

**NORTHERN MADISON COUNTY SANITATION DISTRICT
RICHMOND, KENTUCKY
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

NORTHERN MADISON COUNTY SANITATION DISTRICT
RICHMOND, KENTUCKY
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FOR THE YEAR ENDED JUNE 30, 2015

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NORTHERN MADISON COUNTY SANITATION DISTRICT
RICHMOND, KENTUCKY
DIRECTORY OF OFFICIALS
JUNE 30, 2015

DISTRICT DIRECTOR

Mr. Elliott Turner

BOARD OF COMMISSIONERS

Mr. James D. Rowe, Chairman of Board, Treasurer

Ms. Marcella Hayden, Secretary

Mr. Johnny Webb

NORTHERN MADISON COUNTY SANITATION DISTRICT
 RICHMOND, KENTUCKY
 STATEMENT OF NET POSITION
 JUNE 30, 2015

ASSETS

Current Assets

Cash and cash equivalents	\$ 207,440
Restricted cash and cash equivalents	286,015
Accounts receivable, net of allowance	305,650
Prepaid expenses	203
Total Current Assets	<u>799,308</u>

Non-Current Assets

Restricted investments	279
Land and construction in process	969,944
Capital assets, net of accumulated depreciation	17,898,326
Total Non-Current Assets	<u>18,868,549</u>

TOTAL ASSETS **\$ 19,667,857**

LIABILITIES AND NET POSITION

Current Liabilities

Accounts payable	\$ 257,462
Accrued payroll liabilities	7,672
Accrued compensated absences	4,890
Accrued interest liabilities	6,996
Other liabilities	890
Notes payable	429,417
Total Current Liabilities	<u>707,327</u>

Non-Current Liabilities

Accrued compensated absences	44,007
Notes payable	6,444,669
Total Non-Current Liabilities	<u>6,488,676</u>

Total Liabilities **7,196,003**

Net Position

Net investment in capital assets	11,994,463
Unrestricted	191,376
Restricted	286,015
Total Net Position	<u>12,471,854</u>

TOTAL LIABILITIES AND NET POSITION **\$ 19,667,857**

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

**NORTHERN MADISON COUNTY SANITATION DISTRICT
 RICHMOND, KENTUCKY
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
 FOR THE YEAR ENDED JUNE 30, 2015**

OPERATING REVENUES	
Sanitation services	\$ 1,275,265
Miscellaneous	<u>25,499</u>
TOTAL OPERATING REVENUES	<u>1,300,764</u>
OPERATING EXPENSES	
Utilities and telephone	246,602
Personnel costs	161,165
Repairs and maintenance	87,814
Supplies	68,881
Contractual services	64,507
Laboratory services	16,770
Insurance	24,249
Auto expense and travel	17,711
Miscellaneous	8,805
Rent	3,000
Office expense	1,327
Bad debt expense	12,682
Depreciation	<u>600,325</u>
TOTAL OPERATING EXPENSES	<u>1,313,838</u>
OPERATING LOSS	(13,074)
NON-OPERATING REVENUES (EXPENSES)	
Interest income	1,524
Interest expense	(84,997)
Gain from sale of capital asset	<u>5,496</u>
TOTAL NON-OPERATING REVENUE (EXPENSE)	<u>(77,977)</u>
LOSS BEFORE CONTRIBUTIONS	<u>(91,051)</u>
CAPITAL CONTRIBUTIONS	
Development, tax, and grinder fees	<u>45,514</u>
TOTAL CAPITAL CONTRIBUTIONS	<u>45,514</u>
CHANGE IN NET POSITION	(45,537)
NET POSITION AT BEGINNING OF YEAR	12,691,847
PRIOR PERIOD ADJUSTMENT - SEE NOTE 11	<u>(174,456)</u>
NET POSITION AT BEGINNING OF YEAR, RESTATED	<u>12,517,391</u>
NET POSITION AT END OF YEAR	<u>\$ 12,471,854</u>

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

NORTHERN MADISON COUNTY SANITATION DISTRICT
 RICHMOND, KENTUCKY
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2015

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 1,232,662
Other receipts	25,499
Payments to suppliers	(295,291)
Payments to employees	(144,884)
	<u>817,986</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal paid on capital debt	(428,685)
Proceeds from capital debt	157,557
Interest paid on capital debt	(85,201)
Development, tax, and grinder fees receipts	45,514
Proceeds from sale of asset	5,496
Capital expenditures	(804,268)
	<u>(1,109,587)</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	
CASH FLOWS FROM INVESTING ACTIVITIES	
Redemption of investments	68,055
Interest received	1,524
	<u>69,579</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	
NET DECREASE IN CASH	(222,022)
CASH AND CASH EQUIVALENTS, beginning of year	<u>715,477</u>
CASH AND CASH EQUIVALENTS, end of year ⁽¹⁾	<u>\$ 493,455</u>
⁽¹⁾ Cash and cash equivalents are reflected in the Statement of Net Position as follows:	
Cash and cash equivalents	207,440
Restricted cash and cash equivalents	286,015
Subtotal	<u>\$ 493,455</u>
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities:	
Operating loss	(13,074)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation expense	600,325
Bad debt expense	12,682
Change in assets and liabilities	
Accounts receivable	(39,603)
Prepaid expenses	23,597
Accounts payable	225,889
Accrued payroll liabilities	1,506
Accrued compensated absences	6,653
Other liabilities	11
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 817,986</u>

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

**NORTHERN MADISON COUNTY SANITATION DISTRICT
RICHMOND, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. A summary of significant accounting and reporting policies consistently applied in the preparation of the accompanying financial statements follows:

Nature of Organization and Activities

The District was established by Madison County Fiscal Court Ordinance #96.07. The original commissioners were appointed by the Madison County Judge Executive to operate the Sanitation District at that time. The officers adopted by-laws dated January 7, 1997. The by-laws state that succeeding directors will also be appointed by the Madison County Judge Executive. The Board of Commissioners are commissioned by the by-laws to control and manage the affairs of the District and shall have all powers authorized by KRS Chapter 220 for commissioners of sanitation districts.

Reporting Entity

The Northern Madison County Sanitation District's financial statements include the operations of all entities for which the Board of Commissioners exercises oversight responsibility. Oversight responsibility includes, but is not limited to financial interdependency, selection of the governing District, designation of management, ability to significantly influence operations, and accountability for fiscal matters. Therefore, the District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Reporting Standards. All potential component units were considered for inclusion in the financial statements under the criteria set forth under GASB 61 and 62. The District has no identifiable component units.

Measurement Focus and Basis of Accounting

For financial reporting purposes, the District reports its operations on an enterprise fund basis. Enterprise funds (a proprietary fund type) are accounted for on a flow of economic resources measurement focus. This measurement focus provides that all assets and liabilities associated with operations are included on the Statement of Net Position.

The accrual basis of accounting is utilized by the District for financial reporting. Under the accrual basis of accounting, income is recorded when earned and expenses are recorded at the time liabilities are incurred. The Statements of Revenues, Expenses, and Changes in Net Position present increases (income) and decreases (expenses) in District's net position.

Financial Statement Presentation

Generally accepted accounting principles for state and local governments requires that resources be classified for accounting and reporting purposes into the following three net position categories:

Net investment in capital assets – Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

Restricted – resources whose use by the District is subject to externally imposed stipulations that can be fulfilled by actions of the District pursuant to those stipulations or that expire by the passage of time. Such assets include assets restricted for capital acquisitions and debt service.

Unrestricted – resources that are not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management or the District's Board or may otherwise be limited by contractual agreements with outside parties.

NORTHERN MADISON COUNTY SANITATION DISTRICT
RICHMOND, KENTUCKY
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Cash and Cash Equivalents

Cash and cash equivalents consist of checking accounts and certificates of deposit. For purposes of the Statement of Cash Flows, the District considers all highly liquid cash deposits and cash equivalents with a maturity of three months or less when purchased and non-negotiable certificates of deposit to be cash equivalents. There were no non-cash investing, capital, and financing activities during the year.

Utility Revenue Bond Cash Management and Cash Restrictions

The District loan covenants requires certain funds be maintained in order to meet the debt service requirements and to provide for unusual repairs and maintenance to the present system. Operation and Maintenance Fund: An Operation and Maintenance Fund must be maintained, from which all costs of operating, maintaining, and insuring District's project shall be paid.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are stated at face amount, net of an allowance for doubtful accounts. The amount recognized as an uncollectable balance is based upon an aging schedule of accounts and historical collection patterns. At June 30, 2015, the allowance for doubtful accounts was \$62,495. Unbilled receivables represent income earned during the current year but not yet billed to the customer.

Prepaid

Prepaid represents payments made to vendors for services that will benefit beyond June 30, 2015.

Capital Assets

Capital Assets, includes land purchased, donated, transferred, easements, buildings, improvements, equipment, customer list, and construction in process are reported in the Statement of Net Position. Purchased property and equipment are recorded at historical costs or at estimated historical costs based upon appraisals or on other acceptable methods when historical costs are not available. Donated capital assets are stated at their fair market values as of the date of the donation. Transferred capital assets are stated at the transferor's carrying value at the date of the transfer. The District capitalizes all buildings, building improvements, and equipment that costs more than \$500 or more with useful lives longer than one year. The cost of normal maintenance and repairs that do not add to the value of capital assets or materially extend capital assets' estimated useful life are expensed in the fiscal year incurred. Accumulated depreciation is reported as a reduction of depreciable capital assets. Depreciation is computed using the straight-line method based on estimated lives of 20-50 years for buildings, 5-20 years for equipment; and 10-25 years for improvements and customer list.

Compensated Absences

Compensated absences are those absences for which employees will be paid, such as vacation leave. A liability for compensated absences that is attributable to services already rendered and that are not contingent on a specific event that is outside the control of the District and its employees, is accrued as employees earn the rights to the benefits. Compensated absences that relate to future services or that are contingent on a specific event that is outside the control of the District and its employees are accounted for in the period in which such services are rendered or in which such events take place.

Long-Term Debt

Long-term debt is reported net of premiums and discounts. Premiums and discounts are amortized over the term life of the debt to maturity.

NORTHERN MADISON COUNTY SANITATION DISTRICT
RICHMOND, KENTUCKY
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Operating and Non-Operating Revenues and Expenses

The District distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with ongoing operations, primarily the provision of services related to the sewer services. Operating revenues include services charges and related fees for the provision of sanitary sewer service as well as miscellaneous fees interconnected to the District's ongoing operations. Operating expenses include all necessary costs related to the performance and administration of the District's ongoing activities as well as depreciation expense on the District's capital assets.

Non-operating revenues and expenses include interest income and interest expense. Capital contributions include development tax and grinder fees with new connections to the District's collection and treatment facilities. Non-exchange transactions, in which the District receives value without giving equal value in exchange, comprise developer contributions.

Employee Retirement Plan

Employees of the District participates in the retirement plan through Kentucky Deferred Compensation Program. Contributions to this plan are made on a current basis as required by the plan and are recognized as an expense as incurred.

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Tax Status

The District, as a local government District, is not subject to federal, state, or local income taxes and accordingly, no provision for income taxes is recorded.

**NORTHERN MADISON COUNTY SANITATION DISTRICT
 RICHMOND, KENTUCKY
 NOTES TO FINANCIAL STATEMENTS - CONTINUED
 JUNE 30, 2015**

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents, both restricted and unrestricted consists of the following at June 30, 2015:

<u>Account</u>	<u>Interest Bearing</u>	<u>Restricted</u>	<u>June 30, 2015 Balance</u>
Operating			\$ 169,715
Savings	√		3,488
Savings - Tap on Fees	√		26,707
Savings - Development Fees	√		7,530
Construction Account RD		√	240
CD - KIA Loan	√	√	279
KIA Boones Trace	√	√	1,008
CD - North Project	√	√	159,081
CD - Terrill Project	√	√	106,054
CD - Clays Ferry	√	√	19,632
Total			<u>\$ 493,734</u>

Custodial Credit Risk is the risk that the District's deposits may not be returned in the event of depository institution failure. The District is required to maintain its deposits with a depository institution insured by Federal Deposit Insurance Corporation (FDIC) or by securities pledged at market in the District's name. Deposits at the bank are insured by the FDIC insurance of \$250,000 for time and savings accounts and \$250,000 for demand deposit accounts (interest-bearing and noninterest-bearing). At June 30, 2015, the carrying amount of the District's deposits and investments were \$493,734 and the bank balances was \$498,009. The bank balances were covered by FDIC insurance in the amount of \$463,241. The remaining uninsured balances in the amount of \$34,768 were collateralized by securities pledged at market in the District's name.

NOTE 3 – ACCOUNTS RECEIVABLE AND ALLOWANCE FOR DOUBTFUL ACCOUNTS

Receivables as of the year ending June 30, 2015, including applicable allowances for doubtful accounts are as follows:

Accounts Receivable	
Customers	\$ 242,550
Tap on fees	125,595
Gross receivables	<u>368,145</u>
Less: allowance for doubtful accounts	62,495
Net total receivables	<u>\$ 305,650</u>

NORTHERN MADISON COUNTY SANITATION DISTRICT
 RICHMOND, KENTUCKY
 NOTES TO FINANCIAL STATEMENTS - CONTINUED
 JUNE 30, 2015

NOTE 4 – CHANGES IN CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended June 30, 2015:

	Beginning Balance 6/30/2014	Increases	Decreases	Ending Balance 6/30/2015
Capital assets, not being depreciated:				
Land	\$ 45,000	\$ -	\$ -	\$ 45,000
Construction in process	107,232	-	-	107,232
Total capital assets, not being depreciated:	152,232	-	-	152,232
Capital assets, being depreciated:				
Collection systems and equipment	\$ 21,949,755	\$ 804,268	\$ -	\$ 22,754,023
Vehicles	86,752	-	13,150	73,602
Customer list	110,000	-	-	110,000
Total capital assets, being depreciated:	22,146,507	804,268	13,150	22,937,625
Less accumulated depreciation for:				
Collection systems and equipment	3,545,826	592,991	-	4,138,817
Vehicles	86,753	-	13,150	73,603
Customer list	1,833	7,334	-	9,167
Total accumulated depreciation	3,634,412	600,325	13,150	4,221,587
Total capital assets, being depreciated, net	18,512,095			18,716,038
Capital assets, net	\$ 18,664,327			\$ 18,868,270

Depreciation expense of \$600,325 was incurred during the year.

NOTE 5 – COMPENSATED ABENCES

It is the policy of the District to permit employees to accumulate a limited amount of earned but unused leave benefits which will be paid to employees upon separation from service. Unpaid compensated absences are recorded as a liability when the benefits are earned, in the financial statements. Upon termination, up to 240 hours of accumulated vacation leave and 960 hours accumulated sick leave will be paid to the employee. As of June 30, 2015, the current liability for accrued compensated absences totaled \$4,890. Non-current liabilities at June 30, 2015 consisted of the following:

	<u>6/30/14</u>	<u>Additions</u>	<u>Deletions</u>	<u>6/30/15</u>
Accrued Compensated Absences	\$38,020	\$11,399	\$5,412	\$44,007

SAMMY K. LEE, P.S.C.

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

To the Chairman and Board of Commissioners
Northern Madison County Sanitation District
Richmond, Kentucky 40475

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the District as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued my report thereon dated June 14, 2016.

Internal Control over Financial Reporting

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

My consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, I identified certain deficiencies in internal control that I consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. I consider the deficiency described in the accompanying schedule of findings and responses to be a material weakness as item 2015-001.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

The District's Response to Findings

The District's response to the findings identified in my audit is described in the accompanying Schedule of Findings and Responses. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

Purpose of this Report

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

Sammy K. Lee, P.S.C.

Berea, Kentucky
June 14, 2016

**NORTHERN MADISON COUNTY SANITATION DISTRICT
RICHMOND, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2015**

2015-001 Financial Statement Preparation

Condition:

A key component of internal control is to ensure that personnel, management, or others within the District have the ability to prepare financial statements, including the notes to the financial statements, in accordance with accounting principles generally accepted in the United States of America (GAAP).

Criteria:

During my audit procedures, I noted some instances of this objective not being completely achieved.

Cause:

The District did not prepare a complete set of GAAP financial statements or related note disclosures.

Effect:

Management is responsible establishing and maintaining internal controls for the fair presentation of the financial position, results of operations, cash flows, and disclosures in the financial statements, in conformity with accounting principles generally accepted in the United States of America. The ability to recognize and implement new authoritative guidance in regards to financial reporting is outside the scope of management. However, management is knowledgeable in respect to the financial accounting and amounts reported in the financial statements. As such, management requested us to prepare a draft of the financial statements, including the related footnote disclosures.

Recommendation:

Management should continue to engage the audit firm to prepare a draft of the financial statements including the notes to the financial statements or hire an accountant to perform these services.

Views of Responsible Officials:

Management considers it impractical to correct the deficiency due to limited resources available.