

**SANITATION DISTRICT NO. 1**

**FINANCIAL STATEMENTS**

**For the Years Ended June 30, 2012 and 2011**



<p><b>SANITATION DISTRICT NO. 1</b></p> <p><b>FINANCIAL STATEMENTS</b></p> <p><b>For the Years Ended June 30, 2012 and 2011</b></p>
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**SANITATION DISTRICT NO. 1**  
**FINANCIAL STATEMENTS**  
**For the Years Ended June 30, 2012 and 2011**

**Board of Directors**

Chuck Heilman, President

Robert Rothert, Vice-President

Greg Schrand, Treasurer

Jay Weber, Secretary

Robert N. Elliston

David K. Noran

Jan Steinman

Robert Schroder

**Management**

David E. Rager  
Executive Director

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Charles A. Van Gorder, CPA  
John P. Walker, CPA, MBA  
Lori A. Owen, CPA  
John R. Chamberlin, CPA, MBA  
Members of AICPA & KyCPA  
Licensed in Kentucky & Ohio

## Independent Auditor's Report

To the Board of Directors  
Sanitation District No. 1

We have audited the accompanying financial statements of the business-type activities and each major fund of Sanitation District No. 1 (District), as of and for the years ended June 30, 2012 and 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. 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 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 of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of Sanitation District No. 1 as of June 30, 2012 and 2011, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2012, 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, grants 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 7 through 11 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

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about the methods of preparing the information and comparing the information for consistency with management's response 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.

We conducted our audits to opine on the financial statements that collectively comprise the Sanitation District No. 1's financial statements as a whole. The Budgetary Comparison Schedules – Budget to Actual, the Schedule of Rates, Rate Determination and Number of Users is presented for purposes of additional analysis and is 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 Budgetary Comparison Schedules – Budget to Actual, the Schedule of Rates, Rate Determination and Number of Users, 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.



**Van Gorder, Walker & Co., Inc.**  
Erlanger, Kentucky  
November 20, 2012

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

**Overview of the Annual Financial Report**

Table 1 provides a summary of the District's net assets at June 30, 2012 and 2011.

**Table 1  
Net Assets**

	June 30,	
	2012	2011
Current Assets	\$ 55,815,108	\$ 54,331,940
Restricted Assets	107,472,951	126,978,273
Non-current Assets, Net	4,373,620	4,764,880
Capital Assets, Net	1,149,837,059	1,115,407,768
<b>Total Assets</b>	<b>1,317,498,738</b>	<b>1,301,482,861</b>
Current Liabilities	33,519,949	30,734,454
Liabilities from Restricted Assets	145,760,921	119,190,153
Non-current Liabilities	388,625,314	400,168,536
<b>Total Liabilities</b>	<b>567,906,184</b>	<b>550,093,143</b>
<b>Net Assets</b>		
Invested in Capital Assets, Net of Related Debt	617,895,267	606,263,510
Restricted	96,525,252	109,637,329
Unrestricted	35,172,035	35,488,879
<b>Total Net Assets</b>	<b>\$ 749,592,554</b>	<b>\$ 751,389,718</b>

Net Assets of the District decreased 0.24% to \$749,592,554 in 2012 from \$751,389,718 in 2011. This is basically flat growth for the current fiscal year. The largest portion of the District's net assets (82.4%) 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. The District uses these capital assets to provide services to its customers; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of 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 the District's net assets is considered to be restricted. This amount represents resources that are subject to external restrictions on how they may be used.

The unrestricted net assets may be used to meet the District's ongoing obligations to customers and creditors.

Table 2 shows the changes in net assets for 2012, as well as the revenue and expense comparisons to 2011.

**Table 2**  
**Changes in Net Assets**

	For the Years Ended June 30,	
	2012	2011
Operating Revenues:		
Sewer service charges	\$ 68,369,740	\$ 61,887,891
Storm water charges	11,388,734	11,091,977
Permits and tap in fees	1,765,957	2,283,388
Sludge hauling	147,409	144,505
Inspections	69,300	33,416
Penalties	1,431,386	1,332,674
Contractual services	141,038	137,694
Bad debt recoveries	19,097	35,355
Other revenues	69,044	7,017
Project reimbursements	549,579	1,442,406
Total Operating Revenues	<u>83,951,284</u>	<u>78,396,323</u>
Operating Expenses		
Operations, maintenance, and administration	31,080,924	28,620,755
Major repairs and other expenses	4,912,935	6,172,970
Depreciation	39,593,040	37,633,212
Total Operating Expenses	<u>75,586,899</u>	<u>72,426,937</u>
Operating Income	8,364,385	5,969,386
Non-Operating Revenues	2,424,226	2,271,323
Interest and Other Charges	<u>(18,650,320)</u>	<u>(16,281,566)</u>
Change in Net Assets Before Capital Contributions	(7,861,709)	(8,040,857)
Capital Contributions	<u>6,064,545</u>	<u>111,721,532</u>
Change in Net Assets	(1,797,164)	103,680,675
Net Assets - Beginning	751,389,718	648,211,017
Prior Period Adjustment	-	<u>(501,974)</u>
Net Assets - Ending	<u>\$ 749,592,554</u>	<u>\$ 751,389,718</u>

The basic financial statements of the District are included in this report. Operations are accounted for in such a manner as to show the changes in net assets and the District is intended to be entirely or predominantly self-supported from user charges.

In fiscal year 2012, the District showed a 40.1% increase in operating income of \$8,364,385 compared to \$5,969,386 in 2011. After the effects of non-operating revenues and interest charges, the District showed a decrease in net assets for the year of \$(1,797,164) compared to \$103,680,675 in fiscal year 2011. The significant difference between the two years was due to capital contributions of storm water assets from Northern Kentucky cities of \$111,721,532 made in fiscal year 2011. Capital contributions decreased by \$105,656,987 due to the aforementioned contribution of storm water assets from Northern Kentucky cities in 2011. Operating revenues increased 7.1% and operating expenses increased by 4.4% over the previous year. Non-operating revenues were \$2,424,226, an increase of 6.7%, and interest expense and other charges were \$18,650,320, an increase of 14.5% due to increased interest on new bonds and notes.

## Capital Assets

At June 30, 2012 total capital assets reported was \$1,427,996,901 including land, buildings, sewer systems, equipment, and vehicles. This represents a net increase of \$70,993,637, or 5.2% over 2011. This increase is due to the District's investment in sewer projects, such as the Western Regional Waste Water Reclamation Facility, Western Regional Conveyance Tunnel, 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,	
	2012	2011
Collection system	\$ 623,052,699	\$ 456,348,371
Pump stations	74,563,508	75,341,500
Treatment and disposal	225,901,841	138,245,523
General plant and equipment	75,527,421	71,374,272
Sanitation software model	15,967,050	15,551,551
Stormwater land	409,728	24,147
Stormwater collection	356,814,655	346,148,777
Stormwater software model	5,645,160	3,486,099
Construction in progress		
Sanitation	46,654,791	242,536,861
Stormwater	3,460,048	7,946,163
Subtotal	1,427,996,901	1,357,003,264
Less: accumulated depreciation	(278,159,842)	(241,595,496)
Total Capital Assets, Net	\$ 1,149,837,059	\$ 1,115,407,768

## Debt and Capital Asset Administration

At year end, the District had \$533,605,098 in outstanding bonds and notes compared to \$510,770,602 in 2011, an increase of 4.5% as shown in Table 4. The District added no new bonds in 2012, but added \$35,348,684 to the notes payable. These funds were utilized to help fund the necessary capital improvement projects. A portion of the notes added were funded through the federal American & Recovery Act of 2009 and passed through the Kentucky Infrastructure Authority's Revolving Loan Fund. These funds included debt forgiveness of 52.1% of the note total. The total amount of debt forgiven in 2012 was \$542,969.

Table 4 summarizes the District's outstanding debt at June 30, 2012 and 2011.

**Table 4  
Debt Summary**

	June 30,	
	2012	2011
Bonds Payable Obligations (Backed by User Fee Revenues)	\$ 397,030,000	\$ 407,845,000
Notes Payable (Backed by User Fee Revenues)	136,575,098	102,925,602
<b>Totals</b>	<b>\$ 533,605,098</b>	<b>\$ 510,770,602</b>

### Operational Budget vs. Actual Revenues and Expenses

During the fiscal year 2012, the District's actual revenues exceeded budgeted revenues by \$581,284 and the District's actual expenditures were below budget by \$240,335. Three operational areas, the collection system, pump stations, and engineering spent in excess of their operating budgets during 2012.

The budget to actual results for each operating area is summarized in table 5 below.

**Table 5  
Operations Budget versus Actual**

	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 plant	1,697,600	1,323,290	374,310
Western Regional plant	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)
Stormwater	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	<u>\$ 52,048,741</u>	<u>\$ 52,870,360</u>	<u>\$ 340,949</u>

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

Sanitation District No. 1's budget for the 2013 fiscal year calls for an increase of over \$6.9 million to the Operation and Maintenance (O&M) Budget and a decrease of over \$39.4 million to the Capital Improvement Project (CIP) Budgets.

Overall, the FY 2013 budget continues to be reflective of the priorities within SD1 associated with the Federal Court Order (Consent Decree), the accompanying C-MOM (Capacity - Management, Operations and Maintenance) requirements from the Federal EPA for our collection and treatment systems and the

work now associated with the transfer of storm water assets from Northern Kentucky cities. SD1's management staff continues to develop and refine its strategies to meet the additional responsibilities.

The primary components of the O&M expense budget are the staffing levels associated with meeting all the expectations of the Consent Decree as well as the new maintenance requirements associated with the storm water assets transfer. In addition, the Western Regional Water Reclamation Facility is fully operational in this fiscal year and higher chemical, utility, and fuel costs with all facilities have an impact on this year's budget.

The Revenue Budget calls for a 15% adjustment to sanitary sewer rates as part of approved back-to-back 15% increases for FY 2012 & FY 2013. The impact to revenue in FY 2013 is an estimated increase of nearly \$5.5 million over the previous year's actual sewer revenues. In addition, there is a Cost of Living Adjustment of 2.7% to the storm water surcharge rate. The adjustment, plus additional growth, is estimated to be a \$200,000 increase in storm water revenues. Capacity connection fees are budgeted at \$1.5 million compared to \$2 million in the previous budget. The decrease is a reflection of the depressed local housing market. Due to flat or lower revenues in other rates and fee categories, total revenues are budgeted to increase in 2013 by nearly \$5.2 million when compared to the previous year's actual revenues.

The Capital Improvement Project Budget for FY 2013 shows that the majority of the capital spending is for Wet Weather Improvement Projects and Pump Station Projects. The Wet Weather Projects includes several large scale storm water inflow/infiltration mitigation projects and two significant combine sewer overflow mitigation projects. The Wet Weather Improvement Projects account for approximately 22% of the total capital spending for the fiscal year. The Pump Station Projects includes the construction of a new pump station, force main and significant improvements of existing pumps and equipment. All pump station related projects account for approximately 27% of the total capital spending during fiscal year 2013.

The District 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 2012, there was a balance remaining of \$30.7 million of bond funds to be used for capital projects in FY13. SD1 is not anticipating issuing any new revenue bonds in this fiscal year. However, SD1 will continue to utilize funding through the Commonwealth of Kentucky's Revolving Loan Fund Program as long as available.

### **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.

<b>SANITATION DISTRICT NO. 1</b> <b>BALANCE SHEET</b> <b>June 30, 2012</b>
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**ASSETS**

	<u>Sanitation</u>	<u>Stormwater</u>	<u>Total</u>
Current Assets			
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
Total Current Assets	<u>44,698,237</u>	<u>11,116,871</u>	<u>55,815,108</u>
Restricted Assets			
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
Total Restricted Assets	<u>107,472,951</u>	<u>-</u>	<u>107,472,951</u>
Noncurrent Assets			
Unamortized bond costs and discount, net	<u>4,373,620</u>	<u>-</u>	<u>4,373,620</u>
Capital Assets			
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	<u>(239,908,381)</u>	<u>(38,251,461)</u>	<u>(278,159,842)</u>
Total Capital Assets, Net	<u>821,758,929</u>	<u>328,078,130</u>	<u>1,149,837,059</u>
<b>TOTAL ASSETS</b>	<u>\$ 978,303,737</u>	<u>\$ 339,195,001</u>	<u>\$1,317,498,738</u>

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

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

**LIABILITIES**

	<b>Sanitation</b>	<b>Stormwater</b>	<b>Total</b>
Current Liabilities			
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
Total Current Liabilities	<u>33,184,901</u>	<u>335,048</u>	<u>33,519,949</u>
Liabilities Payable From Restricted Assets			
Accounts payable	2,599,834	102,156	2,701,990
Accrued interest payable	8,347,865	2,485	8,350,350
Total Liabilities Payable From Restricted Assets	<u>10,947,699</u>	<u>104,641</u>	<u>11,052,340</u>
Noncurrent Liabilities			
Notes payable	132,861,298	1,847,283	134,708,581
Bonds payable, net of amortization	388,625,314	-	388,625,314
Total Noncurrent Liabilities	<u>521,486,612</u>	<u>1,847,283</u>	<u>523,333,895</u>
<b>TOTAL LIABILITIES</b>	<u>565,619,212</u>	<u>2,286,972</u>	<u>567,906,184</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	291,726,516	326,168,751	617,895,267
Restricted	96,525,252	-	96,525,252
Unrestricted	24,432,757	10,739,278	35,172,035
<b>TOTAL NET ASSETS</b>	<u>412,684,525</u>	<u>336,908,029</u>	<u>749,592,554</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 978,303,737</u>	<u>\$ 339,195,001</u>	<u>\$ 1,317,498,738</u>

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

<b>SANITATION DISTRICT NO. 1</b> <b>BALANCE SHEET</b> <b>June 30, 2011 (Restated)</b>
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**ASSETS**

	<u>Sanitation</u>	<u>Stormwater</u>	<u>Total</u>
Current Assets			
Cash and cash equivalents	\$ 7,352,683	\$ -	\$ 7,352,683
Investments	6,693,573	-	6,693,573
Accounts receivable			
Customers, net of allowance	6,332,837	1,868,707	8,201,544
Communities	13,728	-	13,728
KIA loan receivable	10,746,055	809,613	11,555,668
Others	4,269,523	-	4,269,523
Due from other fund	-	6,898,795	6,898,795
Accrued unbilled charges	7,305,983	1,392,500	8,698,483
Prepays and deposits	619,705	-	619,705
Accrued interest income	- 28,238	-	28,238
Total Current Assets	<u>43,362,325</u>	<u>10,969,615</u>	<u>54,331,940</u>
Restricted Assets			
Cash	51,090,511	-	51,090,511
Investments	73,766,771	-	73,766,771
Receivables			
Assessments	1,849,302	-	1,849,302
Improvement notes	5,525	-	5,525
Accrued interest	206,456	-	206,456
Prepaid items	59,708	-	59,708
Total Restricted Assets	<u>126,978,273</u>	<u>-</u>	<u>126,978,273</u>
Noncurrent Assets			
Unamortized bond costs and discount, net	<u>4,764,880</u>	<u>-</u>	<u>4,764,880</u>
Capital Assets			
Land, building, system, equipment, and vehicles	756,861,217	349,659,023	1,106,520,240
Construction in progress	242,536,861	7,946,163	250,483,024
Less: accumulated depreciation	<u>(218,173,152)</u>	<u>(23,422,344)</u>	<u>(241,595,496)</u>
Total Capital Assets, Net	<u>781,224,926</u>	<u>334,182,842</u>	<u>1,115,407,768</u>
<b>TOTAL ASSETS</b>	<u>\$ 956,330,404</u>	<u>\$ 345,152,457</u>	<u>\$1,301,482,861</u>

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

**SANITATION DISTRICT NO. 1**  
**BALANCE SHEET (Continued)**  
**June 30, 2011 (Restated)**

**LIABILITIES**

	<u>Sanitation</u>	<u>Stormwater</u>	<u>Total</u>
Current Liabilities			
Accounts payable	\$ 9,941,510	\$ 2,850	\$ 9,944,360
Accrued payroll and benefits	1,238,118	188,001	1,426,119
Accrued taxes and pension	425	-	425
Due to other fund	6,898,795	-	6,898,795
Communities	346	-	346
Other accruals	78,201	-	78,201
Sales tax payable	(450)	-	(450)
Current portion of long-term debt	12,378,801	7,857	12,386,658
Total Current Liabilities	<u>30,535,746</u>	<u>198,708</u>	<u>30,734,454</u>
Liabilities Payable From Restricted Assets			
Accounts payable	8,671,750	492,608	9,164,358
Accrued interest payable	8,669,194	2,657	8,671,851
Total Liabilities Payable From Restricted Assets	<u>17,340,944</u>	<u>495,265</u>	<u>17,836,209</u>
Noncurrent Liabilities			
Notes payable	99,912,607	1,441,337	101,353,944
Bonds payable, net of amortization	400,168,536	-	400,168,536
Total Noncurrent Liabilities	<u>500,081,143</u>	<u>1,441,337</u>	<u>501,522,480</u>
<b>TOTAL LIABILITIES</b>	<u>547,957,833</u>	<u>2,135,310</u>	<u>550,093,143</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	273,529,862	332,733,648	606,263,510
Restricted	109,637,329	-	109,637,329
Unrestricted	<u>25,205,380</u>	<u>10,283,499</u>	<u>35,488,879</u>
<b>TOTAL NET ASSETS</b>	<u>408,372,571</u>	<u>343,017,147</u>	<u>751,389,718</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 956,330,404</u>	<u>\$ 345,152,457</u>	<u>\$ 1,301,482,861</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 ASSETS</b> <b>For the Year Ended June 30, 2012</b>
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	Sanitation	Stormwater	Total
<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>	<u>71,780,855</u>	<u>12,170,429</u>	<u>83,951,284</u>
<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>	<u>56,243,544</u>	<u>19,343,355</u>	<u>75,586,899</u>
<b>OPERATING INCOME</b>	<u>15,537,311</u>	<u>(7,172,926)</u>	<u>8,364,385</u>
<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>	<u>5,246,911</u>	<u>(2,822,685)</u>	<u>2,424,226</u>
<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	395,549	-	395,549
<b>TOTAL INTEREST AND OTHER CHARGES</b>	<u>18,629,974</u>	<u>20,346</u>	<u>18,650,320</u>
<b>CHANGE IN NET ASSETS BEFORE CAPITAL CONTRIBUTIONS</b>	<u>2,154,248</u>	<u>(10,015,957)</u>	<u>(7,861,709)</u>
<b>CAPITAL CONTRIBUTIONS</b>	<u>2,157,706</u>	<u>3,906,839</u>	<u>6,064,545</u>
<b>CHANGE IN NET ASSETS</b>	<u>4,311,954</u>	<u>(6,109,118)</u>	<u>(1,797,164)</u>
<b>NET ASSETS, JULY 1, 2011</b>	<u>408,372,571</u>	<u>343,017,147</u>	<u>751,389,718</u>
<b>NET ASSETS, JUNE 30, 2012</b>	<u>\$ 412,684,525</u>	<u>\$ 336,908,029</u>	<u>\$ 749,592,554</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 ASSETS</b> <b>For the Year Ended June 30, 2011</b>
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	<u>Sanitation</u>	<u>Stormwater</u>	<u>Total</u>
<b>OPERATING REVENUES</b>			
Sewer service charges	\$ 61,887,891	\$ -	\$ 61,887,891
Storm water charges	-	11,091,977	11,091,977
Permits and tap-in fees	2,255,313	28,075	2,283,388
Sludge hauling	144,505	-	144,505
Inspections	17,194	16,222	33,416
Penalties and fines	1,162,203	170,471	1,332,674
Contractual services	137,694	-	137,694
Bad debt recoveries	33,331	2,024	35,355
Other revenues	7,017	-	7,017
Project reimbursements	22,264	1,420,142	1,442,406
<b>TOTAL OPERATING REVENUES</b>	<u>65,667,412</u>	<u>12,728,911</u>	<u>78,396,323</u>
<b>OPERATING EXPENSES</b>			
Operation, maintenance and administration	25,892,238	2,728,517	28,620,755
Major repairs and other	3,588,133	2,584,837	6,172,970
Depreciation	24,754,967	12,878,245	37,633,212
<b>TOTAL OPERATING EXPENSES</b>	<u>54,235,338</u>	<u>18,191,599</u>	<u>72,426,937</u>
<b>OPERATING INCOME</b>	<u>11,432,074</u>	<u>(5,462,688)</u>	<u>5,969,386</u>
<b>NON-OPERATING INCOME</b>			
Interest income	1,272,736	-	1,272,736
Transfers (to)/from other fund	4,371,969	(4,371,969)	-
Gain/(Loss) on sale of fixed assets	(2,110,450)	(301,163)	(2,411,613)
Federal credits on Build America Bonds	3,853,736	-	3,853,736
Unrealized appreciation in fair market value of investments	(443,536)	-	(443,536)
<b>TOTAL NON-OPERATING INCOME</b>	<u>6,944,455</u>	<u>(4,673,132)</u>	<u>2,271,323</u>
<b>INTEREST AND OTHER CHARGES</b>			
Interest on long-term debt	16,021,477	4,283	16,025,760
Amortization of bond discount and expense	255,806	-	255,806
<b>TOTAL INTEREST AND OTHER CHARGES</b>	<u>16,277,283</u>	<u>4,283</u>	<u>16,281,566</u>
<b>CHANGE IN NET ASSETS BEFORE CAPITAL CONTRIBUTIONS</b>	<u>2,099,246</u>	<u>(10,140,103)</u>	<u>(8,040,857)</u>
<b>CAPITAL CONTRIBUTIONS</b>	<u>1,155,386</u>	<u>110,566,146</u>	<u>111,721,532</u>
<b>CHANGE IN NET ASSETS</b>	<u>3,254,632</u>	<u>100,426,043</u>	<u>103,680,675</u>
<b>NET ASSETS, JULY 1, 2010</b>	<u>405,589,321</u>	<u>242,621,696</u>	<u>648,211,017</u>
Prior period adjustment	(471,382)	(30,592)	(501,974)
<b>NET ASSETS, JUNE 30, 2011</b>	<u>\$ 408,372,571</u>	<u>\$ 343,017,147</u>	<u>\$ 751,389,718</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**

	<u>Sanitation</u>	<u>Stormwater</u>	<u>Total</u>
<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 (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	2,111,842	-	2,111,842
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	<u>7,352,683</u>	<u>-</u>	<u>7,352,683</u>
<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	<u>\$ 2,157,706</u>	<u>\$ 3,906,839</u>	<u>\$ 6,064,545</u>
<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**  
**STATEMENT OF CASH FLOWS**  
**For the Year Ended June 30, 2011**

	<u>Sanitation</u>	<u>Stormwater</u>	<u>Total</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Received from customers	\$ 60,856,189	\$ 10,502,170	\$ 71,358,359
Paid to suppliers for goods and services	(22,032,950)	(3,829,145)	(25,862,095)
Paid to or on behalf of employees for services	(12,414,092)	(1,560,432)	(13,974,524)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>26,409,147</u>	<u>5,112,593</u>	<u>31,521,740</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Transfers in (out)	4,371,969	(4,371,969)	-
Investment income	1,332,715	-	1,332,715
Net increase on investments	(10,283,953)	-	(10,283,953)
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>	<u>(4,579,269)</u>	<u>(4,371,969)</u>	<u>(8,951,238)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Principal received on notes	138,676,540	640,011	139,316,551
Federal credits on Build America Bonds	3,853,736	-	3,853,736
Cash received from sale of asset	18,195	-	18,195
Payments made on long term debt	(50,899,525)	(3,870)	(50,903,395)
Interest paid, net of capitalized interest	(15,294,698)	1,626	(15,293,072)
Acquisition and construction of fixed assets, net of contributed capital	(102,769,838)	(953,237)	(103,723,075)
(Increase) decrease in restricted funds	2,245,754	(425,154)	1,820,600
<b>NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<u>(24,169,836)</u>	<u>(740,624)</u>	<u>(24,910,460)</u>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<u>(2,339,958)</u>	<u>-</u>	<u>(2,339,958)</u>
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	<u>9,692,641</u>	<u>-</u>	<u>9,692,641</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 7,352,683</u>	<u>\$ -</u>	<u>\$ 7,352,683</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>			
Operating income (loss)	\$ 11,432,074	\$ (5,462,688)	\$ 5,969,386
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation	24,754,967	12,878,245	37,633,212
Change in operating assets and liabilities			
Decrease (Increase) in receivables	(830,359)	(2,177,541)	(3,007,900)
Decrease (Increase) in accrued unbilled charges	(923,883)	(49,200)	(973,083)
Decrease (Increase) in assessments receivable	(3,056,981)	-	(3,056,981)
Decrease (Increase) in prepaid assets	(85,724)	-	(85,724)
Increase (Decrease) in communities payable	(1,687)	-	(1,687)
Increase (Decrease) in accounts payable	(4,382,367)	(40,580)	(4,422,947)
Increase (Decrease) in accrued payroll and taxes	(495,429)	(35,643)	(531,072)
Increase (Decrease) in other liabilities	(1,464)	-	(1,464)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>\$ 26,409,147</u>	<u>\$ 5,112,593</u>	<u>\$ 31,521,740</u>
<b>Non-Cash Capital and Related Financing Activities:</b>			
Capital assets contributed to the District	<u>\$ 1,155,386</u>	<u>\$ 110,566,146</u>	<u>\$ 111,721,532</u>
<b>Supplemental Information</b>			
Interest expensed	\$ 16,021,477	\$ 4,283	\$ 16,025,760
Interest capitalized	3,527,263	-	3,527,263
Total	<u>\$ 19,548,740</u>	<u>\$ 4,283</u>	<u>\$ 19,553,023</u>

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

<b>SANITATION DISTRICT NO. 1</b> <b>NOTES TO THE FINANCIAL STATEMENTS</b> <b>June 30, 2012 and 2011</b>
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**NOTE 1 – REPORTING ENTITY**

Sanitation District No. 1 (District) was created in 1946, pursuant to authority of Chapter 220 of the Kentucky Revised Statutes, as amended (the “Act”). In accordance with the Act, the District 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 the District by the Secretary of State of Kentucky on December 27, 1946, giving the District 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 the District. The District 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.

The District 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

The District’s financial statements are presented on the full accrual basis in accordance with accounting principles generally accepted in the United States of America. The District applies all relevant Governmental Accounting Standards Board (GASB) pronouncements as well as Financial Accounting Standards Board (FASB) statements and interpretations, and the Accounting Principles Board (APB) of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

The District has adopted GASB Statements 33 through 62, and related interpretations issued through June 30, 2012. Statement No. 33 required capital contributions to be recorded in the statement of revenues, expenses and changes in net assets. Statement 34 and subsequent statements and interpretations required certain other changes in terminology, format and content, as well as inclusion of the management’s discussion and analysis as required supplementary information.

All activities of the District are accounted for within a single proprietary (enterprise) reporting entity. Proprietary entities are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expense, including depreciation) of providing goods or services to the general public on a continuing basis be

<b>SANITATION DISTRICT NO. 1</b> <b>NOTES TO THE FINANCIAL STATEMENTS</b> <b>June 30, 2012 and 2011</b>
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financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The transactions of the District are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the 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 the District into discernable 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
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.

<b>SANITATION DISTRICT NO. 1</b> <b>NOTES TO THE FINANCIAL STATEMENTS</b> <b>June 30, 2012 and 2011</b>
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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 the District has assisted them with the development of a cooperative storm water management program for the region under Inter-Local Agreements with the local governments. The District 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 the District. 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 the District 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.

#### Cash and Cash Equivalents

The District 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.

The District 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.

The District had no non-cash investing activities during 2012 or 2011.

<p><b>SANITATION DISTRICT NO. 1</b>  <b>NOTES TO THE FINANCIAL STATEMENTS</b>  <b>June 30, 2012 and 2011</b></p>
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The following is a supplemental disclosure of cash flow information:

<u>Cash Paid For</u> <u>Interest During the Year</u>	<u>June 30,</u> <u>2012</u>	<u>June 30,</u> <u>2011</u>
Expensed	\$ 18,254,771	\$ 16,025,760
Capitalized	2,682,906	3,527,263
Total	<u>\$ 20,937,677</u>	<u>\$ 19,553,023</u>

Investment Policy

*General Policy*

It is the policy of the District 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 the District and conforming to all state statutes and District 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.

Deposits and Investments

*Custodial Credit Risk – Deposits* For deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned. The District 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, 2012 and 2011, the District's deposits were entirely insured and/or collateralized with securities held by the financial institutions on the District'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, the District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The District had custodial credit risk at June 30, 2012 and 2011 of \$80,747,604 and \$80,460,344 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.

<p><b>SANITATION DISTRICT NO. 1</b>  <b>NOTES TO THE FINANCIAL STATEMENTS</b>  <b>June 30, 2012 and 2011</b></p>
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*Credit Risk – Investments* The District’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, the District 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 \$9,615,400 and \$8,698,483 as of June 30, 2012 and 2011, 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. The District 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 District’s collection history, the financial stability and recent payment history of the customer, and other pertinent factors. Based on these criteria, the District has estimated no allowance for doubtful accounts at June 30, 2012 and 2011 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 the District prior to July 31, 1979; however, the District 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. The District has developed a property control system and maintains detailed records on all fixed assets.

<u>Asset Type</u>	<u>Depreciable Life (Years)</u>
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

<b>SANITATION DISTRICT NO. 1</b> <b>NOTES TO THE FINANCIAL STATEMENTS</b> <b>June 30, 2012 and 2011</b>
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The following tables provide a summary of fixed asset balances, additions, and retirements for the year ended June 30, 2012 for both the Sanitation and the Storm Water funds:

Sanitation Fund	Balance at			Balance at
Asset Type	June 30, 2011	Additions	Retirements	June 30, 2012
Collection system	\$ 456,348,371	\$169,277,314	\$ (2,572,986)	\$ 623,052,699
Pumping system	75,341,500	815,528	(1,593,520)	74,563,508
Treatment and disposal	138,245,523	87,748,663	(92,345)	225,901,841
General plant and equipment	71,374,272	4,598,494	(445,345)	75,527,421
Software model development	15,551,551	415,499	-	15,967,050
Construction in progress - sanitation	242,536,861	66,714,072	(262,596,142)	46,654,791
Subtotal	999,398,078	329,569,570	(267,300,338)	1,061,667,310
Less: accumulated depreciation	(218,173,152)	(24,692,750)	2,957,521	(239,908,381)
Fixed Assets, Net	\$ 781,224,926	\$304,876,820	\$ (264,342,817)	\$ 821,758,929

  

Storm Water Fund	Balance at			Balance at
Asset Type	June 30, 2011	Additions	Retirements	June 30, 2012
Land	\$ 24,147	\$ 385,581	\$ -	\$ 409,728
Storm water collection system	346,148,777	11,586,728	(920,850)	356,814,655
Software model development	3,486,099	2,159,061	-	5,645,160
Construction in progress - storm water	7,946,163	6,512,931	(10,999,046)	3,460,048
Subtotal	357,605,186	20,644,301	(11,919,896)	366,329,591
Less: accumulated depreciation	(23,422,344)	(14,900,290)	71,173	(38,251,461)
Fixed Assets, Net	\$ 334,182,842	\$ 5,744,011	\$ (11,848,723)	\$ 328,078,130

#### Uncompensated Absences

Employees of the District 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, 2012 and 2011 was \$843,612 and \$867,753, 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.

<b>SANITATION DISTRICT NO. 1</b> <b>NOTES TO THE FINANCIAL STATEMENTS</b> <b>June 30, 2012 and 2011</b>
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**NOTE 3 – NOTES RECEIVABLE**

Assessments and Improvement Notes

The District has, at the request of homeowners, extended sanitary sewer service into existing areas for which there was no previous service. The District 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 the District at June 30, 2012 and 2011, respectively.

	<u>2012</u>	<u>2011</u>
Assessments	\$ 1,738,719	\$ 1,849,302
Improvement notes	5,443	5,525
Total	<u><u>-\$ 1,744,162</u></u>	<u><u>\$ 1,854,827</u></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, 2012 and 2011 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 proceeds from the sale of the Series 2011D Bonds, together with other available funds, were used to (1) provide funds to meet certain capital construction costs of the District, (2) fund the Debt Service Reserve Fund, and (3) pay the necessary costs and expenses incident to the issuance and delivery of the Series 2011D Bonds.

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, 2012 and 2011 were \$18,230,000 and \$19,600,000, 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 the District, (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.

<b>SANITATION DISTRICT NO. 1</b> <b>NOTES TO THE FINANCIAL STATEMENTS</b> <b>June 30, 2012 and 2011</b>
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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, 2012 and 2011 were \$42,005,000 and \$42,310,000, 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, 2012 and 2011 were \$73,380,000 and \$75,000,000, 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 the District, (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, 2012 and 2011 were \$52,695,000 and \$53,795,000, 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 the District, (2) to fund the Debt Service 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, 2012 and 2011 were \$98,085,000 and \$99,165,000, respectively.

**SANITATION DISTRICT NO. 1**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2012 and 2011**

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 the District, (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, 2012 and 2011 were \$46,225,000 and \$47,250,000, 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 the District, (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, 2012 and 2011 were \$25,475,000 and \$28,580,000, 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. Balances outstanding as of June 30, 2012 and 2011 were \$0 and \$1,240,000, respectively.

The proceeds from the sale of the Series 2001A Bonds, together with other available funds, were used to pay the costs of the District's Capital Improvement Program, including reimbursing the District 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.

<b>SANITATION DISTRICT NO. 1</b> <b>NOTES TO THE FINANCIAL STATEMENTS</b> <b>June 30, 2012 and 2011</b>
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The changes in outstanding debt for the year ended June 30, 2012 were:

Bond Series	Balance at June 30, 2011	Additions	Payments	Balance at June 30, 2012
2001A	\$ 1,240,000	\$ -	\$ (1,240,000)	\$ -
2005A	28,580,000	-	(3,105,000)	25,475,000
2006	47,250,000	-	(995,000)	46,255,000
2007	99,165,000	-	(1,080,000)	98,085,000
2009	53,795,000	-	(1,100,000)	52,695,000
2010A	75,000,000	-	(1,620,000)	73,380,000
2010B	42,310,000	-	(305,000)	42,005,000
2010C	19,600,000	-	(1,370,000)	18,230,000
2010D	40,905,000	-	-	40,905,000
Totals	<u>\$ 407,845,000</u>	<u>\$ -</u>	<u>\$ (10,815,000)</u>	<u>\$ 397,030,000</u>

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
2013	\$ 11,115,000	\$ 19,363,618	\$ 30,478,618
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
2018-2022	60,730,000	81,114,183	141,844,183
2023-2027	67,160,000	66,610,752	133,770,752
2028-2032	82,840,000	47,803,671	130,643,671
2033-2037	85,070,000	25,377,427	110,447,427
2038-2041	42,230,000	4,609,274	46,839,274
Total	<u>\$ 397,030,000</u>	<u>\$ 318,546,532</u>	<u>\$ 715,576,532</u>

#### NOTE 5 – NOTES PAYABLE

##### Eastern Regional Waste Water Reclamation Facility

The District 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, 2012 and 2011 were \$26,730,420 and \$28,067,485, respectively.

**SANITATION DISTRICT NO. 1**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2012 and 2011**

Western Regional Waste Water Reclamation Facility

During the year ended June 30, 2009, the District 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 with completion scheduled for December 2012. The outstanding loan balances at June 30, 2012 and 2011 were \$68,204,558 and \$56,235,407, respectively.

Dry Creek Waste Water Treatment Plant

During fiscal years 2011 and 2010, the District 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 2.2% interest rate and 20 year maturity. The outstanding loan balances at June 30, 2012 and 2011 were \$4,823,925 and \$4,701,120, respectively.

Sunnybrook Sewer System

During fiscal year 2011, the District secured funding from KIA for new sewer lines. These funds are drawn as part of KIA Revolving Loan Fund and carry a 2.2% interest rate and 20 year maturity. The outstanding loan balances at June 30, 2012 and 2011 were \$5,121,564 and \$5,348,301, respectively.

Southfork Gunpowder Creek

During fiscal year 2011, the District secured funding from KIA for new sewer lines. These funds are drawn as part of KIA Revolving Loan Fund and carry a 2.2% interest rate and 20 year maturity. The outstanding loan balances at June 30, 2012 and 2011 were \$12,573,589 and \$3,468,393, respectively.

Frogtown Interceptor

During fiscal year 2011, the District secured funding from KIA for new sewer lines. These funds are drawn as part of KIA Revolving Loan Fund and carry a 2.2% interest rate and 20 year maturity. The outstanding loan balances at June 30, 2012 and 2011 were \$4,726,828 and \$1,344,468, respectively.

Turkeyfoot/Industrial Road

During fiscal year 2011, the District secured funding from KIA for new sewer lines. These funds are drawn as part of KIA Revolving Loan Fund and carry a 2.2% interest rate and 20 year maturity. The outstanding loan balances at June 30, 2012 and 2011 were \$1,959,435 and \$775,199, respectively.

Narrows Road Diversion

During fiscal year 2011, the District secured funding from KIA for new sewer lines. These funds are drawn as part of KIA Revolving Loan Fund and carry a 2.2% interest rate and 20 year maturity. The outstanding loan balances at June 30, 2012 and 2011 were \$7,131,452 and \$1,536,036, respectively.

<p><b>SANITATION DISTRICT NO. 1</b>  <b>NOTES TO THE FINANCIAL STATEMENTS</b>  <b>June 30, 2012 and 2011</b></p>
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Dry Creek Head Works/Hydraulics

During fiscal year 2012, the District 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 2.2% interest rate and 20 year maturity. The outstanding loan balances at June 30, 2012 and 2011 were \$3,393,948 and \$0, respectively.

American Recovery and Reinvestment Act – Minor Infrastructure Improvements

During fiscal years 2011 and 2010, the District 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 2.2% 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 changes in outstanding Kentucky Infrastructure Authority debt for the year ended June 30, 2012 were as follows:

Project	Balance at June 30 2011	Additions	Payments	Balance at June 30 2012
Eastern Regional Wastewater Facility	\$ 28,067,485	\$ -	\$ (1,337,065)	\$ 26,730,420
Western Regional Wastewater Facility	56,235,407	11,969,151	-	68,204,558
Dry Creek clarifier	4,701,120	219,180	(96,375)	4,823,925
Sunnybrook sewer	5,348,301	-	(226,737)	5,121,564
South Fork Gunpowder Creek	3,468,393	9,105,196	-	12,573,589
Frogtown interceptor	1,344,468	3,382,360	-	4,726,828
Turkeyfoot - Industrial Road	775,199	1,184,236	-	1,959,435
Narrows Road diverter	1,536,036	5,595,416	-	7,131,452
Dry Creek headworks/hydraulics	-	3,393,948	-	3,393,948
Banklick wetlands	508,126	148,844	(12,441)	644,529
Regional bio-retention facility	485,161	221,324	(18,714)	687,771
Banklick Creek stabilization	185,335	-	(7,857)	177,478
Terraced right-of-way	270,571	129,030	-	399,601
Totals	\$ 102,925,602	\$ 35,348,685	\$ (1,699,189)	\$ 136,575,098

<b>SANITATION DISTRICT NO. 1</b> <b>NOTES TO THE FINANCIAL STATEMENTS</b> <b>June 30, 2012 and 2011</b>
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The debt service to maturity for these thirteen KIA Notes Payable (with drawn balances outstanding at June 30, 2012 only) is as follows:

Year ending June 30,	Principal	Interest & Fees	Total
2013	\$ 5,797,532	\$ 3,368,914	\$ 9,166,446
2014	5,940,420	3,222,769	9,163,190
2015	6,086,889	3,072,950	9,159,839
2016	6,237,030	2,919,363	9,156,392
2017	6,390,935	2,761,912	9,152,847
2018-2022	34,401,913	11,305,463	45,707,376
2023-2027	38,872,670	6,729,433	45,602,102
2028-2032	32,847,709	2,198,136	35,045,845
Totals	\$ 136,575,098	\$ 35,578,939	\$ 172,154,037

**NOTE 6 – INTERFUND BALANCES**

The stormwater fund transferred \$1,973,008 and \$4,371,969 to the sanitation fund during the fiscal years ended June 30, 2012 and 2011, 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 \$7,302,667 and \$6,898,795 at June 30, 2012 and 2011, respectively.

**NOTE 7 – PENSION PLAN**

District 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, 2012, 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

<b>SANITATION DISTRICT NO. 1</b> <b>NOTES TO THE FINANCIAL STATEMENTS</b> <b>June 30, 2012 and 2011</b>
---

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, 2012 and 2011 was 18.96% and 16.93%, respectively of creditable compensation. Administrative costs of CERS are financed through employer contributions and investment earnings.

The District has no Hazardous duty contributors.

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

Year ending June 30,	Required Contribution	Percentage Contributed
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%

**NOTE 8 – LESSOR AGREEMENT**

On July 1, 2007, the District renewed its agreement to lease 15,000 square feet of its building to the Kenton County Board of Education. The agreed-upon term of the lease is July 1, 2007 until July 1, 2012. There is an option to renew at the end of the full term for an additional five years. Subsequent to the date of these financial statements, but before the date of this report, the Board of Education did renew its lease with the district. Future minimum rentals to be received are as follows:

Year ending June 30,	Lease Revenue
2013	\$ 87,600
2014	87,600
2015	87,600
2016	87,600
2017	87,600
Totals	\$ 438,000

**NOTE 9 – REIMBURSEMENT COMMITMENTS**

The District has entered into interlocal agreements, whereby cities can apply for reimbursement of qualified expenses incurred to accomplish required storm water improvements. Project expenses of the cities, eligible for reimbursement, as of June 30, 2012 and 2011 were \$107,627 and \$223,822, respectively.

The District has also partnered with communities, organizations, and businesses to increase the utilization of “green infrastructure”. Through Green Initiative Project Partnerships (GrIPP), the District expended \$125,594 and \$37,085 in the years ended June 30, 2012 and 2011, respectively.

<b>SANITATION DISTRICT NO. 1</b> <b>NOTES TO THE FINANCIAL STATEMENTS</b> <b>June 30, 2012 and 2011</b>
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**NOTE 10 – ECONOMIC DEPENDENCY**

The District 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 the District. This includes claims not covered by the District's Directors and Officers Errors and Omissions Liability Insurance. The District offers a Health Reimbursement Account to full time eligible employees for out of pocket healthcare costs. The District 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 the District before their normal retirement date. Accordingly, a liabilities of \$424,472 and \$394,189 have been recorded in the accompanying financial statements which are management's estimate of the unspent balances as of June 30, 2012 and 2011, respectively, that is likely to be paid in future periods.

**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 eighteen 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 eleven 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.

<b>SANITATION DISTRICT NO. 1</b> <b>NOTES TO THE FINANCIAL STATEMENTS</b> <b>June 30, 2012 and 2011</b>
---

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 its case is currently under appeal.

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 challenge is before a Hearing Officer of the Kentucky Energy and Environment Cabinet. SD1 and the Energy and Environment Cabinet are vigorously defending the permit decision. 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 is being challenged by the City of Cold Spring. The City contends that SD1 has breached the interlocal agreement by limiting the amount of maintenance and service it will provide for above ground assets. SD1 is vigorously defending the agreement.

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**

The District has the following insurance policies in force during fiscal years 2012 and 2011:

Type of Coverage	Amount of Coverage	
	2012	2011
Property, including pump stations, machinery	\$ 168,796,427	\$ 160,950,927
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
Flood	5,000,000	5,000,000
Pipeline policy	5,000,000	5,000,000
Inland marine (scheduled equipment)	5,114,127	4,791,327
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
Public official bonds (per board member)	50,000	50,000

<b>SANITATION DISTRICT NO. 1</b> <b>NOTES TO THE FINANCIAL STATEMENTS</b> <b>June 30, 2012 and 2011</b>
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**NOTE 14 – RECLASSIFICATION IN PRIOR YEAR STATEMENTS**

District management has reclassified the position of several accounts within the “Liabilities” and “Net Assets” portions of the Balance Sheet. This reclassification has a zero net effect on the ending balances of the Balance Sheet.

**NOTE 15 – SUBSEQUENT EVENTS**

Management has evaluated events through November 20, 2012, the date on which the financial statements were available for issue. The District did not have any events subsequent to June 30, 2012 through November 20, 2012 to disclose.

**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>	<u>Variance Favorable (Unfavorable)</u>
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 -**  
**GENERAL REVENUES**  
**For the Year Ended June 30, 2011**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Sewer service	\$ 56,200,000	\$ 58,074,620	\$ 1,874,620
BOD surcharges	3,500,000	3,813,271	313,271
Storm water charges	10,800,000	11,091,977	291,977
Penalties	1,500,000	1,322,874	(177,126)
Bad debt recoveries	20,000	35,355	15,355
Sludge hauling	140,000	144,505	4,505
Capacity connection fees	2,500,000	1,978,816	(521,184)
Inspections	47,500	33,416	(14,084)
Permits	174,500	304,572	130,072
Fines	12,000	9,800	(2,200)
Contractual services	95,000	137,694	42,694
Project reimbursements	50,000	1,442,406	1,392,406
Other income	186,000	7,017	(178,983)
<b>Total General Revenue</b>	<u>\$ 75,225,000</u>	<u>\$ 78,396,323</u>	<u>\$ 3,171,323</u>

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

Expenses			Variance Favorable (Unfavorable)
<b>Dry Creek Treatment Plant Operations</b>	<b>Budget</b>	<b>Actual</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)

<p><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, 2012</b></p>
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<b>Expenses</b>			<b>Variance</b>
<b>Eastern Regional Reclamation Facility</b>	<b>Budget</b>	<b>Actual</b>	<b>Favorable</b>
			<b>(Unfavorable)</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>Western Regional Reclamation Facility</b>			<b>(Unfavorable)</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)

<p><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, 2012</b></p>
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<b>Expenses</b>			<b>Variance</b>
	<b>Budget</b>	<b>Actual</b>	<b>Favorable</b>
			<b>(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)

<p><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, 2012</b></p>
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<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	\$ 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)

<p><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, 2012</b></p>
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<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
I/I 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>Budget</b>	<b>Actual</b>	<b>Variance Favorable (Unfavorable)</b>
<b>Administration</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>	<u>6,434,536</u>	<u>6,219,073</u>	<u>215,463</u>
<b>Total Operation, Maintenance, and Administration Expenses</b>	<u>\$ 31,321,259</u>	<u>\$ 31,080,924</u>	<u>\$ 240,335</u>

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

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

**SANITATION DISTRICT NO. 1**  
**BUDGETARY COMPARISON SCHEDULE - BUDGET TO ACTUAL -**  
**OPERATION, MAINTENANCE, AND ADMINISTRATION**  
**For the Year Ended June 30, 2011**

<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	\$ 2,678,700	\$ 2,462,174	\$ 216,526
Medical and dental self-insured plan	570,750	670,136	(99,386)
Pension plan	453,500	365,047	88,453
Payroll taxes	205,000	190,992	14,008
Employee benefits	64,000	54,265	9,735
Unemployment taxes	4,000	-	4,000
Credits charged to capital projects	(250,000)	(447,815)	197,815
Insurance and bond	159,185	131,797	27,388
Insurance claims	24,710	-	24,710
Professional and contracted services	50,000	83,392	(33,392)
Office and operating supplies	130,300	121,984	8,316
Travel, training and certification	18,000	14,197	3,803
Contract labor - building maintenance	5,000	-	5,000
Operating maintenance - building grounds	65,000	68,829	(3,829)
Subscriptions	5,000	486	4,514
Electric and gas	1,100,000	1,112,657	(12,657)
Chemicals	2,500,000	2,137,804	362,196
Fuel oil	20,000	80,036	(60,036)
Telephone and radio	20,000	20,532	(532)
Water	30,000	58,152	(28,152)
Vehicle fuels	150,000	149,931	69
Auto and truck expense	100,000	63,647	36,353
Maintenance material - plant equipment	180,000	179,491	509
Sludge and grit removal	650,000	882,313	(232,313)
Safety equipment expense	40,000	20,925	19,075
Rental	10,000	5,032	4,968
<b>Total Dry Creek Treatment Plant Expenses</b>	<b>8,983,145</b>	<b>8,426,004</b>	<b>557,141</b>

(Continued to next page)

<p><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, 2011</b></p>
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<b>Expenses</b>			<b>Variance</b>
	<b>Budget</b>	<b>Actual</b>	<b>Favorable</b>
<b>Eastern Regional Reclamation Facility</b>			<b>(Unfavorable)</b>
Salaries and wages	\$ 292,100	\$ 338,586	\$ (46,486)
Medical and dental self-insured plan	60,150	76,469	(16,319)
Pension plan	49,450	57,309	(7,859)
Payroll taxes	22,350	30,743	(8,393)
Employee benefits	7,000	11,198	(4,198)
Credits charged to capital projects	(5,000)	-	(5,000)
Insurance and bond	16,467	13,634	2,833
Insurance claims	2,513	-	2,513
Professional and contracted services	25,000	10,189	14,811
Office and operating supplies	15,200	9,490	5,710
Travel, training and certification	6,000	3,500	2,500
Contract labor - building maintenance	2,500	-	2,500
Operating maintenance - building grounds	15,000	9,867	5,133
Subscriptions	100	159	(59)
Electric and gas	325,000	342,422	(17,422)
Chemicals	150,000	75,038	74,962
Fuel oil	12,000	-	12,000
Telephone and radio	6,000	1,887	4,113
Water	8,500	7,408	1,092
Vehicle fuels	20,000	31,602	(11,602)
Auto and truck expense	35,000	23,349	11,651
Maintenance material - plant equipment	85,000	52,920	32,080
Sludge and grit removal	140,000	50,372	89,628
Safety equipment expense	10,000	1,836	8,164
Rental	3,000	46	2,954
<b>Total Eastern Regional Facility Expenses</b>	<b>1,303,330</b>	<b>1,148,024</b>	<b>155,306</b>

(Continued to next page)

<p><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, 2011</b></p>
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Expenses			Variance
Collection System	Budget	Actual	Favorable (Unfavorable)
Salaries and wages	\$ 2,948,862	\$ 2,976,429	\$ (27,567)
Medical and dental self-insured plan	710,374	787,993	(77,619)
Pension plan	499,248	492,997	6,251
Payroll taxes	225,594	212,083	13,511
Employee benefits	77,713	63,269	14,444
Unemployment taxes	3,332	-	3,332
Credits charged to capital projects	(1,924,094)	(1,980,820)	56,726
Insurance and bond	194,316	164,566	29,750
Insurance claims	29,653	17,251	12,402
Professional and contracted services	7,500	15,050	(7,550)
Office and operating supplies	11,661	45,578	(33,917)
Travel, training and certification	9,995	6,470	3,525
Subscriptions	333	148	185
Telephone and radio	20,824	25,829	(5,005)
Utilities - water	-	111	(111)
Vehicle fuels	208,235	300,010	(91,775)
Auto and truck expense	245,718	286,449	(40,731)
Sludge and grit removal	45,000	35,693	9,307
Maintenance material - collection systems	275,000	409,441	(134,441)
Safety equipment expense	26,654	29,284	(2,630)
Rental	25,000	-	25,000
Private lateral 50/50 program	50,000	19,547	30,453
<b>Total Collection System Expenses</b>	<b>3,690,918</b>	<b>3,907,378</b>	<b>(216,460)</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, 2011**

<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	\$ 859,600	\$ 784,936	\$ 74,664
Medical and dental self-insured plan	179,630	145,670	33,960
Pension plan	145,530	119,701	25,829
Payroll taxes	65,760	61,570	4,190
Employee benefits	22,000	24,508	(2,508)
Credits charged to capital projects	(110,000)	(88,581)	(21,419)
Insurance and bond	49,402	41,150	8,252
Insurance claims	7,539	-	7,539
Professional and contracted services	70,000	65,482	4,518
Office and operating supplies	20,000	6,520	13,480
Travel, training and certification	6,000	7,233	(1,233)
Contract labor - building maintenance	500	-	500
Operating maintenance - building grounds	15,000	17,557	(2,557)
Subscriptions	200	36	164
Electric and gas	1,600,000	1,826,691	(226,691)
Chemicals	1,200,000	1,244,470	(44,470)
Fuel oil	15,000	16,587	(1,587)
Telephone and radio	3,000	19,660	(16,660)
Water	10,000	24,150	(14,150)
Vehicle fuels	30,000	42,153	(12,153)
Auto and truck expense	30,000	39,732	(9,732)
Sludge and grit removal	8,000	4,553	3,447
Operating Maintenance - pump stations	190,000	192,386	(2,386)
Safety equipment expense	10,000	11,494	(1,494)
Rental	30,000	38,556	(8,556)
<b>Total Pump Stations/Field Tech Expenses</b>	<b>4,457,161</b>	<b>4,646,214</b>	<b>(189,053)</b>

(Continued to next page)

<p><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, 2011</b></p>
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<b>Expenses</b>			<b>Variance</b>
<b>Engineering</b>	<b>Budget</b>	<b>Actual</b>	<b>Favorable</b>
			<b>(Unfavorable)</b>
Salaries and wages	\$ 1,966,401	\$ 1,897,354	\$ 69,047
Medical and dental self-insured plan	360,807	386,393	(25,586)
Pension plan	332,916	301,424	31,492
Payroll taxes	150,429	130,189	20,240
Employee benefits	37,888	31,446	6,442
Unemployment taxes	1,513	-	1,513
Credits charged to capital projects	(1,512,500)	(1,303,822)	(208,678)
Insurance and bond	99,628	82,480	17,148
Insurance claims	16,470	-	16,470
Professional and contracted services	-	72,842	(72,842)
Legal Services	-	7,532	(7,532)
Office and operating supplies	15,125	17,617	(2,492)
Training and certification	34,788	24,913	9,875
Subscriptions	51,000	30,704	20,296
Telephone and radio	15,125	20,588	(5,463)
Vehicle fuels	29,116	48,960	(19,844)
Auto and truck expense	21,175	28,255	(7,080)
Safety equipment expense	6,806	3,694	3,112
<b>Total Engineering Expenses</b>	<b>1,626,687</b>	<b>1,780,569</b>	<b>(153,882)</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, 2011**

<b>Expenses</b>	<b>Budget</b>	<b>Actual</b>	<b>Variance Favorable (Unfavorable)</b>
<b>Stormwater Program</b>			
Salaries and wages	\$ 1,642,042	\$ 1,604,774	\$ 37,268
Board of directors	4,438	4,341	97
Medical and dental self-insured plan	336,001	336,425	(424)
Pension plan	278,001	254,949	23,052
Payroll taxes	125,958	112,125	13,833
Employee benefits	38,366	30,020	8,346
Unemployment taxes	3,571	163	3,408
Credits charged to capital projects	(886,238)	(818,008)	(68,230)
Insurance and bond	92,629	80,307	12,322
Insurance claims	17,047	19,825	(2,778)
Professional and contracted services	538,500	464,538	73,962
Legal services	45,000	63,162	(18,162)
Bank services	46,043	52,755	(6,712)
Auditing services	5,057	3,775	1,282
Office and operating supplies	62,826	71,298	(8,472)
Postage	83,633	64,785	18,848
Training and certification	34,839	19,485	15,354
Operating maintenance - building grounds	22,516	23,912	(1,396)
Subscriptions	53,093	50,459	2,634
Miscellaneous	-	(2)	2
Legal advertising	151	520	(369)
Community relations	3,019	3,001	18
Government affairs	9,813	994	8,819
Program expenses - compliance	125,000	33,855	91,145
Electric and gas	23,399	27,058	(3,659)
Telephone and radio	23,861	25,708	(1,847)
Water	2,264	3,001	(737)
Vehicle fuels	53,383	74,484	(21,101)
Auto and truck expense	59,096	66,582	(7,486)
Sludge and grit removal	-	7,162	(7,162)
Safety equipment expense	8,106	7,986	120
Disconnect/Redirect/Infiltration Program (DRIP)	-	1,993	(1,993)
Green initiative expense	500,000	37,085	462,915
<b>Total Stormwater Expenses</b>	<b>3,351,414</b>	<b>2,728,517</b>	<b>622,897</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, 2011**

Expenses	Budget	Actual	Variance Favorable (Unfavorable)
<b>Administration</b>			
Salaries and wages	\$ 2,344,195	\$ 2,226,070	\$ 118,125
Board of directors	24,962	24,394	568
Medical and dental self-insured plan	434,368	301,371	132,997
Pension plan	396,875	330,963	65,912
Payroll taxes	181,244	155,214	26,030
Employee benefits	59,433	41,125	18,308
Unemployment taxes	13,585	917	12,668
Credits charged to capital projects	- (72,168)	(13,234)	(58,934)
Insurance and bond	121,173	116,385	4,788
Insurance claims	32,568	174,356	(141,788)
Professional and contracted services	758,775	588,786	169,989
Legal services	217,600	476,361	(258,761)
Bank services	258,957	296,611	(37,654)
Auditing services	28,443	21,225	7,218
Office and operating supplies	200,288	151,471	48,817
Postage	470,367	364,124	106,243
Training and certification	121,604	57,108	64,496
Operating maintenance - building grounds	126,634	133,629	(6,995)
Dues and subscriptions	39,518	34,389	5,129
Miscellaneous	-	707	(707)
Community relations	16,981	16,798	183
Government affairs	55,188	17,963	37,225
Legal advertising	849	4,913	(4,064)
Electric and gas	131,601	152,136	(20,535)
Telephone and radio	83,291	78,082	5,209
Water	12,736	16,756	(4,020)
Vehicle fuels	12,566	3,363	9,203
Auto and truck expense	16,811	4,722	12,089
Safety equipment expense	3,184	5,162	(1,208)
Supplemental state environmental projects	241,900	202,182	39,718
<b>Total Administration Expenses</b>	<u>6,333,528</u>	<u>5,984,049</u>	<u>349,479</u>
<b>Total Operation, Maintenance, and Administration Expenses</b>	<u>\$ 29,746,183</u>	<u>\$ 28,620,755</u>	<u>\$ 1,125,428</u>

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

<b>General Revenues</b>	\$ 78,396,323
<b>Operation, Maintenance and Administration Expenses</b>	(28,620,755)
<b>Major Repair Expenses</b>	(6,172,970)
<b>Depreciation</b>	<u>(37,633,212)</u>
<b>Net Operating Income</b>	<u>\$ 5,969,386</u>

<b>SANITATION DISTRICT NO. 1</b> <b>SCHEDULE OF RATES, RATE DETERMINATION, AND NUMBER OF USERS</b> <b>Year Ended June 30, 2012</b>
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Sanitation District No. 1 has set rates and charges as detailed below:

Normal non-residential sewage (based on monthly metered water usage) is as follows:

<u>Water Usage in 100 Cubic Feet (HCF)</u>	<u>April 1, 2011</u>
0 - 1,700	\$ 5.82
1,701- 8,400	5.22
Over 8,400	4.04
Monthly minimum bill	11.64

Normal residential sewage (*Winter Factor* billing - based on metered water usage during the months of November through February only) is as follows:

<u>Water Usage in 100 Cubic Feet (HCF)</u>	<u>April 1, 2011</u>
Flat rate per 100 Cubic Feet (HCF)	\$ 5.82
Monthly minimum bill (2 HCF)	11.64

Normal sewerage, monthly rates for unmetered service is as follows:

<u>Number of Rooms in Home</u>	<u>April 1, 2011</u>
1 or 2 room house	\$ 17.39
3 - 6 room house	28.55
More than 6 rooms	37.77

The District had approximately 100,000 accounts at June 30, 2012.

<b>SANITATION DISTRICT NO. 1</b> <b>SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS</b> <b>Year Ended June 30, 2012</b>
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<u>Federal Agency</u>	<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Loan Number</u>	<u>Expenditures</u>
EPA	Capitalization Grant for clean water - State Revolving Funds - Passed through Commonwealth of Kentucky - Kentucky Infrastructure Authority	66.458	A09-06	\$ 1,213,178
			A09-07	414,866
EPA	Capitalization Grant for clean water - State Revolving Funds - Passed through Commonwealth of Kentucky - Kentucky Infrastructure Authority	66.458	A209-02	927,269
	Funded by American Recovery and Reinvestment Act funds		A209-03	567,295
			A209-04	<u>141,900</u>
Total Federal Expenditures:				<u>\$ 3,264,508</u>

<b>SANITATION DISTRICT NO. 1</b> <b>NOTES TO THE SUPPLEMENTARY INFORMATION</b> <b>June 30, 2012</b>
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**NOTE 1 – SUPPLEMENTARY INFORMATION**

The accompanying summary information of Sanitation District No. 1, as of and for the years ended June 30, 2012 and 2011, 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.

**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 the financial statements of the business-type activities and each major fund of the Sanitation District No.1 (District), as of and for the years ended June 30, 2012 and 2011, which collectively comprise the Sanitation District No.1's basic financial statements and have issued our report thereon dated November 20, 2012. 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.

**Internal Control Over Financial Reporting**

Management of Sanitation District No.1 is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audits, we considered the Sanitation District No.1's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Sanitation District No.1's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sanitation District No.1's internal control over financial reporting.

*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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the 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

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audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors, management, others within the organization, federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Van Gorder, Walker & Co., Inc.*

**Van Gorder, Walker & Co., Inc.**  
Erlanger, Kentucky  
November 20, 2012

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH  
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL  
EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Members of the Board of Directors  
Sanitation District No.1

**Compliance**

We have audited the compliance of Sanitation District No.1, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the years ended June 30, 2012 and 2011. 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. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Sanitation District No.1's management. Our responsibility is to express an opinion on Sanitation District No.1's compliance based on our audits.

We conducted our audits 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 133* require that we plan and perform the audits 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 audits provide a reasonable basis for our opinion. Our audits do not provide a legal determination on Sanitation District No.1's compliance with those requirements.

In our opinion, Sanitation District No.1 complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the years ended June 30, 2012 and 2011.

**Internal Control Over Compliance**

The management of Sanitation District No.1 is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audits, we considered Sanitation District No.1's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to rest 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.

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Accordingly, we do not express an opinion on the effectiveness of the 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 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.

Our consideration of the 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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Directors, management, others within the organization, federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



**Van Gorder, Walker & Co., Inc.**  
Erlanger, Kentucky  
November 20, 2012

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<b>SANITATION DISTRICT NO. 1</b> <b>SCHEDULE OF FINDINGS AND QUESTIONED COSTS</b> <b>Year Ended June 30, 2012</b>
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**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, 2012**

NONE