

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

Communications Letter

December 31, 2016



**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, 2016, 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 were not 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, 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 deficiencies identified are 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 6, 2017, on such statements.

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.

BerganKDV Ltd.

Minneapolis, Minnesota
June 6, 2017

**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 Deficiencies**

LACK OF SEGREGATION OF ACCOUNTING DUTIES

During the year ended December 31, 2016, 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.

CONSIDER RATIO OF GALLONS BILLED TO GALLONS PUMPED

During our audit of water charges, we noted the ratio of gallons billed to gallons pumped was 73%. The American Waterworks Association has developed a benchmark of gallons billed to gallons pumped to equal at least 90%.

We recommend the City increase their awareness of leaks and strive to meet the benchmark of 90%.

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, 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 opinions 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 the notes to financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended December 31, 2016. 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.

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.

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. 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.

- Sales tax payable is understated
- Compensated absences is overstated

**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:

- Cash and related revenues

Prior period adjustments:

- Error in the recording of new assessments in the prior year
- Error in the recognition of grant revenue on a modified accrual basis
- Error in the recording of receivables in the prior year for revenues that had already been received

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

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

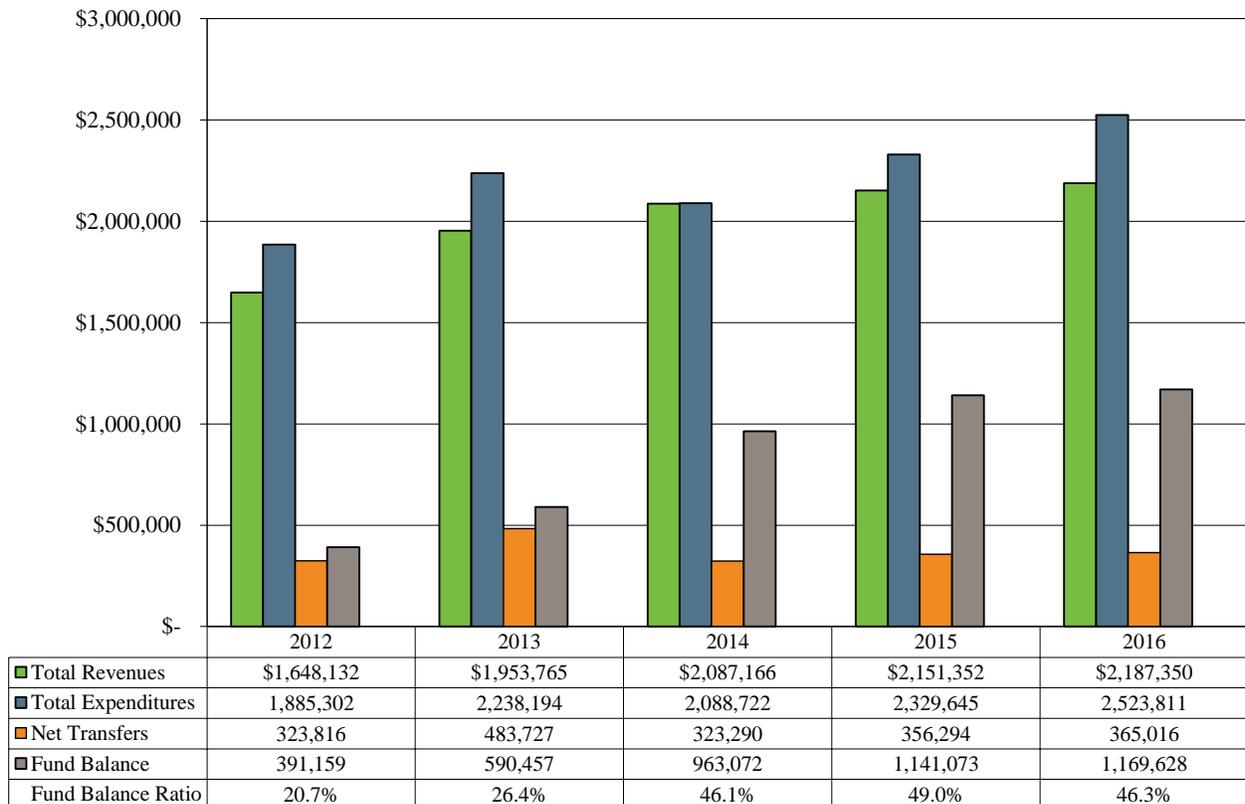
The following pages provide graphic representation of select data pertaining to the financial position and operations of the City for the past five years. Our analysis of each graph is presented to provide a basis for discussion of past performance and how implementing certain changes may enhance future 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 \$35,998 from 2015 to 2016, and expenditures increased by \$194,166 over the same time frame.

The City's General Fund balance increased from \$1,141,073 in 2015 to \$1,169,628 in 2016. Expenditures exceeded revenues by \$336,461 during 2016. The December 31, 2016, fund balance represents 46.3%, or just over five and a half months of expenditures at 2016 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 2016 budgeted expenditures, which the City uses for its benchmark, the City's fund balance represents 49.0%, or just over five and a half months.

General Fund

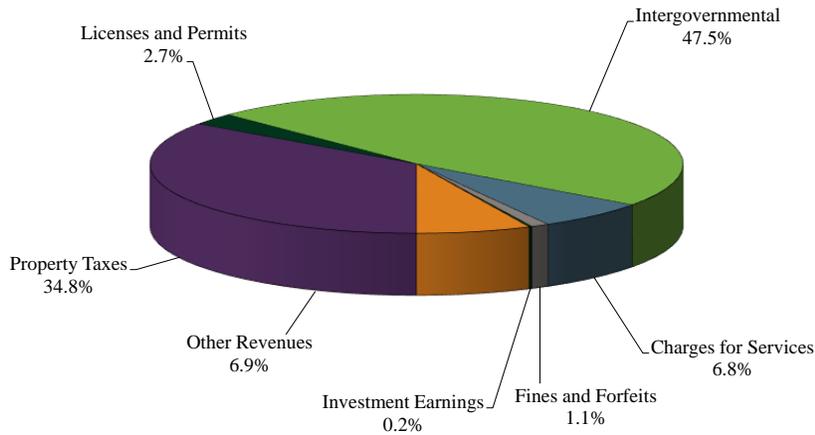


City of Le Sueur Financial Analysis

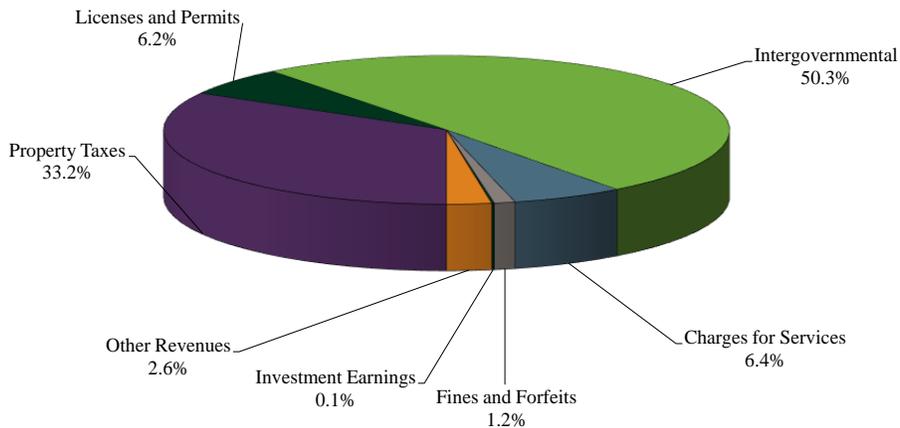
GENERAL FUND REVENUES

The allocation of revenues within each major classification is presented below for 2016 and 2015. Sources of General Fund revenue have been consistent for the past several years, with property taxes and intergovernmental accounting for approximately 35% and 47% of total revenue, respectively. The increase in property taxes was due to an increase in levy. Other revenues also increased due to cable TV revenues increasing in 2016 and large LMCIT insurance reimbursement. These increases were offset by a decrease in licenses and permits due to a decrease in building permits in 2016. In addition, intergovernmental revenue decreased due to the City not receiving the Small City Assistance grant in 2016.

2016 General Fund Revenues



2015 General Fund Revenues

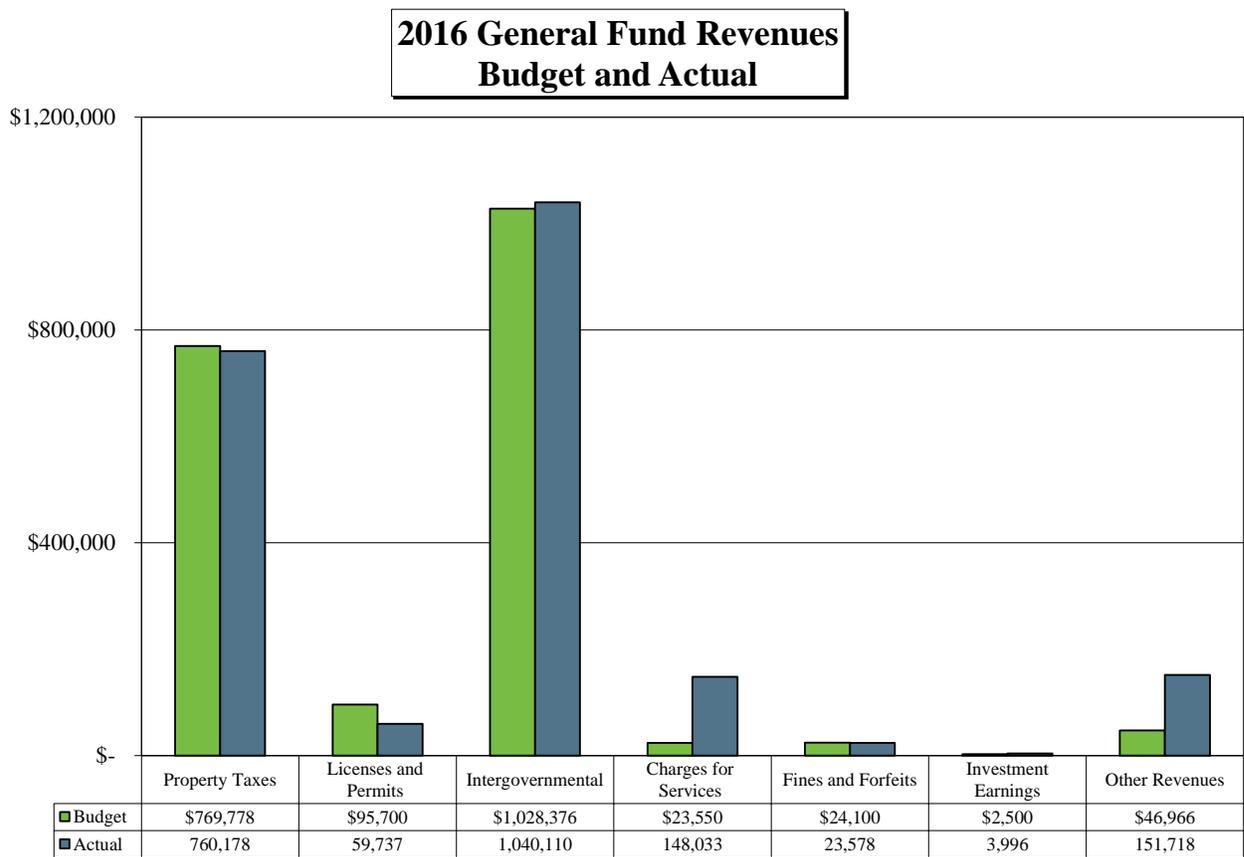


City of Le Sueur Financial Analysis

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 \$196,380, or 9.86%.

The largest variance between budget and actual was related to charges for services as a result of the City not budgeting for the HRA. Licenses and permits were under budget by \$35,963 due to the City budgeting too high. Other revenues exceeded budgeted revenue by \$71,167 as a result of the City not budgeting for cable TV revenue. All other actual revenues were in line with the budget set by the City.

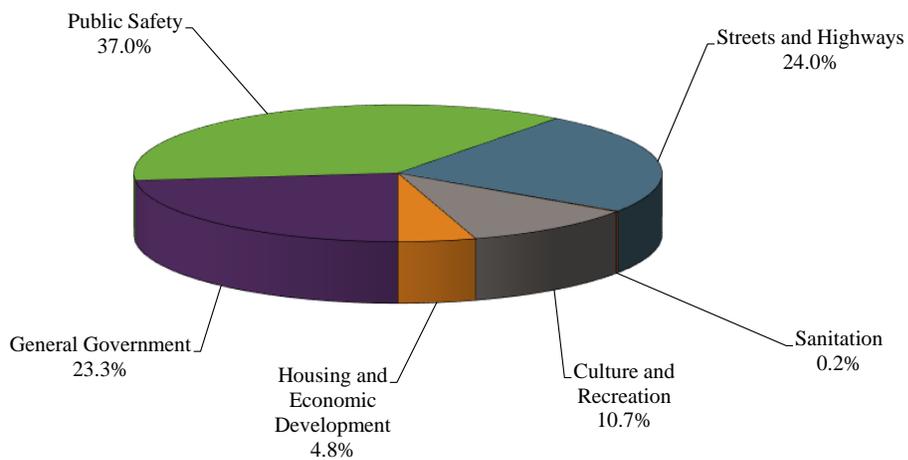


City of Le Sueur Financial Analysis

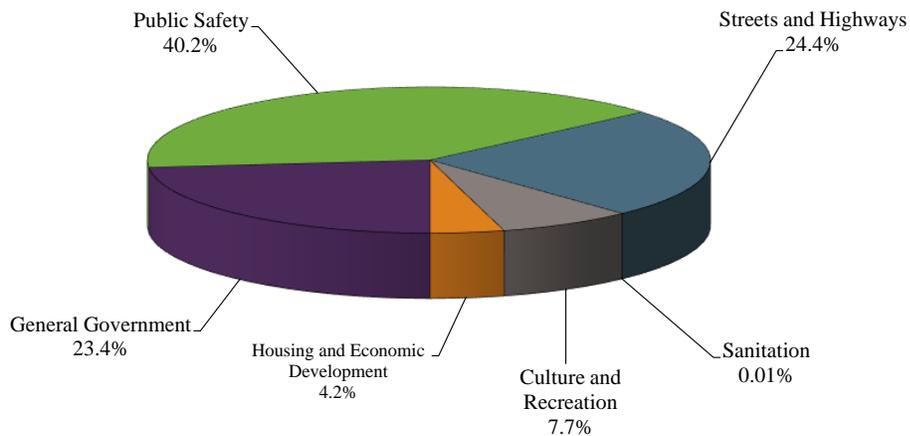
GENERAL FUND EXPENDITURES

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.

2016 General Fund Expenditures



2015 General Fund Expenditures



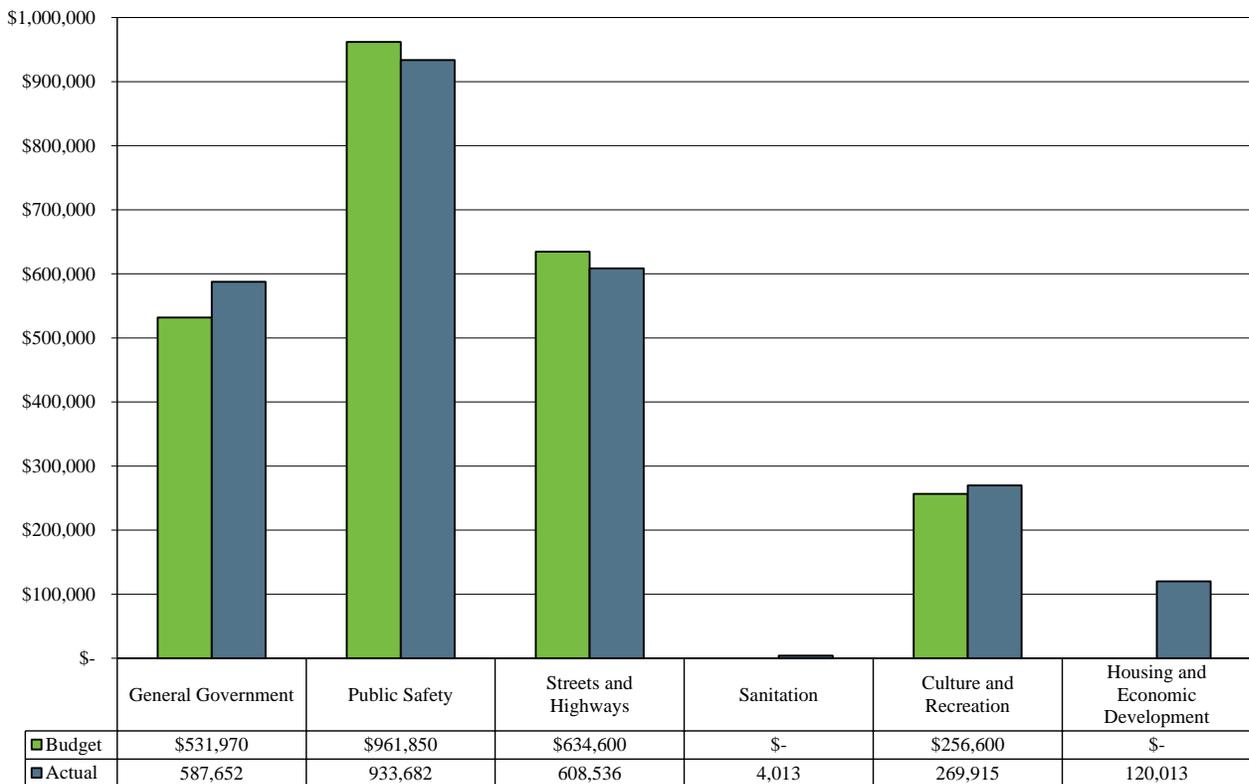
City of Le Sueur Financial Analysis

GENERAL FUND EXPENDITURES (CONTINUED)

During 2016, the City's final budget was \$2,385,020 for total expenditures. For 2016, expenditures of \$2,523,811 were over budget by \$138,791, or 5.8%.

The largest variance occurred in general government which was \$55,682 over budget due to not budgeting for LSH healthy communities' expenses.

**2016 General Fund Expenditures
Budget and Actual**

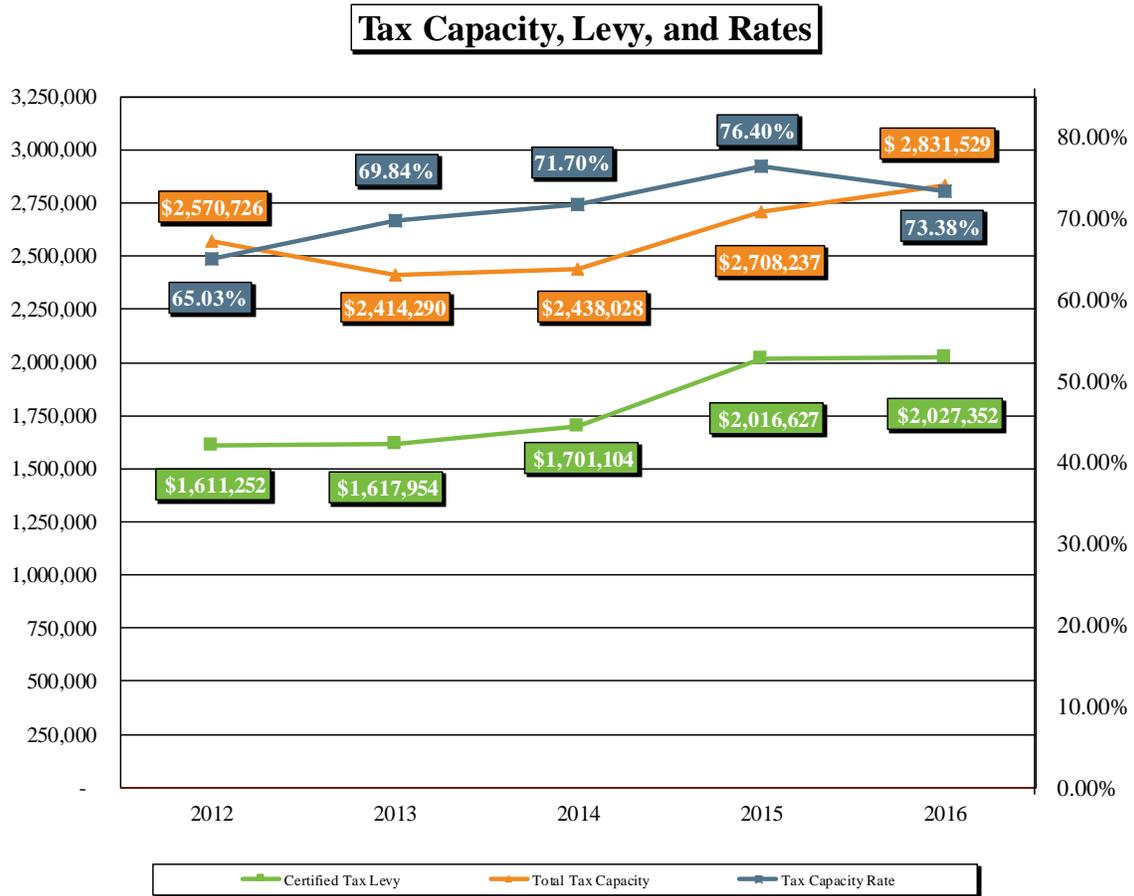


City of Le Sueur Financial Analysis

TAX CAPACITY, LEVY, AND RATES

The chart below graphs the tax capacity, certified tax levy, and City tax rate for 2012 through 2016. 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 2016 the tax capacity increased by \$123,292, or 4.55% while the certified tax levy increased \$10,725, or 0.53%.

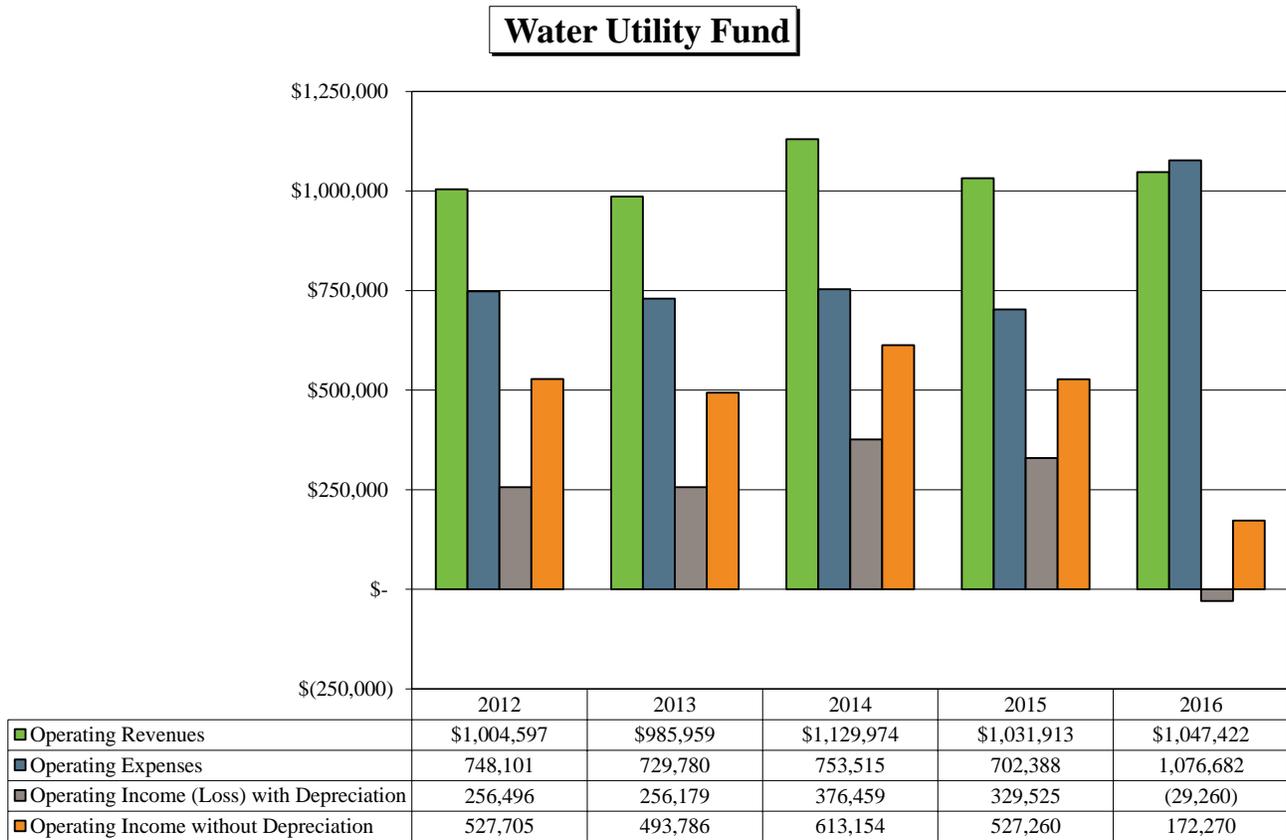


Information above was obtained from the League of Minnesota Cities property tax reports.

City of Le Sueur Financial Analysis

WATER FUND

The City's Water Fund experienced an operating loss of \$29,260 in 2016. The Fund's operating revenues increased \$15,509 from 2015 to 2016 and the operating expenses increased \$374,294 as a result of reallocating employee time in 2016 and the purchase of water meters that were not capitalized in 2016. The operating income without depreciation decreased \$354,990 from 2015. Unrestricted net position decreased \$480,733 from \$535,952 to \$55,219 during 2016.

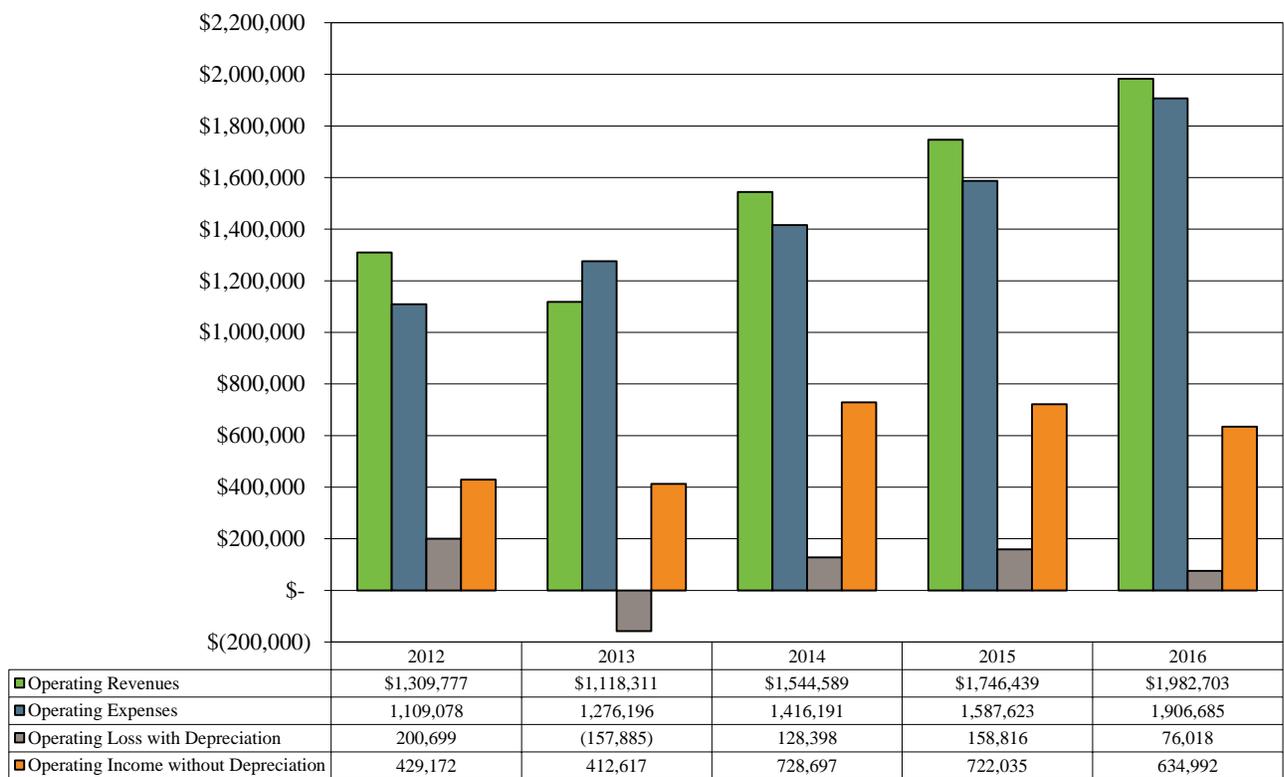


City of Le Sueur Financial Analysis

SEWER FUND

The Sewer Fund operating income decreased \$82,798 from 2015 to 2016. Operating revenues increased 236,264 which was attributable to an increase in sewer usage. Operating expenses increased \$319,062 which was attributed to an increase in maintenance and higher allocation of MRVPUC charges. Without depreciation, the Sewer Fund had an operating income of \$634,992, which is a decrease of \$87,043 from 2015. Unrestricted net position increased \$299,390 from \$(902,490) to \$(603,100) during 2016.

Sewer Utility Fund

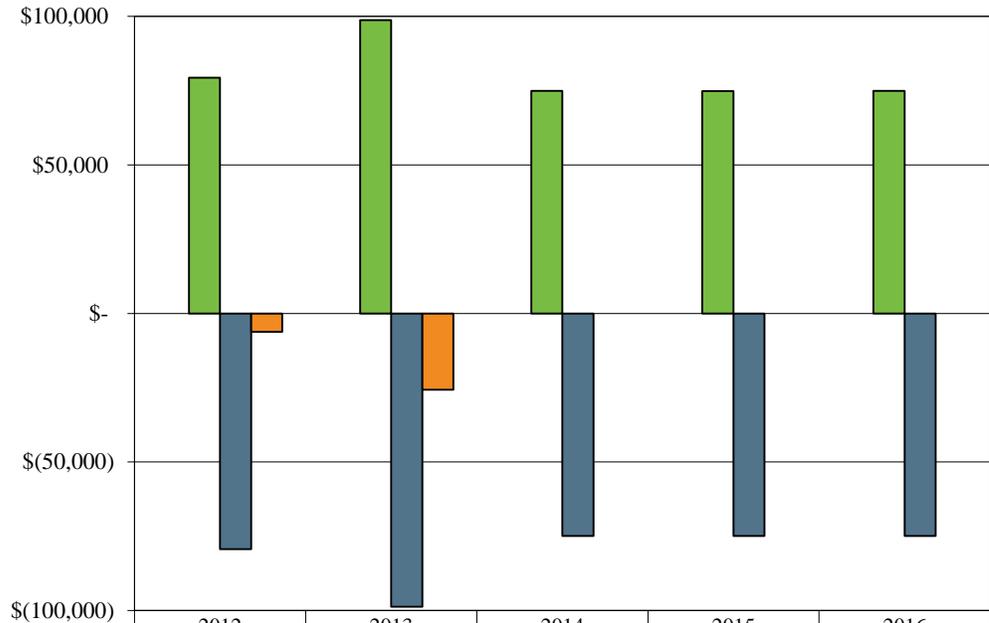


**City of Le Sueur
Financial Analysis**

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 loss of \$(74,856) in 2016. Unrestricted net position decreased from \$32,970 in 2015 to \$0 in 2016.

Sewer Pre-Treatment Fund



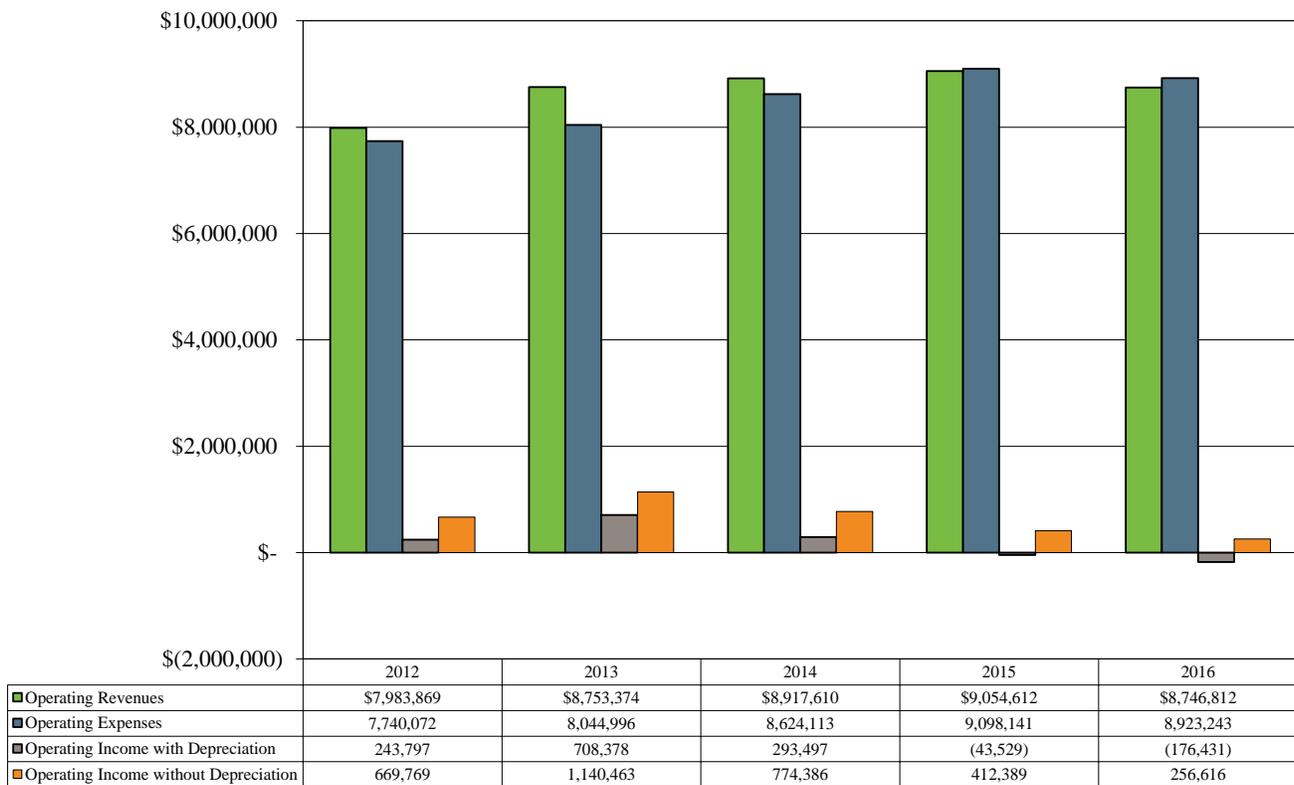
	2012	2013	2014	2015	2016
■ Operating Revenues	\$-	\$-	\$-	\$-	\$-
■ Operating Expenses	79,320	98,731	74,856	74,855	74,856
■ Operating Income with Depreciation	(79,320)	(98,731)	(74,856)	(74,855)	(74,856)
■ Operating Income without Depreciation	(6,247)	(25,658)	-	-	-

City of Le Sueur Financial Analysis

ELECTRIC UTILITY FUND

The City's Electric Fund experienced an operating loss of \$176,431 in 2016. The Fund's operating revenues decreased \$307,800 from 2015 to 2016 as a result of recoding franchise fee revenue in 2016 and the operating expenses decreased \$174,898 as a result of no longer coding refuse expenses in this fund. The operating income without depreciation decreased \$155,773 from 2015. Unrestricted net position decreased \$121,629 from \$1,499,915 in 2015 to \$1,378,286 in 2016.

Electric Utility Fund



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.

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.

**City of Le Sueur
Emerging Issues**

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

- 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.