

FINNEY COUNTY RURAL WATER DISTRICT #1

BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2009

FINNEY COUNTY RURAL WATER DISTRICT #1

BASIC FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

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INDEPENDENT AUDITORS' REPORT

The Board of Directors,
Finney County Rural Water District #1
Finney County, Kansas

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining funds information of the Finney County Rural Water District #1, as of and for the year ended December 31, 2009, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the Kansas Municipal Audit Guide and 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 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.

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Finney County Rural Water District #1, as of December 31, 2009, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The District has not presented 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 a part of, the basic financial statements.

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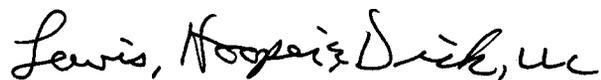
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The Board of Directors,
Finney County Rural Water District #1
Page 2

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Finney County Rural Water District #1, basic financial statements. The accompanying financial information listed as supplementary information in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.


LEWIS, HOOPER & DICK, LLC

June 25, 2010

FINNEY COUNTY RURAL WATER DISTRICT #1
Balance Sheet/Statement of Net Assets
Governmental Funds
December 31, 2009

<u>Assets</u>	<u>General</u>	<u>Customer Deposit</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
Cash	\$ 53,347	\$ 1,151	\$ -	\$ 54,498
Accounts receivable	-	-	26,227	26,227
Inventory	-	-	2,130	2,130
Intangibles and other assets	-	-	266,636	266,636
Capital assets (net of accumulated depreciation)	-	-	1,486,633	1,486,633
Total assets	<u>\$ 53,347</u>	<u>\$ 1,151</u>	<u>\$ 1,781,626</u>	<u>\$ 1,836,124</u>
 <u>Liabilities and Fund Balances</u>				
Liabilities:				
Current liabilities:				
Accounts payable	\$ 24,753	\$ 1,151	\$ -	\$ 25,904
Accrued expenses	-	-	26,552	26,552
Current portion long term debt	-	-	137,640	137,640
Total current liabilities	24,753	1,151	164,192	190,096
Long term debt, less current	-	-	1,746,333	1,746,333
Total liabilities	<u>24,753</u>	<u>1,151</u>	<u>\$ 1,910,525</u>	<u>\$ 1,936,429</u>
Fund balances:				
Reserved for benefit units	226,575	-	\$ 6,000	\$ 232,575
Unreserved, reported in:				
General fund	<u>(197,981)</u>	<u>-</u>	<u>(145,820)</u>	<u>(343,801)</u>
Total fund balances	<u>28,594</u>	<u>-</u>	<u>(139,820)</u>	<u>(111,226)</u>
Total liabilities and fund balances	<u>\$ 53,347</u>	<u>\$ 1,151</u>		
Net assets:				
Invested in capital assets, net of related debt			(157,256)	(157,256)
Unrestricted			<u>28,357</u>	<u>56,951</u>
Total net assets			<u>\$ (128,899)</u>	<u>\$ (100,305)</u>

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

FINNEY COUNTY RURAL WATER DISTRICT #1
Statement of Governmental Fund Revenues, Expenditures, and Changes in
Fund Balances/Statement of Activities
For the Year Ended December 31, 2009

	General Fund	Customer Deposits	Adjustments	Statement of Net Assets
Expenditures/expenses:				
Well expenses	\$ 24,070	\$ -	\$ -	\$ 24,070
Office expenses	5,713	-	-	5,713
Administrative services	3,566	-	-	3,566
Maintenance and service	154,850	-	4,582	159,432
Professional services	16,232	-	-	16,232
Distribution expense	136,387	-	-	136,387
Taxes	7,449	-	-	7,449
Depreciation and amortization	-	-	147,005	147,005
Debt service	133,779	-	(133,779)	-
Interest expense	91,087	-	(486)	90,601
Total expenditures/expenses	573,133	-	17,322	590,455
Revenues:				
Water sales	465,430	-	5,648	471,078
Benefit units sales	6,000	-	(6,000)	-
Interest income	6,895	-	-	6,895
Miscellaneous income	23,716	-	-	23,716
Total revenues	502,041	-	(352)	501,689
Net revenues (expenses)			(17,674)	(88,766)
Revenues under expenditures	(71,092)	-		
Net change in fund balances	(71,092)	-	(17,674)	(88,766)
Fund balance/net assets:				
Beginning of year	99,686	-	(111,225)	(11,539)
End of year	<u>\$ 28,594</u>	<u>\$ -</u>	<u>\$ (128,899)</u>	<u>\$ (100,305)</u>

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

FINNEY COUNTY RURAL WATER DISTRICT #1
Statement of Revenues, Expenditures, and Changes in
Fund Balances - Budget and Actual
General Fund
For the Year Ended December 31, 2009

	Budgeted		Actual Amounts Budgetary Basis	Variance with Final Budget Over (under)
	Original	Final		
Revenues:				
Water sales	\$ -	\$ 369,520	\$ 465,430	\$ 95,910
Benefit units sales	-	12,000	6,000	(6,000)
Interest income	-	9,700	6,895	(2,805)
Miscellaneous income	-	24,000	23,716	(284)
Total revenues	-	415,220	502,041	86,821
Expenditures:				
Operations and maintenance	-	116,500	338,988	222,488
Administrative and office	-	30,000	9,279	(20,721)
Debt service	-	219,347	133,779	(85,568)
Interest expense	-	40,000	91,087	51,087
Total expenditures	-	405,847	573,133	167,286
Revenues over (under) expenditures	-	9,373	(71,092)	(80,465)
Net change in fund balances	-	9,373	(71,092)	(80,465)
Fund balance, beginning of year	-	-	99,686	99,686
Fund balance, end of year	\$ -	\$ 9,373	\$ 28,594	\$ 19,221

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

FINNEY COUNTY RURAL WATER DISTRICT #1
Notes to Financial Statements
December 31, 2009

1. Summary of significant accounting policies

The Finney County Rural Water District #1, Finney County, Kansas (the District) was incorporated under the provisions of the State of Kansas. The District operates under a five member Board. The District provides the services authorized by its charter including water utility operations in Finney County, Kansas. The District contracts with Wheatland Electric Cooperative, Inc. for assistance with billing and maintenance. The services provided to the District by the Cooperative comprise a significant portion of the District's annual expenditures.

The scope of the entity for financial reporting purposes is defined as those funds for which the District has oversight responsibility and is primarily accountable. Oversight responsibility includes fiscal management responsibility which is control of the collection and disbursement of funds. These financial statements include all funds and account groups administered by the District.

The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. 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 as applied to government units, these financial statements present the Finney County Rural Water District #1, Finney County, Kansas (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. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Major individual governmental funds are reported as separate columns in the fund financial statements.

FINNEY COUNTY RURAL WATER DISTRICT #1
Notes to Financial Statements
December 31, 2009

1. Summary of Significant Accounting Policies (continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The District reports the following major governmental funds:

General Fund – The General Fund is the District's primary operating fund. It accounts for all financial transactions of the general government, except those required to be accounted for in another fund.

The District reports the following nonmajor governmental funds:

Customer Deposits Fund – The Customer Deposits Fund is used to track security deposits paid by and owed to customers of the District.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities and Net Assets or Equity

Deposits and Investments

Cash resources of the individual funds are combined to form a pool of cash and investments which is managed by the Board. Cash includes amounts in demand deposits. Investments of the pooled accounts consist of certificates of deposits and money market investments backed by U.S. government securities. Interest income earned is allocated among funds in accordance with the adopted budget.

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

FINNEY COUNTY RURAL WATER DISTRICT #1
Notes to Financial Statements
December 31, 2009

1. Summary of significant accounting policies (continued)

D. Assets, Liabilities and Net Assets or Equity (continued)

Deposits and Investments (continued)

State statutes authorize the Commission to invest idle funds in U.S. government securities, temporary notes, no-fund warrants, repurchase agreements and the Kansas Municipal Investment Pool. The Kansas Municipal Investment Pool operates in accordance with appropriate State laws and regulations. The reported value of the investment in the Kansas Municipal Investment Pool is the same as the fair value of its pool shares. Other investments of the Commission are stated at fair value, which equals cost. The District had no investments at December 31, 2009.

Receivables and Payables

All trade receivables are considered to be fully collectible; accordingly, no allowance for uncollectible accounts is required. If amounts become uncollectible, an allowance will be established.

Inventories and Prepaid Items

All inventories are valued at average cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

The District records certain payments to vendors that reflect costs applicable to future accounting periods as prepaid items in its financial statement.

Capital Assets

Capital assets, which include property, equipment, and infrastructure assets (e.g. well, pipes and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. All such assets that are purchased or constructed are valued at cost. Donated capital assets are recorded at their estimated fair market value on the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the District, is depreciated using the straight-line method, over the following estimated useful lives:

Infrastructure	20 years
Equipment	3 years

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the bonds outstanding method, which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

FINNEY COUNTY RURAL WATER DISTRICT #1
Notes to Financial Statements
December 31, 2009

1. Summary of significant accounting policies (continued)

D. Assets, Liabilities and Net Assets or Equity (continued)

Long-term Obligations (continued)

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or those that are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans, which are subject to change.

Net Assets

In the government-wide financial statements, net assets of the District are classified in three components. *Net assets invested in capital assets net of related debt* consist of property and equipment net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted net assets* are non-capital net assets that must be used for a particular purpose, as specified by creditors, grantors, contributors, or laws or regulations. *Unrestricted net assets* are remaining net assets that do not meet the definition of *invested in capital assets net of related debt* or *restricted*.

2. Stewardship, Compliance and Accountability

A. Budgetary Information

Kansas statutes require that an annual operating budget be legally adopted for the general fund.

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenue. No amendments to the original budget were approved by the governing body.

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 measurable and available. Expenditures include disbursements, accounts payable and encumbrances. Disbursements are commitments by the municipality 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.

FINNEY COUNTY RURAL WATER DISTRICT #1
Notes to Financial Statements
December 31, 2009

2. Stewardship, Compliance and Accountability (continued)

A. Budgetary Information (continued)

A legal operating budget is not required for certain special revenue funds and capital projects 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. Special revenue funds of the District controlled by spending limits established by the governing body include the Customer Deposits fund.

B. Excess of Expenditures over Appropriations

Under Kansas statutes, expenditures are mandated to be controlled, so that no indebtedness is created in excess of budgeted limits. Management is not aware of any statutory violations.

C. Budgetary Compliance – Government Funds

The District prepares its annual budget on a non-GAAP basis of accounting as described in Note 2, item A. A reconciliation of these budgetary basis statements to the GAAP statements is as follows:

	Fund
Revenues (budgetary basis)	\$ 500,827
Less adjustments for accrued revenues	(8,564)
Less benefit unit sales	(6,000)
Revenues (GAAP basis)	\$ 486,263
Expenditures (budgetary basis)	\$ 573,133
Debt service	\$ 146,519
Capital assets purchases and depreciation	(129,197)
Expenditures (GAAP basis)	\$ 590,455

3. Detailed Notes on All Funds

A. 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:

Cash on hand	\$ 1,016
Carrying amount of deposits	53,482
Carrying amount of investments	-
Total cash	\$ 54,498

As of December 31, 2009, the District had no investments.

FINNEY COUNTY RURAL WATER DISTRICT #1
Notes to Financial Statements
December 31, 2009

3. Detailed Notes on All Funds (continued)

A. Deposits and Investments (continued)

Deposits

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. The rating of the District's investments is noted above.

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 \$54,498 and the bank balance was \$53,514. Ninety-eight percent of the bank balance was held by two banks resulting in a concentration of credit risk. The entire bank balance was covered by federal depository insurance. The District's cash deposits by financial institution at December 31, 2009, are as follows:

	Western State Bank	Garden City State Bank	First National Bank - Holcomb
FDIC coverage	\$ 14,901	\$ 37,650	\$ 963
Pledged securities at market value	-	-	-
Total coverage	<u>\$ 14,901</u>	<u>\$ 37,650</u>	<u>\$ 963</u>
Funds on deposit	<u>\$ 14,901</u>	<u>\$ 37,650</u>	<u>\$ 963</u>
Funds at risk	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Custodial Credit Risk - Investments

For an investment, this is the risk that, in the event of the failure of the issuer or counterparty, the Government 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.

FINNEY COUNTY RURAL WATER DISTRICT #1
Notes to Financial Statements
December 31, 2009

3. Detailed Notes on All Funds (continued)

B. Receivables

Receivables as of year-end for the District's individual major fund, including the applicable allowances for uncollectible accounts, are as follows:

	General
Receivables:	
Customer	\$ 24,706
Interest	1,521
	26,227
Total receivables	\$ 26,227

C. Capital Assets

Capital asset activity for the District for the year ended December 31, 2009, was as follows:

	Balance 01-01-09	Additions	Deductions	Balance 12-31-09
Capital assets being depreciated:				
Water distribution	\$ 2,908,692	\$ -	\$ -	\$ 2,908,692
Total capital assets being depreciated	2,908,692	-	-	2,908,692
Less accumulated depreciation for:				
Water distribution	1,276,624	145,435	-	1,422,059
Total accumulated depreciation	1,276,624	145,435	-	1,422,059
Total capital assets being depreciated, net	\$ 1,632,068	\$ (145,435)	\$ -	\$ 1,486,633

Depreciation expense of \$145,435 was charged to the District at December 31, 2009.

Capital Projects and Commitments

On May 13, 2008, the Board was notified the Kansas Department of Transportation has awarded a bid to Lee Construction, Inc. in the amount of \$212,097 for the relocation of District lines under Highway 50. The District will make payments to Lee Construction and the District will be reimbursed for the cost of the contract by Kansas Department of Transportation. The project was completed in 2009 at a cost of \$151,871.

FINNEY COUNTY RURAL WATER DISTRICT #1
Notes to Financial Statements
December 31, 2009

3. Detailed Notes on All Funds (continued)

D. Short-Term Debt Activity

The District obtained a line of credit with Wheatland Electric to assist with payment of District obligations. Activity on the debt for the year ended December 31, 2009, was as follows:

Line of Credit	Beginning Balance	Issued	Redeemed	Ending Balance
	\$ -	\$ 56,000	\$ 46,000	\$ 10,000

E. Long-term Debt

Loans

The District issued loans where the District's pledged income derived from the fees and charges to users of the related assets to pay the debt service. The original principal amount of revenue bonds and loans issued in prior years was \$2,855,867. Loans outstanding at year-end are as follows:

	Date of Issue	Maturity Date	Outstanding Interest Rates	Balance 12-31-09
<u>Loans payable:</u>				
Kansas Water Supply System Loan Fund	02-01-00	08-01-19	3.74%	\$ 1,558,078
Wheatlands Electric Cooperative, Inc.	01-01-04	12-31-33	4.50%	87,971
Wheatlands Electric Cooperative, Inc.	12-31-06	02-01-29	6.50%	<u>237,924</u>
Total loans payable				<u>\$ 1,883,973</u>

The annual requirements to amortize the loans outstanding at December 31, 2009, including interest payments, are as follows:

Year	Principal	Interest	Total
2010	137,640	81,731	219,371
2011	143,505	75,866	219,371
2012	149,623	69,748	219,371
2013	156,008	63,363	219,371
2014	162,669	56,702	219,371
2015-2019	923,853	173,003	1,096,856
2020-2024	89,684	50,158	139,842
2025-2029	99,939	18,754	118,693
2030-2033	21,052	2,103	23,155
Total	<u>\$ 1,883,973</u>	<u>\$ 591,428</u>	<u>\$ 2,475,401</u>

FINNEY COUNTY RURAL WATER DISTRICT #1
Notes to Financial Statements
December 31, 2009

3. Detailed Notes on All Funds (continued)

E. Long-term Debt (continued)

Loan Covenants

There are a number of limitations and restrictions contained in the loan agreements. The District appears to be in compliance with all significant limitations and restrictions as of December 31, 2009, except the debt service ratio. The required ratio is 1.25 and at December 31, 2009, the ratio is .68. The District has made all debt service payments and believes their budget shows the District will meet all covenants for 2010.

The schedule of insurance required by the loan agreement is included in the Supplemental Schedules.

Changes in Long-term Liabilities

The following is a summary of changes in long-term liabilities of the District for the year ended December 31, 2009:

	Balance 01-01-09	Additions	Retired	Balance 12-31-09	Due Within One Year
Governmental activities:					
Loans	\$ 2,017,752	-	\$ 133,779	\$ 1,883,973	\$ 131,522

F. Lease Agreement

On August 23, 2003, the District entered into a lease with Wheatland Electric Cooperative, Inc. Wheatland Electric Cooperative, Inc. leased the rural water system for a term of five years and was given full operational control to operate and manage the rural water system during this period. A lease payment of \$1 is to be paid to the District by Wheatland Electric Cooperative, Inc. as consideration under the lease agreement. In November, 2004, the lease was extended to fifteen years to coincide with the loan payment schedule.

On December 26, 2008, the District amended the lease with Wheatland Electric Cooperative, Inc. Under the new lease the District will pay Wheatland Electric Cooperative, Inc. \$109,309 annually for the use of Wheatland Electric Cooperative, Inc.'s infrastructure. In addition, Wheatland Electric Cooperative, Inc. will pay the District \$15,957 annually for the use the District's infrastructure. The payments will begin in 2009 for a one year term with annual renewals allowed.

4. Other Information

A. Compliance with Kansas Statutes

References made herein to the statutes are not intended as interpretation 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.

No material violations were noted, however, the following immaterial violations occurred:

K.S.A. 82a-628 provides for the Board to prepare an estimated budget and set rates to fund such budget. The budget for 2009 was not approved until November of 2009.

FINNEY COUNTY RURAL WATER DISTRICT #1
Notes to Financial Statements
December 31, 2009

4. Other Information (continued)

A. Compliance with Kansas Statutes (continued)

Kansas statutes limit the form of borrowing allowed for local governmental entities. During the year, the District obtained a line of credit with Wheatland Electric Cooperative to assist with short term cash flow. There is no statutory authority for the District to obtain a line of credit.

B. Risk Management

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.

SUPPLEMENTARY INFORMATION

FINNEY COUNTY RURAL WATER DISTRICT #1
 Schedule of Insurance
 December 31, 2009

Type of Insurance	Expiration Date	Insured Amount
Commercial property - Building, standpipe and related equipment	4/11/2010	\$ 962,520
General Liability	4/11/2010	500,000/1,000,000
Public Officials	4/11/2010	1,000,000
Auto	4/11/2010	1,000,000

FINNEY COUNTY RURAL WATER DISTRICT #1
 Schedule of Members' Equity
 For the Year Ended December 31, 2009

Members' equity consists of benefit units sold to users in the District, which are not refundable. A reconciliation of members' equity is as follows:

	Benefit Units Received
Balance, beginning of year	\$ 226,575
Benefit units sold	6,000
Deductions	-
Balance, end of year	<u>\$ 232,575</u>