

**City of Independence**  
**Communications Letter**  
**June 30, 2023**

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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 Independence  
Independence, Iowa

In planning and performing our audit of the basic financial statements of the governmental activities, business-type activities, each major fund, the aggregate remaining fund information and the discretely presented component unit of the City of Independence, as of and for the year ended June 30, 2023, 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 certain deficiency in internal control that we consider to be a significant deficiency.

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.

We did not identify any deficiencies in internal control that we consider to be material weaknesses.

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. The significant deficiencies identified are stated within this letter.

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, 2023, on such statements.

The purpose of this communication, which is an integral part of our audit, is to describe for the management and 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.

*BerganKDV, Ltd.*

Minneapolis, Minnesota  
December 5, 2023

**City of Independence  
Significant Deficiency**

**Lack of Segregation of Accounting Duties**

**A. Independence Fire Department – A Blended Component Unit**

*Criteria:*

An effective internal control system provides for adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so the authorization, custody and recording of transactions are not under the control of the same employee. The segregation of duties helps prevent losses from employee error or dishonesty and maximizes the accuracy of the Fire Department's financial information.

*Condition:*

All accounting functions are handled by the Treasurer.

**B. Independence Public Library Foundation – A Discretely Presented Component Unit**

*Criteria:*

An effective internal control system provides for adequate segregation of duties so no on individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so the authorization, custody and recording of transactions are not under the control of the same employee. The segregation of duties helps prevent losses from employee error or dishonesty and maximizes the accuracy of the Foundation's financial information.

*Condition:*

All accounting functions are handled by one or two individuals without adequate compensating controls.

## **City of Independence Required Communication**

We have audited the basic financial statements of the governmental activities, each major fund, and discretely presented component units of the City as of and for the year ended June 30, 2023. 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.

## **City of Independence Required Communication**

### **Our Responsibility in Relation to Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)**

As communicated in our engagement letter, in accordance with the Uniform Guidance, we examined on a test basis, evidence about the City's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Compliance Supplement applicable to each of its major federal programs for the purpose of expressing an opinion on the City's compliance with those requirements. While our audit provided a reasonable basis for our opinion, it did not provide a legal determination on the City's compliance with those requirements.

In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance.

### **Planned Scope and Timing of the Audit**

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

### **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:

- Management Override of Controls – Overall Financial Statements – Management override of internal control is considered a risk in substantially all engagements as management may be incentivized to produce better results.
- Improper Revenue Recognition – Revenue recognition is considered a fraud risk on substantially all engagements as it generally has a significant impact on the results of the governments operations. In addition, complexities exist surrounding the calculation and recording of various revenue sources including property taxes and certain charges for services.
- Risk of Misappropriation of Assets – If accounting duties cannot be appropriately segregated, there is a risk of unauthorized disbursements being made from the City.

### **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 basic financial statements. There have been no initial selection of accounting policies and no changes to significant accounting policies or their application during 2023. 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.

## **City of Independence Required Communication**

### **Qualitative Aspects of the City's Significant Accounting Practices (Continued)**

#### *Significant Accounting Estimates*

Accounting estimates 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 estimate affecting the basic financial statements relate to:

Expense Allocation – The City is currently allocating salaries among Governmental and Enterprise Funds. The costs are allocated based on management's estimates.

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.

### **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.

Management did not identify, and we did not notify them of any uncorrected financial statement misstatements.

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.



## **City of Independence Required Communication**

### **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**

During the audit, we noted these instances of noncompliance with state statute:

- One fund had a deficit fund balance.
- Expenditures exceeded budgeted amounts in one function area.

### **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 Independence Financial Analysis

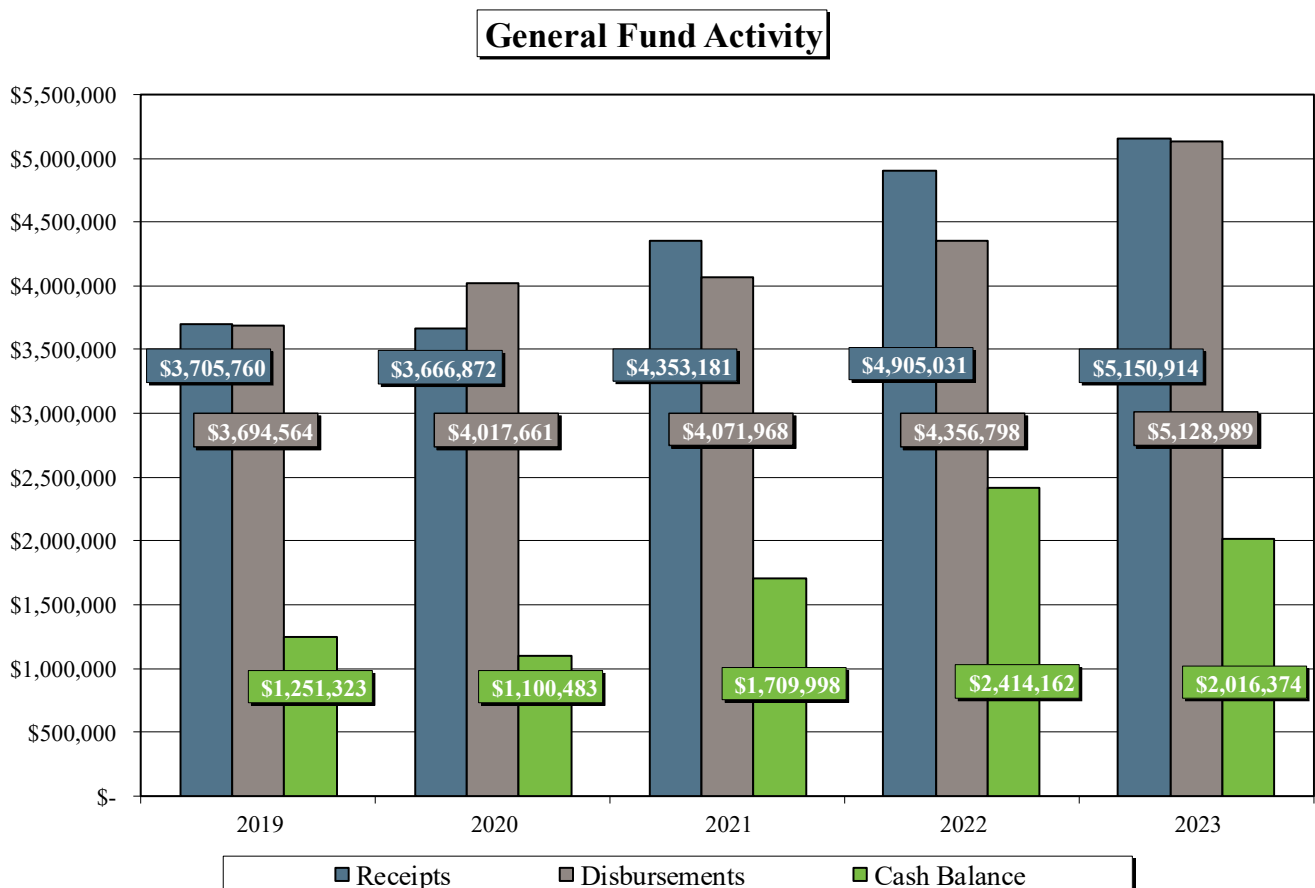
The following pages provide graphic representation of select data pertaining to the financial position and operations of the City for the past five years. Our analysis of each graph is presented to provide a basis for discussion of past performance. We suggest you review each graph and document if our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

### General Fund

Receipts exceeded disbursements by \$21,925 in 2023, after transfers in and out, and other financing sources, the General Fund cash balance decreased by \$397,788.

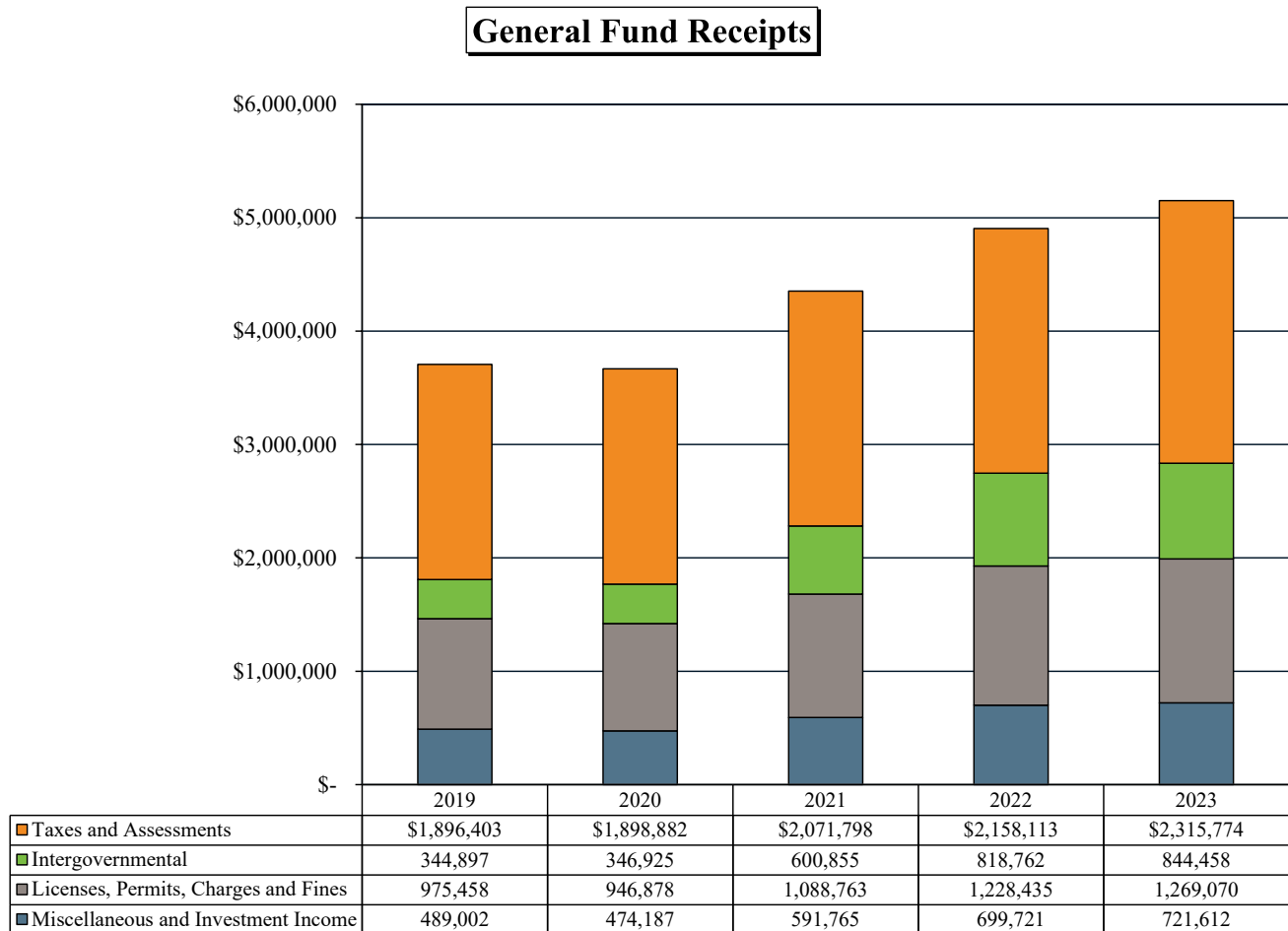
The following bar graph highlights the General Fund operations for the past five years. The receipts and disbursements below do not include other financing sources or uses, such as operating transfers and debt proceeds.

The City's fund balance policy states that the City will have 25% of operating expenditures in unassigned fund balance. Unassigned fund balance of \$1,743,480 at June 30, 2023, represents 34% of expenditures based on 2023 expenditure levels.



# City of Independence Financial Analysis

## General Fund Receipts

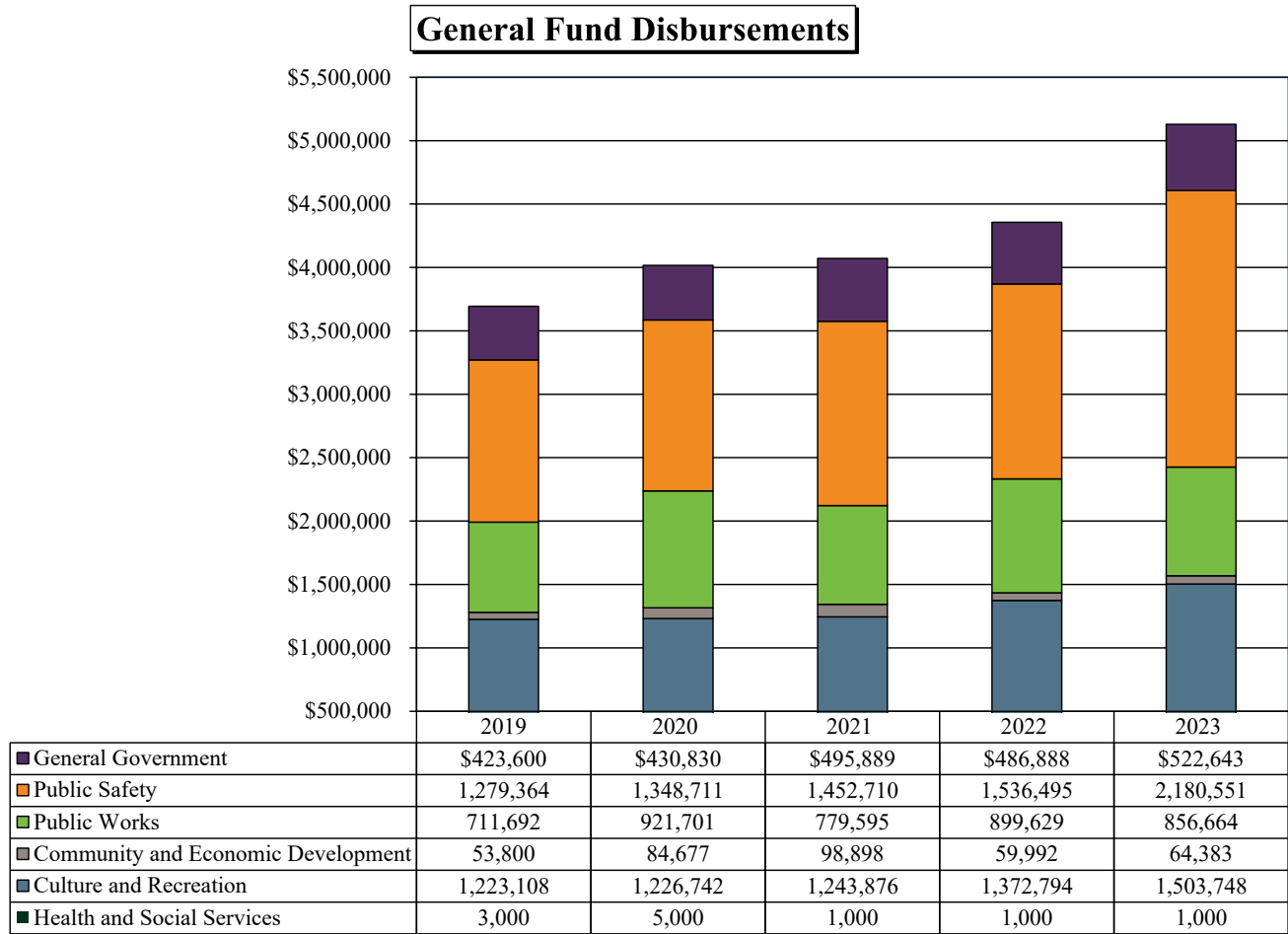


General Fund receipts increased approximately 5%, or \$245,883, during 2023. Taxes and assessment receipts increased due to an increase in the levy. Other sources of revenue were consistent with prior year amounts.

In addition to the receipts discussed above, the General Fund also received cash in the form of transfers from other funds totaling \$13,483 in 2023 as well as \$501 in proceeds from the sale of capital assets.

# City of Independence Financial Analysis

## General Fund Disbursements



General Fund disbursements increased in 2023, from \$4,356,798 in 2022 to \$5,128,989 in 2023. This was an increase of \$772,191 or 17.7%. Public safety disbursements increased due to increased salaries and benefits as well as costs for a new police department building. Culture and recreation disbursements increased due to increased salaries for aquatic center employees. All other categories of expenditures were similar to the prior year.

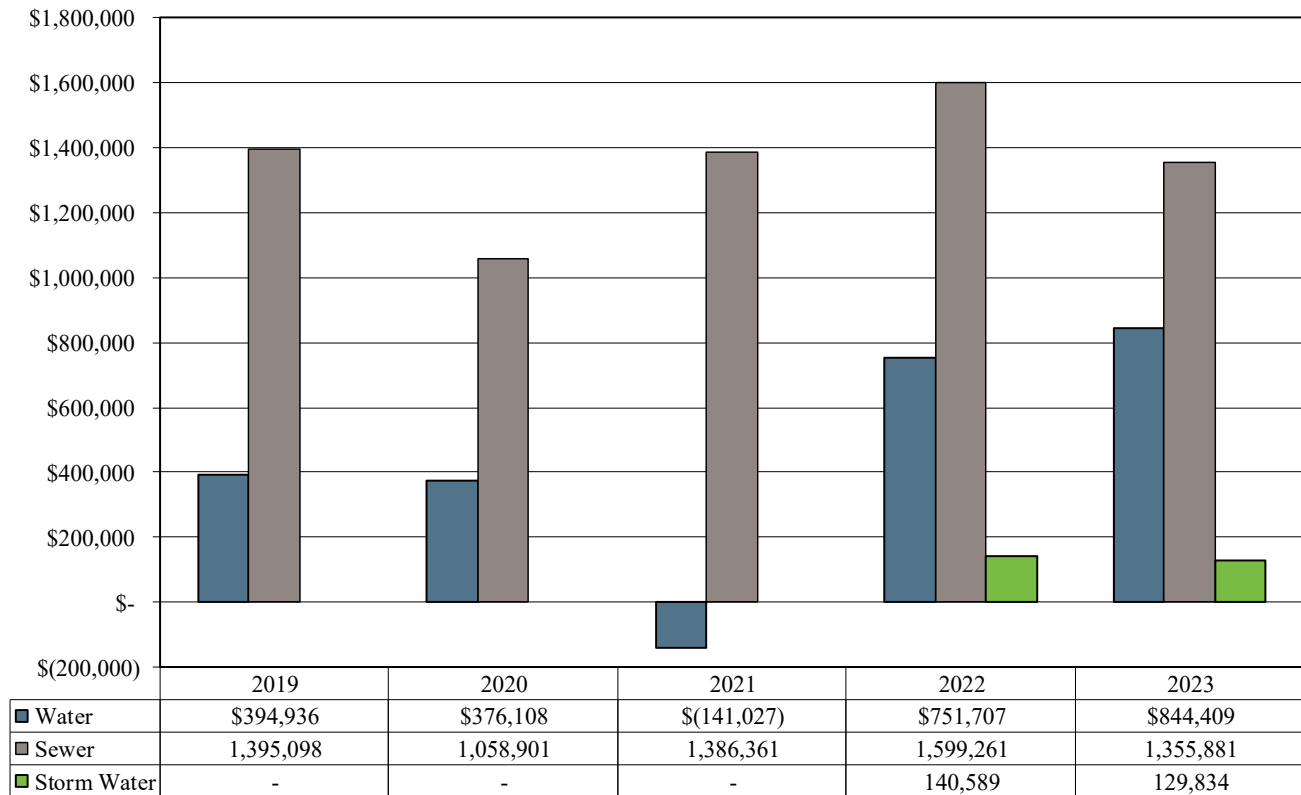
In addition to the disbursements discussed above, the General Fund also transferred out cash to other funds totaling \$433,697 in 2023.

## City of Independence Financial Analysis

### Enterprise Funds

The following graph shows the operating income for the Enterprise Funds for the last five years:

**Operating Income - Enterprise Funds**



In 2023, the Water Fund had an operating income of \$844,409, which is an increase of \$92,702 from 2022. The operating income increased due to fewer meter purchases and fewer repair and maintenance costs. In addition, there were non-operating disbursements for debt service and capital projects of \$89,058 and \$414,644, respectively. There were also net transfers in of \$24,321.

The Sewer Fund's 2023 operating income was \$1,355,881, which is a decrease of \$243,380 from 2022. This decrease in operating income was primarily due to timing of receipts as well as increased engineering costs related to the wastewater plant redesign. In addition, there were non-operating disbursements for debt service and capital projects of \$290,520 and \$59,411, respectively. There were also net transfers out of \$289,029.

The Storm Water Fund's 2023 operating income was \$129,834, which is a decrease of \$10,755 from 2022. This decrease in operating income was primarily due costs needed to improve operations during the fund's second year of operation. In addition, there were non-operating disbursements for capital projects of \$133,362. There were also bond proceeds of \$810,000.

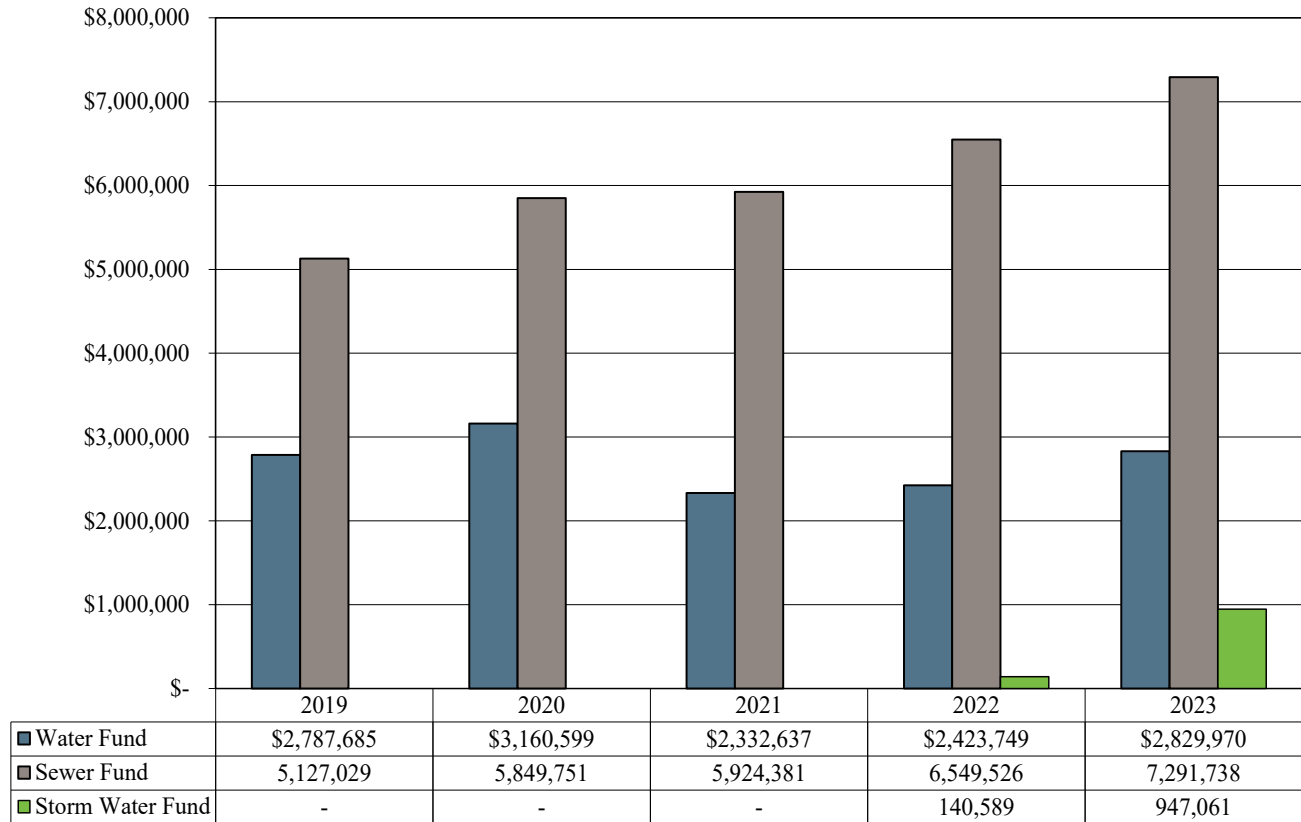
We recommend the City continue to monitor operating costs in the Enterprise Funds to ensure rates are sufficient to provide continued operating income and to cover debt payment requirements.

## City of Independence Financial Analysis

### Enterprise Funds (Continued)

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

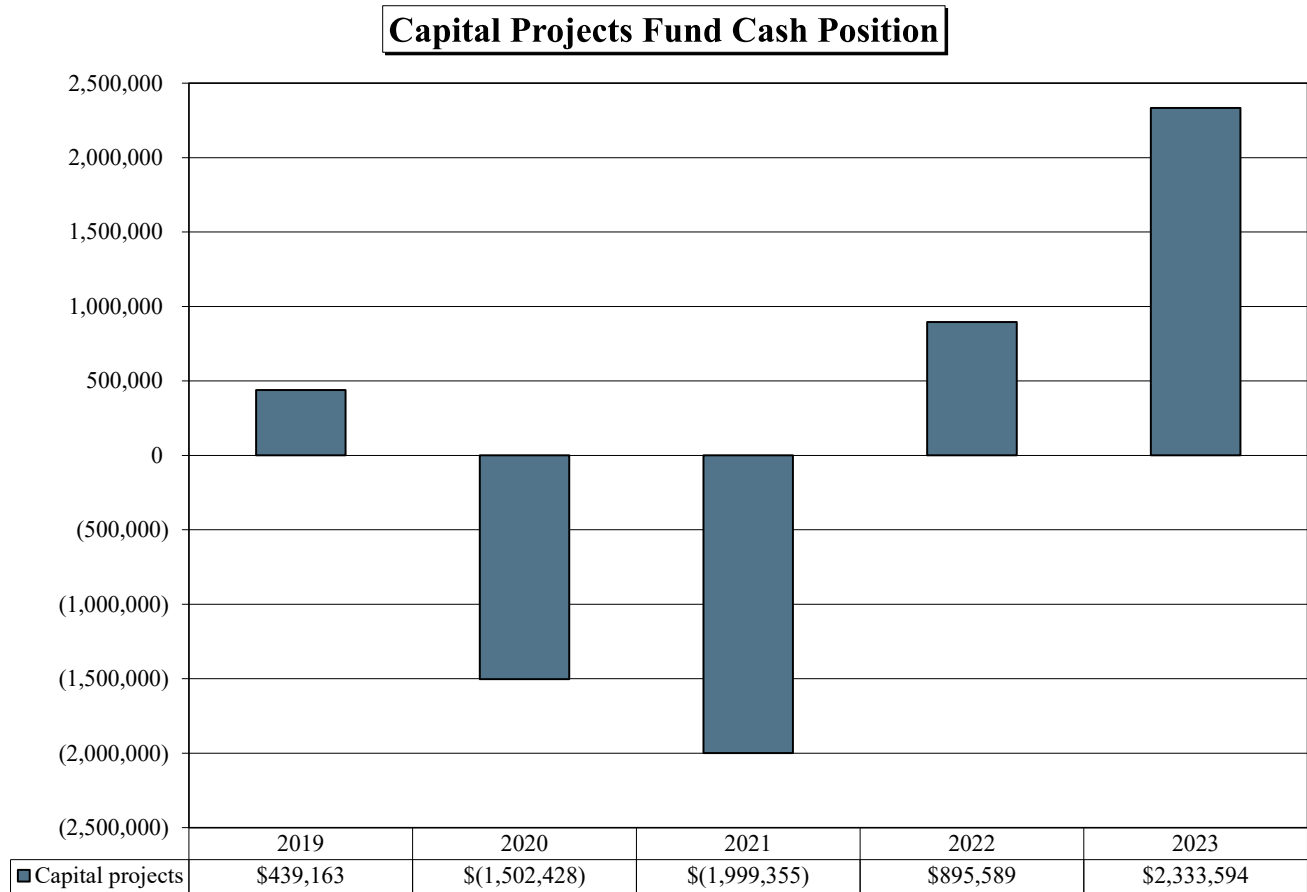
**Enterprise Fund Cash Position**



Cash balances of the Sewer Fund increased for each of the five years presented. Cash balances of the Water Fund increased in 2020 due to fewer capital disbursements. The cash balance decreased in 2021 due to the purchase of a large number of water meters and stayed consistent in 2022. The cash balance increased in 2023 due to fewer capital disbursements. Cash balances of the Storm Water Fund increased due to a bond issuance.

# City of Independence Financial Analysis

## Capital Projects Fund



The cash balance of the Capital Projects fund has fluctuated the five years presented due to timing of bond issuances, project expenditures, grants, and transfers. This fund ended the year with a cash position of \$2,333,594. We recommend monitoring this fund to ensure that capital projects are appropriately and sufficiently funded.