

SANITATION DISTRICT NO. 1

FINANCIAL STATEMENTS

For the Years Ended June 30, 2011 and 2010

<p>SANITATION DISTRICT NO. 1</p> <p>FINANCIAL STATEMENTS</p> <p>For the Years Ended June 30, 2011 and 2010</p>

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SANITATION DISTRICT NO. 1

FINANCIAL STATEMENTS

For the Years Ended June 30, 2011 and 2010

Board of Directors

Robert N. Elliston, President

David K. Noran, Vice-President

Robert Rothert, Treasurer

Jan Steinman, Secretary

Chuck Heilman

Greg Schrand

Robert Schroder

Jay Weber

Management

Mark W. Wurschmidt
Interim Executive Director

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Independent Auditor's Report

To the Board of Directors
Sanitation District No. 1

We have audited the accompanying financial statements of the governmental activities and each major fund of Sanitation District No. 1 (District), as of and for the years ended June 30, 2011 and 2010, 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 governmental activities and each major fund of Sanitation District No. 1 as of June 30, 2011 and 2010, and the respective changes in financial position and, where applicable, 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 28, 2011, 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.

The management's discussion and analysis on pages 7 through 11 and budgetary comparison information on pages 39 through 54 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Sanitation District No. 1's basic financial statements. The Schedule of Rates, Rate Determination and Number of Users is presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of the Sanitation District No. 1. The Schedule of Rates, Rate Determination and Number of Users and the Schedule of Expenditures of Federal Awards have been subjected to auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Van Gorder, Walker & Co., Inc.

Van Gorder, Walker & Co., Inc.
Erlanger, Kentucky
November 28, 2011

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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, 2011 and 2010.

**Table 1
Net Assets**

	June 30,	
	2011	2010
Current Assets	\$ 54,331,940	\$ 42,131,653
Restricted Assets	126,978,273	119,251,412
Non-current Assets, Net	4,764,880	4,271,574
Capital Assets, Net	1,115,407,768	940,528,154
Total Assets	<u>1,301,482,861</u>	<u>1,106,182,793</u>
Current Liabilities	30,734,454	31,842,804
Liabilities from Restricted Assets	119,190,153	76,292,183
Non-current Liabilities	400,168,536	349,836,789
Total Liabilities	<u>550,093,143</u>	<u>457,971,776</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	606,263,510	586,425,101
Restricted	7,788,120	42,959,229
Unrestricted	137,338,088	18,826,687
Total Net Assets	<u>\$ 751,389,718</u>	<u>\$ 648,211,017</u>

Net Assets of the District increased 16% to \$751,389,718 in 2011 from \$648,211,017 in 2010. The increase was attributable primarily to the District's accepting responsibility for storm water assets from numerous Northern Kentucky cities. This one time contribution of assets accounted for \$111,721,532 of the increase in net assets. The largest portion of the District's net assets (81%) 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 (1%) 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 2011, as well as the revenue and expense comparisons to 2010.

**Table 2
Changes in Net Assets**

	For the Years Ended June 30,	
	2011	2010
Operating Revenues:		
Sewer service charges	\$ 61,887,891	\$ 53,994,128
Storm water charges	11,091,977	10,810,291
Permits and tap in fees	2,283,388	2,732,120
Sludge hauling	144,505	92,429
Inspections	33,416	34,878
Penalties	1,332,674	1,292,685
Contractual services	137,694	103,219
Bad debt recoveries	35,355	49,938
Other revenues	7,017	119,992
Project reimbursements	1,442,406	165,830
Total Operating Revenues	<u>78,396,323</u>	<u>69,395,510</u>
Operating Expenses		
Operations, maintenance, and administration	28,620,755	28,117,344
Major repairs and other expenses	6,172,970	4,797,653
Depreciation	37,633,212	32,842,268
Total Operating Expenses	<u>72,426,937</u>	<u>65,757,265</u>
Operating Income	5,969,386	3,638,245
Non-Operating Revenues (Losses)	2,271,323	(2,286,603)
Interest and Other Charges	<u>(16,281,566)</u>	<u>(11,360,883)</u>
Change in Net Assets Before Capital Contributions	(8,040,857)	(10,009,241)
Capital Contributions	<u>111,721,532</u>	<u>214,755,064</u>
Change in Net Assets	103,680,675	204,745,823
Net Assets - Beginning	648,211,017	443,465,194
Prior Period Adjustment	<u>(501,974)</u>	<u>-</u>
Net Assets - Ending	<u><u>\$ 751,389,718</u></u>	<u><u>\$ 648,211,017</u></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.

The District was required to make a prior period adjustment during the current fiscal year. During the period from December 2005 to November 2008, there were errors in the calculation of District employee overtime that was charged to capital projects. These errors had the net effect of undercharging overtime expense by \$501,974. At June 30, 2011, the District has reduced its prior period balance by \$501,974.

The District showed an increase in net assets for the year of \$103,680,675 before the effects of the prior period adjustment, compared to \$204,745,823 in fiscal year 2010. The significant increase in 2011 was due to capital contributions of storm water assets from Northern Kentucky cities. Capital contributions decreased by \$111,721,532 due to the aforementioned contribution of storm water assets from Northern Kentucky cities in 2010. Operating expenses increased by 2%. Non-operating revenues were \$2,271,323 and interest expense and other charges were \$16,281,566, an increase \$4,920,683 (44%) due to increased interest on new bonds.

Debt and Capital Asset Administration

Table 3 summarizes the District’s outstanding debt at June 30, 2011 and 2010.

**Table 3
Debt Summary**

	June 30,	
	2011	2010
Bonds Payable Obligations (Backed by User Fee Revenues)	\$ 407,845,000	\$ 354,520,000
Notes Payable (Backed by User Fee Revenues)	102,925,602	60,501,607
Totals	\$ 510,770,602	\$ 415,021,607

At year end, the District had \$510,770,602 in outstanding bonds and notes compared to \$415,021,607 in 2010, an increase of 23% as shown in Table 3. The District added three new bonds (\$42,310,000, \$19,600,000 and \$40,905,000) this year and added \$43,837,390 to the notes payable. These funds were utilized to help fund the necessary capital improvement projects. The District also utilized the proceeds of one bond to refund (defease) the Series 2001A Bond, gaining a significant improvement in interest rates on the new bond.

Capital Assets

At June 30, 2011 total capital assets reported were \$1,357,003,264 including land, buildings, sewer systems, equipment, and vehicles. This represents a net increase of \$210,141,111, or 19% over 2010. This increase is due to the District’s investment in sewer projects, such as the Western Regional Waste Water Reclamation Facility, vehicles, equipment and storm water assets contributed by Northern Kentucky cities during the fiscal year. These assets are summarized in the table below.

Table 4
Capital Assets, Net of Depreciation

Asset Type	June 30,	
	2011	2010
Collection system	\$ 456,348,371	\$ 431,156,468
Pump stations	75,341,500	71,026,855
Treatment and disposal	138,245,523	125,914,436
General plant and equipment	71,374,272	69,005,259
Sanitation software model	15,551,551	15,608,576
Stormwater land	24,147	-
Stormwater collection	346,148,777	233,054,168
Stormwater software model	3,486,099	3,516,692
Construction in progress		
Sanitation	242,536,861	187,722,253
Stormwater	7,946,163	9,857,446
Subtotal	<u>1,357,003,264</u>	<u>1,146,862,153</u>
Less: accumulated depreciation	<u>(241,595,496)</u>	<u>(206,333,999)</u>
Total Capital Assets, Net	<u>\$ 1,115,407,768</u>	<u>\$ 940,528,154</u>

Economic Factor's and Next Year's Budget

Sanitation District No. 1's budget for the 2012 fiscal year calls for an increase of over \$1.5 million to the Operation and Maintenance (O&M) Budget and a decrease of over \$31.5 million to the Capital Improvement Project (CIP) Budgets.

Overall, the FY 2012 budget continues to be reflective of the priorities within SD1 associated with the Consent Decree and the accompanying C-MOM (Capacity - Management, Operations and Maintenance) requirements from the Federal EPA for our collection and treatment systems. SD1's management staff continues to develop and refine its strategies to meet the additional responsibilities. In addition, SD1 is completing the transfer of storm water assets from Northern Kentucky cities in FY 2012.

The primary component of the O&M expense budget is the staffing level 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 will be placed into operation in the fiscal year and higher chemical, utility, and fuel costs with all facilities has an impact on the budget.

The Revenue Budget calls for a 15% adjustment to sanitary sewer rates as part of approved back-to-back 15% increases for FY 2011 & FY 2012. The impact to revenue in FY 2012 is an estimated increase of nearly \$7.3 million over the previous year's actual sewer revenues. In addition, there is a Cost of Living Adjustment of 2.06% to the storm water surcharge rate. The adjustment, plus additional growth, it is estimated that there will be a \$530,000 increase in storm water revenues. Capacity connection fees are budgeted at \$2 million compared to \$2.5 million in the previous budget. The decrease is due to the continued decrease in the housing market. Due to flat or lower revenues in other rates and fees categories, total revenues are budgeted to increase in 2012 by nearly \$7.4 million when compared to the previous year's actual revenues.

The Capital Improvement Projects Budget for FY 2012 shows that the majority of the capital spending is centered on the Western Regional Water Reclamation Facility and the Western Regional Conveyance Tunnel along with the Watershed Management project groups. Spending on the Western Regional projects is projected to account for about 47% of the total capital spending during the fiscal year. It is anticipated that capital spending on projects identified through the Watershed Plans and other Consent Degree activities will begin to dominate the budget in future years.

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 for the fiscal year. It is anticipated that additional revenue bonds will need to be issued prior to the end of the fiscal year 2012 or early fiscal year 2013 to help with our capital projects. The District will continue to use the most cost effective means to finance our aggressive capital program including cash financing, Build America Bonds (if available), traditional revenue bonds, and the Commonwealth of Kentucky's Revolving Loan Fund Program.

Contacting SD1's Financial Management

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

SANITATION DISTRICT NO. 1
BALANCE SHEET
June 30, 2011

ASSETS

	Sanitation	Stormwater	Total
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
Municipal 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	4,764,880	-	4,764,880
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	(218,173,152)	(23,422,344)	(241,595,496)
Total Capital Assets, Net	<u>781,224,926</u>	<u>334,182,842</u>	<u>1,115,407,768</u>
TOTAL ASSETS	<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

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			
Notes payable	99,912,607	1,441,337	101,353,944
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>117,253,551</u>	<u>1,936,602</u>	<u>119,190,153</u>
Noncurrent Liabilities			
Bonds payable, net of amortization	400,168,536	-	400,168,536
Total Noncurrent Liabilities	<u>400,168,536</u>	<u>-</u>	<u>400,168,536</u>
TOTAL LIABILITIES	<u>547,957,833</u>	<u>2,135,310</u>	<u>550,093,143</u>
NET ASSETS			
Invested in capital assets, net of related debt	273,529,862	332,733,648	606,263,510
Restricted	9,724,722	(1,936,602)	7,788,120
Unrestricted	125,117,987	12,220,101	137,338,088
TOTAL NET ASSETS	<u>408,372,571</u>	<u>343,017,147</u>	<u>751,389,718</u>
TOTAL LIABILITIES AND NET ASSETS	<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
June 30, 2010

ASSETS

	Sanitation	Stormwater	Total
Current Assets			
Cash and cash equivalents	\$ 9,692,641	\$ -	\$ 9,692,641
Investments	6,607,843	-	6,607,843
Accounts receivable			
Customers, net of allowance	5,493,553	1,749,263	7,242,816
Communities	22,653	-	22,653
Others	5,432,371	-	5,432,371
Due from other fund	-	4,840,698	4,840,698
Accrued unbilled charges	6,382,100	1,343,300	7,725,400
Prepays and deposits	533,981	-	533,981
Accrued interest income	33,250	-	33,250
Total Current Assets	<u>34,198,392</u>	<u>7,933,261</u>	<u>42,131,653</u>
Restricted Assets			
Cash	52,780,640	-	52,780,640
Investments	64,012,084	-	64,012,084
Receivables			
Assessments	1,958,351	-	1,958,351
Municipal improvement notes	5,524	-	5,524
Accrued interest	261,423	-	261,423
Prepaid items	233,390	-	233,390
Total Restricted Assets	<u>119,251,412</u>	<u>-</u>	<u>119,251,412</u>
Noncurrent Assets			
Unamortized bond costs and discount, net	4,271,574	-	4,271,574
Capital Assets			
Land, building, system, equipment, and vehicles	712,711,594	236,570,860	949,282,454
Construction in progress	187,722,253	9,857,446	197,579,699
Less: accumulated depreciation	(195,778,964)	(10,555,035)	(206,333,999)
Total Capital Assets, Net	<u>704,654,883</u>	<u>235,873,271</u>	<u>940,528,154</u>
TOTAL ASSETS	<u>\$ 862,376,261</u>	<u>\$ 243,806,532</u>	<u>\$1,106,182,793</u>

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

SANITATION DISTRICT NO. 1
BALANCE SHEET (Continued)
June 30, 2010

LIABILITIES

	Sanitation	Stormwater	Total
Current Liabilities			
Accounts payable	\$ 16,381,974	\$ 43,430	\$ 16,425,404
Accrued payroll and benefits	1,733,836	223,644	1,957,480
Accrued taxes and pension	136	-	136
Due to other fund	4,840,698	-	4,840,698
Communities	2,033	-	2,033
Other accruals	79,060	-	79,060
Sales tax payable	155	-	155
Current portion of long-term debt	8,537,838	-	8,537,838
Total Current Liabilities	<u>31,575,730</u>	<u>267,074</u>	<u>31,842,804</u>
Liabilities Payable From Restricted Assets			
Notes payable	60,501,607	-	60,501,607
Accounts payable	8,398,855	917,762	9,316,617
Accrued interest payable	6,473,959	-	6,473,959
Total Liabilities Payable From Restricted Assets	<u>75,374,421</u>	<u>917,762</u>	<u>76,292,183</u>
Noncurrent Liabilities			
Bonds payable, net of amortization	349,836,789	-	349,836,789
Total Noncurrent Liabilities	<u>349,836,789</u>	<u>-</u>	<u>349,836,789</u>
TOTAL LIABILITIES	<u>456,786,940</u>	<u>1,184,836</u>	<u>457,971,776</u>
NET ASSETS			
Invested in capital assets, net of related debt	350,551,830	235,873,271	586,425,101
Restricted	43,876,991	(917,762)	42,959,229
Unrestricted	11,160,500	7,666,187	18,826,687
TOTAL NET ASSETS	<u>405,589,321</u>	<u>242,621,696</u>	<u>648,211,017</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 862,376,261</u>	<u>\$ 243,806,532</u>	<u>\$ 1,106,182,793</u>

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

SANITATION DISTRICT NO. 1 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS For the Year Ended June 30, 2011

OPERATING REVENUES	Sanitation	Stormwater	Total
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
TOTAL OPERATING REVENUES	65,667,412	12,728,911	78,396,323
OPERATING EXPENSES			
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
TOTAL OPERATING EXPENSES	54,235,338	18,191,599	72,426,937
OPERATING INCOME	11,432,074	(5,462,688)	5,969,386
NON-OPERATING INCOME			
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)
TOTAL NON-OPERATING INCOME	6,944,455	(4,673,132)	2,271,323
INTEREST AND OTHER CHARGES			
Interest on long-term debt	16,021,477	4,283	16,025,760
Amortization of bond discount and expense	255,806	-	255,806
TOTAL INTEREST AND OTHER CHARGES	16,277,283	4,283	16,281,566
CHANGE IN NET ASSETS BEFORE CAPITAL CONTRIBUTIONS	2,099,246	(10,140,103)	(8,040,857)
CAPITAL CONTRIBUTIONS	1,155,386	110,566,146	111,721,532
CHANGE IN NET ASSETS	3,254,632	100,426,043	103,680,675
NET ASSETS, JULY 1, 2010	405,589,321	242,621,696	648,211,017
Prior period adjustment	(471,382)	(30,592)	(501,974)
NET ASSETS, JUNE 30, 2011	\$ 408,372,571	\$ 343,017,147	\$ 751,389,718

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

SANITATION DISTRICT NO. 1 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS For the Year Ended June 30, 2010

OPERATING REVENUES	Sanitation	Stormwater	Total
Sewer service charges	\$ 53,994,128	\$ -	\$ 53,994,128
Storm water charges	-	10,810,291	10,810,291
Permits and tap-in fees	2,701,008	31,112	2,732,120
Sludge hauling	92,429	-	92,429
Inspections	17,006	17,872	34,878
Penalties	1,115,183	177,502	1,292,685
Contractual services	103,219	-	103,219
Bad debt recoveries	16,556	33,382	49,938
Other revenues	119,992	-	119,992
Project reimbursements	165,830	-	165,830
TOTAL OPERATING REVENUES	58,325,351	11,070,159	69,395,510
OPERATING EXPENSES			
Operation, maintenance and administration	25,741,674	2,375,670	28,117,344
Major repairs and other	3,284,773	1,512,880	4,797,653
Depreciation	25,393,392	7,448,876	32,842,268
TOTAL OPERATING EXPENSES	54,419,839	11,337,426	65,757,265
OPERATING INCOME	3,905,512	(267,267)	3,638,245
NON-OPERATING INCOME			
Interest income	1,693,641	-	1,693,641
Transfers (to)/from other fund	4,700,870	(4,700,870)	-
Gain/(Loss) on sale of fixed assets	(4,646,164)	(3)	(4,646,167)
Federal credits on Build America Bonds	561,428	-	561,428
Unrealized appreciation in fair market value of investments	104,495	-	104,495
TOTAL NON-OPERATING INCOME	2,414,270	(4,700,873)	(2,286,603)
INTEREST AND OTHER CHARGES			
Interest on long-term debt	11,174,829	-	11,174,829
Amortization of bond discount and expense	186,054	-	186,054
TOTAL INTEREST AND OTHER CHARGES	11,360,883	-	11,360,883
CHANGE IN NET ASSETS BEFORE CAPITAL CONTRIBUTIONS	(5,041,101)	(4,968,140)	(10,009,241)
CAPITAL CONTRIBUTIONS	3,655,689	211,099,375	214,755,064
CHANGE IN NET ASSETS	(1,385,412)	206,131,235	204,745,823
NET ASSETS, JULY 1, 2009	406,974,733	36,490,461	443,465,194
NET ASSETS, JUNE 30, 2010	\$ 405,589,321	\$ 242,621,696	\$ 648,211,017

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

CASH FLOWS FROM OPERATING ACTIVITIES	Sanitation	Stormwater	Total
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)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>26,409,147</u>	<u>5,112,593</u>	<u>31,521,740</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
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)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>(4,579,269)</u>	<u>(4,371,969)</u>	<u>(8,951,238)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Principal received on notes and bonds	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
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(24,169,836)</u>	<u>(740,624)</u>	<u>(24,910,460)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(2,339,958)</u>	<u>-</u>	<u>(2,339,958)</u>
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>9,692,641</u>	<u>-</u>	<u>9,692,641</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 7,352,683</u>	<u>\$ -</u>	<u>\$ 7,352,683</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
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)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 26,409,147</u>	<u>\$ 5,112,593</u>	<u>\$ 31,521,740</u>
Non-Cash Capital and Related Financing Activities:			
Capital assets contributed to the District	\$ 1,155,386	\$ 110,566,146	\$ 111,721,532
Supplemental Information			
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.

SANITATION DISTRICT NO. 1 STATEMENT OF CASH FLOWS For the Year Ended June 30, 2010

	Sanitation	Stormwater	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Received from customers	\$ 59,189,881	\$ 11,218,542	\$ 70,408,423
Paid to suppliers for goods and services	(14,053,286)	(2,985,790)	(17,039,076)
Paid to or on behalf of employees for services	(11,136,582)	(806,934)	(11,943,516)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>34,000,013</u>	<u>7,425,818</u>	<u>41,425,831</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Transfers in (out)	4,700,870	(4,700,870)	-
Investment income	1,687,158	-	1,687,158
Net increase on investments	(10,199,292)	-	(10,199,292)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>(3,811,264)</u>	<u>(4,700,870)</u>	<u>(8,512,134)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Principal received on notes	154,921,293	-	154,921,293
Federal credits on Build America Bonds	561,428	-	561,428
Cash received from sale of asset	51,782	-	51,782
Payments made on long term debt	(7,164,762)	-	(7,164,762)
Interest paid, net of capitalized interest	(9,969,117)	-	(9,969,117)
Acquisition and construction of fixed assets, net of contributed capital	(148,143,474)	(1,851,412)	(149,994,886)
(Increase) decrease in restricted funds	(21,019,702)	(873,536)	(21,893,238)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(30,762,552)</u>	<u>(2,724,948)</u>	<u>(33,487,500)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(573,803)	-	(573,803)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	10,266,444	-	10,266,444
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 9,692,641</u>	<u>\$ -</u>	<u>\$ 9,692,641</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating income (loss)	\$ 3,905,512	\$ (267,267)	\$ 3,638,245
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation	25,393,392	7,448,876	32,842,268
Change in operating assets and liabilities			
Decrease (Increase) in receivables	3,869,788	2,683	3,872,471
Decrease (Increase) in accrued unbilled charges	488,100	145,700	633,800
Decrease (Increase) in assessments receivable	(3,493,358)	-	(3,493,358)
Decrease (Increase) in prepaid assets	21,228	-	21,228
Increase (Decrease) in communities payable	(16,154)	-	(16,154)
Increase (Decrease) in accounts payable	3,798,793	43,430	3,842,223
Increase (Decrease) in accrued payroll and taxes	9,806	52,396	62,202
Increase (Decrease) in other liabilities	22,906	-	22,906
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 34,000,013</u>	<u>\$ 7,425,818</u>	<u>\$ 41,425,831</u>
Non-Cash Capital and Related Financing Activities:			
Capital assets contributed to the District	<u>\$ 3,655,689</u>	<u>\$ 211,099,375</u>	<u>\$ 214,755,064</u>
Supplemental Information			
Interest expensed	11,174,829	-	11,174,829
Interest capitalized	3,836,014	-	3,836,014
Total	<u>\$ 15,010,843</u>	<u>\$ -</u>	<u>\$ 15,010,843</u>

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

SANITATION DISTRICT NO. 1 NOTES TO THE FINANCIAL STATEMENTS June 30, 2011 and 2010

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 54, and related interpretations issued through June 30, 2011. 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

SANITATION DISTRICT NO. 1 NOTES TO THE FINANCIAL STATEMENTS June 30, 2011 and 2010

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

SANITATION DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011 and 2010

water management program. The accounting for the fund was approved by the Board of Directors in June 2003.

The regulation is known as the National Pollutant Discharge Elimination System (NPDES) and it is administered by the US Environmental Protection Agency (US EPA). In the State of Kentucky, it is known as the Kentucky Pollutant Discharge Elimination System (KPDES), and the Kentucky Division of Water administers it on a statewide level. Local governments are issued KPDES Storm Water Discharge Permits and administer the program at a local level. Virtually all Northern Kentucky communities are required to comply with these unfunded storm water regulations, and 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.

<p>SANITATION DISTRICT NO. 1 NOTES TO THE FINANCIAL STATEMENTS June 30, 2011 and 2010</p>
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The following is a supplemental disclosure of cash flow information:

Cash Paid For Interest During the Year	June 30, 2011	June 30, 2010
Expensed	\$ 16,025,760	\$ 11,174,829
Capitalized	3,527,263	3,836,014
Total	<u>\$ 19,553,023</u>	<u>\$ 15,010,843</u>

The District had no non-cash investing activities during 2011 or 2010.

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, 2011 and 2010, 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.

<p>SANITATION DISTRICT NO. 1 NOTES TO THE FINANCIAL STATEMENTS June 30, 2011 and 2010</p>
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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, 2011 and 2010 of \$80,460,344 and \$70,619,927 respectively. The related securities totaling this amount are uninsured, unregistered securities held by the counterparty, or its trust department or agent but not in the entity's name.

Credit Risk–Investments. 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 \$8,698,483 and \$7,725,400 as of June 30, 2011 and 2010, 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, 2011 and 2010 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

SANITATION DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011 and 2010

The following tables provide a summary of fixed asset balances, additions, and retirements for the year ended June 30, 2011 for both the Sanitation and the Storm Water funds:

<u>Sanitation Fund</u>	Balance at			Balance at
Asset Type	June 30, 2010	Additions	Retirements	June 30, 2011
Collection system	\$ 431,156,468	\$ 27,530,514	\$ (2,338,611)	\$ 456,348,371
Pumping system	71,026,855	4,811,583	(496,938)	75,341,500
Treatment and disposal	125,914,437	13,963,032	(1,631,946)	138,245,523
General plant and equipment	69,005,258	2,547,302	(178,288)	71,374,272
Software model development	15,608,576	8,500	(65,525)	15,551,551
Construction in progress - sanitation	187,722,253	105,067,667	(50,253,059)	242,536,861
Subtotal	900,433,847	153,928,598	(54,964,367)	999,398,078
Less: accumulated depreciation	(195,778,964)	(24,754,967)	2,360,779	(218,173,152)
Fixed Assets, Net	<u>\$ 704,654,883</u>	<u>\$ 129,173,631</u>	<u>\$ (52,603,588)</u>	<u>\$ 781,224,926</u>

<u>Storm Water Fund</u>	Balance at			Balance at
Asset Type	June 30, 2010	Additions	Retirements	June 30, 2011
Land	\$ -	\$ 24,147	\$ -	\$ 24,147
Storm water collection system	233,054,168	113,406,709	(312,100)	346,148,777
Software model development	3,516,692	-	(30,593)	3,486,099
Construction in progress - storm water	9,857,446	3,620,592	(5,531,875)	7,946,163
Subtotal	246,428,306	117,051,448	(5,874,568)	357,605,186
Less: accumulated depreciation	(10,555,035)	(12,878,245)	10,936	(23,422,344)
Fixed Assets, Net	<u>\$ 235,873,271</u>	<u>\$ 104,173,203</u>	<u>\$ (5,863,632)</u>	<u>\$ 334,182,842</u>

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, 2011 and 2010 was \$867,753 and \$1,021,868, 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.

SANITATION DISTRICT NO. 1 NOTES TO THE FINANCIAL STATEMENTS June 30, 2011 and 2010

NOTE 3 – NOTES RECEIVABLE

Northern Kentucky Municipalities

As stipulated in Kentucky's Senate Bill No. 255, the merged Cities are required to reimburse the Sanitation District for 50% of estimated sanitary sewer system rehabilitation costs as calculated in the GRW report. By statute, this obligation is not due and payable until the rehabilitation has been made. However, the District and the cities have a contractual agreement that has specified the actual costs to be reimbursed and a time frame by which these payables can be made. The Sanitation District has offered to accept these reimbursements in ten annual installments. Thirty Northern Kentucky Municipalities participated in this reimbursement program.

	2011	2010
Balance, beginning of year	\$ 5,524	\$ 15,006
Payments received	-	(9,482)
Balance, end of year	<u>\$ 5,524</u>	<u>\$ 5,524</u>

The notes receivable for municipal improvements are unsecured and non-interest bearing.

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. Balance outstanding as of June 30, 2011 was \$40,905,000. 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. Balance outstanding as of June 30, 2011 was \$19,600,000. 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

SANITATION DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011 and 2010

Reserve Fund, and (3) pay the necessary costs and expenses incident to the issuance and delivery of the Series 2010C Bonds.

Refunding Bonds, Series 2010B

On September 23, 2010, bonds in the total amount of \$42,310,000 were issued under authority of applicable Kentucky Revised Statutes and in accordance with authorized bond resolutions duly passed and adopted by the Board of Directors of Sanitation District No. 1. Balance outstanding as of June 30, 2011 was \$42,310,000.

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, 2011 and 2010 were \$75,000,000 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, 2011 and 2010 were \$53,795,000 and \$54,880,000, 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

SANITATION DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011 and 2010

adopted by the Board of Directors of Sanitation District No. 1. Balances outstanding as of June 30, 2011 and 2010 were \$99,165,000 and \$100,190,000, respectively.

The proceeds from the sale of the Series 2007 Bonds, together with other available funds, were used to (1) provide funds to meet certain capital construction costs of 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, 2011 and 2010 were \$47,250,000 and \$48,205,000, 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, 2011 and 2010 were \$28,580,000 and \$31,565,000, 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. As of June 30, 2011 and 2010 the outstanding balances of the Series 2001A bond were \$1,240,000 and \$44,680,000, 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

SANITATION DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011 and 2010

Aggregate Debt Service Reserve Requirement and to pay the necessary costs and expenses incident to the issuance and delivery of the Series 2001A Bonds.

The changes in outstanding debt for the year ended June 30, 2011 were:

Bond Series	Balance at June 30, 2010	Additions	Payments	Balance at June 30, 2011
2001A	\$ 44,680,000	\$ -	\$ (43,440,000)	\$ 1,240,000
2005A	31,565,000	-	(2,985,000)	28,580,000
2006	48,205,000	-	(955,000)	47,250,000
2007	100,190,000	-	(1,025,000)	99,165,000
2009	54,880,000	-	(1,085,000)	53,795,000
2010A	75,000,000	-	-	75,000,000
2010B	-	42,310,000	-	42,310,000
2010C	-	19,600,000	-	19,600,000
2010D	-	40,905,000	-	40,905,000
Totals	<u>\$ 354,520,000</u>	<u>\$ 102,815,000</u>	<u>\$ (49,490,000)</u>	<u>\$ 407,845,000</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
2012	\$ 10,815,000	\$ 19,692,534	\$ 30,507,534
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
2017-2021	61,395,000	83,716,724	145,111,724
2022-2026	64,485,000	69,795,941	134,280,941
2027-2031	79,395,000	51,976,138	131,371,138
2032-2036	84,535,000	30,035,457	114,570,457
2037-2041	60,765,000	7,760,893	68,525,893
Total	<u>\$ 407,845,000</u>	<u>\$ 338,239,066</u>	<u>\$ 746,084,066</u>

SANITATION DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011 and 2010

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, 2011 and 2010 were \$28,067,485 and \$29,365,322, respectively.

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, 2011 and 2010 were \$56,235,407 and 30,656,893, respectively.

Dry Creek Waster 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, 2011 and 2010 were \$4,701,120 and \$331,987, 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 balance at June 30, 2011 was \$5,348,301.

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 balance at June 30, 2011 was \$3,468,393.

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 balance at June 30, 2011 was \$1,344,468.

SANITATION DISTRICT NO. 1 NOTES TO THE FINANCIAL STATEMENTS June 30, 2011 and 2010

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 balance at June 30, 2011 was \$775,199.

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 balance at June 30, 2011 was \$1,536,036.

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, 2011 were as follows:

Notes	Balance at June 30, 2010	Additions	Payments	Balance at June 30, 2011
Eastern Regional	\$ 29,365,322	\$ -	\$ (1,297,838)	\$ 28,067,484
Western Regional	30,656,893	25,578,514	-	56,235,407
Dry Creek	331,987	4,369,133	-	4,701,120
Sunnybrook	-	5,459,988	(111,687)	5,348,301
Southfork Gunpowder Creek	-	3,468,393	-	3,468,393
Frogtown	-	1,344,468	-	1,344,468
Turkeyfoot/Industrial	-	775,199	-	775,199
Narrows Road	-	1,536,036	-	1,536,036
Banklick wetlands	40,220	467,906	-	508,126
Bio-retention facility	107,185	377,976	-	485,161
Banklick Creek stabilization	-	189,205	(3,870)	185,335
Terraced reforestation	-	270,572	-	270,572
Totals	<u>\$ 60,501,607</u>	<u>\$ 43,837,390</u>	<u>\$ (1,413,395)</u>	<u>\$ 102,925,602</u>

SANITATION DISTRICT NO. 1 NOTES TO THE FINANCIAL STATEMENTS June 30, 2011 and 2010

The debt service to maturity for these twelve KIA Notes Payable (with drawn balances outstanding at June 30, 2011 only) is as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest & Fees</u>	<u>Total</u>
2012	\$ 1,571,658	\$ 2,533,137	\$ 4,104,795
2013	5,083,011	2,484,843	7,567,854
2014	5,129,455	2,358,887	7,488,342
2015	5,177,253	2,231,480	7,408,733
2016	5,226,449	2,102,581	7,329,030
2017-2021	26,921,941	8,524,086	35,446,027
2022-2026	28,386,234	5,051,047	33,437,281
2027-2031	21,963,378	1,708,846	23,672,224
2032	3,466,223	76,258	3,542,481
Totals	<u>\$ 102,925,602</u>	<u>\$ 27,071,165</u>	<u>\$ 129,996,767</u>

NOTE 6 – 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. 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, 2011, plan members were required to contribute 5% of their annual creditable compensation. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. The actuarially determined rate set by the Board for the years ended June 30, 2011 and 2010 was 16.93% and 16.16%, respectively of creditable compensation. Administrative costs of CERS are financed through employer contributions and investment earnings.

The District has no Hazardous duty contributors.

SANITATION DISTRICT NO. 1 NOTES TO THE FINANCIAL STATEMENTS June 30, 2011 and 2010

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

Year ending June 30,	Required Contribution	Percentage Contributed
2011	\$ 1,922,390	100%
2010	1,848,372	100%
2009	1,546,901	100%
2008	1,683,721	100%
2007	1,239,254	100%

NOTE 7 – OPERATING LEASE

On July 1, 2007, the District renewed its lease of 15,000 square feet of its building to another party. 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. Future minimum rentals to be received are as follows:

Year ending June 30,	Lease Revenue
2012	\$ 87,600
Totals	\$ 87,600

NOTE 8 – 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, 2011 and 2010 were \$223,822 and \$867,168, respectively.

NOTE 9 – ECONOMIC DEPENDENCY

The District receives all of its service revenues from customers in the three northern counties of Kentucky.

NOTE 10 – 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 liability of \$394,189 has been recorded in the accompanying financial statements which are management's estimate of the unspent balances as of June 30, 2011 that is likely to be paid in future periods.

SANITATION DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011 and 2010

NOTE 11 – LITIGATION

In October 2005, the District 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 the U.S. EPA's 1994 CSO control policy. The District will implement the requirements of the Decree through a unique watershed approach, which will allow the District 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 requires the District 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.

The District is involved in eight separate lawsuits relating to matters arising in the normal course of business. While the District plans to aggressively defend each of these suits, any financial contingency awarded is fully insured by the District's insurance company.

The District's Regional Facilities Plan, and more specifically the Western Regional Conveyance System, is being opposed by several landowners and interest groups, who are seeking to have the plan overturned. No suits have been filed as of the date of this report. The District intends to vigorously defend the approval of this plan. In Management's and legal council's opinions, none of these actions represent a material affect on the District's financial condition.

The District is a party to a wrongful termination suit where petitioner made claims of retaliatory constructive discharge, intentional infliction of emotional distress, and violation of the Kentucky Whistleblower Act.

The District 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 the District 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 the District'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 subject to limitations. The challenge is before a Hearing Officer of the Kentucky Energy and Environment Cabinet. The District and the Energy and Environment Cabinet vigorously disagree with the Petitioners' claims and are defending the permit decision. If Petitioners prevail, it could require additional treatment processes to be installed and operated at the WRWRF, which could cost over \$50 million.

SANITATION DISTRICT NO. 1 NOTES TO THE FINANCIAL STATEMENTS June 30, 2011 and 2010

The District's interlocal agreement with the majority of Northern Kentucky cities pertaining to the takeover, and maintenance of the region's storm water assets is being challenged by the City of Cold Spring. The City contends that the District has breached the interlocal agreement by limiting the amount of maintenance and service it will provide for above ground assets. The District is vigorously defending their stance on the agreement.

NOTE 12 – INSURANCE IN FORCE

The District has the following insurance policies in force during fiscal years 2011 and 2010:

Type of Coverage	Amount of Coverage	
	2011	2010
Property, including pump stations, machinery	\$ 160,950,927	\$ 162,536,100
Earthquake	50,000,000	100,000,000
Equipment breakdown	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)	4,791,327	-
Employer's liability	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

NOTE 13 – PRIOR PERIOD ADJUSTMENT

During the period from December 2005 to November 2008, there were errors in the calculation of District employee overtime that was charged to capital projects. These errors had the net effect of undercharging overtime expense by \$501,974. At June 30, 2011, the District has reduced its prior period balance by \$501,974.

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Report on Supplementary Information

As explained in Note 1 of the Notes to the Supplementary Information, the accompanying supplementary information of Sanitation District No. 1, as of and for the years ended June 30, 2011 and 2010, as listed in the table of contents is not a presentation in conformity with accounting principles generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated in all material respects, in relation to the portion of the basic financial statements from which it has been derived.

Van Gorder, Walker & Co., Inc.

Van Gorder, Walker & Co., Inc.
Erlanger, Kentucky
November 28, 2011

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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)
Total General Revenue	<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 -
GENERAL REVENUES
For the Year Ended June 30, 2010

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Sewer service	\$ 46,100,000	\$ 50,723,329	\$ 4,623,329
BOD surcharges	2,500,000	3,270,799	770,799
Storm water charges	10,400,000	10,810,291	410,291
Penalties	1,180,000	1,281,898	101,898
Bad debt recoveries	9,000	49,937	40,937
Sludge hauling	100,000	92,429	(7,571)
Capacity connection fees	3,000,000	2,555,526	(444,474)
Inspections	50,000	34,877	(15,123)
Permits	150,000	176,594	26,594
Fines	25,000	10,787	(14,213)
Contractual services	125,000	103,219	(21,781)
Project reimbursements	300,000	165,830	(134,170)
Other income	240,000	119,994	(120,006)
Total General Revenue	<u>\$ 64,179,000</u>	<u>\$ 69,395,510</u>	<u>\$ 5,216,510</u>

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)
Dry Creek Treatment Plant Operations			
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
Total Dry Creek Treatment Plant Expenses	8,983,145	8,426,004	557,141

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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)
Eastern Regional Reclamation Facility			
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 expnese	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
Total Eastern Regional Facility Expenses	<u>1,303,330</u>	<u>1,148,024</u>	<u>155,306</u>

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<p>SANITATION DISTRICT NO. 1 BUDGETARY COMPARISON SCHEDULE - BUDGET TO ACTUAL - OPERATION, MAINTENANCE, AND ADMINISTRATION For the Year Ended June 30, 2011</p>
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Expenses			Variance
	Budget	Actual	Favorable
			(Unfavorable)
Collection System			
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 expnese	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
Total Collection System Expenses	3,690,918	3,907,378	(216,460)

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

Expenses			Variance
Pump Stations/Field Tech	Budget	Actual	Favorable (Unfavorable)
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)
Total Pump Stations/Field Tech Expenses	4,457,161	4,646,214	(189,053)

(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			Variance
Engineering	Budget	Actual	Favorable (Unfavorable)
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 expnese	21,175	28,255	(7,080)
Safety equipment expense	6,806	3,694	3,112
Total Engineering Expenses	1,626,687	1,780,569	(153,882)

(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			Variance
	Budget	Actual	Favorable
			(Unfavorable)
Stormwater Program			
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 expnese	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
Total Stormwater Expenses	3,351,414	2,728,517	622,897

(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)
Administration			
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	(1,978)
Supplemental state environmental projects	241,900	202,182	39,718
Total Administration Expenses	<u>6,333,528</u>	<u>5,984,049</u>	<u>349,479</u>
Total Operation, Maintenance, and Administration Expenses	<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

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

SANITATION DISTRICT NO. 1
BUDGETARY COMPARISON SCHEDULE - BUDGET TO ACTUAL -
OPERATION, MAINTENANCE, AND ADMINISTRATION
For the Year Ended June 30, 2010

Expenses	Budget	Actual	Variance Favorable (Unfavorable)
Dry Creek Treatment Plant Operations			
Salaries and wages	\$ 2,795,000	\$ 2,616,317	\$ 178,683
Medical and dental self-insured plan	596,790	663,732	(66,942)
Pension plan	451,672	380,371	71,301
Payroll taxes	213,818	188,699	25,119
Employee benefits	71,400	51,534	19,866
Unemployment taxes	4,000	-	4,000
Credits charged to capital projects	(500,000)	(350,617)	(149,383)
Insurance and bond	156,148	173,467	(17,319)
Insurance claims	24,341	-	24,341
Professional and contracted services	50,000	40,799	9,201
Office and operating supplies	130,000	146,976	(16,976)
Travel, training and certification	34,000	17,862	16,138
Contract labor - building maintenance	10,000	-	10,000
Operating maintenance - building grounds	50,000	70,268	(20,268)
Subscriptions	400	201	199
Miscellaneous	500	15	485
Electric and gas	900,000	1,081,355	(181,355)
Chemicals	2,200,000	2,328,600	(128,600)
Fuel oil	50,000	58,189	(8,189)
Telephone and radio	20,000	19,006	994
Water	30,000	30,235	(235)
Vehicle fuels	175,000	135,900	39,100
Auto and truck expense	100,000	112,069	(12,069)
Maintenance material - plant equipment	225,000	204,035	20,965
Sludge and grit removal	900,000	910,415	(10,415)
Safety equipment expense	30,000	29,946	54
Rental	10,000	10,527	(527)
Total Dry Creek Treatment Plant Expenses	8,728,069	8,919,901	(191,832)

(Continued to next page)

SANITATION DISTRICT NO. 1
BUDGETARY COMPARISON SCHEDULE - BUDGET TO ACTUAL -
OPERATION, MAINTENANCE, AND ADMINISTRATION
For the Year Ended June 30, 2010

Expenses			Variance
	Budget	Actual	Favorable
Eastern Regional Reclamation Facility			(Unfavorable)
Salaries and wages	\$ 285,000	\$ 302,122	\$ (17,122)
Medical and dental self-insured plan	59,430	69,367	(9,937)
Pension plan	46,056	45,091	965
Payroll taxes	21,803	20,392	1,411
Employee benefits	7,100	8,214	(1,114)
Credits charged to capital projects	-	(475)	475
Insurance and bond	15,111	16,592	(1,481)
Insurance claims	2,356	-	2,356
Professional and contracted services	26,000	10,635	15,365
Office and operating supplies	22,000	10,550	11,450
Travel, training and certification	8,000	3,936	4,064
Contract labor - building maintenance	2,500	-	2,500
Operating maintenance - building grounds	30,000	25,368	4,632
Subscriptions	100	8	92
Miscellaneous	500	-	500
Electric and gas	350,000	318,372	31,628
Chemicals	110,000	119,645	(9,645)
Fuel oil	12,000	-	12,000
Telephone and radio	6,000	4,955	1,045
Water	8,500	5,073	3,427
Vehicle fuels	30,000	17,572	12,428
Auto and truck expnese	30,000	36,919	(6,919)
Maintenance material - plant equipment	85,000	58,950	26,050
Sludge and grit removal	106,000	144,316	(38,316)
Safety equipment expense	10,000	2,444	7,556
Rental	3,000	371	2,629
Total Eastern Regional Facility Expenses	1,276,456	1,220,417	56,039

(Continued to next page)

<p>SANITATION DISTRICT NO. 1 BUDGETARY COMPARISON SCHEDULE - BUDGET TO ACTUAL - OPERATION, MAINTENANCE, AND ADMINISTRATION For the Year Ended June 30, 2010</p>
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Expenses	Budget	Actual	Variance Favorable (Unfavorable)
Collection System			
Salaries and wages	\$ 3,269,471	\$ 3,122,203	\$ 147,268
Medical and dental self-insured plan	771,839	899,398	(127,559)
Pension plan	528,347	491,287	37,060
Payroll taxes	250,115	223,398	26,717
Employee benefits	90,829	67,116	23,713
Unemployment taxes	3,674	-	3,674
Credits charged to capital projects	(2,295,977)	(2,467,428)	171,451
Insurance and bond	201,230	223,036	(21,806)
Insurance claims	31,368	31,895	(527)
Professional and contracted services	7,500	6,021	1,479
Office and operating supplies	32,144	13,015	19,129
Travel, training and certification	7,347	4,236	3,111
Subscriptions	551	213	338
Miscellaneous	90	-	90
Telephone and radio	25,715	20,359	5,356
Vehicle fuels	257,149	257,749	(600)
Auto and truck expnese	266,333	322,185	(55,852)
Sludge and grit removal	45,000	36,227	8,773
Maintenance material - collection systems	400,000	297,153	102,847
Safety equipment expense	27,552	28,260	(708)
Rental	25,000	39,540	(14,540)
Total Collection System Expenses	<u>3,945,277</u>	<u>3,615,863</u>	<u>329,414</u>

(Continued to next page)

SANITATION DISTRICT NO. 1 BUDGETARY COMPARISON SCHEDULE - BUDGET TO ACTUAL - OPERATION, MAINTENANCE, AND ADMINISTRATION For the Year Ended June 30, 2010

Expenses			Variance
Pump Stations/Field Tech	Budget	Actual	Favorable (Unfavorable)
Salaries and wages	\$ 650,000	\$ 680,427	\$ (30,427)
Medical and dental self-insured plan	137,755	160,089	(22,334)
Pension plan	105,040	104,202	838
Payroll taxes	49,725	50,403	(678)
Employee benefits	16,100	13,286	2,814
Credits charged to capital projects	(100,000)	(73,544)	(26,456)
Insurance and bond	35,259	39,219	(3,960)
Insurance claims	5,497	-	5,497
Professional and contracted services	70,000	45,973	24,027
Office and operating supplies	22,000	13,728	8,272
Travel, training and certification	9,100	10,994	(1,894)
Contract labor - building maintenance	500	-	500
Operating maintenance - building grounds	20,000	12,420	7,580
Subscriptions	200	24	176
Miscellaneous	500	-	500
Electric and gas	1,500,000	1,750,764	(250,764)
Chemicals	1,200,000	1,141,746	58,254
Fuel oil	30,000	8,643	21,357
Telephone and radio	3,000	6,245	(3,245)
Water	5,000	18,147	(13,147)
Vehicle fuels	40,000	26,793	13,207
Auto and truck expense	25,000	37,775	(12,775)
Sludge and grit removal	15,000	5,388	9,612
Operating Maintenance - pump stations	200,000	156,162	43,838
Safety equipment expense	10,000	8,025	1,975
Rental	30,000	30,700	(700)
Total Pump Stations/Field Tech Expenses	4,079,676	4,247,609	(167,933)

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SANITATION DISTRICT NO. 1 BUDGETARY COMPARISON SCHEDULE - BUDGET TO ACTUAL - OPERATION, MAINTENANCE, AND ADMINISTRATION For the Year Ended June 30, 2010

Expenses	Budget	Actual	Variance Favorable (Unfavorable)
Engineering			
Salaries and wages	\$ 2,022,463	\$ 2,011,004	\$ 11,459
Medical and dental self-insured plan	386,205	404,045	(17,840)
Pension plan	326,830	299,004	27,826
Payroll taxes	154,718	140,203	14,515
Employee benefits	38,509	31,972	6,537
Unemployment taxes	1,493	-	1,493
Credits charged to capital projects	(1,119,444)	(1,642,802)	523,358
Insurance and bond	101,496	112,573	(11,077)
Insurance claims	15,821	-	15,821
Professional and contracted services	-	67,472	(67,472)
Legal Services	-	6,722	(6,722)
Office and operating supplies	38,434	51,998	(13,564)
Training and certification	33,210	24,528	8,682
Subscriptions	37,763	34,297	3,466
Miscellaneous	747	56	691
Telephone and radio	14,926	17,399	(2,473)
Vehicle fuels	28,732	36,601	(7,869)
Auto and truck expnese	20,598	21,999	(1,401)
Safety equipment expense	3,731	2,180	1,551
Total Engineering Expenses	<u>2,106,232</u>	<u>1,619,251</u>	<u>486,981</u>

(Continued to next page)

SANITATION DISTRICT NO. 1
BUDGETARY COMPARISON SCHEDULE - BUDGET TO ACTUAL -
OPERATION, MAINTENANCE, AND ADMINISTRATION
For the Year Ended June 30, 2010

Expenses	Budget	Actual	Variance Favorable (Unfavorable)
Stormwater Program			
Salaries and wages	\$ 1,313,837	\$ 1,211,753	\$ 102,084
Board of directors	3,910	3,668	242
Medical and dental self-insured plan	261,014	268,148	(7,134)
Pension plan	212,316	193,756	18,560
Payroll taxes	100,808	90,562	10,246
Employee benefits	29,979	24,068	5,911
Unemployment taxes	2,962	67	2,895
Credits charged to capital projects	(597,876)	(842,063)	244,187
Insurance and bond	68,126	78,277	(10,151)
Insurance claims	10,620	6,899	3,721
Professional and contracted services	30,000	366,426	(336,426)
Legal services	60,000	105,143	(45,143)
Bank services	32,181	37,581	(5,400)
Auditing services	4,455	3,301	1,154
Office and operating supplies	99,104	82,912	16,192
Postage	82,447	60,367	22,080
Training and certification	24,423	17,811	6,612
Operating maintenance - building grounds	14,761	17,093	(2,332)
Subscriptions	63,175	59,536	3,639
Miscellaneous	990	17	973
Legal advertising	332	-	332
Community relations	6,383	6,207	176
Government affairs	1,596	-	1,596
Program expenses - compliance	200,000	72,218	127,782
Electric and gas	21,941	23,143	(1,202)
Telephone and radio	12,984	17,768	(4,784)
Water	2,660	2,227	433
Vehicle fuels	34,506	32,356	2,150
Auto and truck expnese	33,302	32,837	465
Sludge and grit removal	-	2,429	(2,429)
Safety equipment expense	4,209	3,381	828
Green initiative expense	305,000	397,781	(92,781)
Total Stormwater Expenses	2,440,145	2,375,669	64,476

(Continued to next page)

SANITATION DISTRICT NO. 1
BUDGETARY COMPARISON SCHEDULE - BUDGET TO ACTUAL -
OPERATION, MAINTENANCE, AND ADMINISTRATION
For the Year Ended June 30, 2010

Expenses	Budget	Actual	Variance Favorable (Unfavorable)
Administration			
Salaries and wages	\$ 2,189,229	\$ 2,286,107	\$ (96,878)
Board of directors	25,490	23,484	2,006
Medical and dental self-insured plan	398,613	386,059	12,554
Pension plan	353,779	334,661	19,118
Payroll taxes	169,426	158,374	11,052
Employee benefits	57,484	51,352	6,132
Unemployment taxes	13,872	421	13,451
Credits charged to capital projects	(86,702)	(55,831)	(30,871)
Insurance and bond	102,630	114,369	(11,739)
Insurance claims	15,998	27,989	(11,991)
Professional and contracted services	470,185	627,281	(157,096)
Legal services	140,000	354,139	(214,139)
Bank services	209,819	263,164	(53,345)
Auditing services	29,045	20,899	8,146
Office and operating supplies	248,662	213,014	35,648
Postage	537,553	384,176	153,377
Training and certification	81,370	55,740	25,630
Operating maintenance - building grounds	96,239	109,180	(12,941)
Dues and subscriptions	27,961	31,399	(3,438)
Miscellaneous	4,769	41,386	(36,617)
Community relations	41,617	39,698	1,919
Government affairs	10,404	109,982	(99,578)
Legal advertising	2,168	1,971	197
Electric and gas	143,059	147,794	(4,735)
Telephone and radio	36,675	64,211	(27,536)
Water	17,340	14,270	3,070
Vehicle fuels	12,312	7,788	4,524
Auto and truck expense	17,167	18,112	(945)
Safety equipment expense	3,208	4,416	(1,208)
Supplemental state environmental projects	-	283,029	(283,029)
Total Administration Expenses	<u>5,369,372</u>	<u>6,118,634</u>	<u>(749,262)</u>
Total Operation, Maintenance, and Administration Expenses	<u>\$ 27,945,227</u>	<u>\$ 28,117,344</u>	<u>\$ (172,117)</u>

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

General Revenues	\$ 69,395,510
Operation, Maintenance and Administration Expenses	(28,117,344)
Major Repair Expenses	(4,797,653)
Depreciation	<u>(32,842,268)</u>
Net Operating Income	<u>\$ 3,638,245</u>

<p>SANITATION DISTRICT NO. 1 SCHEDULE OF RATES, RATE DETERMINATION, AND NUMBER OF USERS Year Ended June 30, 2011</p>

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, 2010</u>
0 - 1,700	\$ 5.06
1,701- 8,400	4.54
Over 8,400	3.51
Monthly minimum bill	10.12

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, 2010</u>
Flat rate per 100 Cubic Feet (HCF)	\$ 5.06
Monthly minimum bill (2 HCF)	10.12

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

<u>Number of Rooms in Home</u>	<u>April 1, 2010</u>
1 or 2 room house	\$ 15.12
3 - 6 room house	24.83
More than 6 rooms	32.84

The District had approximately 99,000 accounts at June 30, 2011.

SANITATION DISTRICT NO. 1 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS Year Ended June 30, 2011
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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	A08-04	\$ 1,148,354.17
			A09-06	511,222.41
			A09-09	654,860.04
EPA	Capitalization Grant for clean water - State Revolving Funds - Passed through Commonwealth of Kentucky - Kentucky Infrastructure Authority Funded by American Recovery and Reinvestment Act funds	66.458	A209-01	395,000.00
			A209-02	444,275.52
			A209-03	877,729.20
			A209-04	<u>477,026.59</u>
Total Federal Expenditures:				<u>\$ 4,508,467.93</u>

SANITATION DISTRICT NO. 1 NOTES TO THE SUPPLEMENTARY INFORMATION June 30, 2011

NOTE 1 – SUPPLEMENTARY INFORMATION

The accompanying summary information of Sanitation District No. 1, as of and for the years ended June 30, 2011 and 2010, 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.

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**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 governmental activities and each major fund of the Sanitation District No.1 (District), as of and for the years ended June 30, 2011 and 2010, which collectively comprise the Sanitation District No.1's basic financial statements and have issued our report thereon dated November 28, 2011. 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

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 control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Sanitation District No.1's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Sanitation District No.1's financial statements that is more than inconsequential will not be prevented or detected by the Sanitation District No.1's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Sanitation District No.1's internal control.

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 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.

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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 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 and District management 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 28, 2011

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**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND 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 the 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 are applicable to each of its major federal programs for the years ended June 30, 2011 and 2010. 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 the Sanitation District No.1's management. Our responsibility is to express an opinion on the 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 the 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 the Sanitation District No.1's compliance with those requirements.

In our opinion, the Sanitation District No.1 complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the years ended June 30, 2011 and 2010.

Internal Control Over Compliance

The management of the 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 the 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

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auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Sanitation District No.1's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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 28, 2011

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<p>SANITATION DISTRICT NO. 1 SCHEDULE OF FINDINGS AND QUESTIONED COSTS Year Ended June 30, 2011</p>
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A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of the Sanitation District No. 1.
2. No significant deficiencies relating to the audit of the financial statements are revealed in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters.
3. No instances of noncompliance material to the financial statements were disclosed during the audits.
4. No significant deficiencies relating to the audits of the major federal awards programs are revealed in the Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance.
5. The auditor's report on compliance for the major federal award programs expresses an unqualified opinion.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this schedule.
7. The following federal expenditure programs were delineated and tested as *major programs* per the requirements of OMB Circular A-133:

Program	CFDA No.
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Capitalization Grants for Clean Water	66.458

8. The threshold for distinguishing type A and B programs was \$300,000. There are no type B programs.
9. Sanitation District No. 1 was determined to be a high-risk auditee. This is due only to the presence of American Recovery and Reinvestment Act of 2009 (ARRA) funds. This Act requires that each auditee, regardless of risk assessment, will be a high-risk auditee.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

None

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

None

SANITATION DISTRICT NO. 1
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2011

NONE