DRAINAGE DISTRICT #1
FINNEY COUNTY, KANSAS

STATUTORY BASIS FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

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LEWIS, HOOPER & DICK LLC
certified public accountants

INDEPENDENT AUDITORS' REPORT

Board of Supervisors
Drainage District #1
Finney County, Kansas

We have audited the accompanying statutory basis financial statements of the Drainage District #1, Finney County, Kansas, as of and for the year ended December 31, 2010, 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 2009 financial statements and, in our report dated April 13, 2010, 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 Drainage District #1, Finney County, Kansas, as of December 31, 2010, or the changes in its financial position, or where applicable, its cash flows 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 has determined is necessary to supplement, although not required to be part of, the basic financial statements.

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 Drainage District #1, Finney County, Kansas, as of December 31, 2010, and its cash receipts and expenditures, and budgetary comparisons for the year then ended, on the basis of accounting described in Note 1.

Lewis, Hooper & Dick, LLC

LEWIS, HOOPER & DICK, LLC

November 8, 2011

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DRAINAGE DISTRICT #1
FINNEY COUNTY, KANSAS
Summary of Cash Receipts, Expenditures and Unencumbered Cash
For the Year Ended December 31, 2010

	Unencumbered Cash 1/1/2010	Cash Receipts	Expenditures	Unencumbered Cash 12/31/2010	Outstanding Encumbrances and Accounts Payable	Treasurer's Cash 12/31/2010
General Fund	$ 90,921	$ 139,222	$ 76,048	$ 154,095	$ -	$ 154,095
Totals (memorandum only)	$ 90,921	$ 139,222	$ 76,048	$ 154,095	$ -	$ 154,095

Composition of Cash:	
Finney County agency account	$ 149,441
Certificates of Participation	4,654
Total cash	$ 154,095

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

DRAINAGE DISTRICT #1
FINNEY COUNTY, KS
Summary of Expenditures - Actual and Budget
(Budgeted Funds Only)
For the Year Ended December 31, 2010

	Expenditures Chargeable to Current Year Budget	Total Budget	Variance Over (Under)
General Fund	$ 76,048	$ 161,200	$ (85,152)

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

DRAINAGE DISTRICT #1
FINNEY COUNTY, KANSAS
General Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2010
(With Comparative Actual Totals for the Prior Year Ended December 31, 2009)

		Current Year		
	Prior Year	Actual	Budget	Variance Over (Under)
Cash receipts:				
Ad valorem tax	$ 154,945	$ 128,758	$ 130,962	$ (2,204)
Delinquent tax	1,076	1,384	-	1,384
Motor and recreational vehicle tax	3,364	9,080	12,140	(3,060)
Reimbursed expense	4,600	-	-	-
Total cash receipts	163,985	139,222	$ 143,102	$ (3,880)
Expenditures:				
Personnel services	3,230	2,771	$ 3,200	$ (429)
Contractual	30,873	17,429	101,900	(84,471)
Debt service	57,300	55,848	56,100	(252)
Total expenditures	91,403	76,048	$ 161,200	$ (85,152)
Receipts over expenditures	72,582	63,174		
Unencumbered cash, beginning	18,339	90,921		
Unencumbered cash, ending	$ 90,921	$ 154,095		

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

1. Summary of significant accounting policies

Drainage District #1, Finney County, Kansas, was incorporated under the provisions of the State of Kansas and operates under an elected board. The District provides drainage improvements for landowners in the District.

A. Financial reporting entity

The District is governed by an elected five-member board. These financial statements present the Drainage District #1 (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 of Supervisors 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 Board 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, cash disbursements, 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, revenue bonds, capital leases, temporary notes and compensated absences are not presented in the financial statements.

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.

F. 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 in the Kansas Municipal Investment Pool and U.S. government securities carried at cost, which approximates market. Interest income earned, unless specifically designated, is allocated to the general fund.

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 by January 20th to finance a portion of the current year's budget. The second half is due May 10th and distributed by June 5th.

Kansas statutes require projects financed in part by special assessments to be financed through the issuance of general obligation bonds which are secured by the full faith and credit of the District. Special assessments received prior to or after the issuance of general obligation bonds are recorded as revenue in the appropriate project fund. Further, state statutes require levying additional general ad valorem property taxes in the Debt Service Fund to finance delinquent special assessments receivable.

H. 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.

1. Summary of significant accounting policies (continued)

   H. Interfund transactions (continued)
   All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers.

   I. 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.*

   J. 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.

   K. 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, 2009, from which the summarized information was derived.

2. Stewardship, compliance and accountability

   A. 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 August 1st.
      2. Publication in local newspaper of the proposed budget and notice of public hearing on the budget on or before August 5th.
      3. Public hearing on or before August 15th, but at least ten 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 such budget amendments for year ended December 31, 2010.

2. Stewardship, compliance and accountability (continued)

A. Budgetary information (continued)
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 statutory basis of accounting, in which revenues are recognized when cash is received and 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.

A legal operating budget is not required for capital project funds, trust 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.

B. Compliance with Kansas statutes
References made herein to the statutes are not intended as interpretations of the law, but are offered for consideration of the Director of Accounts and Reports and interpretation by the County Attorney and the legal representation of the District. No known material violations occurred during 2010.

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:

Carrying amount of deposits	$	154,095
Total cash	$	154,095

As of December 31, 2010, the District had the following investments and maturities:

		Investment Maturities (in Years)		
Investment Type	Fair Value	Less than 1	1-2	Rating
Guaranteed Investment Contracts secured by U.S. Treasury and Agencies	$ 4,654	$ 4,654	$ -	N/A

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.

3. Detailed notes on all funds (continued)

A. Deposits and investments (continued)
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, 2010, the District's carrying amount of deposits was $154,095 and the bank balance was $154,095. The bank balance was held through Finney County resulting in a concentration of credit risk. Of the bank balance, $154,095 was covered by federal depository insurance. The District's cash deposits at year-end are as follows:

	Finney County Agency Account
FDIC coverage	$ 154,095
Pledged securities at market value	-
Total coverage	$ 154,095
Funds on deposit	$ 154,095
Funds at risk	$ -

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, 2010.

B. Capital projects in process
The District had no capital projects in process during the current year ended December 31, 2010.

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3. Detailed notes on all funds (continued)

C. Long-term debt

Changes in long-term liabilities for the District for the year ended December 31, 2010, were as follows:

	Date of Issue	Maximum Rate	Date of Final Maturity	Amount of Issue	Balance 1/1/10	Additions	Reductions/ Payments	Balance 12/31/10	Interest Paid
Certificates of Participation: Series 2005	4/15/2005	4.10%	7/15/15	$ 445,000	$ 285,000	$ -	$ 45,000	$ 240,000	$ 10,838
Total long-term debt					$ 285,000	$ -	$ 45,000	$ 240,000	

Current maturities of long-term debt and interest for the next five years and in five year increments through maturity are as follows:

	Year					
	2011	2012	2013	2014	2015	Total
Principal:						
Certificates of Participation	$ 45,000	$ 45,000	$ 50,000	$ 50,000	$ 50,000	$ 240,000
Interest:						
Certificates of Participation	9,308	7,687	6,000	4,050	2,050	29,095
Total principal and interest	$ 54,308	$ 52,687	$ 56,000	$ 54,050	$ 52,050	$ 269,095

Legal debt margin

The debt limit per K.S.A. 24-132 is five percent of the assessed valuation of taxable tangible property within the District. The amount of debt outstanding does not exceed the statutory limit.

4. Other information

A. 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.