

VILLAGE OF LONG GROVE

REPORT ON INTERNAL CONTROL

(Including Memorandum on Accounting Procedures,
Internal Controls, and Other Matters)

As of and for the Year Ended April 30, 2012

VILLAGE OF LONG GROVE

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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, Illinois as of and for the year ended April 30, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered its internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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 significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 deficiency in the village's internal control to be a material weakness:

> Internal Control Over Financial Reporting

This communication is intended solely for the information and use of management, the village board, 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
_____, 2012

INTERNAL CONTROL OVER FINANCIAL REPORTING

In theory, a properly designed system of internal control staffed with enough people with sufficient training would provide your organization with the ability to not only process and record monthly transactions, but also to prepare the annual financial statements.

The definition of a material weakness in internal control includes consideration of the year end financial reporting process. To avoid the auditor reporting a material weakness in internal control, your system of controls would need to be able to accomplish the following:

1. Present the books and records to the auditor in such a condition that the auditor is not able to identify any material journal entries as a result of audit procedures.
2. Be capable of preparing a complete set of year end financial statements in such a condition that the auditor is not able to identify any material changes as a result of the audit. This includes drafting the individual fund statements, making conversion entries, drafting the government-wide statements, and preparing footnote disclosures.

This high level of internal control over financial reporting can be a difficult task for governments. As opposed to large private companies, most governments operate with only enough staff to process monthly transactions and reports, and often rely on auditors to prepare certain year end audit entries and handle the year end financial reporting. As this is the case with the village, we are required to inform you that these are material weaknesses in your internal control.

CURRENT YEAR POINTS

NUMEROUS BANK ACCOUNTS

The village maintains numerous cash accounts with two of the financial institutions it does business with. At April 30, 2012, the village maintained ten checking accounts and ten savings accounts with a credit union, and twelve accounts with a bank. Maintaining so many accounts results in additional administrative time to reconcile each one each month, additional time to prepare a deposit for each one that receives a portion of village's daily collections, weakens internal controls, greatly increases the need for interfunds (reported as due to/due from as a result of village funds owing each other money) at year-end, and possibly additional banking fees. It is our understanding that the general ledger software system, QuickBooks, used by the village's accountants, may have some system limitations that would create additional burdens for reconciling the bank accounts to the financial records if these accounts were consolidated. However, we recommend the village management work with the village's accountants to determine if it is feasible to consolidate these bank accounts into one or two that can then be accounted for separately within the general ledger system.

FINANCIAL PROJECTION ANALYSIS

The village's recent development of a tax increment financing district (the Downtown TIF) and the water utility enterprise fund have resulted in significant financial activity and financial reporting changes for the village. Both of these activities involved the issuance of long-term debt, additional and new revenue sources, and major capital activity. Now that most of the development and construction activity has been completed, the village should consider preparing long-term financial projections for both of these funds. Performing a financial projection would allow the village to determine if, and when, the two funds will have sufficient resources to retire the upcoming principal and interest payments on the debt, pay back other funds from which advances, or interfund loans, have been made, and whether or not the user rates within the water utility fund are sufficient to recover costs (including depreciation and debt costs) of providing water to the benefitting properties. In addition, establishment of this type of projection can be an important part of the budgetary process going forward.

We recommend that a financial forecast of the Downtown TIF special revenue fund and the Water Utility enterprise fund be performed. We have substantial experience with determining the adequacy of water rates and financial forecasts. We are available to assist the village if requested.

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 fiscal 2011-2012.

Status (4/30/12)

Collection of this item did not occur during fiscal 2011-12 and the amount, and related allowance, is still outstanding. It is our understanding that the village continues to intend to collect, which we continue to encourage.

EFFECTIVE BUDGETING

The village's operations have grown significantly over the last several years in both complexity and volume. With several issuances of debt during this last fiscal year, major capital endeavors, an active TIF, BID, and newly reported proprietary funds (SSA and Water Management funds) effective financial management requires strong budgetary establishment and monitoring throughout the year. Decisions about services and allocation of scarce resources are made through the budget process, and the quality of these decisions hinges on the budget process employed. To enhance this critical process, we recommend that the village strengthen its current budget process to incorporate the following key components:

- > Budgeted expenditures/expenses and revenues should be based upon prior year actual amounts reported and known circumstances for the current year. All revenue sources, including the issuance of debt and/or transfer of funds should be included for each fund in the budget process. Expenditures/expenses should be at a detailed level sufficient to determine if variances to actual during the year are reasonable. Principal and interest payments on debt service should be included for each fund with debt requirements.
- > If additional information is obtained during the year that significantly differs from budgeted expectations, the village should amend their budget to more accurately reflect actual results. Examples of this could be successfully securing new grant funds, issuance of debt, or allocating resources from one program or department to another. These budget amendments should be approved by the village board.
- > When the budget is approved in final, the expenditures/expenses and the revenues should be posted to a budgetary category within the financial accounting system maintained by the village's bookkeepers. This allows for a process to regularly (monthly) monitor budget to actual amounts throughout the year. Revenues such as franchise fees, permits, and investment income; as well as expenditures/expenses such as donations disbursed, salaries, professional fees, and many others categories can be monitored against budgetary expectations and questioned by management and/or the board if not reasonable.
- > Long-term financial planning should consider the effect of current budget decisions. A careful analysis of financial status should be completed before the budget process begins, and will assist to assess the degree to which service levels can be sustained.
- > Clear budget guidelines should be established to facilitate a timely, effective budgeting process. Guidelines should include: a calendar outlining the timing of the budget process and the provision of clear instructions to departments. Based on the financial outlook, these instructions should identify fiscal constraints, provide policy direction, and identify assumptions for departments to use in forecasting revenues and expenditures.
- > Goals and objectives should exist on which to base the programmatic decisions reflected in the budget. Accountability to citizens involves not only communicating how much has been spent, but also what has been accomplished with public resources.

PRIOR YEAR POINTS (cont.)

EFFECTIVE BUDGETING (cont.)

By implementing a high quality budget process, the village can spend less time looking at specific accounts, and more time effectively managing service delivery and balancing citizen demands for services with the citizens' willingness to pay. If you would like more information on the budget preparation process, we are able to assist you.

Status (4/30/12)

The village's operations continue to grow and become more complex. Portions of the above noted recommendations have been implemented, such as inclusion of budgeted revenues and expenditures/expenses within the general ledger system, and the use of historical data to develop future budgets. Other recommendations noted above continue to be developed to meet the needs of the village as the financial activity continues to evolve. While certain suggested budgetary issues noted above continue to be developed, such as amending the budget when new information becomes available and development of a long-term needs capital budget, we consider this comment resolved. If the village needs assistance with budgetary processes or tools, we are available to provide insight or assist if requested.

ACCURATE IDENTIFICATION OF COSTS

The village is actively engaged in the development of a special service area (SSA) in addition to several other economic development projects. So as to assure accurate financial reporting and compliance with the relevant SSA and TIF laws, it is important to accurately identify which funds (general, TIF, or SSA) the incurred costs should be recorded in. Because this control was not in place for fiscal 2010-2011, several journal entries and related analysis was required as part of the audit process to move costs to the correct funds. All costs related to the development of the SSA should be reported directly in the newly created enterprise fund and any that are TIF eligible should be recorded in the TIF special revenue fund. Other development costs that are neither TIF eligible nor part of the SSA should be recorded in the village's general fund and clearly classified.

We recommend all development and related costs be closely reviewed by village management so as to accurately identify where these costs are to be reported and then communicate this to the village's bookkeepers for proper recording in the general ledger system.

Status (4/30/12)

For the 2012 audit, the village's bookkeepers worked closely with the village manager to identify which fund should account for costs as they were incurred. This, in addition to the decreasing activity for costs incurred for the TIF and SSA, resulted in significantly fewer audit adjustments in this area. This comment is resolved.

CONTROLS OVER INFORMATION TECHNOLOGY

The present software system used by the village's bookkeeper lacks certain security features that, if operated improperly, would not allow for the identification of changes made to financial data after the original entry of such data. This is a situation that exists in many database software packages, including Microsoft Office Access, which is the basis for your software. Many of the system users may not possess the technical knowledge to operate the system in a manner that would impair the system's control integrity. However, it is possible that some users may possess the knowledge to circumvent the system's controls. Therefore, it is our judgment that there is more than a remote possibility that an error could occur in amounts that are more than insignificant, and your controls would not detect them. Accordingly, we are required to communicate this fact to you.

Status (4/30/12)

This comment is still valid.

PRIOR YEAR POINTS (cont.)

CAPITALIZATION POLICY

The village has implemented Governmental Accounting Standards Board (GASB) Statement No. 34, 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 could 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 when analyzing expenditures for possible capital asset additions. We recommend that the village adopt a capitalization policy.

Status (4/30/12)

This recommendation is still valid. 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 strongly recommend this policy be developed and adopted by the village board.

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 (4/30/12)

This recommendation is still valid.

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 (4/30/12)

The village is currently in the process of updating the manual.

INFORMATIONAL POINTS

GASB No. 54: FUND BALANCE REPORTING

Last year, we informed you that the Governmental Accounting Standards Board (GASB) had issued Statement No. 54, which changes governmental financial reporting. These changes affected your financial statements for the year ended April 30, 2012, primarily the governmental fund's balance sheet presentation. No changes are necessary for proprietary fund types or government-wide statements. The major change is to the terminology used for fund balance reporting. The terms reserved, unreserved, designated, and undesignated are being replaced with the following categories: nonspendable, restricted, committed, assigned, and unassigned. The new categories are designed to promote more consistent financial reporting throughout the nation.

You have successfully implemented the necessary changes, and you will see the new information on both your fund financial statements and in the footnote disclosures. Please contact us if you have any questions on what the new presentation means.

GASB No. 63: FINANCIAL REPORTING OF DEFERRED OUTFLOWS OF RESOURCES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

The Governmental Accounting Standards Board (GASB) has issued Statement No. 63, which changes governmental financial reporting for certain assets and liabilities. These changes will affect your financial statements for the year ended April 30, 2013, primarily the government-wide financial statements, and possibly the fund financial statements.

This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.

Examples of deferred outflows may include:

- > Loss on refunding of debt
- > Certain advances to grantees
- > Purchase of future revenues

Examples of deferred inflows may include:

- > Advances received for certain grants
- > Gain on refunding of debt
- > Sales of future revenues

The result of these changes means that your balance sheet may need to have 2 additional categories, one below assets and another below liabilities. In addition, some titles as "statement of net assets" will change to "statement of net position". There are also increased footnote disclosure requirements.

INFORMATIONAL POINTS (cont.)

CUSTODIAL CREDIT

Governmental Accounting Standards Board (GASB) Statement No. 40 requires disclosures about deposits and investments. One of the main purposes of GASB Statement No. 40 is to indicate to users of financial statements the custodial risks involved with an entity's deposits and investments. These disclosures are included in the notes to your financial statements.

With regard to deposits at banks, the FDIC coverage was changed during 2011. Here are the new rules. There are now three categories of coverage:

- 1) Time (CDs) and savings deposits (defined as "NOW accounts and money market deposit accounts but not interest bearing demand deposit accounts")
- 2) Interest bearing demand deposit accounts (defined as "deposits payable on demand and for which the depository institution does not reserve the right to require advanced notice of withdrawal")
- 3) Non-interest bearing demand deposit accounts

The FDIC coverage for these categories is as follows:

- 1) \$250,000
- 2) \$250,000
- 3) Unlimited

ASSISTANCE WITH FINANCIAL OPERATIONS

Local governments are always searching for ways to do a better job providing services and utilizing resources. Two organizations provide tools and information to help you meet those objectives.

The Government Finance Officers Association (GFOA) based in Chicago, Illinois has a large number of best practices, advisories, and public policy statements available free of charge. The best practices and advisories are organized by category:

- > Accounting, Auditing and Financial Reporting
- > Budgeting and Fiscal Policy
- > Debt Management
- > Economic Development and Capital Planning
- > Retirement and Benefits Administration
- > Treasury and Investment Management

Included in these topics are about 180 individual documents which present a best practice or advice. Recently, the GFOA released the following 6 new or updated documents:

- > Presentation of the Departmental Section in the Operating Budget
- > Establishing and Administering an OPEB Trust
- > The Public Finance Officer's Role in Sustainability
- > Expenses Charged by Underwriters in Negotiated Sales
- > Managing Build America and Other Direct Subsidy Bonds
- > Using Mutual Funds for Cash Management Purposes

In addition, the GFOA has a practice manual entitled "Best Practices in Public Budgeting".

All of these are available for your review at www.gfoa.org.

INFORMATIONAL POINTS (cont.)

ASSISTANCE WITH FINANCIAL OPERATIONS (cont.)

The Governmental Accounting Standards Board (GASB) also has publications available to assist governments. The latest guide is called "What You Should Know About Your Local Government's Finances – A Guide to Financial Statements". There is a small charge for these guides at www.gasb.org.

We encourage you to consider using these resources as appropriate to improve your financial operations.

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. For audits done in accordance with Government Auditing Standards, our report will contain the following restriction: "This report is intended solely for the information and use of the client's management, others within the village, federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties."

- 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.

INFORMATIONAL POINTS (cont.)

TWO WAY COMMUNICATION REGARDING YOUR AUDIT (cont.)

- 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?
- 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?

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. If necessary, we may do preliminary audit work during the summer months. 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 our report for your review. Final copies of our report and other communications are issued after approval by your staff. 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.

REQUIRED COMMUNICATIONS

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.

REQUIRED COMMUNICATIONS (cont.)

OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA (cont.)

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

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

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 2011 Report on Internal Control dated January 27, 2012, and our meeting with the Village Board on January 24, 2012.

QUALITATIVE ASPECTS OF THE ENTITY'S SIGNIFICANT ACCOUNTING PRACTICES***Accounting Policies***

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the 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 was not changed during fiscal 2012 other than the implementation of GASB No. 54 – *Fund Balance Reporting and Governmental Fund Type Definitions*. We noted no transactions entered into by the Village of Long Grove 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. There were no significant estimates affecting the financial statements.

Financial Statement Disclosures

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

REQUIRED COMMUNICATIONS (cont.)

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

We encountered no significant difficulties in dealing with management in performing our audit.

AUDIT ADJUSTMENTS

Professional standards require us to accumulate all known and likely misstatement identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.

Management has corrected all such misstatements.

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

	<u>Amount</u>
Adjust sales tax receivable	\$ 50,311
Adjust accounts receivable	33,288
Adjust advances receivable	7,422
Record unamortized debt issuance costs	87,550
Record capital assets	101,138
Eliminate CWIP	91,757
Record depreciation	114,070
Adjust accounts payable	10,316
Accrue interest on debt	12,952
Adjust deferred revenues	17,695

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 Assets" 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 is attached.

REQUIRED COMMUNICATIONS (cont.)

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 for the year ended April 30, 2012, Baker Tilly Virchow Krause, LLP hereby confirms in accordance with the Code of Professional Conduct issued by the American Institute of Certified Public Accountants, that we are, in our professional judgment, independent with respect to the Village of Long Grove and provided no services to the Village of Long Grove other than the audit of the current year's financial statements, and the following nonaudit services which, in our judgment, do not impair our independence:

- > Financial statement preparation
- > Adjusting journal entries
- > State report compilation

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

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

CLOSING

In closing, we would like to thank you for allowing us to serve you. We are very interested in the long-term success of the Village of Long Grove and our comments are intended to draw your attention to issues which need to be addressed for the village to meet its goals and responsibilities.

This letter, by its nature, focuses on improvements and does not comment on the many strong areas of the village's systems and procedures. The comments and suggestions in this report are not intended to reflect in any way on the integrity or ability of the personnel of the village. They are made solely in the interest of establishing sound internal control practices and improving the village's financial operations. The village's staff seemed genuinely concerned about maintaining the village's financial reporting system so that informed decisions can be made. They were receptive to our ideas, comments and suggestions.

We will review the status of these comments during our next audit engagement. We have already discussed the previous comments and suggestions with various village personnel and we would be pleased to discuss them with you in further detail.