VILLAGE OF LONG GROVE

Long Grove, Illinois

COMMUNICATION TO THOSE CHARGED
WITH GOVERNANCE AND MANAGEMENT

As of and for the Year Ended April 30, 2013

VILLAGE OF LONG GROVE

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

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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 as of and for the year ended April 30, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered its internal control over financial reporting (internal control) as a basis for designing our auditing procedures 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 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 deficiencies in the village's internal control to be material weaknesses:

> Internal Control Over Financial Reporting
> Internal Control Over Agency Fund Accounting
> Internal Control Over Information Technology
> Financial Statement Restatement – Correction of Prior Period Error

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.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
October 31, 2013

INTERNAL CONTROL OVER FINANCIAL REPORTING

Auditing standards require that we perform procedures to obtain an understanding of your government and its internal control environment as part of the annual audit. This includes an analysis of the village's year-end financial reporting process and preparation of your financial statements. A properly designed system of internal control allows for the presentation of year-end financial data and financial statements without material errors. At this time, the village does not have internal controls in place that allow for the presentation of materially correct year-end financial statements. As a result, we consider this absence of controls to be a material weakness in internal control over the village's financial reporting.

To provide some perspective, establishment of such internal controls can be a difficult task for governments. Many governments do rely on their auditors to prepare certain year-end adjusting entries and prepare the year-end financial statements. Because the auditors are not involved with the village's day-to-day activities, it is important that management have the skills, knowledge, and experience to review the audit adjustments and financial statements prepared by the auditors to ensure completeness, accuracy, and consistency with management's knowledge of transactions impacting the village during the year.

INTERNAL CONTROL OVER AGENCY FUND ACCOUNTING

The village maintains several agency funds as part of their accounting records. Over the last several years, there has been activity recorded in the Fees Refundable to Others fund that should be reported in other funds, such as the downtown TIF or the general fund. The village also records income statement accounts in this fund, which has resulted in an accumulated balance over the years of approximately $35,000. An agency fund should only be maintaining a balance sheet due to the nature of the fund. Income statement accounts such as bank fees, interest income, etc. should likely be moved to another fund such as the general fund. We recommend the village review prior year transactions to determine where the accumulated balance in the Fees Refundable to Others fund should be recorded, and also enhance controls surrounding the type of activity recorded in this fund going forward.

INTERNAL CONTROL 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 as a material weakness to you.

FINANCIAL STATEMENT RESTATEMENT – CORRECTION OF PRIOR PERIOD ERROR

The village's control over reviewing the special assessments receivables balance was not operating effectively. When recording special assessments, village management should have a process to determine the amount of special assessments receivable. The potential effects of this lack of controls is collecting the incorrect amount of special assessments.

The village's internal controls over financial reporting should be designed to prepare financial statements in accordance with United States Generally Accepted Accounting Principles (GAAP). Subsequent discovery of material financial reporting errors and the required correction of previously issued financial statements indicate that there is a material weakness in the village's financial reporting system.

FINANCIAL STATEMENT RESTATEMENT – CORRECTION OF PRIOR PERIOD ERROR (cont.)

As described in Note IV. I. of the village's 2013 financial statements, a restatement of the prior year financial statements was necessary to properly report special assessments receivable at year end for the water utility fund. The proper internal controls were not in place at the village to ensure that all activity was being reflected in the financial statements. The error resulted in an understatement of the special assessment receivable in the amount of $542,927 at April 30, 2012.

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. For audits done in accordance with *Government Auditing Standards*, our report will include a paragraph that states that the purpose of the report is solely to describe (a) the scope of testing of internal control over financial reporting and compliance and the result of that testing and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance, (b) the scope of testing internal control over compliance for major programs and major program compliance and the result of that testing and to provide an opinion on compliance but not to provide an opinion on the effectiveness of internal control over compliance and, (c) that the report is an integral part of an audit performed in according with *Government Auditing Standards* in considering internal control over financial reporting and compliance. The paragraph will also state that the report is not suitable for any other purpose.

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?

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.

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

PRIOR 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 that 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.

Status (4/30/13)

The village continues to maintain eleven checking accounts and ten savings accounts with the credit union, and twelve accounts with a bank. This point is still valid.

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.

Status (4/30/13)

These two projections are currently being completed. This point is resolved.

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 (4/30/13)

Collection of this item did not occur during fiscal 2012-13 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. This point is still valid.

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 (4/30/13)

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. This point is still valid.

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 (4/30/13)

This point 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 (4/30/13)

This point is still valid.

INFORMATIONAL POINTS

GASB Statement No. 65: Items Previously Reported As Assets and Liabilities

Government Accounting Standards Board (GASB) Statement No. 65 – *Items Previously Reported as Assets and Liabilities* will result in a reclassification of some financial statement line items on the Statement of Net Position and Balance Sheet of governments. The new financial statement categories of deferred outflows of resources and deferred inflows of resources will become more commonly used upon implementation of this standard. In addition to reclassifications to these new categories, the standard will also result in a change in the accounting treatment for certain items, including debt issuance costs. This standard is effective for periods beginning after December 15, 2012, and was intended to complement Statement No. 63 – *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.

Some of the most significant changes of this standard that will impact many governments include:

- Debt issuance costs previously amortized will now be expensed in the period incurred
- Losses on refunding of debt will now be classified as a deferred outflow of resources, and consistent with the change noted previously, the formula for calculating the loss has been adjusted to exclude debt issuance costs (prospectively)
- Regulatory credits recorded by utilities will now be recorded either as a liability or a deferred inflow of resources, depending on how the credit will be applied in the future
- The terminology of *deferred revenue* is no longer permitted to be used. In addition, the items previously recorded as deferred revenue will need to be analyzed to determine if they now will be presented as a deferred inflow of resources or a liability
- The major fund determination formula has been updated to include the new categories

We are available to discuss these changes and the impact on your financial statements.

GASB Statement No. 68: Accounting and Financial Reporting for Pensions

The Governmental Accounting Standards Board (GASB) has issued Statement No. 68, which will change the accounting and financial reporting requirements for state and local governments that provide their employees with pensions. This Statement replaces the requirements of GASB Statement Nos. 27 and 50 as they relate to pensions that are provided through pension plans administered as trusts, or equivalent arrangements that meet certain criteria. These changes will affect your financial statements for the year ended April 30, 2016.

This Statement applies specifically to governments that provide their employees with pensions through pension plans in which a government's contributions to the trust used to administer a pension plan are (1) irrevocable, (2) restricted to paying pension benefits, and (3) beyond the reach of creditors.

Government employers that provide their employees with a defined benefit pension are classified in one of the following categories for this Statement:

- Single employer – is an employer whose employees are provided with a defined benefit pension through a single employer pension plan
- Agent employer – is an employer whose employees are provided with a defined benefit pension through an agent multiple employer pension plan
- Cost-sharing employer – is an employer whose employees are provided with a defined benefit pension through a cost-sharing multiple employer pension plan

GASB STATEMENT NO. 68: ACCOUNTING AND FINANCIAL REPORTING FOR PENSIONS (cont.)

Under the new standards, in financial statements prepared using the economic resources measurement focus (accrual basis of accounting), the single or agent employer is required to recognize a liability equal to the net pension liability. The net pension liability is defined as the present value of projected benefit payments to be provided through the pension plan, to current and inactive employees, that is attributed to those employees' past periods of service (total pension liability), less the amount of the pension plan's net position. A cost-sharing employer is required to recognize its proportionate share of the net pension liability of the Illinois Municipal Retirement Fund.

The new Statement contains requirements related to the actuarial cost method and certain other assumptions used in the preparation of an actuarial valuation. The Statement also requires that an actuarial valuation of the total pension liability be performed at least every two years, with more frequent valuations encouraged. In addition, this Statement also requires disclosing certain information in the notes to the financial statements, as well as presenting certain required supplementary information (RSI) for the ten most recent fiscal years.

For government employers that provide their employees with a defined contribution pension, the new standards generally carry forward the existing financial reporting requirements.

We are available to further discuss these changes and the impact on your financial statements.

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 has changed once again. On January 1, 2013, the temporary unlimited coverage for non-interest bearing transaction accounts expired. The rules now also distinguish between in-state and out-of-state accounts. Here are the new rules.

- In-state accounts (deposits are held in an institution in the same state where the government is located)

    1) Up to $250,000 for the combined amount of all time (CDs) and savings deposits (includes NOW accounts and money market deposit accounts)
    2) Up to $250,000 for all 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")

- Out-of-state accounts (deposits are held in an institution outside of the state where the government is located)

    1) Up to $250,000 for the combined total of all deposit accounts

These rules are in effect as of January 1, 2013. You will need to consider whether the new rules affect your deposit investment policies or practices.

REQUIRED COMMUNICATIONS BY THE AUDITOR TO THOSE CHARGED WITH GOVERNANCE

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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, 2013 and have issued our report thereon dated October 31, 2013. 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 2012 Report on Internal Control dated July 23, 2013, and our meeting with the Village Board on January 22, 2013.

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 I to the financial statements. As discussed in Note I to the financial statements, the Village of Long Grove changed accounting policies related to financial reporting by adopting Statement of Government Accounting Standards (GASB) Statement No. 63 – *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* for the fiscal year ended April 30, 2013. 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. There were no significant estimates affecting the financial statements.

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 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);

	Amount
Adjust taxes receivable	$ 257,764
Adjust deferred revenues	326,514
Adjust water utility fund special assessments receivable	542,927

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.

To the Village Board
Village of Long Grove

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, 2013, 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
- TIF projection analysis

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

To the Village Board
Village of Long Grove

OTHER MATTERS

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

This information is intended solely for the use of the 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.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
October 31, 2013

MANAGEMENT REPRESENTATIONS

October 31, 2013

Baker Tilly Virchow Krause, LLP
Ten Terrace Court
P.O. Box 7398
Madison, WI 53707-7398

Dear Baker Tilly Virchow Krause, LLP:

We are providing this letter in connection with your audit of the financial statements of the Village of Long Grove as of April 30, 2013 and for the year then ended for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position of the governmental activites, the business-type activites, each major fund, and the aggregate remaining fund information of the Village of Long Grove and the respective changes in finacial position and cash flows, where applicable, in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the fair presentation of the previously mentioned financial statements in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining internal control over financial reporting, and preventing and detecting fraud.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audit.

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter.

2. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America. We have engaged you to advise us in fulfilling that responsibility. The financial statements include all properly classified funds of the primary government required by accounting principles generally accepted in the United States of America to be included in the financial reporting entity.

3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.

5. Significant assumptions we used in making accounting estimates are reasonable.

6. All events subsequent to the date of the financial statements and for which accounting principles generally accepted in the United States of America require adjustment or disclosure have been adjusted or disclosed. No events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements.

7. All known audit and bookkeeping adjustments have been included in our financial statements, and we are in agreement with those adjustments.

8. There are no unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with accounting principles generally accepted in the United States of America.

Information Provided

9. We have provided you with:

   a. Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters.
   b. Additional information that you have requested from us for the purpose of the audit.
   c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
   d. Minutes of the meetings of Village Board or summaries of actions of recent meetings for which minutes have not yet been prepared.

10. All material transactions have been recorded in the accounting records and are reflected in the financial statements.

11. We have no knowledge of any fraud or suspected fraud that affects the entity and involves:

    a. Management,
    b. Employees who have significant roles in internal control, or
    c. Others where the fraud could have a material effect on the financial statements.

12. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, regulators, or others.

13. There are no known instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements.

14. There are no known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.

15. There are no known related parties or related party relationships and transactions of which we are aware.

Other

16. We have made available to you all financial records and related data.

17. The village has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.

18. We are responsible for compliance with federal, state, and local laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts; and we have identified and disclosed to you all federal, state, and local laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.

19. There are no:

   a. Violations or possible violations of budget ordinances, federal, state, and local laws or regulations (including those pertaining to adopting and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, or for reporting on noncompliance.

   b. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by accounting principles generally accepted in the United States of America.

   c. Nonspendable, restricted, committed, or assigned fund balances that were not properly authorized and approved.

   d. Rates being charged to customers other than the rates as authorized by the applicable authoritative body.

   e. Violations of restrictions placed on revenues as a result of bond resolution covenants such as revenue distribution or debt service funding.

20. In regards to the nonattest services performed by you listed below, we have 1) made all management decisions and performed all management functions; 2) designated an individual with suitable skill, knowledge, or experience to oversee the services; 3) evaluated the adequacy and results of the services performed, and 4) accepted responsibility for the results of the services.

   a. Financial statement preparation
   b. Adjusting journal entries
   c. Compiled regulatory reports
   d. Water rate study
   e. TIF projection analysis

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

21. The Village of Long Grove has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.

22. The Village of Long Grove has complied with all aspects of contractual agreements that would have a material effect on the financial statement in the event of noncompliance.

23. We have followed all applicable laws and regulations in adopting, approving, and amending budgets.

24. There are no component units or joint ventures with an equity interest required to be disclosed in the financial statements.

25. The financial statements properly classify all funds and activities.

26. All funds that meet the quantitative criteria in GASB Statement No. 34 and No. 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.

27. Components of net position (net investment in capital assets; restricted; and unrestricted) and equity amounts are properly classified and, if applicable, approved.

28. The Village of Long Grove has no derivative financial instruments such as contracts that could be assigned to someone else or net settled, interest rate swaps, collars or caps.

29. Provisions for uncollectible receivables have been properly identified and recorded.

30. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.

31. Revenues are appropriately classified in the statement of activities within program revenues or general revenues.

32. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.

33. Deposits and investment securities are properly classified as to risk, and investments are properly valued.

34. Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated/amortized.

35. We have appropriately disclosed the Village of Long Grove's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available and have determined that net position were properly recognized under the policy. We have also disclosed our policy regarding how restricted and unrestricted fund balance is used when an expenditure is incurred for which both restricted and unrestricted fund balance is available, including the spending hierarchy for committed, assigned, and unassigned amounts.

36. We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.

37. With respect to the combining and individual fund financial statements:

    a. We acknowledge our responsibility for presenting the combining and individual fund financial statements in accordance with accounting principles generally accepted in the United States of America, and we believe the combining and individual fund financial statements, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America. The methods of measurement and presentation of the combining and individual fund financial statements have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.

    b. If the combining and individual fund financial statements is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date we issue the supplementary information and the auditor's report thereon.

38. We agree with the restatement presented in the current year's financial statements.

Sincerely,

Village of Long Grove

Signed: ______________________

David Lothspeich, Village Manager