

City Council Action Item

Council Meeting Date: September 26, 2019

Department: Administration

Agenda Item: Consider Approval of Resolution No. 09-26-19A Waiving the City's Compliance with Generally Accepted Accounting Principles for Financial Reporting and Causing Such Reports to be Prepared in Compliance with the Cash Basis and Budget Laws of the State of Kansas

Background/Description of Item:

Each year the City of Edgerton requests that the financial statements and financial reports of the City of Edgerton for the year ending December 31st be prepared in compliance with the cash basis and budget laws of the State of Kansas, and requests waiver of the requirements of K.S.A. 75-1120a(a).

K.S.A. 75-1120a(a) is the uniform system of fiscal procedure, accounting and reporting for municipalities. It requires the use of Generally Accepted Accounting Principles (GAAP). The Governing Body can, by resolution, each year make a finding that the financial statements and financial reports prepared in conformity with the requirements of GAAP are of no significant value to the Governing Body or members of the general public of the municipality. The Governing Body can then request a waiver from the Director of Accounts and Reports to prepare the City's financial statement on the basis of the cash receipts and disbursements as adjusted to show compliance with the cash basis and budget laws of this State.

Another requirement to receive the waiver is that the City of Edgerton may not have any bond ordinances or other ordinances or resolutions which require financial statements or reports to be prepared in conformity with K.S.A. 75-1120a(a). The City of Edgerton currently does not have any such ordinances or resolutions.

Related Ordinance(s) or Statue(s): K.S.A. 75-1120a

Funding Source: n/a

Budget Allocated: n/a



x *Karen E. Kindle*

Finance Director Approval: Karen Kindle, Finance Director

Recommendation: Approve Resolution 09-26-19A waiving the City's compliance with Generally Accepted Accounting Principles for financial reporting and causing such reports to be prepared in compliance with the cash basis and budget laws of the State of Kansas.

Enclosed: Draft Resolution 09-26-19A

Prepared by: Karen Kindle * Finance Director

RESOLUTION NO. 09-26-19A

A RESOLUTION WAIVING THE CITY'S COMPLIANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES FOR FINANCIAL REPORTING AND CAUSING SUCH REPORTS TO BE PREPARED IN COMPLIANCE WITH THE CASH BASIS AND BUDGET LAWS OF THE STATE OF KANSAS

WHEREAS, the City of Edgerton, Kansas, prepares its financial statements and financial reports for the year ending December 31, 2019 to be prepared in conformity with the cash basis and budget laws of this state; and

WHEREAS, K.S.A. 75-1120a (a) requires the financial statements be prepared in conformity with Generally Accepted Accounting Principles; and

WHEREAS, K.S.A. 75-1120a (a) the governing body, by resolution, annually shall make a finding that financial statements and financial reports prepared in conformity with the requirements of subsection (a) are not relevant to the requirements of the cash-basis and budget laws of this state and are of no significant value to the governing body or members of the general public of the municipality; and

WHEREAS, there are no revenue bond ordinances or other ordinances or resolutions of the municipality which require financial statements and financial reports to be prepared in conformity with K. S. A. 75-1120a (a) for the year ending December 31, 2019.

NOW, THEREFORE BE IT RESOLVED, by the Governing Body of the City of Edgerton, Kansas, in regular meeting, duly assembled, that the Director of Accounts and Reports waive the requirements of K. S. A. 75-1120a (a) as they apply to the City of Edgerton, Kansas for the year ending December 31, 2019.

BE IT FURTHER RESOLVED that the Governing Body shall cause the financial statements and financial reports of the City of Edgerton to be prepared on the basis of cash receipts and disbursements, as adjusted, to show compliance with the cash basis and budget laws of this State.

ADOPTED BY THE CITY COUNCIL AND APPROVED BY THE MAYOR OF THE CITY OF EDGERTON, KANSAS ON THE 26TH DAY OF SEPTEMBER, 2019.

ATTEST:

CITY OF EDGERTON, KANSAS

Rachel A. James, City Clerk

By: _____
Donald Roberts, Mayor

APPROVED AS TO FORM:

Lee W. Hendricks, City Attorney

City Council Action Item

Council Meeting Date: September 26, 2019

Department: Administration

Agenda Item: Consider an Agreement with Varney & Associates, CPAs, LLC, to Prepare the City's Financial Audit for Fiscal Year 2019

Background/Description of Item:

In 2015, the City of Edgerton conducted an RFP for audit services and selected Varney & Associates, CPAs, LLC, to perform the annual audit of the City's financial statements. The RFP solicited audit services for three fiscal years: 2015, 2016 and 2017. In May 2018, Council approved a three-year agreement with Varney & Associates to audit the financial statements for fiscal years 2018, 2019 and 2020 for a flat fee per year of \$8,400. Attached is the engagement letter for the 2019 audit. Staff included the audit fee in the 2020 Budget.

The City Attorney has reviewed and approved the engagement letter.

Related Ordinance(s) or Statue(s): K.S.A. 44-1030

Funding Source: General Fund, Water Fund, Sewer Fund

Budget Allocated: \$8,400 divided between the General Fund, Water Fund and Sewer Fund.

Finance Director Approval:  x
Karen Kindle, Finance Director

Recommendation: Approve the engagement letter with Varney & Associates, CPAs, LLC, to prepare the City's Financial Audit for Fiscal Year 2019.

Enclosed: 2019 Engagement Letter with Varney & Associates, CPAs, LLC

Prepared by: Karen Kindle * Finance Director





September 17, 2019

City of Edgerton, Kansas
PO Box 255
Edgerton, KS 66021

The following represents our understanding of the services we will provide the City of Edgerton, Kansas.

You have requested that we audit the statement of regulatory basis receipts, expenditures and unencumbered cash balances of the City of Edgerton, Kansas (the City), as of December 31, 2019 and the year then ended, and the related notes to the financial statement, which collectively comprise the City's basic financial statement. We are pleased to confirm our acceptance and our understanding of this audit engagement by means of this letter. Our audit will be conducted with the objective of our expressing an opinion on the basic financial statement.

Regulatory-Required Supplementary Information

Regulatory-required supplementary information other than RSI will accompany the City's basic financial statement. We will subject the following regulatory-required supplementary information to the auditing procedures applied in our audit of the basic financial statement and perform certain additional procedures, including comparing and reconciling the regulatory-required supplementary information to the underlying accounting and other records used to prepare the basic financial statement or to the basic financial statement itself, and additional procedures in accordance with U.S. GAAS and the *Kansas Municipal Audit and Accounting Guide* (KMAAG). We intend to provide an opinion on the following regulatory-required supplementary information in relation to the basic financial statement as a whole:

- Schedule of expenditures – actual and budget (regulatory basis)
- Schedule of individual fund receipts and expenditures – actual and budget (regulatory basis)

Auditor Responsibilities

We will conduct our audit in accordance with U.S. GAAS and KMAAG. Those standards and KMAAG require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statement is free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the basic financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the basic financial statement, whether due to fraud or error, misappropriation of assets, or violations of laws, governmental regulations, grant agreements, or contractual agreements.

An audit also includes evaluating the appropriateness of accounting policies used, and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the basic financial statement. If appropriate, our procedures will therefore include tests of documentary evidence that support the transactions recorded in the accounts, including direct confirmation of cash, investments, and certain other assets and liabilities by correspondence with

Auditor Responsibilities (Continued)

creditors and financial institutions. As part of our audit process, we will request written representations from your attorneys, and they may bill you for responding. At the conclusion of our audit, we will also request certain written representations from you about the basic financial statements and related matters.

Because of the inherent limitations of an audit, together with the inherent limitations of internal control, an unavoidable risk that some material misstatements (whether caused by errors, fraudulent financial reporting, misappropriation of assets, or violations of laws or governmental regulations) may not be detected exists, even though the audit is properly planned and performed in accordance with U.S. GAAS and KMAAG.

In making our risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the basic financial statement in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. However, we will communicate to you in writing concerning any significant deficiencies or material weaknesses in internal control relevant to the audit of the basic financial statement that we have identified during the audit. Our responsibility as auditors is limited to the period covered by our audit and does not extend to any other periods.

We cannot provide assurance that an unmodified opinion will be expressed. Circumstances may arise in which it is necessary for us to modify our opinion or add emphasis-of-matter or other-matter paragraphs. If our opinion on the basic financial statement is other than unmodified, we will discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed opinions, we may decline to express opinions or to issue a report as a result of this engagement.

Compliance with Laws and Regulations

As previously discussed, as part of obtaining reasonable assurance about whether the basic financial statements are free of material misstatement, we will perform tests of the City's compliance with the provisions of applicable laws, regulations, contracts, and agreements. However, the objective of our audit will not be to provide an opinion on overall compliance, and we will not express such an opinion.

Management Responsibilities

Our audit will be conducted on the basis that management and, when appropriate, those charged with governance acknowledge and understand that they have responsibility:

- a. For the preparation and fair presentation of the basic financial statement in accordance with KMAAG;
- b. For the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a basic financial statement that is free from material misstatement, whether due to error, fraudulent financial reporting, misappropriation of assets, or violations of laws, governmental regulations, grant agreements, or contractual agreements; and
- c. To provide us with:
 - i. Access to all information of which management is aware that is relevant to the preparation and fair presentation of the basic financial statements such as records, documentation, and other matters;
 - ii. Additional information that we may request from management for the purpose of the audit; and

Management Responsibilities (Continued)

- iii. Unrestricted access to persons within the entity from whom we determine it necessary to obtain audit evidence.
- d. For including the auditor's report in any document containing the basic financial statement that indicates that such basic financial statement has been audited by the entity's auditor;
- e. For identifying and ensuring that the entity complies with the laws and regulations applicable to its activities;
- f. For adjusting the basic financial statement to correct material misstatements and confirming to us in the management representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the current year period(s) under audit are immaterial, both individually and in the aggregate, to the basic financial statement as a whole; and
- g. For acceptance of nonattest services, including identifying the proper party to oversee nonattest work;
- h. For maintaining adequate records, selecting and applying accounting principles, and safeguarding assets;
- i. For informing us of any known or suspected fraud affecting the entity involving management, employees with significant role in internal control and others where fraud could have a material effect on the financials; and
- j. For the accuracy and completeness of all information provided.

With regard to the regulatory-required supplementary information referred to above, you acknowledge and understand your responsibility: (a) for the preparation of the supplementary information in accordance with the applicable criteria; (b) to provide us with the appropriate written representations regarding supplementary information; (c) to include our report on the supplementary information in any document that contains the supplementary information and that indicates that we have reported on such supplementary information; and (d) to present the supplementary information with the audited basic financial statement, or if the supplementary information will not be presented with the audited basic financial statement, to make the audited basic financial statement readily available to the intended users of the supplementary information no later than the date of issuance by you of the supplementary information and our report thereon.

As part of our audit process, we will request from management and, when appropriate, those charged with governance, written confirmation concerning representations made to us in connection with the audit.

Reporting

We will issue a written report upon completion of our audit of the City's basic financial statement. Our report will be addressed to the governing body of the City. We cannot provide assurance that an unmodified opinion will be expressed. Circumstances may arise in which it is necessary for us to modify our opinion, add an emphasis-of-matter or other-matter paragraph(s), or withdraw from the engagement.

Other

We understand that your employees will prepare all confirmations we request and will locate any documents or support for any other transactions we select for testing.

If you intend to publish or otherwise reproduce the basic financial statement and make reference to our firm, you agree to provide us with printers' proofs or masters for our review and approval before printing.

Other (Continued)

You also agree to provide us with a copy of the final reproduced material for our approval before it is distributed.

Provisions of Engagement Administration, Timing and Fees

During the course of the engagement, we may communicate with you or your personnel via fax or e-mail, and you should be aware that communication in those mediums contains a risk of misdirected or intercepted communications.

April G. Swartz, CPA, is the engagement partner for the audit services specified in this letter. Her responsibilities include supervising Varney & Associates, CPAs, LLC's services performed as part of this engagement and signing or authorizing another qualified firm representative to sign the audit report.

Our fees are based on the amount of time required at various levels of responsibility, not to exceed \$8,400 for the year ended December 31, 2019. We will notify you immediately of any circumstances we encounter that could significantly affect this initial fee estimate. Whenever possible, we will attempt to use the City's personnel to assist in the preparation of schedules and analyses of accounts. This effort could substantially reduce our time requirements and facilitate the timely conclusion of the audit. Further, we will be available during the year to consult with you on financial management and accounting matters of a routine nature.

During the course of the audit we may observe opportunities for economy in, or improved controls over, your operations. We will bring such matters to the attention of the appropriate level of management, either orally or in writing.

You agree to inform us of facts that may affect the basic financial statements of which you may become aware during the period from the date of the auditor's report to the date the financial statement is issued.

We agree to retain our audit documentation or work papers for a period of at least five years from the date of our report.

At the conclusion of our audit engagement, we will communicate to the governing body the following significant findings from the audit:

- Our view about the qualitative aspects of the entity's significant accounting practices;
- Significant difficulties, if any, encountered during the audit;
- Uncorrected misstatements, other than those we believe are trivial, if any;
- Disagreements with management, if any;
- Other findings or issues, if any, arising from the audit that are, in our professional judgment, significant and relevant to those charged with governance regarding their oversight of the financial reporting process;
- Material, corrected misstatements that were brought to the attention of management as a result of our audit procedures;
- Representations we requested from management;
- Management's consultations with other accountants, if any; and
- Significant issues, if any, arising from the audit that were discussed, or the subject of correspondence, with management.

September 17, 2019
City of Edgerton, Kansas
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Provision of Engagement Administration, Timing and Fees (Continued)

The audit documentation for this engagement is the property of Varney & Associates, CPAs, LLC and constitutes confidential information. However, we may be requested to make certain audit documentation available to peer reviewers. If requested, access to such audit documentation will be provided under the supervision of Varney & Associates, CPAs, LLC's personnel.

Please sign and return the attached copy of this letter to indicate your acknowledgment of, and agreement with, the arrangements for our audit of the basic financial statements including our respective responsibilities.

We appreciate the opportunity to be your financial statement auditors and look forward to working with you and your staff.

Respectfully,

Varney & Associates, CPAs, LLC

Varney & Associates, CPAs, LLC

RESPONSE:

This letter correctly sets forth our understanding.

City of Edgerton, Kansas

Acknowledged and agreed on behalf of the City of Edgerton, Kansas by:

Title: _____

Date: _____