

2017-2018 Comprehensive Annual Financial Report

For the Fiscal Years Ended
June 30, 2018 and 2017



Sanitation District No. 1
1045 Eaton Drive
Ft. Wright, KY
859-578-7450
www.sd1.org



SANITATION DISTRICT NO. 1

June 30, 2018 and 2017

Comprehensive Annual Financial Report



Prepared By:

Sanitation District No. 1

1045 Eaton Drive
Fort Wright, KY

Finance Department

Ron Schmitt, Jr., Director
Deborah Vinson, Accounting Manager

**SANITATION DISTRICT NO. 1
TABLE OF CONTENTS**

	PAGE
Introductory Section	
Letter of Transmittal.....	1
Board of Directors.....	7
Government Finance Officers Association Certificate for Excellence in Financial Reporting	8
Organizational Chart.....	9
Financial Section	
Independent Auditors' Report.....	10
Management's Discussion and Analysis (MD&A)	12
Basic Financial Statements	
Statements of Net Position	21
Statements of Revenues, Expenses and Changes in Net Position	23
Statements of Cash Flows.....	25
Notes to the Financial Statements.....	29
Required Supplementary Information	
Schedule of SD1's Proportionate Share of the Net Pension Liability	63
Schedule of SD1's Pension Contributions.....	64
Schedule of SD1's Proportionate Share of the Net OPEB Liability	65
Schedule of SD1's OPEB Contributions.....	66
Other Supplementary Information	
Budgetary Comparison Schedules – Budget to Actual General Revenues.....	67
Budgetary Comparison Schedules – Budget to Actual Operation, Maintenance, and Administration	69
Schedule of Expenditures of Federal Awards	87
Notes to the Schedule of Expenditures of Federal Awards.....	88
Independent Auditors' 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.....	89
Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance	91
Schedule of Findings and Questioned Costs	93
Summary Schedule of Prior Year Audit Findings and Questioned Costs	94

**SANITATION DISTRICT NO. 1
TABLE OF CONTENTS
(Continued)**

	PAGE
Statistical Section	
Statistical Section Narrative.....	95
Financial Trends	
Statements of Net Position.....	96
Statements of Revenues, Expenses and Changes in Net Position	98
Statements of Cash Flows.....	99
Net Capital Assets – Sanitation.....	100
Net Capital Assets – Storm Water.....	101
Revenue Capacity	
Schedule of Sanitary Sewer Rates, Rate Determination, and Percentage Change	102
Schedule of Storm Water Rates, Rate Determination, and Percentage Change	104
Sewer and Storm Water Revenues Breakdown by Billing Class	105
Top Significant Industrial Users (SIU's).....	107
Debt Service Coverage	
Debt Service Coverage	108
Ratios of Outstanding Debt	110
Demographic and Economic Information	
Northern Kentucky Demographic and Census Information.....	111
Northern Kentucky Top Ten Employers	115
Operating Information	
Miscellaneous Operating Statistics	116
Capital Asset Statistics	117

INTRODUCTORY SECTION



December 10, 2018

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

SD1 and its Finance Department are pleased to submit the Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2018. This report follows guidelines set forth by the Government Accounting Standards Board and Generally Accepted Accounting Principles (GAAP).

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

SD1's financial statements have been audited by VonLehman CPA & Advisory Firm, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that SD1's financial statements for the fiscal year ended June 30, 2018 are free of material misstatements. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, there was a reasonable basis for issuing an unmodified ("clean") opinion that SD1's financial statements for the fiscal year ended June 30, 2018 are fairly presented in conformity with GAAP. The independent auditor's report is presented at the front of the financial section of this report.

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

Profile of SD1

SD1 is responsible for the collection and treatment of Northern Kentucky's wastewater, as well as regional storm water management. SD1 is the second largest public sewer utility in Kentucky, serving more than 286,000 residents throughout Boone, Campbell and Kenton Counties.

SD1 maintains approximately 1,640 miles of sanitary sewer line, 121 wastewater pumping stations, 15 flood pump stations, seven package treatment plants, three major wastewater treatment plants, approximately 416 miles of storm sewer pipe and 31,106 storm sewer structures.

In Fiscal Year 2018, SD1 served a sanitary sewer customer base of 106,610 accounts and a storm water customer base of 97,947 accounts. SD1's sanitary sewer customer base has experienced a 0.820 percent average annual growth rate over the past five years, while SD1's storm water customer base has experienced a 0.671 percent average annual growth rate over the past five years with the City of Cold Spring opting out of SD1's Regional Management Storm Water Program during 2013.

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

Local Economy

SD1 is located in Northern Kentucky, across the Ohio River from the City of Cincinnati, and is classified as belonging to the Cincinnati Metropolitan Statistical Area (MSA). Per the U.S. 2017 Census estimates, Northern Kentucky's population was 388,615. SD1 derives strength from the area's diverse economic base of manufacturing, entertainment, retail and commercial facilities. The local economy also benefits from its proximity to Cincinnati and includes the Greater Cincinnati International Airport.

According to the Northern Kentucky Tri-County Economic Development Corporation, Northern Kentucky is a key part of the 15-county Greater Cincinnati region, a thriving metropolitan area. Partnerships, collaboration and innovation have been critical elements for the Northern Kentucky region's success and competitiveness, and are indicative for even greater opportunities ahead.

The Cincinnati MSA unemployment rate has been on a declining trend the last 8 years. Over the past 12 months, the Cincinnati MSA average unemployment rate was 4.0 percent compared to a high of 10.1 percent at the end of June 2010. The regional 2018 unemployment rate continues to remain, on average, slightly below the national unemployment rate of 4.1 percent.

In Northern Kentucky, the housing market continues to show strong sales activity, increasing home values, and a rise in new home construction. Although these are encouraging trends, the housing market continues to face challenges such as limited inventory, anticipated mortgage rate increases and a significant lack of available workforce.

Long-Term Financial Planning

Many factors affect the funding and management of our wastewater and storm water utility, the most prominent of which are requirements related to sewer overflows and SD1's regional storm water management program.

In 2007, SD1 entered into an agreement, or Consent Decree, with the U.S. EPA and the Kentucky Energy and Environment Cabinet, intended to reduce sewer overflows and water pollution in Northern Kentucky's creeks and streams. The Clean Water Act's regulations affect SD1, because like many wastewater collection systems in the country, SD1 has portions of the collection system that overflow during wet weather periods. Heavy storms can overload infrastructure and release sewage into the environment. Negotiations with the EPA and the Commonwealth to extend the timeline of SD1's overflow elimination program have been ongoing for several years, and are near completion. A primary driver of those negotiations has been the affordability of necessary infrastructure improvements to accomplish overflow elimination by the current deadline of 2025.

Current estimates for the investment required to address these overflows is \$1.3 billion (in 2016 dollars), SD1 has been working with experts from across the country to explore new approaches and technologies to help reduce the costs associated with overflow elimination. The combination of an extended deadline for mandatory compliance, along with innovative approaches to reducing long term capital costs, while still posing a significant economic burden on the region, will help SD1 to achieve full compliance under the law.

Relevant Financial Policies

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

At fiscal year end, SD1 had total debt outstanding of \$456,031,640. Outstanding bonds of SD1 are rated Aa3 by Moody's and AA/Stable by Standard & Poor's rating agencies. For fiscal year ended June 30, 2018, net revenues covered debt service on both revenue bonds and Kentucky Infrastructure Authority (KIA) notes by 1.78 times. Unrestricted cash was at a level representing at least 583 days' cash which equated to \$62.8 million.

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

Major Initiatives

In order to provide reliable wastewater and storm water services at an affordable rate to our customers, SD1 has continued to work on strategic business plan projects that address issues of strategic importance to the entire region. This includes our continued commitment to LEAN SD1 process improvements throughout the organization. Simply put, lean is creating more value with less resources. This commitment ensures all members of SD1's staff are working as efficiently as possible toward protecting public health, property and the environment while supporting the economic vitality of the community.

Some major initiatives over the past year that align with the goals outlined in our strategic business plan include tightening up our storm water boundary, a comprehensive audit of our storm water system and assets, the creation of a new private cost-share program and an aggressive energy management program that is already paying dividends.

Storm Water Boundary Adjustment

SD1 recently tightened up its storm water service area to better serve customers across Northern Kentucky. The adjustment, approved by the Kentucky Division of Water, shrunk the boundary by about 16 percent, removing approximately 1,500 properties from the service area. The goal of the adjustment was to provide more clarity to SD1's customers regarding the storm water service area. Rather than relying on watershed boundaries, three criteria were used to re-establish the area: Urbanization as determined by census data, location within a co-permittee city and proximity to SD1 infrastructure. The new boundary excludes some of the more rural areas that required limited service and focuses instead on more urbanized areas that have a larger concentration of hard surfaces like driveways, rooftops and parking lots. These impervious surfaces create more storm water runoff, which increases the risk of flooding, erosion and pollution of local waterways.

Storm Water System Audit

Using innovative Geographic Information Systems (GIS) technology, SD1 recently completed an audit of its storm water assets. The audit found that 47.5 miles of storm sewer pipe and associated structures in Northern Kentucky previously believed to have been part of a municipal system that transferred to SD1 several years ago was actually not part of a municipal storm sewer system. Therefore, the pipe and structures did not transfer to SD1. The discovery means millions of dollars in savings for the District's customers.

Private Cost-Share Program

SD1 has created a new Private Cost-Share Program that established a three-way partnership between the District, a co-permittee city or county, and private property owners to address drainage issues on private property. Co-permittees can apply for cost-share funding through the program to address such issues, and SD1 will pay one-third of the project costs. The program is the newest cost-share that SD1 offers, joining a similar Public Cost-Share, a Public Culvert Cost-Share and a Technical Assistance Program to help local cities address drainage and flooding issues.

Energy Management Plan

SD1 is realizing energy savings through energy management initiatives at the District's three large wastewater treatment plants. Energy Management Plans were created for each plant following EPA recommendations. The plans aim to control and reduce energy and chemical use. A number of innovative cost-saving measures have been identified and implemented, several of which are already bearing fruit. As just one example, SD1 is in the process of replacing one of three blowers at its Dry Creek plant, which treats about 27 million gallons of wastewater per day. Replacing the blower is estimated to save SD1 and its ratepayers about \$960,000 in energy costs over the next 10 years.

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to SD1 for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2017. This was the fifth consecutive year SD1 has received this prestigious award. In order to be awarded a Certificate of Achievement, SD1 published an easily readable and efficiently organized comprehensive annual financial report. The report satisfied both generally accepted accounting principles and applicable legal requirements.

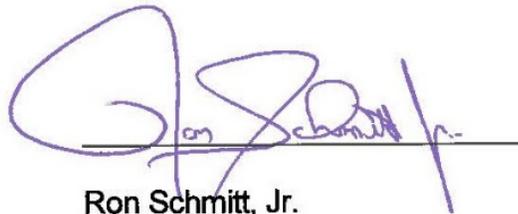
A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of this report would not have been possible without the skill, effort, and dedication of the entire staff of the Finance Department. We wish to thank all SD1 departments for their assistance in providing the data necessary to prepare this report. Credit also is due to the Board of Directors for their unfailing support for maintaining the highest standards of professionalism in the management of SD1's finances.

Respectfully Submitted,



Adam Chaney
Executive Director



Ron Schmitt, Jr.
Director of Finance

SANITATION DISTRICT NO. 1
BOARD OF DIRECTORS
(As of June 30, 2018)

Robert Horine, President
Campbell County

Bob Schroder, Vice President
Kenton County

Gary Richardson, Secretary
Kenton County

Dolf Allesch, Treasurer
Boone County

Rick Wessels, Director
Kenton County

Bob Boswell, Director
Boone County

Russ Horsley, Director
Kenton County

Jack Scott, Director
Campbell County



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**Sanitation District No. 1
Kentucky**

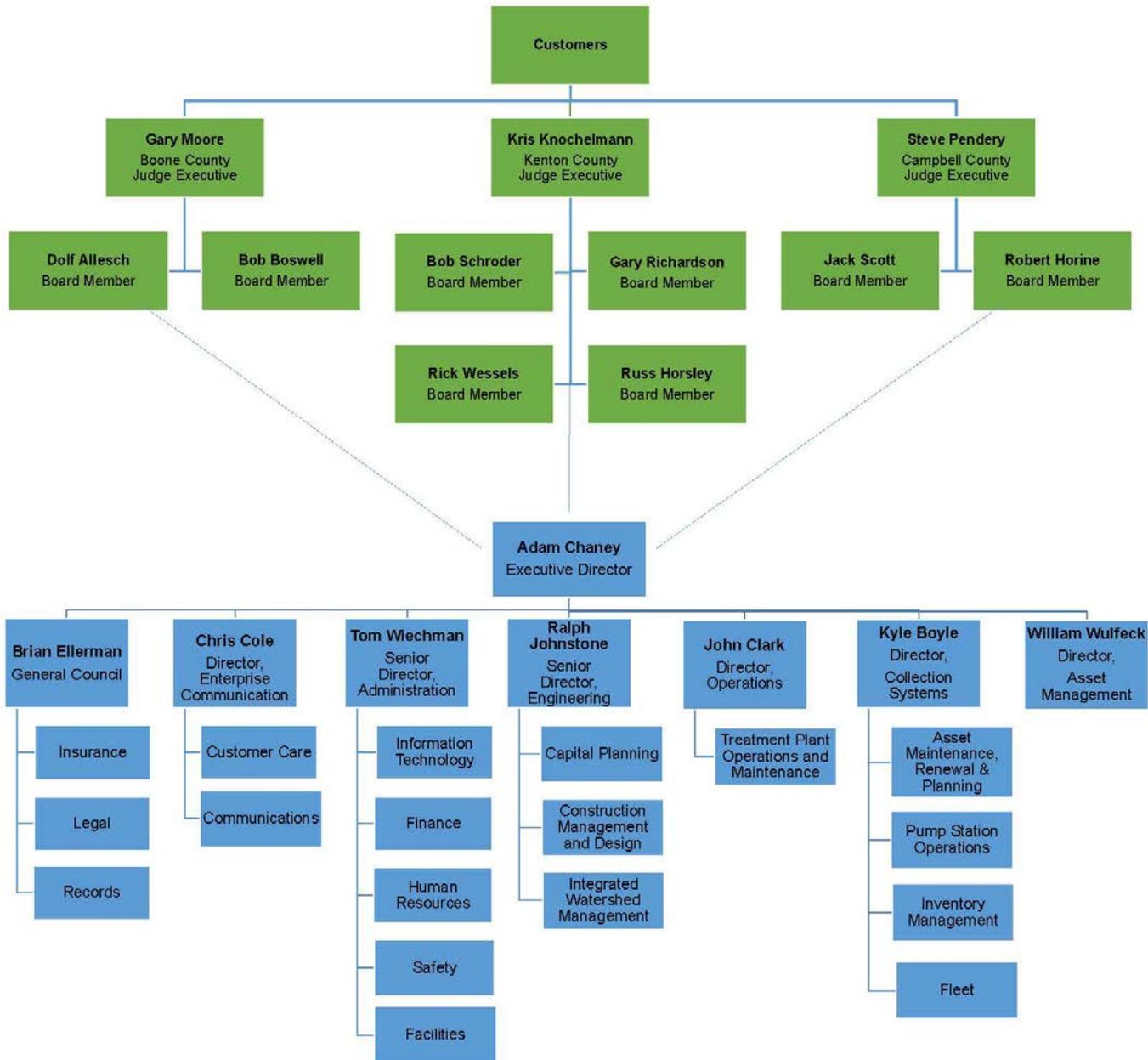
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2017

Christopher P. Morrill

Executive Director/CEO

**SANITATION DISTRICT NO. 1
ORGANIZATION CHART
as of June 30, 2018**



FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

Board of Directors
Sanitation District No. 1
Fort Wright, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Sanitation District No. 1 (SD1) as of and for the years ended June 30, 2018 and June 30, 2017, and the related notes to the financial statements, which collectively comprise SD1's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Sanitation District No. 1 as of June 30, 2018 and June 30, 2017, and the respective changes in financial position, and where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in the notes to the financial statements, the previously issued financial statements for the year ended June 30, 2017 and 2016 have been restated for the implementation of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* as well as the removal of privately owned storm water assets. Our opinion is not modified with respect to that matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of SD1's proportionate share of the net pension liability, schedule of SD1's pension contributions, schedule of SD1's proportionate share of the net OPEB liability, and schedule of SD1's OPEB contributions on pages 12 – 20, and 63 – 66, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise SD1's basic financial statements. The introductory section, other supplementary information, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The other supplementary information are the responsibility of management and were derived from, and relate directly to, the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report, dated December 10, 2018, on our consideration of the SD1's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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* in considering the SD1's internal control over financial reporting and compliance.

VonLehman & Company Inc.

Fort Wright, Kentucky
December 10, 2018



SANITATION DISTRICT NO. 1 MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Following is a narrative overview and analysis of the financial activities of the Sanitation District No. 1 for fiscal year ended June 30, 2018 and 2017. The information below should be considered in conjunction with additional information that was furnished in the letter of transmittal and the audited financial statements that follow this section.

2018 Financial Highlights

- SD1's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$743.4 million (*net position*). Of this amount, \$41.0 million represents unrestricted net position.
- SD1 removed \$22.1 million net of depreciation in storm water capital assets as a prior period adjustment due to the storm water system audit that found pipes and structures that were not part of the storm sewer system that was transferred to SD1 several years ago.
- SD1 recognized an \$8.5 million liability as a prior period adjustment due to the implementation of Government Accounting Standards Board GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB).
- Operating revenues increased by \$4.3 million to \$103.3 million.
- Operating expenses excluding depreciation decreased by almost \$1.6 million to \$39.3 million.
- SD1's total outstanding debt decreased by \$20.5 million or 4.31%.

2017 Financial Highlights

- SD1's assets and deferred outflows of resources exceeded its liabilities at the close of the most recent fiscal year by \$725.5 million (*net position*). Of this amount, \$34.2 million represents unrestricted net position.
- Net investment in capital assets increased \$10.3 million to \$605.2 million
- Operating revenues increased by \$4.5 million to \$98.9 million.
- Operating expenses excluding depreciation increased by \$544,000 to \$40.8 million.
- SD1's total outstanding debt decreased by \$18.6 million or 3.76%.

Overview of the Financial Statements

The financial statements presented herein include all of the activities of SD1 as prescribed by Governmental Accounting Standards. SD1's basic financial statements include the statements of net position, statements of revenues, expenses and changes in net position, statements of cash flows and the notes to the financial statements. This report also contains supplementary information in addition to the basic financial statements themselves.

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

**SANITATION DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
(Continued)**

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

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

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in SD1's basic financial statements. The notes to the financial statements can be found on pages 29 – 62 of this report.

In addition to the basic financial statements and accompanying notes, this report also presents other supplementary information concerning budgetary comparisons. Other supplementary information can be found on pages 67 – 94 of this report.

Basis of Accounting

SD1's financial statements are prepared using the accrual basis of accounting.

Overview of Annual Financial Report

Table 1 provides a summary of SD1's net position for 2018 compared to 2017 and 2016.

		Table 1 Net Position		
		June 30,		
		2018	2017 (As Restated)	2016 (As Restated)
Assets				
Current Assets	\$	87,282,501	\$ 78,251,515	\$ 69,438,953
Restricted Assets		84,595,821	86,059,821	88,780,931
Receivables - Noncurrent		1,259,677	1,326,604	1,385,870
Capital Assets		<u>1,067,540,117</u>	<u>1,075,070,660</u>	<u>1,088,020,618</u>
Total Assets		<u>1,240,678,116</u>	<u>1,240,708,600</u>	<u>1,247,626,372</u>
Deferred Outflows of Resources				
		<u>19,687,728</u>	<u>13,256,340</u>	<u>6,549,646</u>
Liabilities				
Current Liabilities		36,901,515	38,164,156	33,744,396
Noncurrent Liabilities		<u>476,126,474</u>	<u>489,775,488</u>	<u>508,683,874</u>
Total Liabilities		<u>513,027,989</u>	<u>527,939,644</u>	<u>542,428,270</u>
Deferred Inflows of Resources				
		<u>3,918,257</u>	<u>565,983</u>	<u>-</u>
Net Position				
Net Investment in Capital Assets		617,871,122	605,173,140	594,841,332
Restricted		84,595,821	86,059,821	88,780,931
Unrestricted		<u>40,952,655</u>	<u>34,226,352</u>	<u>28,125,485</u>
Total Net Position	\$	<u>743,419,598</u>	\$ <u>725,459,313</u>	\$ <u>711,747,748</u>

SANITATION DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
(Continued)

Total assets were virtually unchanged in 2018 and decreased \$6.9 million in 2017. Although current assets increased \$9.0 million in 2018 and \$8.8 million in 2017 due to building up cash reserves, restricted and capital assets decreased almost \$9.1 million in 2018 and \$15.7 million in 2017. This decrease for both years can be attributed primarily to spending down bond proceeds on capital projects and accumulated depreciation on existing assets increasing more than the amount being invested in new capital improvement projects each year.

Deferred outflow of resources increased \$6.4 million in 2018 and \$6.7 million in 2017. The majority of the increase in 2018 was the result of revisions in the actuarial assumptions used in the calculations related to the pension and OPEB liabilities. The increase in 2017 was a result of deferring the refunding costs associated with the defeasance of the 2005, 2006, and 2007 Series Bonds.

Total liabilities decreased \$14.9 million in 2018 compared to a \$14.5 million decrease in 2017. The majority of the decrease for both years was a result of not issuing any new bonds, other than a refunding in 2017 and continuing to pay on the existing debt. Net pension liability increased \$4.8 million in 2018 and \$2.5 million in 2017 which resulted in a net pension liability of \$31.7 million in 2018 compared to \$26.8 million in 2017. OPEB liability increased \$2.3 million in 2018 to \$10.9 million compared to \$8.5 million in 2017.

Deferred inflow of resources increased \$3.4 million in 2018 and almost \$566,000 in 2017. The increase in 2018 was due to the difference between expected and actual investment returns related to the pension and OPEB liabilities. The increase in 2017 was a result of the implementation of the OPEB liability.

Total net position increased \$17.9 million in 2018 and \$13.7 million in 2017. The largest portion of SD1's net position \$617.9 million or 83.1% in the current fiscal year reflects its investment in capital assets such as land, buildings, treatment facilities, and collection systems, less any related debt still outstanding used to acquire those assets. SD1 uses these capital assets to provide services to its customers; consequently, these assets are not available for future spending. Although SD1's investment in its capital assets is reported net of debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of SD1's net position is considered to be restricted. This amount represents resources that are subject to external restrictions on how they may be used. The restricted net position decreased 1.70% from 2017 and 3.06% since 2016. The decrease was primarily a result of spending down bond proceeds on capital projects and a reduction in the required amount of debt service reserve funds being held due to the refunding of some existing debt which lowered the maximum annual debt service requirement pursuant to SD1's Trust Indenture. The remaining balance represents unrestricted net position and may be used to meet SD1's ongoing obligations to customers and creditors. Unrestricted net position increased 19.7% at the end of 2018 and increased 21.7% at the end of 2017. The majority of the increase was associated with building up cash reserves to cash finance future capital improvement projects to defer the need for additional debt.

Table 2 shows the changes in net assets for 2018, as well as revenue and expense comparisons to 2017 and 2016.

**SANITATION DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
(Continued)**

**Table 2
Changes in Net Position**

	Years Ended June 30,		
	2018	2017 (As Restated)	2016 (As Restated)
Operating Revenues			
Sewer Service Charges	\$ 84,312,915	\$ 79,746,166	\$ 75,730,322
Storm Water Charges	13,118,077	12,965,299	12,745,499
Permits and Tap-in Fees	3,501,783	3,848,229	3,566,331
Sludge Hauling	401,941	274,630	101,621
Inspections	173,623	158,531	217,454
Penalties	1,418,173	1,466,407	1,502,174
Contractual Services	160,732	140,689	136,592
Bad Debt Recoveries	25,135	50,134	138,003
Other Revenues	163,877	325,918	297,083
Total Operating Revenues	103,276,256	98,976,003	94,435,079
Operating Expenses			
Operation, Maintenance and Administration	38,870,649	39,976,208	38,588,567
Major Repairs and Other	429,175	876,520	1,720,103
Depreciation Expense	39,965,919	39,616,114	39,578,854
Total Operating Expenses	79,265,743	80,468,842	79,887,524
Net Operating Income	24,010,513	18,507,161	14,547,555
Non-Operating Income	499,779	2,761,434	3,077,895
Interest and Other Charges	16,091,496	17,671,508	20,143,508
Change in Net Position Before Capital Contributions	8,418,796	3,597,087	(2,518,058)
Capital Contributions	9,541,489	10,114,478	8,237,866
Change in Net Position	17,960,285	13,711,565	5,719,808
Net Position - Beginning of Year	725,459,313	711,747,748	706,027,940
Net Position End of Year	\$ 743,419,598	\$ 725,459,313	\$ 711,747,748

SANITATION DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
(Continued)

In 2018, SD1's total operating revenues experienced an increase of \$4.3 million or 4.34%. Sanitary revenues increased \$4.6 million which was a result of a 5.0% rate increase to sanitary sewer fees that became effective July 1, 2017. Storm water revenues experienced an increase of almost \$153,000 due to a 2.3% increase in the number of storm water accounts. Permits and connection fees decreased \$346,000 which fluctuates each year based on new construction activities and timing of when permits are issued. Other revenues decreased \$162,000 due to an insurance recovery received in 2017 related to a reduction in collateral being held for OCIP claims. Sludge hauling increased \$127,000 due to receiving a full year of income in 2018 associated with the disposal of leachate discharged from landfills which was implemented in November 2016.

In 2017, SD1's total operating revenues experienced an increase of \$4.5 million or 4.81%. Sanitary revenues increased \$4.0 million which was a result of a 5.0% rate increase to sanitary sewer fees that became effective July 1, 2016. Storm water revenues experienced an increase of \$220,000 due to an increase in the number of storm water accounts and in increase in impervious areas on non-residential accounts. Permits and connection fees experienced almost a \$282,000 increase due to a 5.0% rate increase in the capacity connection fee.

In 2018, operating expenses, excluding depreciation decreased almost \$1.6 million or 3.8%. The following contributed to the change in operating expenses:

- Salaries, wages and benefits decreased \$1.1 million due to reduced staffing levels and a reduction in medical claims which was primarily a result of transiting to a negotiated contract based pricing plan.
- Professional services decreased almost \$156,000 to a decrease in the utilization of external consultants and a reduction in outsourced CCTV inspection services.
- Legal Expenses decreased almost \$76,000 primarily due to minimal activity of a number of litigation cases currently on appeal.
- Banking fees decreased \$227,000 due to SD1 no longer absorbing the convenience fee for customers using credit cards, debit cards or e-check payments effective January 1, 2018. This third party vendor fee is being passed on to the customer.
- Building and Grounds increased almost \$77,000 due to the addition of an on-site health care facility aimed at further reducing medical costs and other renovations throughout the main office building to better align departments.
- Electricity and sludge removal increased \$241,000 primarily due to treating more production of biosolids at the Western Regional Treatment Plant and increased usage for the operation of SD1's flood pump station system during the flooding incident that occurred in early 2018.
- Major repairs and other expenses decreased \$447,000 due to less preliminary studies and conceptual design work of proposed capital projects occurring this year.

SANITATION DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
(Continued)

In 2017, operating expenses, excluding depreciation increased \$544,000 or 1.35%. The following contributed to the change in operating expenses:

- Salaries and wages increased \$492,000 due to less staff time being charged to capital projects.
- Employee benefits increased \$764,000 due to an increase in the number of medical and prescription claims and a 9.5% rate increase in the CERS non-hazardous pension rate for all full time employees.
- Professional services decreased \$150,000 due to a decrease in the utilization of external staff supplementation services for special projects.
- Banking fees increased \$214,000 due to the implementation of Paymentus and SD1 absorbing all fees the first year.
- Chemicals increased \$256,000 due to fluctuations in weather conditions this year in comparison to last year which resulted in more chemicals being used for treatment and odor control.
- Sludge and grit removal decreased \$197,000 due to being able to resume transporting and disposing of Dry Creek's biosolids at a local more cost effective facility that was temporarily unavailable last year due to a landslide issue.
- Major repairs and other expenses decreased \$843,000 due to less preliminary studies and conceptual design work of proposed capital projects occurring this year than the previous year.

Non-operating income decreased \$2.2 million in 2018 which was primarily the result of a \$2.7 million increase in recognizing SD1's share of the pension and OPEB expenses offset by a \$513,000 increase in interest income due to a higher rate of return on investments and higher cash balances. Non-operating income decreased \$316,000 in 2017 which was due to a \$943,000 decrease in the fair market value of investments, offset by an almost \$358,000 increase in interest income and a \$247,000 decrease in losses on disposal of assets.

Interest expense and other charges decreased \$1.6 million in 2018 and \$2.5 million in 2017. The decrease in 2018 was due to not issuing any new bonds and continuing to pay down the existing debt. The additional savings in 2017 was a result of refinancing bonds at a lower interest rate.

Capital contributions decreased \$573,000 in 2018 and increased \$1.9 million in 2017. Capital contributions consist primarily of developer dedicated sanitary and storm water infrastructure and can vary from year to year depending on the amount of infrastructure completed in any given year.

Capital Assets

SD1's investment in capital assets as of June 30, 2018 was \$1.07 billion (net of accumulated depreciation). This represents a 0.7% decrease from 2017. Although capital assets increased \$30.6 million, accumulated depreciation increased \$38.1 million. Major capital assets added during the year included \$12.2 million for rehab and replacement of sanitary lines and \$9.7 million of storm water lines. Pumping station infrastructure and equipment improvements were added in the amount of \$767,000. Treatment and disposal plant and equipment was added in the amount of almost \$392,000. Construction in progress increased \$6.4 million as on-going projects were being constructed and readied for use.

SANITATION DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
(Continued)

SD1's investment in capital assets as of June 30, 2017 was \$1.075 billion (net of accumulated depreciation). This represents a 1.19% decrease from 2016. Although capital assets increased \$24.3 million accumulated depreciation increased \$37.2 million. Major capital assets added during the year included \$13.7 million for rehab and replacement of sanitary lines and \$9.2 million of storm water lines. Land Improvement assets were added in the amount of \$737,000 due to the installation of two new pier walls needed to prevent further damage from landslides and to protect new sewer lines. Vehicles and equipment decreased almost \$1.0 million due to the retirement of several vehicles and equipment sold at auction. Construction in progress increased \$470,000 as on-going projects were being constructed and readied for use. These assets are summarized in table 3 below.

Table 3
Capital Assets, Net of Depreciation

	June 30,		
	2018	2017 (As Restated)	2016 (As Restated)
Not Being Depreciated			
Land	\$ 16,580,850	\$ 16,140,009	\$ 15,845,697
Construction in Progress	18,309,156	11,914,610	11,444,632
Other Capital Assets			
Land Improvements	4,271,907	3,986,902	3,249,751
Collection System	705,609,183	693,385,908	679,709,357
Pumping System	98,977,592	98,210,442	97,798,125
Treatment and Disposal	264,661,709	264,269,368	263,994,437
General Buildings and Structures	30,096,796	30,028,238	30,028,238
Office Furniture and Equipment	7,842,167	7,742,850	7,571,419
Vehicle and Accessories	8,841,023	8,936,081	9,805,624
Machinery and Equipment	5,784,983	5,494,919	5,612,545
Software Model Development	21,554,029	21,554,029	21,554,029
Storm Water Collection System	385,148,489	375,456,019	366,212,311
Subtotal	1,567,677,884	1,537,119,375	1,512,826,165
Less Accumulated Depreciation	500,137,767	462,048,715	424,805,547
Totals	\$ 1,067,540,117	\$ 1,075,070,660	\$ 1,088,020,618

Additional information on SD1's capital assets can be found in the Capital Assets note to the financial statements on pages 37 and 38 of this report.

**SANITATION DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
(Continued)**

Debt and Capital Asset Administration

SD1 ended fiscal year 2018 with \$456.0 million in outstanding bonds and notes payable compared to \$476.6 million in 2017 and \$495.1 million in 2016. This represents a decrease of 4.31% in 2018 and 3.76% in 2017 as shown in Table 4. SD1 issued bonds in the amount of \$124,990,000 in 2017 to refund Series 2005A Bonds, Series 2006A Bonds and Series 2007A Bonds to take advantage of favorable interest rates and is expected to save SD1 and its rate payers a net of \$31.2 million over the life of the bonds (21 years). SD1 added \$2.2 million to the notes payable in 2018 and \$1.2 million in 2017 as funds were drawn from the Kentucky Infrastructure Authority (KIA) Revolving Loan Fund. These funds were utilized to help fund the necessary capital improvement projects.

Table 4 summarizes SD1's outstanding debt at June 30, 2018, 2017, and 2016.

**Table 4
Debt Summary**

	June 30,		
	2018	2017	2016
Bond Indebtedness	\$ 324,620,158	\$ 339,854,417	\$ 352,290,207
Notes Payable	131,411,482	136,724,421	142,882,485
	\$ 456,031,640	\$ 476,578,838	\$ 495,172,692

Additional information on SD1's long-term debt can be found in the Long-Term Debt note to the financial statements on pages 39 – 44 of this report.

Economic Factors and Next Year's Budget

In June 2018, SD1's Board of Directors and the Judge Executives of Boone, Campbell and Kenton Counties approved the fiscal year 2019 Operating & Maintenance (O&M) and Capital budgets. The 2019 O&M budget was approved for \$42.4 million which reflects a 0.53% decrease compared to the 2018 budget.

The revenue budget calls for a 5.0% rate increase to sanitary sewer rates and assumes no rate increase for storm water rates. The impact to revenue is an anticipated increase of \$3.4 million over 2018 actual sewer service revenue.

In preparing the 2019 operating budget, the key focus was on controlling expenditures in light of rising costs associated with healthcare, pension obligations, new environmental regulations, and aging facilities. The budget was developed with an emphasis on maintaining Financial Viability and meeting all the goals of the Strategic Business Plan. The 2019 budget is focused on continuous improvement of operations and systems to provide for better efficiencies, collaboration with outside stakeholders and realignment and optimization of existing staff. There is a long term focus on accountability and defining measurable metrics in order to evaluate performance to determine achievement of goals.

SANITATION DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
(Continued)

SD1's 2019 wastewater and storm water Capital Improvement Plan "CIP" includes a number of projects to address both operational needs and community needs. The projects are all at different stages of advancement and the anticipated work may range from planning, design, to construction. The CIP also provides for implementation of recurring annual improvement programs such as asset renewal and unplanned emergency repairs. New capital asset purchases are also included for vehicle replacements, software and hardware purchases, and equipment replacements at SD1's main facility, treatment plants and pump stations. The total investment approved for the projects, programs, and purchases is \$185.5 million of which \$171.4 million is estimated for sanitary projects, \$13.1 million for storm water projects and approximately \$1.0 million for capital asset purchases.

The spending plan for the \$185.5 million in CIP expenditures is anticipated to occur over multiple fiscal year capital budgets. The 2019 capital budget spending plan calls for \$45.8 million, of which \$18.3 million is for sanitary and storm water asset management projects, \$9.5 million for consent decree projects, \$9.1 million for capacity pinch point improvements, \$1.6 million for storm water cost share programs, \$500,000 for storm water technical flood assistance and plan development, \$3.5 million for storm water capital improvement projects, \$2.2 million for storm water integration projects, and \$1.0 million for new capital asset purchases.

At the end of fiscal year 2018, funds available for major capital improvements included \$15.5 million to draw from the Commonwealth of Kentucky's Revolving Loan Funds. Any additional funds needed for funding capital projects and programs will be provided from cash reserves, net revenues and future bond issues.

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 the SD1's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Sanitation District Administrative Office at 1045 Eaton Drive, Fort Wright, Kentucky, 41017 or email info@sd1.org.

BASIC FINANCIAL STATEMENTS

SANITATION DISTRICT NO. 1
STATEMENT OF NET POSITION
June 30, 2018

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	Sanitation	Storm Water	Total
Assets and Deferred Outflows of Resources			
Current Assets			
Cash and Cash Equivalents	\$ 46,092,438	\$ 16,710,446	\$ 62,802,884
Accounts Receivable			
Customers	6,626,982	1,919,163	8,546,145
Communities	12,231	-	12,231
Other	4,339,856	-	4,339,856
Accrued Unbilled Charges	9,038,330	1,614,800	10,653,130
Prepaid Items and Deposits	893,904	350	894,254
Accrued Interest	28,561	5,440	34,001
	<u>67,032,302</u>	<u>20,250,199</u>	<u>87,282,501</u>
Total Current Assets			
Noncurrent Assets			
Restricted Assets			
Cash and Cash Equivalents	999,364	-	999,364
Investments	81,811,317	1,565,124	83,376,441
Accrued Interest	220,016	-	220,016
	<u>83,030,697</u>	<u>1,565,124</u>	<u>84,595,821</u>
Total Restricted Assets			
Receivables			
Assessments	1,254,547	-	1,254,547
Municipal Improvement Notes	5,130	-	5,130
	<u>1,259,677</u>	<u>-</u>	<u>1,259,677</u>
Total Receivables			
Capital Assets			
Land, System, Building and Equipment	1,157,334,995	392,033,733	1,549,368,728
Construction in Progress	13,592,546	4,716,610	18,309,156
Less Accumulated Depreciation	(383,880,260)	(116,257,507)	(500,137,767)
	<u>787,047,281</u>	<u>280,492,836</u>	<u>1,067,540,117</u>
Total Capital Assets			
Total Noncurrent Assets			
	<u>871,337,655</u>	<u>282,057,960</u>	<u>1,153,395,615</u>
Total Assets			
	<u>938,369,957</u>	<u>302,308,159</u>	<u>1,240,678,116</u>
Deferred Outflows of Resources			
Deferred Outflows Related to Pension	8,175,166	2,155,881	10,331,047
Deferred Outflows Related to Other			
Postemployment Benefits	2,369,241	624,795	2,994,036
Deferred Loss on Refundings	6,362,645	-	6,362,645
	<u>16,907,052</u>	<u>2,780,676</u>	<u>19,687,728</u>
Total Deferred Outflows of Resources			
Total Assets and Deferred Outflows of Resources			
	<u>\$ 955,277,009</u>	<u>\$ 305,088,835</u>	<u>\$ 1,260,365,844</u>

See accompanying notes.

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

	Sanitation	Storm Water	Total
Liabilities and Deferred Inflows of Resources			
Current Liabilities			
Bond Indebtedness	\$ 15,442,759	\$ -	\$ 15,442,759
Notes Payable	7,548,299	92,235	7,640,534
Accounts Payable	4,218,420	1,240,030	5,458,450
Accrued Payroll and Benefits	833,580	219,646	1,053,226
Accrued Interest Payable	6,825,127	2,554	6,827,681
Accrued Taxes and Pension	3,715	-	3,715
Compensated Absences	247,224	50,428	297,652
Sales Tax Payable	35,713	-	35,713
Other Liabilities	141,785	-	141,785
	35,296,622	1,604,893	36,901,515
Long-Term Liabilities (Net of Current Portion)			
Bond Indebtedness	309,177,399	-	309,177,399
Notes Payable	122,470,270	1,300,678	123,770,948
Compensated Absences	463,759	178,472	642,231
Net Pension Liability	25,054,457	6,607,137	31,661,594
Net Other Postemployment Benefits Liability	8,605,054	2,269,248	10,874,302
	465,770,939	10,355,535	476,126,474
Total Liabilities	501,067,561	11,960,428	513,027,989
Deferred Inflows of Resources			
Deferred Inflows Related to Pension	2,650,060	698,850	3,348,910
Deferred Inflows Related to Other Postemployment Benefits	450,536	118,811	569,347
	3,100,596	817,661	3,918,257
Total Liabilities and Deferred Inflows of Resources	504,168,157	12,778,089	516,946,246
Net Position			
Net Investment in Capital Assets Restricted For	338,771,199	279,099,923	617,871,122
Debt Service Funds	48,792,047	10,208	48,802,255
Operations, Infrastructure, and Insurance	33,239,286	1,554,916	34,794,202
Capital Improvement Projects and Programs	36,750	-	36,750
Other Purposes	962,614	-	962,614
Unrestricted	29,306,956	11,645,699	40,952,655
	451,108,852	292,310,746	743,419,598
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$ 955,277,009	\$ 305,088,835	\$ 1,260,365,844

SANITATION DISTRICT NO. 1
STATEMENT OF NET POSITION
June 30, 2017

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	Sanitation	Storm Water	Total
Assets and Deferred Outflows of Resources			
Current Assets			
Cash and Cash Equivalents	\$ 37,268,524	\$ 16,924,833	\$ 54,193,357
Accounts Receivable			
Customers	6,801,454	2,212,571	9,014,025
Communities	13,506	-	13,506
Other	4,243,127	3,575	4,246,702
Accrued Unbilled Charges	8,469,630	1,584,300	10,053,930
Prepaid Items and Deposits	703,378	350	703,728
Accrued Interest	22,064	4,203	26,267
Due (To) From Other Funds	(1,169)	1,169	-
	<u>57,520,514</u>	<u>20,731,001</u>	<u>78,251,515</u>
Noncurrent Assets			
Restricted Assets			
Cash and Cash Equivalents	2,366,227	-	2,366,227
Investments	81,945,474	1,586,443	83,531,917
Accrued Interest	161,677	-	161,677
	<u>84,473,378</u>	<u>1,586,443</u>	<u>86,059,821</u>
Receivables			
Assessments	1,321,474	-	1,321,474
Municipal Improvement Notes	5,130	-	5,130
	<u>1,326,604</u>	<u>-</u>	<u>1,326,604</u>
Capital Assets			
Land, System, Building and Equipment	1,143,054,754	382,150,011	1,525,204,765
Construction in Progress	8,445,318	3,469,292	11,914,610
Less Accumulated Depreciation	(359,149,169)	(102,899,546)	(462,048,715)
	<u>792,350,903</u>	<u>282,719,757</u>	<u>1,075,070,660</u>
Total Capital Assets	<u>792,350,903</u>	<u>282,719,757</u>	<u>1,075,070,660</u>
Total Noncurrent Assets	<u>878,150,885</u>	<u>284,306,200</u>	<u>1,162,457,085</u>
Total Assets	<u>935,671,399</u>	<u>305,037,201</u>	<u>1,240,708,600</u>
Deferred Outflows of Resources			
Deferred Outflows Related to Pension	4,854,728	1,089,379	5,944,107
Deferred Outflows Related to Other			
Postemployment Benefits	499,256	131,659	630,915
Deferred Loss on Refundings	6,681,318	-	6,681,318
	<u>12,035,302</u>	<u>1,221,038</u>	<u>13,256,340</u>
Total Deferred Outflows of Resources	<u>12,035,302</u>	<u>1,221,038</u>	<u>13,256,340</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 947,706,701</u>	<u>\$ 306,258,239</u>	<u>\$ 1,253,964,940</u>

See accompanying notes.

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

	Sanitation	Storm Water	Total
Liabilities and Deferred Inflows of Resources			
Current Liabilities			
Bond Indebtedness	\$ 15,234,259	\$ -	\$ 15,234,259
Notes Payable	7,416,373	90,417	7,506,790
Accounts Payable	4,514,029	2,200,186	6,714,215
Accrued Payroll and Benefits	858,768	172,477	1,031,245
Accrued Interest Payable	7,058,582	2,719	7,061,301
Accrued Taxes and Pension	1,166	-	1,166
Compensated Absences	272,666	49,684	322,350
Sales Tax Payable	150,286	-	150,286
Other Liabilities	142,544	-	142,544
	35,648,673	2,515,483	38,164,156
Long-Term Liabilities (Net of Current Portion)			
Bond Indebtedness	324,620,158	-	324,620,158
Notes Payable	127,824,719	1,392,912	129,217,631
Compensated Absences	445,815	128,945	574,760
Net Pension Liability	21,915,684	4,917,777	26,833,461
Net Other Postemployment Benefits Liability	6,749,548	1,779,930	8,529,478
	481,555,924	8,219,564	489,775,488
Total Noncurrent Liabilities	481,555,924	8,219,564	489,775,488
Total Liabilities	517,204,597	10,735,047	527,939,644
Deferred Inflows of Resources			
Deferred Inflows Related to Pension	462,254	103,729	565,983
	462,254	103,729	565,983
Total Liabilities and Deferred Inflows of Resources	517,666,851	10,838,776	528,505,627
Net Position			
Net Investment in Capital Assets	323,936,712	281,236,428	605,173,140
Restricted For			
Debt Service Funds	48,963,709	10,255	48,973,964
Operations, Infrastructure, and Insurance	33,143,431	1,576,188	34,719,619
Capital Improvement Projects and Programs	1,416,270	-	1,416,270
Other Purposes	949,968	-	949,968
Unrestricted	21,629,760	12,596,592	34,226,352
	430,039,850	295,419,463	725,459,313
Total Net Position	430,039,850	295,419,463	725,459,313
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$ 947,706,701	\$ 306,258,239	\$ 1,253,964,940

SANITATION DISTRICT NO. 1
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Year Ended June 30, 2018

	<u>Sanitation</u>	<u>Storm Water</u>	<u>Total</u>
Operating Revenues			
Sewer Service Charges	\$ 84,312,915	\$ -	\$ 84,312,915
Storm Water Charges	-	13,118,077	13,118,077
Permits and Tap-In Fees	3,422,085	79,698	3,501,783
Sludge Hauling	401,941	-	401,941
Inspections	88,692	84,931	173,623
Penalties	1,249,644	168,529	1,418,173
Contractual Services	160,732	-	160,732
Bad Debt Recoveries	24,041	1,094	25,135
Other Revenues	<u>152,678</u>	<u>11,199</u>	<u>163,877</u>
 Total Operating Revenues	 <u>89,812,728</u>	 <u>13,463,528</u>	 <u>103,276,256</u>
Operating Expenses			
Operation, Maintenance and Administration	32,935,762	5,934,887	38,870,649
Major Repairs and Other	198,947	230,228	429,175
Depreciation	<u>26,142,405</u>	<u>13,823,514</u>	<u>39,965,919</u>
 Total Operating Expenses	 <u>59,277,114</u>	 <u>19,988,629</u>	 <u>79,265,743</u>
 Operating Income (Loss)	 <u>30,535,614</u>	 <u>(6,525,101)</u>	 <u>24,010,513</u>
Non-Operating Income (Expense)			
Interest Income	1,531,915	245,466	1,777,381
Loss on Disposal of Capital Assets	(87,858)	(114,347)	(202,205)
Federal Credits on Build America Bonds	3,303,372	-	3,303,372
Pension Expense	(2,006,140)	(1,217,979)	(3,224,119)
Other Postemployment Benefits Expense	(436,057)	(114,993)	(551,050)
Net Depreciation in Fair Market Value of Investments	<u>(591,458)</u>	<u>(12,142)</u>	<u>(603,600)</u>
 Total Non-Operating Income (Expense)	 <u>1,713,774</u>	 <u>(1,213,995)</u>	 <u>499,779</u>
Interest and Other Charges			
Interest on Long-Term Debt	<u>16,059,523</u>	<u>31,973</u>	<u>16,091,496</u>
 Change in Net Position Before Capital Contributions	 16,189,865	 (7,771,069)	 8,418,796
Capital Contributions	<u>4,879,137</u>	<u>4,662,352</u>	<u>9,541,489</u>
 Change in Net Position	 21,069,002	 (3,108,717)	 17,960,285
Net Position - Beginning of Year	<u>430,039,850</u>	<u>295,419,463</u>	<u>725,459,313</u>
 Net Position - End of Year	 <u>\$ 451,108,852</u>	 <u>\$ 292,310,746</u>	 <u>\$ 743,419,598</u>

See accompanying notes.

SANITATION DISTRICT NO. 1
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Year Ended June 30, 2017

	Sanitation	Storm Water	Total
Operating Revenues			
Sewer Service Charges	\$ 79,746,166	\$ -	\$ 79,746,166
Storm Water Charges	-	12,965,299	12,965,299
Permits and Tap-In Fees	3,779,659	68,570	3,848,229
Sludge Hauling	274,630	-	274,630
Inspections	68,611	89,920	158,531
Penalties	1,295,494	170,913	1,466,407
Contractual Services	140,689	-	140,689
Bad Debt Recoveries	47,780	2,354	50,134
Other Revenues	325,303	615	325,918
Total Operating Revenues	85,678,332	13,297,671	98,976,003
Operating Expenses			
Operation, Maintenance and Administration	34,210,185	5,766,023	39,976,208
Major Repairs and Other	383,100	493,420	876,520
Depreciation	25,964,356	13,651,758	39,616,114
Total Operating Expenses	60,557,641	19,911,201	80,468,842
Operating Income (Loss)	25,120,691	(6,613,530)	18,507,161
Non-Operating Income (Expense)			
Interest Income	1,140,239	124,212	1,264,451
Gain (Loss) on Disposal of Capital Assets	70,436	(231,226)	(160,790)
Federal Credits on Build America Bonds	3,353,778	-	3,353,778
Pension Expense	(1,604,565)	(66,736)	(1,671,301)
Other Postemployment Benefits Expense	499,256	131,659	630,915
Net Depreciation in Fair Market Value of Investments	(638,629)	(16,990)	(655,619)
Total Non-Operating Income (Expense)	2,820,515	(59,081)	2,761,434
Interest and Other Charges			
Interest on Long-Term Debt	16,802,281	33,935	16,836,216
Amortization of Bond Discount and Expense	835,292	-	835,292
Total Interest and Other Charges	17,637,573	33,935	17,671,508
Change in Net Position Before Capital Contributions	10,303,633	(6,706,546)	3,597,087
Capital Contributions	4,847,959	5,266,519	10,114,478
Change in Net Position	15,151,592	(1,440,027)	13,711,565
Net Position - Beginning of Year (As Restated)	414,888,258	296,859,490	711,747,748
Net Position - End of Year	\$ 430,039,850	\$ 295,419,463	\$ 725,459,313

See accompanying notes.

SANITATION DISTRICT NO. 1
STATEMENT OF CASH FLOWS
Year Ended June 30, 2018

	Business-Type Activities		
	Enterprise Funds		
	<u>Sanitation</u>	<u>Storm Water</u>	<u>Total</u>
Cash Flows From Operating Activities			
Received From Customers	\$ 89,323,046	\$ 13,730,011	\$ 103,053,057
Paid to Suppliers for Goods and Services	(18,209,413)	(2,804,729)	(21,014,142)
Paid to or on Behalf of Employees for Services	<u>(15,558,069)</u>	<u>(4,221,933)</u>	<u>(19,780,002)</u>
Net Cash Provided by Operating Activities	<u>55,555,564</u>	<u>6,703,349</u>	<u>62,258,913</u>
Cash Flows From Capital and Related Financing Activities			
Proceeds Received on Notes	2,193,852	-	2,193,852
Federal Credits on Build America Bonds	3,303,372	-	3,303,372
Payments on Long Term Debt	(19,911,375)	(90,416)	(20,001,791)
Acquisition and Construction of Capital Assets, Net of Capital Contributions	(16,109,514)	(7,048,588)	(23,158,102)
Proceeds From Sales of Capital Assets	62,010	-	62,010
Interest Paid	(18,713,564)	(32,138)	(18,745,702)
Principal Received on Assessments	66,927	-	66,927
Assessment Interest Income	<u>38,247</u>	<u>-</u>	<u>38,247</u>
Net Cash Flows Used by Non-Capital Financing Activities	<u>(49,070,045)</u>	<u>(7,171,142)</u>	<u>(56,241,187)</u>
Cash Flows From Investing Activities			
Interest Income	552,437	229,833	782,270
Proceeds From the Sale of Investments	16,805,728	23,573	16,829,301
Purchase of Investments	<u>(16,386,633)</u>	<u>-</u>	<u>(16,386,633)</u>
Net Cash Provided by Capital and Related Financing Activities	<u>971,532</u>	<u>253,406</u>	<u>1,224,938</u>
Net Change in Cash	7,457,051	(214,387)	7,242,664
Cash and Cash Equivalents July 1, 2017	<u>39,634,751</u>	<u>16,924,833</u>	<u>56,559,584</u>
Cash and Cash Equivalents June 30, 2018	<u>\$ 47,091,802</u>	<u>\$ 16,710,446</u>	<u>\$ 63,802,248</u>

See accompanying notes.

SANITATION DISTRICT NO. 1
STATEMENT OF CASH FLOWS
Year Ended June 30, 2018
(Continued)

	Business-Type Activities		
	Enterprise Funds		
	<u>Sanitation</u>	<u>Storm Water</u>	<u>Total</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities			
Operating Income (Loss)	\$ 30,535,614	\$ (6,525,101)	\$ 24,010,513
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities			
Depreciation	26,142,405	13,823,514	39,965,919
Change in Assets and Liabilities			
Accounts Receivable	79,018	296,983	376,001
Accrued Unbilled Charges	(568,700)	(30,500)	(599,200)
Prepaid Items and Deposits	(190,526)	-	(190,526)
Due (To) From Other Funds	(1,169)	1,169	-
Accounts Payable	(295,609)	(960,156)	(1,255,765)
Accrued Payroll and Benefits	(25,188)	47,169	21,981
Compensated Absences	(7,498)	50,271	42,773
Accrued Taxes and Pension	2,549	-	2,549
Sales Tax Payable	(114,573)	-	(114,573)
Other Liabilities	(759)	-	(759)
	<u>55,555,564</u>	<u>6,703,349</u>	<u>62,258,913</u>
Net Cash Provided by Operating Activities	\$ <u>55,555,564</u>	\$ <u>6,703,349</u>	\$ <u>62,258,913</u>
Supplemental Schedule of Noncash Capital and Related Financing Activities			
Change in Fair Value of Investments	\$ <u>392,780</u>	\$ <u>5,879</u>	\$ <u>398,659</u>
Investment Fees	\$ <u>(88,641)</u>	\$ <u>(3,192)</u>	\$ <u>(91,833)</u>
Contributions of Capital Assets	\$ <u>4,879,137</u>	\$ <u>4,662,352</u>	\$ <u>9,541,489</u>
Pension Expense	\$ <u>(2,006,141)</u>	\$ <u>(1,217,979)</u>	\$ <u>(3,224,120)</u>
Other Postemployment Benefit Expense	\$ <u>(436,057)</u>	\$ <u>114,993</u>	\$ <u>(321,064)</u>
Amortization Expense	\$ <u>2,420,586</u>	\$ <u>-</u>	\$ <u>2,420,586</u>
Reconciliations of Cash and Cash Equivalents to the Statement of Net Position			
Cash and Cash Equivalents - Current	\$ 46,092,438	\$ 16,710,446	\$ 62,802,884
Cash and Cash Equivalents - Restricted	<u>999,364</u>	<u>-</u>	<u>999,364</u>
Cash and Cash Equivalents June 30, 2018	\$ <u>47,091,802</u>	\$ <u>16,710,446</u>	\$ <u>63,802,248</u>

See accompanying notes.

SANITATION DISTRICT NO. 1
STATEMENT OF CASH FLOWS
Year Ended June 30, 2017

	Business-Type Activities		
	Enterprise Funds		
	<u>Sanitation</u>	<u>Storm Water</u>	<u>Total</u>
Cash Flows From Operating Activities			
Received From Customers	\$ 85,792,424	\$ 13,375,121	\$ 99,167,545
Paid to Suppliers for Goods and Services	(16,425,078)	(1,156,639)	(17,581,717)
Paid to or on Behalf of Employees for Services	<u>(16,871,301)</u>	<u>(3,969,872)</u>	<u>(20,841,173)</u>
Net Cash Provided by Operating Activities	<u>52,496,045</u>	<u>8,248,610</u>	<u>60,744,655</u>
Cash Flows From Capital and Related Financing Activities			
Proceeds Received on Notes	1,217,757	-	1,217,757
Federal Credits on Build America Bonds	3,353,778	-	3,353,778
Payments on Long Term Debt	(160,187,186)	(88,635)	(160,275,821)
Proceeds on Bond Refunding	141,450,636	-	141,450,636
Bond Issuance Costs	(835,292)	-	(835,292)
Acquisition and Construction of Capital Assets, Net of Capital Contributions	(10,937,781)	(5,886,311)	(16,824,092)
Proceeds From Sales of Capital Assets	229,710	-	229,710
Interest Paid, Net of Capitalized Interest	(20,813,858)	(34,102)	(20,847,960)
Principal Received on Assessments	59,266	-	59,266
Assessment Interest Income	<u>39,804</u>	<u>-</u>	<u>39,804</u>
Net Cash Flows Used by Capital and Related Financing Activities	<u>(46,423,166)</u>	<u>(6,009,048)</u>	<u>(52,432,214)</u>
Cash Flows From Investing Activities			
Investment Income	239,343	106,281	345,624
Proceeds from the Sale of Investments	5,312,777	-	5,312,777
Purchase of Investments	<u>(6,071,068)</u>	<u>(104,647)</u>	<u>(6,175,715)</u>
Net Cash (Used) Provided by Investing Activities	<u>(518,948)</u>	<u>1,634</u>	<u>(517,314)</u>
Net Change in Cash	5,553,931	2,241,196	7,795,127
Cash and Cash Equivalents July 1, 2016	<u>34,080,820</u>	<u>14,683,637</u>	<u>48,764,457</u>
Cash and Cash Equivalents June 30, 2017	<u>\$ 39,634,751</u>	<u>\$ 16,924,833</u>	<u>\$ 56,559,584</u>

See accompanying notes.

SANITATION DISTRICT NO. 1
STATEMENT OF CASH FLOWS
Year Ended June 30, 2017
(Continued)

	Business-Type Activities		
	Enterprise Funds		
	<u>Sanitation</u>	<u>Storm Water</u>	<u>Total</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities			
Operating Income (Loss)	\$ 25,120,691	\$ (6,613,530)	\$ 18,507,161
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities			
Depreciation	25,964,356	13,651,758	39,616,114
Investment Fees	83,883	2,923	86,806
Change in Assets and Liabilities			
Accounts Receivable	523,172	106,350	629,522
Accrued Unbilled Charges	(409,080)	(28,900)	(437,980)
Prepaid Items and Deposits	58,640	3,500	62,140
Due (To) From Other Funds	1,169	(1,169)	-
Accounts Payable	887,980	1,182,050	2,070,030
Accrued Payroll and Benefits	89,917	(25,758)	64,159
Compensated Absences	48,138	(28,614)	19,524
Accrued Taxes and Pension	1,342	-	1,342
Sales Tax Payable	150,929	-	150,929
Other Liabilities	(25,092)	-	(25,092)
Net Cash Provided by Operating Activities	<u>\$ 52,496,045</u>	<u>\$ 8,248,610</u>	<u>\$ 60,744,655</u>
Supplemental Schedule of Noncash Capital and Related Financing Activities			
Change in Fair Value of Investments	\$ <u>(143,796)</u>	\$ <u>941</u>	\$ <u>(142,855)</u>
Investment Fees	\$ <u>(83,883)</u>	\$ <u>(2,923)</u>	\$ <u>(86,806)</u>
Contributions of Capital Assets	\$ <u>4,847,959</u>	\$ <u>5,266,519</u>	\$ <u>10,114,478</u>
Capitalized Interest	\$ <u>117,079</u>	\$ <u>-</u>	\$ <u>117,079</u>
Pension Expense	\$ <u>(1,604,565)</u>	\$ <u>(66,736)</u>	\$ <u>(1,671,301)</u>
Other Postemployment Benefits Expense	\$ <u>499,256</u>	\$ <u>131,659</u>	\$ <u>630,915</u>
Amortization Expense	\$ <u>(1,570,774)</u>	\$ <u>-</u>	\$ <u>(1,570,774)</u>
Reconciliations of Cash and Cash Equivalents to the Statement of Net Position			
Cash and Cash Equivalents - Current	\$ 37,268,524	\$ 16,924,833	\$ 54,193,357
Cash and Cash Equivalents - Restricted	<u>2,366,227</u>	<u>-</u>	<u>2,366,227</u>
Cash and Cash Equivalents June 30, 2017	<u>\$ 39,634,751</u>	<u>\$ 16,924,833</u>	<u>\$ 56,559,584</u>

See accompanying notes.

**SANITATION DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Description of SD1

SD1 was created in 1946, pursuant to authority of Chapter 220 of the Kentucky Revised Statutes, as amended (the "Act"). In accordance with the Act, SD1 was established by the Director of the Division of Sanitary Engineering of the Kentucky Department of Health on December 4, 1946. A corporate charter was issued to SD1 by the Secretary of State of Kentucky on December 27, 1946, giving SD1 power to prevent and correct the pollution of streams, to regulate the flow of streams for sanitary purposes, to clean and improve stream channels for sanitary purposes and to provide for the collection and disposal of sewage and other liquid wastes produced within SD1. SD1 has power under the Act to construct sewers, trunk sewers, laterals, intercepting sewers, siphons, pumping stations, treatment and disposal works and other appropriate facilities, and to maintain, operate and repair the same.

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

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

Reporting Entity

Generally accepted accounting principles require that SD1's financial statements include its component units if certain criteria regarding financial or operational relationships are met. Based on the evaluation criteria, SD1 has no component units.

Basis of Accounting and Presentation

SD1's financial statements are presented on the full accrual basis in accordance with generally accepted accounting principles (GAAP) for state and local governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles for state and local governments of the United States of America.

All activities of SD1 are accounted for within a single proprietary (enterprise) reporting entity. Proprietary entities are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The accounting and financial reporting treatment applied to SD1 is determined by its measurement focus. The transactions of SD1 are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the balance sheet. Net position (i.e., total assets and deferred outflows of resources net of total liabilities and deferred inflows of resources) are segregated into "net investment in capital assets"; "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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Fund Structure**

SD1 has established the following two funds for the purpose of segregating the two primary purposes of SD1 into discernible self-balancing accounts.

1. Sanitation Fund
2. Storm Water Fund

Sanitation Fund

The sanitation fund accounts for financial resources used for general types of operations and expenditures for operation and maintenance of the following budgeted expense areas.

1. Dry Creek Treatment Plant
2. Eastern Regional Waste Water Reclamation Facility
3. Western Regional Waste Water Reclamation Facility
4. Collection System
5. Pump Stations
6. Operations
7. Engineering
8. Administration

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

Storm Water Fund

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

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

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

Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires the use of estimates and assumptions regarding certain types of assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues, and expenses. Certain estimates relate to unsettled transactions and events as of the date of the financial statements. Other estimates relate to assumptions about the ongoing operations and may impact future periods. Accordingly, upon settlement, actual results may differ from estimated amounts.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Operating Revenues and Expenses**

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the sanitation and storm water enterprise funds are charges to customers for services. Operating expenses for enterprise funds include the costs of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Cash and Cash Equivalents

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

Investments

Investments are reported at fair value based on quoted market prices.

Accounts Receivable - Customers

SD1 follows a monthly cycle billing 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 \$10,653,130 and \$10,053,930 as of June 30, 2018 and 2017, respectively.

Accounts receivable are stated at their contractual outstanding balances, net of any allowance for doubtful accounts. Accounts are considered past due if any portion of an account has not been paid in full within the contractual terms of the account. SD1 begins to assess its ability to collect receivables that are over 90 days past due and provides for an adequate allowance for doubtful accounts based on SD1's collection history, the financial stability and recent payment history of the customer, and other pertinent factors. Based on these criteria, SD1 has estimated no allowance for doubtful accounts at both June 30, 2018 and 2017 because management expects no material losses.

Inventory

Inventory is valued at the lower of cost, using the moving average method, or market. Inventories consist of expendable supplies held for new sewer line installations and maintenance and are charged to expenditures on an "as used" basis.

Deferred Outflows and Inflows of Resources

Deferred outflows of resources represent a consumption of net positions that applies to a future period, and therefore deferred until that time. A deferred loss on refunding results from the difference in the carrying value of the refunded debt and the reacquisition price. SD1 also recognizes deferred outflows of resources related to pensions and other postemployment benefits.

Deferred inflows of resources represent an acquisition of net position that applies to a future period, and is therefore deferred until that time. A deferred gain on refunding results from the difference in the carrying value of the refunded debt and the reacquisition price. SD1 also recognizes deferred inflows of resources related to pensions and other postemployment benefits.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

Capital assets are recorded as expenditures at the time of purchase or construction and are capitalized annually, at cost, in the capital asset accounts. These accounts have been adjusted each year for additions and deletions. Depreciation of capital assets was not recognized by SD1 prior to July 31, 1979; however, SD1 established accumulated depreciation allowances for depreciable assets as of August 1, 1979. The book values of capital assets are currently depreciated on a straight-line basis at rates comparable to those acceptable for waste water utilities. SD1 has developed a property control system and maintains detailed records on all capital assets. To be capitalized, assets must be individual items with at least a three year useful life and a cost of \$2,500 or greater.

Capital assets are stated at costs and depreciated over the estimated useful lives of the related assets. Contributed assets are recorded as acquisition value on the date received. Interest related to the financing of projects under construction is capitalized as part of the projects’ basis in connection with the various construction projects in progress. The cost of current repairs and maintenance is charged to expense, while the cost of replacements or betterments is capitalized.

Depreciation of the capital assets is computed on the straight-line method over the estimated following useful lives of the assets:

Computer Equipment/Software	3 Years
Vehicles	5 – 10 Years
Machinery and Equipment	5 – 15 Years
Office Furniture and Equipment	5 – 20 Years
Pump Station Equipment	10 Years
Land Improvements	10 – 25 Years
Treatment and Disposal Equipment	35 Years
Storm Water Assets	25 – 50 Years
Collection System	50 Years
Buildings	35 – 50 Years

Prior to the year ended June 30, 2018, the interest cost of borrowed funds used to finance construction projects was capitalized when material. Interest earned on the proceeds of tax-exempt borrowing arrangements restricted to the acquisition of qualifying assets was offset against interest costs in determining the amount to be capitalized. For the year ended June 30, 2018, SD1 adopted Governmental Accounting Standards Board Statement No. 89, *Accounting for Interest Cost Incurred before the End of Construction Period*. This guidance requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest costs incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of this Statement are applied prospectively. \$-0- and \$117,079 of interest was capitalized for the years ended June 30, 2018 and 2017, respectively.

Construction in Progress

Capitalizable costs incurred on projects which are not in use or ready for use are held in construction in progress. When the asset is ready for use, related costs are transferred to the appropriate capital asset account.

Capital Contributions

These contributions represent assessments/reimbursements to recover the costs of new services and extensions of the distribution system. In addition, these contributions represent new subdivision capital assets that are installed by a developer and dedicated to SD1 to maintain and operate.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the County Employees Retirement System (CERS) and additions to/deductions from CERS' fiduciary net position have been determined on the same basis as they are reported by CERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the County Employees Retirement System (CERS) and additions to/deductions from CERS' fiduciary net position have been determined on the same basis as they are reported by CERS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Compensated Absences

Employees of SD1 are entitled to paid vacation depending on length of service and other factors. The amounts recorded for accumulated vacation for the years ended June 30, 2018 and 2017 were \$939,883 and \$897,110, respectively. 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.

Arbitrage

Under U.S. Treasury Department regulations, all governmental tax-exempt debt issued after August 31, 1986, is subject to arbitrage rebate requirements. The requirements stipulate that the earnings from the investment of tax-exempt bond proceeds which exceed related interest expenditures on the bonds must be remitted to the Federal Government on every fifth anniversary of each bond issue. SD1 has evaluated all bond issuances subject to arbitrage rebate requirements and noted no liability at both June 30, 2018 and 2017.

Net Position

Net position represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources. Net position is classified as net investment in capital assets, restricted, and unrestricted. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances on any borrowings used for the acquisition, construction or improvement of those assets. Outstanding debt which has not been spent is included in the same net position component as the unspent proceeds. Net position is reported as restricted when there are limitations imposed on its use through enabling legislation or through external restrictions imposed by creditors, grantors, or laws and regulations of other governments. All other net position that does not meet the definition of "restricted" or "net investment in capital assets" is considered unrestricted.

Although not a formal policy, when both restricted and unrestricted resources are available for use, it is SD1's intent to use restricted resources first, then unrestricted resources as they are needed.

Bond Premiums, Discounts, and Issue Costs

Bonds payable are reported net of any premium and discounts, which are amortized over the life of the applicable bonds using the effective interest method. Issuance costs are recognized as an expense in the year incurred.

Reclassifications

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

NOTE 2 – DEPOSITS AND INVESTMENTS**Investment Policy***General Policy*

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

Authorized Investment Instruments

1. Obligations of the United States and of its agencies and instrumentalities, including obligations subject to repurchase agreements, provided that delivery of these obligations subject to repurchase agreements is taken either directly or through an authorized custodian.
2. Obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States or a United States government agency.
3. Obligations of any corporation of the United States government agency.
4. Certificates of deposit issued by or other interest-bearing accounts of any bank or 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 the failure of a depository financial institution, SD1 will not be able to recover its deposits. SD1 maintains deposits with financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). SD1 follows state statutes which require pledged collateral with a fair value equal to 100% of the funds on deposit, less insured amounts. As of both June 30, 2018 and 2017, SD1's deposits were either insured by the FDIC or fully collateralized by securities held by SD1's agent in SD1's name.

Custodial Credit Risk – Investments. For an investment, this is the risk that, in the event of the failure of a counterparty, SD1 will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. SD1 had custodial credit risk at June 30, 2018 and 2017 of \$83,376,441 and \$83,531,917, respectively. The related securities totaling this amount are uninsured, unregistered, with securities held by the counterparty, or its trust department or agent but not in the entity's name.

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

SD1 is authorized by bond resolutions to invest in direct obligations of the United States, or obligations guaranteed by the United States, obligations of certain federal agencies and instrumentalities, including U.S. dollar-denominated deposits in commercial banks which are insured by the 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.

NOTE 2 – DEPOSITS AND INVESTMENTS (Continued)

Deposits and Investments

The quality ratings for the municipal bonds as of June 30, 2018 and 2017:

Quality Ratings	Years Ended June 30,	
	2018	2017
A	\$ 246,557	\$ 1,064,867
A+	-	249,605
AA	750,707	532,267
AA-	1,074,227	1,088,149
AA+	863,099	705,996
AAA	1,400,897	1,125,735
Not Rated	1,025,299	707,404
Total Municipal Bonds	\$ 5,360,786	\$ 5,474,023

The remaining investments are in treasury and agency bonds which are issued by the U.S. government and cash and cash equivalents.

NOTE 3 – RESTRICTED ASSETS

Certain assets are restricted by SD1's Trust Indenture; additionally, some assets have been classified as restricted in accordance with governmental accounting standards for enterprise funds.

The following schedule details the restricted assets as of June 30, 2018 and 2017:

	Years Ended June 30,	
	2018	2017
Pursuant to Trust Indenture		
Principal and Interest Accounts	\$ 19,040,966	\$ 19,284,201
Debt Service Reserve	29,761,288	29,689,762
Operation and Maintenance Fund	10,154,029	10,162,817
Improvement, Repair, and Replacement	17,981,063	17,947,458
Self Insurance Fund	6,659,111	6,609,345
Total Pursuant to Trust Indenture	83,596,457	83,693,583
Pursuant to Other Uses		
Capital Improvement Projects	-	1,379,520
Agreed Order/Settlement	999,364	986,718
Total Pursuant to Other Uses	999,364	2,366,238
Total Restricted Assets	\$ 84,595,821	\$ 86,059,821

NOTE 4 – FAIR VALUE MEASUREMENT

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Observable inputs are developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are developed based on information available about the assumptions market participants would use in pricing the asset. The classification of securities within the fair value hierarchy is based upon the activity level in the markets for the security type and the inputs used to determine their fair value, as follows:

- LEVEL 1** – Unadjusted price quotations in active markets/exchanges for identical assets or liabilities that SD1 has the ability to access.
- LEVEL 2** – Other observable inputs (included but not limited to, quotes process for similar assets or liabilities in the markets that are active, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the assets and liabilities (such as interest rates, yield curves, volatilities, loss severities, credit risks, and default rates) or other market-corroborated inputs).
- LEVEL 3** – Unobservable inputs based on the best information available in the circumstances, to the extent observable inputs are not available.

The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). Accordingly, the degree of judgment exercised in determining fair value is greatest for instruments categorized in Level 3. The inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the fair value hierarchy classification is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

Restricted assets are classified in Level 2 and are subject to pricing by an alternative pricing source due to lack of information available by the primary vendor.

The following table sets forth by level, within the fair value hierarchy, SD1’s assets at fair value at June 30, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and Cash Equivalents	\$ -	\$ 19,540,994	\$ -	\$ 19,540,994
Municipal Bonds	-	5,360,786	-	5,360,786
Treasury Bonds	-	24,511,379	-	24,511,379
Agency Bonds	-	33,963,282	-	33,963,282
Total Investments at Fair Value	<u>\$ -</u>	<u>\$ 83,376,441</u>	<u>\$ -</u>	<u>\$ 83,376,441</u>

The following table sets forth by level, within the fair value hierarchy, SD1’s assets at fair value at June 30, 2017:

Cash and Cash Equivalents	\$ -	\$ 20,199,077	\$ -	\$ 20,199,077
Municipal Bonds	-	5,474,023	-	5,474,023
Treasury Bonds	-	20,970,271	-	20,970,271
Agency Bonds	-	36,888,546	-	36,888,546
Total Investments at Fair Value	<u>\$ -</u>	<u>\$ 83,531,917</u>	<u>\$ -</u>	<u>\$ 83,531,917</u>

NOTE 5 – CAPITAL ASSETS

Capital asset activity for SD1 for the year ended June 30, 2018, was as follows:

Sanitation Fund	Balance June 30, 2017	Additions	Retirements /Transfers	Balance June 30, 2018
Capital Assets Not Being Depreciation				
Land	\$ 15,278,071	\$ 289,520	\$ -	\$ 15,567,591
Construction in Progress	<u>8,445,318</u>	<u>16,028,159</u>	<u>10,880,931</u>	<u>13,592,546</u>
Total Capital Assets Not Being Depreciated	<u>23,723,389</u>	<u>16,317,679</u>	<u>10,880,931</u>	<u>29,160,137</u>
Depreciable Capital Assets				
Land Improvements	3,986,902	285,005	-	4,271,907
Collection System	693,385,908	12,909,203	685,928	705,609,183
Pumping System	98,210,442	1,001,218	234,068	98,977,592
Treatment and Disposal	264,269,368	651,182	258,841	264,661,709
General Buildings and Structures	30,028,238	68,558	-	30,096,796
Office Furniture and Equipment	7,742,850	226,167	126,850	7,842,167
Vehicle and Accessories	8,852,228	47,530	168,679	8,731,079
Machinery and Equipment	5,391,878	363,040	86,816	5,668,102
Software Model Development	<u>15,908,869</u>	<u>-</u>	<u>-</u>	<u>15,908,869</u>
Total Depreciable Capital Assets	<u>1,127,776,683</u>	<u>15,551,903</u>	<u>1,561,182</u>	<u>1,141,767,404</u>
Total Capital Assets at Historical Cost	<u>1,151,500,072</u>	<u>31,869,582</u>	<u>12,442,113</u>	<u>1,170,927,541</u>
Less Accumulated Depreciation				
Land Improvements	1,786,574	105,010	-	1,891,584
Collection System	178,628,652	14,152,728	622,090	192,159,290
Pumping System	46,447,420	4,589,122	224,410	50,812,132
Treatment and Disposal	82,018,599	5,975,135	187,525	87,806,209
General Buildings and Structures	15,541,233	524,680	-	16,065,913
Office Furniture and Equipment	6,447,209	262,800	126,850	6,583,159
Vehicle and Accessories	8,398,025	239,769	163,623	8,474,171
Machinery and Equipment	3,972,588	293,161	86,816	4,178,933
Software Model Development	<u>15,908,869</u>	<u>-</u>	<u>-</u>	<u>15,908,869</u>
Total Accumulated Depreciation	<u>359,149,169</u>	<u>26,142,405</u>	<u>1,411,314</u>	<u>383,880,260</u>
Depreciable Capital Assets, Net	<u>768,627,514</u>	<u>(10,590,502)</u>	<u>149,868</u>	<u>757,887,144</u>
Sanitation Fund Capital Assets, Net	<u>\$ 792,350,903</u>	<u>\$ 5,727,177</u>	<u>\$ 11,030,799</u>	<u>\$ 787,047,281</u>

NOTE 5 – CAPITAL ASSETS (Continued)

Storm Water Fund	Balance June 30, 2017	Additions	Retirements /Transfers	Balance June 30, 2018
Capital Assets Not Being Depreciation				
Land	\$ 861,938	\$ 151,321	\$ -	\$ 1,013,259
Construction in Progress	<u>3,469,292</u>	<u>6,701,337</u>	<u>5,454,019</u>	<u>4,716,610</u>
Total Capital Assets Not Being Depreciated	<u>4,331,230</u>	<u>6,852,658</u>	<u>5,454,019</u>	<u>5,729,869</u>
Depreciable Capital Assets				
Vehicles	83,853	26,091	-	109,944
Machinery and Equipment	103,041	13,840	-	116,881
Storm Water Collection System	375,456,019	10,272,370	579,900	385,148,489
Software Model Development	<u>5,645,160</u>	<u>-</u>	<u>-</u>	<u>5,645,160</u>
Total Depreciable Capital Assets	<u>381,288,073</u>	<u>10,312,301</u>	<u>579,900</u>	<u>391,020,474</u>
Total Capital Assets at Historical Cost	<u>385,619,303</u>	<u>17,164,959</u>	<u>6,033,919</u>	<u>396,750,343</u>
Less Accumulated Depreciation				
Vehicles	73,072	9,860	-	82,932
Machinery and Equipment	48,990	9,236	-	58,226
Storm Water Collection System	97,132,324	13,804,418	465,553	110,471,189
Software Model Development	<u>5,645,160</u>	<u>-</u>	<u>-</u>	<u>5,645,160</u>
Total Accumulated Depreciation	<u>102,899,546</u>	<u>13,823,514</u>	<u>465,553</u>	<u>116,257,507</u>
Depreciable Capital Assets, Net	<u>278,388,527</u>	<u>(3,511,213)</u>	<u>114,347</u>	<u>274,762,967</u>
Storm Water Fund Capital Assets, Net	<u>\$ 282,719,757</u>	<u>\$ 3,341,445</u>	<u>\$ 5,568,366</u>	<u>\$ 280,492,836</u>

NOTE 6 – NOTES RECEIVABLE

SD1 has, at the request of homeowners, extended sanitary sewer service into existing areas for which there was no previous service. SD1 paid the initial cost of this construction and assessed the homeowners to recover the cost of construction. The following is a schedule of assessments and improvements outstanding to SD1 as of June 30, 2018 and 2017.

	Years Ended June 30,	
	2018	2017
Assessments	\$ 1,254,547	\$ 1,321,474
Improvement Notes	<u>5,130</u>	<u>5,130</u>
Total	<u>\$ 1,259,677</u>	<u>\$ 1,326,604</u>

NOTE 7 – LONG-TERM DEBT

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 SD1.

The proceeds for 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 1st 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.

The bonds were refunded in November, 2016 by the Refunding Revenue Bonds, Series 2016.

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 SD1.

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

The bonds were refunded in November, 2016 by the Refunding Revenue Bonds, Series 2016.

Revenue Bonds, Series 2007

In December, 2007, bonds in the total amount of \$102,000,000 were issued under authority of applicable Kentucky Revised Statutes and in accordance with authorized bond resolutions duly passed and adopted by the Board of Directors of SD1.

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

The bonds were refunded in November, 2016 by the Refunding Revenue Bonds, Series 2016.

Revenue Bonds, Series 2009

In August, 2009, 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 SD1. 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, were used to (1) provide funds to meet certain capital construction costs of SD1, (2) fund the Debt Service Reserve Fund, and (3) pay the necessary costs and expenses incident to the issuance and delivery of the Series 2009 Bonds.

Revenue Bonds, Series 2010A

In May, 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 SD1. These bonds qualify for a Federal Reimbursement of interest expense of 35% of the bi-annual interest expense.

NOTE 7 – LONG-TERM DEBT (Continued)

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

Refunding Revenue Bonds, Series 2010B

In September, 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 SD1.

The proceeds for 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.

The reacquisition price exceeded the net carrying amount of the refunded debt by \$3,406,670. This amount is amortized over the remaining life of the new debt. The refunding reduces its total debt service over 21 years by \$7,726,867 and obtains an economic gain (difference between the present values of the old and new debt service) of \$5,115,107.

Build America Bonds, Series 2010C

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

Recovery Zone Economic Development Bonds, Series 2010D

In December, 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 SD1. These bonds qualify for a Federal Reimbursement of interest expense between 43% and 45% of the bi-annual interest expense. The first principal payment will not be made until 2025.

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

Refunding Revenue Bonds, Series 2016

In November, 2016, bonds in the total amount of \$124,990,000 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 SD1.

The proceeds for the sale of the Series 2016 Bonds were used to defease \$8,000,000 of the 2005A Bonds, \$40,635,000 of the 2006A Bonds, \$91,720,000 of the 2007A Bonds, and to pay the necessary costs and expenses incident to the issuance and delivery of the Series 2016 Bonds.

The reacquisition price exceeded the net carrying amount of the refunded debt by \$5,176,926. This amount is amortized over the remaining life of the new debt. The refunding reduces its total debt service over 11 years by \$35,685,611 and obtains an economic gain (difference between the present values of the old and new debt service) of \$22,486,030.

NOTE 7 – LONG-TERM DEBT (Continued)

The original amount of each outstanding issue, the issue date, interest rates and outstanding balances at June 30, 2018 are summarized below:

Issue Date	Original Amount	Interest	Outstanding Balance at June 30, 2018	Outstanding Balance at June 30, 2017
Series 2009	\$ 54,800,000	1.70 - 7.13%	\$ 45,535,000	\$ 46,815,000
Series 2010 A	\$ 75,000,000	1.00 - 6.25%	63,145,000	64,940,000
Series 2010 B	\$ 42,310,000	2.00 - 4.00%	32,095,000	33,830,000
Series 2010 C	\$ 19,600,000	0.80 - 4.85%	9,710,000	11,185,000
Series 2010 D	\$ 40,905,000	5.10 - 6.30%	40,905,000	40,905,000
Series 2016	\$ 124,990,000	3.00 - 5.00%	118,780,000	124,990,000
Plus: Unamortized Bond Premium			<u>14,450,158</u>	<u>17,189,417</u>
			<u>\$ 324,620,158</u>	<u>\$ 339,854,417</u>

All issues may be called prior to maturity at dates and redemption premiums specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of SD1 at June 30, 2018 for debt service (principal and interest) are as follows:

Years	Principal Amount	Interest Amount	Federal Rebate	Sequester Reduction	Total Debt Service
2019	\$ 12,980,000	\$ 15,599,827	\$ (3,497,069)	\$ 223,883	\$ 25,306,641
2020	10,535,000	15,078,779	(3,423,268)	225,936	22,416,447
2021	10,945,000	14,585,771	(3,343,404)	220,665	22,408,032
2022	11,390,000	14,053,890	(3,257,696)	215,008	22,401,202
2023	11,855,000	13,493,531	(3,166,911)	209,016	22,390,636
2024-2028	67,255,000	57,965,778	(14,198,416)	937,095	111,959,457
2029-2033	79,735,000	38,911,343	(10,622,389)	701,078	108,725,032
2034-2038	78,625,000	18,888,144	(6,002,148)	396,142	91,907,138
2039-2041	<u>26,850,000</u>	<u>2,423,288</u>	<u>(935,091)</u>	<u>55,890</u>	<u>28,394,087</u>
Total	<u>\$ 310,170,000</u>	<u>\$ 191,000,351</u>	<u>\$ (48,446,392)</u>	<u>\$ 3,184,713</u>	<u>\$ 455,908,672</u>

Notes Payable

Eastern Regional Waste Water Reclamation Facility Loan A04-09

SD1 partnered with the Kentucky Infrastructure Authority to fund construction of the Eastern Regional Wastewater Reclamation Facility (ERWRF). This Kentucky Infrastructure Authority Loan bears an interest rate of 3.0% with interest-only payments due until completion, with final maturity due 20 years after completion. As of June, 2008, all funds have been received.

Western Regional Waste Water Reclamation Facility Loan A08-04

During the year ended June 30, 2009, SD1 partnered with the Kentucky Infrastructure Authority to fund construction of the Western Regional Wastewater Reclamation Facility (WRWRF). This Kentucky Infrastructure Authority Loan bears an interest rate of 1.0% with interest-only payments due until completion, with final maturity due 20 years after completion. As of December, 2013, all funds have been received.

NOTE 7 – LONG-TERM DEBT (Continued)Dry Creek Waste Water Treatment Plant Loan A09-04

During the years ended June 30, 2011 and 2010, SD1 partnered with the Kentucky Infrastructure Authority to fund construction of the Dry Creek Waste Water Treatment Plant. This Kentucky Infrastructure Authority Loan bears an interest rate of 2.0% with interest-only payments due until completion, with final maturity due 20 years after completion. As of June, 2012, all funds have been received.

Sunnybrook Sewer System Loan A09-05

During the year ended June 30, 2011, SD1 partnered with the Kentucky Infrastructure Authority to fund construction of new sewer lines. This Kentucky Infrastructure Authority Loan bears an interest rate of 2.0% with interest-only payments due until completion, with final maturity due 20 years after completion. As of June, 2011, all funds have been received.

Southfork Gunpowder Creek Loan A09-06

During the year ended June 30, 2011, SD1 partnered with the Kentucky Infrastructure Authority to fund construction of new sewer lines. This Kentucky Infrastructure Authority Loan bears an interest rate of 2.0% with interest-only payments due until completion, with final maturity due 20 years after completion. As of December, 2013, all funds have been received.

Frogtown Interceptor Loan A09-07

During the year ended June 30, 2011, SD1 partnered with the Kentucky Infrastructure Authority to fund construction of new sewer lines. This Kentucky Infrastructure Authority Loan bears an interest rate of 2.0% with interest-only payments due until completion, with final maturity due 20 years after completion. As of June, 2013, all funds have been received.

Turkeyfoot/Industrial Road Loan A09-08

During the year ended June 30, 2011, SD1 partnered with the Kentucky Infrastructure Authority to fund construction of new sewer lines. This Kentucky Infrastructure Authority Loan bears an interest rate of 2.0% with interest-only payments due until completion, with final maturity due 20 years after completion. As of December, 2013, all funds have been received.

Narrows Road Diversion Loan A09-09

During the year ended June 30, 2011, SD1 partnered with the Kentucky Infrastructure Authority to fund construction of new sewer lines. This Kentucky Infrastructure Authority Loan bears an interest rate of 2.0% with interest-only payments due until completion, with final maturity due 20 years after completion. As of December, 2013, all funds have been received.

Dry Creek Head Works/Hydraulics Loan A10-11

During the year ended June 30, 2012, SD1 partnered with the Kentucky Infrastructure Authority to fund construction of headwork/hydraulics reconfiguration at the Dry Creek Waste Water Treatment Plant. This Kentucky Infrastructure Authority Loan bears an interest rate of 2.0% with interest-only payments due until completion, with final maturity due 20 years after completion. As of December, 2014, all funds have been received.

Lakeview, Kentucky Aire, Church Street Loan A11-13

During the year ended June 30, 2013, SD1 partnered with the Kentucky Infrastructure Authority to fund construction of combined sewer overflow reduction, pump station elimination, and pump station replacement. This Kentucky Infrastructure Authority Loan bears an interest rate of 2.0% with interest-only payments due until completion, with final maturity due 20 years after completion. Payments will not begin until one year after initial operation of the project, and therefore a maturity date has not been determined.

NOTE 7 – LONG-TERM DEBT (Continued)

Lakeside Park, Vernon Lane Loan A11-14

During the year ended June 30, 2013, SD1 partnered with the Kentucky Infrastructure Authority to fund construction of sewer rehabilitation and Vernon Lane removal of sewer inflow and infiltration. This Kentucky Infrastructure Authority Loan bears an interest rate of 2.0% with interest-only payments due until completion, with final maturity due 20 years after completion. Payments will not begin until one year after initial operation of the project, and therefore a maturity date has not been determined.

Wolpert Force Main Loan A12-02

During the year ended June 30, 2013, SD1 partnered with the Kentucky Infrastructure Authority to fund construction of the Wolpert pump station rehabilitation and force main project. This Kentucky Infrastructure Authority Loan bears an interest rate of 2.0% with interest-only payments due until completion, with final maturity due 20 years after completion. As of June, 2013, all funds have been received.

Patton and 8th Street Wet Well Rehabilitation Loan A15-103

During the year ended June 30, 2015, SD1 partnered with the Kentucky Infrastructure Authority to fund construction of the Patton and 8th Street Wet Well Rehabilitation project. This Kentucky Infrastructure Authority Loan bears an interest rate of 1.75% with interest-only payments due until completion, with final maturity due 20 years after completion. As of December, 2016, all funds have been received.

American Recovery and Reinvestment Act – Loans A209-01 through A209-04

During the years ended June 30, 2011 and 2010, partnered with the Kentucky Infrastructure Authority as part of the Federal Government’s American Recovery and Reinvestment act to fund construction of several smaller infrastructure improvement projects. These 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. These Kentucky Infrastructure Authority Loans are funded based upon 52.1% principal forgiveness, bear an interest rate of 2.0% with interest-only payments due until completion, and have final maturity due 20 years after completion. At various dates from June, 2011 through December 2012, all funds have been received.

The Kentucky Infrastructure Authority Loans are scheduled to mature as follows (loans where the maturity date has not been determined are excluded from this schedule):

<u>Years</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2019	\$ 7,640,531	\$ 2,180,326	\$ 9,820,857
2020	7,777,112	2,028,396	9,805,508
2021	7,916,602	2,762,595	10,679,197
2022	8,059,071	1,714,909	9,773,980
2023	8,204,591	1,553,199	9,757,790
2024-2028	42,237,188	5,217,803	47,454,991
2029-2033	34,043,251	1,647,222	35,690,473
2034-2036	1,330,603	28,613	1,359,216
Total	<u>\$ 117,208,949</u>	<u>\$ 17,133,063</u>	<u>\$ 134,342,012</u>

NOTE 7 – LONG-TERM DEBT (Continued)

Changes in long-term liabilities are as follows:

	Debt Outstanding June 30, 2017	Additions of New Debt	Retirements and Repayments	Debt Outstanding June 30, 2018	Amounts Due Within 1 Year
Bond Indebtedness					
Series 2009 A BAB	\$ 46,815,000	\$ -	\$ 1,280,000	\$ 45,535,000	\$ 1,320,000
Series 2009 Bond Premium	62,584	-	39,579	23,005	23,005
Series 2010 A BAB	64,940,000	-	1,795,000	63,145,000	1,845,000
Series 2010 A Bond Premium	198,517	-	59,374	139,143	58,965
Series 2010 B REF	33,830,000	-	1,735,000	32,095,000	1,775,000
Series 2010 B Bond Premium	729,283	-	214,112	515,171	209,311
Series 2010 C BAB	11,185,000	-	1,475,000	9,710,000	1,510,000
Series 2010 D RZED	40,905,000	-	-	40,905,000	-
Series 2010 C&D Bond Premium	301,198	-	75,525	225,673	75,658
Series 2016 REF	124,990,000	-	6,210,000	118,780,000	6,530,000
Series 2016 Bond Premium	15,897,835	-	2,350,669	13,547,166	2,095,820
Total Bond Indebtedness	339,854,417	-	15,234,259	324,620,158	15,442,759
Notes Payable					
KIA Loan A04-09	19,343,532	-	1,592,824	17,750,708	1,640,966
KIA Loan A08-04	56,607,879	-	3,279,495	53,328,384	3,312,372
KIA Loan A09-04	3,759,455	-	225,902	3,533,553	230,443
KIA Loan A09-05	3,917,661	-	255,492	3,662,169	260,628
KIA Loan A09-06	10,576,779	-	567,005	10,009,774	578,402
KIA Loan A09-07	3,820,984	-	212,555	3,608,429	216,827
KIA Loan A09-08	1,785,056	-	95,694	1,689,362	97,618
KIA Loan A09-09	6,701,501	-	359,257	6,342,244	366,478
KIA Loan A10-11	13,977,518	-	697,874	13,279,644	711,902
KIA Loan A11-13	9,686,902	1,109,850	-	10,796,752	-
KIA Loan A11-14	2,321,779	1,084,002	-	3,405,781	-
KIA Loan A12-02	688,608	-	38,306	650,302	39,076
KIA Loan A15-103	2,053,438	-	91,971	1,961,467	93,587
KIA Loan A209-02	502,304	-	30,183	472,121	30,790
KIA Loan A209-03	531,184	-	33,231	497,953	33,899
KIA Loan A209-01	135,759	-	8,854	126,905	9,032
KIA Loan A209-04	314,082	-	18,148	295,934	18,514
Total Notes Payable	136,724,421	2,193,852	7,506,791	131,411,482	7,640,534
Compensated Absences	897,110	320,409	277,636	939,883	297,652
Net Pension Liability	26,833,461	4,828,133	-	31,661,594	-
Net OPEB Liability	8,529,478	2,344,824	-	10,874,302	-
Total Long-Term Liabilities	\$ 512,838,887	\$ 9,687,218	\$ 23,018,686	\$ 499,507,419	\$ 23,380,945

NOTE 8 – PENSION PLAN

General Information about the Pension Plan

Plan description: County Employees Retirement System (CERS) consists of two plans, Non-hazardous and Hazardous. Each plan is a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement Systems (KRS) under the provision of Kentucky Revised Statute 61.645. The plan covers all regular full-time members employed in non-hazardous and hazardous duty positions of each participating county, city, and any additional eligible local agencies electing to participate in CERS. SD1 participates in the non-hazardous plan.

NOTE 8 – PENSION PLAN (Continued)

Benefits provided: The non-hazardous system provides for retirement, disability, and death benefits to system members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances.

Tier 1: Retirement Eligibility for Members Whose Participation Began Before 09/01/2008

<u>Age</u>	<u>Years of Service</u>	<u>Allowance Reduction</u>
65	4	None
Any	27	None
55	5	6.5% per year for first five years, and 4.5% for next five years before age 65 or 27 years of service.
Any	25	6.5% per year for first five years, and 4.5% for next five years before age 65 or 27 years of service.

Tier 2: Retirement Eligibility for Members Whose Participation Began On or After 09/01/2008 but before 01/01/2014

<u>Age</u>	<u>Years of Service</u>	<u>Allowance Reduction</u>
65	5	None
57	Rule of 87	None
60	10	6.5% per year for first five years, and 4.5% for next five years before age 65 or Rule of 87 (age plus years of service).

Tier 3: Retirement Eligibility for Members Whose Participation Began On or After 01/01/2014

<u>Age</u>	<u>Years of Service</u>	<u>Allowance Reduction</u>
65	5	None
57	Rule of 87	None

Benefit Formula for Tiers 1 & 2

<u>Final Compensation</u>	<u>X</u>	<u>Benefit Factor</u>	<u>X</u>	<u>Years of Service</u>
Average of the five highest if participation began before 09/01/2008.		2.20% if:		Includes earned service, purchased service, prior service, and sick leave service (if the member's employer participates in an approved sick leave program).
			Member begins participating prior to 08/01/2004.	
Average of the last complete five if participation began on or after 09/01/2008 but before 01/01/2014.		2.00% if:		
			Member begins participating on or after 08/01/2004 and before 09/01/2008.	
		Increasing percent based on service at retirement* plus 2.00% for each year of service over 30 if:		
			Member begins participating on or after 08/01/2004 but before 01/01/2014.	

* **Service (and Benefit Factor): 10 years or less (1.10%); 10 - 20 years (1.30%); 20 - 26 years (1.50%); (1.50%); 26 - 30 years (1.75%)**

NOTE 8 – PENSION PLAN (Continued)

Benefit Formula for Tiers 3					
(A-B) = C X 75% = D then B+D = Interest					
A	B	C	D	Interest Rate Earned (4% + Upide)	Total Interest Credited to Members' Accounts
5 Year Geometric Average Return	Less Guarantee Rate	Upside Sharing Interst	Interest Rate Earned		
7.85%	4.00%	3.85%	2.89%	6.89%	\$ 2,565,000

For Tier 3 members that begin participating on or after January 1, 2014; each year that a member is an active, contributing member of the system, the member and the member’s employer will contribute 8.00% and 7.50% of creditable compensation respectively into a current account. This current account will earn interest annually on both the member’s and employer’s contribution at a minimum rate of 4.00%. If the System’s guaranteed annual net investment return for the previous five years exceeds 4.00%, then the hypothetical account will be credited with an additional amount of interest equal to 75.00% of the amount of the return which exceeds 4.00%. All interest credits will be applied to the current account balance on June 30 based on the account balance as of June 30 of the previous year. Upon retirement the hypothetical account which includes member contributions, employer contributions, and interest credits can be withdrawn from the System as a lump sum or annuitized into a single life annuity option.

For post-retirement death benefits, if the member is receiving a monthly benefit based on at least four (4) years of creditable service, the retirement system will pay a \$5,000 death benefit payment to the beneficiary named by the member specifically for this benefit.

For disability benefits, members participating before August 1, 2004 may retire on account of disability provided the member has at least 60 months of service credit and is not eligible for an unreduced benefit. Additional service credit may be added for computation of benefits under the benefit formula. Members participating on or after August 1, 2004 but before January 1, 2014 may retire on account of disability provided the member has at least 60 months of service credit. Benefits are computed as the highest of 20% for non-hazardous and 25% for hazardous of Final Rate of Pay or the amount calculated under the Benefit Formula based upon actual service. Members participating on or after January 1, 2014 may retire on account of disability provided the member has at least 60 months of service credit. The account which includes member contributions, employer contributions, and interest credits can be withdrawn from the System as a lump sum or an annuity equal to the larger of 20% for non-hazardous and 25% for hazardous of the member’s monthly final rate of pay or the annuitized account into a single life annuity option. Members disabled as a result of a single duty-related injury or act of violence related to their job may be eligible for special benefits.

For pre-retirement death benefits, the beneficiary of a deceased active member will be eligible for a monthly benefit if the member was: (1) eligible for retirement at the time of death or, (2) under the age of 55 with at least 60 months of service credit and currently working for a participating agency at the time of death or (3) no longer working for a participating agency but at the time of death had at least 144 months of service credit. If the beneficiary of a deceased active member is not eligible for a monthly benefit, the beneficiary will receive a lump sum payment of the member’s contributions and any accumulated interest.

The Kentucky General Assembly has the authority to increase, suspend, or reduce Cost of Living Adjustments. Senate Bill 2 of 2013 eliminated all future COLAs unless the State Legislature so authorizes on a biennial basis and either (1) the system is over 100.00% funded or (2) the Legislature appropriates sufficient funds to pay the increased liability for the COLA.

There was no legislation enacted during the 2017 legislative session that had a material change in benefit provision for either system.

Contributions: For the fiscal years ended June 30, 2018 and 2017, plan members who began participating prior to September 1, 2008, were required to contribute 5% non-hazardous of their annual creditable compensation. These members were classified in the Tier 1 structure of benefits.

NOTE 8 – PENSION PLAN (Continued)

Tier 2 plan members, who began participating on, or after, September 1, 2008 and before January 1, 2014, are required to contribute 6% non-hazardous of their annual creditable compensation, while 1% of these contributions are deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund.

Tier 3 plan members, who began participating on, or after, January 1, 2014, are required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Member in the plan contribute a set percentage of their salary each month to their own account. Member contribute 5% non-hazardous of their annual creditable compensation and an additional 1% to the health insurance fund (401(h) account) which is not credited to the member’s account and is not refundable.

The employer contribution rates are set by the KRS Board under Kentucky Revised Statute 61.565 based on an annual actuarial valuation, unless altered by legislation enacted by the Kentucky General Assembly. For the fiscal year ended June 30, 2018 and 2017, participating employers contributed 19.18% (14.48% pension fund and 4.70% insurance fund) and 18.68% (13.95% pension fund and 4.73% insurance fund), respectively, of each employee’s creditable compensation. The actuarially determined rates set by the Board for the fiscal years was a percentage of each employee’s creditable compensation. Contributions to the pension fund from the SD1 were \$1,934,330 and \$1,860,735 for the years ended June 30, 2018 and 2017, respectively.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Plan Information for June 30, 2018 Financial Statements

At June 30, 2018, SD1 reported a liability of \$31,661,594, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016. The total pension liability was rolled-forward from the valuation date to the plan’s fiscal year end, June 30, 2017, using generally accepted actuarial principles. The Commission’s proportion of the net pension liability was based on the Commission’s share of contributions to the pension plan relative to the contributions of all participating employers. At June 30, 2018, the Commission’s proportion for the non-hazardous system was 0.540918%.

For the year ended June 30, 2018, SD1 recognized pension expense of \$3,224,119. At June 30, 2018, SD1 reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net Difference Between Projected and Actual		
Earnings on Pension Plan Investments	\$ 2,507,560	\$ 2,115,943
Difference Between Expected and Actual Experience	39,271	803,707
Changes of Assumptions	5,842,422	-
Changes in Proportion and Difference Between Employer Contributions and Proportionate Share of Contributions	7,464	429,260
Contributions After Measurement Date	<u>1,934,330</u>	<u>-</u>
 Total	 <u>\$ 10,331,047</u>	 <u>\$ 3,348,910</u>

NOTE 8 – PENSION PLAN (Continued)

The \$1,934,330 reported as deferred outflows of resources related to pensions resulting from SD1 contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ending June 30,		
2019	\$	2,153,409
2020		2,258,452
2021		1,042,502
2022		(406,556)
Total	\$	5,047,807

Actuarial assumptions: The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial methods and assumptions, applied to all periods included in the measurement:

Valuation Date:	June 30, 2016
Experience Study:	July 1, 2008 – June 30, 2013
Actuarial Cost Method:	Entry Age Normal
Amortization Method:	Level Percentage of Payroll
Remaining Amortization Period:	28 Years, Closed
Asset Valuation Method:	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation:	3.25%
Salary Increase:	4.00%, Average
Investment Rate of Return:	7.50% Net of Pension Plan Investment Expense, Including Inflation

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (male mortality rates are multiplied by 50% and female mortality rates are multiplied by 30%). The mortality table for healthy retired members and beneficiaries is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (female mortality rates are set back one year). The mortality table for disabled members is the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (male mortality rates are set back four years). There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

The long-term expected return on plan assets was determined by using a building-block method in which best-estimate ranges of expected future real returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage.

NOTE 8 – PENSION PLAN (Continued)

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Nominal Return
US Equity	17.50 %	5.97 %
International Equity	17.50	7.85
Global Bonds	4.00	2.63
Global Credit	2.00	3.63
High Yield	7.00	5.75
Emerging Market Debt	5.00	5.50
Private Equity	10.00	8.75
Real Estate	5.00	7.63
Absolute Return	10.00	5.63
Real Return	10.00	6.13
Private Equity	10.00	8.25
Cash	2.00	1.88
Total	<u>100.00 %</u>	

Discount rate: The discount rate used to measure the total pension liability was 6.25%. The single discount rate was based on the expected rate of return on pension plan investments for the system. Based on the stated assumptions and the projection of cash flows as of each fiscal year ending, the pension plan’s fiduciary net position and future contributions were projected to be sufficient to finance all the future benefit payments of the current plan member. Therefore, the long-term expected rate of return on pension plan investments was applied to all period of projected benefit payments to determine the total pension liability for the system. The projection of cash flows used to determine the single discount rate assumes that the participating employers in the system contributes the actuarially determined contribution rate in all future years.

Sensitivity of SD1’s proportionate share of the net pension liability to changes in the discount rate: The following presents SD1’s proportionate share of the net pension liability using the discount rate of 6.25%, as well as what SD1’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.25%) or 1-percentage-point higher (7.25%) than the current rate:

1% Decrease (5.25%)	Current Discount Rate (6.25%)	1% Increase (7.25%)
\$ 39,932,113	\$ 31,661,594	\$ 24,743,366

NOTE 8 – PENSION PLAN (Continued)

Plan Information for June 30, 2017 Financial Statements

At June 30, 2017, SD1 reported a liability of \$26,833,461, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Commission’s proportion of the net pension liability was based on the Commission’s share of contributions to the pension plan relative to the contributions of all participating employers. At June 30, 2017, the Commission’s proportion for the non-hazardous system was 0.544995%.

Change of Benefit Terms: The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2016 are listed below:

2009: A new benefit tier for members who first participate on or after September 1, 2008 was introduced which included the following changes:

- 1) Tiered structure for benefit accrual rates
- 2) New retirement eligibility requirements
- 3) Different rules for the computation of final average compensation

2014: A cash balance plan was introduced for members whose participation date is on or after January 1, 2014.

For the year ended June 30, 2017, SD1 recognized pension expense of \$1,671,301. At June 30, 2017, SD1 reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net Difference Between Projected and Actual		
Earnings on Pension Plan Investments	\$ 2,522,620	\$ -
Difference Between Expected and Actual Experience	117,149	-
Changes of Assumptions	1,421,494	-
Changes in Proportion and Difference Between Employer Contributions and Proportionate Share of Contributions	22,109	565,983
Contributions After Measurement Date	<u>1,860,735</u>	<u>-</u>
 Total	 <u>\$ 5,944,107</u>	 <u>\$ 565,983</u>

NOTE 8 – PENSION PLAN (Continued)

The \$1,860,735 reported as deferred outflows of resources related to pensions resulting from SD1 contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ending June 30,	
2018	\$ 1,043,422
2019	1,043,422
2020	799,889
2021	<u>630,656</u>
Total	<u>\$ 3,517,389</u>

Actuarial assumptions: The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial methods and assumptions, applied to all periods included in the measurement:

Valuation Date:	June 30, 2016
Experience Study:	July 1, 2008 – June 30, 2013
Actuarial Cost Method:	Entry Age Normal
Amortization Method:	Level Percentage of Payroll, Closed
Remaining Amortization Period:	28 Years
Asset Valuation Method:	5-Year Smoothed Market
Inflation:	3.25%
Salary Increase:	4.00%, Average, Including Inflation
Investment Rate of Return:	7.50% Net of Pension Plan Investment Expense, Including Inflation

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For health retired members and beneficiaries, the mortality table use is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for the System. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated December 3, 2015. Several factors are considered in evaluating the long-term rate of return assumption including long term historical data, estimates inherent in current market data, at a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense, and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

NOTE 8 – PENSION PLAN (Continued)

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Nominal Return
Combined Equity	35.00 %	13.13 %
Combined Fixed Income	27.00	6.26
Real Return (Diversified Inflation Strategies)	10.00	5.13
Real Estate	5.00	6.63
Absolute Return (Diversified Hedge Funds)	10.00	5.63
Private Equity	10.00	2.25
Cash Equivalent	3.00	1.88
Total	100.00 %	

Discount rate: The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 27 year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period. The discount rate determination does not use a municipal bond rate. The periods of projected benefit payments for all current plan members were projected through 2117.

Sensitivity of SD1’s proportionate share of the net pension liability to changes in the discount rate: The following presents SD1’s proportionate share of the net pension liability using the discount rate of 7.50%, as well as what SD1’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
\$ 33,438,853	\$ 26,833,461	\$ 21,171,348

Payables to the Pension Plan

At June 30, 2018 and 2017, SD1 did not have any required contributions payable to the pension plan for the years then ended.

Pension Plan Fiduciary Net Position

Detailed information about the pension plan’s fiduciary net position is available in the separately issued Kentucky Retirement Systems Comprehensive Annual Financial Report on the KRS website at www.kyret.ky.gov.

NOTE 9 – OPEB PLAN

Plan description: County Employees Retirement System consists of two plans, Non-Hazardous and Hazardous. Each plan is a cost-sharing multiple-employer defined benefit OPEB plan administered by the Kentucky Retirement Systems (KRS) under the provision of Kentucky Revised Statute 61.645. The plan covers all regular full-time members employed in non-hazardous and hazardous duty positions of each participating county, city, and any additional eligible local agencies electing to participate in CERS. SD1 participates in the non-hazardous plan.

Benefits provided: The KRS' Insurance Fund was established to provide hospital and medical insurance for eligible members receiving benefits from CERS. The eligible non-Medicare retirees are covered by the Department of Employee Insurance (DEI) plans. KRS submits the premium payments to DEI. The Board contracts with Humana to provide health care benefits to the eligible Medicare retirees through a Medicare Advantage Plan. The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance.

The amount of contribution paid by the Insurance Fund is based on years of service. For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

Portion Paid by Insurance Fund	
Years of Service	Paid by Insurance Fund (%)
20 + Years	100.00%
15 - 19 Years	75.00%
10 - 14 Years	50.00%
4 - 9 Years	25.00%
< 4 Years	0.00%

As a result of House Bill 290 (2004 Kentucky General Assembly), medical insurance benefits are calculated differently for members who began participating on, or after July 1, 2003. Once members reach a minimum vesting period of 10 years, non-hazardous employees whose participation began on, or after July 1, 2003, earn \$10 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Hazardous employees whose participation began on, or after July 1, 2003 earn \$15 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon death of a hazardous employee, the employee's spouse receives \$10 per month for insurance benefits for each year of the deceased employee's earned hazardous service. This dollar amount is subject to adjustment annually, which is currently 1.5% based upon Kentucky Revised Statutes. This benefit is not protected under the inviolable contract provisions of KRS 61.692. The Kentucky General Assembly reserves the right to suspend or reduce this benefit if, in its judgment, the welfare of the Commonwealth so demands.

There was no legislation enacted during the 2017 legislative session that had a material change in benefit provisions for either system.

Contributions: The employee contribution rate is set by state statute. Non-Hazardous employees contribute 5%. Employees hired on or after September 1, 2008, contribute an additional 1% to health insurance.

NOTE 9 – OPEB PLAN (Continued)

The employer contribution rates are set by the KRS Board under Kentucky Revised Statute 61.565 based on an annual actuarial valuation, unless altered by legislation enacted by the Kentucky General Assembly. For the fiscal year ended June 30, 2018, participating employers contributed 19.18% (14.48% pension fund and 4.70% insurance fund) for the non-hazardous system of each employee’s creditable compensation. The actuarially determined rates set by the Board for the fiscal years was a percentage of each employee’s creditable compensation. Contributions to the insurance fund from SD1 were \$627,856 for the year ended June 30, 2018.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2018, SD1 reported a liability of \$10,874,302 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2016. The total OPEB liability was rolled-forward from the valuation date to the plan’s fiscal year end, June 30, 2017, using generally accepted actuarial principles. SD1’s proportion of the net OPEB liability was based on SD1’s share of contributions to the OPEB plan relative to the contributions of all participating employers. At June 30, 2018, the SD1’s proportion for the non-hazardous system was 0.540918%.

For the year ended June 30, 2018, SD1 recognized OPEB expense of \$551,050. At June 30, 2018, SD1 reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Experience	\$ -	\$ 30,203
Net Difference Between Projected and Actual Earnings on OPEB Plan Investments	-	513,914
Changes Of Assumptions	2,366,180	-
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	-	25,230
Commission Contributions Subsequent to the Measurement Date	627,856	-
Total	\$ 2,994,036	\$ 569,347

NOTE 9 – OPEB PLAN (Continued)

\$627,856 reported as deferred outflows of resources related to OPEB resulting from SD1 contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Years Ending June 30,		
2019	\$	309,162
2020		309,162
2021		309,162
2022		309,162
2023		437,641
Thereafter		122,544
Total	\$	1,796,833

Actuarial assumptions: The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial methods and assumptions, applied to all periods included in the measurement:

Valuation Date:	June 30, 2016
Actuarial Cost Method:	Entry Age Normal
Amortization Method:	Level Percentage of Pay
Amortization Period:	28 Years, Closed
Asset Valuation Method:	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Payroll Growth Rate:	4.00%
Inflation:	3.25%
Salary Increase:	4.00%, Average
Investment Rate of Return:	7.50%
Healthcare Cost Trend Rates (Pre-65):	Initial trend starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years.
Healthcare Cost Trend Rates (Post-65):	Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 2 years.

The mortality for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (male mortality rates are multiplied by 50% and female mortality rates are multiplied by 30%). The mortality table for healthy retired members and beneficiaries is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (female mortality rates are set back one year). The mortality table for disabled members is the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (male mortality rates are set back four years). There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

NOTE 9 – OPEB PLAN (Continued)

The long-term expected return on plan assets was determined by using a building-block method in which best-estimate ranges of expected future real returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Nominal Return
US Equity	17.50 %	5.97 %
International Equity	17.50	7.85
Global Bonds	4.00	2.63
Global Credit	2.00	3.63
High Yield	7.00	5.75
Emerging Market Debt	5.00	5.50
Private Credit	10.00	8.75
Real Estate	5.00	7.63
Absolute Return	10.00	5.63
Real Return	10.00	6.13
Private Equity	10.00	8.25
Cash	2.00	1.88
Total	100.00 %	

Discount rate: The discount rate used to measure the total OPEB liability was 5.84% for non-hazardous and 5.96% for hazardous. The single discount rate was based on the expected rate of return on the OPEB plan investments of 6.25% and a municipal bond rate of 3.56%, as reported in Fidelity Index’s “20-Year Municipal GO AA Index” as of June 30, 2017. Future contributions are projected in accordance with the Board’s current funding policy, which includes the requirement that each participating employer in the System contribute the actuarially determined contribution rate, which is determined using a closed funding period (26 years as of June 30, 2017) and the actuarial assumptions and methods adopted by the Board of Trustees. Current assets, future contributions, and investment earnings are projected to be sufficient to pay the projected benefit payments from the retirement system. However, the cost associated with the implicit employer subsidy is not currently being included in the calculation of the System’s actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System’s trust. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

Sensitivity of SD1’s proportionate share of the net OPEB liability to changes in the discount rate: The following present’s SD1’s proportionate share of the net OPEB liability, as well as what SD1’s proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.84% for non-hazardous and 4.96% for hazardous) or 1-percentage-point higher (6.84% for non-hazardous and 6.96% for hazardous) than the current rate:

1% Decrease	Current Discount Rate 5.84%	1% Increase
4.84%	Rate 5.84%	6.84%
\$ 13,836,946	\$ 10,874,302	\$ 8,408,916

NOTE 9 – OPEB PLAN (Continued)

Sensitivity of SD1’s proportionate share of the net OPEB liability to changes in the healthcare cost trend rates: The following present’s SD1’s proportionate share of the net OPEB liability, as well as what SD1’s proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
\$ 8,341,149	\$ 10,874,302	\$ 14,167,252

Changes of assumptions: Subsequent to the actuarial valuation date, but prior to the measurement dates, the KRS Board of Trustees adopted updated actuarial assumptions which will be used in performing the actuarial valuation as of June 30, 2017. Specifically, total OPEB liability as of June 30, 2017 is determined using a 2.30% price inflation assumption and an assumed rate of return of 6.25%.

Payables to the OPEB Plan

At June 30, 2018 and 2017, SD1 did not have any required contributions payable to the OPEB plan for the years then ended.

Pension Plan Fiduciary Net Position

Detailed information about the OPEB plan’s fiduciary net position is available in the separately issued Kentucky Retirement Systems Comprehensive Annual Financial Report on the KRS website at www.kyret.ky.gov.

NOTE 10 – LESSOR AGREEMENT

SD1 entered into a lease agreement with the Kenton County Board of Education to lease 15,000 square feet of its building on July 1, 2017 through June 30, 2022. Previously, SD1 had an original agreement with a term of July 1, 2007 through July 1, 2012 and an option to renew at the end of the full term for an additional five years. The Board of Education did renew its lease with SD1 for the period July 1, 2012 through June 30, 2017 but entered into the new lease agreement.

Future minimum rentals to be received are as follows:

Years Ending June 30,	
2019	\$ 152,819
2020	157,404
2021	162,126
2022	166,989
Total	\$ 639,338

NOTE 11 – OPERATING LEASES

SD1 is obligated under certain non-cancelable leases for equipment. The leases expire at various dates through August, 2023. Lease expense for the years ended June 30, 2018 and 2017 were \$52,544 and \$37,660, respectively.

Minimum future rental payments under non-cancelable operating leases having remaining terms in excess of one year are:

Years Ending June 30,			
2019	\$	63,840	
2020		34,219	
2021		31,391	
2022		15,840	
2023		15,840	
Thereafter		1,320	
Total	\$	162,450	

NOTE 12 – REIMBURSEMENT COMMITMENTS

SD1 has entered into inter-local agreements, whereby cities can apply for reimbursement of qualified expenses incurred to accomplish required storm water improvements. There were 12 new agreements totaling \$802,211 for the year ended June 30, 2018 and 15 new agreements totaling \$977,081 for the year ended June 30, 2017.

NOTE 13 – ECONOMIC DEPENDENCY

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

NOTE 14 – CONTINGENCIES

Effective June 22, 1999, the Board of Directors approved a resolution to indemnify each officer and director all expenses incurred in connection with their performance of duties and responsibilities associated with their membership with SD1. This includes claims not covered by SD1’s Directors and Officers Errors and Omissions Liability Insurance.

Prior to January, 2018, SD1 offered a Health Reimbursement Account to full time eligible employees for out of pocket healthcare costs. SD1 annually credited various amounts to the accounts of eligible employees based on their participation in wellness programs. As of January, 2018, SD1 is no longer crediting amounts to the accounts as the Health Reimbursement Account is no longer being funded. However for amounts previously credited, the contributions became available for participants for uses allowed by the plan during their employment and retirement. Unspent balances are available to participants for allowable expenditures unless they cease employment with SD1 before their normal retirement date. Accordingly, a liability of \$383,786 and \$447,570 has been recorded in the accompanying financial statements which is management’s estimate of the unspent balances as of June 30, 2018 and 2017, respectively, that are likely to be paid in future periods.

NOTE 14 – CONTINGENCIES (Continued)

After a routine internal sales tax review, SD1 discovered a technological incompatibility in the process used to transfer data from the Northern Kentucky Water District to SD1's billing software that caused multiple taxable accounts to incorrectly appear as tax exempt during some billing periods from 2012 to 2016. As a result, the required sales tax for these accounts for wastewater and storm water services were not charged correctly and resulted in a shortfall to the Kentucky Department of Revenue. SD1 has identified the affected accounts and is in the process of adding the amounts to all accounts. As amounts are added, SD1 will meet state requirements and pay all sales tax to the Kentucky Department of Revenue. Collection efforts continue to occur. The uncollectible amount will not be known until all collection efforts have been exhausted; however any shortfall will not materially affect the operation of SD1.

NOTE 15 – LITIGATION

In October 2005, SD1 announced that it had reached a comprehensive settlement with the Kentucky Environmental and Public Protection Cabinet and the U.S. Environmental Protection Agency (EPA) to address sewer overflows and improve water quality in Northern Kentucky. The settlement is contained in a Consent Decree, which was logged with the U.S. District Court for the Eastern District of Kentucky on October 7, 2005. The Consent Decree establishes a 20-year plan to address combined sewer overflows (CSOs) consistent with U.S. EPA's 1994 CSO control policy, and separate sanitary sewer overflows (SSOs) consistent with the Clean Water Act. SD1 will implement the requirements of the Decree through a unique watershed approach, which will allow SD1 to comprehensively assess the cumulative impacts of all pollution sources on receiving waters. This holistic approach will lead to more efficient and cost-effective solutions for the improvement of water quality. The Consent Decree required SD1 to pay a civil penalty in the amount of \$476,400, which was paid during the year ended June 30, 2006, and to expend \$636,000 for supplemental environmental projects. It is estimated that full implementation of the Decree will cost approximately \$1.3 billion over the next 20 years. The Consent Decree was entered by the Court in April 2007 and is final and binding upon all parties. SD1 continues negotiations with the EPA regarding affordability issues in connection with the project and deadlines set forth in the Consent Decree.

SD1 is the defendant in 5 separate lawsuits relating to matters arising in the normal course of business. SD1 intends to aggressively defend each of these suits, and financial contingencies that could be awarded in the lawsuits are covered, at least in part, by SD1's insurance company.

SD1 is a party to a breach of contract suit involving two other parties in the construction of a storm water pipe as part of a development project in the City of Dayton, Kentucky. Motion to dismiss has been granted to SD1 and the appeals court affirmed the decision. On March 15, 2018, Coppage appealed Judge Bartlett's ruling granting summary judgment to SD1 to the Kentucky Court of Appeals. SD1 is waiting on a decision by the Court of Appeals who will determine whether or not it will hear oral argument or render its judgment on the pleadings.

On August 26, 2009, two individuals challenged the Kentucky Pollutant Discharge Elimination System permit issued by the Kentucky Division of Water for SD1's new Western Regional Wastewater Reclamation Facility (WRWRF). The KPDES permit was issued July 22, 2009, and authorizes the discharge of wastewater from the WRWRF to the Ohio River. Petitioners contend that the permit is not sufficiently protective of water quality and, therefore, more stringent limitations should be imposed in the permit, including limitations for nitrogen and phosphorus, which are not currently limited. The Secretary of the Kentucky Energy and Environment Cabinet issued a Final Order upholding the KPDES permit in its entirety. SD1 and the Energy and Environment Cabinet defended Secretary's Final Order before the court of appeals, which affirmed the lower court's decision. There is a high potential that petitioners could challenge the renewal permit for the facility if specific limits are not imposed.

NOTE 15 – LITIGATION (Continued)

The owner of a shopping center development has claimed that storm water lines running through its property should be maintained by SD1. SD1 has denied this claim and the shopping center owner filed suit in Campbell County Circuit court. The trial court sustained SD1's motion for summary judgment on all of plaintiff's claims, with the exception of a negligent maintenance/repair claim. Trial took place in October, 2016, with the Court dismissing the case on a Rule 41.02 motion. Plaintiffs appealed the ruling and briefing has been completed. SD1 is waiting on a decision by the Court of Appeals who will render its judgment on the pleadings.

Property owners in Covington, Kentucky, along with the insurers for the Covington Independent School District have filed a punitive class action suit against SD1 asserting claims of negligence, inverse condemnation, trespass, and nuisance arising from flooding which occurred as a result of two significant rainfall events in July of 2010. The plaintiffs seek class certification, compensatory damages, and injunctive relief. A framework for settlement is being explored before the costs of class action certification and merits discovery are incurred. The parties reached settlement and SD1 is awaiting the Judge entering the dismissal order.

A consortium of property owners in Camp Springs, Kentucky have filed a complaint and temporary restraining order and injunction in Franklin Circuit Court to prevent the Kentucky Infrastructure Authority from releasing loan funds from the State Revolving Loan Fund to SD1 for construction of the Ash Street Pump Station Project. The suit claims that SD1 did not properly consider alternative force main routes and environmental concerns, and that the KIA commitment letter as allowed to expire and certain funding conditions were not met. The District is vigorously defending these claims and has submitted a motion to dismiss on various jurisdictional grounds.

Rate payers in Boone County, which is within SD1's storm water service area, but are served by a private wastewater disposal system, are seeking class action status and challenge SD1's imposition of storm water fees because they do not receive wastewater services from SD1, and allege that the imposition of the storm water fee violates KRS 220.235, that the fee is not "reasonable," and that the imposition of the fee violates KRS 220.515. Further, Plaintiffs allege that "SD1 is comingled, and continues to comingle, the storm water fee it receives with improvements, maintenance and other benefits to the sanitary sewer system it maintains, further making the imposition of those fees illegal. Plaintiffs seek a declaration that the storm water fees are illegal as applied to them, an injunction prohibiting SD1 from charging the storm water fees, a refund for the storm water fees paid to date, and damages. SD1 filed a Motion to Dismiss the Complaint on April 1, 2016 and a hearing was held on May 24, 2016. The Judge entered an Order on July 11, 2016, granting in part and denying in part SD1's Civil Rule Motion to Dismiss the Complaint. The Judge's order affirmed that SD1 has the ability and authority to assess a storm water surcharge fee on Plaintiffs, even though they do not receive wastewater services from SD1. He also dismissed Plaintiffs' claim that the surcharge fee was illegal and void. Plaintiffs' surviving claim is whether SD1's fees are reasonable and that the funds are comingled. SD1 has filed its Answer and discovery has commenced.

SD1 also has several other claims against it which involve sewer backups, odor control, and minor property damages.

In addition, SD1 has several collections claims filed against individual customers who have, in turn, filed counter claims against SD1.

NOTE 16 – INSURANCE IN FORCE

SD1 has the following insurance policies in force during the years ended June 30, 2018 and 2017:

Type of Coverage	Amount of Coverage	
	2018	2017
Property-Buildings, Pump Stations, Machinery	\$ 328,130,483	\$ 324,881,668
Earthquake	50,000,000	50,000,000
Equipment Breakdown	50,000,000	50,000,000
Flood	50,000,000	50,000,000
Vehicles	10,000,000	10,000,000
Environmental Impairment	25,000,000	25,000,000
Public Entity Management Liability	10,000,000	10,000,000
General Liability, Aggregate	26,000,000	26,000,000
Scheduled Equipment	5,734,248	5,968,498
Pipeline Policy	5,000,000	5,000,000
Employer's Liability	10,000,000	10,000,000
Crime - Employee Dishonesty	3,000,000	3,000,000
Cyber Liability	3,000,000	3,000,000
Property- Building Contents	2,410,360	2,658,827
EDP-Hardware, Software	1,250,000	1,350,000
Sewer Backup	1,000,000	1,000,000
Telecommunications-Equipment	467,814	467,814
Electronic Vandalism	100,000	100,000
Telecommunications-Tower	89,600	89,600

NOTE 17 - CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT

SD1 adopted Governmental Accounting Standards Board (GASB) Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows for resources, deferred inflows of resources, and expenses/expenditures. For defined benefit other postemployment benefit plans, these Statements identify the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to period of employee service. This Statement also requires enhanced note disclosures and schedules of required supplementary information that will be presented by the plans that are within its scope.

During the year ended June 30, 2010, SD1 recognized capital assets that were transferred from various cities and counties. However, during a quality review process during the current fiscal year, it was discovered that many of the storm water assets were privately owned. Thus, these assets should not be recognized as capital assets nor should they have been depreciated.

NOTE 17 - CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT (Continued)

The implementation of GASB Statement No. 75 as well as the removal of the privately owned assets had the following effects:

	June 30, 2016		
	<u>Sanitation</u>	<u>Storm Water</u>	<u>Total</u>
Net Position, As Originally Reported	\$ 421,637,806	\$ 321,919,161	\$ 743,556,967
Cost of Privately Owned Assets	-	(30,663,464)	(30,663,464)
Accumulated Depreciation on Privately Owned Assets	-	7,383,723	7,383,723
Recognition of Net OPEB Liability	<u>(6,749,548)</u>	<u>(1,779,930)</u>	<u>(8,529,478)</u>
Restated Net Position	<u>\$ 414,888,258</u>	<u>\$ 296,859,490</u>	<u>\$ 711,747,748</u>
	June 30, 2017		
	<u>Sanitation</u>	<u>Storm Water</u>	<u>Total</u>
Net Position, As Originally Reported	\$ 436,290,142	\$ 319,150,115	\$ 755,440,257
Cost of Privately Owned Assets	-	(30,663,464)	(30,663,464)
Accumulated Depreciation on Privately Owned Assets	-	8,581,083	8,581,083
Recognition of Net OPEB Liability	(6,749,548)	(1,779,930)	(8,529,478)
Recognition of Contributions after Measurement Date	<u>499,256</u>	<u>131,659</u>	<u>630,915</u>
Restated Net Position	<u>\$ 430,039,850</u>	<u>\$ 295,419,463</u>	<u>\$ 725,459,313</u>

REQUIRED SUPPLEMENTARY INFORMATION

SANITATION DISTRICT NO. 1
SCHEDULE OF SD1'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
June 30, 2018

County Employees Retirement System
Last 10 Fiscal Years*

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
SD1's Proportion of the Net Pension Liability	0.540918%	0.544995%	0.566115%	0.564690%
SD1's Proportionate Share of the Net Pension Liability	\$ 31,661,594	\$ 26,833,461	\$ 24,340,276	\$ 18,320,686
SD1's Covered - Employee Payroll	\$ 13,338,602	\$ 13,241,319	\$ 13,307,431	\$ 12,954,902
SD1's Proportionate Share of the Net Pension Liability as a Percentage of Its Covered-Employee Payroll	237.37%	202.65%	182.91%	141.42%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	53.00%	56.00%	60.00%	67.00%

* Only four years of information available. Additional years' information will be displayed as it becomes available.

See accompanying notes.

SANITATION DISTRICT NO. 1
SCHEDULE OF SD1'S PENSION CONTRIBUTIONS
June 30, 2018

County Employees Retirement System
Last 10 Fiscal Years*

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually Required Contribution	\$ 1,934,330	\$ 1,860,735	\$ 1,644,572	\$ 1,696,697	\$ 1,780,004
Contributions in Relation to the Contractually Required Contribution	<u>(1,934,330)</u>	<u>(1,860,735)</u>	<u>(1,644,572)</u>	<u>(1,696,697)</u>	<u>(1,780,004)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>				
SD1's Covered-Employee Payroll	\$ 13,358,633	\$ 13,338,602	\$ 13,241,319	\$ 13,307,431	\$ 12,954,902
Contributions as a Percentage of Covered-Employee Payroll	14.48%	13.95%	12.42%	12.75%	13.74%

* Only five years of information available. Additional years' information will be displayed as it becomes available.

See accompanying notes.

SANITATION DISTRICT NO. 1
SCHEDULE OF SD1'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
June 30, 2018

County Employees Retirement System
Last 10 Fiscal Years*

	2018
SD1's Proportion of the Net OPEB Liability	0.540918%
SD1's Proportionate Share of the Net OPEB Liability	\$ 10,874,302
SD1's Covered - Employee Payroll	\$ 13,338,602
SD1's Proportionate Share of the Net OPEB Liability as a Percentage of Its Covered-Employee Payroll	81.53%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	50.00%

** Only one year of information available. Additional years' information will be displayed as it becomes available.*

See accompanying notes.

SANITATION DISTRICT NO. 1
SCHEDULE OF SD1'S OPEB CONTRIBUTIONS
June 30, 2018

County Employees Retirement System
Last 10 Fiscal Years*

	2018	2017
Contractually Required Contribution	\$ 627,856	\$ 630,916
Contributions in Relation to the Contractually Required Contribution	(627,856)	(630,916)
Contribution Deficiency (Excess)	\$ -	\$ -
SD1's Covered-Employee Payroll	\$ 13,358,633	\$ 13,338,602
Contributions as a Percentage of Covered-Employee Payroll	4.70%	4.73%

** Only two years of information available. Additional years' information will be displayed as it becomes available.*

See accompanying notes.

OTHER SUPPLEMENTARY INFORMATION

SANITATION DISTRICT NO. 1
BUDGETARY COMPARISON SCHEDULE - BUDGET TO ACTUAL
GENERAL REVENUES
Year Ended June 30, 2018

	<u>Budget</u>	<u>Actual</u>	Variance with Final Budget Favorable (Unfavorable)
Revenues			
Sewer Service Charges	\$ 80,050,000	\$ 81,496,054	\$ 1,446,054
Storm Water Charges	12,905,000	13,118,077	213,077
Surcharges	2,339,000	2,816,861	477,861
Capacity Connection Fees	3,325,000	3,072,815	(252,185)
Penalties	1,535,000	1,399,127	(135,873)
Fines	7,500	19,046	11,546
Inspections	144,500	173,623	29,123
Permits	410,500	428,968	18,468
Project Reimbursements	-	131,856	131,856
Contractual Services	155,000	160,732	5,732
Sludge Hauling	250,000	401,941	151,941
Bad Debt Recoveries	63,000	25,135	(37,865)
Other Revenues	50,000	32,021	(17,979)
Total Revenues	<u>\$ 101,234,500</u>	<u>\$ 103,276,256</u>	<u>\$ 2,041,756</u>

See accompanying notes.

SANITATION DISTRICT NO. 1
BUDGETARY COMPARISON SCHEDULE - BUDGET TO ACTUAL
GENERAL REVENUES
Year Ended June 30, 2017

	<u>Budget</u>	<u>Actual</u>	Variance with Final Budget Favorable (Unfavorable)
Revenues			
Sewer Service Charges	\$ 75,725,000	\$ 77,401,456	\$ 1,676,456
Storm Water Charges	12,575,000	12,965,299	390,299
Surcharges	2,941,500	2,344,710	(596,790)
Capacity Connection Fees	2,900,000	3,440,431	540,431
Penalties	1,493,000	1,459,107	(33,893)
Fines	14,500	7,300	(7,200)
Inspections	200,000	158,531	(41,469)
Permits	410,500	407,798	(2,702)
Contractual Services	150,000	140,689	(9,311)
Sludge Hauling	90,000	274,630	184,630
Bad Debt Recoveries	130,000	50,134	(79,866)
Other Revenues	50,000	325,918	275,918
	<u> </u>	<u> </u>	<u> </u>
Total Revenues	\$ 96,679,500	\$ 98,976,003	\$ 2,296,503

See accompanying notes.

SANITATION DISTRICT NO. 1
BUDGETARY COMPARISON SCHEDULE - BUDGET TO ACTUAL
OPERATION, MAINTENANCE, AND ADMINISTRATION
DRY CREEK TREATMENT PLANT OPERATIONS
Year Ended June 30, 2018

	<u>Budget</u>	<u>Actual</u>	Variance with Final Budget Favorable (Unfavorable)
Expenses			
Salaries and Wages	\$ 2,324,922	\$ 2,167,519	\$ 157,403
Medical and Dental Self Insured Plan	760,300	667,141	93,159
Pension Plan	423,307	392,046	31,261
Payroll Taxes	177,857	159,616	18,241
Employee Benefits	36,710	32,424	4,286
Credit Charged to Capital Projects	(60,000)	(532)	(59,468)
Insurance and Bond	225,537	197,620	27,917
Professional and Contracted Services	166,000	184,398	(18,398)
Postage	5,000	1,597	3,403
Office and Operating Supplies	157,100	153,736	3,364
Travel, Training, and Certification	42,700	31,695	11,005
Operating Maintenance - Building Grounds	94,000	115,681	(21,681)
Subscriptions	1,000	282	718
Legal Advertising	-	218	(218)
Electric and Gas	1,140,000	1,152,903	(12,903)
Telephone and Radio	51,200	30,137	21,063
Water	36,000	47,523	(11,523)
Vehicle Fuels	57,399	52,230	5,169
Auto and Truck Expense	89,648	90,331	(683)
Sludge and Grit Removal	834,046	763,560	70,486
Safety Equipment Expense	12,000	15,424	(3,424)
Rental	8,000	5,512	2,488
Contract Labor - Building Maintenance	5,000	1,772	3,228
Chemicals	1,070,050	939,591	130,459
Fuel Oil	50,000	53,300	(3,300)
Maintenance Material - Plant Equipment	199,000	227,207	(28,207)
Total Dry Creek Treatment Plant Expenses	\$ <u>7,906,776</u>	\$ <u>7,482,931</u>	\$ <u>423,845</u>

See accompanying notes.

SANITATION DISTRICT NO. 1
BUDGETARY COMPARISON SCHEDULE - BUDGET TO ACTUAL
OPERATION, MAINTENANCE, AND ADMINISTRATION
EASTERN REGIONAL RECLAMATION FACILITY
Year Ended June 30, 2018

	<u>Budget</u>	<u>Actual</u>	Variance with Final Budget Favorable (Unfavorable)
Expenses			
Salaries and Wages	\$ 479,341	\$ 412,179	\$ 67,162
Medical and Dental Self Insured Plan	151,755	107,197	44,558
Pension Plan	90,950	74,759	16,191
Payroll Taxes	36,670	30,235	6,435
Employee Benefits	8,289	7,842	447
Credit Charged to Capital Projects	(47,000)	(49,335)	2,335
Insurance and Bond	58,292	51,586	6,706
Professional and Contracted Services	45,400	36,501	8,899
Postage	200	-	200
Office and Operating Supplies	20,454	24,643	(4,189)
Travel and Certification	11,606	8,687	2,919
Operating Maintenance - Building Grounds	25,929	14,252	11,677
Subscriptions	400	308	92
Electric and Gas	336,000	322,587	13,413
Telephone and Radio	38,100	3,236	34,864
Water	5,000	5,455	(455)
Vehicle Fuels	29,020	15,146	13,874
Auto and Truck Expense	29,040	14,258	14,782
Sludge and Grit Removal	90,042	103,268	(13,226)
Safety Equipment Expense	4,900	4,753	147
Rentals	1,000	-	1,000
Chemicals	100,000	54,895	45,105
Fuel Oil	6,000	4,822	1,178
Maintenance Material - Plant Equipment	105,500	72,998	32,502
Total Eastern Regional Reclamation Facility Expenses	\$ <u>1,626,888</u>	\$ <u>1,320,272</u>	\$ <u>306,616</u>

See accompanying notes.

SANITATION DISTRICT NO. 1
BUDGETARY COMPARISON SCHEDULE - BUDGET TO ACTUAL
OPERATION, MAINTENANCE, AND ADMINISTRATION
WESTERN REGIONAL RECLAMATION FACILITY
Year Ended June 30, 2018

	<u>Budget</u>	<u>Actual</u>	Variance with Final Budget Favorable (Unfavorable)
Expenses			
Salaries and Wages	\$ 645,881	\$ 588,868	\$ 57,013
Medical and Dental Self Insured Plan	219,195	170,990	48,205
Pension Plan	123,535	111,327	12,208
Payroll Taxes	49,563	42,540	7,023
Employee Benefits	10,728	9,050	1,678
Insurance and Bond	107,544	81,195	26,349
Professional and Contracted Services	56,300	45,065	11,235
Postage	1,000	-	1,000
Office and Operating Supplies	34,752	34,641	111
Travel and Certification	5,226	2,077	3,149
Operating Maintenance - Building Grounds	35,016	40,148	(5,132)
Subscriptions	400	527	(127)
Contract Labor - Building Maintenance	2,000	-	2,000
Electric and Gas	750,000	848,254	(98,254)
Telephone and Radio	26,430	11,401	15,029
Water	3,000	857	2,143
Vehicle Fuels	3,497	3,591	(94)
Auto and Truck Expense	10,000	13,907	(3,907)
Sludge and Grit Removal	660,744	787,342	(126,598)
Safety Equipment Expense	8,000	4,108	3,892
Rental	3,000	928	2,072
SD1 Penalties and Fines Paid	1,000	-	1,000
Chemicals	79,999	131,366	(51,367)
Fuel Oil	5,000	2,970	2,030
Maintenance Material - Plant Equipment	95,500	74,653	20,847
Total Western Regional Reclamation Facility Expenses	\$ 2,937,310	\$ 3,005,805	\$ (68,495)

See accompanying notes.

SANITATION DISTRICT NO. 1
BUDGETARY COMPARISON SCHEDULE - BUDGET TO ACTUAL
OPERATION, MAINTENANCE, AND ADMINISTRATION
COLLECTION SYSTEM
Year Ended June 30, 2018

	<u>Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
Expenses			
Salaries and Wages	\$ 2,950,986	\$ 2,720,746	\$ 230,240
Medical and Dental Self Insured Plan	959,274	894,374	64,900
Pension Plan	556,624	522,389	34,235
Payroll Taxes	225,751	197,417	28,334
Employee Benefits	48,032	43,351	4,681
Credit Charged to Capital Projects	(935,905)	(912,774)	(23,131)
Insurance and Bond	780,052	491,336	288,716
Professional and Contracted Services	1,070,000	913,981	156,019
Postage	3,800	2,902	898
Office and Operating Supplies	17,426	13,553	3,873
Travel and Certification	38,324	12,406	25,918
Operating Maintenance - Building Grounds	-	110	(110)
Subscriptions	1,000	149	851
Telephone and Radio	44,842	31,984	12,858
Vehicle Fuels	165,202	127,466	37,736
Auto and Truck Expense	237,926	264,810	(26,884)
Sludge and Grit Removal	45,000	11,134	33,866
Safety Equipment Expense	24,500	34,147	(9,647)
SD! Penalties and Fines Paid	-	1,500	(1,500)
Rentals	-	5,025	(5,025)
Maintenance Material - Collection Systems	335,000	386,247	(51,247)
Private Lateral Program	300,000	247,902	52,098
Basement Backup Program	300,000	34,835	265,165
Total Collection System Expenses	<u>\$ 7,167,834</u>	<u>\$ 6,044,990</u>	<u>\$ 1,122,844</u>

See accompanying notes.

SANITATION DISTRICT NO. 1
BUDGETARY COMPARISON SCHEDULE - BUDGET TO ACTUAL
OPERATION, MAINTENANCE, AND ADMINISTRATION
PUMP STATIONS / FIELD TECH
Year Ended June 30, 2018

	<u>Budget</u>	<u>Actual</u>	Variance with Final Budget (Unfavorable) Favorable
Expenses			
Salaries and Wages	\$ 768,159	\$ 801,126	\$ (32,967)
Medical and Dental Self Insured Plan	252,985	282,872	(29,887)
Pension Plan	142,998	148,782	(5,784)
Payroll Taxes	58,764	59,097	(333)
Employee Benefits	13,087	13,427	(340)
Credit Charged to Capital Projects	(74,000)	(30,765)	(43,235)
Insurance and Bond	178,669	148,814	29,855
Professional and Contracted Services	93,100	175,186	(82,086)
Postage	2,000	-	2,000
Office and Operating Supplies	23,700	14,649	9,051
Travel and Certification	13,500	4,655	8,845
Operating Maintenance - Building Grounds	27,000	20,603	6,397
Subscriptions	-	300	(300)
Electric and Gas	1,750,000	1,666,476	83,524
Telephone and Radio	67,780	18,198	49,582
Water	24,000	26,243	(2,243)
Vehicle Fuels	38,949	33,541	5,408
Auto and Truck Expense	32,311	33,365	(1,054)
Sludge and Grit Removal	200,000	132,412	67,588
Safety Equipment Expense	10,000	6,210	3,790
SD1 Penalties and Fines Paid	1,000	-	1,000
Rental	60,000	58,799	1,201
Chemicals	1,578,934	1,641,377	(62,443)
Fuel Oil	20,000	11,282	8,718
Operating Maintenance - Pump Stations	225,000	218,907	6,093
Maintenance Material - Plant Equipment	-	2,270	(2,270)
Total Pump Stations / Field Tech Expenses	\$ <u>5,507,936</u>	\$ <u>5,487,826</u>	\$ <u>20,110</u>

See accompanying notes.

SANITATION DISTRICT NO. 1
BUDGETARY COMPARISON SCHEDULE - BUDGET TO ACTUAL
OPERATION, MAINTENANCE, AND ADMINISTRATION
OPERATIONS
Year Ended June 30, 2018

	<u>Budget</u>	<u>Actual</u>	Variance with Final Budget (Unfavorable) Favorable
Expenses			
Salaries and Wages	\$ 386,517	\$ 1,003,379	\$ (616,862)
Medical and Dental Self Insured Plan	77,926	285,057	(207,131)
Pension Plan	68,606	168,050	(99,444)
Payroll Taxes	29,569	73,703	(44,134)
Employee Benefits	3,682	8,890	(5,208)
Insurance and Bond	18,369	23,276	(4,907)
Professional and Contracted Services	-	231,220	(231,220)
Office and Operating Supplies	1,345	3,987	(2,642)
Travel and Certification	6,300	13,656	(7,356)
Operating Maintenance - Building Grounds	-	144,836	(144,836)
Subscriptions	1,860	2,802	(942)
Communications	-	8,785	(8,785)
Electric and Gas	-	114,570	(114,570)
Telephone and Radio	3,677	23,602	(19,925)
Water	-	16,843	(16,843)
Vehicle Fuels	4,025	3,924	101
Auto and Truck Expense	8,523	23,007	(14,484)
Safety Equipment Expense	-	3,116	(3,116)
SD1 Penalties and Fines Paid	-	19	(19)
Rentals	250	1,414	(1,164)
	<u>610,649</u>	<u>2,154,136</u>	<u>(1,543,487)</u>
Total Operations Expense	\$ 610,649	\$ 2,154,136	\$ (1,543,487)

See accompanying notes.

SANITATION DISTRICT NO. 1
BUDGETARY COMPARISON SCHEDULE - BUDGET TO ACTUAL
OPERATION, MAINTENANCE, AND ADMINISTRATION
ENGINEERING
Year Ended June 30, 2018

	<u>Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
Expenses			
Salaries and Wages	\$ 1,454,820	\$ 1,223,837	\$ 230,983
Medical and Dental Self Insured Plan	313,373	305,782	7,591
Pension Plan	264,641	217,111	47,530
Payroll Taxes	111,294	90,127	21,167
Employee Benefits	18,014	15,090	2,924
Credit Charged to Capital Projects	(822,070)	(806,263)	(15,807)
Insurance and Bond	102,843	58,994	43,849
Professional and Contracted Services	380,000	724,873	(344,873)
Legal Services	60,000	157,392	(97,392)
Postage	350	524	(174)
Office and Operating Supplies	13,597	8,888	4,709
Travel and Certification	13,931	20,055	(6,124)
Subscriptions	50,733	49,774	959
Telephone and Radio	21,409	16,422	4,987
Vehicle Fuels	18,857	18,322	535
Auto and Truck Expense	7,009	9,611	(2,602)
Safety Equipment Expense	1,500	3,599	(2,099)
Inflow and Infiltration Removal Program	-	5,000	(5,000)
Total Engineering Expenses	<u>\$ 2,010,301</u>	<u>\$ 2,119,138</u>	<u>\$ (108,837)</u>

See accompanying notes.

SANITATION DISTRICT NO. 1
BUDGETARY COMPARISON SCHEDULE - BUDGET TO ACTUAL
OPERATION, MAINTENANCE, AND ADMINISTRATION
STORM WATER PROGRAM
Year Ended June 30, 2018

Expenses	Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
Salaries and Wages	\$ 3,117,308	\$ 2,964,483	\$ 152,825
Board of Directors	6,561	6,736	(175)
Medical and Dental Self Insured Plan	862,507	768,156	94,351
Pension Plan	570,276	534,676	35,600
Payroll Taxes	238,474	218,113	20,361
Employee Benefits	42,109	36,889	5,220
Unemployment Taxes	2,678	-	2,678
Credit Charged to Capital Projects	(407,479)	(209,680)	(197,799)
Insurance and Bond	49,386	46,517	2,869
Professional and Contracted Services	827,000	750,348	76,652
Legal Services	68,000	23,643	44,357
Bank Services	196,407	103,288	93,119
Auditing Services	8,033	7,348	685
Collection Agency Services	710	442	268
Postage	103,161	109,905	(6,744)
Office and Operating Supplies	81,051	82,550	(1,499)
Travel and Certification	13,800	9,714	4,086
Operating Maintenance - Building Grounds	52,336	80,612	(28,276)
Storm Water Program	40,000	29,572	10,428
Subscriptions	54,440	53,957	483
Communications	2,455	1,718	737
Legal Advertising	2,000	-	2,000
Electric and Gas	33,125	35,867	(2,742)
Telephone and Radio	52,296	51,505	791
Water	4,351	5,098	(747)
Vehicle Fuels	74,850	47,464	27,386
Auto and Truck Expense	99,610	87,903	11,707
Storm Water Facilities and Features	5,000	1,102	3,898
Safety Equipment Expense	2,800	2,000	800
Maintenance Material - Collection Systems	95,000	84,961	10,039
Total Storm Water Expenses	\$ 6,298,245	\$ 5,934,887	\$ 363,358

See accompanying notes.

SANITATION DISTRICT NO. 1
BUDGETARY COMPARISON SCHEDULE - BUDGET TO ACTUAL
OPERATION, MAINTENANCE, AND ADMINISTRATION
ADMINISTRATION
Year Ended June 30, 2018

	Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
Expenses			
Salaries and Wages	\$ 2,641,115	\$ 2,200,263	\$ 440,852
Board of Directors	22,839	22,364	475
Medical and Dental Self Insured Plan	649,456	476,020	173,436
Pension Plan	478,785	393,046	85,739
Payroll Taxes	202,045	158,418	43,627
Employee Benefits	29,588	29,147	441
Unemployment Taxes	9,322	-	9,322
Credit Charged to Capital Projects	-	3	(3)
Insurance and Bond	293,753	266,199	27,554
Professional and Contracted Services	1,064,533	507,292	557,241
Legal Services	222,500	131,315	91,185
Bank Services	673,313	427,618	245,695
Auditing Services	27,967	24,132	3,835
Collection Agency Services	2,470	2,598	(128)
Postage	358,439	365,629	(7,190)
Office and Operating Supplies	106,079	105,872	207
Travel and Certification	86,002	60,186	25,816
Operating Maintenance - Building Grounds	83,589	-	83,589
Subscriptions	49,650	22,701	26,949
Communications	8,545	-	8,545
Legal Advertising	10,000	6,971	3,029
Electric and Gas	104,875	-	104,875
Telephone and Radio	75,145	79,274	(4,129)
Water	15,149	-	15,149
Vehicle Fuels	2,950	3,018	(68)
Auto and Truck Expense	3,700	5,800	(2,100)
Safety Equipment Expense	5,750	4,589	1,161
SD1 Penalties and Fines Paid	2,000	1,077	923
Rental	25,400	27,132	(1,732)
	<u>7,254,959</u>	<u>5,320,664</u>	<u>1,934,295</u>
Total Administration Expenses			
Total Operation, Maintenance, and Administration Expenses	<u>\$ 41,320,898</u>	<u>\$ 38,870,649</u>	<u>\$ 2,450,249</u>
Reconciliation of Budget to Actual to the Statements of Revenues, Expenses, and Changes in Net Position			
General Revenues		\$ 103,276,256	
Operating, Maintenance, and Administrative Expenses		(38,870,649)	
Major Repair Expenses		(429,175)	
Depreciation		(39,965,919)	
Net Operating Income		<u>\$ 24,010,513</u>	

See accompanying notes.

SANITATION DISTRICT NO. 1
BUDGETARY COMPARISON SCHEDULE - BUDGET TO ACTUAL
OPERATION, MAINTENANCE, AND ADMINISTRATION
DRY CREEK TREATMENT PLANT OPERATIONS
Year Ended June 30, 2017

	<u>Budget</u>	<u>Actual</u>	Variance with Final Budget Favorable (Unfavorable)
Expenses			
Salaries and Wages	\$ 2,251,370	\$ 2,166,791	\$ 84,579
Medical and Dental Self Insured Plan	673,305	869,933	(196,628)
Pension Plan	401,967	371,932	30,035
Payroll Taxes	174,142	156,411	17,731
Employee Benefits	36,115	32,887	3,228
Credit Charged to Capital Projects	(20,000)	(7,594)	(12,406)
Insurance and Bond	196,964	193,514	3,450
Professional and Contracted Services	175,050	163,483	11,567
Postage	5,000	2,414	2,586
Office and Operating Supplies	142,254	155,649	(13,395)
Travel, Training, and Certification	36,100	36,018	82
Operating Maintenance - Building Grounds	104,800	110,649	(5,849)
Subscriptions	1,500	745	755
Legal Advertising	-	929	(929)
Electric and Gas	1,140,000	1,124,049	15,951
Telephone and Radio	38,106	44,968	(6,862)
Water	36,000	42,712	(6,712)
Vehicle Fuels	62,000	54,623	7,377
Auto and Truck Expense	70,000	87,472	(17,472)
Sludge and Grit Removal	788,584	699,318	89,266
Safety Equipment Expense	15,000	18,335	(3,335)
SD1 Penalties and Fines Paid	2,000	-	2,000
Rental	8,000	10,049	(2,049)
Contract Labor - Building Maintenance	8,000	3,760	4,240
Chemicals	1,100,000	887,860	212,140
Fuel Oil	80,000	32,420	47,580
Maintenance Material - Plant Equipment	230,000	207,022	22,978
	<u> </u>	<u> </u>	<u> </u>
Total Dry Creek Treatment Plant Expenses	\$ 7,756,257	\$ 7,466,349	\$ 289,908

See accompanying notes.

SANITATION DISTRICT NO. 1
BUDGETARY COMPARISON SCHEDULE - BUDGET TO ACTUAL
OPERATION, MAINTENANCE, AND ADMINISTRATION
EASTERN REGIONAL RECLAMATION FACILITY
Year Ended June 30, 2017

	<u>Budget</u>	<u>Actual</u>	Variance with Final Budget Favorable (Unfavorable)
Expenses			
Salaries and Wages	\$ 522,144	\$ 483,802	\$ 38,342
Medical and Dental Self Insured Plan	149,360	192,639	(43,279)
Pension Plan	96,416	79,256	17,160
Payroll Taxes	40,097	34,928	5,169
Employee Benefits	8,911	7,113	1,798
Credit Charged to Capital Projects	(300,000)	(33,051)	(266,949)
Insurance and Bond	55,786	56,012	(226)
Professional and Contracted Services	50,400	47,171	3,229
Postage	200	-	200
Office and Operating Supplies	21,215	19,360	1,855
Travel and Certification	17,500	10,065	7,435
Operating Maintenance - Building Grounds	34,929	21,520	13,409
Subscriptions	400	255	145
Electric and Gas	336,000	328,021	7,979
Telephone and Radio	37,149	31,381	5,768
Water	5,000	6,248	(1,248)
Vehicle Fuels	26,448	12,009	14,439
Auto and Truck Expense	35,000	16,609	18,391
Sludge and Grit Removal	90,050	98,911	(8,861)
Safety Equipment Expense	6,000	2,391	3,609
Rental	1,000	-	1,000
Chemicals	100,000	71,193	28,807
Fuel Oil	6,000	1,687	4,313
Maintenance Material - Plant Equipment	110,000	93,013	16,987
Total Eastern Regional Reclamation Facility Expenses	\$ <u>1,450,005</u>	\$ <u>1,580,533</u>	\$ <u>(130,528)</u>

See accompanying notes.

SANITATION DISTRICT NO. 1
BUDGETARY COMPARISON SCHEDULE - BUDGET TO ACTUAL
OPERATION, MAINTENANCE, AND ADMINISTRATION
WESTERN REGIONAL RECLAMATION FACILITY
Year Ended June 30, 2017

	<u>Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
Expenses			
Salaries and Wages	\$ 615,232	\$ 575,039	\$ 40,193
Medical and Dental Self Insured Plan	194,204	246,850	(52,646)
Pension Plan	114,365	106,147	8,218
Payroll Taxes	47,218	40,695	6,523
Employee Benefits	10,516	8,554	1,962
Insurance and Bond	92,579	91,555	1,024
Professional and Contracted Services	55,500	38,238	17,262
Postage	1,000	-	1,000
Office and Operating Supplies	40,655	31,597	9,058
Travel and Certification	6,176	6,892	(716)
Operating Maintenance - Building Grounds	35,000	30,106	4,894
Subscriptions	500	416	84
Contract Labor - Building Maintenance	2,000	-	2,000
Electric and Gas	770,000	763,522	6,478
Telephone and Radio	25,860	27,371	(1,511)
Water	3,000	707	2,293
Vehicle Fuels	4,000	2,731	1,269
Auto and Truck Expense	10,000	12,392	(2,392)
Sludge and Grit Removal	600,000	750,211	(150,211)
Safety Equipment Expense	10,000	3,748	6,252
Rental	3,000	918	2,082
SD1 Penalties and Fines Paid	1,000	-	1,000
Chemicals	75,674	100,382	(24,708)
Fuel Oil	4,500	730	3,770
Maintenance Material - Plant Equipment	100,000	90,951	9,049
Total Western Regional Reclamation Facility Expenses	<u>\$ 2,821,979</u>	<u>\$ 2,929,752</u>	<u>\$ (107,773)</u>

See accompanying notes.

SANITATION DISTRICT NO. 1
BUDGETARY COMPARISON SCHEDULE - BUDGET TO ACTUAL
OPERATION, MAINTENANCE, AND ADMINISTRATION
COLLECTION SYSTEM
Year Ended June 30, 2017

	<u>Budget</u>	<u>Actual</u>	<u>Variance with Final Budget (Unfavorable) Favorable</u>
Expenses			
Salaries and Wages	\$ 2,996,005	\$ 3,293,714	\$ (297,709)
Medical and Dental Self Insured Plan	893,053	1,346,138	(453,085)
Pension Plan	550,818	605,286	(54,468)
Payroll Taxes	229,194	233,832	(4,638)
Employee Benefits	49,511	50,256	(745)
Credit Charged to Capital Projects	(909,929)	(963,160)	53,231
Insurance and Bond	512,070	532,676	(20,606)
Professional and Contracted Services	1,697,500	1,338,537	358,963
Postage	4,000	3,589	411
Office and Operating Supplies	11,590	6,171	5,419
Travel and Certification	60,725	56,841	3,884
Subscriptions	1,750	732	1,018
Telephone and Radio	43,035	41,601	1,434
Vehicle Fuels	139,725	122,627	17,098
Auto and Truck Expense	242,680	295,602	(52,922)
Sludge and Grit Removal	45,000	23,646	21,354
Safety Equipment Expense	24,500	28,050	(3,550)
Rental	2,500	-	2,500
Maintenance Material - Collection Systems	399,800	451,392	(51,592)
Total Collection System Expenses	<u>\$ 6,993,527</u>	<u>\$ 7,467,530</u>	<u>\$ (474,003)</u>

See accompanying notes.

SANITATION DISTRICT NO. 1
BUDGETARY COMPARISON SCHEDULE - BUDGET TO ACTUAL
OPERATION, MAINTENANCE, AND ADMINISTRATION
PUMP STATIONS / FIELD TECH
Year Ended June 30, 2017

	<u>Budget</u>	<u>Actual</u>	Variance with Final Budget (Unfavorable) Favorable
Expenses			
Salaries and Wages	\$ 676,156	\$ 738,437	\$ (62,281)
Medical and Dental Self Insured Plan	224,150	289,059	(64,909)
Pension Plan	131,932	130,979	953
Payroll Taxes	55,551	53,774	1,777
Employee Benefits	14,021	12,780	1,241
Credit Charged to Capital Projects	(14,000)	(46,476)	32,476
Insurance and Bond	167,451	164,684	2,767
Professional and Contracted Services	96,100	90,360	5,740
Postage	2,000	2,242	(242)
Office and Operating Supplies	24,750	29,105	(4,355)
Travel and Certification	11,000	13,837	(2,837)
Operating Maintenance - Building Grounds	27,000	29,003	(2,003)
Electric and Gas	1,750,000	1,620,012	129,988
Telephone and Radio	60,868	62,177	(1,309)
Water	24,000	21,661	2,339
Vehicle Fuels	35,000	28,536	6,464
Auto and Truck Expense	30,000	33,520	(3,520)
Sludge and Grit Removal	294,500	141,155	153,345
Safety Equipment Expense	10,000	9,958	42
SD1 Penalties and Fines Paid	1,000	-	1,000
Rental	48,000	57,176	(9,176)
Chemicals	1,459,011	1,686,532	(227,521)
Fuel Oil	20,000	4,946	15,054
Operating Maintenance - Pump Stations	<u>250,000</u>	<u>262,509</u>	<u>(12,509)</u>
 Total Pump Stations/Field Tech Expenses	 \$ 5,398,490	 \$ 5,435,966	 \$ (37,476)

See accompanying notes.

SANITATION DISTRICT NO. 1
BUDGETARY COMPARISON SCHEDULE - BUDGET TO ACTUAL
OPERATION, MAINTENANCE, AND ADMINISTRATION
OPERATIONS
Year Ended June 30, 2017

	<u>Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
Expenses			
Salaries and Wages	\$ 378,023	\$ 366,528	\$ 11,495
Medical and Dental Self Insured Plan	68,868	90,728	(21,860)
Pension Plan	66,229	64,082	2,147
Payroll Taxes	28,919	25,106	3,813
Employee Benefits	3,665	4,251	(586)
Credits Charged to Capital Projects	(3,250)	-	(3,250)
Insurance and Bond	17,116	14,252	2,864
Professional and Contracted Services	18,050	288	17,762
Office and Operating Supplies	3,714	6	3,708
Travel and Certification	19,264	6,676	12,588
Operating Maintenance - Building Grounds	-	247	(247)
Subscriptions	1,400	1,796	(396)
Telephone and Radio	5,157	2,054	3,103
Vehicle Fuels	3,800	2,738	1,062
Auto and Truck Expense	8,450	13,831	(5,381)
Safety Equipment Expense	-	37	(37)
SD1 Penalties and Fines Paid	-	9	(9)
Rentals	250	-	250
Total Operations Expense	<u>\$ 619,655</u>	<u>\$ 592,629</u>	<u>\$ 27,026</u>

See accompanying notes.

SANITATION DISTRICT NO. 1
BUDGETARY COMPARISON SCHEDULE - BUDGET TO ACTUAL
OPERATION, MAINTENANCE, AND ADMINISTRATION
ENGINEERING
Year Ended June 30, 2017

	<u>Budget</u>	<u>Actual</u>	Variance with Final Budget (Unfavorable) Favorable
Expenses			
Salaries and Wages	\$ 1,332,530	\$ 1,401,582	\$ (69,052)
Medical and Dental Self Insured Plan	277,844	357,327	(79,483)
Pension Plan	246,420	254,511	(8,091)
Payroll Taxes	101,938	97,117	4,821
Employee Benefits	17,394	16,707	687
Credit Charged to Capital Projects	(846,589)	(784,452)	(62,137)
Insurance and Bond	80,415	67,077	13,338
Professional and Contracted Services	372,000	318,516	53,484
Legal Services	153,000	202,986	(49,986)
Postage	150	402	(252)
Office and Operating Supplies	11,585	12,803	(1,218)
Travel and Certification	41,131	13,622	27,509
Subscriptions	51,200	49,922	1,278
Telephone and Radio	20,019	25,584	(5,565)
Vehicle Fuels	15,000	15,079	(79)
Auto and Truck Expense	11,000	7,884	3,116
Safety Equipment Expense	3,700	809	2,891
Inflow and Infiltration Removal Program	25,000	12,649	12,351
Total Engineering Expenses	\$ <u>1,913,737</u>	\$ <u>2,070,125</u>	\$ <u>(156,388)</u>

See accompanying notes.

SANITATION DISTRICT NO. 1
BUDGETARY COMPARISON SCHEDULE - BUDGET TO ACTUAL
OPERATION, MAINTENANCE, AND ADMINISTRATION
STORM WATER PROGRAM
Year Ended June 30, 2017

Expenses	Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
Salaries and Wages	\$ 3,074,425	\$ 2,619,740	\$ 454,685
Board of Directors	6,661	6,581	80
Medical and Dental Self Insured Plan	775,654	802,100	(26,446)
Pension Plan	550,948	456,646	94,302
Payroll Taxes	235,194	189,934	45,260
Employee Benefits	42,213	34,109	8,104
Unemployment Taxes	4,078	2,832	1,246
Credit Charged to Capital Projects	(466,069)	(196,442)	(269,627)
Insurance and Bond	70,240	37,747	32,493
Professional and Contracted Services	990,000	1,007,732	(17,732)
Legal Services	125,000	27,725	97,275
Bank Services	125,189	150,864	(25,675)
Collections Agency Services	340	-	340
Auditing Services	9,062	6,700	2,362
Postage	101,807	101,527	280
Office and Operating Supplies	86,738	61,622	25,116
Travel and Certification	24,000	14,214	9,786
Operating Maintenance - Building Grounds	57,215	57,423	(208)
Storm Water Program	50,000	36,130	13,870
Subscriptions	51,250	49,601	1,649
Communications	3,285	2,892	393
Legal Advertising	2,000	173	1,827
Electric and Gas	34,284	32,387	1,897
Telephone and Radio	55,533	36,371	19,162
Water	4,418	5,505	(1,087)
Vehicle Fuels	64,275	36,754	27,521
Auto and Truck Expense	92,320	74,720	17,600
Storm Water Facilities and Features	5,000	3,132	1,868
Safety Equipment Expense	2,800	473	2,327
50/50 Storm Water Projects	100,000	13,780	86,220
Maintenance Material - Collection Systems	80,300	93,053	(12,753)
Total Storm Water Program Expenses	\$ 6,358,160	\$ 5,766,025	\$ 592,135

See accompanying notes.

SANITATION DISTRICT NO. 1
BUDGETARY COMPARISON SCHEDULE - BUDGET TO ACTUAL
OPERATION, MAINTENANCE, AND ADMINISTRATION
ADMINISTRATION
Year Ended June 30, 2017

	Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
Expenses			
Salaries and Wages	\$ 2,699,770	\$ 2,572,137	\$ 127,633
Board of Directors	22,739	22,469	270
Medical and Dental Self Insured Plan	605,225	791,570	(186,345)
Pension Plan	473,983	422,812	51,171
Payroll Taxes	206,533	186,072	20,461
Employee Benefits	31,366	35,844	(4,478)
Unemployment Taxes	13,922	9,670	4,252
Credit Charged to Capital Projects	-	(314)	314
Insurance and Bond	293,458	220,501	72,957
Professional and Contracted Services	1,588,797	720,958	867,839
Legal Services	259,050	158,001	101,049
Bank Services	417,161	606,732	(189,571)
Auditing Services	30,938	22,880	8,058
Collection Agency Services	1,160	1,903	(743)
Postage	346,893	346,639	254
Office and Operating Supplies	122,457	95,642	26,815
Travel and Certification	139,896	81,145	58,751
Operating Maintenance - Building Grounds	86,085	90,241	(4,156)
Subscriptions	76,887	44,345	32,542
Communications	11,215	9,878	1,337
Legal Advertising	8,500	12,236	(3,736)
Electric and Gas	104,416	103,321	1,095
Telephone and Radio	89,844	55,482	34,362
Water	15,082	18,470	(3,388)
Vehicle Fuels	3,250	2,548	702
Auto and Truck Expense	4,000	4,566	(566)
Safety Equipment Expense	8,025	6,952	1,073
SD1 Penalties and Fines Paid	2,000	142	1,858
Rental	30,400	24,457	5,943
	<u>7,693,052</u>	<u>6,667,299</u>	<u>1,025,753</u>
Total Administration Expenses			
	<u>7,693,052</u>	<u>6,667,299</u>	<u>1,025,753</u>
Total Operation, Maintenance, and Administration Expenses	<u>\$ 41,004,862</u>	<u>\$ 39,976,208</u>	<u>\$ 1,028,654</u>

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

General Revenues	\$ 98,976,003
Operating, Maintenance, and Administrative Expenses	(39,976,208)
Major Repair Expenses	(876,520)
Depreciation	(39,616,114)
Net Operating Income	\$ 18,507,161

See accompanying notes.

SANITATION DISTRICT NO. 1
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2018

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Entity Identifying or Pass- Through Number	Passed Through to Subrecipients	Expenditures
U.S. Environmental Protection Agency				
<i>Passed through Commonwealth of Kentucky - Kentucky Infrastructure Authority</i>				
Capitalization Grants for Clean Water State Revolving Funds	66.458	A11-13	\$ - \$	648,884
Capitalization Grants for Clean Water State Revolving Funds	66.458	A11-14	-	613,631
Total Capitalization Grants for Clean Water State Revolving Funds			-	1,262,515
<i>Passed through Commonwealth of Kentucky - Kentucky Energy and Environment Cabinet, Division of Water</i>				
Performance Partnership Grants	66.605	14-09	-	128,893
Total U.S. Environmental Protection Agency			-	1,391,408
U.S. Department of Homeland Security				
<i>Passed through Commonwealth of Kentucky - Division of Emergency Management</i>				
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	4361-DR-KY	-	90,492
Total Expenditures of Federal Awards			\$ - \$	<u>1,481,900</u>

The accompanying notes are an integral part of this schedule.

SANITATION DISTRICT NO. 1
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2018

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Sanitation District No. 1 under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Sanitation District No. 1, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Sanitation District No. 1.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. SD1 has elected not to use the 10 percent de Minimis indirect cost rate allowed under the Uniform Guidance.

**INDEPENDENT AUDITORS' 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**

Board of Directors
Sanitation District No. 1
Fort Wright, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Sanitation District No. 1 (SD1) as of and for the year ended June 30, 2018 and the related notes to the financial statements, which collectively comprise SD1's basic financial statements, and have issued our report thereon dated December 10, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered SD1's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of SD1's internal control. Accordingly, we do not express an opinion on the effectiveness of SD1's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether SD1'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*.

Board of Directors
Sanitation District No. 1

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of SD1's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering SD1's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

VonLehman & Company Inc.

Fort Wright, Kentucky
December 10, 2018

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Board of Directors
Sanitation District No. 1
Fort Wright, Kentucky

Report on Compliance for Each Major Federal Program

We have audited Sanitation District No. 1's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Sanitation District No. 1's major federal programs for the year ended June 30, 2018. Sanitation District No. 1's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Sanitation District No. 1's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Sanitation District No. 1 and Affiliate's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, Sanitation District No. 1 complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Report on Internal Control Over Compliance

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

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

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

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

VonLehman & Company Inc.

Fort Wright, Kentucky
December 10, 2018

**SANITATION DISTRICT NO. 1
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2018**

SECTION I – SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS	
Type of auditors' report issued on whether the financial statements audited were prepared in accordance with GAAP:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	None Reported
Noncompliance material to financial statements noted?	No
FEDERAL AWARDS	
Internal control over major federal programs:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	None Reported
Type of auditors' report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2CFR 200.516(a)?	No
Identification of major programs:	• Capitalization Grants for Clean Water State Revolving Funds [CFDA 66.458]
Dollar threshold used to distinguish between type A and type B programs:	\$750,000
Auditee qualified as low-risk auditee?	No

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported

**SANITATION DISTRICT NO. 1
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS AND QUESTIONED COSTS**

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

STATISTICAL SECTION

STATISTICAL SECTION NARRATIVE

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

<u>CONTENTS:</u>	<u>PAGE</u>
<i>Financial Trends:</i>	96 – 101
These schedules contain trend information to help readers understand how SD1's financial performance and position have changed over time. These schedules include adjustments for the implementation of GASB 65, GASB 68, and GASB 75 for only the years presented during the year of implementation.	
<i>Revenue Capacity:</i>	102 – 104
These schedules contain information to help readers assess SD1's most significant revenue sources.	
<i>Debt Service Coverage:</i>	108 – 110
These schedules present information to help readers assess SD1's current level of outstanding debt and SD1's ability to issue additional debt in the future.	
<i>Demographic and Economic Information:</i>	111 – 115
These schedules provide information about the environment in which SD1 operates.	
<i>Operating Information:</i>	116 – 117
These schedules contain operating information related to SD1's infrastructure, assets and services provided.	

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

Sanitation District No. 1
Statements of Net Position
Last Ten Fiscal Years

	Fiscal Year									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Assets and Deferred Outflow of Resources										
Current Assets										
Cash and Cash Equivalents	\$ 10,266,444	\$ 9,692,641	\$ 7,352,683	\$ 9,464,525	\$ 19,058,529	\$ 32,688,855	\$ 38,748,815	\$ 45,131,172	\$ 54,193,357	\$ 62,802,884
Investments	8,965,396	6,607,843	6,693,573	-	-	-	-	-	-	-
Accounts Receivable										
Customers, Net of Allowance	8,152,236	7,242,816	8,201,544	10,108,461	11,031,115	10,257,908	9,952,571	10,138,377	9,014,025	8,546,145
Communities	15,278	22,653	13,728	20,731	24,631	12,068	14,484	14,450	13,506	12,231
KIA Loan Receivable	-	-	11,555,668	6,940,435	4,235,102	1,204,334	274,991	-	-	-
Others	1,946,388	5,432,371	4,269,523	3,834,336	3,741,641	4,004,172	4,011,851	3,750,928	4,246,702	4,339,856
Due From Other Fund	4,840,700	4,840,698	6,898,795	7,302,667	11,461,121	14,313,219	-	-	-	-
Accrued Unbilled Charges	8,359,200	7,725,400	8,698,483	9,615,400	9,190,400	9,344,329	9,800,840	9,615,950	10,053,930	10,653,130
Prepays and Deposits	555,209	533,981	619,705	637,983	596,152	1,363,240	695,557	765,868	703,728	894,254
Accrued Interest Income	17,604	33,250	28,238	27,324	15,778	13,980	28,170	22,208	26,267	34,001
Total Current Assets	43,118,455	42,131,653	54,331,940	47,951,862	59,354,469	73,202,105	63,527,279	69,438,953	78,251,515	87,282,501
Noncurrent Assets										
Restricted Assets										
Cash	25,451,995	52,780,640	51,090,511	32,583,239	19,577,365	11,596,453	7,099,462	3,633,285	2,366,227	999,364
Investments	51,350,743	64,012,084	73,766,771	80,747,604	82,613,373	83,424,890	84,756,917	85,017,276	83,531,917	83,376,441
Accrued Interest	270,586	261,423	206,456	162,673	152,282	108,183	124,195	130,370	161,677	220,016
Prepaid Items	233,390	233,390	59,708	98,519	49,354	188	-	-	-	-
Total Restricted Assets	77,306,714	117,287,537	125,123,446	113,592,035	102,392,374	95,129,714	91,980,574	88,780,931	86,059,821	84,595,821
Receivables										
Assessments	2,079,386	1,958,351	1,849,302	1,738,719	1,644,649	1,555,201	1,470,191	1,380,740	1,321,474	1,254,547
Improvement Notes	20,530	5,524	5,525	5,443	5,130	5,130	5,130	5,130	5,130	5,130
Total Receivables	2,099,916	1,963,875	1,854,827	1,744,162	1,649,779	1,560,331	1,475,321	1,385,870	1,326,604	1,259,677
Capital Assets										
Land, Building, System, Equipment, and Vehicles	644,722,698	927,927,774	1,077,315,729	1,348,602,654	1,405,335,600	1,458,388,838	1,477,123,337	1,501,381,533	1,525,204,765	1,549,368,728
Construction in Progress	153,932,654	197,579,699	250,483,024	50,114,839	41,833,765	8,030,328	12,613,822	11,444,632	11,914,610	18,309,156
Less Accumulated Depreciation	(185,336,930)	(205,906,143)	(240,156,122)	(275,551,547)	(312,805,206)	(347,835,200)	(386,548,850)	(424,805,547)	(462,048,715)	(500,137,767)
Total Capital Assets	613,318,422	919,601,330	1,087,642,631	1,123,165,946	1,134,364,159	1,118,583,966	1,103,188,309	1,088,020,618	1,075,070,660	1,067,540,117
Total Noncurrent Assets	692,725,052	1,038,852,742	1,214,620,904	1,238,502,143	1,238,406,312	1,215,274,011	1,196,644,204	1,178,187,419	1,162,457,085	1,153,395,615
Total Assets	735,843,507	1,080,984,395	1,268,952,844	1,286,454,005	1,297,760,781	1,288,476,116	1,260,171,483	1,247,626,372	1,240,708,600	1,240,678,116
Deferred Outflow of Resources										
Deferred Outflows Related to Pension	-	-	-	-	-	2,447,181	1,696,697	4,556,240	5,944,107	10,331,047
Deferred Outflows Related to OPEB	-	-	-	-	-	-	-	-	630,915	2,994,036
Deferred Loss on Refundings	2,075,610	1,725,432	4,722,311	4,071,573	3,458,564	2,904,792	2,415,774	1,993,406	6,681,318	6,362,645
Total Deferred Outflow of Resources	2,075,610	1,725,432	4,722,311	4,071,573	3,458,564	5,351,973	4,112,471	6,549,646	13,256,340	19,687,728
Total Assets and Deferred Outflow of Resources	\$ 737,919,117	\$ 1,082,709,827	\$ 1,273,675,155	\$ 1,290,525,578	\$ 1,301,219,345	\$ 1,293,828,089	\$ 1,264,283,954	\$ 1,254,176,018	\$ 1,253,964,940	\$ 1,260,365,844

Sanitation District No. 1
Statements of Net Position
Last Ten Fiscal Years

	Fiscal Year									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Liabilities and Deferred Inflow of Resources										
Current Liabilities										
Bond Indebtedness	\$ 5,905,000	\$ 7,240,000	\$ 10,815,000	\$ 11,115,000	\$ 11,430,000	\$ 11,770,000	\$ 12,140,000	\$ 12,545,000	\$ 15,234,259	\$ 15,442,759
Notes Payable	1,259,762	1,297,838	1,571,658	1,866,517	7,008,249	6,377,235	7,158,744	7,375,823	7,506,790	7,640,534
Accounts Payable	16,600,430	25,742,021	19,108,718	14,378,762	9,843,063	6,208,453	6,228,639	4,644,185	6,714,215	5,458,450
Accrued Payroll and Benefits	994,514	935,612	558,366	647,174	794,074	872,739	905,503	967,085	1,031,245	1,053,226
Accrued Interest Payable	4,578,388	6,473,959	8,671,851	8,350,350	8,230,475	8,095,295	7,927,725	7,730,150	7,061,301	6,827,681
Accrued Taxes and Pension	134,234	136	425	(104)	2,772	11,008	(24)	(176)	1,166	3,715
Compensated Absences	275,416	367,179	311,802	303,127	342,729	342,242	315,970	315,335	322,350	297,652
Due to Other Fund	4,840,700	4,840,698	6,898,795	7,302,667	11,461,121	14,313,219	-	-	-	-
Communities	18,187	2,033	346	733	156	47	47	-	-	-
Other Liabilities	56,154	79,060	78,201	67,578	45,183	31,076	74,923	167,636	142,544	141,785
Sales Tax Payable	330	155	(450)	-	47,590	61	102	(643)	150,286	35,713
Total Current Liabilities	34,663,115	46,978,691	48,014,712	44,031,804	49,205,412	48,021,375	34,751,629	33,744,395	38,164,156	36,901,515
Long-Term Liabilities (Net of Current Portion)										
Bonds Payable, Net of Amortization	226,802,468	347,290,647	400,125,967	388,323,266	379,143,277	366,369,937	353,243,540	339,745,207	324,620,158	309,177,399
Notes Payable	32,497,265	60,501,607	101,353,944	134,708,581	145,790,516	147,034,138	140,802,264	135,506,662	129,217,631	123,770,948
Compensated Absences	491,076	654,691	555,952	540,485	611,096	610,228	563,384	562,252	574,760	642,231
Net Pension Liability	-	-	-	-	-	20,730,248	18,320,686	24,340,276	26,833,461	31,661,594
Net OPEB Liability	-	-	-	-	-	-	-	8,529,478	8,529,478	10,874,302
Total Noncurrent Liabilities	259,790,809	408,446,945	502,035,863	523,572,332	525,544,889	534,744,551	512,929,874	508,683,875	489,775,488	476,126,474
Total Liabilities	294,453,924	455,425,636	550,050,575	567,604,136	574,750,301	582,765,926	547,681,503	542,428,270	527,939,644	513,027,989
Deferred Inflow of Resources										
Deferred Inflows Related to Pension	-	-	-	-	-	-	2,045,032	-	565,983	3,348,910
Deferred Inflows Related to OPEB	-	-	-	-	-	-	-	-	-	569,347
Total Deferred Inflow of Resources	-	-	-	-	-	-	2,045,032	-	565,983	3,918,257
Total Liabilities and Deferred Inflow of Resources	294,453,924	455,425,636	550,050,575	567,604,136	574,750,301	582,765,926	549,726,535	542,428,270	528,505,627	516,946,246
Net Assets (Position)										
Net Investment in Capital Assets	348,929,537	504,996,670	578,498,373	591,224,155	594,450,681	589,937,448	592,259,535	594,841,332	605,173,140	617,871,122
Restricted for										
Debt Service Funds, Net of Current Liabilities	27,773,876	39,727,521	49,499,075	49,114,073	49,231,611	49,333,440	50,453,417	50,870,334	48,973,964	48,802,255
Operations, Infrastructure, and Insurance Reserves	23,935,102	24,622,294	24,849,919	31,882,577	33,582,825	34,202,584	34,427,560	34,277,222	34,719,619	34,794,202
Capital Improvement/Programs	25,216,898	51,772,937	49,752,990	31,648,215	19,063,723	10,657,785	6,161,886	2,683,670	1,416,270	36,750
Other Purposes	380,838	1,164,785	1,021,462	947,170	514,215	939,102	937,711	949,705	949,968	962,614
Unrestricted	17,228,942	4,999,984	20,002,761	18,105,252	29,625,989	25,995,001	30,317,310	28,125,485	34,226,352	40,952,655
Total Net Assets (Position)	443,465,193	627,284,191	723,624,580	722,921,442	726,469,044	711,065,360	714,557,419	711,747,748	725,459,313	743,419,598
Total Liabilities and Net Position	\$ 737,919,117	\$ 1,082,709,827	\$ 1,273,675,155	\$ 1,290,525,578	\$ 1,301,219,345	\$ 1,293,831,286	\$ 1,264,283,954	\$ 1,254,176,018	\$ 1,253,964,940	\$ 1,260,365,844

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

	Fiscal Year									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Operating Revenues										
Sewer Service Charges	\$ 47,368,230	\$ 53,994,128	\$ 61,887,891	\$ 68,369,740	\$ 73,562,515	\$ 74,221,151	\$ 76,583,543	\$ 75,730,322	\$ 79,746,166	\$ 84,312,915
Storm Water Charges	10,301,534	10,810,291	11,091,977	11,388,734	11,751,183	11,899,106	12,405,055	12,745,499	12,965,299	13,118,077
Permits and Tap-In Fees	2,236,542	2,732,120	2,283,388	1,765,957	2,340,792	3,173,486	3,117,162	3,566,331	3,848,229	3,501,783
Sludge Hauling	77,171	92,429	144,505	147,409	120,776	84,480	72,692	101,621	274,630	401,941
Inspections	52,456	34,878	33,416	69,300	69,682	74,348	177,073	217,454	158,531	173,623
Penalties and Fines	1,179,262	1,292,685	1,332,674	1,431,386	1,581,774	1,573,674	1,619,161	1,502,174	1,466,407	1,418,173
Contractual Services	87,600	103,219	137,694	141,038	125,689	128,752	132,614	136,592	140,689	160,732
Bad Debt Recoveries	12,964	49,938	35,355	19,097	35,392	21,873	70,916	138,003	50,134	25,135
Other Revenues	44,190	119,992	7,017	69,044	50,993	33,287	230,623	297,083	325,918	32,021
Project Reimbursements	310,899	165,830	1,442,406	549,579	68,321	1,450,000	53,274	-	-	131,856
Total Operating Revenues	61,670,848	69,395,510	78,396,323	83,951,284	89,707,117	92,660,157	94,462,113	94,435,079	98,976,003	103,276,256
Operating Expenses										
Operation, Maintenance and Administration										
Salary and Wages	7,397,037	6,824,325	7,666,779	7,875,727	10,352,734	11,423,914	11,545,248	11,657,207	12,215,331	12,102,154
Employee Benefit and Incentive Expenses	5,144,969	5,819,271	5,776,673	6,628,400	7,539,280	7,046,809	8,160,719	7,934,077	8,710,860	7,745,153
Professional and Contractual Services	1,758,011	2,779,872	3,063,454	3,778,654	5,216,695	4,918,068	6,090,769	6,142,324	6,281,104	5,812,174
Office Administration Expenses	1,347,218	1,743,401	1,434,543	1,742,980	1,903,439	1,759,589	1,895,657	1,777,837	1,661,077	1,682,284
Utilities, Fuels Oil and Chemicals Expense	6,551,357	7,198,145	7,316,763	7,362,096	7,685,268	7,311,989	7,403,662	6,999,416	7,179,355	7,348,041
Vehicle Operation Expenses	1,037,133	1,096,654	1,163,239	1,276,021	1,087,065	1,068,097	983,314	885,648	824,241	847,695
Infrastructure, Equipment and Other Expenses	1,755,982	2,372,647	1,997,122	2,355,828	2,760,362	2,824,155	2,818,327	3,192,058	3,104,240	3,333,148
Supplemental/State Environmental Projects	82,951	283,029	202,182	61,218	-	1,924	-	-	-	-
Total Operation, Maintenance and Administration	25,074,658	28,117,344	28,620,755	31,080,924	36,544,843	36,354,545	38,897,696	38,588,567	39,976,208	38,870,649
Major Repairs and Other	3,134,429	4,797,653	6,172,970	4,912,935	4,495,306	1,291,040	1,414,072	1,720,103	876,520	429,175
Depreciation	23,731,773	32,414,412	36,621,695	38,424,118	39,062,492	39,519,391	39,662,425	39,578,854	39,616,114	39,965,919
Total Operating Expenses	51,940,860	65,329,409	71,415,420	74,417,977	80,102,641	77,164,975	79,974,193	79,887,524	80,468,842	79,265,743
Operating Income	9,729,988	4,066,101	6,980,903	9,533,307	9,604,476	15,495,182	14,487,921	14,547,555	18,507,161	24,010,513
Non-Operating Income										
Interest Income	2,064,125	1,693,641	1,272,736	723,911	831,632	567,152	686,943	906,611	1,264,451	1,777,381
Federal Credits on Build America Bonds	-	561,428	3,853,736	3,805,832	3,590,813	3,530,769	3,435,087	3,406,317	3,353,778	3,303,372
Gain/(Loss) on Sale of Fixed Assets	59,458	(4,646,167)	(2,411,613)	(2,392,458)	(1,810,778)	(1,105,803)	(323,186)	(407,480)	(160,790)	(202,205)
Pension Expense	-	-	-	-	-	-	(385,954)	(1,115,015)	(1,671,301)	(3,224,119)
OPEB Expense	-	-	-	-	-	-	-	-	630,915	(551,050)
Net Increase in Fair Market Value of Investments	342,379	104,496	(443,536)	286,941	(486,536)	165,073	68,787	287,462	(655,619)	(603,600)
Total Non-Operating Income (Expense)	2,465,962	(2,286,602)	2,271,323	2,424,226	2,125,131	3,157,191	3,481,677	3,077,895	2,761,434	499,779
Interest and Other Charges										
Interest on Long-Term Debt	5,758,237	11,174,829	16,025,760	18,254,771	19,331,456	20,828,408	20,658,530	20,096,326	16,836,216	16,091,496
Amortization of Bond Discount and Expense	258,885	186,054	255,805	395,549	43,097	44,515	46,031	47,182	835,292	-
Total Interest and Other Charges	6,017,122	11,360,883	16,281,565	18,650,320	19,374,553	20,872,923	20,704,561	20,143,508	17,671,508	16,091,496
Change in Net Position Before Capital Contribution	6,178,828	(9,581,384)	(7,029,339)	(6,692,787)	(7,644,946)	(2,220,551)	(2,734,964)	(2,518,058)	3,597,087	8,418,796
Capital Contributions	2,286,532	193,400,384	103,871,701	5,989,648	14,468,617	5,331,548	6,230,218	8,237,866	10,114,478	9,541,489
Change in Net Asset (Position)	\$ 8,465,360	\$ 183,819,000	\$ 96,842,362	\$ (703,139)	\$ 6,823,671	\$ 3,110,998	\$ 3,495,255	\$ 5,719,808	\$ 13,711,565	\$ 17,960,285

Sanitation District No. 1
Cash Flows
Last Ten Fiscal Years

	Fiscal Year									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Cash Flow From Operating Activities										
Received From Customers	\$ 61,194,429	\$ 70,408,423	\$ 71,358,359	\$ 81,151,762	\$ 85,139,804	\$ 90,177,369	\$ 94,283,021	\$ 94,695,120	\$ 99,167,545	\$ 103,053,057
Paid to Suppliers for Goods and Services	(15,782,607)	(17,039,076)	(25,862,095)	(19,991,822)	(22,699,507)	(20,071,035)	(20,919,150)	(22,866,427)	(17,581,717)	(21,014,142)
Paid to or on Behalf of Employees for Services	(11,685,342)	(11,943,516)	(13,974,524)	(13,829,679)	(17,013,644)	(17,776,165)	(19,142,626)	(18,536,538)	(20,841,173)	(19,780,002)
Net Cash Provided by Operating Activities	33,726,480	41,425,831	31,521,740	47,330,261	45,426,653	52,330,169	54,221,245	53,292,155	60,744,655	62,258,913
Cash Flows From Capital and Related Financing Activities										
Principal Received on Notes and Bonds	3,017,121	154,921,293	139,316,551	39,963,916	20,938,245	10,003,959	2,513,642	2,355,212	1,217,757	2,193,852
Federal Credits on Build America Bonds	-	561,428	3,853,736	3,805,832	3,590,813	3,530,769	3,452,910	3,406,316	3,353,778	3,303,372
Proceeds From Sale of Capital Assets	59,458	51,782	18,195	203,895	223,786	83,100	140,528	22,420	229,710	62,010
Bond Issuance Costs	-	-	-	-	-	-	-	-	(835,292)	-
Payment to Bond Refunding Agent	-	-	-	-	-	-	-	-	-	-
Bond Premium (Discount)	-	-	-	-	-	-	-	-	-	-
Payments Made on Long Term Debt	(6,875,466)	(7,164,762)	(50,903,395)	(12,514,188)	(13,124,245)	(17,790,582)	(18,804,665)	(19,298,744)	(160,275,821)	(20,001,791)
Proceeds on Bond Refunding	-	-	-	-	-	-	-	-	141,450,636	-
Interest Paid, Net of Capitalized Interest	(6,226,401)	(9,969,117)	(15,293,072)	(19,008,783)	(19,907,475)	(21,457,672)	(21,369,509)	(20,872,047)	(20,847,960)	(18,745,702)
Acquisition and Construction of Capital Assets, Net of Contributed Capital	(72,749,661)	(149,994,886)	(103,723,075)	(70,554,138)	(37,826,653)	(19,596,553)	(18,500,262)	(16,603,198)	(16,824,092)	(23,158,102)
Principal Received on Assessments	-	-	-	-	-	-	-	-	59,266	66,927
Assessment Interest Income	-	-	-	-	-	-	-	-	39,804	38,247
(Increase)/Decrease in Restricted Funds	2,705,449	5,435,407	130,471	(6,390,514)	(1,234,258)	(1,185,570)	515,580	(319,435)	-	-
Net Cash Used by Capital and Related Financing Activities	(80,069,500)	(6,158,855)	(26,600,589)	(64,493,980)	(47,339,787)	(46,412,549)	(52,051,776)	(51,309,476)	(52,432,214)	(56,241,187)
Cash Flows From Investing Activities										
Investment Income	2,310,516	1,687,158	1,332,715	768,608	853,569	613,049	656,740	906,398	345,624	782,270
Proceeds From the Sale of Investments	-	-	-	-	-	-	-	-	5,312,777	16,829,301
Purchase of Investments	-	-	-	-	-	-	-	-	(6,175,715)	(16,386,633)
Net (Increase) Decrease on Investments	(3,563,263)	(10,199,292)	(10,283,953)	(319)	(2,352,305)	(646,444)	(1,263,240)	27,103	-	-
Net Cash Provided (Used) by Investing Activities	(1,252,747)	(8,512,134)	(8,951,238)	768,289	(1,498,736)	(33,395)	(606,500)	933,501	(517,314)	1,224,938
Increase (Decrease) in Cash and Cash Equivalent:	(47,595,767)	26,754,842	(4,030,087)	(16,395,430)	(3,411,870)	5,884,225	1,562,969	2,916,180	7,795,127	7,242,664
Cash and Cash Equivalents Beginning of Year	83,079,395	35,483,628	62,238,470	58,208,383	41,812,953	38,401,083	44,285,308	45,848,277	48,764,457	56,559,584
Cash and Cash Equivalents End of Year	\$ 35,483,628	\$ 62,238,470	\$ 58,208,383	\$ 41,812,953	\$ 38,401,083	\$ 44,285,308	\$ 45,848,277	\$ 48,764,457	\$ 56,559,584	\$ 63,802,248

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

	Fiscal Year									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Capital Assets Not Depreciated										
Land/Easements	\$ 6,735,573	\$ 6,966,183	\$ 12,020,310	\$ 14,621,314	\$ 14,736,419	\$ 14,859,087	\$ 14,859,088	\$ 15,125,674	\$ 15,278,071	\$ 15,567,591
Construction in Progress	145,107,180	187,722,253	242,536,861	46,654,791	40,814,200	6,286,209	9,836,028	8,984,555	8,445,318	13,592,546
Total Capital Assets Not Depreciated	151,842,753	194,688,436	254,557,171	61,276,105	55,550,619	21,145,295	24,695,116	24,110,229	23,723,389	29,160,137
Capital Assets Being Depreciated										
Land Improvements	3,050,925	3,081,703	3,130,238	3,224,918	3,249,750	3,249,750	3,249,751	3,249,751	3,986,902	4,271,907
Collection System	383,879,066	431,156,468	456,348,371	623,052,699	649,183,792	662,016,791	670,488,000	679,709,357	693,385,908	705,609,183
Pump Stations	58,137,325	69,077,820	73,392,465	72,614,473	83,128,822	91,447,112	92,656,350	97,798,125	98,210,442	98,977,593
Treatment and Disposal	110,233,594	139,355,921	148,165,179	235,726,818	237,671,535	262,857,645	263,781,508	263,994,437	264,269,368	264,661,708
General Buildings and Structures	29,336,260	29,335,709	29,954,485	29,965,363	30,028,238	30,028,238	30,028,238	30,028,238	30,028,238	30,096,796
Office Furniture and Equipment	6,830,577	6,804,614	6,853,265	7,016,020	7,214,182	7,209,897	7,322,966	7,571,419	7,742,850	7,842,167
Machinery and Equipment	2,973,004	2,929,343	3,052,184	3,520,150	4,051,862	5,002,506	5,455,902	5,538,344	5,391,878	5,668,102
Vehicles and Accessories	7,932,676	8,453,437	8,451,349	9,361,895	9,697,562	9,822,479	9,747,902	9,753,125	8,852,228	8,731,079
Software Model Development	10,653,560	15,550,396	15,493,371	15,908,870	15,908,870	15,908,870	15,908,869	15,908,869	15,908,869	15,908,869
Total Capital Assets Being Depreciated	613,026,987	705,745,411	744,840,907	1,000,391,206	1,040,134,613	1,087,543,288	1,098,639,486	1,113,551,665	1,127,776,683	1,141,767,404
Total Capital Assets	764,869,740	900,433,847	999,398,078	1,061,667,311	1,095,685,232	1,108,688,583	1,123,334,602	1,137,661,894	1,151,500,072	1,170,927,541
Less Accumulated Depreciation										
Land Improvements	(1,118,644)	(1,241,117)	(1,358,578)	(1,477,798)	(1,591,572)	(1,635,696)	(1,679,858)	(1,724,145)	(1,786,574)	(1,891,584)
Collection System	(83,743,759)	(93,300,798)	(102,850,841)	(113,355,140)	(125,774,905)	(138,496,498)	(151,767,136)	(165,176,207)	(178,628,652)	(192,159,290)
Pump Stations	(24,325,577)	(25,108,665)	(27,382,032)	(28,693,839)	(31,526,428)	(33,571,403)	(37,884,201)	(41,952,508)	(46,447,420)	(50,812,132)
Treatment and Disposal	(54,292,557)	(49,548,628)	(51,539,907)	(55,643,376)	(60,692,552)	(65,061,274)	(70,564,654)	(76,142,502)	(82,018,599)	(87,806,209)
General Buildings and Structures	(5,160,865)	(7,995,310)	(9,955,759)	(11,008,015)	(12,051,636)	(13,095,891)	(14,140,146)	(15,039,381)	(15,541,233)	(16,065,913)
Office Furniture and Equipment	(5,107,743)	(5,255,778)	(5,435,284)	(5,620,625)	(5,756,378)	(5,907,818)	(6,054,188)	(6,211,401)	(6,447,209)	(6,583,159)
Machinery and Equipment	(1,689,687)	(1,883,592)	(2,190,830)	(2,493,010)	(2,829,882)	(3,195,826)	(3,594,893)	(4,041,980)	(3,972,588)	(4,178,933)
Vehicles and Accessories	(4,761,631)	(5,339,115)	(6,205,755)	(6,875,711)	(7,631,498)	(8,055,730)	(8,407,105)	(8,894,194)	(8,398,025)	(8,474,171)
Software Model Development	(1,722,219)	(6,105,960)	(11,254,166)	(14,740,868)	(15,699,700)	(15,839,493)	(15,908,869)	(15,908,869)	(15,908,869)	(15,908,869)
Total Accumulated Depreciation	(181,922,682)	(195,778,963)	(218,173,152)	(239,908,382)	(263,554,551)	(284,859,629)	(310,001,050)	(335,091,187)	(359,149,169)	(383,880,260)
Total Capital Assets, Net	\$ 582,947,058	\$ 704,654,884	\$ 781,224,927	\$ 821,758,929	\$ 832,130,680	\$ 823,828,954	\$ 813,333,552	\$ 802,570,707	\$ 792,350,903	\$ 787,047,281

Sanitation District No. 1
Net Capital Assets - Storm Water
Last Ten Fiscal Years

	Fiscal Year									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Capital Assets Not Depreciated										
Land/Easements	\$ -	\$ -	\$ 24,147	\$ 409,729	\$ 466,990	\$ 528,073	\$ 555,072	\$ 720,023	\$ 861,938	\$ 1,013,259
Construction In Progress	8,825,474	9,857,446	7,946,163	3,460,048	1,019,566	1,744,120	2,777,794	2,460,077	3,469,292	4,716,610
Total Capital Assets Not Depreciated	8,825,474	9,857,446	7,970,310	3,869,777	1,486,556	2,272,192	3,332,866	3,180,100	4,331,230	5,729,869
Capital Assets Being Depreciated										
Collection System	21,443,446	211,699,487	316,944,265	327,535,247	344,296,322	349,713,097	357,317,547	366,212,311	375,456,019	385,148,489
Machinery and Equipment	-	-	-	-	56,096	47,634	54,485	74,201	103,041	116,881
Vehicles and Accessories	-	-	-	-	-	52,500	52,499	52,499	83,853	109,944
Software Model Development	3,516,692	3,516,692	3,486,100	5,645,160	5,645,160	5,645,160	5,645,160	5,645,160	5,645,160	5,645,160
Total Capital Assets Being Depreciated	24,960,139	215,216,180	320,430,365	333,180,406	349,997,578	355,458,391	363,069,691	371,984,171	381,288,073	391,020,474
Total Capital Assets	33,785,613	225,073,626	328,400,675	337,050,183	351,484,133	357,730,583	366,402,557	375,164,271	385,619,303	396,750,343
Less Accumulated Depreciation										
Collection System	(2,829,739)	(8,370,439)	(19,079,479)	(31,796,566)	(44,681,003)	(57,675,238)	(70,871,373)	(84,020,968)	(97,132,324)	(110,471,189)
Machinery and Equipment	-	-	-	-	(4,021)	(5,466)	(10,566)	(17,008)	(48,990)	(58,226)
Vehicles and Accessories	-	-	-	-	-	(10,207)	(20,701)	(31,224)	(73,072)	(82,932)
Software Model Development	(584,510)	(1,756,740)	(2,903,491)	(3,846,600)	(4,565,630)	(5,284,660)	(5,645,160)	(5,645,160)	(5,645,160)	(5,645,160)
Total Accumulated Depreciation	(3,414,248)	(10,127,180)	(21,982,970)	(35,643,166)	(49,250,654)	(62,975,571)	(76,547,800)	(89,714,360)	(102,899,546)	(116,257,507)
Total Capital Assets, Net	\$ 30,371,365	\$ 214,946,446	\$ 306,417,705	\$ 301,407,017	\$ 302,233,479	\$ 294,755,012	\$ 289,854,757	\$ 285,449,911	\$ 282,719,757	\$ 280,492,836

Sanitation District No. 1 Schedule of Sanitary Sewer Rates, Rate Determination, and Percentage Change Fiscal Year 2009

Water Usage in 100 Cubic Feet (HCF)	2009	
	Rate	%
0-800	3.82	20%
801-5,000	3.60	20%
5,001-25,000	3.23	20%
25,001-100,000	2.76	20%
Over 100,0000	2.51	20%
Quarterly minimum bill	22.92	20%
Unmetered Service		
1 or 2 room house	34.31	20%
3 to 6 room house	56.33	20%
More than 6 rooms	74.51	20%

Source: SD1 accounting records

Sanitation District No. 1
Schedule of Sanitary Sewer Rates, Rate Determination, and Percentage Change
Fiscal Years 2010-2018

	Fiscal Year																			
	2010		2011		2012		2013		2014		2015		2016		2017		2018			
	Rate	%	Rate	%	Rate	%	Rate	%	Rate	%	Rate	%	Rate	%	Rate	%	Rate	%		
Non-Residential (1)																				
Water Usage		%		%		%		%		%		%		%		%		%		%
in 100 Cubic Feet (HCF)	Rate	Change	Rate	Change	Rate	Change	Rate	Change	Rate	Change	Rate	Change	Rate	Change	Rate	Change	Rate	Change	Rate	Change
0-1,700	4.40	15%	5.06	15%	5.82	15%	6.69	15%	6.69	0%	7.02	5%	7.02	0%	7.37	5%	7.73	5%	7.73	5%
1,701-8,400	3.95	15%	4.54	15%	5.22	15%	6.00	15%	6.00	0%	6.30	5%	6.30	0%	6.61	5%	6.94	5%	6.94	5%
Over 8,400	3.05	15%	3.51	15%	4.04	15%	4.65	15%	4.65	0%	4.88	5%	4.88	0%	5.12	5%	5.37	5%	5.37	5%
Monthly minimum bill	8.80	15%	10.12	15%	11.64	15%	13.38	15%	13.38	0%	14.04	5%	14.04	0%	14.74	5%	15.46	5%	15.46	5%
Residential (2)																				
Water Usage																				
in 100 Cubic Feet (HCF)																				
Flat rate per 100 Cubic Feet (HCF)	4.40	15%	5.06	15%	5.82	15%	6.69	15%	6.69	0%	7.02	5%	7.02	0%	7.37	5%	7.73	5%	7.73	5%
Monthly minimum bill	8.80	15%	10.12	15%	11.64	15%	13.38	15%	13.38	0%	14.04	5%	14.04	0%	14.74	5%	15.46	5%	15.46	5%
Unmetered Service																				
1 or 2 room house	13.15	15%	15.12	15%	17.39	15%	20.00	15%	20.00	0%	21.00	5%	21.00	0%	22.05	5%	23.15	5%	23.15	5%
3 to 6 room house	21.59	15%	24.83	15%	28.55	15%	32.84	15%	32.84	0%	34.48	5%	34.48	0%	36.20	5%	38.01	5%	38.01	5%
More than 6 rooms	28.56	15%	32.84	15%	37.77	15%	43.43	15%	43.43	0%	45.60	5%	45.60	0%	47.88	5%	50.27	5%	50.27	5%

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

(1) Based on monthly metered water usage

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

Source: SD1 accounting records

Sanitation District No. 1
Schedule of Storm Water Rates, Rate Determination, and Percentage Change
Last Ten Fiscal Years

	Fiscal Year									
	2009		2010		2011		2012		2013	
Monthly Rate Per ERU	4.30	2.9%	4.47	4.0%	4.44	-0.7%	4.54	2.3%	4.68	3.1%
Quarterly Rate Per ERU	12.90	2.9%	13.41	4.0%	13.32	-0.7%	13.62	2.3%	14.04	3.1%
	2014		2015		2016		2017		2018	
Monthly Rate Per ERU	4.80	2.6%	5.04	5.0%	5.04	0.0%	5.04	0.0%	5.04	0.0%
Quarterly Rate Per ERU	14.40	2.6%	15.12	5.0%	15.12	0.0%	15.12	0.0%	15.12	0.0%

Equivalent Residential Unit (ERU) =2,600 square feet
 All residential properties are based on one ERU
 Non-residential properties are based on total amount of impervious area.

Source: SD1 accounting records

Sanitation District No. 1 Sewer and Storm Water Revenues Breakdown By Billing Class Fiscal Year 2009

Account Name	2009
Sewer Service Revenues	
All Classes	\$ 46,476,573
Less Special Meter Refunds	(704,227)
Total Sewer Revenues	\$ 45,772,346
Sewer Service Penalties	
All Classes	\$ 983,034
Total Sewer Service Penalties	\$ 983,034
Total Sewer Service Write Offs	\$ (829,792)
Percentage of Write Off's to Revenues and Penalties Billed	1.77%
Net Sewer Service Revenues	45,925,588
Storm Water Revenues	
All Classes	10,435,851
Total Storm Water Revenues	10,435,851
Storm Water Service Penalties	
All Classes	180,306
Total Sewer Service Penalties	180,306
Total Storm Water Write Offs	(134,317)
Percentage of Write Off's to Revenues and Penalties Billed	1.27%
Net Storm Water Revenues	10,481,840
Customer Accounts	
Sewer Service Accounts Estimates	
All Classes	102,377
Total Sewer Accounts	102,377
Storm Water Accounts Estimates	
All Classes	95,242
Total Storm Water Accounts	95,242

Source: SD1 billing registers

Sanitation District No. 1
Sewer and Storm Water Revenues Breakdown By Billing Class
Fiscal Year 2010 through Fiscal Year 2018

Account Name	Fiscal Year									
	2010	2011	2012	2013	2014	2015	2016	2017	2018	
Sewer Service Revenues										
Residential Class	\$ 32,011,985	\$ 33,987,557	\$ 38,916,405	\$ 40,985,970	\$ 41,300,498	\$ 43,019,252	\$ 42,189,429	\$ 44,543,360	\$ 46,921,754	
Non-Residential Class	19,788,357	25,182,674	28,057,913	31,467,481	31,042,184	32,419,163	32,478,944	34,499,155	35,937,824	
Less Special Meter Refunds	(355,601)	(364,411)	(465,147)	(750,438)	(449,965)	(558,031)	(549,176)	(553,822)	(377,293)	
Total Sewer Revenues	\$ 51,444,741	\$ 58,805,820	\$ 66,509,171	\$ 71,703,013	\$ 71,892,717	\$ 74,880,384	\$ 74,119,197	\$ 78,488,693	\$ 82,482,286	
Sewer Service Penalties										
Residential Class	\$ 899,148	\$ 851,939	\$ 979,052	\$ 1,066,267	\$ 1,099,704	\$ 1,163,565	\$ 1,076,486	\$ 1,042,725	\$ 998,859	
Non-Residential Class	206,748	300,463	270,058	310,258	275,121	258,129	230,315	246,169	238,989	
Total Sewer Service Penalties	\$ 1,105,896	\$ 1,152,402	\$ 1,249,110	\$ 1,376,525	\$ 1,374,825	\$ 1,421,694	\$ 1,306,801	\$ 1,288,894	\$ 1,237,848	
Total Sewer Service Write Offs	\$ (721,412)	\$ (1,175,977)	\$ (1,100,084)	\$ (1,286,550)	\$ (1,408,117)	\$ (1,386,469)	\$ (1,213,562)	\$ (1,087,236)	\$ (986,232)	
Percentage of Write Off's to Revenues and Penalties Billed	1.37%	1.96%	1.62%	1.76%	1.92%	1.82%	1.61%	1.36%	1.18%	
Net Sewer Service Revenues	\$ 51,829,225	\$ 58,782,245	\$ 66,658,197	\$ 71,792,988	\$ 71,859,425	\$ 74,915,609	\$ 74,212,436	\$ 78,690,351	\$ 82,733,902	
Storm Water Revenues										
Residential Class	\$ 4,743,013	\$ 4,605,646	\$ 4,728,292	\$ 4,873,021	\$ 4,974,835	\$ 5,214,488	\$ 5,239,075	\$ 5,293,698	\$ 5,362,028	
Non-Residential Class	6,183,085	6,589,598	6,780,700	7,027,579	7,148,676	7,482,093	7,643,149	7,816,638	8,021,471	
Total Storm Water Revenues	\$ 10,926,098	\$ 11,195,244	\$ 11,508,992	\$ 11,900,600	\$ 12,123,511	\$ 12,696,581	\$ 12,882,224	\$ 13,110,336	\$ 13,383,500	
Storm Water Service Penalties										
Residential Class	\$ 107,583	\$ 91,001	\$ 96,906	\$ 106,411	\$ 102,955	\$ 110,868	\$ 107,938	\$ 102,673	\$ 90,571	
Non-Residential Class	68,419	79,470	71,120	81,675	73,648	76,849	72,686	67,540	70,708	
Total Sewer Service Penalties	\$ 176,002	\$ 170,471	\$ 168,026	\$ 188,086	\$ 176,603	\$ 187,717	\$ 180,624	\$ 170,213	\$ 161,279	
Total Storm Water Write Offs	\$ (115,806)	\$ (103,267)	\$ (120,258)	\$ (149,417)	\$ (224,405)	\$ (291,526)	\$ (136,726)	\$ (145,039)	\$ (265,423)	
Percentage of Write Off's to Revenues and Penalties Billed	1.04%	0.91%	1.03%	1.24%	1.82%	2.26%	1.05%	1.09%	1.96%	
Net Storm Water Revenues	\$ 10,986,294	\$ 11,262,448	\$ 11,556,760	\$ 11,939,269	\$ 12,075,709	\$ 12,592,772	\$ 12,926,122	\$ 13,135,510	\$ 13,279,356	
Customer Accounts										
Sewer Service Accounts Estimates										
Residential Class	\$ 90,646	\$ 91,920	\$ 92,374	\$ 92,924	\$ 93,366	\$ 94,021	\$ 94,821	\$ 95,438	\$ 96,299	
Non-Residential Class	9,891	10,076	9,752	9,489	9,481	9,551	9,679	10,059	10,311	
Total Sewer Accounts	\$ 100,537	\$ 101,996	\$ 102,126	\$ 102,413	\$ 102,847	\$ 103,572	\$ 104,500	\$ 105,497	\$ 106,610	
Storm Water Accounts Estimates										
Residential Class	\$ 85,726	\$ 86,143	\$ 86,579	\$ 87,092	\$ 86,576	\$ 86,634	\$ 87,100	\$ 87,855	\$ 89,583	
Non-Residential Class	8,162	8,283	7,921	7,674	7,594	7,567	7,558	7,900	8,364	
Total Storm Water Accounts	\$ 93,888	\$ 94,426	\$ 94,500	\$ 94,766	\$ 94,170	\$ 94,201	\$ 94,658	\$ 95,755	\$ 97,947	

Source: SD1 billing registers

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

Account Name	2009		2010		2011		2012		2013		2014		2015		2016		2017		2018	
	Rank	Amount	Rank	Amount	Rank	Amount	Rank	Amount	Rank	Amount	Rank	Amount	Rank	Amount	Rank	Amount	Rank	Amount	Rank	Amount
Lyons-Magnus	3	\$ 566,913	1	\$ 843,285	7	\$ 546,871	3	\$ 1,019,216	2	\$ 1,182,776	1	\$ 1,538,917	2	\$ 1,204,321	1	\$ 1,615,030	2	\$ 1,100,900	1	\$ 1,221,340
Tastemaker	6	430,054	5	587,362	4	837,632	1	1,157,417	3	1,028,552	3	1,146,195	4	822,642	4	958,373	1	1,107,495	2	1,157,410
Sara Lee Foods	2	617,663	2	791,861	3	895,635	4	723,700	4	782,726	4	825,285	3	903,273	3	972,766	4	922,489	3	1,108,853
Club Chef	5	455,894	4	623,082	1	1,251,689	2	1,069,091	1	1,311,655	2	1,372,054	1	1,372,423	2	1,088,042	3	975,106	4	981,127
Kenton County Airport	7	429,853	8	393,043	8	435,974	5	552,602	8	394,268	6	522,655	8	502,826	5	608,236	5	611,417	5	666,115
L'Oréal USA Florence	4	527,940	6	549,274	6	637,404	10	280,710	7	420,436	12	340,063	9	499,568	8	419,843	9	443,709	6	555,170
St. Elizabeth Medical Center	9	263,175	9	379,980	9	389,315	8	451,730	6	446,716	8	482,879	7	508,252	11	226,020	7	482,598	7	463,810
Northern KY University	11	223,303	11	228,095	10	269,716	9	299,722	9	353,675	11	343,137	11	377,734	7	475,052	8	454,166	8	400,505
Wild Flavors, Inc.	10	260,151	7	411,851	12	238,096	12	244,354	11	242,264	9	421,525	12	259,187	10	349,419	10	441,625	9	398,329
Environmental Services Inc.	28	12,244	25	22,065	27	30,466	25	25,848	24	33,490	22	58,276	25	48,577	23	45,696	20	59,588	10	375,130
Globel Supply Chain	8	329,698	10	377,462	5	702,878	6	523,358	5	614,053	5	549,175	6	509,262	6	497,523	11	317,909	11	369,211
Messier Bugatti / A. Carb, LLC	13	168,843	26	21,619	17	129,319	17	98,778	12	223,102	10	379,003	5	607,446	9	361,952	6	600,269	12	365,495
Camco Chemical Company	18	56,396	18	57,255	13	170,993	18	94,871	15	132,931	14	127,565	13	170,205	15	146,778	12	265,518	13	298,846
Safran Landing Systems, KY	NR	-	NR	-	NR	-	NR	-	NR	-	NR	-	NR	-	NR	-	NR	-	NR	-
A.O. Smith	16	106,431	16	114,038	14	152,804	15	115,562	14	140,546	13	160,667	14	145,003	12	160,920	13	240,921	15	224,765
Bluegrass Quality Meats	17	102,710	12	173,946	16	130,240	13	198,196	13	171,155	16	119,736	17	100,049	13	159,854	14	147,238	16	168,315
Aristech Acrylics LLC	14	159,129	13	167,111	20	85,342	19	79,541	18	84,969	18	87,439	16	103,218	16	118,494	15	127,129	17	131,203
Van Melle USA, Inc.	25	15,625	28	15,576	26	31,162	21	66,437	21	54,612	20	65,541	20	70,274	18	88,321	19	65,020	18	115,210
White Castle Distributing, Inc.	19	49,936	15	119,507	15	148,151	16	109,605	16	98,080	15	126,327	15	144,594	14	148,104	16	114,072	19	112,147
Emerald Industries, Inc.	21	46,552	20	47,654	18	105,251	20	67,987	20	73,309	21	64,365	23	56,222	20	63,396	18	69,171	20	84,862
Amer/Pride-WPS Energy Service	22	37,754	21	43,468	21	53,490	22	63,856	19	76,559	17	89,950	18	95,567	19	86,217	17	69,492	21	80,615
IOFINA Chemical Inc.	27	12,659	23	27,000	25	31,800	24	31,097	25	30,206	27	29,886	24	51,695	22	49,986	22	44,076	22	50,188
Domino's National Comm.	34	1,297	24	24,538	24	32,864	26	32,318	26	27,592	26	30,558	29	24,191	30	10,702	27	24,914	23	48,607
Northern KY Water District	12	174,294	17	107,123	19	91,264	14	156,749	17	88,530	24	34,940	22	65,537	21	53,282	21	54,064	24	43,569
Turfway Park	23	34,894	22	32,497	22	42,440	23	41,769	23	41,622	23	51,378	19	82,742	26	40,804	24	41,575	25	42,550
Duro Paper Bag	20	47,494	19	48,558	23	41,278	27	23,581	22	48,402	19	77,187	21	68,451	24	44,801	25	37,309	26	36,667
Savannah Foods and Industries	29	9,312	31	8,840	33	7,726	29	15,980	27	22,168	25	32,642	27	25,843	27	22,482	26	29,636	27	24,363
Highway Transport Chemical LLC	26	13,327	27	17,820	28	17,030	28	17,981	29	15,506	28	19,519	28	24,638	28	17,279	28	22,488	28	23,159
Signode Plastic Recycling	15	129,451	14	140,662	11	253,423	11	264,883	10	346,203	7	507,622	10	426,273	17	112,122	23	42,269	29	18,610
Boge Rubber and Plastics	NR	-	NR	-	NR	-	NR	-	NR	-	NR	-	NR	-	NR	-	NR	-	NR	-
Louis Trauth Dairy	1	623,668	3	747,035	2	1,172,055	7	509,831	NR	-										

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

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

Source: SD1 billing records/invoices

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

	Fiscal Year									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
System Revenues										
Total Operating Revenues	\$ 61,670,848	\$ 69,395,510	\$ 78,396,323	\$ 83,951,284	\$ 89,707,117	\$ 92,660,157	\$ 94,462,113	\$ 94,435,079	\$ 98,976,003	\$ 103,276,256
Total Non-Operating Revenues	2,064,125	2,255,069	5,126,472	4,529,743	4,422,445	4,097,921	4,122,030	4,312,928	4,618,229	5,080,753
Total System Revenues	\$ 63,734,973	\$ 71,650,579	\$ 83,522,795	\$ 88,481,027	\$ 94,129,562	\$ 96,758,078	\$ 98,584,143	\$ 98,748,007	\$ 103,594,232	\$ 108,357,009
Operating Expenses										
Operation, Maintenance and Administration										
Salary Expense	\$ 7,397,037	\$ 6,824,325	\$ 7,666,779	\$ 7,875,727	\$ 10,352,734	\$ 11,423,914	\$ 11,545,248	\$ 11,657,207	\$ 12,215,331	\$ 12,102,154
Employee Benefit and Incentive Expenses	5,144,969	5,819,271	5,776,673	6,628,400	7,539,280	7,046,809	8,160,719	7,934,077	8,710,860	7,745,153
Professional and Contractual Services	1,758,011	2,779,872	3,063,454	3,778,654	5,216,695	4,918,068	6,090,769	6,142,324	6,281,104	5,812,174
Office Administration Expenses	1,347,218	1,743,401	1,434,543	1,742,980	1,903,439	1,759,589	1,895,657	1,777,837	1,661,077	1,682,284
Utilities, Fuel Oil and Chemical Expenses	6,551,357	7,198,145	7,316,763	7,362,096	7,685,268	7,311,989	7,403,662	6,999,416	7,179,355	7,348,041
Vehicle Operation Expenses	1,037,133	1,096,654	1,163,239	1,276,021	1,087,065	1,068,097	983,314	885,648	824,241	847,695
Infrastructure, Equipment and Other Expenses	1,755,982	2,372,647	1,997,122	2,355,828	2,760,362	2,824,155	2,818,327	3,192,058	3,104,240	3,333,148
Supplemental / State Environmental Projects	82,951	283,029	202,182	61,218	-	1,924	-	-	-	-
Total Operation, Maintenance and Administration	\$ 25,074,658	\$ 28,117,344	\$ 28,620,755	\$ 31,080,924	\$ 36,544,843	\$ 36,354,545	\$ 38,897,696	\$ 38,588,567	\$ 39,976,208	\$ 38,870,649
Major Repairs and Other Expenses	\$ 3,134,429	\$ 4,797,653	\$ 6,172,970	\$ 4,912,935	\$ 4,495,306	\$ 1,291,040	\$ 1,414,072	\$ 1,720,103	\$ 876,520	\$ 429,175
Net System Revenues	\$ 35,525,886	\$ 38,735,582	\$ 48,729,070	\$ 52,487,168	\$ 53,089,413	\$ 59,112,493	\$ 58,272,375	\$ 58,439,337	\$ 62,741,504	\$ 69,057,185
Revenue Bonds (Senior Debt) - Principal and Interest Due										
Series 1998A - (Revenue Bonds)	\$ 2,651,513	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Series 2001A - (Revenue Bonds)	3,398,988	3,393,700	2,335,025	1,271,000	-	-	-	-	-	-
Series 2005A - (Refunding Bonds)	1,647,900	4,205,300	4,198,100	4,196,300	4,194,600	4,187,900	4,186,000	4,183,600	4,010,500	-
Series 2006A - (Revenue Bonds)	3,025,034	3,021,441	3,021,236	3,019,311	3,015,666	3,010,301	3,008,109	3,008,874	2,126,859	-
Series 2007A - (Revenue Bonds)	5,843,050	5,946,850	5,956,850	5,969,750	5,980,450	6,003,650	6,019,150	6,025,375	3,748,500	-
Series 2009A - (Build America Bonds)	-	1,649,911	4,375,599	4,368,726	4,359,976	4,348,839	4,329,816	4,314,924	4,295,341	4,274,666
Series 2010A - (Build America Bonds)	-	-	2,821,606	5,459,545	5,452,139	5,439,214	5,428,479	5,409,567	5,388,239	5,366,686
Series 2010B - (Refunding Bonds)	-	-	522,196	1,770,625	3,031,725	3,019,825	3,012,475	3,005,425	2,998,488	2,995,613
Series 2010C - (Build America Bonds)	-	-	56,819	1,984,364	1,976,149	1,973,859	1,965,253	1,953,390	1,940,278	1,921,009
Series 2010D - (Recovery Zone Economic Dev. Bonds)	-	-	226,225	2,467,913	2,467,913	2,467,913	2,467,913	2,467,913	2,467,913	2,467,913
Series 2016A - (Refunding Bonds)	-	-	-	-	-	-	-	-	1,377,110	11,625,081
Total Principal and Interest on Revenue Bonds	\$ 16,566,485	\$ 18,217,202	\$ 23,513,656	\$ 30,507,534	\$ 30,478,618	\$ 30,451,500	\$ 30,417,194	\$ 30,369,068	\$ 28,353,227	\$ 28,650,967
Debt Service Coverage Ratio - Bonds (Senior Debt)										
* Calculated	214%	213%	207%	172%	174%	194%	192%	192%	221%	241%
** Required	125%	125%	125%	125%	125%	125%	125%	125%	125%	125%

* Bond Debt Service Coverage Calculation = Total Net System Revenues divided by Total Current Portion of Principal and Interest on Bonds

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

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

	Fiscal Year									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
KIA and Other Notes (Subordinate Debt) Principal and Interest Due										
Melbourne	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
A04-09 Eastern Regional Water Reclamation Facility	2,226,866	2,229,761	2,227,222	2,224,607	2,221,913	2,216,315	2,208,243	2,205,308	2,202,284	2,199,169
A08-04 Western Regional Water Reclamation Facility Construction Project	-	122,229	397,353	612,243	696,509	3,974,631	3,968,312	3,961,931	3,955,485	3,948,975
A09-04 Dry Creek WWTP Clarifier Project	-	-	18,742	175,650	309,015	309,102	308,683	308,255	307,819	307,374
A09-05 Sunnybrook Sewer Project	-	-	167,114	343,158	342,702	342,238	341,763	341,280	340,786	340,283
A09-06 South Fork / Gunpowder Interceptor Construction Project	-	-	-	98,453	245,559	800,930	799,877	798,803	797,708	796,591
A09-07 Frogtown Interceptor	-	-	-	30,258	187,232	297,079	296,685	296,282	295,872	295,453
A09-08 Turkeyfoot Rd / Industrial Rd. Force Main Project	-	-	8,674	14,234	32,496	135,410	134,996	134,815	134,630	134,442
A09-09 Narrows Road Diversion Pump Station Construction Project	-	-	-	54,142	146,658	507,838	506,806	506,126	505,432	504,724
A10-11 Dry Creek Headworks Construction Project	-	-	-	-	112,407	269,750	1,003,396	1,004,284	1,002,936	1,001,560
A11-13 - Church St, Lakeview, and KY Aire Pump Station Replacement	-	-	-	-	-	114,300	174,829	202,912	213,112	214,179
A11-14 Lakeside Park and Vernon Lane Projects	-	-	-	-	-	9,195	21,538	23,245	26,840	46,408
A12-02 Wolpert Pump station Rehab and Force Main Replacement	-	-	-	-	26,903	53,539	53,468	53,395	53,321	53,246
A15-103 Patton and 8th Street Wet Well Rehab	-	-	-	-	-	-	-	12,525	132,558	131,566
A209-01 ARRA Banklick Creek Sewer Project	-	-	5,155	11,891	11,876	11,860	11,843	11,826	11,809	11,792
A209-02 ARRA Banklick Creek Wetlands Project	-	-	343	19,424	41,385	41,299	41,243	41,187	41,128	41,068
A209-03 ARRA Regional Bioretention Project	-	-	-	26,510	45,050	44,989	44,928	44,865	44,801	44,735
A209-04 ARRA Terraced Reforestation Project	-	-	-	2,496	23,455	25,098	25,065	25,030	24,995	24,959
Total KIA and Other Notes Principal and Interest	\$ 2,226,866	\$ 2,351,990	\$ 2,824,603	\$ 3,613,066	\$ 4,443,161	\$ 9,153,571	\$ 9,941,675	\$ 9,972,069	\$ 10,091,516	\$ 10,096,524
All Bonds and Notes-Annual Principal and Interest Payments	\$ 18,793,351	\$ 20,569,192	\$ 26,338,260	\$ 34,120,600	\$ 34,921,779	\$ 39,605,071	\$ 40,358,870	\$ 40,341,137	\$ 38,444,743	\$ 38,747,490
All Debt Service Coverage Ratio										
*** Calculated	189%	188%	185%	154%	152%	149%	144%	145%	163%	178%

*** All Debt Service Coverage Calculation = Total Net System Revenues divided by Total Current Portion of All Principal and Interest on Bonds and Notes

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

Fiscal Year	Revenue Bonds (1)	Notes Payable	Total Outstanding Debt	Sewer Service Accounts (2)	Outstanding Debt per Sewer Service Account	Total Assets	Debt to Assets Ratio
2009	232,707,468	33,757,027	266,464,495	102,377	2,603	735,843,507	36.2%
2010	354,530,647	60,501,607	415,032,254	100,537	4,128	1,080,984,395	38.4%
2011	410,940,967	102,925,602	513,866,569	101,996	5,038	1,268,952,844	40.5%
2012	399,438,266	136,575,098	536,013,364	102,126	5,249	1,286,454,005	41.7%
2013	390,573,277	152,798,766	543,372,043	102,413	5,306	1,297,760,781	41.9%
2014	378,139,936	153,411,373	531,551,310	102,847	5,168	1,288,476,116	41.3%
2015	365,383,540	147,961,008	513,344,549	103,572	4,956	1,260,171,483	40.7%
2016	352,290,207	142,882,485	495,172,692	104,500	4,738	1,247,626,372	39.7%
2017	339,854,417	136,724,421	476,578,838	105,497	4,517	1,240,708,600	38.4%
2018	324,620,158	131,411,482	456,031,640	106,610	4,278	1,240,678,116	36.8%

(1) Presented net of original issuance discounts and premiums

(2) Source: SD1 billing registers

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

NORTHERN KY COUNTIES	2008 (ACS 3-Year Estimates)				2009 (ACS 5-Year Estimates)				2010 (ACS 5-Year Estimates)			
	BOONE	CAMPBELL	KENTON	COMBINED	BOONE	CAMPBELL	KENTON	COMBINED	BOONE	CAMPBELL	KENTON	COMBINED
POPULATION												
Total Population	112,096	86,862	156,414	355,372	112,514	87,509	156,399	356,422	114,723	89,016	158,034	361,773
Median Age (years)	34.2	38.1	36.7	n/a	35.0	37.1	35.5	n/a	35.1	37.2	36.0	n/a
HOUSEHOLDS												
Total Households	40,769	35,255	63,064	139,088	40,722	35,185	63,276	139,183	41,612	35,300	61,912	138,824
Average Household Size	2.73	2.35	2.44	2.50	2.74	2.38	2.44	2.51	2.74	2.41	2.52	2.56
Populations in Households	111,292	82,976	154,130	348,398	111,699	83,569	154,415	349,683	114,026	84,982	155,997	355,005
Population 25 years and older	77,489	61,841	110,320	249,650	77,848	63,072	111,613	252,533	78,519	63,859	112,276	254,654
HOUSING OCCUPANCY												
Total Housing Units	44,168	38,921	70,244	153,333	43,933	38,961	70,043	152,937	45,053	39,185	68,768	153,006
Occupied Housing Units	40,769	35,255	63,064	139,088	40,722	35,185	63,276	139,183	41,612	35,300	61,912	138,824
Owner-Occupied Units	30,700	25,638	43,337	99,675	30,931	25,691	43,983	100,605	31,777	25,516	42,867	100,160
Renter-Occupied Units	10,069	9,617	19,727	39,413	9,791	9,494	19,293	38,578	9,835	9,784	19,045	38,664
Vacant Housing Units	3,399	3,666	7,180	14,245	3,211	3,776	6,767	13,754	3,441	3,885	6,856	14,182
Vacant Housing Rate	7.7%	9.4%	10.2%	9.3%	7.3%	9.7%	9.7%	9.0%	7.6%	9.9%	10.0%	9.3%
Median (Value)	\$ 177,700	\$ 142,900	\$ 146,200	n/a	\$ 173,800	\$ 141,300	\$ 142,700	n/a	\$ 175,900	\$ 146,300	\$ 145,200	n/a
EMPLOYMENT STATUS												
Population 16 years and older	84,660	68,579	120,424	273,663	84,532	69,611	121,683	275,826	85,506	71,034	122,683	279,223
Population in Civilian Labor Force	64,266	46,308	84,219	194,793	62,676	47,081	84,983	194,740	63,072	48,127	85,333	196,532
Employed	61,637	43,735	80,294	185,666	59,337	44,305	79,911	183,553	59,510	44,793	79,683	183,986
Employed Percentage	72.8%	63.8%	66.7%	67.8%	70.2%	63.6%	65.7%	66.5%	69.6%	63.1%	65.0%	65.9%
Unemployed	2,570	2,573	3,925	9,068	3,339	2,776	5,072	11,187	3,562	3,334	5,650	12,546
Unemployed Percentage	3.0%	3.8%	3.3%	3.3%	3.9%	4.0%	4.2%	4.1%	4.2%	4.7%	4.6%	4.5%
INCOME												
Median Household Income	\$ 65,979	\$ 50,830	\$ 53,872	n/a	\$ 65,964	\$ 51,890	\$ 53,219	n/a	\$ 66,549	\$ 51,482	\$ 53,213	n/a
Mean Household Income	\$ 76,889	\$ 67,908	\$ 68,609	\$ 70,858	\$ 76,035	\$ 66,448	\$ 67,358	\$ 69,667	\$ 77,789	\$ 66,869	\$ 68,247	\$ 70,757
Per Capita Income	\$ 28,526	\$ 27,700	\$ 27,485	\$ 27,869	\$ 28,112	\$ 27,138	\$ 27,305	\$ 27,523	\$ 28,520	\$ 27,096	\$ 27,205	\$ 27,601
POVERTY LEVEL												
Percentage whose Income in the past 12-months is below Poverty Level.												
All Families	4.2%	7.9%	8.2%	6.8%	5.0%	7.5%	8.7%	7.0%	5.8%	8.8%	8.4%	7.3%
All People	5.8%	11.1%	10.4%	9.1%	6.6%	10.4%	10.9%	9.4%	7.5%	11.3%	11.4%	10.1%
Under 18 Years	6.5%	16.6%	14.4%	n/a	8.8%	15.2%	16.0%	13.4%	9.2%	16.5%	16.5%	13.9%
65 Years and Older	7.7%	10.9%	8.4%	n/a	6.7%	8.4%	7.6%	7.6%	8.5%	8.2%	7.5%	8.0%

Source: factfinder2.census.gov/

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

NORTHERN KY COUNTIES	2011 (ACS 5-Year Estimates)				2012 (ACS 5-Year Estimates)				2013 (ACS 5-Year Estimates)			
	BOONE	CAMPBELL	KENTON	COMBINED	BOONE	CAMPBELL	KENTON	COMBINED	BOONE	CAMPBELL	KENTON	COMBINED
POPULATION												
Total Population	117,216	89,598	159,008	365,822	119,406	90,119	159,926	369,451	121,214	90,606	160,828	372,648
Median Age (years)	35.4	37.0	36.0	n/a	35.7	36.9	36.2	n/a	36.0	37.0	36.4	n/a
HOUSEHOLDS												
Total Households	41,843	35,258	62,054	139,155	42,617	35,235	62,260	140,112	43,255	35,203	61,800	140,258
Average Household Size	2.78	2.47	2.52	2.59	2.78	2.48	2.53	2.59	2.78	2.49	2.56	2.61
Populations in Households	116,487	86,930	156,402	359,819	118,644	87,391	157,383	363,418	120,390	87,830	158,303	366,523
Population 21 years and older	80,378	64,499	113,339	258,216	82,033	65,184	114,494	261,711	83,378	65,772	115,346	264,496
Population 65 years and older	11,024	11,475	17,745	40,244	11,539	11,680	18,098	41,317	12,107	11,856	18,552	42,515
HOUSING OCCUPANCY												
Total Housing Units	45,694	39,385	68,901	153,980	46,196	39,497	69,053	154,746	46,635	39,560	69,081	155,276
Occupied Housing Units	41,843	35,258	62,054	139,155	42,617	35,235	62,260	140,112	43,255	35,203	61,800	140,258
Owner-Occupied Units	32,316	25,201	42,640	100,157	32,362	24,857	42,361	99,580	32,649	24,643	42,038	99,330
Renter-Occupied Units	9,527	10,057	19,414	38,998	10,255	10,378	19,899	40,532	10,606	10,560	19,762	40,928
Vacant Housing Units	3,851	4,127	6,847	14,825	3,579	4,262	6,793	14,634	3,380	4,357	7,281	15,018
Vacant Housing Rate	8.4%	10.5%	9.9%	9.6%	7.7%	10.8%	9.8%	9.5%	7.2%	11.0%	10.5%	9.7%
Median (Value) Owner-occupied units	\$ 175,200	\$ 145,500	\$ 146,700	n/a	\$ 173,000	\$ 147,600	\$ 146,200	n/a	\$ 172,700	\$ 146,300	\$ 144,300	n/a
EMPLOYMENT STATUS												
Population 16 years and older	87,382	71,593	123,695	282,670	89,053	72,133	124,387	285,573	90,433	72,430	125,242	288,105
Population in Civilian Labor Force	63,267	49,150	84,808	197,225	63,730	49,122	84,991	197,843	64,347	49,548	85,459	199,354
Employed	59,801	45,535	78,617	183,953	59,622	45,175	78,089	182,886	59,917	45,336	77,880	183,133
Employed Percentage	68.4%	63.6%	63.6%	65.1%	67.0%	62.6%	62.8%	64.0%	66.3%	62.6%	62.2%	63.6%
Unemployed	3,466	3,615	6,191	13,272	4,108	3,947	6,902	14,957	4,430	4,212	7,579	16,221
Unemployed Percentage	4.0%	5.0%	5.0%	4.7%	4.6%	5.5%	5.5%	5.2%	4.9%	5.8%	6.1%	5.6%
INCOME												
Median Household Income	\$ 68,087	\$ 53,018	\$ 53,375	n/a	\$ 67,125	\$ 53,580	\$ 53,900	n/a	\$ 67,225	\$ 54,306	\$ 54,270	n/a
Mean Household Income	\$ 79,126	\$ 67,773	\$ 69,117	\$ 71,786	\$ 78,904	\$ 67,013	\$ 69,366	\$ 71,675	\$ 80,339	\$ 67,244	\$ 69,687	\$ 72,359
Per Capita Income	\$ 28,630	\$ 27,501	\$ 27,484	\$ 27,859	\$ 28,640	\$ 27,063	\$ 27,669	\$ 27,840	\$ 29,235	\$ 26,945	\$ 27,704	\$ 28,025
POVERTY LEVEL												
Percentage whose Income in the past 12-months is below Poverty Level.												
All Families	5.5%	8.6%	9.5%	8.0%	6.4%	9.5%	10.1%	8.7%	7.4%	10.0%	10.5%	9.3%
All People	7.2%	11.3%	12.6%	10.5%	8.3%	12.4%	13.2%	11.4%	9.0%	13.0%	13.7%	12.0%
Under 18 Years	8.5%	15.8%	18.6%	14.4%	10.6%	17.2%	19.8%	15.9%	12.2%	17.5%	20.8%	17.0%
65 Years and Older	7.8%	7.4%	7.2%	7.4%	8.0%	6.5%	7.5%	7.4%	6.9%	8.0%	8.3%	7.8%

Source: factfinder2.census.gov/

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

NORTHERN KY COUNTIES	2014 (ACS 5-Year Estimates)				2015 (ACS 5-Year Estimates)				2016 (ACS 5-Year Estimates)			
	BOONE	CAMPBELL	KENTON	COMBINED	BOONE	CAMPBELL	KENTON	COMBINED	BOONE	CAMPBELL	KENTON	COMBINED
POPULATION												
Total Population	123,030	91,268	161,915	376,213	124,617	91,475	163,007	379,099	125,656	91,456	163,393	380,505
Median Age (years)	36.1	37.0	36.3	n/a	36.2	37.3	36.4	n/a	36.6	37.9	36.7	n/a
HOUSEHOLDS												
Total Households	43,903	35,478	61,962	141,343	44,709	35,477	62,225	142,411	45,649	35,954	62,746	144,349
Average Household Size	2.78	2.49	2.57	2.62	2.77	2.49	2.58	2.62	2.73	2.46	2.57	2.59
Populations in Households	122,141	88,307	159,438	369,886	123,644	88,421	160,718	372,783	124,657	88,314	161,085	374,056
Population 21 years and older	84,911	66,322	116,400	267,633	86,329	66,896	117,493	270,718	87,486	67,314	118,478	273,278
Population 65 years and older	12,724	12,004	19,225	43,953	13,236	12,365	19,988	45,589	13,980	12,702	20,747	47,429
HOUSING OCCUPANCY												
Total Housing Units	47,052	39,705	69,242	155,999	47,466	39,754	69,369	156,589	47,878	39,873	69,520	157,271
Occupied Housing Units	43,903	35,478	61,962	141,343	44,709	35,477	62,225	142,411	45,649	35,954	62,746	144,349
Owner-Occupied Units	32,561	24,417	41,536	98,514	32,785	24,368	40,956	98,109	32,880	24,530	41,155	98,565
Renter-Occupied Units	11,342	11,061	20,426	42,829	11,924	11,109	21,269	44,302	12,769	11,424	21,591	45,784
Vacant Housing Units	3,149	4,227	7,280	14,656	2,757	4,277	7,144	14,178	2,229	3,919	6,774	12,922
Vacant Housing Rate	6.7%	10.6%	10.5%	9.4%	5.8%	10.8%	10.3%	9.1%	4.7%	9.8%	9.7%	8.2%
Median (Value) Owner-occupied units	\$ 174,200	\$ 147,700	\$ 143,900	n/a	\$ 175,100	\$ 150,400	\$ 145,200	n/a	\$ 178,300	\$ 156,600	\$ 147,000	n/a
EMPLOYMENT STATUS												
Population 16 years and older	92,145	73,165	126,093	291,403	93,587	73,523	127,102	294,212	95,134	73,934	127,720	296,788
Population in Civilian Labor Force	65,546	49,526	85,229	200,301	66,346	49,211	86,096	201,653	67,334	49,093	87,231	203,658
Employed	61,454	45,481	78,082	185,017	62,624	45,872	79,447	187,943	63,757	46,233	81,588	191,578
Employed Percentage	66.7%	62.2%	61.9%	63.5%	66.9%	62.4%	62.5%	63.9%	67.0%	62.5%	63.9%	64.6%
Unemployed	4,092	4,045	7,147	15,284	3,722	3,339	6,649	13,710	3,577	2,860	5,643	12,080
Unemployed Percentage	4.4%	5.5%	5.7%	5.2%	4.0%	4.5%	5.2%	4.7%	3.8%	3.9%	4.4%	4.1%
INCOME												
Median Household Income	\$ 67,286	\$ 54,482	\$ 54,817	n/a	\$ 66,730	\$ 54,621	\$ 54,296	n/a	\$ 69,165	\$ 56,772	\$ 56,568	n/a
Mean Household Income	81,417	68,553	70,126	\$ 73,238	81,500	70,780	70,236	\$ 73,908	85,590	74,223	72,452	\$ 77,048
Per Capita Income	29,656	27,479	27,788	28,331	29,866	28,248	27,847	28,612	31,593	29,834	28,785	29,968
POVERTY LEVEL												
Percentage whose Income in the past 12-months is below Poverty Level.												
All Families	7.1%	10.4%	11.1%	9.5%	6.6%	10.3%	11.8%	9.6%	6.5%	11.0%	10.9%	9.4%
All People	8.7%	14.0%	14.3%	12.4%	8.2%	14.6%	14.6%	12.5%	7.9%	14.9%	13.6%	12.0%
Under 18 Years	11.7%	19.2%	21.8%	17.6%	11.2%	20.5%	23.0%	18.2%	11.4%	22.0%	21.5%	18.0%
65 Years and Older	8.2%	8.0%	8.8%	8.4%	5.9%	9.8%	8.5%	8.1%	6.3%	10.2%	8.0%	8.1%

Source: factfinder2.census.gov/

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

NORTHERN KY COUNTIES	2017 (ACS 1-Year Estimates)			
	BOONE	CAMPBELL	KENTON	COMBINED
POPULATION				
Total Population	130,728	92,488	165,399	388,615
Median Age (Years)	37.7	37.9	37.1	n/a
HOUSEHOLDS				
Total Households	46,388	35,740	63,679	145,807
Average Household Size	2.80	2.48	2.56	2.61
Populations in Households	129,689	88,503	162,900	381,092
Population 21 years and older	91,584	69,274	120,487	281,345
Population 65 years and older	16,773	13,930	23,393	54,096
HOUSING OCCUPANCY				
Total Housing Units	49,455	40,392	69,742	159,589
Occupied Housing Units	46,388	35,740	63,679	145,807
Owner-Occupied Units	35,100	24,606	40,676	100,382
Renter-Occupied Units	11,288	11,134	23,003	45,425
Vacant Housing Units	3,067	4,652	6,063	13,782
Vacant Housing Rate	6.2%	11.5%	8.7%	8.6%
Median (Value) Owner-Occupied Units	\$ 191,500	\$ 180,500	\$ 159,200	n/a
EMPLOYMENT STATUS				
Population 16 Years and Older	101,019	75,808	130,019	306,846
Population in Civilian Labor Force	68,290	48,711	86,815	203,816
Employed	65,457	47,091	82,967	195,515
Employed Percentage	64.8%	62.1%	63.8%	63.7%
Unemployed	2,833	1,620	3,848	8,301
Unemployed Percentage	2.8%	2.1%	3.0%	2.7%
INCOME				
Median Household Income	\$ 78,415	\$ 61,379	\$ 58,595	n/a
Mean Household Income	\$ 92,815	\$ 83,867	\$ 79,023	\$ 84,598
Per Capita Income	\$ 33,597	\$ 34,163	\$ 31,263	\$ 32,731
POVERTY LEVEL				
Percentage whose Income in the past 12-months is below Poverty Level.				
All Families	5.4%	4.8%	9.4%	6.9%
All People	7.4%	10.5%	12.2%	10.2%
Under 18 Years	10.1%	7.4%	13.6%	11.0%
65 Years and Older	1.7%	12.9%	8.6%	7.6%

Source: factfinder2.census.gov/

**Sanitation District No. 1
Northern Kentucky Top Ten Employers
2018 and 2009**

Top Ten Employers in Northern Kentucky - 2018 (Ranked by Local Employees)		
Company	Employees	Percentage of Employed Work Force
Cincinnati/NKY International Airport	12,682	6.2%
St. Elizabeth Healthcare	8,246	4.0%
Fidelity Investments	4,300	2.1%
Internal Revenue Service	3,961	1.9%
Kroger Co.	3,607	1.8%
Boone County Schools	3,301	1.6%
Amazon.com	3,000	1.5%
Citi	2,490	1.2%
Northern Kentucky University	2,029	1.0%
Kenton County Schools	1,700	0.8%
Totals:	45,316	22.2%

Source: Business Courier Book of Lists

Top Ten Employers in Northern Kentucky - 2009 (Ranked by Local Employees)		
Company	Employees	Percentage of Employed Work Force
Internal Revenue Service	5,000	2.6%
St. Elizabeth Medical Center	4,180	2.1%
Fidelity Investments	3,800	2.0%
Comair	2,900	1.5%
Citigroup	2,600	1.3%
Boone County Schools	2,232	1.1%
Duro Bag Mfg. Co.	1,500	0.8%
St. Luke Hospitals	1,989	1.0%
Northern Kentucky University	1,854	1.0%
Toyota Motor Engineering & Manufacturing, NA	1,300	0.7%
Totals:	27,355	14.0%

Source: Harris Directory, 2009; Business Courier, 2009
Book of Lists

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

	Design Capacity MGD	Fiscal Year									
		Average Daily Wastewater Flow (MGD)									
		2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Treatment Plant Flow (1)											
Dry Creek	46.5	31.4	35.9	35.7	35.9	27.3	26.4	20.7	27.4	27.0	27.0
Eastern Regional WRF*	4.0	0.9	1.0	0.9	0.8	0.8	0.94	1.05	1.03	1.00	1.00
Western Regional WRF**	20.0				3.4	7.6	8.43	7.77	8.12	8.00	8.00
	<u>70.5</u>	<u>32.3</u>	<u>36.9</u>	<u>36.6</u>	<u>40.1</u>	<u>35.7</u>	<u>35.8</u>	<u>29.5</u>	<u>36.6</u>	<u>36.0</u>	<u>36.0</u>
Staffing Levels (2)											
Administration		46	48	51	61	62	58	59	58.5	54	43
Engineering		49	42	38	27	27	21	21	21	21	23
Operations							6	6	5	5	20
Storm Water		0	0	0	18	14	15.5	15.5	16.5	16.5	16.5
Collection System		78	84	88	83	89	88	88	84	78	72
Field Tech (Pump Stations)		13	18	14	14	13	15	15	15	15	15
Eastern Regional and Small Plants		6	11	13	10	9	10.5	10.5	10.5	9.5	9.5
Western Regional Plant				0	13	13	12	13	13	13	13
Dry Creek and Lab		57	51	54	46	49	47.5	46.5	45.5	45.5	45.5
Total Employees		<u>249</u>	<u>254</u>	<u>258</u>	<u>272</u>	<u>276</u>	<u>273.5</u>	<u>274.5</u>	<u>269.0</u>	<u>257.5</u>	<u>257.5</u>

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

(2) Source: SD1 budget documents

* Eastern Regional Water Reclamation Facility went online 10/2007

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

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

	Fiscal Year									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Miles of Sanitary Sewers (Includes Sanitary, Force Mains and Combined)	1,600	1,600	1,600	1,600	1,600	1,600	1,600	1,620	1,620	1,640
Small Wastewater Treatment Plants	2	2	2	2	3	3	3	3	3	3
Owned and Operated	4	4	4	4	4	4	4	4	4	4
Operated But Not Owned	3	3	4	4	4	4	4	2	3	3
Pump Stations	3	3	4	4	4	4	4	2	3	3
Owned and Operated	129	133	131	131	133	121	121	121	120	121
Operated But Not Owned	2	13	13	13	13	14	14	3	3	3
Flood Stations	15	15	15	15	15	15	15	15	15	15
Flood Gate Structures	91	89	89	89	89	88	88	89	89	92
Storm Structures	18,896	28,883	29,165	31,669	32,062	32,541	32,820	33,097	31,106	31,106
Miles of Separate Storm Sewers	255	407	417	440	442	447	447	451	416	416

Source: SD1 GIS records