

CITY OF BATAVIA, ILLINOIS

MANAGEMENT LETTER

**FOR THE YEAR ENDED
DECEMBER 31, 2011**

May 16, 2012

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, 2011, 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.

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 has implemented the provisions of GASB Statement No. 54 for the fiscal year ended December 31, 2011.

May 16, 2012

Members of the City Council
City of Batavia, Illinois

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Batavia, Illinois, as of and for the year ended December 31, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered the City of Batavia's, Illinois internal control over financial reporting (internal control) as a basis for designing our auditing procedures 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 significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. 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, such that there is a reasonable possibility that a material misstatement of the entity'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.

We consider the following deficiency in the City's internal control to be a significant deficiency:

- The City audit resulted in audit adjustments. This represents a significant deficiency in the internal control over financial reporting.

This communication is intended solely for the information and use of management, the City of Batavia's Members of the City Council and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.



LAUTERBACH & AMEN, LLP

May 16, 2012

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Batavia, Illinois for the year ended December 31, 2011. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and OMB Circular A-133), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated May 16, 2012. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

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 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, 2011. 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 estimate affecting the governmental and business-type activities' financial statements was:

Management's estimate of the depreciation expense on capital assets is based on assumed useful lives of the underlying capital assets. We evaluated the key factors and assumptions used to develop the depreciation expense estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

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 trivial, and communicate them to the appropriate level of management. Any material misstatements detected as a result of audit procedures were corrected by management.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as 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 have requested certain representations from management that are included in the management representation letter dated May 16, 2012.

Management Consultations with Other Independent Auditors

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 the 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.

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This information is intended solely for the use of the Members of the City Council and management of the City and is not intended to be and should not be used by anyone other than these specified parties.

We wish to express our gratitude to the Members of the City Council and staff (in particular the Finance Department) of the City of Batavia, Illinois for their valuable cooperation throughout the audit engagement.



LAUTERBACH & AMEN, LLP