

CITY OF BATAVIA, ILLINOIS
MANAGEMENT LETTER
FOR THE YEAR ENDED
DECEMBER 31, 2010

May 13, 2011

The Honorable Mayor
Members of the City Council
City of Batavia, Illinois

In planning and performing our audit of the financial statements of the City of Batavia, Illinois, for the year ended December 31, 2010, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

We do not intend to imply that our audit failed to disclose commendable aspects of your system and structure. For your consideration we herein submit our comments and suggestions which are designed to assist in effecting improvements in internal controls and procedures. Those less significant matters, if any, which arose during the course of the audit, were reviewed with management as the audit field work progressed.

The accompanying comments and recommendations are intended solely for the information and use of the City Council, management, and others within the City of Batavia, Illinois.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various City personnel. We would be pleased to discuss our comments and suggestions in further detail with you at your convenience, to perform any additional study of these matters, or to review the procedures necessary to bring about desirable changes.

We commend the finance department for the well prepared audit package and we appreciate the courtesy and assistance given to us by the entire City staff.

LAUTERBACH & AMEN, LLP

PRIOR RECOMMENDATIONS

1. GASB STATEMENT NO. 54 – FUND BALANCE REPORTING AND GOVERNMENTAL FUND TYPE DESCRIPTIONS

Comment

GASB Statement No. 54 – *Fund Balance Reporting and Governmental Fund Type Descriptions* presents improved fund balance classifications for governmental funds, providing increased uniformity in financial reporting. The Statement also provides a more concise definition of the governmental fund types.

Fund Balance Reporting. The Statement creates new classifications of governmental fund balance based on the extent of constraints on the use of funds. Governmental fund balance upon the implementation of GASB Statement No. 54 will be classified under the following categories: *nonspendable, restricted, committed, assigned, and unassigned.*

Nonspendable - amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact (Ex: inventories or prepaids).

Restricted - amounts that are (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation (Ex: property taxes).

Committed - amounts that can only be used for specific purposes by constraints imposed by formal action of the Members of the City Council – usually by passage of ordinance/resolution (Ex: hotel/motel taxes committed to Members of the City Council specified expenditures).

Assigned - any remaining positive amounts not classified as nonspendable, restricted, or committed (for all governmental funds other than the General Fund). For the General Fund, amounts constrained for the intent to be used for a specific purpose by (a) governing body itself or (b) a body or official with authority (Ex: Finance Director assigning fund balance to specific future capital projects).

Unassigned - amounts of positive residual fund balance for the General Fund and negative fund balances for all other governmental funds.

Governmental Fund Types Definitions. The Statement also provides more concise definitions of governmental fund types, particularly for special revenue funds. Under GASB Statement No. 54, special revenue funds are to be used to account for the proceeds of revenue sources that are *restricted* or *committed* (as defined above) for specific purposes other than debt service or capital projects. The specific revenue source reported in the special revenue fund should be expected to make up a substantial portion of the revenue in the fund. Special revenue funds that do not have a significant *restricted* or *committed* (as defined above) revenue source or special revenue funds that receive most or all of their revenue as a transfer from another fund do not meet the new criteria for special revenue funds under GASB Statement No. 54, and generally the activity of these funds should be reported within the General Fund.

PRIOR RECOMMENDATIONS – Continued

1. **GASB STATEMENT NO. 54 – FUND BALANCE REPORTING AND GOVERNMENTAL FUND TYPE DESCRIPTIONS (Continued)**

Comment - Continued

GASB Statement No. 54 is effective for periods beginning after June 15, 2010. The City will be required to implement the provisions of GASB Statement No. 54 for the fiscal year ended December 31, 2011.

Recommendation

We recommended that the City conduct a review of its current fund balance classifications. This review should include an understanding of current fiscal policies that have been approved by the Members of the City Council, as well as fiscal policies followed by management. An analysis should be conducted to determine the type of potential constraint and the corresponding dollar amount that will need to be reported in the financial statements.

Status

The City is aware of the implementation of GASB Statement No. 54 for the fiscal year ended December 31, 2011 and will be working to review the current fund balance classifications as well as the current governmental fund structure to ensure compliance with the new Statement.