

**SOUTHWEST KANSAS GROUNDWATER  
MANAGEMENT DISTRICT NO. 3**

**STATUTORY BASIS FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2009**

SOUTHWEST KANSAS GROUNDWATER MANAGEMENT DISTRICT NO. 3

STATUTORY BASIS FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2009

TABLE OF CONTENTS

INTRODUCTORY SECTION

Title Page  
Table of Contents

FINANCIAL SECTION

Independent Auditors' Report	1-2
STATEMENT 1	
Summary of Cash Receipts, Expenditures and Unencumbered Cash	3
STATEMENT 2	
Summary of Expenditures – Actual and Budget	4
STATEMENT 3	
Statement of Cash Receipts and Expenditures – Actual and Budget	
General Fund	5
Special Revenue Funds:	
Arkansas River Water Conservation Projects Fund	6
Water Right Retirement Fund	7
Notes to Financial Statements	8-14

INDEPENDENT AUDITORS' REPORT

Board of Directors  
Southwest Kansas Groundwater  
Management District No. 3  
Garden City, Kansas 67846

We have audited the accompanying statutory basis financial statements of the Southwest Kansas Groundwater Management District No. 3, as of and for the year ended December 31, 2009, as listed in the table of contents. These statutory basis financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these statutory basis financial statements based on our audit. The prior year comparative information has been derived from the District's 2008 financial statements and, in our report dated January 27, 2009, we expressed an unqualified opinion on the statutory basis financial statements prepared on the basis of accounting described in Note 1.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the Kansas Municipal Audit Guide. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the District prepared these statutory basis financial statements using accounting practices prescribed by the State of Kansas to demonstrate compliance with the cash basis and budget laws of the State of Kansas, which practices differ from accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the effects of the matter described in the preceding paragraph, the statutory basis financial statements referred to in the first paragraph do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Southwest Kansas Groundwater Management District No. 3, Kansas, as of December 31, 2009, or the changes in its financial position for the year then ended. Further, the District has not presented a management's discussion and analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

405 North Sixth Street P.O. Box 699  
Garden City, KS 67846  
620-275-9267 | 800-627-0636  
Fax: 620-275-8936 | www.lhd.com

CPAs

Charles H. Claar, Jr, CPA  
Theresa Dasenbrock, CPA, CFE  
David L. Hetrick, CPA  
Steven D. Josseland, CPA  
Donald R. Linville, CPA  
Gary A. Schlappe, CPA  
Rodney Van Norden, CPA

Sue A. Bradley, CPA  
Susan A. Burgardt, CPA  
Shannon N. Euliss, CPA  
Mary A. Floto, CPA  
Tracey Homm, CPA, CSEP  
Challie Metzger, CPA  
Kimberly A. Roth, CPA  
Kristin J. Sekavec, CPA  
Monica J. Wilson, CPA

Board of Directors  
Southwest Kansas Groundwater  
Management District No. 3  
Page 2

Further, in our opinion, the statutory basis financial statements referred to in the first paragraph present fairly, in all material respects, the cash and unencumbered cash balances of the Southwest Kansas Groundwater Management District No. 3, Kansas, as of December 31, 2009, and its cash receipts and expenditures, and budgetary comparisons, for the year then ended, taken as a whole under the basis of accounting described in Note 1.

*Lewis, Hooper & Dick, LLC*  
LEWIS, HOOPER & DICK, LLC

January 25, 2010

SOUTHWEST KANSAS GROUNDWATER MANAGEMENT DISTRICT NO. 3  
 Summary of Cash Receipts, Expenditures  
 and Unencumbered Cash  
 For the Year Ended December 31, 2009

Fund	Unencumbered Cash 01-01-09	Cash Receipts	Expenditures	Unencumbered Cash 12-31-09	Outstanding Encumbrances and Payables	Treasurer's Cash 12-31-09
Governmental Type Funds:						
General	\$ 1,104,208	\$ 679,570	\$ 787,465	\$ 996,313	\$ 1,786	\$ 998,099
Special Revenue Funds:						
Arkansas River Water Conservation Projects	9,927,298	237,735	748,027	9,417,006	-	9,417,006
Water Right Retirement	-	-	-	-	-	-
Total Reporting Entity (memorandum only)	<u>\$ 11,031,506</u>	<u>\$ 917,305</u>	<u>\$ 1,535,492</u>	<u>\$ 10,413,319</u>	<u>\$ 1,786</u>	<u>\$ 10,415,105</u>

## Composition of cash:

## General Fund:

Commerce Bank:		
Checking account		\$ 41,350
Money market accounts		26,579
Certificates of deposit		222,988
First National Bank:		
Certificates of deposit		607,819
Western State Bank:		
Savings account		<u>99,363</u>
Total General Fund		<u>998,099</u>

## Water Conservation Project Fund:

Commerce Bank:		
Checking account		11,973
Savings account		4,735,761
Western State Bank:		
Money market accounts		169,272
Certificates of deposit		<u>4,500,000</u>
Total Water Conservation Fund		<u>9,417,006</u>
Total cash		<u>\$ 10,415,105</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

SOUTHWEST KANSAS GROUNDWATER MANAGEMENT DISTRICT NO. 3  
 Summary of Expenditures - Actual and Budget  
 For the Year Ended December 31, 2009

Fund	Certified Budget	Expenditures Chargeable to Current Year Budget	Variance Over (Under)
<b>Governmental Type Funds:</b>			
General	\$ 1,225,865	\$ 787,465	\$ (438,400)
<b>Special Revenue:</b>			
Arkansas River Water Conservation Projects	15,500,000	748,027	(14,751,973)
Water Right Retirement	25,000,000	-	(25,000,000)

The accompanying Notes to Financial Statements are an integral part of this statement.

SOUTHWEST KANSAS GROUNDWATER MANAGEMENT DISTRICT NO. 3  
GENERAL FUND  
Statement of Cash Receipts and Expenditures - Actual and Budget  
For the Year Ended December 31, 2009  
(With Comparative Actual Totals for the Prior Year Ended December 31, 2008)

	Prior Year	Current Year		Variance Over Under
		Actual	Budget	
<b>Cash receipts:</b>				
Assessments	\$ 621,996	\$ 628,932	\$ 620,000	\$ 8,932
Interest	51,813	29,040	40,000	(10,960)
Intergovernmental	-	-	2,000	(2,000)
Reimbursed expenses and miscellaneous	23,890	21,598	5,000	16,598
Total cash receipts	<u>697,699</u>	<u>679,570</u>	<u>\$ 667,000</u>	<u>\$ 12,570</u>
<b>Expenditures:</b>				
Payroll taxes and benefits:				
Payroll taxes and benefits	<u>18,595</u>	<u>22,021</u>	<u>\$ 69,000</u>	<u>\$ (46,979)</u>
Administration:				
Salaries and benefits	290,185	333,971	390,000	(56,029)
Rent	31,800	15,900	40,000	(24,100)
Vehicle expense	17,214	7,936	15,000	(7,064)
Director travel and education	17,115	14,422	20,000	(5,578)
Meeting expense	14,043	8,723	20,000	(11,277)
Telephone	11,645	9,815	15,000	(5,185)
Employee travel and education	2,281	12,304	15,000	(2,696)
Postage	4,166	2,320	20,000	(17,680)
Supplies	8,079	18,992	25,000	(6,008)
Computer and equipment maintenance	10,984	13,093	20,000	(6,907)
Legal publications	2,036	1,884	15,000	(13,116)
Utilities	5,852	7,856	10,000	(2,144)
Insurance and bonds	11,267	13,290	20,000	(6,710)
Miscellaneous	16,494	21,135	25,000	(3,865)
Contingencies	-	-	134,865	(134,865)
Total administration	<u>443,161</u>	<u>481,641</u>	<u>784,865</u>	<u>(303,224)</u>
Water management projects:				
Meter inspection	54,034	51,142	75,000	(23,858)
Water quality	-	-	40,000	(40,000)
Research and scientific resources	5,449	4,030	90,000	(85,970)
Weather modification	15,000	12,500	20,000	(7,500)
Total water management projects	<u>74,483</u>	<u>67,672</u>	<u>225,000</u>	<u>(157,328)</u>
Professional services:				
Legal fees	-	-	35,000	(35,000)
Lobbyist	18,565	19,380	30,000	(10,620)
Document archival/computer consultants	3,250	2,250	15,000	(12,750)
Office maintenance	4,800	4,800	10,000	(5,200)
Accounting	10,392	8,743	12,000	(3,257)
Total professional services	<u>37,007</u>	<u>35,173</u>	<u>102,000</u>	<u>(66,827)</u>
Capital outlay	<u>226,305</u>	<u>180,958</u>	<u>45,000</u>	<u>135,958</u>
Total expenditures	<u>799,551</u>	<u>787,465</u>	<u>\$ 1,225,865</u>	<u>\$ (438,400)</u>
Cash receipts under expenditures	(101,852)	(107,895)		
Unencumbered cash, beginning of year	<u>1,206,060</u>	<u>1,104,208</u>		
Unencumbered cash, end of year	<u>\$ 1,104,208</u>	<u>\$ 996,313</u>		

The accompanying Notes to Financial Statements are an integral part of this statement.

SOUTHWEST KANSAS GROUNDWATER MANAGEMENT DISTRICT NO. 3  
 ARKANSAS RIVER WATER CONSERVATION PROJECTS FUND  
 Statement of Cash Receipts and Expenditures - Actual and Budget  
 For the Year Ended December 31, 2009  
 (With Comparative Actual Totals for the Prior Year Ended December 31, 2008)

	Prior Year	Current Year		Variance Over (Under)
		Actual	Budget	
Cash receipts:				
Intergovernmental	\$ 9,878,790	\$ -	\$ 15,500,000	\$ (15,500,000)
Interest	48,508	237,735	-	237,735
Total cash receipts	<u>9,927,298</u>	<u>237,735</u>	<u>\$ 15,500,000</u>	<u>\$ (15,262,265)</u>
Expenditures:				
Water conservation projects:				
Project costs	-	748,027	\$ 15,500,000	\$ (14,751,973)
Total expenditures	-	<u>748,027</u>	<u>\$ 15,500,000</u>	<u>\$ (14,751,973)</u>
Cash receipts over (under) expenditures	9,927,298	(510,292)		
Unencumbered cash, beginning of year	-	<u>9,927,298</u>		
Unencumbered cash, end of year	<u>\$ 9,927,298</u>	<u>\$ 9,417,006</u>		

The accompanying Notes to Financial Statements are an integral part of this statement.

SOUTHWEST KANSAS GROUNDWATER MANAGEMENT DISTRICT NO. 3  
 WATER RIGHT RETIREMENT FUND  
 Statement of Cash Receipts and Expenditures - Actual and Budget  
 For the Year Ended December 31, 2009  
 (With Comparative Actual Totals for the Prior Year Ended December 31, 2008)

	Prior Year	Current Year		Variance Over (Under)
		Actual	Budget	
Cash receipts:				
Project funds	\$ -	\$ -	\$25,000,000	\$ (25,000,000)
Total cash receipts	<u>-</u>	<u>-</u>	<u>\$25,000,000</u>	<u>\$ (25,000,000)</u>
Expenditures:				
Water conservation projects:				
Project costs	-	-	\$25,000,000	\$ (25,000,000)
Total expenditures	<u>-</u>	<u>-</u>	<u>\$25,000,000</u>	<u>\$ (25,000,000)</u>
Cash receipts over expenditures	-	-		
Unencumbered cash, beginning of year	<u>-</u>	<u>-</u>		
Unencumbered cash, end of year	<u>\$ -</u>	<u>\$ -</u>		

The accompanying Notes to Financial Statements are an integral part of this statement.

SOUTHWEST KANSAS GROUNDWATER MANAGEMENT DISTRICT NO. 3  
Notes to Financial Statements  
For the Year Ended December 31, 2009

1. Summary of significant accounting policies

The Southwest Kansas Groundwater Management District No. 3 was incorporated under provisions of the State of Kansas. The more significant of the District's accounting policies are described below.

A. Financial reporting entity

The District is governed by an elected board. As required by accounting principles generally accepted in the United States of America, these financial statements present the Southwest Kansas Groundwater Management District No. 3 (the primary government) and its component units. The component units discussed below are included in the District's reporting entity because of the significance of their operational or financial relationships with the District.

The District has no organizations, functions or activities which are considered component units of the District.

B. Measurement focus, basis of accounting and basis of presentation

These financial statements are presented on a statutory basis of accounting. The statutory basis of accounting, as used in the preparation of these statutory basis financial statements, is designed to demonstrate compliance with the cash basis and budget laws of Kansas. Cash receipts are recognized when the cash balance of a fund is increased. Expenditures include disbursements, accounts payable and encumbrances, with disbursements being adjusted for prior year's accounts payable and encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods and services, and are usually evidenced by a purchase order or written contract. For an interfund transaction, a cash receipt is recorded in the fund receiving cash from another fund, and an expenditure would be charged in the fund from which the transfer is made.

C. Waiver of financial reporting requirements

The District's Board has determined by resolution that financial statements prepared in conformity with accounting principles generally accepted in the United States of America are not relevant to the requirements of the cash basis and budget laws of the State of Kansas and are of no significant value to the Board, the District or the members of the general public of the District. The District approved the resolution which served as notice of the Board's election to waive the requirements for reporting of its financial data in conformity with accounting principles generally accepted in the United States of America, as provided and authorized by K.S.A. 75-1120a.

D. Departure from generally accepted accounting principles

The basis of accounting described above results in a financial statement presentation which shows cash receipts, expenditures, cash and unencumbered cash balances, and expenditures compared to budget. Balance sheets that would have shown noncash assets such as receivables, inventories and prepaid expense; liabilities such as deferred revenue and matured principal and interest payable; and reservations of the fund balance are not presented. Under accounting principles generally accepted in the United States of America, encumbrances are only recognized as a reservation of fund balance; encumbrances outstanding at year end do not constitute expenditures or liabilities. Consequently, the expenditures as reported do not present the cost of goods and services received during the fiscal year in accordance with accounting principles generally accepted in the United States of America. Capital assets that account for the land, buildings and equipment owned by the District are not presented in the financial statements. Also, long-term debt such as general obligation bonds, capital leases, temporary notes and compensated absences are not presented in the financial statements.

SOUTHWEST KANSAS GROUNDWATER MANAGEMENT DISTRICT NO. 3  
Notes to Financial Statements  
For the Year Ended December 31, 2009

1. Summary of significant accounting policies (continued)

E. Fund accounting

A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. The following types of funds are used by the District:

Governmental Funds

General Fund - to account for all unrestricted resources except those required to be accounted for in another fund.

Special Revenue Funds - to account for the proceeds of specific revenue sources (other than special assessments or major capital projects) that are restricted by law or administrative action to expenditures for specified purposes.

F. Budgetary information

Kansas statutes require that an annual operating budget be legally adopted for the general fund, special revenue funds (unless specifically exempted by statute), debt service funds and enterprise funds. Although directory rather than mandatory, the statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

1. Preparation of the budget for the succeeding calendar year on or before the District's annual meeting.
2. Publication in local newspaper of the notice of public hearing on the budget at least twenty-eight days before the annual meeting.
3. Public hearing at the annual meeting, but at least twenty-eight days after publication of notice of hearing.
4. Adoption of the final budget on or before August 25th.

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenue other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication, the hearing may be held and the governing body may amend the budget at that time. There were no budget amendments for the year ended December 31, 2009.

The legal level of budgetary control is the fund level. The statutes permit transferring budgeted amounts between line items within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds. Budget comparison statements are presented for each fund showing actual receipts and expenditures compared to legally budgeted receipts and expenditures.

All legal annual operating budgets are prepared using the modified accrual basis of accounting, modified further by the encumbrance method of accounting. Revenues are recognized when cash is received. Expenditures include disbursements, accounts payable and encumbrances, with disbursements being adjusted for prior year's accounts payable and encumbrances. Encumbrances are commitments by the District for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. All unencumbered appropriations (legal budget expenditure authority) lapse at year-end.

SOUTHWEST KANSAS GROUNDWATER MANAGEMENT DISTRICT NO. 3  
Notes to Financial Statements  
For the Year Ended December 31, 2009

1. Summary of significant accounting policies (continued)

F. Budgetary information (continued)

A legal operating budget is not required for capital project funds, fiduciary funds and certain special revenue funds. Spending in funds which are not subject to the legal annual operating budget requirement are controlled by federal regulations, other statutes or by the use of internal spending limits established by the governing body.

G. Property taxes and special assessments

The determination of assessed valuations and the collections of property taxes for all political subdivisions in the State of Kansas is the responsibility of the counties. The County Appraiser annually determines assessed valuations based on real property transactions as recorded by the Register of Deeds and personal property holdings reported by taxpayers. The County Clerk spreads the annual assessment on the tax rolls and the County Treasurer collects the taxes for all taxing entities within the County.

Taxes are assessed on a calendar year basis, are levied and become a lien on the property on November 1st of each year. The County Treasurer is the tax collection agent for all taxing entities within the County. Property owners have the option of paying one-half or the full amount of the taxes levied on or before December 20th during the year levied with the balance to be paid on or before May 10th of the ensuing year. State statutes prohibit the County Treasurer from distributing the taxes collected in the year levied prior to January 1st of the ensuing year. One-half of the property taxes are due December 20th and distributed to the District by January 20th to finance a portion of the current year's budget. The second half is due May 10th and distributed to the District by June 5th. The District Treasurer draws available funds from the County Treasurer's office at designated times throughout the year.

H. Cash and investments

Cash resources of the individual funds are combined to form a pool of cash and investments which is managed by the District (except for investments in the Kansas Municipal Investment Pool). Cash includes amounts in demand deposits, time deposits and certificates of deposit. Investments of the pooled accounts consist primarily of investments with the Kansas Municipal Investment Pool and U.S. government securities carried at cost, which approximates market. Interest income earned is allocated as designated by the Board.

I. Post-employment health care benefits

As provided by K.S.A. 12-5040, the District allows retirees to participate in the group health insurance plan. While each retiree pays the full amount of the applicable premium, conceptually, the District is subsidizing the retirees because each participant is charged a level premium regardless of age. However, the cost of this subsidy has not been quantified in these financial statements.

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the District makes health care benefits available to eligible former employees and eligible dependents. Certain requirements are outlined by the federal government for this coverage. There is no cost to the District under this program.

SOUTHWEST KANSAS GROUNDWATER MANAGEMENT DISTRICT NO. 3  
Notes to Financial Statements  
For the Year Ended December 31, 2009

1. Summary of significant accounting policies (continued)

J. Compensated absences

The District's policy is to recognize the costs of compensated absences when actually paid.

The District's policies regarding leave pay permits employees to accumulate leave days up to a maximum of 30 days. The District has estimated the dollar amount of accumulated leave pay at December 31, 2009, at \$21,319.

Sick leave accumulates at the rate of 8 hours every month up to a maximum of 720 hours. There is no reimbursement upon leaving the District.

K. Interfund transactions

Quasi-external transactions (i.e., transactions that would be treated as revenues or expenses if they involved organizations external to the governmental unit, such as internal service fund billings to departments) are accounted for as cash receipts or expenditures. Transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund, are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed.

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers.

L. Reimbursements

A reimbursement is an expenditure or expense initially made in one fund, but properly attributable to another fund. For example, it is common for the general fund to pay a vendor's bill and have portions of it reimbursed by other funds. In accounting for such reimbursements, the District records an expenditure (or expense) in the reimbursing fund, and a reduction of expenditure (or expense) in the reimbursed fund, following the authoritative guidance of the *Governmental Accounting, Auditing and Financial Reporting*.

M. Memorandum totals

Total columns on the financial statements are captioned "memorandum only" to indicate that they are presented only to facilitate financial analysis. No consolidated financial information is presented nor is all required disclosures presented for these amounts.

N. Comparative data

The statutory basis financial statements include certain prior year comparative information in order to provide an understanding of the changes in the cash receipts and expenditures of the funds, but not at the level of detail required for a presentation in conformity with the statutory basis of accounting. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended December 31, 2008, from which the summarized information was derived.

SOUTHWEST KANSAS GROUNDWATER MANAGEMENT DISTRICT NO. 3  
Notes to Financial Statements  
For the Year Ended December 31, 2009

2. Deposits and investments

A reconciliation of cash and investments as shown in the composition of cash on the summary of cash receipts, expenditures and unencumbered cash on Statement 1 is as follows:

Carrying amount of deposits	\$ 10,415,105
Total cash	\$ 10,415,105

K.S.A. 9-1401 establishes the depositories which may be used by the District. The statute requires banks eligible to hold the District's funds have a main or branch bank in the county in which the District is located, or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The District has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the District's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The District has no investment policy that would further limit its investment choices.

Concentration of credit risk

State statutes place no limit on the amount the District may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405.

Custodial credit risk - deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. State statutes require the District's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City or the Federal Home Loan Bank of Topeka except during designated "peak periods" when required coverage is 50%. The District does not use designated "peak periods".

At December 31, 2009, the District's carrying amount of deposits was \$10,415,105 and the bank balance was \$10,450,738. The bank balance was held by three banks resulting in a concentration of credit risk. Of the bank balance, \$838,954 was covered by federal depository insurance and \$9,611,784 was collateralized with securities held by the pledging financial institutions' agents in the District's name. The District's cash deposits at year-end are as follows:

	Commerce Bank	Western State Bank	First National Bank - Liberal
FDIC coverage	\$ 338,954	\$ 250,000	\$ 250,000
Pledged securities at market value	4,889,680	5,080,785	685,566
Total coverage	\$ 5,228,634	\$ 5,330,785	\$ 935,566
Funds on deposit	\$ 5,074,283	\$ 4,768,636	\$ 607,819
Funds at risk	\$ -	\$ -	\$ -

SOUTHWEST KANSAS GROUNDWATER MANAGEMENT DISTRICT NO. 3  
Notes to Financial Statements  
For the Year Ended December 31, 2009

2. Deposits and investments (continued)

Custodial credit risk - investments

For an investment, this is the risk that, in the event of the failure of the issuer or counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes require investments to be adequately secured. The District had no investments of this type at December 31, 2009.

3. Capital projects

Capital project authorizations with approved change orders compared to disbursements and accounts payable from inception to December 31, 2009, were as follows:

	Project Authorization	Disbursements and Accounts Payable to Date	Committed
Office remodeling	\$ 175,772	\$ 175,772	\$ -

4. Long-term debt

Changes in long-term liabilities for the year ended December 31, 2009, were as follows:

	Unpaid 01-01-09	Net Change	Unpaid 12-31-09
Employee compensated absences payable	\$ 18,509	\$ 2,810	\$ 21,319
Total long-term debt	\$ 18,509	\$ 2,810	\$ 21,319

No interest was paid in fiscal year 2009.

5. Deferred compensation plan

The District sponsors a salary reduction profit sharing plan. The plan is a defined contribution plan with no fixed dollar amount of retirement benefits. The participants' retirement benefits are dependent upon employer contributions and salary reduction contributions, earnings of the plan and the time a person is a participant in the plan. Various eligibility requirements are required by the plan as applicable to IRS Section 401(k). The District's contribution may not exceed 6% annually of the eligible participants' compensation for the year. Five employees of the District participated in the plan in 2009 with salary reduction contributions of \$13,802; the District's contribution for 2009 was \$13,802 on covered salaries.

6. Operating leases

On July 12, 2006, the District entered into a new three year lease, ending December 31, 2009, for office space at \$2,650 per month. The lease agreement was terminated June 30, 2009, with no additional cost to the District. Lease expense paid under this lease for 2009, was \$15,900.

SOUTHWEST KANSAS GROUNDWATER MANAGEMENT DISTRICT NO. 3  
Notes to Financial Statements  
For the Year Ended December 31, 2009

7. Risk management and self-insurance

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

8. Compliance with Kansas statutes

References made herein to the statutes are not intended as interpretations of law, but are offered for consideration of the Director of Accounts and Reports and interpretation by the County Attorney and the legal representative of the District.

There were no material violations of Kansas statutes for the year ended December 31, 2009; however, the following immaterial violation was noted:

K.S.A. 60-111 requires contractors to provide bonds for all public works projects over \$100,000. During the current year, a contractor's bond was not obtained for the remodel of the new office building.