

South Anderson Water District
Lawrenceburg, Kentucky

Audited Financial Statements
December 31, 2018 and 2017

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Independent Auditor's Report

To the Board of Commissioners
South Anderson Water District
Lawrenceburg, Kentucky

Report on the Financial Statements

I have audited the accompanying financial statements of South Anderson Water District ("District"), as of and for the years ended December 31, 2018 and 2017, 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 audits. I conducted my audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

To the Board of Commissioners
South Anderson Water District

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2018 and 2017, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the pension schedules on pages 13-14 be presented to supplement the basic financial statements. Such 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 to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the schedule of expenditures of federal awards is fairly stated in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued a report dated May 16, 2019, on my consideration of the District's internal control over financial reporting and 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 an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

The District has not presented the managements' discussion and analysis that *Government Accounting Standards Board* has determined to supplement, although not required to be part of the basic financial statements.

Alan Zumstein

Alan M. Zumstein, CPA
May 16, 2019

South Anderson Water District
Statements of Net Position
as of December 31, 2018 and 2017

	<u>Assets</u>	<u>2018</u>	<u>2017</u>
Utility Plant:			
In service		\$ 13,505,854	\$ 13,249,375
Under construction		-	-
		13,505,854	13,249,375
Less Accumulated depreciation		4,863,405	4,584,866
		8,642,449	8,664,509
Other Assets and Investments:			
Investments held to maturity		446,818	446,818
Current Assets:			
Cash and cash equivalents - unrestricted		734,922	873,921
Cash and cash equivalents - restricted		831,597	783,242
Accounts receivable, less allowance of \$10,170		126,474	122,750
Inventory		49,302	48,778
		1,742,295	1,828,691
Deferred Outflow of Resources-pension		102,038	124,015
Total		\$ 10,933,600	\$ 11,064,033
<u>Net Position and Liabilities</u>			
Net Position:			
Contributed capital - grants and other contributions		\$ 8,520,116	\$ 8,485,166
Retained earnings (loss)		(1,105,982)	(1,047,528)
		7,414,134	7,437,638
Long-Term Liabilities			
Bonds and notes payable		2,584,334	2,704,417
Net pension liability		487,407	444,559
		3,071,741	3,148,976
Current Liabilities:			
Accounts payables		61,515	70,194
Accrued interest		25,884	26,781
Current portion of long term debt		120,083	115,000
Consumer deposits		150,665	148,598
Other taxes and accruals		21,731	22,179
		379,878	382,752
Deferred Inflow of Resources-pension		67,847	94,667
Total		\$ 10,933,600	\$ 11,064,033

The accompanying notes are an integral part of these statements.

South Anderson Water District
Statement of Activities
for the years ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating Revenue		
Sale of water	<u>1,651,376</u>	<u>1,562,145</u>
Operating Expenses		
Cost of water purchased	631,412	573,010
Salaries and wages	212,410	199,496
Commissioner fees	18,000	18,000
Payroll taxes and benefits	136,167	36,813
Utilities	39,188	33,353
Depreciation	303,314	294,265
Chemicals, materials and supplies	185,289	178,210
Transportation	14,813	13,645
Contractual services	64,932	74,495
Office supplies and expenses	18,723	16,211
Rent	6,000	6,000
Bad debts	1,876	2,624
Insurance	<u>25,034</u>	<u>25,912</u>
	<u>1,657,158</u>	<u>1,472,034</u>
Operating income before fixed charges	(5,782)	90,111
Fixed Charges, interest and service fees	<u>108,232</u>	<u>107,777</u>
Net operating income (loss)	<u>(114,014)</u>	<u>(17,666)</u>
Non-Operating income, interest income		
Tower rent and others	36,195	34,732
Sewer billing fee	11,703	11,037
Interest income	<u>7,662</u>	<u>4,994</u>
	<u>55,560</u>	<u>50,763</u>
Net Income (Loss)	<u>\$ (58,454)</u>	<u>\$ 33,097</u>

The accompanying notes are an integral part of these statements.

South Anderson Water District
 Statements of Changes in Net Position
 for the Years Ended December 31, 2017 and 2018

	<u>Net Position</u>	<u>Contribution In-Aid</u>	<u>Total</u>
Balance - December 31, 2016	\$ (1,080,625)	\$ 8,452,266	\$ 7,371,641
Net Income (loss)	33,097		33,097
Contribution In-Aid		<u>32,900</u>	<u>32,900</u>
Balance - December 31, 2017	(1,047,528)	8,485,166	7,437,638
Net Income (loss)	(58,454)		(58,454)
Contribution In-Aid		<u>34,950</u>	<u>34,950</u>
Balance - December 31, 2018	<u>\$ (1,105,982)</u>	<u>\$ 8,520,116</u>	<u>\$ 7,414,134</u>

The accompanying notes are an integral part of these statements.

South Anderson Water District
 Statements of Cash Flows
 for the years ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash Flows from Operating Activities:		
Net income (loss)	\$ (58,454)	\$ 33,097
Adjustments to reconcile increase in net assets to net cash used by operating activities:		
Depreciation	303,314	294,265
Change in current assets and liabilities:		
Accounts receivable	(3,724)	14,459
Inventory	(524)	(5,723)
Accounts payable	(8,679)	11,078
Accrued taxes and expenses	(1,345)	17,510
	<u>230,588</u>	<u>364,686</u>
Cash Flows from Investing Activities:		
Purchase of assets	(281,254)	(32,900)
Consumer deposits (net)	2,067	4,450
	<u>(279,187)</u>	<u>(28,450)</u>
Cash Flows from Financing Activities:		
Contributed capital	34,950	32,900
Net pension liability	38,005	(64,591)
Additional long term advances	-	-
Payments on notes and bonds	(115,000)	(113,583)
	<u>(42,045)</u>	<u>(145,274)</u>
Net increase (decrease) in cash and cash equivalents	(90,644)	190,962
Cash and equivalents, beginning of year	<u>1,657,163</u>	<u>1,466,201</u>
Cash and equivalents, end of year	<u>\$ 1,566,519</u>	<u>\$ 1,657,163</u>
Supplemental cash flows information:		
Interest paid on long term debt	\$ 108,232	\$ 107,777

The accompanying notes are an integral part of these statements.

South Anderson Water District
Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies

South Anderson Water District (“District”) was created pursuant to the provisions of KRS 71.440 to 71.520 for the purpose of furnishing a supply of treated water to rural Anderson County.

The District maintains its records in accordance with policies prescribed or permitted by the Kentucky Public Service Commission and the United States Rural Development Administration. The accompanying financial statements of the District have been prepared on the accrual basis of accounting. Revenue is recognized when earned and expenses are recognized when incurred.

Utility Plant Utility plant is stated at original cost, which is the cost when first dedicated to public service. Such basis includes applicable supervisory and overhead costs.

The cost of maintenance and repairs, including replacements of minor items of property, is charged to operating expenses. The cost of replacements of depreciable property units, as distinguished from minor items, is charged to utility plant. The cost of units of property replaced or retired, including cost of removal, net of any salvage value, is charged to accumulated depreciation.

Utility plant consists of the following:

	<u>2018</u>	<u>2017</u>
Land and land rights	\$55,798	\$35,798
Structures and improvements	404,760	170,326
Reservoir and standpipes	359,011	365,008
Distribution mains	11,236,911	11,236,911
Meter and meter installations	1,138,018	1,140,015
Hydrants	1,216	1,216
Bulk water station	24,900	24,900
Transportation equipment	175,000	175,000
Work equipment	52,306	43,007
Office equipment	57,934	57,194
	13,505,854	13,249,375
Accumulated depreciation	4,863,405	4,584,866
Net utility plant	\$8,642,449	\$8,664,509

Depreciation The depreciation of fixed assets is provided on the straight-line basis over the estimated useful lives of the assets. Depreciation rates range from 5 to 50 years.

Cash and Cash Equivalents The District considers all short-term, highly liquid investments with original maturities of three months or less to be cash equivalents. The District maintains its cash balances, which may exceed the federally insured limit, with several financial institutions. Management believes that credit risk related to these accounts is minimal.

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 disclosures 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 used in the preparation of the financial statements.

South Anderson Water District
Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies, continued

Fair Value Measurements The Fair Value Measurements and Disclosures Topic of the FASB ASC 820, *Fair Value Measurements and Disclosures*, defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal, or most advantageous, market for the asset or liability in an orderly transaction between market participants at the measurement date. The Fair Values Measurements Topic establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs when possible. The three levels of inputs used to measure fair value are as follows:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities

Level 2: Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly.

Level 3: Prices or valuations that require inputs that are both significant to the fair value measure and unobservable.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The carrying amounts of the District's cash and cash equivalents, other assets, accounts payable, and accrued expenses and liabilities approximate fair value due to their short maturity. Other assets and liabilities are not considered financial instruments because they represent activities specifically related to the District. Long term debt can not be traded in the market, and is specifically for government entities and, therefore, a value other than its outstanding principal cannot be determined.

Investments The District may, and also does, invest idle funds in local banks consisting of certificates of deposits. These investments are classified as held-to-maturity in accordance with provisions of the *Financial Instruments Topic* of the Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC"). Held-to-maturity securities are presented at amortized cost.

Revenue and Cost of Water The District bills the 10th of each month based on gallons of water used the prior month. The District charges all uncollectible accounts directly against current earnings. The accounts that are estimated to be uncollectible are deemed to be minor. The cost of water purchased is recorded during the period in which water is consumed.

Income Tax Status Income from the District is exempt since the District is a government entity.

Risk Management The District is exposed to various forms of losses of assets associated with, but not limited to, fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, workers compensation, etc. Each of these areas is covered through the purchase of commercial insurance.

Environmental Contingency The District from time to time is required to work with and handle chemicals and other hazardous materials in the normal course of business. As a result, there is the possibility that environmental conditions may arise which would require the District to incur cleanup costs. The likelihood of such an event, or the amount of such costs, if any, cannot be determined at this time. However, management does not believe such costs, if any, would materially affect District's financial position or its future cash flows.

South Anderson Water District
Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies, continued

Deferred Outflows/Inflows of Resources In addition to assets, the statements of net position will sometimes report a separate section for the deferred outflow of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to future period(s) and so will not be recognized as an outflow of resources (expense) until then.

In addition to liabilities, the statements of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represent an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Pension Plan

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Kentucky Retirement Systems Plan (“KRS”) and additions to/deductions from KRS’s fiduciary net position have been determined on the same basis as they are reported by KRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Subsequent Events Management has evaluated subsequent events through May 16, 2019, the date the financial statements were available to be issued. There were no significant subsequent events to report.

Note 2. Cash and Equivalents and Investments

Unrestricted and restricted cash consists of the following:

	Unrestricted	
	2018	2017
Revenue account	\$619,905	\$721,561
Operation & maintenance account	103,394	136,740
Local construction	11,223	15,220
Petty cash	400	400
	\$734,922	\$873,921
	Restricted	
	2018	2017
Construction extension	\$249,836	\$240,871
Debt service account	242,403	203,189
Interest & principal account	212,028	211,384
Regions sinking fund	127,330	127,798
	\$831,597	\$783,242

South Anderson Water District
Notes to Financial Statements

Note 2. Cash and Equivalents and Investments, continued

Investments at December 31 were made up of Certificates of Deposit at Main Source Bank and Farmers Bank as listed below:

	<u>2018</u>	<u>2017</u>
Customer security deposits	\$143,000	\$143,000
Extension accounts	152,500	152,500
Debt service	87,500	87,500
Reserve account	63,818	63,818
	<u>\$446,818</u>	<u>\$446,818</u>

Note 3. Long Term Debt

Substantially all assets are pledged as collateral on the long term debt to the United States Rural Development Administration (“USDA”) and Kentucky Rural Water Association (“KRWA”) Series 2012B. Long term debt consists of:

	<u>2018</u>	<u>2017</u>
USDA Rural Development, 5.0%	\$10,000	\$13,000
USDA Rural Development, 5.0%	299,000	304,500
USDA Rural Development, 5.0%	977,500	989,000
KRWA Series 2012B	1,417,917	1,512,917
	<u>2,704,417</u>	<u>2,819,417</u>
Less: Current maturities	<u>120,083</u>	<u>115,000</u>
Long term portion	<u>\$2,584,334</u>	<u>\$2,704,417</u>

Annual principal payments for the next five (5) years are as follows:

2019	\$120,083
2020	126,083
2021	131,583
2022	136,583
2023	141,083
After	<u>2,049,002</u>
	<u>\$2,704,417</u>

Note 4. Contributions in Aid of Construction

The members of the District and various government agencies have made contributions in aid of construction to facilitate the construction of the District’s waterlines. As of December 31, 2018, the District had received \$1,706,031 from members in the form of tap-on-fees. Grants from federal, state, and local governmental agencies totaled \$6,814,085. This includes grants from USDA-Rural Development, Community Development Block Grant Program, Kentucky Infrastructure Authority, and the local county government in Anderson County, Kentucky.

South Anderson Water District
Notes to Financial Statements

Note 5. General Information about the Pension Plan

Plan Description Eligible plan participants are provided with pensions through the Kentucky County Employees Retirement System (“CERS”). The CERS is a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement Systems. The CERS consists of hazardous and non-hazardous participants. There were no significant changes in assumptions from the prior year.

Under the provision of Kentucky Revised Statute 61.645, the Board of Trustees (“KRS Board”) administers the CERS. KRS issues a publicly available financial report that can be obtained by writing to: Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601.

Benefits Provided KRS provides retirement, disability, and death benefits. Retirement benefits are as follows:

	Tier 1 Non-Hazardous	Tier 2 Non-Hazardous Public Safety	Tier 3 Non-Hazardous and Hazardous
Final Average Salary	Highest 5 Years	Last 5 years	Rule of 87*
Years of service required and/or age eligible for benefit	27 years any age 25 years any age* 5 years age 55* >4 years age 60 4 years age 65	Rule of 87 5 years age 65 10 years age 60*	<u>Non-Hazardous</u> Rule of 87 age 57 5 years age 65 -
Benefit percent per year of service	1.97% - 2.2% per year all years	1.1% per year up to 20 years 2.0% per year over 30 years	Accumulated balance

Tier 1 – Participants hired prior to September 1, 2008.

Tier 2 – Participants hired prior to January 1, 2014.

Tier 3 – Participants hired on or after January 1, 2014.

* - Indicates a reduction in benefit.

Contributions As a condition of participation in the System, employers and/or employees are required to contribute certain percentages of salary and wages as authorized by statute and specified by the KRS Board. Contribution rates are as follows:

<u>Period of Annual Compensation</u>	<u>Employer Contribution Rates</u>
July 1, 2017 - December 31, 2018	21.48%
January 1, 2017 - June 30, 2018	19.18%
July 1, 2017 - December 31, 2017	19.18%
January 1, 2017 - June 30, 2017	18.68%

Plan members required contribution of their annual creditable compensation for TIER 1 employees is 5% and for TIER 2 and 3 employees is 6%. The contribution requirements of KERS members and the District are established and may be amended by the KERS Board of Trustees.

South Anderson Water District
Notes to Financial Statements

Note 5. General Information about the Pension Plan, continued

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions:

At December 31, 2018 the District reported a net pension liability of \$487,407 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuations as of June 30, 2018. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating Local Governments. At June 30, 2018, the District's proportion was 0.0080% of the Non-hazardous Retirement System.

For the years ended December 31, 2018 and 2017, the District recognized pension expense of \$71,952 and a negative (\$23,148), respectively.

Actuarial assumptions The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.30%
Salary increases	2.00% average, including inflation
Investment rate of return	6.25%, net of pension plan investment expense, including inflation

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the three (3) year period of July 1, 2009 – June 30, 2014.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five (5) years to KRN. Several factors are considered in evaluating the long-term rate of return assumption, including long-term historical data, estimates inherent in current market data, and a long-normal distribution analysis in which best-estimate ranges at expected ranges of expected future real rates of return were developed by the investment consultant for each major asset class.

Discount rate The discount rate used to measure the total pension liability was 6.25%. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 27 year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period. The discount rate does not use a municipal bond rate. Projected future benefit payments for all current plan members were projected through 2019.

Pension plan fiduciary net position Detailed information about the pension plan's fiduciary net position is available in the separately issued CERS financial report.

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South Anderson Water District
Schedule of Proportionate Share of the Net Pension Liability
as of December 31,

	2018	2017	2016	2015
Total pension plan's pension liability	\$ 13,109,268	\$ 12,540,544,538	\$ 11,065,012,656	\$10,740,325,421
Total pension plan's fiduciary net position	\$ 7,018,963	\$ 6,687,237,095	\$ 6,141,394,419	\$ 6,440,799,856
Total net pension liability for CERS	\$ 6,090,305	\$ 5,853,307,443	\$ 4,923,618,237	\$ 4,299,525,565
Total pension plan's fiduciary net position as a percentage of the total pension liability	53.54%	53.32%	55.50%	59.97%
District's proportion of the net pension liability (asset)	0.80030%	0.00760%	0.00940%	0.00902%
District's proportionate share of the net pension liability (asset)	\$ 487,407	\$ 444,559	\$ 463,064	\$ 387,879
District's covered-employer payroll	\$ 212,410	\$ 199,496	\$ 219,723	\$ 224,771
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employer payroll	229.47%	222.84%	210.75%	172.57%

Note: This schedule is intended to present a 10-year trend per GASB 68. Additional years will be reported as incurred.

South Anderson Water District
Schedule of District Contributions
as of December 31,

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ 28,721	\$ 25,795	\$ 26,718	\$ 26,935
Contributions in relation to the actuarially determined contribution	<u>28,721</u>	<u>25,795</u>	<u>26,718</u>	<u>26,935</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
 District's covered-employer payroll	 \$ 212,410	 \$ 199,496	 \$ 219,723	 \$ 224,771
 Contributions as a percentage of covered-employer payroll	 21.48%	 19.18%	 18.68%	 17.67%

Note: This schedule is intended to present a 10-year trend per GASB 68. Additional years will be reported as incurred.

**Independents Auditors’ 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 Anderson Water District
Lawrenceburg, Kentucky

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 general purpose financial statements of South Anderson Water District (“District”), which comprise the statement of net position as of December 31 2018 and 2016, and the related statements of activities and cash flows for the years then ended, and related notes to the financial statements, and have issued my report thereon dated May 16, 2019.

Internal Control Over Financial Reporting

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

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.

My 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. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. I did identify certain deficiencies in internal control, as discussed below, that I consider to be significant deficiencies.

Segregation of Duties:

Condition: The internal control relating to receipts, disbursement, and billing adjustments is inadequate due to a lack of segregation of duties.

Criteria: Adequate segregation of duties is essential to an adequate internal control over financial reporting by allocating various duties among employees.

Effect: The lack of proper segregation of duties may permit errors or irregularities to go undetected.

Cause: There is a small number of accounting personnel. The cost versus benefit relationship prevents the District from hiring enough personnel to properly segregation key accounting functions.

To the Board of Commissioners
South Anderson Water District

Recommendation: While the small number of employees that exists will never provide proper segregation of duties, the District should continually review job responsibilities for better accounting controls. I also suggest the District obtain and review the Customer Activity Report, which details the monthly billing adjustments.

Response: The District concurs with the recommendation and will continually review job responsibilities to improve accounting controls when possible.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, I performed test 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*.

South Anderson Water District's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the result 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.

Alan Zumstein

Alan M. Zumstein, CPA
May 16, 2019