Depreciation is computed over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Wastewater Treatment Plants	5-40 years
Automobiles	4-5 years
Computer and equipment	4-5 years

At June 30, 2015, capital assets consisted of the following:

	<u>Balance</u> <u>July 1, 2014</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>June 30, 2015</u>
Wastewater Treatment Plants:				
Pioneer Village	\$ 417,521			\$ 417,521
Bullitt Hills	1,004,631			1,004,631
Hillview Plant 1	888,988	\$ 27,790		916,778
Hillview Plant 2	1,693,389	6,158		1,699,547
Hillview Plant 3	777,443			777,443
Willabrook	1,298,864			1,298,864
Big Valley		102,592		102,592
Plant Construction in Progress	102,592	258,934	\$ (102,592)	258,934
Automobiles	173,012			173,012
Computer and equipment	50,551			50,551
	<u>6,406,991</u>	<u>395,474</u>	<u>(102,592)</u>	<u>6,699,873</u>
Less accumulated depreciation	<u>(4,015,313)</u>	<u>(306,453)</u>		<u>(4,321,766)</u>
Total Capital Assets, net	<u>\$ 2,391,678</u>	<u>\$ 89,021</u>	<u>\$ (102,592)</u>	<u>\$ 2,378,107</u>

Notes to Financial Statements--Continued

Bullitt County Sanitation District

June 30, 2015

Note E--Bond and Notes Payable

Bonds and notes payable at June 30, 2015 consist of the following:

Kentucky Rural Water Finance Corporation	
Revenue Bonds:	
Series 2010D	\$ 365,000
Series 2013E	585,000
Notes Payable:	
Notes Payable to Kentucky Infrastructure Authority	
Loan # B 10-01	401,391
Loan # B 10-04	422,304
Loan # B 13-002	<u>3,163</u>
	1,776,858
Less current portion	<u>73,344</u>
	<u><u>\$ 1,703,514</u></u>

Kentucky Rural Water Finance Corporation Flexible Term Finance Program Series 2010D--On November 4, 2010, the District entered a financing obligation agreement with KRWFC for the purchase of various improvements and equipment. Principal amount is \$430,000, interest rate varies from .6% to 4.0% and term is 20 years with monthly interest and principal payments.

Kentucky Rural Water Finance Corporation Public Revenue Bonds Series 2013E--On August 13, 2013, the District entered a financing obligation agreement with KRWFC for the purchase of various improvements and equipment. Principal amount is \$595,000, interest rate varies from 2.5% to 5.25% and term is 30 years with monthly interest and principal payments.

Kentucky Infrastructure Authority Loan # B10-01--On July 1, 2010, the District entered a financing obligation agreement with Kentucky Infrastructure Authority ("KIA") for the purchase of the Pioneer Village Waste Water Treatment Plant. Principal amount is \$500,000, interest rate is 3.0% and term is 20 years. Semi annual payments of principal and interest are due December 1 and June 1.

Kentucky Infrastructure Authority Loan # B10-04--On November 1, 2010, the District entered a financing obligation agreement with KIA for the purchase and relocation of the Willabrook Waste Water Treatment Plant. Principal amount is \$500,000, interest rate is 3.00% and term is 20 years. Semi annual payments of principal and interest are due December 1 and June 1.

Continued

Notes to Financial Statements--Continued

Bullitt County Sanitation District

June 30, 2015

Note E--Bond and Notes Payable--Continued

Kentucky Infrastructure Authority Loan #B13-002--During August, 2013, the District received the proceeds of a financing obligation agreement with KIA to upgrade the Big Valley sewage treatment system. The original principal amount was \$89,217, with all but \$4,461 to be forgiven. The unforgiven amount is to be paid in semi-annual installments over five years at an interest rate of 1.75%.

Aggregate principal maturities of bonds and notes payable are as follows:

	<u>Bonds Payable</u>	<u>Notes Payable</u>	<u>Total</u>	<u>Interest</u>
<u>Year Ending June 30</u>				
2016	\$ 30,000	\$ 43,344	\$ 73,344	\$ 64,091
2017	30,000	44,643	74,643	62,078
2018	30,000	45,981	75,981	59,955
2019	30,000	46,892	76,892	57,726
2020	35,000	47,830	82,830	55,373
2021-2025	180,000	261,730	441,730	237,999
2026-2030	210,000	303,749	513,749	155,923
2031-2035	135,000	32,689	167,689	82,877
2036-2040	135,000		135,000	52,203
2041-2045	135,000		135,000	14,222
	<u>\$ 950,000</u>	<u>\$ 826,858</u>	<u>\$ 1,776,858</u>	<u>\$ 842,447</u>

Note F--Retirement Plan

The District has elected to participate in the County Employees Retirement System ("CERS"), pursuant to KRS 18.530 administered by the Board of Trustees of the Kentucky Retirement Systems. 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.

Nonhazardous covered employees are required to contribute five percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute six percent of their salary to the plan. The District's contribution rate for nonhazardous employees was 17.67 percent for the year ended June 30, 2015.

Continued

Bullitt County Sanitation District

June 30, 2015

Note F--Retirement Plan--Continued

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

CERS also provides post retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

<u>Years of Service</u>	<u>% Paid By Insurance Fund</u>	<u>% Paid by Member through Payroll Deduction</u>
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note G--Prior Period Restatement

The beginning net assets at July 1, 2014 decreased by approximately \$847,000 due to amortization of previous acquisition adjustments not being recorded as an expense each year since 1995, when the original acquisition adjustment was recorded on the books of the District.

Bullitt County Sanitation District

June 30, 2015

Note H--Retirement Plan Changes Under GASB No. 68

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, an amendment of GASB Statement No. 27. GASB Statement No. 68 addresses accounting and financials for pensions that are provided to the employees through trusts that have defined characteristics.

This statement establishes standards for measuring and recognizing liabilities, deferred outflows/inflows of resources and expenses/expenditures. For defined benefit pensions, this statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to the periods of employ services. In addition, this statement details the recognition and disclosure requirements for employers with liabilities to a defined pension plan.

This pronouncement will be mandatory for fiscal periods beginning after June 15, 2015. The data from County Employees Retirement System ("CERS") related to this implementation will have a material effect on the District's financial statements.

General Information about the County Employees Retirement System Non-Hazardous

Plan Description--Employees whose positions do not require a degree beyond a high school diploma are covered by the CERS, a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. Under the provisions of KRS Section 61.645, the Board of Trustees of the Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained from <http://kyret.ky.gov/>.

Benefits Provided--CERS provides retirement, health insurance, death and disability benefits to Plan employees and beneficiaries. Employees are vested in the Plan after five years' service. For retirement purposes, employees are grouped into three tiers, based on hire date:

Tier 1	Participation Date Unreduced retirement Reduced retirement	Before September 1, 2008 27 years service or 65 years old At least 5 years service and 55 years old At least 25 years service and any age
Tier 2	Participation date Unreduced retirement	September 1, 2008 - December 31, 2013 At least 5 years service and 65 years old Or age 57+ and sum of service years plus age equal 87 At least 10 years service and 60 years old
Tier 3	Participation date Unreduced retirement Reduced retirement	After December 31, 2013 At least 5years service and 65 years old Or age 57+ and sum of service years plus age equal 87 Not available

Continued

Bullitt County Sanitation District

June 30, 2015

Note H--Retirement Plan Changes Under GASB No. 68--Continued

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years' service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits.

Contributions--Required contributions by the employee are based on the tier:

	<u>Required contribution</u>
Tier 1	5%
Tier 2	5% + 1% for insurance
Tier 3	5% + 1% for insurance

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

At June 30, 2015, the District reported a liability of \$386,000 for its proportionate share of the net pension liability for CERS.

The net pension liability was measured as of June 30, 2014, 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 for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2014, the District's proportion was .0119% percent.

Continued

Bullitt County Sanitation District

June 30, 2015

Note H--Retirement Plan Changes Under GASB No. 68--Continued

For the year ended June 30, 2015, the District recognized pension expense of \$43,557 (This balance is calculated = change in NPL + deferred inflows + 2014 CERS contributions). At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on pension plan investments		\$ 43,000
District contributions subsequent to the measurement date	<u>\$ 48,736</u>	
Total	<u><u>\$ 48,736</u></u>	<u><u>\$ 43,000</u></u>

\$48,736 reported as deferred outflows of resources related to pensions 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, 2016. Other amounts reported as deferred outflows of resources and deferred inflows related to pensions will be recognized in pension expense as follows:

For the Year Ended June 30:

2016	\$ 8,600
2017	8,600
2018	8,600
2019	8,600
2020	8,600

Actuarial Assumptions--The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	<u>CERS</u>
Inflation	3.50%
Projected salary increases	4.50%
Investment rate of return, net of investment expense and inflation	7.75%

Continued

Bullitt County Sanitation District

June 30, 2015

Note H--Retirement Plan Changes Under GASB No. 68--Continued

For CERS, Mortality rates for the period after service retirement are according to the 1983 Group Annuity Mortality Table for all retired employees and beneficiaries as of June 30, 2006 and the 1994 Group Annuity Mortality Table for all other employees. The Group Annuity Mortality Table set forward five years is used for the period after disability retirement.

For CERS, the long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. The most recent analysis, performed for the period covering fiscal years 2005 through 2008, is outlined in a report dated August 25, 2009. Several factors are considered in evaluating the long-term rate of return assumption 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 covers a longer timeframe. 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.

Discount Rate--For CERS, the discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from plan employees and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.75%. The long-term investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of CERS proportionate share of net pension liability to changes in the discount rate--The following table presents the net pension liability of the District, calculated using the discount rates selected by each pension system, as well as what the District's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
CERS	6.75%	7.75%	8.75%
District's proportionate share of net pension liability	\$ 336,194	\$ 386,000	\$ 435,806

Pension Plan Fiduciary Net Position--Detailed information about the pension plan's fiduciary net position is available in the separately issued financial reports of CERS.

Bullitt County Sanitation District

June 30, 2015

Note I--Change in Accounting Principle and Related Changes to Certain Beginning Balances

Effective July 1, 2014, the District was required to adopt Governmental Accounting Standards Board ("GASB") Statement No. 68, *Accounting and Financial Reporting for Pensions* ("GASB 68"). GASB 68 replaced the requirements of GASB 27, *Accounting for Pensions by State and Local Governmental Employers* and GASB 50, *Pension Disclosures*, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. GASB 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability to more comprehensively and comparably measure the annual costs of pension benefits. Cost-sharing governmental employers, such as the District, are required to report a net pension liability, pension expense and pension-related assets and liabilities based on their proportionate share of the collective amounts for all governments in the plan.

GASB 68 required retrospective application. Since the District only presents one year of financial information, the beginning net position was adjusted to reflect the retrospective application. The adjustment resulted in a decrease of \$385,443 in beginning net position and an increase of \$51,557 of deferred outflows of resources – District contributions subsequent to the measurement date.

Required Supplementary Information

Budgetary Comparison Schedule

Bullitt County Sanitation District

Year Ended June 30, 2015

	<u>Budgeted Amount</u>	<u>Actual Amount</u>	Variance with Final Budget Favorable (Unfavorable)
Operating Revenues			
Utility Operating Income	\$ 1,438,200	\$ 1,418,344	\$ (19,856)
Total Operating Revenues	1,438,200	1,418,344	(19,856)
Operating Expenses			
Chemicals		15,899	(15,899)
Collection system		79,733	(79,733)
Contract labor		83,021	(83,021)
Lab testing fee		128,752	(128,752)
Utilities		226,244	(226,244)
Salaries and wages		325,031	(325,031)
Motor vehicle expense		85,789	(85,789)
Depreciation	290,000	306,453	(16,453)
Hospitalization insurance		66,256	(66,256)
Insurance		99,145	(99,145)
Legal and professional services		23,838	(23,838)
Sludge disposal		80,550	(80,550)
Office expense		5,685	(5,685)
Licenses and permits		12,120	(12,120)
Equipment rent		1,288	(1,288)
Payroll taxes		44,917	(44,917)
Postage		1,529	(1,529)
Telephone		11,041	(11,041)
Maintenance and repairs		69,188	(69,188)
Operation and maintenance expenses	1,307,200		1,307,200
Taxes other than income	25,000		25,000
Miscellaneous		35,549	(35,549)
Total Other Expenses	1,622,200	1,702,028	(79,828)
Operating Loss	(184,000)	(283,684)	(99,684)
Non-Operating Revenues (Expenses)			
Miscellaneous income		40,365	40,365
Hunters Hollow Grant		125,000	125,000
Bank charges		(444)	(444)
Debt issuance cost amortization	(60,000)	6,562	66,562
Interest expense	(46,000)	(70,194)	(24,194)
Total Non-Operating Revenues (Expenses)	(106,000)	101,289	207,289
Change in Net Position	<u>\$ (290,000)</u>	<u>\$ (182,395)</u>	<u>\$ 107,605</u>

See Independent Auditors' Report on Supplementary Information

**Schedule of the District's Proportionate Share of the Net Pension Liability
- County Employees Retirement System Non-Hazardous**

Bullitt County Sanitation District

	<u>2014</u>
Total Net Pension Liability for County Employees Retirement Systems	\$ 3,244,377,000
District's Proportion (Percentage) of Net Pension Liability	0.011897%
District's Proportion (Amount) of Net Pension Liability	\$ 386,000
District's Covered-Employer payroll	\$ 277,599
District's Proportionate Share (Amount) of the Net Pension Liability As a Percentage of District's Covered-Employer Payroll	139.05%
Total Pension Plan's Fiduciary Net Position	\$ 6,528,146,000
Total Pension's Plan Pension Liability	\$ 9,772,523,000
Total Pension Plan's Fiduciary Net Position as a Percentage of Total Pension Liability	66.80%

See Accompanying Independent Auditors' Report

Schedule of the Contributions
- County Employees Retirement System Non-Hazardous

Bullitt County Sanitation District

Last Ten Fiscal Years**

	<u>2014-2015</u>
Actuarially determined contribution	\$ 48,736
Contributions in relation to the actuarially determined contribution	<u>48,736</u>
Contribution deficiency (excess)	<u>\$ -</u>
Covered-employee payroll	\$ 277,599
Contributions as a percentage of covered-employee payroll	17.5562%

** Schedule is intended to show information for ten years. Additional years will be displayed as they become available.

See Accompanying Independent Auditors' Report



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

Board of Commissioners
Bullitt County Sanitation District
Hillview, 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 the Bullitt County Sanitation District (the "District") as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated June 29, 2016.

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 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 controls, 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 preceding paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weakness or, significant deficiencies. Given these limitations, during our 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District'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 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*.

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.

Strothman and Company

Jeffersonville, Indiana
June 29, 2016

Schedule of Prior Year Audit Findings

Bullitt County Sanitation District

June 30, 2015

Reference Number 2014-01

Board Did Not Enact A Budget And File With Fiscal Court

The District did not formulate and enact an annual budget KRS 65.065 requires the District to enact an annual budget and file with Fiscal Court at least 30 days prior to the start of the fiscal year. The statute further prohibits expenditure of funds prior to enacting a budget. This provision will change for the subsequent fiscal year when the online filing requirements of KRS 65A.010 through 65A.090 become effective. We recommend compliance with the new statute.

Management Response: This is correct. An oversight.

Current Year Status: The District is now in compliance with the new online filing requirements.