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- Being **F**riendly
- Acting with **I**ntegrity
- Being **R**esponsible
- Providing Outstanding **S**ervice
- Being **T**imely

By putting you first, we make sure that we are
ACCOUNTING FOR YOUR NEEDS™.



CLIENT Rural Water District No. 4

PROJECT Financial Statements

PERIOD December 31, 2019

www.morrowandcompany.com

RURAL WATER DISTRICT NO. 4, SEDGWICK COUNTY, KANSAS

DECEMBER 31, 2019 AND 2018

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Rural Water District No. 4
Sedgwick County, Kansas

Report on the Financial Statements

We have audited the accompanying financial statements of Rural Water District No. 4, Sedgwick County, Kansas, which comprise the statements of financial position as of December 31, 2019 and 2018 and the related statements of activities, changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we 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 auditors' 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, we 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.

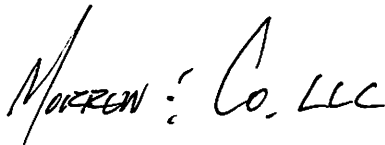
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rural Water District No.4, Sedgwick County, Kansas as of December 31, 2019 and 2018, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. Schedule I – Schedule of Insurance is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

A handwritten signature in black ink that reads "MORROW & Co. LLC". The signature is stylized, with the first letter of "MORROW" being a large, sweeping capital 'M'.

Morrow & Co., LLC
Wichita, Kansas

May 27, 2020

RURAL WATER DISTRICT NO. 4, SEDGWICK COUNTY, KANSAS
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2019 AND 2018

	ASSETS	
	<u>2019</u>	<u>2018</u>
ASSETS		
Cash - Undesignated	\$ 83,580	\$ 357,881
Cash - Designated	600,003	500,002
Certificates of Deposit (3 Months or Less)	<u>52,137</u>	<u>51,133</u>
 Total Cash and Cash Equivalents	 <u>735,720</u>	 <u>909,016</u>
 Certificates of Deposit (Over 3 Months)	 472,757	 465,618
Accounts Receivable	43,470	36,992
Interest Receivable	1,527	2,218
Prepaid Taxes	6,351	1,880
Property, Plant and Equipment (net)	<u>1,135,044</u>	<u>904,040</u>
 TOTAL ASSETS	 <u>2,394,869</u>	 <u>2,319,764</u>
 LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable	\$ 41,494	\$ 7,056
Accrued Payroll Taxes	1,979	24
Deferred Lease Revenue	<u>5,154</u>	<u>5,154</u>
 Total Liabilities	 <u>48,627</u>	 <u>12,234</u>
 NET ASSETS		
Net Assets Without Donor Restrictions	2,346,242	2,307,530
Net Assets With Donor Restrictions	<u>-</u>	<u>-</u>
 Total Net Assets	 <u>2,346,242</u>	 <u>2,307,530</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>2,394,869</u>	 <u>2,319,764</u>

The Accompanying Notes are an Integral Part of the Financial Statements.

RURAL WATER DISTRICT NO. 4, SEDGWICK COUNTY, KANSAS
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
REVENUES		
Water Sales	\$ 442,274	\$ 413,705
Sale of Benefit Units	24,300	21,600
Installation of Benefit Units	9,650	20,227
Interest Income	18,131	4,681
Tower Lease	7,465	7,465
Total Revenues	<u>501,820</u>	<u>467,678</u>
EXPENSES		
Program Services		
Repair & Maintenance	205,738	198,658
Benefit Units Expense	3,700	1,078
Contract Labor & Meter Reading	12,729	19,010
Utilities	18,980	16,360
Chlorine	1,069	1,009
Lead & Copper Test	1,312	1,498
Depreciation	62,174	58,873
Total Program Services	<u>305,702</u>	<u>296,486</u>
SUPPORTING ACTIVITIES		
Salaries	53,947	44,698
Payroll Taxes	4,002	3,482
Director Fees	5,560	4,669
Monthly Retainer, Storage Rental & Wireless Service	20,465	19,928
Insurance & Bond	7,165	5,029
Legal	18,560	13,430
Audit	5,000	4,750
Engineering	10,752	9,379
Mileage Allowance	4,822	4,887
Clean Drinking Water Fee	1,732	1,764
KRWA	1,437	1,579
One Call	1,578	1,313
Office Supplies & Printing	5,988	5,228
Postage	5,121	4,919
Rent	180	220
Depreciation	5,384	3,064
Miscellaneous	5,713	5,035
Penalties	-	219
Total Support Activities	<u>157,406</u>	<u>133,593</u>
Total Expenses	<u>463,108</u>	<u>430,079</u>
 Increase in Net Assets Without Donor Restrictions	 <u>38,712</u>	 <u>37,599</u>

The Accompanying Notes are an Integral Part of the Financial Statements.

RURAL WATER DISTRICT NO. 4, SEDGWICK COUNTY, KANSAS
STATEMENTS OF CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2019 AND 2018

	Benefit Unit Certificates	Retained Earnings	Total Net Assets Without Donor Restrictions
BALANCE, DECEMBER 31, 2017	\$ 919,775	\$ 1,350,156	\$ 2,269,931
CHANGE IN NET ASSETS	<u>21,600</u>	<u>15,999</u>	<u>37,599</u>
BALANCE, DECEMBER 31, 2018	941,375	1,366,155	2,307,530
CHANGE IN NET ASSETS	<u>24,300</u>	<u>14,412</u>	<u>38,712</u>
BALANCE, DECEMBER 31, 2019	<u><u>965,675</u></u>	<u><u>1,380,567</u></u>	<u><u>2,346,242</u></u>

The Accompanying Notes are an Integral Part of the Financial Statements.

RURAL WATER DISTRICT NO. 4, SEDGWICK COUNTY, KANSAS
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Unrestricted Net Assets	\$ 38,712	\$ 37,599
Items not Requiring (Providing) Cash		
Depreciation	67,558	61,937
Changes in:		
Accounts Receivable	(6,477)	5,431
Interest Receivable and Prepaid Taxes	(3,780)	(4,098)
Accounts Payable, Accrued Expenses, Deposits and Deferrals	<u>36,392</u>	<u>(1,547)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>132,405</u>	<u>99,322</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
(Reinvestment in) Withdrawal from Certificates of Deposit	(7,139)	(1,023)
Purchase of Property, Plant and Equipment	<u>(298,562)</u>	<u>(45,535)</u>
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	<u>(305,701)</u>	<u>(46,558)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	<u>-</u>	<u>-</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(173,296)	52,764
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>909,016</u>	<u>856,252</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>735,720</u></u>	<u><u>909,016</u></u>

The Accompanying Notes are an Integral Part of the Financial Statements.

RURAL WATER DISTRICT NO. 4, SEDGWICK COUNTY, KANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

Rural Water District No. 4, Sedgwick County, Kansas (District), is a Kansas quasi-municipal entity organized for the purpose of providing an adequate water supply to land-owners within the District. The District extends unsecured credit to its customers. Total customers at December 31, 2019 and 2018 were 628 and 621, respectively.

Basis of Accounting

The District's financial statements have been prepared in accordance with U.S. generally accepted account principles (GAAP), which require the District to report information regarding its financial position and activities according to the following net asset classifications.

Net Assets Without Donor Restrictions

Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the District. These net assets may be used at the discretion of the District's management and the board of directors.

Net Assets with Donor Restrictions

Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the District or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases and net assets with donor restrictions. When a restriction expires, net assets are reclassified from assets with donor restrictions to net assets without donor restrictions in the statements of activities.

The District did not have any net assets with donor restrictions during the years ended December 31, 2019 and 2018.

Cash Equivalents

The District considers all liquid investments with original maturities of three months or less to be cash equivalents. During the prior year, the board designated an amount of funds to be set aside for future projects. The amount is board designated and is not considered to be net assets with donor

Accounts Receivable

The District utilizes the direct write-off method for bad debts. Accounts receivable are written off when deemed uncollectible. Accordingly, no allowance for bad debts has been recorded.

Accounts are billed around the middle of the month for the previous month's usage. If an account is overdue, the District's policy is to wait 60 days and then send a certified letter. If there is no response, the Board votes to lock the meter. If the customer ultimately does not pay, the Board votes to forfeit the benefit unit, which inures to the benefit of the other benefit unit holders.

Property, Plant and Equipment

Expenditures for property, plant and equipment are recorded at cost and depreciated over the estimated useful life of each asset (3-40 years). Repairs and maintenance are charged to expense as incurred. Annual depreciation is primarily computed using the straight-line method.

(continued)

RURAL WATER DISTRICT NO. 4, SEDGWICK COUNTY, KANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition

Water sales are recorded using the accrual method. Other income includes monies received for line extensions and road bores, etc. It is the policy of the District to include these receipts in income. The related costs for the line extensions, repairs, etc., are recognized in expense as incurred. The sale of water benefit units are recorded as income as they are sold.

Sales are recorded and presented net of any applicable taxes.

Benefit Unit Certificates

The sales price of benefit units is considered a contribution to the District, and accordingly, is included in support and revenues but segregated from retained earnings.

Functional Expenses

The costs of providing program and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among program services and supporting activities. Such allocations are determined by management on an equitable basis.

The only expense which is allocated between program services and supporting services is depreciation, which is allocated by where the asset was used.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

2. AVAILABILITY AND LIQUIDITY

The following represents Rural Water District No. 4, Sedgwick County, Kansas's financial assets at December 31, 2019 and 2018:

	2019	2018
Cash and Cash Equivalents	\$ 735,720	\$ 909,016
Certificates of Deposit	<u>472,757</u>	<u>465,618</u>
Total Financial Assets	1,208,477	1,374,634
Less Amounts not Available to be Used in One Year	<u>-</u>	<u>-</u>
Financial Assets Available to Meet General Expenditures Over the Next Twelve Months	<u><u>1,208,477</u></u>	<u><u>1,374,634</u></u>

Rural Water District No. 4, Sedgwick County, Kansas's goal is generally to maintain financial assets to meet operating expense on a monthly basis. The District receives a constant cash flow from monthly water billings paid by those who receive water from the District. As part of its liquidity plan, excess cash is invested in certificates of deposit. There are no known liquidity problems.

RURAL WATER DISTRICT NO. 4, SEDGWICK COUNTY, KANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

3. DEPOSITS

The District's deposits, consisting of checking, money market funds, and certificates of deposit were substantially covered by federal depository insurance and/or collateral held by third-party banks in the District's name. The District's banks have pledged the following securities as collateral for the unsecured amount:

<u>ID #</u>	<u>Security Description</u>	<u>Maturity</u>	<u>Par Amount</u>	<u>Dec. 31, 2019 Market Value</u>
31418ALT3	FNMA Pool #MA1237	11/01/32	\$ 868,831	\$ 894,256
31418BPS9	FNMA Pool #MA2232	04/01/35	88,999	92,880
3137BL5R5	FHLMC Remic 4500 HA	11/15/42	<u>348,506</u>	<u>357,934</u>
Total			<u>1,306,336</u>	<u>1,345,070</u>

At December 31, 2019 and 2018 the District's bank balances were covered as follows:

	<u>2019</u>	<u>2018</u>
Insured Amount - FDIC	\$ 250,000	\$ 250,000
Collateralized Uninsured Amount	958,477	1,124,634

4. PROPERTY, PLANT AND EQUIPMENT

At December 31, 2019 and 2018 the District had bank balances as follows:

	<u>Life Range In Years</u>	<u>2019</u>	<u>2018</u>
Land and Easements	N/A	\$ 32,593	\$ 32,593
Water Distribution System	7-40	2,951,223	2,652,660
Water Supply System	10	55,053	55,053
Water Storage System	10-40	226,476	226,476
Controls	10	31,665	31,665
Office Equipment	3-5	<u>35,395</u>	<u>35,395</u>
		3,332,405	3,033,842
Less Accumulated Depreciation		<u>2,197,361</u>	<u>2,129,802</u>
		<u>1,135,044</u>	<u>904,040</u>

RURAL WATER DISTRICT NO. 4, SEDGWICK COUNTY, KANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

5. NET ASSETS

The District has established a Reserve Fund to address emergencies which may occur in the future. Each year the District puts \$100,000 into this fund.

Net assets without donor restrictions for the years ended December 31, 2019 and 2018 are as follows:

	2019	2018
Undesignated	\$ 1,746,239	\$ 1,807,528
Designated	<u>600,003</u>	<u>500,002</u>
	<u>2,346,242</u>	<u>2,307,530</u>

6. TAX-EXEMPT STATUS

Rural Water District No. 4, Sedgwick County, qualifies as a tax-exempt organization for Federal and State income tax purposes. Accordingly, the financial statements do not include a provision for Federal or State income tax liability or expense.

While the District is not required to file tax returns, the activities of the District for at least the most recent three years are subject to examination by the IRS and state taxing authorities.

7. SUBSEQUENT EVENTS

Subsequent events were evaluated for disclosure through May 27, 2020, the date these financial statements are available to be issued.

In December 2019, an outbreak of a novel strain of coronavirus (COVID-19) originated in Wuhan, China and has since spread to other countries including the U.S. On March 11, 2020, The World Health Organization characterized COVID-19 as a pandemic. In addition, as of March 12, 2020 a State of Disaster Emergency was proclaimed for the State of Kansas. On March 28, the Governor of Kansas issued a stay at home order which has been partially suspended as of the date of these financial statements. There has been no significant impact to our operations as a result of these events. Future potential impacts may include disruptions to operations, but the potential for any disruptions is unknown at this time.

- **SUPPLEMENTAL INFORMATION**

RURAL WATER DISTRICT NO. 4, SEDGWICK COUNTY, KANSAS
SCHEDULE I - SCHEDULE OF INSURANCE
DECEMBER 31, 2019

Employer's Mutual Casualty Company

<u>Coverage</u>	<u>Expiration</u>	<u>Terms</u>	<u>Liability Limits</u>	<u>Annual Premium</u>
General Liability	03/01/20	General Aggregate Products Personal Injury Per Occurrence Damage to Rented Premises Medical-Per Person	\$1,000,000 1,000,000 500,000 500,000 300,000 5,000	\$ 6,698
Automobile Liability		Combined Single	500,000	
Worker's Compensation		Accident Disease-Policy Disease-Employee	500,000 500,000 500,000	
Property		Blanket Limit	1,003,544	
Linebacker		Aggregate Per Occurrence	1,000,000 500,000	
Crime		Per Occurrence	10,000	
EDP (Data Processing)		Per Occurrence	4,480	
Cybersolutions		Computer Attack Response Limit	100,000 50,000	

Required Communications

AU-C 260 – Communication with Those Charged with Governance

AU-C 265 – Internal Control Related Matters Identified in the Audit

May 27, 2020

Board of Directors

Rural Water District No. 4, Sedgwick County, Kansas
PO Box 555
Goddard, Kansas 67052

We have audited the financial statements of Rural Water District No. 4, Sedgwick County, Kansas for the year ended December 31, 2019, and have issued our report thereon dated May 27, 2020. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated January 7, 2020. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Rural Water District No. 4, Sedgwick County, Kansas 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 2019. We noted no transactions entered into by the Organization 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 financial statements was:

Management's estimate of the depreciation expense based on the net book value of equipment is a sensitive estimate affecting the financial statements. We evaluated the key factors and assumptions used to develop the depreciation schedule in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated May 27, 2020.

Management Consultations 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 a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

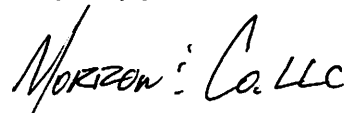
We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses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

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of Board of Directors of Rural Water District No. 4, Sedgwick County, Kansas 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 black ink that reads "MORROW & Co. LLC". The signature is written in a cursive, flowing style.

Morrow & Co., LLC

Board of Directors

Rural Water District No. 4, Sedgwick County, Kansas
PO Box 555
Goddard, Kansas 67052

In planning and performing our audit of the financial statements of Rural Water District No. 4, Sedgwick County, Kansas as of and for the year ended December 31, 2019, in accordance with auditing standards generally accepted in the United States of America, we considered Rural Water District No. 4, Sedgwick County, Kansas'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

Our 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, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be 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 a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Organization's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the following deficiency in Rural Water District No. 4, Sedgwick County, Kansas's internal controls to be a material weakness:

Condition

The District does not record proposed audit adjusting entries that have been approved by the Board of Directors. Consequently, the financial information received by the Board of Directors is not complete. Because the information the Board of Directors is relying on during the decision-making process is not complete, decisions made could potentially be detrimental to the District.

Recommendation

We recommend the District record all approved audit adjusting journal entries to the accounting system.

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. We consider the following deficiencies in Rural Water District No. 4, Sedgwick County, Kansas's internal control to be significant deficiencies:

Condition

There is no review of the monthly billings by a second party to ensure all patrons are being billed accurately.

Recommendation

A fundamental concept in a good system of internal control is the segregation of duties. The basic premise is that no one individual should have access to both physical assets and the related accounting records or to all phases of a transaction. If the segregation of duties is inadequate, there is a resulting danger that intentional fraud or unintentional errors could occur and not be detected. Although the size of your organization makes complete adherence to this concept impossible, we are required by our standards to bring it to your attention. This weakness is inherent to organizations of your size.

Condition

We found delinquent sales tax returns and delinquent water protection and clean drinking water fees returns. Notices, including penalties, were received from the State of Kansas for the delinquent payments and filings. We also noted several double payments to the State of Kansas for sales tax, resulting in a large overpaid balance which has not been refunded. Penalties and double payments can add up over time, taking away funds which could be used in District operations. In our prior year audit, we noted there was a double payment of payroll taxes to the Department of the Treasury which has not been refunded.

Recommendation

We recommend the District set up a checklist at the beginning of each year. This checklist would show all filings and payments which would need to be made during the upcoming year as well as the due dates for each filing and payment. When a filing or payment is made, the instance on the checklist would be marked off. Utilizing this checklist would decrease the possibility of late payments and filings as well as potentially eliminating double payments. We also recommend the District attempt to recover the overpayments made to the respective aforementioned parties.

Condition

Checks are signed by an authorized signer with only the vendor name present and no amount.

Recommendation

We understand that check signers may not be available at all times, which warrants the pre-signing of checks by the authorized signers. However, it is important to note this is an area of weakness and is susceptible to misstatement and potentially fraudulent activity. As an alternative, there are external systems such as billpay.com. This type of system allows the user to import invoices, send approval notifications and subsequently pay the vendor once the invoices are approved.

Condition

Support for the charges on the credit card statements was not always present.

Recommendation

We understand that few charges are made on the credit card and that in most instances the amounts charged are small. In some cases, the type of expense incurred can be determined from the description of the charge on the credit card statement. However, in most cases, the reason for the charge cannot be determined. We recommend that support for each charge be attached to the credit card statement. This support may be the invoice for the larger purchases or the credit card receipt which is received when the charge is made. Having this support attached to the credit card statement makes it easier for the board to review when approving payment of the charges on the credit card. This

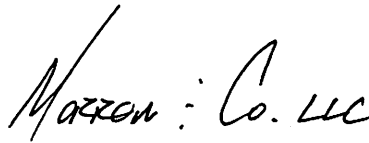
also makes it easier to determine what charges were for if questions regarding use of the credit card arise in the future. If the support is not attached to the credit card statement, a long arduous search for the support may have to be performed. In some instances, the support could be misplaced or lost if not attached to the statements.

During our audit, we also became aware of the following internal control deficiencies in internal control other than significant deficiencies or material weaknesses, and other matters that are opportunities for strengthening internal controls and operating efficiency:

We recommend the District evaluate their Electronic Data Processing (EDP) coverage included in your insurance to ensure adequate coverage. The cost of replacing or repairing hardware and recovering data has probably increased with the purchase of the new billing software and new computers. If the District proceeds with the purchase and installation of a new meter reading system which enables the reading of meters from the road, the District may consider looking into what, if any, insurance coverage is provided in their current policy for this type of technology.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various Organization personnel, and we 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.

This communication is intended solely for the information and use of management, the Board of Directors, and others within the Organization, and is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Morrow : Co. LLC". The signature is stylized with a long, sweeping line for the first part of the name.

Morrow & Co., LLC
Wichita, Kansas

May 27, 2020