

The Honorable Mayor and
Members of the City Council
City of Columbia, Missouri

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 Columbia, Missouri (City) for the year ended September 30, 2025. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and the Uniform Guidance), 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 December 2, 2025. Professional standards also require that we communicate to you the following information related to our audit.

Additionally, this letter includes other comments and suggestions with respect to matters that came to our attention in connection with our audit of the City's financial statements. These items are offered as constructive suggestions to be considered part of the ongoing process of modifying and improving the City's practices and procedures.

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.

The City adopted GASB Statement No. 101, *Compensated Absences*, in the current year. The objective of this statement is to better meet the information needs of financial statement users by establishing recognition and measurement guidance for all types of compensated absences, thereby enhancing the comparability, consistency, and transparency of information across governments. The cumulative effect of implementing this statement resulted in an ending compensated absences liability of approximately \$14 million.

We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus.

We did not identify any significant unusual transactions.

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:

- *Estimated Claims Liabilities*: The City has estimated claims liabilities related to health insurance and worker's compensation. In many cases, these estimates are based on information from third parties such as actuaries, lag reports from insurance providers and reports from in-house legal counsel. As a basis for our conclusions, we obtained the reports utilized by the City to develop these estimates. We obtained an understanding of the methods and assumptions used

to determine the amounts and performed procedures to test the accuracy and completeness of the information used to develop the estimates.

- *Allowances for Uncollectible Receivables:* The allowance for doubtful accounts is set by management based on knowledge of the customer base and past collection history. We reviewed management's estimate for the allowance for doubtful accounts and reviewed the reasonableness and the process used to calculate the allowance.
- *Net Pension Liability:* The City contracts with external actuaries to develop estimates for the net pension liabilities, as well as the related deferred outflows and deferred inflows of resources for each of the City's plans. The valuations performed by the external actuaries incorporate a number of assumptions, including among others, a rate of return on investments, projected salary increases, mortality rates, assumptions related to increases in benefits, and the discount rate. We performed procedures to test the completeness and accuracy of information provided to the actuaries as a basis for their calculations. We also obtained an understanding of the methods and assumptions used by the actuaries, evaluating them for compliance with generally accepted accounting principles and consistency from year to year.
- *Net Other Post-Employment Benefit (OPEB) Liability:* The City contracts with an external actuary to develop an estimate for the Net OPEB liability, as well as the related deferred outflows and deferred inflows of resources. The valuations performed by the external actuary incorporate a number of assumptions, including among others, projected salary increases, mortality rates, assumptions related to health care trend rates, and the discount rate. We performed procedures to test the completeness and accuracy of information provided to the actuary as a basis for their calculations. We also obtained an understanding of the methods and assumptions used by the actuary, evaluating them for compliance with generally accepted accounting principles and consistency from year to year.
- *Landfill Liability:* The City calculates the landfill liability based on inflation adjusted total costs provided by the Missouri Department of Natural Resources, compared to the percentage of the landfill that has been utilized. As a basis for our conclusions, we obtained the reports utilized by the City to develop the estimate, obtained an understanding of the methods and assumptions used to determine the amounts, and performed procedures to test the accuracy and completeness of the information used to develop the liability.
- *Fair Value of Investments:* The City reports investments at fair value. Fair values are obtained from the various banks holding the City's investments. We have reviewed the investment valuation methodologies and as a basis for our conclusions, we selected a sample of investments held at year-end and obtained independent third party estimates of fair value.

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 the appropriate level of management.

Audit adjustments, other than those that are clearly trivial, proposed by us and recorded by the City are summarized below:

- An entry to increase construction in process and accounts payable in the amount of \$217,967 and \$495,525 for the Regional Airport and Sanitary Sewer funds, respectively.
- An entry was made to increase grants receivable and grant revenue in the Public Transportation fund in the amount of \$1,018,753.

We identified the following uncorrected misstatements that management has concluded are not, individually or in the aggregate, material to the financial statements. We agree with management's conclusion in that regard. Uncorrected misstatements or matters underlying them could potentially cause future-period financial statements to be materially misstated, even if we have concluded that the uncorrected misstatements are immaterial to the financial statements under audit.

- It was determined that the effect of implementation of GASB 101, Compensated Absences on beginning balances would have resulted in a decrease in beginning net position and current year expenditures in the amounts of \$3,332,050, \$1,024,478, \$186,732, \$20,364, \$234,207 and \$431,827 for Governmental Activities, Water and Electric fund, Sanitary Sewer fund, Regional Airport fund, Solid Waste fund, and non-major funds, respectively.
- Loss on disposal related to a prior year which would have resulted in a decrease to loss on disposal in the current year and a matching offset to beginning net position in the amount of \$189,735 in the Solid Waste fund.
- To record accounts payable with an offset to expenditures in the amount of 39,809 in the Capital Projects fund.
- To increase leases receivable with an offsetting entry to deferred inflows related to leases in the amount of \$653,795 in the Water fund.

Circumstances that Affect the Form and Content of the Auditor's Report - For purposes of this letter, professional standards require that we communicate any circumstances that affect the form and content of our auditor's report. No such circumstances were noted.

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 February 23, 2026.

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 to 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.

Internal Control Matters

In planning and performing our audit of the financial statements, 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 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.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We consider the following deficiency in the City's internal control to be a significant deficiency:

- Schedule of Expenditures of Federal Awards Preparation - The City is required to prepare a Schedule of Expenditures of Federal Awards (SEFA) for the period covered by the financial statements. The City's SEFA for the year ended September 30, 2025 required several adjustments. We recommend the City strengthen its SEFA preparation and review process by:
 - Reconciling federal expenditures reported on the SEFA to the general ledger by program and grant year.
 - Implementing a secondary review to verify that expenditures are included in the appropriate year.
 - Providing staff with training on SEFA preparation requirements under 2 CFR Part 200.

Management's Response (unaudited) - The Finance Department will create a formal SEFA Preparation Guide and Toolkit to train City Departments on the preparation requirements and expectations, add a mid-year reconciliation of federal expenditures to the general ledger, and extend the review of revenues through November 30.

Other Matters

We applied certain limited procedures to Management's Discussion and Analysis and other required supplementary information as listed in the table of contents of the financial statements, 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 supplementary information as listed in the table of contents of the financial statements. 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 were not engaged to report on the introductory or 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.

Electronic Fund and Wire Transfers - The risk of loss or fraud around the electronic transfer of cash is significant and has grown exponentially in recent years. Therefore, we suggest the City evaluate current controls around these types of transactions to minimize risks associated with electronic payments.

In general, the City's processes and controls should:

- Maintain dual authorizations over electronic payments.
- Develop a formal written policy for generating, approving and executing electronic payments to ensure that all transfers are properly performed, routed, and accounted for. The lack of a formal written agreement can lead to improper transaction recording, whether by accident or fraud, that can result in significant loss to the City.
- Utilize written agreements with vendors that specifically communicate wire procedures, account numbers, multi-factor authentication requirements, change or update requirements, etc. These agreements should be strictly followed and extremely difficult to change to minimize the risk of fraudulent activity around electronic payments. Your bank or insurance company many times will have best practices and templates that align with the banking procedures or insurance policies already in place.

Cybersecurity - Effective cybersecurity risk management continues to be more important than ever in today's environment. Those charged with governance and executive management (the governance team) face an enormous challenge: to oversee how the City manages cybersecurity risk.

An effective cybersecurity risk management program includes assessments of your comprehensive risk, controls and vulnerabilities to provide reasonable, but not absolute, assurance that material

breaches are prevented or detected, and mitigated in a timely manner. The combined effects of a Department's dependency on IT, the complexity of IT networks and business applications, extensive reliance on third parties and human nature (i.e., susceptibility to social engineering) are only likely to increase the need for effective cybersecurity risk management programs.

As a best practice, we encourage executive management to be intimately involved with the risk management program and to share the results with the governance team.

Comprehensive Policy and Procedure Review - Given the broad and deep scope of your operations, you should consider completing a comprehensive evaluation of the adequacy and effectiveness of the entity's internal financial policies, processes and procedures, including a comparison to best practices among cities the same size.

For entities that have experienced budget cuts in the finance area or those that have experienced turnover, a periodic review of controls is imperative. Even if your finance team has been stable over the years, we remind you that even the best design of controls is only as good as the people who carryout and execute such controls.

Financial policies, procedures and processes are a key element of sound fiscal administration. When policies are effective, they can preserve or enhance the fiscal health and wealth of the City and create efficiencies for staff members.

This comprehensive evaluation could include:

1. Evaluation of existing controls
2. Identification of financial policies that could lead to vulnerability to fraud and/or abuse
3. For those identified weaknesses and risks, recommendations for improvements

Restriction on Use - This information is intended solely for the information and use of the Mayor, members of City Council and management of the City and is not intended to be, and should not be, used by anyone other than these specified parties.

Closing

We will be pleased to respond to any questions you have about this report or set up an introductory meeting to discuss the other recommendations at no charge. We appreciate the opportunity to continue to be of service to the City.

Allen, Gibbs & Houlik, L.C.
CERTIFIED PUBLIC ACCOUNTANTS

Overland Park, KS
February 23, 2026