

MERCER COUNTY SANITATION DISTRICT  
AUDITED FINANCIAL STATEMENTS

---

JUNE 30, 2016

CRAIG A. BUTLER  
CERTIFIED PUBLIC ACCOUNTANT  
DANVILLE, KENTUCKY

## CONTENTS

	<u>PAGE</u>
Independent Auditor's Report	1-2
Financial Statements:	
Statement of Net Position	3-4
Statement of Revenues, Expenses and Changes in Net Position	5
Statement of Changes in Net Position	6
Statement of Cash Flows	7
Notes to Financial Statements	8-13
Compliance Section:	
Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>	14-15

---

**CRAIG A. BUTLER, CPA**

131 N 4<sup>TH</sup> STREET

DANVILLE, KY 40422

Phone: (859) 936-0201

Fax: (859) 936-0203

Mobile: (859) 583-7941

## **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, 2016 and 2015, 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, 2016 and 2015, 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 1, 2016, 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 1, 2016

**MERCER COUNTY SANITATION DISTRICT**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2016**  
**(WITH COMPARATIVE TOTALS AS OF JUNE 30, 2015)**

	June 30, 2016	June 30, 2015
<b><u>ASSETS</u></b>		
Current Assets:		
Cash	\$ 6,456	\$ 2,988
Receivables:		
Customers (Net of Allowance)	31,898	27,983
Grants	24,197	115,546
Prepaid Expenses	1,842	1,708
Total Current Assets	64,393	148,225
Non-current Assets:		
Restricted Cash	19,828	17,409
Restricted Certificate of Deposit	1,300	1,300
Property and Equipment:		
Distribution System	1,900,135	1,436,425
Flow Meters	40,598	40,598
Pump Stations	702,376	338,000
Equipment	90,146	87,098
Construction in Process	668,096	1,078,118
Less: Accumulated Depreciation	(431,473)	(352,907)
Net Property and Equipment	2,969,878	2,627,332
Total Assets	\$ 3,055,399	\$ 2,794,266

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

**MERCER COUNTY SANITATION DISTRICT**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2016**  
**(WITH COMPARATIVE TOTALS AS OF JUNE 30, 2015)**

	June 30, 2016	June 30, 2015
<b><u>LIABILITIES</u></b>		
Current Liabilities:		
Accounts Payable	\$ 8,521	\$ 5,885
Accounts Payable - Contractors	25,746	102,576
Refundable Advance	10,000	10,000
Accrued Interest	8,170	8,280
Line of Credit	30,000	16,000
Bonds Payable - Current Portion	6,000	5,500
Total Current Liabilities	88,437	148,241
Non-Current Liabilities:		
Bonds Payable	622,500	628,500
Total Liabilities	710,937	776,741
<b><u>NET POSITION</u></b>		
Invested in Capital Assets	2,311,378	1,977,332
Restricted	1,409	13,399
Unrestricted	31,675	26,794
Total Net Position	2,344,462	2,017,525
Total Liabilities and Net Position	\$ 3,055,399	\$ 2,794,266

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, 2016**  
**(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2015)**

	Year Ended	
	June 30, 2016	June 30, 2015
Operating Revenue:		
Sewer Service	\$ 165,863	\$ 141,967
Mercer County Fiscal Court Contribution	35,000	40,000
Total Operating Revenue	200,863	181,967
Operating Expenses:		
Cost of Service	97,243	83,403
Commissioner Fees	10,800	10,800
Management Fees	25,000	25,000
Repairs & Maintenance	1,620	180
Legal & Professional	7,109	10,089
Insurance	8,156	7,553
Utilities	4,174	4,630
Miscellaneous	3,540	3,816
Depreciation	78,566	61,096
Total Operating Expenses	236,208	206,567
Operating Income (Loss)	(35,345)	(24,600)
Nonoperating Expenses:		
Interest Expense	20,042	16,670
Income (Loss) Before Capital Contributions	(55,387)	(41,270)
Capital Contributions:		
Rural Development Grant	155,277	154,973
Kentucky Infrastructure Authority Grant	216,103	250,991
Tap Fees	10,944	6,066
Total Capital Contributions	382,324	412,030
Change in Net Position	326,937	370,760
Net Position - Beginning of Year	2,017,525	1,646,765
Net Position - End of Year	\$ 2,344,462	\$ 2,017,525

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, 2016 AND 2015**

	Contributions In Aid Of Construction	Retained Earnings	Total
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Balance at July 1, 2014	\$ 2,039,907	\$ (393,142)	\$ 1,646,765
Capital Contributions:			
Intergovernmental	405,964	-	405,964
Tap Fees	6,066	-	6,066
Customers	-	-	-
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>2,451,937</u>	<u>(434,412)</u>	<u>2,017,525</u>
Capital Contributions:			
Intergovernmental	371,380	-	371,380
Tap Fees	10,944	-	10,944
June 30, 2016 Net Income (Loss) Before Capital Contributions	<u>-</u>	<u>(55,387)</u>	<u>(55,387)</u>
Balance at June 30, 2016	<u>\$ 2,834,261</u>	<u>\$ (489,799)</u>	<u>\$ 2,344,462</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, 2016**  
**(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2015)**

	Year Ended	
	June 30, 2016	June 30, 2015
Cash Flows From Operating Activities:		
Receipts From Customers	\$ 161,948	\$ 138,967
Mercer County Fiscal Court Contribution	52,500	22,500
Payments to Suppliers	(155,141)	(146,244)
Net Cash Provided by (Used in) Operating Activities	59,307	15,223
Cash Flows From Capital and Related Financing Activities:		
Capital Contributions	456,174	323,099
Refundable Advance	-	10,000
Proceeds from Interim Financing	-	220,000
Repayment of Interim Financing	-	(220,000)
Principal Repayments on Capital Debt	(5,500)	(5,500)
Proceeds from Bond Issuance	-	220,000
Proceeds from Line of Credit	63,995	16,000
Principal Repayments on Line of Credit	(49,995)	-
Interest Payments on Capital Debt	(21,273)	(17,901)
Purchase of Fixed Assets/Construction in Progress	(496,821)	(558,936)
Net Cash Provided by (Used in) Financing Activities	(53,420)	(13,238)
Cash Flows From Investing Activities:		
Purchase of Certificate of Deposit	-	-
Net Increase (Decrease) in Cash	5,887	1,985
Cash at Beginning of Year	20,397	18,412
Cash at End of Year	\$ 26,284	\$ 20,397
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:		
Operating Income (Loss)	\$ (35,345)	\$ (24,600)
Depreciation	78,566	61,096
Decrease (Increase) in Accounts Receivable	(3,915)	(3,000)
Decrease (Increase) in Accounts Receivable-Government	17,500	(17,500)
Decrease (Increase) in Prepaid Expenses	(134)	(1,087)
Increase (Decrease) in Accounts Payable	2,635	314
Net Cash Provided by (Used in) Operating Activities	\$ 59,307	\$ 15,223
Noncash Investing, Capital, and Financing Activities:		
Construction activity in accounts payable	\$ 25,746	\$ 102,576
Capital contributions in accounts receivable	24,197	98,046

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

MERCER COUNTY SANITATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015

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, 2016 AND 2015

- 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 1, 2016, 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, 2016, have not been evaluated by the District.

3. CASH AND INVESTMENTS

Cash and investments are composed of the following as of June 30, 2016 and 2015, with restriction for use noted:

		<u>June 30, 2016</u>	<u>June 30, 2015</u>
Cash on Deposit - Operating Account	A	\$ 6,456	\$ 2,988
Cash on Deposit - Construction	B	100	100
Cash on Deposit - Construction	B	153	159
Cash on Deposit - Construction	B	75	-
Cash on Deposit - Depreciation	C	7,400	5,040
Cash on Deposit - Debt Service	D	<u>12,100</u>	<u>12,110</u>
Total Cash		26,284	20,397
Certificate of Deposit - Restricted	E	<u>1,300</u>	<u>1,300</u>
Total Cash and Investments		<u>\$ 27,584</u>	<u>\$ 21,697</u>

The cash deposits are fully insured by the FDIC at June 30, 2016 and 2015.

- (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, 2016 AND 2015

4. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Distribution System	\$ 1,436,425	\$ 463,710	\$ -	\$ 1,900,135
Flow Meters	40,598	-	-	40,598
Pump Stations	338,000	364,376	-	702,376
Equipment	87,098	3,048	-	90,146
Construction in Process	1,078,118	418,064	(828,086)	668,096
Total	2,980,239	1,249,198	(828,086)	3,401,351
Less accumulated depreciation for:				
Distribution System	(245,124)	(54,067)	-	(299,191)
Flow Meters	(7,236)	(1,230)	-	(8,466)
Pump Stations	(63,163)	(18,524)	-	(81,687)
Equipment	(37,384)	(4,745)	-	(42,129)
Total accumulated depreciation	(352,907)	(78,566)	-	(431,473)
Capital Assets, Net	<u>\$ 2,627,332</u>	<u>\$ 1,170,632</u>	<u>\$ (828,086)</u>	<u>\$ 2,969,878</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, 2016, are as follows:

Year Ending	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
June 30,			
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	7,000	15,340	22,340
2022-26	39,000	72,320	111,320
2027-31	48,500	63,760	112,260
2032-36	60,000	53,200	113,200
2037-41	74,000	40,140	114,140
2042-46	92,000	23,940	115,940
2047-49	63,000	5,000	68,000
Total	<u>\$ 408,500</u>	<u>\$ 337,600</u>	<u>\$ 746,100</u>

During the fiscal year ended June 30, 2016, the District renewed a \$60,000 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, 2016, the District had \$30,000 outstanding against the line of credit. The line of credit matures on June 22, 2017. 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, 2016 AND 2015

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, 2016, are as follows:

Year Ending June 30,	Principal	Interest	Total
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	1,500	2,901	4,401
2022-26	10,000	13,750	23,750
2027-31	11,000	12,361	23,361
2032-36	12,500	10,726	23,226
2037-41	15,000	8,869	23,869
2042-46	17,000	6,724	23,724
2047-51	19,500	4,251	23,751
2052-55	19,000	1,344	20,344
Total	<u>\$ 110,000</u>	<u>\$ 72,903</u>	<u>\$ 182,903</u>

The annual principal and interest requirements of the above Series B bonds payable as of June 30, 2016, are as follows:

Year Ending June 30,	Principal	Interest	Total
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	2,000	2,888	4,888
2022-26	10,000	13,615	23,615
2027-31	11,500	12,198	23,698
2032-36	12,500	10,519	23,019
2037-41	15,000	8,664	23,664
2042-46	17,000	6,518	23,518
2047-51	19,500	4,042	23,542
2052-55	17,500	1,217	18,717
Total	<u>\$ 110,000</u>	<u>\$ 71,638</u>	<u>\$ 181,638</u>

MERCER COUNTY SANITATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015

Long-term liability activity for the year ended June 30, 2016, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
2008 Sewer System Revenue Bond	\$ 414,000	\$ -	\$ (5,500)	\$ 408,500	\$ 6,000
2015 Series A Sewer System Revenue Bond	110,000	-	-	110,000	-
2015 Series B Sewer System Revenue Bond	110,000	-	-	110,000	-
Total	<u>\$ 634,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 628,500</u>	<u>\$ 6,000</u>

Short-term debt activity for the year ended June 30, 2016 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Farmer's National Bank - Line of Credit	\$ 16,000	\$ 63,995	\$ (49,995)	\$ 30,000	\$ 30,000
Total	<u>\$ 16,000</u>	<u>\$ 63,995</u>	<u>\$ (49,995)</u>	<u>\$ 30,000</u>	<u>\$ 30,000</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 years ended June 30, 2015 and 2016.

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, 2016 AND 2015

8. PRESENT PROJECTS AND FUTURE PLANS

As of June 30, 2016, there are two major construction projects in progress.

The first is the Burgin Wastewater System Project. The budgeted amount for the Burgin Wastewater System Project is \$9,718,000. As of June 30, 2016, \$610,325 had been spent on the above project. This project is being funded by the following:

1. Rural Development Loan	\$ 3,873,000
2. Rural Development Grant	4,105,000
3. Community Development Block Grant	1,000,000
4. Kentucky Infrastructure Authority Grant	740,000
Total Funding	\$ 9,718,000

The second major project in progress is referred to as the Kennedy Bridge Road Project. The budgeted amount for the Kennedy Bridge Road Project is \$848,000 which is being funded by a loan from Kentucky Infrastructure Authority in the amount of \$424,000 and a Community Development Block Grant in the amount of \$424,000. As of June 30, 2016, \$37,062 had been spent on this project.

9. OTHER MATTERS

(A) Customer Accounts Receivable Aging at June 30, 2016 and 2015:

	June 30, 2016	June 30, 2015
Current	\$ 28,705	\$ 25,897
30-59 Days	2,284	1,749
60-89 Days	909	338
Over 90 Days	113	113
	\$ 32,011	\$ 28,097

(B) Accounts Receivable is comprised of the following as of June 30, 2016 and 2015:

	June 30, 2016	June 30, 2015
Customers	\$ 32,011	\$ 28,097
Intergovernmental	24,197	115,546
Allowance for Bad Debts	(113)	(113)
	\$ 56,095	\$ 143,530

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

COMPLIANCE SECTION

---

**CRAIG A. BUTLER, CPA**

131 N 4<sup>TH</sup> STREET  
DANVILLE, KY 40422  
Phone: (859) 936-0201  
Fax: (859) 936-0203  
Mobile: (859) 583-7941

**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, 2016, 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 1, 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 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 1, 2016