



CITY OF ST. CHARLES, ILLINOIS

MANAGEMENT LETTER

April 30, 2018

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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, 2018, 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 any 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
September 27, 2018

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. 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 and 2019. Earlier application is encouraged.

GASB Statement No. 83, *Certain Asset Retirement Obligations*, addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The requirements of this standard are effective for the fiscal year ending April 30, 2020.

GASB Statement No. 84, *Fiduciary Activities*, establishes criteria for identifying fiduciary activities. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria. The requirements of this standard are effective for the fiscal year ending April 30, 2020.

GASB Statement No 85, *Omnibus 2017*, addresses a number of issues across a spectrum of topics including issues related to blending component units where the primary government is a business type activity that reports basic financial statements in a single column, accounting for goodwill, fair value measurement and application related to real estate held by insurance activities and measuring certain investments at cost or amortized cost, and various issues related to accounting and reporting for postemployment benefits (pensions and other postemployment benefits [OPEB]). Statement No 85 is effective for fiscal years ending April 30, 2019 and thereafter, early application is allowed and encouraged.

GASB Statement No. 86, *Certain Debt Extinguishment Issues*, is intended to improve accounting and financial reporting for in-substance defeasances of debt, prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of this statement are effective for the fiscal year ending April 30, 2019. Earlier application is encouraged.

OTHER COMMENTS (Continued)

Future Accounting Pronouncements (Continued)

GASB Statement No. 87, *Leases*, establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset and aims to enhance comparability of financial statements among governments. This statement also requires additional notes to the financial statements related to the timing, significance, and purpose of a government's leasing arrangements. The requirements of this statement are effective for the fiscal year ending April 30, 2021. Earlier application is encouraged.

GASB Statement No 88, *Certain Disclosures Related to Debt*, including Direct Borrowings and Direct Placements, was issued in March 2018 and provides guidance on improving disclosures in the notes to the financial statements related to debt, including direct borrowings and direct placements of debt. This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. This statement is effective for fiscal years ending April 30, 2020.

GASB Statement No 89, *Accounting for Interest Costs Incurred Before the End of a Construction Period*, establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The requirements of this statement are effective for the fiscal year ending April 30, 2021.