

GRANT COUNTY SANITARY SEWER DISTRICT

FINANCIAL STATEMENTS

For the Years Ending December 31, 2016 and 2015

**GRANT COUNTY
SANITARY SEWER DISTRICT
FINANCIAL STATEMENTS**

For the Years Ending December 31, 2016 and 2015

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**GRANT COUNTY
SANITARY SEWER DISTRICT
BOARD OF COMMISSIONERS
December 31, 2016 and 2015**

Charles Givin, Chairman

Robert Worthington, Jr., Vice Chair

Rodger Bingham, Treasurer

Dan Northcutt, Secretary

Leo Saylor

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, 2016 and 2015, 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 respective financial position of the business-type activities of Grant County Sanitary Sewer District, as



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of December 31, 2016 and 2015, 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.

Emphasis-of-Matter – Change in Depreciation Estimate

As discussed in Note 4 to the financial statements, effective January 1, 2016, the District changed its depreciation estimate for long lived infrastructure assets from 50 years to 75 years. This is a change in accounting estimate and will be shown only prospectively. Our opinions are not modified with respect to this matter.

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 audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Grant County Sanitary Sewer District's basic financial statements. The schedules of operations, maintenance and administrative expenses, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedules of operations, maintenance and administrative expenses 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 to 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 information is 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 15, 2017, on our consideration of the Grant County Sanitary Sewer District's internal control over financial



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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 the 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 15, 2017

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, 2016. 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 \$5,650,889 (net position). This was an increase of \$24,886 in comparison to a decline of \$66,796 in the prior year. During 2016, both the number of customers served by the District and the average usage of their customers increased. As a result, sewer revenues increased \$43,630 in comparison to the previous year. In addition operation and maintenance expenses remained approximately the same as in 2015, and depreciation expense decreased \$38,007 primarily due to a change in estimate of the useful life of sewer lines from 50 years to 75 years.
- At the end of the current year, unrestricted net position was \$617,279.

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, 2016 and 2015.

**Table 1
Net Position**

| | <u>2016</u> | <u>2015</u> |
|---|---------------------|---------------------|
| Current Assets | \$ 629,726 | \$ 629,311 |
| Restricted Assets | 98,028 | 95,873 |
| Noncurrent Assets | <u>6,722,024</u> | <u>6,847,849</u> |
| Total Assets | <u>7,449,778</u> | <u>7,573,033</u> |
| | | |
| Current Liabilities | 38,023 | 49,893 |
| Liabilities Payable from Restricted Assets | 222,171 | 215,410 |
| Long Term Liabilities | <u>1,538,695</u> | <u>1,681,727</u> |
| Total Liabilities | <u>1,798,889</u> | <u>1,947,030</u> |
| Net Position: | | |
| Invested in Capital Assets, Net of Related Debt | 5,024,907 | 5,023,930 |
| Restricted | 8,703 | 4,773 |
| Unrestricted | <u>617,279</u> | <u>597,300</u> |
| Total Net Position | <u>\$ 5,650,889</u> | <u>\$ 5,626,003</u> |

The District's net position for 2016 increased \$24,886. See the information under Financial Highlights above for an explanation of this increase.

The largest portion of the District's net position (88.9%) 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 investment 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 increased \$43,630 or 6.7%. This was due to an increase in both the number of customers served by the District and the average usage of those customers in comparison to the previous year.

Operation and Maintenance Expense

Operation and maintenance expense decreased \$1,970 or 0.4% during 2016. The District was able to maintain their expenses at approximately the same amounts as they were in 2015 even though the number of customers and the average usage of those customers increased during 2016.

Depreciation Expense

Depreciation expense decreased \$38,007 or 16.5% during 2016. The District determined that the estimated useful life of sewer mains should be 75 years, rather than 50 years which had previously been utilized. As a result of this change in accounting estimate, the District's depreciation expense decreased \$44,945. This decrease was offset by an increase of \$6,938 in depreciation expense due to the addition of new assets.

Interest on Long-Term Debt and Customer Deposits

Interest expense decreased \$2,987 or 5.5% during 2016.

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

**Changes in Net Position
Table 2**

| | <u>2016</u> | <u>2015</u> |
|--|---------------------|---------------------|
| Operating Revenues: | | |
| Sewer Sales | \$ 674,564 | \$ 634,475 |
| Forfeited Discounts | 9,971 | 8,975 |
| Miscellaneous Services Revenues | 14,313 | 11,768 |
| Total Operating Revenues | <u>698,848</u> | <u>655,218</u> |
| Operating Expenses: | | |
| Operation and Maintenance Expense | 437,447 | 439,417 |
| Depreciation and Amortization | 192,129 | 230,136 |
| Total Operating Expenses | <u>629,576</u> | <u>669,553</u> |
| Net Operating (Loss) Income | <u>69,272</u> | <u>(14,335)</u> |
| Non-Operating Income(Expenses) | | |
| Investment Income | 1,394 | 1,588 |
| Loss on Disposition of Assets | (85) | (9,367) |
| Interest on Long-Term Debt and Customer Deposits | (51,695) | (54,682) |
| Net Non-Operating Expenses | <u>(50,386)</u> | <u>(62,461)</u> |
| Expenses Before Capital Contributions | 18,886 | (76,796) |
| Capital Contributions | <u>6,000</u> | <u>10,000</u> |
| Change in Net Position | 24,886 | (66,796) |
| Net Position – January 1 | <u>5,626,003</u> | <u>5,692,799</u> |
| Net Position – December 31 | <u>\$ 5,650,889</u> | <u>\$ 5,626,003</u> |

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At December 31, 2016, the District had \$6,706,604 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 \$137,937. This decrease is primarily due to the fact that the depreciation charged to expense during 2016 exceeded the amount of new assets put into service.

Table 3 Summarizes the District's capital assets at the end of 2016 as compared to 2015.

**Table 3
Capital Assets at Year End**

| | <u>2016</u> | <u>2015</u> |
|-----------------------------------|---------------------|---------------------|
| Land | \$ 25,000 | \$ 25,000 |
| Construction in Progress | 67,633 | 70,518 |
| Equipment | 44,051 | 43,416 |
| Transportation Equipment | 39,246 | 39,246 |
| Collection System & Lift Stations | 7,210,364 | 7,193,945 |
| Collection Plant & Equipment | 1,378,201 | 1,354,004 |
| Subtotal | 8,764,495 | 8,726,129 |
| Accumulated Depreciation | (2,057,891) | (1,881,588) |
| Total Capital Assets | <u>\$ 6,706,604</u> | <u>\$ 6,844,541</u> |

Debt Outstanding

Table 4 illustrates the District's outstanding debt at the end of 2016 compared to 2015.

**Table 4
Outstanding Debt at Year End**

| | <u>2016</u> | <u>2015</u> |
|---------------|---------------------|---------------------|
| Notes Payable | \$ 1,038,258 | \$ 1,083,009 |
| Capital Lease | 643,438 | 737,601 |
| Total | <u>\$ 1,681,696</u> | <u>\$ 1,820,610</u> |

At year-end, the District had \$1,681,696 in outstanding notes and capital leases compared to \$1,820,610 last year. This is a decrease of \$138,914. This decrease is the result of the District making all of the scheduled principal and interest payments on their outstanding debt during 2016.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The District's budget for 2017 shows an increase in net position of approximately \$42,000 as opposed to an increase of \$24,886 during 2016. Operating income is expected to increase due to an increase in new customers similar to 2016. Operating expenses and depreciation expense are expected to decrease slightly from the 2016 amounts. Interest income and interest expense are expected to remain approximately the same as in 2016. Actual results could vary substantially since increases in the number of customers may not occur and increases and decreases in usage is 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

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| GRANT COUNTY SANITARY SEWER DISTRICT STATEMENTS OF NET POSITION December 31, 2016 and 2015 |
|---|

| | <u>2016</u> | <u>2015</u> |
|--|--------------------|--------------------|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 360,471 | \$ 373,901 |
| Certificate of deposit | 158,558 | 157,624 |
| Accounts receivable | | |
| Customers, net of allowance | 91,110 | 85,321 |
| Others | 13,001 | 3,053 |
| Restitution receivable - Thurman | 1,200 | 1,200 |
| Reimbursement receivable - Grant Mobile Home Park | - | 3,535 |
| Prepays | 5,067 | 4,148 |
| Accrued interest income | 319 | 529 |
| Total Current Assets | <u>629,726</u> | <u>629,311</u> |
| Restricted Assets | | |
| Replacement reserve | 12,450 | 8,800 |
| Customer deposits | 85,578 | 87,073 |
| Total Restricted Assets | <u>98,028</u> | <u>95,873</u> |
| Noncurrent Assets | | |
| Restitution receivable - Thurman | 2,108 | 3,308 |
| Deferred rate case expense | 13,312 | - |
| Total Noncurrent Assets | <u>15,420</u> | <u>3,308</u> |
| Capital Assets | | |
| Construction in progress | 67,633 | 70,518 |
| Land, building, transmission system, equipment, and vehicles | 8,696,862 | 8,655,611 |
| Less: accumulated depreciation | <u>(2,057,891)</u> | <u>(1,881,588)</u> |
| Total Capital Assets, net of depreciation | <u>6,706,604</u> | <u>6,844,541</u> |
| TOTAL ASSETS | <u>7,449,778</u> | <u>7,573,033</u> |

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

(Continued on Page 11)

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| GRANT COUNTY SANITARY SEWER DISTRICT STATEMENTS OF NET POSITION (continued from page 10) December 31, 2016 and 2015 |
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| | <u>2016</u> | <u>2015</u> |
|--|---------------------|---------------------|
| LIABILITIES | | |
| Current Liabilities | | |
| Accounts payable - trade | 36,787 | 48,671 |
| Accrued liabilities | 1,236 | 1,222 |
| Total Current Liabilities | <u>38,023</u> | <u>49,893</u> |
| Current Liabilities Payable From Restricted Assets | | |
| Note payable - current portion | 46,105 | 44,751 |
| Capital lease - current portion | 96,896 | 94,132 |
| Customer deposits | 68,482 | 65,610 |
| Accrued interest payable | 3,747 | 4,027 |
| Trash collection | 6,941 | 6,890 |
| Total Current Liabilities Payable From Restricted Assets | <u>222,171</u> | <u>215,410</u> |
| Long-Term Obligations | | |
| Note payable - KIA | 992,153 | 1,038,258 |
| Capital lease | 546,542 | 643,469 |
| Total Long-Term Obligations | <u>1,538,695</u> | <u>1,681,727</u> |
| TOTAL LIABILITIES | <u>1,798,889</u> | <u>1,947,030</u> |
| NET POSITION | | |
| Invested in capital assets, net of related debt | 5,024,907 | 5,023,930 |
| Restricted | 8,703 | 4,773 |
| Unrestricted | 617,279 | 597,300 |
| TOTAL NET POSITION | <u>\$ 5,650,889</u> | <u>\$ 5,626,003</u> |

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

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| GRANT COUNTY SANITARY SEWER DISTRICT STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION For the Years Ending December 31, 2016 and 2015 |
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| | <u>2016</u> | <u>2015</u> |
|---------------------------------------|---------------------|---------------------|
| OPERATING REVENUES | | |
| User fee revenue | \$ 684,535 | \$ 643,450 |
| Other service revenues | 14,313 | 11,768 |
| TOTAL OPERATING REVENUES | <u>698,848</u> | <u>655,218</u> |
| OPERATING EXPENSES | | |
| Operations and maintenance expense | 437,447 | 439,417 |
| Depreciation | 192,129 | 230,136 |
| TOTAL OPERATING EXPENSES | <u>629,576</u> | <u>669,553</u> |
| OPERATING INCOME (LOSS) | <u>69,272</u> | <u>(14,335)</u> |
| NON-OPERATING INCOME (EXPENSE) | | |
| Investment income | 1,394 | 1,588 |
| Interest on long-term obligations | (51,628) | (54,625) |
| Interest on customer deposits | (67) | (57) |
| Loss on disposal of fixed assets | (85) | (9,367) |
| NET NON-OPERATING EXPENSE | <u>(50,386)</u> | <u>(62,461)</u> |
| NET INCOME (LOSS) | 18,886 | (76,796) |
| CAPITAL CONTRIBUTIONS | <u>6,000</u> | <u>10,000</u> |
| CHANGE IN NET POSITION | 24,886 | (66,796) |
| NET POSITION, JANUARY 1 | <u>5,626,003</u> | <u>5,692,799</u> |
| NET POSITION, DECEMBER 31 | <u>\$ 5,650,889</u> | <u>\$ 5,626,003</u> |

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

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| GRANT COUNTY SANITARY SEWER DISTRICT STATEMENTS OF CASH FLOWS For the Years Ending December 31, 2016 and 2015 |
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| | <u>2016</u> | <u>2015</u> |
|---|-------------------|-------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Received from customers | \$ 674,534 | \$ 672,464 |
| Paid to suppliers for goods and services | (444,350) | (424,260) |
| Paid to or on behalf of employees for services | (5,886) | (9,133) |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u>224,298</u> | <u>239,071</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Acquisition and construction of fixed assets | (57,777) | (215,656) |
| Purchase of investments | (934) | (650) |
| Interest on investments | 1,604 | 1,338 |
| NET CASH USED FOR INVESTING ACTIVITIES | <u>(57,107)</u> | <u>(214,968)</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Principal paid on long term debt | (138,915) | (127,740) |
| Proceeds received from the issuance of long term debt | - | 59,676 |
| Cash received from sale of assets | 3,500 | - |
| Interest paid on long term debt | (51,974) | (53,366) |
| Contributed capital received | 6,000 | 10,000 |
| (Increase) decrease in restricted cash | (2,155) | 24,711 |
| Increase in customer deposits | 2,872 | 2,321 |
| Increase in other restricted liabilities | 51 | 643 |
| NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES | <u>(180,621)</u> | <u>(83,755)</u> |
| DECREASE IN CASH AND CASH EQUIVALENTS | (13,430) | (59,652) |
| CASH AND CASH EQUIVALENTS-BEGINNING OF YEAR | <u>373,901</u> | <u>433,553</u> |
| CASH AND CASH EQUIVALENTS-END OF YEAR | <u>\$ 360,471</u> | <u>\$ 373,901</u> |
| RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES | | |
| Operating income (loss) | \$ 69,272 | \$ (14,335) |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 192,129 | 230,136 |
| Change in operating assets and liabilities | | |
| (Increase) decrease in receivables | (24,314) | 17,246 |
| Increase in prepaid assets | (919) | (246) |
| (Decrease) increase in accounts payable | (11,884) | 9,703 |
| Increase (decrease) in other accrued liabilities | 14 | (3,433) |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u>\$ 224,298</u> | <u>\$ 239,071</u> |
| SUPPLEMENTAL INFORMATION | | |
| Interest expensed | \$ 51,695 | \$ 54,682 |
| Interest capitalized | - | - |
| Total | <u>\$ 51,695</u> | <u>\$ 54,682</u> |

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

GRANT COUNTY SANITARY SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016 and 2015

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.

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

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The transactions of the District are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the statement of net position. Net position (i.e., total assets net of total liabilities) is segregated into “invested in capital assets, net of related liabilities”; “restricted”; and “unrestricted” components.

Cash Equivalents

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

Budgets

In accordance with Kentucky Revised Statute 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.

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| <p>GRANT COUNTY SANITARY SEWER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2016 and 2015</p> |
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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, 2016 and 2015.

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.

Construction in Progress

Capitalized costs incurred on projects which are not in use or ready for use at year end are held as "Construction in Progress." When the related asset is ready for use, related costs are transferred to the related asset account.

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 2016 and 2015 these contributions consisted of the following:

| <u>Source</u> | <u>2016</u> | <u>2015</u> |
|-----------------------------------|-----------------|------------------|
| Tap in fees paid by new customers | \$ 6,000 | \$ 10,000 |
| Totals | <u>\$ 6,000</u> | <u>\$ 10,000</u> |

Income Tax Status

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

Use of Estimates

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

Operating Revenues and Non-Operating Revenues

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

GRANT COUNTY SANITARY SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016 and 2015

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, 2016 and 2015, the balances were \$617,057 and \$627,398, respectively. 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, 2016. 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.

| | <u>Category 1</u> | <u>Category 2</u> | <u>Category 3</u> | <u>Fair Value/ Carrying Cost</u> | <u>Cost</u> |
|-------------------------|-------------------|-------------------|-------------------|--------------------------------------|-------------------|
| Operation & maintenance | \$ 519,029 | \$ - | \$ - | \$ 519,029 | \$ 519,029 |
| Replacement reserve | 12,450 | - | - | 12,450 | 12,450 |
| Customer deposits | 85,578 | - | - | 85,578 | 85,578 |
| Total | \$ 617,057 | \$ - | \$ - | \$ 617,057 | \$ 617,057 |

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.

GRANT COUNTY SANITARY SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016 and 2015

Included in restricted net position at December 31,

| | 2016 | 2015 |
|------------------------------------|-----------------|-----------------|
| Replacement reserve | \$ 12,450 | \$ 8,800 |
| Accrued interest on long term debt | (3,747) | (4,027) |
| Total Restricted Net Position | <u>\$ 8,703</u> | <u>\$ 4,773</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 as detailed in Note 1. 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. Effective January 1, 2016, the Commissioners of Grant County Sanitary Sewer District decided that the useful life of their transmission and distribution mains should be 75 years rather than the 50-year life that the District had been using. Therefore, depreciation on transmission and distribution mains has been calculated using a 75-year life beginning fiscal year 2016.

Estimated useful lives, in years, for depreciable assets are as follows:

| | |
|-----------------------------|-------------|
| Structures and improvements | 15-40 years |
| Machinery and equipment | 3-25 years |
| Sewer lines | 75 years |
| Pump stations | 3-40 years |

The fixed asset balances at December 31, 2016 and 2015 are as follows:

| Asset Type | Balance at December 31, 2015 | Additions | Retirements | Balance at December 31, 2016 |
|-----------------------------|------------------------------------|---------------------|--------------------|------------------------------------|
| Land | \$ 25,000 | \$ - | \$ - | \$ 25,000 |
| Construction in progress | 70,518 | 25,941 | (28,826) | 67,633 |
| Equipment | 141,291 | 44,243 | (19,411) | 166,123 |
| Mains | 4,974,673 | - | - | 4,974,673 |
| Pump stations | 2,219,272 | 16,419 | - | 2,235,691 |
| Structures and improvements | 1,256,129 | - | - | 1,256,129 |
| Transportation equipment | 39,246 | - | - | 39,246 |
| Subtotal | 8,726,129 | 86,603 | (48,237) | 8,764,495 |
| Accumulated depreciation | (1,881,588) | (192,129) | 15,826 | (2,057,891) |
| Fixed Assets, net | <u>\$ 6,844,541</u> | <u>\$ (105,526)</u> | <u>\$ (32,411)</u> | <u>\$ 6,706,604</u> |

GRANT COUNTY SANITARY SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016 and 2015

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 |
|-----------|----------------|------------------|-----------------|--------------------|
| 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 | 2.800% | 108,533 | 5,381 | 113,914 |
| 2022-2023 | 2.800% | 130,301 | 2,599 | 132,900 |
| Totals | | \$ 643,438 | \$ 59,032 | \$ 702,470 |

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.

The remaining debt service is as follows:

| Year | Interest Rates | Principal Amount | Interest Amount | Total Debt Service |
|-----------|----------------|------------------|-----------------|--------------------|
| 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 | 3.00% | 10,130 | 3,822 | 13,952 |
| 2022-2026 | 3.00% | 55,433 | 14,326 | 69,759 |
| 2027-2031 | 3.00% | 64,333 | 5,423 | 69,756 |
| Totals | | \$ 167,530 | \$ 41,745 | \$ 209,275 |

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.

**GRANT COUNTY SANITARY SEWER DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2016 and 2015**

The remaining debt service is as follows:

| Year | Interest Rates | Principal Amount | Interest Amount | Total Debt Service |
|-----------|----------------|-------------------|-------------------|---------------------|
| 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 | 3.00% | 41,807 | 21,151 | 62,958 |
| 2022-2026 | 3.00% | 228,768 | 86,021 | 314,789 |
| 2027-2031 | 3.00% | 265,496 | 49,293 | 314,789 |
| 2032-2034 | 3.00% | 179,341 | 9,531 | 188,872 |
| Totals | | <u>\$ 870,728</u> | <u>\$ 262,512</u> | <u>\$ 1,133,240</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 \$123,846 and \$124,771 in 2016 and 2015, respectively. The Chairman of the Board of Commissioners and one other commissioner of the District serve on the boards of both the Grant County Sanitary Sewer District and 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 \$3,308 and \$4,508 as of December 31, 2016 and 2015, 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 was paid over multiple years. The balance of this account was \$0 and \$3,535 at December 31, 2016 and 2015, respectively.

NOTE 9 – LITIGATION

The District has litigation pending against a customer to recover the amount the District spent to repair damages to a sewer line caused by the customer. The total amount of recovery from the customer, as certified in the Grant Circuit Court's Judgment, is approximately \$7,000 and the District is currently in the process of collecting on that Judgment.

GRANT COUNTY SANITARY SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 10 – SUBSEQUENT EVENTS

Management has evaluated events through May 15, 2017, the date on which the financial statements were available for issue. The District did not have any events subsequent to report from December 31, 2016 through May 15, 2017.

| |
|--|
| GRANT COUNTY SANITARY SEWER DISTRICT SCHEDULES OF OPERATIONS, MAINTENANCE AND ADMINISTRATIVE EXPENSES For the Years Ending December 31, 2016 and 2015 |
|--|

| | <u>2016</u> | <u>2015</u> |
|--|--------------------------|--------------------------|
| OPERATIONS, MAINTENANCE AND ADMINISTRATIVE EXPENSES | | |
| Salaries and wages - commissioners | \$ 5,900 | \$ 5,700 |
| Advertising | - | 165 |
| Bad debt expense | 6,753 | 5,278 |
| Chemicals | 15,696 | 15,728 |
| Contractual services - accounting | 25,146 | 26,354 |
| Contractual services - engineering | 4,445 | 3,910 |
| Contractual services - legal | 5,793 | 7,356 |
| Contractual services - management | 123,846 | 124,771 |
| Contractual services - sample analysis | 14,458 | 9,182 |
| Contractual services - other | 95,236 | 99,271 |
| Insurance - general liability | 5,861 | 7,737 |
| Insurance - vehicle | 1,347 | 1,565 |
| Insurance - property | 5,173 | 2,760 |
| Materials and supplies | 34,930 | 35,829 |
| Miscellaneous | 86 | 45 |
| Payroll taxes | 451 | 436 |
| Purchased power | 84,385 | 86,923 |
| Rental of equipment | 1,399 | 1,217 |
| Transportation | 5,270 | 3,932 |
| Utility regulatory assessment | 1,272 | 1,258 |
| TOTAL OPERATIONS, MAINTENANCE AND ADMINISTRATIVE EXPENSES | <u>\$ 437,447</u> | <u>\$ 439,417</u> |



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 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, 2016 and 2015, 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 15, 2017.

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.

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 15, 2017