

**CITY OF BATAVIA  
BATAVIA, ILLINOIS**

**AUDITOR'S COMMUNICATION TO THE  
THE MEMBERS OF THE CITY COUNCIL**

For the Year Ended  
December 31, 2013

**CITY OF BATAVIA, ILLINOIS**  
**AUDITOR’S COMMUNICATION TO THE MEMBERS OF THE CITY COUNCIL**  
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Naperville, Illinois 60563

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Certified Public Accountants & Advisors  
*Members of American Institute of Certified Public Accountants*

June 6, 2014

The Honorable Mayor  
Members of the City Council  
City of Batavia  
100 North Island Avenue  
Batavia, Illinois 60510

Ladies and Gentlemen:

As part of our audit process we are required to have certain communications with those charged with governance at the beginning of our audit process and at the conclusion of the audit. Those communications include information related to the planned scope and timing of our audit, as well as other information required by The Statements on Audit Standards. Our communication at the beginning of our audit process along with our questionnaire regarding Consideration of Fraud in a Financial Statement Audit was sent to you on April 9, 2014.

In addition, auditing standards require the communication of internal control related matters to those charged with governance. Our management letter, as well as a listing of future pronouncements that may affect the City, are enclosed within this document.

In today's accountability-driven environment, performance measurement is more important than ever. We have prepared an analysis of selected key ratios for the City as well as benchmark data for financial statement users to better assess the City's relative financial condition.

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

Sincerely,

A handwritten signature in black ink that reads 'Sikich LLP'.

Sikich LLP

By: Brian D. LeFevre, CPA, MBA  
Partner



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June 6, 2014

The Honorable Mayor  
Members of the City Council  
City of Batavia  
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 City of Batavia, Illinois for the year ended December 31, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated November 26, 2013. Professional standards also require that we communicate to you the following information related to our audit.

### **Qualitative Aspects of Accounting Practices**

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Batavia 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 fiscal year ending December 31, 2013 except for the implementation of GASB Statement No. 61, *The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34* and GASB Statement No. 66, *Technical Corrections - 2012 - an amendment of GASB Statement No. 10 and No. 62*. We noted no transactions entered into by the City of Batavia during the year for which there is a lack of authoritative guidance or consensus.

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.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. We noted no particularly sensitive financial statement disclosures during our audit of the financial statements.

### **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. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or audit 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 June 6, 2014.

### **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 governmental unit'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 governmental unit'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 Batavia, Illinois  
June 6, 2014

### **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 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.

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

We appreciate the courtesies extended to us by the City and those associated with it during our audit for this year. If you have any questions regarding the purpose of this letter or the requirements mentioned, please give me a call.

Sincerely,

A handwritten signature in cursive script that reads "Sikich LLP".

Sikich LLP

By: Brian D. LeFevre, CPA, MBA  
Partner







PASSED ADJUSTMENTS

	<b>City of Batavia</b>			INTERNAL SERVICE	
	(CLIENT)			(OPINION UNIT)	
	For the Year Ended		12/31/2013		
All entries posted as Debit (Credit)					
Description	Workpaper Reference	Assets	(Liabilities)	(Retained Earnings/Fund Balance)	(Profit) Loss
Current Effect of Prior Period Passed AJE's that have carried forward to Current Period		\$	\$	\$	\$
January 2013 stop loss premium expensed in December 2012				(23,128.00)	23,128.00
Totals		\$ -	\$ -	\$ (23,128.00)	\$ 23,128.00

**CITY OF BATAVIA, ILLINOIS**

**MANAGEMENT LETTER**

December 31, 2013



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1415 W. Diehl Road, Suite 400  
Naperville, Illinois 60563

Certified Public Accountants & Advisors  
*Members of American Institute of Certified Public Accountants*

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

Ladies and Gentlemen,

In planning and performing our audit 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, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered its 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 material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control that we consider to be material weaknesses. In addition, we reviewed the status of the recommendations for the year ended December 31, 2012. The status of these recommendations is included in Appendix A.

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 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. 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.

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

A handwritten signature in cursive script that reads 'Sikich LLP'.

Naperville, Illinois  
June 6, 2014

## DEFICIENCIES

During our testing of electrical utility inventory, we noted that the City does not currently adjust the recorded allowance for obsolete inventory. Per discussion with management, the finance department periodically reviews a report of surplus items. We recommend that the City establish an annual review of unused items during the inventory process for potential obsolete inventory. We recommend working with the electric utility personnel to develop estimates of the surplus items' appropriate value to adjust the allowance. This process should be performed at least annually as part of the City's inventory count procedures.

## OTHER COMMENTS

The Governmental Accounting Standards Board (GASB) has issued a number of pronouncements that will impact the City in the future.

GASB Statement No. 67, *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25*, replaces the requirements of Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and Statement No. 50, *Pension Disclosures—an amendment of GASB Statements No. 25 and No. 27*, as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria. The Statement builds upon the existing framework for financial reports of defined benefit pension plans, which includes a statement of fiduciary net position (the amount held in a trust for paying retirement benefits) and a statement of changes in fiduciary net position. Statement No. 67 enhances note disclosures and RSI for both defined benefit and defined contribution pension plans. Statement No. 67 also requires the presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in 10-year RSI schedules. Statement No. 67 is applicable for the fiscal year ending December 31, 2014.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 50, *Pension Disclosures—an amendment of GASB Statements No. 25 and No. 27*, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. Statement No. 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information (RSI). Statement No. 68 is applicable for the fiscal year ending December 31, 2015.

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations* establishes accounting and financial reporting standards related to government combinations and disposals of government operations. Statement No. 69 is applicable for the fiscal year ending December 31, 2014.

GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees* intends to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. Statement No. 70 is applicable for the fiscal year ending December 31, 2014.

**OTHER COMMENTS (Continued)**

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68* requires a state or local government employer (or non-employer contributing entity in a special funding situation) to recognize a net pension liability measured as of a date (the measurement date) no earlier than the end of its prior fiscal year. If a state or local government employer or non-employer contributing entity makes a contribution to a defined benefit pension plan between the measurement date of the reported net pension liability and the end of the government's reporting period, this requires that the government recognize its contribution as a deferred outflow of resources. Statement No. 71 is to be implemented simultaneously with GASB S-68 in the fiscal year ending December 31, 2015.

**APPENDIX A**  
**STATUS OF DECEMBER 31, 2012 RECOMMENDATIONS**

**MATERIAL WEAKNESS**

We consider the follow deficiency to be a material weakness:

**1. Prior Period Adjustments**

During our audit material adjustments were necessary that resulted in restatement of prior period equity. The adjustments were due to a number of reasons, including interpretation of revenue recognition policies, reporting of loans receivable not previously reported, and the disaggregation of several funds to clarify the financial statements. Although such adjustments are not expected to recur, we recommend the City remain cognizant of reporting issues relevant to loan transactions incurred during the year.

Status - Comment not applicable at December 31, 2013.

**DEFICIENCIES**

**1. Interactive Account Groups**

The City does not currently utilize funds (account groups) to track and record the capital asset or long-term debt activity throughout the year for governmental activities. We recommend that the City set up funds for governmental capital assets and long-term debt on its general ledger and utilize these funds to track the related activity and facilitate the conversion of the fund financial statements at the entity-wide level.

Status - Comment implemented as of December 31, 2013.

**2. Reporting of Electric Utility Inventory**

Under the City's current accounting practice, the purchases of meters and transformers by the electric utility are reported as capital assets and depreciated. In order to reflect the economic substance of the transactions, we recommend reporting the meters and transformers as inventory until they are placed into service, at which time they may be reported as capital assets and depreciated.

Status - Comment implemented as of December 31, 2013.

# g:Stat Toolkit - City of Batavia

December 31, 2013

Presenting key ratios to monitor, compare, and evaluate financial health

## FUNDED RATIOS: IMRF, POLICE PENSION & FIRE PENSION

City of Batavia- IMRF	Benchmark <sup>1</sup>
2013 - 72%	
2012 - 69%	2012 - 72%
2011 - 69%	2011 - 72%
2010 - 69%	2010 - 73%
2009 - 74%	2009 - 76%

City of Batavia- Police	Benchmark
2013 - N/A	
2012 - 58%	2012 - 62%
2011 - 58%	2011 - 64%
2010 - 62%	2010 - 60%
2009 - 57%	2009 - 62%

City of Batavia- Fire	Benchmark
2013 - N/A	
2012 - 64%	2012 - 63%
2011 - 63%	2011 - 63%
2010 - 62%	2010 - 62%
2009 - 57%	2009 - 70%

**TREND IMPORTANCE:** Due to economic sensitivity, it is important to monitor all pension assets, which are usually held in cash and investments. Ideally, ratios should be increasing over time.

## GENERAL FUND REVENUE PER CAPITA

City of Batavia	Benchmark
2013 - \$890	
2012 - \$857	2012 - \$740
2011 - \$940	2011 - \$673
2010 - \$966	2010 - \$703
2009 - \$963	2009 - \$698

**TREND IMPORTANCE:** Per capita revenue provides preliminary information about the financial burden on (and benefit received from) residents. Significant variances from the benchmark should be investigated by examining the primary individual revenue sources that constitute the General Fund. Ideally, the level of revenue per capita should remain at least constant over time. Decreasing operating revenues might signal an inability to meet service demands under the existing revenue structure.

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<sup>1</sup> The benchmark group for the City of Batavia comes from a database of over 100 communities in the State of Illinois. That group was then limited to those communities with a “medium” population—including those with a population between 20,000 and 50,000—and the median ratio result is then presented.

## **g:Stat Toolkit - City of Batavia**

**December 31, 2013**

*Presenting key ratios to monitor, compare, and evaluate financial health*

### **GENERAL FUND EXPENDITURES PER CAPITA**

City of Batavia	Benchmark
2013 - \$753	
2012 - \$739	2012 - \$694
2011 - \$849	2011 - \$644
2010 - \$857	2010 - \$726
2009 - \$877	2009 - \$743

**TREND IMPORTANCE:** As a unit's costs are in part related to the size of the community it serves, trends in population should be monitored. Population growth generally causes a proportionate change in the demand for services. Due to cost of goods, this ratio is likely to increase year-to-year. But continually rising operating expenditures per capita may signal the cost of providing services is outpacing a unit's ability to pay.

### **GENERAL FUND FUND BALANCE AS A PERCENTAGE OF GF EXPENDITURES**

City of Batavia	Benchmark
2013 - 72%	
2012 - 64%	2012 - 49%
2011 - 57%	2011 - 49%
2010 - 73%	2010 - 47%
2009 - 67%	2009 - 45%

**TREND IMPORTANCE:** While expenditures look at current needs, fund balance serves both short and long-term financial planning. Trends may show fund balances that change significantly from year to year. However, monitoring should focus on whether that balance keeps pace with growing expenditures. Municipalities should seek to ensure fund balance levels provide adequate protection to cover normal operational expenditures in case of lower revenues or emergency expenditures.

*g:Stat is a local government performance measurement tool, which helps leaders enhance accountability and improve decision-making with comparable and trend financial data. Please visit [www.sikich-gstat.com](http://www.sikich-gstat.com) for more information and to watch a product video demonstration.*

# Sikich Snapshot

## Organization

Sikich is a dynamic accounting, advisory, investment banking, technology and managed services firm with nearly 600 employees throughout the country. Founded in 1982, we are now one of the country's Top 40 largest CPA firms and among the top 1% of all enterprise resource planning solution partners in the world.

## Industries

Sikich provides services and solutions to a wide range of industries. We have devoted substantial resources to develop a significant base of expertise and experience in:

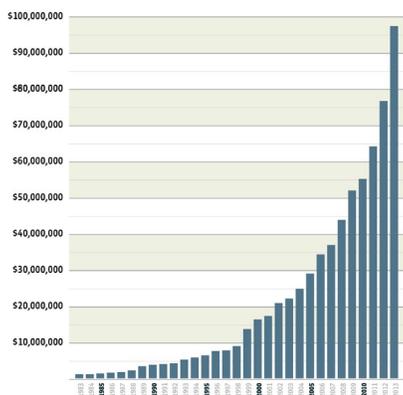
- › Agriculture
- › Construction
- › Government
- › Health Care
- › Higher Education
- › Manufacturing & Distribution
- › Not-for-Profit
- › Oilfield Services
- › Professional Services
- › Real Estate
- › Retail

## Statistics

2013 Revenues .....	\$97M
Total Partners .....	88
Total Employees .....	491
Total Personnel .....	579

Personnel count as of Dec. 31, 2013

## Sikich Total Revenues



## Awards

- › *Inc.* Magazine's Inc. 500|5000: ranked 4,627th fastest-growing private company nationally, 2013
- › *Accounting Today* Top 100 Firms: ranked 40th nationally, 2013
- › *Accounting Today* Regional Leaders – Top Firms: Great Lakes: ranked 6th, 2013
- › *Crain's Chicago Business* Fast Fifty: ranked 49th, 2013
- › *INSIDE Public Accounting* Top 50 Largest Accounting Firms: ranked 41st nationally, 2013
- › *Accounting Today* Top 100 Value Added Reseller: ranked 11th, 2013
- › Best Places to Work in Indiana, 2013
- › Best Places to Work in Illinois, 2013
- › Bob Scott's Top 100 Value Added Reseller: ranked 12th, 2013
- › *Daily Herald Business Ledger* Book of Lists: ranked 5th, "Accounting Firms;" Chicago Western Suburbs, 2013
- › Alfred P. Sloan Award for Excellence in Workplace Effectiveness & Flexibility, 2013
- › *Bob Scott's Insights* Value Added Reseller Stars, 2013
- › *Springfield Business Journal* Book of Lists: ranked 1st, "Accounting Firms;" Springfield, Illinois, 2013
- › *Chicago Tribune's* Chicago's Top Workplaces, 2013
- › *Crain's Chicago Business* Top 25 Firms: ranked 12th in Chicagoland, 2012
- › Top 50 Chicago Generation Y Employers, ranked 35th, 2012
- › American Graphic Design Awards, 2012
- › Microsoft Dynamics Inner Circle and President's Club, 2012

## SERVICES

- › Accounting & Assurance
- › Business Valuation
- › Dispute Advisory
- › ERP & CRM Software
- › Human Resources Consulting
- › Insurance Services
- › Investment Banking & Corporate Finance
- › IT Services
- › Marketing & Public Relations
- › Retirement Planning
- › Supply Chain
- › Talent Acquisition
- › Tax Planning
- › Wealth Management



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## Certifications

All professional accounting staff with more than one year of experience have earned or are working toward earning the Certified Public Accountant designation. Sikich is a member of the American Institute of Certified Public Accountants' Governmental Audit Quality Center and the Employee Benefit Plan Audit Quality Center. We adhere to the strict requirements of membership which assure we meet the highest standards of audit quality. In 2011, Sikich LLP received its 8th consecutive unmodified ("pass") peer review report, the highest level of recognition conferred upon a public accounting firm for its quality control systems.



**Microsoft** Partner

Gold Enterprise Resource Planning

## Microsoft Partner

Sikich has earned a Microsoft ERP Gold competency; ranked among the top 1% of all Microsoft Dynamics partners worldwide; and carries the following certifications:

- ▶ Microsoft Small Business Specialist
- ▶ MCP (Microsoft Certified Professional)
- ▶ MCSE (Microsoft Certified System Engineer)
- ▶ CCNA (Cisco Certified Network Associate)
- ▶ CCDA (Certified Cisco Design Associate)
- ▶ CCEA (Citrix Certified Enterprise Administrator)
- ▶ MRMS (Microsoft Retail Management Systems)
- ▶ CISA (Certified Information Systems Auditor)
- ▶ CNE (Certified Novell Engineer)
- ▶ MS CSM (Microsoft Customer Service Manager)
- ▶ MS CAE (Microsoft Certified Account Executive)
- ▶ MCDBA (Microsoft Certified Database Admin.)



leading **edge** alliance

innovation • quality • excellence

## Sikich is proud to be part of the Leading Edge Alliance

The Leading Edge Alliance (LEA) is the second largest international association of independent accounting firms.\* The LEA is an international professional association of independently-owned accounting and consulting firms. Members are top quality firms who share an entrepreneurial spirit and a drive to be the premier provider of professional services in their chosen markets. The Alliance provides Sikich with an unbeatable combination: the comprehensive size and scope of a large multinational company while offering their clients the continuity, consistency, and quality service of a local firm.

*\*International Accounting Bulletin, 2011*



## Sikich is proud to be part of PrimeGlobal

PrimeGlobal is the third largest association of independent accounting firms in the world, providing a wide range of tools and resources to help member firms furnish superior accounting, auditing, and management services to clients around the globe.

*Securities are offered through Sikich Corporate Finance LLC, a registered broker dealer with the Securities and Exchange Commissions and a member of FINRA/SIPC. Advisory services offered through Sikich Financial, a Registered Investment Advisor. General securities offered through Triad Advisors, Member FINRA/SIPC. Triad Advisors and Sikich Financial are not affiliated.*

## LOCATIONS:

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### Chicago – Wacker Drive

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### Decatur, IL

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### Denver, CO

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### Houston, TX

(832) 831-3549

### Indianapolis, IN

(317) 842-4466

### Milwaukee, WI

(262) 754-9400

### Rockford, IL

(815) 282-6565

### Springfield, IL

(217) 793-3363

### St. Louis, MO

(314) 275-7277

## CONNECT WITH US:



[www.sikich.com/blog](http://www.sikich.com/blog)



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