

VILLAGE OF BARRINGTON HILLS

Barrington Hills, Illinois

COMMUNICATION TO THOSE CHARGED WITH GOVERNANCE
AND MANAGEMENT

As of and for the Year Ended December 31, 2013

VILLAGE OF BARRINGTON HILLS

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

To the Village Board of Trustees
Village of Barrington Hills
Barrington Hills, Illinois

In planning and performing our audit of the financial statements of the Village of Barrington Hills (the "Village") as of and for the year ended December 31, 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 a material weakness and a significant deficiency.

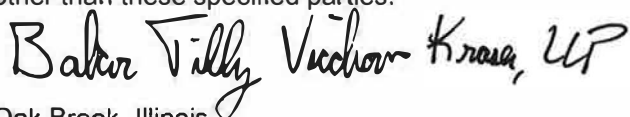
A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination 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, as discussed further on the following pages:

> Internal Control Over Financial Reporting

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiency in the Village's internal control to be a significant deficiency, as discussed further on the following pages:

> Segregation of Duties

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.



Oak Brook, Illinois
May 8, 2014

INTERNAL CONTROL OVER FINANCIAL REPORTING

In theory, a properly designed system of internal control staffed with enough people with sufficient training would provide the Village 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.

The Village engaged us to assist in the preparation of certain accrual and other journal entries. Although we were engaged by the Village to prepare these entries, current standards state these entries should be identified by the Village's existing internal controls.

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 GASB No. 34 conversion entries, drafting the government-wide statements, and preparing footnote disclosures.

We were engaged by the Village to prepare the Village's financial statements and accompanying notes to the financial statements. The Village does not currently have an internal control system over financial reporting designed to provide for the preparation of the financial statements, including the footnotes, as required by professional standards.

This level of internal control over financial reporting can be a difficult task for governments. 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 this is a material weakness in your internal control.

SEGREGATION OF DUTIES

A critical element of internal control is that incompatible procedures in a control process be properly segregated. This is accomplished when no one person handles all segments of a transaction from beginning to end; however, the personnel constraints of many organizations do not always allow for ideal segregation of duties. This is true for the Village as it does not have a large amount of staff available and must use their employees to complete multiple functions. As a result, an inherent deficiency is present in the financial process, which is noted as follows:

- > The Treasurer has the ability to initiate purchases, and does so upon written request, and can generate accounts payable checks. Ideally, the process of requisition (i.e., initiation of the accounts payable transaction) and generation of checks should be segregated.

The Village should review its current policies and practices to determine if there is a practical way to segregate duties to address the deficiency noted above. This should be done when considering the cost of additional employees. As such, there is a cost-benefit relationship between the risk identified and the controls that need to be implemented to address them. The Village may conclude that the risk is appropriate and that it is an inherent part of its size, which would be consistent with the approach many other local governments of a similar size have taken.

OTHER COMMUNICATIONS WITH 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 or 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 related to 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 the 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 misstatements.
 - > 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.
- d. We address the significant risks or material noncompliance, whether due to fraud or error, through our detailed audit procedures.
- e. Your financial statements contain components, as defined by auditing standards generally accepted in the United States of America, which we also audit.

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 and Village Board have 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 statement?

TWO WAY COMMUNICATION REGARDING YOUR AUDIT (cont.)

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. We will perform preliminary financial audit work during the month of December or January. Our final financial fieldwork is scheduled during the spring to best coincide with your readiness and report deadlines. After fieldwork, we wrap up our financial audit procedures at our office and may 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 six-to-twelve 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 or wish to provide other feedback. We welcome the opportunity to talk with you.

**COMMUNICATION OF INFORMATIONAL POINTS TO MANAGEMENT THAT ARE NOT MATERIAL
WEAKNESSES OR SIGNIFICANT DEFICIENCIES**

PROFESSIONAL STANDARDS UPDATE

The following is a schedule of GASB projects:

| Task or Event | Effective Date | Impact |
|--|---|--|
| GASB No. 67 – Financial Reporting for Pension Plans | For fiscal years beginning after June 15, 2013. For the Illinois Municipal Retirement Fund this will be for the year ending December 31, 2014 | This standard is applicable to the Illinois Municipal Retirement Fund (IMRF) plan and the Village's Police Pension plan. |
| GASB No. 68 – Accounting and Financial Reporting for Pensions | December 31, 2015 | The Village belongs to the Illinois Municipal Retirement Fund (IMRF) and has the Police Pension plan. IMRF is an agent, multiple-employer, defined-benefit, public employee retirement system. IMRF has represented that it will provide the information necessary for the employers to implement GASB No. 68. The Village's Police Pension plan is a single employer, defined-benefit retirement system. The Village will need to calculate the information necessary to report the net pension liability/ asset for the Police Pension plan. The Village's net pension liability / asset will be reported in its government-wide financial statements. The footnote disclosures will have significant changes. |
| GASB No. 69 – Government Combinations and Disposals of Government Operations | December 31, 2014 | This standard provides the guidance necessary for government combinations and disposals of government operations. This is unlikely to impact the Village |
| GASB No. 70 – Accounting and Financial Reporting For Non-exchange Financial Guarantees | December 31, 2015 | This standard provides guidance for non-exchange financial guarantees. This would impact the Village only to the extent it enters into such transactions. |
| GASB No. 71 – Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB No. 68 | December 31, 2015 | The requirements of this Statement will eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of GASB No. 68 in the accrual-basis financial statements of the Village. This will be addressed along with the implementation of GASB No. 68. |
| Current Agenda Topic: Conceptual Framework - Measurement | The GASB Board is scheduled to issue a final Concepts Statement in March 2014 | The objective of this project is to consider the measurement concepts that should be used in governmental financial statements. A measurement approach determines whether an asset or liability presented in a financial statement should be (1) reported at an amount that reflects a value at the date that the asset was acquired or the liability was incurred or (2) remeasured and reported at an amount that reflects a value at the date of the financial statements. |

PROFESSIONAL STANDARDS UPDATE (cont.)

| Task or Event | Effective Date | Impact |
|--|--|---|
| Current Agenda Project: Fair Value Measurement | The GASB Board is scheduled to issue an Exposure Draft in May 2014 | The objective of this project is to review and consider alternatives for the further development of the definition of fair value, the methods used to measure fair value and the applicability of fair value guidance to investments and other items currently reported at fair value, and the potential disclosures about fair value. |
| Current Agenda Project: Fiduciary Responsibilities | The GASB Board is expected to issue an Exposure Draft on this project in September 2014 | 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 November 2014 | The objective of this project is to reexamine 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. |
| Current Agenda Project: Postemployment Benefits Accounting and Financial Reporting: Other Postemployment Benefits Accounting and Financial Reporting | During the first part of 2014, the GASB Board will review remaining issues before issuing Exposure Drafts on employer and plan OPEB accounting and financial reporting and pensions not within the scope of Statement 68 | The Board will consider the possibility of modifications to the existing standards of accounting and financial reporting for other postemployment benefits (OPEB) by state and local governmental employers and by the trustees, administrators, or sponsors of OPEB plans. GASB has stated that their objectives are to increase financial reporting transparency and to improve the usefulness of information to the various users of the financial statements. |

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 also 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 No. 37, *Basic Financial Statements – and Management’s Discussion and Analysis-for State and Local Governments; Omnibus*, No. 41, *Budgetary Comparison Schedules – Perspective Differences*, and No. 46, *Net Assets Restricted by Enabling Legislation*, 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. We will share updates with you as they become available.

A full list of projects, as well as many resources, is available on GASB’s website at www.gasb.org.

REQUIRED COMMUNICATIONS BY THE AUDITOR TO THOSE CHARGED WITH GOVERNANCE



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To the Village Board of Trustees
Village of Barrington Hills
Barrington Hills, 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 Barrington Hills (the "Village") for the year ended December 31, 2013 and have issued our report thereon dated May 8, 2014. 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 those charged with governance of their responsibilities.

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we will perform tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions is not an objective of our audit.

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 our prior year Report on Internal Control dated June 10, 2013.

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 are described in Note I to the financial statements. As described in Note I to the financial statements, the Village changed accounting policies related to inclusion of certain component units in the financial reporting entity and their reporting by adopting Governmental Accounting Standards (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34* and changed accounting policies related to reporting certain items previously reported as assets and liabilities by adopting Statement No. 65, *Items Previously Reported as Assets and Liabilities* in 2013.

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:

- > Depreciation expense for capital assets.
- > The net pension asset of the Village's Police Pension plan.

We evaluated the key factors and assumptions used to develop these estimates in determining that it is reasonable in relation to the financial statements taken as a whole.

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 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.

A summary of uncorrected financial statement misstatements follows this required communication. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

The Village maintains its general ledger on the cash basis of accounting. As part of the audit, we made all necessary entries to convert the Village's fund level cash basis information to the modified accrual basis of accounting used for external reporting. These entries have been furnished to management. We also made all entries required to prepare the entity-wide Statement of Net Position. These entries are summarized on the Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position and the Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities, both of which are included within the Village's Basic 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 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 December 31, 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, and provided no services to the Village other than 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
- > Compiled regulatory reports
- > Trial balance formatting from general ledger data

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.

Village Board of Trustees
Village of Barrington Hills

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, finance committee 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.

A handwritten signature in black ink that reads "Baker Tilly Victor Kraus, LLP". The signature is written in a cursive, flowing style.

Oak Brook, Illinois
May 8, 2014

**MANAGEMENT REPRESENTATIONS AND
SUMMARY OF UNCORRECTED FINANCIAL STATEMENT MISSTATEMENTS**