

GRANT COUNTY SANITARY SEWER DISTRICT

1 FARRELL DRIVE • P.O. BOX 460 • CRITTENDEN, KY 41030 • (859) 428-3060

June 25, 2013

RECEIVED

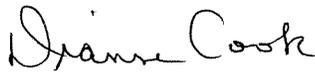
JUL 1 2013

PUBLIC SERVICE
COMMISSION

Public Service Commission
P.O. Box 615
211 Sower Blvd.
Frankfort, KY 40601

Enclosed is a copy of the Financial Statement for the Grant County Sanitary Sewer District for 2012. If you have any questions, feel free to contact me.

Thank you,



Dianne Cook

dc

Enc

RECEIVED

JUL 1 2013

PUBLIC SERVICE
COMMISSION

GRANT COUNTY SANITARY SEWER DISTRICT

FINANCIAL STATEMENTS

For the Years Ended December 31, 2012 and 2011

**GRANT COUNTY
SANITARY SEWER DISTRICT
FINANCIAL STATEMENTS**

For the Years Ended December 31, 2012 and 2011

Table of Contents

| | <u>Page</u> |
|---|--------------------|
| Board of Commissioners | 1 |
| Independent Auditor's Report | 2-4 |
| Management's Discussion and Analysis | 5-9 |
| Statements of Net Position | 10-11 |
| Statements of Revenues, Expenses, and Changes in Net Position | 12 |
| Statements of Cash Flows | 13 |
| Notes to the Financial Statements | 14-20 |
| Schedules of Operations, Maintenance and Administrative Expenses | 21 |
| Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance with <i>Government Auditing Standards</i> | 22-23 |

GRANT COUNTY
SANITARY SEWER DISTRICT
FINANCIAL STATEMENTS
December 31, 2012 and 2011

Board of Commissioners

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, 2012 and 2011, 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.



-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, 2012 and 2011 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 21 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.



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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 16, 2013 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 16, 2013

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, 2012. 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 \$5,698,466 (net assets). This was an increase of \$2,660 in comparison to the prior year. The District remained relatively static during 2012. There were no construction projects under way so there were not as many tap on fees or grants received during 2012 as there were during 2011. Consequently, the 2012 increase in net position was very small.
- At the end of the current year, unrestricted net assets were \$544,166.

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 63. 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, 2012 and 2011.

| | Table 1 | |
|---|---------------------------|---------------------------|
| | Net Assets | |
| | <u>2012</u> | <u>2011</u> |
| Current Assets | \$ 556,097 | \$ 509,856 |
| Restricted Assets | 185,906 | 219,806 |
| Noncurrent Assets | <u>6,340,622</u> | <u>6,471,136</u> |
| Total Assets | <u>7,082,625</u> | <u>7,200,798</u> |
| Current Liabilities | 37,382 | 58,474 |
| Liabilities Payable from Restricted Assets | 171,088 | 248,331 |
| Long Term Liabilities | <u>1,175,689</u> | <u>1,198,187</u> |
| Total Liabilities | <u>1,384,159</u> | <u>1,504,992</u> |
| Net Position: | | |
| Invested in Capital Assets, Net of Related Debt | 5,070,341 | 5,183,092 |
| Restricted | 83,959 | 32,128 |
| Unrestricted | <u>544,166</u> | <u>480,586</u> |
| Total Net Position | <u>\$5,698,466</u> | <u>\$5,695,806</u> |

The District's net position for 2012 increased \$2,660 as compared to a \$177,658 increase in the previous year. The 2011 increase was due to increased capital contributions from the construction of the Phase I sewer expansion project. Since there was no construction project during 2012, the increase in net position for the year was much smaller than in 2011.

The largest portion of the District's net position (89%) 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.

An additional portion of the District's net position (1.5%) is considered to be restricted. This amount represents resources that are subject to external restrictions on how they may be used.

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 increased \$7,426 or 1.2%. This was due to increased water usage because of a dryer summer than in the previous year and increased customers as a result of the completion of the Phase 1 sewer expansion project during 2011.

Operating Expenses

Operating expenses increased \$53,414 or 8.7% during 2012. Approximately 50% of this increase was due to increased depreciation on the assets added during 2011 upon the completion of the sewer expansion project. The remaining increase was due to increases in management fees and practically every category of operation and maintenance expenses.

Loss on Disposition of Assets

The District's loss on disposition of assets decreased \$14,631 from 2011 to 2012. During 2011 the District relocated a section of sewer main resulting in a loss of 12,299 on the line that was taken out of service due to the relocation. There were no line relocations during 2012 resulting in a smaller loss on disposal for the year

Capital Contributions

Capital contributions decreased \$143,282 from 2011 to 2012. This decrease is primarily due to a decrease in customer tap fees and grant funds received as a result of the completion of the Phase 1 sewer expansion project during 2011.

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

Table 2
Changes in Net Position

| | <u>2012</u> | <u>2011</u> |
|--|--------------------|--------------------|
| Operating Revenues: | | |
| Sewer sales | \$ 624,021 | \$ 614,713 |
| Forfeited Discounts | 9,308 | 9,285 |
| Miscellaneous Services Revenues | 11,065 | 12,970 |
| Total Operating Revenues | <u>644,394</u> | <u>636,968</u> |
| Operating Expenses: | | |
| Operation and Maintenance Expense | 467,179 | 440,207 |
| Depreciation and Amortization | 200,689 | 174,247 |
| Total Operating Expenses | <u>667,868</u> | <u>614,454</u> |
| Net Operating Income | <u>(23,474)</u> | <u>22,514</u> |
| Non-Operating Income(Expenses) | | |
| Investment Income | 1,690 | 2,153 |
| Amortization of Bond Premium | 1,402 | 1,402 |
| Loss on Disposition of Assets | (2,289) | (16,920) |
| Interest on Long-Term Debt and Customer Deposits | (57,618) | (57,722) |
| Amortization of Bond Discount and Expenses | (2,436) | (2,436) |
| Net Non-Operating Expenses | <u>(59,251)</u> | <u>(73,523)</u> |
| Income Before Capital Contributions | (82,725) | (51,009) |
| Capital Contributions | <u>85,385</u> | <u>228,667</u> |
| Change in Net Position | 2,660 | 177,658 |
| Net Position – January 1 | <u>5,695,806</u> | <u>5,518,148</u> |
| Net Position – December 31 | <u>\$5,698,466</u> | <u>\$5,695,806</u> |

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At December 31, 2012, the District had \$6,303,858 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 \$123,478. This decrease is primarily due to the fact that depreciation expense during 2012 exceeded the amount expended on the asset additions during the year.

Table 3 Summarizes the District's capital assets at the end of 2012 as compared to 2011.

**Table 3
Capital Assets at Year End**

| | <u>2012</u> | <u>2011</u> |
|-----------------------------------|--------------------|--------------------|
| Land | \$ 25,000 | \$ 25,000 |
| Construction in Progress | 56,823 | 35,207 |
| Equipment | 35,704 | 35,028 |
| Transportation Equipment | 36,916 | 36,916 |
| Collection System & Pump Stations | 6,151,388 | 6,119,077 |
| Collection Plant & Equipment | <u>1,272,535</u> | <u>1,253,802</u> |
| Subtotal | 7,578,366 | 7,505,030 |
| Accumulated Depreciation | <u>(1,274,508)</u> | <u>(1,077,694)</u> |
| Total Capital Assets | <u>\$6,303,858</u> | <u>\$6,427,336</u> |

Debt Outstanding

Table 4 illustrates the District's outstanding debt at the end of 2012 compared to 2011.

**Table 4
Outstanding Debt at Year End**

| | <u>2012</u> | <u>2011</u> |
|--------------------------|--------------------|--------------------|
| Bond Payable Obligations | \$1,043,000 | \$1,112,000 |
| Notes Payable | <u>200,938</u> | <u>143,700</u> |
| Total | <u>\$1,243,938</u> | <u>\$1,255,700</u> |

At year-end, the District had \$1,243,938 in outstanding notes and bonds compared to \$1,255,700 last year. This is a decrease of \$11,762. During 2012 the District borrowed an additional \$133,176 from the Federally Assisted Wastewater Revolving Loan Fund. A portion of this loan, \$69,384, was then forgiven. The remaining \$63,790 was added to the existing note payable from the Phase 1 sewer expansion project. The note bears interest at 3% and must be repaid over twenty years. Payments began on June 1, 2012 and continue through December 1, 2031. The additional loan funds were used to repay the District for overages on the Phase 1 sewer expansion project.

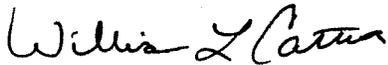
The increase in outstanding debt was offset by the repayment of \$6,554 on their outstanding note payable and \$69,000 on their outstanding bond obligation.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The District's budget for 2013 projects operating income to remain about the same as in 2012. Operating revenues are expected to remain at the 2012 amount. Operating expenses are expected to increase, but only slightly, by approximately 1% or \$8,800. The biggest change is expected in capital contributions which are expected to decline significantly. Since the Phase 1 sewer expansion project is complete, the District does not expect to receive any grants during 2013 and customer tap on fees are also expected to decline. In total customer contributions are expected to decline by approximately \$80,000 from the amount reported during 2012. Consequently the District's net position is expected to decline by approximately \$90,000 during 2013.

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, 2012 and 2011 |
|---|

| | <u>2012</u> | <u>2011</u> |
|--|---------------------|---------------------|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 293,656 | \$ 246,684 |
| Certificate of deposit | 154,694 | 153,423 |
| Accounts receivable | | |
| Customers, net of allowance | 94,314 | 95,587 |
| Others | 1,747 | 2,774 |
| Restitution receivable - Thurman | 1,200 | 1,200 |
| Reimbursement receivable - Grant Mobile Home Park | 3,600 | 3,600 |
| Prepays | 3,782 | 3,606 |
| Accrued interest income | 668 | 546 |
| Unamortized expenses | 2,436 | 2,436 |
| Total Current Assets | <u>556,097</u> | <u>509,856</u> |
| Restricted Assets | | |
| Bond sinking fund - Kentucky Rural Water | 106,037 | 103,807 |
| Construction funds | 139 | 36,963 |
| Customer deposits | 79,730 | 79,036 |
| Total Restricted Assets | <u>185,906</u> | <u>219,806</u> |
| Noncurrent Assets | | |
| Restitution receivable - Thurman | 6,908 | 8,208 |
| Reimbursement receivable - Grant Mobile Home Park | 7,735 | 11,035 |
| Miscellaneous deferred charges | | |
| Unamortized issue costs | 22,121 | 24,557 |
| Total Noncurrent Assets | <u>36,764</u> | <u>43,800</u> |
| Capital Assets | | |
| Construction in progress | 56,824 | 35,207 |
| Land, building, transmission system, equipment, and vehicles | 7,521,542 | 7,469,823 |
| Less: accumulated depreciation | (1,274,508) | (1,077,694) |
| Total Capital Assets, net of depreciation | <u>6,303,858</u> | <u>6,427,336</u> |
| TOTAL ASSETS | <u>\$ 7,082,625</u> | <u>\$ 7,200,798</u> |

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

GRANT COUNTY SANITARY SEWER DISTRICT
STATEMENTS OF NET POSITION
December 31, 2012 and 2011

| | <u>2012</u> | <u>2011</u> |
|--|---------------------|---------------------|
| LIABILITIES | | |
| Current Liabilities | | |
| Accounts payable | | |
| Trade | \$ 34,806 | \$ 56,038 |
| Accrued liabilities | 1,174 | 1,034 |
| Unamortized bond premium | 1,402 | 1,402 |
| Total Current Liabilities | <u>37,382</u> | <u>58,474</u> |
| Current Liabilities Payable From Restricted Assets | | |
| Revenue bonds - current portion | 73,000 | 69,000 |
| Note payable - current portion | 7,983 | 2,648 |
| Construction accounts payable | - | 85,089 |
| Customer deposits | 62,476 | 62,319 |
| Accrued interest payable | 22,217 | 23,554 |
| Trash collection | 5,412 | 5,721 |
| Total Current Liabilities Payable From Restricted Assets | <u>171,088</u> | <u>248,331</u> |
| Long-Term Obligations | | |
| Bonds | 970,000 | 1,043,000 |
| Note payable - KIA | 192,956 | 141,052 |
| Unamortized bond premium | 12,733 | 14,135 |
| Total Long-Term Obligations | <u>1,175,689</u> | <u>1,198,187</u> |
| TOTAL LIABILITIES | <u>1,384,159</u> | <u>1,504,992</u> |
| NET POSITION | | |
| Invested in capital assets, net of related debt | 5,070,341 | 5,183,092 |
| Restricted | 83,959 | 32,128 |
| Unrestricted | 544,166 | 480,586 |
| TOTAL NET POSITION | <u>\$ 5,698,466</u> | <u>\$ 5,695,806</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 POSITION For the Years Ended December 31, 2012 and 2011 |
|---|

| | <u>2012</u> | <u>2011</u> |
|--|---------------------|---------------------|
| OPERATING REVENUES | | |
| User fee revenue | \$ 633,329 | \$ 623,998 |
| Other service revenues | 11,065 | 12,970 |
| TOTAL OPERATING REVENUES | <u>644,394</u> | <u>636,968</u> |
| OPERATING EXPENSES | | |
| Operations, maintenance, and administrative expenses | 467,179 | 440,207 |
| Depreciation and amortization | 200,689 | 174,247 |
| TOTAL OPERATING EXPENSES | <u>667,868</u> | <u>614,454</u> |
| OPERATING INCOME (LOSS) | <u>(23,474)</u> | <u>22,514</u> |
| NON-OPERATING INCOME (EXPENSE) | | |
| Investment income | 1,690 | 2,153 |
| Amortization of bond premium | 1,402 | 1,402 |
| Interest on long-term obligations | (57,537) | (57,722) |
| Interest on customer deposits | (81) | - |
| Amortization of debt discount and expense | (2,436) | (2,436) |
| Loss on disposal of fixed assets | (2,289) | (16,920) |
| NET NON-OPERATING INCOME (EXPENSE) | <u>(59,251)</u> | <u>(73,523)</u> |
| NET INCOME (LOSS) | (82,725) | (51,009) |
| CAPITAL CONTRIBUTIONS | <u>85,385</u> | <u>228,667</u> |
| CHANGE IN NET POSITION | 2,660 | 177,658 |
| NET POSITION, JANUARY 1 | <u>5,695,806</u> | <u>5,518,148</u> |
| NET POSITION, DECEMBER 31 | <u>\$ 5,698,466</u> | <u>\$ 5,695,806</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, 2012 and 2011

| | <u>2012</u> | <u>2011</u> |
|--|-------------------|-------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Received from customers | \$ 651,294 | \$ 603,541 |
| Paid to suppliers for goods and services | (482,287) | (425,127) |
| Paid to or on behalf of employees for services | (6,160) | (5,154) |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u>162,847</u> | <u>173,260</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Acquisition and construction of fixed assets | (164,589) | (640,896) |
| Purchase of investments | (1,271) | (1,033) |
| Interest on investments | 1,568 | 1,708 |
| NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES | <u>(164,292)</u> | <u>(640,221)</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Principal paid on long term debt | (75,553) | (64,000) |
| Proceeds received from the issuance of long term debt | 63,792 | 5,000 |
| Interest paid on long term debt | (58,955) | (61,537) |
| Contributed capital received | 85,385 | 228,667 |
| (Increase) Decrease in restricted cash | 33,900 | 247,568 |
| Increase (Decrease) in customer deposits | 157 | 4,575 |
| Increase (Decrease) in other restricted liabilities | (309) | 5,721 |
| NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES | <u>48,417</u> | <u>365,994</u> |
| INCREASE IN CASH AND CASH EQUIVALENTS | 46,972 | (100,967) |
| CASH AND CASH EQUIVALENTS-BEGINNING OF YEAR | <u>246,684</u> | <u>347,651</u> |
| CASH AND CASH EQUIVALENTS-END OF YEAR | <u>\$ 293,656</u> | <u>\$ 246,684</u> |
| RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES | | |
| Operating income (loss) | \$ (23,474) | \$ 22,514 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Depreciation and amortization | 200,689 | 174,247 |
| Change in operating assets and liabilities | | |
| (Increase)/Decrease in receivables | 6,900 | (33,427) |
| (Increase)/Decrease in prepaid assets | (176) | (325) |
| Increase/(Decrease) in accounts payable | (21,232) | 10,105 |
| Increase/(Decrease) in other accrued liabilities | 140 | 146 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u>\$ 162,847</u> | <u>\$ 173,260</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>\$ 58,955</u> | <u>\$ 61,537</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, 2012 and 2011

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 63, and related interpretations issued through December 31, 2012. 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 associated with the operations are included on the statement of net position. Net position (i.e.,

| |
|---|
| <p>GRANT COUNTY SANITARY SEWER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2012 and 2011</p> |
|---|

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 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, 2012 and 2011.

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 2012 and 2011 these contributions consisted of the following:

| Source | 2012 | 2011 |
|---|------------------|-------------------|
| Tap in fees paid by new customers | \$ 16,000 | \$ 116,535 |
| Grant proceeds/receivables from state for sewer line extensions | 69,385 | 112,132 |
| Totals | <u>\$ 85,385</u> | <u>\$ 228,667</u> |

GRANT COUNTY SANITARY SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012 and 2011

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 statements of net position as "Cash and Cash Equivalents" and "Restricted Assets". At December 31, 2012 and 2011, the bank balances were \$634,256 and \$619,913, 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, 2012. 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.

GRANT COUNTY SANITARY SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012 and 2011

| | <u>Category 1</u> | <u>Category 2</u> | <u>Category 3</u> | <u>Fair Value/ Carrying Cost</u> | <u>Cost</u> |
|-------------------------|-------------------|-------------------|-------------------|--------------------------------------|-------------------|
| Operation & maintenance | \$ 448,489 | \$ - | \$ - | \$ 448,489 | \$ 448,489 |
| Customer deposits | 79,730 | - | - | 79,730 | 79,730 |
| Debt payment accounts | - | - | 106,037 | 106,037 | 106,037 |
| Total | <u>\$ 528,219</u> | <u>\$ -</u> | <u>\$ 106,037</u> | <u>\$ 634,256</u> | <u>\$ 634,256</u> |

In accordance with GASB 40, the District has \$106,037 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. 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,

| | <u>2012</u> | <u>2011</u> |
|-------------------------------|------------------|------------------|
| Bond sinking fund | \$ 106,037 | \$ 103,807 |
| Construction funds | 139 | 36,964 |
| Construction accounts payable | - | (85,089) |
| Accrued interest on bonds | (22,217) | (23,554) |
| Total Restricted Net Position | <u>\$ 83,959</u> | <u>\$ 32,128</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. Capitalized interest for the years ended December 31, 2012 and 2011 was \$0 and \$2,447, respectively.

GRANT COUNTY SANITARY SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012 and 2011

| Asset Type | Balance at December 31, 2011 | Additions | Retirements | Balance at December 31, 2012 |
|-----------------------------|------------------------------------|---------------------|-------------------|------------------------------------|
| Land | \$ 25,000 | \$ - | \$ - | \$ 25,000 |
| Construction in progress | 35,207 | 25,976 | (4,360) | 56,823 |
| Equipment | 94,165 | 15,349 | - | 109,514 |
| Mains | 4,581,581 | - | - | 4,581,581 |
| Pump stations | 1,537,496 | 38,475 | (6,164) | 1,569,807 |
| Structures and improvements | 1,194,665 | 4,060 | - | 1,198,725 |
| Transportation equipment | 36,916 | - | - | 36,916 |
| Subtotal | 7,505,030 | 83,860 | (10,524) | 7,578,366 |
| Accumulated depreciation | (1,077,694) | (200,689) | 3,875 | (1,274,508) |
| Fixed Assets, net | <u>\$ 6,427,336</u> | <u>\$ (116,829)</u> | <u>\$ (6,649)</u> | <u>\$ 6,303,858</u> |

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, which all represent collateral on the bonds. 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. (See Note 10 - Subsequent Events) The remaining debt service is as follows:

| Year | Interest Rates | Principal Amount | Interest Amount | Total Debt Service |
|-----------|-------------------|---------------------|--------------------|-----------------------|
| 2013 | 4.90-5.15% | \$ 73,000 | \$ 50,238 | \$ 123,238 |
| 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 | 4.90-5.15% | 87,000 | 33,552 | 120,552 |
| 2018-2022 | 4.90-5.15% | 519,000 | 95,284 | 614,284 |
| 2023 | 4.90-5.15% | 120,000 | 2,940 | 122,940 |
| Totals | | <u>\$ 1,043,000</u> | <u>\$ 308,649</u> | <u>\$ 1,351,649</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, which represents collateral on the note payable. 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.

| |
|--|
| GRANT COUNTY SANITARY SEWER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2012 and 2011 |
|--|

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> |
|-------------|-----------------------|-------------------------|------------------------|---------------------------|
| 2013 | 3.00% | \$ 7,983 | \$ 5,969 | \$ 13,952 |
| 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 |
| 2018-2022 | 3.00% | 49,208 | 20,550 | 69,758 |
| 2023-2027 | 3.00% | 57,108 | 12,650 | 69,758 |
| 2028-2031 | 3.00% | 52,221 | 3,585 | 55,806 |
| Totals | | <u>\$ 200,939</u> | <u>\$ 64,143</u> | <u>\$ 265,082</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 \$126,420 and \$115,764 in 2012 and 2011, 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 \$8,108 and \$9,408 as of December 31, 2012 and 2011, respectively.

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 \$11,335 and \$14,635 at December 31, 2012 and 2011, respectively.

GRANT COUNTY SANITARY SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 9 – SUBSEQUENT EVENTS

Management has evaluated events through May 16, 2013, the date on which the financial statements were available for issue. The District has one event subsequent to December 31, 2012 but before the report date of May 16, 2013 to disclose.

On February 8, 2013, the District refinanced its Series 2002 Revenue Bonds originally assumed from the City of Crittenden. The new lease agreement is for \$990,742, has a maturity date of February 8, 2023, and carries an interest rate of 2.80%

| |
|---|
| GRANT COUNTY SANITARY SEWER DISTRICT SCHEDULES OF OPERATIONS, MAINTENANCE AND ADMINISTRATIVE EXPENSES For the Years Ended December 31, 2012 and 2011 |
|---|

| Operations, Maintenance and Administrative Expenses | <u>2012</u> | <u>2011</u> |
|--|--------------------------|--------------------------|
| Salaries and wages - commissioners | \$ 6,300 | \$ 5,300 |
| Advertising | 331 | 173 |
| Bad debt expense | 9,487 | 7,878 |
| Chemicals | 15,595 | 9,767 |
| Contractual services - accounting | 30,740 | 28,579 |
| Contractual services - engineering | 12,261 | 6,316 |
| Contractual services - legal | 7,750 | 7,060 |
| Contractual services - management | 126,420 | 115,764 |
| Contractual services - sample analysis | 6,540 | 4,379 |
| Contractual services - other | 74,629 | 83,207 |
| Insurance - general liability | 6,311 | 5,799 |
| Insurance - vehicle | 1,323 | 1,260 |
| Insurance - property | 2,478 | 2,161 |
| Materials and supplies | 29,457 | 26,166 |
| Miscellaneous | 105 | 831 |
| Payroll taxes | 482 | 405 |
| Purchased power | 128,242 | 130,203 |
| Rental of equipment | 2,240 | 993 |
| Transportation | 5,371 | 3,008 |
| Utility regulatory assessment | 1,117 | 958 |
| Total Operations, Maintenance and Administrative Expenses | <u><u>\$ 467,179</u></u> | <u><u>\$ 440,207</u></u> |



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

**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, 2012 and 2011, 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 16, 2013.

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.
Erlanger, Kentucky
May 16, 2013