

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

Communications Letter

December 31, 2019



**City of Le Sueur
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**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, 2019, 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 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.

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 deficiencies identified are stated within this letter.

During our audit, we also became aware of deficiencies in internal control other than significant deficiencies or material weaknesses, and other matters that are opportunities for strengthening internal controls and operating efficiency. They are described in the accompanying letter under Other Deficiency.

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 April 28, 2020, 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
April 28, 2020

City of Le Sueur Significant Deficiencies

Lack of Segregation of Accounting Duties

During the year ended December 31, 2019, 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.

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 77%. The American Waterworks Association has developed a benchmark of gallons billed to gallons pumped to equal at least 90%.

**City of Le Sueur
Other Deficiency**

Improve the Community Center Software

During our review of the Community Center revenue, we noted the Community Center software did not have the ability to run necessary reports to recalculate revenue.

We recommend the City review other options for software or tracking of revenues that provides the capabilities to run necessary reports to recalculate revenue. This will ensure accurate and timely data is available for decision making.

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, 2019. 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.

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 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.

Our Responsibility in Relation to *Government Auditing Standards*

As communicated in our engagement letter, 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, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

City of Le Sueur Required Communication

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 financial statements. There have been no initial selection of accounting policies and no changes to significant accounting policies or their application during 2019. 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.

Significant Accounting Estimates

Accounting estimates are an integral part of the 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 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 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 and determined that they are reasonable in relation to the financial statements taken as a whole.

City of Le Sueur Required Communication

Qualitative Aspects of Significant Accounting Practices (Continued)

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 financial statements as a whole.

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

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 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 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 Financial Statements

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.

**City of Le Sueur
Required Communication**

Other Information in Documents Containing Audited Financial Statements (Continued)

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.

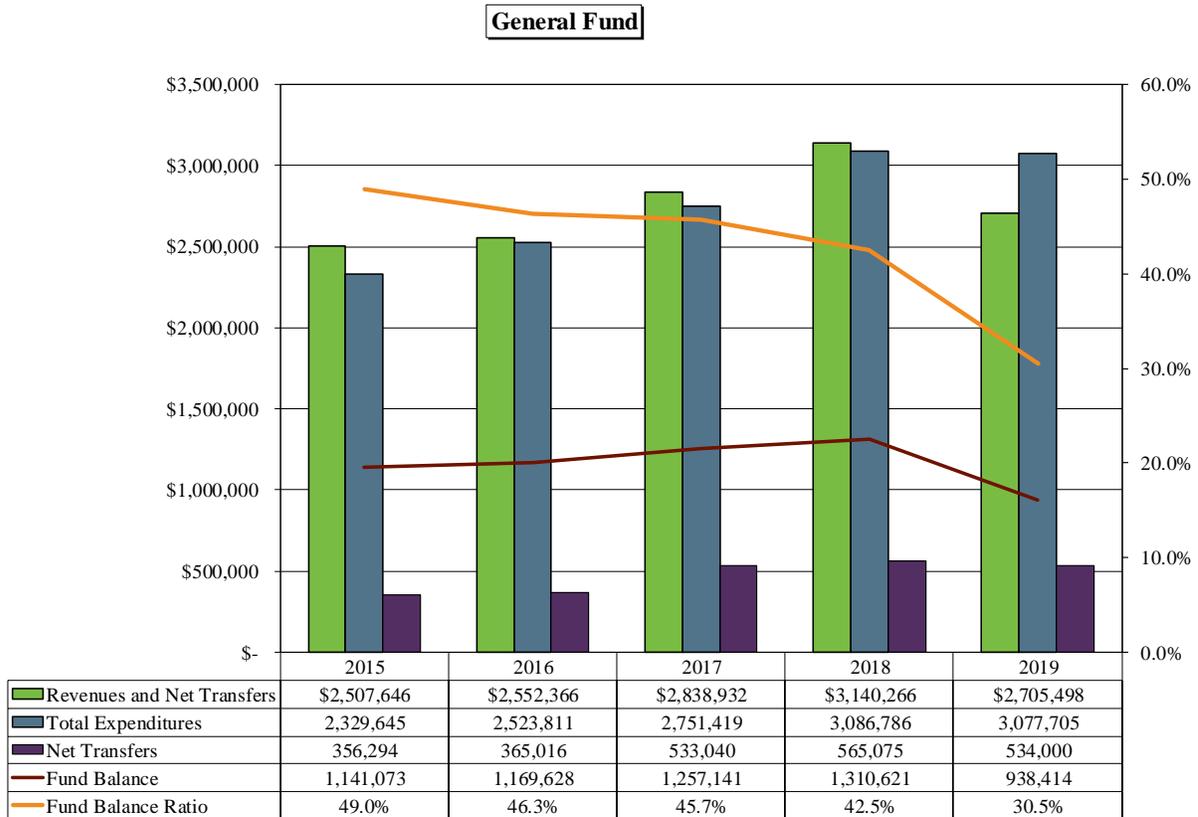
City of Le Sueur Financial Analysis

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 decreased \$403,693 from 2018 to 2019, and expenditures decreased by \$9,081 over the same time frame.

The City's General Fund balance decreased from \$1,310,621 in 2018 to \$938,414 in 2019. Expenditures exceeded revenues and net transfers in by \$372,207 during 2019. The December 31, 2019, fund balance represents 30.5%, or just over four months of expenditures at 2019 levels. The City's fund balance is not within the Office of the State Auditor's recommended level of no less than five months of operating expenditures. In comparison to the 2019 budgeted expenditures, which the City uses for its benchmark, the City's fund balance represents 33.5%, or just over four months of budgeted expenditures.

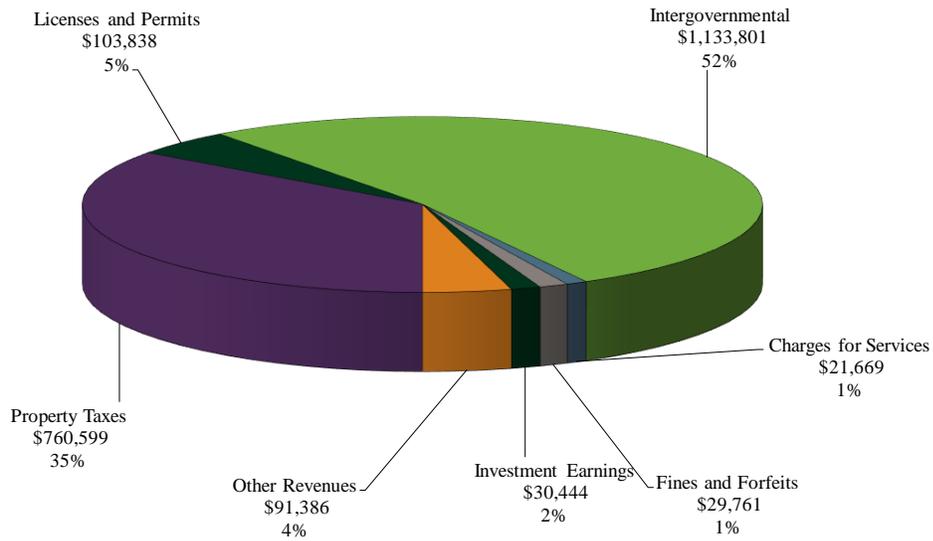


City of Le Sueur Financial Analysis

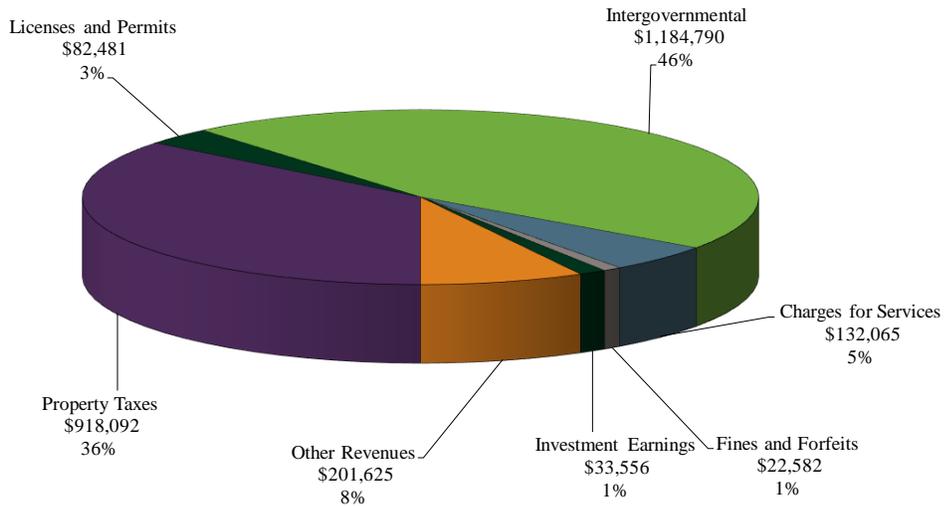
GENERAL FUND REVENUES

The allocation of revenues within each major classification is presented below for 2019 and 2018. Sources of General Fund revenue have been consistent for the past several years, with property taxes and intergovernmental accounting for approximately 35% and 52% of total revenue, respectively.

2019 General Fund Revenues



2018 General Fund Revenues



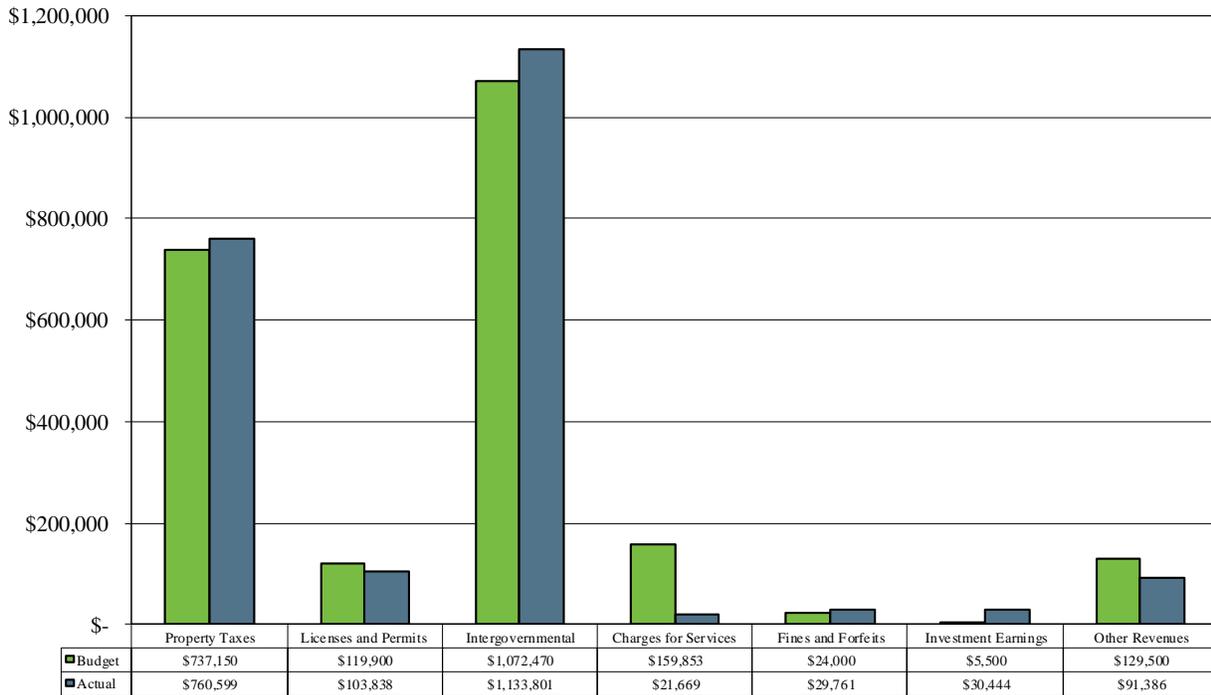
City of Le Sueur Financial Analysis

GENERAL FUND REVENUES (CONTINUED)

The graph below outlines the budget and actual results for the General Fund revenues. The final budget exceeded the overall, actual revenue by \$76,875, or 3.4%.

The largest variance between budget and actual was related to charges for services revenue as a result of not having the HRA reimbursement run through the City in 2019. Intergovernmental revenues were over budget by \$61,331 due to not budgeting for some grant activity. Other revenues were under budget by \$38,114 due to less franchise fees than expected. Interest earnings revenue was over budget by \$24,261 due to conservative budgeting. Property tax revenue was over budget by \$23,449 due to the way the levy was allocated. All other actual revenues were in line with the budget set by the City.

**2019 General Fund Revenues
Budget and Actual**

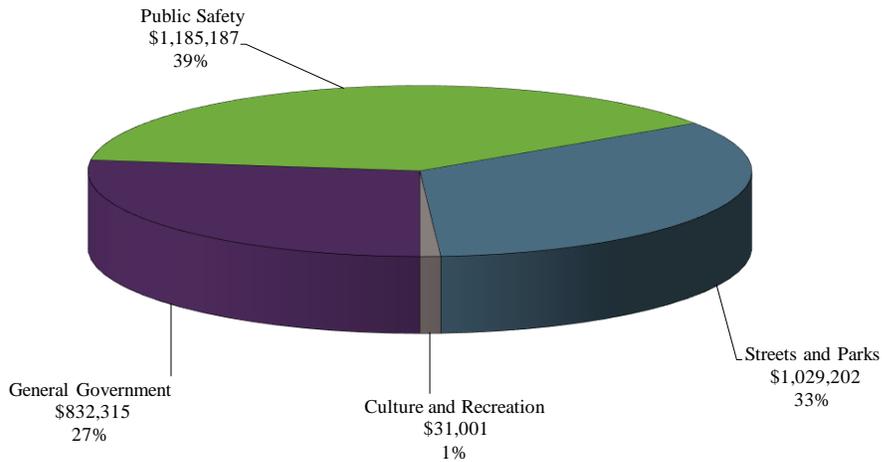


City of Le Sueur Financial Analysis

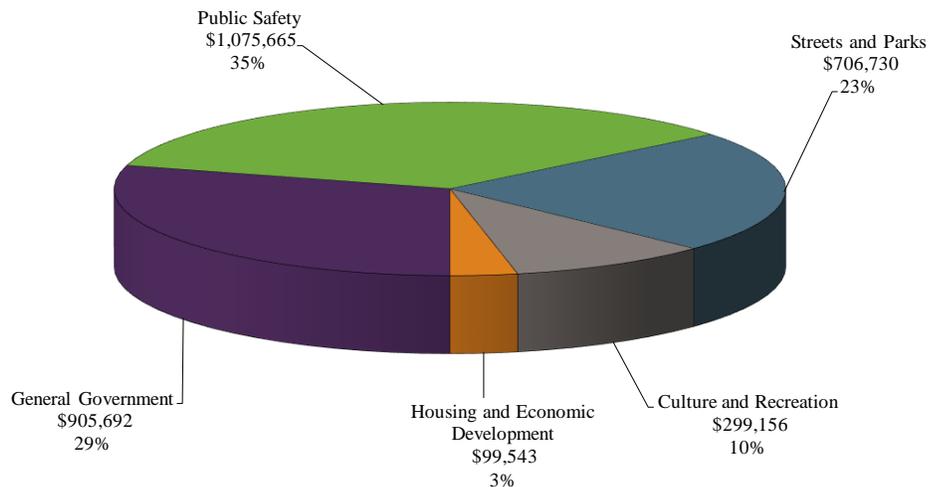
GENERAL FUND EXPENDITURES

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.

2019 General Fund Expenditures



2018 General Fund Expenditures

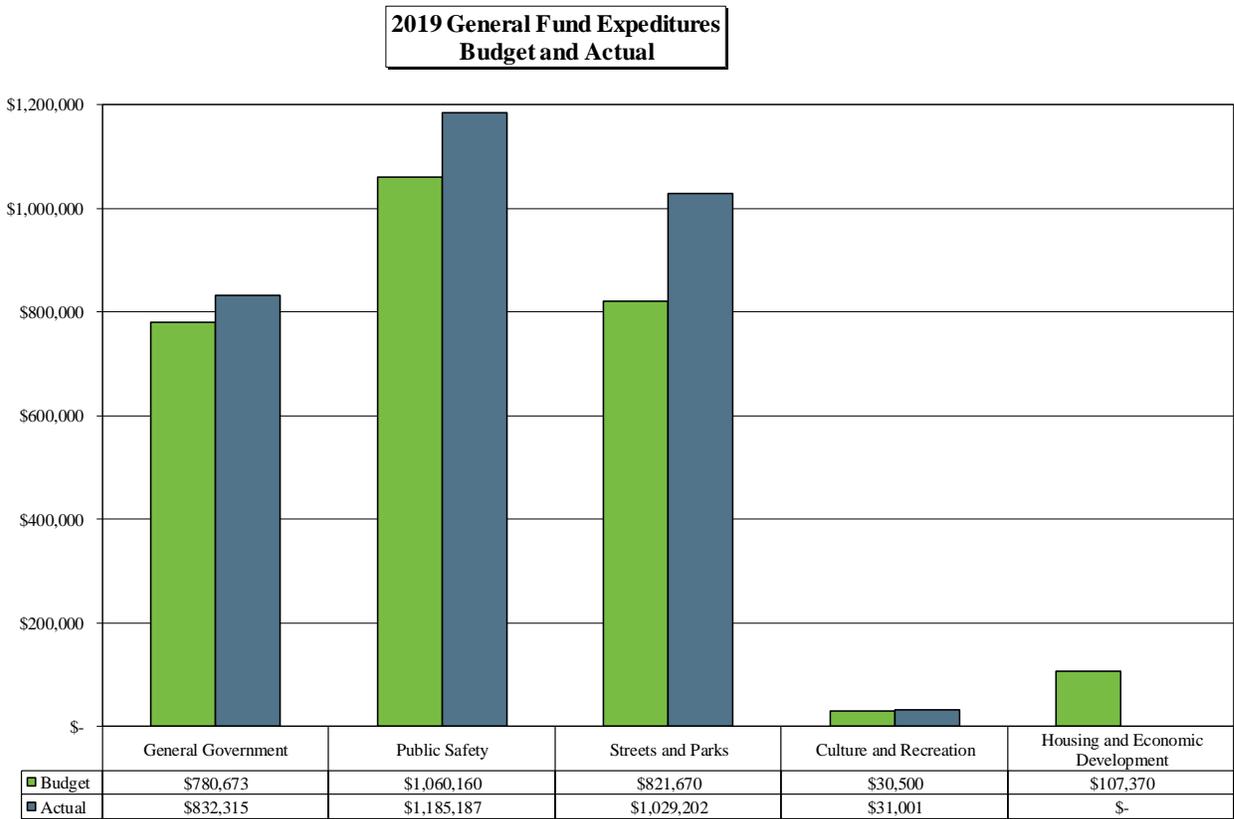


City of Le Sueur Financial Analysis

GENERAL FUND EXPENDITURES (CONTINUED)

During 2019, the City's final budget was \$2,800,373 for total expenditures. For 2019, expenditures of \$3,077,705 were over budget by \$277,332, or 9.9%.

One of the largest variances occurred in Streets and Highways which was \$207,532 over budget due to combining parks and public works into one code. Public safety expenditures were over budget by \$125,027 due to more costs related to legal fees and an increase in overtime paid in 2019. General government expenditures were over budget by \$51,642 due to having more planning and zoning work done than expected.

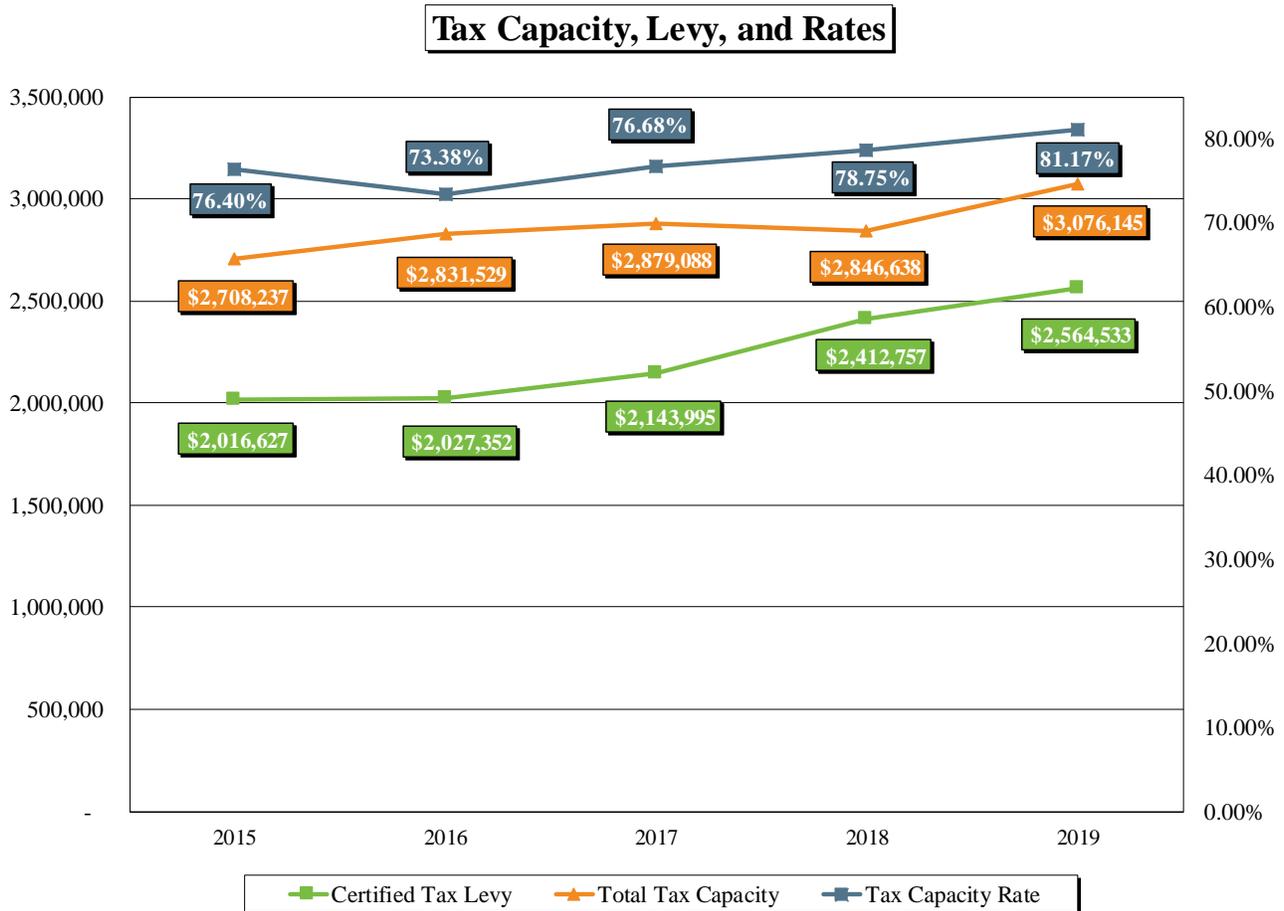


City of Le Sueur Financial Analysis

TAX CAPACITY, LEVY, AND RATES

The chart below graphs the tax capacity, certified tax levy, and City tax rate for 2015 through 2019. The tax capacity is based on total tax capacity, prior to adjustments for captured Tax Increment Financing (TIF).

During 2019 the tax capacity increased by \$229,507, or 8.06% while the certified tax levy increased \$151,776, or 6.29%. The certified tax levy increased while total tax capacity also increased which caused the tax capacity rate to increase from 78.75% in 2018 to 81.17% in 2019.

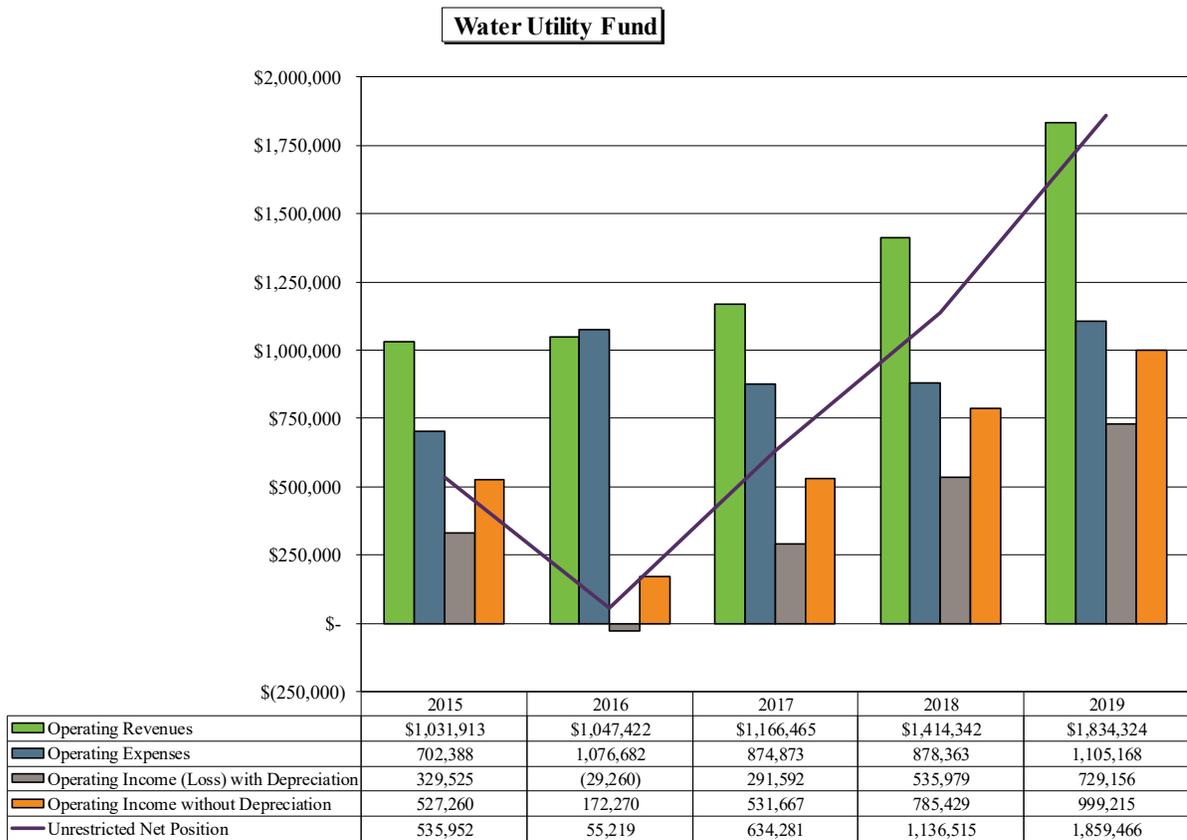


Information above was obtained from the League of Minnesota Cities property tax reports.

City of Le Sueur Financial Analysis

WATER UTILITY FUND

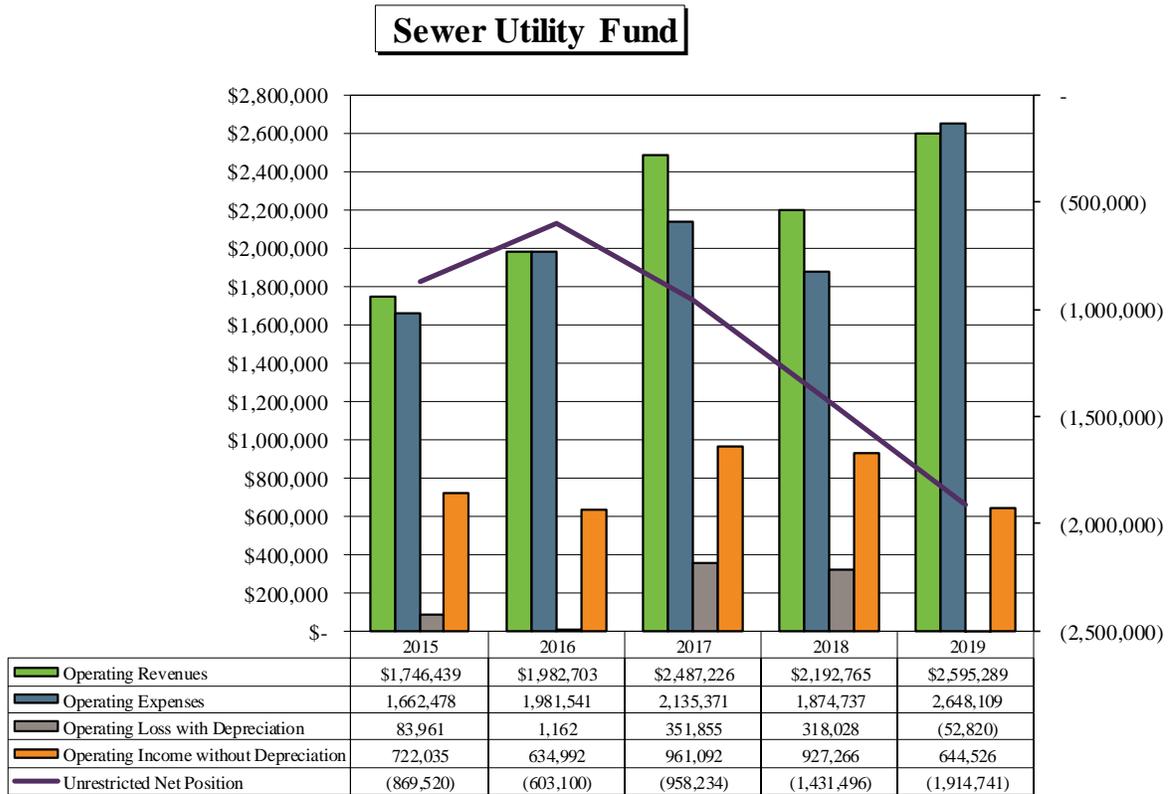
The City's Water Utility Fund experienced an operating income of \$193,177 in 2019. The Fund's operating revenues increased \$419,982 from 2018 to 2019 due to improving the utility billing system and increasing rates. The operating income without depreciation increased \$213,786 from 2018. Unrestricted net position increased \$722,951 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 \$370,848 from 2018 to 2019. Operating revenues increased \$402,524 which was attributable to improving the utility billing system. Operating expense increased \$773,372 due to transferring MRVPUC operations to the City in 2019. Without depreciation, the Sewer Fund had an operating income of \$644,256, which is a decrease of \$282,740 from 2018. Unrestricted net position decreased to a deficit of \$1,914,741 during 2019 due to current year operations, offset by principal payments on long-term debt and transfers out to other funds of \$112,550.

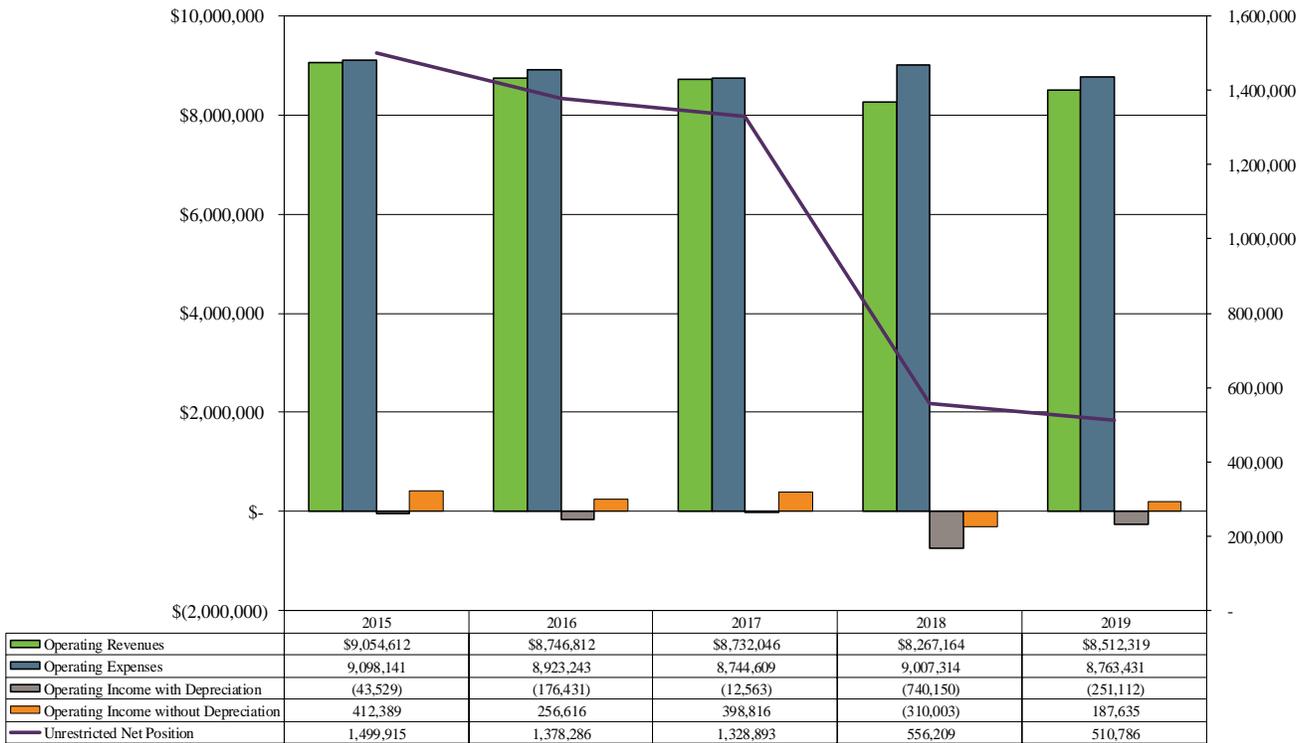


City of Le Sueur Financial Analysis

ELECTRIC UTILITY FUND

The City's Electric Utility Fund had an operating loss of \$251,112 in 2019. The Fund's operating revenues increased \$245,155 from 2018 to 2019 as a result of an increase in rates. The operating income without depreciation also increased from 2018 by \$497,638. Unrestricted net position decreased \$45,423 due to current year operations and transfers out of \$500,000.

Electric Utility Fund



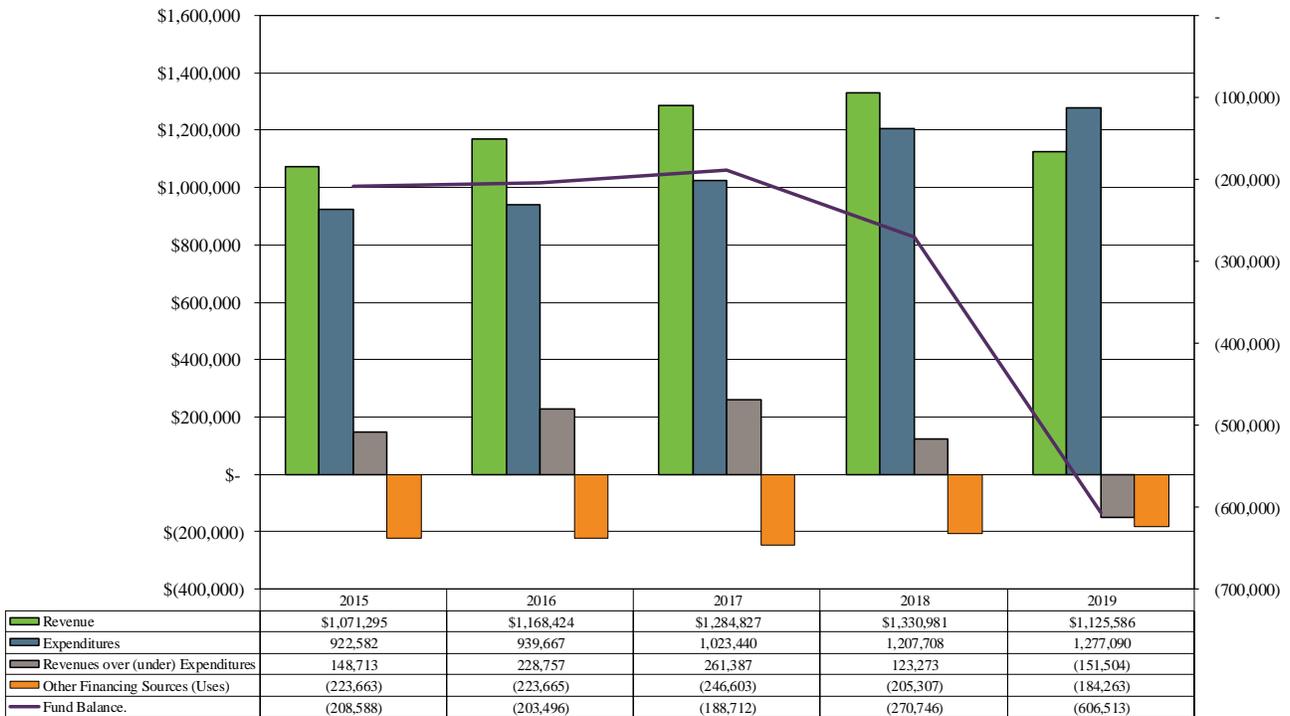
City of Le Sueur Financial Analysis

COMMUNITY CENTER FUND

For 2019, revenues were down 15.4% while expenditures were up 5.7%. The City budgeted for no change in fund balance. Revenues were budgeted for \$1,260,283 and actual revenues came in under budget by \$134,697 or 10.7%. Expenditures were budgeted for \$1,076,020 and actual expenditures were over budget by \$201,070 or 18.7%. Transfers out were budgeted for \$184,263 and actual transfers out equaled the amount budgeted. Fund balance decreased \$335,767 in 2019.

The magnitude of the deficits in this Fund have reached a point where the Fund's operations are no longer able to sustain the operating transfer out to other funds. A discussion on the long-term operation goals and performance expectations of this Fund are recommended to ensure all stakeholders are aware of the consequences of current operations.

Community Center Fund



City of Le Sueur 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 these issues 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 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.

**City of Le Sueur
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 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 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.