

**City of Albertville
Wright County, Minnesota**

Communications Letter

December 31, 2015



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

BerganKDV, Ltd.

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In planning and performing our audit of the financial statements of the City of Albertville, Minnesota, as of and for the year ended December 31, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. 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 April 6, 2016, on such statements.

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This communication is intended solely for the information and use of management, the City Council, others within the City and State oversight agencies, and is not intended to be and should not be used by anyone other than these specified parties.

BerganKDV Ltd.

Minneapolis, Minnesota
April 6, 2016

City of Albertville
Significant Deficiency

LACK OF SEGREGATION OF ACCOUNTING DUTIES

Four areas related to each transaction cycle should be segregated: authorization, custody, recording, and reconciliation. During the year ended December 31, 2015, the City had a lack of segregation of accounting duties due to a limited number of office employees. The lack of adequate segregation of accounting duties could adversely affect the City's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. This lack of segregation of accounting duties can be demonstrated in the following areas, which is not intended to be an all-inclusive list:

- The Finance Director is able to receive cash receipts at the front window and has read/write access to the general ledger.
- The Finance Director verifies purchase orders to invoices and can also enter disbursements into the accounts payable module. Additionally, the Finance Director can print checks, is an authorized signer, and reconciles the bank accounts.
- The Finance Director has the ability to post utility billing information into the general ledger, make adjustments to bills, and maintain customers and rates.
- The Administrative Assistant II imports, calculates and sends out the utility billings, maintains customer accounts, enters the billing payments, posts receipts to the general ledger and maintains the billing register.
- The Finance Director sets up and maintains employee payroll records, posts payroll to the general ledger, issues direct deposits, reconciles the bank account, prepares the payroll taxes, prepares all W-2s, as well as maintains all data files and the payroll program.
- The Building Technician fills out permit fees schedules, has access to receive payments, and scans all permits and/or inspections into a house file.
- The Finance Director enters all accounts receivable invoices, maintains the accounts receivable billings, reports all outstanding bills to the City Council and can post payments to the general ledger.
- The Administrative Assistant II collects fines and fees, receives payments, and enters them into the POS module.

We recommend management, along with the City Council, remain aware of this situation, and look for opportunities to provide additional segregation.

City's Response:

The City is aware of the lack of segregation, which is due to limited office staff, and continues to look for opportunities to provide additional segregation in a cost effective manner.

City of Albertville Required Communication

We have audited the financial statements of the City for the year ended December 31, 2015, and have issued our report dated April 6, 2016. Professional standards require that we provide you with the following information related to our audit.

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

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

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

QUALITATIVE ASPECTS OF ACCOUNTING PRACTICES

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended December 31, 2015. 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 financial statements 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.

Land Held for Resale – Land held for resale is recorded using either the lower of historical cost or estimated resale value.

Net Pension Liability, Deferred Outflows of Resources Related to Pensions and Deferred Inflows of Resources Related to Pensions – These balances are based on an allocation by the pension plans using estimates based on contributions

The financial statement disclosures are neutral, consistent, and clear.

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

We encountered no significant difficulties in dealing with management in performing and completing our audit.

CORRECTED AND UNCORRECTED MISSTATEMENTS

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

- Ice Arena inventory valued at sales price rather than cost

**City of Albertville
Required Communication**

CORRECTED AND UNCORRECTED MISSTATEMENTS (CONTINUED)

In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

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.

OTHER MATTERS

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content and methods of preparing the information to determine that the information complies with accounting principles generally accepted in United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

City of Albertville Financial Analysis

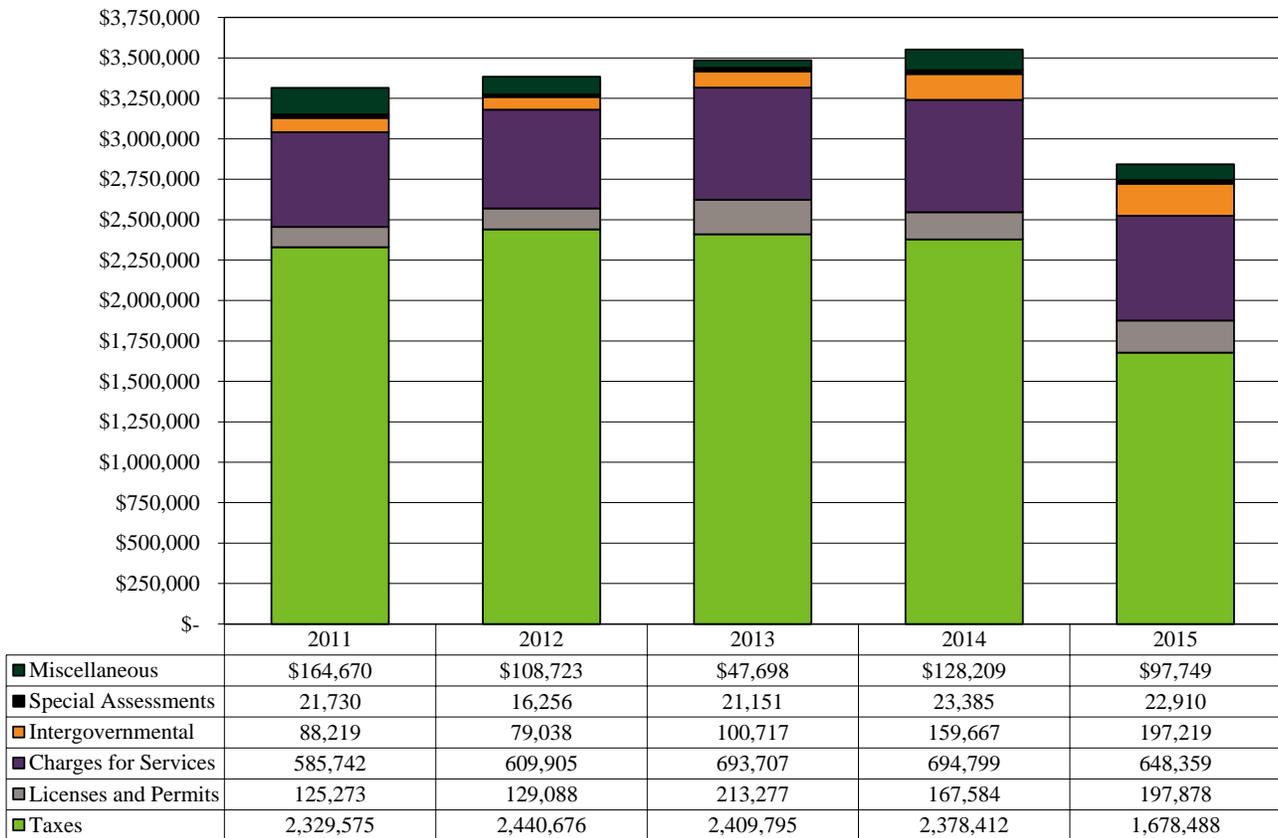
The following pages provide graphic representation of select data pertaining to the financial position and operations of the City for the past five years. Our analysis of each graph is presented to provide a basis for discussion of past performance and how implementing certain changes may enhance future performance. We suggest you view each graph and document if our analysis is consistent with yours. A subsequent discussion of this information should be useful for planning purposes.

GENERAL FUND

General Fund revenues decreased \$709,453, or 20.0%, from 2014 to 2015. Property taxes decreased \$699,924, or 29.4%, due to directly allocating the taxes for the Capital Outlay Reserve Fund to that fund instead of receipting it into the General Fund and then transferring it out. Intergovernmental revenue increased \$37,552, or 23.5%, due to an increase in the allocation for fire aid. Charges for services decreased \$46,440 due to a change in charging administrative fees. Licenses and permits increased \$30,294 with increased building activity within the city. Miscellaneous sources of revenue decreased \$30,460 as the City received less interest revenue.

The graphs below and on the following page present the General Fund revenues by source in graph and pie chart formats.

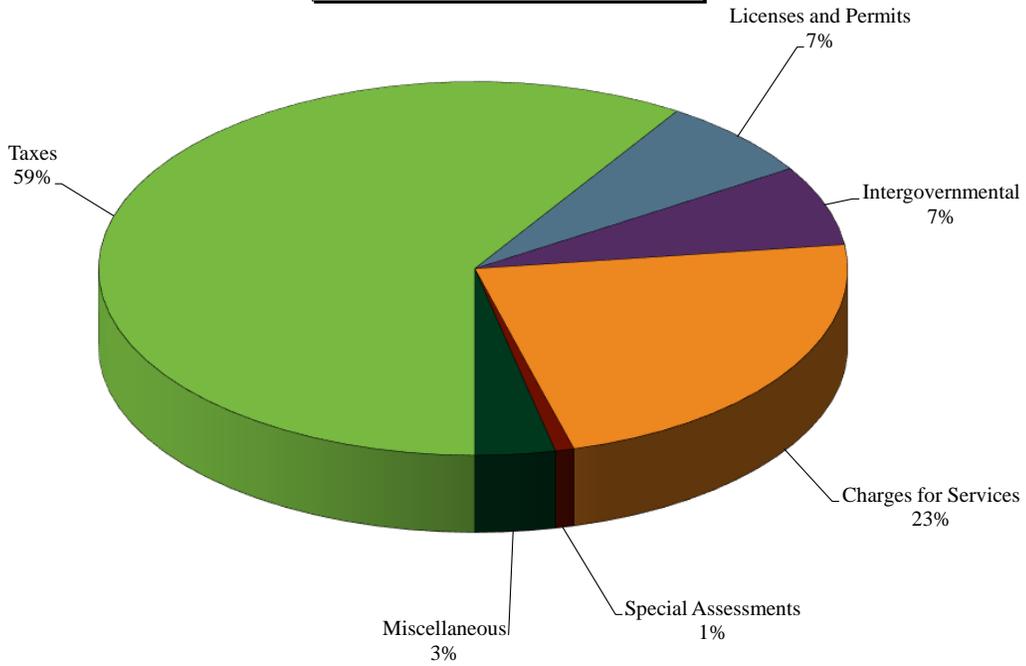
General Fund Revenues



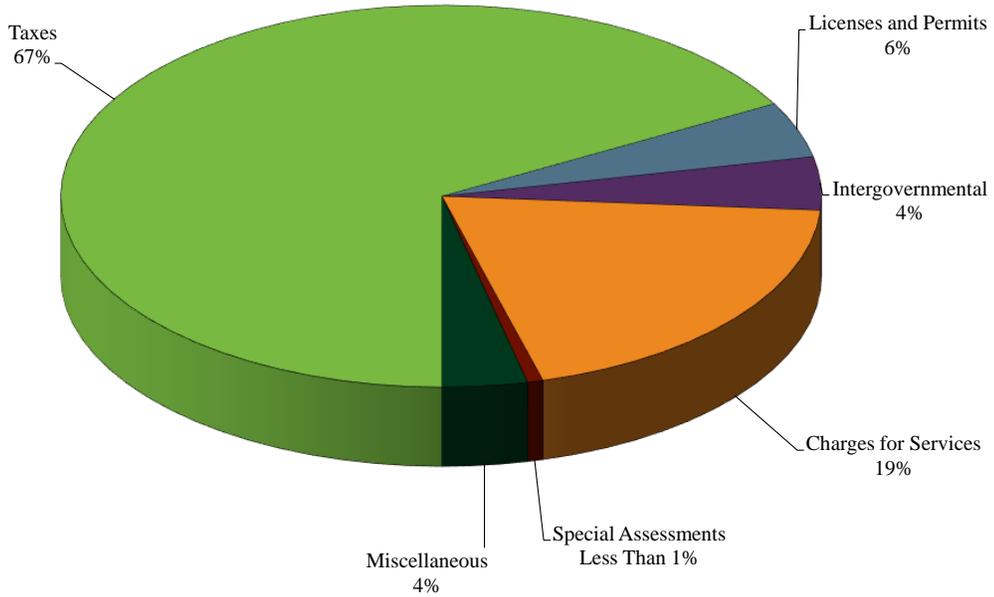
City of Albertville Financial Analysis

GENERAL FUND (CONTINUED)

2015 General Fund Revenues



2014 General Fund Revenues



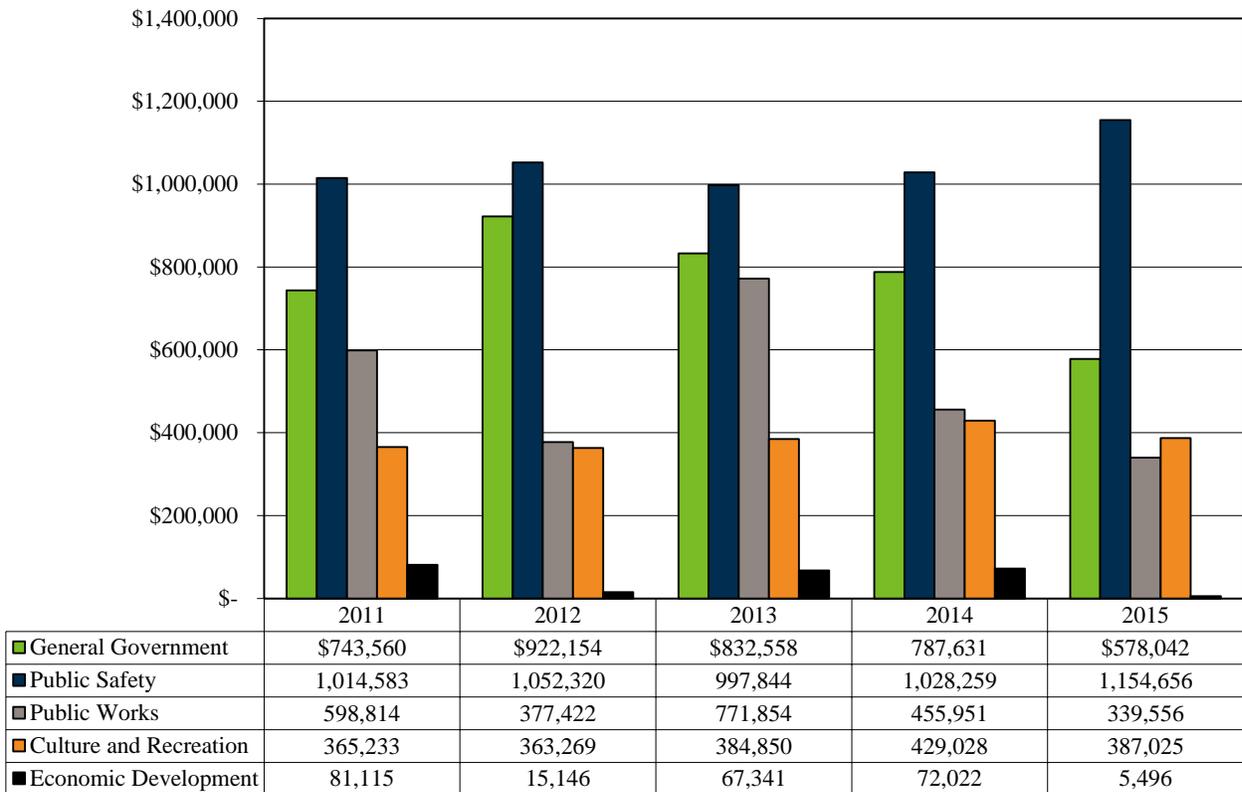
City of Albertville Financial Analysis

GENERAL FUND (CONTINUED)

General Fund expenditures decreased from \$2,772,891 in 2014 to \$2,464,775 in 2015, a change of 11.1%. General government expenditures decreased \$209,589, or 26.6%, due to personnel changes, decreased insurance costs and no capital projects. Public safety increased \$126,397 due to adding more hours to the contract with the sheriff and hiring a full time fire chief. Public works decreased \$116,395 due to moving capital projects to a capital fund. Culture and recreation decreased \$42,003 as a result of redistributing employees and moving capital outlay to a capital fund. Economic Development decreased \$66,526 due to a change in city property tax payments for land owned by the City.

A graph depicting the expenditures for the General Fund for each of the past five years is illustrated below.

General Fund Expenditures

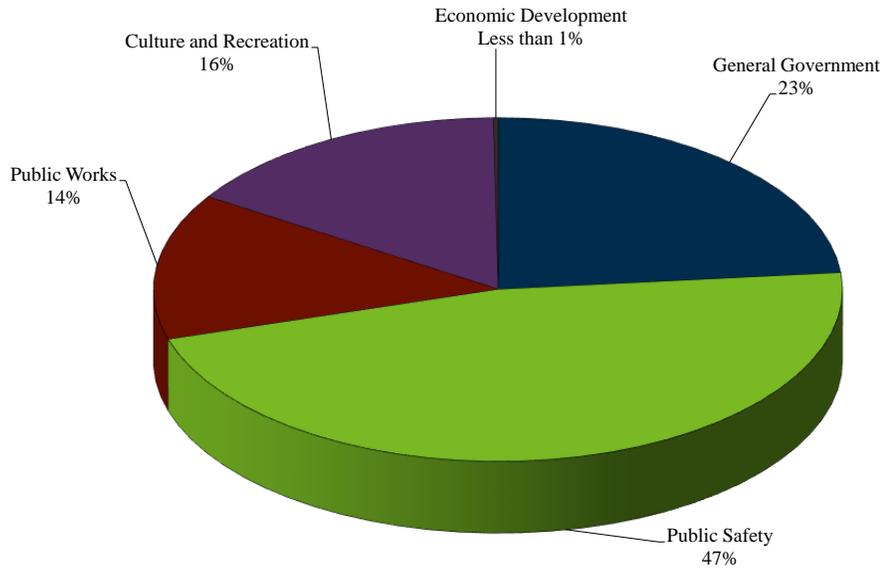


City of Albertville Financial Analysis

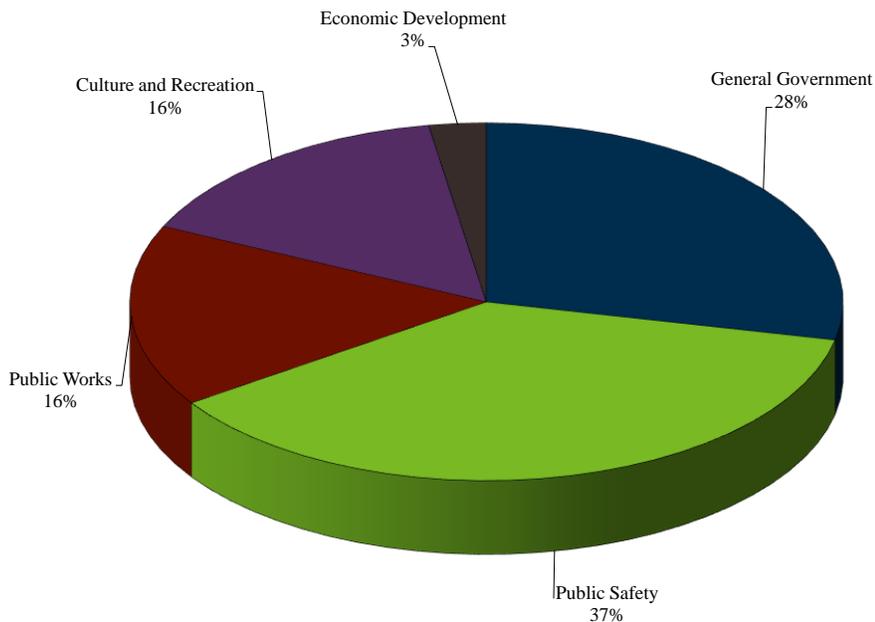
GENERAL FUND (CONTINUED)

The charts below represent the 2015 and 2014 expenditures as a percentage by function. With the increase in public safety expenditures and a decrease in all other functions, as explained on the previous page, there was a shift in the allocation of percentage of total expenditures.

2015 General Fund Expenditures



2014 General Fund Expenditures



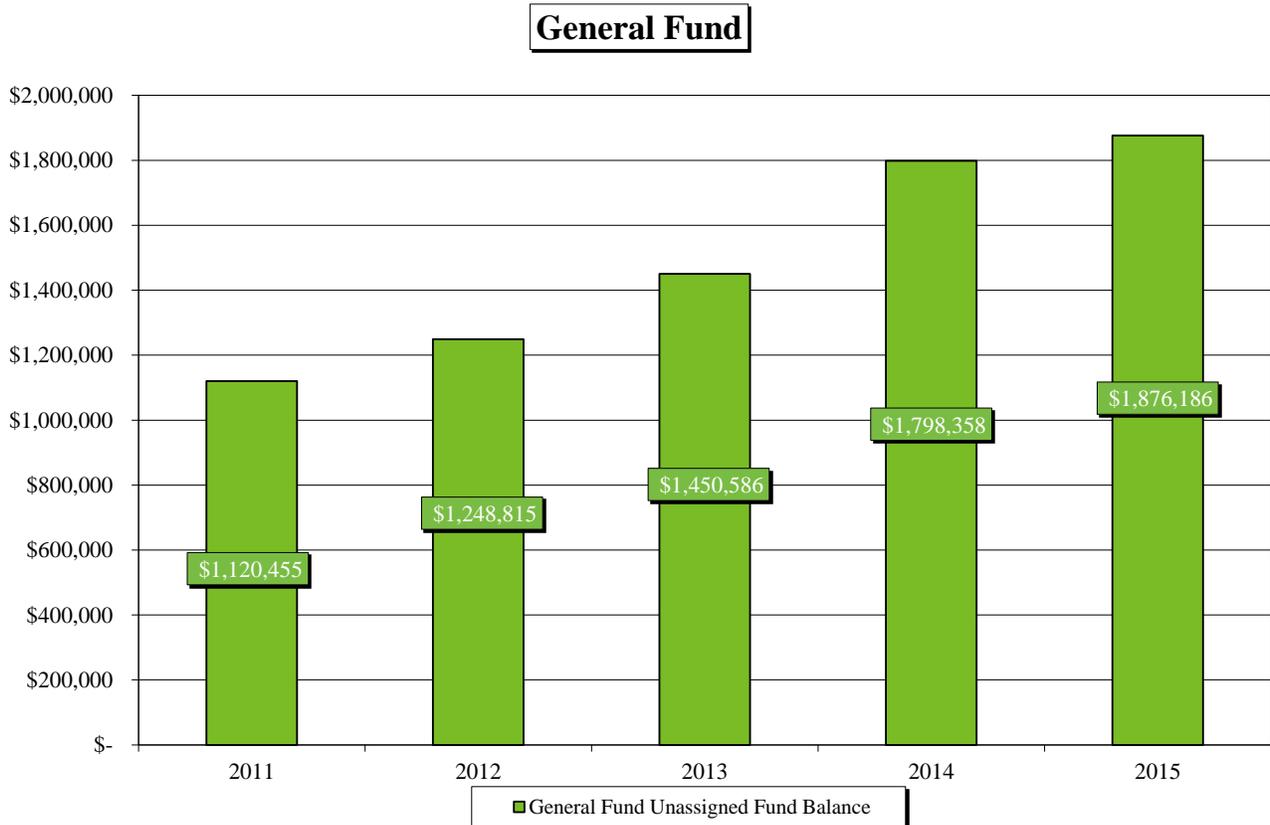
City of Albertville Financial Analysis

GENERAL FUND (CONTINUED)

The graph below shows the overall trend of the General Fund unassigned fund balance for the last five years. The General Fund cash and investment balance at December 31, 2015, was \$1,894,343, an increase of 3.1% over 2014. The unassigned fund balance has also shown this trend, ending in 2015 at \$1,876,186, an increase of \$77,828 over 2014.

During 2011, the City approved a GASB Statement No. 54 fund balance policy that strives to maintain a minimum fund balance not less than 35.0% of next year's budgeted expenditures in unassigned fund balance. The City's unassigned fund balance at December 31, 2015, was 52.6% of the subsequent year's budgeted General Fund expenditures, compared to 51.3% as of December 31, 2014.

The General Fund had a nonspendable fund balance of \$51,000 in 2015 relating to the land held for resale. The total fund balance at December 31, 2015, was \$1,927,186.



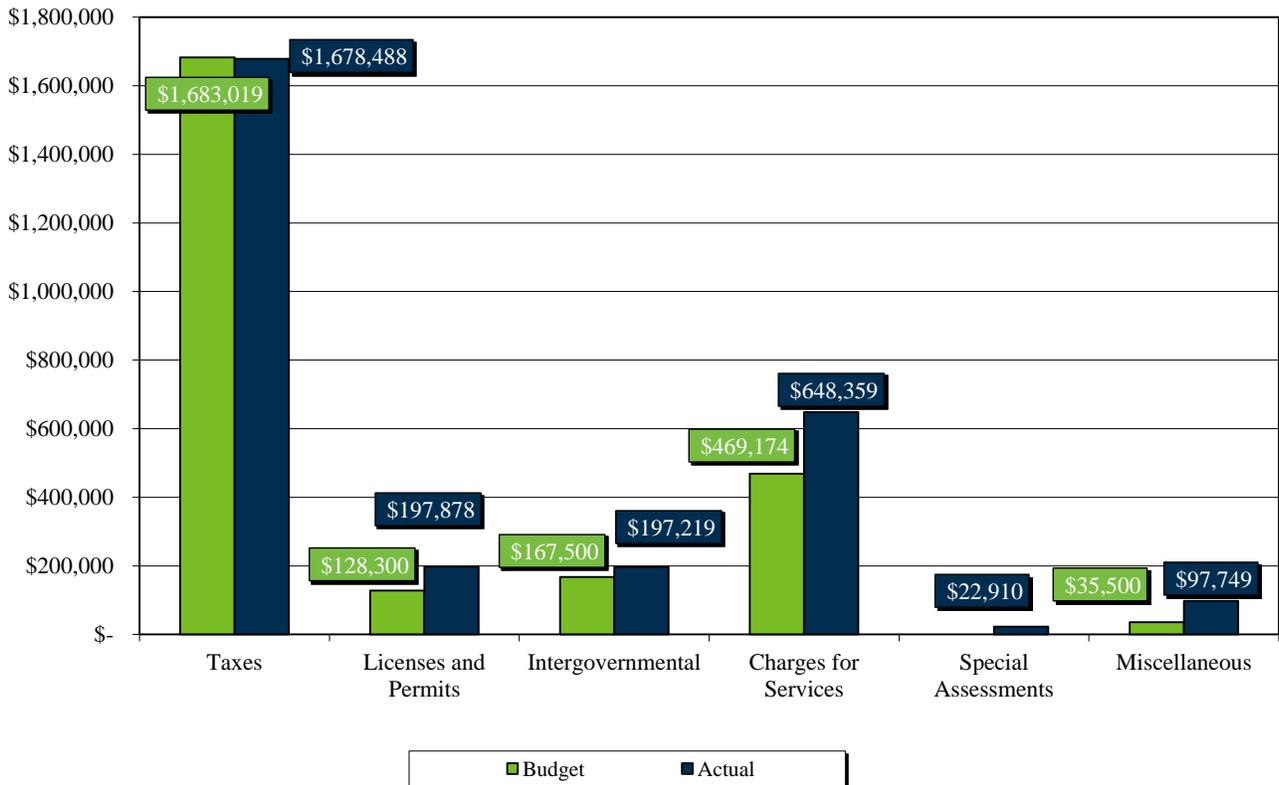
City of Albertville Financial Analysis

GENERAL FUND (CONTINUED)

The graph below shows the budget to actual results for the General Fund revenue by source. In total, actual revenues were greater than the budget by \$359,110, or 14.4%.

In 2015, every category of revenue was over budget, except for tax revenue. Of these variances, charges for services, licenses and permits and miscellaneous revenue had the most significant variances. Charges for services were over budget by \$179,185 as a result of an increase in building activity in 2015 and also because of the presentation of arena activity. Licenses and permits revenue was over budget \$69,578 with the increase in building activity in 2015. Miscellaneous revenue was \$62,249 over budget due to insurance dividends and conservative budgeting.

2015 Revenues Budget and Actual

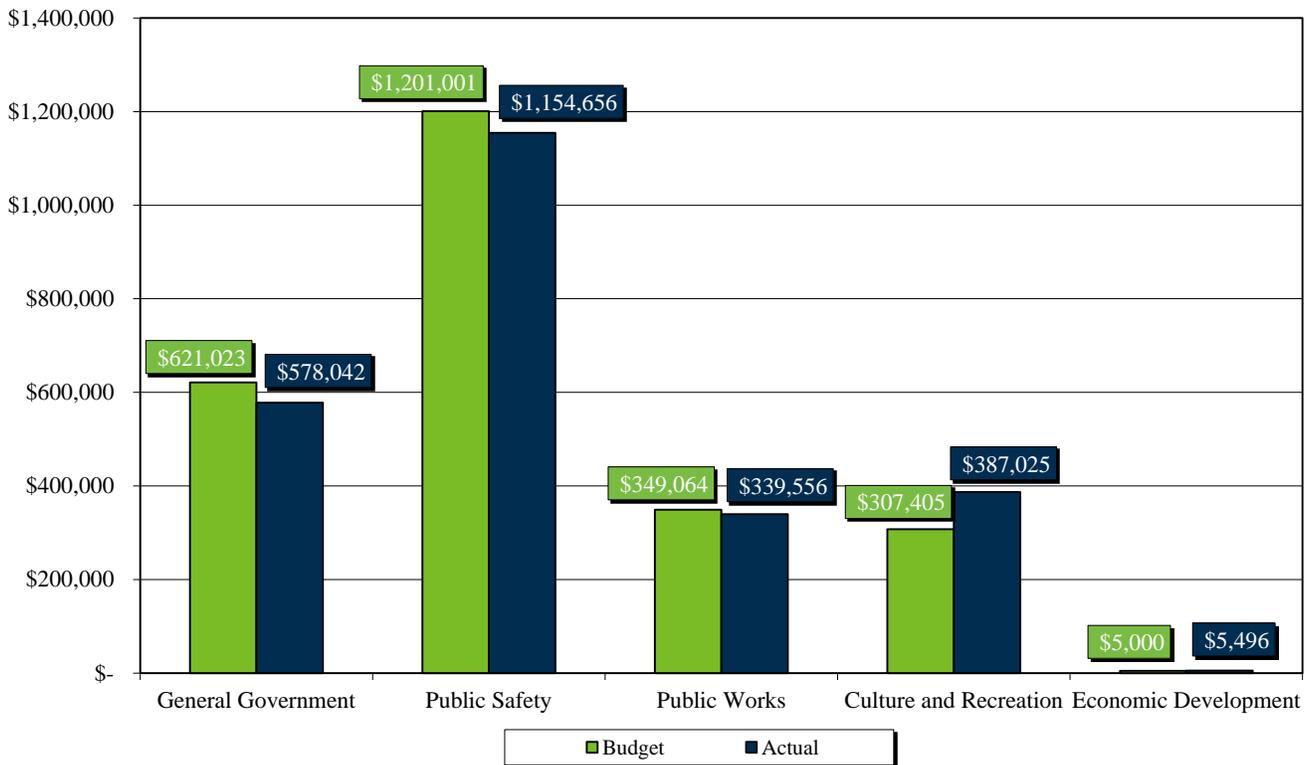


City of Albertville Financial Analysis

GENERAL FUND (CONTINUED)

The graph below shows the budget to actual results for General Fund expenditures by department. Overall, the City was under budget by \$18,718, or 0.8%. General government was under budget \$42,981 due to changes in staffing levels during the year. Public safety was under budget \$46,345 due to hiring the fire chief mid-year and budgeting for a full year of salary and benefits. Culture and recreation is over budget \$79,620 as a result of presenting arena employee expenditures in the City's General Fund which is not included in the budget. Public works and public safety expenditures did not vary significantly with budgets.

2015 Expenditures Budget and Actual

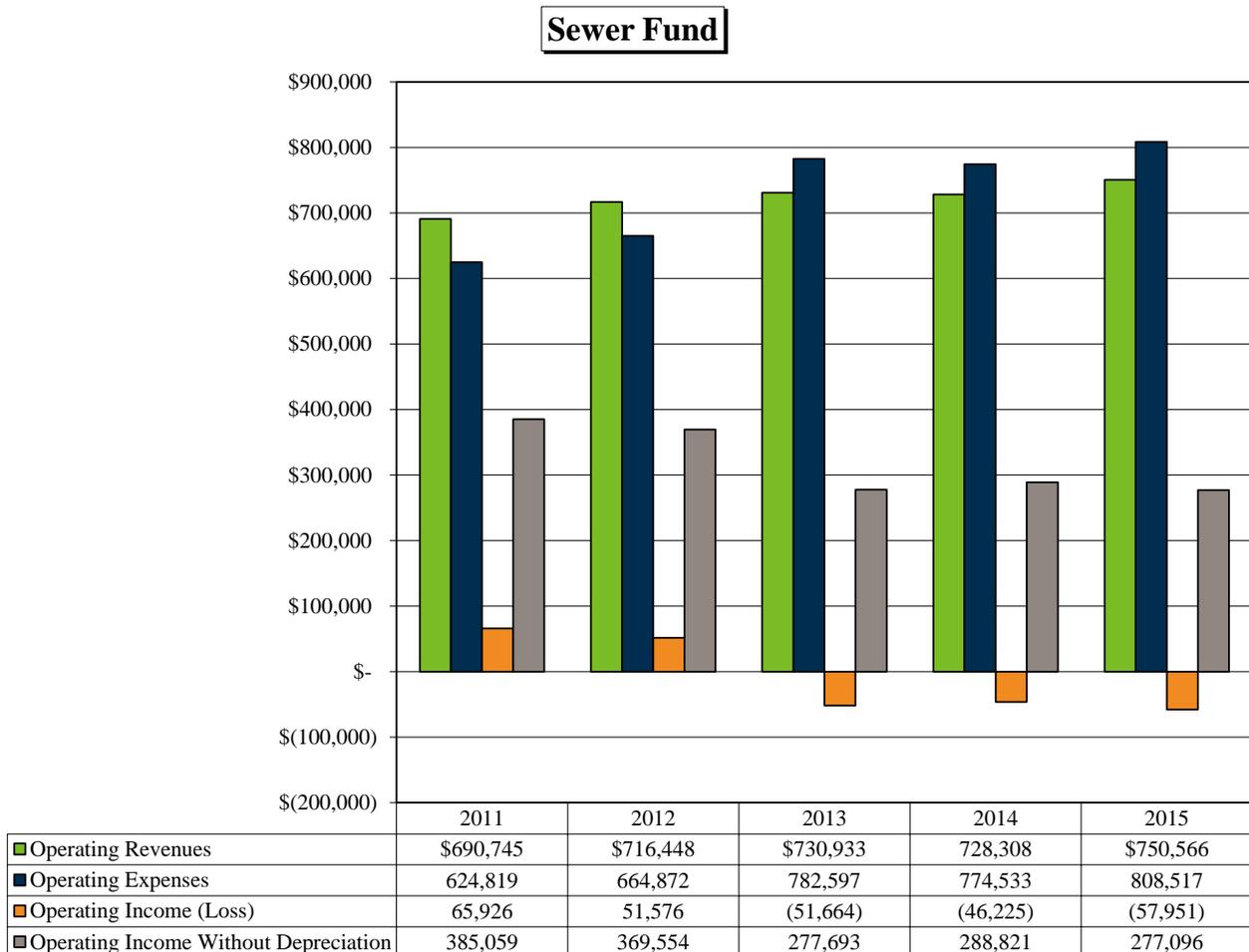


City of Albertville Financial Analysis

SEWER FUND

The following graph provides a history of operating income for the past five years for the Sewer Fund. Charges for services illustrated do not include sewer connection fees. The orange bar represents a true measurement of operations to be used as a factor in determining whether sewer rates are sufficient to cover operating costs. As the graph indicates, in 2011, the City experienced operating income, which continued in 2012 due to an effective increase in utility rates to counteract expected increases in operating costs and depreciation of the City’s sewer system. However, an increase in operating expenses in 2013 while operating revenues remained stable led to an operating loss of \$51,664. This trend continued into 2014 when the City had an operating loss of \$46,225. In 2015, the City once again experienced an operating loss of \$57,951 as expenses continue to increase at a greater rate than revenues. Revenues increased \$22,258, or 3.1%, while expenses increased \$33,984, or 4.4%. Revenues that are sufficient to cover operating costs, including depreciation, allow for an accumulation of cash to help fund replacement of depreciable assets.

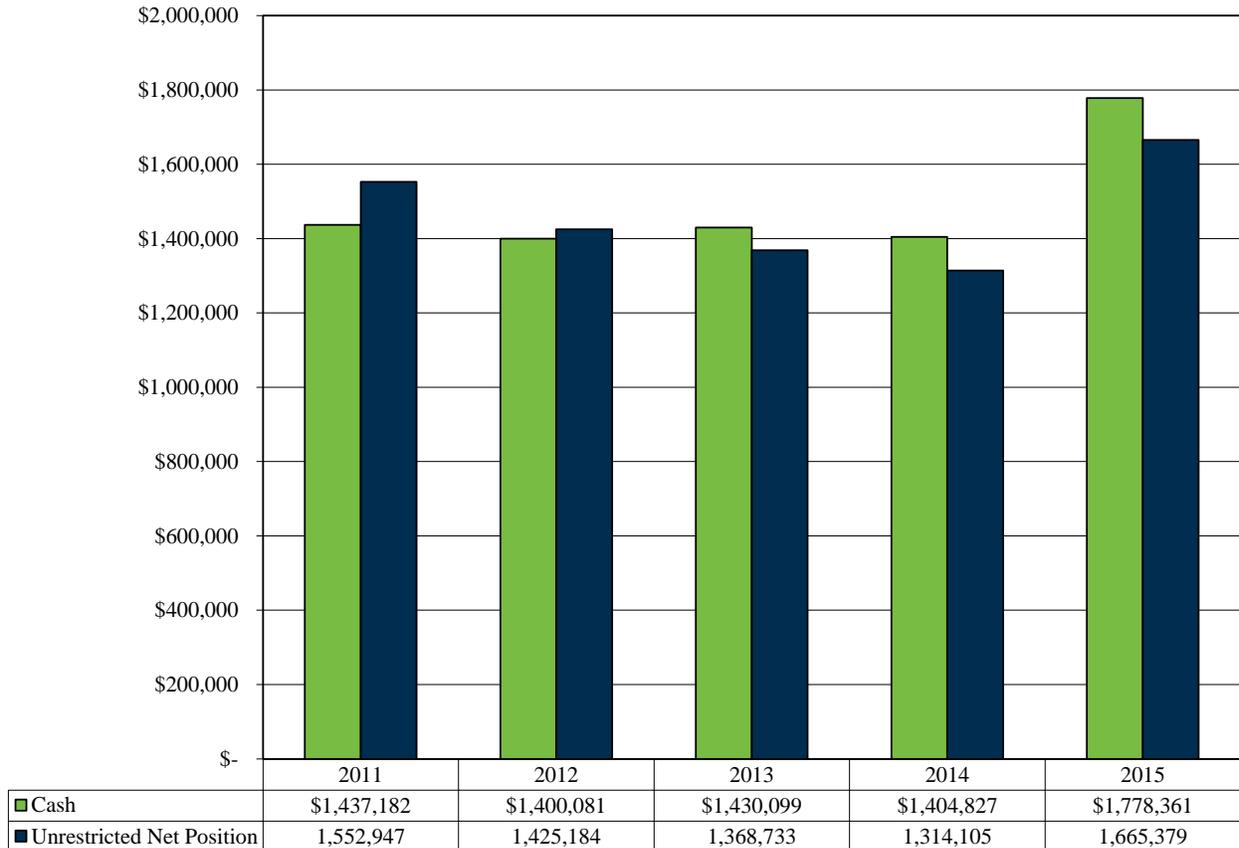
We recommend the City continue to review the Fund’s rate structure in relation to the City’s goals regarding renewal and replacement costs in an attempt to continue to realize an operating income.



**City of Albertville
Financial Analysis**

SEWER FUND (CONTINUED)

Sewer Fund Cash and Net Position



The above graph shows the cash and investments and unrestricted net position balances as of December 31 for the last five years. Balances for the Sewer Access Charge portion of the fund are not included, as they are set aside for future asset replacement costs. Cash and investments increased by \$373,534, while unrestricted net position increased \$351,274. Current year interest and principal payments on the Sewer Fund debt were \$2,887,173. The total amount of debt outstanding in the Sewer Fund at December 31, 2015, was \$3,316,156, including principal and interest. Principal and interest due in 2016 totals \$525,986.

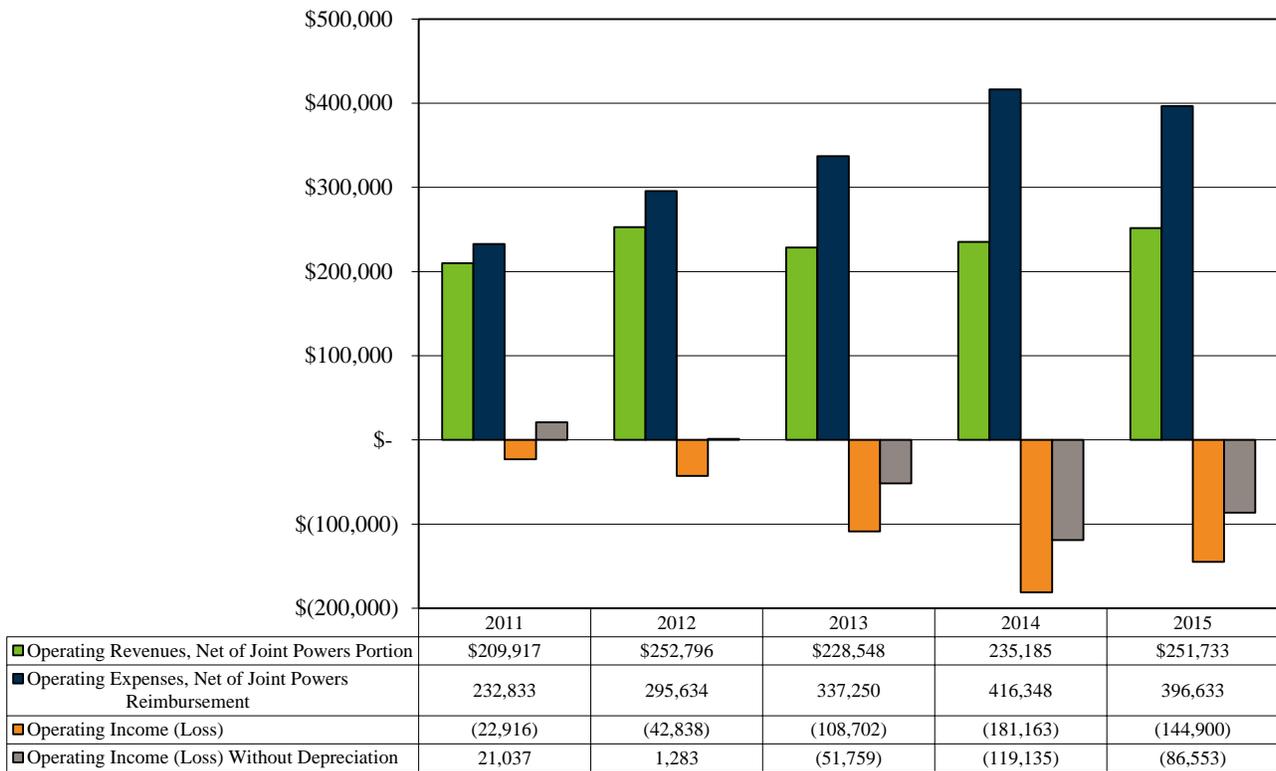
City of Albertville Financial Analysis

WATER FUND

As shown in the graph below, the Water Fund realized an operating loss in 2015 for the fifth time in the past five years. Operating revenues, excluding Water Access Charges (WAC), for the Water Fund experienced a 7.0% increase from \$235,185 in 2014 to \$251,733 in 2015 due to an increase in customers. Operating expenses, excluding reimbursements made to the Joint Powers Board, decreased 4.7%, resulting in an operating loss of \$144,900.

We recommend the City continue to review these rates and the operations of this Fund to ensure continuing operations are self-supporting.

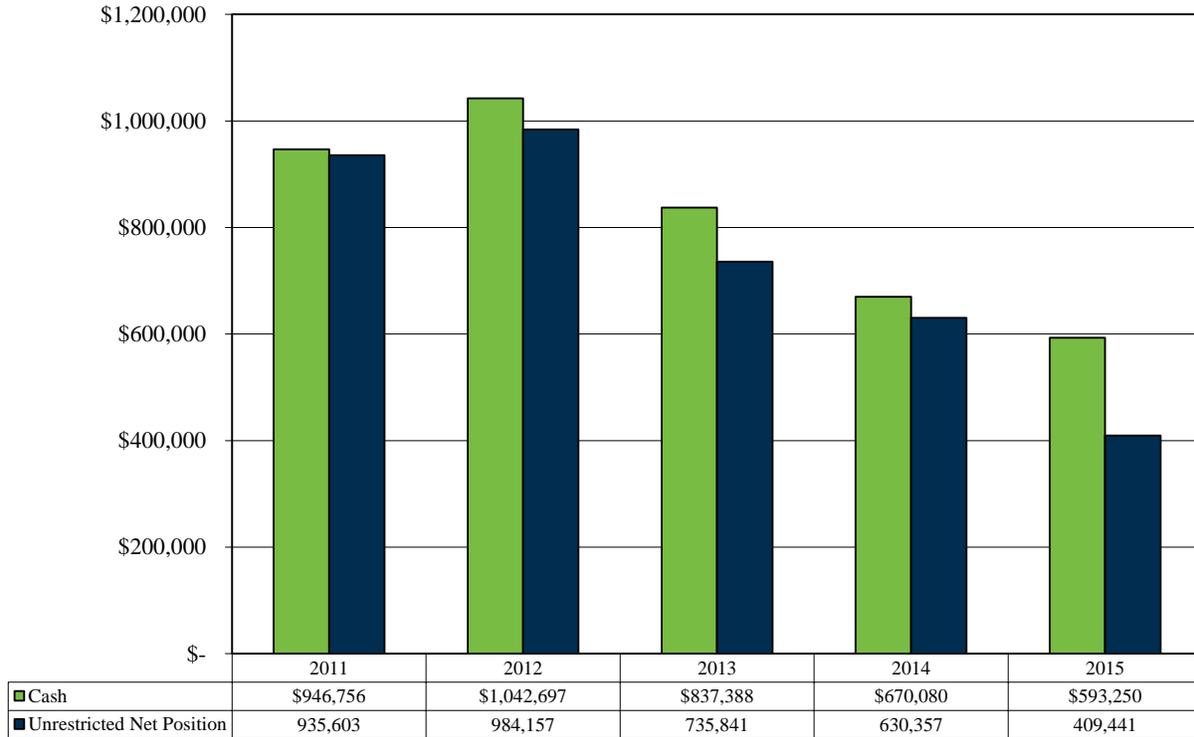
Water Fund



**City of Albertville
Financial Analysis**

WATER FUND (CONTINUED)

Water Fund Cash and Net Position



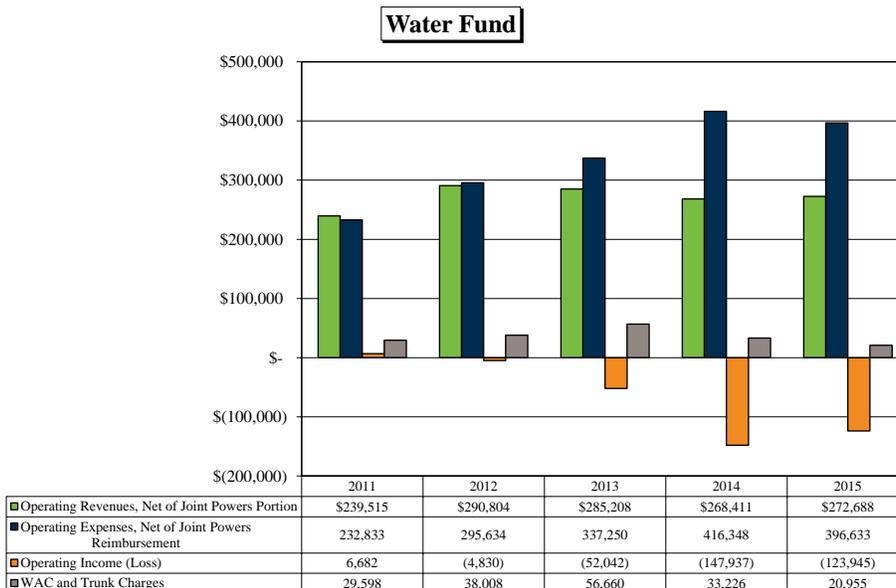
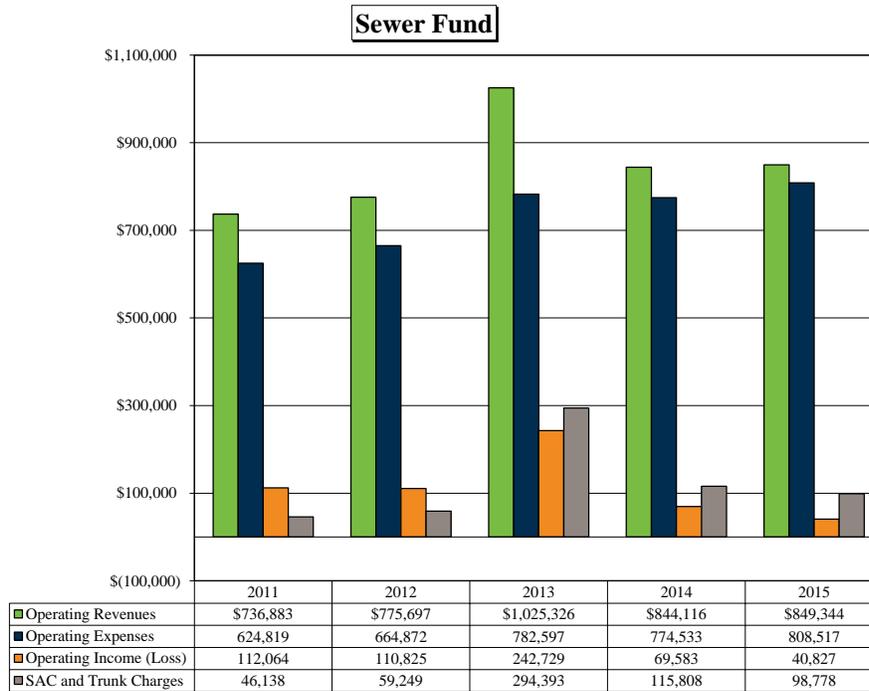
The graph above shows the Cash and Investment and Unrestricted Net Position balances as of December 31 for the last five years. Balances for the Water Access Charge portion of the fund are not included, as they are set aside for future asset replacement costs. Cash and investments decreased \$76,830 in 2015 and \$353,506 over the five years presented. Unrestricted net position decreased \$220,916 in 2015 and \$526,162 over the five years presented.

On the following page, the Water and Sewer Fund operations are shown to include revenue collected for access charges and trunk fees.

City of Albertville Financial Analysis

WATER AND SEWER FUNDS

As presented below, the Water Fund has not been collecting access charges and trunk fees, along with charges for services, sufficient to finance the construction of new lines and to cover the costs of the existing lines through depreciation starting in 2012. The Sewer Fund did collect sufficient access charges and trunk fees, in addition to charges for services, to finance construction and depreciation for all years presented.

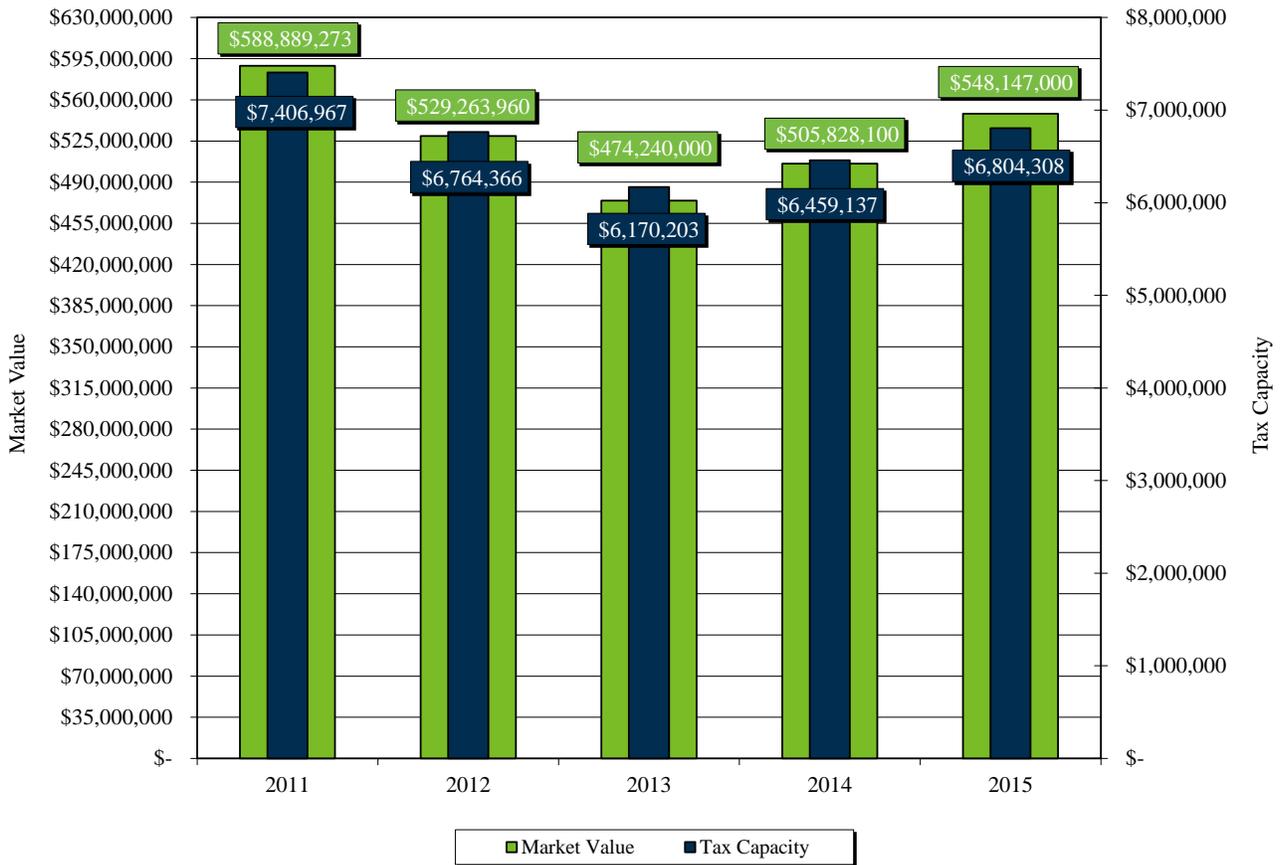


City of Albertville Financial Analysis

MARKET VALUE, TAX CAPACITY, AND TAX CAPACITY RATES

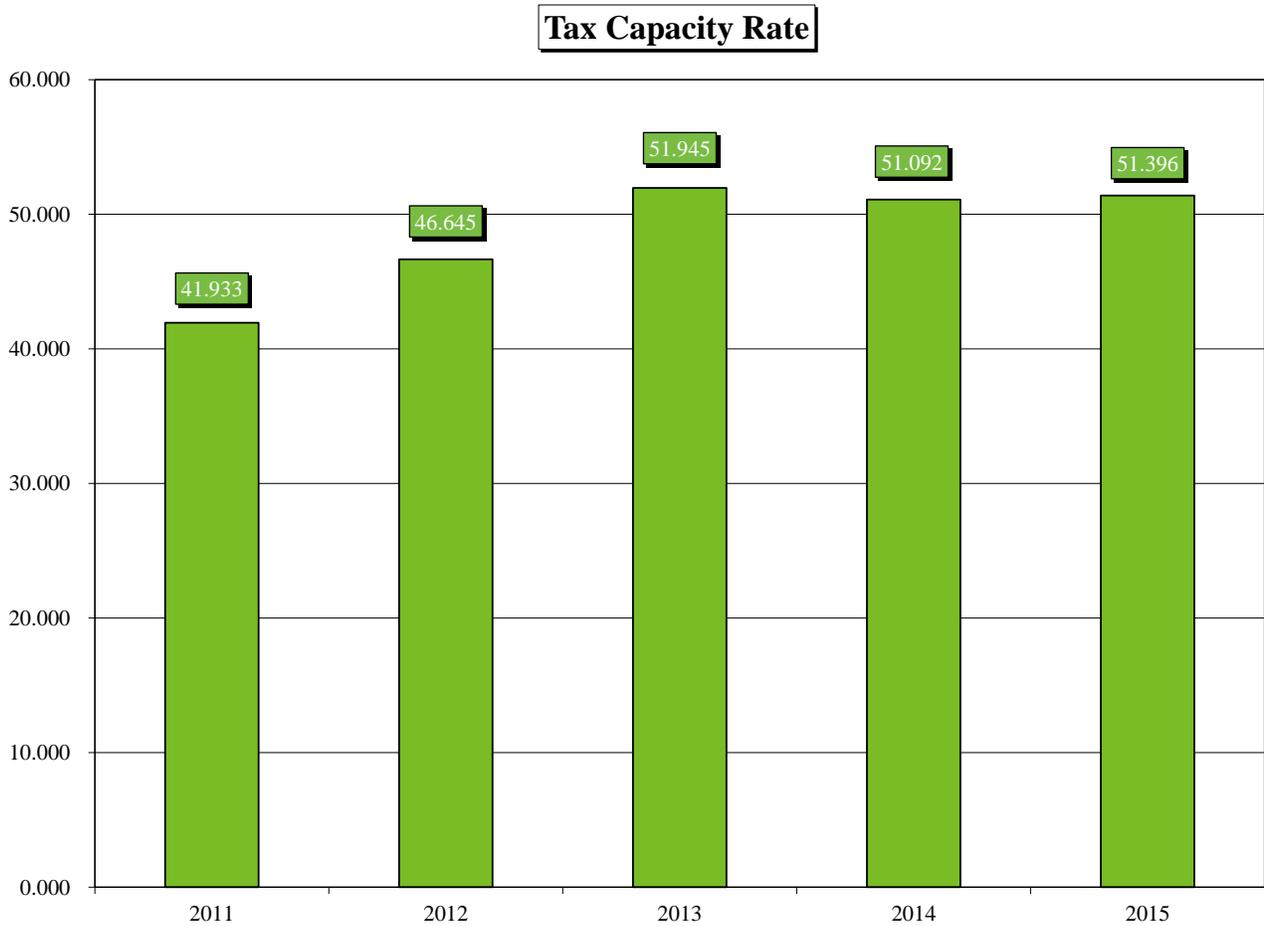
The graph below depicts market value of all taxable property within the City limits, along with tax capacity generated. As is evident from the graph, property market value has decreased from \$588,889,273 in 2011 to \$548,147,000 in 2015, which is a decline of 6.9%. During the same time, tax capacity has decreased from \$7,406,967 in 2011 to \$6,804,308, or 8.1%.

Tax Capacity and Market Value



**City of Albertville
Financial Analysis**

MARKET VALUE, TAX CAPACITY, AND TAX CAPACITY RATES (CONTINUED)



As noted above, actual levies increased from 2011 to 2013, decreased slightly in 2014 and increased slightly in 2015. The main factor in the increased tax rate for 2015 shown above is the increase in tax capacity and market value presented on the previous graph.

City of Albertville 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 – Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions** – Governmental Accounting Standards Board (GASB) has issued GASB statement No. 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 are extensive summaries of each of the current updates. 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 No. 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.

**City of Albertville
Emerging Issues**

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

- Governments that participate in a cost-sharing OPEB plan that is administered through a trust that meets the specified criteria will report a liability equal to their *proportionate share of the collective OPEB liability* for all entities participating in the cost-sharing plan.
- Governments that do not provide OPEB through a trust that meets specified criteria will report the *total OPEB liability* related to their employees.

GASB Statement No. 75 carries forward from Statement No. 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 No. 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.