KANE COUNTY, ILLINOIS
Geneva, Illinois

COMMUNICATION TO THOSE CHARGED
WITH GOVERNANCE AND MANAGEMENT

As of and for the Year Ended November 30, 2018

KANE COUNTY, ILLINOIS

TABLE OF CONTENTS

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

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, 2018, 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.

A separate report on internal control was issued to the Kane County Circuit Clerk. The information contained in that report is not included with this report.

Our consideration of internal control was for the limited purpose described in the preceding paragraphs 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 20, 2019

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, 2018, the County maintained eighty-eight active bank accounts, excluding investment portfolios, at twenty-four different financial institutions. The County Treasurer maintained thirty of these accounts, reporting all balances and related activity in the County's general ledger software. Eighteen accounts maintained by departments and offices other than the County Treasurer were reported throughout the year in the general ledger software. The other forty accounts maintained by other departments and offices were not reported in the general ledger software. As of November 30, 2018, the "off-book" accounts represent 7% of the carrying value and 8% 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 consistently 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 prior and current fiscal years, the Finance Department initiated procedures with the various departments and offices to obtain monthly reconciled book balances and summaries of activity for inclusion in the County's general ledger software. These new control procedures help partially mitigate some of the risk associated with the decentralized procedures. Through this joint effort, the Finance Department was able to report the financial activity of a portion of the "off-book" accounts on a monthly basis throughout the fiscal year.

During the current fiscal year, we noted continuous improvement in the number of offices and departments providing requested information on a monthly basis. However, for a number of accounts, requested monthly reconciliations and activity summaries were not consistently provided or were not provided until year-end.

In addition to the procedures implemented over monthly reconciliations and activity and improved adherence by all departments and offices, 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, and with the understanding that the Circuit Clerk's Office would not be able to provide the requested information until the transition to the new Court Case Management system was complete and required changes in operations have been fully implemented.*

In Fiscal Year 2017, several of the funds involving the off-book accounts in the Sheriff's Office, County Clerk's Office and Court Services were converted from agency funds to special revenue funds. The conversion from agency fund to special revenue fund necessitated the collection and recording of all transaction detail for those accounts, rather than just a summary of activity. We are pleased to report that each of the offices involved cooperated in providing the transaction detail for their off-book accounts involving special revenue funds by the end of the Fiscal Year. The Finance Department has developed and continues to refine a system of sending out reminders to each Office to provide the required reconciliations and account activity. The Finance Department maintains a tracking log in order to assess the continued performance of the agreed-upon-procedures. All offices except for the Circuit Clerk's Office have been providing the requested information. The Finance Department will continue to collect and review the bank account and bank reconciliation information, and to record the transaction data as frequently and timely as possible.

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

INFORMATIONAL POINTS

INTERPRETING YOUR FINANCIAL STATEMENTS POST-GASB NO. 75

During the current year you elected to implement GASB Statement No. 75, which requires your government as the employer providing OPEB benefits to report the net OPEB liability in your full accrual financial statements. This standard is intended to parallel GASB Statement No. 68 for pensions provided through trusts, which together provide for more overall consistency and comprehensive guidance for pensions and other post-employment benefits.

Previously, your government only reported a net OPEB liability (or asset) to the extent that annual contributions fell short of (or exceeded) the actuarially estimated annual OPEB cost. In addition, the actuarially estimated annual OPEB cost included a mechanism to recognize the initial OPEB liability at the implementation of GASB Statement No. 45 over an extended period of years. Under the new standards your government is required to report the net OPEB liability, which is the difference between the total OPEB liability determined by the actuary and the net position in the OPEB trust fund. Since the County funds the OPEB liability on a pay-as-you-go basis, there is no OPEB trust fund to net against the total OPEB liability. There are also OPEB-related deferred outflows and/or inflows due to the timing of benefit payments and to allow for smoothing of activity.

As of the November 30, 2018 measurement date used for your November 30, 2018 financial statements, the actuarially determined net OPEB liability for your plan is $15,615,003 and is reported as a noncurrent liability.

OPEB activity under GASB Statement No. 75 is reported in the government-wide financial statements, similar to long-term debt. The implementation of this new standard does not affect how you pay for or fund your OPEB benefits.

The accounting and reporting of OPEB has become more complex with the implementation of GASB Statement No. 75. We are available to answer any questions on how this new accounting standard affects your financial statements.

UPCOMING LEASE STANDARD

In June 2017, the Governmental Accounting Standards Board (GASB) issued new guidance to establish a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. This standard is effective for fiscal years ending on or after June 30, 2021. Statement No. 87, *Leases*, requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognize as inflows of resources or outflow of resources based on the payment provisions of the contract.

Under the new standard a lease is defined as a contract that conveys control of the right to use another entity's nonfinancial asset (underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction. Control is defined by 1) the right to obtain the present service capacity from the use of the underlying asset and 2) the right to determine the nature and manner of use of the underlying asset. Any contract that meets this definition should be accounted for under the lease guidance, unless specifically excluded in this statement. Leases include contracts that, although not explicitly identified as leases, meet the above definition of a lease.

The following are contract exclusions and exceptions from applying lease accounting:

- Intangible assets (mineral rights, patents, software, copyrights)
- Biological assets (including timber, living plants, and living animals)
- Service concession arrangements (See GASB Statement 60)
- Assets financed with outstanding conduit debt unless both the asset and conduit debt are reported by lessor
- Supply contracts (such as power purchase agreements that do not convey control of the right to use the underlying power generating facility)
- Inventory
- Short-term leases - maximum possible term of 12 months or less
- Leases that transfer ownership and do not contain termination options
- Leases of assets that are investments
- Certain regulated leases (e.g., airport-airline agreements)

We recommend the County review this standard and start planning how this will affect your financial reporting. An inventory of all contracts that might meet the definition of a lease should be started. The contract listing should include key terms of the contracts such as:

- Description of contract
- Underlying asset
- Contract term
- Options for extensions and terminations
- Service components, if any
- Dollar amount of lease

In addition, the County should begin to establish a lease policy to address the treatment of common lease types, including a dollar threshold for each lease. We are available to discuss this further and help you develop an action plan.

NEW REPORTING REQUIREMENTS FOR FIDUCIARY ACTIVITIES

In January 2017, the Governmental Accounting Standards Board (GASB) issued new guidance to address how governments report fiduciary activities which is effective for fiscal years ending on or after June 30, 2020. Statement No. 84, *Fiduciary Activities*, supersedes reporting of agency funds and replaces it with a newly coined custodial fund, and requires several additional reporting requirements for fiduciary funds.

Under current guidance, Statement 34 requires that governments report fiduciary activities in fiduciary funds, but that statement does not provide a clear definition of what constitutes a fiduciary activity. GASB sought to reduce inconsistencies in reporting and provide a clear foundation for future reporting.
The new guidance will impact a significant amount of local governments. Many local governments have activities that may be considered fiduciary, including:

- Student activity funds of a school district
- Tax collection funds
- Circuit court fund of a county
- Jail inmate accounts
- Nursing home patient accounts
- Cemetery trust funds
- Postemployment benefit plans

Under the recently issued Statement 84, governments will need to apply specific criteria to determine if a fiduciary activity exists. The criteria focuses on determining if a government is controlling the assets of the potential fiduciary activity and determining who the beneficiaries are. A few of the major changes that will impact many governments include:

- Pension/OPEB Plans as Fiduciary Component Units: Pension and other postemployment benefit (OPEB) plans will need to be evaluated to determine if they meet the fiduciary component unit criteria.
- Other Fiduciary Activities: There are various other types of assets that a government controls which will need to be evaluated under the new standard. Part of this evaluation will include identification of the beneficiary of the funds, consideration of how the assets are derived and the extent of administrative or direct financial involvement with the assets.

The following is a summary of two significant changes in the reporting requirements:

- The standard requires that governments recognize a liability to the beneficiaries in a fiduciary fund only when an event has occurred that compels the government to disburse fiduciary resources.
- Presentation of additions and deductions on the statement of changes in fiduciary net position for all fiduciary funds, including custodial funds.

The time to start assessing your government’s fiduciary activities is approaching. Start with reading the new statement and reviewing the non-authoritative flowchart provided by GASB in the appendix of the statement. This will give you an understanding of the new criteria and requirements and help you identify the fiduciary reporting changes that will impact your financial statements.

INFORMATIONAL POINTS (cont.)

The following is a schedule of GASB pronouncements:

Task or Event	Effective Date	Impact
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 87 - Leases	November 30, 2021	The objective of this statement is to establish a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset.
GASB 88 – Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements	November 30, 2019	The objective of this statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.
GASB No. 89 – Capitalization of Interest Cost	November 30, 2020	The objective of this Statement is to simplify the accounting and financial reporting standards for capitalization of interest cost, with the goal of enhancing the relevance of capital asset information and potentially simplifying financial reporting.
GASB No. 90 – Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61	November 30, 2019	The objective of this Statement is to improve financial reporting of majority equity ownership in legally separate entities.

GASB UPDATES (cont.)

Looking even further ahead, the Technical Agenda, below, outlines significant areas GASB is currently working on:

- Conceptual Framework
  - Disclosure
  - Recognition
- Major Projects
  - Financial Reporting Model
  - Revenue and Expense Recognition
  - Public-Private Partnerships
- Practice Issues
  - Conduit Debt
  - Deferred Compensation Plans
  - Secured Overnight Financing Rate
  - Subscription-Based IT arrangements
  - Implementation Guidance
- Pre-Agenda Research
  - Going Concern
  - Compensated Absences
  - Prior-Period Adjustments, Accounting Changes and Error Corrections

Through our firm involvement on AICPA committees, Baker Tilly follows these developments closely so that we can help you prepare for the changes as they evolve. This participation also allows us to share with GASB the experiences and perspectives of our clients to potentially influence the direction of future projects.

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, 2018, and have issued our report thereon dated May 20, 2019. 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 2017 audit dated May 23, 2018.

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 of postemployment benefits other than pensions by adopting the Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions.*

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, total OPEB 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.

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

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, 2018, 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
- Adjusting journal entries
- Data collection form preparation
- Preparation of the Illinois State Comptroller's Office annual financial report

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.

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

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 20, 2019

MANAGEMENT REPRESENTATIONS

COUNTY OF KANE

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

May 20, 2019

Baker Tilly Virchow Krause, LLP
1301 W. 22nd Street
Suite 400
Oak Brook Illinois 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, 2018 and for the year then ended for the purpose of expressing opinions 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 the County Board or summaries of actions of recent meetings for which minutes have not yet been prepared.

13. We have not completed an 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. Adjusting journal entries
    c. Preparation of auditee sections of the data collection form
    d. Preparation of the Illinois State Comptroller's Office annual financial report

    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. Component units have been properly presented as either blended or discrete.

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 total OPEB liability 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. We agree with the restatement presented in the current year's financial statements.

46. We assume responsibility for, and agree with, the information provided by the Illinois Municipal Retirement Fund as audited by RSM, LLP relating to the net pension asset/liability and related deferred outflows and deferred inflows and have adequately considered the reasonableness of the amounts and disclosures used in the financial statements and underlying accounting records. We also assume responsibility for the census data that has been reported to the plan.

47. We have evaluated and considered all potential tax abatements and believe all material tax abatements have been properly reported and disclosed.

48. We have implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions,* and believe that all liabilities, deferred outflows and deferred inflows have been identified and properly classified in the financial statements and any other required classifications and RSI have been computed in compliance with the Standard.

49. We are responsible for the estimation methods and assumptions used in measuring assets and liabilities reported or disclosed at fair value, including information obtained from brokers, pricing services or third parties. Our valuation methodologies have been consistently applied from period to period. The fair value measurements reported or disclosed represent our best estimate of fair value as the measurement date in accordance with the requirements of GASB 72 – *Fair Value Measurement*. In addition our disclosures related to fair value measurements are consistent with the objectives outlined in GASB 72. We have evaluated the fair value information provided to us by brokers, pricing services or other parties that has been used in the financial statements and believe this information to be reliable and consistent with the requirements.

50. 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 (except for noncompliance disclosed to you), 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. We have disclosed to you the findings received and related corrective actions taken for previous audits, attestation agreements, and internal or external monitoring that directly relate to the objectives of the compliance audit, if any, including findings received and corrective actions taken from the end of the period covered by the compliance audit to the date of the auditors' report.

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

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

n. 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.

o. 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.

p. 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.

q. 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.

r. 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.

s. 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.

t. 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.

u. 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.

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

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

x. 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.

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

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

Sincerely,

Kane County

Signed: Chris Lauzen
Chris Lauzen, County Board Chairman

Signed: Joseph Onzick
Joseph Onzick, Executive Director of Finance

SUMMARY OF UNCORRECTED FINANCIAL STATEMENT MISSTATEMENTS

Kane County
Passed Adjustment Detail
November 30, 2018

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). While this passed adjustment is consistent with last year, IMRF provided additional information to reconcile between the audited balances and actuarial balances, resulting in a significant decline in the overall variance.

	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	-	(591,192)	591,192	-	403,378	403,378	187,814

PAJE #2: During the current audit, the County identified that the reports received from the third party administrator to calculated claims payable was not accounting for the County's deductible limits. While the current year liability correctly accounts for these limits, the prior year amounts did not. As such, the prior year claims payable liability was overstated and the current year correction required an understatement of current year expenses.

	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	-	-	-	-	959,995	959,995	(959,995)

PAJE #3: For the allocation of the IMRF net pension liability and the related deferred inflows and 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	20,631	(49,286)	28,655	-	9,378	9,378	19,277
Enterprise Surcharge Fund	20,631	(49,286)	28,655	-	9,378	9,378	19,277

PAJE #4: For the allocation of the total OPEB 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 total OPEB liability and related outflows were reported to Governmental Activities. This is new in the current year with the implementation of GASB 75, but is consistent with the treatment of the IMRF net pension liability in the current year 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	4,185	(31,397)	27,212	-	1,769	1,769	25,443
Enterprise Surcharge Fund	4,185	(31,397)	27,212	-	1,769	1,769	25,443