

Agenda

Basehor City Council Work Session

December 5, 2011 7:00 p.m.
Basehor City Hall, 2620 North 155th Street



1. Discuss 2012 Solid Waste Budget Amendment & Establish Public Hearing Date
2. Discuss Fiscal Year 2011 Independent External Audit Services
3. Discuss Leavenworth County Sewer District #3 Annexation Process
4. Executive Session (if needed)



The City of Basehor

Date: November 28, 2011
To: Basehor City Council
Lloyd Martley, Interim City Administrator
From: Corey Swisher, City Clerk
Re: 2011 Solid Waste Fund Budget Amendment

Background:

Municipalities are authorized by K.S.A 79-2929a to amend their budget to spend funds not in the original budget. The additional expenditures are to be made from existing revenue and cannot require additional tax levies.

K.S.A. 79-2929a requires the City hold a public hearing on a budget amendment at least ten days after publication of the notice of the hearing. To comply with these statutory requirements, the public hearing has been preliminarily scheduled for Council's regular meeting on December 19, 2011. It is required that the Notice of Budget hearing page of the attached State of Kansas amended budget document be published in the City's newspaper of record (*Basehor Sentinel*) on Thursday December 8, 2011 (a minimum of ten days notice is required). At the December 19, 2011 meeting Council will be asked to vote on the amended budget after the public hearing.

The City's Solid Waste Fund will exceed the original \$208,865 budget due to the 2011 Budget being developed in the summer of 2010 and the cost to the City for solid waste disposal in 2011 was unknown at that time. Subsequently expenses will end the year higher than anticipated. The proposed amended budget is \$280,000. Revenues are adequate to cover expenses. The proposed budget amendment is conservative and allows for any unexpected end of year expenses. The amendment only provides budget authority.

Process:

1. Establish Public Hearing Date
2. Publish Notice
3. Conduct Public Hearing
4. Adopt Amended Budget
5. File Amended Budget with County Clerk

Staff Request:

With Council consent staff will publish notice of a public budget hearing to be held at 7:00 p.m. on December 19, 2011.

DRAFT

**Notice of Budget Hearing for Amending the
2011 Budget**

The governing body of

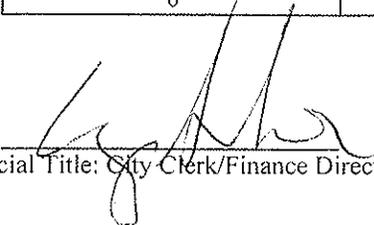
City of Basehor

will meet on the day of 12-19-11 at 7:00 p.m. at Basehor City Hall, 2620 North 155th St., Basehor, KS for the purpose of hearing and answering objections of taxpayers relating to the proposed amended use of funds.

Detailed budget information is available at Basehor City Hall, 2620 North 155th St., Basehor, KS and will be available at this hearing.

Summary of Amendments

Fund	2011 Adopted Budget			2011 Proposed Amended Expenditures
	Actual Tax Rate	Amount of Tax that was Levied	Expenditures	
Solid Waste Fund			208,865	280,000
0			0	0
0			0	0
0			0	0
0			0	0
0			0	0



Official Title: City Clerk/Finance Director

Page No.

79-2929a

Chapter 79.--TAXATION

Article 29.--MISCELLANEOUS PROVISIONS

79-2929a. Amended budget; publication; electronic filing; notice; public hearing; clerical errors. (a) The governing body of any taxing subdivision or municipality which is subject to the budget law provisions of K.S.A. 79-2925 through 79-2936, and amendments thereto, which proposes to amend its adopted current budget during the year in which such budget is in effect, shall be subject to the same publication, notice and public hearing requirements as required by K.S.A. 79-2929, and amendments thereto, for the adoption of the original budget. In addition, such published budget shall show any proposed changes in the amount of expenditures, by fund. Any proposed increase in expenditures shall be balanced by previously unbudgeted increases in revenue other than ad valorem property taxes. A copy of the adopted amended budget shall be filed with the county clerk and with the director of accounts and reports. Beginning in 2009, all such budget information shall be filed electronically with the county clerk and with the director of accounts and reports.

(b) Whenever a clerical error in the calculation of the assessed valuation of any taxing subdivision or municipality which is subject to the provisions of K.S.A. 79-2925 through 79-2936, and amendments thereto, is discovered after the governing body has adopted the budget and prior to October 1, the governing body may amend such budget. Any budget amended pursuant to this subsection shall be subject to the same publication, notice and public hearing requirements as required by K.S.A. 79-2929, and amendments thereto, for the adoption of the original budget. A copy of such amended budget shall be filed with the county clerk and the director of the division of accounts and reports. Beginning in 2009, all such budget information shall be filed electronically with the county clerk and with the director of accounts and reports.

History: L. 1981, ch. 368, § 1; L. 1989, ch. 218, § 10; L. 1992, ch. 280, § 53; L. 2004, ch. 59, § 1; L. 2008, ch. 163, § 2; July 1.



The City of Basehor

Date: November 28, 2011

To: Basehor City Council
Lloyd Martley, Interim City Administrator

From: Corey Swisher, City Clerk/Finance Director

Re: 2011 Fiscal Year Independent External Audit Services

Background:

K.S.A. 75-1122 requires an all-funds independent external audit if a municipality has annual gross receipts that exceed \$275,000 or general obligation bonds outstanding in excess of \$275,000. The City of Basehor meets both criteria. In December of 2010 the Basehor City Council directed staff to secure independent external audit services for a two year period to begin with fiscal year 2010 with Lowenthal, Webb & Oderman P.A. The 2011 fiscal year audit pricing options are as follows:

GAAP (Generally Accepted Accounting Principles) Compliant - \$17,900
Cash/Statutory Basis - \$9,085

In 2011 the City paid \$16,460 for the annual external independent audit which was in conformity with GAAP. The City has budgeted \$20,000 for accounting and auditing services in 2012 when the 2011 fiscal year audit expense would be incurred. This amount reflects the cost of continuing a GAAP compliant audit.

The City currently anticipates the auditors being on-site late in December and the first week of February.

Terms:

GAAP - A combination of authoritative standards (set by policy boards) and simply the commonly accepted ways of recording and reporting accounting information. GAAP are used to establish a minimum level of consistency in the financial statements used when analyzing municipal solvency. GAAP cover such things as revenue recognition and balance sheet item classification.

Cash/Statutory Basis - The essence of the Kansas cash basis law is that no indebtedness should be created against a fund unless there is cash available in that fund available to pay the debt at once. Revenue that is to be received later is not considered. The fact that the actual payment of the obligation will be deferred is also not considered.

Current Situatiuon:

The City continues to have the ability to prepare the audit according the cash basis and budget laws of the State of Kansas to obtain reasonable assurance that financial statements are free of material misstatement. K.S.A. 75-1120a(a) require municipalities to use GAAP in the preparation of their financial statements and reports. Except for community colleges, the governing body of any municipality may waive its statutory GAAP requirement. If the municipality waives the GAAP requirement, K.S.A. 75-1120a(C)(1) requires that the municipality present financial statements and reports prepared on the basis of cash receipts and disbursements as adjusted to show compliance with the cash basis and budget laws of Kansas.

To waive the GAAP requirement, the governing body must pass a resolution. The resolution must:

1. Be adopted each year. This is a matter to be decided each fiscal year.
2. Clearly identify the fiscal year to be waived.
3. Contain wording substantially similar to that specified in K.S.A. 75-1120a(c)(1)

The City has waived GAAP requirements in the past. Utilizing the GAAP waiver is significantly less expensive and requires less staff time.

The City's financial advisor (Piper Jaffray) reports that rating agencies have responded that using either the cash basis or GAAP method of accounting will not have an impact on bond ratings. In other words, the method of accounting does not impact a city's ability to repay its debt.

Staff Recommendation:

Discuss 2011 Fiscal Year Independent External Audit Services.

Attachments:

Lowenthal, Webb & Odermann, P.A. Understanding of Services Memorandum
Lowenthal, Webb & Odermann, P.A. Merger Memorandum
Moody's Rating Memorandum
K.S.A 75-1120a

LOWENTHAL, WEBB & ODERMANN, P.A.

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Audrey M. Odermann, CPA

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September 27, 2011

Mayor and City Council
City of Basehor
2650 N. 155th Street
Basehor, KS 66007

We are pleased to confirm our understanding of the services we are to provide the City of Basehor, Kansas, (the City) for the year ended December 31, 2011. We will audit the financial statements of the governmental activities, the business-type activities, each major fund, budgetary comparison schedules and the aggregate remaining fund information, which collectively comprise the basic financial statements of the City as of and for the year ended December 31, 2011.

Accounting standards generally accepted in the United States of America provide for certain required supplementary information (RSI), such as management discussion and analysis (MD&A), to supplement the City's basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. As part of our engagement, we will apply certain limited procedures to the City's RSI in accordance with auditing standards generally accepted in the United States of America. These limited procedures will consist 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 will not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The following RSI is required by generally accepted accounting principles and will be subjected to certain limited procedures, but will not be audited: OPEB information.

We have also been engaged to report on supplementary information other than RSI, such as combining and individual fund financial statements, that also accompanies the City's basic financial statements. We will subject the following supplementary information to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America and will provide an opinion on it in relation to the financial statements as a whole: combining statements and individual fund statements.

Audit Objective

The objective of our audit is the expression of opinions as to whether your basic financial statements are fairly presented, in all material respects, in conformity with generally accepted accounting principles and to report on the fairness of the supplementary information referred to in the second paragraph when considered in relation to the financial statements as a whole. Our audit will be conducted in accordance with auditing standards generally accepted in the United States of America and will include tests of the accounting records and other procedures we consider necessary to enable us to express such opinions. If our opinions on the financial statements are other than unqualified, 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.

Management Responsibilities

Management is responsible for the basic financial statements and all accompanying information as well as all representations contained therein. You have requested that we prepare the financial statements that are the subject matter of this audit and the capital assets depreciation schedule for the year ended December 31, 2011, hereinafter referred to as nonattest services. You are responsible for those financial statements and for the selection of useful lives, depreciation methods and capitalization thresholds used in this capital assets depreciation schedule. You are responsible for making management decisions and performing all management functions; for designating an individual with suitable skill, knowledge, or experience to oversee our assistance with the preparation of your financial statements and related notes and any other nonattest services we provide; and for evaluating the adequacy and results of those services and accepting responsibility for them.

Management is responsible for establishing and maintaining effective internal controls, including monitoring ongoing activities; for the selection and application of accounting principles; and for the fair presentation in the financial statements of the respective financial position of the governmental activities, the business-type activities, each major fund, budgetary comparison schedules and the aggregate remaining fund information of the City's and the respective changes in financial position and where applicable, cash flows, in conformity with U.S. generally accepted accounting principles.

Management is responsible for making all financial records and related information available to us and for the accuracy and completeness of that information. Management is responsible for adjusting the financial statements to correct material misstatements and for confirming to us in the representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

You are responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud and illegal acts affecting the government involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud and illegal acts could have a material effect on the financial statements. Your responsibilities include informing us of your knowledge of any allegations of fraud or suspected fraud affecting the government received in communications from former employees, regulators, or others. In addition, you are responsible for identifying and ensuring that the entity complies with applicable laws and regulations. You are responsible for the preparation of the supplementary information in conformity with U.S. generally accepted accounting principles. You agree to include our report on the supplementary information in any document that contains and indicates that we have reported on the supplementary information. You also agree to present the supplementary information with the audited financial statements.

With regards to the electronic dissemination of audited financial statements, including financial statements published electronically on your website (if any), you understand that electronic sites are a means to distribute information and, therefore, we are not required to read the information contained in these sites or to consider the consistency of other information in the electronic site with the original document.

Audit Procedures-General

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. We will plan and perform the audit to obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws and governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the entity.

Because an audit is designed to provide reasonable, but not absolute, assurance and because we will not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us. In addition, an audit is not designed to detect immaterial misstatements, or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements. However, we will inform the appropriate level of management of any material errors and any fraudulent financial reporting or misappropriation of assets that come to our attention. We will also inform the appropriate level of management of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential. Our responsibility as auditors is limited to the period covered by our audit and does not extend to any later periods for which we are not engaged as auditors.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, and may include tests of the physical existence of inventories, and direct confirmation of receivables and certain other assets and liabilities by correspondence with selected individuals, funding sources, creditors, and financial institutions. We will request written representations from your attorneys as part of the engagement, and they may bill you for responding to this inquiry. At the conclusion of our audit, we will also require certain written representations from you about the financial statements and related matters.

Audit Procedures-Internal Control

Our audit will include obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. An audit is not designed to provide assurance on internal control or to identify deficiencies in internal control. However, during the audit, we will communicate to management and those charged with governance internal control related matters that are required to be communicated under AICPA professional standards.

Audit Procedures-Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of the City's compliance with applicable laws and regulations and the provisions of 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.

Audit Administration, Fees and Other

When delivered to the City, the audit reports and financial statements produced in connection with this engagement letter are public records and may be used (a) to fulfill the requirements of continuing disclosure under SEC Rule 15c2-12, (b) as inserts or incorporated by reference in offering documents issued by the City, and (c) for any lawful purpose of the City, all without subsequent consent from us. Any official statements in connection with debt issuances which include the above mentioned audit reports and financial statements shall contain the following: "Our independent auditor has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. The independent auditor also has not performed any procedures relating to this official statement."

In the interest of facilitating our services to your organization, we may communicate by facsimile transmission or send electronic mail over the Internet. Such communications may include information that is confidential to your organization. Our firm employs measures in the use of facsimile machines and computer technology designed to maintain data security. While we will use our best efforts to keep such communications secure in accordance with our obligations under applicable laws and professional standards, you recognize and accept that we have no control over the unauthorized interception of these communications once they have been sent and consent to our use of these electronic devices during this engagement.

We may prepare a general ledger trial balance for use during the audit. Our preparation of the trial balance will be limited to formatting information in the general ledger into a working trial balance. Also, as part of the audit we will prepare a draft of your financial statements and related notes. You will be required to review and approve those financial statements prior to their issuance and have a responsibility to be in a position in fact and appearance to make an informed judgment on those financial statements. Further, you are required to designate a qualified management-level individual to be responsible and accountable for overseeing our services.

Our audit engagement ends on delivery of our audit report. Any follow-up services that might be required will be a separate, new engagement. The terms and conditions of that new engagement will be governed by a new, specific engagement letter for that service.

The workpapers for this engagement are our property and constitute confidential information. However, we may be requested to make certain workpapers available to others pursuant to authority given by law, regulation or other legal process. If requested, access to such workpapers will be provided under the supervision of firm personnel. Furthermore, upon request, we may provide photocopies of selected workpapers to governmental agencies who may intend or decide to distribute the photocopies or information contained therein to others, including other governmental agencies. You agree to reimburse us for our personnel and other costs associated with our compliance with such requests. Our policy is to retain workpapers for five years after the engagement. During the term of this engagement, we agree to comply with the provisions of K.S.A. 44-1030.

You agree that the term "those charged with governance", as used in Statement on Auditing Standards No. 114 for defining our communication responsibilities under that standard, consists of the mayor, city council, and the city administrator.

It is understood that the services provided by our firm necessarily rely, to some extent, on information provided by your organization, including management representations, as well as information and documents. Accordingly, your organization indemnifies our firm and its owners and employees, and holds them harmless from all claims, liabilities, losses or costs in connection with services provided by our firm that are affected in any way by erroneous, misleading, or incomplete information furnished by your organization. This indemnification will survive any terminations under this letter.

Audrey M. Odermann, CPA is the engagement partner and is responsible for supervising the engagement and signing the report or authorizing another individual to sign it. We agree that our gross fee, including all expenses, for the above services shall not exceed \$17,900, except as noted above. Our invoices for these fees will be rendered each month as work progresses and are payable on presentation. In accordance with our firm policies, work may be suspended if your account becomes overdue and may not be resumed until your account is paid in full. If we elect to terminate our services for nonpayment, our engagement will be deemed to have been completed upon written notification of termination, even if we have not completed our report. You will be obligated to compensate us for all time expended and to reimburse us for all out-of-pocket costs through the date of termination. The above fee is based on anticipated cooperation from your personnel and the assumption that unexpected circumstances will not be encountered during the audit, including delays resulting from the untimely delivery of and incomplete preparation of schedules and questionnaires we have requested from your staff. If significant additional time is necessary, we will discuss it with you and arrive at a new fee estimate before we incur the additional costs.

We appreciate the opportunity to be of service to the City of Basehor, Kansas and believe this letter accurately summarized the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy and return it to us.

Very truly yours,

LOWENTHAL, WEBB & ODERMANN, P.A.
Certified Public Accountants

By Audrey M. Odermann

RESPONSE:

This letter correctly sets forth the understanding of the City of Basehor, Kansas.

By: _____

Title: _____

Date: _____

LOWENTHAL, WEBB & ODERMANN, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

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Members of American Institute
and Kansas Society of
Certified Public Accountants

November 28, 2011

Mr. Corey Swisher
City of Basehor
PO Box 406
Basehor, KS 66007

Dear Corey:

We are pleased to announce the merger of Lowenthal, Webb & Odermann, P.A. and Mize Houser & Company P.A. effective January 1, 2012. The two firms will operate as Mize Houser & Company P.A.

Mize Houser & Company P.A. was founded in 1956 in Topeka and currently has offices in Topeka, Lawrence and Overland Park, Kansas. They provide regional clients with accounting, audit, tax and information technology services as well as a complete range of services to quick service restaurant owner/operators nationwide.

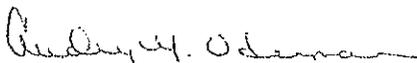
The expanded firm will include 190 associates, including David Lowenthal, CPA and Patricia Webb, CPA. Shareholders in the firm will be Audrey Odermann, CPA; Jim Eagan, CPA; Ken Hite, CPA; Duane Bond, CPA; Keith Olson, CPA; Gary Heyka, CPA; James Hilbert, CPA; Linda Hauschild, CFP; Tim Goodger, CPA; Bret Curtis, CPA, JD, LL.M.; Alan Groesbeck, CPA, JD; Brad Owen, CPA; Marsha Oliver, CPA; Carol Casale, CPA/ABV, CVA; Kevin Peiton, CISSP; and Bryan Phillips, CPA/ABV, CVA.

We are very enthusiastic about joining forces with the associates at Mize Houser & Company P.A. We have known and respected them for years and share many of the same business philosophies. We believe this commonality will benefit all our clients and associates by providing expanded services and growth opportunities.

Ken Hite, a shareholder in the Lawrence office of Mize Houser & Company, has stated, "We are excited for our future together and the expanded opportunities this will present our clients and associates. We share a culture of being client focused and believe this will be apparent to our clients and the entire community. Our services and expertise are excellent compliments to one another in continuing our common tradition of providing the highest level of service."

Please let us know if you have any questions. We look forward to continuing our relationship with you and look forward to providing you more information regarding the merger in the coming months.

Cordially,


Audrey M. Odermann, CPA

Contact	Phone
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GASB 34: What Does It Mean for the Rating Process?

Summary

Municipal debt issuers who are grappling with implementation of GASB 34 – one of the most sweeping changes to be required by the Governmental Accounting Standards Board – have frequently asked Moody's three questions:

1. What will happen to my rating at the time we first implement GASB 34?
2. What will happen to my rating if we do not implement GASB 34?
3. How will the new financial statements be incorporated into the rating process?

While this publication will answer those questions in depth, the short answer to them all is that GASB 34 will not change Moody's approach to credit analysis. It will change the financial statement's format, adding new and clearer information, and as a result it will raise new questions in our analysis. But the factors we consider when analyzing credit – the fundamentals of our analysis – will not change. As a result, we do not anticipate rating changes as a direct result from GASB 34.

Background: What Is GASB 34?

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34 ("*Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments*"), which mandated sweeping changes in the presentation and contents of government financial statements. In addition to its broad changes, Statement 34 has a far-reaching impact – it applies to all state and local governments (including school districts), public colleges and universities, public hospitals and healthcare organizations, public museums and cultural institutions, libraries, public utilities, and public employee retirement systems.

Statement 34 also requires presentation of more than one measurement focus. Government-wide financial statements will be prepared using the economic resources measurement focus and the accrual basis of accounting. At the same time, the separate major fund financial statements shall retain their existing measurement focus and basis of accounting. Governmental funds should maintain the current financial resource measurement focus and use modified accrual accounting. Proprietary and fiduciary funds should use the economic resources measurement focus and accrual accounting. GASB officials state that the two accounting approaches – together with requiring both government-wide financial statements and fund financial statements – result in a complete picture. "The relative strengths of the government-wide statement information are its *comprehensiveness* and *comparability*. The benefits of the fund statement information are its ability to inform questions of *budgetary* and *legal compliance*, to allow tracking of *dedicated resources*, and to provide *useful details* behind the government-wide statement," writes Dean Michael Ward in the GASB-published handbook, "An Analyst's Guide to Government Financial Statements."



Question No. 1 – Immediate Impact On Ratings?

In short, Moody's expects little or no rating impact from implementation of GASB 34. While the new requirements will alter the information we are given, it will not change the substance of our analysis or business approach. That is not to say that GASB 34 will have no impact. In fact, GASB 34 is a watershed event in governmental accounting and it will provide Moody's analysts with clearer, more detailed information. For example, the new MD&A section will discuss current-year results and compare them to prior-year results, most likely shedding light on areas that analysts will pursue further during in-person meetings or conference calls with officials. The new statements and notes will also give credit analysts a clearer bottom-line evaluation of overall government operations and improved trend analyses.

Moody's firmly believes that high-quality disclosure allows us to do a better job in the rating process and benefits the market as a whole. For that reason, we welcome the improved transparency of information that will result from the new statements. We do not, however, expect the changes to alter our analytical approach.

When Does GASB 34 Take Effect?

- Phase One - Governments with revenues of \$100 million or more FY ending after June 15, 2002
- Phase Two - Governments with revenues between \$10-\$100M FY ending after June 15, 2003
- Phase Three - Governments with revenues below \$10M FY ending after June 15, 2004

Question No. 2 – Impact If We Do Not Make Changes?

Moody's is not the regulatory body behind GASB and, as such, we are not demanding compliance with GASB 34. It's not a make-or-break issue for us, particularly in the first years of implementation. In fact, Moody's has for years rated many municipalities that do not conform to GAAP requirements, such as New Jersey and many localities in the Midwest that use cash basis accounting. We also rate entities that have qualified opinions in their audit reports – most dealing with the reporting of fixed assets.

Interestingly, even GASB has no enforcement power to mandate compliance with Statement 34. The closest thing to enforcement is that all auditors (through the AICPA's Rules of Conduct) must report any divergence from GASB standards, and of course Statement 34 is now included in GASB's standards. GASB officials expect – and Moody's agrees – that the market will come to expect compliance with GASB 34, with interest rate pricing eventually reflecting the perceived lack of disclosure from entities that do not implement GASB 34.

Accounting presentation is but one of many factors that Moody's examines. We will continue to focus our analysis on areas within our five major credit factors: security, debt, economy/demographics, finances and management. If an issuer of fixed-income debt does not comply with GASB 34, Moody's analysts will be interested in the reasons behind that outcome. The non-compliance could be evidence of weak management – in which case it does relate to a credit factor that we will pursue further. On the other hand, it could be the result of a cost-benefit decision by the issuer – in which case we are less likely to consider the non-compliance an indication of credit-related concerns. In sum, Moody's is not demanding compliance, nor are we recommending that any issuers not comply. Our overall interest in audited documents remains transparency and an accurate representation of the issuer's financial picture.

Question No. 3 – How Will This Be Used In The Rating Process?

Moody's existing analytical approach will be aided by the additional information provided in issuers' financial statements, as prepared in accordance with GASB 34. Many of our existing analytical areas will have greater detail as a result of the new standards.

Specifically, Moody's expects the new information and/or presentation to be used in the analytical process in the following ways:

- **Management Discussion and Analysis** – The MD&A section will give us valuable standardized background information that will help round out our knowledge of the entity's historical operating performance and financial position. As in the SEC's required disclosures, the insights garnered will most likely vary considerably, but those issuers that go beyond boiler-plate language and "elevator analysis" (this went up, that went down) will be meeting the spirit of this new section.
- **The Government-Wide Statement of Net Assets** – Although this section has caused perhaps more angst among government officials than any other part of GASB 34, it will ideally give credit analysts a clearer picture of the actual level of historic and ongoing investment in infrastructure. (It should be noted that it will take longer for trend data on infrastructure assets to materialize, as governments have an additional four years after GASB 34's implementation to publish retroactive information on infrastructure assets.) Furthermore, use of the

modified approach may provide additional information on management's assessment of their infrastructure's condition. However, Moody's also realizes that questions will arise about the quality of the information, as methodologies will vary, and therefore we expect that this information will not be comparable across issuers. Our analysts will consider all of this – the new information about fixed assets, the methodology used by that particular entity and potential questions of data integrity – when weighing this information in our analysis. And as before, our particular focus will remain with the issuer's capital plan.

- **Classification of Assets and Liabilities** – Governments are encouraged, but not required, to list assets and liabilities in descending order of liquidity or to present a classified Statement of Net Assets. This will assist analysts in determining issuers' true liquidity.
- **Unrestricted (deficit) Net Assets** – In certain circumstances, governments that have recorded a positive fund balance in the individual fund balance sheet will also present a deficit balance in unrestricted net assets at the government-wide level. This condition arises when total net assets are less than restricted net assets. This unexpected result can arise from the net impact of presenting a smaller amount of non-current assets, such as fixed assets and infrastructure, than of non-current liabilities, such as debt. Moody's will continue to focus our analysis on fund balance at the individual major fund level. (Please see Moody's publication "Your General Fund Balance – One Size Does Not Fit All!" published in February 2002.) However, if a deficit net assets is recorded, we would want to obtain an understanding of how this arose. As trend analysis becomes available, changes in unrestricted net assets may generate further interest.
- **Government-Wide Statement of Activities** – Seeing which governmental programs generate sufficient revenue to "self-support" will give us more information on possible budgetary pressures, such as, for example, declining state aid for social service programs. We may also look at how the degree of actual self-sufficiency varies from management's stated intentions or policy goals. Moody's will not, however, consider whether the government ought to achieve self-support on non-enterprise system government services, as that is a political question, not a credit concern.
- **Depreciation Expense** – The Statement of Activities will include depreciation expense, with the calculation based on the estimated useful life of each asset. Moody's practice when analyzing enterprise systems is to exclude depreciation from operating expenses; we will continue to do so for all governmental statements.
- **Elimination of Interfund Activity** – We believe that the elimination of the interfund activities, which were reported "grossed up" in the prior model, will provide a clearer representation of the magnitude of actual financial activity.
- **Governmental Funds Statement of Revenues & Expenditures** – By requiring a break-out of the various types of locally-derived tax revenues and special/extraordinary items, the new statements will give greater detail to analysts.
- **Major Funds Presentation** – The actual funds that are detailed will change for most entities. The identified funds will be broken down into "Major Funds," which is defined as the main operating fund and any individual government or enterprise fund with assets, liabilities, revenues or expenses that are 10% of the total for all governmental or enterprise fund, or 5% for all governmental and enterprise funds combined. The result is that, instead of City A publishing the traditional combined General Fund, Special Revenue Fund, Capital Projects Fund and Debt Service Funds, it might publish, for example, a General Fund, Route 7 Construction Fund, Community Redevelopment Fund, and so on, with the minor funds aggregated into "Other Governmental Funds." This change will present an obstacle to analysts comparing year-to-year numbers during the first few years of GASB 34-compliant audits, and it may pose minor challenges to our tracking of debt service expenditures. But Moody's believes that this difficulty will be short-lived, as complete trend analysis will be available once a few years of GASB 34 audits are published. Also, any information that was historically available, and continues to be relevant to the rating process, can be provided as a supplement.
- **Proprietary Funds Statement of Cash Flows** – The direct method is now required, and Moody's believes that although it is more difficult to prepare, it does provide a superior level of information for analysis.
- **Budgetary Comparison Reporting** – The inclusion of originally budgeted numbers, with amended budget and actual results, will provide us with greater insight into the changes that occurred through the year and may reflect on management and perhaps the economy. In addition, significant variances may be articulated in the MD&A section.

Other Moody's Publications on GASB 34

On this general topic, Moody's has also published "Public Universities' Move to New Accounting Standards Under GASB 35 Will Not Affect Credit Quality" in September 2001 and "Moody's Rolls Out Finetuned Ratios for Public Universities to Incorporate New GASB Standards" in June 2002.

Summary

It should be noted that the issue related to materiality of funds (discussed above in "Major Funds Presentation") came to light during Moody's review of some of the financial statements of GASB 34 "early adopters." Our commitment to buy-side analysis will result in our publications of Special Comments such as this in order to keep market participants aware of these insights and our opinion relevant developments.

Overall, Moody's believes we are at the very beginning of a several-year transition period in which governmental issuers fine-tune their financial statements to be GASB 34-compliant. The market is continuing to become increasingly expectant of compliance, and credit analysts must learn how to analyze the new financial statements thoroughly. All of the parties – governments, accountants, analysts and others – will have to work through the changes together. Moody's intends to avoid surprising any issuers of debt with our approach to this monumental change. We do expect a good faith effort at disclosure, no matter the accounting presentation. We do expect the new disclosure to raise additional questions for our analysis; but we do not expect any rating changes as a direct result of GASB Statement 34.

Components of a GASB-34 Compliant Financial Report

Basic Financial Statements

Government-Wide Financial Statements

- Governmental Activities
- Business-Type Activities
- Component Units

Fund Financial Statements

- Governmental Fund
- Proprietary Fund
- Fiduciary Fund

Notes to the Financial Statements

Required Supplementary Information (RSI)

MD&A is the report's first section; all other RSI follow the financial statements and notes

- Management's Discussion and Analysis (MD&A)
- Budgetary comparison
- Pension information
- Modified approach infrastructure information
- Public entity risk pool information

To order reprints of this report (100 copies minimum), please call 1.212.553.1658.

Report Number: 76862

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75-1120a

Chapter 75.--STATE DEPARTMENTS; PUBLIC OFFICERS AND EMPLOYEES

Article 11.--MUNICIPAL ACCOUNTING BOARD

75-1120a. Uniform system of fiscal procedure, accounting and reporting for municipalities; use of generally accepted accounting principles; waivers, when. (a)

Except as otherwise provided in this section, the governing body of each municipality, as defined in K.S.A. 75-1117, and amendments thereto, shall utilize accounting procedures and fiscal procedures in the preparation of financial statements and financial reports that conform to generally accepted accounting principles as promulgated by the governmental accounting standards board and the American institute of certified public accountants and adopted by rules and regulations of the director of accounts and reports.

(b) The governing body of any municipality, which has aggregate annual gross receipts of less than \$275,000 and which does not operate a utility, shall not be required to maintain fixed asset records.

(c) (1) The director of accounts and reports shall waive the requirements of subsection (a) upon request therefor by the governing body of any municipality. The waiver shall be granted to the extent requested by the governing body. Prior to requesting the waiver provided for in this subsection, 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. No governing body of a municipality shall request the waiver or adopt the resolution authorized under this subsection if the provisions of revenue bond ordinances or resolutions or other ordinances or resolutions of the municipality require financial statements and financial reports to be prepared in conformity with the requirements of subsection (a). The governing body of any municipality which is granted a waiver under this subsection shall cause financial statements and financial reports of the municipality 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.

(2) The provisions of this subsection do not apply to community colleges.

(d) The director of accounts and reports shall waive the requirements of law relating to the preparation and maintenance of fixed asset records upon request therefor by the board of trustees of any community college. The waiver shall be granted to the extent and for the period of time requested by the board of trustees. Nothing contained in this subsection shall be construed so as to exempt any community college from compliance with the provisions of K.S.A. 71-211, and amendments thereto, which requires the use by all community colleges of a standardized and uniform chart of accounts.

History: L. 1978, ch. 334, § 5; L. 1979, ch. 279, § 1; L. 1981, ch. 327, § 1; L. 1982, ch. 348, § 1; L. 1994, ch. 274, § 7; July 1.

Memorandum

To: Lloyd Martley
CC:
From: Mitch Pleak
Date: 11.28.11
Re: Sewer District #3 Annexation - Process

October 17, 2011, Council directed staff to return on December 5 with a summarized outline of the steps involved in the potential annexation of Leavenworth County Sewer District No. 3.

The City Attorney has verified the annexation would need to be according to K.S.A 12-521

Annexation Outline

1. City must prepare a plan for extension of services and a report setting forth such findings. The report shall include:
 - A. A Sketch clearly delineating the land proposed to be annexed and the area of the city adjacent thereto to show the following information: The present and proposed boundaries of the city affected by such annexation; the present streets, water mains, sewers and other city utility lines and the proposed extension thereof; the general land use pattern in the areas to be annexed; a statement setting forth a plan in sufficient detail to provide a reasonable person with a full and complete understanding of the intentions of the city for extending to the area to be annexed each major municipal service and the estimated cost of providing such services.
 - B. The estimated cost impact of providing such services to the residents of the city and the residents of the area proposed to be annexed.
 - C. The method by which the city plans to finance the extension of such services to such area.
 - D. The timetable of the plans for extending each major municipal service.
 - E. The means by which the services currently provided by a township or special district in the area shall be maintained by the city at a level which is equal to or better than the level of services provided prior to annexation.

- F. The plan shall state those services which shall be provided immediately upon annexation and those services which may be provided upon petition of the landowners to create a benefit district.
2. The city must prepare a petition for the Leavenworth board of county commissioners including the following:
 - A. The legal description of the land sought to be annexed
 - B. A request for a public hearing on the advisability of such annexation
3. The city must present the petition to the board of county commissioners of the county in which the land sought to be annexed is located.
4. The city must file its plan for extension of services with the board of county commissioners at the time of the presentation of the petition.
5. The date fixed for the public hearing shall be not less than 60 nor more than 70 days following the date of the presentation of the petition requesting such hearing.
6. Notice of the time and place of the hearing, together with a legal description of the land sought to be annexed and the names of the owners thereof, shall be published in a newspaper of general circulation in the city not less than one week and not more than two weeks preceding the date fixed for such hearing.
7. The Sketch clearly delineating the area to be annexed shall be published with the Notice of public hearing.
8. A copy of the notice providing for the public hearing shall be mailed by certified mail to each owner of the land proposed to be annexed not more than 10 days following the date of the presentation of the petition requesting such hearing.
9. At the hearing before the county commissioners, the city shall present the city's proposal for annexation, including the plan for extension of services.
10. The board of county commissioners shall make written findings of fact on specific items listed in the statute.
11. The board of county commissioners shall render a judgment within seven days of the hearing.
12. If 2/3 of the members of the board of county commissioners finds that the annexation should be allowed, they will grant the annexation by order.
13. If the property is 40 acres or more, within 10 days of the rendering of the judgment of the board of county commissioners granting the ordinance, the city

clerk shall certify to the county election officer a legal description and a map of the area outside the corporate limits of the city proposed to be annexed and the addresses of all qualified electors as defined in KSA 12-519 (any owner of land in the area proposed to be annexed).

14. The county election officer shall conduct a mail ballot election under KSA 25-431 et seq. within 60 days of such certification.

15. If a majority of the qualified electors voting thereon approve the annexation, the city may then annex the land by ordinance.

16. Any owner of land annexed pursuant to this section aggrieved by the decision of the board of county commissioners may appeal the decision to the district court of the same county in the manner and method set forth in KSA 19-223.

