

Item #10C:
Village Trustee Borys
Village Auditor Agreement

RECEIVED

MAR 19 2015

VILLAGE OF LONG GROVE



BAKER TILLY

CLIENT COPY

Baker Tilly Virchow Krause, LLP
Ten Terrace Ct, PO Box 7398
Madison, WI 53707-7398
tel 608 249 6622
fax 608 249 8532
bakertilly.com

March 16, 2015

Mr. David Lothspeich
Village of Long Grove
3110 RFD
Long Grove, Illinois 60047

Dear Mr. Lothspeich:

Thank you for using Baker Tilly Virchow Krause, LLP ("Baker Tilly" "we" or "our") as your auditors.

The purpose of this letter is to confirm our understanding of the terms and objectives of our engagement and the nature of the services we will provide as independent accountants of the Village of Long Grove.

Services and Related Report

We will audit the basic financial statements of the Village of Long Grove as of and for the years ended April 30, 2015 through 2017, and the related notes to the financial statements. We will also audit the Balance Sheet and the Statement of Revenues, Expenditures, and Changes in Fund Balance of the Downtown Tax Incremental District of the Village of Long Grove as of April 30, 2015 through 2017. Upon completion of our audits, we will provide the Village of Long Grove with our audit report on the financial statements and supplemental information referred to below. If, for any reasons caused by or relating to the affairs or management of the Village of Long Grove, we are unable to complete the audit or are unable to or have not formed an opinion, or if we determine in our professional judgment the circumstances necessitate, we may withdraw and decline to issue a report as a result of this engagement.

The following supplementary information accompanying the financial statements will also be subjected to the auditing procedures applied in our 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America, and our auditor's report will provide an opinion on it in relation to the financial statements as a whole.

Detailed Schedules of Revenues and Expenditures
Combining and Individual Fund Financial Statements

Mr. David Lothspeich
Village of Long Grove

March 16, 2015
Page 2

Accounting standards generally accepted in the United States of America provide for certain required supplementary information (RSI), such as management's discussion and analysis (MD&A), to supplement the Village of Long Grove's basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. As part of our engagement, we will apply certain limited procedures to the Village of Long Grove's RSI in accordance with auditing standards generally accepted in the United States of America. These limited procedures will consist of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's response to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We will not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The following RSI is required by generally accepted accounting principles and will be subjected to certain limited procedures, but will not be audited:

Budget Comparison Schedules
Schedule of Funding Progress – Illinois Municipal Retirement Plan

Our Responsibilities and Limitations

The objective of a financial statement audit is the expression of an opinion on the financial statements. We will be responsible for conducting that audit in accordance with auditing standards generally accepted in the United States of America. These standards require that we plan and perform our audit to obtain reasonable, rather than absolute assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. Our audit will include examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit does not relieve management and the audit committee or equivalent group charged with governance of their responsibilities.

The audit will include obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing and extent of further audit procedures. An audit is not designed to provide assurance on internal control or to identify deficiencies in internal control. However, during the audit, we will communicate to management and the audit committee or equivalent group charged with governance internal control matters that are required to be communicated under professional standards.

Mr. David Lothspeich
Village of Long Grove

March 16, 2015
Page 3

We will design our audit to obtain reasonable, but not absolute, assurance of detecting errors or fraud that would have a material effect on the financial statements as well as other illegal acts having a direct and material effect on financial statement amounts. An audit is not designed to detect errors or fraud that are immaterial to the financial statements. Our audit will not include a detailed audit of transactions, such as would be necessary to disclose errors or fraud that did not cause a material misstatement of the financial statements. It is important to recognize that there are inherent limitations in the auditing process. Audits are based on the concept of selective testing of the data underlying the financial statements, which involves judgment regarding the areas to be tested and the nature, timing, extent and results of the tests to be performed. Our audit is not a guarantee of the accuracy of the financial statements and, therefore, is subject to the limitation that material errors or fraud or other illegal acts having a direct and material financial statement impact, if they exist, may not be detected. Because of the characteristics of fraud, particularly those involving concealment through collusion, falsified documentation and management's ability to override controls, an audit designed and executed in accordance with auditing standards generally accepted in the United States of America may not detect a material fraud. Further, while effective internal control reduces the likelihood that errors, fraud or other illegal acts will occur and remain undetected, it does not eliminate that possibility. For these reasons, we cannot ensure that errors, fraud or other illegal acts, if present, will be detected. However, we will communicate to the Village of Long Grove, as appropriate, any such matters identified during our audit.

We are also responsible for determining that the audit committee or equivalent group charged with governance is informed about certain other matters related to the conduct of the audit, including (i) our responsibility under auditing standards generally accepted in the United States of America, (ii) an overview of the planned scope and timing of the audit, and (iii) significant findings from the audit, which include (a) our views about the qualitative aspects of the Village of Long Grove's significant accounting practices, accounting estimates, and financial statement disclosures; (b) difficulties encountered in performing the audit; (c) uncorrected misstatements and material corrected misstatements that were brought to the attention of management as a result of auditing procedures; and (d) other significant and relevant findings or issues (e.g., any disagreements with management about matters that could be significant to the Village of Long Grove's financial statements or our report thereon, consultations with other independent accountants, issues discussed prior to our retention as independent auditors, fraud and illegal acts, and all significant deficiencies and material weaknesses identified during the audit). Lastly, we are responsible for ensuring that the audit committee or equivalent group charged with governance receives copies of certain written communications between us and management including written communications on accounting, auditing, internal control or operational matters and representations that we are requesting from management.

The audit will not be planned or conducted in contemplation of reliance by any specific third party or with respect to any specific transaction. Therefore, items of possible interest to a third party will not be specifically addressed and matters may exist that would be assessed differently by a third party, possibly in connection with a specific transaction.

Management's Responsibilities

The Village of Long Grove's management is responsible for the financial statements referred to above. In this regard, management is responsible for establishing policies and procedures that pertain to the maintenance of adequate accounting records and effective internal controls over financial reporting, the selection and application of accounting principles, the authorization of receipts and disbursements, the safeguarding of assets, the proper recording of transactions in the accounting records, and for reporting financial information in conformity with accounting principles generally accepted in the United States of America.

Mr. David Lothspeich
Village of Long Grove

March 16, 2015
Page 4

Management is also responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us (i) about all known or suspected fraud affecting the entity involving: (a) management, (b) employees who have significant roles in internal control over financial reporting, and (c) others where the fraud or illegal acts could have a material effect on the financial statements; and (ii) of its knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, analysts, grantors, regulators, or others.

You are responsible for the preparation of the supplementary information in conformity with accounting principles generally accepted in the United States of America. You agree to include our report on the supplementary information in any document that contains, and indicates that we have reported on, the supplementary information. You also agree to include the audited financial statements with any presentation of the supplementary information that includes our report thereon. Your responsibilities include acknowledging to us in the representation letter that (a) you are responsible for presentation of the supplementary information in accordance with GAAP; (b) that you believe the supplementary information, including its form and content, is fairly presented in accordance with GAAP; (c) that the methods of measurement or presentation have not changed from those used in the prior period (or, if they have changed, the reasons for such changes); and (d) you have disclosed to us any significant assumptions or interpretations underlying the measurement or presentation of the supplementary information.

Management is responsible for (i) adjusting the basic financial statements to correct material misstatements and for affirming to us in a management representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period under audit are immaterial, both individually and in the aggregate, to the basic financial statements taken as a whole, and (ii) notifying us of all material weaknesses, including other significant deficiencies, in the design or operation of your internal control over financial reporting that are reasonably likely to adversely affect your ability to record, process, summarize and report external financial data reliably in accordance with accounting principles generally accepted in the United States of America. Management also is responsible for identifying and ensuring that the Village of Long Grove complies with the laws and regulations applicable to its activities.

As part of management's responsibility for the financial statements and the effectiveness of its system of internal control over financial reporting, management is responsible for making available to us, on a timely basis, all of your original accounting records and related information and for the completeness and accuracy of that information and your personnel to whom we may direct inquiries. As required by auditing standards generally accepted in the United States of America, we will make specific inquiries of management and others about the representations embodied in the financial statements and the effectiveness of internal control over financial reporting. Auditing standards generally accepted in the United States of America also require that we obtain written representations covering audited financial statements from certain members of management. The results of our audit tests, the responses to our inquiries, and the written representations, comprise the evidential matter we intend to rely upon in forming our opinion on the financial statements.

Non-Attest Services

Prior to or as part of our audit engagement, it may be necessary for us to perform certain non-attest services including, but not limited to, preparing drafts of your financial statements and proposing general, adjusting, or correcting journal entries to your financial statements. None of these non-attest services constitute an audit under generally accepted auditing standards including *Government Auditing Standards*. You are responsible for reviewing the entries and understanding the nature of any proposed entries and the impact they have on the financial statements. In addition, you will be required to review and approve the financial statements and approve that document prior to its issuance and have a responsibility in fact and appearance to make an informed judgment on that document.

Mr. David Lothspeich
Village of Long Grove

March 16, 2015
Page 5

We will not perform any management functions or make management decisions on your behalf with respect to any non-attest services we provide.

In connection with our performance of any non-attest services, you agree that you will:

- > Continue to make all management decisions and perform all management functions, including approving all journal entries and general ledger classifications when they are submitted to you.
- > Designate an employee with suitable skill, knowledge, and/or experience, preferably within senior management, to oversee the services we perform.
- > Evaluate the adequacy and results of the non-attest services we perform.
- > Accept responsibility for the results of our non-attest services.
- > Establish and maintain internal controls, including monitoring ongoing activities related to the non-attest function.

On a periodic basis, as needed, we will meet with you to discuss your accounting records and the management implications of your financial statements. We will notify you, in writing, of any matters that we believe you should be aware of and will meet with you upon request.

In addition to the audit services discussed above, we will compile the Illinois Comptroller's Annual Financial Report. See Addendum A attached, which is an integral part of this engagement letter.

Other Documents

Auditing standards generally accepted in the United States of America require that we read any annual report that contains our audit report. The purpose of this procedure is to consider whether other information in the annual report, including the manner of its presentation, is materially inconsistent with information appearing in the financial statements. We assume no obligation to perform procedures to corroborate such other information as part of our audit.

If you intend to reproduce or publish the financial statements, and make reference to our firm name in connection therewith, you agree to publish the financial statements in their entirety. In addition, you agree to provide us, for our approval and consent, proofs before printing and final materials before distribution.

With regard to the electronic dissemination of audited financial statements, including financial statements published electronically on your Internet website, you understand that electronic sites are a means to distribute information and, therefore, we are not required to read the information contained in these sites or to consider the consistency of other information in the electronic site with the original document.

Mr. David Lothspeich
Village of Long Grove

March 16, 2015
Page 6

The documentation for this engagement, including the workpapers, is the property of Baker Tilly and constitutes confidential information. We may have a responsibility to retain the documentation for a period of time sufficient to satisfy any applicable legal or regulatory requirements for records retention. If we are required by law, regulation, or professional standards to make certain documentation available to Regulators, the Village of Long Grove hereby authorizes us to do so.

Release and Indemnification

Because of the importance of oral and written representations to an effective audit, the Village of Long Grove releases Baker Tilly and its current, former or future partners, principals, employees, and personnel from any and all claims, liabilities, costs, and expenses attributable to any misrepresentation by management. Further, Baker Tilly and its current, former or future partners, principals, employees, and personnel shall not be liable to the Village of Long Grove for any amount in excess of the total professional fees paid by the Village of Long Grove under this engagement letter, except to the extent finally determined to have resulted from willful misconduct or fraudulent behavior of Baker Tilly relating to such services. In addition, in no event shall either party be liable for any consequential, indirect, lost profit, punitive, or similar damages relating to Baker Tilly's services provided under this engagement letter.

In addition, the Village of Long Grove agrees to indemnify and hold harmless Baker Tilly and its current, former or future partners, principals, employees, and personnel from any and all claims, liabilities, costs, and expenses (including reasonable attorney's fees) relating to Baker Tilly's services under this engagement letter, except to the extent finally determined to have resulted from the willful misconduct or fraudulent behavior of Baker Tilly relating to such services.

The terms of this section shall apply to any claims of any kind, including but not limited to contract, tort, or negligence of any party, including the Village of Long Grove or Baker Tilly.

Resolution of Disagreements

In the unlikely event that differences concerning our services or fees should arise that are not resolved by mutual agreement, to facilitate judicial resolution and save time and expense of both parties, the Village of Long Grove and Baker Tilly agree not to demand a trial by jury in any action, proceeding, or counterclaim arising out of or relating to our services and fees for this engagement. Our services shall be evaluated solely on our substantial conformance with the terms expressly set forth herein, including all applicable professional standards. Any claim of nonconformance must be clearly and convincingly shown.

No action, regardless of form, arising out of the services under this agreement may be brought by either party more than two years after the act, event, or service that is the subject of such action; or more than one year after discovery of such act, error, or omission, whichever occurs first.

Mr. David Lothspeich
Village of Long Grove

March 16, 2015
Page 7

Timing and Fees

Completion of our work is subject to, among other things, (i) appropriate cooperation from the Village of Long Grove's personnel, including timely preparation of necessary schedules, (ii) timely responses to our inquiries, and (iii) timely communication of all significant accounting and financial reporting matters. When and if for any reason the Village of Long Grove is unable to provide such schedules, information, and assistance, Baker Tilly and you will mutually revise the fee to reflect additional services, if any, required of us to complete the audit. Delays in the issuance of our audit report beyond the date that was originally contemplated may require us to perform additional auditing procedures which will likely result in additional fees.

Services	2015	2016	2017
Financial audit	\$ 24,300	\$ 25,000	\$ 25,750
TIF audit	1,900	2,000	2,100

Invoices for these fees will be rendered each month as work progresses and are payable on presentation. A charge of 1.5% per month shall be imposed on accounts not paid within 30 days of receipt of our statement for services provided. In accordance with our firm policies, work may be suspended if your account becomes 30 days or more overdue and will not be resumed until your account is paid in full. If we elect to terminate our services for nonpayment, our engagement will be deemed to have been completed upon written notice of termination, even if we have not completed our report. You will be obligated to compensate us for all time expended and to reimburse us for all out-of-pocket expenditures through the date of termination. Bookkeeping fees, if required, will be in addition to the audit fees and itemized separately on the invoice.

Our fees are based on known circumstances at the time of this agreement. Should circumstances change significantly during the course of this engagement, we will discuss with you the need for any revised audit fees. This can result from changes at your organization, such as the turnover of key accounting staff, the addition of new funds or significant federal or state programs, or changes that affect the amount of audit effort from external sources, such as new accounting and auditing standards that become effective that increase the scope of our audit procedures. This agreement currently includes all auditing standards through Statement on Auditing Standards (SAS) No. 127 – *Omnibus Statement on Auditing Standards - 2013*, all accounting standards through Governmental Accounting Standards Board (GASB) No. 66– *Technical Corrections - 2012 - and amendment of GASB Statements No. 10 and No. 62* and the current federal and state single audit guidance.

We would expect to continue to perform our services under the arrangements discussed above from year to year, unless for some reason you or we find that some change is necessary. We will, of course be happy to provide the Village of Long Grove with any other services you may find necessary or desirable.

Other Matters

Baker Tilly is comprised of professionals who hold CPA licenses as well as by professionals who are not licensed CPAs. Depending on the nature of the services we provide, non-CPA professionals may be involved in providing services to you now or in the future.

Any additional services that may be requested and we agree to provide will be the subject of separate arrangements.

Mr. David Lothspeich
Village of Long Grove

March 16, 2015
Page 8

In the event we are requested or authorized by the Village of Long Grove, or required by government regulation, subpoena, or other legal process to produce our working papers or our personnel as witnesses with respect to our engagement for the Village of Long Grove, the Village of Long Grove will, so long as we are not a party to the proceeding in which the information is sought, reimburse us for our professional time and expenses, as well as the fees and expenses of our counsel, incurred in responding to such a request.

Neither this engagement letter, any claim, nor any rights or licenses granted hereunder may be assigned, delegated, or subcontracted by either party without the written consent of the other party. Either party may assign and transfer this engagement letter to any successor that acquires all or substantially all of the business or assets of such party by way of merger, consolidation, other business reorganization, or the sale of interest or assets, provided that the party notifies the other party in writing of such assignment and the successor agrees in writing to be bound by the terms and conditions of this engagement letter.

Our dedication to client service is carried out through our employees who are integral in meeting this objective. In recognition of the importance of our employees to Baker Tilly, it is hereby agreed that the Village of Long Grove will not solicit our employees for employment or enter into an independent contractor arrangement with any individual who is or was an employee of Baker Tilly for a period of twelve months following the date of the conclusion of this engagement. If the Village of Long Grove violates this non-solicitation clause, the Village of Long Grove agrees to pay to Baker Tilly a fee of 30% of the hired individual's new annual compensation within 30 days of such event.

Baker Tilly Virchow Krause, LLP is a member of Baker Tilly International Limited. Each member firm of Baker Tilly International Limited is a separate and independent legal entity. Baker Tilly International Limited and its other members are not responsible or liable for any acts or omissions of Baker Tilly Virchow Krause, LLP. Baker Tilly Virchow Krause, LLP and its subsidiaries are not responsible for or liable for any acts or omissions of any other member of Baker Tilly International Limited. Baker Tilly International Limited does not render any professional services and does not have an ownership or partnership interest in Baker Tilly Virchow Krause, LLP.

Baker Tilly International Limited is an English Company. Neither Baker Tilly International Limited nor any other member firm has a right to exercise management control over any other member firm. Baker Tilly Virchow Krause, LLP is not Baker Tilly International Limited's agent and does not have authority to bind Baker Tilly International Limited or act on Baker Tilly International Limited's behalf.

This engagement letter reflects the entire agreement between us relating to the services covered by this letter. It replaces and supersedes any previous proposals, correspondence, and understandings, whether written or oral. The agreement contained in this engagement letter shall survive the completion or termination of this engagement. If because of a change in the Village of Long Grove's status or due to any other reason, any provision in this agreement would be prohibited by, or would impair our independence under, laws, regulations or published interpretations by governmental bodies, commissions, or other regulatory agencies, such provision shall, to that extent, be of no further force and effect and this agreement shall consist of the remaining portions.

The validity, construction and enforcement of this engagement letter shall be determined in accordance with the laws of the State of Illinois, without reference to its conflicts of laws principles, and any action arising under this engagement letter shall be brought exclusively in the State of Illinois.

We appreciate the opportunity to be of service to the Village of Long Grove.

Mr. David Lothspeich
Village of Long Grove

March 16, 2015
Page 9

If there are any questions regarding the engagement letter, please contact Tom Scheidegger, the engagement partner on this engagement who is responsible for the overall supervision and review of the engagement and for determining that the engagement has been completed in accordance with professional standards. Tom Scheidegger is available at 608 240 2303.

Sincerely,

BAKER TILLY VIRCHOW KRAUSE, LLP

Baker Tilly Virchow Krause, LLP

Enclosure

The services and terms as set forth in the engagement letter are agreed to by:

Angela Underwood

Official's Name

Angela K. Underwood

Official's Signature

Village President

Title

March 24, 2015

Date

ADDENDUM A

We will perform the following services:

1. We will compile, from information you provide, the Illinois Comptroller's Annual Financial Report for the year ended April 30, 2015 through 2017. Upon completion of the compilation of the annual Financial Report Form, we will provide the village with our accountants' compilation report. If, for any reason caused by or relating to affairs or management of the village, we are unable to complete the compilation or if we determine in our professional judgment the circumstances necessitate, we may withdraw and decline to submit the annual Financial Report Form to you as a result of this engagement.

Our report on the annual Financial Report Form of the Village of Long Grove is presently expected to read as follows:

We have compiled the FY 2015 Annual Financial Report Multi-Purpose Long Form for the year ended April 30, 2015 included in the accompanying prescribed form. We have not audited or reviewed the FY 2015 Annual Financial Report Multi-Purpose Long Form included in the accompanying prescribed form and, accordingly, do not express an opinion or any assurance about whether the FY 2015 Annual Financial Report Multi-Purpose Long Form is in accordance with the form prescribed by the Illinois Office of the Comptroller.

Management is responsible for the preparation and fair presentation of the FY 2015 Annual Financial Report Multi-Purpose Long Form included in the form prescribed by the Illinois Office of the Comptroller and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the FY 2015 Annual Financial Report Multi-Purpose Long Form.

Our responsibility is to conduct the compilation in accordance with *Statements on Standards for Accounting and Review Services* issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist management in presenting financial information in the form of the FY 2015 Annual Financial Report Multi-Purpose Long Form without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the FY 2015 Annual Financial Report Multi-Purpose Long Form.

The FY 2015 Annual Financial Report Multi-Purpose Long Form included in the accompanying prescribed form is presented in accordance with the requirements of the Illinois Office of the Comptroller, and is not intended to be a presentation in accordance with accounting principles generally accepted in the United States of America.

This report is intended solely for the information and use of the Illinois Office of the Comptroller and is not intended to be and should not be used by anyone other than this specified party.

Our Responsibilities and Limitations

We will be responsible for performing the compilation in accordance with *Statements on Standards for Accounting and Review Services* established by the American Institute of Certified Public Accountants. The objective of a compilation is to assist management in presenting financial information in the form of financial statements. We will utilize information that is the representation of management without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements in order for the statements to be in conformity with accounting principles generally accepted in the United States of America.

Our engagement cannot be relied upon to disclose errors, fraud, or other illegal acts that may exist and, because of the limited nature of our work, detection is highly unlikely. However, we will inform the appropriate level of management of any material errors, and of any evidence that fraud may have occurred. In addition, we will report to you any evidence or information that comes to our attention during the performance of our compilation procedures regarding illegal acts that may have occurred, unless they are clearly inconsequential. We have no responsibility to identify and communicate deficiencies in your internal control as part of this engagement.

Management's Responsibilities

The village's management is responsible for the financial statements referred to above. In this regard, management is responsible for (i) the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, (ii) designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements, (iii) preventing and detecting fraud, (iv) identifying and ensuring that the entity complies with the laws and regulations applicable to its activities, and (v) making all financial records and related information available to us. Management also is responsible for identifying and ensuring that the village complies with the laws and regulation applicable to its activities.

Management is responsible for providing us with the information necessary for the compilation of the financial statements and the completeness and the accuracy of that information and for making village personnel available to whom we may direct inquiries regarding the compilation. We may make specific inquiries of management and others about the representations embodied in the financial statements.

VILLAGE OF LONG GROVE

Long Grove, Illinois

**COMMUNICATION TO THOSE CHARGED
WITH GOVERNANCE AND MANAGEMENT**

As of and for the Year Ended April 30, 2015

VILLAGE OF LONG GROVE

TABLE OF CONTENTS

	<u>Page No.</u>
Required Communication of Internal Control Related Matters Identified in the Audit to Those Charged with Governance	1
Internal Control Over Financial Reporting	2
Water Special Service Area Levies	2
Other Communications to Those Charged with Governance	
Two Way Communication Regarding Your Audit	3 – 4
Communication of Other Control Deficiencies, Recommendations and Informational Points to Management that are not Material Weaknesses or Significant Deficiencies	5 – 9
Required Communications by the Auditor to Those Charged with Governance	10 – 13
Management Representations	

**REQUIRED COMMUNICATION OF INTERNAL CONTROL RELATED MATTERS
IDENTIFIED IN THE AUDIT TO THOSE CHARGED WITH GOVERNANCE**

To the Village Board
Village of Long Grove
Long Grove, Illinois

In planning and performing our audit of the financial statements of the Village of Long Grove as of and for the year ended April 30, 2015, 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 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 its internal control. Accordingly, we do not express an opinion on the effectiveness of its 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. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a material weakness.

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. We consider the following deficiencies in the village's internal control to be material weaknesses:

- > Internal Control Over Financial Reporting
- > Water Special Service Area Levies

The Village of Long Grove's written response to the material weaknesses identified in our audit have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This communication is intended solely for the information and use of management, those charged with governance, and others within the organization and is not intended to be, and should not be, used by anyone other than these specified parties.

Madison, Wisconsin

_____, 2015

INTERNAL CONTROL OVER FINANCIAL REPORTING

Properly designed systems of internal control provides the village with the ability to process and record accurate monthly and year-end transactions and annual financial reports.

Our audit includes a review and evaluation of village's internal controls relating to financial reporting. Common attributes of a properly designed system of internal control for financial reporting are as follows:

- > There is adequate staffing to prepare financial reports throughout and at the end of the year.
- > Staff is properly trained and knowledgeable to perform all financial reporting functions.
- > Material misstatements are identified and corrected during the normal course of duties.
- > Complete and accurate financial statements including footnotes are prepared.
- > Financial reports are independently reviewed for completeness and accuracy.

Our evaluation of the internal controls over financial reporting has identified control deficiencies that are considered material weaknesses surrounding the preparation of financial statements and footnotes, adjusting journal entries identified by the auditors, and an independent review of financial reports.

Management has not prepared financial statements that are in conformity with generally accepted accounting principles. In addition, material misstatements in the general ledger were identified during the financial audit.

This level of internal control over financial reporting can be a difficult task for governments that operate with only enough staff to process monthly transactions and reports, and often rely on their auditors to propose certain year-end audit entries and financial statements.

Management's Response (4/30/15)

The village contracts with its auditors to complete the financial statements due to limited staff resources. The village contracts with external accountants to maintain recordkeeping and prepare audit support for the financial statements. The number of journal entries has been reduced over the years.

WATER SPECIAL SERVICE AREA LEVIES

During 2011, the Village passed Ordinance 2011-O-13 which provided for the issuance of \$1,000,000 in special service area tax bonds and provided for the levy of an annual tax on property within the special service area for payment of the bonds. The SSA Water fund has accrued a long-term receivable based upon these future levies as detailed in this ordinance. However, the annual amount certified to Lake County for collection for the last two years does not agree with the amounts within the Ordinance. This has caused a material misstatement for the long-term receivable that may have been prevented if a review or similar control had been in place to prevent this error. This control deficiency is considered a material weakness.

We recommend an independent review be performed for future levies submitted to the County to ensure accuracy. We also recommend that the village consult with their attorney to determine if past deficient levies can be recouped through adjustment to future levies reported to the County.

Management's Response (4/30/15)

OTHER COMMUNICATIONS TO THOSE CHARGED WITH GOVERNANCE

TWO WAY COMMUNICATION REGARDING YOUR AUDIT

As part of our audit of your financial statements, we are providing communications to you throughout the audit process. Auditing requirements provide for two-way communication and are important in assisting the auditor and you with more information relevant to the audit.

As this past audit is concluded, we use what we have learned to begin the planning process for next year's audit. It is important that you understand the following points about the scope and timing of our next audit:

- a. We address the significant risks of material misstatement, whether due to fraud or error, through our detailed audit procedures.
- b. We will obtain an understanding of the five components of internal control sufficient to assess the risk of material misstatement of the financial statements whether due to error or fraud, and to design the nature, timing, and extent of further audit procedures. We will obtain a sufficient understanding by performing risk assessment procedures to evaluate the design of controls relevant to an audit of financial statements and to determine whether they have been implemented. We will use such knowledge to:
 - > Identify types of potential misstatements.
 - > Consider factors that affect the risks of material misstatement.
 - > Design tests of controls, when applicable, and substantive procedures.

We will not express an opinion on the effectiveness of internal control over financial reporting or compliance with laws, regulations, and provisions of contracts or grant programs.

- c. The concept of materiality recognizes that some matters, either individually or in the aggregate, are important for fair presentation of financial statements in conformity with generally accepted accounting principles while other matters are not important. In performing the audit, we are concerned with matters that, either individually or in the aggregate, could be material to the financial statements. Our responsibility is to plan and perform the audit to obtain reasonable assurance that material misstatements, whether caused by errors or fraud, are detected.

We are very interested in your views regarding certain matters. Those matters are listed here:

- a. We typically will communicate with your top level of management unless you tell us otherwise.
- b. We understand that the village board has the responsibility to oversee the strategic direction of your organization, as well as the overall accountability of the entity. Management has the responsibility for achieving the objectives of the entity.
- c. We need to know your views about your organization's objectives and strategies, and the related business risks that may result in material misstatements.
- d. Which matters do you consider warrant particular attention during the audit, and are there any areas where you request additional procedures to be undertaken?
- e. Have you had any significant communications with regulators or grantor agencies?
- f. Are there other matters that you believe are relevant to the audit of the financial statements?

Also, is there anything that we need to know about the attitudes, awareness, and actions of the village concerning:

- a. The village's internal control and its importance in the entity, including how those charged with governance oversee the effectiveness of internal control?
- b. The detection or the possibility of fraud?

TWO WAY COMMUNICATION REGARDING YOUR AUDIT (cont.)

We also need to know if you have taken actions in response to developments in financial reporting, laws, accounting standards, governance practices, or other related matters, or in response to previous communications with us.

With regard to the timing of our audit, here is some general information. Our final fieldwork is scheduled during the summer or early fall to best coincide with your readiness and report deadlines. After fieldwork, we wrap up our audit procedures at our office and issue drafts of the reports for your review. Final copies of the village's financial statements and other communications are issued after approval by your staff and the village board. This is typically 6-12 weeks after final fieldwork, but may vary depending on a number of factors.

Keep in mind that while this communication may assist us with planning the scope and timing of the audit, it does not change the auditor's sole responsibility to determine the overall audit strategy and the audit plan, including the nature, timing, and extent of procedures necessary to obtain sufficient appropriate audit evidence.

We realize that you may have questions on what this all means, or wish to provide other feedback. We welcome the opportunity to hear from you.

**COMMUNICATION OF OTHER CONTROL DEFICIENCIES, RECOMMENDATIONS
AND INFORMATIONAL POINTS TO MANAGEMENT THAT ARE NOT
MATERIAL WEAKNESSES OR SIGNIFICANT DEFICIENCIES**

PRIOR YEAR POINTS

ALLOWANCE FOR DOUBTFUL ACCOUNT

The village has been reporting \$35,550 in this account within the general fund since 2008. It originated from an invoice sent by the village to a citizen for tree replacement costs. Based on the length of this outstanding receivable, its collection appears unlikely. We recommend the village determine if this receivable can be collected, and if not, the allowance and the related receivable should be eliminated during the next fiscal year.

Status (4/30/15)

Collection of this item did not occur during fiscal 2014-15 and the village made the decision to eliminate the allowance and the receivable. While we consider this point to be resolved, we further recommend the village adopt a policy regarding write offs. This policy should provide guidance as to who has authority to approve write offs under differing scenarios and amounts. We are available to assist if requested.

CAPITALIZATION POLICY

The village implemented Governmental Accounting Standards Board (GASB) Statement No. 34 several years ago, which requires that all capital assets, including land, buildings, equipment, and infrastructure be included in the village's annual financial statements. Development of a capitalization policy would be a very useful tool as the village continues to update its capital asset records.

A capitalization policy should address categories of assets, useful lives, depreciation methodology, capitalization thresholds, and maintenance vs. capital expenditures. When finished, a capitalization policy can be used as a guide for village personnel and their bookkeepers when analyzing expenditures for possible capital asset additions. We recommend that the village adopt a capitalization policy.

Status (4/30/15)

We have provided examples to the village so as to facilitate development of this policy. With the recent capitalization of roads and the intent to increase capital outlay to meet the capital needs of the village, we continue to recommend this policy be developed and adopted by the village board. This point is still valid.

Management's Response (4/30/15)

PRIOR YEAR POINTS (cont.)

CAPITAL ASSET LAND RECORDS

During our audit, we tested the village's general capital asset records. For the most part, the village maintains a detailed spreadsheet of all significant individual capital assets. However, for the majority of the land value, the village records include one lump sum for the historical cost of land in the village. There is no detailed list of the parcels that comprise the balance. Accounting standards require that detailed lists be maintained for all capital assets, including land. We recommend the village analyze this balance and prepare a detailed list to support the total currently reported in the land category of capital assets.

Status (4/30/15)

This point is still valid.

Management's Response (4/30/15)

ACCOUNTING MANUAL

We noted the village does not have an accounting procedures manual.

A well devised accounting manual can help to ensure that accounting principles used are proper and that records are produced in the form desired for management. A good accounting manual should aid the training of employees and allow for delegation to other employees of some accounting functions management performs.

We recommend that the village consider developing an accounting procedures manual. Also, in the process of the comprehensive review of accounting procedures for the purpose of developing the manual, management might discover procedures that can be eliminated or improved to make the system more efficient and effective.

Status (4/30/15)

This point is still valid.

Management's Response (4/30/15)

INFORMATIONAL POINTS

TAX INCREMENT FINANCING DISTRICT STATUS

For the last several years, we have communicated to you at board meetings and village workshops the status of the village's Downtown Tax Incremental Financing (TIF) District and its continued reliance upon other funds of the village. While it is not unusual for active TIF districts to rely upon or borrow from other funds during their earlier years, it also requires careful monitoring through what is called TIF projections. While performing TIF projections is not something that is within the scope of an audit, we have provided these for the village in the past, and more recently, the village has been updating this projection as needed. The distinction is that an audit looks back to determine the current status of a TIF, while a projection attempts to estimate the long-term viability of a TIF, including whether or not it will be able to meet its debt obligations during its life.

We recommend the village continue to regularly update its TIF projection, including the amounts other funds have advanced or borrowed to the TIF.

As of April 30, 2015, the following amounts were owed to the Open Spaces fund by the TIF:

Principal on 2009A bond	\$ 1,500,000
Principal on 2011A bond	538,125
Accumulated interest not repaid	244,575
Accumulated arrearages not repaid	<u>80,853</u>
Total	<u>\$ 2,363,553</u>

As of April 30, 2015, the following amounts were owed to the General Fund by the TIF:

Principal on the 2009B bond	\$ 2,501,521
Accumulated interest not repaid	374,658
Accumulated arrearages not repaid	<u>63,448</u>
Total	<u>\$ 2,939,627</u>

It should be noted that the advance total at April 30, 2014 was \$2,248,077 and \$2,775,230 for the open spaces and general fund, respectively, resulting in a 5.1% and 5.9% increase over the prior year for these same two funds, respectively.

The village must formally evaluate on a regular basis whether its TIF fund has the ability to repay these advances. Since the 4% interest that is charged on the advances comprises a significant portion of these balances, the village board should regularly determine if this rate is appropriate. The TIF projection recently completed during 2015 projects an ending unpaid balance of \$8.4 million using the 4% rate under the current condition of the TIF. We realize significant changes are likely to occur during the early stages of the TIF that may result in changes to this estimated deficit projection.

Your community's long-term success is important. As a governing body, your involvement and understanding of your community's financial activities will help you make informed decisions regarding the future of your community. Please feel free to contact us if you have questions – we are happy to discuss these topics in further detail.

INFORMATIONAL POINTS (cont.)***GASB UPDATES***

The following is a schedule of GASB projects:

Task or Event	Effective Date	Impact
GASB No. 68 – Accounting and Financial Reporting for Pensions and GASB 71 – Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB 68	April 30, 2016 Financial Statements	Your entity belongs to the Illinois Municipal Retirement Fund (IMRF). IMRF has represented that it will provide the information necessary for the employers to implement GASB 68. The net pension liability will be reported in its government-wide financial statements next year. The footnote disclosures will have significant changes.
GASB 74 – Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans	For fiscal year ending April 30, 2018	Addresses reporting by OPEB plans that administer benefits on behalf of governments. The statement replaces GASB No. 43.
GASB 75 – Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions	For fiscal year ending April 30, 2019	Addresses reporting by governments that provide OPEBs to their employees and for governments that finance OPEBs for employees of other governments. The statement replaces GASB No. 45.
GASB 72 - Fair Value Measurement and Application	For fiscal year ending April 30, 2017	Addresses accounting and financial reporting issues related to fair value measurements. Defines fair value as 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.
GASB 77 – Tax Abatement Disclosures	For fiscal year ending April 30, 2017	Tax abatements are widely used by state and local governments, particularly to encourage economic development. For financial reporting purposes, this Statement defines a tax abatement as resulting from an agreement between a government and an individual or entity in which the government promises to forgo tax revenues and the individual or entity promises to subsequently take a specific action that contributes to economic development or otherwise benefits the government or its citizens. This Statement requires governments to disclose specific information about these types of agreements.
Current Agenda Project: Fiduciary Responsibilities	The GASB Board is expected to issue an Exposure Draft this fall.	This project is to assess what additional guidance should be developed regarding the application of the fiduciary responsibility criteria in deciding whether and how governments should report fiduciary activities in their financial reports.
Current Agenda Project: Leases	The GASB Board is scheduled to issue an Exposure Draft in January 2016	The objective of this project is to re-examine issues associated with lease accounting, consider improvements to existing guidance, and provide a basis for the GASB Board to consider whether the current guidance is appropriate based on the definitions of assets and liabilities.

INFORMATIONAL POINTS (cont.)**GASB UPDATES** (cont.)

Task or Event	Effective Date	Impact
Current Agenda Project: Blending Requirements for Certain Business-Type Activities	An exposure has been issued and the comment period is currently in progress.	The objective of this project would be improve financial reporting by addressing issues related to inconsistent presentation of component units in financial reporting of governments engaged only in business-type activities.
Current Agenda Project: Irrevocable Charitable Trusts	An exposure has been issued and the comment period is currently in progress.	The objective of this project is to determine what accounting and financial reporting guidance, if any, should be established for irrevocable charitable trusts held for the benefit of governmental entities.

The GASB has two other projects which are on hold. They include the conceptual framework for recognition and economic condition reporting – financial projections.

The GASB revisits GASB standards ten (10) years after issuance. The GASB is currently revisiting GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis for State and Local Governments*, as well as reporting model-related pronouncements including Statements Nos. 37, 41, and No. 46 and Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*. The GASB has indicated that they are revisiting the following major provisions of these standards: management's discussion and analysis, government-wide financial statements, fund financial statements, capital asset reporting, budgetary comparisons, special purpose government reporting, and related notes to financial statements. In addition, the GASB is revisiting debt extinguishments, which includes a reexamination of GASB Statement Nos. 7, 23, and 62. We will share updates with you as they become available.

Full lists of projects, as well as many resources, are available on GASB's website which is located at www.gasb.org.

REQUIRED COMMUNICATIONS BY THE AUDITOR TO THOSE CHARGED WITH GOVERNANCE

To the Village Board
Village of Long Grove
Long Grove, Illinois

Thank you for using Baker Tilly Virchow Krause, LLP as your auditor.

We have completed our audit of the financial statements of the Village of Long Grove for the year ended April 30, 2015 and have issued our report thereon dated _____, 2015. This letter presents communications required by our professional standards.

OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA

The objective of a financial statement audit is the expression of an opinion on the financial statements. We conducted the audit in accordance with auditing standards generally accepted in the United States of America. These standards require that we plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements prepared by management with your oversight are free of material misstatement, whether caused by error or fraud. Our audit included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit does not relieve management or the village board of their responsibilities.

As part of the audit we obtained an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing and extent of further audit procedures. The audit was not designed to provide assurance on internal control or to identify deficiencies in internal control.

OTHER INFORMATION IN DOCUMENTS CONTAINING AUDITED FINANCIAL STATEMENTS

Our responsibility does not extend beyond the audited financial statements identified in this report. We do not have any obligation to and have not performed any procedures to corroborate other information contained in client prepared documents, such as official statements related to debt issues.

PLANNED SCOPE AND TIMING OF THE AUDIT

We performed the audit according to the planned scope and timing previously communicated to you in the 2014 Communication to Those Charged with Governance and Management dated November 14, 2014, and our meeting with the village board on November 11, 2014.

To the Village Board
Village of Long Grove

QUALITATIVE ASPECTS OF THE ENTITY'S SIGNIFICANT ACCOUNTING PRACTICES

Accounting Policies

Management has the responsibility for 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 Village of Long Grove are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies were not changed during the year. We noted no transactions entered into by the village during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

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 estimates affecting the financial statements were:

1. Management's estimate of depreciation expense is based upon estimated useful lives of the related capital asset.
2. Management's estimate of allowances established to offset receivables from IMET are based upon information provided by the investment pool.
3. Management's estimate of an allowance established in the TIF fund is based upon a purchase of sale agreement between the developer and the village.

Financial Statement Disclosures

The disclosures in the financial statements are neutral, consistent, and clear.

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.

During the prior year's audit, the village was informed by IMET of the probable loss of investments due to fraud with a portion of the funds the village has with IMET. The total amount was \$90,754 with the governmental activities' and governmental fund's investments, net position, fund balance, and investment income were overstated by that amount.

For the current year's audit, compensated absences were not accrued with the governmental activities causing liabilities and expenses to be understated by \$43,820 and the change in net position to be overstated by this same amount.

Management has determined that the effect of these items are immaterial to the financial statements taken as a whole.

To the Village Board
Village of Long Grove

CORRECTED AND UNCORRECTED MISSTATEMENTS (cont.)

The following is a summary of material financial statement misstatements (audit adjustments):

	<u>Amount</u>
Eliminate state aid not actually received	\$ 535,181
Adjust equity	209,557
Establishing allowance for developer receivable in TIF	523,291

In addition, we prepared GASB No. 34 conversion entries which are summarized in the "Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position" and the "Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities" in the financial statements.

DISAGREEMENTS WITH MANAGEMENT

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter 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.

CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS

In some cases, management may decide to consult with other accountants about auditing and accounting matters. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditors' 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.

MANAGEMENT REPRESENTATIONS

We have requested certain representations from management that are included in the management representation letter. This letter follows this required communication.

INDEPENDENCE

We are not aware of any relationships between Baker Tilly Virchow Krause, LLP and the Village of Long Grove that, in our professional judgment, may reasonably be thought to bear on our independence.

Relating to our audit of the financial statements of the village for the year ended April 30, 2015, Baker Tilly Virchow Krause, LLP hereby confirms that we are, in our professional judgment, independent with respect to the village in accordance with the Code of Professional Conduct issued by the American Institute of Certified Public Accountants. We provided no services to the village other audit services provided in connection with the audit of the current year's financial statements and nonaudit services which in our judgment do not impair our independence:

- > Financial statement preparation
- > Adjusting journal entries
- > State report compilation
- > Water rate study
- > Assistance and attendance at village financial workshops including TIF projection
- > Budget preparation assistance

None of these nonaudit services constitute an audit under generally accepted auditing standards, including *Government Auditing Standards*.

To the Village Board
Village of Long Grove

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 village's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

OTHER MATTERS

We applied certain limited procedures to the required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the supplementary information which accompanies the financial statements but is not RSI. With respect to the supplementary information, 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.

RESTRICTION ON USE

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

We welcome the opportunity to discuss the information included in this letter and any other matters. Thank you for allowing us to serve you.

Madison, Wisconsin
_____, 2015

MANAGEMENT REPRESENTATIONS
