

GRANT COUNTY SANITARY SEWER DISTRICT

FINANCIAL STATEMENTS

For the Years Ending December 31, 2015 and 2014

**GRANT COUNTY
SANITARY SEWER DISTRICT
FINANCIAL STATEMENTS**

For the Years Ending December 31, 2015 and 2014

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**GRANT COUNTY
SANITARY SEWER DISTRICT
BOARD OF COMMISSIONERS
December 31, 2015 and 2014**

Bobby Burgess, Chairman

Robert Worthington, Jr., Vice Chair

Charles Givin, Treasurer

Dan Northcutt, Secretary

Logan Murphy

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
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, 2015 and 2014, 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, 2015 and 2014 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 4-8 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 20 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 5, 2016 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 5, 2016

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, 2015. 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 \$5,626,003 (net position). This was a decrease of \$66,796 in comparison to the prior year. The District completed a construction project that was funded by new debt during 2014. This resulted in increased depreciation and interest expense of approximately \$44,000 during 2015. In addition, operating income declined approximately \$6,800 while operating expenses increased approximately \$16,000. The net result was a decline in net assets during 2015.
- At the end of the current year, unrestricted net position was \$597,300.

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 70. 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, 2015 and 2014.

**Table 1
Net Assets**

	<u>2015</u>	<u>2014</u>
Current Assets	\$ 629,311	\$ 701,529
Restricted Assets	95,873	120,584
Noncurrent Assets	6,847,849	6,934,906
Total Assets	<u>7,573,033</u>	<u>7,757,019</u>
Current Liabilities	49,893	43,623
Liabilities Payable from Restricted Assets	215,409	267,137
Long Term Liabilities	1,681,727	1,753,460
Total Liabilities	<u>1,947,029</u>	<u>2,064,220</u>
Net Position:		
Invested in Capital Assets, Net of Related Debt	5,023,930	5,039,388
Restricted	4,773	(25,285)
Unrestricted	597,300	678,696
Total Net Position	<u>\$ 5,626,003</u>	<u>\$ 5,692,799</u>

The District's net position for 2015 decreased \$66,796.

The largest portion of the District's net position (89.3%) 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 are to be expended.

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 \$6,788 or 1%. This was due to decreased water usage because there was more rain during 2015 than in 2014.

Operating Expenses

Operating expenses increased \$16,577 or 3.9% during 2015. This increase was primarily due to increased electricity and repair costs at the pump stations and increased fees associated with credit card and online payment options that have been made available for the convenience of our customers.

Depreciation Expense

Depreciation expense increased \$24,785 or 12% during 2015. The District completed a large construction project during 2014. The addition of those new assets resulted in this increase in depreciation expense.

Interest on Long-Term Debt and Customer Deposits

During 2014 the District financed a construction project that relocated and replaced an existing lift station and added new customers to the system with \$941,718 of new debt at 3% interest. This resulted in \$27,727 of interest expense during 2015 that had not been incurred during 2014.

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

Changes in Net Assets
Table 2

	<u>2015</u>	<u>2014</u>
Operating Revenues:		
Sewer Sales	\$ 634,475	\$ 642,217
Forfeited Discounts	8,975	8,747
Miscellaneous Services Revenues	11,768	11,042
Total Operating Revenues	<u>655,218</u>	<u>662,006</u>
Operating Expenses:		
Operation and Maintenance Expense	439,417	422,840
Depreciation and Amortization	230,136	205,351
Total Operating Expenses	<u>669,553</u>	<u>628,191</u>
Net Operating (Loss) Income	<u>(14,335)</u>	<u>33,815</u>
Non-Operating Income(Expenses)		
Investment Income	1,588	982
Loss on Disposition of Assets	(9,367)	(16,398)
Interest on Long-Term Debt and Customer Deposits	(54,682)	(35,115)
Net Non-Operating Expenses	<u>(62,461)</u>	<u>(50,531)</u>
Expenses Before Capital Contributions	(76,796)	(16,716)
Capital Contributions	<u>10,000</u>	<u>44,000</u>
Change in Net Position	(66,796)	27,284
Net Position – January 1	<u>5,692,799</u>	<u>5,665,515</u>
Net Position – December 31	<u>\$ 5,626,003</u>	<u>\$ 5,692,799</u>

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At December 31, 2015, the District had \$6,844,541 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 \$83,523. This decrease is primarily due to the fact that the depreciation charged to expense during 2015 exceeded the amount of new assets put into service.

Table 3 Summarizes the District's capital assets at the end of 2015 as compared to 2014.

	2015	2014
Land	\$ 25,000	\$ 25,000
Construction in Progress	70,518	38,131
Equipment	43,416	43,416
Transportation Equipment	39,246	36,916
Collection System & Lift Stations	7,193,945	7,153,686
Collection Plant & Equipment	1,354,004	1,291,136
Subtotal	8,726,129	8,588,285
Accumulated Depreciation	(1,881,588)	(1,660,221)
Total Capital Assets	<u>\$ 6,844,541</u>	<u>\$ 6,928,064</u>

Debt Outstanding

Table 4 illustrates the District's outstanding debt at the end of 2015 compared to 2014.

	2015	2014
Notes Payable	\$ 1,083,009	\$ 1,066,774
Capital Lease	737,601	821,902
Total	<u>\$ 1,820,610</u>	<u>\$ 1,888,676</u>

At year-end, the District had \$1,820,610 in outstanding notes and capital leases compared to \$1,888,676 last year. This is a decrease of \$68,066. During 2015, the District took the final draw of \$59,676 on a construction loan from the Kentucky Infrastructure Authority in order to make the final payments on their 2014 construction project. The District also made payments of \$127,742 on their outstanding debt. The net of these transactions resulted in a decrease in outstanding debt of \$68,066.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The District's budget for 2016 shows a decline in net position of approximately \$16,000 as opposed to a decline of \$66,796 during 2015. Operating income is expected to increase due to dryer weather conditions while operating expenses, depreciation expense, interest income and interest expense are expected to remain approximately the same as in 2015. In addition, the District does not expect to dispose of any assets during 2016 that would result in a loss. Actual results could vary substantially since increases and decreases in revenue are directly associated with water consumption which is unpredictable.

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, 2015 and 2014

	<u>2015</u>	<u>2014</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 373,901	\$ 433,553
Certificate of deposit	157,624	156,974
Accounts receivable		
Customers, net of allowance	85,321	99,292
Others	3,053	2,729
Restitution receivable - Thurman	1,200	1,200
Reimbursement receivable - Grant Mobile Home Park	3,535	3,600
Prepays	4,148	3,902
Accrued interest income	529	279
Total Current Assets	<u>629,311</u>	<u>701,529</u>
Restricted Assets		
Construction funds	-	37,100
Replacement reserve	8,800	-
Customer deposits	87,073	83,484
Total Restricted Assets	<u>95,873</u>	<u>120,584</u>
Noncurrent Assets		
Restitution receivable - Thurman	3,308	4,508
Reimbursement receivable - Grant Mobile Home Park	-	2,334
Total Noncurrent Assets	<u>3,308</u>	<u>6,842</u>
Capital Assets		
Construction in progress	70,518	38,131
Land, building, transmission system, equipment, and vehicles	8,655,611	8,550,154
Less: accumulated depreciation	<u>(1,881,588)</u>	<u>(1,660,221)</u>
Total Capital Assets, net of depreciation	<u>6,844,541</u>	<u>6,928,064</u>
TOTAL ASSETS	<u>7,573,033</u>	<u>7,757,019</u>

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

(Continued on Page 10)

GRANT COUNTY SANITARY SEWER DISTRICT STATEMENTS OF NET POSITION (continued from page 9) December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
LIABILITIES		
Current Liabilities		
Accounts payable - trade	48,671	38,968
Accrued liabilities	1,222	4,655
Total Current Liabilities	<u>49,893</u>	<u>43,623</u>
Current Liabilities Payable From Restricted Assets		
Accounts payable - construction	-	59,676
Note payable - current portion	44,751	43,439
Capital lease - current portion	94,132	91,777
Customer deposits	65,610	63,289
Accrued interest payable	4,027	2,709
Trash collection	6,890	6,247
Total Current Liabilities Payable From Restricted Assets	<u>215,410</u>	<u>267,137</u>
Long-Term Obligations		
Note payable - KIA	1,038,258	1,023,335
Capital lease	643,469	730,125
Total Long-Term Obligations	<u>1,681,727</u>	<u>1,753,460</u>
TOTAL LIABILITIES	<u>1,947,030</u>	<u>2,064,220</u>
NET POSITION		
Invested in capital assets, net of related debt	5,023,930	5,039,388
Restricted	4,773	(25,285)
Unrestricted	<u>597,300</u>	<u>678,696</u>
TOTAL NET POSITION	<u>\$ 5,626,003</u>	<u>\$ 5,692,799</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 Ending December 31, 2015 and 2014
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	<u>2015</u>	<u>2014</u>
OPERATING REVENUES		
User fee revenue	\$ 643,450	\$ 650,964
Other service revenues	11,768	11,042
TOTAL OPERATING REVENUES	<u>655,218</u>	<u>662,006</u>
OPERATING EXPENSES		
Operations and maintenance expense	439,417	422,840
Depreciation	230,136	205,351
TOTAL OPERATING EXPENSES	<u>669,553</u>	<u>628,191</u>
OPERATING (LOSS) INCOME	<u>(14,335)</u>	<u>33,815</u>
NON-OPERATING INCOME (EXPENSE)		
Investment income	1,588	982
Interest on long-term obligations	(54,625)	(35,053)
Interest on customer deposits	(57)	(62)
Loss on disposal of fixed assets	(9,367)	(16,398)
NET NON-OPERATING EXPENSE	<u>(62,461)</u>	<u>(50,531)</u>
NET LOSS	<u>(76,796)</u>	<u>(16,716)</u>
CAPITAL CONTRIBUTIONS	<u>10,000</u>	<u>44,000</u>
CHANGE IN NET POSITION	<u>(66,796)</u>	<u>27,284</u>
NET POSITION, JANUARY 1	<u>5,692,799</u>	<u>5,665,515</u>
NET POSITION, DECEMBER 31	<u>\$ 5,626,003</u>	<u>\$ 5,692,799</u>

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

GRANT COUNTY SANITARY SEWER DISTRICT STATEMENTS OF CASH FLOWS For the Years Ending December 31, 2015 and 2014
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	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from customers	\$ 672,464	\$ 655,628
Paid to suppliers for goods and services	(424,260)	(406,150)
Paid to or on behalf of employees for services	(9,133)	(4,008)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>239,071</u>	<u>245,470</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition and construction of fixed assets	(215,656)	(802,600)
Purchase of investments	(650)	(646)
Interest on investments	1,338	767
NET CASH USED FOR INVESTING ACTIVITIES	<u>(214,968)</u>	<u>(802,479)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal paid on long term debt	(127,740)	(97,435)
Proceeds received from the issuance of long term debt	59,676	882,042
Interest paid on long term debt	(53,366)	(32,888)
Contributed capital received	10,000	44,000
Decrease/(increase) in restricted cash	24,711	(35,540)
Increase in customer deposits	2,321	556
Increase in other restricted liabilities	643	431
NET CASH (USED FOR) PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(83,755)</u>	<u>761,166</u>
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	<u>(59,652)</u>	<u>204,157</u>
CASH AND CASH EQUIVALENTS-BEGINNING OF YEAR	<u>433,553</u>	<u>229,396</u>
CASH AND CASH EQUIVALENTS-END OF YEAR	<u>\$ 373,901</u>	<u>\$ 433,553</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating (loss) income	\$ (14,335)	\$ 33,815
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	230,136	205,351
Change in operating assets and liabilities		
Decrease/(increase) in receivables	17,246	(6,378)
(Increase)/decrease in prepaid assets	(246)	40
Increase in accounts payable	9,703	10,750
(Decrease)/increase in other accrued liabilities	(3,433)	1,892
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 239,071</u>	<u>\$ 245,470</u>
SUPPLEMENTAL INFORMATION		
Interest expensed	\$ 54,682	\$ 35,116
Interest capitalized	-	7,439
Total	<u>\$ 54,682</u>	<u>\$ 42,555</u>

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

GRANT COUNTY SANITARY SEWER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2015 and 2014
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NOTE 1 – GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES

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

Regulatory Requirements

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

Basis of Accounting

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 66 through 70, and related interpretations issued through December 31, 2015.

Statement No. 70 – Accounting and Financial Reporting for Nonexchange Financial Guarantees – This statement is not currently applicable to Grant County Sewer District.

Statement No. 69 – Government Combinations and Disposals of Government Operations – This statement is not currently applicable to Grant County Sewer District.

Statement No. 68 – Accounting and Financial Reporting for Pensions; an amendment of GASB Statement No. 27 – This statement is not currently applicable to Grant County Sewer District.

Statement No. 67 – Financial Reporting for Pension Plans; an amendment of GASB Statement No. 25 – This statement is not currently applicable to Grant County Sewer District.

Statement No. 66 – Technical Corrections – 2012; an amendment of GASB Statements no. 10 and 62 – This statement improves accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54 and No. 62.

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

<p>GRANT COUNTY SANITARY SEWER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2015 and 2014</p>

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 65A, the District is required to upload a balanced budget to the Kentucky Department of Local Government website by January 15. 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, 2015 and 2014.

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.

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 2015 and 2014 these contributions consisted of the following:

Source	2015	2014
Tap in fees paid by new customers	\$ 10,000	\$ 44,000
Totals	<u>\$ 10,000</u>	<u>\$ 44,000</u>

**GRANT COUNTY SANITARY SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015 and 2014**

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", "Certificate of Deposits" and "Restricted Assets". At December 31, 2015 and 2014, the bank balances were \$627,398 and \$711,111, 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, 2015. 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, 2015 and 2014
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	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Fair Value/ Carrying Cost</u>	<u>Cost</u>
Operation & maintenance	\$ 531,525	\$ -	\$ -	\$ 531,525	\$ 531,525
Replacement reserve	8,800	-	-	8,800	8,800
Customer deposits	87,073	-	-	87,073	87,073
Total	<u>\$ 627,398</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 627,398</u>	<u>\$ 627,398</u>

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>2015</u>	<u>2014</u>
Construction funds	\$ -	\$ 37,100
Replacement reserve	8,800	-
Construction accounts payable	-	(59,676)
Accrued interest on KIA loan	(4,027)	(2,709)
Total Restricted Net Position	<u>\$ 4,773</u>	<u>\$ (25,285)</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 was \$0 and \$7,439 at December 31, 2015 and 2014, respectively.

GRANT COUNTY SANITARY SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015 and 2014

The fixed asset balances at December 31, 2015 and 2014 are as follows:

Asset Type	Balance at December 31, 2014	Additions	Retirements	Balance at December 31, 2015
Land	\$ 25,000	\$ -	\$ -	\$ 25,000
Construction in progress	38,131	127,400	(95,013)	70,518
Equipment	133,348	7,943	-	141,291
Mains	4,946,488	33,091	(4,906)	4,974,673
Pump stations	2,207,198	25,304	(13,230)	2,219,272
Structures and improvements	1,201,204	54,925	-	1,256,129
Transportation equipment	36,916	2,330	-	39,246
Subtotal	8,588,285	250,993	(113,149)	8,726,129
Accumulated depreciation	(1,660,221)	(230,136)	8,769	(1,881,588)
Fixed Assets, net	<u>\$ 6,928,064</u>	<u>\$ 20,857</u>	<u>\$ (104,380)</u>	<u>\$ 6,844,541</u>

NOTE 5 – LONG TERM DEBT

Lease Payable – BB&T Bank

On February 8, 2013, the District entered into a lease finance agreement with BB&T Bank 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
2016	2.800%	\$ 94,132	\$ 19,782	\$ 113,914
2017	2.800%	96,897	17,017	113,914
2018	2.800%	99,683	14,231	113,914
2019	2.800%	102,550	11,364	113,914
2020	2.800%	105,474	8,440	113,914
2021-2023	2.800%	238,865	7,950	246,815
Totals		<u>\$ 737,601</u>	<u>\$ 78,784</u>	<u>\$ 816,385</u>

Note Payable – Kentucky Infrastructure Authority

The District entered into an agreement with the Kentucky Infrastructure Authority for additional funding for its Phase I Line Extension Project. The agreement is dated October 1, 2009. The funding comes from the Federally Assisted Wastewater Revolving Loan Fund, from which the District began drawing its funds in May 2010. The interest rate on this debt is 3.00%, and the maturity date is December 1, 2031.

GRANT COUNTY SANITARY SEWER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2015 and 2014
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The remaining debt service is as follows:

<u>Year</u>	<u>Interest Rates</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
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	3.00%	9,544	4,408	13,952
2020	3.00%	9,833	4,119	13,952
2021-2025	3.00%	53,807	15,953	69,760
2026-2030	3.00%	62,445	7,310	69,755
2031	3.00%	13,643	309	13,952
Totals		<u>\$ 176,258</u>	<u>\$ 46,969</u>	<u>\$ 223,227</u>

Note Payable – Kentucky Infrastructure Authority

On January 6, 2014 the District entered into an agreement with the Kentucky Infrastructure Authority to fund the construction of a sewer lift station and the extension of the current sewer main and appurtenances. Construction draws on this loan totaled \$882,042 during 2014. The final loan draw of \$59,676 was received in January 2015. The interest rate on this debt is 3.00%, and matures on December 1, 2034. Principal and interest payments are due on June 1 and December 1. The first payment to be made was June 1, 2015. 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>
2016	3.00%	\$ 36,023	\$ 26,935	\$ 62,958
2017	3.00%	37,112	25,846	62,958
2018	3.00%	38,234	24,724	62,958
2019	3.00%	39,390	23,568	62,958
2020	3.00%	40,580	22,378	62,958
2021-2025	3.00%	222,057	92,732	314,789
2026-2030	3.00%	257,706	57,083	314,789
2031-2034	3.00%	235,649	16,181	251,830
Totals		<u>\$ 906,751</u>	<u>\$ 289,447</u>	<u>\$ 1,196,198</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 \$124,771 and \$124,071 in 2015 and 2014, 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
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015 and 2014

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 \$4,508 and \$5,708 as of December 31, 2015 and 2014, 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 \$3,535 and \$5,934 at December 31, 2015 and 2014, respectively.

NOTE 9 – LITIGATION

The District initiated an eminent domain proceeding against two property owners, located in the Phase II Project, to acquire an easement to install sewer lines on their property. The matter is currently pending the Commonwealth of Kentucky, Grant Circuit Court. The likelihood of a favorable outcome for the District is very high.

NOTE 10 – SUBSEQUENT EVENTS

Management has evaluated events through May 5, 2016, the date on which the financial statements were available for issue. The District did not have any events subsequent to report from December 31, 2015 through May 5, 2016.

GRANT COUNTY SANITARY SEWER DISTRICT SCHEDULES OF OPERATIONS, MAINTENANCE AND ADMINISTRATIVE EXPENSES For the Years Ending December 31, 2015 and 2014
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	<u>2015</u>	<u>2014</u>
Operations, Maintenance and Administrative Expenses		
Salaries and wages - commissioners	\$ 5,700	\$ 5,900
Advertising	165	173
Bad debt expense	5,278	5,839
Chemicals	15,728	18,097
Contractual services - accounting	26,354	25,593
Contractual services - engineering	3,910	4,342
Contractual services - legal	7,356	6,751
Contractual services - management	124,771	124,071
Contractual services - sample analysis	9,182	9,936
Contractual services - other	99,271	86,453
Insurance - general liability	7,737	7,250
Insurance - vehicle	1,565	1,446
Insurance - property	2,760	2,551
Materials and supplies	35,829	33,672
Miscellaneous	45	-
Payroll taxes	436	451
Purchased power	86,923	81,636
Rental of equipment	1,217	1,572
Transportation	3,932	5,862
Utility regulatory assessment	1,258	1,245
Total Operations, Maintenance and Administrative Expenses	<u>\$ 439,417</u>	<u>\$ 422,840</u>



Van Gorder, Walker & Co., Inc.
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Members of AICPA & KYCPA
Licensed in Kentucky & Ohio

**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, 2015 and 2014, 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 5, 2016.

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



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

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 5, 2016