

MERCER COUNTY SANITATION DISTRICT  
AUDITED FINANCIAL STATEMENTS

---

JUNE 30, 2015

CRAIG A. BUTLER  
CERTIFIED PUBLIC ACCOUNTANT  
DANVILLE, KENTUCKY

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## **INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
Mercer County Sanitation District  
Harrodsburg, Kentucky 40330

### **Report on the Financial Statements**

I have audited the accompanying financial statements of the business-type activities of the Mercer County Sanitation District as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

**Opinion**

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Mercer County Sanitation District as of June 30, 2015 and 2014, and the changes in financial position, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. My opinion on the basic financial statements is not affected by this missing information.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, I have also issued my report dated November 10, 2015, on my consideration of the District's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my 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 the audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

*Craig A. Butler, CPA*

Craig A. Butler  
Certified Public Accountant

Danville, Kentucky  
November 10, 2015

**MERCER COUNTY SANITATION DISTRICT**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2015**  
**(WITH COMPARATIVE TOTALS AS OF JUNE 30, 2014)**

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
<b><u>ASSETS</u></b>		
Current Assets:		
Cash	\$ 2,988	\$ 6,922
Receivables:		
Customers (Net of Allowance)	27,983	24,983
Grants	115,546	9,116
Prepaid Expenses	<u>1,708</u>	<u>621</u>
Total Current Assets	<u>148,225</u>	<u>41,642</u>
Non-current Assets:		
Restricted Cash	17,409	11,490
Restricted Certificate of Deposit	1,300	1,300
Property and Equipment:		
Distribution System	1,436,425	1,436,425
Flow Meters	40,598	40,598
Pump Stations	338,000	338,000
Equipment	87,098	87,098
Construction in Process	1,078,118	428,773
Less: Accumulated Depreciation	<u>(352,907)</u>	<u>(291,811)</u>
Net Property and Equipment	<u>2,627,332</u>	<u>2,039,083</u>
Total Assets	<u>\$ 2,794,266</u>	<u>\$ 2,093,515</u>

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

**MERCER COUNTY SANITATION DISTRICT  
STATEMENT OF NET POSITION  
JUNE 30, 2015  
(WITH COMPARATIVE TOTALS AS OF JUNE 30, 2014)**

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
<u>LIABILITIES</u>		
Current Liabilities:		
Accounts Payable	\$ 5,886	\$ 5,572
Accounts Payable - Contractors	102,576	13,288
Refundable Advance	10,000	-
Accrued Interest	8,280	8,390
Line of Credit	16,000	-
Bonds Payable - Current Portion	<u>5,500</u>	<u>5,500</u>
Total Current Liabilities	<u>148,242</u>	<u>32,750</u>
Non-Current Liabilities:		
Bonds Payable	<u>628,500</u>	<u>414,000</u>
Total Liabilities	<u>776,742</u>	<u>446,750</u>
<u>NET POSITION</u>		
Invested in Capital Assets	1,993,332	1,619,583
Restricted	21,679	8,618
Unrestricted	<u>2,513</u>	<u>18,564</u>
Total Net Position	<u>2,017,524</u>	<u>1,646,765</u>
Total Liabilities and Net Position	<u>\$ 2,794,266</u>	<u>\$ 2,093,515</u>

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

**MERCER COUNTY SANITATION DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**FOR THE YEAR ENDED JUNE 30, 2015**  
**(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2014)**

	Year Ended	
	June 30, 2015	June 30, 2014
Operating Revenue:		
Sewer Service	\$ 141,967	\$ 136,690
Mercer County Fiscal Court Contribution	40,000	35,000
Total Operating Revenue	181,967	171,690
Operating Expenses:		
Cost of Service	83,403	102,106
Commissioner Fees	10,800	10,800
Management Fees	25,000	25,000
Repairs & Maintenance	180	349
Legal & Professional	10,089	8,240
Insurance	7,553	7,620
Utilities	4,630	5,219
Miscellaneous	3,816	1,855
Depreciation	61,096	61,614
Total Operating Expenses	206,567	222,803
Operating Income (Loss)	(24,600)	(51,113)
Nonoperating Expenses:		
Interest Expense	16,670	16,880
Income (Loss) Before Capital Contributions	(41,270)	(67,993)
Capital Contributions:		
Rural Development Grant	154,973	-
Kentucky Infrastructure Authority Grant	250,991	75,678
Contributions From Customers	-	300
Tap Fees	6,065	2,000
Total Capital Contributions	412,029	77,978
Change in Net Position	370,759	9,985
Net Position - Beginning of Year	1,646,765	1,636,780
Net Position - End of Year	\$ 2,017,524	\$ 1,646,765

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

**MERCER COUNTY SANITATION DISTRICT  
STATEMENT OF CHANGES IN NET POSITION  
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

	Contributions In Aid Of Construction	Retained Earnings	Total
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Balance at July 1, 2013	\$ 1,961,929	\$ (325,149)	\$ 1,636,780
Capital Contributions:			
Intergovernmental	75,678	-	75,678
Tap Fees	2,000	-	2,000
Customers	300	-	300
June 30, 2014 Net Income (Loss) Before Capital Contributions	<u>-</u>	<u>(67,993)</u>	<u>(67,993)</u>
Balance at June 30, 2014	<u>2,039,907</u>	<u>(393,142)</u>	<u>1,646,765</u>
Capital Contributions:			
Intergovernmental	405,964	-	405,964
Tap Fees	6,065	-	6,065
June 30, 2015 Net Income (Loss) Before Capital Contributions	<u>-</u>	<u>(41,270)</u>	<u>(41,270)</u>
Balance at June 30, 2015	<u>\$ 2,451,936</u>	<u>\$ (434,412)</u>	<u>\$ 2,017,524</u>

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

**MERCER COUNTY SANITATION DISTRICT**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2015**  
**(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2014)**

	Year Ended	
	June 30, 2015	June 30, 2014
Cash Flows From Operating Activities:		
Receipts From Customers	\$ 138,967	\$ 136,766
Mercer County Fiscal Court Contribution	22,500	35,000
Payments to Suppliers	(146,244)	(161,520)
Net Cash Provided by (Used in) Operating Activities	15,223	10,246
Cash Flows From Capital and Related Financing Activities:		
Capital Contributions	323,099	156,626
Refundable Advance	10,000	-
Proceeds from Interim Financing	220,000	-
Repayment of Interim Financing	(220,000)	-
Principal Repayments on Capital Debt	(5,500)	(5,000)
Proceeds from Bond Issuance	220,000	-
Proceeds from Line of Credit	16,000	-
Interest Payments on Capital Debt	(17,901)	(8,490)
Purchase of Fixed Assets/Construction in Progress	(558,936)	(151,339)
Net Cash Provided by (Used in) Financing Activities	(13,238)	(8,203)
Cash Flows From Investing Activities:		
Purchase of Certificate of Deposit	-	(300)
Net Increase (Decrease) in Cash	1,985	1,743
Cash at Beginning of Year	18,412	16,669
Cash at End of Year	\$ 20,397	\$ 18,412
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:		
Operating Income (Loss)	\$ (24,600)	\$ (51,113)
Depreciation	61,096	61,614
Decrease (Increase) in Accounts Receivable	(3,000)	76
Decrease (Increase) in Accounts Receivable-Government	(17,500)	-
Decrease (Increase) in Prepaid Expenses	(1,087)	1,223
Increase (Decrease) in Accounts Payable	314	(1,554)
Net Cash Provided by (Used in) Operating Activities	\$ 15,223	\$ 10,246
Noncash Investing, Capital, and Financing Activities:		
Construction activity in accounts payable	\$ 102,576	\$ 13,288
Capital contributions in accounts receivable	98,046	9,116

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

MERCER COUNTY SANITATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014

1. GENERAL

The Mercer County Sanitation District, (the "District") is a special-district governmental entity created on July 26, 2005, via ordinance enacted by the Mercer County Fiscal Court in accordance with KRS 67.715 (2) and 67.083 (3). The District is governed by a board consisting of three members, all of whom are appointed by the Mercer County Judge Executive. The District provides sewer services to certain rural sections of Mercer County.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. The District uses the accrual method of accounting which focuses on the measurement of net income similar to the approach used by commercial enterprises, and revenues are recorded when earned and expenses are recorded when incurred. The District distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's ongoing operations. The principal operating revenues of the utility are charges to customers for sewer service. Operating expenses include the cost of providing services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.
- B. Cash and investments include amounts in demand deposits and certificates of deposit only. For the purpose of the statement of cash flows, the District considers cash equivalents to be highly liquid investments (as applicable), including restricted assets, with an original maturity of three months or less when purchased.
- C. Receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. All receivables in excess of 90 days old comprise the accounts receivable allowance for uncollectibles (when applicable).
- D. Property and equipment are stated at cost, and are depreciated over the estimated useful life of the asset using the straight-line method of depreciation. Assets of the distribution system are being depreciated over a 33 year life and equipment over lives of 5 to 20 years. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Interest (as applicable) incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.
- E. Prepaid items include payments made to vendors that will benefit periods beyond the end of the fiscal year.
- F. Restricted assets represent cash and investments for which use is limited to specific construction projects or by bond covenants.
- G. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the 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 expense during the reporting period. Actual results could differ from those estimates.
- H. The District's financial statements classify equity as net position and is displayed in three components:
  - a) Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any

MERCER COUNTY SANITATION DISTRICT  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2015 AND 2014

- bonds, leases, other borrowings, or payables that are attributable to the acquisition, construction, or improvement of those assets.
- b) Restricted net position – Consists of net position with constraints placed on the use either by 1) External groups such as creditors, grantors, contributors, or laws or regulations of other governments, and 2) Law through constitutional provisions or enabling legislation.
  - c) Unrestricted net position – Consists of all other net position that does not meet the definition of “restricted” or “invested in capital assets, net of related debt”.
- I. When both restricted and unrestricted resources are available for use, it is the District’s policy to use restricted resources first, then unrestricted resources as they are needed.
  - J. The District has evaluated and considered the need to recognize or disclose subsequent events through November 10, 2015, which represents the date that these financial statements were available to be issued. Subsequent events pas this date, as they pertain to the fiscal year ended June 30, 2015, have not been evaluated by the District.

3. CASH AND INVESTMENTS

Cash and investments are composed of the following as of June 30, 2015 and 2014, with restriction for use noted:

		June 30, 2015	June 30, 2014
Cash on Deposit - Operating Account	A	\$ 2,988	\$ 2,481
Cash on Deposit - Construction	B	-	4,441
Cash on Deposit - Construction	B	100	-
Cash on Deposit - Construction	B	159	-
Cash on Deposit - Depreciation	C	5,040	2,600
Cash on Deposit - Debt Service	D	12,110	8,890
Total Cash		20,397	18,412
Certificate of Deposit - Restricted	E	1,300	1,300
Total Cash and Investments		\$ 21,697	\$ 19,712

The cash deposits are fully insured by the FDIC at June 30, 2015 and 2014.

- (A) The operating account is used to meet the current expenses of operating and maintaining the system.
- (B) These construction accounts are used to account for various grant and loan receipts, and related capital expenditures for various projects funded by the grants and loans.
- (C) The depreciation account was established as required by Rural Development Agency bond covenants for the purpose of funding unusual or extraordinary repairs and maintenance not included in the annual budget or for paying for the cost of future extensions, additions and improvements to the system.
- (D) The debt service account was established as required by Rural Development Agency bond covenants for the purpose of paying the scheduled principal and interest on the District’s debt.
- (E) The certificate of deposit represents donations given to the District for use on the Burgin Sewer Project.

MERCER COUNTY SANITATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014

4. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2015 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Distribution System	\$ 1,436,425	\$ -	\$ -	\$ 1,436,425
Flow Meters	40,598	-	-	40,598
Pump Stations	338,000	-	-	338,000
Equipment	87,098	-	-	87,098
Construction in Process	428,773	649,345	-	1,078,118
Total	2,330,894	649,345	-	2,980,239
Less accumulated depreciation for:				
Distribution System	(201,596)	(43,528)	-	(245,124)
Flow Meters	(6,006)	(1,230)	-	(7,236)
Pump Stations	(52,920)	(10,243)	-	(63,163)
Equipment	(31,289)	(6,095)	-	(37,384)
Total accumulated depreciation	(291,811)	(61,096)	-	(352,907)
Capital Assets, Net	<u>\$ 2,039,083</u>	<u>\$ 588,249</u>	<u>\$ -</u>	<u>\$ 2,627,332</u>

5. DEBT

During the fiscal year ended June 30, 2010, the District issued the “Mercer County Sanitation District Sewer System Revenue Bonds, Series 2008” in the amount of \$434,000 for the purpose of financing certain sewer system improvements. The interest rate on this bond issue is 4.0%. Annual principal payments are due January 1 each year. Semi-annual interest payments are due on January 1 and July 1 each year.

The annual principal and interest requirements of the above bonds payable as of June 30, 2015, are as follows:

Year Ending	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
June 30,			
2016	\$ 5,500	\$ 16,560	\$ 22,060
2017	6,000	16,340	22,340
2018	6,000	16,100	22,100
2019	6,500	15,860	22,360
2020	6,500	15,600	22,100
2021-25	37,500	73,820	111,320
2026-30	46,500	65,620	112,120
2031-35	57,500	55,500	113,000
2036-40	71,000	42,980	113,980
2041-45	88,000	27,460	115,460
2046-49	83,000	8,320	91,320
Total	<u>\$ 414,000</u>	<u>\$ 354,160</u>	<u>\$ 768,160</u>

During the fiscal year ended June 30, 2015, the District established a \$50,000 secured line of credit at the Farmers National Bank of Danville to provide funds to pay expenses while awaiting the release of loan and/or grant funds related to their various construction projects. As of June 30, 2015, the District had borrowed \$16,000 against the line of credit. The line of credit matures on June 24, 2016. The current interest rate on the line of credit is 4.0%. Interest is due quarterly.

MERCER COUNTY SANITATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014

During the fiscal year ended June 30, 2015, the District issued the “Mercer County Sanitation District Sewer System Revenue Bonds, Series 2015” in the aggregate principal amount of \$220,000, consisting of \$110,000 of Series A Bonds and \$110,000 of Series B Bonds for the purpose of financing certain sewer system improvements. The interest rate on this bond issue is 2.75%. Annual principal payments are due January 1 of each year (beginning in 2018). Semi-annual interest payments are due on January 1 and July each year.

Prior to the issuance of the 2015 bonds, the District obtained interim financing from Regions Bank for the purpose of funding various construction projects. Interest related to the interim financing amounted to \$1,121 for the year ended June 30, 2015, and was capitalized as a component of Construction in Progress. The interim financing was paid in full upon the issuance of the 2015 bond issue.

The annual principal and interest requirements of above Series A bonds payable as of June 30, 2015, are as follows:

Year Ending			
June 30,	Principal	Interest	Total
2016	\$ -	\$ 1,513	\$ 1,513
2017	-	3,025	3,025
2018	1,500	3,025	4,525
2019	1,500	2,984	4,484
2020	1,500	2,943	4,443
2021-25	9,500	14,011	23,511
2026-30	10,500	12,650	23,150
2031-35	12,500	11,069	23,569
2036-40	14,500	9,268	23,768
2041-45	16,500	7,178	23,678
2046-50	19,000	4,773	23,773
2051-55	23,000	1,981	24,981
Total	<u>\$ 110,000</u>	<u>\$ 74,420</u>	<u>\$ 184,420</u>

The annual principal and interest requirements of the above Series B bonds payable as of June 30, 2015, are as follows:

Year Ending			
June 30,	Principal	Interest	Total
2016	\$ -	\$ 1,513	\$ 1,513
2017	-	3,025	3,025
2018	1,500	3,025	4,525
2019	1,500	2,984	4,484
2020	2,000	2,943	4,943
2021-25	10,000	13,890	23,890
2026-30	11,000	12,501	23,501
2031-35	12,500	10,863	23,363
2036-40	14,500	9,062	23,562
2041-45	16,500	6,972	23,472
2046-50	19,000	4,565	23,565
2051-55	21,500	1,815	23,315
Total	<u>\$ 110,000</u>	<u>\$ 73,158</u>	<u>\$ 183,158</u>

MERCER COUNTY SANITATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014

Long-term liability activity for the year ended June 30, 2015, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
2008 Sewer System Revenue Bond	\$ 419,500	\$ -	\$ (5,500)	\$ 414,000	\$ 5,500
2015 Series A Sewer System Revenue Bond	-	110,000	-	110,000	-
2015 Series B Sewer System Revenue Bond	-	110,000	-	110,000	-
Total	<u>\$ 419,500</u>	<u>\$ 220,000</u>	<u>\$ -</u>	<u>\$ 634,000</u>	<u>\$ 5,500</u>

Short-term debt activity for the year ended June 30, 2015 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Interim Financing - Regions Bank	\$ -	\$ 220,000	\$ (220,000)	\$ -	\$ -
Farmer's National Bank - Line of Credit	-	16,000	-	16,000	16,000
Total	<u>\$ -</u>	<u>\$ 236,000</u>	<u>\$ (220,000)</u>	<u>\$ 16,000</u>	<u>\$ 16,000</u>

**Bond Covenants and Provisions**

Certain financial covenants pertaining to the bond issues are as follows:

**2008 Bond Issue**

- 1) The District shall establish a “sinking fund” into which funds will be transferred from the revenue fund in a sufficient amount on a monthly basis to pay the annual debt service.
- 2) The District shall establish a “depreciation reserve fund” into which \$200 shall be transferred each month until the fund reaches a balance of \$24,000.

**2015 Bond Issue**

- 1) The District shall establish a “sinking fund” into which funds will be transferred from the revenue fund in a sufficient amount on a monthly basis to pay the annual debt service.
- 2) The District shall establish a “depreciation reserve fund” into which \$80 shall be transferred each month until the fund reaches a balance of \$9,600.

The District was in substantial compliance with the above covenants for the year ended June 30, 2015. For the year ended June 30, 2014, the District was in violation of the 2008 bond covenant, item #2 above because only \$1,900 was transferred to the depreciation reserve instead of the required amount of \$2,400.

**6. RISK MANAGEMENT**

The District is exposed to a variety of accidental losses, and has attempted to minimize its risk by carrying commercial insurance. There have been no significant reductions in coverage from coverage in the prior year.

**7. MANAGEMENT AGREEMENT**

On March 1, 2014, the District entered into an agreement with Lake Village Water Association, Inc. whereby Lake Village Water Association will provide management, secretarial, billing, bookkeeping, budgeting, office space, and various other services to the District for an annual fee of \$25,000 payable in equal monthly installments of \$2,083.33. The contract term is five years and is cancelable by either party upon 60 days written notice.

MERCER COUNTY SANITATION DISTRICT  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2015 AND 2014

8. PRESENT PROJECTS AND FUTURE PLANS

As of June 30, 2015, there are two construction projects in progress: 1) the Warwick Road Sanitary Sewer Project, and 2) the Burgin Wastewater System Project. The budgeted amount for The Warwick Road Sanitary Sewer Project is \$790,250 and the budgeted amount for the Burgin Wastewater System Project is \$740,000. As of June 30, 2015, \$1,078,118 had been spent on the above projects. These projects are being funded by 1) a grant from the Kentucky Infrastructure Authority and 2) grants and loans from the United States Department of Agriculture, Rural Development Agency.

9. OTHER MATTERS

(A) Customer Accounts Receivable Aging at June 30, 2015 and 2014:

	June 30, 2015	June 30, 2014
Current	\$ 25,897	\$ 23,103
30-59 Days	1,749	1,565
60-89 Days	338	316
Over 90 Days	113	233
	\$ 28,097	\$ 25,217

(B) Accounts Receivable is comprised of the following as of June 30, 2015 and 2014:

	June 30, 2015	June 30, 2014
Customers	\$ 28,097	\$ 25,217
Intergovernmental	115,546	9,115
Allowance for Bad Debts	(114)	(233)
	\$ 143,529	\$ 34,099

All receivables 90 days and older are included in the allowance for uncollectible accounts.

COMPLIANCE SECTION

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**CRAIG A. BUTLER, CPA**

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

Board of Directors  
Mercer County Sanitation District  
Harrodsburg, Kentucky 40330

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 Mercer County Sanitation District as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Mercer County Sanitation District's basic financial statements and have issued my report thereon dated November 10, 2015.

**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 opinion 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 discussed below, I identified certain deficiencies in internal control that I consider to be material weaknesses and significant deficiencies.

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

1. As is common within the system of internal control of most small organizations, the accounting function of Mercer County Sanitation District does not prepare the financial statements complete with footnotes in accordance with the accounting principles generally accepted in the United States of America. Accordingly, the District has not established internal controls over the

preparation of its financial statements. This condition is considered to be a significant deficiency in the District's system of internal control over financial reporting.

During the course of performing an audit, it is not unusual for the auditor to prepare various journal entries to present the financial statements in accordance with generally accepted accounting principles. This reliance on the auditor to detect and make these necessary adjustments is considered to be a significant deficiency in the system of internal control. SAS No. 115 does not make exceptions for reporting deficiencies that are adequately mitigated with non-audit services rendered by the auditor or deficiencies for which the remedy would be cost prohibitive.

Communication of the control deficiency above helps to emphasize that the responsibility for financial reporting rests entirely with the organization and not the auditor. Stated another way, if an organization is unable to issue, without the auditor's involvement, complete financial statements with footnotes in accordance with generally accepted accounting principles and free of material misstatement, that inability is a symptom of a significant deficiency in the system of internal control.

#### Management's Response

The District engages consultants who possess industry knowledge and expertise to provide financial services, as well as legal, engineering, and other professional services. Based on the auditor's unqualified opinion and after reading the financial statements, management believes the financial statements to be materially correct. Management does not think that the addition of an employee or consultant to oversee the annual financial reporting process is necessary nor would it be cost effective.

#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

#### **District's Response to Findings**

The District's response to the findings identified in my audit is described above. I did not audit the District's response and, accordingly, I express no opinion on it.

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

***Craig A. Butler, CPA***

Craig A. Butler  
Certified Public Accountant

Danville, Kentucky  
November 10, 2015