

CITY OF PARKVILLE, MISSOURI

**REQUIRED COMMUNICATIONS
AND MANAGEMENT LETTER**

For the Year Ended December 31, 2015

City of Parkville, Missouri

Required Communications and Compliance Report For the Year Ended December 31, 2015

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COCHRAN HEAD VICK & CO., P.C.

Certified Public Accountants

June 15, 2016

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To the Honorable Mayor and
Board of Aldermen
City of Parkville, Missouri

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Parkville, Missouri (the City) for the year ended December 31, 2015. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and Government Auditing Standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you that is incorporated as an exhibit to the professional auditing services agreement dated November 2, 2015. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements. The City implemented Government Accounting Standards Board (GASB) Statement No. 68 *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27 and GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date* in 2015. In addition, as described in Note 11, management determined that certain adjustments to beginning net position/fund balances were necessary. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. Significant accounting estimates used by the City's management include determining the allowance for doubtful accounts, the estimated historical cost of infrastructure and the related estimated useful lives used in recording depreciation and accumulated depreciation for capital assets, and the estimated obligation relating to pension benefits. We evaluated the key factors and assumptions used in developing the above estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was the disclosure of certain special assessments in Note 7 to the financial statements and adjustments to beginning net position/fund balances disclosed in Note 11 to the financial statements.

The financial statement disclosures are neutral, consistent and clear.

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Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The following material misstatements detected as a result of our audit procedures were corrected by management. The adjustments include both current year adjustments and prior period adjustments:

- An adjustment was required to reduce leases payable for principle payments of \$149,350.
- Adjustments to record trust account activity and debt service payments related to the SRF bonds of \$520,906.
- Adjustments to record special assessment receivables related to general obligation debt of \$8,292,395 and additional accrued liabilities of \$4,854.
- An adjustment to record the expiration of prepaid insurance of \$84,969.
- Adjustments to record additional accounts payable of \$17,609.
- Adjustments to correct capital assets of \$640,450 for the proprietary fund.
- Adjustments to correct capital assets of \$1,950,932 for governmental activities.
- Adjustment to properly recognize sales tax revenues of \$103,023.
- Adjustment to eliminate land held for resale of \$8,472,776.
- Adjustment to record allowance for uncollectable sewer receivable \$40,000.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. There was a disagreement regarding the recording of land held for redevelopment. We are pleased to report that the disagreement was satisfactorily resolved.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated June 15, 2016.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to City's management's discussion and analysis, budgetary comparison information, schedule of changes in net pension liability and related ratios, schedule of employer contributions and comparison of needed-to-actual maintenance/preservation of infrastructure capital assets, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the combining and individual fund statements and schedules which accompany the financial statements but are not RSI. With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Parkville, Missouri as of and for the year ended December 31, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 deficiencies in the City's internal control described under Financial Reporting to be material weaknesses.

As part of our annual audit, we try to identify opportunities for improving the management of financial resources and for improving the internal controls over financial reporting. We are submitting, for your consideration, our observations and recommendations with regard to these matters.

Management's responses to our comments are included with this report. We did not audit the City's responses and, accordingly, we express no opinion on them.

CURRENT YEAR COMMENTS

Financial Reporting – Material Weakness

Management is responsible for establishing, maintaining and monitoring internal controls over financial reporting, and for the fair presentation of the financial statements and related notes in conformity with U.S. generally accepted accounting principles. Under our professional standards, we have to assess the City's controls over preparing the financial statements including assessing the skills and competencies necessary to prevent, detect, and correct a material misstatement.

Our audit procedures identified adjustments that were required to properly report certain transactions of the City in accordance with generally accepted accounting principles. These adjustments were not initially identified by the City's internal controls over financial reporting.

We recommend that management review year-end closing procedures to ensure that transactions are properly recorded in accordance with generally accepted accounting principles. In addition, due to the complexities of financial reporting, we recommend that management explore various alternatives for improving the controls over financial reporting including the use of governmental accounting standards, reference guides and continuing education and training courses.

Management's Response

The audit of the city's 2013 financial statements made a similar recommendation that, "the City would find it beneficial if personnel had some knowledge of future accounting changes and their impact on Parkville's financial statements." Staff and the Board of Aldermen responded to the recommendation and, since that time, has increased the budget and time available for professional development for finance staff. Finance staff attended multiple seminars covering topics such as Long-Term Financial Planning and Fiduciary Facts, Fallacies-How the SEC's Municipal Advisor Rule is Fairing and Why it Matters and Pension Challenges Ahead-GASB Update. Additionally, the City's Finance/Human Resources Director will be attending the Government Finance Officers Association of Missouri's Accounting Academy in May 2016. This intensive four-day workshop combines lecture, discussion and exercise for an overview of governmental accounting, auditing and financial reporting.

With regard to audit adjustments, in the past staff routinely made the adjustments following consultation with the auditor during the audit review process. This was intentional since often there was discussion about the proper application of accounting principles or auditing standards. For example, during the fiscal year 2014 audit, staff challenged the appropriateness of reporting approximately \$8.5 million of land held for resale. This was related to property in the Brush Creek Drainage and Brink Meyer Road Neighborhood Improvement Districts (NIDs). Staff was assured by the previous auditor that this was the best way to account for the asset, even though the City did not own the underlying land. In the future, staff will make the appropriate adjustments during the year-end closings prior to review by the auditor. Staff will use all available reference guides to provide a checklist of tasks to ensure accurate and timely financial reporting. Staff understands that the City is ultimately accountable for the accuracy of the financial statements and will endeavor to increase the in-house knowledge of governmental accounting standards to improve this reporting process in the future.

Capital Assets

During our audit we noted that the City could not provide a detailed listing of governmental infrastructure capital assets. City staff subsequently provided a detail listing of governmental infrastructure after substantial research. We recommend that the City maintain and update the listing as activities occur.

Management Response

Prior to this year, the City did have an inventory of assets but did not associate a value with the assets listed in the inventory. That work is complete and will be updated annually as part of the year-end closing process and as new assets are added to the City's inventory.

Budgeting

For the year ended December 31, 2015, actual expenditures exceeded budgeted appropriations in the following funds:

<u>Fund</u>	<u>Expenditures in Excess of Budget Appropriations</u>
Economic Development	\$ 2,777
Nature Sanctuary	10,450
Parks Donations	13,351
Debt Service Fund (Certificates of Participation)	4,692,581
Reserve Fund	178,124

We recommend that management review its processes and procedures for monitoring and amending the budget.

Management's Response

Management is not aware that the City has ever previously adopted a budget amendment. It has not been done in recent history, since there is no statutory requirement to do so. In each instance of expenditures exceeding budgeted appropriations, adequate funds were available for the purchase, and the purchase was authorized by the appropriate authority in accordance with the City's adopted purchasing policy. Based on the recommendation of the auditor, staff will prepare and present budget amendments as needed in the future. The expense in the Economic Development Fund was a result of the City's participation with the Parkville Economic Development Council in the 2015 Platte County Community Development Day. The expense in the Parkville Nature Sanctuary Fund occurred after funds were expended in 2015 for tree trimming in Sullivan Nature Sanctuary. The City received a Tree Resource Improvement and Maintenance (TRIM) grant that fully funded the tree trimming expense, but the funds were not received until 2016. The expense in the Parks Donation Fund resulted from timing of costs associated with the architectural design of the English Landing Park restroom project that were anticipated to occur in 2016. The Debt Service Fund expense reflects payments of principal and interest made to the escrow agent as part of the refinancing of the 2006 series of Certificates of Participation bonds to more favorable interest rates. This refinancing benefitted the City with lower annual debt payments and a reduction in total debt of \$1,246,278. The Reserve Fund expense was the amount needed to cover the debt service payments due from the Brink Meyer NID Fund. As no assessments were collected for this fund in 2015, reserve funds were used to cover the payments. The City intends on reimbursing the Reserve Fund to the extent that there are available resources should the recovery of delinquent assessments occur.

Sewer Allowance for Doubtful Accounts

During the audit we noted that the City's sewer accounts receivable consisted of several outstanding balances that were deemed to be uncollectible. We recommend that management periodically analyze and review the receivable accounts to identify accounts that are uncollectible. We also suggest that the City review their collection efforts and monitoring of slow paying or past due accounts to improve overall collections.

Management's Response

In 2013-14, following the transition of sewer billing from the water company back to the City, the City did extensive work to create policies and procedures for collecting delinquent sewer payments. The new process included provisions for property liens and water shutoffs for delinquent customers. Within six months, the City collected approximately \$40,000 of delinquent payments. This process worked well until a staff transition in mid-2015. The delinquency process was abandoned for approximately six months, but it has since been reinstated through additional staff training and support. Staff previously identified a batch of account balances deemed to be uncollectible, but at that time staff was researching a possible relationship with a collection company to pursue overdue balances. That work was also abandoned following the staff transition. Staff is working now to revise the listing of uncollectible accounts to make a recommendation to the Board of Aldermen for writing off bad debt. In addition, staff is now better documenting the various tasks for sewer billing and delinquency collections to ensure continuity in the event of future staff changes.

Municipal Court

The Municipal Court collects fines and court costs and deposits those funds into a bank account. The monies collected are to be distributed to the State of Missouri, the City of Parkville or other agencies in accordance with State Statute and City Ordinances. It was noted during the audit that the bank account was not reconciled on a timely basis and carried an account balance of \$12,971 as of December 31, 2015. The Court could not provide a detail of the amounts owed to the entities described above for the amount remaining in the fund. We recommend that the City reconcile the remaining amount in the fund to ensure that fines and court costs collected are appropriately distributed in accordance with state and municipal regulations.

Management's Response

Court and finance staff continue to research the account balance to determine the source and the appropriate distribution of these funds. Court staff currently reconciles bank accounts manually each month and each reconciliation is reviewed by the Finance/Human Resources Director. Future reconciliations will be conducted by City finance staff

Administrative and Support Services

The General Fund provides administrative and support services for the benefit of the Sewer Fund. The administrative and support services fee is based on management's estimate of the administrative and support service costs attributable to the Sewer Fund. We recommend that management implement additional procedures to better document and support the administrative and support services fees paid to the General Fund.

Management's Response

Management agrees with the recommendation and, in fact, previously identified the need during the 2016 budget process. Management engaged the city's financial advisor Springsted, Inc. to perform a Wastewater Administration Charge Allocation Study to review and recommend a wastewater administrative charge allocation for General Fund activities performed for the Sewer Service Fund. The work will be completed well in advance of the 2017 budget process.

Future Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) has recently issued the following statements which may impact the City's financial reporting requirements in the future:

- GASB Statement 72 – *Fair Value Measurement and Application*, effective for the fiscal year beginning on January 1, 2016.
- GASB Statement 73 – *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, effective for the fiscal year beginning on January 1, 2016.
- GASB Statement 74 – *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, effective for the fiscal year beginning on January 1, 2017.
- GASB Statement 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective for the fiscal year beginning on January 1, 2018.
- GASB Statement 76 – *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, effective for the fiscal year beginning on January 1, 2016.
- GASB Statement 77 – *Tax Abatement Disclosures*, effective for the fiscal year beginning on January 1, 2016.
- GASB Statement 78 – *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, effective for the fiscal year beginning on January 1, 2016.
- GASB Statement 79 – *Certain External Investment Pools and Pool Participants*, effective for the fiscal year beginning on January 1, 2016.
- GASB Statement 80 – *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14*, effective for the fiscal year beginning on January 1, 2017.
- GASB Statement 81 – *Irrevocable Split-Interest Agreements*, effective for the fiscal year beginning on January 1, 2017.
- GASB Statement 82 – *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*, effective for the fiscal year beginning on January 1, 2017.

We recommend management review these standards to determine the impact they may have on the City's financial reporting.

Management's Response

City staff will review all recent and upcoming GASB statements and ensure that any required changes are incorporated in future financial reporting.

CONCLUSION

We hope the above comments are beneficial. We would welcome the opportunity to provide additional information or assistance regarding internal controls or enhancement of operational efficiency or to assist in the implementation of suggestions or recommendations made during our audit.

This report is intended solely for the information and use of the Mayor and the Board of Aldermen and the management of the City, and is not intended to be and should not be used by anyone other than these specified parties.

Cochran Hand Vick & Co. P.C.

COMPLIANCE REPORT



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Certified Public Accountants

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**Independent Auditor’s 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 Honorable Mayor and Board of Aldermen
City of Parkville, Missouri

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Raytown, Missouri (the City), as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements and have issued our report thereon dated June 15, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City’s internal control. Accordingly, we do not express an opinion on the effectiveness of the City’s internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 deficiencies described in the accompanying schedule of findings and responses as item 2015-01 to be material weaknesses.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from 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.

The City's Response to the Findings

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Kansas City, Missouri
June 15, 2016

Cochran Hard Vick & Co. P.C.

City of Parkville, Missouri
Schedule of Findings and Responses
For the Year December 31, 2015

2015-01 Financial Reporting

Condition

Our audit procedures identified adjustments that were required to properly report certain transactions of the City in accordance with generally accepted accounting principles. These adjustments were not initially identified by the City's internal controls over financial reporting.

Criteria

Internal controls should be in place to ensure year-end balances and external financial reporting conforms to generally accepted accounting principles.

Cause

Year-end procedures were not sufficient to identify the adjustments noted above in a timely manner.

Effect

Potential exists for material misstatements to the financial statements.

Recommendation

We recommend that management review year-end closing procedures to ensure that transactions are properly recorded in accordance with generally accepted accounting principles. Additionally, due to the complexities of financial reporting, we recommend that management continue exploring various alternatives for improving the controls over financial reporting including the use of governmental accounting standards, reference guides and continuing education and training courses.

Management's Response/Corrective Action

The audit of the city's 2013 financial statements made a similar recommendation that, "the City would find it beneficial if personnel had some knowledge of future accounting changes and their impact on Parkville's financial statements." Staff and the Board of Aldermen responded to the recommendation and, since that time, has increased the budget and time available for professional development for finance staff. Finance staff attended multiple seminars covering topics such as Long-Term Financial Planning and Fiduciary Facts, Fallacies-How the SEC's Municipal Advisor Rule is Fairing and Why it Matters and Pension Challenges Ahead-GASB Update. Additionally, the City's Finance/Human Resources Director will be attending the Government Finance Officers Association of Missouri's Accounting Academy in May 2016. This intensive four-day workshop combines lecture, discussion and exercise for an overview of governmental accounting, auditing and financial reporting.

With regard to audit adjustments, in the past staff routinely made the adjustments following consultation with the auditor during the audit review process. This was intentional since often there was discussion about the proper application of accounting principles or auditing standards. For example, during the fiscal year 2014 audit, staff challenged the appropriateness of reporting approximately \$8.5 million of land held for resale. This was related to property in the Brush Creek Drainage and Brink Meyer Road Neighborhood Improvement Districts (NIDs). Staff was assured by the previous auditor that this was the best way to account for the asset, even though the City did not own the underlying land. In the future, staff will make the appropriate adjustments during the year-end closings prior to review by the auditor. Staff will use all available reference guides to provide a checklist of tasks to ensure accurate and timely financial reporting. Staff understands that the City is ultimately accountable for the accuracy of the financial statements and will endeavor to increase the in-house knowledge of governmental accounting standards to improve this reporting process in the future.