



STAFF REPORT

DATE: November 20, 2018

Consent

ITEM #13

TO: Honorable Mayor and City Councilmembers
FROM: Sue Iverson – Finance Director
AGENDA ITEM: 2018 Audit Contract
REVIEWED BY: Kristina Handt – City Administrator

BACKGROUND:

The City last went out for competitive bids for Auditing Services in 2013. Smith Schafer & Associates has been performing the audit of the financial statements for the City of Lake Elmo for 6 years. The initial contracting period was for three years and has extended through 2017. The Government Finance Officers Association (GFOA) recommends that government entities should undertake a full-scale competitive process for the selection of independent auditors at the end of the term of each audit contract.

ISSUE BEFORE THE CITY COUNTL:

Who should the Council select for auditing services?

DISCUSSION:

As directed by the City Council on October 2, 2018, an RFP was issued to obtain competitive quotes for audit services. The GFOA best practice on Audit procurement states:

1. *“Ideally, auditor independence would be enhanced by a policy requiring that the independent auditor be replaced at the end of the audit contract, as is often the case in the private sector.”*
2. *“The audit procurement process should be structured so that the principal factor in the selection of an independent auditor is the auditor’s ability to perform a quality audit. In no case should the price be allowed to serve as the sole criterion for the selection of an independent auditor.”*
3. *“Governmental entities should enter into multiyear agreements of at least five years in duration when obtaining the services of independent auditors. Such multiyear agreements can take a variety of different forms (e.g., a series of single-year contracts), consistent with applicable legal requirement. Such agreements allow for greater continuity and help to minimize the potential for disruption in connection with the independent audit. Multiyear agreements can also help to reduce audit costs by allowing auditors to recover certain “startup” costs over several years, rather than over a single year.”*

Five firms expressed interest, with four firms providing all the specifications of the bid. All firms were experienced in Governmental Audits and qualified. Of those four, two were reviewed in depth by the Finance Director; Smith Schafer & Associates, Ltd. and Redpath and Company, Ltd. Both firms quoted an annual rate significantly lower than the other 3 firms at \$28,075 (Smith Schafer & Associates, Ltd.) and \$29,450 (Redpath and Company, Ltd.). The budget for 2019 audit costs was set at \$31,946, so both bids would result in a savings in 2019. The price difference between the two

bids averages over the five years at about \$1,232 a year.

While both firms are extremely professional and competent, based on the GFOA recommended practice for audit procurement, Redpath and Company, Ltd., would be the appropriate choice for several reasons:

1. Follows best practices and rotate auditors.
2. Their bid is competitive with the current auditors bid.
3. The bid is within the current budget amount for 2019.
4. Would give a fresh set of eyes to look at the City's books and financial records.

FISCAL IMPACT:

The bid for the audit from Redpath and Company, Ltd. is a savings of \$2,496 from the 2019 budget of \$31,946 or 7.8%.

OPTIONS:

- 1) Approve entering into a contract with Redpath and Company, Ltd. to audit the financial statements for fiscal year ending December 31, 2018 with the option of auditing its financial statements for each of the four subsequent fiscal years.
- 2) Approve entering into a contract with Smith Schafer & Associates, Ltd. to audit the financial statements for fiscal year ending December 31, 2018 with the option of auditing its financial statements for each of the four subsequent fiscal years.
- 3) Do not approve entering into an audit contract.

RECOMMENDATION:

Motion to approve entering into a contract with Redpath and Company, Ltd. to audit the financial statements for fiscal year ending December 31, 2018 with the option of auditing its financial statements for each of the four subsequent fiscal years.

ATTACHMENTS:

- 1) Proposal for Audit Services – Redpath and Company, Ltd.
- 2) Proposal for Audit Services – Smith Schafer & Associates, Ltd.

Dollar Cost Proposal

- City of Lake Elmo, Minnesota
- December 31, 2018 through 2022



November 2, 2018

Submitted By:
Peggy A. Moeller, CPA
Partner
pmoeller@redpathcpas.com
651.407.5832

Andy P. Hering, CPA
Director
ahering@redpathcpas.com
651.407.5877

REDPATH
AND COMPANY

I hereby certify that I am entitled to represent Redpath and Company, Ltd. I am empowered to submit the bid, and I am authorized to sign a contract with the City of Lake Elmo.



Peggy A. Moeller, Partner
Redpath and Company, Ltd.

Schedule of Professional Fees and Expenses Total All-Inclusive Maximum Price

Year	Audit	Single Audit ⁽²⁾	Annual Financial Statement Preparation	Total
2018 ⁽³⁾	\$24,950	\$3,750	\$4,500	\$33,200
2019 ⁽¹⁾⁽³⁾	25,700	3,750	4,635	34,085
2020 ⁽¹⁾⁽³⁾	26,500	3,750	4,775	35,025
2021 ⁽¹⁾⁽³⁾	27,300	3,750	4,925	35,975
2022 ⁽¹⁾⁽³⁾	28,150	3,750	5,075	36,975
Total	\$132,600	\$18,750	\$23,910	\$175,260

(1) Assumes no significant changes in accounting and auditing standards.

(2) Quote is for one major program.

(3) Required "consent and citation of expertise" or "comfort letters" will be at quoted hourly rates for hours incurred.

Schedule of Professional Fees and Expenses For the Audit of the 2018 Financial Statements

2018	Hours	Standard Hourly Rate	Quoted Hourly Rate	Total
Director	20	\$300	\$300	\$6,000
Manager	65	215	215	14,105
Senior auditor	70	180	180	12,600
Audit staff	70	125	125	8,750
Other: Support staff	5	90	90	450
Subtotal	230			\$41,905
Out-of-pocket expenses/other/rounding				
Realization adjustment—audit				(\$16,955)
Meals and lodging				0
Transportation				0
Preparation of CAFR				4,500
Quarterly task list meetings				0
Routine phone calls				0
Total all-inclusive maximum price for 2018 audit (not including single audit)				\$29,450
Single audit (if needed) maximum price for 2018				\$3,750

Schedule of Professional Fees and Expenses
For the Audit of the 2019 - 2022 Financial Statements:

Total all-inclusive (not including single audit) maximum price for:

Year	Audit
2019 ⁽¹⁾	\$30,335
2020 ⁽¹⁾	\$31,275
2021 ⁽¹⁾	\$32,225
2022 ⁽¹⁾	\$33,225

(1) Assumes no significant changes in accounting and auditing standards.

Total Single Audit (if needed) maximum price for:

Year	Single Audit⁽²⁾
2019 ⁽²⁾	\$3,750
2020 ⁽²⁾	\$3,750
2021 ⁽²⁾	\$3,750
2022 ⁽²⁾	\$3,750

(2) Quote is for one major program.

Philanthropic Culture

Redpath and Company and its employees are committed to giving back. For over ten years our employees have had the option to donate a portion of their salaries to a company-designated charity each year. Each employee's contribution is then matched by the company. Over the years, we have donated to many organizations from small, local groups to large, nationally recognized organizations.

In 2017, Redpath and Company donated \$15,000 to Junior Achievement of the Upper Midwest. Since 2011, Redpath and Company has contributed over \$170,000 in charitable donations or sponsorships.

In addition to financial contributions, Redpath and Company also provides paid time off for employees to volunteer at a favorite charitable organization.

Supported Organizations

- 2018 - TreeHouse
- 2017 - Junior Achievement of the Upper Midwest
- 2016 - Second Mile Haiti
- 2015 - Make A Wish Foundation
- 2014 - Newtrax
- 2013 - Make A Wish Foundation
- 2012 - Minnesotan's Military Appreciation Fund
- 2011 - Angel Foundation
- 2010 - Gillette Children's Specialty Healthcare
- 2009 - Twin Cities Habitat for Humanity
- 2008 - Spare Key
- 2007 - White Bear Lake Area Emergency Food Shelf



Redpath and Company Core Values

- Caring** - Clients and colleagues must know we care—they must feel it.
- Committed** - To the firm, the firm's vision, clients, and colleagues.
- Continuously Improving** - Always striving to be better, learn more, and offer more.
- Confident** - In ourselves, our colleagues, and our firm.
- Connected** - Awareness of the world and our surroundings, developing relationships, and articulating ideas.

Proposal for:

Independent Professional Audit Services

- City of Lake Elmo, Minnesota
- December 31, 2018 through 2022



November 2, 2018

Submitted By:
Peggy A. Moeller, CPA
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Andy P. Hering, CPA
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REDPATH
AND COMPANY



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November 2, 2018

Susan Iverson
Finance Director
City of Lake Elmo
3880 Laverne Avenue North
Suite 100
Lake Elmo, MN 55042

Dear Ms. Iverson:

It is our pleasure to present this proposal for the City of Lake Elmo. We are excited about this opportunity and understand your expectations.

Redpath and Company has a process of delivering value where your client manager is held accountable to deliver on our promise by spending time with you to identify issues and solutions. Your client manager will meet with you each quarter to discuss City activity and keep you up to date on changing accounting standards. This proactive approach and immersion into your industry differentiates us from other CPA firms.

The professionals assigned to lead fieldwork on your audit will be senior level and experienced. Five members of the team proposed for the City of Lake Elmo are current or former certificate reviewers with extensive experience preparing and submitting Comprehensive Annual Financial Reports for the *Certificate of Achievement for Excellence in Financial Reporting* award program. Our goal is to deliver field results to the audit director within 10 days of fieldwork completion and then deliver the initial audit report draft to you within another 10 days. Director review will be conducted on site during final fieldwork.

We understand that the City of Lake Elmo will require flexibility in scheduling the 2018 audit, and that it may be necessary to reschedule fieldwork to accommodate City workload demands. We commit to being flexible with fieldwork dates and will work with the City to determine potential fieldwork dates during a collaborative planning process.

Our understanding of the work to be done is outlined in Section XII of this proposal. We commit to perform the work within the time period outlined in the Request for Proposal. The proposal is a firm and irrevocable offer for 60 days.

Thank you for your consideration of Redpath and Company. We look forward to working with you.

Sincerely,



Peggy A. Moeller, CPA
Partner



Andy P. Hering, CPA
Director



1. Client Manager and Proven Process

Redpath has a process of delivering value—where your client manager is held accountable to deliver on our promise by spending time with you to proactively identify issues and solutions. Your compliance requirements will be met with on-time deliverables, thorough communication, and a solid understanding of your operations and goals. We are a good fit for organizations that appreciate this kind of attention and access to their Redpath team year-round.

The Redpath and Company staff assigned to your account will meet monthly to review a “task list” customized to you. The “task list” meetings keep the entire team informed of all compliance deadlines, your expectations, and your needs. Your client manager will then meet with key members of your team approximately once per quarter. These meetings provide an opportunity to identify and discuss financial, accounting, and audit topics that can help with fiscal year planning, annual audit preparation, and improvements to your processes and procedures.

Continual interaction with you also provides an opportunity for accounting staff, administrators, and council members to discuss audit and accounting service questions—reducing the potential for unexpected issues or surprises. This high level of attention means you stay informed and up-to-date with changing regulations, accounting standards, and industry conditions that affect your operations. The quoted fees also provide access to your audit team throughout the year. If you have routine questions, assistance is only a phone call or email away—and all inquiries must be returned within 24 hours or sooner.

Your client manager is held accountable for:

- Delivering on our promise.
- Meeting with you at regular intervals.
- Making themselves—and staff—available to you throughout the year.
- Understanding your industry, operations, and goals.
- Active management, monitoring, and timely delivery of service.
- Scheduling all compliance and planning meetings.
- Providing continual guidance regarding new standards and regulations.

2. Experienced Staff

With turnover that is lower than industry averages, you can be sure that the senior staff assigned to your audit are experienced and part of our dedicated government industry practice area. They are expected to understand your organization and build relationships with your team to help ensure a smooth and efficient audit process year after year. This enables your team to focus on core job functions and priorities versus educating new audit staff every year regarding your organization’s unique processes, procedures, and goals.

Assigned staff members are also experts in their service areas, rather than generalists—unlike some firms that require their employees to have broad expertise so they can be reassigned to different practice areas as necessary.

Your engagement team will also be led by senior staff members including a manager with 5 years of experience and a director with 18 years of experience, providing your audit review.

Your CAFR preparation will also be handled as diligently as your audit. Redpath and Company has extensive experience preparing the CAFR, and over 85% of our clients take advantage of our preparation services each year.

1
**Immersion
in the
Ecosystem**

Industry Practice Groups
Association Involvement
Thought Leadership
Being Connected

2
**Finding the
Right Fit**

Client Selection
Accounts as Trusted
Advisors
Long-Term Relationship

3
**Identifying
Client Goals**

Listening
Understanding Your
Business
Helping You Succeed

4
**Delivering
Proactive
Services**

CLIENT MANAGEMENT
Monthly Task List
Moving Beyond
Compliance

5
**Evaluating the
Relationship**

Partnership That Works
Feedback Welcome
Anytime
Exceeding Your
Expectations

Client Manager
Responsible For Delivering on Our
Promise

Relationship Management
Creates a Professional and Personal
Relationship by gaining in-depth
knowledge of the client's industry

Services
Collaborates with the Client to Determine
Needs, Solutions, and Actively Manages
the Services Provided

The Client
Feels the Difference



3. 10 + 10 Goal

Your audit engagement will come with a *10 + 10 Goal*, whereby field results are delivered to the audit director within 10 days of fieldwork completion. The draft report is delivered to you within another 10 days. Within the time period of the *10 + 10 Goal*, a second partner review will be conducted. The *10 + 10 Goal* means your audit due date will be achieved as long as all information is provided as requested.

The 10 + 10 promise:

- Holds your Redpath and Company engagement team accountable for running an efficient audit.
- Sets expectations for both organizations to collaborate and deliver documents as requested.
- Ensures on-time delivery of the audit and report.

4. Certificate of Achievement for Excellence in Financial Reporting

Redpath and Company staff members have a deep understanding of what it takes to be recognized in the *Certificate of Achievement for Excellence in Financial Reporting* program: **1)** we audit 16 entities whose CAFRs receive the *Certificate of Achievement for Excellence in Financial Reporting* each year, and **2)** we have 12 staff members that are current or former reviewers in the CAFR Program. This includes five members of the proposed team for the City of Lake Elmo audit: Peggy Moeller, Andy Hering, David Jackson, Melissa Johnson, and Lyndsey Peck.

5. Audit Modernization Initiatives

Continuous Audit

Continuous audit is an audit methodology that places more reliance on internal controls and testing of inputs, rather than testing of outputs. It provides a different level of assurance on interim financial reporting. Under this method, many of the transactions which would typically be tested during final fieldwork (three months after year-end) would instead be tested closer to when they actually occurred. This will provide organizations an opportunity to address any areas of concern sooner versus looking back at transactions that may have occurred over a year prior to the audit.

We have a contractual relationship with the firm Account-ability Plus, LLC to assist with refining our audit process and approach. Account-ability Plus, LLC is run by Al Anderson, CPA, who is a former member of the AICPA's *Assurance Services Executive Committee*. We are currently working with Mr. Anderson to develop and pilot a continuous audit approach.

AICPA Audit Strategy Initiative

The AICPA has several initiatives to improve audit quality, including developing software for employee benefit plan audits and other services. Redpath and Company is a subcontractor providing beta-testing services.

Data Analytics

While the "audit of the future" is yet to be defined, it's certain to include more real-time auditing and a greater use of data analytics. Redpath and Company has been using data mining software for several years. The information gathered through the software provides more powerful insights and recommendations for organizational improvement opportunities. Trends, patterns, outliers, and correlations are more easily identified and detected for more efficient and accurate audit results.

Redpath and Company is also a member firm in the A & A Leadership Leagues. Member firms are committed to audit excellence and are currently developing data analytics for use in future audits.

Firm Overview, Size, and Structure

Redpath and Company is a full-service public accounting firm helping individuals and organizations—including local governments, not-for-profits, and privately-held businesses—make better and more informed decisions that contribute to their financial well-being. The firm ranks as the largest certified public accounting firm in St. Paul, Minnesota and one of the largest in the Twin Cities metro area.

Year founded: 1971

International Affiliation: HLB International

Headquarters: St. Paul, Minnesota

2nd Office: White Bear Lake, Minnesota

Ownership: 100% ESOP owned

Management model: EOS (“Traction”)

Total employees: 170

Total tax professionals: 68

Total audit and accounting professionals: 74

Administrative/support staff: 28

Total partners: 16

Top industries served: Government, Not-For-Profit, Manufacturing and Distribution, Construction, Real Estate and Engineering, ESOP, Technology



Specialized Services

- Audit and Assurance Services
 - Financial Statement Audit
 - Federal Single Compliance Audit
- GASB Implementation
- CAFR Preparation Assistance, Including Government-Wide Conversion
- Debt Services Studies
- Utility Rate Studies
- Cost Allocation Studies
- Sales and Use Tax Compliance
- Payroll Services
- Internal Control Studies
- Forensic Accounting Services
- Employee Benefits
- Agreed-Upon Procedures

Entities Served

- Cities / Towns
- Counties
- School Districts / Charter Schools
- HRAs / EDAs
- Fire Relief Associations
- Watersheds / Special Districts
- Tribal Government

Similar Clients (not all-inclusive)

- Blaine
- Chanhassen
- Lino Lakes
- Oakdale
- Waconia

Why We Do What We Do

We care about your success, are fun to work with, and love to bring value. We have the right systems, resources, and talent in place to exceed your expectations:

- **Proactive.** Attentive client managers—backed by a system followed by all—are held accountable for delivery on our promise.
- **Innovative.** Practical and efficient approach to delivering solutions instead of a larger firm's bureaucracy and protocol.
- **Value-Driven Services.** Focused on delivering value by solving, not selling.



Industry Involvement

We train our staff to be *thinkers*, not *robots*. Thinkers understand government finance and apply their understanding to determine the right procedures and services for clients. There are many good accountants that follow governmental accounting standards, but in today's world, governmental services should be treated as more than a commodity. Our professionals participate in local, regional, and national associations to be proactive in understanding the issues this industry faces.

- Minnesota Government Finance Officers Association
 - 2016 *Thomas J. Moran Award* (David Mol and Peggy Moeller)
- GFOA Certificate Review Program
- AICPA Governmental Audit Quality Center
- AICPA Single Audit Resource Center
- Minnesota Association of County Officers
- Minnesota Association of County Auditors, Treasurers, and Financial Officers

AICPA Governmental Audit Quality Center

The Center is a national community of CPA firms that demonstrate a commitment to governmental audit quality and raise awareness about the importance of governmental audits. The Center provides members with best practices, guidelines, and tools CPAs need to perform quality governmental audits and better serve their clients.

Members of the Center demonstrate their commitment by voluntarily agreeing to adhere to Center membership requirements, including designating an officer responsible for its governmental audit practice, establishing quality control programs, performing annual internal inspection procedures, and making the firm's peer review report publicly available.

GFOA's Certificate of Excellence Program

Six staff members currently participate in the GFOA's certificate review program. Additionally, six staff members are former reviewers. Certificate reviewers perform reviews of four to six CAFRs each year from governmental audits throughout the United States. David Mol and Peggy Moeller have also provided seminars on the certificate program. Of the December 31, 2016 CAFRs submitted with Redpath and Company assistance, 100% of them received the award.

Minnesota GFOA

Six staff members are members of MNGFOA. Our participation includes committee membership, attendance at monthly meetings and annual conferences, seminar presentations, and governmental accounting training. David Mol and Peggy Moeller have taught the Advanced Accounting class for the past several years and were recipients of the *Thomas J. Moran Award* in September 2016. David also presents a GASB update at the annual conference.

Minnesota Society of CPAs

Our participation includes staff members active in the MNCPA.

Statement of Independence

We are independent with respect to the City of Lake Elmo, the City's agencies, and the City's component units, as defined by generally accepted auditing standards and *Government Auditing Standards*.

We have no knowledge of any business, investment, or personal relationships with the City, their officials, appointed employees or department heads, and personnel of our firm that would impair our independence or would cause a conflict of interest.

Redpath and Company complies with the requirements of the AICPA's peer review program. A copy of our most recent external quality control review report, on which we received an unqualified opinion, is included in Appendix A. This review included specific government engagements.

Firm License and Partner Certificates

Our firm is licensed and in good standing with the State of Minnesota. Our annual license is in effect from January 1, 2018 to December 31, 2018. We renew the license annually. Our license number is 359. The partners of our firm hold the following certificates issued by the Minnesota State Board of Accountancy:

<u>Name</u>	<u>Certificate No.</u>
James S. Redpath	5846
David J. Mol	9129
D. Kenneth George	7601
Norman C. Longsdorf	8423
Steven J. Wahlin	8160
Mark C. Gibbs	11326
Thomas W. Hodnefield	12890
Paul W. Longsdorf	12957
Peggy A. Moeller	5515
Brian J. Sweeney	19549
Gloria J. McDonnell	18891
Joel C. Newby	18904
Sue M. Weiskopf-Larson	11565
Megan K. Johnson	19180
John R. Kammerer	23585
Jill M. Noack	22558

All key employees assigned to the audit (managers, senior managers and directors) are properly licensed to practice in Minnesota.



About Redpath and Company, Ltd.

Redpath and Company is a leading accounting firm providing proactive, innovative, and value-driven CPA services. We serve government entities, closely-held businesses, and not-for-profit organizations in the areas of audit and attest, tax, benefits and compensation administration, international consulting, mergers and acquisitions, succession and estate planning, and valuation services. Our offices are located in White Bear Lake, Minnesota and St. Paul, Minnesota (headquarters) and have 170 employees. The work on this engagement will be performed by the St. Paul office. In addition to government expertise, we have a full range of services at your disposal including:

- Sales tax
- Employee benefit plans
- Payroll
- Regulatory audit assistance
- Temporary outsourcing and troubleshooting
- Internal control
- Assistance with the implementation of new accounting standards

With over a century of accumulated experience at the senior professional level, we have a pool of knowledgeable government auditors who understand this sector’s audit process. In addition to the leadership identified below, there are approximately 12 staff level professionals dedicated to this industry. Your engagement will be consistently staffed with qualified experts.

Name	Title	Government Experience
David J. Mol, CPA	Partner	38 Years
Peggy A. Moeller, CPA	Partner	35 Years
Andrew P. Hering, CPA	Director	18 Years
Cathy A. Lydon, CPA	Director	13 Years
Jeffrey L. Wilson, CPA	Senior Manager	34 Years
Jackie M. Kotilinek, CPA	Senior Manager	10 Years

Our firm’s professional demographic is as follows:

Classification	Total Staff	Government Services Staff
Partners	16	2
Directors	11	2
Senior Managers	26	2
Managers	16	3
Professional staff	73	6
Other staff	28	2
Total	170	17

V. FIRM QUALIFICATIONS AND EXPERIENCE

Redpath and Company's quality control is subject to peer review under the AICPA's *Private Companies Practice Section*. We are pleased to continue our history of receiving unqualified opinions on our peer review reports. Our most recent peer review report is included as Appendix A. This review includes specific government engagements.

Redpath and Company has not had any federal or state reviews of its audits or disciplinary action taken or pending against the firm during the past three years with state regulatory bodies or professional organizations.

Partner, Supervisory, and Staff Qualifications and Experience

Redpath and Company has been dedicated to the government industry since our inception in 1971. We have extensive background and success in working with cities, housing authorities, relief associations, charter schools and other government entities. With more than 40 years of experience servicing governmental entities, Redpath and Company is well-positioned and eager to deliver value to the City of Lake Elmo.

Team Assignment

We believe in developing long-term relationships and strive to maintain consistency in key assigned staff assigned from year-to-year. As part of our personal brand of service, you will deal one-on-one with senior Redpath and Company staff.

Your engagement will be staffed by the following Redpath and Company senior professionals:

Peggy A. Moeller, CPA – Partner

As the firm's Government Audit Service Area leader, Peggy is available for consultation on accounting and/or auditing issues that may arise. Peggy will be the assigned Client Service Manager.

Andy P. Hering, CPA – Director

Participates in planning meeting(s) with City staff. Assists field auditors with complex technical issues, final review and signing of reports, exit and final report presentation to the City Council.

David D. Jackson, CPA – Manager

Participates in planning meeting(s) with City staff. David is responsible for coordinating and performing fieldwork, supervision of audit staff, and reviewing audit work.

Melissa F. Johnson, CPA, MBA – Manager

Melissa is responsible for coordinating and performing fieldwork on the Federal Single Audit. Melissa holds the AICPA *Advanced Single Audit Certificate*.

Lyndsey K. Peck, CPA – Senior

Lyndsey is responsible for performing fieldwork.

In addition to the above staff, we anticipate assigning one other staff auditor (to be determined once scheduling of audit confirmed) on a full-time basis.

Dedicated Client Manager

The City of Lake Elmo can expect the following from their Redpath and Company client service manager:

- Understanding of your organization.
- Active management, monitoring, and timely delivery of services provided.
- Deep knowledge of all Redpath and Company services and products to recommend solutions as ad hoc needs arise.
- Coordination of a year-end planning meeting.
- Quarterly meetings to discuss City activities and GASB standard changes.

Equal employment opportunities and the value of diversity is an essential part of our business practices and principles. This commitment to equal employment opportunities extends to the assignment of staff to engagements. Redpath and Company is 100-percent employee-owned. The employee owners in our firm have a financial interest in the Company and therefore, are heavily invested in delivering a high level of service that is aligned with our core values. Women and people of color make up sixty percent of our employee owners.

All partners and professional staff of our firm are required to attain a minimum of 40 hours per year of continuing professional education (CPE). Included in the 40 hour per year requirement, partners and staff who work in the governmental area are required to have at least 24 hours of CPE directly related to the governmental environment and governmental auditing in a two-year period, in accordance with government audit standards.

A summary of specialized training in governmental auditing and accounting for assigned personnel is as follows:

Hours of qualified “Yellow Book” CPE in GOV/
NFP auditing and accounting over the past
three years ending June 30,

Personnel	Position	2016	2017	2018	Total
Peggy A. Moeller, CPA	Partner	71	55	49	175
Andy P. Hering, CPA	Director	37	29	35	101
David D. Jackson, CPA	Manager	41	13	14	68
Melissa F. Johnson, CPA	Manager	44	36	23	103
Lyndsey K. Peck, CPA	Senior	38	20	17	75



Peggy A. Moeller, CPA
Audit Partner
MN Certificate Number: 5515



Peggy Moeller leads the Government/Not-for-Profit service area at Redpath and Company. She specializes in audit and management advisory services for local governments, assisting organizations with quality financial reporting and special projects such as debt studies, cash flow projections, and utility rate studies. She is a national reviewer of the Government Finance Officers Association's *Certificate of Achievement in Financial Reporting Program* and is a frequent presenter.

Peggy has over thirty years of governmental audit experience. Governments audited for the year ended December 31, 2017 include the Cities of Blaine, Oakdale, Andover, St. Anthony Village and Columbus, Metropolitan Emergency Services Board, Metropolitan Mosquito Control District, Minnesota Valley Transit Authority, St. Cloud Housing and Redevelopment Authority and a number of Watershed Districts, Relief Associations and Cable Commissions.

Peggy is a holder of the *Intermediate Single Audit Certificate* issued by the AICPA. The *Intermediate Single Audit Certificate* tests the auditor's ability to plan, perform, and evaluate single audits in accordance with the latest requirements of the Uniform Guidance.

Relevant continuing professional education includes AICPA's *Annual Governmental Auditing and Accounting Conference* and the GFOA's *Annual Governmental GAAP Update*.

Education

- University of Minnesota, B.A., Accounting

Recognition

- 2016 Thomas J. Moran Award (MNGFOA)

Professional Activities

- American Institute of Certified Public Accountants
- Minnesota Society of Certified Public Accountants
- Minnesota Government Finance Officers Association (MNGFOA)
- Minnesota Government Finance Officers Association (MNGFOA) Conference Committee
- National Reviewer: *Certificate of Achievement in Financial Reporting Program*

Presentations / Training

- "Advanced Governmental Accounting," MNGFOA, 2015–2018
- "*Certificate of Achievement for Excellence in Financial Reporting Update*," MNGFOA, 1998–2013



Andy P. Hering, CPA
Audit Director
MN Certificate Number: 21932



Andy is a Director at Redpath and Company. Andy specializes in governmental and not-for-profit organizations, including cities, charter schools, special districts, tribal governments, and housing authorities. Andy oversees all of our firm’s charter school audits and has been with Redpath and Company since 2000.

In addition to performing audits, Andy trains staff to ensure they also understand the nuances of local governments and not-for-profit, as well as the corresponding accounting standards.

Andy is a holder of the *Intermediate Single Audit Certificate* issued by the AICPA. The *Intermediate Single Audit Certificate* tests the auditor’s ability to plan, perform, and evaluate single audits in accordance with the latest requirements of the Uniform Guidance.

Relevant continuing professional education includes the GFOA’s *Annual Governmental GAAP Update*.

Education

- University of Minnesota, B.S., Accounting

Professional Activities

- American Institute of Certified Public Accountants
- Minnesota Society of Certified Public Accountants
- Minnesota Government Finance Officers Association (MNGFOA)
- Former GFOA Special Reviewer Committee Member for the Certificate Program



David D. Jackson, CPA
Manager
MN Certificate Number: 28867

David is a manager in the governmental and not-for-profit service area at Redpath and Company and assists clients with audited and reviewed financial statements and accounting services. He works with a variety of governmental and not-for-profit entities including cities, special districts, charter schools, housing authorities and not-for-profit organizations. David has been with Redpath and Company since 2013.

Relevant continuing professional education includes the GFOA *Annual Governmental GAAP Update* and the AICPA *Governmental Accounting and Auditing Update Conference*.

Education

- University of Wisconsin - Eau Claire, B.B.A., Accounting

Professional Activities

- American Institute of Certified Public Accountants
- Minnesota Society of Certified Public Accountants
- Minnesota Government Finance Officers Association (MNGFOA)
- Minnesota Association of County Auditors, Treasurers, and Finance Officers (MACATFO)
- Minnesota Association of County Officers (MACO)
- National Reviewer: *Certificate of Achievement in Financial Reporting Program*



Melissa F. Johnson, CPA, MBA
Manager

MN Certificate Number: 22308



Melissa Johnson, CPA, MBA, is a manager at Redpath and Company, where she specializes in the government/not-for-profit audit and accounting services area. Melissa has over 15 years of experience working with federal awards for governmental, not-for-profit, and commercial organizations. Prior to joining the Redpath and Company team, Melissa worked with the U.S. Defense Contract Audit Agency providing contract audit services to various governmental agencies.

Melissa has served as a committee member for the National Seminar for Government Contracts and has provided training on federal compliance requirements, application of cost accounting standards, and internal control requirements necessary to administer federal contracts.

Melissa is a holder of the *Advanced Single Audit Certificate* issued by the AICPA. The *Advanced Single Audit Certificate* requires the ability to evaluate and analyze the core concepts related to client acceptance, engagement planning, engagement analysis, concluding an engagement, and guiding principles for single audits at an advanced level as outlined in the *AICPA Competency Framework: Governmental Auditing*. Additionally, she has also provided single audit training at the *MNCPA Audits of Local Governments Conference*.

Relevant continuing professional education includes the *GFOA Annual Governmental GAAP Update* and *AICPA's Governmental and Not-For-Profit Training Program*.

Education

Concordia College, B.A., Accounting
 Keller Graduate School of Management, M.B.A.

Professional Activities

- American Institute of Certified Public Accountants
- Minnesota Society of Certified Public Accountants
- Minnesota Government Finance Officers Association (MNGFOA)
- Former National Reviewer: *Certificate of Achievement in Financial Reporting Program*



Lyndsey K. Peck, CPA
Senior
MN Certificate Number: 30168

Lyndsey is a senior auditor in the governmental service area at Redpath and Company. She assists clients with audited and reviewed financial statements in addition to providing accounting services. Lyndsey works with a variety of governmental entities including cities, special districts and housing authorities. She has been with Redpath and Company since 2014.

Relevant continuing professional education includes the GFOA *Annual Governmental GAAP Update* and *Reality Based Learning*—provided by a former member of the Auditing Standards Board and NASBA approved continuing professional education courses.

Education

- University of Wisconsin - River Falls, B.S., Accounting

Professional Activities

- American Institute of Certified Public Accountants
- Minnesota Society of Certified Public Accountants
- National Reviewer: *Certificate of Achievement in Financial Reporting Program*

Prior Engagements With the City of Lake Elmo

During the previous five years, we have not provided audit or non-audit services to the City of Lake Elmo.

Redpath and Company did provide audit and financial statement preparation services to the City of Lake Elmo in prior years. The relationship ended with the completion of the December 31, 2000 audit.



Similar Engagements With Other Government Entities

Our firm has been involved in providing audit and other services to governmental clients since 1971.

The following is a list of Minnesota governmental entities which we have audited in the past year:

Local Governments

Andover¹
Blaine¹
Cambridge¹
Champlin¹
Chanhassen¹
Columbia Heights¹
Columbus
Fridley^{1,2}
Lino Lakes¹
Grand Rapids¹
Oakdale¹
Oak Park Heights
Pine City
Roseville¹
St. Anthony Village²
St. Louis Park^{1,2}
Waconia¹

Charter Schools

Best Academy
Dugsi Academy
Duluth Public Schools Academy²
Harvest Preparatory School
Hiawatha Academies²
High School for Recording Arts
Parnassus Preparatory School
Partnership Academy
Rochester Math & Science
Rochester STEM Academy
Seven Hills Preparatory Academy
Spectrum High School
The Mastery School
Urban Academy

Specialty

North Suburban Hospital District
Metropolitan Emergency Services Board
Minnesota Valley Transit Authority^{1,2}
Metropolitan Mosquito Control District
Three Rivers Park District^{1,2}

¹ GFOA Certificate Holder

² Required a federal single audit for 2017

Authorities

Cambridge HRA
Columbia Heights EDA/HRA
Fridley HRA
St. Cloud HRA²
Washington County CDA^{1,2}
St. Louis Park Housing Authority²

Fire Relief

Brooklyn Park
Chanhassen
Cohasset
Grand Rapids
Lake Elmo
Little Canada
Lower St. Croix Valley
Maplewood
Newport
St. Anthony
White Bear Lake
Woodbury

Joint Ventures

Central St. Croix Valley Joint Cable Communications Commission
Quad Cities Cable Communication Commission
Anoka-Champlin Fire Department

Watersheds / Water Management

Carnelian-Marine-St. Croix
Lower Minnesota River
Minnehaha Creek
Mississippi Water Management Organization
Nine Mile Creek
Ramsey-Washington Metro
Rice Creek
Riley Purgatory Bluff Creek
Valley Branch

References

We encourage you to contact the references below to inquire of their experience working with us.

Entity	Contact	Services Provided for the year ended: December 31, 2017	Budgeted Hours
City of Oakdale Engagement Partner: Peggy A. Moeller	Suzzane Warren 651-730-2714	<ul style="list-style-type: none"> • Financial audit • State legal compliance audit • GASB 68 (pension) workpaper assistance • CAFR preparation • CAFR submitted to GFOA 	412
City of Blaine Engagement Partner: Peggy A. Moeller	Joe Huss 763-717-2677	<ul style="list-style-type: none"> • Financial audit • State legal compliance audit • GASB 68 (pension) workpaper assistance • CAFR submitted to GFOA 	356
City of Lino Lakes Engagement Director: Andy P. Hering	Sarah Cotton 651-982-2410	<ul style="list-style-type: none"> • Financial audit • State legal compliance audit • GASB 68 (pension) workpaper assistance • CAFR preparation • CAFR submitted to GFOA 	338
City of Chanhassen Engagement Partner: David J. Mol	Greg Sticha 952-227-1149	<ul style="list-style-type: none"> • Financial audit • State legal compliance audit • GASB 68 (pension) workpaper assistance • CAFR preparation • CAFR submitted to GFOA 	336
City of Waconia Engagement Partner: David J. Mol Engagement Director: Andy P. Hering	Nicole Meyer 952-442-3108	<ul style="list-style-type: none"> • Financial audit • State legal compliance audit • GASB 68 (pension) workpaper assistance • CAFR preparation • CAFR submitted to GFOA 	315

Audit Approach Overview

Every audit requires individual attention. Whether we are auditing the entity two years in a row, or two different entities of similar size, each audit receives individual attention and a customized approach. This approach is necessary to deliver a quality audit and to provide assurance. Auditing should never be mechanical using the same procedures and processes over and over again. Listed below are some of the steps we take to insure every audit receives customized attention:

- Encourage staff to think “outside-of-the-box.”
- Evaluate risk of a material misstatement by conducting interviews with staff inside and outside the Finance Department. This approach gives us a more thorough understanding of what’s happening throughout the organization.
- Use audit programs as a menu of potential procedures, not as a checklist. We evaluate risk of misstatements first and then identify and perform procedures that respond to the identified risk.
- Focus on transactions and use data mining software for assistance to uncover red flags in payroll and disbursements.
- Employ sampling methods in areas where it is deemed efficient and effective.

Client/Audit Firm Relationship

Our firm approaches each audit with the understanding that we work for the City Council and that we work with the City staff to obtain the necessary information to conduct the audit.

Our working relationship with the City Council will include the following:

- **Issuance of annual engagement letter (contract).**
The engagement letter addresses auditor responsibilities, management’s responsibilities, scope of services, and fees.
- **Available throughout the year.**
Audit staff is available throughout the audit cycle and throughout the entire year to respond to inquiries.
- **Presentation of audit results.**
This presentation includes a review of all reports issued.

Our working relationship with the City staff will include the following:

- **Internal task list meetings.**
The Redpath and Company team assigned to the audit meets monthly to ensure client needs are met. Our firm prepares a “task list” customized for each client (see Appendix C).
- **Task list meetings with client staff.**
The client manager coordinates periodic meetings with the City Finance Director. The purpose of these meetings is to identify and discuss financial, accounting and audit topics. New GASB Statements are discussed well in advance of implementation dates and training on new standards is built into the client manager meetings. These meetings are generally held quarterly.
- **Audit planning meeting.**
Prior to year end, the client manager, director, and manager meet with the City staff to discuss the upcoming audit. This meeting includes establishing a timeline for each audit segment.

Our firm uses Microsoft Office and uses secure email and/or a secure Client Portal for transmitting files.

Audit Effectiveness and Efficiency

Redpath and Company is committed to continuously improving the effectiveness and efficiency of our audits. This commitment is evidenced by the following:

- Use of Citrix™ servers enabling staff to connect to our main server from any location.
- Employment of data mining techniques to identify unusual transactions, search for duplicate payments, sort financial data for audit test purposes, and analyze payroll and vendor payments.
- Enhanced use of trial balance and document management software to more efficiently and easily link trial balance data to create electronic workpapers.
- Empower our employees with information to provide better client service through a Client Relationship Management (CRM) system.
- Client portal system facilitating the secure and efficient exchange of documents.
- Contract relationship with the firm Account-ability Plus, LLC to assist with refining our audit process and approach. Account-ability Plus, LLC is headed-up by Al Anderson, CPA, who is a former member of the AICPA's Assurance Services Executive Committee.

Transition Process and Schedules Needed for Audit

Please be assured that if selected, the transition from your current auditor will be handled efficiently and smoothly by Redpath and Company staff. One of our goals during the transition process is to educate our team about your organization and the engagement so we can hit the ground running and make you feel like we've been working on the account for years. We have a transition plan to make the process seamless. This process includes the following:

- Upon your lead and notification to the former audit firm of the change, we schedule a site visit with the former auditor to review workpapers, applicable reports and documents.
- We will provide you with a detailed list of information needed for the audit. We will use reports your system currently provides and provide additional templates as needed.
- Our staff will gain knowledge about your organization and operation by reviewing budget documents, prior financial reports and other documents you deem important.

Service Approach

We take the approach that we provide a service, not a commodity. We will look into details. Our approach is a good fit for organizations that expect high quality services. Our clients value our responsiveness to their needs and the assurance provided by our services. Please feel free to contact our client references who can comment on their experience with Redpath and Company.

Process and Efficiency Improvements Through Technology

SuraLink File Portal

In order to provide a more efficient and secure document exchange while continuing to promote a paperless work environment, Redpath and Company recently upgraded to the SuraLink file portal. SuraLink provides a more transparent way to request and receive information, is updated in real-time, and adds an additional level of clarity and organization of information. SuraLink allows for:

- A single source of requests to replace multiple email trails.
- Client access to deliverables 24/7.
- More visibility of what information is requested and what is provided by both firm and client perspectives.
- More accountability on both sides, which includes an audit trail of exchanges.
- More monitoring capabilities on the status of engagements through the use of dashboards and reporting.

Data Mining

The use of data-mining software allows for analysis of 100% of a population of a class of transactions—rather than selection of a small sample of the population. Examples include the following:

1. Check Register

Data mining allows for an analysis of the entire year’s check register that includes sorting checks by vendor, gaps in check numbers, identification of new vendors, and checks dated on non-business days, or other analysis based on identified risks.

2. Journal Entries

Posting a journal entry is a common method used to cover up an error or fraud. Data mining allows for the analysis of entries that have different attributes, such as 1) a “credit” or reduction to cash, 2) report on the number and dollar amount of entries posted to each financial statement line item, 3) journal entries posted during non-business hours, and 4) entries posted by person.

The information gathered through the software also provides for more powerful insights and recommendations for business improvement opportunities. Trends, patterns, outliers, and correlations are more easily identified and detected for more efficient and accurate audit outcomes.

Audit Timeline

We strive to build efficiency in our execution and timing of our audit engagements. We commit to perform the work within the time period outlined in the Request for Proposal. We will work with the City to determine a time table for the City audit and we anticipate the following segments:

Segment	Level of Staff	General Audit Hours
1. Audit planning and customize audit programs to meet the particular needs of the engagement.	All Levels	12
2. Interim fieldwork, scheduling of appropriate support personnel and internal control evaluation, inventory observation, walkthroughs and risk assessment and legal compliance.	Manager, Senior, and Staff	24
3. Final fieldwork (including substantial review, and preparation of financial statements and draft audit reports).	All Levels	146
4. Final reviews, edits of reports and exit conference (to review drafts of all reports). Presentation to City Council.	All Levels	48

Specifically, the engagement, for the City is anticipated to have the following timeline:

November 2018:

Execute engagement letter.

The schedule for interim and final fieldwork will be agreed upon by Redpath and Company and the City. Detail of the proposed segments are as follows:

November 2018:

Entrance conference with Finance Director.

December 2018:

Audit planning complete – Includes the refining of audit programs to meet the particular needs of the engagement, conducting internal planning meetings to review audit strategy, and scheduling of appropriate engagement personnel. A list of schedules to be prepared by the City will be provided by the audit team.

January 2019:

Receive preliminary City trial balance by January 15, 2019 and prepare audit lead schedules – Redpath and Company software enables the assigning of each account on the trial balance to a specific line item in the financial statements. Once all accounts have been assigned, the audit lead schedules and fund financial statements can be produced upon receiving a final trial balance. Our desire is to receive the final trial balance one week prior to the start of fieldwork.

Preliminary fieldwork complete by January 31, 2019 – Includes audit tasks which will alleviate final fieldwork requirements, SAS 104-111 audit procedures such as client interviews, internal control testing and walkthroughs, and legal compliance testing. Expected to be one day utilizing three Redpath personnel.

April / May 2019:

Final fieldwork anticipated to be the week of May 6, 2019 – Expected to be four to five days on site in duration utilizing three to four Redpath personnel.

Final workpaper review and report preparation – Our approach is to have substantially all Director reviews completed by the end of fieldwork. Our goal is to have the audit to the Director for final review within 10 days of final fieldwork and schedule the exit conference within another 10 days. A second partner review will also occur prior to the exit conference.

May / June 2019:

Exit conference – Draft audit report presentation to the Finance Director. (Typically a draft audit report and any audit findings are reviewed and discussed with appropriate staff prior to this meeting.)

Presentation of audit report: June 4, 2019 – Presentation of the final audit report by the audit Director to the City Council.

Audit Areas of Emphasis

For many years we have used a risk-based approach which more recently has been mandated by auditing standards. Using this approach we develop a preliminary audit strategy based on risk and continually evaluate the approach throughout the engagement. This process results in a dynamic engagement rather than a canned approach. Areas of emphasis may change from year-to-year and some procedures are altered every year to guard against complacency.

Understanding of Your Internal Control

We will request copies of policies and procedures manuals. We will also interview the appropriate staff to gain a further understanding of the design of the internal control structure.

Sampling

We will use sampling methods in any area where it is deemed efficient and effective. Typically, we use sampling for disbursements (check, ACH, credit card), payables, and other areas. We follow the guidance set by AICPA standards when determining our sample size.

Analytical Procedures

Our firm uses analytical procedures in the planning and final review stages as required by audit standards. We also use analytical procedures as substantive testing in areas which we believe such procedures are effective.

Laws and Regulations

Laws and regulations that are subject to audit test include applicable statutes as compiled by the Office of the State Auditor in the *Minnesota Legal Compliance Audit Guide*.

Communication

During the planning stage, we establish two-way communication with management and those charged with governance. We will ask if you have any preferred method of communication, concerns or requests.

All draft audit reports will be reviewed with you prior to issuance. The exit conference provides a forum to discuss issues raised during the engagement and to obtain an understanding of all audit reports prior to issuance.

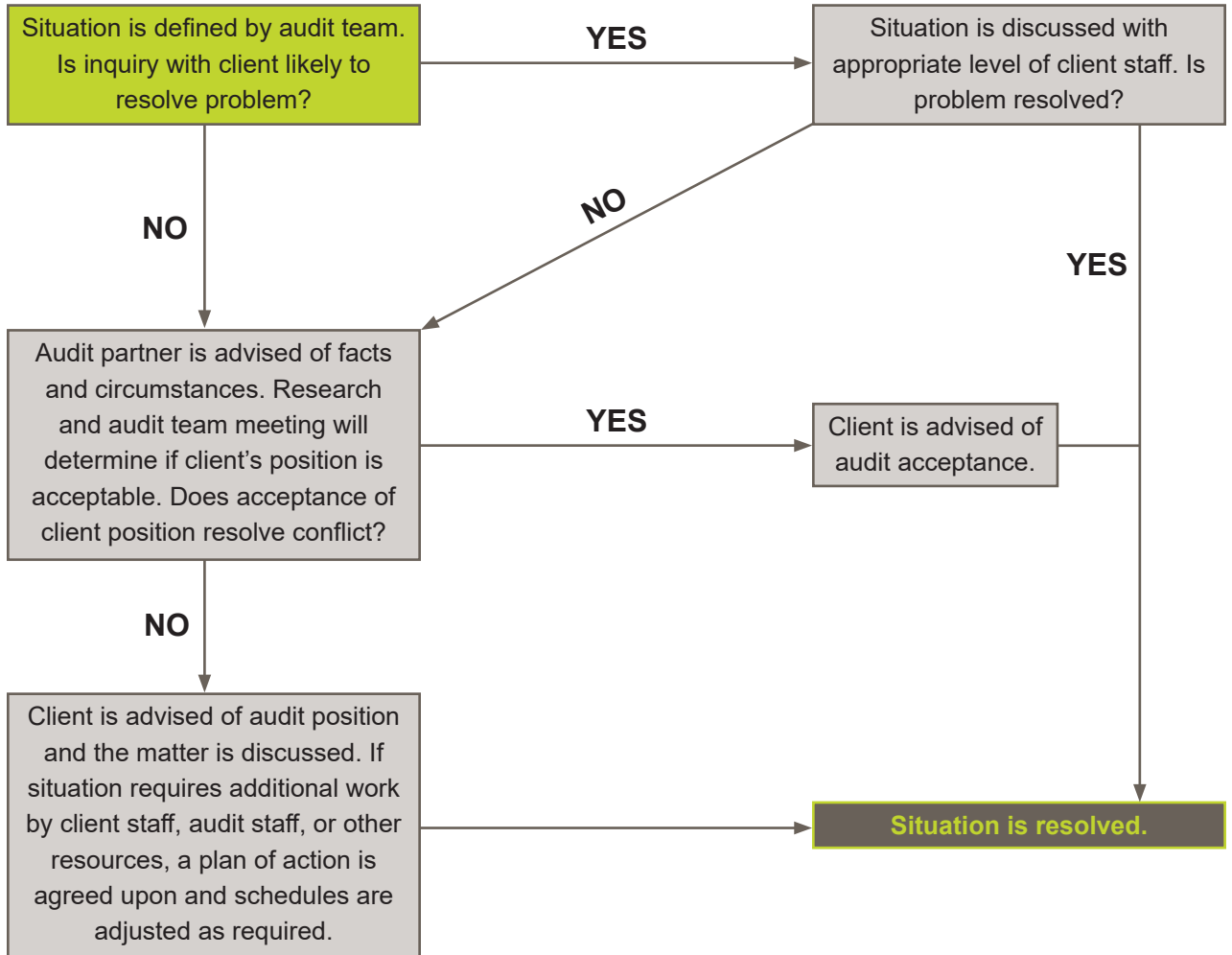
Proactive Service

We strive to build efficiency in our execution and timing of our audit engagements. Our goal is to deliver field results to the audit Director within 10 days of fieldwork completion. The audit Director will then deliver the initial audit draft to you after another 10 days. We avoid delays and last minute changes by conducting a thorough review in the field. Additionally, we will complete as much work as possible on an interim basis.



Identification of Anticipated Potential Audit Problems

We are not aware of any specific anticipated problems. However, should any situations arise during the course of our audit, our approach to resolving these problems generally is as follows:



Required Report Formats

Required report formats (for such reports as audit opinion, internal control, etc.) regarding content is dictated by professional standards.

Our management letter will include the required communication to those charged with governance (significant accounting policies, significant estimates, significant audit adjustments—if any, etc.).

See Appendix D for Sample Reports.

Auditing/Reporting Requirements

We understand that the work to be performed is as stated in the Scope of Work to be Performed section of the Request for Proposal on Auditing Services, key elements of which are as follows:

- Financial Audit and issuance of Independent Auditor’s Report.
- Legal Compliance Audit and issuance of Minnesota Legal Compliance Report.
- Report on Internal Control.
- Communication with Those Charged with Governance.
- Preparation of Annual Financial Report (City to prepare transmittal letter, narrative portion of MD&A, and statistical tables).
- Single Audit (if required).

We commit to perform the work within the time period outlined in the Request for Proposal. We believe our estimate of professional hours and fees to be competitive yet allow us to be responsive to your needs and provide high-quality service. We will respond to routine questions from City personnel during the year at no additional charge.

Our proposed fee is based on the anticipated scope of services. An increase in the scope of service will necessitate an addendum (change order) to this agreement. Examples of an increase in the scope of service include additional audit procedures resulting from certain accounting issues or events, new contractual agreements, new accounting and auditing standards, if there is an indication of misappropriation or misuse of public funds, or difficulties encountered due to lack of accounting records, incomplete records, inaccurate records or turnover in the City’s staff.

Value Added Services

Additional services provided as part of doing business with Redpath and Company:

- Proprietary client management system to maximize engagement efficiency.
- Professionals who are able to communicate, interpret, and educate highly sophisticated financial concepts to a less technical audience in understandable terms.

Detail on fees is presented in the Dollar Cost Proposal.



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Phoenix, AZ 85044
(480)704-6301 fax 785-4619

System Review Report

September 22, 2016

To the Owners of
Redpath and Company, Ltd.
and the Peer Review Committee of the Minnesota Society of CPAs

We have reviewed the system of quality control for the accounting and auditing practice of Redpath and Company, Ltd. (the firm) in effect for the year ended May 31, 2016. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. As a part of our peer review, we considered reviews by regulatory entities, if applicable, in determining the nature and extent of our procedures. The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at www.aicpa.org/prsummary.

As required by the standards, engagements selected for review included engagements performed under the *Government Auditing Standards* and audits of employee benefit plans.

In our opinion, the system of quality control for the accounting and auditing practice of Redpath and Company, Ltd. in effect for the year ended May 31, 2016, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. Redpath and Company, Ltd. has received a peer review rating of *pass*.

Heidenreich & Heidenreich CPAs PLLC

Heidenreich & Heidenreich, CPAs, PLLC

Proposer Guaranties

The proposer certifies that it can and will provide and make available at a minimum, all services set forth in Section II, Nature of Services Required.

Proposer Warranties

1. Proposer warrants that it is willing and able to comply with State of Minnesota laws with respect to foreign (non-state of Minnesota) corporations.
2. Proposer warrants that it is willing and able to obtain an errors and omissions insurance policy providing a prudent amount of coverage for the willful or negligent acts or omissions of any officers, employees or agents thereof.
3. Proposer warrants that it will not delegate or subcontract its responsibilities under an agreement without the prior written permission of the City of Lake Elmo.
4. Proposer warrants that all information provided in connection with this proposal is true and accurate.



Signature of Official: _____
 Name (Typed): Peggy A. Moeller, CPA
 Title: Partner
 Firm: Redpath and Company, Ltd.
 Date: November 2, 2018

Redpath Task List

Client: City of Lake Elmo
 Client Manager: Peggy Moeller
 Date: November 2, 2018

Task	Redpath Person Assigned	Due Date	Status	Comments
Determine scope of 2018 audit and issue engagement letter	Peggy M.	11/2018		
Annual review of non-attest services with attest director/partner to determine whether independence is impaired and to determine the appropriate language required by the AICPA in the non-attest engagement letter	Peggy M.	11/2018		
Schedule next month internal task review meeting (change due date each meeting)	Peggy M.	11/2018		
Schedule audit with the City	Andy H.	11/2018		
Annual meeting to review any required GAAP/SAS/Minnesota Statute changes and reminders	Peggy M.	12/2018		
Schedule annual audit planning meeting with Sue Iverson	Peggy M.	12/2018		
Plan December 31 audit procedures	David J. / Lindsey P.	12/2018		
Audit planning	Andy H. / David J. / Lyndsey P.	12/2018		
Audit fieldwork – interim	David J.	1/2019		
Assign trial balance accounts to financial statement line items	David J.	1/2019		
Review status of audit confirmations	David J.	Jan or Feb 2019		
Schedule quarterly meeting with Sue Iverson	Peggy M.	3/2019		
Audit fieldwork - final	David J.	5/2019		
Complete audit fieldwork	David J.	5/2019		
Review final fieldwork	Andy H. / David J.	5/2019		
Schedule quarterly meeting with Sue Iverson	Peggy M.	6/2019		
Schedule audit exit meeting with client and Council meeting date	Peggy M.	6/2019		

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and
Members of the City Council
City of Lake Elmo, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lake Elmo, Minnesota, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the City of Lake Elmo, Minnesota's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. 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 statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lake Elmo, Minnesota, as of December 31, 2018, and the respective changes in financial position, and where applicable, cash flows thereof, and the budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note ___ to the financial statements, in 2018, the City adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the OPEB related schedules, and pension related schedules on pages X-X and XX-XX be presented to supplement the 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about 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 do 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Lake Elmo, Minnesota's basic financial statements. The introductory section, combining and individual fund financial statements and schedules, and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards

generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements and schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated _____, 2019, on our consideration of the City of Lake Elmo, Minnesota’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Lake Elmo, Minnesota’s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Lake Elmo, Minnesota’s internal control over financial reporting and compliance.

REDPATH AND COMPANY, LTD.
St. Paul, Minnesota

_____, 2019

**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**

Honorable Mayor and
Members of the City Council and management
City of Lake Elmo, Minnesota

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 Lake Elmo, Minnesota, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the City of Lake Elmo, Minnesota’s basic financial statements, and have issued our report thereon dated _____, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Lake Elmo, Minnesota’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 of Lake Elmo, Minnesota’s internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Lake Elmo, Minnesota’s internal control.

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. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Lake Elmo, Minnesota'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.

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.

REDPATH AND COMPANY, LTD.
St. Paul, Minnesota

_____, 2019

MINNESOTA LEGAL COMPLIANCE REPORT

Honorable Mayor and
Members of the City Council
City of Lake Elmo, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lake Elmo, Minnesota as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the City of Lake Elmo, Minnesota's basic financial statements, and have issued our report thereon dated _____, 2019.

The *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minn. Stat. Section 6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financings. Our audit considered all of the listed categories, except we did not test for compliance with the provisions of tax increment financing because the City does not have tax increment financing districts.

In connection with our audit, nothing came to our attention that caused us to believe that the City of Lake Elmo, Minnesota failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Cities*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we preformed additional procedures, other matters may have come to our attention regarding the City of Lake Elmo, Minnesota's noncompliance with the above referenced provisions.

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

REDPATH AND COMPANY, LTD.
St. Paul, Minnesota

_____, 2019

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

Honorable Mayor and
Members of the City Council
City of Lake Elmo, Minnesota

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lake Elmo, Minnesota (the City) for the year ended December 31, 2018. 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 letter to you dated _____, 2019. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

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. As described in Note __ to the financial statements, the City changed accounting policies related to Postemployment Benefits Other than Pensions by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 75 Accounting and Financial Reporting for Postemployment Benefits Other than Pensions in 2018. Accordingly, the cumulative effect of the accounting change as of the beginning of the year is reported in the Statement of Activities and the Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds. 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. The most sensitive estimates affecting the City's financial statements were management's estimates of the net pension liability (asset), pension related deferred outflows and inflows of resources, and pension expense. Management's estimates relating to the net pension liability (asset), pension related deferred outflows and inflows of resources and pension expense are based on actuarial studies. We evaluated the key factors and assumptions used to develop the 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. Determining sensitivity is subjective, however, we believe the disclosures most likely to be considered sensitive are Note __ – Employees’ Retirement Systems and Pension Plans and Note __ – Prior Period Adjustments.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant 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 appropriate level of management. There were no uncorrected misstatements that have an effect on our opinion on the financial statements. There were no corrected misstatements identified during the audit.

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. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated _____, 2019.

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 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 the management’s discussion and analysis, the schedule of changes in the City’s net OPEB liability and related ratios, the pension schedules, and the notes to required supplementary information, 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 financial statements and schedules which accompany the financial statements but are not RSI. With respect to this supplementary information, 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.

We are not engaged to report on the introductory and statistical sections, which accompany the financial statements but are not RSI. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

NOTE – This section would also include any recommendation or other matters identified during the audit, performance/efficiency of the City compared to prior year or comparable governments, and potential need for a single audit. We work with City staff to identify areas of particular importance to the City and customize this section for each entity.

Restriction of Use

This information is intended solely for the information and use of the City of Lake Elmo, Minnesota’s City Council and management, and is not intended to be, and should not be, used by anyone other than these specified parties.

REDPATH AND COMPANY, LTD.
St. Paul, Minnesota

_____, 2019







Philanthropic Culture

Redpath and Company and its employees are committed to giving back. For over ten years our employees have had the option to donate a portion of their salaries to a company-designated charity each year. Each employee's contribution is then matched by the company. Over the years, we have donated to many organizations from small, local groups to large, nationally recognized organizations.

In 2017, Redpath and Company donated \$15,000 to Junior Achievement of the Upper Midwest. Since 2011, Redpath and Company has contributed over \$170,000 in charitable donations or sponsorships.

In addition to financial contributions, Redpath and Company also provides paid time off for employees to volunteer at a favorite charitable organization.

Supported Organizations

- 2018 - TreeHouse
- 2017 - Junior Achievement of the Upper Midwest
- 2016 - Second Mile Haiti
- 2015 - Make A Wish Foundation
- 2014 - Newtrax
- 2013 - Make A Wish Foundation
- 2012 - Minnesotan's Military Appreciation Fund
- 2011 - Angel Foundation
- 2010 - Gillette Children's Specialty Healthcare
- 2009 - Twin Cities Habitat for Humanity
- 2008 - Spare Key
- 2007 - White Bear Lake Area Emergency Food Shelf



Redpath and Company Core Values

- Caring** - Clients and colleagues must know we care—they must feel it.
- Committed** - To the firm, the firm's vision, clients, and colleagues.
- Continuously Improving** - Always striving to be better, learn more, and offer more.
- Confident** - In ourselves, our colleagues, and our firm.
- Connected** - Awareness of the world and our surroundings, developing relationships, and articulating ideas.

CONSISTENT SERVICE. GENUINE SOLUTIONS.

A background image showing financial documents, a pen, and a calculator. The documents include a table of earnings, a donut chart with segments for Retained (5%), Dividends (41%), and Member Pensions & Benefits (10%), and a bar chart for Loans. A black pen lies diagonally across the documents.

PROPOSAL FOR PROFESSIONAL SERVICES

City of Lake Elmo
November 2018

PROPOSAL CONTACT

Jason C. Miller, CPA

952-920-1455 | j.miller@smithschafer.com

7500 Highway 55, Suite 350 | Minneapolis, MN | 55427

www.smithschafer.com

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TRANSMITTAL LETTER

Smith Schafer & Associates, Ltd. is pleased to submit our proposal to continue to provide professional services to the City of Lake Elmo. Smith Schafer is a **community-oriented** public accounting and business consulting firm offering a thoughtful advisory relationship to cities, businesses and individual clients. Our experience with the City of Lake Elmo and providing **government accounting services in Minnesota over the last 45 years**, provides us with a solid understanding of your business environment and needs.

**OUR GOAL IS TO CONTINUE TO PROVIDE THE CITY OF LAKE ELMO WITH
HIGH-QUALITY, TIMELY AND VALUE-ADDED SERVICES.**

UNDERSTANDING OF WORK TO BE PERFORMED

Smith Schafer understands the work to be performed in the timeline outline below. Our services will include the following:

- Audit of the financial statements
- Review of and assistance with the preparation of the Comprehensive Annual Financial Report
- Single audit (if necessary)

TIMELINE

Detailed audit plan provided - December 2018

Audit fieldwork - April 2019

Draft reports - May 2019

Final reports - May 2019

Presentation to the City Council - June 2019

WHY SMITH SCHAFER

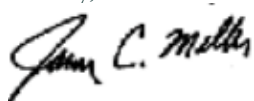
- Smith Schafer is a recognized leader in providing accounting, auditing and consulting services to the governmental industry. Our Government Service Group, comprised of numerous professionals, is committed to serving over **70 Minnesota government entities**. Our team's deep experience with governments and member organizations **reduces staff time and expense**.
- Smith Schafer was recognized as a **Top Workplace in Minnesota** in 2018 by Energage. We possess a firm culture and environment stressing an entrepreneurial approach to business and continued professional growth. We believe these core factors support our **very low staff turnover**.
- We are a mid-sized firm with the **expertise and resources of a large firm**, but with the **personal contact and close relationships** you would expect from a smaller firm. With approximately 100 employees, we are large enough to have resources to **keep up with constantly changing rules and regulations**.
- Smith Schafer has provided **high quality, responsive services** to the City of Lake Elmo since the audit of the City's 2012 financial statements. In addition, Smith Schafer assisted the City with obtaining its first Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association in 2013 and every year since, as well as providing significant amounts of accounting services for which the City was not billed.

In summary, we will use our years of experience with the City of Lake Elmo, training and knowledge to provide proactive, dedicated, value-added and cost-effective services. We have developed this proposal that follows with the City of Lake Elmo in mind, providing information that is most relevant to your current business needs.

This proposal is a firm irrevocable offer for 60 days.

Please call if you need further information or clarification. Thank you for the opportunity to present this proposal.

Sincerely,



SMITH, SCHAFFER & ASSOCIATES, LTD.

Jason C. Miller, CPA

Principal

GENERAL INFORMATION

OFFICE	PRINCIPALS	SENIOR MANAGERS	MANAGERS	SENIOR ACCOUNTANTS	STAFF ACCOUNTANTS	ADMIN. STAFF	TOTAL
Twin Cities	12	2	7	11	7	10	49
Rochester	9	4	1	8	8	8	38
Red Wing	2	1	0	1	1	2	7
Total	23	7	8	20	16	20	94
CPAs	23	7	8	12	4	1	55

HISTORY & STRUCTURE OF SMITH SCHAFER

Smith Schafer is a certified public accounting and consulting firm with offices in the Twin Cities, Rochester and Red Wing, providing accounting, auditing, tax and consulting services. Smith Schafer is one of **Minnesota's Top 25 Accounting Firms** with an exceptional level of knowledge, insight and experience. We have approximately 100 staff who are skilled in understanding unique issues confronting our clients. Smith Schafer's Government Services Group has provided consulting as well as auditing and attest services to **numerous governmental organizations since 1971**. Smith Schafer's industry specialization allow us to stay on the leading edge of industry developments, regulations and opportunities, and will permit us to efficiently and effectively provide services tailored to the City of Lake Elmo's needs and requirements. This level of specialization makes us **uniquely qualified** to provide the high-quality audit services the City of Lake Elmo expects and deserves to receive.

PRIMEGLOBAL

Smith Schafer is a member of PrimeGlobal, the third largest association of independent accounting firms in the world, giving us access to a wide range of specialists with government accounting experience and affording our staff the opportunity to provide these special skills to other member firms within the PrimeGlobal network.

LICENSE TO PRACTICE IN MINNESOTA

Smith Schafer and each of the certified public accountants employed by Smith Schafer are licensed to practice public accounting in the State of Minnesota.

SMITH SCHAFER STAFF ASSIGNED TO THE CITY OF LAKE ELMO

The engagement team assigned to the City of Lake Elmo will remain the same as previous years. They are **highly-qualified** and possess the appropriate experience and expertise to effectively serve you. You will have continuous access to your engagement team. We encourage you to reach out whenever you have questions and **additional fees WILL NOT be charged unless significant research is involved**. The value in retaining our firm comes not only with the audit, but from our experience with the City of Lake Elmo and the education we can provide. The proposed engagement team would consist of the following members of our staff, all full-time staff employed out of our Twin Cities office. Individual bios to follow.

- Jason Miller, CPA - Principal
- Jill Schultz, CPA - Manager
- Jenna Innes - Senior Accountant
- Ben Hangsleben, CPA - Senior Accountant

ENGAGEMENT TEAM

We recognize the importance of staff continuity when performing an efficient and effective audit of the City of Lake Elmo's financial statements. Therefore, we make every effort to keep the same staff assigned to the audit engagement from year to year. If there is a need to change personnel on the engagement, the replacement staff will have similar or better qualifications and experience. Your engagement team will continue to provide you the open and timely communications essential for effective engagement planning, performance and implementation.



Jason C. Miller, CPA

AUDIT PRINCIPAL

Learn a little about Jason...

Expertise

- Audit and attestation services
- Employee benefit plan audits
- Retirement plan consultation
- Business consultation

How Jason got here

- Bachelor of Arts degree in Accounting from the University of Wisconsin, Superior
- Joined the Twin Cities practice in December 1994

Current Governmental Clients

- City of Lake Elmo
- City of Hugo
- City of St. Paul Park
- City of St. Augusta
- City of Spring Lake Park
- Township of Linwood

Member

- AICPA
- MNCPA
- North Metro Chamber of Commerce
- White Bear Area Chamber of Commerce
- Club Secretary - Mounds View/New Brighton Rotary Club

How Jason approaches work

"You cannot provide the highest quality of service to clients by taking shortcuts. Take time to find the source of problems and help fix them. Stay sensitive to the client's needs and be respectful of their time."



Jill L. Schultz, CPA

AUDIT MANAGER

Learn a little about Jill...

Expertise

- Audit and attest services
- Financial statement presentation
- Retirement plans and audits

How Jill got here

- Bachelor of Arts degree in Accounting from Luther College
- Joined the Twin Cities practice in December 2004

Current Governmental Clients

- City of Lake Elmo
- City of Hugo
- City of St. Paul Park
- City of St. Augusta
- City of Spring Lake Park
- Township of Linwood

Member

- AICPA
- MNCPA
- MNCPA Young Professionals
- Minnesota Council of Nonprofits
- Minneapolis Chamber of Commerce

How Jill approaches work

"Every client deserves to feel like they are your most important client and that their project is the most important thing you are working on."



Jenna P.G. Innes

SENIOR ACCOUNTANT

Learn a little about Jenna...

Expertise

- Audit and attest services
- Financial statement presentation
- Retirement plans and audits

How Jenna got here

- Bachelor of Accounting from Winona State University
- Joined the Twin Cities practice in 2012

Current Governmental Clients

- City of Lake Elmo
- City of Hugo
- City of St. Paul Park
- City of St. Augusta
- City of Spring Lake Park
- Township of Linwood

Member

- Minnesota State High School Mathematics League Board of Directors
- ComMUSICation volunteer bookkeeper

How Jenna approaches work

"I strive to make my clients feel valued and important while providing solutions in a timely manner."



BENJAMIN A. HANGSLEBEN, CPA

SENIOR ACCOUNTANT

Learn a little about Ben...

Expertise

- Audit, review and other attest services
- Financial statement services
- Nonprofit accounting
- 401(k) Plan audits

How Ben got here

- Bachelor of Accounting from Metropolitan State University
- Bachelor of Communications from University of Minnesota
- Joined the Twin Cities practice with the merger of BPKZ in January 2017

Current Governmental Clients

- City of Lake Elmo
- City of St. Paul Park
- Township of Linwood

Member

- AICPA
- MNCPA
- Minneapolis City of Lakes Rotary Club

How Ben approaches work

"My goal is to ensure every client understands that we have a vested interest in their success. I personally enjoy taking the complexity out of accounting and taxation to discuss matters in terms clients more readily identify with."

REFERENCES

Smith Schafer is a recognized leader in providing accounting, auditing and consulting services to government entities. Our Government Service Group, comprised of numerous professionals, is committed to **servicing over 70 Minnesota governments**. There is no greater way to define our industry expertise than through the clients we serve. We have **very minimal client turnover** which speaks volumes as to our expertise and client service. The following are some of our governmental clients:

SAMPLE OF ENGAGEMENTS WITH OTHER GOVERNMENT ENTITIES

City of Hugo	City of Spring Lake Park	City of St. Augusta
City of Chatfield	City of Rochester	City of St. Paul Park
Linwood Township	City of Spring Valley	City of Stewartville
City of Kellogg	City of Caledonia	City of Wanamingo

CITY OF HUGO

RON OTKIN, FINANCE DIRECTOR

651-762-6314

CITY OF SPRING LAKE PARK

DANIEL BUCHHOLTZ, CITY ADMINISTRATOR

763-784-6491

CITY OF ST.AUGUSTA

BILL MCCABE, CITY ADMINISTRATOR

320-654-0387

SPECIFIC AUDIT PROCESS

AUDIT METHODOLOGY

Our approach demonstrates our experience with the City of Lake Elmo. We will continue to work closely with your management team during all phases of the audit process. We utilize a non-disruptive approach and coordinate in detail with the accounting department personnel and adapt to your business protocols rather than dictate our processes.

A successful audit engagement requires the auditor's understanding of the business environment, as well as your understanding of our audit approach and work plan. From the start, your Smith Schafer engagement team will place an emphasis on detailed and thorough planning and strengthening our relationship with the City of Lake Elmo. We will listen to what you have to say and what your financial statements are telling the reader. We will make sure you understand exactly what we are doing at every step of the engagement and that you are pleased with the budget, the assigned staff, schedule and the delivery of our products.

AUDIT PLANNING PHASE

At Smith Schafer, we emphasize planning in order to ensure an audit engagement with a **minimal level of disruption** to the City of Lake Elmo staff. The audit planning phase will be performed by the Principal and Manager. During this phase we will:

- Assess current year activity.
- Review expectations of client assistance.
- Develop a schedule for the completion of the audit fieldwork and reporting phases of the engagement.
- Perform preliminary materiality determinations and risk assessment.
- Perform preliminary assessment of fraud factors.
- Assess control risk.
- Determine type and extent of substantive transaction and analytical review testing based on assessed level of control risk.
- Make inquiries of management and other employees regarding fraud in accordance with Auditing Standards.

This is an excellent time for the City of Lake Elmo personnel to resolve any questions they have regarding the audit. The value in retaining our firm comes from not only the audit, but from our experience with your organization and the education we can provide. As questions and concerns arise throughout the year, we encourage the City of Lake Elmo personnel to contact us and draw on our knowledge and experience.

AUDIT FIELDWORK PHASE

We assess risks, design procedures and obtain evidence to support financial statement amounts and disclosures during fieldwork. We utilize a **methodology designed for governmental units**. Our process emphasizes continuous **communication and training** with your staff. The audit fieldwork phase will be performed by all members of the engagement team. During this phase we will:

- Perform preliminary analytical review of account balances including budget variations.
- Document and test internal accounting controls through review of accounting procedure manuals and discussion with the City of Lake Elmo.
- Update depreciation records for capital asset additions and retirements, as necessary.
- Review account reconciliations and related detail.
- Test the propriety of all material account balances.
- Perform substantive testing of transactions of selected accounts, sample sizes to be based on assessed level of control risk.
- Obtain permanent file documentation.
- Perform general audit procedures including compliance questionnaires and management inquiries.

SPECIFIC AUDIT PROCESS

POST-FIELDWORK PHASE

The reporting phase will be completed by all members of the engagement team. During the reporting phase we will:

- Prepare and/or assist the City of Lake Elmo in preparing the city's Comprehensive Annual Financial Report (CAFR) using the audited trial balance, review the CAFR for compliance with GAAP and the City of Lake Elmo financial statement policies.
- Provide drafts of the audit report and our audit management letter.
- Review the CAFR, management letter and governance letter with management and make any adjustments/changes.
- Provide all recommendations, revisions to the CAFR and/or accounting policies and procedures, and other suggestions for improvement to the City of Lake Elmo personnel.
- Present Power Point financial summary (management report) and historical financial activity to the Council for the City of Lake Elmo.

AUDIT SAMPLES FOR PURPOSES OF TESTS OF COMPLIANCE

Since each client is different and may differ from year to year, we use a variety of statistical designs in our compliance testing. The size of the sample considers many factors: size, maturity, complexity, level of oversight and prior audit findings. Ultimately, our professional judgement determines that a representative number of transactions have been selected.

ANALYTICAL PROCEDURES

Evaluations of financial information made by a study of plausible relationships around both financial and non-financial data are required in the planning and final review stage, but our firm encourages staff to use such procedures in substantive testing wherever possible.

IDENTIFICATION OF ANTICIPATED POTENTIAL AUDIT PROBLEMS

At this time, we do not anticipate any potential audit problems. If problems do arise, Smith Schafer will work carefully with management to resolve the matter.

FIRM INDEPENDENCE

Smith, Schafer & Associates, Ltd. has performed the audit for the City of Lake Elmo since 2012. However, Smith Schafer and its employees are considered independent of the City of Lake Elmo under generally accepted auditing standards. We do not know of any professional or personal relationships between the City of Lake Elmo and Smith Schafer, or any of Smith Schafer's employees that would be considered a conflict of interest. Although no other professional relationships are contemplated, if Smith Schafer enters into any such relationships during the period of the proposed engagement, written notice will be given to the City of Lake Elmo.

REPORT FORMAT

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members of the City Council
City of Lake Elmo, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Lake Elmo, Minnesota, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit includes performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Lake Elmo, Minnesota, as of December 31, 2017, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

REPORT FORMAT

Honorable Mayor and Members of the City Council
City of Lake Elmo, Minnesota
Page 2

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 13 and the required supplemental information as listed in the Table of Contents be presented to supplement the 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 appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about 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 do 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Lake Elmo, Minnesota's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and statistical section listed in the Table of Contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the 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 basic financial statements or to the basic financial statements themselves, 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 statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Smith, Schafn and Associates, Ltd.

Minneapolis, Minnesota
June 29, 2018

PEER REVIEW



Report on the Firm's System of Quality Control

KerberRose

Certified Public Accountants

November 29, 2017

To the Shareholders of Smith, Schafer & Associates, Ltd.
and the Peer Review Committee of the Minnesota Society of Certified Public Accountants

We have reviewed the system of quality control for the accounting and auditing practice of Smith, Schafer & Associates, Ltd. (the firm) in effect for the year ended May 31, 2017. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants (Standards).

A summary of the nature, objectives, scope, limitations of, and the procedures performed in a System Review as described in the Standards may be found at www.aicpa.org/prsummary. The summary also includes an explanation of how engagements identified as not performed or reported in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.

Firm's Responsibility

The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. The firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported in conformity with professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.

Peer Reviewer's Responsibility

Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review.

Required Selections and Considerations

Engagements selected for review included engagements performed under *Government Auditing Standards*, including compliance audits under the Single Audit Act and audits of employee benefit plans.

As a part of our peer review, we considered reviews by regulatory entities as communicated by the firm, if applicable, in determining the nature and extent of our procedures.

Opinion

In our opinion, the system of quality control for the accounting and auditing practice of Smith, Schafer & Associates, Ltd. in effect for the year ended May 31, 2017, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. Smith, Schafer & Associates, Ltd. has received a peer review rating of *pass*.

KerberRose SC



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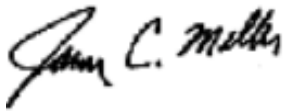
PROPOSER GUARANTIES AND WARRANTIES

PROPOSER GUARANTIES

The proposer certifies it can and will provide and make available, as a minimum, all services set forth in the Nature of Service Required section of the Request for Proposals for Professional Auditing Services.

PROPOSER WARRANTIES

1. Proposer warrants that it is willing and able to comply with State of Minnesota laws with respect to foreign (non-State of Minnesota) corporations.
2. Proposer warrants that it is willing and able to obtain an errors and omissions insurance policy providing a prudent amount of coverage for the willful or negligent acts, or omissions of any officers, employees or agents thereof.
3. Proposer warrants that it will not delegate or subcontract its responsibilities under an agreement without the prior written permission of the City of Lake Elmo.
4. Proposer warrants that all information provided by it in connection with this proposal is true and accurate.



Jason C. Miller, CPA
(Printed Name)

Principal
(Title)

Smith Schafer & Associates, Ltd.
(Firm)

November 2018
(Date)

PROFESSIONAL FEES

AUDIT OF THE 2018 FINANCIAL STATEMENTS				
	HOURS	STANDARD HOURLY RATE	QUOTED HOURLY RATE	TOTAL
Partner	25.00	340.00	205.00	\$5,125.00
Manager	60.00	240.00	145.00	\$8,700.00
Supervisory Staff	70.00	175.00	115.00	\$8,050.00
Staff	30.00	175.00	100.00	\$3,000.00
Subtotal				\$24,875.00
Preparation of CAFR				\$3,200.00
TOTAL ALL-INCLUSIVE MAXIMUM PRICE FOR 2018 (NOT INCLUDING SINGLE AUDIT)				\$28,075.00
Single Audit (if needed) maximum price for 2018				\$4,100.00

TOTAL ALL-INCLUSIVE (NOT INCLUDING SINGLE AUDIT) MAXIMUM PRICE FOR:	
2019	\$28,975.00
2020	\$29,950.00
2021	\$31,100.00
2022	\$32,250.00
TOTAL SINGLE AUDIT (IF NEEDED) MAXIMUM PRICE FOR:	
2019	\$4,225.00
2020	\$4,350.00
2021	\$4,500.00
2022	\$4,675.00

MANNER OF PAYMENT

Progress payments will be made on the basis of hours of work completed during the course of the engagement in accordance with the firm's dollar cost bid proposal. Interim billings will cover a period of not less than a calendar month.

CONTACT US

Smith Schafer is very interested in continuing to work with the City of Lake Elmo and would love to set up a meeting with you to answer any questions you may have and determine the next steps in this process.

Jason C. Miller, CPA

PRINCIPAL
SMITH SCHAFER & ASSOCIATES, LTD.

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