

# **CITY OF SAVONBURG, KANSAS**

Independent Auditors' Report  
and Financial Statement with  
Supplementary Information

For the Year Ended December 31, 2019

# CITY OF SAVONBURG, KANSAS

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**JARRED, GILMORE & PHILLIPS, PA**  
CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITORS' REPORT**

Honorable Mayor and City Council  
City of Savonburg, Kansas

We have audited the accompanying fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances of the City of Savonburg, Kansas, as of and for the year ended December 31, 2019 and the related notes to the financial statement.

***Management's Responsibility for the Financial Statement***

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the Kansas Municipal Audit and Accounting Guide as described in Note 1; this includes determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

***Auditors' Responsibility***

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the Kansas Municipal Audit and Accounting Guide. Those standards require we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the 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 City's internal control. Accordingly, we express no such opinion. 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 financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles***

As described in Note 1 of the financial statement, the financial statement is prepared by the City of Savonburg on the basis of the financial reporting provisions of the Kansas Municipal Audit and Accounting Guide, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

***Adverse Opinion on U.S. Generally Accepted Accounting Principles***

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles” paragraph, the financial statement referred to above does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the City of Savonburg as of December 31, 2019, or changes in financial position and cash flows thereof for the year then ended.

***Unmodified Opinion on Regulatory Basis of Accounting***

In our opinion, the financial statement referred to above presents fairly, in all material respects, the aggregate cash and unencumbered cash balance of the City of Savonburg as of December 31, 2019, and the aggregate receipts and expenditures for the year then ended in accordance with the financial reporting provisions of the Kansas Municipal Audit and Accounting Guide described in Note 1.

***Other Matters******Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances (basic financial statement) as a whole. The summary of regulatory basis expenditures-actual and budget and individual fund schedules of regulatory basis receipts and expenditures-actual and budget (Schedules 1 and 2 as listed in the table of contents) are presented for analysis and are not a required part of the basic financial statement, however are required to be presented under the provisions of the Kansas Municipal Audit and Accounting Guide. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statement. The information has been subjected to the auditing procedures applied in the audit of the basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statement or to the basic financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statement as a whole, on the basis of accounting described in Note 1.



JARRED, GILMORE & PHILLIPS, PA  
Certified Public Accountants

August 19, 2020  
Chanute, Kansas

**CITY OF SAVONBURG, KANSAS**  
 Summary Statement of Receipts, Expenditures, and Unencumbered Cash  
 Regulatory Basis  
 For the Year Ended December 31, 2019

Funds	Beginning Unencumbered Cash Balance	Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Outstanding Encumbrances and Accounts Payable	Cash Balance December 31, 2019
General Fund	\$ 14,299.37	\$ 23,158.67	\$ 27,924.99	\$ 9,533.05	\$ 1,650.02	\$ 11,183.07
Special Purpose Funds:						
Library	147.00	1,991.15	2,035.27	102.88	-	102.88
Special Highway	10,439.00	2,852.02	2,263.66	11,027.36	-	11,027.36
Business Funds:						
Electric Utility	14,349.38	69,224.86	82,491.22	1,083.02	5,671.02	6,754.04
Sewer Utility	1,810.23	7,473.02	6,873.78	2,409.47	774.63	3,184.10
Total Reporting Entity	<u>\$ 41,044.98</u>	<u>\$ 104,699.72</u>	<u>\$ 121,588.92</u>	<u>\$ 24,155.78</u>	<u>\$ 8,095.67</u>	<u>\$ 32,251.45</u>
Composition of Cash:						
Cash on Hand.....						\$ -
Checking.....						2,946.97
Investments						
BOC Certificates of Deposit.....						10,696.29
CNB Certificates of Deposit.....						<u>18,609.19</u>
Total Reporting Entity						<u>\$ 32,251.45</u>

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

## **CITY OF SAVONBURG, KANSAS**

Notes to Financial Statement  
December 31, 2019

### **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statement and schedules of the City of Savonburg, Kansas, have been prepared in order to show compliance with the cash basis and budget laws of the State of Kansas. The Governmental Accounting Standards Board is the principal standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies follow. Note 1 describes how the City's accounting policies differ from generally accepted accounting policies.

#### Financial Reporting Entity

The City of Savonburg, Kansas, is a municipal corporation governed by an elected five-member mayor/council. This financial statement presents the City of Savonburg.

*Related Municipal Entities:* A related municipal entity is determined by the following criteria. Whether the City exercises oversight responsibility on financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters, scope of the public service, and significant operational or financial relationships with the City. Related municipal entities are not required to be included in the City's audit by the Kansas Municipal Audit and Accounting Guide (KMAAG). Based upon the application of this criterion, the following is a brief review of potential related municipal entities:

The City of Savonburg - Public Library - The City of Savonburg, Kansas, Library Board operates the City's public library. Acquisition or disposition of real property by the Board must be approved by the City. Bond issuances must also be approved by the City. The City levies taxes for the Library Board and significantly influences the Library's operations. Separate internal financial statements are available at the Library.

#### Regulatory Basis Fund Types

A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The following types of funds comprise the financial activities of the City of Savonburg, Kansas, for the year of 2019:

General fund – the chief operating fund. Used to account for all resources except those required to be accounted for in another fund.

Special Purpose fund – used to account for the proceeds of specific tax levies and other specific revenue sources (other than Capital Project and tax levies for long-term debt) that are intended for specified purposes.

Business fund – funds financed in whole or in part by fees charged to users of the goods or services (i.e. enterprise and internal service fund etc.)

## **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

### Basis of Presentation – Regulatory Basis of Accounting

*Regulatory Basis of Accounting and Departure from Accounting Principles Generally Accepted in the United States of America.* The (KMAAG) regulatory basis of accounting involves the recognition of cash, cash equivalents, marketable investments, and certain accounts payable and encumbrance obligations to arrive at a net unencumbered cash and investments balance on a regulatory basis for each fund, and the reporting of changes in unencumbered cash and investments of a fund resulting from the difference in regulatory basis receipts and regulatory basis expenditures for the fiscal year. All recognized assets and liabilities are measured and reported at cost, unless they have been permanently impaired and have no future cash value or represent no future obligation against cash. The KMAAG regulatory basis does not recognize capital assets, long-term debt, accrued receivables and payables, or any other assets, liabilities or deferred inflows or outflows, other than those mentioned above.

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

### Reimbursed Expenses

The City records reimbursable expenditures in the fund that makes the disbursement and records reimbursements as a receipt to the fund that receives the reimbursement. For purposes of budgetary comparisons, the expenditures are properly offset by the reimbursements under the KMAAG regulatory basis accounting.

### Property Taxes

In accordance with governing state statutes, property taxes levied during the current year are a revenue source to be used to finance the budget of the ensuing year. Taxes are assessed on a calendar year basis and become a lien on the property on November 1 of each year. The county treasurer is the tax collection agent for all taxing entities within the County. Property owners have the option of paying one-half of the full amount of taxes levied on or before December 20 during the year levied with the balance to be paid on or before May 10 of the ensuing year. State statutes prohibit the county treasurer from distributing taxes collected in the year levied prior to January 1 of the ensuing year. Consequently, for revenue recognition purposes, taxes levied during the current year are not due and receivable until the ensuing year. At December 31 such taxes are a lien on the property.

### Budgetary Information

Kansas statutes require that an annual operating budget be legally adopted for the general fund, special purpose funds (unless specifically exempted by statute), bond and interest funds, and business funds. Although directory rather than mandatory, the statutes provide for the following timetable in the adoption of the legal annual operating budget:

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

## **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

### **Budgetary Information** (Continued)

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenue other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication the hearing may be held and the governing body may amend the budget at that time. There were no such budget amendments for this year.

The statutes permit transferring budgeted amounts between line items within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of the individual funds. Budget comparison schedules are presented for each fund showing actual receipts and expenditures compared to legally budgeted receipts and expenditures.

All legal annual operating budgets are prepared using the regulatory basis of accounting, in which, revenues are recognized when cash is received and expenditures include disbursements, accounts payable, and encumbrances, with disbursements being adjusted for prior year's accounts payable and encumbrances. Encumbrances are commitments by the municipality for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. Any unused budgeted expenditure authority lapses at year-end.

A legal operating budget is not required for capital projects funds, trust funds.

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

## **2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

### **Compliance with Kansas Statutes**

Statement 1 and Schedule 1 have been prepared in order to show compliance with the cash basis and budget laws of Kansas. As shown in Statement 1 and Schedule 1, the City was in compliance with the cash basis and budget laws of Kansas.

## **3. DEPOSITS AND INVESTMENTS**

K.S.A 9-1401 establishes the depositories which may be used by the City. The statute requires banks eligible to hold the City's funds have a main branch or branch bank in the county in which the City is located, or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The City has no other policies that would further limit interest rate risk.



### **3. DEPOSITS AND INVESTMENTS** (Continued)

K.S.A 12-1675 limits the City's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. Government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The City has no investment policy that would further limit its investment choices.

*Concentration of credit risk.* State statutes place no limit on the amount the City may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405.

*Custodial credit risk – deposits.* Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require the City's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka. All deposits were legally secured at December 31, 2019.

At year-end, the City's carrying amount of deposits was \$32,251.45 and the bank balance was \$37,682.05. The bank balance was held by two bank resulting in a concentration of credit risk. Of the bank balance, \$37,682.05 was covered by FDIC insurance.

### **4. RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employees' health and life; and natural disasters. The City manages these risks of loss through the purchase of various insurance policies.

### **5. INTERFUND TRANSFERS**

Operating transfers were as follows:

<u>From Fund:</u>	<u>To Fund:</u>	<u>Statutory Authority</u>	<u>Amount</u>
Electric Utility	General	K.S.A. 12-825d	\$ 7,500.00

### **6. SUBSEQUENT EVENTS**

The City evaluated events and transactions occurring subsequent year end, and there were no subsequent events requiring recognition in the financial statement. However, in December 2019, a novel strain of coronavirus ("COVID-19") was reported in Wuhan, China. The World Health Organization has declared COVID-19 to constitute a "Public Health Emergency of International Concern." The U.S. government has implemented enhanced screenings, quarantine requirements and travel restrictions in connection with the COVID-19 outbreak. The extent of the impact of the COVID-19 on the City's operational and financial performance will depend on future developments, including the duration and spread of the outbreak and related travel advisories and restrictions and the impact of the COVID-19. Our results of operations for full year 2020 may be materially adversely affected.

## **SUPPLEMENTARY INFORMATION**

## CITY OF SAVONBURG, KANSAS

Summary of Expenditures - Actual and Budget  
 (Budgeted Funds Only)  
 Regulatory Basis  
 For the Year Ended December 31, 2019

Funds	Certified Budget	Adjustments for Qualifying Budget Credits	Total Budget for Comparison	Expenditures Chargeable to Current Year	Variance - Over (Under)
General Fund	\$ 33,484.00	\$ -	\$ 33,484.00	\$ 27,924.99	\$ (5,559.01)
Special Purpose Funds:					
Library	857.00	1,285.44	2,142.44	2,035.27	(107.17)
Special Street and Highway	13,229.00	-	13,229.00	2,263.66	(10,965.34)
Business Funds:					
Electric Utility	135,034.00	-	135,034.00	82,491.22	(52,542.78)
Sewer Utility	9,722.00	-	9,722.00	6,873.78	(2,848.22)

**CITY OF SAVONBURG, KANSAS**  
**GENERAL FUND**

Schedule of Receipts and Expenditures - Actual and Budget  
Regulatory Basis  
For the Year Ended December 31, 2019

	Current Year		Variance - Over (Under)
	Actual	Budget	
Receipts			
Taxes and Shared Receipts			
Ad Valorem Property Tax	\$ 2,163.58	\$ 2,288.00	\$ (124.42)
Delinquent Tax	123.86	-	123.86
Motor Vehicle Tax	457.39	452.00	5.39
16/20M Vehicle Tax	-	14.00	(14.00)
Special Assessments	362.50	-	362.50
Compensating Use Tax	788.61	700.00	88.61
Sales Tax	4,245.96	3,500.00	745.96
Franchise Tax	1,140.23	950.00	190.23
Charges for Services			
Mowing and Weeds	-	600.00	(600.00)
Solid Waste Collections	4,251.00	5,500.00	(1,249.00)
Use of Money and Property			
Interest Income	306.51	-	306.51
Rental	850.00	1,000.00	(150.00)
Other Receipts			
Donations	-	200.00	(200.00)
Miscellaneous	-	1,600.00	(1,600.00)
Reimbursed Expense	969.03	1,000.00	(30.97)
Operating Transfer from Electric Utility Fund	7,500.00	10,000.00	(2,500.00)
Total Receipts	23,158.67	\$ 27,804.00	\$ (4,645.33)
Expenditures			
General Administration			
Personal Services	4,144.87	\$ 6,500.00	\$ (2,355.13)
Contractual Services	6,383.99	10,370.00	(3,986.01)
Contractual Services - Trash	5,364.64	5,500.00	(135.36)
Commodities	3,535.77	1,750.00	1,785.77
Capital Outlay	6,620.72	6,864.00	(243.28)
Library Appropriations	1,875.00	2,500.00	(625.00)
Total Expenditures	27,924.99	\$ 33,484.00	\$ (5,559.01)
Receipts Over(Under) Expenditures	(4,766.32)		
Unencumbered Cash, Beginning	14,299.37		
Unencumbered Cash, Ending	\$ 9,533.05		

**CITY OF SAVONBURG, KANSAS**  
**LIBRARY FUND**

Schedule of Receipts and Expenditures - Actual and Budget  
Regulatory Basis

For the Year Ended December 31, 2019

	Current Year		Variance - Over (Under)
	Actual	Budget	
Receipts			
Taxes and Shared Receipts			
Ad Valorem Property Tax	\$ 561.60	\$ 594.00	\$ (32.40)
Delinquent Tax	31.12	-	31.12
Motor Vehicle Tax	112.99	112.00	0.99
16/20M Vehicle Tax	-	4.00	(4.00)
Other Receipts			
Reimbursed Expense	1,285.44	-	1,285.44
Total Receipts	1,991.15	\$ 710.00	\$ 1,281.15
Expenditures			
Library			
Personal Services	544.85	\$ -	\$ 544.85
Appropriation to Library	1,490.42	857.00	633.42
Total Certified Budget		857.00	1,178.27
Adjustments for Qualifying			
Budget Credits		1,285.44	(1,285.44)
Total Expenditures	2,035.27	\$ 2,142.44	\$ (107.17)
Receipts Over(Under) Expenditures	(44.12)		
Unencumbered Cash, Beginning	147.00		
Unencumbered Cash, Ending	\$ 102.88		

**CITY OF SAVONBURG, KANSAS**  
**SPECIAL HIGHWAY FUND**

Schedule of Receipts and Expenditures - Actual and Budget  
Regulatory Basis  
For the Year Ended December 31, 2019

	Current Year		Variance - Over (Under)
	Actual	Budget	
Receipts			
Taxes and Shared Receipts			
Special Highway Tax	\$ 2,793.82	\$ 2,790.00	\$ 3.82
Other Receipts			
Reimbursed Expense	58.20	-	58.20
Total Receipts	<u>2,852.02</u>	<u>\$ 2,790.00</u>	<u>\$ 62.02</u>
Expenditures			
Highways and Streets			
Personal Services	-	\$ 500.00	\$ (500.00)
Contractual	1,169.00	650.00	519.00
Commodities	1,094.66	500.00	594.66
Capital Outlay	-	11,579.00	(11,579.00)
Total Expenditures	<u>2,263.66</u>	<u>\$ 13,229.00</u>	<u>\$ (10,965.34)</u>
Receipts Over(Under) Expenditures	588.36		
Unencumbered Cash, Beginning	<u>10,439.00</u>		
Unencumbered Cash, Ending	<u>\$ 11,027.36</u>		

**CITY OF SAVONBURG, KANSAS**  
**ELECTRIC UTILITY FUND**

Schedule of Receipts and Expenditures - Actual and Budget  
Regulatory Basis

For the Year Ended December 31, 2019

	Current Year		Variance - Over (Under)
	Actual	Budget	
Receipts			
Operating Receipts			
Water Sales	\$ 68,784.65	\$ 73,000.00	\$ (4,215.35)
Sales Taxes	-	1,300.00	(1,300.00)
Penalties	440.21	400.00	40.21
Other Fees	-	520.00	(520.00)
Total Receipts	69,224.86	\$ 75,220.00	\$ (5,995.14)
Expenditures			
Operations			
Personal Services	6,754.40	\$ 7,500.00	\$ (745.60)
Contractual Services	65,076.88	71,720.00	(6,643.12)
Commodities	3,159.94	6,300.00	(3,140.06)
Capital Outlay	-	39,514.00	(39,514.00)
Operating Transfer to General Fund	7,500.00	10,000.00	(2,500.00)
Total Expenditures	82,491.22	\$ 135,034.00	\$ (52,542.78)
Receipts Over(Under) Expenditures	(13,266.36)		
Unencumbered Cash, Beginning	14,349.38		
Unencumbered Cash, Ending	\$ 1,083.02		

**CITY OF SAVONBURG, KANSAS**  
**SEWER UTILITY FUND**

Schedule of Receipts and Expenditures - Actual and Budget  
Regulatory Basis

For the Year Ended December 31, 2019

	Current Year		Variance - Over (Under)
	Actual	Budget	
Receipts			
Operating Receipts			
User Fees	\$ 6,227.00	\$ 7,800.00	\$ (1,573.00)
Taxes and Shared Receipts			
Special Assessments	1,246.02	-	1,246.02
Total Receipts	7,473.02	\$ 7,800.00	\$ (326.98)
Expenditures			
Operations			
Personal Services	2,846.70	\$ 4,000.00	\$ (1,153.30)
Contractual Services	1,811.46	2,600.00	(788.54)
Commodities	1,496.12	3,122.00	(1,625.88)
Capital Outlay	719.50	-	719.50
Total Expenditures	6,873.78	\$ 9,722.00	\$ (2,848.22)
Receipts Over(Under) Expenditures	599.24		
Unencumbered Cash, Beginning	1,810.23		
Unencumbered Cash, Ending	\$ 2,409.47		





The Honorable Mayor and City Council  
City of Savonburg, Kansas

In planning and performing our audit of the financial statement of City of Savonburg, Kansas as of and for the year ended December 31, 2019, in accordance with auditing standards generally accepted in the United States of America, we considered City of Savonburg, Kansas' internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of City of Savonburg, Kansas' internal control. Accordingly, we do not express an opinion on the effectiveness of City of Savonburg, Kansas' 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 following deficiencies in internal control to be material weaknesses:

#### Preparation of Financial Statement

Accounting standards states the client must be able to accept responsibility and be able to identify a material misstatement when reviewing the financial statement, including footnotes and supplemental information. This would also include knowing if a required footnote disclosure was missing or not correctly stated. Presently, the City staff does not have the ability to process and prepare the required financial statement, including footnotes. The potential effects of this material weakness could be unrecognized errors on the financial statement. While we recognize that this condition is not unusual for a City your size, it is important that you be aware of this condition for financial reporting purposes. Management and the City Council should continually be aware of the financial reporting of the City and changes in reporting requirements.

#### Segregation of Duties

An internal control structure is, quite simply, the procedures and policies in effect which ensure that the City's financial activity is properly recorded, processed, summarized, and reported in the financial statements. A weakness in the control structure occurs when one person is responsible for all of the accounting activities such as performing billings, receipting cash, making deposits, reconciling the bank accounts, and having access to all books and records of the City. Due to small staff size, it is not possible for reviews of daily work to take place, potentially resulting in errors in financial records and reports.

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#### Publication of Financial Statements

K.S.A. 12-1608 requires that third class cities publish their annual financial statements within 30 days after year-end. The City of Savonburg's annual financial statements were not published. We recommend the City follow the established statutes and publish the annual report within the required time frame.

#### Bank Reconciliations

Sound internal control policies usually require that bank reconciliations be done every time a bank statement is received. It was noted during our audit that the bank was not being reconciled. We recommend that the City implement accounting procedures to have someone reconcile the bank account timely. After the bank reconciliation is complete, the bank reconciliation should be reviewed by another person. The individual that reviews the bank reconciliation should then sign the bank reconciliation as proof of review and approval. The reconciliation process should be completed as part of the monthly preparation of the treasurer's report.

#### Utility Collections

We would also encourage the City Council to monitor the balance of utility accounts receivable at each month's end in comparison with the totals billed each month. There are several citizens that are behind in payment with no consequences.

This can be accomplished by reviewing and approving the reports generated from the City's staff. We are looking for the following type of reconciliation to be done by the City:

Billings for the Month	\$ _____
Add: Beginning of the Month	
Accounts Receivable	_____
Subtract: End of the Month	
Accounts Receivable	_____
Adjustments *	_____
Write- Offs *	_____
Equals Cash Collected for Month	\$ _____

\* Needs review and approval by City Council.

Total cash collections per this reconciliation should tie with cash receipts and deposits reported to you in the utility financial statements. Ledgers of each of the above should be kept and reviewed by the City Council monthly and available for review by the auditors.

#### Treasurer's Report

K.S.A. 10-1118 requires the City to keep records that show the amount of money in each fund. Per inquiry, the City has not been preparing treasurer's reports. The City Council should not be approving bills without the proper knowledge of unencumbered cash by fund. We recommend the City start with beginning cash balances per the December 31, 2019 audit and start preparing monthly treasurer's reports to be presented to council for approval each month.

#### Accounts Payable

K.S.A. 10-1117 requires the City Clerk to maintain a record of each fund's indebtedness. This means that the City's expenses in each fund need to reflect accounts payable. The City's records only reflect cash disbursed and do not include in expenses any payables still owed. As a result, the City could inadvertently overspend cash and budget available.

### Cash Disbursement Testing

During our test of cash disbursements, it was noted an independent contractor relationship that could be deemed by the IRS as an employer-employee relationship. If a contractor is deemed by the IRS to be a City employee, then additional payroll taxes and possibly retirement plan benefits could be due from the City, as well as, penalties and interest from past amounts past due. For the independent contractor we discovered, the City is paying the workers compensation on behalf of the contractor and a bid process was not followed for the contractual service relationship. We suggest that all independent contractors be reviewed in light of IRS rules and regulations for employees.

### Payroll

During our testing of payroll, it was noted the City paid various penalties for payroll reports and payments being late. We recommend policies and procedures be put into place to ensure payments are made timely to avoid potential additional penalties or possible audit by the Internal Revenue Service.

Also noted during our testing of the 2019 payroll, the 4<sup>th</sup> quarter Federal form 941 was not completed correctly which resulted in an additional payment being made that was not necessary. We recommend the City review and amend the 4<sup>th</sup> quarter 941 to avoid future problems and penalties with the Social Security Administration.

This communication is intended solely for the information and use of management City Council, and others within City, and is not intended to be, and should not be, used by anyone other than these specified parties.



JARRED, GILMORE & PHILLIPS, PA  
Certified Public Accountants

Chanute, Kansas  
August 19, 2020