



# *Comprehensive Annual Financial Report*

**For the Fiscal Year Ended June 30, 2013**

**Sanitation District No. 1**

1045 Eaton Drive

Ft. Wright, KY

(p) 859-578-7450

(f) 859-331-2436

(w) [www.sd1.org](http://www.sd1.org)





**SANITATION DISTRICT NO. 1**

**COMPREHENSIVE ANNUAL  
FINANCIAL REPORT**

**For the Years Ended June 30, 2013 and 2012**

**Prepared by:**

**Sanitation District No. 1  
Finance Department**

**Ron Schmitt, Jr.  
Director**

**Deborah Vinson  
Accounting Manager**



<p><b>SANITATION DISTRICT NO. 1</b></p> <p><b>COMPREHENSIVE ANNUAL</b></p> <p><b>FINANCIAL REPORT</b></p> <p><b>For the Years Ended June 30, 2013 and 2012</b></p>
--

**Table of Contents**

	<b>Page</b>
<b>INTRODUCTORY SECTION</b>	
Letter of Transmittal	1-5
Organizational Chart	6
Board of Directors	7
<b>FINANCIAL SECTION</b>	
Independent Auditor's Report	9-13
Management's Discussion and Analysis	15-21
<b>Basic Financial Statements</b>	
Balance Sheets	22-25
Statements of Revenues, Expenses and Changes in Net Position	26-27
Statements of Cash Flows	28-29
Notes to the Financial Statements	30-47
<b>Required Supplementary Information</b>	
Budgetary Comparison Schedules - Budget to Actual	
General Revenues	48-49
Operation, Maintenance, and Administration	50-65
<b>Supplementary Information</b>	
Schedule of Expenditures of Federal Awards	66
Notes to the Schedule of Expenditure of Federal Awards	67
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 <i>Government Auditing Standards</i>	69-71
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133	73-75
Schedule of Findings and Questioned Costs	77
Summary Schedule of Prior Audit Findings	78

*Continued on next page*

**SANITATION DISTRICT NO. 1**  
**COMPREHENSIVE ANNUAL**  
**FINANCIAL REPORT**  
**For the Years Ended June 30, 2013 and 2012**

**Table of Contents - *Continued***

	<b>Page</b>
<b>STATISTICAL SECTION</b>	
<b>Statistical Section Narrative</b>	79
<b>Financial Trends</b>	
Statements of Net Position (Balance Sheets)	80-81
Statements of Revenues, Expenses, and Changes in Net Position	82-83
Statements of Cash Flows	84
Net Capital Assets	85
<b>Revenue Capacity</b>	
Schedule of Rates, Rate Determination, and Percentage Change; 2004-2009	86
Schedule of Rates, Rate Determination, and Percentage Change; 2010-2013	87
Sewer & Storm Water Revenues Breakdown By Billing Class; 2004-2009	88
Sewer & Storm Water Revenues Breakdown By Billing Class; 2010-2013	89
Top Significant Industrial Users	90
<b>Debt Service Coverage</b>	
Ratios of Outstanding Debt	91
Debt Service Coverage	92-93
<b>Demographic and Economic Information</b>	
Northern Kentucky Demographic and Census Information; 2002-2011	94-97
Northern Kentucky Top Ten Employers; 2013 and 2004	98
<b>Operating Information</b>	
Miscellaneous Operating Statistics	99
Capital Asset Statistics	100

## **INTRODUCTORY SECTION**





December 3, 2013

To the Citizens Served by Sanitation District No. 1 (SD1) and to SD1's Board of Directors:

SD1 and its Finance Department are pleased to submit the Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2013. This report follows guidelines set forth by the Government Accounting Standards Board and Generally Accepted Accounting Principles (GAAP).

This report consists of management's representations concerning the finances of SD1. Responsibility for the completeness and reliability of the information presented rests with SD1 Management. SD1 has worked to establish an internal control framework that provides a reasonable basis for asserting that the financial statements are fairly presented. Because the cost of internal controls should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

SD1's financial statements have been audited by Van Gorder, Walker & Co., Inc, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that SD1's financial statements for the fiscal year ended June 30, 2013 are free of material misstatements. The independent audit involved examining on test basis evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, there was a reasonable basis for issuing an unqualified ("clean") opinion that SD1's financial statements for the fiscal year ended June 30, 2013 are fairly presented in conformity with GAAP. The independent auditor's report is presented at the front of the financial section of this report.

SD1 Management's Discussion and Analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview and analysis of the basic financial statements. This letter of transmittal is intended to complement the discussion and analysis and should be read in conjunction with it.

## **Profile of SD1**

SD1 is the second largest public sewer utility in Kentucky, serving approximately 325,000 residents across a service area of approximately 220 square miles, encompassing more than 30 municipalities and unincorporated portions of Boone, Campbell and Kenton Counties.

SD1 maintains more than 1,700 miles of sanitary sewer system pipeline, 142 wastewater pumping stations, 15 flood pump stations, eight package treatment plants, three major wastewater treatment plants, more than 400 miles of storm sewer system and more than 30,000 storm sewer structures.

In Fiscal Year 2013, SD1 served a sanitary sewer customer base of 102,418 accounts and a storm water customer base of 94,766 accounts. SD1's sanitary sewer customer base has experienced a modest 0.647 percent average annual growth rate over the past five years, while SD1's storm water customer base has experienced a modest 0.353 percent average annual growth rate over the past five years.

SD1 is governed by a citizen Board of Directors, consisting of eight members that serve four-year staggered terms. County representation is based on the populations of the three counties SD1 serves. Four Board members are appointed by the Kenton County Judge Executive with the Kenton County Fiscal Courts approval, as Kenton County is the most populous county in SD1's service area. Two are appointed by the Campbell County Judge Executive with the Campbell County Fiscal Courts approval, and two are appointed by the Boone County Judge Executive with the Boone County Fiscal Courts approval. SD1's Board was given the full power and authority granted by Kentucky State Statute Chapter 220 and other applicable laws in administering, controlling and managing the affairs of SD1, including the budgeting process. The Board and County Judges Executive who appoint the members are required to review and give final approval of SD1's operating and capital budgets by July 1 of the year to which they apply.

## **Factors Affecting Financial Conditions**

### Local Economy

SD1 is in Northern Kentucky, across the Ohio River from the City of Cincinnati, and is classified as belonging to the Cincinnati Metropolitan Statistical Area (MSA). Per the U.S. 2011 Census, Northern Kentucky's population was 369,730. SD1 derives strength from the area's diverse economic base of manufacturing, entertainment, retail and commercial facilities. The local economy also benefits from its proximity to Cincinnati and includes the Greater Cincinnati International Airport.

According to the Northern Kentucky Chamber of Commerce in its *Economic Outlook 2013*, the area economy has recovered at a slow and uneven rate and is expected to continue a slow but steady improvement on a long road to recovery. The economic

signs are positive but still clouded by the uncertainty presented through government and regulatory changes, banking policies, gas prices, unemployment and real estate issues.

During the past five years, the unemployment rate in the Cincinnati MSA has hovered around 7 percent compared to a low of 5 percent in 2007 and a high of 9.9 percent in 2009. Regional unemployment is still lower than the national rate of 7.8 percent. Job growth is expected to increase, but the rate of growth will vary across industry sectors.

Although the housing industry will not return to levels of growth seen in the middle of the last decade, housing activity is showing signs of improvement and should provide a significant plus to growth in the coming year.

### Long Term Financial Planning

Many factors affect the funding and management of our wastewater and storm water utility, the most prominent of which are SD1's federal mandate to reduce wastewater pollution of the region's waterways and SD1's regional storm water management program.

In 2007, SD1 entered into an agreement, or Consent Decree, with the U.S. EPA and the Kentucky Energy and Environment Cabinet, taking action to reduce water pollution in Northern Kentucky's creeks and streams. The Clean Water Act's regulations affect SD1, because like many wastewater collection systems in the country, SD1 has portions of the collection system that overflow during peak flow periods. During a heavy storm, these pipes can become overloaded and overflow, releasing sewage on to the ground in the adjoining area. An estimated \$1.2 billion investment over a 20 year period is required to address these overflows.

Other cities and utilities have entered into consent decrees like SD1, but SD1's Consent Decree is somewhat unique. It is a comprehensive watershed approach that focuses on improving regional water quality by addressing other sources of water pollution in addition to reducing sewer overflows. This approach allows SD1 to develop efficient and cost-effective solutions that consider the source of the problem in an area and implement solutions specific to the cause and location. SD1 is also able to prioritize the solutions so that those fixes which have the greatest improvement on water quality at lower costs are addressed first.

Because the 2025 deadline for SD1's Consent Decree places a major financial burden on the community, SD1 is currently working with state and federal officials to renegotiate and extend the deadline to make the program more affordable to ratepayers.

SD1 is also in the process of developing a long-term service plan for the Northern Kentucky Regional Storm Water Program. This long-term service plan will set a course for the Regional Storm Water Program over the next ten or more years to help SD1 meet the storm water management needs and customer expectations of our community. To develop this long-term service plan, SD1 has been evaluating various storm water-

related program initiatives revolving around the extent and level of service we plan to provide to the community, management of our storm water assets, storm water billing methodology and the role the storm water program plays in SD1's Consent Decree.

### Relevant Financial Policies

In April 1998, SD1's Board of Directors established and approved a trust indenture to assure a strong financial position and to protect SD1's revenue bond rating during periods of fiscal stress. The trust indenture requires SD1 to maintain a rate covenant such that net revenues will cover annual bond debt service of at least 1.25 times; a debt service reserve fund requirement equivalent to maximum annual debt service that is fully cash funded; an Operation and Maintenance fund requirement equivalent to three months of operating expenses; and a self-insurance fund requirement of maintaining a minimum of \$5 million for the payment of liability claims against SD1.

At fiscal year end, SD1 had debt outstanding of \$538,713,765. Outstanding bonds of SD1 are rated Aa2 by Moody's and AA/Stable by Standard & Poor's rating agencies. For fiscal year ended June 30, 2013, net revenues covered debt service on both revenue bonds and Kentucky Infrastructure Authority (KIA) notes by 1.4 times. Unrestricted cash was at a level representing at least 170 days' cash which equated to \$19.1 million.

Cash temporarily idle during the year was invested in insured certificates of deposit, repurchase agreements and obligations of the U.S. Treasury. SD1's investment policy is to minimize credit and market risk, while maintaining a competitive yield on its portfolio. Accordingly, deposits were either insured by federal depository insurance or collateralized.

### Major Initiatives

In order to provide superior wastewater treatment and storm water management services at an affordable rate to our customers, SD1 is engaging in a number of initiatives to evaluate the associated cost of running a utility. Some of these efforts include a Continuous Sewer Improvement Program, an energy audit, an IT optimization study, and a Fleet Management Assessment Program.

The Continuous Sewer Improvement Program involves proactively assessing the condition and life cycle of the pipes in SD1's collection system. Through this approach, SD1 is able to utilize its resources more efficiently by prioritizing inspection, cleaning, rehabilitation and replacement of the pipes within our service area. This program also allows SD1 to minimize the number of overflows in our system, reduce the number of basement backups and improve public health and safety measures.

An energy audit at SD1's treatment plants is being performed in order to target major energy users and determine if and where SD1 can reduce energy usage and associated costs while still maintaining compliance with regulations. Through this review, SD1 is evaluating the possibility of modifying processes to decrease energy consumption,

replacing equipment with more efficient models and making overall smarter decisions to conserve energy.

The IT Optimization study is the first step being taken to complete a comprehensive review of the utilities use of technology. To successfully deliver quality customer service at a reasonable cost, SD1 will need to maximize the use of effective and efficient technology. Through this study and subsequent steps, SD1 is evaluating how technology currently in place is meeting the utilities business needs and where gaps may exist and how best to address the shortcomings.

SD1 is also working to reduce costs and improve efficiency through its Fleet Management Assessment Program. Some of the initiatives being considered through this assessment include exploring the option of using in-house resources for the maintenance of SD1 vehicles; developing criteria for replacement of vehicles; and utilizing GPS as a tracking tool to more efficiently distribute crews, respond to emergencies and monitor vehicle metrics.

#### **Awards and Acknowledgements**

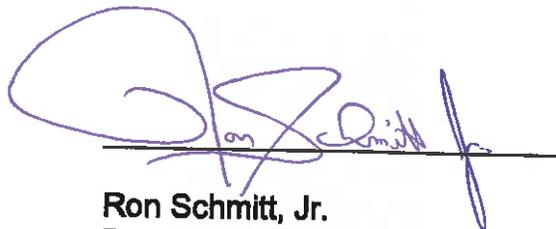
The report for the year ended June 30, 2013 is the first CAFR issued for SD1. We believe that this current CAFR meets the Certificate of Achievement Program's requirements, and we are submitting it to the *Government Finance Officers Association* to determine its eligibility for a certificate.

The preparation of this report would not have been possible without the efficient and dedicated services of all SD1 departments and staff. We would like to express our appreciation to all who assisted and contributed to the preparation of this report.

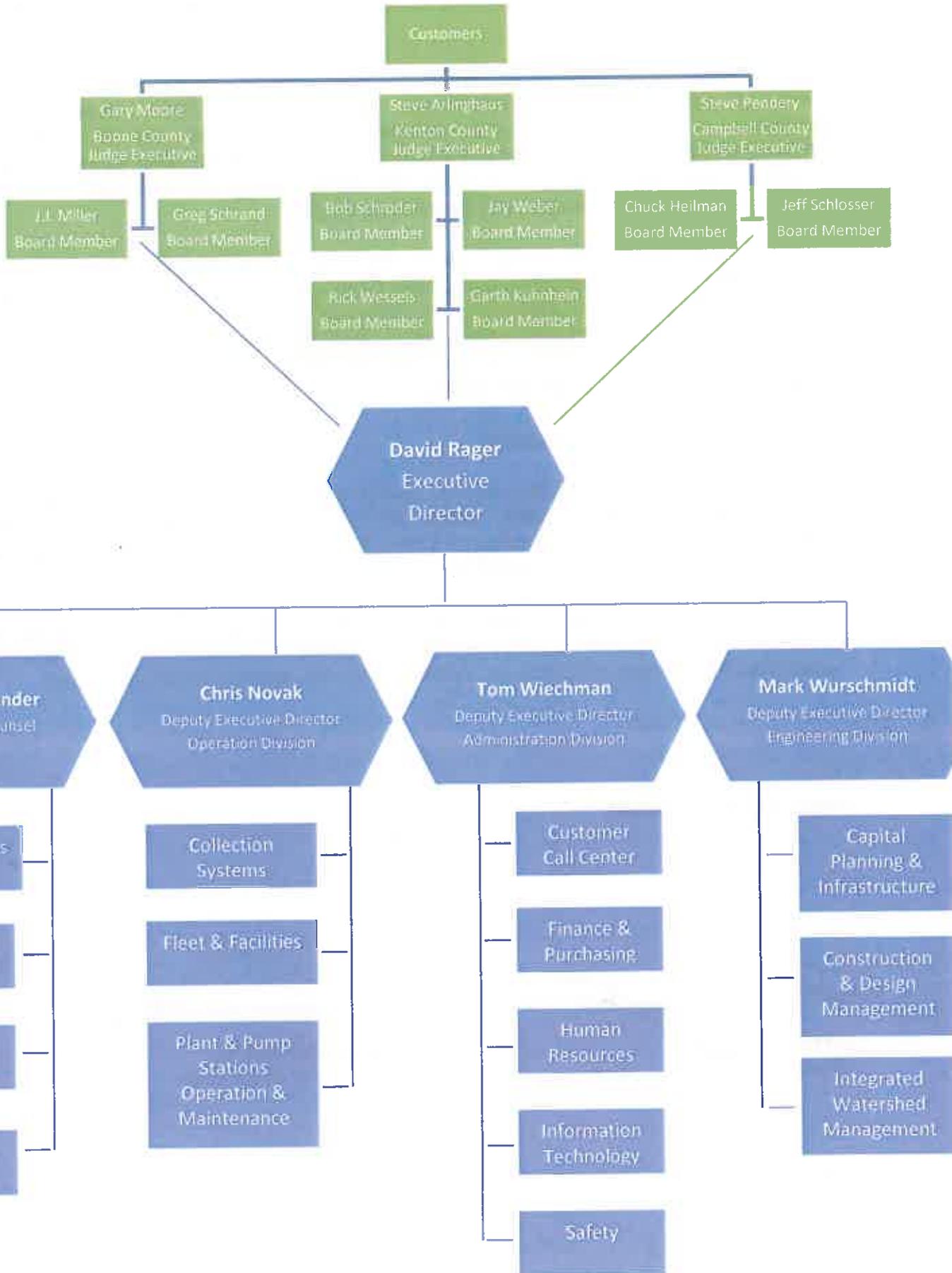
Respectfully Submitted,



David E. Rager  
Executive Director



Ron Schmitt, Jr.  
Director of Finance



**SANITATION DISTRICT NO. 1**  
**COMPREHENSIVE ANNUAL**  
**FINANCIAL REPORT**  
**For the Years Ended June 30, 2013 and 2012**

**Board of Directors**

Chuck Heilman, President  
Campbell County

Jay Weber, Vice-President  
Kenton County

Greg Schrand, Treasurer  
Boone County

Bob Schroder, Secretary  
Kenton County

Jeffrey Schlosser  
Campbell County

J.J. Miller  
Boone County

Garth Kuhnhein  
Kenton County

Rick Wessels  
Kenton County

**Management**

David E. Rager  
Executive Director

**This Page Intentionally Left Blank**

## **FINANCIAL SECTION**



## **Independent Auditor's Report**

**To the Board of Directors  
Sanitation District No. 1**

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the business type activities of Sanitation District No. 1 (SD1), as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise SD1'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 audits 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.

This Page Intentionally Left Blank

**-Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sanitation District No. 1 as of June 30, 2013 and 2012 and the respective changes in financial position 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 15-21 and the *Budgetary Comparison Schedules – Budget to Actual* on pages 48-65 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.

***Supplementary Information***

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Sanitation District No. 1's financial statements as a whole. The Introductory Section and the Statistical Section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the Sanitation District No. 1. The Introductory Section, the Statistical Section and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements or to the 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 taken as a whole.

**This Page Intentionally Left Blank**

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2013 on our consideration of Sanitation District No. 1'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 Sanitation District No. 1's internal control over financial reporting and compliance.



Van Gorder, Walker & Co., Inc.  
Erlanger, Kentucky  
November 22, 2013

This Page Intentionally Left Blank



## Sanitation District No. 1 Management's Discussion and Analysis

Following is a narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2013. The information below should be considered in conjunction with additional information that was furnished in the letter of transmittal and basic financial statements included in this report.

### Financial Highlights

- The assets of SD1 exceeded its liabilities at the close of the most recent year by \$753 million.
- SD1's total net position increased \$7.0 million in 2013. This represents a 0.94% change from the 2012 balance.
- The operating revenues of SD1 increased by \$5.8 million to \$89.7 million at the close of the current fiscal year.
- The operating expenses excluding depreciation increased by \$5.0 million to \$41.0 million at the close of the current fiscal year.
- SD1's total debt service increased by \$5.1 million or 1% during the current fiscal year.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to SD1's basic financial statements. SD1's basic financial statements are the Balance Sheet, the Statement of Revenues, Expenses and Changes in Net Position, the Statement of Cash Flows and the accompany notes to the financial statements.

The Balance Sheet presents information on all SD1's assets and liabilities with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of SD1 is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Position presents information showing how SD1's net position changed during the most recent fiscal year. SD1 is intended to be entirely or predominately self-supported from user charges. Revenues are reported when earned and expenses are reported when incurred.

The Statement of Cash Flows provides information relating to SD1's cash receipts and disbursements during the fiscal year. This statement summarizes net changes in cash resulting from operating, investing and financing activities.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in SD1's basic financial statements. The notes to the financial statements can be found on pages 30 to 47 of this report.

In addition to the basic financial statements and accompanying notes, this report also presents other required supplementary information concerning budgetary comparisons. Other required supplementary information can be found on pages 48 to 65 of this report.

## Financial Analysis of SD1's Financial Position and Results of Operation

Table 1 provides a summary of SD1's net position at June 30, 2013 and 2012.

**Table 1  
Net Position**

	June 30,	
	2013	2012
Current Assets	\$ 59,354,469	\$ 55,815,108
Restricted Assets	104,042,153	107,472,951
Non-current Assets, Net	1,052,608	1,097,553
Capital Assets, Net	<u>1,161,235,978</u>	<u>1,149,837,059</u>
Total Assets	<u>1,325,685,208</u>	<u>1,314,222,671</u>
Deferred Outflow of Resources	<u>3,458,564</u>	<u>4,071,573</u>
Current Liabilities	40,261,848	33,519,949
Liabilities from Restricted Assets	9,554,659	11,052,340
Non-current Liabilities	<u>525,986,401</u>	<u>527,405,468</u>
Total Liabilities	<u>575,802,908</u>	<u>571,977,757</u>
Net Position		
Invested in Capital Assets, Net of Related Debt	617,863,936	610,547,627
Restricted	<u>97,946,058</u>	<u>100,596,825</u>
Unrestricted	<u>37,530,870</u>	<u>35,172,035</u>
Total Net Position	<u>\$ 753,340,864</u>	<u>\$ 746,316,487</u>

Net Position of SD1 increased 0.94% to \$753,340,864 in 2013 from \$746,316,487 in 2012. This is basically flat growth for the current fiscal year. The largest portion of SD1's net position \$617 million (82.0%) reflects its investment in capital assets such as land, buildings, treatment facilities, and collection systems, less any related debt still outstanding used to acquire those assets. SD1 uses these capital assets to provide services to its customers; consequently, these assets are not available for future spending. Although SD1's investment in its capital assets is reported net of 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 these liabilities.

An additional portion of SD1's net position is considered to be restricted. This amount represents resources that are subject to external restrictions on how they may be used. The remaining balance \$37.5 million represents unrestricted net position and may be used to meet SD1's ongoing obligations to customers and creditors.

Table 2 shows the changes in net assets for 2013, as well as the revenue and expense comparisons to 2012.

**Table 2  
Changes in Net Position**

	For the Years Ended June 30,	
	2013	2012
<b>Operating Revenues:</b>		
Sewer service charges	\$ 73,562,515	\$ 68,369,740
Storm water charges	11,751,183	11,388,734
Permits and tap in fees	2,340,792	1,765,957
Sludge hauling	120,776	147,409
Inspections	69,682	69,300
Penalties	1,581,774	1,431,386
Contractual services	125,689	141,038
Bad debt recoveries	35,392	19,097
Other revenues	50,993	69,044
Project reimbursements	68,321	549,579
<b>Total Operating Revenues</b>	<u>89,707,117</u>	<u>83,951,284</u>
<b>Operating Expenses</b>		
Operations, maintenance, and administration	36,544,843	31,080,924
Major repairs and other expenses	4,495,306	4,912,935
Depreciation	40,245,842	39,593,040
<b>Total Operating Expenses</b>	<u>81,285,991</u>	<u>75,586,899</u>
<b>Operating Income</b>	8,421,126	8,364,385
<b>Non-Operating Revenues</b>	2,125,131	2,424,226
<b>Interest and Other Charges</b>	<u>(19,374,553)</u>	<u>(18,296,538)</u>
<b>Change in Net Assets Before Capital Contributions</b>	(8,828,296)	(7,507,927)
<b>Capital Contributions</b>	<u>15,852,673</u>	<u>6,064,545</u>
<b>Change in Net Position</b>	7,024,377	(1,443,382)
<b>Net Position - Beginning</b>	746,316,487	751,389,718
<b>Prior Period Adjustment</b>	-	(3,629,849)
<b>Net Position - Ending</b>	<u>\$ 753,340,864</u>	<u>\$ 746,316,487</u>

In fiscal year 2013, SD1 showed a 0.68% increase in operating income of \$8,421,126 compared to \$8,364,385 in 2012. After the effects of non-operating revenues and interest charges, SD1 showed an increase in net position for the year of \$7,024,377 compared to (\$1,443,382) in fiscal year 2012. The significant difference between the two years was due to capital contributions of storm water assets from the City of Fort Wright of \$12,464,000 made in fiscal year 2013.

Operating revenues increased 6.9% over the previous year which was primarily a result of a 15% sanitary sewer rate increase that was effective April 1, 2012. Operating expenses increased by 7.54% over the previous year which was primarily a result of the Western Regional Reclamation Facility being fully operational as of April 2012, and increased maintenance requirements associated with the storm water asset transfers from Northern Kentucky cities.

Non-operating revenues were \$2,125,131 for fiscal year 2013, a decrease over the previous year of 12.3%. The majority of this decrease was the result of the 2013 federal budget sequester which reduced the level of reimbursement for Build America Bond (BAB's) interest payments by 8.7%. Interest expense and other charges were \$19,374,553 an increase of 3.9% over the previous year and was attributable to increased interest on new bonds and notes.

### Capital Assets

At June 30, 2013 total capital assets reported was \$1,477,832,829 including land, buildings, sewer systems, equipment, and vehicles. This represents a net increase of \$49,835,928, or 3.5% over 2012. This increase is due to SD1's investment in sewer projects, vehicles, equipment and storm water assets contributed by Northern Kentucky cities during the fiscal year.

These assets are summarized in table 3 below.

**Table 3**  
**Capital Assets, Net of Depreciation**

Asset Type	June 30,	
	2013	2012
Collection system	\$ 649,183,792	\$ 623,052,699
Pump stations	85,077,857	74,563,508
Treatment and disposal	227,871,390	225,901,841
General plant and equipment	76,770,943	75,527,421
Sanitation software model	15,967,050	15,967,050
Storm water land	466,989	409,728
Storm water vehicles	25,027	-
Storm water equipment	31,068	-
Storm water collection	374,959,787	356,814,655
Storm water software model	5,645,160	5,645,160
Construction in progress		
Sanitation	40,814,200	46,654,791
Storm water	1,019,566	3,460,048
Subtotal	<u>1,477,832,829</u>	<u>1,427,996,901</u>
Less: accumulated depreciation	<u>(316,596,851)</u>	<u>(278,159,842)</u>
Total Capital Assets, Net	<u>\$ 1,161,235,978</u>	<u>\$ 1,149,837,059</u>

### Debt and Capital Asset Administration

At year end, SD1 had \$538,713,765 in outstanding bonds and notes compared to \$533,605,098 in 2012, an increase of 1.0% as shown in Table 4. SD1 did not add any new bonds in 2013, but added \$16,223,668 to the notes payable. These funds were utilized to help fund the necessary capital improvement projects.

Table 4 summarizes SD1 outstanding debt at June 30, 2013 and 2012.

**Table 4  
Debt Summary**

	June 30,	
	2013	2012
Bonds Payable Obligations (Backed by User Fee Revenues)	\$ 385,915,000	\$ 397,030,000
Notes Payable (Backed by User Fee Revenues)	152,798,765	136,575,098
Totals	<u>\$ 538,713,765</u>	<u>\$ 533,605,098</u>

### Operational Budget vs. Actual Revenues and Expenses

During the fiscal year 2013, SD1's actual revenues exceeded budgeted revenues by \$509,117 which primarily was a result of higher than anticipated capacity connection fees. Actual expenditures were below budget by \$1,693,893. Three operational areas, the collection system, pump stations, and the Western Regional spent in excess of their operating budgets during 2013. The Collection system exceeded their operating budget by \$1.2 million which was primarily due to higher than anticipated medical claims, higher than anticipated operations and maintenance emergencies and a lower than anticipated amount of salaries and wages being reallocated to capital projects.

The budget to actual results for each operating area for fiscal years 2013 and 2012 is summarized in tables 5 and 6 below.

**Table 5  
Operations Budget versus Actual, 2013**  
For the Year Ended June 30, 2013

	Budget	Actual	Variance
General Revenues	\$ 89,198,000	\$ 89,707,117	\$ 509,117
Dry Creek Treatment Plant	8,692,336	7,521,686	1,170,650
Eastern Regional WRF	1,744,212	1,186,211	558,001
Western Regional WRF	2,631,089	2,777,256	(146,167)
Collection System	5,495,233	6,690,371	(1,195,138)
Field Tech/Pump Stations	4,881,259	4,910,199	(28,940)
Engineering	2,518,777	2,307,176	211,601
Storm Water	5,275,391	4,600,017	675,374
Administration	7,000,439	6,551,927	448,512
	<u>38,238,736</u>	<u>36,544,843</u>	<u>1,693,893</u>
Excess of revenues over general expenses	<u>\$ 50,959,264</u>	<u>\$ 53,162,274</u>	<u>\$ 2,203,010</u>

**Table 6  
Operations Budget versus Actual, 2012**

	For the Year Ended June 30, 2012		
	Budget	Actual	Variance
General Revenues	\$ 83,370,000	\$ 83,951,284	\$ 581,284
Dry Creek Treatment Plant	8,847,351	8,241,636	605,715
Eastern Regional WRF	1,697,600	1,323,290	374,310
Western Regional WRF	759,715	659,943	99,772
Collection System	3,863,949	4,396,626	(532,677)
Field Tech/Pump Stations	4,504,347	4,724,389	(220,042)
Engineering	1,169,603	1,702,452	(532,849)
Storm Water	4,044,158	3,813,515	230,643
Administration	6,434,536	6,219,073	215,463
	<u>31,321,259</u>	<u>31,080,924</u>	<u>240,335</u>
Excess of revenues over general expenses	\$ 52,048,741	\$ 52,870,360	\$ 821,619

### **Economic Factor's and Next Year's Budget**

Pursuant to Kentucky Revised Statues KRS Chapter 220.542, SD1 is now required to have all fees, charges and rates approved by the majority of the fiscal courts, if the rate increase is five percent or greater. SD1 presented two budget scenarios to the Board of Directors, Fiscal Courts and Stakeholders to consider as the Fiscal Year 2014 Budget. The Board of Directors recommended a Bond Compliance Budget that included a 9% rate increase in sewer rates. The Fiscal Courts did not approve the 9% rate increase necessary to fund the Bond Compliance Scenario budget. Subsequently further adjustments were made and the Board recommended a Fiscal Year 2014 budget with a zero percent increase in sanitary rates and a cost of living increase of 2.49% in the storm water surcharge rate and other miscellaneous user fees. The recommended budget was then approved according to Kentucky Revised Statues KRS Chapter 220.035.

The impact to revenue in FY 2014 is an estimated decrease of \$1.4 million over the previous year's actual revenues. The majority of this decrease is projected to be in the sanitary services revenue. Since SD1's billing is based upon water consumed and the average water consumption by residential households has been declining on average about 2% a year, a zero percent change in rates ultimately translates in a decline in revenue.

As a result of the anticipated decline in revenues, SD1's Operation and Maintenance (O&M) Budget for the 2014 fiscal year calls for reductions and eliminations of certain programs and services in order to continue operations in light of rising costs associated with healthcare, fuel, utility costs, and debt payments while at the same time remaining compliant with all bond covenants. In addition, the Capital Improvement Projects Budget was reduced to \$27.9 million and primarily includes those projects associated with the Federal Court Order (Consent Decree) that have a specific completion date requirement of 2015.

SD1 issued \$60.5 million in Recovery Zone Economic Development Bonds and Build America Bonds early in fiscal year 2011 to help meet the capital budget requirements. At the end of fiscal year 2013, there was a balance remaining of \$15.6 million of bond funds to be used for capital projects in FY14. SD1 is not anticipating issuing any new revenue bonds in this fiscal year. SD1 will continue to evaluate utilizing

funding for capital projects through the Commonwealth of Kentucky's Revolving Loan Fund Program when applicable.

**Contacting SD1's Financial Management**

This report is designed to provide our customers and creditors with a general overview of SD1's finances and to show SD1's accountability for the money it receives. If you have questions about this report or need additional information, contact SD1's Administrative Office at 1045 Eaton Drive, Fort Wright, KY 41017.

**SANITATION DISTRICT NO. 1**  
**BALANCE SHEET**  
**June 30, 2013**

**ASSETS AND DEFERRED OUTFLOW OF RESOURCES**

<b>ASSETS</b>	<b>Sanitation</b>	<b>Stormwater</b>	<b>Total</b>
<b>Current Assets</b>			
Cash and cash equivalents	\$ 19,058,529	\$ -	\$ 19,058,529
Accounts receivable			
Customers, net of allowance	8,634,124	2,396,991	11,031,115
Communities	24,631	-	24,631
KIA loan receivable	4,235,102	-	4,235,102
Others	3,741,641	-	3,741,641
Due from other fund	-	11,461,121	11,461,121
Accrued unbilled charges	7,731,700	1,458,700	9,190,400
Prepays and deposits	583,402	12,750	596,152
Accrued interest income	13,569	2,209	15,778
<b>Total Current Assets</b>	<b>44,022,698</b>	<b>15,331,771</b>	<b>59,354,469</b>
<b>Restricted Assets</b>			
Cash	19,577,365	-	19,577,365
Investments	81,293,124	1,320,249	82,613,373
Receivables			
Assessments	1,644,649	-	1,644,649
Improvement notes	5,130	-	5,130
Accrued interest	152,282	-	152,282
Prepaid items	49,354	-	49,354
<b>Total Restricted Assets</b>	<b>102,721,904</b>	<b>1,320,249</b>	<b>104,042,153</b>
<b>Noncurrent Assets</b>			
Unamortized bond costs and discount, net	1,052,608	-	1,052,608
<b>Capital Assets</b>			
Land, building, system, equipment, and vehicles	1,054,871,033	381,128,031	1,435,999,064
Construction in progress	40,814,199	1,019,566	41,833,765
Less: accumulated depreciation	(263,554,552)	(53,042,299)	(316,596,851)
<b>Total Capital Assets, Net</b>	<b>832,130,680</b>	<b>329,105,298</b>	<b>1,161,235,978</b>
<b>TOTAL ASSETS</b>	<b>979,927,890</b>	<b>345,757,318</b>	<b>1,325,685,208</b>
<b>DEFERRED OUTFLOW OF RESOURCES</b>			
Deferred refunding costs on defeased bond debt	3,458,564	-	3,458,564
<b>TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES</b>	<b>\$ 983,386,454</b>	<b>\$ 345,757,318</b>	<b>\$ 1,329,143,772</b>

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

**SANITATION DISTRICT NO. 1**  
**BALANCE SHEET (Continued)**  
**June 30, 2013**

**LIABILITIES**

	<u>Sanitation</u>	<u>Stormwater</u>	<u>Total</u>
<b>Current Liabilities</b>			
Accounts payable	\$ 7,430,908	\$ 1,087,971	\$ 8,518,879
Accrued payroll and benefits	1,435,858	312,040	1,747,898
Accrued taxes and pension	2,772	-	2,772
Due to other fund	11,461,121	-	11,461,121
Communities	156	-	156
Other accruals	45,183	-	45,183
Sales tax payable	47,590	-	47,590
Current portion of long-term debt	18,354,751	83,498	18,438,249
<b>Total Current Liabilities</b>	<u>38,778,339</u>	<u>1,483,509</u>	<u>40,261,848</u>
<b>Liabilities Payable From Restricted Assets</b>			
Accounts payable	1,272,339	51,845	1,324,184
Accrued interest payable	8,227,124	3,351	8,230,475
<b>Total Liabilities Payable From Restricted Assets</b>	<u>9,499,463</u>	<u>55,196</u>	<u>9,554,659</u>
<b>Noncurrent Liabilities</b>			
Notes payable	144,046,488	1,744,028	145,790,516
Bonds payable, net of amortization	380,195,885	-	380,195,885
<b>Total Noncurrent Liabilities</b>	<u>524,242,373</u>	<u>1,744,028</u>	<u>525,986,401</u>
<b>TOTAL LIABILITIES</b>	<u>572,520,175</u>	<u>3,282,733</u>	<u>575,802,908</u>
<b>NET POSITION</b>			
Invested in capital assets, net of related debt	290,586,164	327,277,772	617,863,936
Restricted	96,681,005	1,265,053	97,946,058
Unrestricted	23,599,110	13,931,760	37,530,870
<b>TOTAL NET POSITION</b>	<u>410,866,279</u>	<u>342,474,585</u>	<u>753,340,864</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u>\$ 983,386,454</u>	<u>\$ 345,757,318</u>	<u>\$ 1,329,143,772</u>

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

**SANITATION DISTRICT NO. 1**  
**BALANCE SHEET**  
**June 30, 2012**

**ASSETS AND DEFERRED OUTFLOW OF RESOURCES**

ASSETS	<i>Restated</i>		Total
	Sanitation	Stormwater	
<b>Current Assets</b>			
Cash and cash equivalents	\$ 9,464,525	\$ -	\$ 9,464,525
Investments	7,863,246	-	7,863,246
Accounts receivable			
Customers, net of allowance	7,974,021	2,134,440	10,108,461
Communities	20,731	-	20,731
KIA loan receivable	6,725,121	215,314	6,940,435
Others	3,834,336	-	3,834,336
Due from other fund	-	7,302,667	7,302,667
Accrued unbilled charges	8,163,600	1,451,800	9,615,400
Prepays and deposits	625,333	12,650	637,983
Accrued interest income	27,324	-	27,324
<b>Total Current Assets</b>	<b>44,698,237</b>	<b>11,116,871</b>	<b>55,815,108</b>
<b>Restricted Assets</b>			
Cash	32,583,239	-	32,583,239
Investments	72,884,358	-	72,884,358
Receivables			
Assessments	1,738,719	-	1,738,719
Improvement note	5,443	-	5,443
Accrued interest	162,673	-	162,673
Prepaid items	98,519	-	98,519
<b>Total Restricted Assets</b>	<b>107,472,951</b>	<b>-</b>	<b>107,472,951</b>
<b>Noncurrent Assets</b>			
Unamortized bond costs and discount, net	1,097,553	-	1,097,553
<b>Capital Assets</b>			
Land, building, system, equipment, and vehicles	1,015,012,519	362,869,543	1,377,882,062
Construction in progress	46,654,791	3,460,048	50,114,839
Less: accumulated depreciation	(239,908,381)	(38,251,461)	(278,159,842)
<b>Total Capital Assets, Net</b>	<b>821,758,929</b>	<b>328,078,130</b>	<b>1,149,837,059</b>
<b>TOTAL ASSETS</b>	<b>975,027,670</b>	<b>339,195,001</b>	<b>1,314,222,671</b>
<b>DEFERRED OUTFLOW OF RESOURCES</b>			
Deferred refunding costs on defeased bond debt	4,071,573	-	4,071,573
<b>TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES</b>	<b>\$ 979,099,243</b>	<b>\$ 339,195,001</b>	<b>\$ 1,318,294,244</b>

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

<b>SANITATION DISTRICT NO. 1</b> <b>BALANCE SHEET (Continued)</b> <b>June 30, 2012</b>
--

**LIABILITIES**

	<b>Sanitation</b>	<b>Stormwater</b>	<b>Total</b>
<b>Current Liabilities</b>			
Accounts payable	\$ 11,670,834	\$ 5,938	\$ 11,676,772
Accrued payroll and benefits	1,223,772	267,014	1,490,786
Accrued taxes and pension	(104)	-	(104)
Due to other fund	7,302,667	-	7,302,667
Communities	733	-	733
Other accruals	67,578	-	67,578
Current portion of long-term debt	12,919,421	62,096	12,981,517
<b>Total Current Liabilities</b>	<u>33,184,901</u>	<u>335,048</u>	<u>33,519,949</u>
<b>Liabilities Payable From Restricted Assets</b>			
Accounts payable	2,599,834	102,156	2,701,990
Accrued interest payable	8,347,865	2,485	8,350,350
<b>Total Liabilities Payable From Restricted Assets</b>	<u>10,947,699</u>	<u>104,641</u>	<u>11,052,340</u>
<b>Noncurrent Liabilities</b>			
Notes payable	132,861,298	1,847,283	134,708,581
Bonds payable, net of amortization	392,696,887	-	392,696,887
<b>Total Noncurrent Liabilities</b>	<u>525,558,185</u>	<u>1,847,283</u>	<u>527,405,468</u>
<b>TOTAL LIABILITIES</b>	<u>569,690,785</u>	<u>2,286,972</u>	<u>571,977,757</u>
<b>NET POSITION</b>			
Invested in capital assets, net of related debt	284,378,876	326,168,751	610,547,627
Restricted	100,596,825	-	100,596,825
Unrestricted	24,432,757	10,739,278	35,172,035
<b>TOTAL NET POSITION</b>	<u>409,408,458</u>	<u>336,908,029</u>	<u>746,316,487</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u>\$ 979,099,243</u>	<u>\$ 339,195,001</u>	<u>\$ 1,318,294,244</u>

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

<b>SANITATION DISTRICT NO. 1</b> <b>STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION</b> <b>For the Year Ended June 30, 2013</b>
---

	Sanitation	Stormwater	Total
<b>OPERATING REVENUES</b>			
Sewer service charges	\$ 73,562,515	\$ -	\$ 73,562,515
Storm water charges	-	11,751,183	11,751,183
Permits and tap-in fees	2,299,707	41,085	2,340,792
Sludge hauling	120,776	-	120,776
Inspections	49,132	20,550	69,682
Penalties and fines	1,393,688	188,086	1,581,774
Contractual services	125,689	-	125,689
Bad debt recoveries	33,185	2,207	35,392
Other revenues	30,993	20,000	50,993
Project reimbursements	68,321	-	68,321
<b>TOTAL OPERATING REVENUES</b>	<u>77,684,006</u>	<u>12,023,111</u>	<u>89,707,117</u>
<b>OPERATING EXPENSES</b>			
Operation, maintenance and administration	31,944,826	4,600,017	36,544,843
Major repairs and other	3,463,909	1,031,397	4,495,306
Depreciation	25,360,290	14,885,552	40,245,842
<b>TOTAL OPERATING EXPENSES</b>	<u>60,769,025</u>	<u>20,516,966</u>	<u>81,285,991</u>
<b>OPERATING INCOME</b>	<u>16,914,981</u>	<u>(8,493,855)</u>	<u>8,421,126</u>
<b>NON-OPERATING INCOME</b>			
Interest income	822,390	9,242	831,632
Transfers (to)/from other fund	-	-	-
Gain/(Loss) on sale of fixed assets	(1,086,892)	(723,886)	(1,810,778)
Federal credits on Build America Bonds	3,590,813	-	3,590,813
Unrealized appreciation in fair market value of investments	(483,404)	(3,132)	(486,536)
<b>TOTAL NON-OPERATING INCOME</b>	<u>2,842,907</u>	<u>(717,776)</u>	<u>2,125,131</u>
<b>INTEREST AND OTHER CHARGES</b>			
Interest on long-term debt	19,290,678	40,778	19,331,456
Amortization of bond discount and expense	43,097	-	43,097
<b>TOTAL INTEREST AND OTHER CHARGES</b>	<u>19,333,775</u>	<u>40,778</u>	<u>19,374,553</u>
<b>CHANGE IN NET POSITION BEFORE CAPITAL CONTRIBUTIONS</b>	<u>424,113</u>	<u>(9,252,409)</u>	<u>(8,828,296)</u>
<b>CAPITAL CONTRIBUTIONS</b>	<u>1,033,708</u>	<u>14,818,965</u>	<u>15,852,673</u>
<b>CHANGE IN NET POSITION</b>	<u>1,457,821</u>	<u>5,566,556</u>	<u>7,024,377</u>
<b>NET POSITION, JULY 1, 2012</b>	<u>409,408,458</u>	<u>336,908,029</u>	<u>746,316,487</u>
<b>NET POSITION, JUNE 30, 2013</b>	<u>\$ 410,866,279</u>	<u>\$ 342,474,585</u>	<u>\$ 753,340,864</u>

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

**SANITATION DISTRICT NO. 1**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**For the Year Ended June 30, 2012**

	<i>Restated</i>		<b>Total</b>
	<b>Sanitation</b>	<b>Stormwater</b>	
<b>OPERATING REVENUES</b>			
Sewer service charges	\$ 68,369,740	\$ -	\$ 68,369,740
Storm water charges	-	11,388,734	11,388,734
Permits and tap-in fees	1,718,725	47,232	1,765,957
Sludge hauling	147,409	-	147,409
Inspections	47,399	21,901	69,300
Penalties and fines	1,263,360	168,026	1,431,386
Contractual services	141,038	-	141,038
Bad debt recoveries	17,530	1,567	19,097
Other revenues	69,044	-	69,044
Project reimbursements	6,610	542,969	549,579
<b>TOTAL OPERATING REVENUES</b>	<b>71,780,855</b>	<b>12,170,429</b>	<b>83,951,284</b>
<b>OPERATING EXPENSES</b>			
Operation, maintenance and administration	27,267,409	3,813,515	31,080,924
Major repairs and other	4,283,385	629,550	4,912,935
Depreciation	24,692,750	14,900,290	39,593,040
<b>TOTAL OPERATING EXPENSES</b>	<b>56,243,544</b>	<b>19,343,355</b>	<b>75,586,899</b>
<b>OPERATING INCOME</b>	<b>15,537,311</b>	<b>(7,172,926)</b>	<b>8,364,385</b>
<b>NON-OPERATING INCOME</b>			
Interest income	723,911	-	723,911
Transfers (to)/from other fund	1,973,008	(1,973,008)	-
Gain/(Loss) on sale of fixed assets	(1,542,781)	(849,677)	(2,392,458)
Federal credits on Build America Bonds	3,805,832	-	3,805,832
Unrealized appreciation in fair market value of investments	286,941	-	286,941
<b>TOTAL NON-OPERATING INCOME</b>	<b>5,246,911</b>	<b>(2,822,685)</b>	<b>2,424,226</b>
<b>INTEREST AND OTHER CHARGES</b>			
Interest on long-term debt	18,234,425	20,346	18,254,771
Amortization of bond discount and expense	41,767	-	41,767
<b>TOTAL INTEREST AND OTHER CHARGES</b>	<b>18,276,192</b>	<b>20,346</b>	<b>18,296,538</b>
<b>CHANGE IN NET POSITION BEFORE CAPITAL CONTRIBUTIONS</b>	<b>2,508,030</b>	<b>(10,015,957)</b>	<b>(7,507,927)</b>
<b>CAPITAL CONTRIBUTIONS</b>	<b>2,157,706</b>	<b>3,906,839</b>	<b>6,064,545</b>
<b>CHANGE IN NET POSITION</b>	<b>4,665,736</b>	<b>(6,109,118)</b>	<b>(1,443,382)</b>
<b>NET POSITION, JULY 1, 2011</b>	<b>408,372,571</b>	<b>343,017,147</b>	<b>751,389,718</b>
Prior period adjustment	(3,629,849)	-	(3,629,849)
<b>NET POSITION, JUNE 30, 2012</b>	<b>\$ 409,408,458</b>	<b>\$ 336,908,029</b>	<b>\$ 746,316,487</b>

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

**SANITATION DISTRICT NO. 1**  
**STATEMENT OF CASH FLOWS**  
**For the Year Ended June 30, 2013**

	Sanitation	Stormwater	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Received from customers	\$ 77,544,598	\$ 7,595,206	\$ 85,139,804
Paid to suppliers for goods and services	(21,113,193)	(1,586,314)	(22,699,507)
Paid to or on behalf of employees for services	(14,095,503)	(2,918,141)	(17,013,644)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>42,335,902</u>	<u>3,090,751</u>	<u>45,426,653</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Investment income	846,536	7,033	853,569
Net (increase) decrease on investments	(1,028,924)	(1,323,381)	(2,352,305)
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>	<u>(182,388)</u>	<u>(1,316,348)</u>	<u>(1,498,736)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Principal received on notes and bonds	20,722,931	215,314	20,938,245
Federal credits on Build America Bonds	3,590,813	-	3,590,813
Cash received from sale of asset	223,786	-	223,786
Payments made on long term debt	(13,042,392)	(81,853)	(13,124,245)
Interest paid, net of capitalized interest	(19,867,563)	(39,912)	(19,907,475)
Acquisition and construction of fixed assets, net of contributed capital	(36,009,012)	(1,817,641)	(37,826,653)
(Increase) decrease in restricted funds	11,821,927	(50,311)	11,771,616
<b>NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<u>(32,559,510)</u>	<u>(1,774,403)</u>	<u>(34,333,913)</u>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	9,594,004	-	9,594,004
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	9,464,525	-	9,464,525
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 19,058,529</u>	<u>\$ -</u>	<u>\$ 19,058,529</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>			
Operating income (loss)	\$ 16,914,981	\$ (8,493,855)	\$ 8,421,126
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation	25,360,290	14,885,552	40,245,842
Change in operating assets and liabilities			
Decrease (Increase) in receivables	(664,003)	(4,421,005)	(5,085,008)
Decrease (Increase) in accrued unbilled charges	431,900	(6,900)	425,000
Decrease (Increase) in assessments receivable	92,695	-	92,695
Decrease (Increase) in prepaid assets	41,931	(100)	41,831
Increase (Decrease) in communities payable	(577)	-	(577)
Increase (Decrease) in accounts payable	(81,472)	1,082,033	1,000,561
Increase (Decrease) in accrued payroll and taxes	214,962	45,026	259,988
Increase (Decrease) in other liabilities	25,195	-	25,195
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>\$ 42,335,902</u>	<u>\$ 3,090,751</u>	<u>\$ 45,426,653</u>
<b>Non-Cash Capital and Related Financing Activities:</b>			
Capital assets contributed to the District	<u>\$ 1,033,708</u>	<u>\$ 14,818,965</u>	<u>\$ 15,852,673</u>
<b>Supplemental Information</b>			
Interest expensed	\$ 19,290,678	\$ 40,778	\$ 19,331,456
Interest capitalized	1,957,098	-	1,957,098
<b>Total</b>	<u>\$ 21,247,776</u>	<u>\$ 40,778</u>	<u>\$ 21,288,554</u>

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

**SANITATION DISTRICT NO. 1**  
**STATEMENT OF CASH FLOWS**  
**For the Year Ended June 30, 2012**

	Sanitation	Stormwater	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Received from customers	\$ 69,710,238	\$ 11,441,524	\$ 81,151,762
Paid to suppliers for goods and services	(17,590,538)	(2,401,284)	(19,991,822)
Paid to or on behalf of employees for services	(11,857,349)	(1,972,330)	(13,829,679)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>40,262,351</u>	<u>7,067,910</u>	<u>47,330,261</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Transfers in (out)	1,973,008	(1,973,008)	-
Investment income	768,608	-	768,608
Net (increase) decrease on investments	(319)	-	(319)
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>	<u>2,741,297</u>	<u>(1,973,008)</u>	<u>768,289</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Principal received on notes and bonds	38,870,420	1,093,496	39,963,916
Federal credits on Build America Bonds	3,805,832	-	3,805,832
Cash received from sale of asset	203,895	-	203,895
Payments made on long term debt	(12,475,176)	(39,012)	(12,514,188)
Interest paid, net of capitalized interest	(18,988,265)	(20,518)	(19,008,783)
Acquisition and construction of fixed assets, net of contributed capital	(64,815,722)	(5,738,416)	(70,554,138)
(Increase) decrease in restricted funds	12,507,210	(390,452)	12,116,758
<b>NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<u>(40,891,806)</u>	<u>(5,094,902)</u>	<u>(45,986,708)</u>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	2,111,842	-	2,111,842
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	7,352,683	-	7,352,683
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 9,464,525</u>	<u>\$ -</u>	<u>\$ 9,464,525</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>			
Operating income (loss)	\$ 15,537,311	\$ (7,172,926)	\$ 8,364,385
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation	24,692,750	14,900,290	39,593,040
Change in operating assets and liabilities			
Decrease (Increase) in receivables	(1,648,187)	(669,605)	(2,317,792)
Decrease (Increase) in accrued unbilled charges	(857,617)	(59,300)	(916,917)
Decrease (Increase) in assessments receivable	435,187	-	435,187
Decrease (Increase) in prepaid assets	(5,628)	(12,650)	(18,278)
Increase (Decrease) in communities payable	387	-	387
Increase (Decrease) in accounts payable	2,133,196	3,088	2,136,284
Increase (Decrease) in accrued payroll and taxes	(14,875)	79,013	64,138
Increase (Decrease) in other liabilities	(10,173)	-	(10,173)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>\$ 40,262,351</u>	<u>\$ 7,067,910</u>	<u>\$ 47,330,261</u>
<b>Non-Cash Capital and Related Financing Activities:</b>			
Capital assets contributed to the District	\$ 2,157,706	\$ 3,906,839	\$ 6,064,545
<b>Supplemental Information</b>			
Interest expensed	\$ 18,234,425	\$ 20,346	\$ 18,254,771
Interest capitalized	2,682,115	791	2,682,906
Total	<u>\$ 20,916,540</u>	<u>\$ 21,137</u>	<u>\$ 20,937,677</u>

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

**SANITATION DISTRICT NO. 1**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2013 and 2012**

**NOTE 1 – REPORTING ENTITY**

Sanitation District No. 1 (SD1) was created in 1946, pursuant to authority of Chapter 220 of the Kentucky Revised Statutes, as amended (the "Act"). In accordance with the Act, SD1 was established by the Director of the Division of Sanitary Engineering of the Kentucky Department of Health on December 4, 1946. A corporate charter was issued to SD1 by the Secretary of State of Kentucky on December 27, 1946, giving SD1 power to prevent and correct the pollution of streams, to regulate the flow of streams for sanitary purposes, to clean and improve stream channels for sanitary purposes and to provide for the collection and disposal of sewerage and other liquid wastes produced within SD1. SD1 has power under the Act to construct sewers, truck sewers, laterals, intercepting sewers, siphons, pumping stations, treatment and disposal works and other appropriate facilities, and to maintain, operate and repair the same.

In June, 2003, the Board approved the establishment of the Storm Water Program to develop and implement plans for the collection and disposal of storm drainage and for effective programs and policies that preserve or enhance the quality of storm water run off, and to reduce erosion and prevent flooding.

SD1 is governed and operated by a Board of Directors, consisting of eight Directors, who serve for four-year staggered terms, and such Directors may be reappointed. Directors are appointed by the County Judges of Kenton, Boone, and Campbell Counties.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The following is a summary of certain significant accounting policies followed in the preparation of these financial statements.

Basis of Accounting

SD1's financial statements are presented on the full accrual basis in accordance with accounting principles generally accepted in the United States of America. SD1 has adopted GASB Statements 60 through 65, and related interpretations issued through June 30, 2013.

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

**Statement No. 64 – *Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53*** – Not applicable to SD1.

**Statement No. 63 – *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*** – Requires SD1 to report the amortized deferred refunding costs on defeased bonds separately as a Deferred Outflow of Resources, instead of reporting this amount net of the related bond liability. The provisions of this Statement generally are required to be applied retroactively for all periods presented.

**SANITATION DISTRICT NO. 1**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2013 and 2012**

**Statement No. 62 – Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements** – This Statement incorporates in GASB's authoritative literature certain accounting and financial reporting guidance that is included in pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements.

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

**Statement No. 60 – Accounting and Financial Reporting for Service Concession Arrangements** – Not applicable to SD1.

All activities of SD1 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 SD1 is determined by its measurement focus. The transactions of SD1 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 balance sheet. Net assets (i.e., total assets net of total liabilities) are segregated into "invested in capital assets, net of related liabilities"; "restricted"; and "unrestricted" components. The basic financial statements are presented in conformity with generally accepted Enterprise Fund accounting principles as applicable to public waste water utilities. The following is a summary of the significant policies. As previously stated, the accompanying financial statements are prepared on the accrual basis of accounting.

#### Fund Structure

Sanitation District No. 1 has established the following two funds for the purpose of segregating the two primary purposes of SD1 into discernible self-balancing accounts:

1. Sanitation Fund
2. Storm Water Fund

#### Sanitation Fund

The Sanitation Fund accounts for financial resources used for general types of operations and expenditures for operation and maintenance of the following budgeted expense areas:

1. Dry Creek Treatment Plant
2. Eastern Regional Waste Water Reclamation Facility
3. Western Regional Waste Water Reclamation Facility

<b>SANITATION DISTRICT NO. 1</b> <b>NOTES TO THE FINANCIAL STATEMENTS</b> <b>June 30, 2013 and 2012</b>
---

4. Collection System
5. Pump Stations
6. Engineering
7. Administration

The Sanitation Fund collects user fees from customers for the collection, transmittal, treatment and disposal of sewage wastewater. This fund also tracks the related expenditures to operate, maintain, and grow this system, as well as the costs associated with monitoring and regulatory compliance.

#### Storm Water Fund

The storm water program was established to develop and implement plans for the collection and disposal of storm drainage and for effective programs and policies that preserve or enhance the quality of storm water runoff, control the quantity of storm water runoff, and to reduce erosion and prevent flooding. The federal government requires communities to apply for a storm water discharge permit and develop a storm water management program. The accounting for the fund was approved by the Board of Directors in June 2003.

The regulation is known as the National Pollutant Discharge Elimination System (NPDES) and it is administered by the US Environmental Protection Agency (US EPA). In the State of Kentucky, it is known as the Kentucky Pollutant Discharge Elimination System (KPDES), and the Kentucky Division of Water administers it on a statewide level. Local governments are issued KPDES Storm Water Discharge Permits and administer the program at a local level. Virtually all Northern Kentucky communities are required to comply with these unfunded storm water regulations, and SD1 has assisted them with the development of a cooperative storm water management program for the region under Inter-Local Agreements with the local governments. SD1 is also a co-permittee on the KPDES permit.

The storm water surcharge is a service fee that funds the Storm Water Management Program administered by SD1. The fee applies to all improved properties, with the exception of the properties classified as agricultural by the respective county Property Valuation Administrators, and public roadways in the storm water service area of SD1 established by the Kentucky Division of Water. The basic storm water surcharge fee shall be based upon impervious area rate methodology.

#### Use of Estimates

The process of preparing financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, designated fund balances, and disclosure of contingent assets and liabilities at the date of the financial statements, and reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

#### Reclassifications

Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation of the current year financial statements.

<b>SANITATION DISTRICT NO. 1</b> <b>NOTES TO THE FINANCIAL STATEMENTS</b> <b>June 30, 2013 and 2012</b>
---

Cash and Cash Equivalents

SD1 considers all highly liquid unrestricted debt instruments purchased with original maturities of 90 days or less to be cash equivalents. For purposes of the cash flow statement, cash includes cash on hand, cash in checking accounts and cash in investment sweep accounts.

SD1 is authorized by bond resolutions to invest in direct obligations of the United States, or obligations guaranteed by the United States, obligations of certain federal agencies and instrumentalities, including U.S. dollar-denominated deposits in commercial banks which are insured by the Federal Deposit Insurance Corporation (FDIC) or fully collateralized by the foregoing, and public housing bonds or project notes issued by public housing authorities annual contribution contracts with the United States or by requisition or payment agreement with the United States.

SD1 had no non-cash investing activities during 2013 or 2012.

The following is a supplemental disclosure of cash flow information:

<u>Cash Paid For</u> <u>Interest During the Year</u>	June 30, 2013	June 30, 2012
Expensed	\$ 19,331,456	\$ 18,254,771
Capitalized	1,957,098	2,682,906
<b>Total</b>	<b>\$ 21,288,554</b>	<b>\$ 20,937,677</b>

Investment Policy

*General Policy*

It is the policy of SD1 to invest public funds in a manner that will provide the highest investment return with the maximum security of principal while meeting the daily cash flow demands of SD1 and conforming to all state statutes and SD1 regulations governing the investments of public funds.

*Authorized Investment Instruments*

1. Obligations of the United States and of its agencies and instrumentalities, including obligations subject to repurchase agreements, provided that delivery of these obligations subject to repurchase agreements is taken either directly or through an authorized custodian.
2. Obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States or a United States government agency.
3. Obligations of any corporation of the United States government agency.
4. Certificates of deposit issued by, or other interest-bearing accounts of, any bank savings and loan institution which are insured by the Federal Deposit Insurance Corporation or similar entity or which are collateralized, to the extent uninsured, by any obligations permitted by Section 41.240(4) of the Kentucky Revised Statutes.

**SANITATION DISTRICT NO. 1**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2013 and 2012**

Deposits and Investments

*Custodial Credit Risk – Deposits* For deposits, this is the risk that in the event of a bank failure, SD1's deposits may not be returned. SD1 maintains deposits with financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). As allowed by law, the depository bank should pledge securities along with FDIC insurance at least equal to the amount on deposit at all times. As of June 30, 2013 and 2012, the SD1's deposits were entirely insured and/or collateralized with securities held by the financial institutions on the SD1's behalf and the FDIC insurance.

*Custodial Credit Risk – Investments* For an investment, this is the risk that, in the event of the failure of the counterparty, SD1 will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. SD1 had custodial credit risk at June 30, 2013 and 2012 of \$82,613,373 and \$80,747,604 respectively. The related securities totaling this amount are uninsured, unregistered securities held by the counterparty, or its trust department or agent but not in the entity's name.

*Credit Risk – Investments* SD1's investments are subject to minimal credit risk because they are invested in Federal Agency securities which are generally considered free of default risk due to the perceived stability of the U.S. Government.

Accounts Receivable - Customers

During 2009, SD1 changed to a monthly billing procedure, replacing a quarterly cycled procedure. When meter readings are delayed, bills are rendered based on estimated meter readings to promote consistency of sewer service revenue. Accounts receivable and related sewer service revenue are recorded when billed. The financial statements include an estimate for unbilled sewer and storm water charges of \$9,190,400 and \$9,615,400 as of June 30, 2013 and 2012, respectively.

Accounts receivable are stated at their contractual outstanding balances, net of any allowance for doubtful accounts. Accounts are considered past due if any portion of an account has not been paid in full within the contractual terms of the account. SD1 begins to assess its ability to collect receivables that are over 90 days past due and provides for an adequate allowance for doubtful accounts based on the SD1's collection history, the financial stability and recent payment history of the customer, and other pertinent factors. Based on these criteria, the SD1 has estimated no allowance for doubtful accounts at June 30, 2013 and 2012 because management expects no material losses.

Fixed Assets

Fixed assets are recorded as expenditures at the time of purchase or construction and are capitalized annually, at cost, in the fixed asset accounts. These accounts have been adjusted each year for additions and deletions. Depreciation of fixed assets was not recognized by SD1 prior to July 31, 1979; however, SD1 established accumulated depreciation allowances for depreciable assets as of August 1, 1979. The book values of fixed assets are currently depreciated on a straight-line basis at rates comparable to those acceptable for waste water utilities. SD1 has developed a property control system and maintains detailed records on all fixed assets.

**SANITATION DISTRICT NO. 1**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2013 and 2012**

The depreciable life for each asset type is as follows:

Asset Type	Depreciable Life (Years)
Computer equipment/software	3
Vehicles	5
Furniture, small equipment	10
Pump station equipment	10
Treatment and disposal equipment	35
Storm water assets	25-50
Collection system	50
Buildings	50

The following tables provide a summary of fixed asset balances, additions, and retirements for the year ended June 30, 2013 for both the Sanitation and the Storm Water funds:

Sanitation Fund	Balance at			Balance at
Asset Type	June 30, 2012	Additions	Retirements	June 30, 2013
Collection system	\$ 623,052,699	\$ 28,141,204	\$ (2,010,111)	\$ 649,183,792
Pumping system	74,563,508	10,976,005	(461,656)	85,077,857
Treatment and disposal	225,901,841	2,219,543	(249,994)	227,871,390
General plant and equipment	75,527,421	1,542,614	(299,092)	76,770,943
Software model development	15,967,050	-	-	15,967,050
Construction in progress - sanitation	46,654,791	37,498,475	(43,339,066)	40,814,200
Subtotal	1,061,667,310	80,377,841	(46,359,919)	1,095,685,232
Less: accumulated depreciation	(239,908,381)	(25,360,290)	1,714,119	(263,554,552)
Fixed Assets, Net	<u>\$ 821,758,929</u>	<u>\$ 55,017,551</u>	<u>\$ (44,645,800)</u>	<u>\$ 832,130,680</u>

Storm Water Fund	Balance at			Balance at
Asset Type	June 30, 2012	Additions	Retirements	June 30, 2013
Land	\$ 409,728	\$ 57,261	\$ -	\$ 466,989
Vehicles	-	25,027	-	25,027
Equipment	-	31,068	-	31,068
Storm water collection system	356,814,655	18,963,732	(818,600)	374,959,787
Software model development	5,645,160	-	-	5,645,160
Construction in progress - storm water	3,460,048	2,968,610	(5,409,092)	1,019,566
Subtotal	366,329,591	22,045,698	(6,227,692)	382,147,597
Less: accumulated depreciation	(38,251,461)	(14,885,552)	94,714	(53,042,299)
Fixed Assets, Net	<u>\$ 328,078,130</u>	<u>\$ 7,160,146</u>	<u>\$ (6,132,978)</u>	<u>\$ 329,105,298</u>

<b>SANITATION DISTRICT NO. 1</b> <b>NOTES TO THE FINANCIAL STATEMENTS</b> <b>June 30, 2013 and 2012</b>
---

Compensated Absences

Employees of SD1 are entitled to paid vacation depending on length of service and other factors. The amounts recorded for accumulated vacation for the year ended June 30, 2013 and 2012 was \$953,824 and \$843,612, respectively. Financial Accounting Standards Board Statement No. 43 requires accrued employee vacation benefits to be recorded in the financial statements. Sick leave is not accrued because it does not vest; employees are not paid for any sick leave balance at termination of employment except at retirement.

Restricted Net Assets

In conformity with the Uniform System of Accounts for Class A Sewer Utilities and the Trust Incentive dated April 1, 1998, the balance of accounts restricted for specific purposes have been segregated as restricted net assets.

**NOTE 3 – NOTES RECEIVABLE**

Assessments and Improvement Notes

SD1 has, at the request of homeowners, extended sanitary sewer service into existing areas for which there was no previous service. SD1 paid the initial cost of this construction, and assessed the homeowners to recover the cost of construction. The following is a schedule of assessments and improvements outstanding to SD1 at June 30, 2013 and 2012, respectively.

	2013	2012
Assessments	\$ 1,644,649	\$ 1,738,719
Improvement notes	5,130	5,443
Total	<u>\$ 1,649,779</u>	<u>\$ 1,744,162</u>

**NOTE 4 – BONDS PAYABLE**

Recovery Zone Economic Development Bonds, Series 2010D

On December 28, 2010, bonds in the total amount of \$40,905,000 were issued under authority of applicable Kentucky Revised Statutes and in accordance with authorized bond resolutions duly passed and adopted by the Board of Directors of Sanitation District No. 1. Balances outstanding as of June 30, 2013 and 2012 were \$40,905,000 and \$40,905,000, respectively. These bonds qualify for a federal reimbursement of interest expense between 43-45% of the bi-annual interest expense. The first principal payment will not be made until 2025.

The proceeds from the sale of the Series 2010D Bonds, together with other available funds, were used to (1) provide funds to meet certain capital construction costs of SD1, (2) fund the Debt Service Reserve Fund, and (3) pay the necessary costs and expenses incident to the issuance and delivery of the Series 2010D Bonds.

**SANITATION DISTRICT NO. 1**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2013 and 2012**

Build America Bonds, Series 2010C

On December 28, 2010, bonds in the total amount of \$19,600,000 were issued under authority of applicable Kentucky Revised Statutes and in accordance with authorized bond resolutions duly passed and adopted by the Board of Directors of Sanitation District No. 1. Balances outstanding as of June 30, 2013 and 2012 were \$16,855,000 and \$18,230,000, respectively. These bonds qualify for a federal reimbursement of interest expense of 35% of the bi-annual interest expense.

The proceeds from the sale of the Series 2010C Bonds, together with other available funds, were used to (1) provide funds to meet certain capital construction costs of SD1, (2) fund the Debt Service Reserve Fund, and (3) pay the necessary costs and expenses incident to the issuance and delivery of the Series 2010C Bonds.

Refunding Bonds, Series 2010B

On September 23, 2010, bonds in the total amount of \$42,310,000 were issued under authority of applicable Kentucky Revised Statutes and in accordance with authorized bond resolutions duly passed and adopted by the Board of Directors of Sanitation District No. 1. Balances outstanding as of June 30, 2013 and 2012 were \$40,420,000 and \$42,005,000, respectively.

The proceeds from the sale of the Series 2010B Bonds, were used to defease \$42,250,000 of the 2001A Bonds and to pay the necessary costs and expenses incident to the issuance and delivery of the Series 2010B Bonds.

Revenue Bonds, Series 2010A

On May 1, 2010, bonds in the total amount of \$75,000,000 were issued under authority of applicable Kentucky Revised Statutes and in accordance with authorized bond resolutions duly passed and adopted by the Board of Directors of Sanitation District No. 1. Balances outstanding as of June 30, 2013 and 2012 were \$71,745,000 and \$73,380,000, respectively. These bonds qualify for a federal reimbursement of interest expense of 35% of the bi-annual interest expense.

The proceeds from the sale of the Series 2010A Bonds, together with other available funds, were used to (1) provide funds to meet certain capital construction costs of SD1, (2) fund the Debt Service Reserve Fund, and (3) pay the necessary costs and expenses incident to the issuance and delivery of the Series 2010A Bonds.

Revenue Bonds, Series 2009

On August 1, 2009, revenue bonds in the total amount of \$54,880,000 were issued under authority of applicable Kentucky Revised Statutes and in accordance with authorized bond resolutions duly passed and adopted by the Board of Directors of Sanitation District No. 1. Balances outstanding as of June 30, 2013 and 2012 were \$51,575,000 and \$52,695,000, respectively. These bonds qualify for a federal reimbursement of interest expense of 35% of the bi-annual interest expense.

The proceeds for the sale of the Series 2009 Bonds, together with other available funds, are being used (1) to provide funds to meet certain capital construction costs of SD1, (2) to fund the Debt Service

**SANITATION DISTRICT NO. 1**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2013 and 2012**

Reserve Fund, and (3) to pay the necessary costs and expenses incident to the issuance and delivery of the Series 2009 Bonds.

Revenue Bonds, Series 2007

On December 1, 2007, bonds in the total amount of \$102,000,000 were issued under authority of applicable Kentucky Revised Statutes and in accordance with authorized bond resolutions duly passed and adopted by the Board of Directors of Sanitation District No. 1. Balances outstanding as of June 30, 2013 and 2012 were \$96,950,000 and \$98,085,000, respectively.

The proceeds from the sale of the Series 2007 Bonds, together with other available funds, were used to (1) provide funds to meet certain capital construction costs of SD1, (2) fund the Debt Service Reserve Fund, and (3) pay the necessary costs and expenses incident to the issuance and delivery of the Series 2007 Bonds.

Revenue Bonds, Series 2006

In October 2006, bonds in the total amount of \$50,000,000 were issued under authority of applicable Kentucky Revised Statutes and in accordance with authorized bond resolutions duly passed and adopted by the Board of Directors of Sanitation District No. 1. Balances outstanding as of June 30, 2013 and 2012 were \$45,220,000 and \$46,225,000, respectively.

The proceeds from the sale of the Series 2006 Bonds, together with other available funds, were used to (1) provide funds to meet certain capital construction costs of SD1, (2) fund the Debt Service Reserve Fund, and (3) pay the necessary costs and expenses incident to the issuance and delivery of the Series 2006 Bonds.

Revenue Bonds, Series 2005A

In June 2005, bonds in the total amount of \$35,175,000 were issued under authority of applicable Kentucky Revised Statutes and in accordance with authorized bond resolutions duly passed and adopted by the Board of Directors of Sanitation District No. 1. Balances outstanding as of June 30, 2013 and 2012 were \$22,245,000 and \$25,475,000, respectively.

The proceeds from the sale of the Series 2005A Bonds, together with other available funds, were used to (1) advance refund a portion of the outstanding Series 1998A bonds (being the Series 1998A Bonds maturing on August 1 in the years 2009 through 2018) and (2) pay the necessary costs and expenses incident to the issuance and delivery of the Series 2005A Bonds.

Revenue Bonds, Series 2001A

During February 2001, bonds in the total amount of \$52,685,000 were issued under authority of applicable Kentucky Revised Statutes and in accordance with authorized bond resolutions duly passed and adopted by the Board of Directors of Sanitation District No. 1. On September 23, 2010, Series 2010B Refunding Bonds were issued in the amount of \$42,310,000 to defease \$42,250,000 of the outstanding balance of the Series 2001A bond. The residual balance was paid in full during fiscal year 2012.

**SANITATION DISTRICT NO. 1**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2013 and 2012**

The proceeds from the sale of the Series 2001A Bonds, together with other available funds, were used to pay the costs of SD1's Capital Improvement Program, including reimbursing SD1 for prior capital expenditures, to make provisions for underwriting discount and original issue discount, to fund the Aggregate Debt Service Reserve Requirement and to pay the necessary costs and expenses incident to the issuance and delivery of the Series 2001A Bonds.

The changes in outstanding debt for the year ended June 30, 2013 were:

Bond Series	Balance at June 30, 2012	Additions	Payments	Balance at June 30, 2013
2001A	\$ -	\$ -	\$ -	\$ -
2005A	25,475,000	-	(3,230,000)	22,245,000
2006	46,255,000	-	(1,035,000)	45,220,000
2007	98,085,000	-	(1,135,000)	96,950,000
2009	52,695,000	-	(1,120,000)	51,575,000
2010A	73,380,000	-	(1,635,000)	71,745,000
2010B	42,005,000	-	(1,585,000)	40,420,000
2010C	18,230,000	-	(1,375,000)	16,855,000
2010D	40,905,000	-	-	40,905,000
<b>Totals</b>	<b>\$ 397,030,000</b>	<b>\$ -</b>	<b>\$ (11,115,000)</b>	<b>\$ 385,915,000</b>

Interest rates range from 4.0% to 5.0% on all bonds.

The debt service to maturity for Revenue/Refunding Bonds Payable, Series 2001A, 2005A, 2006, 2007, 2009, 2010A, 2010B, 2010C, and 2010D is as follows:

Year ending June 30,	Principal	Interest	Total
2014	\$ 11,430,000	\$ 19,021,500	\$ 30,451,500
2015	11,770,000	18,647,194	30,417,194
2016	12,140,000	18,229,067	30,369,067
2017	12,545,000	17,769,846	30,314,846
2018	12,980,000	17,275,032	30,255,032
2019-2023	60,110,000	78,432,142	138,542,142
2024-2028	70,005,000	63,245,965	133,250,965
2029-2033	83,195,000	43,484,552	126,679,552
2034-2038	84,890,000	20,654,329	105,544,329
2039-2041	26,850,000	2,423,287	29,273,287
<b>Total</b>	<b>\$ 385,915,000</b>	<b>\$ 299,182,914</b>	<b>\$ 685,097,914</b>

All bonds are secured by SD1 assets or future SD1 revenues.

**SANITATION DISTRICT NO. 1**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2013 and 2012**

**NOTE 5 – NOTES PAYABLE**

Eastern Regional Waste Water Reclamation Facility

SD1 partnered with the Kentucky Infrastructure Authority to fund construction of the Eastern Regional Wastewater Reclamation Facility (ERWRF). This Kentucky Infrastructure Authority Loan bears an interest rate of 3.0% with interest-only payments due until completion, with final maturity due 20 years after completion. Construction on the plant was complete in June 2008. The outstanding loan balances at June 30, 2013 and 2012 were \$25,352,943 and \$26,730,420, respectively.

Western Regional Waste Water Reclamation Facility

During the year ended June 30, 2009, SD1 partnered with the Kentucky Infrastructure Authority to fund construction of the Western Regional Wastewater Reclamation Facility (WRWRF). This Kentucky Infrastructure Authority Loan bears an interest rate of 1.0% with interest-only payments due until completion, with final maturity due 20 years after completion. Construction on the plant began in February 2009 and was completed in fiscal year 2012. The outstanding loan balances at June 30, 2013 and 2012 were \$69,403,566 and \$68,204,558, respectively.

Dry Creek Waste Water Treatment Plant

During fiscal years 2011 and 2010, SD1 secured funding from KIA for a new clarifier at the Dry Creek Plant Treatment Plant. These funds are drawn as part of KIA Revolving Loan Fund and carry a 2.0% interest rate and 20 year maturity. The outstanding loan balances at June 30, 2013 and 2012 were \$4,619,419 and \$4,823,925, respectively.

Sunnybrook Sewer System

During fiscal year 2011, SD1 secured funding from KIA for new sewer lines. These funds are drawn as part of KIA Revolving Loan Fund and carry a 2.0% interest rate and 20 year maturity. The outstanding loan balances at June 30, 2013 and 2012 were \$4,890,270 and \$5,121,564, respectively.

Southfork Gunpowder Creek

During fiscal year 2011, SD1 secured funding from KIA for new sewer lines. These funds are drawn as part of KIA Revolving Loan Fund and carry a 2.0% interest rate and 20 year maturity. The outstanding loan balances at June 30, 2013 and 2012 were \$12,735,256 and \$12,573,589, respectively.

Frogtown Interceptor

During fiscal year 2011, SD1 secured funding from KIA for new sewer lines. These funds are drawn as part of KIA Revolving Loan Fund and carry a 2.0% interest rate and 20 year maturity. The outstanding loan balances at June 30, 2013 and 2012 were \$4,630,138 and \$4,726,828, respectively.

**SANITATION DISTRICT NO. 1**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2013 and 2012**

Turkeyfoot/Industrial Road

During fiscal year 2011, SD1 secured funding from KIA for new sewer lines. These funds are drawn as part of KIA Revolving Loan Fund and carry a 2.0% interest rate and 20 year maturity. The outstanding loan balances at June 30, 2013 and 2012 were \$2,149,345 and \$1,959,435, respectively.

Narrows Road Diversion

During fiscal year 2011, SD1 secured funding from KIA for new sewer lines. These funds are drawn as part of KIA Revolving Loan Fund and carry a 2.0% interest rate and 20 year maturity. The outstanding loan balances at June 30, 2013 and 2012 were \$8,069,123 and \$7,131,452, respectively.

Dry Creek Head Works/Hydraulics

During fiscal year 2012, SD1 secured funding from KIA for headwork/hydraulics reconfiguration at the Dry Creek Wastewater Treatment Plant. These funds are drawn as part of KIA Revolving Loan Fund and carry a 2.0% interest rate and 20 year maturity. The outstanding loan balances at June 30, 2013 and 2012 were \$12,962,625 and \$3,393,948, respectively.

Lakeview, Kentucky Aire, Church Street

During fiscal year 2013, SD1 secured funding from KIA for combined sewer overflow reduction, pump station elimination and pump station replacement. These funds are drawn as part of KIA Revolving Loan Fund and carry a 2.0% interest rate and 20 year maturity. The outstanding loan balances at June 30, 2013 and 2012 were \$5,242,802 and \$0, respectively.

Lakeside Park, Vernon Lane

During fiscal year 2013, SD1 secured funding from KIA for Lakeside Park sewer rehabilitation and Vernon Lane removal of sewer inflow and infiltration. These funds are drawn as part of KIA Revolving Loan Fund and carry a 2.0% interest rate and 20 year maturity. The outstanding loan balances at June 30, 2013 and 2012 were \$81,320 and \$0, respectively.

Wolpert Force Main

During fiscal year 2013, SD1 secured funding from KIA for the Wolpert pump station rehabilitation and force main project. These funds are drawn as part of KIA Revolving Loan Fund and carry a 2.0% interest rate and 20 year maturity. The outstanding loan balances at June 30, 2013 and 2012 were \$834,432 and \$0, respectively.

American Recovery and Reinvestment Act – Minor Infrastructure Improvements

During fiscal years 2011 and 2010, SD1 secured funding from KIA, as part of the federal government's American Recovery and Reinvestment Act, for several smaller infrastructure improvement projects. These projects are funded based upon 52.1% principal forgiveness, and a 2.0% interest rate and a 20 year maturity. The projects include the Banklick wetlands project, the regional bio-retention facility, the Banklick Creek stabilization project, and the terraced reforestation of an interstate right-of-way. The outstanding loan balances at June 30, 2013 and 2012 were \$1,744,028 and \$1,847,283, respectively.

**SANITATION DISTRICT NO. 1**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2013 and 2012**

The changes in outstanding Kentucky Infrastructure Authority debt for the year ended June 30, 2013 were as follows:

Project	Balance at June 30 2012	Additions	Payments	Balance at June 30 2013
Eastern Regional Wastewater Facility	\$ 26,730,420	\$ -	\$ (1,377,477)	\$ 25,352,943
Western Regional Wastewater Facility	68,204,558	1,199,009	-	69,403,567
Dry Creek clarifier	4,823,925	-	(204,506)	4,619,419
Sunnybrook sewer	5,121,564	-	(231,294)	4,890,270
South Fork Gunpowder Creek	12,573,589	161,667	-	12,735,256
Frogtown interceptor	4,726,828	-	(96,690)	4,630,138
Turkeyfoot - Industrial Road	1,959,435	189,910	-	2,149,345
Narrows Road diverter	7,131,452	937,671	-	8,069,123
Dry Creek headworks/hydraulics	3,393,948	9,568,676	-	12,962,624
Lakeview, Kentucky Aire, Church St.	-	5,242,802	-	5,242,802
Lakeside Park, Vernon Lane	-	81,320	-	81,320
Wolpert force main	-	851,857	(17,425)	834,432
Banklick wetlands	644,529	-	(27,324)	617,205
Regional bio-retention facility	687,771	-	(30,084)	657,687
Banklick Creek stabilization	177,478	-	(8,015)	169,463
Terraced right-of-way	399,601	-	(16,430)	383,171
<b>Totals</b>	<b>\$ 136,575,098</b>	<b>\$ 18,232,912</b>	<b>\$ (2,009,245)</b>	<b>\$ 152,798,765</b>

The debt service to maturities for the sixteen KIA Notes Payable, with drawn balances outstanding at June 30, 2013 only, is as follows:

Year ending June 30,	Principal	Interest & Fees	Total
2014	\$ 7,008,249	\$ 2,883,175	\$ 9,891,424
2015	7,133,524	2,745,648	9,879,172
2016	7,261,476	2,605,604	9,867,080
2017	7,392,165	2,462,615	9,854,780
2018	7,525,661	2,316,606	9,842,267
2019-2023	39,733,813	9,282,052	49,015,865
2024-2028	42,448,826	5,134,937	47,583,763
2029-2033	34,295,051	1,561,626	35,856,677
<b>Totals</b>	<b>\$ 152,798,765</b>	<b>\$ 28,992,263</b>	<b>\$ 181,791,028</b>

All KIA notes are secured by SD1 assets or future SD1 revenues.

**NOTE 6 – INTERFUND BALANCES**

The stormwater fund transferred \$0 and \$1,973,008 to the sanitation fund during the fiscal years ended June 30, 2013 and 2012, respectively. These transfers reflect the amount of stormwater funds allocated to capital projects that have both a sanitary and a stormwater component. The sanitation owed the stormwater fund \$11,461,121 and \$7,302,667 at June 30, 2013 and 2012, respectively.

<b>SANITATION DISTRICT NO. 1</b> <b>NOTES TO THE FINANCIAL STATEMENTS</b> <b>June 30, 2013 and 2012</b>
---

**NOTE 7 – PENSION PLAN**

SD1 employees who work at least 100 hours per month participate in the County Employees Retirement System (CERS). Under the provisions of Kentucky Revised Statute 61.645, the Board of Trustees of Kentucky Retirement Systems administers the CERS. The plan issues separate financial statements, which may be obtained by request from Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601.

Plan Description – CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each county and school board, and any additional eligible local agencies electing to participate in the system. An entity that elects to participate in CERS may not voluntarily withdraw from the system. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living adjustments (COLA) are provided at the discretion of the state legislature.

Non-hazardous Contributions – For the year ended June 30, 2013, plan members were required to contribute 5% of their annual creditable compensation. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. The actuarially determined rate set by the Board for the years ended June 30, 2013 and 2012 was 19.55% and 18.96%, respectively of creditable compensation. Administrative costs of CERS are financed through employer contributions and investment earnings.

SD1 has no Hazardous duty contributors.

The required contribution and the actual percentage contributed by SD1 for the current and previous five years is as follows:

Year ending June 30,	Required Contribution	Percentage Contributed
2013	\$ 2,503,650	100%
2012	2,248,219	100%
2011	1,922,390	100%
2010	1,848,372	100%
2009	1,546,901	100%
2008	1,683,721	100%

<p><b>SANITATION DISTRICT NO. 1</b>  <b>NOTES TO THE FINANCIAL STATEMENTS</b>  <b>June 30, 2013 and 2012</b></p>
--

**NOTE 8 – LESSOR AGREEMENT**

On July 1, 2007, SD1 renewed its agreement to lease 15,000 square feet of its building to the Kenton County Board of Education. The original agreed-upon term of the lease was July 1, 2007 until July 1, 2012. There was an option to renew at the end of the full term for an additional five years. The Board of Education did renew its lease with SD1 for a period from July 1, 2012 to June 30, 2017. Future minimum rentals to be received are as follows:

<u>Year ending June 30,</u>	<u>Lease Revenue</u>
2014	\$ 87,600
2015	87,600
2016	87,600
2017	87,600
Totals	<u>\$ 350,400</u>

**NOTE 9 – REIMBURSEMENT COMMITMENTS**

SD1 has entered into interlocal agreements, whereby cities can apply for reimbursement of qualified expenses incurred to accomplish required storm water improvements. There were 10 additional projects approved for funding in the amount of \$570,008 as of June 30, 2013 compared to 16 additional projects approved for funding in the amount of 586,526 as of June 30, 2012.

SD1 has also partnered with communities, organizations, and businesses to increase the utilization of "green infrastructure". Through Green Initiative Project Partnerships (GrIPP), SD1 expended \$53,540 and \$125,594 in the years ended June 30, 2013 and 2012, respectively.

**NOTE 10 – ECONOMIC DEPENDENCY**

SD1 receives all of its service revenues from customers in the three northern counties of Kentucky and is not dependent upon one customer, industry, or commercial user.

**NOTE 11 – CONTINGENCIES**

Effective June 22, 1999, the Board of Directors approved a resolution to indemnify each officer and director all expenses incurred in connection with their performance of duties and responsibilities associated with their membership with SD1. This includes claims not covered by SD1's Directors and Officers Errors and Omissions Liability Insurance. SD1 offers a Health Reimbursement Account to full time eligible employees for out of pocket healthcare costs. SD1 annually credits various amounts to the accounts of eligible employees based on their participation in wellness programs. Once credited, the contributions become available for participants for uses allowed by the plan during their employment and retirement. Unspent balances are available to participants for allowable expenditures unless they cease employment with SD1 before their normal retirement date. Accordingly, a liability of \$466,886 and \$424,472 have been recorded in the accompanying financial statements which are management's estimate of the unspent balances as of June 30, 2013 and 2012, respectively, that is likely to be paid in future periods.

**SANITATION DISTRICT NO. 1**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2013 and 2012**

**NOTE 12 – LITIGATION**

In October 2005, SD1 announced that it had reached a comprehensive settlement with the Kentucky Environmental and Public Protection Cabinet and the U.S. Environmental Protection Agency (EPA) to address sewer overflows and improve water quality in Northern Kentucky. The settlement is contained in a Consent Decree, which was logged with the U.S. District Court for the Eastern District of Kentucky on October 7, 2005. The Consent Decree establishes a 20-year plan to address combined sewer overflows (CSOs) consistent with U.S. EPA's 1994 CSO control policy, and separate sanitary sewer overflows (SSOs) consistent with the Clean Water Act. SD1 will implement the requirements of the Decree through a unique watershed approach, which will allow SD1 to comprehensively assess the cumulative impacts of all pollution sources on receiving waters. This holistic approach will lead to more efficient and cost-effective solutions for the improvement of water quality. The Consent Decree required SD1 to pay a civil penalty in the amount of \$476,400, which was paid during the year ended June 30, 2006, and to expend \$636,000 for supplemental environmental projects. It is estimated that full implementation of the Decree will cost approximately \$1.2 billion over the next 20 years. The Consent Decree was entered by the Court in April 2007 and is final and binding upon all parties.

SD1 is involved in twenty-three separate lawsuits relating to matters arising in the normal course of business. SD1 intends to aggressively defend each of these suits, and financial contingencies that could be awarded in fifteen of the lawsuits are covered, at least in part, by SD1's insurance company.

SD1 is a party to a wrongful termination suit where petitioner has made claims of retaliatory constructive discharge, intentional infliction of emotional distress, and violation of the Kentucky Whistleblower Act. The court has ruled in favor of SD1 and the case is currently under appeal.

SD1 is a party to a breach of contract suit involving two other parties in the construction of a storm water pipe as part of a development project in the City of Dayton, Kentucky. Motion to dismiss has been granted to SD1 and the appeals court affirmed the decision. The case is now pending review by the Kentucky Supreme Court.

On August 26, 2009, two individuals challenged the Kentucky Pollutant Discharge Elimination System permit issued by the Kentucky Division of Water for SD1's new Western Regional Wastewater Reclamation Facility (WRWRF). The KPDES permit was issued July 22, 2009, and authorizes the discharge of wastewater from the WRWRF to the Ohio River. Petitioners contend that the permit is not sufficiently protective of water quality and, therefore, more stringent limitations should be imposed in the permit, including limitations for nitrogen and phosphorus, which are not currently limited. The Secretary of the Kentucky Energy and Environment Cabinet issued a Final Order upholding the KPDES permit in its entirety. SD1 and the Energy and Environment Cabinet are vigorously defending the Secretary's Final Order before the court. If Petitioners prevail, additional treatment processes could be required to be installed and operated at the WRWRF, which could cost over \$50 million.

SD1's interlocal agreement pertaining to the transfer and maintenance of the region's storm water assets was challenged by the City of Cold Spring. The City contended that SD1 breached the interlocal agreement by limiting the amount of maintenance and service it provided for above ground assets. SD1 vigorously defended the agreement. The Court ruled that the City may opt out and terminate the 2003 interlocal agreement; however, it upheld SD1's interpretation of the Storm Water Infrastructure Transfer Agreement and found that SD1 had not breached the agreement. The City terminated the interlocal agreement and filed another declaratory judgment action relating to the storm water surcharge. The

<b>SANITATION DISTRICT NO. 1</b> <b>NOTES TO THE FINANCIAL STATEMENTS</b> <b>June 30, 2013 and 2012</b>
---

City and SD1 reached a settlement that allowed the City to opt out of SD1's storm water program and manage its own storm water program as of October 1, 2013.

The owner of a shopping center development has claimed that storm water lines running through its property should be maintained by SD1. SD1 has denied this claim and the shopping center owner has filed suit in Campbell County Circuit court. The precedent set by a judgment against SD1 in this case could potentially result in significant financial contingencies against SD1 in the future.

**NOTE 13 – INSURANCE IN FORCE**

SD1 has the following insurance policies in force during fiscal years 2013 and 2012:

Type of Coverage	Amount of Coverage	
	2013	2012
Property- Buildings, pump stations, machinery	\$ 293,426,015	\$ 236,417,088
Earthquake	50,000,000	50,000,000
Equipment breakdown	50,000,000	50,000,000
General liability, aggregate	26,000,000	26,000,000
Public entity management liability	26,000,000	26,000,000
Vehicles	26,000,000	26,000,000
Environmental impairment	25,000,000	25,000,000
Inland marine (scheduled equipment)	5,463,413	5,144,127
Flood	5,000,000	5,000,000
Pipeline policy	5,000,000	5,000,000
Employer's liability	4,000,000	4,000,000
Crime - employee dishonesty	3,000,000	3,000,000
Cyber liability	3,000,000	3,000,000
Property- Building contents	2,172,801	2,309,339
EDP-hardware, software	1,350,000	1,350,000
Telecommunications-equipment	231,000	231,000
Telecommunications-tower	80,000	80,000
Electronic vandalism	50,000	50,000
Public official bonds (per board member)	50,000	50,000

**NOTE 14 – RECLASSIFICATION IN PRIOR YEAR STATEMENTS**

SD1 management has reclassified the position of several accounts on the 2012 Balance Sheet due to the requirements of GASB 63 (See NOTE 2) which requires accounting for deferred refunding costs on defeased bonds to be held in a section titled *Deferred Outflow of Resources*. This reclassification has a zero net effect on the ending balances of the Balance Sheet.

The 2012 Statement of Revenues, Expenses and Changes in Net Position has been adjusted due to the requirements of GASB 65 (See NOTE 2) which disallows the amortization of bond issuance costs over the life of the bond. The Statement requires that all accounts be adjusted retroactively to the earliest period disclosed. Therefore, a prior period adjustment, reducing the net position by \$3,629,849, has been recorded; as if the bond issuance costs were expensed at the date the costs were incurred.

**SANITATION DISTRICT NO. 1**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2013 and 2012**

**NOTE 15 – SUBSEQUENT EVENTS**

Management has evaluated events through November 22, 2013, the date on which the financial statements were available for issue. Sanitation District No. 1 did not have any events subsequent to June 30, 2013 through November 22, 2013 to disclose.

**SANITATION DISTRICT NO. 1**  
**BUDGETARY COMPARISON SCHEDULE - BUDGET TO ACTUAL -**  
**GENERAL REVENUES**  
**For the Year Ended June 30, 2013**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Sewer service	\$ 71,270,000	\$ 70,416,460	\$ (853,540)
Storm water charges	11,590,000	11,751,183	161,183
Surcharges	2,515,000	3,146,055	631,055
Capacity connection fees	1,500,000	2,015,177	515,177
Penalties	1,525,000	1,564,611	39,611
Fines	16,000	17,163	1,163
Inspections	52,000	69,682	17,682
Permits	190,000	325,615	135,615
Project reimbursements	50,000	68,321	18,321
Contractual services	150,000	125,689	(24,311)
Sludge hauling	200,000	120,776	(79,224)
Bad debt recoveries	20,000	35,392	15,392
Other revenues	120,000	50,993	(69,007)
<b>Total General Revenue</b>	<u>\$ 89,198,000</u>	<u>\$ 89,707,117</u>	<u>\$ 509,117</u>

**SANITATION DISTRICT NO. 1**  
**BUDGETARY COMPARISON SCHEDULE - BUDGET TO ACTUAL -**  
**GENERAL REVENUES**  
**For the Year Ended June 30, 2012**

	<u>Budget</u>	<u>Actual</u>	<b>Variance Favorable (Unfavorable)</b>
Sewer service	\$ 63,900,000	\$ 65,711,342	\$ 1,811,342
BOD surcharges	4,030,000	2,658,398	(1,371,602)
Storm water charges	11,100,000	11,388,734	288,734
Penalties	1,500,000	1,417,136	(82,864)
Bad debt recoveries	40,000	19,097	(20,903)
Sludge hauling	162,000	147,409	(14,591)
Capacity connection fees	2,000,000	1,592,289	(407,711)
Inspections	33,000	69,300	36,300
Permits	280,000	173,668	(106,332)
Fines	10,000	14,250	4,250
Contractual services	150,000	141,038	(8,962)
Project reimbursements	50,000	549,579	499,579
Other income	115,000	69,044	(45,956)
<b>Total General Revenue</b>	<u>\$ 83,370,000</u>	<u>\$ 83,951,284</u>	<u>\$ 581,284</u>

**SANITATION DISTRICT NO. 1**  
**BUDGETARY COMPARISON SCHEDULE - BUDGET TO ACTUAL -**  
**OPERATION, MAINTENANCE, AND ADMINISTRATION**  
**For the Year Ended June 30, 2013**

<b>Expenses</b>			<b>Variance</b>
<b>Dry Creek Treatment Plant Operations</b>	<b>Budget</b>	<b>Actual</b>	<b>Favorable</b>
			<b>(Unfavorable)</b>
Salaries and wages	\$ 2,258,870	\$ 2,286,578	\$ (27,708)
Medical and dental self-insured plan	516,072	687,950	(171,878)
Pension plan	441,609	413,173	28,436
Payroll taxes	172,804	162,689	10,115
Employee benefits	49,740	40,929	8,811
Credits charged to capital projects	(400,000)	(76,876)	(323,124)
Insurance and bond	127,455	117,385	10,070
Professional and contracted services	150,000	120,297	29,703
Postage	5,000	3,487	1,513
Office and operating supplies	163,620	170,998	(7,378)
Travel, training and certification	21,785	19,653	2,132
Contract labor - building maintenance	5,000	19,904	(14,904)
Operating maintenance - building grounds	72,000	71,772	228
Subscriptions	1,000	1,857	(857)
Electric and gas	1,200,000	1,026,405	173,595
Chemicals	2,391,480	1,215,987	1,175,493
Fuel oil	73,200	98,224	(25,024)
Telephone and radio	40,000	25,023	14,977
Water	64,000	54,675	9,325
Vehicle fuels	160,000	112,809	47,191
Auto and truck expense	100,000	55,032	44,968
Maintenance material - plant equipment	200,000	218,143	(18,143)
Sludge and grit removal	850,701	656,070	194,631
Safety equipment expense	20,000	13,267	6,733
Rental	8,000	6,255	1,745
<b>Total Dry Creek Treatment Plant Expenses</b>	<b>8,692,336</b>	<b>7,521,686</b>	<b>1,170,650</b>

(Continued to next page)

**SANITATION DISTRICT NO. 1**  
**BUDGETARY COMPARISON SCHEDULE - BUDGET TO ACTUAL -**  
**OPERATION, MAINTENANCE, AND ADMINISTRATION**  
**For the Year Ended June 30, 2013**

<b>Expenses</b>	<b>Variance</b>		
	<b>Budget</b>	<b>Actual</b>	<b>Favorable (Unfavorable)</b>
<b>Eastern Regional Reclamation Facility</b>			
Salaries and wages	\$ 505,570	\$ 420,969	\$ 84,601
Medical and dental self-insured plan	113,971	151,667	(37,696)
Pension plan	98,839	79,490	19,349
Payroll taxes	38,676	30,010	8,666
Employee benefits	11,715	8,191	3,524
Credits charged to capital projects	(5,000)	(306,527)	301,527
Insurance and bond	42,415	41,781	634
Professional and contracted services	47,250	33,877	13,373
Postage	200	-	200
Office and operating supplies	24,060	30,566	(6,506)
Travel, training and certification	5,000	1,850	3,150
Operating maintenance - building grounds	15,000	10,915	4,085
Subscriptions	200	163	37
Electric and gas	360,000	340,996	19,004
Chemicals	110,000	95,794	14,206
Fuel oil	10,000	-	10,000
Telephone and radio	46,000	29,287	16,713
Water	8,000	4,774	3,226
Vehicle fuels	35,000	31,647	3,353
Auto and truck expense	45,000	25,739	19,261
Maintenance material - plant equipment	90,000	60,966	29,034
Sludge and grit removal	134,316	91,184	43,132
Safety equipment expense	5,000	2,872	2,128
Rental	3,000	-	3,000
<b>Total Eastern Regional Facility Expenses</b>	<b>1,744,212</b>	<b>1,186,211</b>	<b>558,001</b>

(Continued to next page)

<b>SANITATION DISTRICT NO. 1</b> <b>BUDGETARY COMPARISON SCHEDULE - BUDGET TO ACTUAL -</b> <b>OPERATION, MAINTENANCE, AND ADMINISTRATION</b> <b>For the Year Ended June 30, 2013</b>
---

<b>Expenses</b>			<b>Variance</b>
	<b>Budget</b>	<b>Actual</b>	<b>Favorable</b>
			<b>(Unfavorable)</b>
<b>Western Regional Reclamation Facility</b>			
Salaries and wages	\$ 570,315	\$ 612,800	\$ (42,485)
Medical and dental self-insured plan	147,742	190,376	(42,634)
Pension plan	111,497	116,341	(4,844)
Payroll taxes	43,629	43,306	323
Employee benefits	13,693	10,944	2,749
Credits charged to capital projects	(30,000)	-	(30,000)
Insurance and bond	66,929	56,261	10,668
Professional and contracted services	65,000	37,456	27,544
Postage	500	447	53
Office and operating supplies	56,500	44,088	12,412
Travel, training and certification	5,000	2,327	2,673
Operating maintenance - building grounds	35,000	35,807	(807)
Subscriptions	300	273	27
Contract labor - building maintenance	2,000	-	2,000
Electric and gas	972,627	945,690	26,937
Chemicals	114,800	77,330	37,470
Fuel oil	2,000	2,269	(269)
Telephone and radio	47,500	24,742	22,758
Water	8,000	1,704	6,296
Vehicle fuels	25,000	3,531	21,469
Auto and truck expense	25,000	4,233	20,767
Maintenance material - plant equipment	90,000	96,742	(6,742)
Sludge and grit removal	235,057	453,816	(218,759)
Safety equipment expense	20,000	16,357	3,643
Rental	3,000	416	2,584
<b>Total Western Regional Facility Expenses</b>	<b>2,631,089</b>	<b>2,777,256</b>	<b>(146,167)</b>

(Continued to next page)

<b>SANITATION DISTRICT NO. 1</b> <b>BUDGETARY COMPARISON SCHEDULE - BUDGET TO ACTUAL -</b> <b>OPERATION, MAINTENANCE, AND ADMINISTRATION</b> <b>For the Year Ended June 30, 2013</b>
---

Expenses			Variance
Collection System	Budget	Actual	Favorable (Unfavorable)
Salaries and wages	\$ 3,167,855	\$ 3,170,217	\$ (2,362)
Medical and dental self-insured plan	789,843	1,046,193	(256,350)
Pension plan	619,316	606,474	12,842
Payroll taxes	242,341	224,878	17,463
Employee benefits	73,535	56,326	17,209
Unemployment taxes	-	465	(465)
Credits charged to capital projects	(1,843,278)	(1,308,823)	(534,455)
Insurance and bond	218,001	207,921	10,080
Insurance claims	37,500	13,647	23,853
Professional and contracted services	1,072,970	1,221,826	(148,856)
Postage	4,800	4,086	714
Office and operating supplies	21,690	39,733	(18,043)
Travel, training and certification	27,700	32,265	(4,565)
Operating maintenance - building grounds	-	175	(175)
Subscriptions	500	459	41
Telephone and radio	40,376	28,444	11,932
Vehicle fuels	300,800	365,879	(65,079)
Auto and truck expense	325,200	314,929	10,271
Sludge and grit removal	45,000	46,354	(1,354)
Maintenance material - collection systems	283,634	572,745	(289,111)
Safety equipment expense	12,450	37,691	(25,241)
Rental	5,000	5,987	(987)
Private lateral 50/50 program	50,000	2,500	47,500
<b>Total Collection System Expenses</b>	<b>5,495,233</b>	<b>6,690,371</b>	<b>(1,195,138)</b>

(Continued to next page)

**SANITATION DISTRICT NO. 1**  
**BUDGETARY COMPARISON SCHEDULE - BUDGET TO ACTUAL -**  
**OPERATION, MAINTENANCE, AND ADMINISTRATION**  
**For the Year Ended June 30, 2013**

<b>Expenses</b>			<b>Variance</b>
	<b>Budget</b>	<b>Actual</b>	<b>Favorable</b>
			<b>(Unfavorable)</b>
<b>Pump Stations/Field Tech</b>			
Salaries and wages	\$ 663,170	\$ 685,220	\$ (22,050)
Medical and dental self-insured plan	169,142	203,872	(34,730)
Pension plan	129,650	125,659	3,991
Payroll taxes	50,733	48,947	1,786
Employee benefits	17,465	13,225	4,240
Unemployment taxes	7,500	-	7,500
Credits charged to capital projects	(80,000)	(72,085)	(7,915)
Insurance and bond	121,237	108,702	12,535
Professional and contracted services	72,305	76,427	(4,122)
Postage	1,000	485	515
Office and operating supplies	28,440	24,046	4,394
Travel, training and certification	10,000	6,224	3,776
Contract labor - building maintenance	500	-	500
Operating maintenance - building grounds	25,000	17,456	7,544
Subscriptions	200	-	200
Electric and gas	1,900,000	1,682,596	217,404
Chemicals	1,333,277	1,622,295	(289,018)
Fuel oil	20,000	20,155	(155)
Telephone and radio	53,640	48,388	5,252
Water	22,000	21,754	246
Vehicle fuels	35,000	37,003	(2,003)
Auto and truck expense	35,000	32,374	2,626
Sludge and grit removal	9,000	3,472	5,528
Operating Maintenance - pump stations	200,000	161,018	38,982
Safety equipment expense	12,000	8,963	3,037
Rental	45,000	34,003	10,997
<b>Total Pump Stations/Field Tech Expenses</b>	<b>4,881,259</b>	<b>4,910,199</b>	<b>(28,940)</b>

(Continued to next page)

**SANITATION DISTRICT NO. 1**  
**BUDGETARY COMPARISON SCHEDULE - BUDGET TO ACTUAL -**  
**OPERATION, MAINTENANCE, AND ADMINISTRATION**  
**For the Year Ended June 30, 2013**

<b>Expenses</b>			<b>Variance</b>
<b>Engineering</b>	<b>Budget</b>	<b>Actual</b>	<b>Favorable</b>
			<b>(Unfavorable)</b>
Salaries and wages	\$ 1,563,087	\$ 1,672,966	\$ (109,879)
Medical and dental self-insured plan	277,212	348,211	(70,999)
Pension plan	305,583	319,103	(13,520)
Payroll taxes	119,576	117,045	2,531
Employee benefits	24,840	22,783	2,057
Credits charged to capital projects	(1,009,524)	(981,283)	(28,241)
Insurance and bond	50,270	47,221	3,049
Insurance claims	-	10,174	(10,174)
Professional and contracted services	767,500	571,476	196,024
Legal Services	6,300	7,090	(790)
Postage	200	555	(355)
Office and operating supplies	86,604	31,515	55,089
Training and certification	31,450	26,614	4,836
Subscriptions	56,050	24,943	31,107
Telephone and radio	51,429	16,037	35,392
Vehicle fuels	60,000	39,847	20,153
Auto and truck expense	24,000	18,860	5,140
Safety equipment expense	4,200	3,250	950
Rental	-	220	(220)
Inflow and infiltration removal program	100,000	10,549	89,451
<b>Total Engineering Expenses</b>	<b>2,518,777</b>	<b>2,307,176</b>	<b>211,601</b>

(Continued to next page)

<b>SANITATION DISTRICT NO. 1</b> <b>BUDGETARY COMPARISON SCHEDULE - BUDGET TO ACTUAL -</b> <b>OPERATION, MAINTENANCE, AND ADMINISTRATION</b> <b>For the Year Ended June 30, 2013</b>
---

<b>Expenses</b>			<b>Variance</b>
<b>Storm Water Program</b>	<b>Budget</b>	<b>Actual</b>	<b>Favorable</b>
			<b>(Unfavorable)</b>
Salaries and wages	\$ 2,559,276	\$ 2,280,563	\$ 278,713
Board of directors	6,544	6,084	460
Medical and dental self-insured plan	534,835	675,718	(140,883)
Pension plan	500,338	414,160	86,178
Payroll taxes	196,285	161,983	34,302
Employee benefits	49,539	47,418	2,121
Unemployment taxes	1,669	3,501	(1,832)
Credits charged to capital projects	(725,824)	(460,776)	(265,048)
Insurance and bond	27,865	27,612	253
Professional and contracted services	855,950	576,554	279,396
Legal services	114,650	48,610	66,040
Bank services	81,787	91,467	(9,680)
Auditing services	9,348	6,366	2,982
Postage	105,190	103,471	1,719
Office and operating supplies	133,009	107,290	25,719
Training and certification	16,600	15,410	1,190
Operating maintenance - building grounds	65,860	42,043	23,817
Storm water program	85,000	60,808	24,192
Subscriptions	52,800	23,098	29,702
Communications	5,565	2,848	2,717
Legal advertising	1,000	722	278
Electric and gas	34,961	39,145	(4,184)
Telephone and radio	31,917	39,339	(7,422)
Water	3,561	4,259	(698)
Vehicle fuels	34,300	17,183	17,117
Auto and truck expense	25,000	21,331	3,669
Sludge and grit removal	30,000	-	30,000
Maintenance material - storm water	56,366	113,836	(57,470)
Storm water facilities and features	15,000	4,775	10,225
Safety equipment expense	2,000	665	1,335
Green initiative expense	250,000	53,540	196,460
Disconnect/Redirect/Infiltration Program (DRIP)	40,000	1,025	38,975
50/50 storm water projects	75,000	69,969	5,031
<b>Total Storm Water Expenses</b>	<b>5,275,391</b>	<b>4,600,017</b>	<b>675,374</b>

(Continued to next page)

**SANITATION DISTRICT NO. 1**  
**BUDGETARY COMPARISON SCHEDULE - BUDGET TO ACTUAL -**  
**OPERATION, MAINTENANCE, AND ADMINISTRATION**  
**For the Year Ended June 30, 2013**

Expenses	Budget	Actual	Variance Favorable (Unfavorable)
<b>Administration</b>			
Salaries and wages	\$ 2,536,082	\$ 2,406,597	\$ 129,485
Board of directors	22,856	21,259	1,597
Medical and dental self-insured plan	486,432	499,790	(13,358)
Pension plan	495,804	429,249	66,555
Payroll taxes	195,759	169,047	26,712
Employee benefits	51,380	58,266	(6,886)
Unemployment taxes	5,831	11,901	(6,070)
Credits charged to capital projects	(7,774)	(4,149)	(3,625)
Insurance and bond	152,391	154,863	(2,472)
Insurance claims	87,500	142,304	(54,804)
Professional and contracted services	1,192,595	991,383	201,212
Legal services	290,900	173,058	117,842
Bank services	285,663	310,702	(25,039)
Auditing services	32,652	22,234	10,418
Postage	364,610	360,570	4,040
Office and operating supplies	157,622	215,200	(57,578)
Training and certification	159,725	113,515	46,210
Operating maintenance - building grounds	177,640	138,205	39,435
Dues and subscriptions	70,530	67,918	2,612
Communications	19,435	9,945	9,490
Legal advertising	3,750	8,575	(4,825)
Sales tax expense	-	11,157	(11,157)
Electric and gas	108,839	126,239	(17,400)
Telephone and radio	36,228	78,848	(42,620)
Water	12,439	14,871	(2,432)
Vehicle fuels	6,150	3,581	2,569
Auto and truck expense	3,300	3,088	212
Safety equipment expense	12,100	7,624	4,476
Rental	10,000	6,087	3,913
Supplemental state environmental projects	30,000	-	30,000
<b>Total Administration Expenses</b>	<u>7,000,439</u>	<u>6,551,927</u>	<u>448,512</u>
<b>Total Operation, Maintenance, and Administration Expenses</b>	<u>\$ 38,238,736</u>	<u>\$ 36,544,843</u>	<u>\$ 1,693,893</u>

**Reconciliation of Budget to Actual to Statement of Revenues, Expenses and Changes in Net Position**

<b>General Revenues</b>	\$ 89,707,117
<b>Operation, Maintenance and Administration Expenses</b>	(36,544,843)
<b>Major Repair Expenses</b>	(4,495,306)
<b>Depreciation</b>	<u>(40,245,842)</u>
<b>Net Operating Income</b>	<u>\$ 8,421,126</u>

**SANITATION DISTRICT NO. 1**  
**BUDGETARY COMPARISON SCHEDULE - BUDGET TO ACTUAL -**  
**OPERATION, MAINTENANCE, AND ADMINISTRATION**  
**For the Year Ended June 30, 2012**

<b>Expenses</b>			<b>Variance</b>
	<b>Budget</b>	<b>Actual</b>	<b>Favorable</b>
			<b>(Unfavorable)</b>
<b>Dry Creek Treatment Plant Operations</b>			
Salaries and wages	\$ 2,497,000	\$ 2,453,215	\$ 43,785
Medical and dental self-insured plan	556,071	647,863	(91,792)
Pension plan	473,431	427,907	45,524
Payroll taxes	191,021	175,115	15,906
Employee benefits	56,500	55,961	539
Unemployment taxes	16,000	-	16,000
Credits charged to capital projects	(400,000)	(392,803)	(7,197)
Insurance and bond	144,588	127,629	16,959
Insurance claims	-	-	-
Professional and contracted services	80,000	144,830	(64,830)
Postage and shipping	2,000	2,691	(691)
Office and operating supplies	150,000	102,678	47,322
Training, travel, and certification	18,240	15,034	3,206
Contract labor - building maintenance	5,000	850	4,150
Operating maintenance - building grounds	72,000	65,524	6,476
Dues and subscriptions	1,000	713	287
Legal advertising	-	206	(206)
Electric and gas	1,100,000	1,141,238	(41,238)
Chemicals	2,550,000	1,759,505	790,495
Fuel oil	40,000	75,940	(35,940)
Telephone and radio	54,200	30,869	23,331
Water	30,000	52,305	(22,305)
Vehicle fuels	140,000	136,199	3,801
Auto and truck expense	100,000	77,154	22,846
Maintenance material - plant equipment	190,000	194,325	(4,325)
Sludge and grit removal	760,000	927,614	(167,614)
Safety equipment expense	12,300	12,589	(289)
Rental	8,000	4,485	3,515
SD1 penalties and fines	-	2,000	(2,000)
<b>Total Dry Creek Treatment Plant Expenses</b>	<b>8,847,351</b>	<b>8,241,636</b>	<b>605,715</b>

(Continued to next page)

**SANITATION DISTRICT NO. 1**  
**BUDGETARY COMPARISON SCHEDULE - BUDGET TO ACTUAL -**  
**OPERATION, MAINTENANCE, AND ADMINISTRATION**  
**For the Year Ended June 30, 2012**

<b>Expenses</b>	<b>Budget</b>	<b>Actual</b>	<b>Variance Favorable (Unfavorable)</b>
<b>Eastern Regional Reclamation Facility</b>			
Salaries and wages	\$ 574,000	\$ 364,479	\$ 209,521
Medical and dental self-insured plan	131,852	135,895	(4,043)
Pension plan	108,830	67,434	41,396
Payroll taxes	43,911	26,000	17,911
Employee benefits	14,100	8,698	5,402
Credits charged to capital projects	(5,000)	(2,045)	(2,955)
Insurance and bond	34,757	36,356	(1,599)
Insurance claims	-	-	-
Professional and contracted services	27,000	12,610	14,390
Postage and shipping	200	-	200
Office and operating supplies	12,000	11,797	203
Training, travel, and certification	6,000	5,392	608
Contract labor - building maintenance	-	-	-
Operating maintenance - building grounds	15,000	10,196	4,804
Dues and subscriptions	100	157	(57)
Electric and gas	340,000	307,327	32,673
Chemicals	100,000	51,997	48,003
Fuel oil	12,000	5,764	6,236
Telephone and radio	46,000	29,970	16,030
Water	8,500	4,818	3,682
Vehicle fuels	30,000	28,534	1,466
Auto and truck expense	35,000	52,150	(17,150)
Maintenance material - plant equipment	80,000	72,801	7,199
Sludge and grit removal	75,000	88,050	(13,050)
Safety equipment expense	5,350	4,832	518
Rental	3,000	78	2,922
<b>Total Eastern Regional Facility Expenses</b>	<b>1,697,600</b>	<b>1,323,290</b>	<b>374,310</b>

(Continued to next page)

**SANITATION DISTRICT NO. 1**  
**BUDGETARY COMPARISON SCHEDULE - BUDGET TO ACTUAL -**  
**OPERATION, MAINTENANCE, AND ADMINISTRATION**  
**For the Year Ended June 30, 2012**

<b>Expenses</b>			<b>Variance</b>
	<b>Budget</b>	<b>Actual</b>	<b>Favorable</b>
			<b>(Unfavorable)</b>
<b>Western Regional Reclamation Facility</b>			
Salaries and wages	\$ 190,800	\$ 301,433	\$ (110,633)
Medical and dental self-insured plan	44,546	85,525	(40,979)
Pension plan	36,176	56,368	(20,192)
Payroll taxes	14,596	21,398	(6,802)
Employee benefits	4,600	3,848	752
Credits charged to capital projects	(5,000)	(38,346)	33,346
Insurance and bond	11,122	15,445	(4,323)
Insurance claims	-	-	-
Professional and contracted services	17,000	7,616	9,384
Postage and shipping	500	-	500
Office and operating supplies	10,000	15,122	(5,122)
Training, travel, and certification	10,775	4,124	6,651
Contract labor - building maintenance	2,000	-	2,000
Operating maintenance - building grounds	21,000	12,777	8,223
Dues and subscriptions	300	-	300
Electric and gas	228,300	96,744	131,556
Chemicals	35,000	41,640	(6,640)
Fuel oil	-	-	-
Telephone and radio	7,000	5,607	1,393
Water	2,000	-	2,000
Vehicle fuels	12,000	4,823	7,177
Auto and truck expense	12,000	460	11,540
Maintenance material - plant equipment	25,000	11,918	13,082
Sludge and grit removal	63,000	2,770	60,230
Safety equipment expense	14,000	10,531	3,469
Rental	3,000	140	2,860
<b>Total Western Regional Facility Expenses</b>	<b>759,715</b>	<b>659,943</b>	<b>99,772</b>

(Continued to next page)

**SANITATION DISTRICT NO. 1**  
**BUDGETARY COMPARISON SCHEDULE - BUDGET TO ACTUAL -**  
**OPERATION, MAINTENANCE, AND ADMINISTRATION**  
**For the Year Ended June 30, 2012**

<b>Expenses</b>	<b>Budget</b>	<b>Actual</b>	<b>Variance Favorable (Unfavorable)</b>
<b>Collection System</b>			
Salaries and wages	\$ 3,045,393	\$ 2,894,065	\$ 151,328
Medical and dental self-insured plan	768,163	885,490	(117,327)
Pension plan	577,406	539,247	38,159
Payroll taxes	232,973	206,157	26,816
Employee benefits	71,337	62,012	9,325
Unemployment taxes	3,146	-	3,146
Credits charged to capital projects	(2,017,416)	(2,173,634)	156,218
Insurance and bond	194,637	204,833	(10,196)
Insurance claims	31,461	3,106	28,355
Professional and contracted services	12,450	483,837	(471,387)
Postage	-	3,943	(3,943)
Office and operating supplies	10,618	10,774	(156)
Training, travel, and certification	17,101	14,200	2,901
Operating maintenance - building grounds	-	85	(85)
Dues and subscriptions	236	284	(48)
Telephone and radio	19,663	35,825	(16,162)
Utilities - water	-	-	-
Vehicle fuels	235,955	309,273	(73,318)
Auto and truck expense	196,629	321,336	(124,707)
Sludge and grit removal	45,000	33,850	11,150
Maintenance material - collection systems	300,000	496,291	(196,291)
Safety equipment expense	14,197	23,410	(9,213)
Rental	5,000	9,467	(4,467)
Private lateral 50/50 program	100,000	32,775	67,225
<b>Total Collection System Expenses</b>	<b>3,863,949</b>	<b>4,396,626</b>	<b>(532,677)</b>

(Continued to next page)

**SANITATION DISTRICT NO. 1**  
**BUDGETARY COMPARISON SCHEDULE - BUDGET TO ACTUAL -**  
**OPERATION, MAINTENANCE, AND ADMINISTRATION**  
**For the Year Ended June 30, 2012**

<b>Expenses</b>	<b>Budget</b>	<b>Actual</b>	<b>Variance Favorable (Unfavorable)</b>
<b>Pump Stations/Field Tech</b>			
Salaries and wages	\$ 661,000	\$ 653,244	\$ 7,756
Medical and dental self-insured plan	165,116	167,396	(2,280)
Pension plan	125,326	117,116	8,210
Payroll taxes	50,567	46,737	3,830
Employee benefits	17,900	16,016	1,884
Unemployment	-	4,040	(4,040)
Credits charged to capital projects	(120,000)	(64,782)	(55,218)
Insurance and bond	41,708	53,528	(11,820)
Insurance claims	-	6,547	(6,547)
Professional and contracted services	70,000	37,181	32,819
Postage and shipping	1,000	344	656
Office and operating supplies	20,000	2,774	17,226
Training, travel, and certification	14,480	2,589	11,891
Contract labor - building maintenance	500	-	500
Operating maintenance - building grounds	20,000	18,941	1,059
Dues and subscriptions	200	-	200
Electric and gas	1,600,000	1,871,235	(271,235)
Chemicals	1,467,000	1,436,042	30,958
Fuel oil	15,000	19,916	(4,916)
Telephone and radio	18,000	31,161	(13,161)
Water	20,000	21,255	(1,255)
Vehicle fuels	35,000	29,834	5,166
Auto and truck expense	35,000	27,469	7,531
Sludge and grit removal	6,000	6,408	(408)
Operating Maintenance - plants	-	-	-
Operating Maintenance - pump stations	190,000	171,813	18,187
Safety equipment expense	10,550	5,515	5,035
Rental	40,000	42,070	(2,070)
<b>Total Pump Stations/Field Tech Expenses</b>	<b>4,504,347</b>	<b>4,724,389</b>	<b>(220,042)</b>

(Continued to next page)

**SANITATION DISTRICT NO. 1**  
**BUDGETARY COMPARISON SCHEDULE - BUDGET TO ACTUAL -**  
**OPERATION, MAINTENANCE, AND ADMINISTRATION**  
**For the Year Ended June 30, 2012**

<b>Expenses</b>			<b>Variance</b>
<b>Engineering</b>	<b>Budget</b>	<b>Actual</b>	<b>Favorable</b>
			<b>(Unfavorable)</b>
Salaries and wages	\$ 1,477,848	\$ 1,615,656	\$ (137,808)
Medical and dental self-insured plan	266,789	317,573	(50,784)
Pension plan	280,200	282,572	(2,372)
Payroll taxes	113,056	115,090	(2,034)
Employee benefits	27,025	26,548	477
Unemployment taxes	1,266	-	1,266
Credits charged to capital projects	(1,326,322)	(1,040,153)	(286,169)
Insurance and bond	69,513	63,525	5,988
Insurance claims	-	-	-
Professional and contracted services	75,000	134,166	(59,166)
Legal Services	1,300	19,283	(17,983)
Office and operating supplies	15,823	10,230	5,593
Training, travel, and certification	26,305	24,213	2,092
Dues and subscriptions	52,000	32,121	19,879
Telephone and radio	15,823	18,515	(2,692)
Vehicle fuels	39,789	45,389	(5,600)
Auto and truck expense	26,527	19,649	6,878
Safety equipment expense	6,361	3,070	3,291
Rental	1,300	-	1,300
Inflow and infiltration removal program	-	15,005	(15,005)
<b>Total Engineering Expenses</b>	<b>1,169,603</b>	<b>1,702,452</b>	<b>(532,849)</b>

(Continued to next page)

**SANITATION DISTRICT NO. 1**  
**BUDGETARY COMPARISON SCHEDULE - BUDGET TO ACTUAL -**  
**OPERATION, MAINTENANCE, AND ADMINISTRATION**  
**For the Year Ended June 30, 2012**

<b>Expenses</b>			<b>Variance</b>
	<b>Budget</b>	<b>Actual</b>	<b>Favorable</b>
			<b>(Unfavorable)</b>
<b>Stormwater Program</b>			
Salaries and wages	\$ 2,288,660	\$ 2,269,456	\$ 19,204
Board of directors	5,827	5,377	450
Medical and dental self-insured plan	468,626	531,553	(62,927)
Pension plan	433,930	398,935	34,995
Payroll taxes	175,528	162,683	12,845
Employee benefits	47,722	43,320	4,402
Unemployment taxes	4,759	-	4,759
Credits charged to capital projects	(1,318,833)	(1,197,444)	(121,389)
Insurance and bond	123,734	63,992	59,742
Insurance claims	26,476	24,983	1,493
Professional and contracted services	385,000	487,013	(102,013)
Legal services	41,000	47,970	(6,970)
Bank services	64,414	96,063	(31,649)
Auditing services	7,631	15,750	(8,119)
Office and operating supplies	102,946	99,325	3,621
Postage and shipping	97,315	89,591	7,724
Training, travel, and certification	47,022	34,712	12,310
Operating maintenance - building grounds	43,595	66,058	(22,463)
Storm water expenses	100,000	28,701	71,299
Dues and subscriptions	72,640	77,417	(4,777)
Communication expenses	4,559	2,806	1,753
Government affairs	14,865	1,227	13,638
Miscellaneous	1,486	169	1,317
Legal advertising	1,586	1,505	81
Electric and gas	35,712	34,704	1,008
Telephone and radio	27,635	42,650	(15,015)
Water	3,568	4,388	(820)
Vehicle fuels	88,625	110,109	(21,484)
Auto and truck expense	69,648	100,958	(31,310)
Sludge and grit removal	9,607	9,190	417
Operating maintenance - sewers	-	11,240	(11,240)
Safety equipment expense	8,875	9,886	(1,011)
Disconnect/Redirect/Infiltration Program (DRIP)	60,000	13,634	46,366
Green initiative project partnerships (GrIPP)	500,000	125,594	374,406
<b>Total Stormwater Expenses</b>	<b>4,044,158</b>	<b>3,813,515</b>	<b>230,643</b>

(Continued to next page)

**SANITATION DISTRICT NO. 1**  
**BUDGETARY COMPARISON SCHEDULE - BUDGET TO ACTUAL -**  
**OPERATION, MAINTENANCE, AND ADMINISTRATION**  
**For the Year Ended June 30, 2012**

<b>Expenses</b>			<b>Variance</b>
<b>Administration</b>	<b>Budget</b>	<b>Actual</b>	<b>Favorable</b>
			<b>(Unfavorable)</b>
Salaries and wages	\$ 2,447,099	\$ 2,211,694	\$ 235,405
Board of directors	23,573	21,745	1,828
Medical and dental self-insured plan	426,337	432,780	(6,443)
Pension plan	463,970	358,639	105,331
Payroll taxes	189,006	161,675	27,331
Employee benefits	51,315	44,848	6,467
Unemployment taxes	12,829	-	12,829
Credits charged to capital projects	(8,018)	(9,469)	1,451
Insurance and bond	123,733	118,246	5,487
Insurance claims	72,563	106,928	(34,365)
Professional and contracted services	836,525	786,719	49,806
Legal services	206,350	335,348	(128,998)
Bank services	260,586	281,434	(20,848)
Auditing services	30,869	63,715	(32,846)
Office and operating supplies	246,313	247,904	(1,591)
Postage and shipping	393,685	358,690	34,995
Training, travel, and certification	109,727	68,010	41,717
Operating maintenance - building grounds	135,905	233,588	(97,683)
Dues and subscriptions	30,288	43,255	(12,967)
Miscellaneous	6,014	(150)	6,164
Communications expenses	18,441	11,359	7,082
Government affairs	60,135	4,962	55,173
Legal advertising	6,414	6,091	323
Electric and gas	128,288	136,234	(7,946)
Telephone and radio	53,079	88,689	(35,610)
Water	14,432	17,755	(3,323)
Vehicle fuels	6,078	3,258	2,820
Auto and truck expense	3,608	9,428	(5,820)
Safety equipment expense	5,392	7,083	(1,691)
Rentals and leases	-	4,847	(4,847)
SD1 penalties and fines	-	2,550	(2,550)
Supplemental/state environmental projects	80,000	61,218	18,782
<b>Total Administration Expenses</b>	<b>6,434,536</b>	<b>6,219,073</b>	<b>215,463</b>
<b>Total Operation, Maintenance, and Administration Expenses</b>	<b>\$ 31,321,259</b>	<b>\$ 31,080,924</b>	<b>\$ 240,335</b>

**Reconciliation of Budget to Actual to Statement of Revenues, Expenses and Changes in Net Assets**

<b>General Revenues</b>	<b>\$ 83,951,284</b>
<b>Operation, Maintenance and Administration Expenses</b>	<b>(31,080,924)</b>
<b>Major Repair Expenses</b>	<b>(4,912,935)</b>
<b>Depreciation</b>	<b>(39,593,040)</b>
<b>Net Operating Income</b>	<b>\$ 8,364,385</b>

<b>SANITATION DISTRICT NO. 1</b> <b>SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS</b> <b>Year Ended June 30, 2013</b>
--

<u>Federal Agency</u>	<u>Federal Grantor/Program Title/Project</u>	<u>Federal CFDA Number</u>	<u>Loan Number</u>	<u>Expenditures</u>
EPA	Capitalization Grants for clean water - State Revolving Funds - Passed through Commonwealth of Kentucky - Kentucky Infrastructure Authority			
	Western Regional Waste Water Reclamation Facility	66.458	A08-04	\$ 988,684
	Gunpowder Interceptor		A09-06	133,412
	Narrows Road Diversion Pump Station		A09-09	178,215
	Dry Creek Headworks / Hydraulics		A10-11	2,150,299
	Lakeview, Kentucky Aire, Church St.		A11-13	2,168,686
	Wolpert Force Main		A12-02	702,974
Total Federal Expenditures:				<u>\$ 6,322,270</u>

**SANITATION DISTRICT NO. 1**  
**NOTES TO THE SUPPLEMENTARY INFORMATION**  
**June 30, 2013**

**NOTE 1 – SUPPLEMENTARY INFORMATION**

The accompanying summary information of Sanitation District No. 1, as of and for the years ended June 30, 2013 and 2012, as listed in the table of contents is not a presentation in conformity with accounting principles generally accepted in the United States of America.

**NOTE 2 – SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

The basis of presentation of the Schedule of Expenditures of Federal Awards is the modified accrual basis of accounting.

**This Page Intentionally Left Blank**

**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**

**Members of the Board of Directors  
Sanitation District No.1**

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 and each major fund of the Sanitation District No.1 (SD1), as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements which collectively comprise Sanitation District No.1's financial statements, and have issued our report thereon dated November 22, 2013.

**Internal Control over Financial Reporting**

In planning and performing our audits of the financial statements, we considered Sanitation District No.1'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 Sanitation District No.1's internal control. Accordingly, we do not express an opinion on the effectiveness of Sanitation District No.1'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. 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.

This Page Intentionally Left Blank

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Sanitation District No.1'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 with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



**Van Gorder, Walker & Co., Inc.**  
Erlanger, Kentucky  
November 22, 2013

31 This Page Intentionally Left Blank



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH  
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

**Members of the Board of Directors  
Sanitation District No.1**

**Report on Compliance for Each Major Federal Program**

We have audited Sanitation District No.1's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Sanitation District No.1's major federal programs for the year ended June 30, 2013. Sanitation District No.1's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Sanitation District No.1's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Sanitation District No.1's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Sanitation District No.1's compliance.

***Opinion on Each Major Federal Program***

In our opinion, Sanitation District No.1 complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

This Page Intentionally Left Blank

## Report on Internal Control Over Compliance

Management of Sanitation District No.1 is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Sanitation District No.1's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Sanitation District No.1's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



**Van Gorder, Walker & Co., Inc.**  
Erlanger, Kentucky  
November 22, 2013

This Page Intentionally Left Blank

<b>SANITATION DISTRICT NO. 1</b> <b>SCHEDULE OF FINDINGS AND QUESTIONED COSTS</b> <b>Year Ended June 30, 2013</b>
---

**I. SUMMARY OF AUDITOR'S RESULTS**

*Financial Statements*

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified?        Yes   X   No
- Significant deficiencies identified?        Yes   X   None reported

Noncompliance material to financial statements noted        Yes   X   No

*Federal Awards*

Internal Control Over Major Programs:

- Material weakness(es) identified?        Yes   X   No
- Significant deficiencies identified?        Yes   X   None reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133:        Yes   X   No

Identification of major programs:	
Federal Program or Cluster	CFDA No.
-----	-----
Capitalization Grants for Clean Water	66.458

Dollar threshold used to distinguish between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee?   X   Yes        No

**II. FINDINGS - FINANCIAL STATEMENTS AUDIT**

No matters were reported

**III. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT**

No matters were reported

**SANITATION DISTRICT NO. 1**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**Year Ended June 30, 2013**

NONE

## **STATISTICAL SECTION**



## STATISTICAL SECTION

This section of Sanitation District No. 1's (SD1) comprehensive annual financial report presents detailed historical and economic information as a supplement to the information presented in the financial statements and note disclosures to assist readers in assessing SD1's overall financial health.

<b><u>CONTENTS:</u></b>	<b><u>PAGE</u></b>
<b><i>Financial Trends:</i></b>	80-85
These schedules contain trend information to help readers understand how SD1's financial performance and position have changed over time.	
<b><i>Revenue Capacity:</i></b>	86-90
These schedules contain information to help readers assess SD1's most significant revenue sources.	
<b><i>Debt Service Coverage:</i></b>	91-93
These schedules present information to help readers assess SD1's current level of outstanding debt and SD1's ability to issue additional debt in the future.	
<b><i>Demographic and Economic Information:</i></b>	94-98
These schedules provide information about the environment in which SD1 operates.	
<b><i>Operating Information:</i></b>	99-100
These schedules contain operating information related to SD1's infrastructure, assets and services provided.	

**Sources:** *Unless otherwise noted, the information in these statistical schedules is from the annual financial reports for the relevant years.*

**Sanitation District No. 1**  
**Statements of Net Position (Balance Sheets)**  
**Last Ten Fiscal Years**

	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>ASSETS</b>										
Current Assets										
Cash and Cash Equivalents	\$ 3,643,988	\$ 2,244,528	\$ 8,092,974	\$ 3,964,704	\$ 18,636,359	\$ 10,266,444	\$ 9,692,641	\$ 7,352,863	\$ 9,464,525	\$ 19,058,529
Investments	5,359,587	5,499,532	5,708,366	6,002,125	6,256,876	8,965,396	6,607,843	6,683,573	-	-
Accounts Receivable										
Customers, Net Allowance	5,071,317	4,713,486	4,922,679	6,416,545	7,470,754	8,152,236	7,242,816	8,201,544	10,108,461	11,031,115
Communities	92,960	46,523	28,234	28,297	29,806	15,278	22,653	13,728	20,731	24,631
KIA Loan Receivable								11,555,668	6,940,435	4,235,102
Others	254,541	592,307	811,043	654,758	819,442	1,946,388	5,432,371	4,269,523	3,834,336	3,741,641
Due from other Fund						4,840,700	4,840,698	6,898,795	7,302,667	11,461,121
Accrued Unbilled Charges	4,360,291	5,315,148	5,703,617	7,503,691	8,478,996	8,359,200	7,725,400	8,698,483	9,615,400	9,190,400
Prepays and Deposits	450,877	415,088	674,291	615,929	618,314	555,209	533,981	619,705	637,983	596,152
Accrued Interest Income	18,549	10,501	1,960	56,075	53,132	17,604	33,250	28,238	27,324	15,778
<b>Total Current Assets</b>	<b>19,252,110</b>	<b>18,837,113</b>	<b>25,943,164</b>	<b>25,242,124</b>	<b>42,363,679</b>	<b>43,118,455</b>	<b>42,131,653</b>	<b>54,331,940</b>	<b>47,951,862</b>	<b>59,354,469</b>
Restricted Assets										
Cash		7,749,767	1,803,160	9,785,123	64,677,847	25,451,995	52,780,640	51,090,511	32,583,239	19,577,365
Investments	56,095,708	46,312,461	34,382,542	55,761,031	50,153,621	51,350,743	64,012,084	73,766,771	80,747,604	82,613,373
Receivables										
Assessments	774,987	1,026,896	2,062,910	2,417,800	2,248,298	2,079,386	1,958,351	1,849,302	1,738,719	1,644,649
Improvement Note	5,300,104	3,714,776	2,830,465	1,773,759	821,522	20,530	5,524	5,525	5,443	5,130
Other	56,300									
Accrued Interest	482,150	169,649	269,152	20,034	481,449	270,586	281,423	206,456	162,673	152,282
Prepaid Items	31,203		123,341	73,303	123,803	233,390	233,390	59,708	98,519	49,354
Unamortized Bond Discount	2,390,502	2,262,099	1,828,224							
<b>Total Restricted Assets</b>	<b>66,140,954</b>	<b>61,235,648</b>	<b>43,299,794</b>	<b>69,831,050</b>	<b>118,506,540</b>	<b>79,406,630</b>	<b>119,251,412</b>	<b>126,978,273</b>	<b>115,336,197</b>	<b>104,042,153</b>
Noncurrent Assets										
Unamortized Bond Costs and Discount, Net				2,794,526	3,355,288	3,118,841	4,271,574	4,764,880	1,097,553	1,052,608
Capital Assets										
Land, Building, System, Equipment, and Vehicles	437,832,030	478,169,551	521,466,916	545,718,594	578,928,587	644,722,698	949,282,454	1,106,520,240	1,377,882,062	1,435,998,064
Construction in Progress	58,099,381	50,241,163	58,533,869	104,982,850	144,855,250	153,932,654	197,579,699	250,483,024	50,114,839	41,833,765
Less: Accumulated Depreciation	(112,718,757)	(122,793,697)	(135,654,038)	(148,109,679)	(161,769,836)	(185,336,930)	(206,333,989)	(241,595,496)	(278,159,842)	(316,596,851)
<b>Total Capital Assets, Net</b>	<b>383,212,654</b>	<b>405,617,017</b>	<b>444,346,747</b>	<b>502,571,765</b>	<b>562,014,001</b>	<b>613,318,422</b>	<b>940,528,154</b>	<b>1,115,407,768</b>	<b>1,149,837,059</b>	<b>1,161,235,978</b>
<b>TOTAL ASSETS</b>	<b>467,605,718</b>	<b>485,689,778</b>	<b>513,589,705</b>	<b>600,379,465</b>	<b>726,239,518</b>	<b>738,962,348</b>	<b>1,106,182,793</b>	<b>1,301,482,861</b>	<b>1,314,222,671</b>	<b>1,325,685,208</b>
DEFERRED OUTFLOW OF RESOURCES										
Deferred refunding costs on defeased bond debt									4,071,573	3,458,564
<b>TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES</b>	<b>\$ 467,605,718</b>	<b>\$ 485,689,778</b>	<b>\$ 513,589,705</b>	<b>\$ 600,379,465</b>	<b>\$ 726,239,518</b>	<b>\$ 738,962,348</b>	<b>\$ 1,106,182,793</b>	<b>\$ 1,301,482,861</b>	<b>\$ 1,318,294,244</b>	<b>\$ 1,329,143,772</b>

**Sanitation District No. 1**  
**Statements of Net Position (Balance Sheets)**  
**Last Ten Fiscal Years**

	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>LIABILITIES</b>										
<b>Current Liabilities</b>										
Customer Deposits and Other	\$ 21,672	\$ 26,746	\$ 290,739	\$ 290,815	\$ 406,823	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts Payable	865,224	4,436,404	5,780,088	9,353,468	11,819,292	12,583,179	16,425,404	9,844,360	11,676,772	8,518,879
Accrued Payroll and Benefits	635,083	703,919	850,281	1,308,917	1,496,560	1,761,005	1,957,480	1,426,119	1,490,786	1,747,898
Accrued Taxes and Pension	98,178	127,188	181,544	215,745	93,691	134,234	136	425	(104)	2,772
Due to other Fund	-	-	-	-	-	4,840,700	4,840,698	6,898,795	7,302,667	11,461,121
Communities	145,685	44,794	27,473	27,361	16,951	18,187	2,033	346	733	156
Other Accruals	-	-	-	-	-	56,154	79,060	78,201	67,578	45,183
Sales Tax Payable	96,227	37,394	120,828	176,993	1,114	330	155	(450)	-	47,590
Current Portion of Long-Term Debt	3,095,000	3,230,000	3,610,000	3,775,000	6,792,025	7,164,762	8,537,838	12,386,658	12,981,517	18,438,249
<b>Total Current Liabilities</b>	<b>4,757,869</b>	<b>8,606,445</b>	<b>10,860,953</b>	<b>15,148,999</b>	<b>20,728,176</b>	<b>26,558,551</b>	<b>31,842,804</b>	<b>30,734,454</b>	<b>33,519,949</b>	<b>40,261,848</b>
<b>Liabilities Payable From Restricted Assets</b>										
Notes Payable	503,117	1,677,378	9,135,451	24,562,340	29,566,568	32,497,265	60,501,607	-	-	-
Accounts Payable	3,525,032	109,843	4,398,273	4,682,432	2,149,689	4,017,251	9,316,917	-	-	-
Bank Overdraft	266,804	-	-	-	-	-	-	-	-	-
Accrued Payable	-	-	-	-	-	-	-	9,164,358	2,701,990	1,324,184
Accrued Interest Payable	1,992,548	1,933,855	1,768,207	2,633,826	4,763,067	4,578,388	6,473,959	8,671,851	8,350,350	8,230,475
<b>Total Liabilities Payable From Restricted Assets</b>	<b>6,287,501</b>	<b>3,721,176</b>	<b>15,301,931</b>	<b>31,878,598</b>	<b>38,479,324</b>	<b>41,092,904</b>	<b>76,282,183</b>	<b>17,836,209</b>	<b>11,052,340</b>	<b>9,554,659</b>
<b>Noncurrent Liabilities</b>										
Notes Payable	-	-	-	-	-	-	-	101,353,944	134,708,581	145,790,516
Bonds Payable, net of amortization	93,790,000	90,560,000	85,879,627	132,282,045	234,034,184	227,845,699	349,836,789	400,168,536	382,696,887	380,195,865
<b>Total Noncurrent Liabilities</b>	<b>93,790,000</b>	<b>90,560,000</b>	<b>85,879,627</b>	<b>132,282,045</b>	<b>234,034,184</b>	<b>227,845,699</b>	<b>349,836,789</b>	<b>501,522,480</b>	<b>527,405,468</b>	<b>525,986,401</b>
<b>TOTAL LIABILITIES</b>	<b>104,835,470</b>	<b>102,887,621</b>	<b>112,042,511</b>	<b>179,309,642</b>	<b>291,239,684</b>	<b>295,497,154</b>	<b>457,971,776</b>	<b>550,093,143</b>	<b>571,977,757</b>	<b>575,802,908</b>
<b>NET POSITION</b>										
Invested in Capital Assets, Net of Related Debt	286,327,654	311,827,017	354,857,120	366,514,720	321,187,792	381,426,802	566,425,101	606,263,510	610,547,627	617,863,936
Restricted	58,655,759	57,514,472	27,997,863	37,952,452	82,027,216	38,313,726	42,959,229	109,637,329	100,596,925	97,946,058
Unrestricted	17,786,935	13,460,868	18,892,211	16,602,651	31,784,826	23,724,666	18,826,687	35,488,879	35,172,035	37,550,870
<b>TOTAL NET POSITION</b>	<b>362,770,248</b>	<b>382,802,157</b>	<b>401,547,194</b>	<b>421,069,823</b>	<b>434,999,834</b>	<b>443,465,194</b>	<b>648,211,017</b>	<b>751,389,718</b>	<b>746,316,487</b>	<b>753,340,864</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 467,605,718</b>	<b>\$ 485,689,778</b>	<b>\$ 513,589,705</b>	<b>\$ 600,379,465</b>	<b>\$ 726,239,518</b>	<b>\$ 738,962,348</b>	<b>\$ 1,106,182,793</b>	<b>\$ 1,301,482,861</b>	<b>\$ 1,318,294,244</b>	<b>\$ 1,329,143,772</b>

**Sanitation District No. 1**  
**Statements of Revenues, Expenses, and Changes in Net Position**  
**Last Ten Fiscal Years**

	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>OPERATING REVENUES</b>										
Sewer service charges	\$22,718,699	\$26,801,678	\$26,970,656	\$31,121,420	\$41,342,262	\$47,368,230	\$ 53,994,128	\$ 61,887,891	\$68,369,740	\$73,562,515
Storm water charges	7,538,746	8,004,587	8,317,604	10,268,746	9,739,148	10,301,534	10,810,291	11,091,977	11,386,734	11,751,183
Permits & tap-in fees	3,861,984	4,084,334	3,653,657	3,249,711	3,002,506	2,236,542	2,732,120	2,283,388	1,765,957	2,340,792
Sludge hauling	194,515	246,042	205,367	170,966	192,978	77,171	92,429	144,505	147,409	120,776
Inspections	215,641	157,435	174,748	123,689	70,004	52,456	34,878	33,416	69,300	69,662
Penalties and fines	476,856	566,281	607,177	675,850	897,070	1,179,262	1,292,665	1,332,674	1,431,386	1,581,774
Contractual services	30,746	139,421	104,523	106,341	94,831	87,600	103,219	137,694	141,038	125,689
Bad debt recoveries	968	22,169	4,578	6,720	6,124	12,964	49,938	35,355	19,097	35,392
Other revenues	35,638	159,997	131,157	128,362	99,850	44,190	119,992	7,017	69,044	50,993
Project reimbursements	1,092,322	2,250,752	2,184,057	1,602,282	1,370,247	310,899	165,830	1,442,406	549,579	68,321
<b>TOTAL OPERATING REVENUES</b>	<b>36,166,115</b>	<b>42,432,696</b>	<b>42,353,524</b>	<b>47,454,087</b>	<b>56,815,019</b>	<b>61,670,848</b>	<b>69,395,510</b>	<b>78,396,323</b>	<b>83,951,284</b>	<b>89,707,117</b>
<b>OPERATING EXPENSES</b>										
Operation, maintenance and administration										
Salary & Wages	5,507,650	6,237,789	4,426,289	5,023,781	6,823,087	7,397,037	6,824,325	7,666,779	7,875,727	10,352,734
Employee Benefit & Incentive Expenses	3,051,972	3,237,133	3,466,525	4,477,282	4,987,591	5,144,969	5,819,271	5,776,673	6,628,400	7,539,280
Professional & Contractual Services	1,213,623	1,582,081	1,588,507	1,495,273	1,614,396	1,758,011	2,779,872	3,063,454	3,778,654	5,216,695
Office Administration Expenses	556,922	843,867	873,723	965,059	1,200,378	1,347,218	1,743,401	1,434,543	1,742,980	1,903,439
Utilities, Fuels Oil & Chemicals Expense	3,492,430	4,414,530	5,564,287	5,929,618	6,595,898	6,551,357	7,198,145	7,316,763	7,362,096	7,685,268
Vehicle Operation Expenses	521,773	627,340	842,507	932,180	1,216,854	1,037,133	1,096,654	1,163,239	1,276,021	1,087,065
Infrastructure, Equipment & Other Expenses	875,214	1,031,122	1,416,263	1,141,572	1,560,922	1,756,982	2,372,647	1,997,122	2,355,828	2,760,362
Supplemental/ State Environmental Projects					30,051	82,951	283,029	202,182	61,218	-
Other Expenses	15,852	26,766	259,278	421,591	7,831	-	-	-	-	-
Total Operation, Maintenance and Administration	15,235,437	18,000,628	18,437,379	20,386,356	24,037,008	25,074,658	28,117,344	28,620,755	31,080,924	36,544,843
Major repairs and other	416,890	426,065	1,166,674	350,601	6,447,722	3,134,429	4,797,653	6,172,970	4,912,935	4,495,306
Depreciation	9,385,148	10,101,489	12,887,270	12,540,922	13,939,243	23,731,773	32,842,268	37,633,213	39,593,040	40,245,842
<b>TOTAL OPERATING EXPENSES</b>	<b>25,037,475</b>	<b>28,528,182</b>	<b>32,491,323</b>	<b>33,277,879</b>	<b>44,423,973</b>	<b>51,940,860</b>	<b>65,757,265</b>	<b>72,426,938</b>	<b>75,586,899</b>	<b>81,285,991</b>
<b>OPERATING INCOME</b>	<b>11,128,640</b>	<b>13,904,514</b>	<b>9,862,201</b>	<b>14,176,208</b>	<b>12,391,046</b>	<b>9,729,988</b>	<b>3,638,245</b>	<b>5,969,385</b>	<b>8,364,385</b>	<b>8,421,126</b>

(Continued)

**Sanitation District No. 1**  
**Statements of Revenues, Expenses, and Changes in Net Position**  
**Last Ten Fiscal Years**

	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>NON-OPERATING INCOME</b>										
Interest Income	2,617,018	827,776	1,815,566	3,339,413	5,280,998	2,064,125	1,693,641	1,272,736	723,911	831,632
Federal credits On Build America Bonds	-	-	-	-	-	-	561,428	3,853,736	3,805,832	3,590,813
Gain/(Loss) on sale of fixed assets	12,364	2,620	1,665	-	87,167	59,458	(4,646,167)	(2,411,613)	(2,392,458)	(1,810,778)
Unrealized appreciation in fair market value of investments	(1,383,992)	549,041	99,764	548,083	(591,216)	342,379	104,496	(443,536)	286,941	(486,536)
<b>TOTAL NON-OPERATING INCOME</b>	<b>1,245,390</b>	<b>1,379,437</b>	<b>1,916,995</b>	<b>3,887,496</b>	<b>4,776,949</b>	<b>2,465,962</b>	<b>(2,286,602)</b>	<b>2,271,323</b>	<b>2,424,226</b>	<b>2,125,131</b>
<b>INTEREST AND OTHER CHARGES</b>										
Interest on long-term debt	2,956,214	4,683,054	3,463,153	4,251,330	5,547,185	5,758,237	11,174,829	16,025,760	18,254,771	19,331,456
Amortization of bond discount & expense	114,176	128,403	141,330	175,057	192,465	258,885	186,054	255,805	41,767	43,097
<b>TOTAL INTEREST &amp; OTHER CHARGES</b>	<b>3,070,390</b>	<b>4,811,457</b>	<b>3,604,483</b>	<b>4,426,387</b>	<b>5,739,650</b>	<b>6,017,122</b>	<b>11,360,883</b>	<b>16,281,565</b>	<b>18,296,538</b>	<b>19,374,553</b>
<b>CHANGE IN NET POSITION BEFORE CAPITAL CONTRIBUTIONS</b>	<b>9,303,640</b>	<b>10,472,494</b>	<b>8,174,713</b>	<b>13,637,317</b>	<b>11,428,345</b>	<b>6,178,828</b>	<b>(10,009,240)</b>	<b>(8,040,857)</b>	<b>(7,507,927)</b>	<b>(8,828,296)</b>
<b>CAPITAL CONTRIBUTIONS</b>	<b>3,835,962</b>	<b>9,559,415</b>	<b>10,950,160</b>	<b>5,885,312</b>	<b>2,501,666</b>	<b>2,285,532</b>	<b>214,755,064</b>	<b>111,721,532</b>	<b>6,064,545</b>	<b>15,852,673</b>
<b>CHANGE IN NET POSITION</b>	<b>\$13,139,602</b>	<b>\$20,031,909</b>	<b>\$19,124,873</b>	<b>\$19,522,629</b>	<b>\$13,930,011</b>	<b>\$ 8,465,360</b>	<b>\$204,745,824</b>	<b>\$103,680,675</b>	<b>\$(1,443,382)</b>	<b>\$ 7,024,377</b>

**Sanitation District No. 1**  
**Statements of Cash Flows**  
**Last Ten Fiscal Years**

	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>Cash Flow from Operating Activities</b>										
Received from Customers	\$33,544,642	\$41,348,732	\$40,519,401	\$43,961,479	\$54,619,313	\$61,194,429	\$70,408,423	\$71,358,359	\$81,151,762	\$85,139,804
Paid to Suppliers for Goods and Services	(6,742,805)	(8,407,815)	(3,526,638)	(4,637,551)	(11,677,247)	(15,782,607)	(17,039,076)	(25,862,095)	(19,991,822)	(22,699,507)
Paid to or on Behalf of Employees for Services	(8,734,981)	(9,920,303)	(10,676,957)	(11,583,801)	(16,249,714)	(11,685,342)	(11,943,516)	(13,974,524)	(13,829,679)	(17,013,644)
<b>Net Cash Provided by Operating Activities</b>	<b>18,066,856</b>	<b>23,020,614</b>	<b>26,315,806</b>	<b>27,740,127</b>	<b>26,692,352</b>	<b>33,726,480</b>	<b>41,425,831</b>	<b>31,521,740</b>	<b>47,330,261</b>	<b>45,426,663</b>
<b>Cash Flows from Investing Activities</b>										
Investment Income	3,068,097	1,158,325	1,724,605	3,534,416	5,283,941	2,310,516	1,687,158	1,332,715	768,608	853,569
Net Decrease (Increase) in Investments	5,641,124	10,192,343	11,820,849	(21,124,165)	6,198,626	(3,563,263)	(10,199,292)	(10,283,953)	(319)	(2,352,305)
<b>Net Cash Used by Capital Financing Activities</b>	<b>8,709,221</b>	<b>11,350,668</b>	<b>13,545,454</b>	<b>(17,589,749)</b>	<b>11,482,567</b>	<b>(1,252,747)</b>	<b>(8,512,134)</b>	<b>(8,951,238)</b>	<b>768,289</b>	<b>(1,498,736)</b>
<b>Cash Flows from Capital and Related Financing Activities</b>										
Principal Received on Notes and Bonds	974,476	1,585,328	36,059,311	51,056,706	108,697,194	3,017,121	154,921,293	139,316,551	39,963,916	20,938,245
Federal Credits on Build America Bonds	-	-	-	-	-	-	561,428	3,853,736	3,805,832	3,590,813
Cash Received from Sale of Assets	12,763	11,054	1,665	-	-	59,458	51,782	18,195	203,895	223,786
Bond Issuance Costs	-	-	(430,245)	(425,849)	(779,595)	-	-	-	-	-
Payment to Bond Refunding Agent	-	-	(36,613,357)	-	-	-	-	-	-	-
Bond Premium (Discount)	-	-	1,071,768	(648,230)	5,217,175	-	-	-	-	-
Payments made on long term debt	(2,960,000)	(3,095,000)	(3,230,000)	(3,610,000)	(4,330,941)	(6,875,466)	(7,164,762)	(50,903,395)	(12,514,188)	(13,124,245)
Interest Paid, Net of Capitalized Interest	(3,429,280)	(4,741,747)	(3,609,796)	(3,215,575)	(3,417,944)	(6,226,401)	(9,969,117)	(15,293,072)	(19,008,783)	(19,907,475)
Acquisition and Construction of Capital Assets,										
Net of Capital Contributions	(25,217,657)	(22,954,871)	(40,666,840)	(64,880,626)	(70,592,005)	(72,749,661)	(149,994,886)	(103,723,075)	(70,554,138)	(37,826,663)
(Increase)/Decrease in Restricted Funds	(54,787)	1,174,261	7,458,073	5,641,766	(58,297,148)	41,931,301	(21,893,238)	1,820,600	12,116,758	11,771,616
<b>Net Cash Used for Non Capital Financing Activ</b>	<b>(30,674,485)</b>	<b>(28,020,976)</b>	<b>(39,959,421)</b>	<b>(16,081,806)</b>	<b>(23,503,264)</b>	<b>(40,843,648)</b>	<b>(33,487,500)</b>	<b>(24,910,460)</b>	<b>(45,986,708)</b>	<b>(34,333,913)</b>
<b>Increase (Decrease) in Cash and Cash Equivalent</b>	<b>(3,898,408)</b>	<b>6,350,307</b>	<b>(98,161)</b>	<b>(5,931,430)</b>	<b>14,671,655</b>	<b>(8,369,915)</b>	<b>(573,803)</b>	<b>(2,339,958)</b>	<b>2,111,842</b>	<b>9,594,004</b>
<b>Cash and Cash Equivalents Beginning of Period</b>	<b>7,542,396</b>	<b>3,643,988</b>	<b>9,994,295</b>	<b>9,896,134</b>	<b>3,964,704</b>	<b>18,636,359</b>	<b>10,266,444</b>	<b>9,692,641</b>	<b>7,352,683</b>	<b>9,464,525</b>
<b>Cash and Cash Equivalents End of Period</b>	<b>\$ 3,643,988</b>	<b>\$ 9,994,295</b>	<b>\$ 9,896,134</b>	<b>\$ 3,964,704</b>	<b>\$18,636,359</b>	<b>\$10,266,444</b>	<b>\$ 9,692,641</b>	<b>\$ 7,352,683</b>	<b>\$ 9,464,525</b>	<b>\$19,058,529</b>

**Sanitation District No. 1  
Net Capital Assets  
Last Ten Fiscal Years**

	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>Completed projects</b>										
Collection system	\$ 263,803,326	\$ 285,224,720	\$ 308,978,468	\$ 325,459,112	\$ 355,094,422	\$ 383,878,066	\$ 431,156,488	\$ 456,348,371	\$ 523,052,899	\$ 649,183,792
Pump stations	47,091,262	47,560,797	50,314,311	52,730,687	53,266,723	60,086,361	71,026,855	75,341,500	74,563,508	85,077,857
Treatment and disposal	79,856,012	80,089,640	85,086,356	86,583,530	87,048,028	96,750,433	125,914,436	138,245,523	229,901,841	227,871,380
General plant and equipment	47,081,490	52,953,641	62,399,226	69,680,276	66,254,425	68,334,960	69,005,259	71,374,272	75,527,421	76,770,943
Sanitation software model	-	-	-	-	-	10,711,740	15,608,578	15,551,551	15,987,050	15,987,050
Storm water land	-	-	-	-	-	-	-	24,147	409,728	466,990
Storm water vehicles	-	-	-	-	-	-	-	-	-	25,027
Storm water equipment	-	-	-	-	-	-	-	-	-	31,068
Storm water collection	-	12,340,753	14,678,555	17,264,989	17,264,989	21,443,446	233,054,168	346,148,777	356,814,655	374,959,787
Storm water software model	-	-	-	-	-	3,516,892	3,516,892	3,488,099	5,645,160	5,645,160
<b>Total Completed projects</b>	<b>437,832,030</b>	<b>478,189,551</b>	<b>521,466,916</b>	<b>545,718,594</b>	<b>578,928,587</b>	<b>644,722,698</b>	<b>949,282,454</b>	<b>1,106,520,240</b>	<b>1,377,882,062</b>	<b>1,435,999,064</b>
<b>Less accumulated depreciation</b>	<b>(112,718,757)</b>	<b>(122,793,697)</b>	<b>(136,654,036)</b>	<b>(148,109,679)</b>	<b>(161,769,836)</b>	<b>(185,336,960)</b>	<b>(206,393,999)</b>	<b>(241,595,486)</b>	<b>(278,159,842)</b>	<b>(319,598,861)</b>
<b>Total completed projects, Net</b>	<b>325,113,273</b>	<b>355,375,854</b>	<b>385,812,878</b>	<b>397,608,915</b>	<b>417,158,751</b>	<b>459,385,738</b>	<b>742,948,455</b>	<b>864,924,744</b>	<b>1,099,722,220</b>	<b>1,119,402,213</b>
<b>Construction in progress</b>										
Sanitation	58,099,381	47,607,078	56,904,112	103,468,965	134,374,432	145,107,180	187,722,253	242,536,861	46,654,781	40,814,200
Storm water	-	2,694,085	1,629,757	1,493,885	10,480,818	8,825,474	9,857,448	7,946,163	3,460,048	1,019,586
<b>Total construction in progress</b>	<b>58,099,381</b>	<b>50,241,163</b>	<b>58,533,869</b>	<b>104,962,850</b>	<b>144,855,250</b>	<b>153,932,654</b>	<b>197,579,699</b>	<b>250,483,024</b>	<b>50,114,839</b>	<b>41,833,766</b>
<b>Total Capital Assets, Net</b>	<b>\$ 383,212,654</b>	<b>\$ 405,617,017</b>	<b>\$ 444,346,747</b>	<b>\$ 502,571,765</b>	<b>\$ 562,014,001</b>	<b>\$ 613,318,392</b>	<b>\$ 940,528,154</b>	<b>\$ 1,115,407,768</b>	<b>\$ 1,149,837,059</b>	<b>\$ 1,161,235,978</b>

**Sanitation District No. 1**  
**Schedule of Rates, Rate Determination, and Percentage Change**  
**Fiscal Years 2004-2009**

	Fiscal Year					
	2004	2005	2006	2007	2008	2009
<b>Water Usage</b>						
in 100 Cubic Feet (HCF)	Rate	Rate	Rate	Rate	Rate	Rate
	Change	Change	Change	Change	Change	Change
	%	%	%	%	%	%
0-800	2.30	2.30	2.30	2.65	3.18	3.82
	0%	0%	0%	15%	20%	20%
801-5,000	2.17	2.17	2.17	2.50	3.00	3.60
	0%	0%	0%	15%	20%	20%
5,001-25,000	1.95	1.95	1.95	2.24	2.69	3.23
	0%	0%	0%	15%	20%	20%
25,001-100,000	1.66	1.66	1.66	1.91	2.30	2.76
	0%	0%	0%	15%	20%	20%
Over 100,0000	1.51	1.51	1.51	1.74	2.09	2.51
	0%	0%	0%	15%	20%	20%
Quarterly minimum bill	13.80	13.80	13.80	15.90	19.08	22.92
	0%	0%	0%	15%	20%	20%
<b>Unmetered Service</b>						
1 or 2 room house	20.71	20.71	20.71	23.82	28.59	34.31
	0%	0%	0%	15%	20%	20%
3 to 6 room house	34.01	34.01	34.01	39.11	46.94	56.33
	0%	0%	0%	15%	20%	20%
More than 6 rooms	44.99	44.99	44.99	51.74	62.09	74.51
	0%	0%	0%	15%	20%	20%

Source: SD1 accounting records

**Sanitation District No. 1**  
**Schedule of Rates, Rate Determination, and Percentage Change**  
**Last Four Fiscal Years**

	Fiscal Year			
	2010	2011	2012	2013
<b>Non-Residential (1)</b>				
Water Usage				
in 100 Cubic Feet (HCF)	Rate	Rate	Rate	Rate
	Change	Change	Change	Change
	%	%	%	%
0-1,700	4.40	5.06	5.82	6.69
	15%	15%	15%	15%
1,701-8,400	3.95	4.54	5.22	6.00
	15%	15%	15%	15%
Over 8,400	3.05	3.51	4.04	4.65
	15%	15%	15%	15%
Monthly minimum bill	8.80	10.12	11.64	13.38
	15%	15%	15%	15%
<b>Residential (2)</b>				
Water Usage				
in 100 Cubic Feet (HCF)	Rate	Rate	Rate	Rate
	Change	Change	Change	Change
	%	%	%	%
Flat rate per 100 Cubic Feet (HCF)	4.40	5.06	5.82	6.69
	15%	15%	15%	15%
Monthly minimum bill	8.80	10.12	11.64	13.38
	15%	15%	15%	15%
Quarterly minimum bill				
<b>Unmetered Service</b>				
1 or 2 room house	13.15	15.12	17.39	20.00
	15%	15%	15%	15%
3 to 6 room house	21.59	24.83	28.55	32.84
	15%	15%	15%	15%
More than 6 rooms	28.56	32.84	37.77	43.43
	15%	15%	15%	15%

Effective with Fiscal Year 2010 SD1 switched from a quarterly billing to a monthly billing.

(1) Based on monthly metered water usage

(2) *Winter Factor* billing - Based on metered water usage during the months of November through February only.

Source: SD1 accounting records

**Sanitation District No. 1  
Sewer & Storm Water Revenues Breakdown By Billing Class  
Fiscal Year 2004 through Fiscal Year 2009**

Account Name	Fiscal Year					
	2004	2005	2006	2007	2008	2009
<b>Sewer Service Revenues</b>						
All Classes	\$ 22,407,152	\$ 26,101,401	\$ 27,252,150	\$ 31,681,784	\$ 41,059,987	\$ 46,476,573
Less: Special Meter Refunds	(228,475)	(356,234)	(787,174)	(438,478)	(1,364,225)	(704,227)
<b>Total Sewer Revenues</b>	<b>22,178,677</b>	<b>25,745,167</b>	<b>26,464,976</b>	<b>31,243,306</b>	<b>39,695,762</b>	<b>45,772,346</b>
<b>Sewer Service Penalties</b>						
All Classes	371,117	447,348	470,064	517,734	716,836	983,034
<b>Total Sewer Service Penalties</b>	<b>371,117</b>	<b>447,348</b>	<b>470,064</b>	<b>517,734</b>	<b>716,836</b>	<b>983,034</b>
<b>Total Sewer Service Write Offs</b>	<b>(373,049)</b>	<b>(400,796)</b>	<b>(568,452)</b>	<b>(387,441)</b>	<b>(788,702)</b>	<b>(829,792)</b>
<b>Percentage of Write Offs to Revenues &amp; Penalties Billed</b>	<b>1.65%</b>	<b>1.53%</b>	<b>2.11%</b>	<b>1.22%</b>	<b>1.95%</b>	<b>1.77%</b>
<b>Net Sewer Service Revenues</b>	<b>\$ 22,176,745</b>	<b>\$ 25,791,719</b>	<b>\$ 26,366,588</b>	<b>\$ 31,373,599</b>	<b>\$ 39,623,896</b>	<b>\$ 45,925,588</b>
<b>Storm Water Revenues</b>						
All Classes	\$ 7,538,749	\$ 8,034,815	\$ 8,317,604	\$ 8,992,486	\$ 9,876,767	\$ 10,435,851
<b>Total Storm Water Revenues</b>	<b>7,538,749</b>	<b>8,034,815</b>	<b>8,317,604</b>	<b>8,992,486</b>	<b>9,876,767</b>	<b>10,435,851</b>
<b>Storm Water Service Penalties</b>						
All Classes	99,558	110,433	126,263	121,837	141,579	180,306
<b>Total Sewer Service Penalties</b>	<b>99,558</b>	<b>110,433</b>	<b>126,263</b>	<b>121,837</b>	<b>141,579</b>	<b>180,306</b>
<b>Total Storm Water Write Offs</b>	<b>-</b>	<b>(30,228)</b>	<b>(94,381)</b>	<b>(61,670)</b>	<b>(137,619)</b>	<b>(134,317)</b>
<b>Percentage of Write Offs to Revenues &amp; Penalties Billed</b>	<b>0.00%</b>	<b>0.37%</b>	<b>1.12%</b>	<b>0.68%</b>	<b>1.37%</b>	<b>1.27%</b>
<b>Net Storm Water Revenues</b>	<b>\$ 7,638,307</b>	<b>\$ 8,115,020</b>	<b>\$ 8,349,486</b>	<b>\$ 9,052,653</b>	<b>\$ 9,880,727</b>	<b>\$ 10,481,840</b>
<b>Customer Accounts</b>						
<b>Sewer Service Accounts Estimates</b>						
All Classes	90,017	93,468	95,490	97,714	99,165	100,042
<b>Total Sewer Accounts</b>	<b>90,017</b>	<b>93,468</b>	<b>95,490</b>	<b>97,714</b>	<b>99,165</b>	<b>100,042</b>
<b>Storm Water Accounts Estimates</b>						
All Classes	82,508	86,741	90,998	93,045	93,113	94,928
<b>Total Storm Water Accounts</b>	<b>82,508</b>	<b>86,741</b>	<b>90,998</b>	<b>93,045</b>	<b>93,113</b>	<b>94,928</b>

Source: SD1 billing registers

**Sanitation District No. 1**  
**Sewer & Storm Water Revenues Breakdown By Billing Class**  
**Fiscal Year 2010 through Fiscal Year 2013**

Account Name	Fiscal Year		
	2010	2011	2012
<b>Sewer Service Revenues</b>			
Residential Class	\$ 32,011,985	\$ 33,987,557	\$ 38,916,405
Non-Residential Class	19,788,357	25,182,674	28,057,913
Less: Special Meter Refunds	(355,601)	(364,411)	(465,147)
<b>Total Sewer Revenues</b>	<b>51,444,741</b>	<b>58,805,820</b>	<b>66,509,171</b>
<b>Sewer Service Penalties</b>			
Residential Class	899,148	851,939	979,052
Non-Residential Class	206,748	300,463	270,058
<b>Total Sewer Service Penalties</b>	<b>1,105,896</b>	<b>1,152,402</b>	<b>1,249,110</b>
<b>Total Sewer Service Write Offs</b>	<b>(721,412)</b>	<b>(1,175,977)</b>	<b>(1,100,084)</b>
<b>Percentage of Write Offs to Revenues &amp; Penalties Billed</b>	<b>1.37%</b>	<b>1.96%</b>	<b>1.82%</b>
<b>Net Sewer Service Revenues</b>	<b>\$ 51,829,225</b>	<b>\$ 58,782,245</b>	<b>\$ 66,658,197</b>
<b>Storm Water Revenues</b>			
Residential Class	\$ 4,743,013	\$ 4,605,646	\$ 4,728,292
Non-Residential Class	6,183,085	6,589,598	6,780,700
<b>Total Storm Water Revenues</b>	<b>10,926,098</b>	<b>11,195,244</b>	<b>11,509,992</b>
<b>Storm Water Service Penalties</b>			
Residential Class	107,583	91,001	96,906
Non-Residential Class	68,419	79,470	71,120
<b>Total Storm Water Service Penalties</b>	<b>176,002</b>	<b>170,471</b>	<b>168,026</b>
<b>Total Storm Water Write Offs</b>	<b>(115,806)</b>	<b>(103,267)</b>	<b>(120,258)</b>
<b>Percentage of Write Offs to Revenues &amp; Penalties Billed</b>	<b>1.04%</b>	<b>0.91%</b>	<b>1.03%</b>
<b>Net Storm Water Revenues</b>	<b>\$ 10,986,294</b>	<b>\$ 11,262,448</b>	<b>\$ 11,556,760</b>
<b>Customer Accounts</b>			
<b>Sewer Service Accounts Estimates</b>			
Residential Class	90,646	91,920	92,374
Non-Residential Class	9,893	10,079	9,756
<b>Total Sewer Accounts</b>	<b>100,539</b>	<b>101,999</b>	<b>102,130</b>
<b>Storm Water Accounts Estimates</b>			
Residential Class	85,726	86,143	86,579
Non-Residential Class	8,162	8,283	7,921
<b>Total Storm Water Accounts</b>	<b>93,888</b>	<b>94,426</b>	<b>94,500</b>
<b>Total Net Revenues</b>	<b>\$ 72,641,748</b>	<b>\$ 80,830,737</b>	<b>\$ 79,771,717</b>

Source: SD1 billing registers

**Sanitation District No. 1  
Top Significant Industrial Users (SIU's)  
Last Ten Fiscal Years**

Account Name	2004		2005		2006		2007		2008		2009		2010		2011		2012		2013		
	Rank	Amount	Rank	Amount	Rank	Amount	Rank	Amount	Rank	Amount	Rank	Amount	Rank	Amount	Rank	Amount	Rank	Amount	Rank	Amount	
Club Chef	NR	\$ -	NR	\$ -	4	\$ 207,414	4	\$ 338,572	4	\$ 448,424	5	\$ 455,894	4	\$ 623,082	1	\$ 1,251,689	2	\$ 1,059,091	1	\$ 1,311,655	
Louis Trauth Dairy	6	168,899	2	493,288	2	363,346	1	401,552	2	558,643	1	623,668	3	747,035	2	1,172,055	7	508,831	NR	-	
Lyons-Magnus	13	57,551	7	142,988	13	150,202	13	174,313	11	174,313	3	586,913	3	843,285	7	1,019,216	3	1,019,216	3	1,182,776	
Tastemaker	10	69,278	13	79,890	12	96,050	5	262,249	6	399,840	6	430,054	5	587,362	4	587,362	4	1,157,417	3	1,028,552	
Sara Lee Foods	NR	-	NR	-	NR	-	NR	-	6	260,304	2	617,563	2	791,851	3	885,635	4	723,700	4	782,726	
Global Supply Chain	4	223,524	4	275,323	7	148,016	7	202,834	9	245,553	8	329,698	10	245,553	5	329,698	5	377,462	5	614,053	
St. Elizabeth Medical Center	5	169,289	6	172,844	5	155,399	9	127,531	10	211,344	9	263,175	9	379,980	9	389,315	8	451,730	6	446,716	
L'Oréal USA Florence	3	378,596	1	527,821	3	302,997	3	360,847	1	611,822	4	527,940	6	546,274	6	637,404	10	280,710	7	420,436	
Kenton County Airport	1	518,807	3	472,486	1	601,263	2	392,897	3	467,683	7	428,853	7	393,043	8	435,974	5	552,602	8	394,268	
Northern KY University	11	63,824	8	124,981	10	116,193	10	109,851	12	161,981	11	223,303	11	228,095	10	289,716	9	289,722	9	363,675	
Signature Plastic Recycling	8	74,017	9	99,915	13	89,437	11	105,732	13	156,499	15	129,451	14	140,662	11	253,423	11	264,883	10	346,203	
Wild Flavors, Inc.	9	69,690	10	87,892	7	152,582	8	135,691	8	251,089	10	260,151	7	411,851	12	238,056	12	244,354	11	242,264	
Messier Bugatti / A. Carb, LLC	NR	-	NR	-	NR	-	NR	-	NR	-	13	168,843	26	21,618	17	129,319	17	98,778	12	223,102	
Bluegrass Quality Meats	7	85,962	12	86,598	11	102,168	12	99,903	14	113,344	17	102,710	12	173,946	16	130,240	13	198,196	13	171,165	
A.O. Smith	12	59,817	11	87,023	14	48,780	14	38,184	15	81,010	16	106,431	16	114,038	14	152,804	15	115,562	14	140,546	
Camco Chemical Company	22	7,861	23	9,420	24	12,711	25	8,105	23	29,287	18	56,396	18	57,255	13	170,993	18	94,871	15	132,931	
White Castle Distributing, Inc.	18	16,927	17	25,288	19	24,092	15	31,612	16	24,092	19	49,936	15	119,507	15	148,151	16	109,605	16	98,080	
Northern KY Water District	2	446,051	5	228,612	6	154,464	6	210,567	7	259,957	12	174,284	17	107,123	19	91,264	14	156,749	17	88,530	
Anistech Acrylics LLC	NR	-	NR	-	NR	-	NR	-	NR	-	14	159,129	13	167,111	20	85,342	19	79,541	18	84,869	
AmerPride-WPS Energy Service	15	32,962	18	24,892	16	28,409	17	24,424	20	32,123	22	37,754	21	43,468	21	43,468	22	63,856	19	76,559	
Emerald Industries, Inc.	15	34,824	14	34,552	17	27,987	20	19,909	19	37,714	21	46,552	21	46,552	18	105,251	20	47,987	20	73,309	
Van Melle USA, Inc.	25	5,902	24	7,515	25	12,545	18	20,818	17	45,046	25	15,625	28	15,576	26	31,162	21	66,437	21	54,612	
Duro Paper Bag	14	37,344	15	33,986	15	47,664	16	29,920	18	41,782	20	47,484	19	46,558	23	41,278	27	23,581	22	48,402	
Turfway Park	21	8,494	16	32,862	18	24,099	19	19,971	22	30,353	23	30,353	23	32,497	22	42,440	23	42,440	23	41,622	
Environmental Services Inc. (Ultra Eir	17	20,871	19	24,737	23	13,028	29	2,133	34	1,137	28	12,244	25	22,065	27	30,466	25	25,848	24	33,490	
IOFINA Chemical Inc.	NR	-	NR	-	NR	-	NR	-	NR	-	27	23,366	27	12,659	24	31,800	24	31,097	25	30,206	
Dominio's National Comm.	NR	-	NR	-	NR	-	NR	-	NR	-	34	1,297	34	27,000	25	27,000	26	24,318	26	27,592	
Savannah Foods & Industries	19	16,347	22	11,740	26	10,491	27	7,018	25	18,249	29	9,312	31	8,840	33	7,726	29	15,980	27	22,168	
Highway Transport Chemical LLC	20	11,046	20	20,433	20	20,140	21	14,911	26	14,384	26	13,327	27	17,820	28	17,820	28	17,981	29	15,006	
Tressa Inc.	24	6,208	27	3,396	22	13,242	28	7,849	30	6,071	30	7,209	32	7,880	34	6,963	30	9,587	30	11,005	
Cabot Industrial Prop LLP	27	2,243	21	16,623	21	20,097	24	11,288	27	9,138	24	18,877	30	9,861	31	11,442	32	2,972	32	4,512	
A. Gamacho Inc.	23	7,466	25	5,957	27	7,917	22	12,913	29	7,029	NR	-	NR	-	NR	-	NR	-	NR	-	NR

Note: Amounts based on Sewer Charges and/or Surcharges billed to the Companies. All invoiced amounts for the companies listed are considered Special Billings and are billed quarterly outside the Utility Billing System.

Company Name	Type of Business
A. Gamacho Inc.	Protein and olive packaging plant. No longer in business locally
A.O. Smith	Protective coatings for appliances, automotive and metallurgical markets division
AmerPride-WPS Energy Service	Uniforms, towels and linen sales, rentals and services. Restroom and floor care products
Anistech Acrylics LLC	Produces continuous cast acrylic sheet products for solid surface bath, mantle and funeral industry.
Bluegrass Quality Meats	Deli meats and packaged meats plant
Cabot Industrial Prop LLP	Immunity - Biotechnology company specializing in scientifically formulated dietary supplements and skin
Camco Chemical Company	Contract packaging and chemical manufacturer.
Club Chef	Producer of fresh cut produce.
Dominio's National Comm.	Dominos pizza dough distribution center
Duro Paper Bag	Largest paper bag manufacturer in the world/
Emerald Industries, Inc.	Kellogg's - Cookie and cracker manufacturer.
Environmental Services Inc. (Ultra Eir	Schwani's - Produces Freshcotta pizza products.
Global Supply Chain	Schwani's - Produces Freshcotta pizza products.
Highway Transport Chemical LLC	Tanker truck washing facility.
IOFINA Chemical Inc.	Production of iodine, iodine specialty chemical derivatives, produced water and natural gas.
Kenton County Airport	Greater Cincinnati Northern Kentucky International Airport (CVG)
L'Oréal USA Florence	Produces shampoos, conditioners & styling products
Louis Trauth Dairy	Full line dairy processor. No longer in business locally
Lyons-Magnus	Develops and markets quality juices and food products.
Messier Bugatti / A. Carb, LLC	Arcaut wheels and carbon brakes facility
Northern KY University	Metropolitan State University with more than 16,000 Students
Northern KY Water District	Water supply utility for Kenton and Campbell Counties
Sara Lee Foods	Meat and meat products processor
Savannah Foods & Industries	Bulk sugar refinery
Signature Plastic Recycling	Manufacturer and distributor of protective packaging systems
St. Elizabeth Medical Center	General medicine and surgical hospital.
Tastemaker	Swiss manufacturer of flavorings and fragrances.
Tressa Inc.	Hair care product manufacturing including shampoos
Turfway Park	Thoroughbred horse racing track
Van Melle USA, Inc.	Petani Van Melle - Manufactures confectionery items including flavored gums and Airheads brand fruit chews
White Castle Distributing, Inc.	Markets and distributes frozen and microwavable hamburgers.
Wild Flavors, Inc.	Produces natural flavors and ingredients for the beverage industry.

Source: SD1 billing records/invoices

**Sanitation District No. 1  
Ratios of Outstanding Debt  
Last Ten Fiscal Years**

Fiscal Year	Revenue	Notes	Total	Outstanding	Debt	Sewer	Outstanding	Debt to	Assets
	Bonds	Payable							
2004	\$96,885,000	\$ -	\$96,885,000	90,017	\$ 1,076.30	\$ 467,605,718	20.7%		
2005	93,790,000	-	93,790,000	93,468	1,003.45	485,689,778	19.3%		
2006	91,585,000	-	91,585,000	95,490	959.11	513,589,705	17.8%		
2007	137,975,000	-	137,975,000	97,714	1,412.03	600,379,465	23.0%		
2008	236,200,000	30,703,593	266,903,593	99,165	2,691.51	726,239,518	36.8%		
2009	230,545,000	33,757,027	264,302,027	100,042	2,641.91	738,962,348	35.8%		
2010	354,520,000	60,501,607	415,021,607	100,539	4,127.97	1,106,182,793	37.5%		
2011	407,845,000	102,925,602	510,770,602	101,999	5,007.60	1,301,482,861	39.2%		
2012	397,030,000	136,575,098	533,605,098	102,130	5,224.76	1,314,222,671	40.6%		
2013	385,915,000	152,798,766	538,713,766	102,418	5,259.95	1,325,685,208	40.6%		

(1) Source: SD1 billing registers

**Sanitation District No. 1  
Debt Service Coverage  
Last Ten Fiscal Years**

	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>System Revenues</b>										
Total Applicable Rate Revenues	\$ 21,805,628	\$ 25,313,914	\$ 25,802,144	\$ 29,521,335	\$ 38,907,060	\$ 44,942,554	\$ 51,109,329	\$ 56,788,342	\$ 64,293,988	\$ 70,846,362
Other Operating Revenues	14,307,749	17,022,118	16,773,433	18,623,700	18,447,855	16,728,294	18,286,181	21,607,981	19,657,296	18,858,755
Unrestricted Interest Income	1,704,186	731,254	1,484,277	1,317,115	1,560,914	1,126,402	926,675	440,147	279,560	83,403
<b>Total System Revenues</b>	<b>37,817,563</b>	<b>43,067,286</b>	<b>44,059,854</b>	<b>49,462,150</b>	<b>58,915,829</b>	<b>62,797,250</b>	<b>70,322,185</b>	<b>78,836,470</b>	<b>84,230,844</b>	<b>89,790,520</b>
<b>Operating Expenses</b>										
Dry Creek WWTP & Pump Stations	7,995,413	9,340,197	10,459,901	11,007,672	12,499,036	12,148,515	13,167,510	13,072,218	12,966,025	12,431,885
Eastern Regional Reclamation Facility					512,764	1,116,001	1,220,417	1,148,024	1,323,290	1,186,211
Western Regional Reclamation Facility									659,943	2,777,256
Collection System	2,897,923	3,497,855	2,392,464	3,248,375	4,186,609	3,960,687	3,615,863	3,907,378	4,396,626	6,690,371
Administration	2,918,774	3,618,092	4,344,503	4,579,787	4,369,782	4,896,987	6,118,634	5,984,049	6,219,073	6,551,927
Engineering	862,741	800,579	664,818	801,382	488,193	1,376,116	1,619,251	1,780,569	1,702,452	2,307,176
Storm Water	560,586	676,387	575,693	749,140	1,980,624	1,576,352	2,375,669	2,728,517	3,813,515	4,600,017
<b>Total O&amp;M Expenses</b>	<b>15,235,437</b>	<b>17,933,110</b>	<b>18,437,379</b>	<b>20,386,356</b>	<b>24,037,008</b>	<b>25,074,658</b>	<b>28,117,344</b>	<b>28,620,755</b>	<b>31,080,924</b>	<b>36,544,843</b>
<b>Major Repairs and Other Expenses</b>	<b>416,890</b>	<b>426,065</b>	<b>1,166,674</b>	<b>350,601</b>	<b>6,447,722</b>	<b>3,134,429</b>	<b>4,797,653</b>	<b>6,172,970</b>	<b>4,912,935</b>	<b>4,495,306</b>
<b>Net Revenues</b>	<b>\$ 22,165,236</b>	<b>\$ 24,708,111</b>	<b>\$ 24,455,801</b>	<b>\$ 28,725,193</b>	<b>\$ 28,431,099</b>	<b>\$ 34,588,163</b>	<b>\$ 37,407,188</b>	<b>\$ 44,042,745</b>	<b>\$ 48,236,985</b>	<b>\$ 48,750,371</b>
<b>Revenue Bonds</b>										
Series 1998A	\$ 4,424,663	\$ 4,422,300	\$ 2,661,244	\$ 2,656,638	\$ 2,656,806	\$ 2,651,513	\$ 3,393,700	\$ 3,391,275	\$ 1,550,000	
Series 2001A	3,447,950	3,440,650	3,418,713	3,413,938	3,407,363	3,398,988	4,205,300	4,198,100	4,196,300	\$ 4,194,600
Series 2005A			826,700	1,647,500	1,647,900	1,647,900	3,021,441	3,021,236	3,019,311	3,015,666
Series 2006A				721,318	2,163,954	3,025,034	5,946,850	5,956,850	5,969,750	5,980,450
Series 2007A					837,458	5,843,050	1,649,911	4,375,599	4,368,726	4,359,976
Series 2009A								2,821,606	5,459,545	5,452,139
Series 2010A								522,196	1,770,625	3,031,725
Series 2010B								56,819	1,984,364	1,976,149
Series 2010C								226,225	2,467,913	2,467,913
Series 2010D										
<b>Total Principal &amp; Interest on Revenue Bonds</b>	<b>\$ 7,872,613</b>	<b>\$ 7,862,950</b>	<b>\$ 6,906,657</b>	<b>\$ 8,439,394</b>	<b>\$ 10,713,481</b>	<b>\$ 16,566,485</b>	<b>\$ 18,217,202</b>	<b>\$ 24,569,906</b>	<b>\$ 30,786,534</b>	<b>\$ 30,478,618</b>
<b>Bond Debt Service Coverage Ratio</b>										
* Calculated	282%	314%	354%	340%	265%	209%	205%	179%	157%	160%
Required	125%	125%	125%	125%	125%	125%	125%	125%	125%	125%
<b>* Bond Debt Service Coverage Calculation = Total Net Revenues divided by Total Current Portion of Principal &amp; Interest on Bonds</b>										

The SD1 1998 Trust Indenture Securing Sanitation District Revenue Bonds and its supplements require SD1 to maintain net revenues of at least 1.25 (125%) times coverage of annual debt service requirements on all bc

**Sanitation District No. 1  
Debt Service Coverage  
Last Ten Fiscal Years**

	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
\$	3,937	3,937	43,000							
Crescent Spring	57,580	57,060	56,904	345,785						
Meibourne		7,218	133,190	481,952	1,437,283	2,226,866	2,169,136	2,227,222	2,224,607	2,218,240
Eastern Regional WRF						3,132			624,212	697,708
Western Regional WRF										
ARRA Banklick Creek Sewer								5,155	11,891	11,861
ARRA Banklick Creek Wetlands								1,274	19,081	41,424
ARRA Regional Bioretention								889	26,510	45,921
Sunnybrook								167,114	343,158	342,278
Dry Creek WWTP Clarifier								27,360	148,200	309,023
South Fork / Gunpowder Interceptor								6,359	115,146	243,733
Turkeyfoot/Industrial Road								10,095	16,405	32,883
Narrows Road								2,816	64,400	147,032
Dry Creek Head Works, Hydraulics and Odor Control									6,222	127,790
ARRA Terraced Reforestation									2,733	23,425
Wolpert Pump Station Rehab & Force Main								496		30,802
Frogtown Interceptor										187,449
<b>Total KIA &amp; Other Notes Principal &amp; Interest</b>	<b>61,517</b>	<b>66,215</b>	<b>233,094</b>	<b>827,737</b>	<b>1,437,283</b>	<b>2,229,998</b>	<b>2,318,890</b>	<b>2,874,178</b>	<b>3,638,631</b>	<b>4,459,570.19</b>
<b>All Bonds &amp; Notes-Annual Principal and Interest Payments</b>	<b>\$ 7,934,130</b>	<b>\$ 7,931,165</b>	<b>\$ 7,139,751</b>	<b>\$ 9,267,131</b>	<b>\$ 12,150,763</b>	<b>\$ 18,796,483</b>	<b>\$ 20,536,092</b>	<b>\$ 27,444,085</b>	<b>\$ 34,425,164</b>	<b>\$ 34,938,188</b>

**All Debt Service Coverage Ratio**

** Calculated	279%	312%	343%	310%	234%	184%	182%	160%	140%	140%
Required	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

\*\* All Debt Service Coverage Calculation = Total Net Revenues divided by Total Current Portion of All Principal & Interest on Bonds & Loans

**Sanitation District No. 1  
Northern Kentucky Demographic and Census Information  
Ten Years**

NORTHERN KY COUNTIES	2002			2003			2004			
	BOONE	CAMPBELL	KENTON	BOONE	CAMPBELL	KENTON	BOONE	CAMPBELL	KENTON	COMBINED
<b>POPULATION</b>										
Total Residential Population Estim:	93,362	88,292	151,720	96,717	87,774	152,382	100,936	87,366	152,873	341,175
<b>HOUSING OCCUPANCY</b>										
Total Housing Units	36,805	37,517	65,161	38,559	37,771	66,011	40,141	38,128	67,097	145,366
<b>INCOME</b>										
Median Household Income	\$ 55,617	\$ 43,087	\$ 45,147	\$ 57,609	\$ 43,688	\$ 46,635	\$ 58,749	\$ 44,639	\$ 47,729	n/a
Per Capita Income	\$ 30,155	\$ 27,776	\$ 30,877	\$ 30,492	\$ 28,577	\$ 31,268	\$ 30,615	\$ 30,252	\$ 33,647	n/a
<b>POVERTY LEVEL</b>										
Percentage whose Income in the past 12-months is below Poverty Level:										
All People	6.3%	9.6%	9.6%	7.1%	10.3%	10.7%	7.7%	10.9%	11.3%	n/a
Under 18 Years	8.3%	13.2%	13.9%	9.2%	13.5%	14.9%	9.8%	14.0%	15.6%	n/a

Source: censtats.census.gov

**Sanitation District No. 1  
Northern Kentucky Demographic and Census Information  
Ten Years**

NORTHERN KY COUNTIES	2005 (ACS)			2006 (ACS)			2007 (ACS 3-Year Estimates)		
	BOONE	CAMPBELL	KENTON COMBINED	BOONE	CAMPBELL	KENTON COMBINED	BOONE	CAMPBELL	KENTON COMBINED
<b>POPULATION</b>									
Total Population	105,684	85,210	151,799	110,080	86,866	154,911	109,075	86,899	155,104
Median Age (years)	34.8	37.1	35.7	33.0	37.2	36.6	34.2	37.7	36.1
<b>HOUSEHOLDS</b>									
Total Households	39,191	35,096	60,835	40,063	35,038	61,572	39,646	35,156	61,452
Average Household Size	2.70	2.43	2.50	2.74	2.44	2.47	2.73	2.40	2.48
Populations in Households	105,684	85,210	151,799	109,639	85,447	152,382	108,085	84,311	152,683
Population 25 years and old	67,545	55,717	99,501	69,936	57,048	102,221	69,497	57,221	101,854
<b>HOUSING OCCUPANCY</b>									
Total Housing Units	41,781	38,393	68,315	43,263	38,648	69,497	43,089	38,645	69,376
Occupied Housing Units	39,191	35,096	60,835	40,063	35,038	61,572	39,646	35,156	61,452
Owner-Occupied Units	26,625	26,052	43,668	28,894	25,413	42,991	28,841	25,731	43,191
Renter-Occupied Units	12,566	9,044	17,167	11,169	9,625	18,581	10,805	9,425	18,261
Vacant Housing Units	2,590	3,297	7,480	3,200	3,610	7,925	3,443	3,489	7,924
Vacant Housing Rate	6.2%	8.6%	10.9%	7.4%	9.3%	11.4%	8.0%	9.0%	11.4%
Median (Value)	\$160,000	\$135,200	\$133,900	\$175,800	\$141,500	\$140,900	\$171,900	\$137,300	\$139,800
<b>EMPLOYMENT STATUS</b>									
Population 16 years and old	n/a	65,322	117,787	83,680	68,030	119,804	82,069	68,300	119,786
Population in Civilian Labor Force	58,298	43,941	79,101	63,212	46,083	84,153	62,098	46,077	82,591
Employed	n/a	41,248	73,767	59,425	43,037	81,018	59,322	43,546	78,096
Employed Percentage	n/a	63.1%	62.6%	71.0%	63.3%	67.6%	72.3%	63.8%	65.2%
Unemployed	n/a	2,693	5,334	3,787	3,046	3,135	2,776	2,531	4,495
Unemployed Percentage	n/a	4.1%	4.5%	4.5%	4.5%	2.6%	3.4%	3.7%	3.8%
<b>INCOME</b>									
Median Household Income	\$ 54,185	\$ 46,695	\$ 48,619	\$ 56,477	\$ 46,020	\$ 53,978	\$ 62,334	\$ 50,084	\$ 52,600
Mean Household Income	\$ 67,020	\$ 56,364	\$ 61,228	\$ 71,079	\$ 62,052	\$ 65,191	\$ 73,342	\$ 64,549	\$ 65,322
Per Capita Income	\$ 26,494	\$ 23,387	\$ 24,529	\$ 26,728	\$ 25,005	\$ 26,166	\$ 27,400	\$ 26,590	\$ 26,059
<b>POVERTY LEVEL</b>									
Percentage whose income in the past 12-months is below Poverty Level.									
All Families	8.0%	11.4%	8.0%	5.9%	11.4%	6.5%	5.7%	8.1%	7.8%
All People	8.5%	13.9%	11.1%	8.2%	13.8%	8.7%	6.9%	10.7%	10.7%
Under 18 Years	15.0%	23.3%	15.5%	9.6%	21.0%	11.0%	9.6%	15.3%	14.4%
65 Years and Older	5.8%	5.0%	6.3%	11.5%	13.4%	11.0%	8.0%	9.1%	8.1%

Source: factfinder2.census.gov/

**Sanitation District No. 1  
Northern Kentucky Demographic and Census Information  
Ten Years**

NORTHERN KY COUNTIES	2008 (ACS 3-Year Estimates)			2009 (ACS 3-Year Estimates)			2010 (ACS 3-Year Estimates)			
	BOONE	CAMPBELL	KENTON	BOONE	CAMPBELL	KENTON	BOONE	CAMPBELL	KENTON	COMBINED
<b>POPULATION</b>										
Total Population	112,096	86,862	156,414	115,794	87,713	157,799	117,338	89,581	159,124	366,043
Median Age (years)	34.2	38.1	38.7	35.3	37.2	35.8	35.6	36.9	36.2	n/a
<b>HOUSEHOLDS</b>										
Total Households	40,769	35,255	63,064	41,084	34,878	63,937	42,033	35,255	62,388	139,676
Average Household Size	2.73	2.35	2.44	2.80	2.38	2.44	2.78	2.40	2.52	2.57
Populations in Households	111,292	82,976	154,130	114,867	82,962	155,926	116,771	84,694	157,505	358,970
Population 25 years and older	71,881	57,264	102,925	74,964	58,410	105,030	75,306	58,939	105,313	239,558
Population 65 years and older	n/a	n/a	n/a	n/a	n/a	n/a	10,505	10,876	17,410	38,791
<b>HOUSING OCCUPANCY</b>										
Total Housing Units	44,168	38,921	70,244	44,849	39,212	70,820	45,784	39,412	69,019	154,215
Occupied Housing Units	40,769	35,255	63,064	41,084	34,878	63,937	42,033	35,255	62,388	139,676
Owner-Occupied Units	30,700	25,638	43,337	31,548	25,226	43,321	32,187	25,186	42,622	99,995
Renter-Occupied Units	10,069	9,617	19,727	9,536	9,652	20,616	9,846	10,069	19,766	39,681
Vacant Housing Units	3,399	3,666	7,180	3,765	4,334	6,883	3,751	4,157	6,631	14,539
Vacant Housing Rate	7.7%	9.4%	10.2%	8.4%	11.1%	9.7%	8.2%	10.5%	9.6%	9.4%
Median (Value)	\$ 177,700	\$ 142,900	\$ 146,200	\$ 177,700	\$ 143,600	\$ 147,600	\$ 178,100	\$ 151,200	\$ 147,900	n/a
<b>EMPLOYMENT STATUS</b>										
Population 16 years and older	84,660	68,579	120,424	87,092	70,021	123,071	87,341	71,829	123,884	283,054
Population in Civilian Labor Force	64,266	46,308	84,219	64,123	47,292	86,306	63,237	47,805	85,806	196,848
Employed	61,637	43,735	80,294	60,805	44,471	80,764	59,012	43,863	78,853	181,728
Employed Percentage	72.8%	63.8%	66.7%	69.8%	63.5%	65.6%	67.6%	61.1%	63.7%	64.2%
Unemployed	2,570	2,573	3,925	3,318	2,821	5,542	4,225	3,942	6,963	15,120
Unemployed Percentage	3.0%	3.8%	3.3%	3.8%	4.0%	4.5%	4.8%	5.5%	5.6%	5.3%
<b>INCOME</b>										
Median Household Income	\$ 65,979	\$ 50,830	\$ 53,872	\$ 67,964	\$ 50,882	\$ 51,616	\$ 66,587	\$ 49,212	\$ 51,646	n/a
Mean Household Income	\$ 76,889	\$ 67,908	\$ 68,609	\$ 76,351	\$ 67,207	\$ 66,923	\$ 76,958	\$ 64,311	\$ 66,954	\$ 69,287
Per Capita Income	\$ 28,526	\$ 27,700	\$ 27,485	\$ 27,790	\$ 27,315	\$ 27,225	\$ 27,896	\$ 25,873	\$ 26,873	\$ 26,970
<b>POVERTY LEVEL</b>										
Percentage whose Income in the past 12-months is below Poverty Level.										
All Families	4.2%	7.9%	8.2%	4.5%	7.3%	9.8%	6.3%	8.5%	9.0%	8.0%
All People	5.8%	11.1%	10.4%	6.2%	9.6%	12.0%	8.1%	11.0%	12.2%	10.6%
Under 18 Years	6.5%	16.6%	14.4%	7.6%	13.9%	12.0%	9.5%	15.4%	18.1%	14.5%
65 Years and Older	7.7%	10.9%	8.4%	5.3%	7.6%	7.2%	9.0%	6.4%	6.8%	7.3%

Source: factfinder2.census.gov/

**Sanitation District No. 1  
Northern Kentucky Demographic and Census Information  
Ten Years**

	2011 (ACS 3-Year Estimates)			
	BOONE	CAMPBELL	KENTON	COMBINED
<b>POPULATION</b>				
Total Population	119,504	90,379	159,847	399,730
Median Age (years)	35.6	36.8	36.3	n/a
<b>HOUSEHOLDS</b>				
Total Households	42,053	34,926	61,488	138,467
Average Household Size	3.32	3.17	3.18	3.22
<b>Populations in Households</b>				
Population 25 years and older	118,762	87,635	157,125	363,522
Population 65 years and older	76,921	59,676	105,884	242,481
	11,205	11,136	17,224	39,565
<b>HOUSING OCCUPANCY</b>				
Total Housing Units	46,279	39,566	68,942	154,787
Occupied Housing Units	42,053	34,926	61,488	138,467
Owner-Occupied Units	32,762	24,500	42,180	99,442
Renter-Occupied Units	9,291	10,426	19,308	39,025
Vacant Housing Units	4,226	4,640	7,454	16,320
Vacant Housing Rate	9.1%	11.7%	10.8%	10.5%
Median (Value)	\$ 174,900	\$ 147,400	\$ 145,700	n/a
<b>EMPLOYMENT STATUS</b>				
Population 16 years and older	89,090	72,424	124,495	286,009
Population in Civilian Labor Force	63,065	49,642	84,772	197,479
Employed	58,556	44,999	77,034	180,589
Employed Percentage	65.7%	62.1%	61.9%	63.1%
Unemployed	4,509	4,643	7,738	16,890
Unemployed Percentage	5.1%	6.4%	6.2%	5.9%
<b>INCOME</b>				
Median Household Income	\$ 66,712	\$ 51,060	\$ 51,753	n/a
Mean Household Income	\$ 77,867	\$ 62,692	\$ 68,024	\$ 59,668
Per Capita Income	\$ 27,848	\$ 25,134	\$ 27,002	\$ 26,828
<b>POVERTY LEVEL</b>				
Percentage whose Income in the past 12-months is below Poverty Level.				
All Families	7.3%	9.4%	10.7%	9.3%
All People	9.3%	12.2%	14.3%	12.2%
Under 18 Years	11.6%	15.9%	21.8%	16.9%
65 Years and Older	9.4%	7.1%	7.3%	7.8%

Source: factfinder2.census.gov/

**Sanitation District No. 1  
Northern Kentucky Top Ten Employers  
2013 & 2004**

Top Ten Employers in Northern Kentucky - 2013 (Ranked by Full-Time Employees)			
Company	Employees	Percentage of Employed Work	
St. Elizabeth Healthcare	7,442	4.1%	
Internal Revenue Service	4,100	2.3%	
Fidelity Investments	4,000	2.2%	
Boone County Schools	3,348	1.9%	
Kroger Co.	3,135	1.7%	
Citi	2,290	1.3%	
Kenton County Schools	2,200	1.2%	
Delta Air Lines Inc.	2,150	1.2%	
Northern Kentucky University	2,030	1.1%	
DHL	2,000	1.1%	
<b>Totals</b>	<b>32,695</b>	<b>18.1%</b>	

Source: Business Courier, 2013 Book of Lists

Top Ten Employers in Northern Kentucky - 2004 (Ranked by Full-Time Employees)			
Company	Employees	Percentage of Employed Work	
COMAIR, Inc.	4,747	2.6%	
Delta Air Lines	4,300	2.3%	
Fidelity Investments	3,550	1.9%	
Toyota Motor Mfg., NA, Inc.	1,325	0.7%	
Schwan's Food Mfg., Inc.	1,131	0.6%	
The Gap, Inc.	800	0.4%	
Sara Lee Foods	550	0.3%	
Levi Strauss & Co.	500	0.3%	
Thompson Learning	500	0.3%	
USA, Inc.	494	0.3%	
<b>Totals</b>	<b>17,897</b>	<b>9.8%</b>	

Source: Northern Kentucky Tri-Ed

**Sanitation District No. 1  
Miscellaneous Operating Statistics  
Last Ten Fiscal Years**

Design Capacity MGD	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>TREATMENT PLANT FLOW (1)</b>										
Dry Creek	34.9	32.9	35.5	34.6	34.1	31.4	35.9	35.7	35.9	27.3
Eastern Regional WRF*	4.0			1.4	0.9	1.0	0.9	0.9	0.8	0.8
Western Regional WRF**	20.0								3.4	7.6
	70.5	34.9	32.9	35.5	34.6	35.5	32.3	36.9	40.1	35.7
<b>STAFFING LEVELS (2)</b>										
Administration	31	31	35	39	43	46	48	51	61	62
Engineering/Operations	29	29	36	48	46	49	42	38	27	27
Storm Water	4	5	5	0	0	0	0	0	18	14
Collection System	56	59	64	67	79	78	84	88	83	89
Field Tech (Pump Stations)	11	-	-	12	13	13	18	14	14	13
Eastern Regional and Small Plants				-	6	6	11	13	10	9
Western Regional Plant									13	13
Dry Creek and Lab	54	65	67	59	55	57	51	54	46	49
<b>TOTAL EMPLOYEES</b>	<b>185</b>	<b>189</b>	<b>207</b>	<b>225</b>	<b>242</b>	<b>249</b>	<b>254</b>	<b>258</b>	<b>272</b>	<b>276</b>

(1) Source: SD1 Laboratory Information Management Records (Labworks)

(2) Source: SD1 budget documents

\* Eastern Regional Water Reclamation Facility went online 10/2007

\*\* Western Regional Water Reclamation Facility went online 4/2012

**Sanitation District No. 1  
Capital Asset Statistics  
Last Ten Fiscal Years**

	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Miles of Sanitary Sewers (1)	1,400	1,500	1,500	1,500	1,500	1,600	1,600	1,600	1,600	1,600
Force Mains	78	78	78	78	78	80	80	86	86	78
Regional Wastewater Treatment Plants	1	1	1	1	2	2	2	2	3	3
Small Wastewater Treatment Plants	8	8	8	8	4	4	4	4	4	4
Pump Stations	123	127	129	130	131	131	133	131	131	133
Flood Stations	15	15	15	15	15	15	15	15	15	15
Miles of Separate Storm Sewers						255	255	407	417	440

Source: SD1 GIS records

(1) Approximate miles



