

SANITATION DISTRICT NO. 1

FINANCIAL STATEMENTS

For the Years Ended June 30, 2010 and 2009

<p>SANITATION DISTRICT NO. 1</p> <p>FINANCIAL STATEMENTS</p> <p>For the Years Ended June 30, 2010 and 2009</p>

Table of Contents

	Page
Board of Directors	1
Independent Auditor's Report	3
Management's Discussion and Analysis	7
Basic Financial Statements	
Balance Sheets	12
Statements of Revenues, Expenses and Changes in Net Assets	16
Statements of Cash Flows	18
Notes to the Financial Statements	20
Required Supplementary Information	
Report on Supplementary Information	34
Budgetary Comparison Schedules - Budget to Actual	
General Revenues	35
Operation, Maintenance, and Administration	37
Schedule of Rates, Rate Determination, and Number of Users	51
Schedule of Expenditures of Federal Awards	52
Notes to the Supplementary Information	53
Report on Internal Control over Financial Reporting and on Compliance And Other Matters Based on an Audit of Financial Statements Performed In Accordance with <i>Government Auditing Standards</i>	55
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with <i>OMB Circular A-133</i>	59
Schedule of Findings and Questioned Costs	63
Summary Schedule of Prior Audit Findings	64

SANITATION DISTRICT NO. 1
FINANCIAL STATEMENTS
For the Years Ended June 30, 2010 and 2009

Board of Directors

Robert N. Elliston, President

Fran Reitman, Vice-President

John A. Hill, Jr., Secretary

Robert Rothert, Treasurer

David K. Noran

Robert Schroder

Jan Steinman

Justin Weber, Jr.

Management

Jeffery A. Eger, General Manager

This Page Intentionally Left Blank

Independent Auditor's Report

To the Board of Directors
Sanitation District No. 1

We have audited the accompanying financial statements of the governmental activities and each major fund of Sanitation District No. 1 (District), as of and for the years ended June 30, 2010 and 2009, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Sanitation District No. 1 as of June 30, 2010 and 2009, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2010, on our consideration of Sanitation District No. 1's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The management's discussion and analysis on pages 7 through 10 and budgetary comparison information on pages 35 through 50 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

This Page Intentionally Left Blank

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



Van Gorder, Walker & Co., Inc.
Erlanger, Kentucky
November 8, 2010

This Page Intentionally Left Blank

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

Overview of the Annual Financial Report

Table 1 provides a summary of the District's net assets at June 30, 2010 and 2009.

**Table 1
Net Assets**

	June 30,	
	2010	2009
Current Assets	\$ 42,131,653	\$ 43,118,455
Restricted Assets	119,251,412	79,406,630
Non-current Assets, Net	4,271,574	3,118,841
Capital Assets, Net	940,528,154	613,318,422
Total Assets	<u>1,106,182,793</u>	<u>738,962,348</u>
Current Liabilities	31,842,804	26,558,551
Liabilities from Restricted Assets	76,292,183	41,092,904
Non-current Liabilities	349,836,789	227,845,699
Total Liabilities	<u>457,971,776</u>	<u>295,497,154</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	586,425,101	382,686,564
Restricted	42,959,229	37,053,964
Unrestricted	18,826,687	23,724,666
Total Net Assets	<u>\$ 648,211,017</u>	<u>\$ 443,465,194</u>

Net Assets of the District increased 46% to \$648,211,017 in 2010 from \$443,465,194 in 2009. The increase was attributable primarily to the District's accepting responsibility for storm water assets from numerous Northern Kentucky cities. This one time contribution of assets accounted for \$211,099,375 of the increase in net assets. The largest portion of the District's net assets (91%) reflects its investment in capital assets such as land, buildings, treatment facilities, and collection systems, less any related debt still outstanding used to acquire those assets. The District uses these capital assets to provide services to its customers; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the District's net assets (7%) is considered to be restricted. This amount represents resources that are subject to external restrictions on how they may be used.

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

Table 2 shows the changes in net assets for 2010, as well as the revenue and expense comparisons to 2009.

Table 2
Changes in Net Assets

	For the Years Ended June 30,	
	2010	2009
Operating Revenues:		
Sewer service charges	\$ 53,994,128	\$ 47,368,230
Storm water charges	10,810,291	10,301,534
Permits and tap in fees	2,732,120	2,236,542
Sludge hauling	92,429	77,171
Inspections	34,878	52,456
Penalties	1,292,685	1,179,262
Contractual services	103,219	87,600
Bad debt recoveries	49,938	12,964
Other revenues	119,992	44,190
Project reimbursements	165,830	310,899
Total Operating Revenues	<u>69,395,510</u>	<u>61,670,848</u>
Operating Expenses		
Operations, maintenance, and administration	28,117,344	25,074,658
Major repairs and other expenses	4,797,653	3,134,429
Depreciation	32,842,268	23,731,773
Total Operating Expenses	<u>65,757,265</u>	<u>51,940,860</u>
Operating Income	3,638,245	9,729,988
Non-Operating Revenues (Losses)	(2,286,603)	2,465,962
Interest and Other Charges	<u>(11,360,883)</u>	<u>(6,017,122)</u>
Change in Net Assets Before Capital Contributions	(10,009,241)	6,178,828
Capital Contributions	<u>214,755,064</u>	<u>2,286,532</u>
Change in Net Assets	204,745,823	8,465,360
Net Assets - Beginning	<u>443,465,194</u>	<u>434,999,834</u>
Net Assets - Ending	<u>\$ 648,211,017</u>	<u>\$ 443,465,194</u>

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

The District showed an increase in net assets for the year of \$204,745,823, compared to \$8,465,360 in fiscal year 2009, of which, capital contributions was the most significant portion. Capital contributions increased by \$212,468,532 due to the aforementioned contribution of storm water assets from Northern Kentucky cities. Operating expenses increased by 27% primarily due to an increase in depreciation expense. Non-operating revenues were a net loss due to a \$4,646,164 loss on disposal of fixed assets and interest expense and other charges increased by \$5,343,761 due to an increase in interest on new bonds.

Debt and Capital Asset Administration

Table 3 summarizes the District's outstanding debt at June 30, 2010 and 2009.

Table 3
Debt Summary

	June 30,	
	2010	2009
Bonds Payable Obligations (Backed by User Fee Revenues)	\$ 354,520,000	\$ 230,545,000
Notes Payable (Backed by User Fee Revenues)	60,501,607	33,757,027
Totals	<u>\$ 415,021,607</u>	<u>\$ 264,302,027</u>

At year end, the District had \$415,021,607 in outstanding bonds and notes compared to \$264,302,027 in 2009, a increase of 57% as shown in Table 3. The District added two new bonds (\$54,880,000 and \$75,000,000) this year and added \$28,004,342 to the notes payable. These funds were utilized to help fund the necessary capital improvement projects.

Capital Assets

At June 30, 2010 total capital assets reported were \$1,146,862,153 including land, buildings, sewer systems, equipment, and vehicles. This represents a net increase of \$348,206,801, or 44% over 2009. This increase is due to the District's investment in sewer projects, such as the Western Regional Waste Water Reclamation Facility, vehicles, equipment and storm water assets contributed by Northern Kentucky cities during the fiscal year. These assets are summarized in the table below.

Table 4
Capital Assets, Net of Depreciation

Asset Type	June 30,	
	2010	2009
Collection system	\$ 431,156,468	\$ 383,879,066
Pump stations	71,026,855	60,086,361
Treatment and disposal	125,914,436	96,750,433
General plant and equipment	69,005,259	68,334,960
Sanitation software model	15,608,576	10,711,740
Stormwater collection	233,054,168	21,443,446
Stormwater software model	3,516,692	3,516,692
Construction in progress		
Sanitation	187,722,253	145,107,180
Stormwater	9,857,446	8,825,474
Subtotal	<u>1,146,862,153</u>	<u>798,655,352</u>
Less: accumulated depreciation	<u>(206,333,999)</u>	<u>(185,336,960)</u>
Total Capital Assets, Net	<u>\$ 940,528,154</u>	<u>\$ 613,318,392</u>

Economic Factor's and Next Year's Budget

Sanitation District No. 1's budget for the 2011 fiscal year calls for an increase of over \$1.8 million to the Operation and Maintenance (O&M) Budget and an increase of over \$27.2 million to the Capital Improvement Project (CIP) Budgets.

Overall, the FY 2011 budget continues to be reflective of the priorities within SD1 associated with the Consent Decree and the accompanying C-MOM (Capacity - Management, Operations and Maintenance) requirements from the Federal EPA for our collection and treatment systems. SD1's management staff continues to develop and refine its strategies to meet the additional responsibilities. In addition, SD1 is completing the transfer of storm water assets from Northern Kentucky cities in FY 2011.

The primary component of the O&M expense budget is the staffing level associated with meeting all the expectations of the Consent Decree as well as the new maintenance requirements associated with the storm water assets transfer. In addition, higher chemical, utility, and fuel costs have had a significant impact on the budget.

The Revenue Budget calls for a 15% adjustment to sanitary sewer rates as part of approved back-to-back 15% increases for FY 2010 & FY 2011. The impact to revenue in FY 2011 is an estimated increase of nearly \$5.3 million over the previous year's actual sewer revenues. In addition, there is a 0.47% reduction in the storm water surcharge rate, but with additional growth it is still estimated that there will be a modest \$400,000 increase in storm water revenues. Capacity connection fees are budgeted at \$2.5 million compared to \$3.0 million in the previous budget. The decrease is due to the continued decrease in the housing market. Due to flat or lower revenues in other rates and fees categories, total revenues are budgeted to increase in 2011 by just over \$11 million.

The Capital Improvement Projects Budget for FY 2011 shows that a majority of the capital spending is centered on the Western Regional Water Reclamation Facility and the Western Regional Conveyance Tunnel along with the Watershed Management project groups. Spending on the Western Regional projects is projected to account for over 65% of the total capital spending over the next two years. It is anticipated that capital spending on projects identified through the Watershed Plans and other Consent Decree activities will begin to dominate the budget in future years.

The District issued \$50 million in Build America Bonds early in fiscal year 2010 to help meet the capital budget requirements for the fiscal year. It is anticipated additional revenue bonds will be issued prior to the end of the fiscal year 2011 to help with our aggressive capital spending. The District will continue to use the most cost effective means to finance our aggressive capital program including cash financing, Build America Bonds, traditional revenue bonds and the Commonwealth of Kentucky's Revolving Loan Fund Program.

Contacting SD1's Financial Management

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

BASIC FINANCIAL STATEMENTS

SANITATION DISTRICT NO. 1 BALANCE SHEET June 30, 2010
--

ASSETS

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

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

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

LIABILITIES

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

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

SANITATION DISTRICT NO. 1 BALANCE SHEET June 30, 2009
--

ASSETS

	<u>Sanitation</u>	<u>Stormwater</u>	<u>Total</u>
Current Assets			
Cash and cash equivalents	\$ 10,266,444	\$ -	\$ 10,266,444
Investments	8,965,396	-	8,965,396
Accounts receivable			
Customers, net of allowance	6,400,292	1,751,944	8,152,236
Communities	15,278	-	15,278
Other	1,946,388	-	1,946,388
Due from other funds	-	4,840,700	4,840,700
Accrued unbilled charges	6,870,200	1,489,000	8,359,200
Prepaid items and deposits	555,209	-	555,209
Accrued interest	17,604	-	17,604
Total Current Assets	<u>35,036,811</u>	<u>8,081,644</u>	<u>43,118,455</u>
Restricted Assets			
Cash	25,451,995	-	25,451,995
Investments	51,350,743	-	51,350,743
Receivables			
Assessments	2,079,386	-	2,079,386
Municipal improvement notes	20,530	-	20,530
Accrued interest	270,586	-	270,586
Prepaid items	233,390	-	233,390
Total Restricted Assets	<u>79,406,630</u>	<u>-</u>	<u>79,406,630</u>
Noncurrent Assets			
Unamortized bond costs and discount, net	3,118,841	-	3,118,841
Capital Assets			
Land, system, building, equipment, and vehicles	619,762,560	24,960,138	644,722,698
Construction in progress	145,107,180	8,825,474	153,932,654
Less: accumulated depreciation	<u>(181,922,681)</u>	<u>(3,414,249)</u>	<u>(185,336,930)</u>
Total Capital Assets, Net	<u>582,947,059</u>	<u>30,371,363</u>	<u>613,318,422</u>
TOTAL ASSETS	<u>\$ 700,509,341</u>	<u>\$ 38,453,007</u>	<u>\$ 738,962,348</u>

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

SANITATION DISTRICT NO. 1
BALANCE SHEET (Continued)
June 30, 2009

LIABILITIES

	Sanitation	Stormwater	Total
Current Liabilities			
Customer deposits and other	\$ 12,583,179	\$ -	\$ 12,583,179
Communities	1,589,757	171,248	1,761,005
Accounts payable	134,234	-	134,234
Due to other funds	4,840,700	-	4,840,700
Accrued payroll and benefits	18,187	-	18,187
Payroll taxes and pension payable	56,154	-	56,154
Sales tax payable	330	-	330
Current portion of long-term debt	7,164,762	-	7,164,762
Total Current Liabilities	26,387,303	171,248	26,558,551
Liabilities Payable From Restricted Assets			
Notes payable	32,497,265	-	32,497,265
Accounts payable	2,225,953	1,791,298	4,017,251
Accrued interest payable	4,578,388	-	4,578,388
Total Liabilities Payable From Restricted Assets	39,301,606	1,791,298	41,092,904
Noncurrent Liabilities			
Bonds payable, net of amortization	227,845,699	-	227,845,699
Total Noncurrent Liabilities	227,845,699	-	227,845,699
TOTAL LIABILITIES	293,534,608	1,962,546	295,497,154
NET ASSETS			
Invested in capital assets, net of related debt	351,055,439	30,371,363	381,426,802
Restricted	40,105,024	(1,791,298)	38,313,726
Unrestricted	15,814,270	7,910,396	23,724,666
TOTAL NET ASSETS	406,974,733	36,490,461	443,465,194
TOTAL LIABILITIES AND NET ASSETS	\$ 700,509,341	\$ 38,453,007	\$ 738,962,348

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

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

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

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

SANITATION DISTRICT NO. 1 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS For the Year Ended June 30, 2009

	<u>Sanitation</u>	<u>Stormwater</u>	<u>Total</u>
OPERATING REVENUES			
Sewer service charges	\$ 47,368,230	\$ -	\$ 47,368,230
Storm water charges	-	10,301,534	10,301,534
Permits and tap-in fees	2,210,992	25,550	2,236,542
Sludge hauling	77,171	-	77,171
Inspections	40,617	11,839	52,456
Penalties	998,956	180,306	1,179,262
Contractual services	87,600	-	87,600
Bad debt recoveries	12,964	-	12,964
Other revenues	44,190	-	44,190
Project reimbursements	315,099	(4,200)	310,899
TOTAL OPERATING REVENUES	<u>51,155,819</u>	<u>10,515,029</u>	<u>61,670,848</u>
OPERATING EXPENSES			
Operation, maintenance and administration	23,498,306	1,576,352	25,074,658
Major repairs and other	1,150,621	1,983,808	3,134,429
Depreciation	21,709,193	2,022,580	23,731,773
TOTAL OPERATING EXPENSES	<u>46,358,120</u>	<u>5,582,740</u>	<u>51,940,860</u>
OPERATING INCOME	<u>4,797,699</u>	<u>4,932,289</u>	<u>9,729,988</u>
NON-OPERATING INCOME			
Interest income	2,064,125	-	2,064,125
Transfers (to)/from other fund	1,583,601	(1,583,601)	-
Gain on sale of fixed assets	59,458	-	59,458
Unrealized appreciation in fair market value of investments	342,379	-	342,379
TOTAL NON-OPERATING INCOME	<u>4,049,563</u>	<u>(1,583,601)</u>	<u>2,465,962</u>
INTEREST AND OTHER CHARGES			
Interest on long-term debt	5,758,237	-	5,758,237
Amortization of bond discount and expense	258,885	-	258,885
TOTAL INTEREST AND OTHER CHARGES	<u>6,017,122</u>	<u>-</u>	<u>6,017,122</u>
CHANGE IN NET ASSETS BEFORE CAPITAL CONTRIBUTIONS	<u>2,830,140</u>	<u>3,348,688</u>	<u>6,178,828</u>
CAPITAL CONTRIBUTIONS	<u>2,286,532</u>	<u>-</u>	<u>2,286,532</u>
CHANGE IN NET ASSETS	<u>5,116,672</u>	<u>3,348,688</u>	<u>8,465,360</u>
NET ASSETS, JULY 1, 2008	<u>401,858,061</u>	<u>33,141,773</u>	<u>434,999,834</u>
NET ASSETS, JUNE 30, 2009	<u>\$ 406,974,733</u>	<u>\$ 36,490,461</u>	<u>\$ 443,465,194</u>

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

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

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

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

SANITATION DISTRICT NO. 1
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2009

	<u>Sanitation</u>	<u>Stormwater</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Received from customers	\$ 50,431,610	\$ 10,762,819	\$ 61,194,429
Paid to suppliers for goods and services	(13,074,079)	(2,708,528)	(15,782,607)
Paid to or on behalf of employees for services	(10,944,663)	(740,679)	(11,685,342)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>26,412,868</u>	<u>7,313,612</u>	<u>33,726,480</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Transfers in (out)	1,583,601	(1,583,601)	-
Investment income	2,310,516	-	2,310,516
Net increase on investments	(3,563,263)	-	(3,563,263)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>330,854</u>	<u>(1,583,601)</u>	<u>(1,252,747)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Principal received on notes	3,017,121	-	3,017,121
Gain on sale of assets	59,458	-	59,458
Payments made on long term debt	(6,875,466)	-	(6,875,466)
Interest paid, net of capitalized interest	(6,226,401)	-	(6,226,401)
Acquisition and construction of fixed assets, net of contributed capital	(66,709,857)	(6,039,804)	(72,749,661)
(Increase) decrease in restricted funds	41,621,508	309,793	41,931,301
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(35,113,637)</u>	<u>(5,730,011)</u>	<u>(40,843,648)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(8,369,915)</u>	<u>-</u>	<u>(8,369,915)</u>
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>18,636,359</u>	<u>-</u>	<u>18,636,359</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 10,266,444</u>	<u>\$ -</u>	<u>\$ 10,266,444</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating income	\$ 4,797,699	\$ 4,932,289	\$ 9,729,988
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation	21,709,193	2,022,580	23,731,773
Change in operating assets and liabilities			
Decrease (Increase) in receivables	(971,293)	230,716	(740,577)
Decrease (Increase) in accrued unbilled charges	102,722	17,074	119,796
Decrease (Increase) in assessments receivable	144,362	-	144,362
Decrease (Increase) in prepaid assets	53,105	10,000	63,105
Increase (Decrease) in communities payable	1,536	-	1,536
Increase (Decrease) in accounts payable	722,982	-	722,982
Increase (Decrease) in accrued payroll and taxes	203,231	100,953	304,184
Increase (Decrease) in other liabilities	(350,669)	-	(350,669)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 26,412,868</u>	<u>\$ 7,313,612</u>	<u>\$ 33,726,480</u>
Non-Cash Capital and Related Financing Activities:			
Capital assets contributed to the District	<u>\$ 2,286,532</u>	<u>\$ -</u>	<u>\$ 2,286,532</u>
Supplemental Information			
Interest expensed	5,758,237	-	5,758,237
Interest capitalized	5,704,276	-	5,704,276
Total	<u>\$ 11,462,513</u>	<u>\$ -</u>	<u>\$ 11,462,513</u>

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

SANITATION DISTRICT NO. 1 NOTES TO THE FINANCIAL STATEMENTS June 30, 2010 and 2009

NOTE 1 – REPORTING ENTITY

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Accounting

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

The District has adopted GASB Statements 33 through 53, and related interpretations issued through June 30, 2010. Statement No. 33 required capital contributions to be recorded in the statement of revenues, expenses and changes in net assets. Statement 34 and subsequent statements and interpretations required certain other changes in terminology, format and content, as well as inclusion of the management's discussion and analysis as required supplementary information.

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

SANITATION DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010 and 2009

financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The transactions of the District are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the balance sheet. Net assets (i.e., total assets net of total liabilities) are segregated into "invested in capital assets, net of related liabilities"; "restricted"; and "unrestricted" components.

The basic financial statements are presented in conformity with generally accepted Enterprise Fund accounting principles as applicable to public waste water utilities. The following is a summary of the significant policies. As previously stated, the accompanying financial statements are prepared on the accrual basis of accounting.

Fund Structure

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

1. Sanitation Fund
2. Storm Water Fund

Sanitation Fund

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

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

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

Storm Water Fund

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

SANITATION DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010 and 2009

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

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

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

Use of Estimates

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

Reclassifications

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

Cash and Cash Equivalents

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

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

SANITATION DISTRICT NO. 1 NOTES TO THE FINANCIAL STATEMENTS June 30, 2010 and 2009

The following is a supplemental disclosure of cash flow information:

Cash Paid For Interest During the Year	June 30, 2010	June 30, 2009
Expensed	\$ 11,174,829	\$ 5,758,237
Capitalized	3,836,014	5,704,276
Total	<u>\$ 15,010,843</u>	<u>\$ 11,462,513</u>

The District had no non-cash investing activities during 2010 or 2009.

Investment Policy

General Policy

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

Authorized Investment Instruments

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

Deposits and Investments

Custodial Credit Risk – Deposits. For deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned. The District maintains deposits with financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). As allowed by law, the depository bank should pledge securities along with FDIC insurance at least equal to the amount on deposit at all times. As of June 30, 2010, the District's deposits were entirely insured and/or collateralized with securities held by the financial institutions on the District's behalf and the FDIC insurance.

As of June 30, 2010 and 2009, the District's funds were appropriately collateralized by financial institution funds.

SANITATION DISTRICT NO. 1 NOTES TO THE FINANCIAL STATEMENTS June 30, 2010 and 2009

Custodial Credit Risk – Investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The District had custodial credit risk at June 30, 2010 and 2009 of \$70,619,927 and \$60,316,139 respectively. The related securities totaling this amount are uninsured, unregistered securities held by the counterparty, or its trust department or agent but not in the entity's name.

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

Accounts Receivable - Customers

During 2009, the District changed to a monthly billing procedure, replacing a quarterly cycled procedure. When meter readings are delayed, bills are rendered based on estimated meter readings to promote consistency of sewer service revenue. Accounts receivable and related sewer service revenue are recorded when billed. The financial statements include an estimate for unbilled sewer and storm water charges of \$7,725,400 and \$8,359,200 as of June 30, 2010 and 2009, respectively.

Accounts receivable are stated at their contractual outstanding balances, net of any allowance for doubtful accounts. Accounts are considered past due if any portion of an account has not been paid in full within the contractual terms of the account. The District begins to assess its ability to collect receivables that are over 90 days past due and provides for an adequate allowance for doubtful accounts based on the District's collection history, the financial stability and recent payment history of the customer, and other pertinent factors. Based on these criteria, the District has estimated no allowance for doubtful accounts at June 30, 2010 and 2009 because management expects no material losses.

Fixed Assets

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

SANITATION DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010 and 2009

The following tables provide a summary of fixed asset balances, additions, and retirements for the year ended June 30, 2010 for both the Sanitation and the Storm Water funds:

Sanitation Fund	Balance at			Balance at
Asset Type	June 30, 2009	Additions	Retirements	June 30, 2010
Collection system	\$ 383,879,066	\$ 52,805,980	\$ (5,528,578)	\$ 431,156,468
Pumping system	60,086,361	12,699,252	(1,758,758)	71,026,855
Treatment and disposal	96,750,433	37,394,358	(8,230,354)	125,914,437
General plant and equipment	68,334,960	1,387,664	(717,366)	69,005,258
Software model development	10,711,740	4,896,836	-	15,608,576
Construction in progress - sanitation	145,107,180	149,888,308	(107,273,235)	187,722,253
Subtotal	764,869,740	259,072,398	(123,508,291)	900,433,847
Less: accumulated depreciation	(181,922,681)	(25,393,392)	11,537,109	(195,778,964)
Fixed Assets, Net	\$ 582,947,059	\$ 233,679,006	\$ (111,971,182)	\$ 704,654,883

Storm Water Fund	Balance at			Balance at
Asset Type	June 30, 2009	Additions	Retirements	June 30, 2010
Storm water collection system	\$ 21,443,446	\$ 214,344,319	\$ (2,733,597)	\$ 233,054,168
Software model development	3,516,692	-	-	3,516,692
Construction in progress - storm water	8,825,474	3,111,642	(2,079,670)	9,857,446
Subtotal	33,785,612	217,455,961	(4,813,267)	246,428,306
Less: accumulated depreciation	(3,414,249)	(7,448,876)	308,090	(10,555,035)
Fixed Assets, Net	\$ 30,371,363	\$ 210,007,085	\$ (4,505,177)	\$ 235,873,271

Uncompensated Absences

Employees of the District are entitled to paid vacation depending on length of service and other factors. The amounts recorded for accumulated vacation for the year ended June 30, 2010 and 2009 was \$1,021,868 and \$766,491, respectively. Financial Accounting Standards Board Statement No. 43 requires accrued employee vacation benefits to be recorded in the financial statements. Sick leave is not accrued because it does not vest; employees are not paid for any sick leave balance at termination of employment except at retirement.

Restricted Net Assets

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

SANITATION DISTRICT NO. 1 NOTES TO THE FINANCIAL STATEMENTS June 30, 2010 and 2009

NOTE 3 – NOTES RECEIVABLE

Northern Kentucky Municipalities

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

	2010	2009
Balance, beginning of year	\$ 15,006	\$ 821,522
Payments received	(9,482)	(806,516)
Balance, end of year	<u>\$ 5,524</u>	<u>\$ 15,006</u>

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

NOTE 4 – BONDS PAYABLE

Revenue Bonds, Series 2010

On May 1, 2010, bonds in the total amount of \$75,000,000 were issued under authority of applicable Kentucky Revised Statutes and in accordance with authorized bond resolutions duly passed and adopted by the Board of Directors of Sanitation District No. 1. Balances outstanding as of June 30, 2010 were \$75,000,000.

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

Revenue Bonds, Series 2009

On August 1, 2009, revenue bonds in the total amount of \$54,880,000 were issued under authority of applicable Kentucky Revised Statutes and in accordance with authorized bond resolutions duly passed and adopted by the Board of Directors of Sanitation District No. 1. Balances outstanding as of June 30, 2010 were \$54,880,000.

The proceeds for the sale of the Series 2009 Bonds, together with other available funds, are being used (1) to provide funds to meet certain capital construction costs of the District, (2) to fund the Debt Service Reserve Fund, and (3) to pay the necessary costs and expenses incident to the issuance and delivery of the Series 2009 Bonds.

SANITATION DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010 and 2009

Revenue Bonds, Series 2007

On December 1, 2007, bonds in the total amount of \$102,000,000 were issued under authority of applicable Kentucky Revised Statutes and in accordance with authorized bond resolutions duly passed and adopted by the Board of Directors of Sanitation District No. 1. Balances outstanding as of June 30, 2010 and 2009 were \$100,190,000 and \$101,165,000, respectively.

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

Revenue Bonds, Series 2006

In October 2006, bonds in the total amount of \$50,000,000 were issued under authority of applicable Kentucky Revised Statutes and in accordance with authorized bond resolutions duly passed and adopted by the Board of Directors of Sanitation District No. 1. Balances outstanding as of June 30, 2010 and 2009 were \$48,205,000 and \$49,120,000, respectively.

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

Revenue Bonds, Series 2005A

In June 2005, bonds in the total amount of \$35,175,000 were issued under authority of applicable Kentucky Revised Statutes and in accordance with authorized bond resolutions duly passed and adopted by the Board of Directors of Sanitation District No. 1. Balances outstanding as of June 30, 2010 and 2009 were \$31,565,000 and \$34,440,000, respectively.

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

Revenue Bonds, Series 2001A

During February 2001, bonds in the total amount of \$52,685,000 were issued under authority of applicable Kentucky Revised Statutes and in accordance with authorized bond resolutions duly passed and adopted by the Board of Directors of Sanitation District No. 1. Balances outstanding as of June 30, 2010 and 2009 were \$44,680,000 and \$45,820,000, respectively.

SANITATION DISTRICT NO. 1 NOTES TO THE FINANCIAL STATEMENTS June 30, 2010 and 2009

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

The changes in outstanding debt for the year ended June 30, 2010 were:

Bond Series	Balance at June 30, 2009	Additions	Payments	Balance at June 30, 2010
2001A	\$ 45,820,000	\$ -	\$ (1,140,000)	\$ 44,680,000
2005A	34,440,000	-	(2,875,000)	31,565,000
2006	49,120,000	-	(915,000)	48,205,000
2007	101,165,000	-	(975,000)	100,190,000
2009	-	54,880,000	-	54,880,000
2010	-	75,000,000	-	75,000,000
Totals	<u>\$ 230,545,000</u>	<u>\$ 129,880,000</u>	<u>\$ (5,905,000)</u>	<u>\$ 354,520,000</u>

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

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

Year ending June 30,	Principal	Interest	Total
2011	7,240,000	16,524,666	23,764,666
2012	9,140,000	17,257,133	26,397,133
2013	9,450,000	16,927,956	26,377,956
2014	9,785,000	16,568,904	26,353,904
2015	10,145,000	16,181,554	26,326,554
2016-2020	54,135,000	73,973,179	128,108,179
2021-2025	53,645,000	61,448,006	115,093,006
2026-2030	66,925,000	46,274,089	113,199,089
2031-2035	72,775,000	27,375,484	100,150,484
2036-2040	57,245,000	8,431,882	65,676,882
2041-2045	4,035,000	126,094	4,161,094
Total	<u>\$ 354,520,000</u>	<u>\$ 301,088,947</u>	<u>\$ 655,608,947</u>

NOTE 5 – NOTES PAYABLE

Eastern Regional Waste Water Reclamation Facility

The District partnered with the Kentucky Infrastructure Authority to fund construction of the Eastern Regional Wastewater Reclamation Facility (ERWRF). This Kentucky Infrastructure Authority Loan bears an

SANITATION DISTRICT NO. 1 NOTES TO THE FINANCIAL STATEMENTS June 30, 2010 and 2009

interest rate of 3.0% with interest-only payments due until completion, with final maturity due 20 years after completion. Construction on the plant was complete in June 2008 and the first principal payment of \$555,941 was paid in June 2008.

Western Regional Waste Water Reclamation Facility

During the year ended June 30, 2009, the District partnered with the Kentucky Infrastructure Authority to fund construction of the Western Regional Wastewater Reclamation Facility (WRWRF). This Kentucky Infrastructure Authority Loan bears an interest rate of 1.0% with interest-only payments due until completion, with final maturity due 20 years after completion. Construction on the plant began in February 2009 with completion scheduled for December 2012.

Dry Creek Waster Water Treatment Plant

During fiscal year 2010, the District secured funding from KIA for a new clarifier at the Dry Creek Plant Treatment Plant. These funds are drawn as part of KIA Revolving Loan Fund and carry a 2.2% interest rate and 20 year maturity. The total project is expected to cost \$4,473,000. At June 30, 2010, \$331,987 had been drawn on this loan.

Minor Infrastructure Improvement Projects

During fiscal year 2010, the District secured funding from KIA, as part of the American Recovery and Reinvestment Act, for several smaller infrastructure improvement projects. These projects are funded based upon 52.1% principal forgiveness, and a 2.2% interest rate and a 20 year maturity. The projects include wetlands development along Banklick Creek, \$656,970; and for a Regional Bio-retention Facility, \$756,120. At June 30, 2010, \$40,220 and \$107,185 had been drawn on the Banklick and the Bio-retention projects respectively.

The changes in outstanding debt for the year ended June 30, 2010 were as follows:

Notes	Balance at June 30, 2009	Additions	Payments	Balance at June 30, 2010
KIA - ERWRF	\$ 30,625,084	\$ -	\$ (1,259,762)	\$ 29,365,322
KIA - WRWRF	3,131,943	27,524,950	-	30,656,893
KIA - Dry Creek	-	331,987	-	331,987
KIA - Banklick	-	40,220	-	40,220
KIA - Bio-retention	-	107,185	-	107,185
Totals	<u>\$ 33,757,027</u>	<u>\$ 28,004,342</u>	<u>\$ (1,259,762)</u>	<u>\$ 60,501,607</u>

SANITATION DISTRICT NO. 1 NOTES TO THE FINANCIAL STATEMENTS June 30, 2010 and 2009

The debt service to maturity for these five KIA Notes Payable is as follows:

Year ending June 30,	Principal	Interest & Fees	Total
2011	\$ 1,297,838	\$ 1,245,542	\$ 2,543,380
2012	2,895,110	1,203,699	4,098,809
2013	2,935,523	1,144,759	4,080,282
2014	2,977,157	1,084,518	4,061,675
2015	3,020,049	1,022,934	4,042,983
2016-2020	15,790,409	4,141,005	19,931,414
2021-2025	17,074,765	2,375,216	19,449,981
2026-2030	12,977,918	565,643	13,543,561
2031-2032	1,532,838	15,328	1,548,166
Totals	<u>\$ 60,501,607</u>	<u>\$ 12,798,644</u>	<u>\$ 73,300,251</u>

NOTE 6 – PENSION PLAN

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

Plan Description – CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each county and school board, and any additional eligible local agencies electing to participate in the System. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living adjustments (COLA) are provided at the discretion of the state legislature.

Non-hazardous Contributions – For the year ended June 30, 2010, plan members were required to contribute 5% of their annual creditable compensation. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. The actuarially determined rate set by the Board for the years ended June 30, 2010 and 2009 was 16.16% and 13.50%, respectively of creditable compensation. Administrative costs of CERS are financed through employer contributions and investment earnings.

SANITATION DISTRICT NO. 1 NOTES TO THE FINANCIAL STATEMENTS June 30, 2010 and 2009

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

Year ending June 30,	Required Contribution	Percentage Contributed
2010	\$ 1,848,372	100%
2009	1,546,901	100%
2008	1,683,721	100%
2007	1,239,254	100%
2006	951,974	100%
2005	703,421	100%

NOTE 7 – OPERATING LEASE

On July 1, 2007, the District renewed its lease of 15,000 square feet of its building to another party. The agreed-upon term of the lease is July 1, 2007 until July 1, 2012. There is an option to renew at the end of the full term for an additional five years. Future minimum rentals to be received are as follows:

Year ending June 30,	Lease Revenue
2011	\$ 87,600
2012	87,600
Totals	<u>\$ 175,200</u>

NOTE 8 – REIMBURSEMENT COMMITMENTS

The District has entered into interlocal agreements, whereby cities can apply for reimbursement of qualified expenses incurred to accomplish required storm water improvements. Project expenses of the cities, eligible for reimbursement, as of June 30, 2010 and 2009 were \$867,168 and \$1,791,298, respectively.

NOTE 9 – ECONOMIC DEPENDENCY

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

NOTE 10 – CONTINGENCIES

Effective June 22, 1999, the Board of Directors approved a resolution to indemnify each officer and director all expenses incurred in connection with their performance of duties and responsibilities associated with their membership with the District. This includes claims not covered by the District's Directors and Officers Errors and Omissions Liability Insurance. The District offers a Health Reimbursement Account to full time eligible employees for out of pocket healthcare costs. The District annually credits various amounts to the accounts of eligible employees based on their participation in wellness programs. Once credited, the

SANITATION DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010 and 2009

contributions become available for participants for uses allowed by the plan during their employment and retirement. Unspent balances are available to participants for allowable expenditures unless they cease employment with the District before their normal retirement date. Accordingly, a liability of \$355,628 has been recorded in the accompanying financial statements which are management's estimate of the unspent balances as of June 30, 2010 that is likely to be paid in future periods.

NOTE 11 – LITIGATION

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

The District is involved in several lawsuits relating to matters arising in the normal course of business. The District was a party to a class action suit challenging the District's legal authority to impose, collect and spend its storm water surcharge fee. The court ruled in the District's favor; however it has since been appealed.

The District is a party to two separate suits by a neighboring municipality challenging the District's Regional Facilities Plan and more specifically the location of the outfall of the Eastern Regional Wastewater Reclamation Facility. One suit is currently under appeal, while the other is in mediation. If mediation fails, the District will vigorously defend this suit.

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

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

On August 26, 2009, two individuals challenged the Kentucky Pollutant Discharge Elimination System permit issued by the Kentucky Division of Water for the District's new Western Regional Wastewater Reclamation Facility (WRWRF). The KPDES permit was issued July 22, 2009, and authorizes the discharge of wastewater from the WRWRF to the Ohio River. Petitioners contend that the permit is not

SANITATION DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010 and 2009

sufficiently protective of water quality and, therefore, more stringent limitations should be imposed in the permit, including limitations for nitrogen and phosphorus, which are not currently subject to limitations. The challenge is before a Hearing Officer of the Kentucky Energy and Environment Cabinet. The District and the Energy and Environment Cabinet vigorously disagree with the Petitioners' claims and are defending the permit decision. If Petitioners prevail, it could require additional treatment processes to be installed and operated at the WRWRF, which could cost over \$50 million.

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

NOTE 12 – INSURANCE IN FORCE

The District has the following insurance policies in force during fiscal years 2010 and 2009:

Type of Coverage	Amount of Coverage	
	2010	2009
Property, including pump stations, machinery	\$ 162,536,100	\$ 162,536,100
Earthquake	100,000,000	100,000,000
Flood	5,000,000	5,000,000
General liability, aggregate	26,000,000	26,000,000
Public entity management liability	26,000,000	26,000,000
Vehicles	26,000,000	26,000,000
Crime - employee dishonesty	3,000,000	3,000,000
Environmental impairment	25,000,000	25,000,000
Pipeline policy	5,000,000	5,000,000
Cyber liability	3,000,000	3,000,000
Public official bonds (per board member)	50,000	50,000

NOTE 13 – SUBSEQUENT EVENTS

Refunding Revenue Bonds, Series 2010B

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

The proceeds for the sale of the Series 2010B Refunding Revenue Bonds, together with other available funds, are being used (1) to provide for an *In-substance Defeasance* for Series 2001A Revenue Bonds, (2) to fund the Debt Service Reserve Fund, and (3) to pay the necessary costs and expenses incident to the issuance and delivery of the Series 2010B Bonds.

This Page Intentionally Left Blank

REQUIRED SUPPLEMENTARY INFORMATION

Report on Supplementary Information

As explained in Note 1 of the Notes to the Supplementary Information, the accompanying supplementary information of Sanitation District No. 1, as of and for the years ended June 30, 2010 and 2009, as listed in the table of contents is not a presentation in conformity with accounting principles generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated in all material respects, in relation to the portion of the basic financial statements from which it has been derived.



Van Gorder, Walker & Co., Inc.
Erlanger, Kentucky
November 8, 2010

This Page Intentionally Left Blank

SANITATION DISTRICT NO. 1
BUDGETARY COMPARISON SCHEDULE - BUDGET TO ACTUAL -
GENERAL REVENUES
For the Year Ended June 30, 2010

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

SANITATION DISTRICT NO. 1 BUDGETARY COMPARISON SCHEDULE - BUDGET TO ACTUAL - GENERAL REVENUES For the Year Ended June 30, 2009

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Sewer service	\$ 43,400,000	\$ 44,942,554	\$ 1,542,554
BOD surcharges	2,400,000	2,425,676	25,676
Storm water charges	9,800,000	10,301,534	501,534
Penalties	854,000	1,163,341	309,341
Bad debt recoveries	6,000	12,964	6,964
Sludge hauling	200,000	77,171	(122,829)
Capacity connection fees	2,900,000	2,083,210	(816,790)
Inspections	94,000	52,456	(41,544)
Permits	120,000	153,332	33,332
Fines	35,000	15,921	(19,079)
Contractual services	400,000	87,600	(312,400)
Project reimbursements	1,000,000	310,899	(689,101)
Other income	25,000	44,190	19,190
Total General Revenue	<u>\$ 61,234,000</u>	<u>\$ 61,670,848</u>	<u>\$ 436,848</u>

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

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

(Continued to next page)

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

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

(Continued to next page)

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

Expenses			Variance
	Budget	Actual	Favorable
			(Unfavorable)
Collection System			
Salaries and wages	\$ 3,269,471	\$ 3,122,203	\$ 147,268
Medical and dental self-insured plan	771,839	899,398	(127,559)
Pension plan	528,347	491,287	37,060
Payroll taxes	250,115	223,398	26,717
Employee benefits	90,829	67,116	23,713
Unemployment taxes	3,674	-	3,674
Credits charged to capital projects	(2,295,977)	(2,467,428)	171,451
Insurance and bond	201,230	223,036	(21,806)
Insurance claims	31,368	31,895	(527)
Professional and contracted services	7,500	6,021	1,479
Office and operating supplies	32,144	13,015	19,129
Travel, training and certification	7,347	4,236	3,111
Subscriptions	551	213	338
Miscellaneous	90	-	90
Telephone and radio	25,715	20,359	5,356
Vehicle fuels	257,149	257,749	(600)
Auto and truck expnese	266,333	322,185	(55,852)
Sludge and grit removal	45,000	36,227	8,773
Maintenance material - collection systems	400,000	297,153	102,847
Safety equipment expense	27,552	28,260	(708)
Rental	25,000	39,540	(14,540)
Total Collection System Expenses	3,945,277	3,615,863	329,414

(Continued to next page)

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

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

(Continued to next page)

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

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

(Continued to next page)

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

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

(Continued to next page)

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

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

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

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

SANITATION DISTRICT NO. 1
BUDGETARY COMPARISON SCHEDULE - BUDGET TO ACTUAL -
OPERATION, MAINTENANCE, AND ADMINISTRATION
For the Year Ended June 30, 2009

Expenses			Variance
	Budget	Actual	Favorable
			(Unfavorable)
Dry Creek Treatment Plant Operations			
Salaries and wages	\$ 2,710,000	\$ 2,713,153	\$ (3,153)
Medical and dental self-insured plan	504,000	564,096	(60,096)
Pension plan	422,300	334,572	87,728
Payroll taxes	207,350	197,126	10,224
Employee benefits	63,500	54,288	9,212
Unemployment taxes	4,000	-	4,000
Credits charged to capital projects	(500,000)	(349,745)	(150,255)
Insurance and Bond	164,583	104,071	60,512
Insurance Claims	10,000	-	10,000
Professional and contracted services	70,000	43,882	26,118
Office and operating supplies	138,000	136,766	1,234
Travel, training and certification	34,000	24,592	9,408
Contract labor - building maintenance	2,000	350	1,650
Maintenance material - building grounds	40,000	74,096	(34,096)
Subscriptions	400	118	282
Miscellaneous	2,500	84	2,416
Electric and gas	630,000	1,147,809	(517,809)
Chemicals	1,800,000	2,056,140	(256,140)
Fuel oil	400,000	13,642	386,358
Telephone and radio	15,000	17,834	(2,834)
Water	20,000	24,066	(4,066)
Vehicle fuels	125,000	165,273	(40,273)
Auto and truck expense	165,000	104,749	60,251
Maintenance material - plant equipment	225,000	115,173	109,827
Sludge and grit removal	1,000,000	848,521	151,479
Safety equipment expense	50,905	17,383	33,522
Rental	10,000	4,677	5,323
Total Dry Creek Treatment Plant Expenses	8,313,538	8,412,716	(99,178)

(Continued to next page)

SANITATION DISTRICT NO. 1 BUDGETARY COMPARISON SCHEDULE - BUDGET TO ACTUAL - OPERATION, MAINTENANCE, AND ADMINISTRATION For the Year Ended June 30, 2009

Expenses			Variance
	Budget	Actual	Favorable
			(Unfavorable)
Eastern Regional Reclamation Facility			
Salaries and wages	\$ 490,000	\$ 273,457	\$ 216,543
Medical and dental self-insured plan	111,250	64,066	47,184
Pension plan	76,350	36,741	39,609
Payroll taxes	37,500	19,896	17,604
Employee benefits	14,000	5,460	8,540
Credits charged to capital projects	-	(1,369)	1,369
Insurance and bond	35,909	22,515	13,394
Insurance claims	3,000	-	3,000
Professional and contracted services	20,000	21,786	(1,786)
Office and operating supplies	22,000	11,779	10,221
Travel, training and certification	6,000	5,444	556
Contract labor - building maintenance	500	-	500
Maintenance material - building grounds	30,000	9,922	20,078
Subscriptions	100	-	100
Miscellaneous	500	-	500
Electric and gas	420,000	314,904	105,096
Chemicals	110,000	87,397	22,603
Fuel oil	10,000	6,562	3,438
Telephone and radio	2,000	9,733	(7,733)
Water	8,000	11,535	(3,535)
Vehicle fuels	50,000	16,301	33,699
Auto and truck expense	15,000	22,271	(7,271)
Maintenance material - plant equipment	100,000	39,064	60,936
Sludge and grit removal	75,000	135,765	(60,765)
Safety equipment expense	16,101	2,772	13,329
Rental	2,000	-	2,000
Total Eastern Regional Facility Expenses	1,655,210	1,116,001	539,209

(Continued to next page)

SANITATION DISTRICT NO. 1 BUDGETARY COMPARISON SCHEDULE - BUDGET TO ACTUAL - OPERATION, MAINTENANCE, AND ADMINISTRATION For the Year Ended June 30, 2009

Expenses			Variance
	Budget	Actual	Favorable
			(Unfavorable)
Collection System			
Salaries and wages	\$ 3,298,000	\$ 3,187,133	\$ 110,867
Medical and dental self-insured plan	726,223	767,379	(41,156)
Pension plan	513,844	427,768	86,076
Payroll taxes	252,297	231,933	20,364
Employee benefits	91,358	76,684	14,674
Unemployment taxes	14,216	10,397	3,819
Credits charged to capital projects	(947,701)	(1,896,811)	949,110
Insurance and bond	246,341	165,113	81,228
Insurance claims	-	4,912	(4,912)
Professional and contracted services	6,000	7,114	(1,114)
Office and operating supplies	47,386	13,321	34,065
Travel, training and certification	14,216	4,516	9,700
Subscriptions	284	268	16
Miscellaneous	95	43	52
Telephone and radio	27,483	31,347	(3,864)
Vehicle fuels	293,787	273,981	19,806
Auto and truck expense	281,467	268,268	13,199
Sludge and grit removal	45,000	36,794	8,206
Maintenance material - collection systems	400,000	322,451	77,549
Safety equipment expense	21,797	27,614	(5,817)
Rental	100	462	(362)
Total Collection System Expenses	5,332,193	3,960,687	1,371,506

(Continued to next page)

<p>SANITATION DISTRICT NO. 1 BUDGETARY COMPARISON SCHEDULE - BUDGET TO ACTUAL - OPERATION, MAINTENANCE, AND ADMINISTRATION For the Year Ended June 30, 2009</p>
--

Expenses			Variance Favorable (Unfavorable)
Pump Stations/Field Tech	Budget	Actual	
Salaries and wages	\$ 732,000	\$ 638,476	\$ 93,524
Medical and dental self-insured plan	138,000	149,028	(11,028)
Pension plan	114,100	82,129	31,971
Payroll taxes	56,000	46,462	9,538
Employee benefits	18,000	12,241	5,759
Credits charged to capital projects	(75,000)	(30,479)	(44,521)
Insurance and bond	44,886	28,520	16,366
Insurance claims	3,000	200	2,800
Professional and contracted services	35,000	26,905	8,095
Office and operating supplies	20,000	6,587	13,413
Travel, training and certification	9,100	4,914	4,186
Contract labor - building maintenance	500	-	500
Maintenance material - building grounds	12,000	14,343	(2,343)
Subscriptions	200	-	200
Miscellaneous	500	(6,720)	7,220
Electric and gas	1,500,000	1,560,274	(60,274)
Chemicals	935,000	954,778	(19,778)
Fuel oil	30,000	4,670	25,330
Telephone and radio	2,000	2,473	(473)
Water	5,000	5,311	(311)
Vehicle fuels	40,000	21,685	18,315
Auto and truck expense	38,500	19,843	18,657
Sludge and grit removal	3,000	3,341	(341)
Maintenance material - pump stations	150,000	161,021	(11,021)
Safety equipment expense	11,058	6,457	4,601
Rental	20,000	23,340	(3,340)
Total Pump Stations/Field Tech Expenses	3,842,844	3,735,799	107,045

(Continued to next page)

SANITATION DISTRICT NO. 1 BUDGETARY COMPARISON SCHEDULE - BUDGET TO ACTUAL - OPERATION, MAINTENANCE, AND ADMINISTRATION For the Year Ended June 30, 2009

Expenses			Variance
Engineering	Budget	Actual	Favorable (Unfavorable)
Salaries and wages	\$ 1,986,897	\$ 1,838,352	\$ 148,545
Medical and dental self-insured plan	340,715	359,144	(18,429)
Pension plan	309,585	241,502	68,083
Payroll taxes	152,050	132,172	19,878
Employee benefits	36,396	29,202	7,194
Unemployment taxes	1,453	-	1,453
Credits charged to capital projects	(1,525,588)	(1,468,228)	(57,360)
Insurance and bond	110,614	96,566	14,048
Professional and contracted services	-	1,231	(1,231)
Office and operating supplies	14,893	19,187	(4,294)
Travel, training and certification	27,969	32,838	(4,869)
Subscriptions	17,435	21,384	(3,949)
Miscellaneous	1,090	497	593
Telephone and radio	13,076	16,277	(3,201)
Vehicle fuels	17,435	33,959	(16,524)
Auto and truck expense	34,871	19,373	15,498
Safety equipment expense	5,812	2,660	3,152
Total Engineering Expenditures	1,544,703	1,376,116	168,587

(Continued to next page)

SANITATION DISTRICT NO. 1
BUDGETARY COMPARISON SCHEDULE - BUDGET TO ACTUAL -
OPERATION, MAINTENANCE, AND ADMINISTRATION
For the Year Ended June 30, 2009

Expenses	Budget	Actual	Variance Favorable (Unfavorable)
Stormwater Program			
Salaries and wages	\$ 1,258,057	\$ 1,246,879	\$ 11,178
Board of directors	4,009	4,009	-
Medical and dental self-insured plan	223,466	200,051	23,415
Pension plan	196,057	155,031	41,026
Payroll taxes	96,577	86,428	10,149
Employee benefits	27,295	21,484	5,811
Unemployment taxes	2,252	1,671	581
Credits charged to capital projects	(647,165)	(785,822)	138,657
Insurance and bond	74,267	79,026	(4,759)
Insurance claims	8,455	-	8,455
Professional and contracted services	40,000	17,764	22,236
Legal services	10,000	96,730	(86,730)
Bank services	28,500	23,728	4,772
Audit services	5,932	3,136	2,796
Office and operating supplies	35,893	40,549	(4,656)
Postage	35,182	33,565	1,617
Travel, training and certification	22,770	23,289	(519)
Maintenance material - building grounds	18,498	17,361	1,137
Subscriptions	28,589	117,975	(89,386)
Miscellaneous	825	3,914	(3,089)
Community relations	5,727	6,283	(556)
Government affairs	3,409	-	3,409
Program expenses - compliance	200,000	78,543	121,457
Electric and gas	17,727	25,984	(8,257)
Telephone and radio	12,358	17,137	(4,779)
Water	2,045	2,671	(626)
Vehicle fuels	24,141	29,002	(4,861)
Auto and truck expense	31,025	26,629	4,396
Safety equipment expense	3,875	3,335	540
Total Stormwater Expenses	<u>1,769,766</u>	<u>1,576,352</u>	<u>193,414</u>

(Continued to next page)

SANITATION DISTRICT NO. 1 BUDGETARY COMPARISON SCHEDULE - BUDGET TO ACTUAL - OPERATION, MAINTENANCE, AND ADMINISTRATION For the Year Ended June 30, 2009

Expenses			Variance
Administration	Budget	Actual	Favorable (Unfavorable)
Salaries and wages	\$ 2,077,045	\$ 2,149,734	\$ (72,689)
Board of directors	25,391	25,391	-
Medical and dental self-insured plan	348,995	372,482	(23,487)
Pension plan	323,864	269,157	54,707
Payroll taxes	160,895	149,810	11,085
Employee benefits	54,150	39,625	14,525
Unemployment taxes	5,830	6,943	(1,113)
Credits charged to capital projects	(129,545)	(147,092)	17,547
Insurance and bond	113,400	83,557	29,843
Insurance claims	53,545	51,853	1,692
Professional and contracted services	410,000	503,060	(93,060)
Legal services	85,000	206,247	(121,247)
Bank services	180,500	150,238	30,262
Auditing services	37,568	19,853	17,715
Office and operating supplies	105,580	142,197	(36,617)
Postage	222,818	212,515	10,303
Travel, training and certification	72,545	67,581	4,964
Maintenance material - building grounds	117,152	109,920	7,232
Dues and subscriptions	28,552	44,754	(16,202)
Miscellaneous	2,591	23,431	(20,840)
Community relations	36,273	39,781	(3,508)
Government affairs	21,591	7,071	14,520
Legal advertising	-	4,187	(4,187)
Electric and gas	112,273	164,522	(52,249)
Telephone and radio	37,482	59,378	(21,896)
Water	12,955	16,911	(3,956)
Vehicle fuels	8,636	6,957	1,679
Auto and truck expense	14,963	28,842	(13,879)
Safety equipment expense	3,066	5,126	(2,060)
Rental	2,800	-	2,800
Supplemental/state environmental projects	-	82,956	(82,956)
Total Administration Expenses	<u>4,545,915</u>	<u>4,896,987</u>	<u>(351,072)</u>
Total Operation, Maintenance and Administration Expenses	<u>\$ 27,004,169</u>	<u>\$ 25,074,658</u>	<u>\$ 1,929,511</u>

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

General Revenues	\$ 61,670,848
Operation, Maintenance and Administration Expenses	(25,074,658)
Major Repair Expenses	(3,134,429)
Depreciation	<u>(23,731,773)</u>
Net Operating Income	<u>\$ 9,729,988</u>

<p>SANITATION DISTRICT NO. 1 SCHEDULE OF RATES, RATE DETERMINATION, AND NUMBER OF USERS Year Ended June 30, 2010</p>

Sanitation District No. 1 has set rates and charges as detailed below:

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

<u>Water Usage in 100 Cubic Feet (HCF)</u>	<u>April 1, 2010</u>
0 - 1,700	\$ 5.06
1,701- 8,400	4.54
Over 8,400	3.51
Monthly minimum bill	10.12

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

<u>Water Usage in 100 Cubic Feet (HCF)</u>	<u>April 1, 2010</u>
Flat rate per 100 Cubic Feet (HCF)	\$ 5.06
Monthly minimum bill (2 HCF)	10.12

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

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

The District had approximately 98,000 accounts at June 30, 2010.

SANITATION DISTRICT NO. 1 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS Year Ended June 30, 2010
--

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
<u>Environmental Protection Agency</u>		
<i>Passed through the Kentucky Infrastructure Authority</i>		
Capitalization Grant for Clean Water	66.458	\$ 610,270
Western Regional Waste Water Reclamation Facility		
Capitalization Grant for Clean Water		
Regional Bio-retention Facility	66.458	<u>29,892</u>
Total Federal Financial Assistance		<u><u>\$ 640,162</u></u>

SANITATION DISTRICT NO. 1 NOTES TO THE SUPPLEMENTARY INFORMATION June 30, 2010

NOTE 1 – SUPPLEMENTARY INFORMATION

The accompanying summary information of Sanitation District No. 1, as of and for the years ended June 30, 2010 and 2009, as listed in the table of contents is not a presentation in conformity with accounting principles generally accepted in the United States of America.

NOTE 2 – SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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

This Page Intentionally Left Blank

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Members of the Board of Directors
Sanitation District No.1

We have audited the financial statements of the governmental activities and each major fund of the Sanitation District No.1 (District), as of and for the years ended June 30, 2010 and 2009, which collectively comprise the Sanitation District No.1's basic financial statements and have issued our report thereon dated November 8, 2010. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Sanitation District No.1's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Sanitation District No.1's financial statements that is more than inconsequential will not be prevented or detected by the Sanitation District No.1's internal control.

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

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

This Page Intentionally Left Blank

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Sanitation District No. 1's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors and District management and is not intended to be and should not be used by anyone other than these specified parties.

Van Gorder, Walker & Co., Inc.

Van Gorder, Walker & Co., Inc.
Erlanger, Kentucky
November 8, 2010

This Page Intentionally Left Blank

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Members of the Board of Directors
Sanitation District No.1

Compliance

We have audited the compliance of the Sanitation District No.1, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the years ended June 30, 2010 and 2009. Sanitation District No.1's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Sanitation District No.1's management. Our responsibility is to express an opinion on the Sanitation District No.1's compliance based on our audits.

We conducted our audits of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and *OMB Circular 133* require that we plan and perform the audits to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Sanitation District No.1's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinion. Our audits do not provide a legal determination on the Sanitation District No.1's compliance with those requirements.

In our opinion, the Sanitation District No.1 complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the years ended June 30, 2010 and 2009.

Internal Control Over Compliance

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

This Page Intentionally Left Blank

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

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

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

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



Van Gorder, Walker & Co., Inc.
Erlanger, Kentucky
November 8, 2010

This Page Intentionally Left Blank

<p>SANITATION DISTRICT NO. 1 SCHEDULE OF FINDINGS AND QUESTIONED COSTS Year Ended June 30, 2010</p>
--

A. SUMMARY OF AUDIT RESULTS

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

Program	CFDA No.
-----	-----
Capitalization Grant for Clean Water	66.458

8. The threshold for distinguishing type A and B programs was \$300,000. There are no type B programs.
9. The Sanitation District No. 1 was determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

None

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

None

SANITATION DISTRICT NO. 1
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2010

NONE