



City of Peosta

Communications Letter

June 30, 2024

**City of Peosta
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Report on Matters Identified as a Result of the Audit of the Basic Financial Statements

Honorable Mayor and Members
of the City Council
City of Peosta
Peosta, Iowa

In planning and performing our audit of the financial statements of the governmental activities, business-type activities and each major fund of the City of Peosta, as of and for the year ended June 30, 2024, 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, we considered the City's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error, or fraud may occur and not be detected by such controls. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a material weakness.

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 over financial reporting, such that there is a reasonable possibility that a material misstatement of the City's basic financial statements will not be prevented, or detected and corrected, on a timely basis. A reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probable as defined as follows:

- ◆ *Reasonably possible*. The chance of the future event or events occurring is more than remote but less than likely.
- ◆ *Probable*. The future event or events are likely to occur.

The material weakness identified is stated within this letter.

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

The accompanying memorandum also includes financial analysis provided as a basis for discussion. The matters discussed herein were considered by us during our audit and they do not modify the opinion expressed in our Independent Auditor's Report dated December 5, 2024, on such statements.

The purpose of this communication, which is an integral part of our audit, is to describe for the City Council and management and others within the City and state oversight agencies the scope of our testing of internal control and the results of that testing. Accordingly, this communication is not intended to be and should not be used for any other purpose.

Bergan KDV, Ltd.

Minneapolis, Minnesota
December 5, 2024

City of Peosta Material Weakness

Lack of Segregation of Accounting Duties

The City has a lack of segregation of accounting duties due to a limited number of office employees. The lack of adequate segregation of accounting duties could adversely affect the City's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. This lack of segregation can be demonstrated in the following areas, which is not intended to be an all-inclusive list:

- ◆ The Clerk, who is able to handle receipts and disbursements, also receives the bank statements and completes the bank reconciliation.
- ◆ The Clerk has access to all areas of the accounting system.
- ◆ Several employees are able to make Utility Billing Adjustments without review.
- ◆ The Clerk is able to record journal entries without review.

This finding impacts the internal control for all significant accounting functions.

City of Peosta Required Communication

We have audited the basic financial statements of the governmental activities and each major fund of the City as of and for the year ended June 30, 2024. Professional standards require that we advise you of the following matters related to our audit.

Our Responsibility in Relation to the Basic Financial Statement Audit

As communicated in our engagement letter, our responsibility, as described by professional standards, is to form and express opinions about whether the basic financial statements prepared by management with your oversight are presented fairly, in all material respects, in accordance with the basis of cash receipts and disbursements. Our audit of the basic financial statements does not relieve you or management of its respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the basic financial statements are free of material misstatement. An audit of the basic financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the City solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgement, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Our responsibility for the supplementary information accompanying the basic financial statements, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the basic financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Our responsibility with respect to the other information in documents containing the audited basic financial statements and auditor's report does not extend beyond the basic financial information identified in the report. We have no responsibility for determining whether this other information is properly stated. This other information was not audited, and we do not express an opinion or provide any assurance on it.

Our Responsibility in Relation to *Government Auditing Standards*

As communicated in our engagement letter, part of obtaining reasonable assurance about whether the basic financial statements are free of material misstatement, we performed tests of the City's 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 basic financial statement amounts. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

City of Peosta Required Communication

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, our firm, and our network firms have complied with all relevant ethical requirements regarding independence.

Significant Risks Identified

We have identified the following significant risks of material misstatement:

- ◆ Risk of Improper Revenue Recognition - Revenue recognition is considered a fraud risk on substantially all engagements as it is generally the largest line item impacting a City's change in fund balance or net position.
- ◆ Risk of Misappropriation of Assets - Misappropriation of Assets is considered a risk in substantially all engagements as assets may be misappropriated due to fraud or error.
- ◆ Risk of Management Override of Controls - Management override of internal control is considered a risk in substantially all engagements as management may be incentivized to produce better results.
- ◆ Pension Valuation - Net pension liability, deferred outflows of resources related to pensions, and deferred inflows of resources related to pensions are generally material to the financial statements and involve significant estimates.

Qualitative Aspects of the City's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the City is included in the notes to the basic financial statements. There have been no initial selection of accounting policies and no changes to significant accounting policies or their application during 2024. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates and Related Disclosures

Accounting estimates and related disclosures are an integral part of the basic 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 basic financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the basic financial statements relate to:

Net Pension Liability, Deferred Outflows of Resources Related to Pensions and Deferred Inflows of Resources Related to Pensions - These balances are based on an allocation by the pension plans using estimates based on contributions.

We evaluated the key factors and assumptions used to develop the accounting estimates and determined that they are reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

Financial Statement Disclosures

Certain basic financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The basic financial statement disclosures are neutral, consistent, and clear.

City of Peosta Required Communication

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For the purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effects of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the basic financial statements taken as a whole and each applicable opinion unit.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. None of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the basic financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the City's basic financial statements or the auditor's report. No such disagreements arose during the course of our audit.

Representations Requested from Management

We have requested certain written representations from management, which are included in the management representation letter.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management has informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the City, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, significant events or transactions that occurred during the year, operating, and regulatory conditions affecting the City, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the City's auditor.

Noncompliance with Laws and Regulations, Violations of Contract Provisions or Grant Agreements

- ◆ Two functional areas expenditures were in excess of budgeted amounts.

**City of Peosta
Required Communication**

Other Information Included in Annual Reports

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

We were not engaged to report on the other information accompanying the basic 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.

Our responsibility also includes communicating to you any information which we believe is a material misstatement of fact. Nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the basic financial statements.

City of Peosta Financial Analysis

The following pages provide graphic representation of select data pertaining to the financial position and operations of the City. Our analysis of each graph is presented to provide a basis for discussion of past performance. We suggest you review each graph and document if our analysis is consistent with yours.

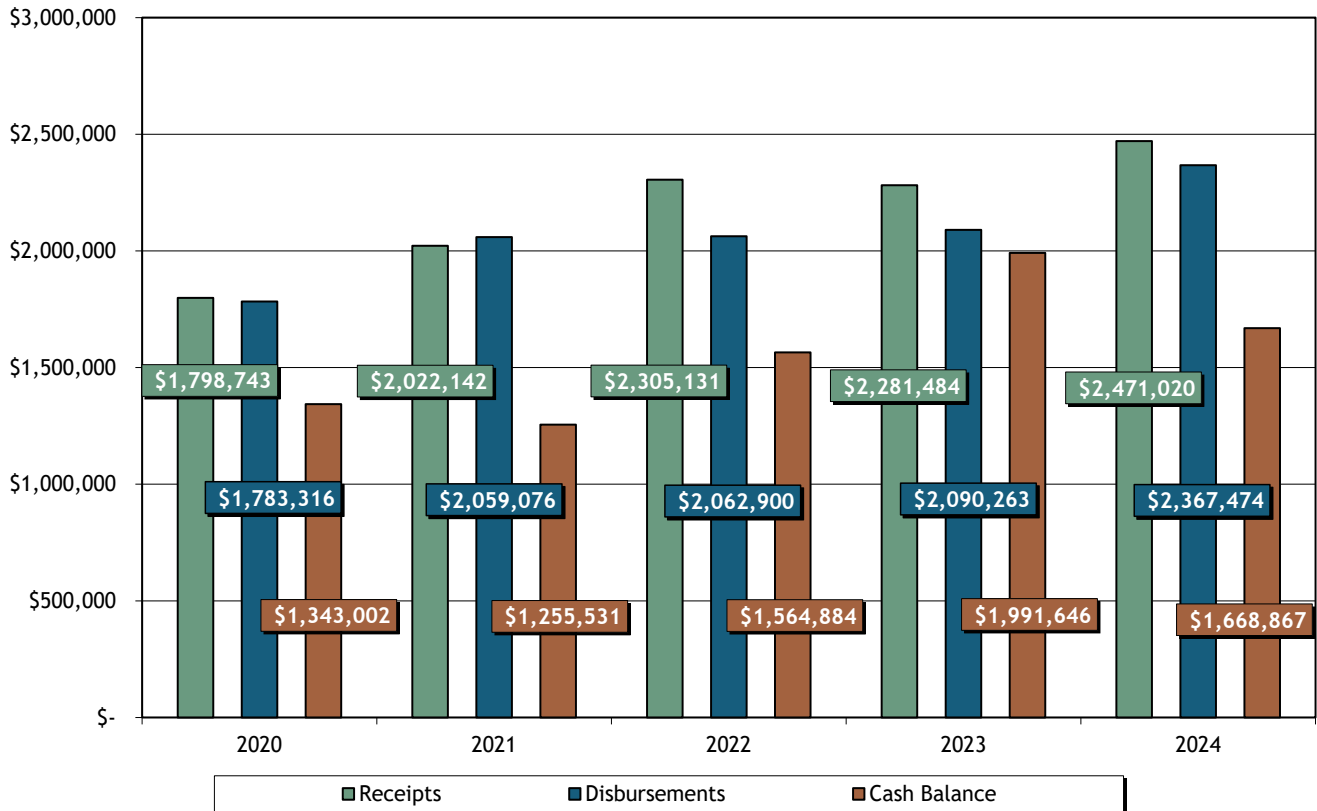
General Fund

Receipts exceeded disbursements by \$103,546 in 2024, after transfers in and out, and other financing sources, the General Fund cash balance decreased by \$322,779.

The following bar graph highlights the General Fund operations for the last year. This graph is intended to show five years of data and additional years will be added in subsequent years. The receipts and disbursements below do not include other financing sources or uses, such as operating transfers, sales from capital assets and debt proceeds.

The City currently has a fund balance policy to a minimum unassigned fund balance in the General fund of 25% of annual budgeted revenue. Unassigned fund balance of \$1,266,630 at June 30, 2024, represents 51.3% of receipts based on 2024 actual amounts.

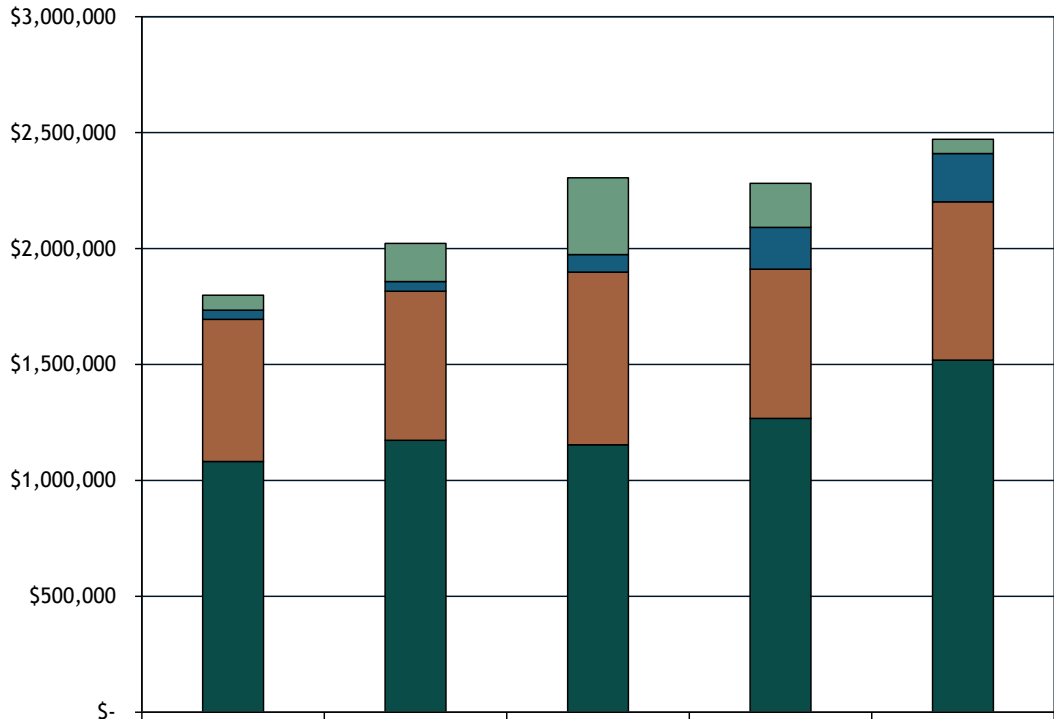
General Fund Activity



**City of Peosta
Financial Analysis**

General Fund Receipts

General Fund Receipts



	2020	2021	2022	2023	2024
Intergovernmental	\$64,676	\$164,383	\$331,049	\$190,099	\$61,190
Miscellaneous and Investment Income	39,225	41,589	75,772	180,392	208,467
Licenses, Permits, Charges and Fines	613,286	643,407	744,617	643,616	682,412
Taxes and Assessments	1,081,556	1,172,763	1,153,693	1,267,377	1,518,951

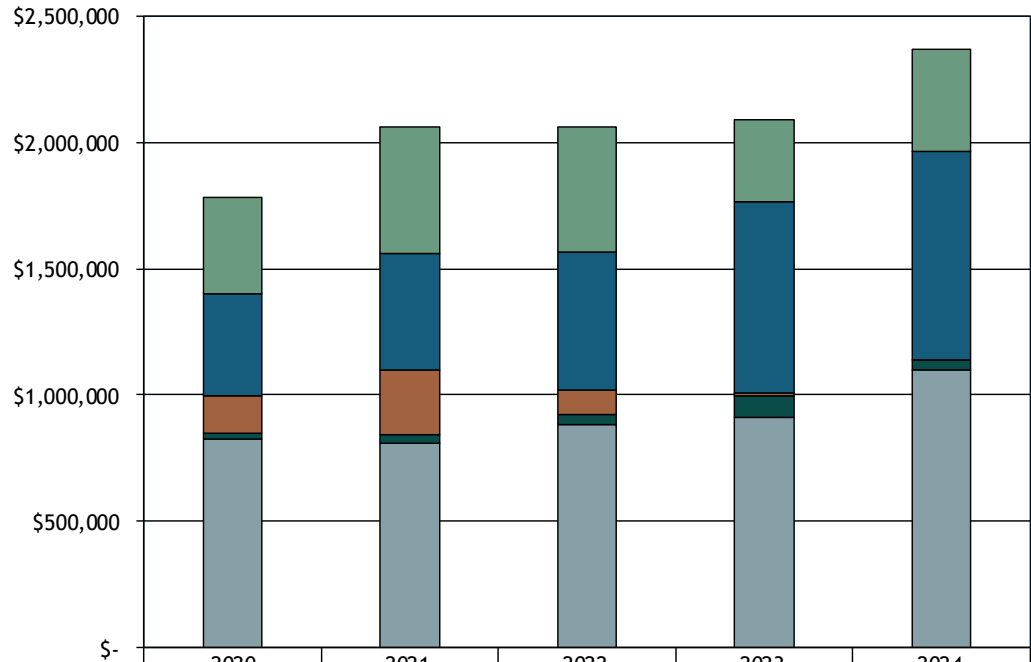
General Fund receipts totaled \$2,471,020 in 2024. Taxes and assessments receipts increased \$251,545 due to an increase in the property tax levy. Intergovernmental receipts decreased \$128,909 due to American Rescue Plan Act funds received in the prior year.

In addition to the receipts discussed above, the General Fund also received cash of \$230,000 in transfers from other funds.

**City of Peosta
Financial Analysis**

General Fund Disbursements

General Fund Disbursements



	2020	2021	2022	2023	2024
General Government	\$381,177	\$498,894	\$496,215	\$326,513	\$403,811
Public Safety	406,433	462,452	548,307	758,196	826,102
Public Works	144,365	252,664	93,004	7,388	-
Community and Economic Development	24,554	34,692	43,438	86,803	37,246
Culture and Recreation	826,787	810,332	881,936	911,363	1,100,315

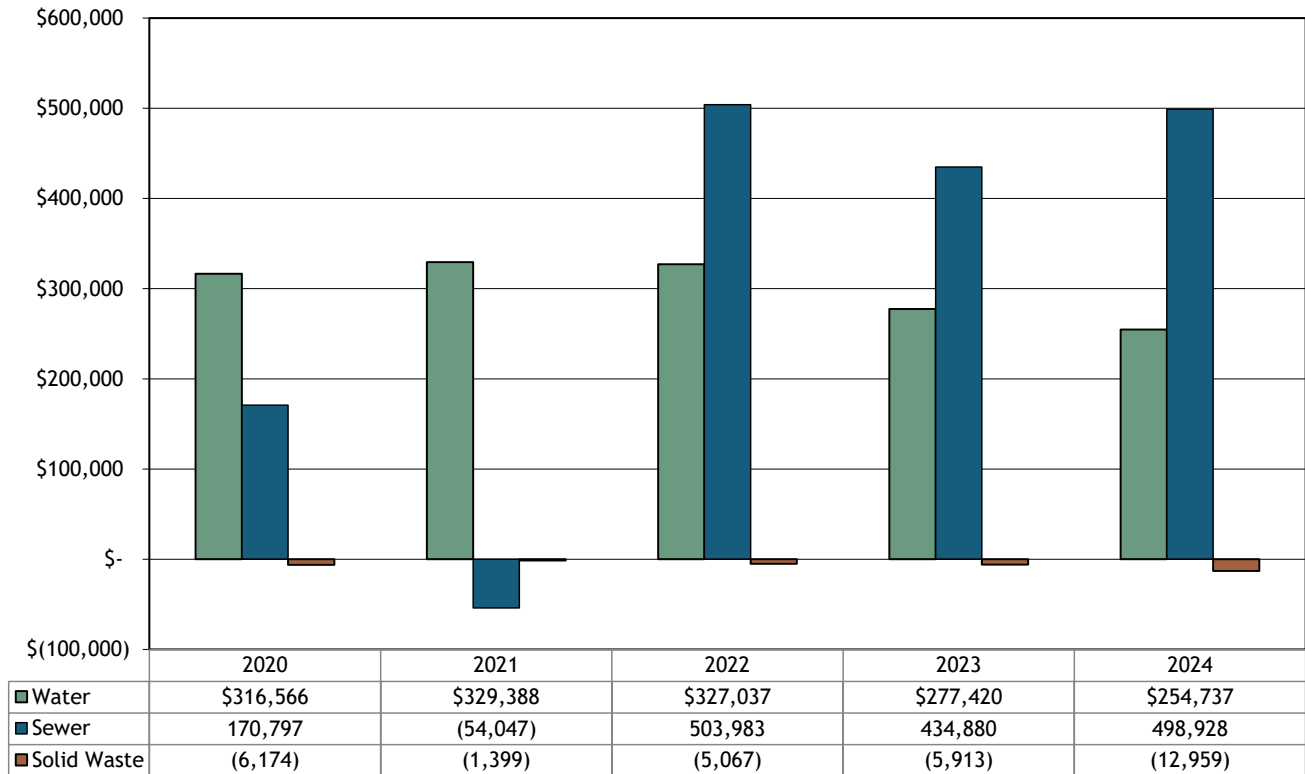
General Fund disbursements totaled \$2,367,474 in 2024. General government disbursements increased \$77,298 due to increased salaries and benefits. Public safety disbursements increased \$67,906 due to increased salaries and benefits. Culture and recreation disbursements increased \$188,952 due to increased capital purchases. Community and economic development disbursements decreased \$49,557 due to fewer legal disbursements.

**City of Peosta
Financial Analysis**

Enterprise Funds

The following graph shows the operating income for the Enterprise Funds:

Operating Income - Enterprise Funds



In 2024, the Water Fund had an operating income of \$254,737. This operating income was due to positive operations in the fund.

In 2024, the Sewer Fund had an operating income of \$498,928. This operating income was due to positive operations in the fund.

In 2024, the Solid Waste Fund had an operating loss of \$12,959. This operating loss was due to negative operations in the fund.

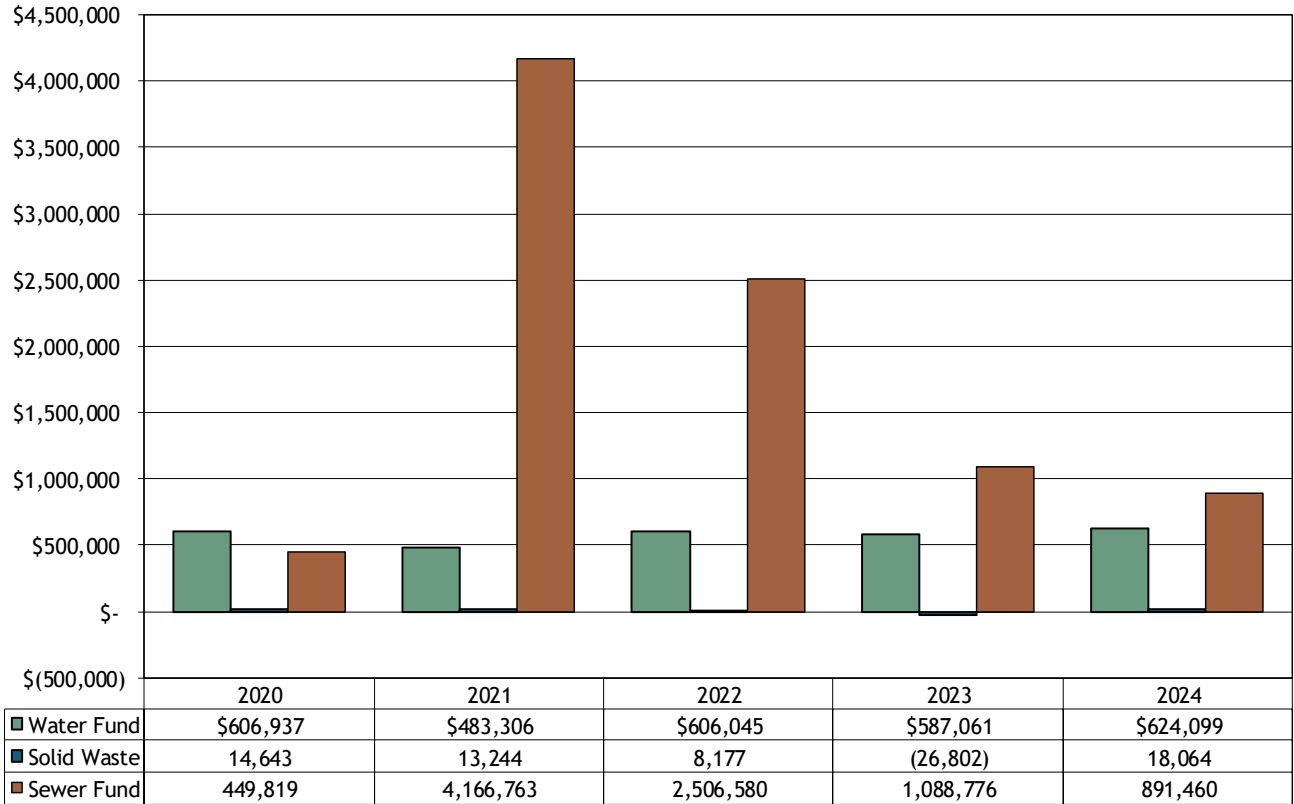
We recommend the City continue to monitor operating costs in the Enterprise Funds to ensure rates are sufficient to provide continued operating income and to cover debt payment requirements.

**City of Peosta
Financial Analysis**

Enterprise Funds (Continued)

The following graph illustrates the total cash and cash equivalents for the Enterprise Funds:

Enterprise Fund Cash Position



The Water Fund also had nonoperating receipts of \$8,220, capital project disbursements of \$140,270 and net transfers out to other funds of \$85,649. Cash balances increased \$37,038 to an ending balance of \$624,099.

The Sewer Fund also had nonoperating receipts of \$379,951, debt service disbursements of \$399,208 capital project disbursements of \$47,201, bond issuance proceeds of \$798,058 and net transfers out to other funds of \$1,427,844. Cash balances decreased \$197,316 to an ending balance of \$891,460.

The Solid Waste Fund also had nonoperating receipts of \$46 and capital project disbursements of \$12,221 and net transfers from other funds of \$70,000. Cash balances increased \$44,866 to an ending balance of \$18,064.