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COMMISSION**

**GRANT COUNTY SANITARY SEWER DISTRICT**

**FINANCIAL STATEMENTS**

**For the Years Ended December 31, 2013 and 2012**



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

**GRANT COUNTY SANITARY SEWER DISTRICT**

**FINANCIAL STATEMENTS**

**For the Years Ended December 31, 2013 and 2012**

**GRANT COUNTY  
SANITARY SEWER DISTRICT  
FINANCIAL STATEMENTS**

For the Years Ended December 31, 2013 and 2012

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**GRANT COUNTY**  
**SANITARY SEWER DISTRICT**  
**BOARD OF COMMISSIONERS**  
**December 31, 2013 and 2012**

Bobby Burgess, Chairman

Dan Northcutt, Secretary

Charles Givin, Treasurer

Logan Murphy

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Grant County Sanitary Sewer District (District), as of and for the years ended December 31, 2013 and 2012, 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 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 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.

***-Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Grant County Sanitary Sewer District as of December 31, 2013 and 2012 and the respective 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* on pages 5-9 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 Grant County Sanitary Sewer District's basic financial statements. The supplementary schedules on page 22 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplemental schedules are the responsibility of management and were 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 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 supplemental schedules are 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 May 13, 2014 on our consideration of 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 grant agreements and other matters. The purpose of that report is to describe

the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Grant County Sanitary Sewer District's internal control over financial reporting and compliance.

*Van Gorder, Walker & Co., Inc.*

**Van Gorder, Walker & Co., Inc.**  
Erlanger, Kentucky  
May 13, 2014

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

Our discussion and analysis of the District's financial performance provides an overview of the District's financial activities for the year ended December 31, 2013. The information is presented in conjunction with the audited financial statements that follow this section.

### **FINANCIAL HIGHLIGHTS**

- The assets of the District exceeded its liabilities at the close of the most recent year by \$5,665,515 (net position). This was a decrease of \$8,394 in comparison to the prior year. The District remained relatively static during 2013. There were no construction projects under way so there were no grants and very few tap on fees received during 2013. Consequently, there was very little change in the District's net position during 2013.
- At the end of the current year, unrestricted net position was \$482,048.

### **USING THIS ANNUAL REPORT**

The financial statements presented herein include all of the activities of the District as prescribed in GASB Statements No. 34 through 65. The financial statements include a statement of net position, statement of revenues, expenses and changes in net position and statement of cash flows, notes to the financial statements and a supplemental schedule. These statements show the condition of the District's finances and the sources of income and the funds expended.

#### **Basis of Accounting**

The District's financial statements are prepared using the accrual basis of accounting.

#### **The Statements of Net Position and Revenues, Expenses and Changes in Net Position**

In the Statements of Net Position and the Statements of Revenues, Expenses and Changes in Net Position, we report the District's activities.

- The District charges rates for sewer usage based on the water consumption of its customers to cover all or most of the cost of certain services the District provides.



## SUMMARY OF NET POSITION

Table 1 provides a summary of the District's net assets at December 31, 2013 and 2012.

**Table 1**  
**Net Assets**

	<u>2013</u>	(Restated) <u>2012</u>
Current Assets	\$ 486,472	\$ 553,661
Restricted Assets	85,044	185,906
Noncurrent Assets	<u>6,298,080</u>	<u>6,318,501</u>
<b>Total Assets</b>	<u>6,869,596</u>	<u>7,058,068</u>
Current Liabilities	30,981	35,980
Liabilities Payable from Restricted Assets	166,466	171,088
Long Term Liabilities	<u>1,006,634</u>	<u>1,177,091</u>
<b>Total Liabilities</b>	<u>1,204,081</u>	<u>1,384,159</u>
<b>Net Position:</b>		
Invested in Capital Assets, Net of Related Debt	5,183,849	5,045,784
Restricted	(382)	83,959
Unrestricted	<u>482,048</u>	<u>544,166</u>
<b>Total Net Position</b>	<u>\$5,665,515</u>	<u>\$5,673,909</u>

The District's net position for 2013 decreased \$8,394. There were no construction projects under way during 2013 so the District's net position changed very little.

The largest portion of the District's net position (91.5%) reflects its investment in capital assets (e.g. land, buildings, infrastructure, machinery and equipment), less any related debt used to acquire those assets still outstanding. The District uses these capital assets to provide services to its customers; consequently, these assets are not available for future spending. Although the District's investments in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate the debt.

Restricted net position represents resources that are subject to external restrictions on how they may be used. At December 31, 2013 the District's restricted liabilities exceeded its restricted assets by \$382 causing their restricted net position to be a negative number on the balance sheet.

The unrestricted net position may be used to meet the District's ongoing obligations to customers and creditors.

## SUMMARY OF CHANGES IN NET POSITION

### Operating Revenues

Operating revenues decreased \$6,418 or 1%. This was due to decreased water usage because of a summer with more rain than in the previous year.

### Operating Expenses

Operating expenses decreased \$56,983 or 8.5% during 2013. Approximately 72% of this decrease was due to lower purchased power costs. During 2012 the District was paying approximately \$4,000 per month extra on their electrical bills to repay the power company for under billings due to a faulty meter. This repayment period ended in January 2013 resulting in a \$41,000 reduction in electric costs.

### Interest on Long Term Debt and Customer Deposits

Interest expense decreased \$21,463 during 2013. This is a direct result of long term debt bearing interest at 4.9% - 5.15% being refinanced at an interest rate of 2.8% on February 8, 2013.

### Capital Contributions

Capital contributions decreased \$80,385 from 2012 to 2013. This decrease is primarily due to an \$11,000 decrease in customer tap fees and a \$69,385 decrease in grant funds related to the completion of the Phase I sewer expansion project.

The following schedule compares the revenues and expenses for the current year and the previous year.

**Table 2**  
**Changes in Net Position**

	<u>2013</u>	(Restated) <u>2012</u>
Operating Revenues:		
Sewer Sales	\$ 617,375	\$ 624,021
Forfeited Discounts	9,547	9,308
Miscellaneous Services Revenues	<u>11,054</u>	<u>11,065</u>
Total Operating Revenues	<u>637,976</u>	<u>644,394</u>
Operating Expenses:		
Operation and Maintenance Expense	414,646	467,179
Depreciation and Amortization	<u>196,239</u>	<u>200,689</u>
Total Operating Expenses	<u>610,885</u>	<u>667,868</u>
Net Operating Income (Loss)	<u>27,091</u>	<u>(23,474)</u>
Non-Operating Income (Expenses)		
Investment Income	1,235	1,690
Amortization of Bond Premium	117	1,402
Loss on Disposition of Assets	0	(2,289)
Interest on Long-Term Debt and Customer Deposits	(36,155)	(57,618)
Debt Issue Costs	<u>(5,682)</u>	<u>0</u>
Net Non-Operating Expenses	<u>(40,485)</u>	<u>(56,815)</u>
Loss Before Capital Contributions	(13,394)	(80,289)
Capital Contributions	<u>5,000</u>	<u>85,385</u>
Change in Net Position	(8,394)	5,096
Net Position – January 1	5,673,909	5,695,806
Prior Period Adjustment	<u>0</u>	<u>(26,993)</u>
Net Position – December 31	<u>\$5,665,515</u>	<u>\$5,673,909</u>

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At December 31, 2013, the District had \$6,287,537 invested in capital assets including land, buildings, sewer systems, equipment, and vehicles, as reflected in the following schedule. This represents a net decrease (additions less retirements and depreciation) of \$16,321. This decrease is primarily due to the fact that depreciation expense during 2013 exceeded the amount expended on the asset additions during the year.

Table 3 Summarizes the District's capital assets at the end of 2013 as compared to 2012.

**Table 3  
Capital Assets at Year End**

	<u>2013</u>	<u>2012</u>
Land	\$ 25,000	\$ 25,000
Construction in Progress	210,488	56,823
Equipment	43,416	35,704
Transportation Equipment	36,916	36,916
Collection System & Pump Stations	6,160,555	6,151,388
Collection Plant & Equipment	<u>1,277,872</u>	<u>1,272,535</u>
Subtotal	7,754,247	7,578,366
Accumulated Depreciation	<u>(1,466,710)</u>	<u>(1,274,508)</u>
Total Capital Assets	<u>\$6,287,537</u>	<u>\$6,303,858</u>

### Debt Outstanding

Table 4 illustrates the District's outstanding debt at the end of 2013 compared to 2012.

**Table 4  
Outstanding Debt at Year End**

	<u>2013</u>	<u>2012</u>
Bond Payable Obligations	\$ 0	\$1,043,000
Notes Payable	192,956	200,939
Capital Lease	<u>911,113</u>	<u>0</u>
Total	<u>\$1,104,069</u>	<u>\$1,243,939</u>

At year-end, the District had \$1,104,069 in outstanding notes, bonds and capital leases compared to \$1,243,939 last year. This is a decrease of \$139,870. During 2013 the District refinanced their existing bond obligation bearing interest at 4.9% to 5.15% with a capital lease bearing interest at 2.8% resulting in considerable interest savings for the District. The capital lease will be paid off in February 2023 which is when the refunded bonds would have been paid off.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The District plans to complete a construction project during the 2014 – 2015 budget year. The project will add 3.59 miles of forced sewer main and appurtenances and will extend sewer service to approximately 46 households. It will replace an existing lift station with a new lift station which will increase the District's storage capacity and enhance its ability to provide sewer service to additional customers. It is also expected to reduce the risk of contamination of Bullock Pen lake, which is Bullock Pen Water District's raw water source. The District expects to borrow \$1,211,449 to be repaid over 20 years at an interest rate of 3% in order to complete this project. The 2014 – 2015 budget projects operating income and customer contributions to increase due to the addition of new customers. Operating expenses are expected to increase mainly due to the increase in depreciation expense from the assets added by the construction project and interest expense is expected to increase due to the addition of new debt. The increases in expenses are expected to be offset by the increases in revenues so that the District's net position is expected to decline only slightly during the 2014 – 2015 budget year.

## **FINANCIAL CONTACT**

This financial report is designed to provide our customers 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 Administrative Office at Farrell Drive, Crittenden, Kentucky 41030.

William Catlett, General Manager  
Grant County Sanitary Sewer District

**GRANT COUNTY SANITARY SEWER DISTRICT**  
**STATEMENTS OF NET POSITION**  
**December 31, 2013 and 2012**

	<u>2013</u>	<u>(Restated) 2012</u>
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 229,396	\$ 293,656
Certificate of deposit	156,328	154,694
Accounts receivable		
Customers, net of allowance	90,174	94,314
Others	1,768	1,747
Restitution receivable - Thurman	1,200	1,200
Reimbursement receivable - Grant Mobile Home Park	3,600	3,600
Prepays	3,942	3,782
Accrued interest income	64	668
Total Current Assets	<u>486,472</u>	<u>553,661</u>
Restricted Assets		
Bond sinking fund - Kentucky Rural Water	-	106,037
Construction funds	100	139
Customer deposits	84,944	79,730
Total Restricted Assets	<u>85,044</u>	<u>185,906</u>
Noncurrent Assets		
Restitution receivable - Thurman	5,808	6,908
Reimbursement receivable - Grant Mobile Home Park	4,735	7,735
Total Noncurrent Assets	<u>10,543</u>	<u>14,643</u>
Capital Assets		
Construction in progress	210,488	56,824
Land, building, transmission system, equipment, and vehicles	7,543,759	7,521,542
Less: accumulated depreciation	(1,466,710)	(1,274,508)
Total Capital Assets, net of depreciation	<u>6,287,537</u>	<u>6,303,858</u>
<b>TOTAL ASSETS</b>	<u>\$ 6,869,596</u>	<u>\$ 7,058,068</u>

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

**GRANT COUNTY SANITARY SEWER DISTRICT**  
**STATEMENTS OF NET POSITION**  
**December 31, 2013 and 2012**

	<u>2013</u>	<u>(Restated) 2012</u>
<b>LIABILITIES</b>		
Current Liabilities		
Accounts payable		
Trade	\$ 28,218	\$ 34,806
Accrued liabilities	2,763	1,174
Total Current Liabilities	<u>30,981</u>	<u>35,980</u>
Current Liabilities Payable From Restricted Assets		
Revenue bonds - current portion	-	73,000
Note payable - current portion	8,224	7,983
Capital lease - current portion	89,211	-
Customer deposits	62,733	62,476
Accrued interest payable	482	22,217
Trash collection	5,816	5,412
Total Current Liabilities Payable From Restricted Assets	<u>166,466</u>	<u>171,088</u>
Long-Term Obligations		
Bonds	-	970,000
Note payable - KIA	184,732	192,956
Capital lease	821,902	-
Unamortized bond premium	-	14,135
Total Long-Term Obligations	<u>1,006,634</u>	<u>1,177,091</u>
<b>TOTAL LIABILITIES</b>	<u>1,204,081</u>	<u>1,384,159</u>
<b>NET POSITION</b>		
Invested in capital assets, net of related debt	5,183,849	5,045,784
Restricted	(382)	83,959
Unrestricted	<u>482,048</u>	<u>544,166</u>
<b>TOTAL NET POSITION</b>	<u>\$ 5,665,515</u>	<u>\$ 5,673,909</u>

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

<b>GRANT COUNTY SANITARY SEWER DISTRICT</b> <b>STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION</b> <b>For the Years Ended December 31, 2013 and 2012</b>
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	<u>2013</u>	<u>(Restated) 2012</u>
<b>OPERATING REVENUES</b>		
User fee revenue	\$ 626,922	\$ 633,329
Other service revenues	11,054	11,065
<b>TOTAL OPERATING REVENUES</b>	<u>637,976</u>	<u>644,394</u>
<b>OPERATING EXPENSES</b>		
Operations and maintenance expense	414,646	467,179
Depreciation and amortization	196,239	200,689
<b>TOTAL OPERATING EXPENSES</b>	<u>610,885</u>	<u>667,868</u>
<b>OPERATING INCOME (LOSS)</b>	<u>27,091</u>	<u>(23,474)</u>
<b>NON-OPERATING INCOME (EXPENSE)</b>		
Investment income	1,235	1,690
Amortization of bond premium	117	1,402
Interest on long-term obligations	(36,126)	(57,537)
Interest on customer deposits	(29)	(81)
Debt issue costs	(5,682)	-
Loss on disposal of fixed assets	-	(2,289)
<b>NET NON-OPERATING INCOME (EXPENSE)</b>	<u>(40,485)</u>	<u>(56,815)</u>
<b>NET LOSS</b>	<u>(13,394)</u>	<u>(80,289)</u>
<b>CAPITAL CONTRIBUTIONS</b>	<u>5,000</u>	<u>85,385</u>
<b>CHANGE IN NET POSITION</b>	<u>(8,394)</u>	<u>5,096</u>
<b>NET POSITION, JANUARY 1</b>	5,673,909	5,695,806
<b>PRIOR PERIOD ADJUSTMENT</b>	-	(26,993)
<b>NET POSITION, DECEMBER 31</b>	<u>\$ 5,665,515</u>	<u>\$ 5,673,909</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, 2013 and 2012

	2013	(Restated) 2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Received from customers	\$ 646,194	\$ 651,294
Paid to suppliers for goods and services	(415,594)	(482,287)
Paid to or on behalf of employees for services	(4,211)	(6,160)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>226,389</u>	<u>162,847</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition and construction of fixed assets	(179,916)	(164,589)
Purchase of investments	(1,634)	(1,271)
Interest on investments	1,839	1,568
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>	<u>(179,711)</u>	<u>(164,292)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Principal paid on long term debt	(1,130,613)	(75,553)
Proceeds received from the issuance of long term debt	990,742	63,792
Interest paid on long term debt	(57,890)	(58,955)
Cost of issuance	(10,000)	
Premium on early payoff of bonds	(9,700)	
Contributed capital received	5,000	85,385
Decrease in restricted cash	100,862	33,900
Increase in customer deposits	257	157
Increase (Decrease) in other restricted liabilities	404	(309)
<b>NET CASH (USED) PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<u>(110,938)</u>	<u>48,417</u>
<b>(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	(64,260)	46,972
<b>CASH AND CASH EQUIVALENTS-BEGINNING OF YEAR</b>	<u>293,656</u>	<u>246,684</u>
<b>CASH AND CASH EQUIVALENTS-END OF YEAR</b>	<u>\$ 229,396</u>	<u>\$ 293,656</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating income (loss)	\$ 27,091	\$ (23,474)
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	196,239	200,689
Change in operating assets and liabilities		
Decrease in receivables	8,218	6,900
Increase in prepaid assets	(160)	(176)
Decrease in accounts payable	(6,588)	(21,232)
Increase in other accrued liabilities	1,589	140
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>\$ 226,389</u>	<u>\$ 162,847</u>
<b>SUPPLEMENTAL INFORMATION</b>		
Interest paid	<u>\$ 57,890</u>	<u>\$ 58,955</u>

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



**GRANT COUNTY SANITARY SEWER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2013 and 2012**

**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

Grant County Sanitary Sewer 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 Procedures issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. Grant County Sanitary Sewer District has adopted GASB Statements 60 through 65, and related interpretations issued through December 31, 2013.

**Statement No. 65 – *Items Previously Reported as Assets and Liabilities*** – Disallows the amortization of bond issuance costs over the life of the bond. Bond issuance costs must now be expensed in the period incurred. The provisions of this Statement generally are required to be applied retroactively for all periods presented.

**Statement No. 64 – *Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53*** – Not applicable to Grant County Sanitary Sewer District.

**Statement No. 63 – *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*** – Requires Grant County Sanitary Sewer District to report the amortized deferred refunding costs on defeased bonds separately as a Deferred Outflow of Resources, instead of reporting this amount net of the related bond liability. The provisions of this Statement generally are required to be applied retroactively for all periods presented.

**Statement No. 62 – *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*** – This Statement incorporates in GASB's authoritative literature certain accounting and financial reporting guidance

**GRANT COUNTY SANITARY SEWER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2013 and 2012**

that is included in pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements.

**Statement No. 61 – *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*** – This Statement modifies Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, to add certain requirements for inclusion of component units in the financial reporting entity.

**Statement No. 60 – *Accounting and Financial Reporting for Service Concession Arrangements*** – Not applicable to Grant County Sanitary Sewer District.

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 associated with the operations are included on the statement of net position. Net position (i.e., total assets net of total liabilities) is segregated into “invested in capital assets, net of related liabilities”; “restricted”; and “unrestricted” components.

Cash Equivalents

For purposes of the statements of net position and statements 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 June 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, 2013 and 2012.

**GRANT COUNTY SANITARY SEWER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2013 and 2012**

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 discounts 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 2013 and 2012 these contributions consisted of the following:

Source	2013	2012
Tap in fees paid by new customers	\$ 5,000	\$ 16,000
Grant proceeds/receivables from state for sewer line extensions	-	69,385
Totals	<u>\$ 5,000</u>	<u>\$ 85,385</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.

**GRANT COUNTY SANITARY SEWER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2013 and 2012**

**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 statements of net position as "Cash and Cash Equivalents" and "Restricted Assets". At December 31, 2013 and 2012, the bank balances were \$470,768 and \$634,256, 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, 2013. 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;

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	\$ 385,824	\$ -	\$ -	\$ 385,824	\$ 385,824
Customer deposits	84,944	-	-	84,944	84,944
Total	<u>\$ 470,768</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 470,768</u>	<u>\$ 470,768</u>

In accordance with GASB 40, the District has \$0 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 POSITION**

Net position is comprised of the various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net position is classified in the following three components: invested in capital assets, net of related debt; restricted; and unrestricted net position. 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 position consists of assets, net of related liabilities, for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates.

**GRANT COUNTY SANITARY SEWER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2013 and 2012**

Unrestricted net position consists of all other assets, net of related liabilities, not included in the above categories.

Included in restricted net position at December 31,

	2013	2012
Bond sinking fund	\$ -	\$ 106,037
Construction funds	100	139
Accrued interest on bonds	(482)	(22,217)
Total Restricted Net Position	<u>\$ (382)</u>	<u>\$ 83,959</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 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. There was no capitalized interest for the years ended December 31, 2013 and 2012.

Asset Type	Balance at December 31, 2012	Additions	Retirements	Balance at December 31, 2013
Land	\$ 25,000	\$ -	\$ -	\$ 25,000
Construction in progress	56,824	156,522	(2,858)	210,488
Equipment	109,512	10,572	-	120,084
Mains	4,581,582	-	-	4,581,582
Pump stations	1,569,807	13,203	(4,037)	1,578,973
Structures and improvements	1,198,725	2,479	-	1,201,204
Transportation equipment	36,916	-	-	36,916
Subtotal	<u>7,578,366</u>	<u>182,776</u>	<u>(6,895)</u>	<u>7,754,247</u>
Accumulated depreciation	(1,274,508)	(196,239)	4,037	(1,466,710)
Fixed Assets, net	<u>\$ 6,303,858</u>	<u>\$ (13,463)</u>	<u>\$ (2,858)</u>	<u>\$ 6,287,537</u>

**GRANT COUNTY SANITARY SEWER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2013 and 2012**

**NOTE 5 – LONG TERM DEBT**

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 1<sup>st</sup> of each year ending in 2023. Principal is due in annual installments on January 1<sup>st</sup> through 2023. The bonds bear an interest rate of between 4.90% and 5.15% and are payable on January 1<sup>st</sup> and July 1<sup>st</sup> of each year. On February 8, 2013, these bonds were refinanced through The Bank of Kentucky (see following Lease Payable), and therefore have a balance of \$0 at December 31, 2013.

Lease Payable – The Bank of Kentucky

On February 8, 2013, the District entered into a lease finance agreement with The Bank of Kentucky in the amount of \$990,742, which served to relinquish the District's obligations on its September 25, 2002 Series 2001D bond debt through the Kentucky Rural Water Finance Corporation. The interest rate is fixed at 2.80%. Principal and interest payments are due on the eighth day of each month beginning March 8, 2013 and ending February 8, 2023.

The remaining debt service is as follows:

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2014	2.800%	\$ 89,211	\$ 22,704	\$ 111,915
2015	2.800%	91,777	22,359	114,136
2016	2.800%	94,359	19,783	114,142
2017	2.800%	97,130	17,018	114,148
2018	2.800%	99,923	14,231	114,154
2019-2023	2.800%	438,713	27,514	466,227
Totals		\$ 911,113	\$ 123,609	\$ 1,034,722

**GRANT COUNTY SANITARY SEWER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2013 and 2012**

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.

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>
2014	3.00%	\$ 8,224	\$ 5,728	\$ 13,952
2015	3.00%	8,473	5,479	13,952
2016	3.00%	8,729	5,223	13,952
2017	3.00%	8,993	4,959	13,952
2018	3.00%	9,264	4,688	13,952
2019-2023	3.00%	50,695	19,065	69,760
2024-2028	3.00%	58,835	10,921	69,756
2029-2031	3.00%	39,743	2,110	41,853
Totals		<u>\$ 192,956</u>	<u>\$ 58,173</u>	<u>\$ 251,129</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 \$124,290 and \$126,420 in 2013 and 2012, 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.

**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 – 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 \$7,008 and \$8,108 as of December 31, 2013 and 2012, respectively.

**GRANT COUNTY SANITARY SEWER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2013 and 2012**

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 \$8,335 and \$11,335 at December 31, 2013 and 2012, respectively.

**NOTE 9 – RECLASSIFICATION IN PRIOR YEAR STATEMENTS**

The 2012 Statement of Revenues, Expenses and Changes in Net Position has been adjusted due to the requirements of *GASB 65* (See NOTE 1) which disallows the amortization of bond issuance costs over the life of the bond. The Statement requires that all accounts be adjusted retroactively to the earliest period disclosed. Therefore, a prior period adjustment, reducing the net position by \$26,993, has been recorded; as if the bond issuance costs were expensed at the date the costs were incurred.

**NOTE 10 – SUBSEQUENT EVENTS**

Management has evaluated events through May 13, 2014, the date on which the financial statements were available for issue. The District did not have any events subsequent to report from December 31, 2013 through May 13, 2014 to disclose.



<b>GRANT COUNTY SANITARY SEWER DISTRICT</b> <b>SCHEDULES OF OPERATIONS, MAINTENANCE AND ADMINISTRATIVE EXPENSES</b> <b>For the Years Ended December 31, 2013 and 2012</b>
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	<u>2013</u>	<u>(Restated) 2012</u>
<b>Operations, Maintenance and Administrative Expenses</b>		
Salaries and wages - commissioners	\$ 5,800	\$ 6,300
Advertising	173	331
Bad debt expense	4,699	9,487
Chemicals	13,686	15,595
Contractual services - accounting	23,276	30,740
Contractual services - engineering	5,649	12,261
Contractual services - legal	29,218	7,750
Contractual services - management	124,290	126,420
Contractual services - sample analysis	6,986	6,540
Contractual services - other	67,570	74,629
Insurance - general liability	6,726	6,311
Insurance - vehicle	1,340	1,323
Insurance - property	2,276	2,478
Materials and supplies	29,803	29,457
Miscellaneous	42	105
Payroll taxes	444	482
Purchased power	87,177	128,242
Rental of equipment	1,970	2,240
Transportation	2,371	5,371
Utility regulatory assessment	1,150	1,117
<b>Total Operations, Maintenance and Administrative Expenses</b>	<u>\$ 414,646</u>	<u>\$ 467,179</u>



Van Gorder, Walker & Co., Inc.  
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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**

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

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 Grant County Sanitary Sewer District as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements which collectively comprise Grant County Sanitary Sewer District's basic financial statements and have issued our report thereon dated May 13, 2014.

**Internal Control over Financial Reporting**

In planning and performing our audits of the financial statements, we considered Grant County Sanitary Sewer 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Grant County Sanitary Sewer District's internal control. Accordingly, we do not express an opinion on the effectiveness of Grant County Sanitary Sewer 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 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 were not identified. 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. We did not identify any deficiencies in internal control that we consider significant deficiencies.



### **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 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 audits, 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.

*Van Gorder, Walker & Co., Inc.*

**Van Gorder, Walker & Co., Inc.**  
Erlanger, Kentucky  
May 13, 2014