

**SOUTHERN WATER AND SEWER DISTRICT**

**REPORT TO MANAGEMENT**

**FOR THE YEAR ENDED**

**DECEMBER 31, 2015**

**TABLE OF CONTENTS**

**Required communications**

**1 - 3**

**Matters to be communicated**

**4-5**

**RICHARD F. PAULMANN CPA, LLC**  
**301 MOUNT MERCY ROAD**  
**PEWEE VALLEY, KY 40056**  
Phone: (502) 550-1568  
e- mail: [Richardpaulmann@twc.com](mailto:Richardpaulmann@twc.com)

September 27, 2016

To the Board of Commissioners  
Southern Water and Sewer District  
McDowell, KY

I have audited the financial statements of the business-type-activities, each major fund of Southern Water and Sewer District (a Kentucky Special District) for the year ended December 31, 2015. Professional standards require that I provide you with information about my responsibilities under generally accepted auditing standards and Government Auditing Standards and, as well as certain information related to the planned scope and timing of my audit. I have communicated such information in my letter to you dated March 28, 2014. Professional standards also require that I communicate to you the following information related to my audit.

#### **Significant Audit Findings**

##### Qualitative Aspects of Accounting Procedures

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Southern Water and Sewer District are described in note 1 to the financial statements. No new accounting policies were adopted and the application of existing polices was not changed during 2015. I noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the Southern Water and Sewer District's financial statements was:

Management's estimate of the depreciable lives of fixed assets is based on estimated life of the assets. I evaluated the key factors and assumptions used to develop the estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the allowance for doubtful accounts is based on historical water revenues, historical loss levels, and an analysis of the collectability of individual accounts. I evaluated the key factors and assumptions used to develop the allowance in determining that it is reasonable to the financial statements taken as a whole.

Certain financial statements disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

The Disclosure of debt in Note 14 to the financial statements.

**Difficulties Encountered in Performing the Audit**

I encountered no significant difficulties in dealing with management in performing and completing my audit.

**Corrected and Uncorrected Misstatements**

Professional standards require me to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has already posted the following adjustment. In addition none of the following adjustments detected as a result of audit procedure were material, either individually or in the aggregate, to the opinion on the financial statements taken as a whole.

**Disagreements with Management**

For the purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to my satisfaction, that could be significant to the financial statements or to the auditor's report. I am pleased to report that no such disagreements arose during the course of my audit.

**Management Representations**

I have requested certain representations from management that are included in the management representation letter dated September 27, 2016

**Management Consultation with Other Independent Accountants**

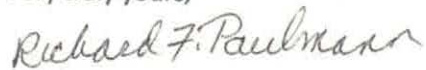
In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If consultation involves application of an accounting principle to the association's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, my professional standards require the consulting accountant to check with me to determine that the consultant has all the relevant facts. To my knowledge, there were no such consultations with other accountants.

**Other Audit Findings or Issues**

I generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditor. However, these discussions occurred in the normal course of my professional relationship and our responses were not a condition to my retention.

This information is intended solely for the use of the Board of Directors and management of Southern Water and Sewer District and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in cursive script that reads "Richard F. Paulmann".

Richard F. Paulmann, CPA, LLC



RICHARD F. PAULMANN CPA, LLC  
301 MOUNT MERCY ROAD  
PEWEE VALLEY, KY 40056  
Phone: (502)550-1568  
e-mail: [Richardpaulmann@twc.com](mailto:Richardpaulmann@twc.com)

September 27, 2016

To the Board of Commissioners  
Southern Water and Sewer District  
McDowell, KY

In planning and performing my audit of the financial statements of Southern Water and Sewer District for the year ended December 31, 2015. I considered Southern Water and Sewer District's internal control to determine my auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during my audit I became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. This letter summarizes my comments and suggestions regarding those matters. This letter does not affect my report dated September 27, 2016, on the financial statements of Southern Water and Sewer District.

I will review the status of these comments during my next audit engagement. I may have already discussed some of these comments and suggestions with Southern Water and Sewer District's personnel, and I will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. My comments are summarized as follows:

- 1.) All tanks should be surrounded by barb wire, padlocked, and have written on them in large three foot letters private property do not enter. Trail cameras should also be placed facing your telemetry equipment at these sites.
- 2.) Customer deposit held should be maintained with information included to verify totals.
- 3.) The "consumption" method of inventory should be used instead of periodic. Acquisition of materials should be recorded initially in inventory accounts and charged to expenditures when used.
- 4.) It would be best for to open e-mails on computer without any software or Southern Water Sewer District information
- 5.) Cross training employees help when fellow employees are absent due to illness or accident.
- 6.) Sick and vacation accrual worksheet should be started with prior year beginning balances. Add additions, subtract hours/days used to equal end balances. Some minor clean up may be necessary.
- 7.) In *single audit years*, a binder should be created to help insure compliance with *all required elements*.
- 8.) Required payments for reserve debt requirement is underfunded.

This report is intended solely for the information and use of the Bboard of Commissioners, management, and others within Southern Water and Sewer District and is not intended to be and should not be used by anyone other than those specified parties.

Sincerely,

*Richard F. Paulmann*

Richard F. Paulmann CPA, LLC