KANE COUNTY, ILLINOIS
Geneva, Illinois

COMMUNICATION TO THOSE CHARGED
WITH GOVERNANCE AND MANAGEMENT

As of and for the Year Ended November 30, 2016

KANE COUNTY, ILLINOIS

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

BAKER TILLY

To the Board Chairman and the Members of the County Board
Kane County, Illinois

In planning and performing our audit of the financial statements of Kane County, Illinois as of and for the year ended November 30, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered its internal control over financial reporting (internal control) as a basis for designing our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of its internal control. Accordingly, we do not express an opinion on the effectiveness of its internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a deficiency in internal control that we consider to be 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 did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a 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 Kane County's internal control to be a significant deficiency:

- Bank Account Reporting

The management of Kane County's written response to the significant deficiency 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 County Board, 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

Oak Brook, Illinois
May 19, 2017

BANK ACCOUNT REPORTING

A properly and effectively designed system of internal control should encompass all operational activity of the County. This includes decentralized transactional activity and bank accounts maintained by the various departments and offices of the County other than the County Treasurer.

We noted that several departments and offices utilize bank accounts that are not reported in the County's general ledger software throughout the year. As of November 30, 2016, the County maintained ninety-four active bank accounts, excluding investment portfolios, at twenty-one different financial institutions. The County Treasurer maintained twenty-nine of these accounts, reporting all balances and related activity in the County's general ledger software. Ten accounts maintained by departments and offices other than the County Treasurer were reported throughout the year in the general ledger software. The other fifty-five accounts maintained by other departments and offices were not reported in the general ledger software. As of November 30, 2016, the "off-book" accounts represent 6% of the carrying value and 7% of the total bank balances of the County's cash and investments, including agency fund accounts. These "off-book" accounts mostly consisted of agency accounts in which the County held fiduciary responsibility for monies required to be distributed to other entities.

Although we noted, during our risk assessment procedures, that some departments and offices maintain their own systems of internal controls, the maintenance of accounts outside the County's internal control procedures ensures that the accounts and related activity do not go through the County's centralized review and approval procedures. Specifically, bank reconciliations are not reviewed on a monthly basis and disbursements do not run through the County's multi-office review and approval processes.

By operating outside the auspices of the County's primary system of internal controls, there is a risk that the County's financial statements would exclude transactional activity and existing bank account balances without the knowledge of management or the County Board. Additionally, errors or fraud could occur in these accounts without being discovered that would have otherwise been identified within the primary control procedures.

During the fiscal year, we met with several departments/offices to develop an understanding of the controls and procedures around accounts operated and maintained outside the centralized County procedures. We also provided recommendations to the departments/offices, such as providing monthly bank reconciliations and summary activity to the Finance Department for inclusion within the centralized general ledger software. Beginning in the subsequent fiscal year, we noted that the County has begun initiating new procedures with the various offices/departments to ensure that monthly reconciliations and activity summaries are provided to the Finance Department to ensure that the County is able to present a complete, centralized general ledger.

In addition to the procedures being implemented over monthly reconciliations and activity, we recommend that all bank accounts opened in the name of the County or department/office of the County be maintained and operated through the County's general ledger software. If it is not feasible for transactional activity to be processed through the County's primary control procedures, we recommend that the offices/departments provide documented control policies to ensure bank reconciliations are prepared on a timely basis and reviewed by someone other than the original preparer.

BANK ACCOUNT REPORTING

Management Response: *In Fiscal Year 2016, the County engaged Baker Tilly in agreed upon procedures to aid in the development of processes and procedures that will mitigate the risks related to the maintenance of bank accounts outside the County's centralized procedures and financial accounting software system. Baker Tilly focused on the five Offices responsible for the largest volume of activity not operated through the County's centralized processes: the Office of the Circuit Clerk, the Office of the County Clerk, the Court Services Office, the Sheriff's Office and the Treasurer's Office. Baker Tilly determined that each of these Offices had implemented proper controls over transaction processing involving these off-book accounts. In addition, each of these Offices agreed to provide to the Finance Department on a monthly basis reconciled book balances and a summary of activity (limited to total increases and total decreases), with the understanding that the information provided is to be used for repository purposes only. The Finance Department will send out monthly reminders to each Office to provide the monthly reconciliations and account activity as had been agreed. The Finance Department will also maintain a tracking log in order to assess the continued performance of the agreed-upon-procedures. To the extent Funds already exist in the General Ledger for the off-book accounts, the summarized activity will be posted to the General Ledger. Appropriate Funds will be created for the off-book accounts that are currently not associated with an existing Fund in the General Ledger according to the new GASB standards regarding fiduciary accounting. The Finance Department will work with all remaining Offices administering off-book accounts to develop similar sets of monthly procedures.*

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 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 and that the report is an integral part of an audit performed in accordance 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.

d. We address the significant risks of material noncompliance, whether due to fraud or error, through our detailed audit procedures.

e. We will obtain an understanding of the five components of internal control sufficient to assess the risk of material noncompliance related to the federal awards 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 federal awards and to determine whether they have been implemented. We will use such knowledge to:

   - Identify types of potential noncompliance.
   - Consider factors that affect the risks of material noncompliance.
   - Design tests of controls, when applicable, and other audit procedures.

   Our audit will be performed in accordance with U.S. generally accepted auditing standards, *Government Auditing Standards*, and OMB's *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

   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* and the Uniform Guidance, 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 accordance with *Government Auditing Standards* in considering internal control over financial reporting and compliance and the Uniform Guidance in considering internal control over compliance and major program compliance. The paragraph will also state that the report is not suitable for any other purpose.

f. The concept of materiality recognizes that some matters, either individually or in the aggregate, are important for reporting material noncompliance 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 entity's federal awards. Our responsibility is to plan and perform the audit to obtain reasonable assurance that material noncompliance, whether caused by error or fraud, is detected.

g. Your financial statements contain components, as defined by auditing standards generally accepted in the United States of America, which we also audit.

h. In connection with our audit, we intend to place reliance on the audit of the financial statements of the Forest Preserve District of Kane County, a discretely presented component unit of Kane County, as of June 30, 2017 and for the year then ended completed by Lauterbach and Amen, LLP. All necessary conditions have been met to allow us to make reference to the component auditors.

TWO WAY COMMUNICATION REGARDING YOUR AUDIT (cont'd)

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 County Board has the responsibility to oversee the strategic direction of your organization, as well as the overall accountability of the entity. Management has the responsibility for achieving the objectives of the entity.
c. We need to know your views about your organization's objectives and strategies, and the related business risks that may result in material misstatements.
d. Which matters do you consider warrant particular attention during the audit, and are there any areas where you request additional procedures to be undertaken?
e. Have you had any significant communications with regulators or grantor agencies?
f. Are there other matters that you believe are relevant to the audit of the financial statements or the federal awards?

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

a. The County'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 financial audit work during the months 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 8-12 weeks after final fieldwork, but may vary depending on a number of factors. We typically perform the single audit fieldwork concurrently with the financial audit. After single audit fieldwork, we wrap up our single audit procedures at our office and then issue drafts of our report for your review. Final copies of our Report on Federal Awards are issued after approval by your staff. This is typically within the same timeframe as the financial audit, but may vary depending upon 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 INFORMATIONAL POINTS TO MANAGEMENT THAT ARE NOT MATERIAL WEAKNESSES OR SIGNIFICANT DEFICIENCIES

INFORMATIONAL POINTS

The following is a schedule of GASB projects:

Task or Event	Effective Date	Impact
GASB No. 73 – Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68	November 30, 2017	Part I extends the approach of GASB 68 to all pensions (with some modifications). Part II clarifies certain requirements of GASB 67 and 68.
GASB No. 74 – Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans GASB No. 75 – Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions	November 30, 2017 November 30, 2018	These standards have similarities to the previous OPEB standards, most notably the definition of an OPEB and the option of the alternative measurement method for small governments. However, the calculation and reporting of the OPEB liability and various required disclosures will change under the new standards, becoming similar to the pension standards.
GASB 77 – Tax Abatement Disclosures	November 30, 2017	The objective of this statement is to provide financial statements users with essential information about the nature and magnitude of the reduction in tax revenues through tax abatement programs in order to better assess (a) whether current year revenues were sufficient to pay for current year services, (b) compliance with finance-related legal or contractual requirements, (c) where a government's financial resources come from and how it uses them, and (d) financial position and economic condition and how they have changed over time.
GASB 80 – Blending Requirements for Certain Component Units an Amendment of GASB Statement No. 14	November 30, 2017	This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, Determining Whether Certain Organizations Are Component Units.

INFORMATIONAL POINTS (cont.)

GASB UPDATES (cont.)

Task or Event	Effective Date	Impact
GASB 81 – Irrevocable Split-Interest Agreements	November 30, 2018	The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.
GASB 82 – Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73	November 30, 2017	The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, No. 68, and No. 73. Specifically, this Statement addresses issues regarding (1) presentation of payroll-related measures in RSI, (2) selection of assumptions and treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee contribution requirements.
GASB 83 – Certain Asset Retirement Obligations	November 30, 2019	This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs).
GASB 84 – Fiduciary Activities	November 30, 2020	The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.
GASB 85 – Omnibus 2017	November 30, 2018	The objective of this Statement is to improve consistency in accounting and financial reporting by addressing practice issues that have been identified during implementation and application of certain GASB Statements.
GASB 86 – Certain Debt Extinguishments Issues	November 30, 2018	The objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources are placed in an irrevocable trust for the sole purpose of extinguishing debt.

INFORMATIONAL POINTS (cont.)

GASB UPDATES (cont.)

Task or Event	Effective Date	Impact
Current Agenda Project: Revenue and Expense Recognition	The GASB Board is scheduled to issue an Invitation to Comment in January 2018	The objective of this project is to develop a comprehensive application model for the recognition of revenues and expenses that arise from nonexchange, exchange, and exchange-like transactions, including guidance for exchange transactions that have not been specifically addressed in the current literature.
Current Agenda Project: Debt Disclosures – Including Direct Borrowing	The GASB Board is scheduled to issue an Exposure Draft in June 2017	The objective of this project is to consider improvements to the existing guidance related to debt extinguishments using existing resources.
Current Agenda Project: Leases	Exposure Draft issued January 2016; expected Statement issued in June 2017	The objective of this project is to reexamine issues associated with lease accounting, considering improvements to existing guidance.
Current Agenda Project: Financial Reporting Model	Invitation to Comment issued in December 2016	The objective of this project is to make improvements to the financial reporting model, including Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and other reporting model-related pronouncements. The objective of these improvements would be to enhance the effectiveness of the model in providing information that is essential for decision-making and enhance the ability to assess a government's accounting and address certain application issues, based upon the results of the pre-agenda research on the financial reporting model.

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

REQUIRED COMMUNICATIONS BY THE AUDITOR TO THOSE CHARGED WITH GOVERNANCE

To the Board Chairman and the Members of the County Board
Kane County, Illinois

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

We have completed our audit of the financial statements of Kane County for the year ended November 30, 2016, and have issued our report thereon dated May 19, 2017. This letter presents communications required by our professional standards.

OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA, GOVERNMENT AUDITING STANDARDS, AND THE UNIFORM GUIDANCE

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, *Government Auditing Standards* and OMB's *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). 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.

We considered Kane County's internal control over financial reporting to determine the audit 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 Kane County's internal control over financial reporting. We also considered internal control over compliance with types of requirements that could have a direct and material effect on a major federal and major state program to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for a major federal and state program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance.

As part of obtaining reasonable assurance about whether Kane County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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 was not an objective of our audit. Also, in accordance with the Uniform Guidance, we examined, on a test basis, evidence about Kane County's compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on each of its major federal programs for the purpose of expressing an opinion on Kane County's compliance with those requirements. While our audit provides a reasonable basis for our opinion on compliance, it does not provide a legal determination on Kane County's compliance with those requirements.

We have issued a separate document which contains the results of our audit procedures to comply with the Uniform Guidance.

To the Board Chairman and Members of the County Board
Kane County, Illinois

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 letter accompanying the 2015 audit dated May 18, 2016.

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 Kane County are described in Note I to the financial statements. As described in Note I to the financial statements, the County changed accounting policies related to financial reporting for pensions by adopting Statement of Governmental Accounting Standards (GASB) Statement No. 72, *Fair Value Measurement and Application*, in 2016.

Additionally, the application of existing policies was changed during 2016, as the County's recognition policy for probation salary reimbursements was changed to consider amounts outstanding with the State after 60 days to be available revenue by the County as the State is currently behind on those payments to local government agencies. While not specifically identified in the County's board policy, the County effectively considers the availability period to be one year. We noted no transactions entered into by Kane County during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- The insurance claims that have been incurred but not reported, which are supported by actuarial studies using historical trend data and recent claims experience.

- The other postemployment benefits obligation, which is supported by an actuarial study using employment data of the county and expected participation in benefit programs.

- The net pension liabilities and related deferred amounts, which are supported by actuarial studies using employment data of the county.

- Depreciation based on useful lives.

We evaluated the key factors and assumptions used to develop the above estimates in determining that they are 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.

To the Board Chairman and Members of the County Board
Kane County, Illinois

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.

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

DISAGREEMENTS WITH MANAGEMENT

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS

In some cases, management may decide to consult with other accountants about auditing and accounting matters. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

MANAGEMENT REPRESENTATIONS

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

INDEPENDENCE

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

Relating to our audit of the financial statements of Kane County for the year ended November 30, 2016, Baker Tilly Virchow Krause, LLP hereby confirms that we are, in our professional judgment, independent with respect to Kane County in accordance with the Code of Professional Conduct issued by the American Institute of Certified Public Accountants. We provided no services to Kane County other than audit services provided in connection with the audit of the current year's financial statements and the following non-audit service which in our judgment does not impair our independence.

- Financial statement preparation
- Data collection form preparation

To the Board Chairman and Members of the County Board
Kane County, Illinois

This non-audit service does not 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 Kane County's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

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

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

We were not engaged to report on the other information, which accompanies the financial statements but are not RSI. We did not audit or perform other procedures on this other information and we do not express an opinion or provide any assurance on it.

Restriction on Use

This information is intended solely for the use of the County 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

Oak Brook, Illinois
May 19, 2017

MANAGEMENT REPRESENTATIONS

COUNTY OF KANE

Kane County Government Center
719 Batavia Avenue
Geneva, Illinois 60134
Website: www.countyofkane.org

May 19, 2017

Baker Tilly Virchow Krause, LLP
1301 W. 22nd Street
Suite 400
Oak Brook, IL 60523

Dear Baker Tilly Virchow Krause, LLP:

We are providing this letter in connection with your audit of the financial statements of Kane County as of November 30, 2016 and for the year then ended for the purpose of expressing an opinion as to whether the financial statements (excluding the financial statements of the Kane County Forest Preserve, the discretely presented component unit) present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Kane County and the respective changes in financial 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 and all component units 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, if any, are reasonable.

6. Related party relationships and transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with the requirements of accounting principles generally accepted in the United States of America.

7. 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 other 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 or in the schedule of findings and questioned costs.

8. All material transactions have been recorded in the accounting records and are reflected in the financial statements and the schedule of expenditures of federal and state awards.

9. We believe the effects of the uncorrected financial statement misstatements summarized in the attached schedule are immaterial, both individually and in the aggregate, to the basic financial statements as a whole. In addition, you have recommended adjusting journal entries, and we are in agreement with those adjustments.

10. The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with accounting principles generally accepted in the United States of America.

11. Guarantees, whether written or oral, under which the County is contingently liable, if any, have been properly recorded or disclosed.

Information Provided

12. 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 financial records and related data, documentation, and other matters and all audit or relevant monitoring reports, if any, received from funding sources.
    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 County Board or summaries of actions of recent meetings for which minutes have not yet been prepared.

13. We have disclosed to you results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

14. 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.

15. 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.

16. We have no knowledge of 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.

17. We have disclosed to you all known related parties and all the related party relationships and transactions of which we are aware.

Other

18. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

19. We have a process to track the status of audit findings and recommendations.

20. We have identified to you any previous financial audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.

21. We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for our report.

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

23. 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, debt contracts, and IRS arbitrage regulations; 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.

24. There are no:

    a. Violations or possible violations of budget ordinances, federal, state, and local laws or regulations (including those pertaining to adopting, approving 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, except those already disclosed in the financial statement, if any.

    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.

25. In regards to the nonattest services performed by you listed below, we have 1) accepted all management responsibility; 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. Data collection form preparation

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

26. Kane County 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.

27. Kane County has complied with all aspects of contractual agreements that would have a material effect on the financial statement in the event of noncompliance.

28. The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations, if any.

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

30. 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.

31. Components of net position (net investment in capital assets; restricted; and unrestricted) and components of fund balance (nonspendable, restricted, committed, assigned and unassigned) are properly classified and, if applicable, approved.

32. Kane County has no derivative financial instruments such as contracts that could be assigned to someone else or net settled, interest rate swaps, collars or caps.

33. Provisions for uncollectible receivables, if any, have been properly identified and recorded.

34. 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.

35. Revenues are appropriately classified in the statement of activities within program revenues and general revenues.

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

37. Deposits and investments are properly classified, valued, and disclosed (including risk disclosures, collateralization agreements, valuation methods, and key inputs, as applicable).

38. Provision, when material, has been made to reduce excess or obsolete inventories to their estimated net realizable value.

39. Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated/amortized. Any known impairments have been recorded and disclosed.

40. Tax-exempt bonds issued have retained their tax-exempt status.

41. We have appropriately disclosed Kane County'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 which resources (that is, restricted, committed, assigned or unassigned) are considered to be spent first for expenditures for which more than one resource classification is available.

42. 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.

43. With respect to the supplementary information, (SI):

    a. We acknowledge our responsibility for presenting the SI in accordance with accounting principles generally accepted in the United States of America, and we believe the SI, 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 SI 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 SI 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.

44. We assume responsibility for, and agree with, the findings of specialists in evaluating the postemployment benefits and net pension liabilities and have adequately considered the qualifications of the specialists in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had impact on the independence or objectivity of the specialists.

45. With respect to federal award programs:

    a. We are responsible for understanding and complying with and have complied with the requirements of the Single Audit Act Amendments of 1996, *OMB's Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), including requirements relating to preparation of the schedule of expenditures of federal awards (SEFA).

    b. We acknowledge our responsibility for presenting the SEFA in accordance with the requirements of the Uniform Guidance and we believe the SEFA, including its form and content, is fairly presented in accordance with the Uniform Guidance. The methods of measurement and presentation of the SEFA have not changed from those used in the prior period and we have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the SEFA.

    c. If the SEFA is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the SEFA no later than the date we issue the SEFA and the auditors' report thereon.

d. We have identified and disclosed to you all of our government programs and related activities subject to the Uniform Guidance and included in the SEFA, expenditures made during the audit period for all awards provided by federal agencies in the form of grants, federal cost reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other direct assistance.

e. We are responsible for understanding and complying with, and have complied with the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of our federal programs and have identified and disclosed to you the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each major federal program.

f. We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance for federal programs that provide reasonable assurance that we are administering our federal awards in compliance with laws, regulations, and the provisions of contracts and grant agreements that could have a material effect on our federal programs. We believe the internal control system is adequate and is functioning as intended. Also, no changes have been made in the internal control over compliance or other factors to the date of this letter that might significantly affect internal control, including any corrective action taken with regard to control deficiencies reported in the schedule of findings and questioned costs.

g. We have made available to you all contracts and grant agreements (including amendments, if any) and any other correspondence with federal agencies or pass-through entities relevant to the programs and related activities.

h. We have received no requests from a federal agency to audit one or more specific programs as a major program.

i. We have complied with the direct and material compliance requirements including when applicable, those set forth in the OMB Compliance Supplement relating to federal awards and have identified and disclosed to you all amounts questioned and any known noncompliance with the direct and material compliance requirements of federal awards.

j. We have disclosed any communications from grantors and pass-through entities concerning possible noncompliance with the direct and material compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of the auditors' report.

k. Amounts claimed or used for matching were determined in accordance with relevant guidelines in the Uniform Guidance.

l. We have disclosed to you our interpretation of compliance requirements that may have varying interpretations.

m. We have made available to you all documentation related to the compliance with the direct and material compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.

n. We have disclosed to you the nature of any subsequent events that provide additional evidence about conditions that existed at the end of the reporting period affecting noncompliance during the reporting period.

o. We are not aware of any instances of noncompliance with direct and material compliance requirements that occurred subsequent to the period covered by the auditors' report.

p. No changes have been made in internal control over compliance or other factors that might significantly affect internal control, including any corrective action we have taken regarding significant deficiencies or material weaknesses in internal control over compliance, subsequent to the date as of which compliance was audited.

q. Federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared.

r. The copies of federal program financial reports provided you are true copies of the reports submitted, or electronically transmitted, to the respective federal agency or pass-through entity, as applicable.

s. We have monitored subrecipients to determine that they have expended pass-through assistance in accordance with applicable laws and regulations and have met the requirements of the Uniform Guidance.

t. We have taken appropriate action, including issuing management decisions, on a timely basis after receipt of subrecipients' auditors' reports that identified noncompliance with laws, regulations, or the provisions of contracts or grant agreements to ensure that subrecipients have taken the appropriate and timely corrective action on findings.

u. We have considered the results of subrecipient audits and made any necessary adjustments to our books and records.

v. We have charged costs to federal awards in accordance with applicable cost principles.

w. We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by the Uniform Guidance and we have provided you with all information on the status of the follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.

x. We are responsible for and have accurately prepared the auditee section of the Data Collection Form as required by the Uniform Guidance.

y. We are responsible for preparing and implementing a corrective action plan for each audit finding.

z. We have disclosed to you all contracts or other agreements with our service organizations, and we have disclosed to you all communications from the service organization relating to noncompliance at the service organizations.

Sincerely,

Kane County

Signed: ______________________
Chris Lauzen, County Board Chairman

Signed: Joseph Onzick
Joseph Onzick, Chief Financial Officer

KANE COUNTY, ILLINOIS
SUMMARY OF UNCORRECTED FINANCIAL STATEMENT MISSTATEMENTS

November 30, 2016

	Financial Statements Effect - Debit (Credit) to Financial Statement Total						
	Total Assets/ Deferred Outflows	Total Liabilities/ Deferred Inflows	Total Net Position/ Fund Balances	Total Revenues	Total Expenses/ Expenditures	Change in Net Position/ Fund Balances	Beginning Net Position/ Fund Balances
Governmental Activities	-	(2,162,513)	2,162,513	(197,333)	(1,810,777)	(2,008,110)	4,170,623
Business-Type Activities	84,865	(91,211)	6,346	-	22,591	22,591	(16,245)
General Fund	-	-	-	181,683	-	181,683	-
Enterprise Surcharge Fund	84,865	(91,211)	6,346	-	22,591	22,591	(16,245)

Kane County
Passed Adjustment Detail
November 30, 2016

PAJE #1: Due to the fact that the actuary reports for IMRF and SLEP include fiduciary net positions that did not agree to the audited fiduciary net positions. As such, the net pension liabilities are overstated at both the beginning and end of the fiscal year due to the utilization of the balances from the actuarial valuations (the recommended approach from IMRF).

	Financial Statement Effect - Debit (Credit)						
Opinion Unit	Assets / Deferred Outflows	Liabilities / Deferred Inflows	Net Position / Fund Balance	Revenues	Expenditures / Expenses	Change in Net Position / Fund Balance	Beginning Net Position / Fund Balance
Governmental Activities	-	(2,162,513)	2,162,513	-	(1,810,777)	(1,810,777)	3,973,290

PAJE #2: This PAJE carries over from the prior year and relates to the State's determination that it over-allocated CPPRT to local governments. The County did not record the amount last year due to it being identified by the State just prior to the report issuance. The County recorded the amount this year and, as a result, the PAJE only relates to the beginning balance and the effect on the current year income statement.

	Financial Statement Effect - Debit (Credit)						
Opinion Unit	Assets / Deferred Outflows	Liabilities / Deferred Inflows	Net Position / Fund Balance	Revenues	Expenditures / Expenses	Change in Net Position / Fund Balance	Beginning Net Position / Fund Balance
Governmental Activities	-	-	-	(197,333)	-	(197,333)	197,333
General Fund	-	-	-	(197,333)	-	(197,333)	197,333

PAJE #3: For the allocation of the IMRF net pension liability and the related deferred outflows, it was noted that a minimal amount related to expenses in the Enterprise Surcharge Fund. This amount was quite small and, as such, the entire net pension liability and related outflows were reported to Governmental Activities. This is consistent in both the current and prior year.

	Financial Statement Effect - Debit (Credit)						
Opinion Unit	Assets / Deferred Outflows	Liabilities / Deferred Inflows	Net Position / Fund Balance	Revenues	Expenditures / Expenses	Change in Net Position / Fund Balance	Beginning Net Position / Fund Balance
Business-Type Activities	84,865	(91,211)	6,346	-	22,591	22,591	(16,245)
Enterprise Surcharge Fund	84,865	(91,211)	6,346	-	22,591	22,591	(16,245)

PAJE #4: When a government changes a financial accounting policy, the change is supposed to be presented retrospectively. As such, when the County changed its recognition window for probation salary reimbursements, the amount reported as unavailable in the prior year should have been restated to be recognized in FY15. However, as the amount was immaterial, the change was only applied prospectively and a restatement was not made.

	Financial Statement Effect - Debit (Credit)						
Opinion Unit	Assets / Deferred Outflows	Liabilities / Deferred Inflows	Net Position / Fund Balance	Revenues	Expenditures / Expenses	Change in Net Position / Fund Balance	Beginning Net Position / Fund Balance
General Fund	-	-	-	379,016	-	379,016	(379,016)