

***CITY OF MORLAND***

***Financial Statements***

***December 31, 2011***

*ATC Accounting*

City of Morland, Kansas  
Financial Statements  
December 31, 2011

TABLE OF CONTENTS

	<u>Page Number</u>
Independent Auditor's Report	1
Summary of Cash Receipts, Expenditures and Unencumbered Cash	2
Summary of Expenditures – Actual and Budget (Budgeted funds only)	3
Statement of Cash Receipts and Expenditures – Actual and Budget	
General	4
Employee Benefits	5
Special Highway	6
Bond and Interest	7
Gas Principal and Interest	8
Water Utility	9
Sewer Utility	10
Gas Utility	11
Summary of Cash Receipts and Expenditures – Actual Only	
Capital Improvements	12
Water Reserve	13
Sewer Reserve	13
Gas Reserve	14
Gas Surplus	14
Notes to Financial Statements	15
Single Audit	
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	22
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB A-133	23
Schedule of Expenditures of Federal Awards	25
Schedule of Findings and Questioned Costs	26

## INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council  
City of Morland  
Morland, Kansas 67650

We have audited the accompanying financial statements of the City of Morland, Kansas, as of and for the year ended December 31, 2011, as listed in the table of contents. These financial statements are the responsibility of the City of Morland, Kansas' management. Our responsibility is to express an opinion 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, 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.

As described more fully in Note 1, the City has prepared these financial statements using accounting practices prescribed and permitted 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 matters discussed in the preceding paragraphs, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the City of Morland, Kansas, as of December 31, 2011, the changes in its financial position, or, where applicable, its cash flows for the year then ended. Further, the City 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 a part of, the basic financial statements.

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

Respectfully submitted,

Leland G. Orr  
ATC Accounting

August 7, 2012

City of Morland, Kansas  
Summary of Cash Receipts, Expenditures and Encumbered Cash  
For the Year Ended December 31, 2011

Funds	Beginning Unencumbered Cash Balance	Cash Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Outstanding Encumbrances And Accounts Payable	Ending Cash Balance
Governmental Fund Types:						
General	\$ 54,155	\$ 82,317	\$ 68,090	\$ 68,382	\$ 1,989	\$ 70,371
Special Revenue:						
Employee Benefits	4,757	-	-	4,757	-	4,757
Special Highway	8,086	3,797	559	11,324	-	11,324
Capital Improvements	16,877	564,874	566,474	15,277	-	15,277
Debt Service:						
Bond and Interest	27,548	34,121	32,179	29,490	-	29,490
Proprietary Fund Types:						
Enterprise:						
Gas Principal and Interest	10,559	15,851	24,904	1,506	-	1,506
Water Utility	14,454	39,894	40,876	13,472	605	14,077
Sewer Utility	5,183	16,606	16,890	4,899	-	4,899
Gas Utility	14,438	91,805	103,340	2,903	8,932	11,835
Water Reserve	22,176	2,400	-	24,576	-	24,576
Sewer Reserve	25,630	-	-	25,630	-	25,630
Gas Reserve	12,500	2,400	-	14,900	-	14,900
Gas Surplus	4,740	-	-	4,740	-	4,740
<b>Total Reporting Entity</b>	<b>\$ 221,103</b>	<b>\$ 862,065</b>	<b>\$ 861,728</b>	<b>\$ 221,856</b>	<b>\$ 11,526</b>	<b>\$ 233,382</b>

Cash on Hand	\$ 50
NOW Account	126,784
Money Market Account	106,548
<b>Total Reporting Entity</b>	<b>\$ 233,382</b>

The notes to the financial statements are an integral part of this statement

City of Morland, Kansas  
 Summary of Expenditures – Actual and Budget  
 For the Year Ended December 31, 2011

Description	Certified Budget	Adjustment for Qualifying Budget Credits	Total Budget for Comparison	Expenditures Chargeable To Current Year Budget	Variance Over (Under)
Governmental Fund Types:					
General	\$ 79,500	\$ -	\$ 79,500	\$ 68,090	\$ (11,410)
Special Revenue:					
Employee Benefits	4,774	-	4,774	-	(4,774)
Special Highway	9,717	-	9,717	559	(9,158)
Capital Improvements	19,677	-	19,677	566,474	*
Debt Service:					
Bond and Interest	32,185	-	32,185	32,179	(6)
Proprietary Fund Types:					
Enterprise:					
Gas Principal and Interest	24,908	-	24,908	24,904	(4)
Water Utility	42,600	-	42,600	40,876	(1,724)
Sewer Utility	17,349	-	17,349	16,890	(459)
Gas Utility	160,467	-	160,467	103,340	(57,127)

\*Exempt from budget law 79-2935

The notes to the financial statements are an integral part of this statement

City of Morland, Kansas  
General Fund  
Statement of Cash Receipts and Expenditures - Actual and Budget  
For the Year Ended December 31, 2011

	Actual	Budget	Variance Over (Under)
<b>Cash Receipts:</b>			
Taxes			
Ad Valorem Property	\$ 31,735	\$ 35,945	\$ (4,210)
Delinquent	589	-	589
Motor Vehicle	7,105	4,107	2,998
Recreational Vehicle	169	56	113
16/20M Truck	151	137	14
Intergovernmental			
State of Kansas – Sales Tax	15,732	11,600	4,132
City/County Revenue Sharing	3,359	-	3,359
Interest on Idle Funds	656	400	256
Utility Franchise Fees	5,106	4,000	1,106
Licenses, Fees and Permits	150	-	150
Reimbursements	17,565	-	17,565
Miscellaneous	-	-	-
	<hr/>		
Total Cash Receipts	82,317	\$ 56,245	\$ 26,072
	<hr/>		
<b>Expenditures:</b>			
Personal Services	15,400	\$ 22,000	\$ (6,600)
Contractual Services	23,285	20,000	3,285
Commodities	23,039	20,000	3,039
Capital Outlay	-	4,000	(4,000)
Sales Tax	966	4,000	(3,034)
Economic Development	3,000	3,000	-
Transfer to Capital Improvements Fund	2,400	6,500	(4,100)
	<hr/>		
Total Expenditures	68,090	\$ 79,500	\$ (11,410)
	<hr/>		
Cash Receipts Over (Under) Expenditures	14,227		
Unencumbered Cash, Beginning	54,155		
	<hr/>		
Unencumbered Cash, Ending	\$ 68,382		
	<hr/>		

The notes to the financial statements are an integral part of this statement

City of Morland, Kansas  
Employee Benefits Fund  
Statement of Cash Receipts and Expenditures - Actual and Budget  
For the Year Ended December 31, 2011

	Actual	Budget	Variance Over (Under)
<b>Cash Receipts:</b>			
Transfer from Gas Utility Fund	\$ -	\$ 2,400	\$ (2,400)
<b>Expenditures:</b>			
Social Security/Medicare	-	\$ 1,900	\$ (1,900)
Health Insurance	-	1,900	(1,900)
Other	-	974	(974)
<b>Total Expenditures</b>	<b>-</b>	<b>\$ 4,774</b>	<b>\$ (4,774)</b>
Cash Receipts Over (Under) Expenditures	-		
Unencumbered Cash, Beginning	<u>4,757</u>		
Unencumbered Cash, Ending	<u>\$ 4,757</u>		

The notes to the financial statements are an integral part of this statement

City of Morland, Kansas  
Special Highway Fund  
Statement of Cash Receipts and Expenditures - Actual and Budget  
For the Year Ended December 31, 2011

	Actual	Budget	Variance Over (Under)
Cash Receipts:			
Special Highway Tax	\$ 3,797	\$ 4,020	\$ (223)
	<hr/>		
Total Cash Receipts	<u>3,797</u>	<u>\$ 4,020</u>	<u>\$ (223)</u>
Expenditures:			
Personal Services	-	\$ -	\$ -
Contractual Services	559	9,717	(9,158)
Commodities	-		
	<hr/>		
Total Expenditures	<u>559</u>	<u>\$ 9,717</u>	<u>\$ (9,158)</u>
Cash Receipts Over (Under) Expenditures	3,238		
Unencumbered Cash, Beginning	<u>8,086</u>		
Unencumbered Cash, Ending	<u>\$ 11,324</u>		

The notes to the financial statements are an integral part of this statement

City of Morland, Kansas  
 Bond and Interest Fund  
 Statement of Cash Receipts and Expenditures - Actual and Budget  
 For the Year Ended December 31, 2011

	Actual	Budget	Variance Over (Under)
<b>Cash Receipts:</b>			
Taxes			
Ad Valorem Property	\$ 10,803	\$ 12,241	\$ (1,438)
Delinquent	183	-	183
Motor Vehicle	2,555	1,547	1,008
Recreational Vehicle	57	21	36
16/20M Truck	42	52	(10)
Transfer from Gas Utility Fund	20,481	-	20,481
	<hr/>		
Total Cash Receipts	34,121	\$ 13,861	\$ 20,260
	<hr/>		
<b>Expenditures:</b>			
Principal	31,091	\$ 30,000	\$ 1,091
Interest	1,088	2,175	(1,087)
Commission and Postage	-	10	(10)
Cash Basis Reserve	-	-	-
	<hr/>		
Total Expenditures	32,179	\$ 32,185	\$ (6)
	<hr/>		
Cash Receipts Over (Under) Expenditures	1,942		
Unencumbered Cash, Beginning	27,548		
	<hr/>		
Unencumbered Cash, Ending	\$ 29,490		
	<hr/>		

The notes to the financial statements are an integral part of this statement

City of Morland, Kansas  
Gas Principal and Interest  
Statement of Cash Receipts and Expenditures - Actual and Budget  
For the Year Ended December 31, 2011

	Actual	Budget	Variance Over (Under)
<b>Cash Receipts:</b>			
Transfer from Gas Utility Fund	\$ 15,851	\$ 19,075	\$ (3,224)
<b>Expenditures:</b>			
Principal	23,955	\$ 23,000	\$ 955
Interest	949	1,898	(949)
Commission and Postage	-	10	(10)
Total Expenditures	24,904	\$ 24,904	\$ (4)
Cash Receipts Over (Under) Expenditures	(9,053)		
Unencumbered Cash, Beginning	10,559		
Unencumbered Cash, Ending	\$ 1,506		

The notes to the financial statements are an integral part of this statement

City of Morland, Kansas  
Water Utility Fund  
Statement of Cash Receipts and Expenditures - Actual and Budget  
For the Year Ended December 31, 2011

	Actual	Budget	Variance Over (Under)
<b>Cash Receipts:</b>			
Water Sales	\$ 39,324	\$ 35,000	\$ 4,324
Water Deposits	570	500	70
	<hr/>		
Total Cash Receipts	39,894	\$ 35,500	\$ 4,394
	<hr/>		
<b>Expenditures:</b>			
Personal Services	21,085	\$ 22,000	\$ (915)
Contractual Services	13,522	13,500	22
Commodities	3,526	3,700	(174)
Capital Outlay	-	-	-
Meter Deposit Return	343	1,000	(657)
Transfer to Water Reserve Fund	2,400	2,400	-
	<hr/>		
Total Expenditures	40,876	\$ 42,600	\$ (1,724)
	<hr/>		
Cash Receipts Over (Under) Expenditures	(982)		
Unencumbered Cash, Beginning	14,454		
	<hr/>		
Unencumbered Cash, Ending	\$ 13,472		
	<hr/>		

The notes to the financial statements are an integral part of this statement

City of Morland, Kansas  
Sewer Utility Fund  
Statement of Cash Receipts and Expenditures - Actual and Budget  
For the Year Ended December 31, 2011

	Actual	Budget	Variance Over (Under)
Cash Receipts:			
Charges for Services	\$ 16,606	\$ 16,000	\$ 606
<hr/>			
Expenditures:			
Personal Services	11,255	\$ 9,000	\$ 2,255
Contractual Services	4,438	4,449	(11)
Commodities	1,197	1,500	(303)
Capital Outlay	-	-	-
Transfer to Sewer Reserve Fund	-	2,400	(2,400)
<hr/>			
Total Expenditures	16,890	\$ 17,349	\$ (459)
<hr/>			
Cash Receipts Over (Under) Expenditures	(284)		
Unencumbered Cash, Beginning	5,183		
<hr/>			
Unencumbered Cash, Ending	\$ 4,899		
<hr/>			

The notes to the financial statements are an integral part of this statement

City of Morland, Kansas  
Gas Utility Fund  
Statement of Cash Receipts and Expenditures - Actual and Budget  
For the Year Ended December 31, 2011

	Actual	Budget	Variance Over (Under)
<b>Cash Receipts:</b>			
Charges for Services	\$ 90,605	\$ 145,000	\$ (54,395)
Miscellaneous	1,200	-	1,200
Total Cash Receipts	91,805	\$ 145,000	\$ (53,195)
<b>Expenditures:</b>			
Personal Services	11,999	\$ 15,000	\$ (3,001)
Contractual Services	8,385	8,000	385
Commodities	5,979	6,000	(21)
Capital Outlay	-	6,000	(6,000)
Purchased Gas	38,022	90,592	(52,570)
Meter Deposit Return	223	1,000	(777)
Transfer to Bond and Interest Fund	20,481	10,000	10,481
Transfer to Gas Principal and Interest Fund	15,851	19,075	(3,224)
Transfer to Gas Reserve Fund	2,400	2,400	-
Transfer to Employee Benefits Fund	-	2,400	(2,400)
Total Expenditures	103,340	\$ 160,467	\$ (57,127)
Cash Receipts Over (Under) Expenditures	(11,535)		
Unencumbered Cash, Beginning	14,438		
Unencumbered Cash, Ending	\$ 2,903		

The notes to the financial statements are an integral part of this statement

City of Morland, Kansas  
 Capital Improvements Fund  
 Statement of Cash Receipts and Expenditures - Actual  
 For the Year Ended December 31, 2011

	Actual
Cash Receipts:	
CDBG Funds	\$ 441,474
Bond Proceeds	118,000
Graham County Economic Development	3,000
Transfer from General Fund	<u>2,400</u>
Total Receipts	<u>564,874</u>
Expenditures:	
Capital Improvements	<u>566,474</u>
Cash Receipts Over (Under) Expenditures	(1,600)
Unencumbered Cash, Beginning	<u>16,877</u>
Unencumbered Cash, Ending	<u>\$ 15,277</u>

The notes to the financial statements are an integral part of this statement

City of Morland, Kansas  
 Non-Budgeted Funds  
 Statement of Cash Receipts and Expenditures - Actual  
 For the Year Ended December 31, 2011

	Water Reserve	Sewer Reserve
Cash Receipts:		
Transfer from Water Utility Fund	\$ 2,400	\$ -
Expenditures:		
Capital Outlay	-	-
Cash Receipts Over (Under) Expenditures	2,400	-
Unencumbered Cash, Beginning	22,176	25,630
Unencumbered Cash, Ending	\$ 24,576	\$ 25,630

The notes to the financial statements are an integral part of this statement

City of Morland, Kansas  
 Non-Budgeted Funds  
 Statement of Cash Receipts and Expenditures - Actual  
 For the Year Ended December 31, 2011

	Gas Reserve	Gas Surplus
Cash Receipts:		
Transfer from Gas Line Utility	\$ 2,400	\$ -
Expenditures:		
Capital Outlay	-	-
Total Expenditures	-	-
Cash Receipts Over (Under) Expenditures	2,400	-
Unencumbered Cash, Beginning	12,500	4,740
Unencumbered Cash, Ending	\$ 14,900	\$ 4,740

The notes to the financial statements are an integral part of this statement

City of Morland, Kansas  
Notes to the Financial Statements  
December 31, 2011

1. Summary of Significant Accounting Policies

Reporting Entity

The City of Morland, Kansas operates as a third class city in accordance with the laws of the State of Kansas. The City operates under a mayor – council form of government and provides the following services: public safety (fire protection), highways and streets, water, sewer, gas, planning and zoning, public improvements, and general administrative services.

The accompanying basic financial statements comply with the provisions of Governmental Accounting Standards Board (GSAB) Statement No. 39, “determining whether certain organizations are component units,” in that the financial statements include all organizations, activities and functions for which the City is financially accountable. Financial accountability is defined as the appointment of a voting majority of a component unit’s board and either the City’s ability to impose its will over a component unit, or the possibility that the component unit will provide a financial benefit or impose a financial burden on the City. On that basis, the reporting entity of the City includes the services of the City only (i.e., there are no component units).

Fund Accounting

In governmental 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 comprise the financial activities of the City of Morland for the year 2011.

Governmental Funds:

General Fund—To account for all unrestricted financial 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 expenditure for specified purposes.

Proprietary Funds:

Enterprise Funds—To account for operations that are financed and operated in a manner similar to private business enterprises—where the stated intent is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges—or where periodic determination of revenues earned, expenses incurred and/or net income is deemed appropriate for capital maintenance, public policy, management control, accountability or other purposes.

## Reimbursed Expenditures

Reimbursed expenses are defined as repayments of amounts remitted on behalf of another party. All reimbursed expenses shown in the financial statements meet the following criteria: 1) the related disbursement was made in the current year on behalf of the payee, 2) the item paid for was directly identifiable as having been used by or provided to the payee, and 3) the amount of the reimbursed expense was directly tied to the amount of the original cash disbursement.

## 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. Encumbrances are commitments related to unperformed (executor) 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 is charged in the fund from which the transfer is made.

The municipality has adopted a resolution that is in compliance with Kansas Statutes, waiving the requirement for application of generally accepted accounting principles and allowing the municipality to revert to the statutory 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 receipts, cash disbursements, cash and unencumbered cash balances, and expenditures compared to budget. Balance sheets that would have shown non-cash assets such as receivables, inventories and prepaid expense, liabilities such as deferred revenue and matured principal and interest payable, and reservations of the fund balances 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. General fixed assets that account for the land, building, and equipment owned by the municipality are not presented in the financial statements. Also, general long-term debt such as general obligation bonds, temporary notes, and compensated absences are not presented in the financial statements.

## 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.

The statutes provide for the following sequence and timetable in adoption of the legal annual operating budgets:

- 1 Preparation of the budget for the succeeding calendar year on or before August 1<sup>st</sup>.
- 2 Publication in local newspaper of the proposed budget and notice of public hearing on the budget on or before August 5<sup>th</sup>.
- 3 Public hearing on or before August 15<sup>th</sup>, but at least ten days after publication of notice of hearing.
- 4 Adoption of final budget on or before August 25<sup>th</sup>.

The statutes allow for the governing body to increase the originally adopted budget for previously non-budgeted 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. No funds were amended for the year ended December 31, 2011.

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, modified further by the encumbrance method of accounting. Revenues are recognized when cash is received. Expenditures include disbursements, accounts payable and encumbrances. Encumbrances are commitments by the municipality for future payments and are supported by a document evidencing the commitment, such as purchase order or contract. All unencumbered appropriations lapse at year-end.

A legal operating budget is not required for the Special Revenue Fund, Capital Improvements, and the following Enterprise Funds: Water Reserve, Sewer Reserve, Gas Reserve and Gas Surplus.

Spending in funds which are not subject to the legal annual operating budget requirements are controlled by federal regulations, other statutes, or by the use of internal spending limits established by the governing body.

### 3. Property Taxes

Property taxes are levied November 1<sup>st</sup> of the calendar year. A lien is placed on the property when the taxes are levied. The taxes are due ½ on December 20<sup>th</sup> and ½ the following May 10<sup>th</sup>. Any taxes unpaid at the due dates are considered delinquent. Collection of current year property tax by the County Treasurer is not completed, apportioned nor distributed to the various subdivisions until the succeeding year: such procedure being in conformity with governing state statutes. Consequently, current year property taxes receivable are not available as a resource that can be used to finance the current year operation of the City and therefore are not susceptible to accrual.

It is not Practicable to apportion delinquent taxes held by the County Treasurer at the end of the audit period and, further, the amounts thereof are not material to the financial statements taken as a whole.

### 4. Inventories and Prepaid Expenses

Inventories and prepaid expenses, which benefit future periods, are recorded as expenditures during the year of purchase.

### 5. Deposits and Investments

At December 31, 2011, the City had no investments.

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 municipality is located and the banks provide an acceptable rate of return of the 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.

#### Concentration of Credit Risk

State statutes place no limit on the amount the City 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 City's deposits may not be 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%. The City has not designated any "peak periods" with eligible depositories. All deposits were legally secured at December 31, 2011.

At December 31, 2011, the City's carrying amount of deposits was \$233,383 and the bank balance was \$241,694. The bank balance was held by one bank resulting in a concentration of credit risk. Of the bank balance, \$241,694 was covered by federal depository insurance.

## 6. Long Term Debt

Changes in long-term liabilities for the City of Morland, Kansas for the year ended December 31, 2011 were as follows:

Issue	Interest Rates	Date of Issue	Amount of Issue	Date of Final Maturity	Balance Beginning of Year	Additions	Reductions/ Payments	Net Change	Balance End of Year	Interest Paid
General Obligation Bonds:										
Gas Project Series 2011	7.25% to 9.00%	1/1/1991	\$ 305,777	10/1/2011	\$ 30,000	\$ -	\$ 30,000	\$ -	\$ -	\$ 2,175
	4.00%	4/27/2011	118,000	4/27/2021	-	118,000			118,000	
Revenue Bonds:										
Gas System	7.75% to 8.25%	12/1/1991	150,000	10/1/2011	23,000	-	23,000		-	1,898
Total Long-Term Debt					\$ 53,000	\$ 118,000	\$ 53,000	\$ -	\$ 118,000	\$ 4,073

Current maturities of long-term debt and interest through maturity are as follows:

	2012	2013	2014	2015	2016	2017-2021	Total
Principal							
General Obligation Bonds	\$ 9,815	\$ 10,221	\$ 10,630	\$ 11,055	\$ 11,489	\$ 64,790	\$ 118,000
Interest:							
General Obligation Bonds	\$ 4,720	\$ 4,327	\$ 3,919	\$ 3,493	\$ 3,051	\$ 7,980	\$ 27,490
Total Principal and Interest	\$ 14,535	\$ 14,548	\$ 14,549	\$ 14,548	\$ 14,540	\$ 72,770	\$ 145,490

## 7. Compensated Absences

### Vacation Pay

A full-time employee may accrue vacation at the rate of 1 and ½ days per month worked. Vacation is not vested, and a terminating employee will not be paid for vacation not taken. The cost of accumulated vacation pay has not been estimated or accrued by the City as of December 31, 2011 since no liability to pay upon termination.

### Sick Leave

A full-time employee may accrue sick leave at the rate of ½ day per month with a maximum accumulation of 12 days. Upon termination or resignation, no payment for unused sick leave will be made. The cost of accumulated sick pay has not been estimated or accrued by the City as of December 31, 2011 since no liability to pay upon termination.

## 8. Other Post Employment Benefits

As provided by K.S.A. 12-5040, the City allows retirees to participate in the group health insurance plan. Each retiree would pay the full amount of the applicable premium, conceptually; the City would be subsidizing the retirees because each participant would be charged a level premium regardless of age. As of December 31, 2011 the City had no retirees participating in the group health insurance plan.

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

## 9. Interfund Transactions

Operating transfers were as follows:

From	To	Statutory Authority	Amount
Water Utility	Water Reserve	K.S.A. 12-852d	2,400
Gas Utility	Gas Principal & Interest	K.S.A. 12-852d	15,851
Gas Utility	Bond & Interest	K.S.A. 12-852d	20,481
Gas Utility	Gas Reserve	K.S.A. 12-852d	2,400
General	Capital Improvements	K.S.A. 12-1,118	2,400

10. Capital Projects

The City engaged in two capital projects during 2011. The first project was to repair streets in the downtown area and the second project was to remodel a downtown building for a community grocery store. The first project was funded with \$118,000 in bonds and \$297,699 in CDBG funds. The second project was funded with \$143,775 in CDBG funds. Capital project authorizations with approved change orders compared with expenditures from inception are as follows:

	Expenditures To Date	Project Authorization
Community Development Projects	\$ 559,474	\$ 559,474

11. 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; injuries to employees; and natural disasters for which the City purchases commercial insurance.

During the year ended December 31, 2011, the City did not reduce insurance coverage from levels in place during the prior year. No settlements have exceeded coverage levels in place during the past three fiscal years.

12. Compliance with Kansas Statutes

Payments made on the General Obligation Bonds and Revenue Bonds were not received by the Office of the State Treasurer 20 days prior to the due date of the payments which does not meet the requirements of K.S.A. 10-130. Payments were received 17 days prior to the due date for payments due October 1<sup>st</sup>. The City has taken corrective action to assure payments are received 20 days prior to the due date. No punitive action will be taken as a result of the violation.

The City is not aware of any other non-compliance with Kansas Statutes.

13. Subsequent Events

In preparing the financial statements, the City of Morland's management has performed an evaluation of activity for potential recognition or disclosure through August 7, 2012, the date the financial statements were available to be issued. Management has concluded that there are no significant subsequent events requiring disclosure.

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 Morland  
Morland, Kansas 67650

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Morland, as of and for the year ended December 31, 2011, which collectively comprise the City of Morland's basic financial statements and have issued our report thereon dated August 7, 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 and the guidance in the Kansas Municipal Audit Guide.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Morland's 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 Morland's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Morland's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting. 2011-1. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Morland's 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of City of Morland, in a separate letter dated August 7, 2012.

City of Morland's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit City of Morland's 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.

*ATC Accounting*

ATC Accounting

August 7, 2012

REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the City Council  
City of Morland  
Morland, Kansas 67650

### Compliance

We have audited the compliance of City of Morland, with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2011. City of Morland's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of City of Morland's management. Our responsibility is to express an opinion on City of Morland's compliance based on our audit.

We conducted our audit of compliance 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Morland's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of City of Morland's compliance with those requirements.

In our opinion, City of Morland, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2011.

### Internal Control Over Compliance

The management of the City of Morland, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered City of Morland's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Morland's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or

material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

City of Morland's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit City of Morland's 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.

*ATC Accounting*

ATC Accounting

August 7, 2012

City of Morland  
Morland, Kansas

Schedule 1

Schedule of Expenditures of Federal Awards  
For the Year Ended December 31, 2011

Federal Grantor/Pass-Through Grantor/ Program Title	Federal CFDA Number	Federal Expenditures
U.S. Department of Commerce:		
Pass-through Program from Kansas Department of Commerce:		
Small Cities Community Development Block Grant	10.766	\$ 297,699
Small Cities Community Development Block Grant	14.255	<u>143,775</u>
Total Expenditures of Federal Awards		<u>\$ 441,474</u>

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Morland and is presented on a statutory basis of accounting to demonstrate compliance with the cash basis laws of the State of Kansas. Expenditures include disbursements, accounts payable, and encumbrances.

City of Morland  
Morland, Kansas 67650

Schedule of Findings and Questioned Costs  
Year ended December 31, 2011

I. Summary of Audit Results

1. The auditor's report expresses an unqualified opinion on the financial statements of the City of Morland.
2. Two significant deficiencies disclosed during the audit of the financial statements are reported in the 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. These significant deficiencies are not reported as material weaknesses.
3. No instances of noncompliance material to the financial statements of the City of Morland, which would be required to be reported in accordance with Government Auditing Standards, were disclosed during the audit.
4. Two significant deficiencies in internal control over major federal award programs disclosed during the audit are reported in the Report On Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in accordance With OMB Circular A-133. These conditions are not reported as material weaknesses.
5. The auditor's report on compliance for the major feral award programs for the City of Morland expresses and unqualified opinion.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this schedule.
7. The program tested as major programs included:

CDFA No. 10.7669 – Small Cities Community Development Block Grant
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. City of Morland was determined to be a high-risk auditee.

II. Findings – Financial Statement Audit

2011-1 Segregation of duties

Condition: The limited staff size does not provide for adequate segregating of duties.

Criteria: Segregation of duties should be maintained to strengthen internal control over accounting and compliance functions.

Effect: Lack of segregation of duties increases the risk of errors and noncompliance occurring and not being detected in a timely manner.

Recommendations: Duties of key financial and compliance personnel should be evaluated to determine if duties could be segregated.

Management's Response: We concur with the recommendation. However, the size of the entity does not make it practical to have sufficient number of employees to achieve the optimum level of internal control.

#### 2011-2 Financial Statement Preparation

Condition: Management does not have the qualifications and training necessary to prepare the financial statements which would include the related footnote disclosures.

Criteria: Management must have controls over the preparation of the financial statements including footnote disclosures which would prevent or detect an omission/misstatement in the financial statements.

Effect: The control deficiency allows for omission/misstatements in the financial statements including footnotes that may not be prevented, detected, or corrected.

Recommendations: Management would need to attend training classes and annual continuing education classes to gain an understanding on proper and complete preparation of the financial statements and footnote disclosures and to be aware of all of the current accounting standards by purchasing annual accounting subscriptions.

Management's Response: We concur with the recommendation. However, the cost of annual subscription services and the continuing education/training classes do not make it practical to obtain the competency and expertise required to correct the deficiency.

### III. Federal Award Findings and Questioned Costs

1. Internal control findings: Community Development Block Grant/Small Cities Program CFDA No. 10.766 and 14.255 passed through Kansas Department of Commerce for the year ended December 31, 2011.

#### 2011-1 Segregation of Duties

Condition: The limited staff size does not provide for adequate segregation of duties.

Criteria: Segregation of duties should be maintained to strengthen internal control over accounting and compliance functions.

Effect: Lack of segregation of duties increases the risk of errors and noncompliance occurring and not being detected in a timely manner.

Recommendations: Duties of key financial and compliance personnel should be evaluated to determine if duties could be segregated.

Management's Response: We concur with the recommendation. However, the size of the entity does not make it practical to have sufficient number of employees to achieve the optimum level of internal control.

#### 2011-2 Financial Statement Preparation

Condition: Management does not have the qualifications and training necessary to prepare the financial statements which would include the related footnote disclosures.

Criteria: Management must have controls over the preparation of the financial statements including footnote disclosures which would prevent or detect an omission/misstatement in the financial statements.

Effect: The control deficiency allows for omission/misstatements in the financial statements including footnotes that may not be prevented, detected, or corrected.

Recommendations: Management would need to attend training classes and annual continuing education classes to gain an understanding on proper and complete preparation of the financial statements and footnote disclosures and to be aware of all of the current accounting standards by purchasing annual accounting subscriptions.

Management's Response: We concur with the recommendation. However, the cost of annual subscription services and the continuing education/training classes do not make it practical to obtain the competency and expertise required to correct the deficiency.

2. Compliance Findings: None found.

3. Questioned Costs: None found.

IV. Summary Schedule of Prior Audit Findings – Not Applicable.