

Board of Trustees
Village of Hainesville, Illinois
Hainesville, Illinois

As part of our audit of the financial statements of Village of Hainesville (Village), Illinois as of and for the year ended April 30, 2015, we wish to communicate the following to you.

Audit Scope and Results

Auditor's Responsibility Under Auditing Standards Generally Accepted in the United States of America

An audit performed in accordance with auditing standards generally accepted in the United States of America is designed to obtain reasonable, rather than absolute, assurance about the financial statements. In performing auditing procedures, we establish scopes of audit tests in relation to the financial statements taken as a whole. Our engagement does not include a detailed audit of every transaction. Our engagement letter more specifically describes our responsibilities.

These standards require communication of significant matters related to the financial statement audit that are relevant to the responsibilities of those charged with governance in overseeing the financial reporting process. Such matters are communicated in the remainder of this letter or have previously been communicated during other phases of the audit. The standards do not require the auditor to design procedures for the purpose of identifying other matters to be communicated with those charged with governance.

An audit of the financial statements does not relieve management or those charged with governance of their responsibilities. Our engagement letter more specifically describes your responsibilities.

Qualitative Aspects of Significant Accounting Policies and Practices

Significant Accounting Policies

The Village's significant accounting policies are described in Note 1 of the audited financial statements. With respect to unusual accounting policies or accounting methods used by the Village for unusual transactions, we call your attention to the following topics:

- No matters are reportable.

Alternative Accounting Treatments

We had discussions with management regarding alternative accounting treatments within accounting principles generally accepted in the United States of America for policies and practices for material items, including recognition, measurement and disclosure

considerations related to the accounting for specific transactions as well as general accounting policies, as follows:

- No matters are reportable.

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of financial statement preparation by management, based on its judgments. The following areas involve significant estimates for which we are prepared to discuss management's estimation process and our procedures for testing the reasonableness of those estimates:

- Actuarial valuation provided for and by IMRF pension fund.
- Depreciable lives on capital assets.

Financial Statement Disclosures

The following areas involve particularly sensitive financial statement disclosures for which we are prepared to discuss the issues involved and related judgments made in formulating those disclosures:

- No matters are reportable.

Audit Adjustments

During the course of any audit, an auditor may propose adjustments to financial statement amounts. Management evaluates our proposals and records those adjustments which, in its judgment, are required to prevent the financial statements from being materially misstated. Some adjustments proposed were not recorded because their aggregate effect is not currently material; however, they involve areas in which adjustments in the future could be material, individually or in the aggregate.

Areas in which adjustments were proposed include:

Proposed Audit Adjustments Recorded

- Prior Period Adjustment to Fund Balance related to Land reclassification from Business - type Activities - Water Fund to Governmental Activities.
- Accounts payable.
- Depreciation expense and principal payments in Public Works Fund.
- GASB34 conversion entries for government-wide financial statements.

Auditor's Judgments About the Quality of the Entity's Accounting Principles

During the course of the audit, we made the following observations regarding the Village's application of accounting principles:

- No matters are reportable.

Significant Issues Discussed with Management

During the Audit Process

During the audit process, the following issues were discussed or were the subject of correspondence with management:

- Restatement of prior period fund balance for reclassification of Land.

Other Material Written Communications

Listed below are other material written communications between management and us related to the audit:

- Management representation letter (attached).

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements of Village of Hainesville, Illinois as of and for the year ended April 30, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered the Village's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be a material weakness and others we consider to be significant deficiencies.

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 of the Village's financial statements on a timely basis. A deficiency in design exists when a control necessary to meet a control objective is missing or an existing control is not properly designed so that, even if the control operates as designed, a control objective would not be met. A deficiency in operation exists when a properly

designed control does not operate as designed or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Village's financial statements will not be prevented or detected and corrected on a timely basis.

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 observed the following matters that we consider to be a material weakness, significant deficiencies and a deficiency.

Material Weakness

Restatement of Capital Assets (Land)

Comment: As disclosed in Note 12 to the financial statements, a restatement was required to correctly report certain land parcels owned by the Village. In a prior year, this land had been recorded in the Enterprise (Public Works) Fund. During fiscal year 2014, the Village had transferred certain assets (building and equipment) and debt from this fund to governmental activities to better reflect the use of the assets. Management decided at that time to defer the land issue until a complete analysis could be performed of the land in the fund. During fiscal 2015, this analysis was performed and management concluded that land with a cost basis of \$3,820,359 should be reclassified from enterprise fund/business activity to governmental activity.

Auditing standards require that material restatements to prior reporting be considered a material weakness in financial reporting.

Significant Deficiencies

Segregation of Duties

Comments: The limited size of the Village's staff prevents the level of segregation of duties that would normally be desired. Nearly all of the accounting duties are handled by the Treasurer. The Village has enacted some positive mitigating controls to reduce risk caused by the lack of segregation of duties, which include requiring dual signatures on all checks over \$300 and that monthly financial statements are provided to the Board for review. The following incompatible duties were noted:

- The Treasurer is an authorized signer on the bank account, prepares cash disbursements and reconciles the bank accounts. As such, the risk of misstatement (whether by error or fraud) still remains due to the fact that checks are returned to the original preparer after they are signed. This situation provides potential for alteration.

- Manual journal entries can be posted without review by someone other than the preparer. Erroneous entries could be posted without being detected or fictitious entries could be used to cover fraudulent activity.
- Changes to the master file in the payroll system can be done by the Treasurer and Village Clerk (individually) which include creating employees, creating payroll checks and signing and distributing payroll checks.
- All functions, including preparation, recording and reconciling, related to the water billing process can be performed by the Treasurer or Deputy Clerk without further review of approval.

Recommendations: We recommend the following additional control procedures be considered:

- Disbursement checks should not be returned to the preparer after they are signed by the appropriate parties. Instead, they should be given to the Deputy Clerk for mailing. This reduces the risk of subsequent alteration.
- The preparer of the checks should generally not be an authorized signer on the bank account.
- Someone independent of the recording function should receive unopened bank statements from the mail and review the statements along with the attached check copies for any evidence of alteration or fictitious payees. This review should occur before the statements are forwarded to the Treasurer for preparation of monthly bank reconciliations and should be documented by initials and date of the review.
- Any manual journal entries that are posted should be provided to the Board for review with the monthly financial information, along with supporting documentation that will allow them to evaluate the accuracy and valid business purpose of the entry. Evidence that the journal entry was reviewed must be maintained.
- The Village may wish to consider implementing a positive pay system with its banks, to mitigate fraud risk from check alterations.
- Payroll registers should be reviewed and initialed by another member of management prior to distribution of checks.
- Water billing adjustment registers should be reviewed by someone who is not involved in the billing process for large and/or unusual transaction activity.

Management's Response: The Utility Clerk resigned in July 2014, during this time a temporary employee and then a new Utility Clerk have been being trained on receiving the bank statements to verify any alteration or fictitious payees. The Deputy Clerk continues to receive the produced checks for payment of bills and verifies that proper payment has been made to proper vendors. The payments are then mailed out by the Deputy Clerk and the Utility Clerk files the invoices. With the recently hired Utility Clerk and the new software conversion, the training for the Utility Clerk to input all invoices have been placed on hold until that positions training is complete.

Whistle Blower Policy

Comment: Currently, there is no official document developed and made available to employees of the proper procedure one should follow in the event that an employee suspects wrongdoing by Village management.

Recommendation: We recommend that the Village document and adopt a formal whistle blower policy. The program should document the procedures to communicate employee concerns to the appropriate personnel if any situations were to arise. Once adopted, this policy should be made known to each employee employed by the Village.

Management's Response: The Village looked into whistle blower policies samples from various sources during 2013. Further review and assistance is needed to produce the best product for the village's small size. We will revisit this in upcoming year.

Fraud Risk Assessment

Comments: We have considered the internal control structure, including the risk of fraud, at the Village in order to determine our audit procedures. The Village does not perform a formal fraud risk assessment and has no formal fraud prevention program. Fraud prevention requires a system of rules that minimizes the likelihood of fraud occurring and at the same time maximizes the possibility of detecting any fraudulent activity. A strong fraud prevention program should incorporate the five interrelated components of internal control:

- Control environment.
- Risk assessment.
- Control activities.
- Information and communication.
- Monitoring.

Recommendations: We recommend that the Village document and adopt a formal fraud prevention program. The program should document the policies, procedures and strategies related to the five components of internal control and all components should be reviewed. The control environment sets the moral tone and is the base on which all of the other aspects of internal control are built. It is necessary that top management be responsible for the internal control and fraud prevention programs of the Village.

The following are some additional specific recommendations:

- Include instructions for reporting suspected fraud or abuse. Incorporate a whistle blower policy to ensure that an employee or others feel safe if they provide information about a theft or other alleged crime.

- Require annual signatures on forms indicating that employees and others charged with governance have read and understand the Village's Code of Ethics and Conflict of Interest policies.

Management's Response: The Finance Chair and Treasurer were reviewing a whistle blower policy in 2014 and were hopeful to incorporate the Fraud Risk Prevention Program at the same time. This goal was not accomplished during FY15. We will revisit this in the upcoming year.

Deficiency

Comments: The investment policy states that no more than 40% of total (excluding any U.S. Government Securities) should be held in any one financial institution. It was noted at year end that the Village's funds are held almost 50/50 at two separate financial institutions (First Midwest Bank and Illinois Funds).

Recommendations: The deposits at First Midwest Bank were collateralized and Illinois Funds is not considered subject to custodial credit risk. As such, there does not appear to be any significant risk to the Village. However, the Village should review its investment policy to determine if the referenced requirement is still deemed appropriate. If it is, the Village should adjust its deposits to comply. If it is no longer deemed a necessary requirement, the policy should be revised. Procedures to monitor compliance with the policy on a periodic basis should be implemented.

Management's Response: With the change in staff and the software conversion, the investment policy review was not completed in fiscal year 15.

Management's written response to the deficiency and significant deficiencies identified in our audit has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

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

BKD, LLP

Oakbrook Terrace, Illinois
December 22, 2015



December 22, 2015

BKD, LLP
Certified Public Accountants
1901 S Meyers Road, Suite 500
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LINDA SOTO

MAYOR

KATHY S. METZLER, RMC, CMC

VILLAGE CLERK

KELLY HENSLEY, CIMT

TREASURER

KEVIN J. BARRETT

GERRY DALEY

JOHN P. DERENOSKI

GEORGE E. DUBERSTEIN

GEORGEANN DUBERSTEIN

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TRUSTEES

We are providing this letter in connection with your audits of our financial statements as of and for the years ended April 30, 2015 . We confirm that we are responsible for the fair presentation of the 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 effective internal control over financial reporting, operations and compliance, 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 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.

We confirm, to the best of our knowledge and belief, the following:

1. We have fulfilled our responsibilities, as set out in the terms of our engagement letter dated April 30, 2015, for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America.
2. 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.
3. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
4. We have reviewed and approved a draft of the financial statements and related notes referred to above, which you prepared in

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connection with your audit of our financial statements. We acknowledge that we are responsible for the fair presentation of the financial statements and related notes.

5. 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) All minutes of meetings of the governing body held through the date of this letter.
 - (e) All significant contracts and grants.
6. All transactions have been recorded in the accounting records and are reflected in the financial statements.
7. We have informed you of all current risks of a material amount that are not adequately prevented or detected by entity procedures with respect to:
 - (a) Misappropriation of assets.
 - (b) Misrepresented or misstated assets, liabilities or net position.
8. We have no knowledge of any known or suspected:
 - (a) Fraudulent financial reporting or misappropriation of assets involving management or employees who have significant roles in internal control.
 - (b) Fraudulent financial reporting or misappropriation of assets involving others that could have a material effect on the financial statements.
9. We have no knowledge of any allegations of fraud or suspected fraud affecting the Village received in communications from employees, customers, regulators, suppliers or others.

10. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with accounting principles generally accepted in the United States of America. We understand that the term related party refers to an affiliate; management, and members of their immediate families, component units; and any other party with which the entity may deal if it can significantly influence, or be influenced by, the management or operating policies of the other. The term affiliate refers to a party that directly or indirectly controls, or is controlled by, or is under common control with us.
11. Except as reflected in the financial statements, there are no:
 - (a) Plans or intentions that may materially affect carrying values or classifications of assets and liabilities.
 - (b) Material transactions omitted or improperly recorded in the financial statements.
 - (c) Material gain/loss contingencies requiring accrual or disclosure, including those arising from environmental remediation obligations.
 - (d) Events occurring subsequent to the balance sheet date through the date of this letter requiring adjustment or disclosure in the financial statements.
 - (e) Agreements to purchase assets previously sold.
 - (f) Restrictions on cash balances or compensating balance agreements.
 - (g) Guarantees, whether written or oral, under which the Village is contingently liable.
12. We have disclosed to you any known instances of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements.
13. "We are not aware of any pending or threatened litigation or claims whose effects should be considered when preparing the financial statements. We have not sought or received attorney's services

related to pending or threatened litigation or claims during or subsequent to the audit period. Also, we are not aware of any litigation or claims, pending or threatened, for which legal counsel should be sought.”

14. Adequate provisions and allowances have been accrued for any material losses from:
 - (a) Uncollectible receivables.
 - (b) Purchase commitments in excess of normal requirements or above prevailing market prices.
15. Except as disclosed in the financial statements, we have:
 - (a) Satisfactory title to all recorded assets, and they are not subject to any liens, pledges or other encumbrances.
 - (b) Complied with all aspects of contractual and grant agreements, for which noncompliance would materially affect the financial statements.
16. We have not been designated as a potentially responsible party (PRP or equivalent status) by the Environmental Protection Agency (EPA) or other cognizant regulatory agency with authority to enforce environmental laws and regulations.
17. With regard to deposit and investment activities:
 - (a) All deposit, repurchase and reverse repurchase agreements and investment transactions have been made in accordance with legal and contractual requirements.
 - (b) Disclosures of deposit and investment balances and risks in the financial statements are consistent with our understanding of the applicable laws regarding enforceability of any pledges of collateral.
 - (c) We understand that your audit does not represent an opinion regarding the enforceability of any collateral pledges.

18. With respect to any nonattest services you have provided us during the year, including assistance with the preparation of the financial statements and related notes.
 - (a) We have designated a qualified management-level individual to be responsible and accountable for overseeing the nonattest services.
 - (b) We have established and monitored the performance of the nonattest services to ensure that they meet our objectives.
 - (c) We have made any and all decisions involving management functions with respect to the nonattest services and accept full responsibility for such decisions.
 - (d) We have evaluated the adequacy of the services performed and any findings that resulted.

19. We acknowledge that we are responsible for compliance with applicable laws, regulations and provisions of contracts and grant agreements.

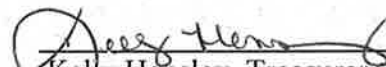
20. We have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that have a direct and material effect on the determination of amounts in our financial statements or other financial data significant to the audit objectives.

21. We have identified and disclosed to you any violations or possible violations of laws, regulations and provisions of contracts and grant agreements whose effects should be considered for recognition and/or disclosure in the financial statements.

22. The financial statements disclose all significant estimates and material concentrations known to us. Significant estimates are estimates at the balance sheet date which could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets for which events could occur which would significantly disrupt normal finances within the next year. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

23. The supplementary information required by the Governmental Accounting Standards Board, consisting of management's discussion and analysis, budgetary comparisons, and pension information, has been prepared and is measured and presented in conformity with the applicable GASB pronouncements, and we acknowledge our responsibility for the information. The information contained therein is based on all facts, decisions and conditions currently known to us and is measured using the same methods and assumptions as were used in the preparation of the financial statements. We believe the significant assumptions underlying the measurement and/or presentation of the information are reasonable and appropriate. There has been no change from the preceding period in the methods of measurement and presentation.
24. With regard to supplementary information:
- (a) We acknowledge our responsibility for the presentation of the supplementary information in accordance with the applicable criteria.
 - (b) We believe the supplementary information is fairly presented, both in form and content, in accordance with the applicable criteria.
 - (c) The methods of measurement and presentation of the supplementary information are unchanged from those used in the prior period.
 - (d) We believe the significant assumptions or interpretations underlying the measurement and/or presentation of the supplementary information are reasonable and appropriate.
 - (e) If the supplementary information is not presented with the audited financial statements, we acknowledge we will make the audited financial statements readily available to intended users of the supplementary information no later than the date such information and the related auditor's report are issued.


Linda Soto, Mayor


Kelly Hensley, Treasurer