

**City of Coralville  
Johnson County, Iowa**

**Communications Letter**

**June 30, 2021**



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

Honorable Mayor, Members  
of the City Council and Management  
City of Coralville  
Coralville, Iowa

In planning and performing our audit of the basic financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Coralville, as of and for the year ended June 30, 2021, 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 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 13, 2021, on such statements.

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

*BergankDV, Ltd.*

St. Cloud, Minnesota  
December 13, 2021

**City of Coralville  
Material Weakness**

**Material Audit Adjustment and Prior Period Adjustments**

We proposed a number of audit adjustments that we considered, both individually and in the aggregate, to be quantitatively material to the basic financial statements. This condition could adversely affect the City's ability to present basic financial statements free of material misstatements. A material audit adjustment and prior period adjustments were proposed. The following areas needed adjustment: land held for resale, loans receivable, capital assets and cash.

## **City of Coralville Required Communication**

We have audited the basic financial statements of the governmental activities, business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City as of and for the year ended June 30, 2021. 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 financial statements prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the 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 financial statements are free of material misstatement. An audit of 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.

Generally accepted accounting principles provide for certain Required Supplementary Information (RSI) to supplement the financial statements. Our responsibility with respect to the RSI, which supplements the basic audit financial statements, is to apply certain limited procedures in accordance with generally accepted auditing standards. However, the RSI was not audited and, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance, we do not express an opinion or provide any assurance on the RSI.

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

Our responsibility with respect to the other information in documents containing the audited financial statements and auditor's report does not extend beyond the 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.

## **City of Coralville Required Communication**

### **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.

### **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.

### **Qualitative Aspects of 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 2021. 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 Coralville Required Communication**

### **Qualitative Aspects of 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 current judgements. Those judgements are normally based on 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 markedly from management's current judgements. The most sensitive estimates affecting the basic financial statements are:

Depreciation – The City is currently depreciating its capital assets over their estimated useful lives, as determined by management, using the straight-line method.

Total Other Post Employment Benefits (OPEB) Liability, Deferred Outflows of Resources Related to OPEB and Deferred Inflows of Resources Related to OPEB – These balances are based on an actuarial study using the estimates of future obligations of the City for post employment benefits.

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

Allowance for Loan Receivable – This balance is based on the likelihood that the loans will be forgiven.

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 financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The 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 basic financial statement misstatements



## **City of Coralville Required Communication**

### **Uncorrected and Corrected Misstatements (Continued)**

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. The following material misstatements that we identified as a result of our audit procedures were brought to the attention of and corrected by management.

- Capital assets
- Loans receivable
- Land held for resale

### **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, operating and regulatory conditions affecting the City, and operating 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.

### **Other Information in Documents Containing Audited Basic Financial Statements**

We applied certain limited procedures to the RSI that supplements the 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 financial statements, and other knowledge we obtained during our audit of the financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

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 financial statements or to the financial statements themselves.

## City of Coralville 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 and how implementing certain changes may enhance future performance. A subsequent discussion of this information should be useful for planning purposes.

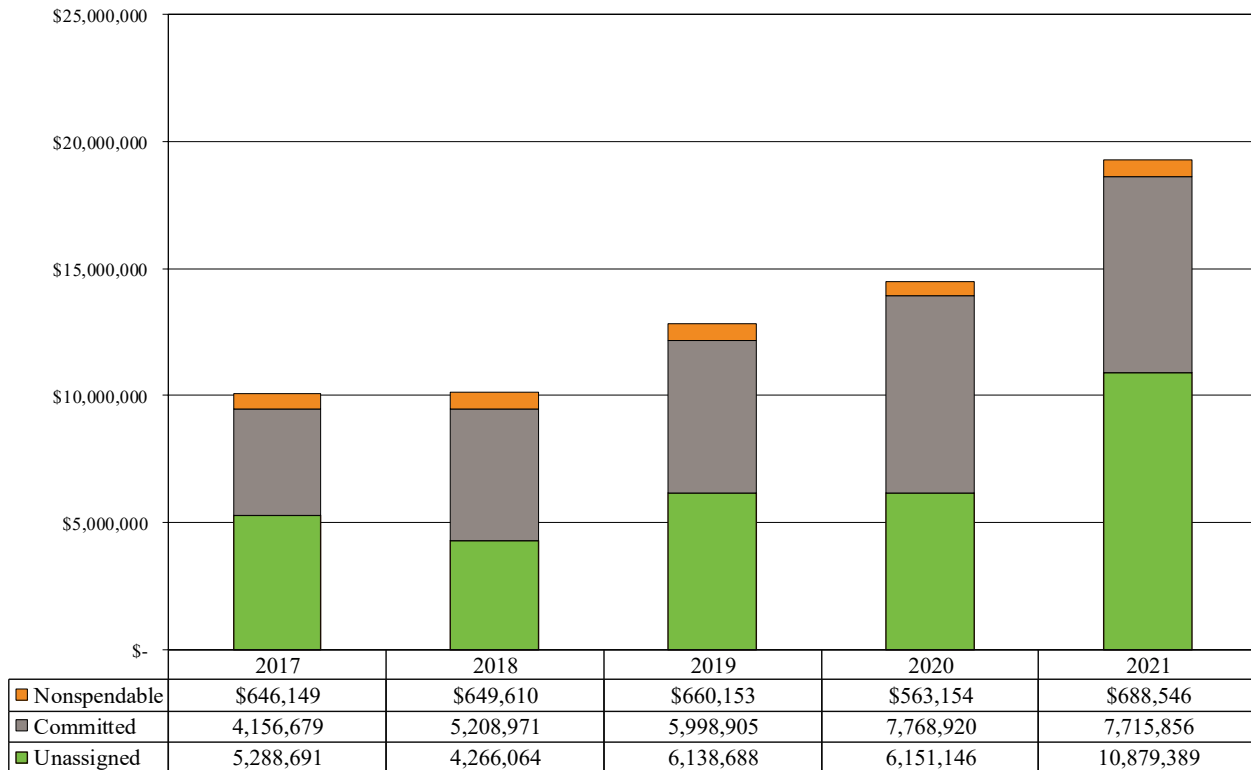
### General Fund

Total fund balance in the General Fund increased 33.1% in 2021 to \$19,283,791, the largest fund balance in the five years presented. General Fund revenues and other financing sources exceeded expenditures and other financing uses by \$4,800,571 during 2021. A more detailed analysis of the General Fund revenue and expenditure components are presented on the following pages.

The City's fund balance policy establishes a fund balance minimum of 35% of the operating expenses of the fund. The current General Fund unassigned fund balance represents 52.8% of 2021 General Fund expenditures, or over six months of expenditures.

A five year history of General Fund balance is shown below.

**General Fund Balance**

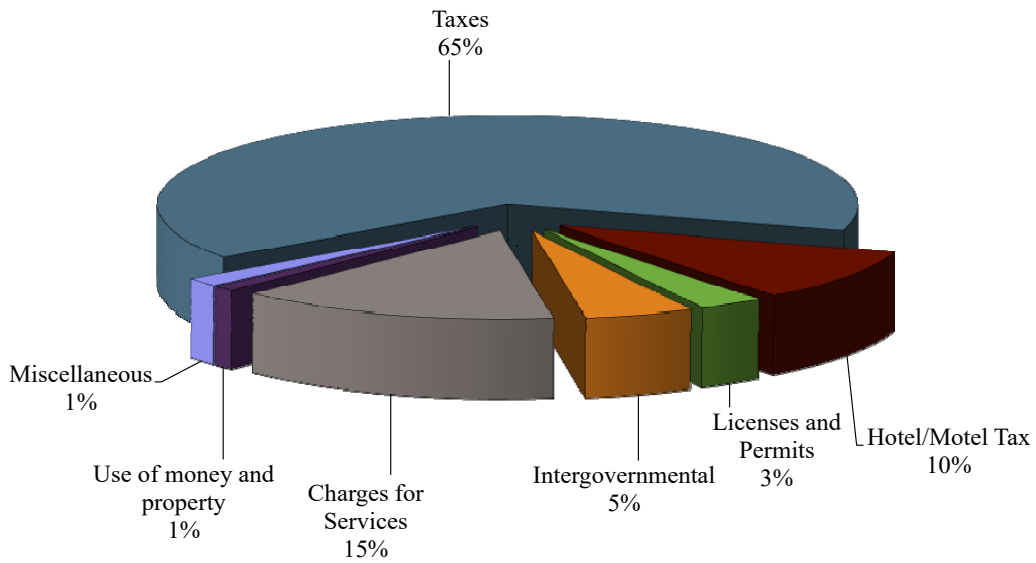


# City of Coralville Financial Analysis

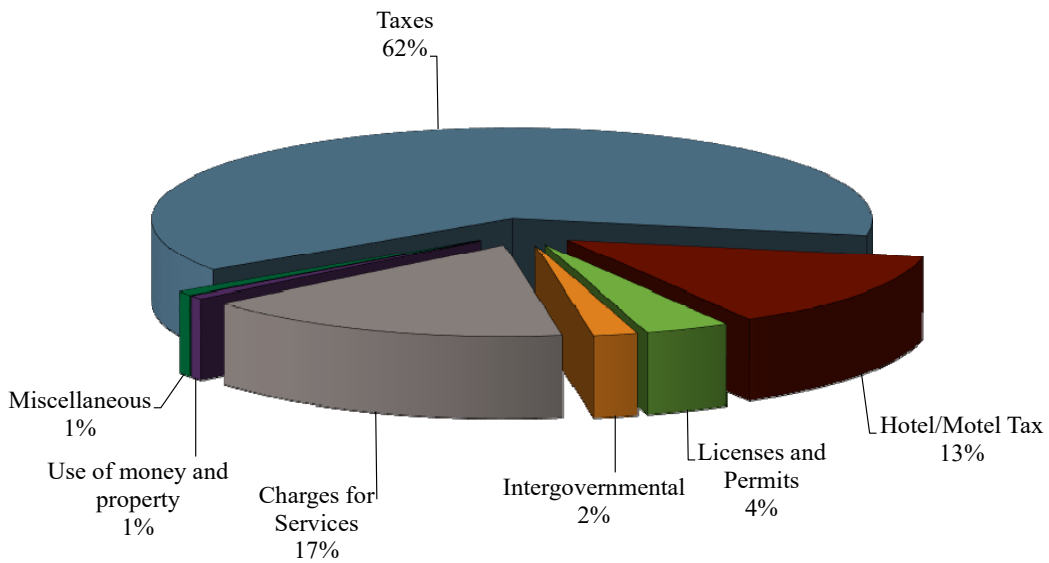
## General Fund Revenues

Allocations of the City's revenues by source for the current and preceding year are displayed below. The allocation was relatively consistent from 2020 to 2021. Intergovernmental revenue increased 3% due to receiving the CARES grant in 2021.

**General Fund Revenues 2021**



**General Fund Revenues 2020**

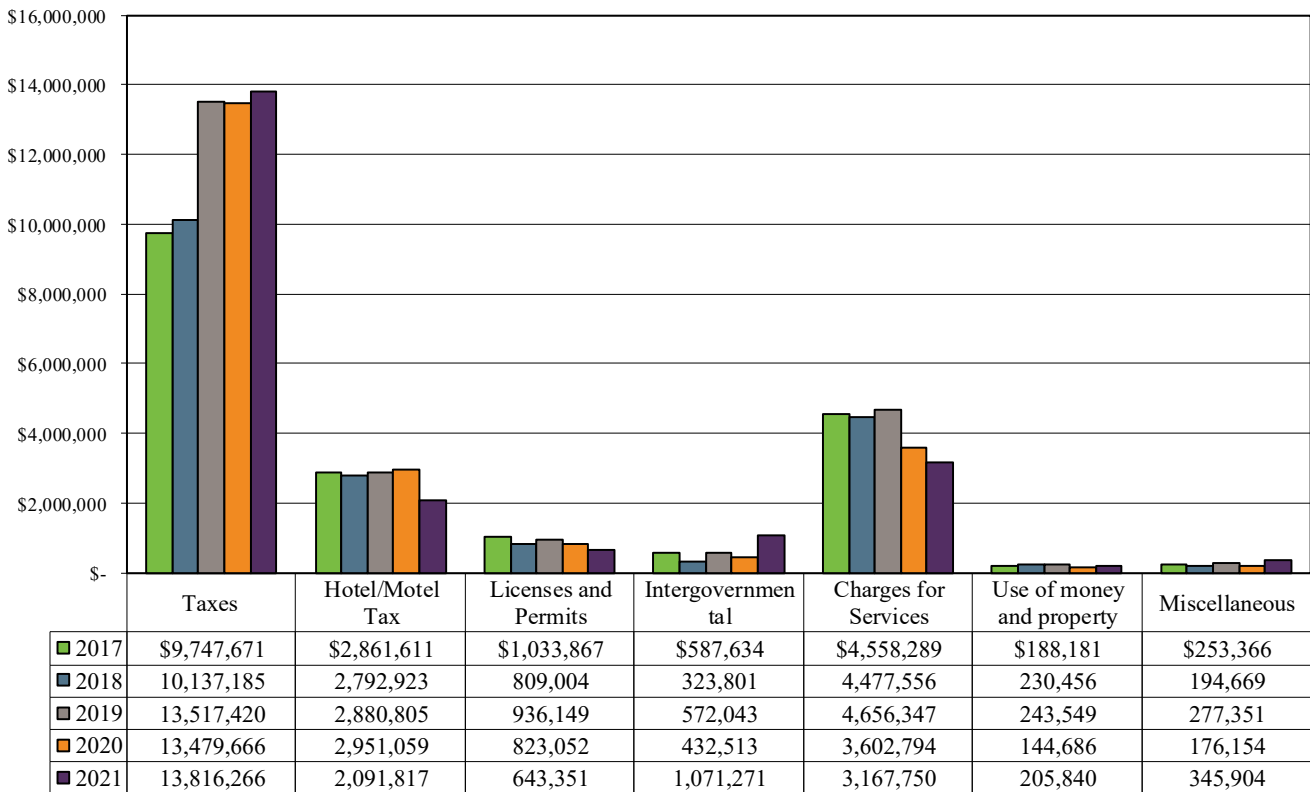


## City of Coralville Financial Analysis

### General Fund Revenues (Continued)

The chart below shows the City's revenues by source for the last five years. Taxes increased \$336,600 due to an increase in the levy. Hotel/motel taxes decreased \$859,242 from 2020 to 2021 due to COVID-19. Intergovernmental revenue increased \$638,758 due to receiving the CARES grant in 2021. Charges for services decreased \$435,044 due to fewer parks and recreations programs due to COVID-19. Other sources of revenue were relatively consistent with 2020 amounts.

**General Fund Revenues**

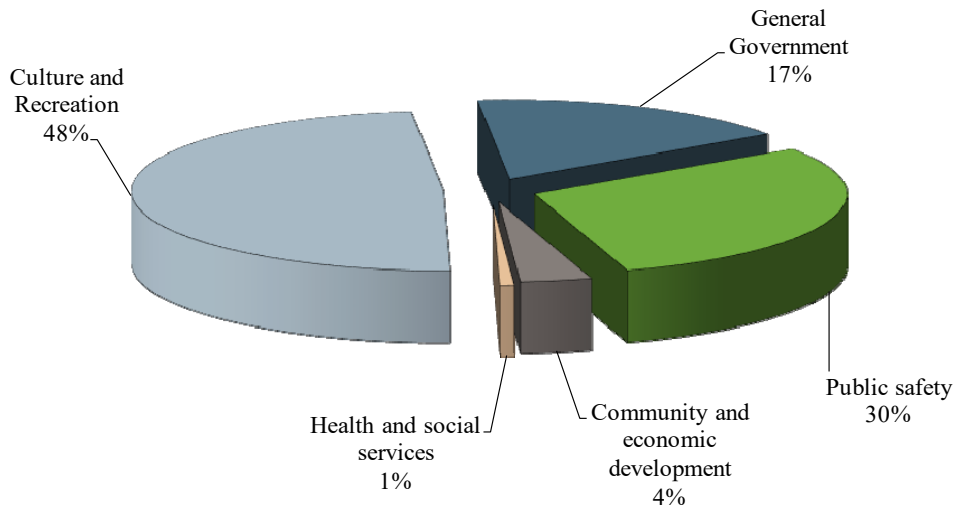


# City of Coralville Financial Analysis

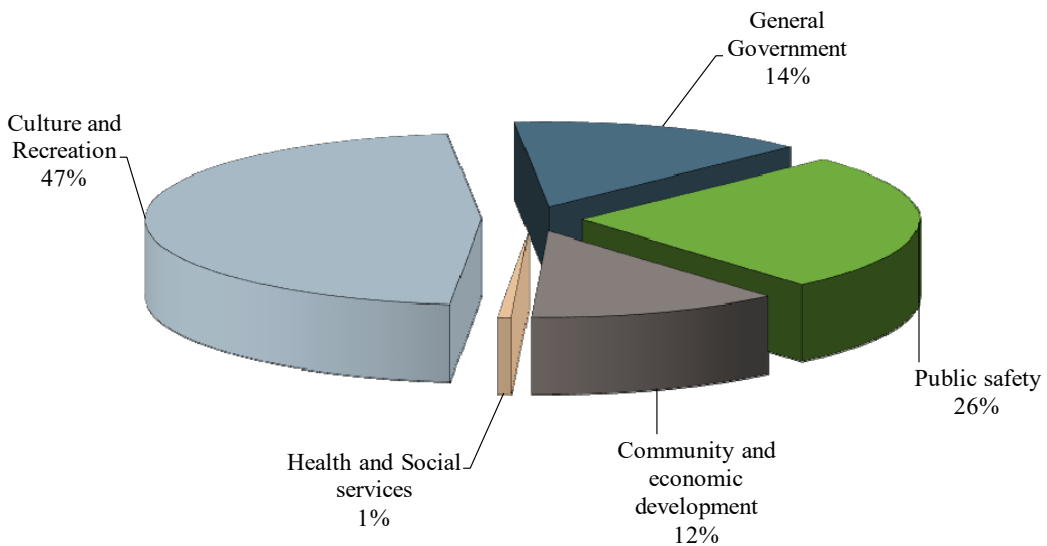
## General Fund Expenditures

The pie charts below show the breakdown of expenditures in the General Fund for the last two years. Economic development decreased by 8% due to larger capital purchases in 2020. That decrease in 2021 caused other functions to slightly increase.

**General Fund Expenditures 2021**



**General Fund Expenditures 2020**

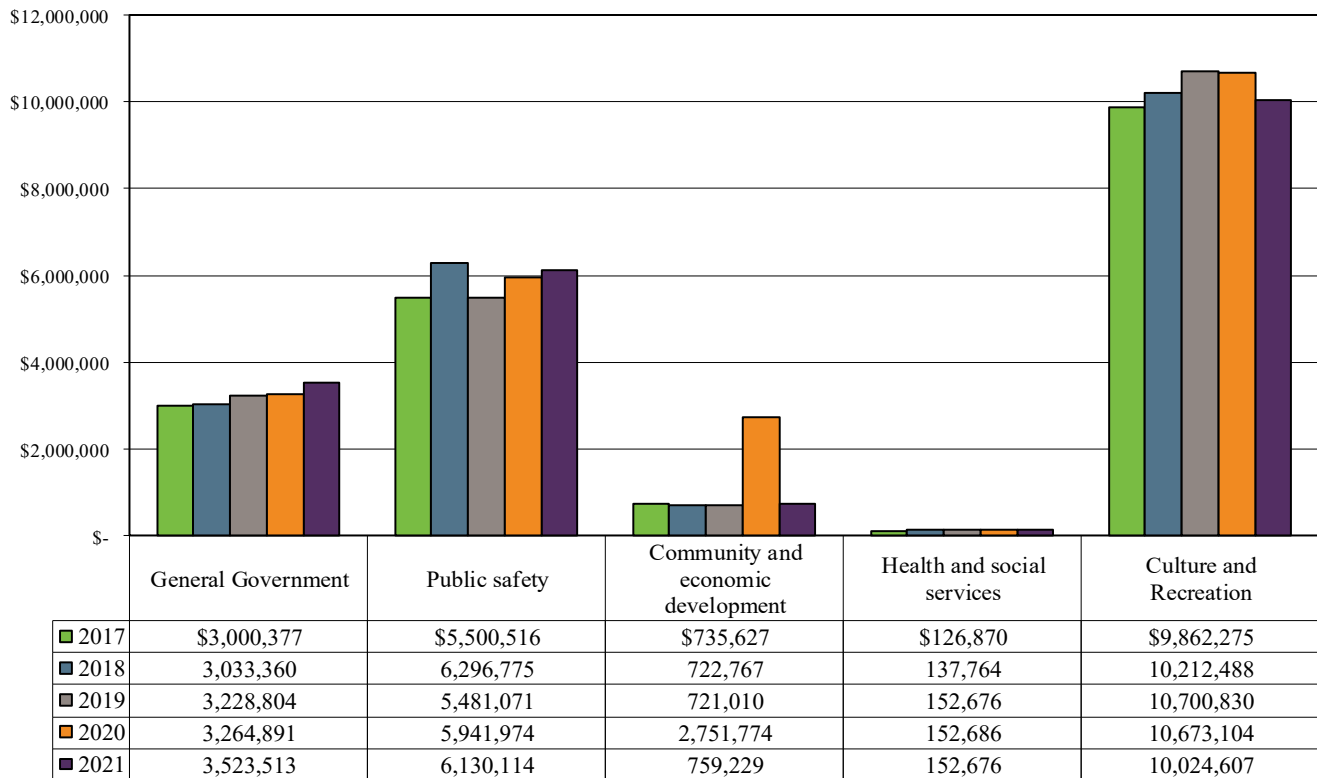


## City of Coralville Financial Analysis

### General Fund Expenditures (Continued)

Five year trend information for General Fund expenditures by function is shown below. From 2020 to 2021 expenditures decreased \$2,194,290. Public safety increased by \$188,140 due to vehicle purchases. General government increased by \$258,622 due to payments made to Johnson County for an Urgent Care Center. Community and economic development decreased \$1,992,545 due to less capital activity. Culture and recreation decreased by \$648,497 due to decreased wages due to COVID-19 as well as fewer capital purchases. Other functions had minor variances from the prior year.

**General Fund Expenditures**

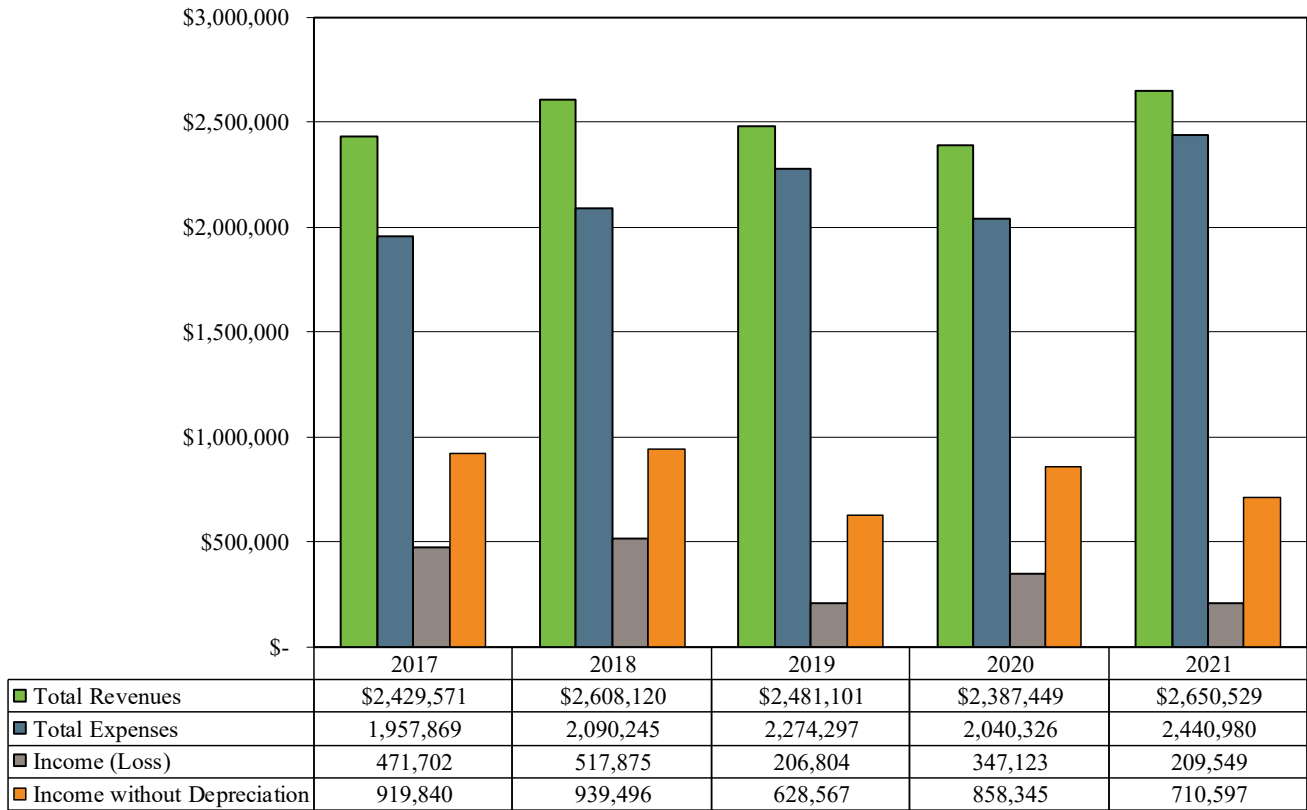


## City of Coralville Financial Analysis

### Water Fund

Five year trend information for the Water Fund is shown below. Revenues have exceeded expenses, including depreciation, for all five years presented. Expenses increased \$400,654, or 19.6% due to the increased repair and maintenance expenses in 2021. Operating revenues increased by \$263,080 or 11.0% from 2020 to 2021 due to increased usage.

**Water Fund**

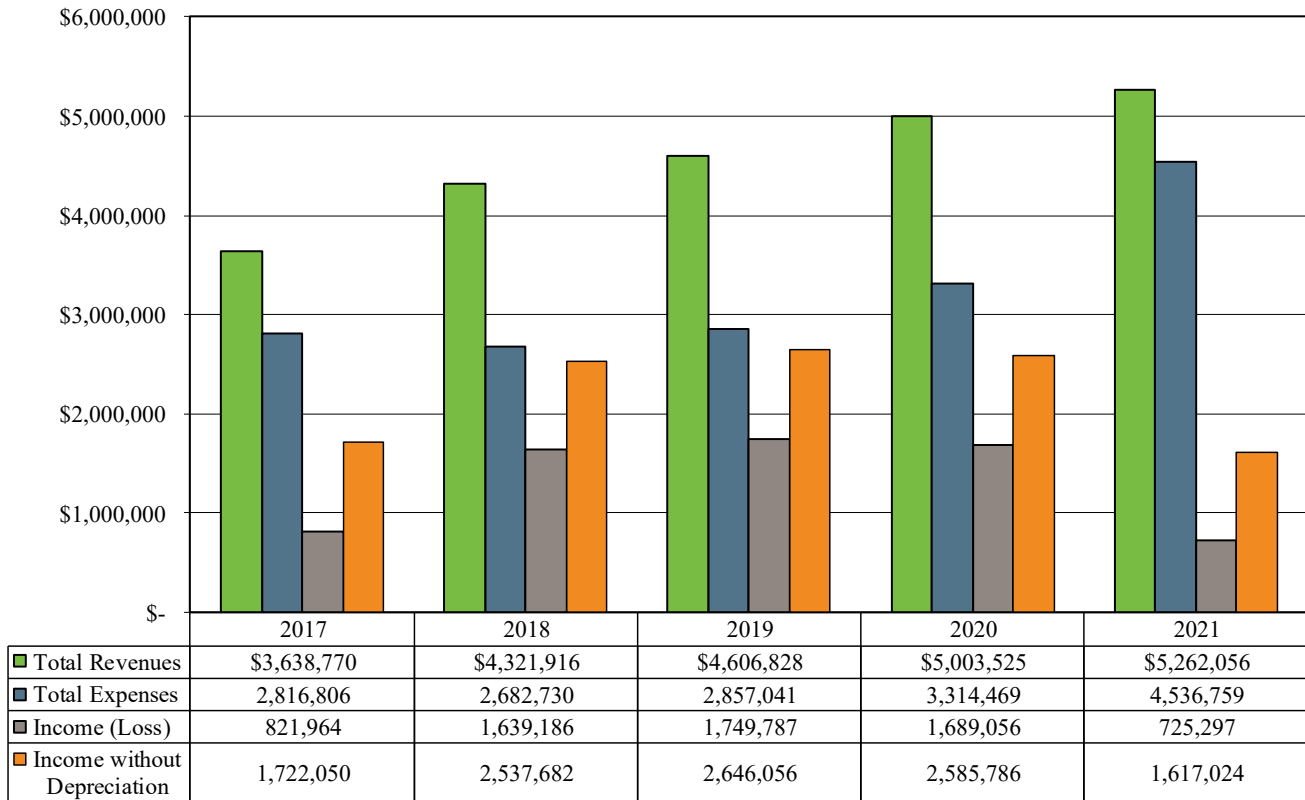


## City of Coralville Financial Analysis

### Sewer Fund

Sewer Fund operating results over the last five years are presented below. Revenues have exceeded expenses in all five years presented. Revenues increased \$258,531 due to increased usage. Expenses increased \$1,222,290 due to payments made to ArenaCo for the reimbursement of storm water roof infrastructure.

**Sewer Fund**



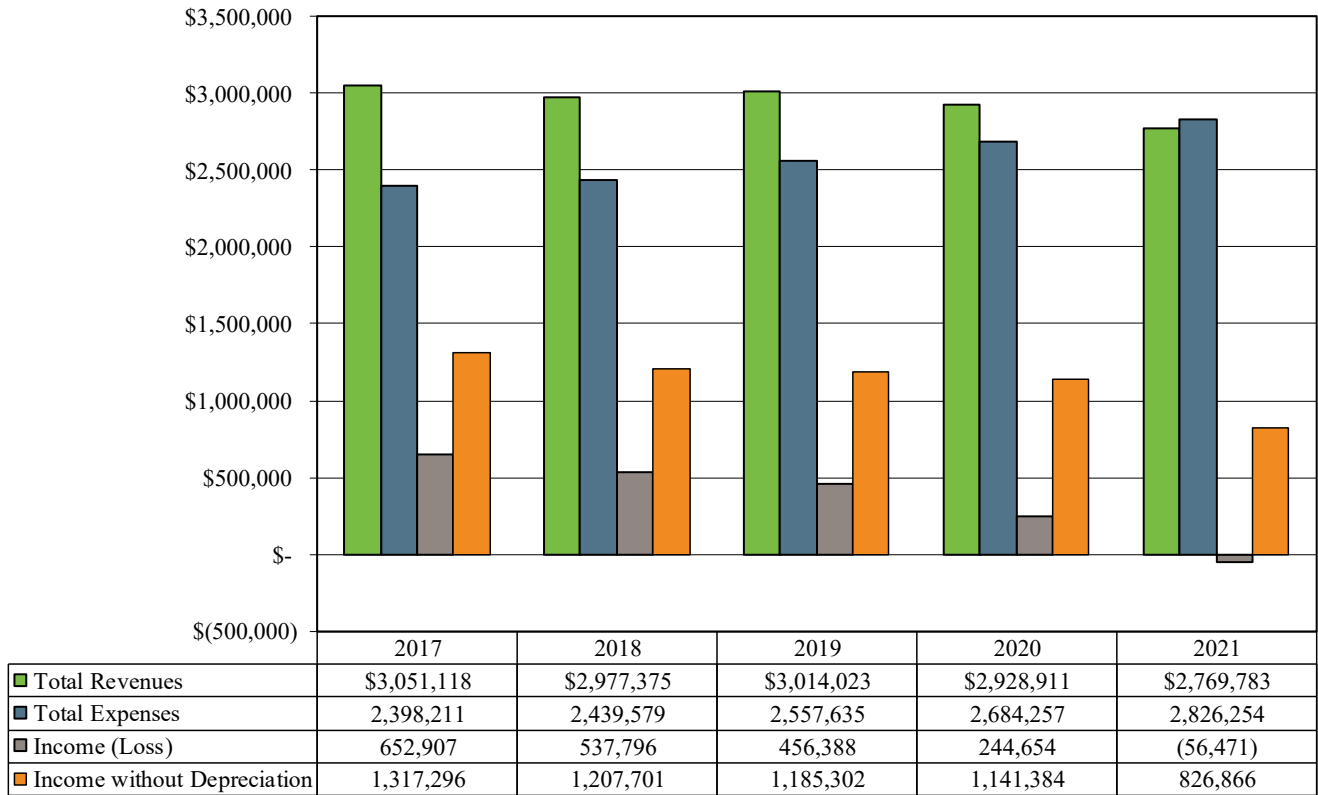


## City of Coralville Financial Analysis

### Parking Fund

Operating results of the Parking Fund are presented below. This Fund has been able to generate operating income with and without depreciation for four of the last five years. From 2020 to 2021, operating revenues of the Fund decreased \$159,128 or 5.4%, due to COVID-19. Operating expenses for the Fund increased \$141,997, or 5.3% due in part to the City refunding more money to the University of Iowa in 2021 than in 2020, under the shared operating agreement for the MOB ramp.

**Parking Fund**



## City of Coralville Financial Analysis

### Hotel Fund

Operating results of the Hotel Fund are presented below. As indicated below, this Fund has shown net income in two out of the five years presented. Revenues decreased \$4,034,813, or 41.9%, from 2020 due to COVID-19. Operating expenses decreased \$2,156,733, or 17.0%, from 2020 due to reductions related to COVID-19. Unrestricted net position has been negative for the five years presented. We recommend monitoring this fund to ensure operations stabilize in relation to the hospitality industry.

**Hotel Fund**

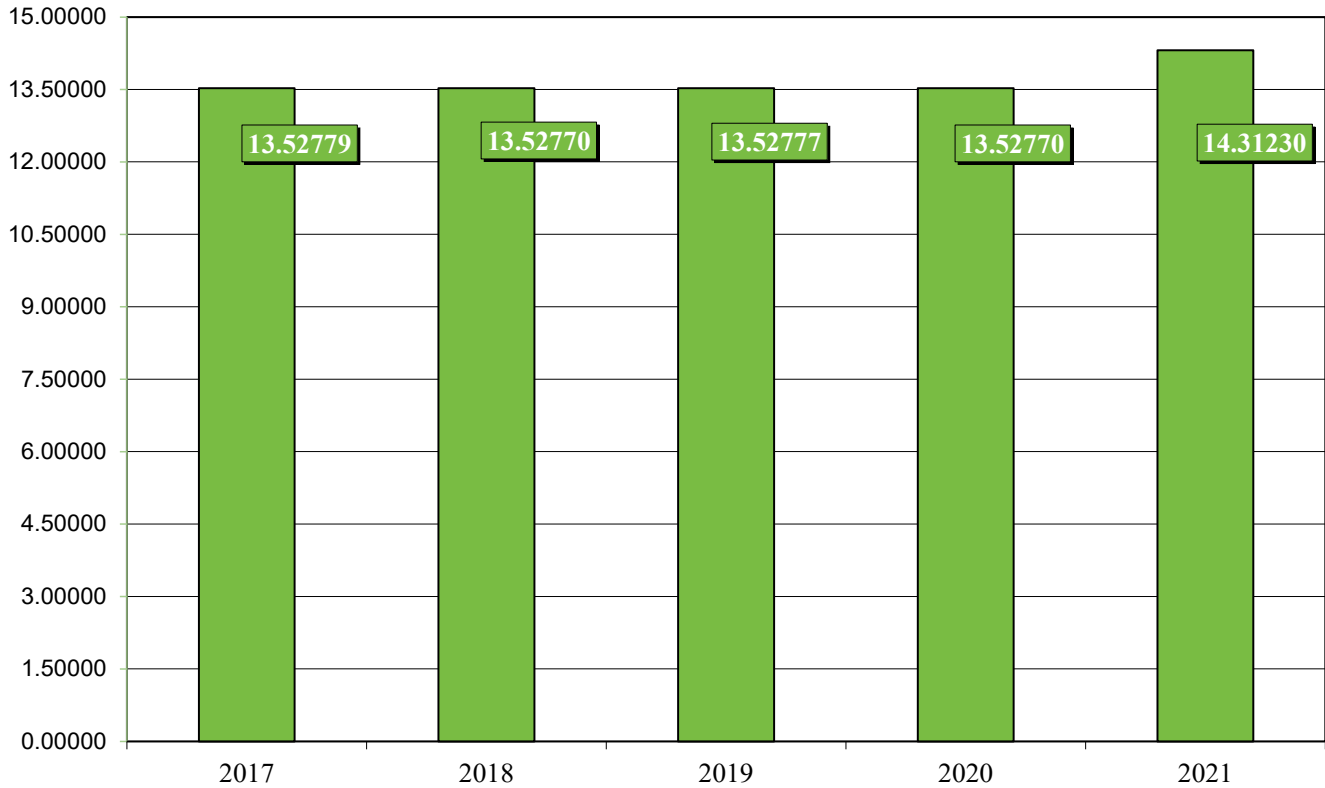


## City of Coralville Financial Analysis

### Tax Capacity, Levy, And Rates

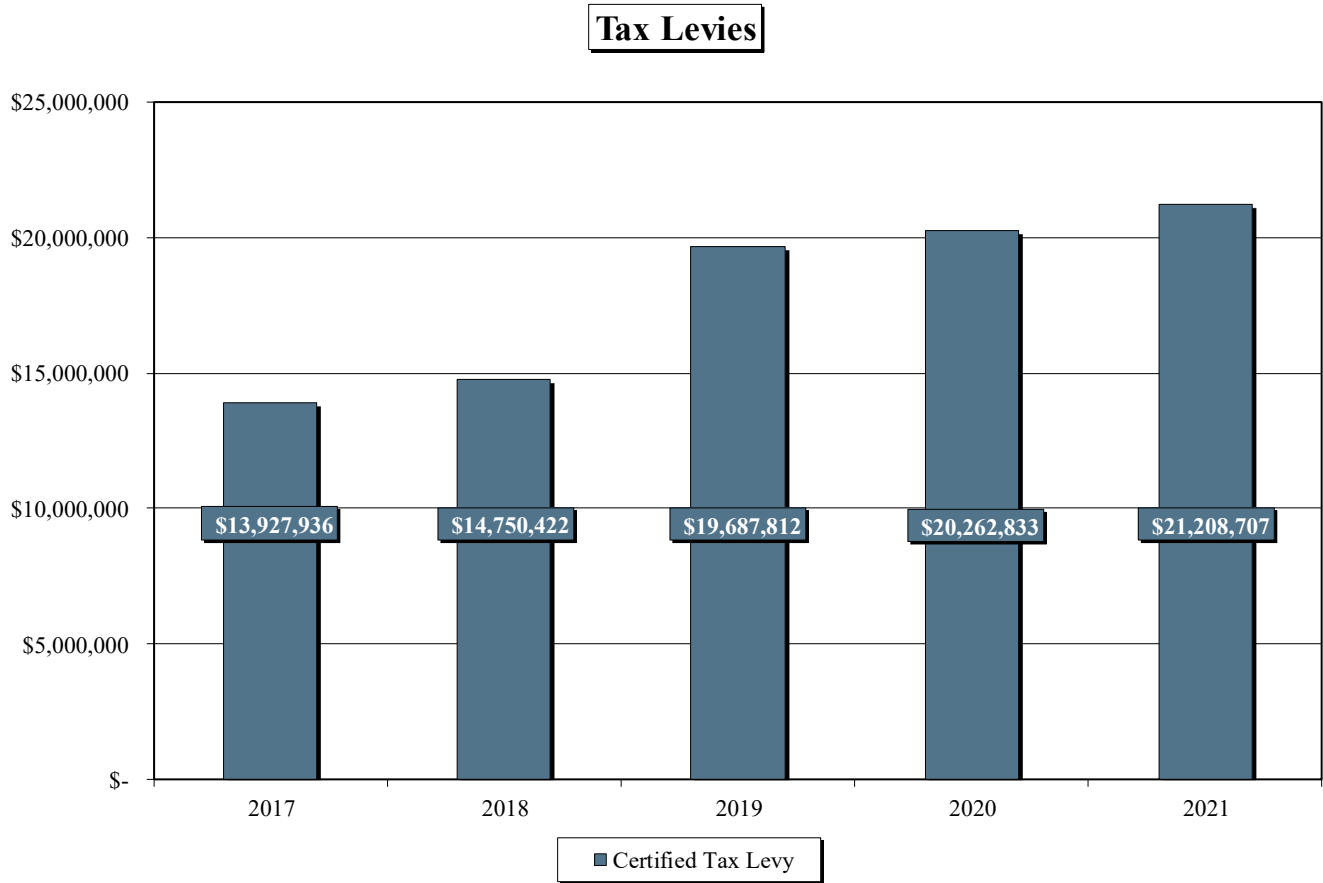
The next two graphs present tax rate and tax levy information for the City for the past five years. Tax rates increased .78453 from 2020 while the property valuation decreased slightly. The property tax levy increased \$945,874 or 4.7%.

**Tax Rates**



# City of Coralville Financial Analysis

## Tax Capacity, Levy, And Rates (Continued)



## City of Coralville Emerging Issue

### Executive Summary

The following is an executive summary of financial and business related updates to assist you in staying current on emerging issues in accounting and finance. This summary will give you a preview of the new standards that have been recently issued and what is on the horizon for the near future. The most recent and significant update includes:

- **Accounting Standard Update – GASB Statement No. 87 – Leases** – GASB has issued GASB Statement No. 87 relating to accounting and financial reporting for leases. This new statement establishes a single model for lease accounting based on the principle that leases are financing of the right to use an underlying asset.

The following is an extensive summary of the current update. As your continued business partner, we are committed to keeping you informed of new and emerging issues. We are happy to discuss this issue with you further and their applicability to your City.

### **Accounting Standard Update – GASB Statement No. 87 – Leases**

The objective of this Statement is to better meet the information needs of basic financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' basic financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

A lease is defined as a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction. Examples of nonfinancial assets include buildings, land, vehicles, and equipment. Any contract that meets this definition should be accounted for under the leases guidance, unless specifically excluded in this Statement.

A short-term lease is defined as a lease that, at the commencement of the lease term, has a maximum possible term under the lease contract of 12 months (or less), including any options to extend, regardless of their probability of being exercised. Lessees and lessors should recognize short-term lease payments as outflows of resources or inflows of resources, respectively, based on the payment provisions of the lease contract.

## **City of Coralville Emerging Issue**

### **Accounting Standard Update – GASB Statement No. 87 – *Leases* (Continued)**

A lessee should recognize a lease liability and a lease asset at the commencement of the lease term, unless the lease is a short-term lease or it transfers ownership of the underlying asset. The lease liability should be measured at the present value of payments expected to be made during the lease term (less any lease incentives). The lease asset should be measured at the amount of the initial measurement of the lease liability, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs. A lessee should reduce the lease liability as payments are made and recognize an outflow of resources (for example, expense) for interest on the liability. The lessee should amortize the lease asset in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset. The notes to basic financial statements should include a description of leasing arrangements, the amount of lease assets recognized, and a schedule of future lease payments to be made.

A lessor should recognize a lease receivable and a deferred inflow of resources at the commencement of the lease term, with certain exceptions for leases of assets held as investments, certain regulated leases, short-term leases, and leases that transfer ownership of the underlying asset. A lessor should not derecognize the asset underlying the lease. The lease receivable should be measured at the present value of lease payments expected to be received during the lease term. The deferred inflow of resources should be measured at the value of the lease receivable plus any payments received at or before the commencement of the lease term that relate to future periods. A lessor should recognize interest revenue on the lease receivable and an inflow of resources (for example, revenue) from the deferred inflows of resources in a systematic and rational manner over the term of the lease. The notes to basic financial statements should include a description of leasing arrangements and the total amount of inflows of resources recognized from leases.

GASB Statement No. 87 is effective for reporting periods beginning after June 15, 2021.

Information provided above was obtained from [www.gasb.org](http://www.gasb.org).