

GRANT COUNTY SANITARY SEWER DISTRICT

FINANCIAL STATEMENTS

For the Years Ending December 31, 2018 and 2017

**GRANT COUNTY
SANITARY SEWER DISTRICT
FINANCIAL STATEMENTS**

For the Years Ending December 31, 2018 and 2017

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GRANT COUNTY
SANITARY SEWER DISTRICT
BOARD OF COMMISSIONERS
December 31, 2018 and 2017

Charles Givin, Chair

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, 2018 and 2017, 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.



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

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 of December 31, 2018 and 2017, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5-9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our 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.



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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 10, 2019, on our consideration of the Grant County Sanitary Sewer District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 10, 2019

GRANT COUNTY SANITARY SEWER DISTRICT

**1 Farrell Drive
Crittenden, Kentucky 41030**

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, 2018. 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 \$5,931,434 (net position). This was an increase of \$67,855 in comparison to an increase of \$212,690 in the prior year. During 2017 the District's lab and blower building burned down. The building and its contents were covered by insurance which paid to replace the assets at their replacement cost. This resulted in a gain on disposal of \$173,085 and is the primary reason for the decline in the amount that the District's net position increased between years.
- At the end of the current year, unrestricted net position was \$756,990.

USING THIS ANNUAL REPORT

The financial statements presented herein include all the activities of the District accounted for within a single proprietary (enterprise) reporting entity. The financial statements include a statement of net position, statement of revenues, expenses and changes in net position, 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 position at December 31, 2018 and 2017.

Table 1
Net Position

	2018	2017
Current Assets	\$ 759,285	\$ 666,174
Restricted Assets	105,401	178,258
Noncurrent Assets	6,566,243	6,726,707
Total Assets	<u>7,430,929</u>	<u>7,571,139</u>
Current Liabilities	32,791	29,217
Liabilities Payable from Restricted Assets	226,690	286,837
Long Term Liabilities	1,240,014	1,391,506
Total Liabilities	<u>1,499,495</u>	<u>1,707,560</u>
Net Position:		
Invested in Capital Assets, Net of Related Debt	5,157,855	5,170,122
Restricted	16,589	12,641
Unrestricted	756,990	680,816
Total Net Position	<u>\$ 5,931,434</u>	<u>\$ 5,863,579</u>

The District's net position for 2018 increased \$67,855. See the information under Financial Highlights above for an explanation as to why this increase is so much lower than it was during 2017.

The largest portion of the District's net position (87.0%) 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 \$17,674 or 2.5%. This was primarily due to an increase in the number of customers served by the District in comparison to the previous year.

Operation and Maintenance Expense

Operation and maintenance expense increased \$3,642 or .83% during 2018. The District was able to maintain their expenses at an amount that was only slightly above the 2017 amount even though the number of customers increased during 2018.

Depreciation Expense

Depreciation expense increased \$5,630 or 2.9% during 2018. This increase was primarily due to the addition of new assets related to the replacement of assets lost in the 2017 fire.

Gain on Disposition of Assets

The 2018 gain was \$15,842 in comparison to a gain of \$173,085 in 2017. During 2017 the District's lab and blower building burned down. The insurance proceeds at replacement cost exceeded the net book value of the building and its contents resulting in a large one-time gain.

Interest on Long-Term Debt and Customer Deposits

Interest expense decreased \$4,178 or 8.8% during 2018. This is due to the decline in principal balance as the loans are paid off.

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

Table 2
Changes in Net Position

	2018	2017
Operating Revenues:		
Sewer Sales	\$ 701,183	\$ 686,273
Forfeited Discounts	10,187	9,910
Miscellaneous Services Revenues	16,785	14,298
Total Operating Revenues	<u>728,155</u>	<u>710,481</u>
Operating Expenses:		
Operation and Maintenance Expense	444,535	440,893
Depreciation and Amortization	201,674	196,044
Total Operating Expenses	<u>646,209</u>	<u>636,937</u>
Net Operating (Loss) Income	<u>81,946</u>	<u>73,544</u>
Non-Operating Income(Expenses)		
Investment Income	1,871	1,654
Gain (Loss) on Disposition of Capital Assets	15,842	173,085
Interest on Long-Term Debt and Customer Deposits	(43,415)	(47,593)
Net Non-Operating Expenses	<u>(25,702)</u>	<u>127,146</u>
Net Income Before Capital Contributions	56,244	200,690
Capital Contributions	<u>11,611</u>	<u>12,000</u>
Change in Net Position	67,855	212,690
Net Position – January 1	<u>5,863,579</u>	<u>5,650,889</u>
Net Position – December 31	<u><u>\$ 5,931,434</u></u>	<u><u>\$ 5,863,579</u></u>

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At December 31, 2018, the District had \$6,549,353 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 \$159,456.

Table 3 Summarizes the District's capital assets at the end of 2018 as compared to 2017.

Table 3
Capital Assets at Year End

	2018	2017
Land	\$ 25,000	\$ 25,000
Construction in Progress	30,326	30,326
Equipment	51,132	50,082
Transportation Equipment	42,529	38,621
Collection System & Lift Stations	7,248,960	7,237,833
Collection Plant & Equipment	1,509,005	1,506,990
Subtotal	8,906,952	8,888,852
Accumulated Depreciation	(2,357,599)	(2,180,043)
Total Capital Assets	<u>\$ 6,549,353</u>	<u>\$ 6,708,809</u>

Debt Outstanding

Table 4 illustrates the District's outstanding debt at the end of 2018 compared to 2017.

Table 4
Outstanding Debt at Year End

	2018	2017
Notes Payable	\$ 944,655	\$ 992,153
Capital Lease	446,843	546,534
Total	<u>\$ 1,391,498</u>	<u>\$ 1,538,687</u>

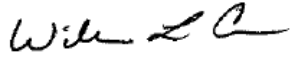
At year-end, the District had \$1,391,498 in outstanding notes and capital leases compared to \$1,538,687 last year. This is a decrease of \$147,189. This decrease is the result of the District making all the scheduled principal and interest payments on their outstanding debt during 2018.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The District's budget for 2019 shows an increase in net position of approximately \$26,000 as opposed to an increase of \$67,855 during 2018. Operating income is expected to remain approximately the same while operating expenses are expected to increase primarily due to an increase in the management fee paid to Bullock Pen Water District. The District does not anticipate any gain on the sale of assets during 2019 so that any increase in net position will be generated from the sale of sewer services and will not be inflated by any gain on disposal of capital assets as it was during 2018. Actual results could vary substantially since 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.

A handwritten signature in black ink, appearing to read "William Catlett".

William Catlett, General Manager
Grant County Sanitary Sewer District

GRANT COUNTY SANITARY SEWER DISTRICT STATEMENTS OF NET POSITION December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 502,798	\$ 378,573
Certificate of deposit	130,057	159,191
Accounts receivable		
Customers, net of allowance	116,291	96,811
Others	2,088	2,606
Insurance proceeds receivable	-	22,730
Restitution receivable - Thurman	-	1,200
Prepays	7,600	4,510
Accrued interest income	451	553
Total current assets	<u>759,285</u>	<u>666,174</u>
Restricted assets		
Replacement reserve	19,750	16,100
Sewer plant reconstruction	-	75,443
Customer deposits	85,651	86,715
Total restricted assets	<u>105,401</u>	<u>178,258</u>
Noncurrent assets		
Restitution receivable - Thurman	-	1,008
Deferred rate case expense	16,890	16,890
Total noncurrent assets	<u>16,890</u>	<u>17,898</u>
Capital assets		
Construction in progress	30,326	30,326
Land, building, transmission system, equipment, and vehicles	8,876,626	8,858,526
Less: accumulated depreciation	(2,357,599)	(2,180,043)
Total capital assets, net of depreciation	<u>6,549,353</u>	<u>6,708,809</u>
Total assets	<u>7,430,929</u>	<u>7,571,139</u>

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

(Continued on Page 11)

GRANT COUNTY SANITARY SEWER DISTRICT STATEMENTS OF NET POSITION (continued from page 10) December 31, 2018 and 2017
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	<u>2018</u>	<u>2017</u>
Liabilities		
Current liabilities		
Accounts payable - trade	31,758	27,873
Accrued liabilities	1,033	1,344
Total current liabilities	<u>32,791</u>	<u>29,217</u>
Current liabilities payable from restricted assets		
Note payable - current portion	48,934	47,498
Capital lease - current portion	102,550	99,683
Customer deposits	65,156	67,166
Accrued interest payable	3,161	3,459
Accounts payable - construction	-	62,112
Trash collection	6,889	6,919
Total current liabilities payable from restricted assets	<u>226,690</u>	<u>286,837</u>
Long-term obligations		
Note payable - KIA	895,721	944,655
Capital lease	344,293	446,851
Total long-term obligations	<u>1,240,014</u>	<u>1,391,506</u>
Total liabilities	<u>1,499,495</u>	<u>1,707,560</u>
Net position		
Invested in capital assets, net of related debt	5,157,855	5,170,122
Restricted	16,589	12,641
Unrestricted	756,990	680,816
Total net position	<u>\$ 5,931,434</u>	<u>\$ 5,863,579</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, 2018 and 2017
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	<u>2018</u>	<u>2017</u>
Operating revenues		
User fee revenue	\$ 711,370	\$ 696,183
Other service revenues	<u>16,785</u>	<u>14,298</u>
Total operating revenues	<u>728,155</u>	<u>710,481</u>
Operating expenses		
Operations and maintenance expense	444,535	440,893
Depreciation	<u>201,674</u>	<u>196,044</u>
Total operating expenses	<u>646,209</u>	<u>636,937</u>
Operating income	<u>81,946</u>	<u>73,544</u>
Non-operating income (expense)		
Investment income	1,871	1,654
Interest on long-term obligations	(43,336)	(47,526)
Interest on customer deposits	(79)	(67)
Gain (loss) on disposal of capital assets	<u>15,842</u>	<u>173,085</u>
Net non-operating income (expense)	<u>(25,702)</u>	<u>127,146</u>
Net income	56,244	200,690
Capital contributions	<u>11,611</u>	<u>12,000</u>
Change in net position	67,855	212,690
Net position, January 1	<u>5,863,579</u>	<u>5,650,889</u>
Net position, December 31	<u><u>\$ 5,931,434</u></u>	<u><u>\$ 5,863,579</u></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, 2018 and 2017
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	2018	2017
Cash flows from operating activities		
Received from customers	\$ 734,131	\$ 689,967
Paid to suppliers for goods and services	(437,840)	(442,750)
Paid to or on behalf of employees for services	(6,211)	(6,392)
Net change in cash from operating activities	<u>290,080</u>	<u>240,825</u>
Cash flows from investing activities		
Acquisition and construction of capital assets	(108,855)	(262,410)
Use (purchase) of investments	29,134	(633)
Interest on investments	1,973	1,420
Net change in cash from investing activities	<u>(77,748)</u>	<u>(261,623)</u>
Cash flows from capital and related financing activities		
Principal paid on long term debt	(147,189)	(143,009)
Cash received from disposal of capital assets	20,367	299,359
Interest paid on long term debt	(43,713)	(47,882)
Contributed capital received	11,611	12,000
Increase (decrease) in restricted cash	72,857	(80,230)
Decrease in customer deposits	(2,010)	(1,316)
Decrease in other restricted liabilities	(30)	(22)
Net change in cash from capital and related financing activities	<u>(88,107)</u>	<u>38,900</u>
Change in cash and cash equivalents	124,225	18,102
Beginning cash and cash equivalents	<u>378,573</u>	<u>360,471</u>
Ending cash and cash equivalents	<u>\$ 502,798</u>	<u>\$ 378,573</u>
Reconciliation of operating income to net cash provided by (used for) operating activities		
Operating income	\$ 81,946	\$ 73,544
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	201,674	196,044
Change in operating assets and liabilities		
Decrease (increase) in receivables	5,976	(20,514)
(Increase) decrease in prepaid assets	(3,090)	557
Increase (decrease) in accounts payable	3,885	(8,914)
(Decrease) increase in other accrued liabilities	(311)	108
Net cash provided by operating activities	<u>\$ 290,080</u>	<u>\$ 240,825</u>
Supplemental information		
Interest expensed	<u>\$ 43,415</u>	<u>\$ 47,593</u>

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

GRANT COUNTY SANITARY SEWER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2018 and 2017
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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.

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. Expenditures may not legally exceed budgeted appropriations at the fund level. All appropriations lapse at fiscal year-end.

GRANT COUNTY SANITARY SEWER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2018 and 2017
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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, 2018 and 2017.

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 2018 and 2017 these contributions consisted of the following:

Source	2018	2017
Tap in fees paid by new customers	\$ 11,611	\$ 12,000
Totals	<u>\$ 11,611</u>	<u>\$ 12,000</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, 2018 and 2017

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, 2018 and 2017, the balances were \$738,256 and \$716,022, 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 into three levels to give an indication of the level of risk assumed by the District at December 31, 2018. The levels are described as follows:

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

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

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

	Level 1	Level 2	Level 3	Fair Value/ Carrying Cost	Cost
Operation & maintenance	\$ 632,855	\$ -	\$ -	\$ 632,855	\$ 632,855
Replacement reserve	19,750	-	-	19,750	19,750
Customer deposits	85,651	-	-	85,651	85,651
Total	<u>\$ 738,256</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 738,256</u>	<u>\$ 738,256</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.

GRANT COUNTY SANITARY SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018 and 2017

Included in restricted net position at December 31,

	2018	2017
Replacement reserve	\$ 19,750	\$ 16,100
Accrued interest on long term debt	(3,161)	(3,459)
Total Restricted Net Position	<u>\$ 16,589</u>	<u>\$ 12,641</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 capital asset balances at December 31, 2018 and 2017 are as follows:

Asset Type	Balance at December 31, 2017	Additions	Retirements	Balance at December 31, 2018
Land	\$ 25,000	\$ -	\$ -	\$ 25,000
Construction in progress	30,326	-	-	30,326
Equipment	275,491	3,064	-	278,555
Mains	4,974,673	-	-	4,974,673
Pump stations	2,263,159	21,441	(10,313)	2,274,287
Structures and improvements	1,281,582	-	-	1,281,582
Transportation equipment	38,621	22,238	(18,330)	42,529
Subtotal	8,888,852	46,743	(28,643)	8,906,952
Accumulated depreciation	(2,180,043)	(201,674)	24,118	(2,357,599)
Capital assets, net	<u>\$ 6,708,809</u>	<u>\$ (154,931)</u>	<u>\$ (4,525)</u>	<u>\$ 6,549,353</u>

GRANT COUNTY SANITARY SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018 and 2017

On July 21, 2017, \$180,787 of the sewer plant structure and equipment were damaged by fire and retired. As of December 31, 2017, the District had received \$177,321 in insurance proceeds and added \$302,707 in capital assets for reconstruction/replacement of the sewer plant structure and equipment.

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
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	2.800%	111,655	2,259	113,914
2023	2.800%	18,631	355	18,986
Totals		<u>\$ 446,843</u>	<u>\$ 27,799</u>	<u>\$ 474,642</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.

The remaining debt service is as follows:

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
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	3.00%	10,436	3,516	13,952
2023	3.00%	10,752	3,200	13,952
2024-2028	3.00%	58,835	10,923	69,758
2029-2031	3.00%	39,743	2,111	41,854
Totals		<u>\$ 149,273</u>	<u>\$ 32,099</u>	<u>\$ 181,372</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

GRANT COUNTY SANITARY SEWER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2018 and 2017
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\$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 remaining debt service is as follows:

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
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	3.00%	43,070	19,888	62,958
2023	3.00%	44,372	18,586	62,958
2024-2028	3.00%	242,807	71,982	314,789
2029-2033	3.00%	281,787	33,002	314,789
2034	3.00%	61,569	1,388	62,957
Totals		<u>\$ 795,382</u>	<u>\$ 211,943</u>	<u>\$ 1,007,325</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 \$132,912 and \$126,703 in 2018 and 2017, 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 \$0 and \$2,208 as of December 31, 2018 and 2017, respectively.

NOTE 9 – LITIGATION

The District had 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, was approximately \$7,000 and this amount was collected in full during fiscal year 2017.

GRANT COUNTY SANITARY SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE 10 – SUBSEQUENT EVENTS

Management has evaluated events through May 10, 2019, the date on which the financial statements were available for issue. The District did not have any events subsequent to report from December 31, 2018 through May 10, 2019.

GRANT COUNTY SANITARY SEWER DISTRICT SCHEDULES OF OPERATIONS, MAINTENANCE AND ADMINISTRATIVE EXPENSES For the Years Ending December 31, 2018 and 2017
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	2018	2017
OPERATIONS, MAINTENANCE AND ADMINISTRATIVE EXPENSES		
Salaries and wages - commissioners	\$ 5,900	\$ 6,500
Advertising	52	8
Bad debt expense	10,223	8,201
Chemicals	15,205	11,262
Contractual services - accounting	33,246	31,584
Contractual services - engineering	6,615	4,950
Contractual services - legal	7,350	9,154
Contractual services - management	132,912	126,703
Contractual services - sample analysis	15,606	14,757
Contractual services - other	76,623	103,422
Insurance - general liability	5,836	4,992
Insurance - vehicle	2,706	1,257
Insurance - property	5,616	6,756
Insurance - other	273	-
Materials and supplies	30,875	33,680
Miscellaneous	25	187
Payroll taxes	451	497
Purchased power	87,188	70,723
Rental of equipment	1,410	1,914
Transportation	5,002	2,951
Utility regulatory assessment	1,421	1,395
TOTAL OPERATIONS, MAINTENANCE AND ADMINISTRATIVE EXPENSES	\$ 444,535	\$ 440,893



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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, 2018 and 2017, 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 10, 2019.

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 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*.



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

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 10, 2019