

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

Communications Letter

December 31, 2018

bergankDV

**City of Le Sueur
Table of Contents**

Report on Matters Identified as a Result of the Audit of the Financial Statements	1
Material Weaknesses	3
Significant Deficiency	4
Required Communication	5
Financial Analysis	9
Emerging Issues	18

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

Honorable Mayor, Members
of the City Council and Management
City of Le Sueur
Le Sueur, Minnesota

In planning and performing our audit of the 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 of Le Sueur, Minnesota, as of and for the year ended December 31, 2018, 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 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.

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 deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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 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 weaknesses identified are 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 4, 2019, on such statements.

This communication is intended solely for the information and use of the Members of the City Council and management and 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 4, 2019

**City of Le Sueur
Material Weaknesses**

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.

IMPROVE UTILITY BILLING PROCESS

During our audit, we noted deficiencies in the utility billing process. These deficiencies resulted in revenues and related receivable balances to be inaccurately reported. We also noted the ratio of gallons billed to gallons pumped in the Water Fund was 78%. The American Waterworks Association has developed a benchmark of gallons billed to gallons pumped to equal at least 90%.

**City of Le Sueur
Significant Deficiency**

LACK OF SEGREGATION OF ACCOUNTING DUTIES

During the year ended December 31, 2018, 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 Receptionist maintains receipts journal and accounts receivable records, posts transactions to the general ledger, and receives and endorses checks.
- Utility Billing – The Utility Billing Coordinator 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.
- Financial Reporting – The Finance Director can initiate transactions, can record journal entries without review, reconciles accounts, and prepares internal financial reports.

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 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 December 31, 2018. Professional standards require that we advise you of the following matters related to our audit.

OUR RESPONSIBILITY IN RELATION TO THE 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

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.

Generally accepted accounting principles provide for certain required supplementary information (RSI) to supplement the basic financial statements. Our responsibility with respect to the RSI, which supplement(s) 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.

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

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

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 financial statements. There have been no initial selection of accounting policies and no changes to significant accounting policies or their application during 2018. 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.

Total Other Post Employment Benefits (OPEB) Liability, Deferred Outflows of Resources Related to OPEB – This balance is 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 Related to Pensions and Deferred Inflows of Resources Related to Pensions – These balances are based on an allocation by the pension plans using estimates based on contributions.

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

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.

City of Le Sueur Required Communication

UNCORRECTED AND CORRECTED 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. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. Management has corrected all such misstatements.

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

Material misstatements and prior period adjustments:

- Accounts payable balances and related expenditures were overstated in the current year and understated in the prior year which resulted in a prior period and material audit adjustment.
- Unearned revenues in the Sewer Utility Fund were adjusted to properly recognize revenue.

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 financial statements or the auditor's report. No such disagreements arose during the course of the audit.

REPRESENTATIONS REQUESTED FROM MANAGEMENT

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

MANAGEMENT'S CONSULTATIONS WITH OTHER INDEPENDENT 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 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 auditors.

**City of Le Sueur
Required Communication**

OTHER MATTERS

We applied certain limited procedures to the 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.

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.

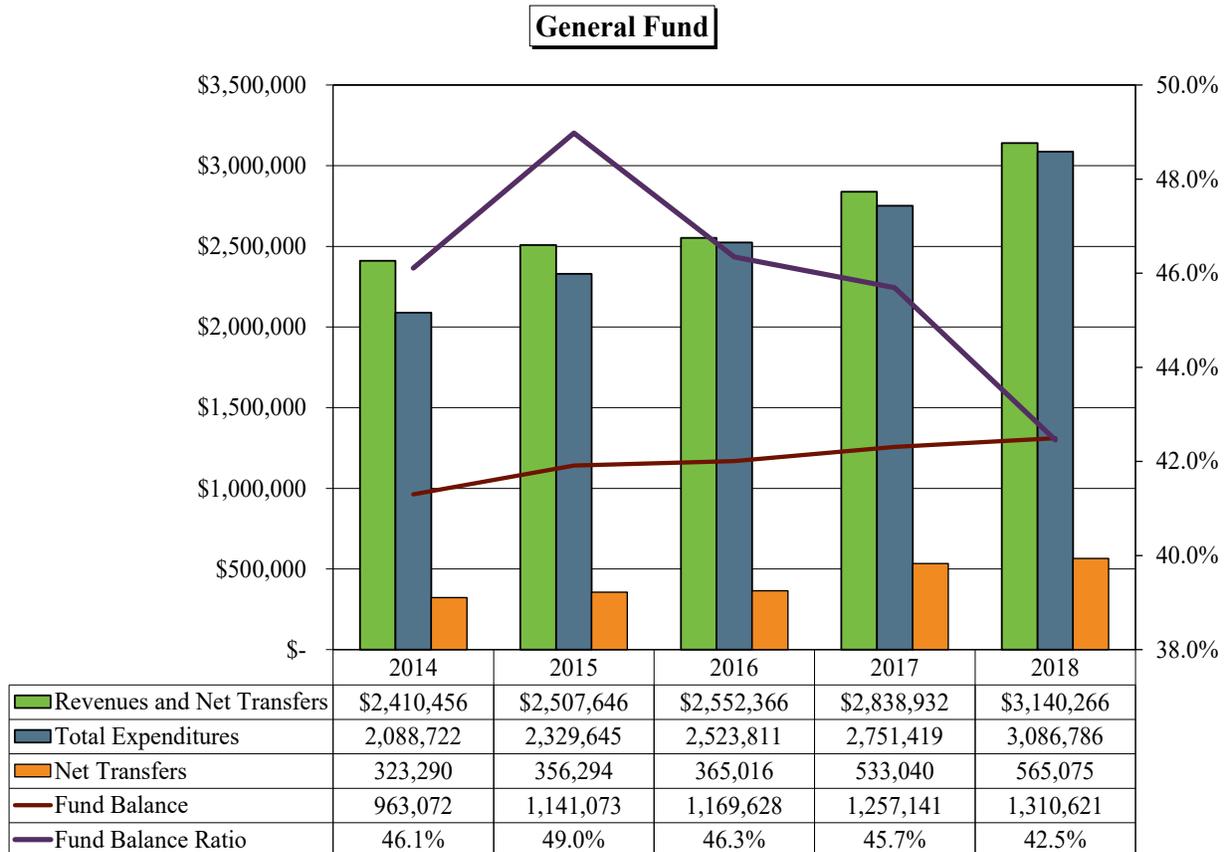
City of Le Sueur Financial Analysis

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 \$269,299 from 2017 to 2018, and expenditures increased by \$335,367 over the same time frame.

The City's General Fund balance increased from \$1,257,141 in 2017 to \$1,310,621 in 2018. Revenues and net transfers in exceeded expenditures by \$53,480 during 2018. The December 31, 2018, fund balance represents 42.5%, or just over five months of expenditures at 2018 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 2018 budgeted expenditures, which the City uses for its benchmark, the City's fund balance represents 44.5%, or just over five months of budgeted expenditures.

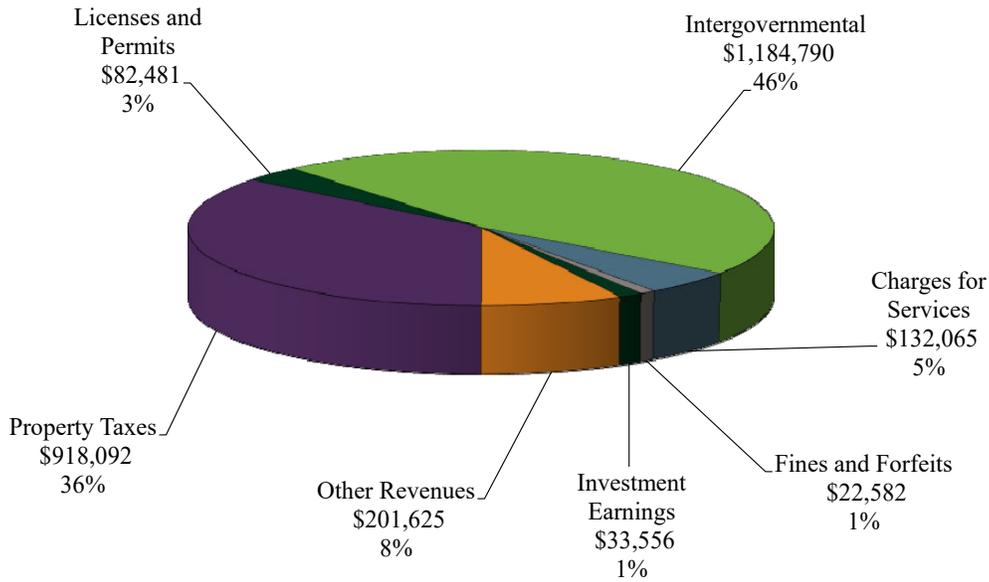


City of Le Sueur Financial Analysis

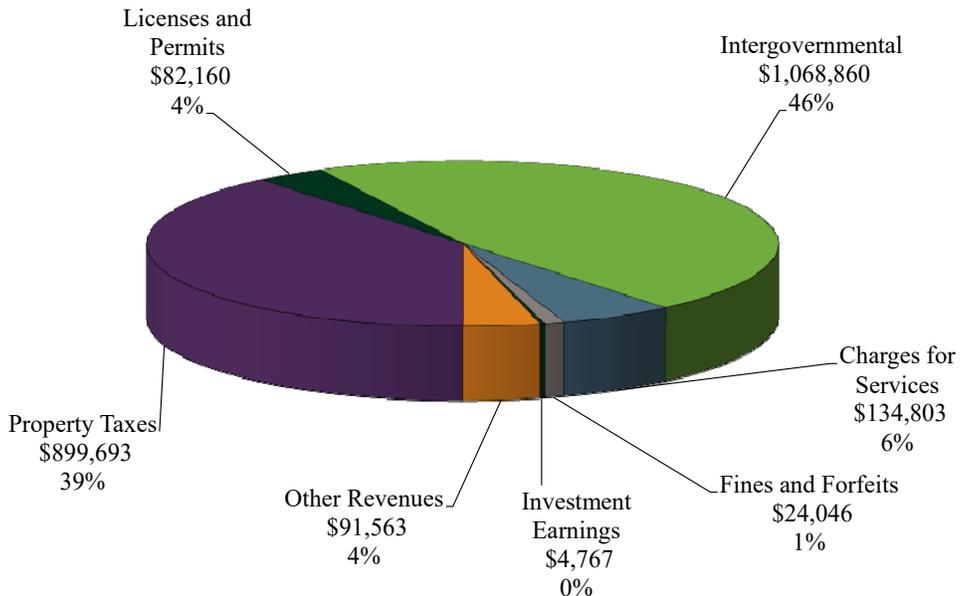
GENERAL FUND REVENUES

The allocation of revenues within each major classification is presented below for 2018 and 2017. Sources of General Fund revenue have been consistent for the past several years, with property taxes and intergovernmental accounting for approximately 36% and 46% of total revenue, respectively.

2018 General Fund Revenues



2017 General Fund Revenues



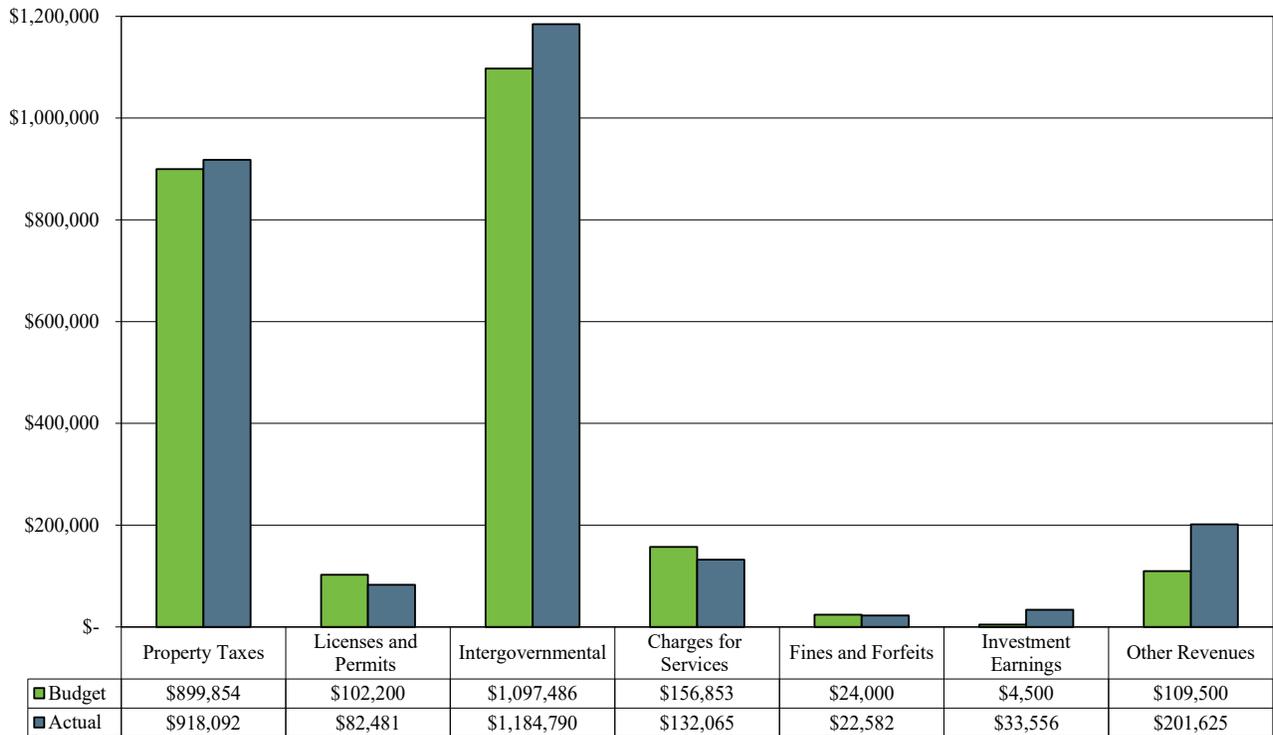
City of Le Sueur Financial Analysis

GENERAL FUND REVENUES (CONTINUED)

The graph below outlines the budget and actual results for the General Fund revenues. Overall, actual revenue received exceeded the final budget by \$180,798, or 7.6%.

The largest variance between budget and actual was related to intergovernmental revenues as a result of the City not budgeting for the HRA. Other revenues were over budget by \$113,296 due to not budgeting for some grant activity. All other actual revenues were in line with the budget set by the City.

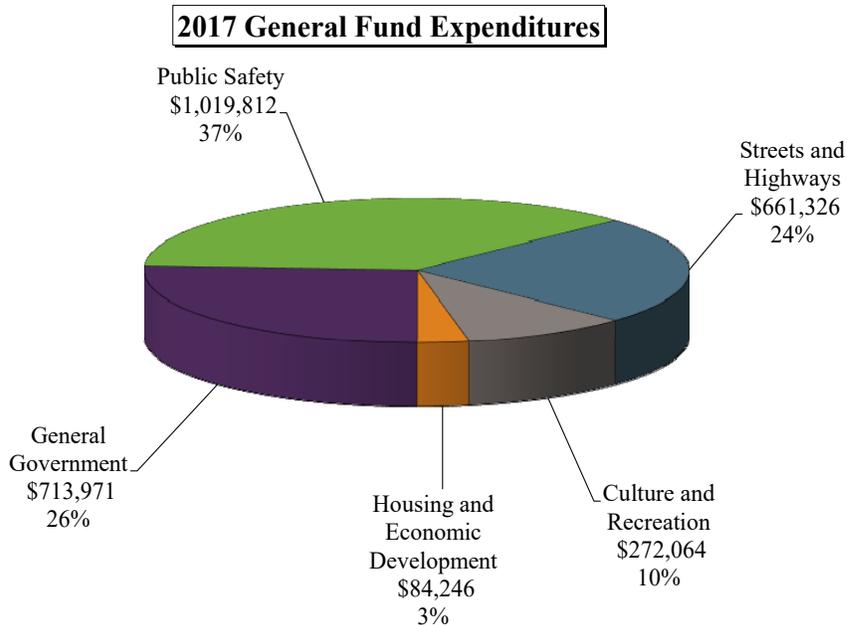
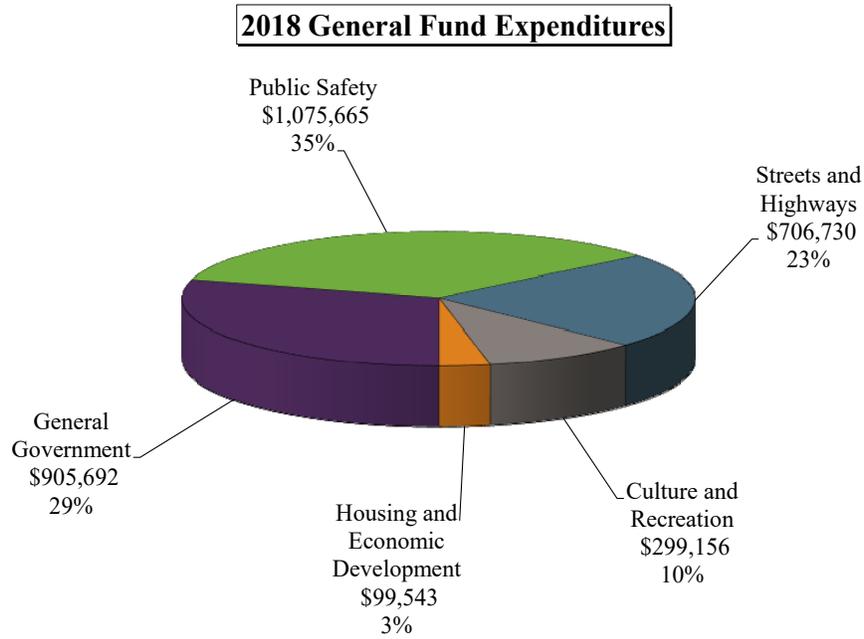
**2018 General Fund Revenues
Budget and Actual**



City of Le Sueur Financial Analysis

GENERAL FUND EXPENDITURES

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.

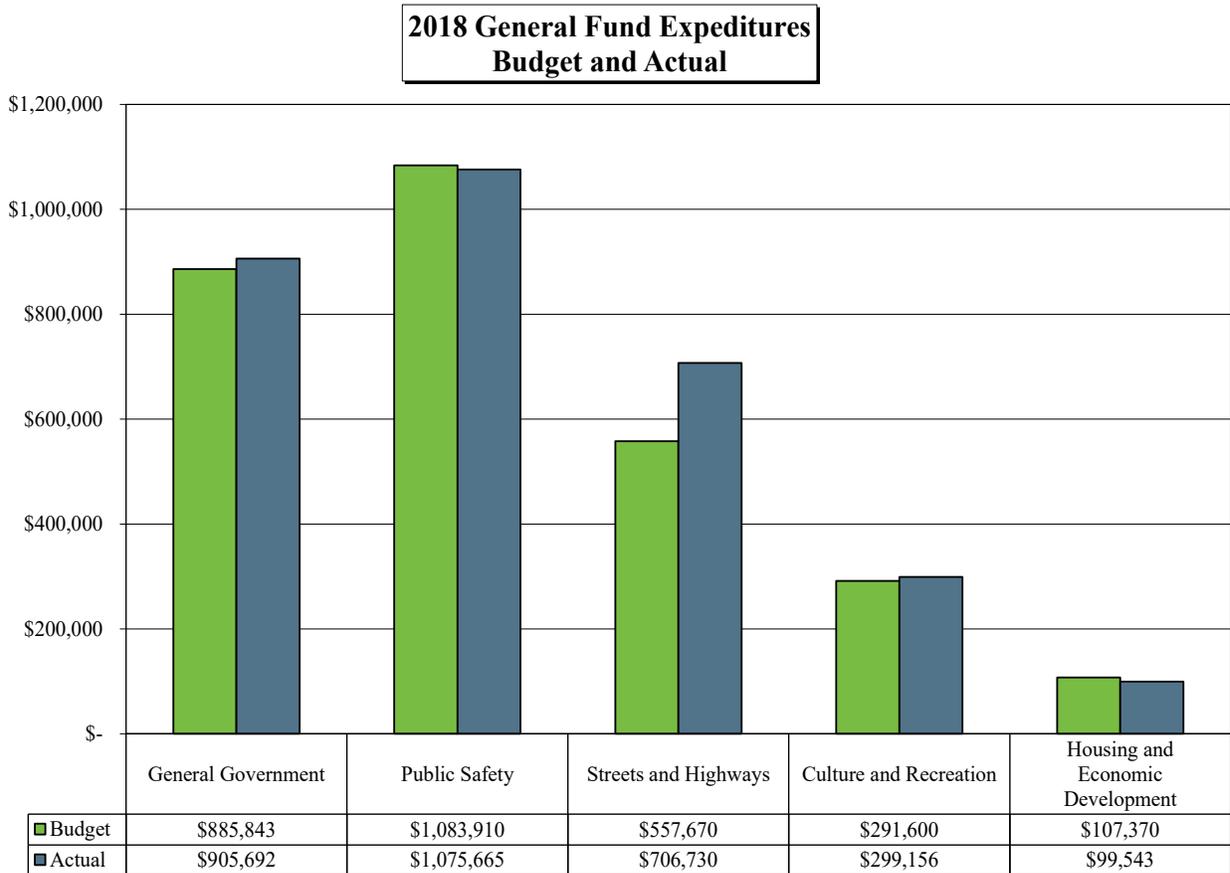


City of Le Sueur Financial Analysis

GENERAL FUND EXPENDITURES (CONTINUED)

During 2018, the City's final budget was \$2,946,393 for total expenditures. For 2018, expenditures of \$3,086,786 were over budget by \$140,393, or 4.8%.

One of the largest variance occurred in Streets and Highways which was \$120,060 over budget due to severance payments, street supplies, and repairs and maintenance expenditures that weren't budgeted.

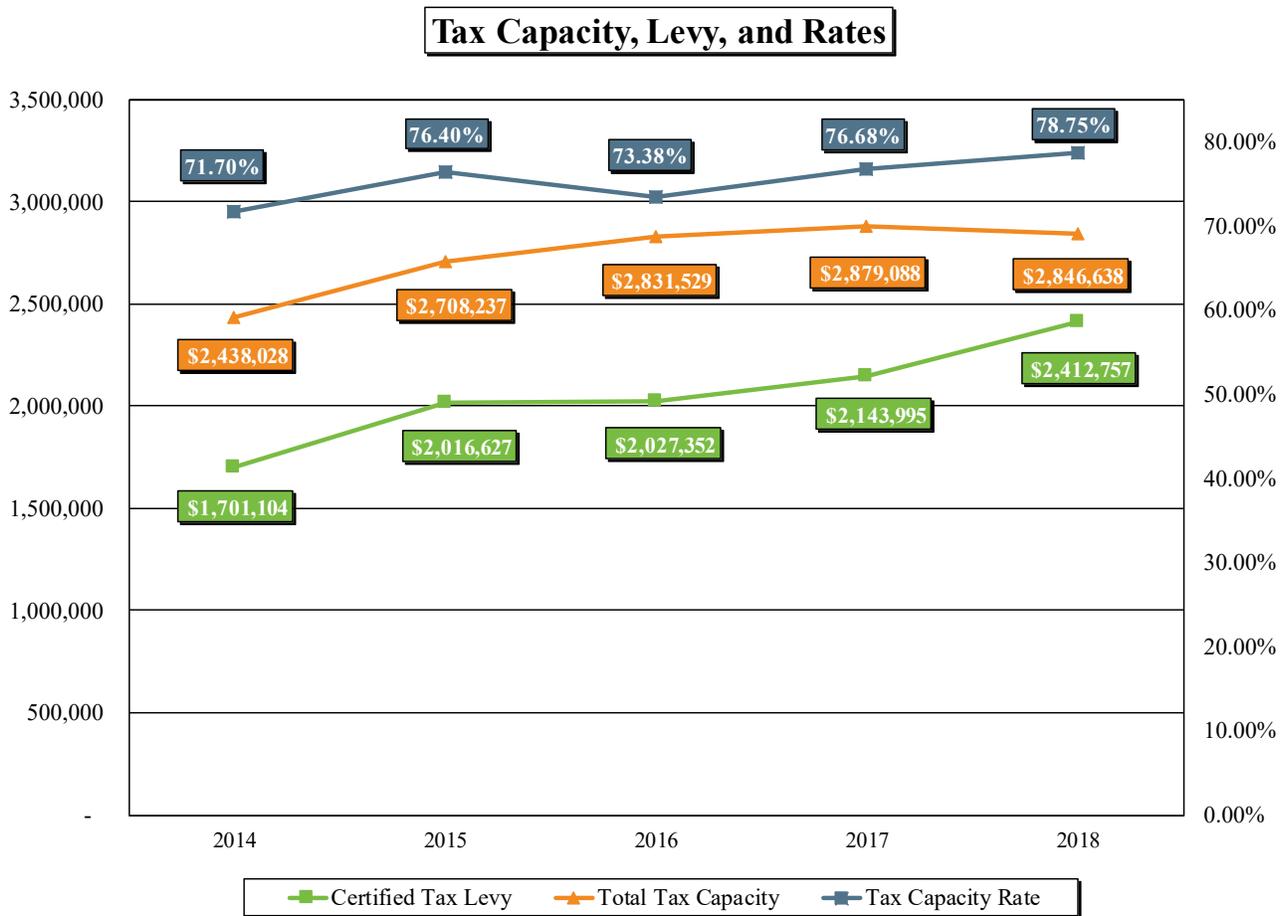


City of Le Sueur Financial Analysis

TAX CAPACITY, LEVY, AND RATES

The chart below graphs the tax capacity, certified tax levy, and City tax rate for 2014 through 2018. The tax capacity is based on total tax capacity, prior to adjustments for captured Tax Increment Financing (TIF).

During 2018 the tax capacity decreased by \$32,450, or 1.1% while the certified tax levy increased \$268,762, or 12.5%. The certified tax levy increased while total tax capacity decreased which caused the tax capacity rate to increase from 76.68% in 2017 to 78.75% in 2018.

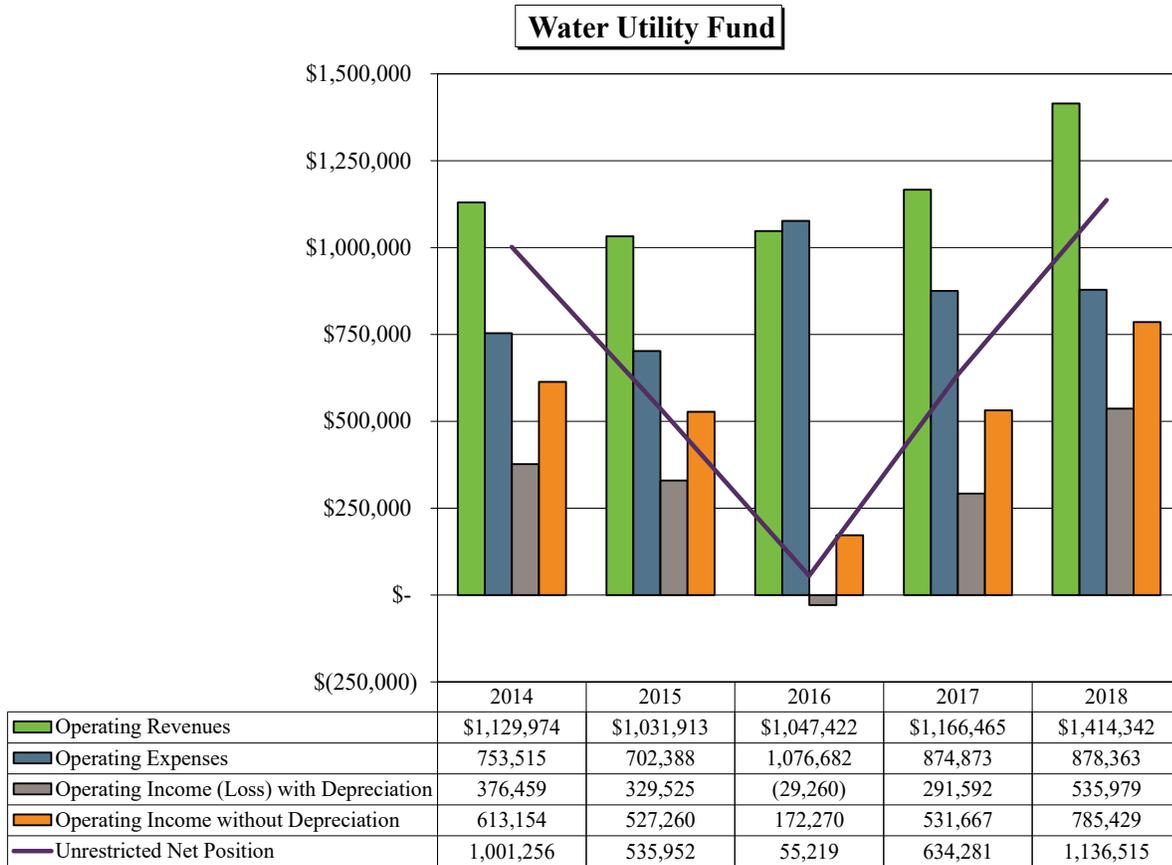


Information above was obtained from the League of Minnesota Cities property tax reports.

City of Le Sueur Financial Analysis

WATER UTILITY FUND

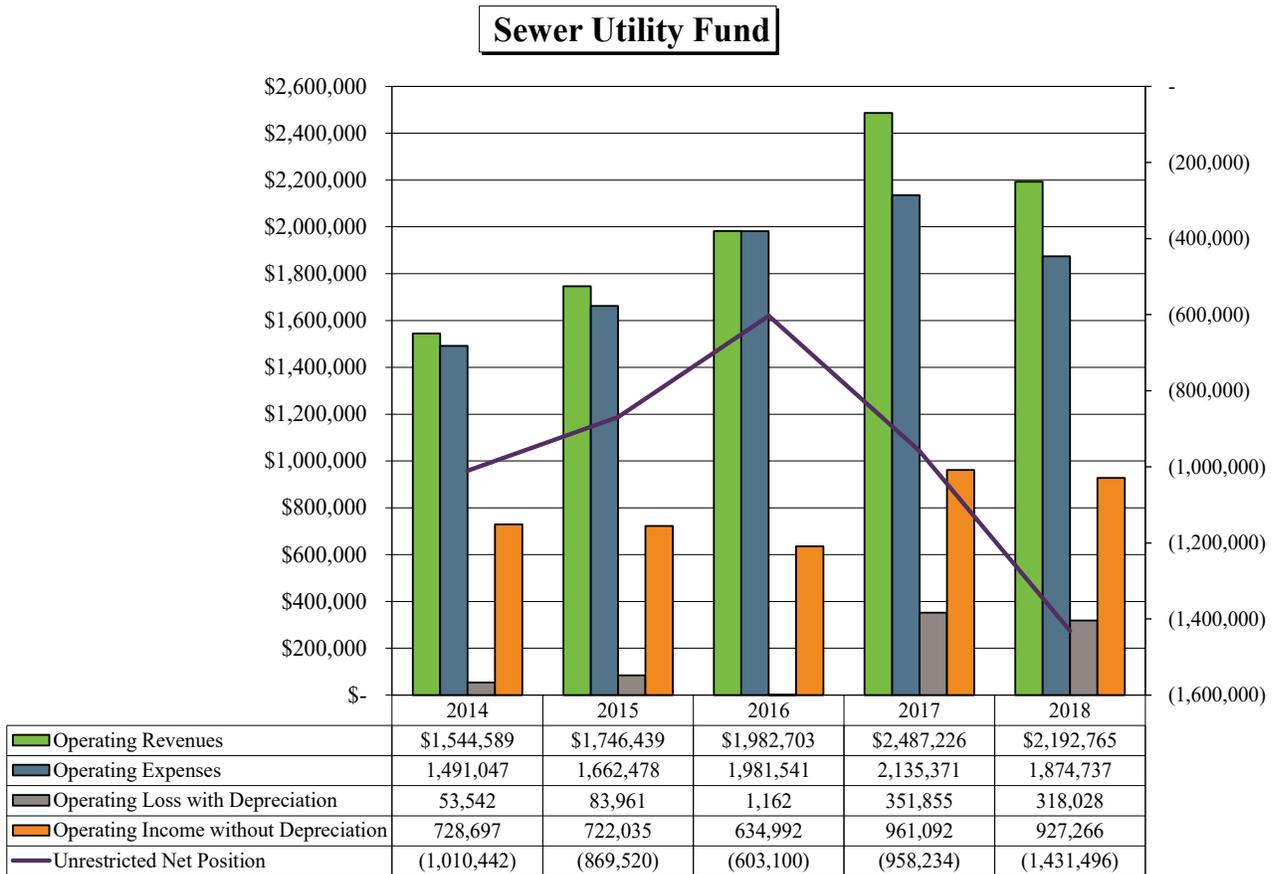
The City's Water Utility Fund experienced an operating income of \$535,979 in 2018. The Fund's operating revenues increased \$247,877 from 2017 to 2018 due to adjustments in rates, operating expenses were flat. The operating income without depreciation increased \$253,762 from 2017. Unrestricted net position increased \$502,234 as a result of current year operations and current year depreciation.



City of Le Sueur Financial Analysis

SEWER UTILITY FUND

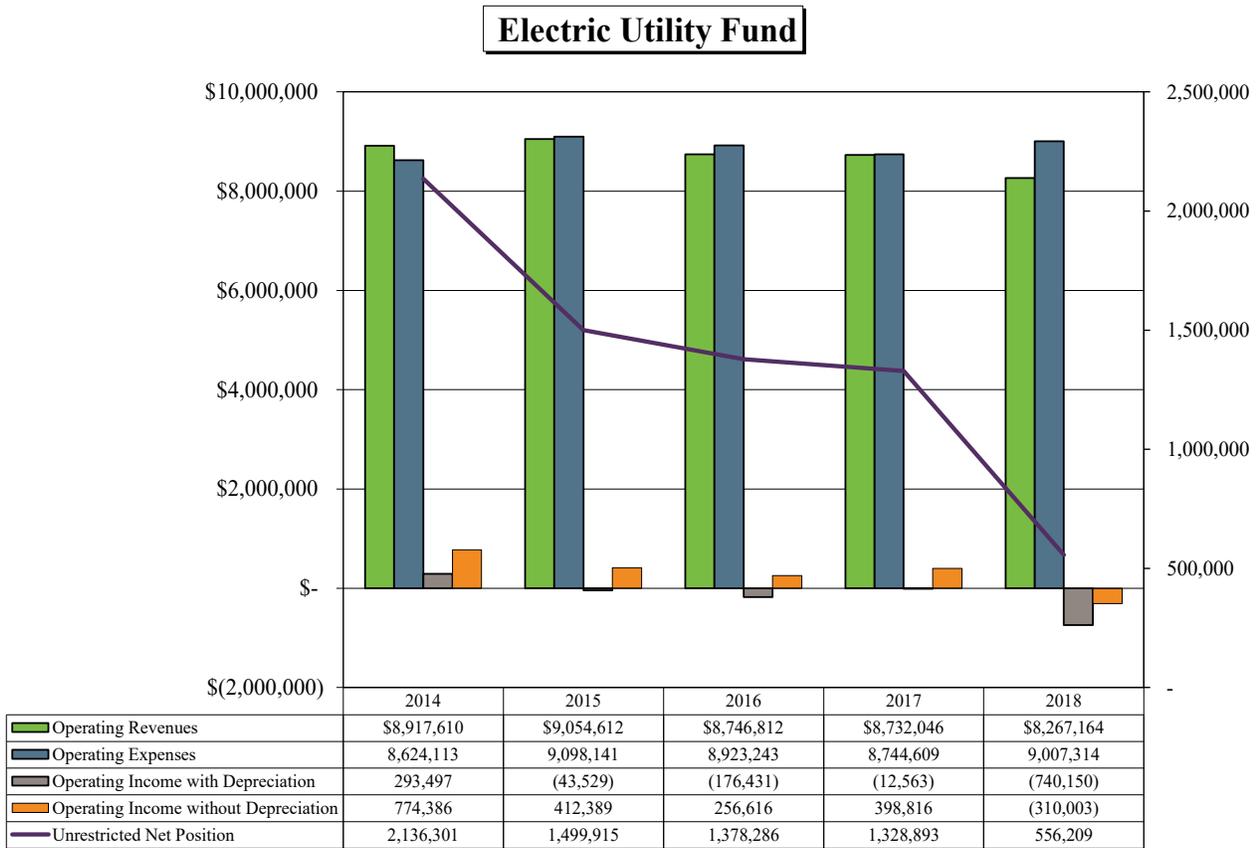
The Sewer Utility Fund operating income decreased \$33,827 from 2017 to 2018. Operating revenues decreased \$294,461 which was attributable to a decrease in consumption. This also contributed to the operating expense decrease of \$260,634. Without depreciation, the Sewer Fund had an operating income of \$927,266, which is a decrease of \$33,827 from 2017. Unrestricted net position decreased to a deficit of \$1,431,496 during 2018 due to current year operations, offset by principal payments on long-term debt of \$1,076,837, and transfers out to other funds of \$113,563.



City of Le Sueur Financial Analysis

ELECTRIC UTILITY FUND

The City's Electric Utility Fund had an operating loss of \$740,150 in 2018. The Fund's operating revenues decreased \$464,882 from 2017 to 2018 as a result of larger time of use adjustments in 2018 and a change in estimated cutoff of meter reads for the December billing. The operating income without depreciation also declined from 2017. Unrestricted net position decreased \$772,684 due to current year operations and transfers out of \$505,232.



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. 84 – Fiduciary Activities** – GASB has issued GASB Statement No. 84 relating to accounting and financial reporting for fiduciary activities. This new statement establishes clarity to determine when a government has fiduciary responsibility for a certain activity.
- **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 are extensive summaries 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.

ACCOUNTING STANDARD UPDATE – GASB STATEMENT NO. 84 – *FIDUCIARY ACTIVITIES*

The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. An exception to that requirement is provided for a business-type activity that normally expects to hold custodial assets for three months or less.

GASB Statement No. 84 describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria.

This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets.

**City of Le Sueur
Emerging Issues**

ACCOUNTING STANDARD UPDATE – GASB STATEMENT NO. 84 – *FIDUCIARY ACTIVITIES* (CONTINUED)

GASB Statement No. 84 is effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

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

ACCOUNTING STANDARD UPDATE – GASB STATEMENT NO. 87 – *LEASES*

The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' 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.

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 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.

**City of Le Sueur
Emerging Issues**

**ACCOUNTING STANDARD UPDATE – GASB STATEMENT NO. 87 – *LEASES*
(CONTINUED)**

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 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 December 15, 2019. Earlier application is encouraged.

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