

DAVID M. ANDERSON
CERTIFIED PUBLIC ACCOUNTANT
1250 US HWY 60 WEST
LEDBETTER, KENTUCKY 42058
(270)703-7392 (270)703-3819

Member of
American Institute of CPA's

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

To the Management and District Board
South 641 Water District
207 Main Street
P.O. Box 126
Hazel, KY 42049

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the business-type activities of South 641 Water District, as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the South 641 Water District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of South 641 Water District, as of December 31, 2023, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our 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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of South 641 Water District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management 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, and 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about South 641 Water District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Audit Standards* will always detect material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements
- Obtain an understanding of internal control relevant to the audit 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 South 641 Water District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about South 641 Water District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4-5 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

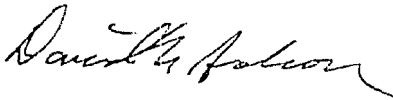
Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise South 641 Water District's basic financial statements. Such information is the responsibility of management and was derived from

and related directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2024, on our consideration of the South 641 Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of South 641 Water District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering South 641 Water District's internal control over financial reporting and compliance.



David M. Anderson, CPA
Ledbetter, Kentucky
June 30, 2024

**SOUTH 641 WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2023**

The South 641 Water District ("District") offers Management's Discussion and Analysis to provide an overview and analysis of the District's financial activities for the year ended December 31, 2023. To fully understand the entire scope of the District's financial activities, this information should be read in conjunction with the financial statements provided in this document.

FINANCIAL HIGHLIGHTS

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's financial statements. The District is authorized under Kentucky Revised Statutes (KRS) and constitutes a governmental subdivision of the Commonwealth of Kentucky. The District's financial report includes only the activities of the South 641 Water District. The South 641 Water District's financial statements are provided for the Water, Sewer, and the combined review of the entire District.

The District's financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB).

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The District's basic financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position, a Statement of Cash Flows and Notes to the Financial Statements.

Statement of Net Position – The Statement of Net Position presents the financial position of the District. It represents information on the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreased in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. The statement of net position can be found on page 6 of this report.

Statement of Revenues, Expenses and Changes in Net Position – The Statement of Revenues, Expenses and Changes in Net Position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Revenues are recognized when they are earned, not when they are received. Expenses are recognized when incurred, not when they are paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods. The statement of revenues, expenses and changes in net position is on page 7 of this report.

Statement of Cash Flows – The Statement of Cash Flows presents changes in cash and cash equivalents, resulting from operating, financing, and investing activities. This statement presents cash receipt and cash disbursement information without consideration for when revenues were earned or when the obligation (expense) occurred. The statement of cash flows is found on page 8 of this report.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the fund financial statements. The Notes to the Financial Statements can be found on pages 9-11 of this report.

OVERVIEW OF THE DISTRICT'S FINANCIAL POSITION AND RESULTS OF OPERATIONS

As noted earlier, net position may serve overtime as a useful indicator of the District's financial position. The District's assets exceeded liabilities for Water by \$844,614.93, Sewer by \$835,371.83, with a combined District's assets exceeding liabilities by \$1,679,986.76.

A portion of the District's net position \$1,539,663.19, reflects its investment in net plant, such as water tanks, buildings, equipment, and distribution systems, oxidation lagoons, less any related outstanding debt used to acquire those assets. The District uses these assets to provide services to its customers; consequently, these assets are not available for future spending.

CAPITAL ASSETS

The District's investment in capital assets as of December 31, 2023 was \$754,968.98 for water, \$784,694.21 for sewer, for a combined total of \$1,539,663.19 in capital assets. During the year ended December 31, 2023, the District completed a System Rehab project with the use of \$220,000.00 from a Kentucky Infrastructure Authority.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the South 641 Water District's finances for all those with an interest in the government's finances. Questions or requests for additional information may be addressed to Amy Fadden, Administrator, South 641 Water District, P.O. Box 126, Hazel, KY 42049.

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SOUTH 641 WATER DISTRICT
STATEMENT OF NET POSITION - PROPRIETARY FUND
DECEMBER 31, 2023

Balance Sheet

ASSETS**Current Assets****Unrestricted**

Cash in Bank (Rev, Surplus & PC)

	<u>WATER</u>	<u>SEWER</u>	<u>COMBINED</u>
Cash in Bank (Rev, Surplus & PC)	\$ 87,476.02	\$ 44,560.42	\$ 132,036.44
Total Unrestricted Cash	<u>87,476.02</u>	<u>44,560.42</u>	<u>132,036.44</u>
Restricted			
Cash in Customer Deposit Account	<u>23,741.93</u>	<u>6,045.93</u>	<u>29,787.86</u>
Total Restricted Cash	<u>23,741.93</u>	<u>6,045.93</u>	<u>29,787.86</u>
Receivables			
Accounts Receivables (net allow for uncollect.)	2,493.54	1,954.17	4,447.71
Unbilled Receivables (net allow. For uncollect.)	<u>11,527.50</u>	<u>8,272.73</u>	<u>19,800.23</u>
Total Receivables	<u>14,021.04</u>	<u>10,226.90</u>	<u>24,247.94</u>
Total Current Assets	<u>125,238.99</u>	<u>60,833.25</u>	<u>186,072.24</u>
Noncurrent/Capital Assets			
Land (Nondepreciable)	20,000.00	0.00	20,000.00
Assets in Service	2,076,362.55	1,627,980.23	3,704,342.78
Accumulated Depreciation	<u>(1,341,393.57)</u>	<u>(843,286.02)</u>	<u>(2,184,679.59)</u>
Total Noncurrent/Capital Assets	<u>754,968.98</u>	<u>784,694.21</u>	<u>1,539,663.19</u>
TOTAL ASSETS	<u>880,207.97</u>	<u>845,527.46</u>	<u>1,725,735.43</u>
LIABILITIES			
Current Liabilities			
Accounts Payable	9,448.23	1,938.35	11,386.58
Taxes Withheld & Accrued	951.38	574.04	1,525.42
State Taxes (S&U and School)	271.14	159.23	430.37
Accrued Health Insurance Premiums	0.00	0.00	0.00
Customer Advanced Payments	1,383.65	1,438.08	2,821.73
Customer Deposits	<u>23,538.64</u>	<u>6,045.93</u>	<u>29,584.57</u>
Total Current Liabilities	<u>35,593.04</u>	<u>10,155.63</u>	<u>45,748.67</u>
TOTAL LIABILITIES	<u>35,593.04</u>	<u>10,155.63</u>	<u>45,748.67</u>
NET POSITION			
Net Investment in Capital Assets	754,968.98	784,694.21	1,539,663.19
Restricted	23,741.93	6,045.93	29,787.86
Unrestricted	<u>65,904.02</u>	<u>44,631.69</u>	<u>110,535.71</u>
TOTAL NET POSITION	<u>\$ 844,614.93</u>	<u>\$ 835,371.83</u>	<u>\$ 1,679,986.76</u>

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

South 641 Water District
Statement of Cash Flows-Proprietary Funds
For the Year Ending December 31, 2023

	Water	Sewer	Total
Cash flows from operating activities:			
Cash received from customers	\$ 150,427.54	\$ 121,790.96	\$ 272,218.50
Cash payments to suppliers for goods and services	(92,994.14)	(73,114.22)	(166,108.36)
Cash payments to employees for services	(51,054.27)	(30,879.02)	(81,933.29)
Net cash provided (used) by operating activities	<u>6,379.13</u>	<u>17,797.72</u>	<u>24,176.85</u>
Cash flows from capital and related financing activities:			
Commonwealth of KY System Rehab Grant	-	143,735.11	143,735.11
Tap-on fees	3,500.00	-	3,500.00
Acquisition and construction of property, plant and equipment	(8,054.85)	(159,904.71)	(167,959.56)
Net cash provided (used) for capital and related financing act	<u>(4,554.85)</u>	<u>(16,169.60)</u>	<u>(20,724.45)</u>
Cash flows from investing activities:			
Interest income	287.27	174.56	461.83
Net cash provided (used) by investing activities	<u>287.27</u>	<u>174.56</u>	<u>461.83</u>
Net increase (decrease) in cash	2,111.55	1,802.68	3,914.23
Cash and cash equivalents, beginning of year	<u>109,106.40</u>	<u>57,582.32</u>	<u>166,688.72</u>
Cash and cash equivalents, end of year	<u>\$ 111,217.95</u>	<u>\$ 59,385.00</u>	<u>\$ 170,602.95</u>
Reconciliation of Operating Income (loss) to net cash provided (used) by operating activities			
Operating income (loss)	\$ (29,519.89)	\$ (30,653.19)	\$ (60,173.08)
Adjustments-operating activities			
Depreciation	29,641.74	48,153.37	77,795.11
(Increase) decrease in:			
Accounts receivable	76.31	(392.43)	(316.12)
Unbilled receivables	404.70	61.51	466.21
Increase(decrease) in:			
Accounts payable	8,075.32	(690.39)	7,384.93
Taxes Withheld	202.60	118.98	321.58
State Taxes	(1,407.25)	(860.76)	(2,268.01)
Customer Advanced Payments	(409.20)	1,423.10	1,013.90
Customer Deposits	(685.20)	637.53	(47.67)
Net cash provided (used) by operating activities	<u>\$ 6,379.13</u>	<u>\$ 17,797.72</u>	<u>\$ 24,176.85</u>

SOUTH 641 WATER DISTRICT

Notes to the Financial Statements

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Activities – The South 641 Water District is a county water district supported by funds derived from the sale of water and sewer distribution and is operated by a District Board. The District is authorized under Kentucky Revised Statutes (KRS) and constitutes a Special Purpose Government Entity (SPGE), subdivision of the Department of Local Government (DLG), of the Commonwealth of Kentucky. The District is in Hazel, KY and serves the city of Hazel and the southern portion of Calloway County area.

Principles determining scope of reporting entity – The District’s financial report includes only the funds of the District. The District has no oversight responsibility for any other governmental entity and is not included in any other governmental “reporting entity” as defined by the Governmental Accounting Standards Board (GASB) pronouncement. The District’s Board members are appointed equally by the County Judge Executive of Calloway County, and they have decision making authority, the authority to set rules, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters.

Basis of accounting - The District is presented as a proprietary enterprise fund. The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when the liability incurred, or economic asset is used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Grants and similar items are recognized as soon as all eligibility requirements imposed by the provider have been met.

The District follows all pronouncements of the GASB. Enterprise funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund’s principal ongoing operations. The principal operating revenues of the District are charges to customers for water distribution and waste-water treatment. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenue and expenses.

As dictated by the Kentucky Public Service Commission (PSC) Case No 2015-00278 any undetermined revenues and expenses for water and sewer are to be allocated as follows:

62.2% to Water & 37.8% to Sewer for:

- Employee Wages
- Dental Insurance
- Telephone
- Office Supplies
- Postage
- Mileage Reimbursement
- Workers Comp Insurance
- Payroll Taxes
- PSC Fees
- Interest Revenue
- Fees Revenue (Turn-On & Returned Check)

75.33% to Water & 24.67% to Sewer for:

- Uncollectible Accounts
- General Liability Insurance
- Long-Term Debt
- Interest Expense

Budget – Business-type activities use budgets for internal planning and control, but the budgets generally do not have the legal status or political nature of governmental activity budgets. For instance, usually they are not subject to public comment and are not formally adopted by the governing body. South 641 Water District has no legally adopted budget although a budget is used as a guide and is presented to the Board of Commissioners for approval prior to the beginning of the fiscal year and each quarterly meeting to gauge the financial activity of income and expenses.

Accounts Receivable – Receivables result from unpaid billings for water service to customers and from unpaid billings related to work performed for or materials sold to certain entities. All receivables are shown net of an allowance for uncollectible accounts. The allowance for uncollectible customer accounts recorded by the District is based on history of uncollectible accounts and management’s analysis of current accounts.

Unbilled Receivables – The District bills one month in arrears of usages; therefore, January 2024 billing is actually for December 2023 usage. Unbilled receivables are for usage that has occurred that the District still needs to prepare billing for and send to customers.

Utility Plant – The utility plant is carried cost. Depreciation is computed using the straight-line method. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs charged to income as incurred; significant betterments are capitalized. Contributions from customers for the purpose of purchasing service connections to the utility plant are recorded as contributions when they are received. Depreciation on contributed asset is recorded as an expense in the statement of revenues and expenses. Capital assets are depreciated over the following estimated useful lives:

Organization Costs, Collection Sewers, Transmission & Distribution Lines & Water Tanks:	40 years
Engineering Costs, Receiving Wells & Pump Pits:	35 years
Hydrants, Fittings & Valves:	30 years
Oxidation Lagoons:	25 years
Regional Plans, Structures & Improvements, Hoists, Some Office Equipment & Water Pumps:	20 years
Meters and Tap-Ons, Air Conditioners/Heaters, and Meter Testers:	15 years
Sewer Pumps:	7 years
Some Office Equipment & Automatic Samplers:	5 years

Expenses –

Use of Estimates – 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 expenses during the reporting period. Actual results could differ from those estimates.

Use of Restricted/Unrestricted Net Position – When an expense is incurred for purposes for which both restricted and unrestricted assets are available, the District’s policy is to consider restricted net position to have been depleted before unrestricted net position is applied.

Cash and Cash Equivalents – For purposes of the statement of cash flows, the District considers investments to be cash equivalents since all accounts are either deposit accounts or certificate of deposits.

2 – RESTRICTED CASH AND INVESTMENTS

Customer Deposits – South 641 Water District sets aside, in an independent checking account held at The Murray Bank, all customers’ deposits. This is a non-interest-bearing account. The balance of this account on December 31, 2023 was \$29,787.86.

3 - DEPOSITS

The District’s cash in bank demand deposits on December 31, 2023 does not exceed the FDIC insured amount. If the District exceeds FDIC insurance amounts this excess would represent a potential loss in the event the financial institution failed to perform on its obligations.

4 – DEPRECIATION

Depreciation expense was charged to functions as follows:

Water: \$29,641.74

Sewer: \$48,153.37

Total Business-Type Activities Depreciation Expense: \$ 77,795.11

5 –COMMERCIAL INSURANCE

It is the policy of the District to purchase commercial insurance for the risks of losses to which it is exposed. These risks include general liability and fidelity bond coverage. Settled claims have not exceeded the commercial coverage in any of the past three fiscal years.

6 – SUBSEQUENT EVENTS

During 2023 a rate study was performed and subsequently the District’s requested rates were approved by the Public Service Commission and will be phased-in over a 3 year period.

Management has evaluated subsequent events through June 30, 2024, the date the financial statements were available to the public.

DAVID M. ANDERSON
CERTIFIED PUBLIC ACCOUNTANT
1250 US HWY 60 WEST
LEDBETTER, KENTUCKY 42058
(270)703-7392 (270)703-3819

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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 Board of Commissioners
South 641 Water District
207 Main Street
P.O. Box 126
Hazel, Kentucky 42049

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of business-type activities South 641 Water District as of and for the year ended December 31, 2023 and the related notes to the financial statements, which collectively comprise the South 641 Water District's basic financial statements and have issued our report thereon dated June 30, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered South 641 Water District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of South 641 Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of South 641 Water District's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned cost Condition 1 that we consider to be a material weakness.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether South 641 Water District's financial statements are free from material misstatement, we performed tests of it's 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 or other matters that are required to be reported under *Government Auditing Standards*.

South 641 Water District's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on South 641 Water District's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. South 641 Water District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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.



David M. Anderson, CPA
Ledbetter, Kentucky
June 30, 2024

**SOUTH 641 WATER DISTRICT
HAZEL, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES
December 31, 2023**

FINANCIAL STATEMENT FINDINGS

INTERNAL CONTROL MATERIAL WEAKNESS

Condition 1: There is an absence of appropriate segregation of duties consistent with appropriate control objectives.

Effect: Although no instances were noted, lack of segregation of duties can create situations where assets are not properly safeguarded and errors and irregularities may go undetected.

Cause: Lack of personnel.

Recommendation: We recommend that management review its financial operation for opportunities to separate incompatible functions. Where segregation of duties cannot be achieved due to the size of the staff, management should maintain its awareness of the weakness and compensate with other controls.

Management's Response:

We agree with the finding and have put in place certain compensating controls to help alleviate exposure. Where possible, commissioners will be more involved to help alleviate the lack of segregation.

PRIOR YEAR AUDIT FINDINGS

No audit in previous year.