

**AGENDA ITEM EXECUTIVE SUMMARY**

Agenda Item number: 5a

Title:	Recommendation to Accept the Comprehensive Annual Financial Report, Independent Auditor's Report Pursuant To Uniform Guidance, and Management Letter for the Fiscal Year Ended April 30, 2016
Presenter:	Chris Minick, Finance Director Fred Lantz, Partner, Sikich, LLP

Meeting: Government Operations Committee

Date: November 7, 2016

Proposed Cost: \$ N/A

Budgeted Amount: \$

Not Budgeted: **Executive Summary** (if not budgeted please explain):

Representatives of the City's independent auditing firm, Sikich, LLP, will present the 2015-2016 Comprehensive Annual Financial Report (CAFR), Independent Auditor's Report Pursuant To Uniform Guidance, Management Letter, and results of operations for the fiscal year. The CAFR was previously distributed to City Council.

State statutes require the City to have an audit performed by an independent CPA on an annual basis. The CAFR presents the financial statements and results of operations of the City. The auditor certifies that the financial statements are presented in accordance with generally accepted accounting principles (GAAP).

For 2015-2016, the City received an unmodified opinion on its financial statement presentation in the CAFR. This is the best audit opinion an entity can receive and it signifies that the City's financial statements are presented in accordance with GAAP. Sikich will briefly review the relevant highlights of the CAFR for the Committee.

For the 2014-2015 fiscal year, the City again received the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association (GFOA). We have submitted the 2015-2016 Comprehensive Annual Financial Report to GFOA for consideration of the same award.

Attachments (please list):

Independent Auditor's Report Pursuant To Uniform Guidance

Management Letter

Comprehensive Annual Financial Report (NOTE: this report was previously distributed)

Recommendation/Suggested Action (briefly explain):

Recommendation to accept the Comprehensive Annual Financial Report, Independent Auditor's Report Pursuant to Uniform Guidance, and Management Letter for the fiscal year ended April 30, 2016.

CITY OF ST. CHARLES, ILLINOIS

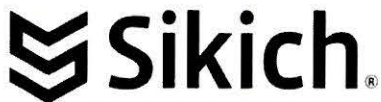
**INDEPENDENT AUDITOR'S REPORT
PURSUANT TO UNIFORM GUIDANCE**

For the Year Ended
April 30, 2016



CITY OF ST. CHARLES, ILLINOIS
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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

The Honorable Mayor
Members of the City Council
City of St. Charles, Illinois

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of St. Charles, Illinois (the City) as of and for the year ended April 30, 2016, and the related notes to financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 4, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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. *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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

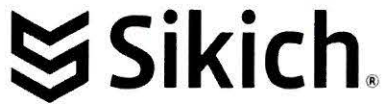
As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of the financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Sikich LLP

Naperville, Illinois
October 4, 2016



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH
MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER
COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE**

The Honorable Mayor
Members of the City Council
City of St. Charles, Illinois

Report on Compliance for Each Major Federal Program

We have audited the City of St. Charles, Illinois' (the City) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended April 30, 2016. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of St. Charles, Illinois complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended April 30, 2016.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

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, as of and for the year ended April 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated October 4, 2016, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Sikich LLP

Naperville, Illinois
October 4, 2016

CITY OF ST. CHARLES, ILLINOIS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended April 30, 2016

Federal Grantor	Pass-Through Grantor	Program Title	Federal CFDA Number	Program/Grant Number	Revenues	Expenditures
U.S. Environmental Protection Agency	Illinois Environmental Protection Agency	Capitalization Grants for Drinking Water State Revolving Funds	66.468 *	L17-5203	\$ 267,186	\$ 267,186
U.S. Environmental Protection Agency	Illinois Environmental Protection Agency	Capitalization Grants for Drinking Water State Revolving Funds	66.468 *	L17-5285	2,508,804	2,508,804
Total CFDA 66.468					<u>2,775,990</u>	<u>2,775,990</u>
U.S. Department of Justice	North Central Narcotics	Edward Byrne Memorial Justice Assistance Grant Program	16.738	412009	1,596	1,596
U.S. Department of Justice	N/A	Bulletproof Vest Partnership Program	16.607	N/A	6,740	6,740
U.S. Department of Transportation	Illinois Department of Transportation	State and Community Highway Safety	20.601	N/A	15,581	15,581
U.S. Department of Homeland Security	Federal Emergency Management Agency	Assistance to Firefighters Grant	97.044	N/A	4,554	4,554
U.S. Department of Homeland Security	Illinois Law Enforcement Alarm System	Homeland Security Grant Program	97.067	N/A	<u>6,873</u>	<u>6,873</u>
TOTAL FEDERAL AWARDS					<u>\$ 2,811,334</u>	<u>\$ 2,811,334</u>

* Denotes major program

CITY OF ST. CHARLES, ILLINOIS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)

For the Year Ended April 30, 2016

Notes to the Schedule of Expenditures of Federal Awards

Note A - Basis of Presentation

The accompanying schedule of federal awards is a summary of the activity of the City's federal award programs presented on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Accordingly, revenues are recognized when the qualifying expenditure has been incurred and expenditures have been recognized when the fund liability has been incurred.

Note B - Subrecipients

There were no subrecipients for the fiscal year ending April 30, 2016.

Note C - Noncash Transactions

There were no noncash transactions for the fiscal year ending April 30, 2016.

Note D - Loans

The City had Illinois Environmental Protection Agency loans outstanding in the amount of \$28,491,938 at April 30, 2016. The loans have no continuing compliance requirements aside from loan repayment.

Note E - Federal Insurance

There was no federal insurance in effect for the fiscal year ending April 30, 2016.

Note F - Indirect Cost Rate

The City did not elect to use the federal 10% de minimis indirect cost rate for the year ending April 30, 2016.

CITY OF ST. CHARLES, ILLINOIS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended April 30, 2016

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: *unmodified*

Internal control over financial reporting:
Material weakness(es) identified? yes no
Significant deficiency(ies) identified? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:
Material weakness(es) identified? yes no
Significant deficiency(ies) identified? yes none reported

Type of auditor's report issued on compliance
for major federal programs: *unmodified*

Any audit findings disclosed that are required
to be reported in accordance with
2 CFR 200.516(a)? yes no

Identification of major federal programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
66.468	Capitalization Grants for Drinking Water State Revolving Funds

Dollar threshold used to distinguish
between Type A and Type B programs: \$ 750,000

Auditee qualified as low-risk auditee? yes no

CITY OF ST. CHARLES, ILLINOIS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

For the Year Ended April 30, 2016

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None

Section IV - Prior Year audit Findings

None

CITY OF ST. CHARLES, ILLINOIS

MANAGEMENT LETTER

April 30, 2016





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

The Honorable Mayor
Members of the City Council
City of St. Charles, 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 St. Charles, Illinois (the City) as of and for the year ended April 30, 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. Given these limitations during our audit, we did not identify and deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been 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.

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

Sikich LLP

Naperville, Illinois
October 4, 2016

OTHER COMMENTS

Future Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) has issued a number of pronouncements that may affect the City in the future:

GASB Statement No. 72, *Fair Value Measurement and Application*, addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. Statement No. 72 is applicable for the fiscal year ending April 30, 2017.

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, establishes requirements for those pensions and pension plans that are not administered through a trust meeting specified criteria. The provisions in Statement No. 73 are effective for fiscal years beginning after June 15, 2015—except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement No. 68, which are effective for financial statements for fiscal year ending April 30, 2017.

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, addresses reporting by OPEB plans that administer benefits on behalf of governments and replaces GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. Statement No. 74 addresses the financial reports of defined benefit OPEB plans that are administered through trusts that meet specified criteria. The statement builds upon the existing framework for financial reports of defined benefit OPEB 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. 74 enhances note disclosures and RSI for both defined benefit and defined contribution OPEB plans. Statement No. 74 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. The provisions in Statement No. 74 are effective for OPEB plan or sponsoring employer financial statements for the fiscal year ending April 30, 2018.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, addresses reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments and replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as they relate to governments that provide benefits through OPEB plans administered as trusts or similar arrangements that meet certain criteria. Statement No. 75 requires governments providing defined benefit OPEB to recognize their long-term obligation for OPEB as a liability for the first time, and to more comprehensively and comparably measure the annual costs of OPEB benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information (RSI). The provisions in Statement No.75 are effective for the fiscal year ending April 30, 2019.

OTHER COMMENTS (Continued)

Future Accounting Pronouncements (Continued)

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, reduces the generally accepted accounting principles (GAAP) hierarchy to two categories of authoritative GAAP: officially established accounting principles - GASB Statements (Category A) and GASB Technical Bulletins; GASB Implementation Guides; and literature of the American Institute of Certified Public Accountants cleared by the GASB (Category B). Statement No. 76 also addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. Statement No. 76 is applicable for fiscal years ending April 30, 2017. Earlier application is permitted.

GASB Statement No. 77, *Tax Abatement Disclosures*, requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and reduce the reporting government's tax revenues. The requirements of this statement are effective for financial statements for the fiscal year ending April 30, 2017.

GASB Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*, establishes requirements for pensions provided to employees of state or local government employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local government pension plan, (2) is used to provide defined benefit pensions to both employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). The requirements of this statement are effective for the fiscal year ending April 30, 2017.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The requirements of this statement are effective for the fiscal year ending April 30, 2017.

GASB Statement No. 80, *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14*. The requirements of this statement are effective for the fiscal year ending April 30, 2018.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, provides recognition and measurement guidance for situations in which a government is a beneficiary of a split-interest agreement. The requirements of this statement are effective for the fiscal year ending April 30, 2018.

GASB Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, addresses issues regarding (1) the presentation of payroll-related measures in the required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of this standard are effective for the fiscal year ending April 30, 2018. Earlier application is encouraged.