

**City of Le Sueur
Le Sueur County, Minnesota**

Communications Letter

December 31, 2015



**City of Le Sueur
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**Report on Matters Identified as a Result of
the Audit of the Financial Statements**

BerganKDV, Ltd.

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In planning and performing our audit of the financial statements of the City of Le Sueur, Minnesota, as of and for the year ended December 31, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing auditing 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.

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 were not identified.

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 City's financial statements will not be prevented, or detected and corrected on a timely basis. The material weakness identified is stated within this letter.

A significant deficiency is a deficiency, or 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 deficiency identified is 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 June 16, 2016, on such statements.

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This communication is intended solely for the information and use of management, the City Council, 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.

Bergan KDV Ltd.

Minneapolis, Minnesota

June 16, 2016

**City of Le Sueur
Material Weakness**

PRIOR PERIOD AND MATERIAL AUDIT ADJUSTMENTS

During the course of our engagement, we proposed prior period and material audit adjustments that would not have been identified as a result of the City's existing internal control system and, therefore, could have resulted in a material misstatement of the City's financial statements. The material misstatements detected as a result of audit procedures were corrected by management.

**City of Le Sueur
Significant Deficiency**

LACK OF SEGREGATION OF ACCOUNTING DUTIES

During the year ended December 31, 2015, the City had a lack of segregation of accounting duties in the following areas due to a limited number of office employees:

- Cash Receipts – The Deputy Clerk setups up customers, maintains receipts journal and accounts receivable records, posts transactions to the general ledger, and receives and endorses checks.
- Utility Billing – The Deputy Clerk approves new accounts, sets up customers and rates in the billing system, generates statements, enters readings, and makes adjustments to accounts.
- Community Center – The Administrative Assistant can initiate transactions, has the ability to void transactions, reconciles sales, and prepares the deposit before it is brought to City Hall.

Management is aware of this condition and has taken certain steps to compensate for the lack of segregation. However, due to the small accounting staff needed to handle all of the accounting duties, the cost of obtaining desirable segregation of accounting duties can often exceed benefits which could be derived. Due to this reason, management has determined a complete segregation of accounting duties is impractical to correct. However, management, along with the City Council, must remain aware of this situation and should continually monitor the accounting system, including changes that occur.

**City of Le Sueur
Required Communication**

We have audited the financial statements of the City for the year ended December 31, 2015, and have issued our report dated June 16, 2016. Professional standards require that we provide you with the following information related to our audit.

OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA AND *GOVERNMENT AUDITING STANDARDS*

As stated in our engagement letter, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the City. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the 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. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

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 taken as a whole.

PLANNED SCOPE AND TIMING OF THE AUDIT

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, therefore, our audit involved judgment about the number of transactions to be examined and the areas to be tested.

Our audit included obtaining an understanding of the City and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the City or to acts by management or employees acting on behalf of the City.

City of Le Sueur Required Communication

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 implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

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

Expense Allocation – Certain expenses are allocated to functions based on an estimate of the benefit to that particular function. Examples are salaries, benefits, and supplies.

Net Other Post-Employment Benefits (OPEB) Obligation – This liability is based on an actuarial study using estimates of future obligations of the City for post-employment benefits.

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.

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 misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. We identified the following uncorrected misstatement of the financial statements. Management has determined its effect is immaterial both individually and in the aggregate, to the financial statements taken as a whole.

- Accumulated depreciation and depreciation expense is understated

City of Le Sueur Required Communication

CORRECTED AND UNCORRECTED MISSTATEMENTS (CONTINUED)

The following material misstatements and prior period adjustments were detected as a result of audit procedures were corrected by management.

Material misstatements:

- Utility receivables and related revenues
- Prepaid health insurance and related expenditures
- Equity interest in the MRVPUC joint venture and related revenue

Prior period adjustments:

- Error in the allocation of equity interest for the MRVPUC joint venture
- Error in the recognition of interest revenue on a modified accrual basis
- Change in accounting convention for increasing the capitalization threshold for capital assets

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 requested certain representations from management that are included in the management representation letter.

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.

**City of Le Sueur
Required Communication**

OTHER MATTERS

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 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.

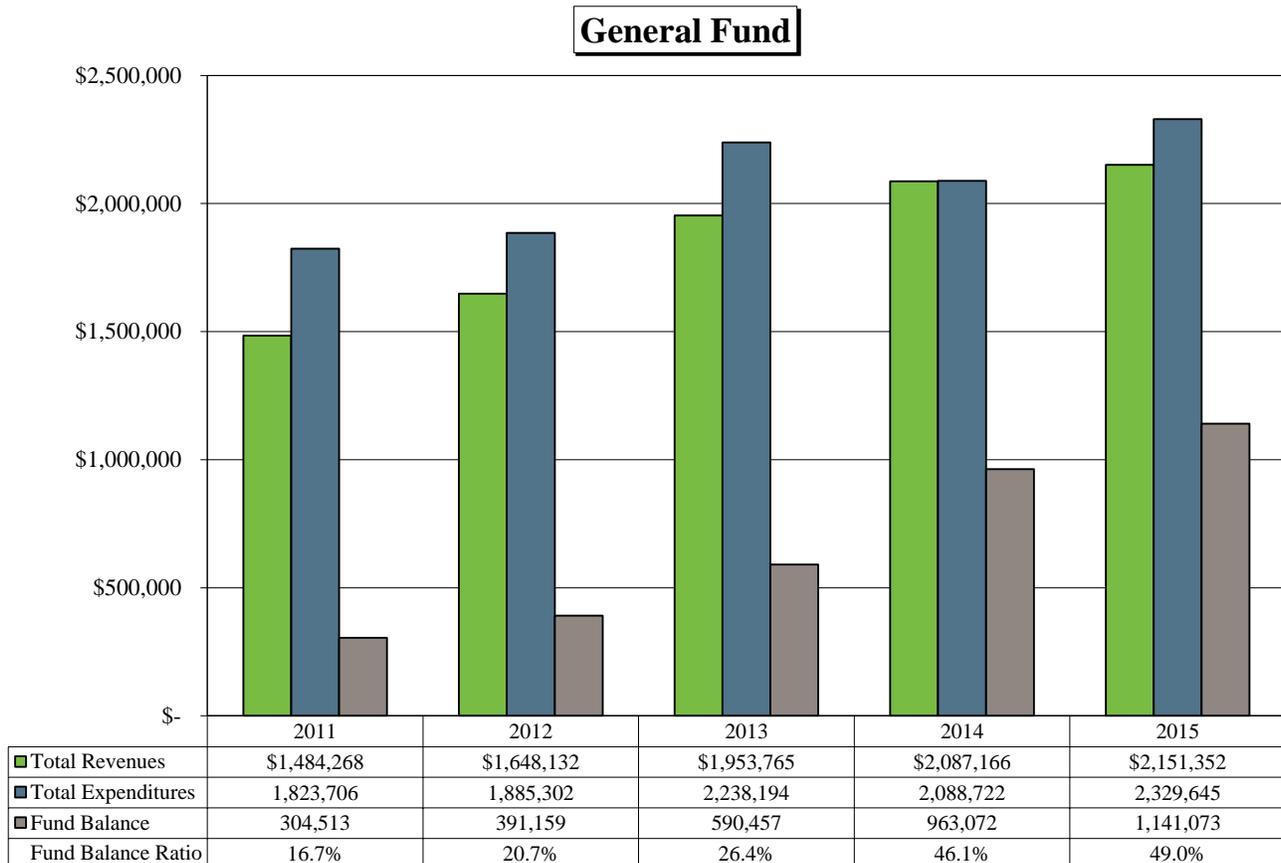
City of Le Sueur Financial Analysis

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

The following graph summarizes the past five years of General Fund revenues, expenditures, and fund balance. Revenues increased \$64,186 from 2014 to 2015, and expenditures increased by \$240,923 over the same time frame.

The City's General Fund balance increased from \$963,072 in 2014 to \$1,141,073 in 2015. Expenditures exceeded revenues by \$178,293 during 2015. The December 31, 2015, fund balance represents 49.0%, or just over five and a half months of expenditures at 2015 levels. The City's fund balance is within the Office of the State Auditor's recommended level of no less than five months of operating expenditures. In comparison to the 2015 budgeted expenditures, which the City uses for its benchmark, the City's fund balance represents 47.8%, or just over five and a half months.

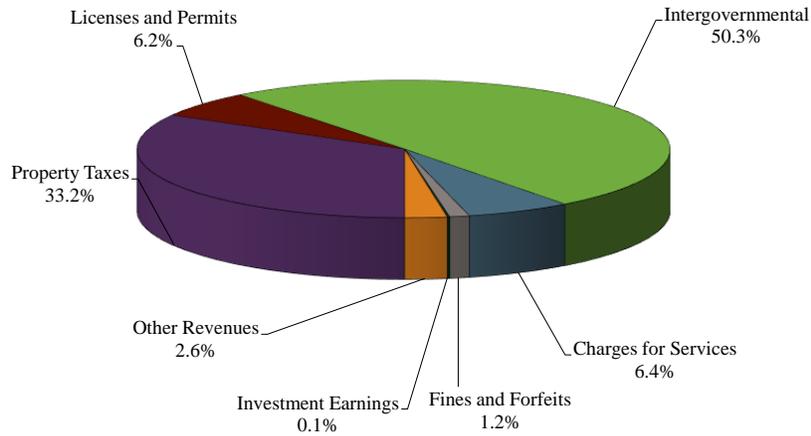


City of Le Sueur Financial Analysis

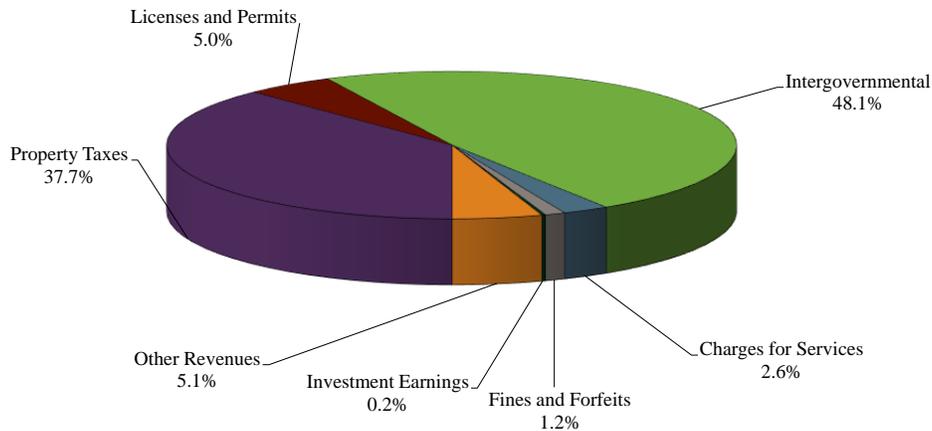
GENERAL FUND (CONTINUED)

The allocation of revenues within each major classification is presented below for 2015 and 2014. Sources of General Fund revenue have been consistent for the past several years, with property taxes accounting for approximately 79% of total revenue. The increase in charges for services was due to including the HRA fund as part of the general fund in 2015, whereas it was any agency fund in 2014. The decrease in property taxes is due to a decrease in levy.

2015 General Fund Revenues



2014 General Fund Revenues



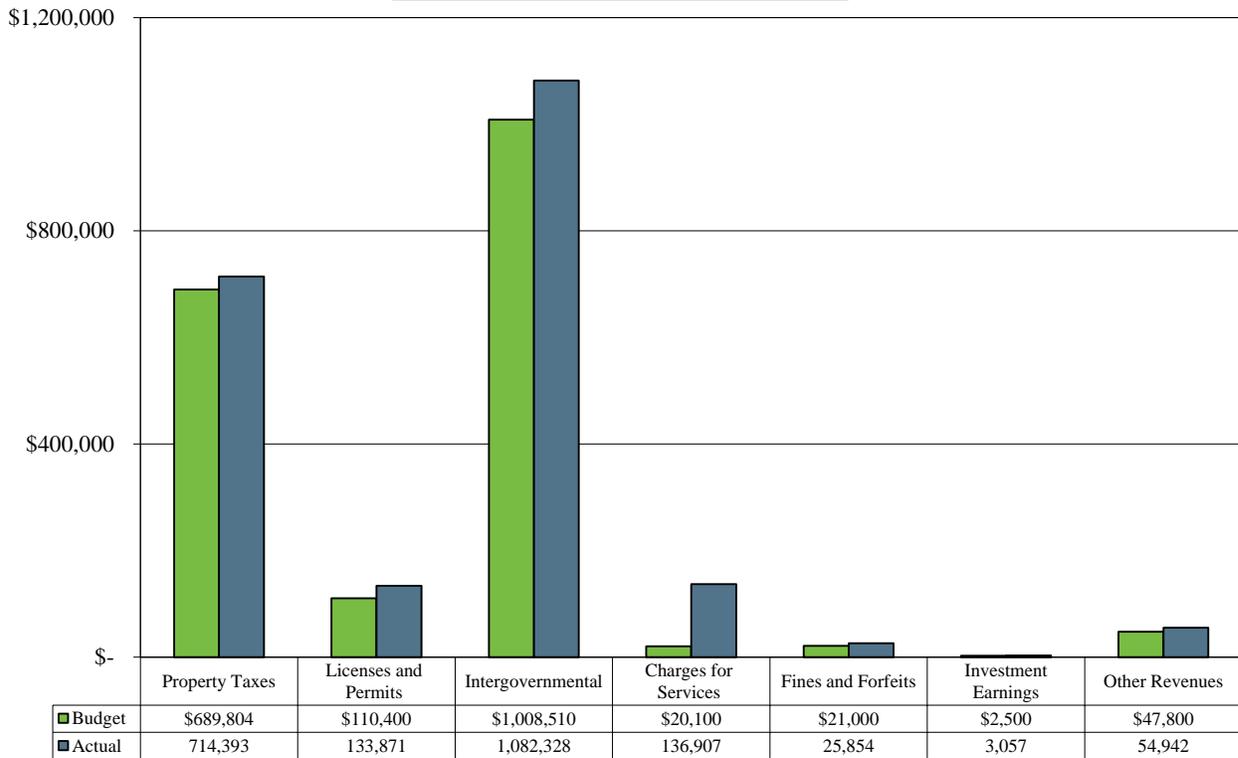
City of Le Sueur Financial Analysis

GENERAL FUND (CONTINUED)

The graph below outlines the budget and actual results for the General Fund revenues. Overall, actual revenue received exceeded the final budget by \$251,238, or 13.2%.

The largest variance between budget and actual was related to charges for services as a result of including the HRA fund with the general fund in 2015. Intergovernmental revenues exceeded the budget by \$73,818 due to an increase in LGA and a new Small Cities Assistance Grant. Property taxes exceeded budgeted revenue by \$24,589 as a result of delinquent collections. Licenses and permits exceeded the budget by \$23,471 due to budgeting conservatively. All other actual revenues were in line with the budget set by the City.

**2015 General Fund Revenues
Budget and Actual**

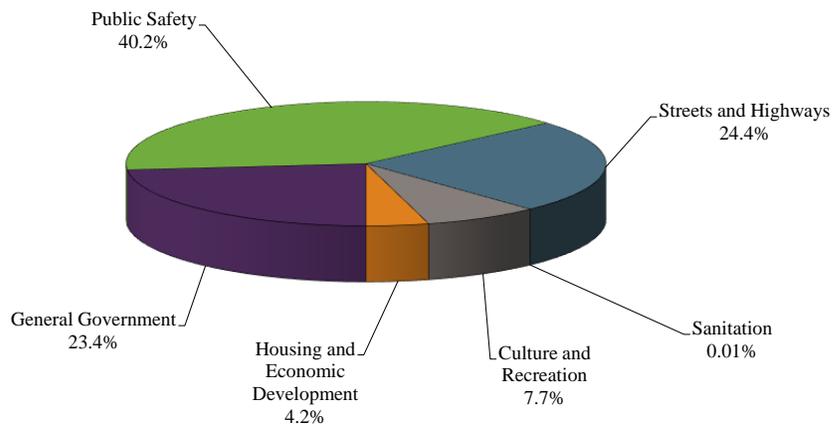


City of Le Sueur Financial Analysis

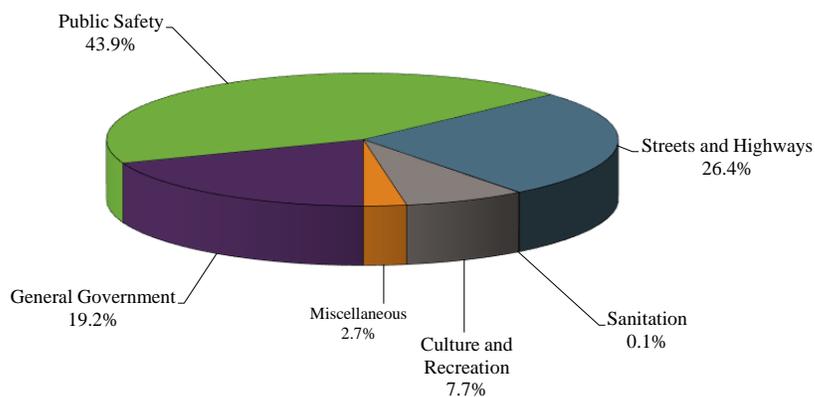
GENERAL FUND (CONTINUED)

The following charts illustrate the allocation of General Fund expenditures by program/function. The allocation of total expenditures by program has been very stable for the past two years. This is an indication of sound budgeting/planning practices which allow the City to avoid major fluctuations or swings in spending levels between programs.

2015 General Fund Expenditures



2014 General Fund Expenditures



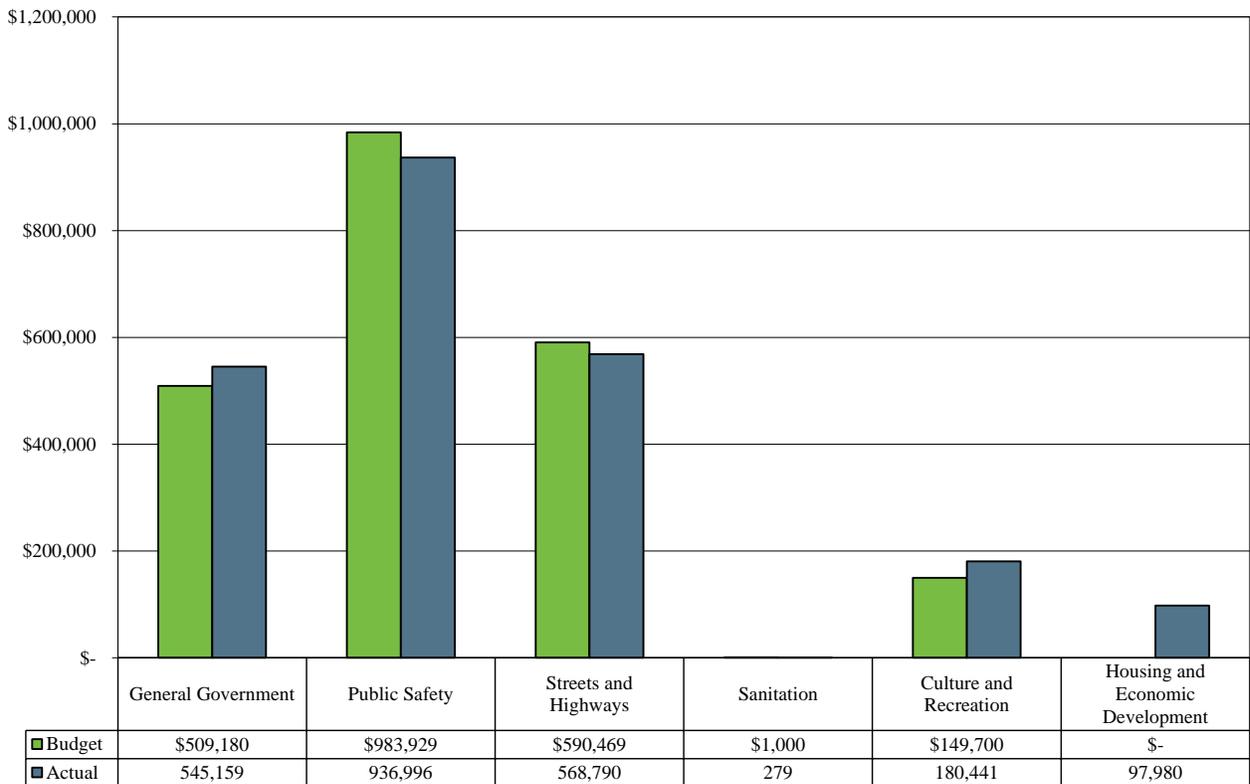
City of Le Sueur Financial Analysis

GENERAL FUND (CONTINUED)

During 2015, the City's final budget was \$2,234,278 for total expenditures. For 2015, expenditures of \$2,329,645 were over by \$95,367, or 4.3%.

The graph below shows expenditures were under budget in each department as a result of conservative spending during the year. The largest variance occurred in housing and economic development which was \$97,980 over budget, which was not budgeted for. Culture and recreation was \$30,741 over budget as a result of an increase in full-time employee salaries. General government was over budget by \$20,729 due to the use of consultants for some duties during the year, which was not budgeted for. Public safety was under budget by \$46,933 due to a conservative budget.

**2015 General Fund Expenditures
Budget and Actual**

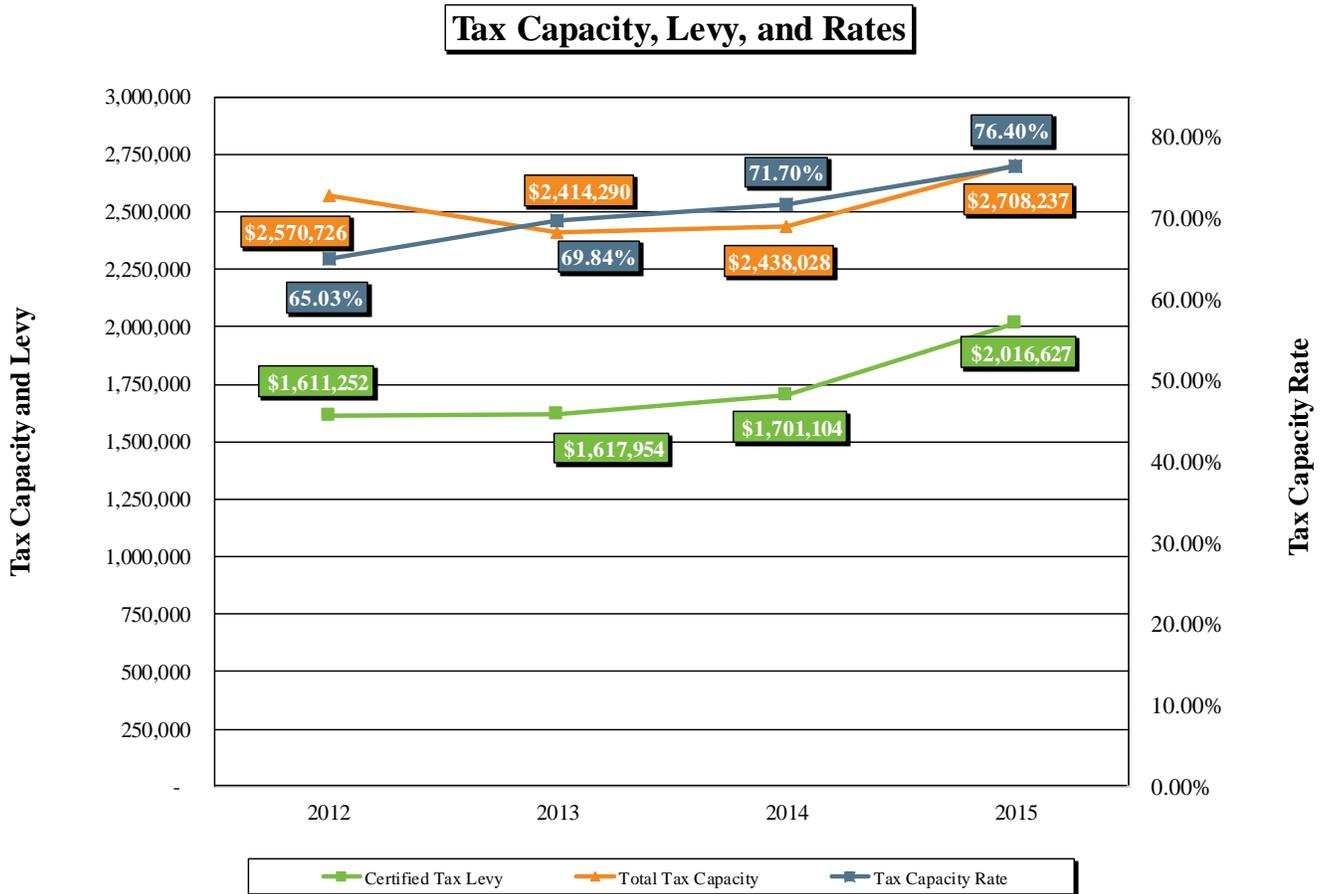


City of Le Sueur Financial Analysis

TAX CAPACITY, LEVY, AND RATES

The chart below graphs the tax capacity, certified tax levy, and City tax rate for 2012 through 2015. The tax capacity is based on total tax capacity, prior to adjustments for captured Tax Increment Financing (TIF) and fiscal disparities. The certified tax levy amount is also prior to fiscal disparity adjustments.

During 2015 the tax capacity increased by \$270,209, or 11.08% while the certified tax levy increased \$315,523, or 18.6%.



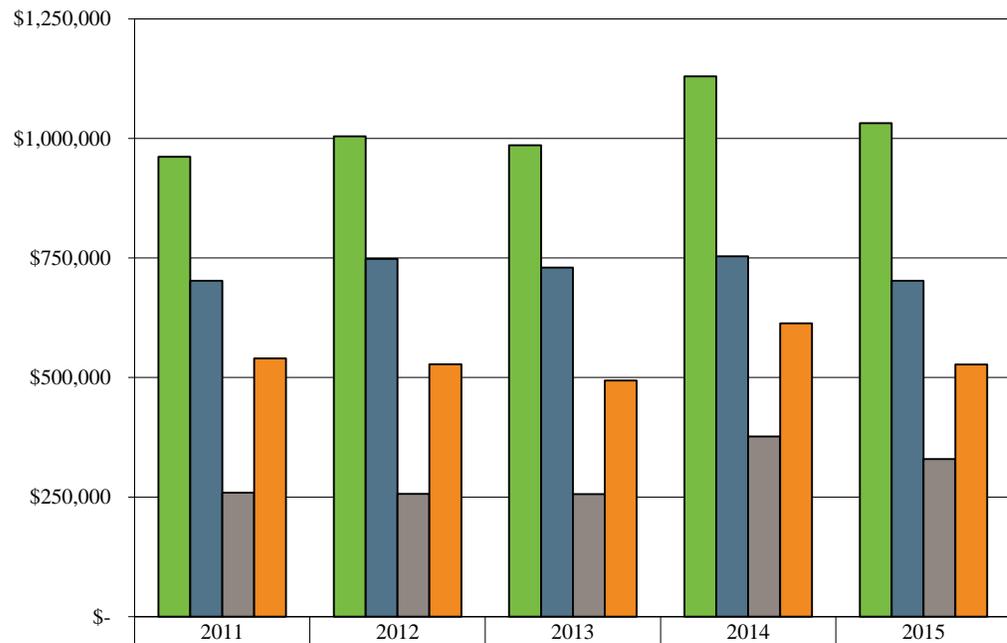
Information above was obtained from the League of Minnesota Cities property tax reports.

City of Le Sueur Financial Analysis

WATER FUND

The City's Water Fund experienced operating income of \$329,525 in 2015. The Fund's operating revenues increased \$98,061 from 2014 to 2015 and the operating expenses decreased \$51,127. The operating income without depreciation decreased \$85,894 from 2014 as a result of a decrease in consumption. Unrestricted net position decreased \$465,304 from \$1,001,256 to \$535,952 during 2015.

Water Utility Fund



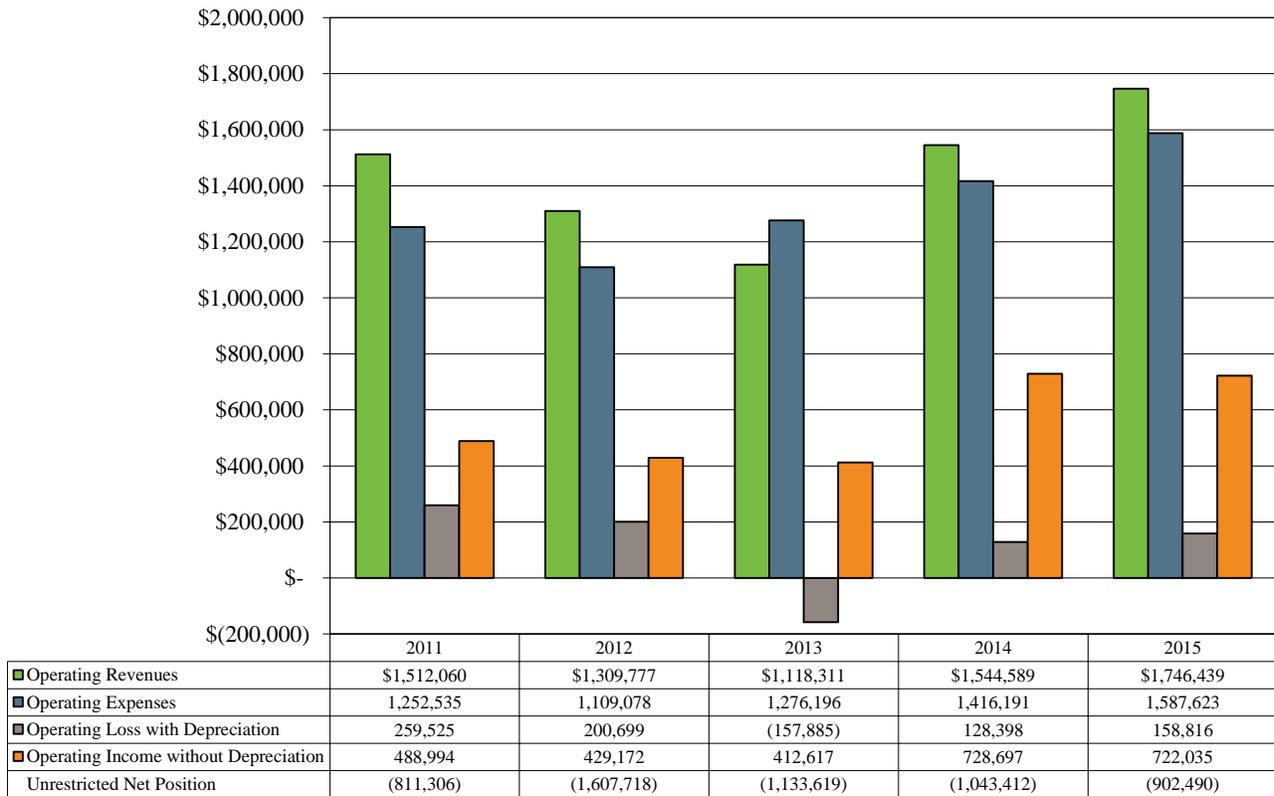
■ Operating Revenues	\$961,419	\$1,004,597	\$985,959	\$1,129,974	\$1,031,913
■ Operating Expenses	702,419	748,101	729,780	753,515	702,388
■ Operating Income (Loss) with Depreciation	259,000	256,496	256,179	376,459	329,525
■ Operating Income without Depreciation	539,826	527,705	493,786	613,154	527,260
Unrestricted Net Position	237,468	933,032	859,171	1,001,256	535,952

City of Le Sueur Financial Analysis

SEWER FUND

The Sewer Fund operating revenues increased \$201,850 from 2014 to 2015. Operating expenses increased \$171,432 which was attributable to an increase in sewer flood repair. Without depreciation, the Sewer Fund had an operating income of \$722,035, which is a decrease of \$6,662 from 2014. Unrestricted net position increased \$140,922 from \$(1,043,412) to \$(902,490) during 2015.

Sewer Utility Fund

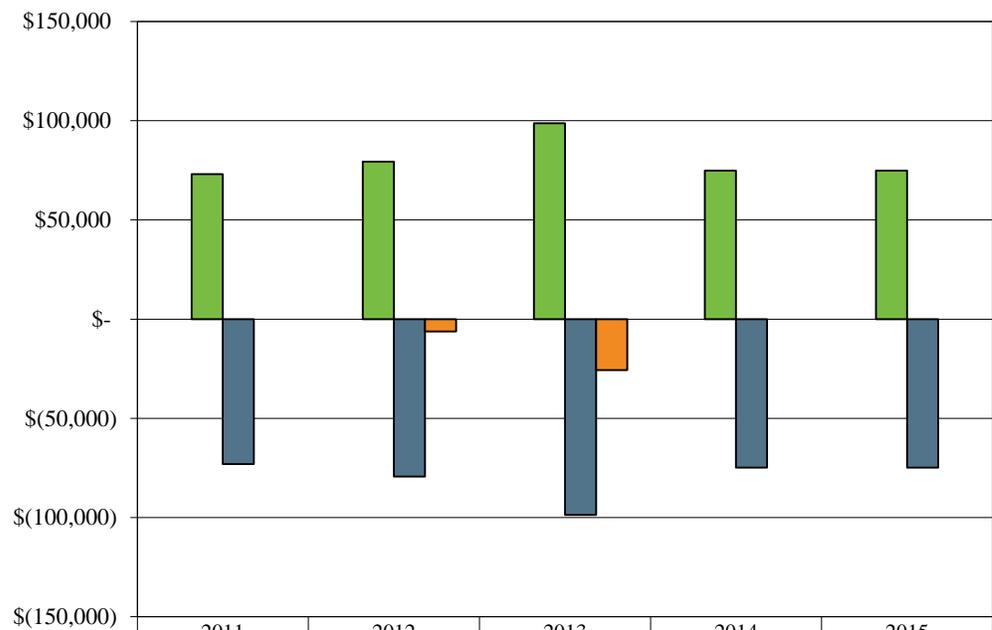


City of Le Sueur Financial Analysis

SEWER PRE-TREATMENT FUND

The City's Sewer Pre-Treatment Fund showed a net operating loss, with depreciation, for the fifth consecutive year. The Fund had a net operating income of \$(74,855) in 2015. Unrestricted net position remained consistent at \$32,970 in 2015.

Sewer Pre-Treatment Fund

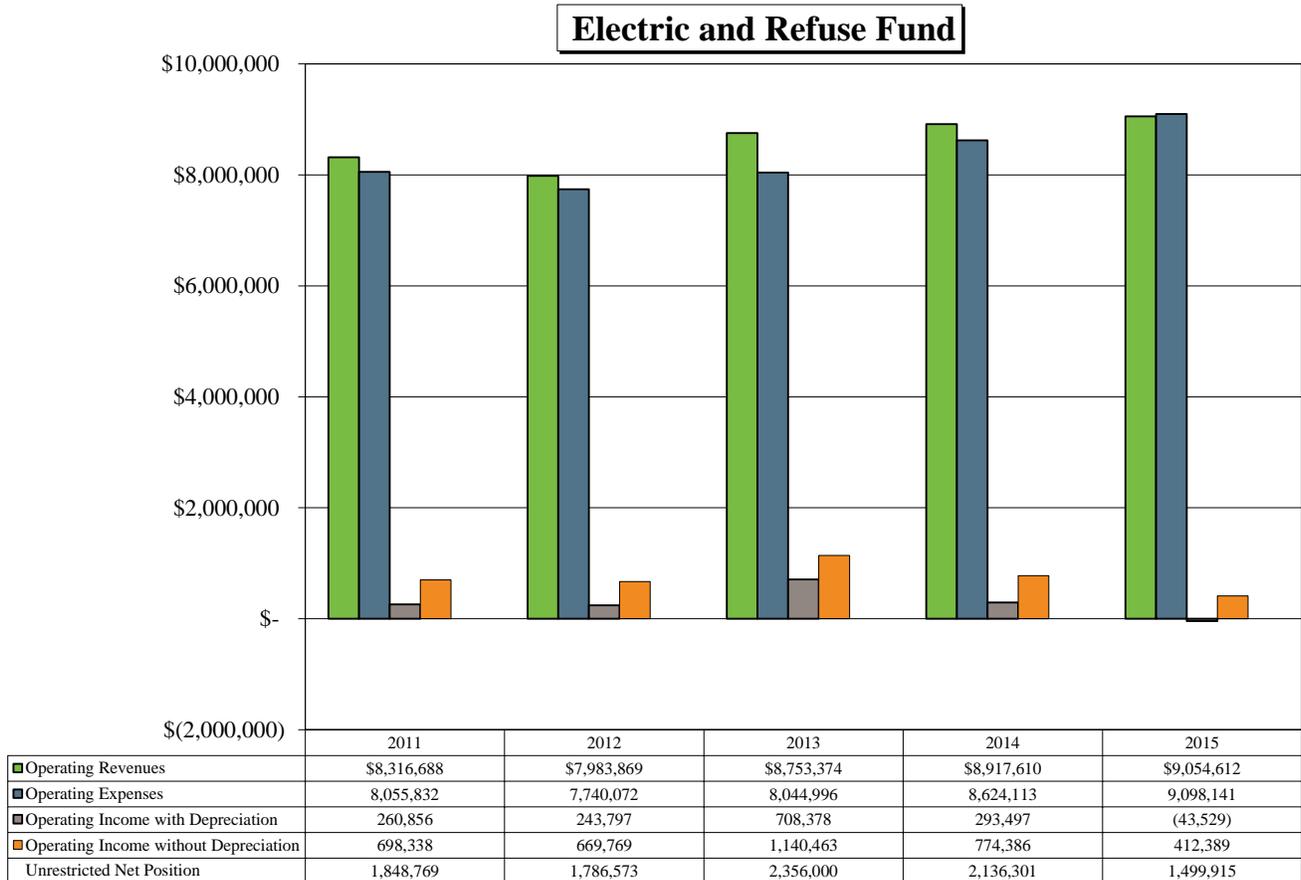


	2011	2012	2013	2014	2015
■ Operating Revenues	\$-	\$-	\$-	\$-	\$-
■ Operating Expenses	73,073	79,320	98,731	74,856	74,855
■ Operating Income with Depreciation	(73,073)	(79,320)	(98,731)	(74,856)	(74,855)
■ Operating Income without Depreciation	-	(6,247)	(25,658)	-	-
Unrestricted Net Position	64,875	58,628	32,970	32,970	32,970

City of Le Sueur Financial Analysis

ELECTRIC FUND

The City's Electric Fund experienced an operating loss of \$43,529 in 2015. The Fund's operating revenues increased \$137,002 from 2014 to 2015 and the operating expenses increased \$474,028 as a result of increasing power costs and grossing up expenses for refuse services. The operating income without depreciation decreased \$361,997 from 2014 as a result of a decrease in consumption. Unrestricted net position decreased \$636,386 from \$2,136,301 in 2014 to \$1,499,915 in 2015.



City of Le Sueur Emerging Issues

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 updates include:

- **Accounting Standard Update –GASB Statement No. 75 - Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions** –GASB has issued GASB statement 75 relating to accounting and financial reporting for postemployment benefits other than pensions. The new statement requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information (RSI) about their OPEB liabilities.

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 these issues with you further and their applicability to your City.

**City of Le Sueur
Emerging Issues**

ACCOUNTING STANDARD UPDATE – GASB STATEMENT NO. 75 - ACCOUNTING AND FINANCIAL REPORTING FOR POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans.

GASB Statement 75 requires governments to report a liability on the face of the financial statements for the OPEB that they provide:

- Governments that are responsible only for OPEB liabilities related to their own employees and that provide OPEB through a defined benefit OPEB plan administered through a trust that meets specified criteria will report a *net OPEB liability*—the difference between the total OPEB liability and assets accumulated in the trust and restricted to making benefit payments.
- Governments that participate in a cost-sharing OPEB plan that is administered through a trust that meets the specified criteria will report a liability equal to their *proportionate share of the collective OPEB liability* for all entities participating in the cost-sharing plan.
- Governments that do not provide OPEB through a trust that meets specified criteria will report the *total OPEB liability* related to their employees.

GASB Statement 75 carries forward from Statement 45 the option to use a specified alternative measurement method in place of an actuarial valuation for purposes of determining the total OPEB liability for benefits provided through OPEB plans in which there are fewer than 100 plan members (active and inactive). This option was retained in order to reduce costs for smaller governments.

GASB Statement 75 requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information (RSI) about their OPEB liabilities. Among the new note disclosures is a description of the effect on the reported OPEB liability of using a discount rate and a healthcare cost trend rate that are one percentage point higher and one percentage point lower than assumed by the government. The new RSI includes a schedule showing the causes of increases and decreases in the OPEB liability and a schedule comparing a government's actual OPEB contributions to its contribution requirements.

Information provided above was obtained from www.gasb.org.