

GRANT COUNTY SANITARY SEWER DISTRICT

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July 27, 2012

Public Service Commission
P.O. 615
Frankfort, KY 40602



To Whom It May Concern:

A copy of the Grant County Sanitary Sewer District's audited financial statement is enclosed for your review and records.

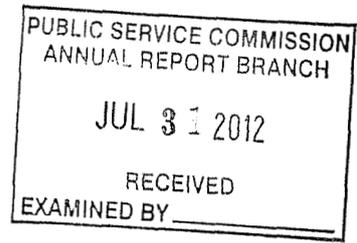
If there are any questions, please feel free to call. Thank you.

Sincerely,

Amy Johnson, Office Manager
Grant County Sanitary Sewer District

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Enclosure



GRANT COUNTY SANITARY SEWER DISTRICT

FINANCIAL STATEMENTS

For the Years Ended December 31, 2011 and 2010

**GRANT COUNTY
SANITARY SEWER DISTRICT
FINANCIAL STATEMENTS**

For the Years Ended December 31, 2011 and 2010

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GRANT COUNTY
SANITARY SEWER DISTRICT
FINANCIAL STATEMENTS
December 31, 2011 and 2010

Board of Commissioners

Bobby Burgess, Chairman

Billy Frank Simpson, Secretary

Charles Givin, Treasurer

Dan Northcutt

Robert Worthington, Jr.

Of Counsel

Thomas R. Nienaber, Esq.

Administration

William L. Catlett, General Manager



Van Gorder, Walker & Co., Inc.
Certified Public Accountants

Charles A. Van Gorder, CPA
John P. Walker, CPA, MBA
Lori A. Owen, CPA
John R. Chamberlin, CPA, MBA
Members of AICPA & KyCPA
Licensed in Kentucky & Ohio

Independent Auditor's Report

To the Board of Commissioners Grant County Sanitary Sewer District

We have audited the accompanying balance sheets of the Grant County Sanitary Sewer District (District) as of December 31, 2011 and 2010 and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform our audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Grant County Sanitary Sewer District as of December 31, 2011 and 2010, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 30, 2012 on our consideration of the Grant County Sanitary Sewer District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. 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* and should be read in conjunction with this report in considering the results of our audits.

The management's discussion and analysis on pages 3-7 and the supplementary schedules on page 19 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Van Gorder, Walker & Company, Inc.
Erlanger, Kentucky
March 30, 2012

GRANT COUNTY SANITARY SEWER DISTRICT BALANCE SHEETS December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 246,684	\$ 347,651
Certificate of deposit	153,423	152,390
Accounts receivable		
Customers, net of allowance	95,587	86,279
Others	2,774	2,698
Restitution receivable - Thurman	1,200	-
Reimbursement receivable - Grant Mobile Home Park	3,600	-
Prepays	3,606	3,281
Accrued interest income	546	101
Unamortized expenses	2,436	3,544
Total Current Assets	<u>509,856</u>	<u>595,944</u>
Restricted Assets		
Bond sinking fund - Kentucky Rural Water	103,807	100,449
Construction funds	36,963	6,638
Customer deposits	79,036	92,816
Grants receivable	-	267,471
Total Restricted Assets	<u>219,806</u>	<u>467,374</u>
Noncurrent Assets		
Restitution receivable - Thurman	8,208	-
Reimbursement receivable - Grant Mobile Home Park	11,035	-
Miscellaneous deferred charges		
Unamortized issue costs	24,557	26,993
Total Noncurrent Assets	<u>43,800</u>	<u>26,993</u>
Capital Assets		
Construction in progress	35,207	1,779,329
Land, building, transmission system, equipment, and vehicles	7,469,823	5,293,205
Less: accumulated depreciation	<u>(1,077,694)</u>	<u>(916,100)</u>
Total Capital Assets, net of depreciation	<u>6,427,336</u>	<u>6,156,434</u>
TOTAL ASSETS	<u>\$ 7,200,798</u>	<u>\$ 7,246,745</u>

The accompanying notes are an integral part of the financial statements.

GRANT COUNTY SANITARY SEWER DISTRICT BALANCE SHEETS December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Current Liabilities		
Accounts payable		
Trade	\$ 56,038	\$ 45,933
Accrued liabilities	1,034	888
Unamortized bond premium	1,402	1,402
Total Current Liabilities	<u>58,474</u>	<u>48,223</u>
Current Liabilities Payable From Restricted Assets		
Revenue bonds - current portion	69,000	64,000
Note payable - current portion	2,648	2,648
Construction accounts payable	85,089	267,471
Customer deposits	62,319	57,744
Accrued interest on customer deposits	-	-
Accrued interest payable	23,554	24,922
Trash collection	5,721	-
Total Current Liabilities Payable From Restricted Assets	<u>248,331</u>	<u>416,785</u>
Long-Term Obligations		
Bonds	1,043,000	1,112,000
Note payable - KIA	141,052	136,052
Unamortized bond premium	14,135	15,537
Total Long-Term Obligations	<u>1,198,187</u>	<u>1,263,589</u>
TOTAL LIABILITIES	<u>1,504,992</u>	<u>1,728,597</u>
NET ASSETS		
Invested in capital assets, net of related debt	5,183,092	4,854,224
Restricted	32,128	82,163
Unrestricted	480,586	581,761
TOTAL NET ASSETS	<u>5,695,806</u>	<u>5,518,148</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 7,200,798</u>	<u>\$ 7,246,745</u>

The accompanying notes are an integral part of the financial statements.

GRANT COUNTY SANITARY SEWER DISTRICT STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS For the Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
OPERATING REVENUES		
User fee revenue	\$ 623,998	\$ 613,285
Other service revenues	12,970	13,074
TOTAL OPERATING REVENUES	<u>636,968</u>	<u>626,359</u>
OPERATING EXPENSES		
Operations and maintenance expense	440,207	384,598
Depreciation and amortization	174,247	160,154
TOTAL OPERATING EXPENSES	<u>614,454</u>	<u>544,752</u>
OPERATING INCOME	<u>22,514</u>	<u>81,607</u>
NON-OPERATING INCOME (EXPENSE)		
Investment income	2,153	4,037
Amortization of bond premium	1,402	1,402
Interest on long-term obligations	(57,722)	(59,158)
Interest on customer deposits	-	(1)
Amortization of debt discount and expense	(2,436)	(2,436)
Loss on disposal of fixed assets	(16,920)	-
NET NON-OPERATING INCOME (EXPENSE)	<u>(73,523)</u>	<u>(56,156)</u>
NET INCOME	(51,009)	25,451
CAPITAL CONTRIBUTIONS	<u>228,667</u>	<u>1,269,993</u>
CHANGE IN NET ASSETS	177,658	1,295,444
NET ASSETS, JANUARY 1	<u>5,518,148</u>	<u>4,222,704</u>
NET ASSETS, DECEMBER 31	<u>\$ 5,695,806</u>	<u>\$ 5,518,148</u>

The accompanying notes are an integral part of the financial statements.

GRANT COUNTY SANITARY SEWER DISTRICT STATEMENTS OF CASH FLOWS For the Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from customers	\$ 603,541	\$ 620,050
Paid to suppliers for goods and services	(425,127)	(360,917)
Paid to or on behalf of employees for services	(5,154)	(5,814)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>173,260</u>	<u>253,319</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition and construction of fixed assets	(640,896)	(1,441,134)
Purchase of investments	(1,033)	(46,054)
Interest on investments	1,708	4,701
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	<u>(640,221)</u>	<u>(1,482,487)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal paid on long term debt	(64,000)	(64,000)
Proceeds received from the issuance of long term debt	5,000	138,700
Interest paid on long term debt	(61,537)	(59,912)
Contributed capital received	228,667	1,002,522
(Increase) Decrease in restricted cash	247,568	235,280
Increase (Decrease) in customer deposits	4,575	(314)
Increase (Decrease) in other restricted liabilities	5,721	-
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>365,994</u>	<u>1,252,276</u>
INCREASE IN CASH AND CASH EQUIVALENTS	(100,967)	23,108
CASH AND CASH EQUIVALENTS-BEGINNING OF YEAR	<u>347,651</u>	<u>324,543</u>
CASH AND CASH EQUIVALENTS-END OF YEAR	<u>\$ 246,684</u>	<u>\$ 347,651</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 22,514	\$ 81,607
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	174,247	160,154
Change in operating assets and liabilities		
(Increase)/Decrease in receivables	(33,427)	(6,309)
(Increase)/Decrease in prepaid assets	(325)	22,891
Increase/(Decrease) in accounts payable	10,105	(5,010)
Increase/(Decrease) in other accrued liabilities	146	(14)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 173,260</u>	<u>\$ 253,319</u>
NON-CASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital assets (transmission mains, hydrants, etc.) contributed to the District	<u>\$ -</u>	<u>\$ -</u>
SUPPLEMENTAL INFORMATION		
Interest paid	<u>\$ (61,537)</u>	<u>\$ (59,912)</u>
Income taxes paid	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of the financial statements.

GRANT COUNTY SANITARY SEWER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2011 and 2010
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NOTE 1 – GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES

The Grant County Sanitary Sewer District (District) is a sanitary sewer utility that was established by the Grant County Fiscal Court on October 2, 2002. It was organized and operates under the provisions of the Kentucky Revised Statutes, Chapters 67 and 74. The District owns and operates sewer collection and treatment facilities that provide sanitary sewer service to residential, commercial, and industrial customers in Grant County, Kentucky. In 2003, the District appointed Commissioners and began negotiations to acquire the necessary assets from the City of Crittenden to begin operations as a sewer utility. On April 23, 2004, the District acquired the cash and infrastructure assets from the City of Crittenden Sewer Department in exchange for assuming the related bond debt and associated unamortized premiums and issue costs.

Regulatory Requirements

The District is subject to the regulatory authority of the Kentucky Public Service Commission (“PSC”) pursuant to KRS 278.040.

Basis of Accounting

The District’s financial statements are presented on the full accrual basis in accordance with accounting principles generally accepted in the United States of America. The District applies all Governmental Accounting Standards Board (GASB) pronouncements as well as Financial Accounting Standards Board (FASB) statements and interpretations, and the Accounting Principles Board (APB) Opinions of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

The District has adopted GASB Statements 33 through 49, and related interpretations issued through December 31, 2011. Statement No. 33 required capital contributions to be recorded in the statement of revenues, expenses and changes in net assets. Statement 34 and subsequent statements and interpretations required certain other changes in terminology, format and content, as well as inclusion of the management’s discussion and analysis as required supplementary information.

All activities of the District are accounted for within a single proprietary (enterprise) reporting entity. Proprietary entities are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expense, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The transactions of the District are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities

GRANT COUNTY SANITARY SEWER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2011 and 2010
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associated with the operations are included on the balance sheet. Net assets (i.e., total assets net of total liabilities) are segregated into "invested in capital assets, net of related liabilities"; "restricted"; and "unrestricted" components.

Cash Equivalents

For purposes of the balance sheets and statement of cash flows, the District considers all unrestricted highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Budgets

In accordance with Kentucky Revised Statute 65.065, the District is required to submit a balanced budget to the Grant County Fiscal Court prior to December 1. The budget includes proposed expenditures and the means of financing them for the upcoming year. Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. Expenditures may not legally exceed budgeted appropriations at the fund level. All appropriations lapse at fiscal year end.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined under the First-In, First-Out (FIFO) method. Market is determined on the basis of estimated realizable market values. The District has no measurable inventory to report at December 31, 2011 and 2010.

Distribution System, Building, and Equipment

Property, plant, collection lines and equipment are recorded at cost and depreciated over their estimated useful lives using the straight line method. Upon sale or retirement, the cost and related accumulated depreciation are removed from the respective accounts and the resulting gain or loss is included in the "Non-Operating Income (Expense)" portion of results of operations.

Miscellaneous Deferred Charges

Bond premiums and costs of issuance are deferred and amortized over the life of the bond. The costs associated with organizing the District have been accumulated and fully amortized as of April 2009. The District also amortizes costs associated with the preparation, filing, and completion of its rate case proceedings.

Capital Contributions

In conformity with the provisions of Governmental Accounting Standards Board Statement No. 33 – *Accounting and Financial Reporting for Non-Exchange Transactions*, amounts related to customer contributions in aid of construction have been reported as other income in the District's income statement. These contributions represent customer tap-in fees and other contributions to recover the costs of extensions of the collection system. The District also includes estimated cost figures for those lines contributed by outside contractors. During 2011 and 2010 these contributions consisted of the following:

<p>GRANT COUNTY SANITARY SEWER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2011 and 2010</p>

Source	2011	2010
Tap in fees paid by new customers	\$ 116,535	\$ 2,000
Grant proceeds/receivables from state for sewer line extensions	112,132	1,267,993
Totals	<u>\$ 228,667</u>	<u>\$ 1,269,993</u>

Income Tax Status

The District is exempt from federal and state income taxes since it is a governmental entity. Accordingly, the financial statements include no provision for income taxes.

Use of Estimates

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Operating Revenues and Non-operating Revenues

Revenues have been classified as operating and non-operating. Operating revenues are those revenues that are directly generated from the sale of sewer service to customers. Non-operating revenues are those revenues that arise from the overall function of the entity. Examples of non-operating revenues are grant revenues, the sale of fixed assets and interest income.

NOTE 2 – DEPOSITS AND INVESTMENTS

Deposits consist of checking accounts and are carried at cost, which approximates market value. The carrying amount of deposits is separately displayed on the balance sheet as “Cash and Cash Equivalents” and “Restricted Assets”. At December 31, 2011 and 2010, the bank balances were \$619,913 and \$699,944, respectively, which were the same as the carrying amount. The District has amounts on deposit with one bank in excess of FDIC insured amounts. The bank has pledged collateral to cover excess amounts.

Investments are reported at fair value which is determined using the selected basis. Short term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market are reported at estimated fair market value.

The District’s investments are categorized to give an indication of the level of risk assumed by the District at December 31, 2011. The categories are described as follows:

Category 1 – Insured and registered, with securities held by the entity or its agent in the entity’s name;

Category 2 – Uninsured and unregistered, with securities held by the counterparty’s trust department or agent in the entity’s name;

<p>GRANT COUNTY SANITARY SEWER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2011 and 2010</p>

Category 3 – Uninsured and unregistered, with securities held by the counterparty, or its trust department or agent but not in the entity’s name.

	Category 1	Category 2	Category 3	Fair Value/ Carrying Cost	Cost
Operation & maintenance	\$ 437,070	\$ -	\$ -	\$ 437,070	\$ 437,070
Customer deposits	79,036	-	-	79,036	79,036
Debt payment accounts	-	-	103,807	103,807	103,807
Total	<u>\$ 516,106</u>	<u>\$ -</u>	<u>\$ 103,807</u>	<u>\$ 619,913</u>	<u>\$ 619,913</u>

In accordance with GASB 40, the District has \$103,807 in bond sinking fund investments held in federally backed US Treasury Obligations rated AAA/Aaa. The market risk on these investments is negligible.

NOTE 3 – RESTRICTED NET ASSETS

Net assets comprise the various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net assets are classified in the following three components: invested in capital assets, net of related debt; restricted; and unrestricted net assets. Invested in capital assets, net of related debt consists of all capital assets net of accumulated depreciation and reduced by outstanding debt, that is attributable to the acquisition, construction and improvement of those assets. Restricted net assets consists of net assets for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates. Unrestricted net assets consist of all other net assets not included in the above categories.

Included in restricted net assets at December 31,

	2011	2010
Bond sinking fund	\$ 103,807	\$ 100,449
Construction funds	36,964	6,638
Grant receivable	-	267,471
Construction accounts payable	(85,089)	(267,471)
Accrued interest on bonds	(23,554)	(24,924)
Total Restricted Net Assets	<u>\$ 32,128</u>	<u>\$ 82,163</u>

NOTE 4 – UTILITY PLANT IN SERVICE

All property, plant and equipment including infrastructure assets are recorded at cost and depreciated over their estimated useful lives, using the straight-line method. Upon sale or retirement, the cost and related accumulated depreciation are eliminated from the respective accounts and the resulting gain or loss included in the results of operations. Repair and

<p>GRANT COUNTY SANITARY SEWER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2011 and 2010</p>

maintenance charges, which do not increase the useful lives of the assets, are charged to income as incurred. Interest incurred on construction funding during the period of construction is capitalized and is added to the item under construction rather than charged to expense as incurred. Capitalized interest for the year ended December 31, 2011 was \$2,447.

Asset Type	Balance at December 31, 2010	Additions	Retirements	Balance at December 31, 2011
Land	\$ 25,000	\$ -	\$ -	\$ 25,000
Construction in progress	1,779,329	1,169	(1,745,291)	35,207
Equipment	89,374	7,345	(2,554)	94,165
Mains	3,342,150	1,254,754	(15,323)	4,581,581
Pump stations	608,890	939,194	(10,588)	1,537,496
Structures and improvements	1,194,665	-	-	1,194,665
Transportation equipment	33,126	3,790	-	36,916
Subtotal	7,072,534	2,206,252	(1,773,756)	7,505,030
Accumulated depreciation	(916,100)	(173,139)	11,545	(1,077,694)
Fixed Assets, net	\$ 6,156,434	\$ 2,033,113	\$ (1,762,211)	\$ 6,427,336

NOTE 5 – BONDED INDEBTEDNESS

Kentucky Rural Water Finance Corporation Bonds, Series 2001D

On September 25, 2002, the City of Crittenden participated in the Kentucky Rural Water Finance Corporation's first Flexible Term Finance Program wherein the proceeds of the revenue bonds issued were used to provide funds for several utility systems throughout Kentucky. The City's total share of the bond proceeds was \$1,544,982. These funds were used for construction of a new wastewater treatment plant, two new pump stations, and the demolition of the old treatment plant. The Grant County Sanitary Sewer District assumed bonds outstanding of \$1,530,000 on April 23, 2004 pursuant to its takeover contract with the City of Crittenden. All revenue bonds mature on January 1st of each year ending in 2023. Principal is due in annual installments on January 1st through 2023. The bonds bear an interest rate of between 4.90% and 5.15% and are payable on January 1st and July 1st of each year.

GRANT COUNTY SANITARY SEWER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2011 and 2010
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The remaining debt service is as follows:

<u>Year</u>	<u>Interest Rates</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2012	4.90-5.15%	\$ 69,000	\$ 53,894	\$ 122,894
2013	4.90-5.15%	73,000	50,237	123,237
2014	4.90-5.15%	78,000	46,349	124,349
2015	4.90-5.15%	80,000	42,280	122,280
2016	4.90-5.15%	86,000	38,006	124,006
2017-2023	4.90-5.15%	<u>726,000</u>	<u>131,771</u>	<u>857,771</u>
Totals		<u>\$ 1,112,000</u>	<u>\$ 362,537</u>	<u>\$ 1,474,537</u>

Note Payable – Kentucky Infrastructure Authority

The District entered into an agreement with the Kentucky Infrastructure Authority for additional funding for its Phase I Line Extension Project. The agreement is dated October 1, 2009. The funding comes from the Federally Assisted Wastewater Revolving Loan Fund, from which the District began drawing its funds in May 2010. The interest rate on this debt is 3.00%, and the maturity date is June 1, 2031. First payment of principal on this debt is to be made during 2012. Remaining debt service is as follows:

<u>Year</u>	<u>Interest Rates</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2012	3.00%	\$ 2,648	\$ 4,191	\$ 6,839
2013	3.00%	5,579	4,028	9,607
2014	3.00%	5,748	3,859	9,607
2015	3.00%	5,922	3,686	9,608
2016	3.00%	6,101	3,506	9,607
2017-2031	3.00%	<u>117,702</u>	<u>29,169</u>	<u>146,871</u>
Totals		<u>\$ 143,700</u>	<u>\$ 48,439</u>	<u>\$ 192,139</u>

NOTE 6 – RELATED PARTY TRANSACTIONS

The Grant County Sanitary Sewer District is operated by the staff of the Bullock Pen Water District. The Sewer District pays a management fee to the Bullock Pen Water District for these services. This fee was \$115,764 and \$142,093 in 2011 and 2010, respectively. The Chairman of the Board of Commissioners and two other commissioners of the District serve on the boards of both the Grant County Sanitary Sewer District and of the Bullock Pen Water District.

GRANT COUNTY SANITARY SEWER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2011 and 2010
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NOTE 7 – ECONOMIC DEPENDENCY/CREDIT RISK

Grant County Sanitary Sewer District is a government agency operating with one office in Crittenden, Kentucky. It grants credit to customers who are primarily local residents and businesses. The District receives all of its operating revenues from customers in Grant County, Kentucky.

NOTE 8 – PHASE I SEWER EXTENSION PROJECT

Grant County Sanitary Sewer District completed its Phase I Sewer Extension Project during the year ended December 31, 2011, with \$112,132 in grant proceeds recorded for the year. Total proceeds over the life of the project of \$1,981,535 is comprised of \$1,550,000 in grant funds received from the Kentucky Infrastructure Authority, \$300,000 in loan proceeds, \$71,000 locally from customer tap-in fees, and \$60,535 from fees from the Grant Mobile Home Park.

NOTE 9 – SUBSEQUENT EVENT

On March 1, 2012, the Kentucky Infrastructure Authority approved additional funding, requested by the District, for cost overruns incurred on the Phase I Project. The additional funding of \$133,178 is in the form of loan proceeds, bringing the total loan proceeds received on the project to \$433,178 as of the date of PSC approval. 52.1%, or \$69,386, of this additional funding will be forgiven, with the remaining \$63,792 added to the \$143,700 in borrowings reflected in Note 5. It is expected that the total debt related to the Phase I Project of \$207,492 will be repaid over 20 years at an interest rate of 3.00%.

NOTE 10 – RESTITUTION AND REIMBURSEMENT RECEIVABLES

The District has a receivable balance due from Jonathan Thurman as restitution for past unpaid sewer charges. This restitution balance is unsecured and non-interest bearing, and is to be paid over multiple years. The entire account balance becomes immediately due and payable upon default of the monthly payment. The balance of this account was \$9,408 as December 31, 2011.

The District also has a receivable balance due from the Grant Mobile Home Park as reimbursement for a lift station installed at its location. This reimbursement is to be paid over multiple years. The balance of this account was \$14,635 at December 31, 2011.

GRANT COUNTY SANITARY SEWER DISTRICT SCHEDULES OF OPERATIONS, MAINTENANCE AND ADMINISTRATIVE EXPENSES For the Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Operations, Maintenance and Administrative Expenses		
Salaries and wages - commissioners	\$ 5,300	\$ 5,800
Advertising	173	115
Bad debt expense	7,878	7,178
Chemicals	9,767	9,685
Contractual services - accounting	28,579	29,094
Contractual services - engineering	6,316	9,832
Contractual services - legal	7,060	15,580
Contractual services - management	115,764	141,878
Contractual services - sample analysis	4,379	4,767
Contractual services - other	83,207	76,396
Insurance - general liability	5,799	5,509
Insurance - vehicle	1,260	1,090
Insurance - property	2,161	1,687
Materials and supplies	26,166	29,616
Miscellaneous	831	62
Payroll taxes	405	444
Purchased power	130,203	41,849
Rental of equipment	993	858
Transportation	3,008	2,218
Utility regulatory assessment	958	940
Total Operations, Maintenance and Administrative Expenses	<u>\$ 440,207</u>	<u>\$ 384,598</u>



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

**To the Board of Commissioners
Grant County Sanitary Sewer District**

We have audited the financial statements of the business-type activities of the Grant County Sanitary Sewer District as of and for the years ended December 31, 2011 and 2010, and have issued our report thereon dated March 30, 2012. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audits, we considered the Grant County Sanitary Sewer District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Grant County Sanitary Sewer District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Grant County Sanitary Sewer District's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Grant County Sanitary Sewer 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



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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 that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Grant County Sanitary Sewer District in a separate letter dated March 30, 2012.

This report is intended solely for the information and use of management, the Board of Commissioners, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Van Gorder, Walker & Co., Inc.

Van Gorder, Walker & Co., Inc.
Erlanger, Kentucky
March 30, 2012