

SOUTHERN WATER AND SEWER DISTRICT

REPORT TO MANAGEMENT

FOR THE YEAR ENDED

DECEMBER 31, 2016

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October 20, 2017

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, 2016. 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 September 22, 2016. 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 policies was not changed during 2016. 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 13 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 October 20, 2017

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