

CITY OF DWIGHT  
MORRIS COUNTY, KANSAS  
INDEPENDENT AUDITORS' REPORT AND  
STATUTORY BASIS FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2011

ALDRICH AND COMPANY LLC  
CERTIFIED PUBLIC ACCOUNTANTS  
COUNCIL GROVE, KANSAS 66846

City of Dwight  
Morris County, Kansas

STATUTORY BASIS FINANCIAL STATEMENTS  
Year Ended December 31, 2011  
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Independent Auditors' Report

Mayor and City Council  
Dwight, Kansas

We have audited the accompanying primary government financial statements of the City of Dwight, Kansas, as of and for the year ended December 31, 2011, as listed in the table of contents. These statutory basis financial statements are the responsibility of City of Dwight, Kansas, management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and the guidance in the Kansas Municipal Audit Guide. Those standards and guidance 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.

A primary government is a legal entity or body politic and includes all funds, organizations, institutions, agencies, departments, and offices that are not legally separate. Such legally separate entities are referred to as component units. Accounting principles generally accepted in the United States of America require the financial data for those component units to be reported with the financial data of the City's primary government. The primary government financial statements referred to above do not include the financial data of component units of the City of Dwight, Kansas, as of December 31, 2011. The effect on the financial statements of the omission of the component units, although not reasonably determinable, is presumed to be material.

As described in Note 1, the City of Dwight, Kansas, prepared these financial statements in conformity with the 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 differences between these regulatory 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 discussed in the preceding paragraphs, the financial statements do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the City of Dwight, Kansas, as of December 31, 2011, or the changes in its financial position, or where applicable, its cash flows for the year then ended.

In our opinion, the statutory basis financial statements referred to above present fairly, in all material respects, the cash and unencumbered cash balances of the primary government of the City of Dwight, Kansas, as of December 31, 2011, and its cash receipts and expenditures and budgetary results, for the year then ended, taken as a whole, on the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated June 22, 2012, on our consideration of the City of Dwight, Kansas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

*Aldrich & Company, LLC*  
Aldrich & Company LLC  
Certified Public Accountants  
June 22, 2012

The City of Dwight  
Morris County, Kansas

Statement 1

Summary of Cash Receipts, Expenditures, and Unencumbered Cash  
For the Year Ended December 31, 2011

	Beginning Unencumbered Cash Balance	Cash Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Outstanding Encumbrances and Accounts Payable	Ending Cash Balance
General Fund	\$ 31,198	\$ 69,075	\$ 67,077	\$ 33,196	\$ 3,512	\$ 36,708
Special Revenue Funds:						
Library	0	2,094	2,094	0	0	0
Employee Benefits	0	3,372	3,372	0	796	796
Special Highway	11,925	7,788	8,907	10,806	927	11,733
Equipment Reserve	4,175	0	816	3,359	0	3,359
Capital Improvement Reserve	21,526	19,500	3,344	37,682	0	37,682
Capital Improvement Funds:						
Water project	(22,074)	115,282	89,060	4,148	0	4,148
Proprietary Fund:						
Water Utility	123,417	97,721	123,714	97,424	3,899	101,323
Sewer Utility	7,059	15,646	10,758	11,947	389	12,336
Total Reporting Entity	<u>\$ 177,226</u>	<u>\$ 330,478</u>	<u>\$ 309,142</u>	<u>\$ 198,562</u>	<u>\$ 9,523</u>	<u>\$ 208,085</u>

Composition of Cash:

Checking	\$ 154,516
Community Building Account	5,127
Petty Cash	69
Water Deposit Account	17,023
Water Project Account	4,147
Certificates of Deposit	27,203
Total Cash	<u>208,085</u>

The accompanying notes are an integral part of this statement.

The City of Dwight  
Morris County, Kansas

Statement 2

Summary of Cash Expenditures – Actual and Budget  
(Budgeted Funds Only)  
For the Year Ended December 31, 2011

FUNDS	Certified Budget	Adjustment for Qualifying Budget Credits	Total Budget for Comparison	Expenditures Chargeable to Current Year	Variance Favorable (Unfavorable)
General Fund	\$ 76,677		\$ 76,677	\$ 67,077	\$ 9,600
Special Revenue Funds:					
Library	2,200		2,200	2,094	106
Employee benefits	7,000		7,000	3,372	3,628
Special Highway	17,000		17,000	8,907	8,093
Enterprise Funds:					
Water Utility	109,700		109,700	123,714	(14,014)
Sewer Utility	19,600		19,600	10,758	8,842

The accompanying notes are an integral part of this statement.

The City of Dwight  
Morris County, Kansas

Statement 3-1

GENERAL FUND  
Statement of Cash Receipts and Expenditures - Actual and Budget  
For the Year Ended December 31, 2011

	Current Year		Variance Favorable (Unfavorable)
	Actual	Budget	
Cash Receipts			
Taxes			
Morris County	\$ 24,392	\$ 26,031	\$ (1,639)
Sales tax	16,670	17,000	(330)
Franchise taxes	11,678	7,000	4,678
Use of money and property	452	0	452
Reimbursed expense	13,653	0	13,653
Other receipts	2,230	0	2,230
Total Cash Receipts	<u>69,075</u>	<u>50,031</u>	<u>19,044</u>
Expenditures			
General government			
Personal Services	15,004	27,000	11,996
Commodities	13,463	15,000	1,537
Contractual	7,401	10,677	3,276
Capital Outlay	5,400	0	(5,400)
Community Building	5,386	2,000	(3,386)
Library	923	0	(923)
Transfers out	19,500	22,000	2,500
Total Expenditures	<u>67,077</u>	<u>76,677</u>	<u>9,600</u>
Receipts Over (Under) Expenditures	1,998	<u>\$ (26,646)</u>	<u>\$ 28,644</u>
Unencumbered Cash, January 1	<u>31,198</u>		
Unencumbered Cash, December 31	<u>\$ 33,196</u>		

The accompanying notes are an integral part of this statement.

The City of Dwight  
Morris County, Kansas

Statement 3-2

SPECIAL REVENUE FUND  
Statement of Cash Receipts and Expenditures - Actual and Budget  
For the Year Ended December 31, 2011

LIBRARY

	Current Year		Variance Favorable (Unfavorable)
	Actual	Budget	
Cash Receipts			
Morris County	\$ 2,094	\$ 2,200	\$ (106)
Other	<u>0</u>	<u>0</u>	<u>0</u>
Total Cash Receipts	<u>2,094</u>	<u>2,200</u>	<u>(106)</u>
Expenditures			
Library appropriation	<u>2,094</u>	<u>2,200</u>	<u>106</u>
Receipts Over (Under) Expenditures	0	<u>\$ 0</u>	<u>\$ 0</u>
Unencumbered Cash, January 1	<u>0</u>		
Unencumbered Cash, December 31	<u>\$ 0</u>		

The accompanying notes are an integral part of this statement.

The City of Dwight  
Morris County, Kansas

Statement 3-3

SPECIAL REVENUE FUND  
Statement of Cash Receipts and Expenditures - Actual and Budget  
For the Year Ended December 31, 2011

EMPLOYEE BENEFITS

	Current Year		Variance Favorable (Unfavorable)
	Actual	Budget	
Cash Receipts			
Morris County	\$ 3,372	\$ 3,500	\$ (128)
Other	<u>0</u>	<u>3,500</u>	<u>(3,500)</u>
Total Cash Receipts	<u>3,372</u>	<u>7,000</u>	<u>(3,628)</u>
Expenditures			
Employee Benefits paid	<u>3,372</u>	<u>7,000</u>	<u>3,628</u>
Receipts Over (Under) Expenditures	0	<u>\$ 0</u>	<u>\$ 0</u>
Unencumbered Cash, January 1	<u>0</u>		
Unencumbered Cash, December 31	<u>\$ 0</u>		

The accompanying notes are an integral part of this statement.

The City of Dwight  
Morris County, Kansas

Statement 3-4

SPECIAL REVENUE FUND  
Statement of Cash Receipts and Expenditures - Actual and Budget  
For the Year Ended December 31, 2011

SPECIAL HIGHWAY

	Current Year		Variance Favorable (Unfavorable)
	Actual	Budget	
Cash Receipts			
State payments	\$ 7,788	\$ 8,920	\$ (1,132)
Other	<u>0</u>	<u>0</u>	<u>0</u>
Total Cash Receipts	<u>7,788</u>	<u>8,920</u>	<u>(1,132)</u>
Expenditures			
Streets & highways	<u>8,907</u>	<u>17,000</u>	<u>8,093</u>
Receipts Over (Under) Expenditures	(1,119)	<u>\$ (8,080)</u>	<u>\$ 6,961</u>
Unencumbered Cash, January 1	<u>11,925</u>		
Unencumbered Cash, December 31	<u>\$ 10,806</u>		

The accompanying notes are an integral part of this statement.

The City of Dwight  
Morris County, Kansas

Statement 3-5

SPECIAL REVENUE FUND  
Statement of Cash Receipts and Expenditures  
For the Year Ended December 31, 2011

EQUIPMENT RESERVE

	<u>Current Year Actual</u>
Cash Receipts	
Transfers In	\$ 0
Other income	<u>0</u>
Total Cash Receipts	0
Expenditures	
Equipment maintenance & replacement	<u>816</u>
Receipts Over (Under) Expenditures	(816)
Unencumbered Cash, January 1	<u>4,175</u>
Unencumbered Cash, December 31	<u>\$ 3,359</u>

The accompanying notes are an integral part of this statement.

The City of Dwight  
Morris County, Kansas

Statement 3-6

SPECIAL REVENUE FUND  
Statement of Cash Receipts and Expenditures  
For the Year Ended December 31, 2011

CAPITAL IMPROVEMENT RESERVE

	<u>Current Year Actual</u>
Cash Receipts	
Transfers In	\$ 19,500
Other income	<u>0</u>
Total Cash Receipts	19,500
Expenditures	
Capital improvements	<u>3,344</u>
Receipts Over (Under) Expenditures	16,156
Unencumbered Cash, January 1	<u>21,526</u>
Unencumbered Cash, December 31	<u>\$ 37,682</u>

The accompanying notes are an integral part of this statement.

The City of Dwight  
Morris County, Kansas

Statement 3-7

CAPITAL IMPROVEMENT FUND  
Statement of Cash Receipts and Expenditures  
For the Year Ended December 31, 2011

WATER PROJECT

	<u>Current Year Actual</u>
Cash Receipts	
USDA income	\$ 115,000
Interest	<u>282</u>
Total Cash Receipts	115,282
Expenditures	
Project expenditures	89,060
Transfer out	<u>0</u>
Total Expenditures	89,060
Receipts Over (Under) Expenditures	26,222
Unencumbered Cash, January 1	<u>(22,074)</u>
Unencumbered Cash, December 31	<u>\$ 4,148</u>

The accompanying notes are an integral part of this statement.

The City of Dwight  
Morris County, Kansas

Statement 3-8

PROPRIETARY FUND  
Statement of Cash Receipts and Expenditures - Actual and Budget  
For the Year Ended December 31, 2011

WATER UTILITY

	Current Year		Variance Favorable (Unfavorable)
	Actual	Budget	
Cash Receipts			
Water collections	\$ 71,874	\$ 53,000	\$ 18,874
Delinquent fees	2,740	0	2,740
Trash collections	20,081	21,000	(919)
Interest income	276	0	276
Miscellaneous	2,750	0	2,750
Total Cash Receipts	<u>97,721</u>	<u>74,000</u>	<u>23,721</u>
Expenditures			
Personnel services	8,346	11,000	2,654
Commodities	6,582	30,000	23,418
Water purchased	17,024	17,200	176
Contractual	2,231	30,000	27,769
Debt service	70,850	0	(70,850)
Capital outlay	0	0	0
Trash expense	18,681	21,500	2,819
Total Expenditures	<u>123,714</u>	<u>109,700</u>	<u>(14,014)</u>
Receipts Over (Under) Expenditures	(25,993)	<u>\$ (35,700)</u>	<u>\$ 9,707</u>
Unencumbered Cash, January 1	<u>123,417</u>		
Unencumbered Cash, December 31	<u>\$ 97,424</u>		

The accompanying notes are an integral part of this statement.

The City of Dwight  
Morris County, Kansas

Statement 3-9

PROPRIETARY FUND  
Statement of Cash Receipts and Expenditures - Actual and Budget  
For the Year Ended December 31, 2011

SEWER UTILITY

	Current Year		Variance Favorable (Unfavorable)
	Actual	Budget	
Cash Receipts			
Sewer collections	\$ 15,646	\$ 14,000	\$ 1,646
Miscellaneous	<u>0</u>	<u>0</u>	<u>0</u>
Total Cash Receipts	<u>15,646</u>	<u>14,000</u>	<u>1,646</u>
Expenditures			
Personnel services	4,690	4,600	(90)
Commodities	5,738	15,000	9,262
Contractual	330	0	(330)
Capital Outlay	0	0	0
Miscellaneous	<u>0</u>	<u>0</u>	<u>0</u>
Total Expenditures	<u>10,758</u>	<u>19,600</u>	<u>8,842</u>
Receipts Over (Under) Expenditures	4,888	<u>\$ (5,600)</u>	<u>\$ 10,488</u>
Unencumbered Cash, January 1	<u>7,059</u>		
Unencumbered Cash, December 31	<u>\$ 11,947</u>		

The accompanying notes are an integral part of this statement.

The City of Dwight  
Morris County, Kansas

NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The City of Dwight, Kansas operates under a Mayor-Council form of government. The City's major operations include streets and highways, parks and recreation, and general administrative services. The City also operates two enterprise activities: a sewer system and a water system. The City also contracts for solid waste collection.

The accounting and reporting policies of the City relating to the funds included in the accompanying financial statements conform to the cash basis and budget laws of the State of Kansas. The more significant accounting policies of the City are described below.

The City's financial statements include the accounts of all City operations. In evaluating how to define the City, for financial reporting purposes, management has considered all potential component units. The basic—but not the only—criterion for including a potential component unit within the reporting entity is financial accountability. The most significant manifestation of the criterion is financial dependence. Other manifestations of the criteria include but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. Using this criterion, the Dwight Library was identified as a component unit. These financial statements do not include the Dwight Library.

Fund Accounting

The accounts of the City are organized and operated on the basis of funds, which are used to record the City's financial transactions. A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts. Cash and other financial resources are recorded together with all related expenditures. A fund is used to segregate specific activities and for the purpose of attaining certain objectives in accordance with special regulations, restrictions, or limitations including State Statutes and City Ordinances. The following types of funds comprise the financial activities of the City.

Governmental Funds:

General Fund - Fund used as the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds – Funds used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to expenditure for specified purposes.

Capital Project Funds – Funds used to account for financial resources for the acquisition or construction of major capital facilities of the City.

Proprietary Funds:

Enterprise Funds - Funds used to account for operations (a) that are financed and operated in a manner similar to private business enterprises -- where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The City of Dwight  
Morris County, Kansas

NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT)

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 the State of Kansas. Cash receipts are recognized when the cash balance of a fund is increased. Expenditures include disbursements, accounts payable, and encumbrances with encumbrances 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 that the transfer is made.

The City approved a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the City to use the statutory basis of accounting.

Departure from Accounting Principles Generally Accepted in the United States of America

The basis of accounting described above results in a financial statement presentation, which shows cash receipts, cash 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 sold and services received during the year in accordance with generally accepted accounting principles. Capital assets that account for the land, buildings, and equipment owned by the municipality 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.

NOTE 2 - 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 amendments for this year.

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.

The City of Dwight  
Morris County, Kansas

NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2011

NOTE 2 - BUDGETARY INFORMATION (CONT)

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 municipality for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. Any unused budgeted expenditure authority lapses at year-end.

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

NOTE 3 - CASH AND DEPOSITS

K.S.A. 9-1401 establishes the depositories which may be used by the City. The statute requires banks eligible to hold the City's funds have a main or branch bank in the county in which the City 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 City has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the City'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 City has no investment policy that would further limit its investment choices.

Custodial credit risk – deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be entirely returned to it. State statutes require the City'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%. All deposits were legally secured at December 31, 2011.

At year-end, the carrying amount of the city's deposits was \$208,016. The bank balance was \$207,990. The difference between the carrying amount and the bank balance is outstanding checks and deposits in transit. The bank balance was held by one bank resulting in a concentration of credit risk. The entire bank balance was covered by FDIC insurance. The city held no investments on December 31, 2011.

NOTE 4 - PROPERTY TAXES

The city certifies its' budget to the county clerk annually. Using this certified budget and those of other political subdivisions within the county, the county clerk spreads the annual assessment onto the tax rolls and levies property tax on November 1 of each year. The property tax is payable in two installments. The first installment is due December 20 of the same year, and the second installment is due May 10 of the subsequent year. The county treasurer collects and distributes the property taxes. In accordance with state statutes, property taxes levied during the current year are a revenue source to be used to finance the following year's operations.

NOTE 5 - DEFINED BENEFIT PENSION PLAN

The City does not employ any full-time employees and thus, does not participate in the Kansas Public Employees Retirement System (KPERs), a cost sharing multiple-employer defined pension benefit plan as provided by K.S.A. 74-4901, et seq.

The City of Dwight  
Morris County, Kansas

NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2011

NOTE 6 – RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. Insurance claims have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance coverage from coverage in prior years.

NOTE 7 – 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 legal representatives of the municipality.

Deposits K.S.A. 9-1402.

Deposits were not secured at all times as required by statute. During the water project, for short periods of time, city funds were not completely secured. The City will monitor bank balances and increase depository security as necessary.

Budget Authority K.S.A. 79-2935

Expenditures in the Water fund exceeded the adopted budget. An additional unscheduled principal payment was made that caused the Water fund to exceed its budget. The City will more closely monitor budget variances.

The required annual publication under K.S.A. 12-1608 was not made by the city treasurer. The City is aware of the requirement and will publish in the future as required by statutes.

Management is not aware of any other statutory violations for the period covered by this audit.

NOTE 8 - AGREEMENT WITH RURAL WATER DISTRICT NO 1

The City of Dwight entered into a contract on July 22, 1992, with the Rural Water District No. 1, Morris County, Kansas, for the purpose of obtaining a source of water for the City. Rural Water District No. 1 is a Kansas entity formed under Kansas Statutes Annotated 82a-612. Per contract, Rural Water District No. 1 constructed a water supply and distribution system. The Rural Water District will deliver to the City potable treated water, meeting applicable quality standards of the Kansas Department of Health and Environment. The City has no right of ownership in the fixed assets or interest in the net income or loss of the Rural Water District. The City of Dwight's obligation is to pay the Water District a total fixed monthly charge of \$318 and to purchase a minimum of 400,000 gallons of water per month. The full faith and credit of the City is not pledged; and the City has no obligation to levy a tax to make any payment pursuant to this contract. However, the City will adjust water rates charged its users at a level sufficient to meet the City's obligations. The City's contract obligation to purchase water from the Rural Water District extends for a term of 40 years from the date of the initial delivery of any water to the City. The contract does not contain a termination clause. In the event of any occurrence rendering the Water District incapable of performing under this contract, any successor of the Water District, whether the result of legal process, assignment, or otherwise, shall succeed to the rights of the Water District.

During 2011, the City purchased 7,548,000 gallons of water from the Rural Water District for \$17,024; which includes the fixed charge of \$318 per month for twelve months.

The City of Dwight  
Morris County, Kansas

NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2011

NOTE 8 - AGREEMENT WITH RURAL WATER DISTRICT NO 1 (CONT)

No provision has been made in the financial statements for the amount remaining to be paid to the Rural Water District over the life of the contract for the water to be purchased by the City.

The City's obligation will continue in effect until July 8, 2034.

NOTE 9 - TRANSFERS

The City transferred monies between funds as allowed by applicable Kansas statutes. The following schedule details transfers made in 2011.

Transferred from:	Transferred to:	Statute	Amount
General	Capital Improvement Reserve	12-1,118	19,500

NOTE 10 – WATER PROJECT

In 2010, the City started a waterline replacement project. The estimated cost of the project was \$680,315. A United States Department of Agriculture (USDA) Rural Development grant in the amount of \$124,315 was awarded and the remaining \$556,000 of funding was obtained with general obligation bonds. USDA Rural Development purchased the bonds. As of December 31, 2011, total cash disbursements and accounts payable for the project to date was \$667,257.

NOTE 11 - LONG-TERM DEBT

2010 General Obligation Bonds

In 2010, the City issued general obligation bonds in the amount of \$556,000 to make improvements to its' water infrastructure. The project was substantially completed in 2011. Annual payments began in October 2011. The bonds carry interest rates of 3.75%. USDA Rural Development purchased the bonds.

The City of Dwight  
Morris County, Kansas

NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2011

NOTE 11 - LONG TERM DEBT (CONT)

Changes in long term liabilities for the City for the year ended December 31, 2011 are as follows:

	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Amount of Issue</u>	<u>Date of Final Maturity</u>	<u>Balance Payable January 1</u>	<u>Additions</u>	<u>Reductions/ Payments</u>	<u>Net Change</u>	<u>Balance Payable December 31</u>	<u>Interest Paid</u>
General Obligation Bonds:										
Series 2010	3.75%	10/21/2010	200,000	10/1/2038	\$ 556,000	\$ 0	\$ 50,000	\$ 0	\$ 506,000	\$ 20,850
Total contractual indebtedness					<u>556,000</u>	<u>0</u>	<u>50,000</u>	<u>0</u>	<u>506,000</u>	<u>20,850</u>
Total long term debt					<u>\$ 556,000</u>	<u>\$ 0</u>	<u>\$ 50,000</u>	<u>\$ 0</u>	<u>\$ 506,000</u>	<u>\$ 20,850</u>

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

	<u>Principal</u>	<u>Interest</u>	<u>Principal &amp; Interest</u>		<u>Principal</u>	<u>Interest</u>	<u>Principal &amp; Interest</u>
2010 GO Bonds:							
2012	6,200	18,975	25,175	Forward:	74,000	178,152	252,152
2013	6,400	18,743	25,143	2022-2026	49,000	77,471	126,471
2014	6,700	18,502	25,202	2027-2031	60,100	67,485	127,585
2015	6,900	18,251	25,151	2032-2036	72,900	55,290	128,190
2016	7,200	17,993	25,193	2037-2041	88,100	40,500	128,600
2017-2021	<u>40,600</u>	<u>85,688</u>	<u>126,288</u>	2042-2046	108,500	22,519	131,019
	74,000	178,152	252,152	2047-2049	<u>53,400</u>	<u>3,206</u>	<u>56,606</u>
					<u>\$ 506,000</u>	<u>\$ 444,623</u>	<u>\$ 950,623</u>

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON  
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the City Council  
City of Dwight, Kansas

We have audited the accompanying statement of cash receipts, expenditures, and unencumbered cash and statements of cash receipts, expenditures and budgetary comparisons for the City of Dwight, Kansas, as of and for the year ended December 31, 2011 which collectively comprise the City of Dwight, Kansas' primary government financial statements and have issued our report thereon dated June 22, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

*Internal Control Over Financial Reporting*

Management of the City of Dwight, Kansas, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Dwight, Kansas' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Dwight, Kansas' internal control over financial reporting.

Accordingly, we do not express an opinion on the effectiveness of the City of Dwight, Kansas' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described below, we identified certain deficiencies in internal control over financial reporting 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiency to be a material weakness.

*Condition:* Due to the lack of personnel, proper segregation of duties does not exist.

*Criteria:* Internal controls should be in place to safeguard the assets of the city.

*Cause:* The City employs only one part-time office person.

*Effect:* City funds could be lost or misappropriated.

*Recommendation:* We recommend council involvement to minimize city exposure to loss or misuse of city assets.

*City response:* The City is small with limited resources. The governing body will remain active in monitoring city employee activity.

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 deficiency to be a significant deficiency.

*Condition:* The audit firm assisted in drafting the financial statements.

*Criteria:* When the audit firm assists in drafting the financial statements, the city must designate an individual with suitable skill, knowledge, or experience to oversee these services and make all management decisions and perform all management functions.

*Cause:* The City employs only one part-time office person with limited availability.

*Effect:* Without an appropriate individual, auditor independence could be breached.

*Recommendation:* We recommend the city evaluate their abilities regarding these services and either appoint an appropriate individual to oversee services or contract for these services.

*City response:* We have designated an individual with suitable skill, knowledge, or experience to oversee these services and have made all management decisions and performed all management functions.

#### *Compliance and Other Matters*

As part of obtaining reasonable assurance about whether the City of Dwight, Kansas' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We noted certain other matters that we reported to management of the City of Dwight, Kansas in a separate letter dated June 22, 2012.

The City of Dwight, Kansas' response to the findings identified in our audit are as described above. We did not audit the City of Dwight, Kansas' response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, City Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Aldrich & Company, LLC*

Aldrich & Company, CPA's LLC  
Council Grove, KS 66846  
June 22, 2012