VILLAGE OF HAWTHORN WOODS, ILLINOIS

MANAGEMENT LETTER

December 31, 2014

Sikich®

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Certified Public Accountants & Advisors
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The Honorable Mayor
Members of the Board of Trustees
Village of Hawthorn Woods, Illinois

In planning and performing our audit of the financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the Village of Hawthorn Woods, Illinois (the Village), as of and for the year ended December 31, 2014, 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 for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control.

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.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given those limitations during our audit, we did not identify deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We became aware of certain matters that we consider to be opportunities for improving the Village's system of internal controls and operating efficiency. In addition, we reviewed the status of the recommendations dated for the period ended December 31, 2013. The status of these recommendations is included in Appendix A. This letter does not affect our report dated April 15, 2015, on the financial statements of the Village of Hawthorn Woods, Illinois.

The Village's written responses to the comments identified in our audit have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion thereon.

This communication is intended solely for the information and use of the Mayor, the Board of Trustees and Management of the Village and is not intended to be and should not be used by anyone other than these specified parties.

Sikich LLP

Naperville, Illinois
April 15, 2015

DEFICIENCIES

We consider the following to be deficiencies in internal control:

1. Improper Rates Used for Calculation of Park Donation Revenue

During our analysis of park donation revenue, it was noted that two of the donations collected were calculated at a rate different than that stipulated in the annexation agreement associated with those properties. The total amount of the difference was $4,516. We recommend that a schedule of park donation rates charged to the individuals or companies applying for building permits be developed and utilized by the Village when collecting the park donations.

Management Response

We agree with this comment and will implement it for the fiscal year ended December 31, 2015.

2. Reconciliation of Monthly Revenue Received

Per our review of State Sales Tax Revenue, it was noted that the payment related to March 2014 was posted to the revenue account twice. An adjustment to the financial statements was proposed by Sikich and agreed to by the Village. We recommend that the Village perform monthly reconciliations of all significant revenues received from the State.

Management Response

We agree with this comment and will implement it for the fiscal year ended December 31, 2015.

OTHER INFORMATION

Future Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) has issued a number of pronouncements that may impact the Village in the future.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 50, *Pension Disclosures*, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. Statement No. 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information (RSI). Statement No. 68 is applicable for the fiscal year ending December 31, 2015.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68,* requires a state or local government employer (or nonemployer contributing entity in a special funding situation) to recognize a net pension liability measured as of a date (the measurement date) no earlier than the end of its prior fiscal year. If a state or local government employer or nonemployer contributing entity makes a contribution to a defined benefit pension plan between the measurement date of the reported net pension liability and the end of the government's reporting period, this requires that the government recognize its contribution as a deferred outflow of resources. Statement No. 71 is to be implemented simultaneously with GASB Statement No. 68.

GASB Statement No. 72, *Fair Value Measurement and Application,* addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. Statement No. 68 is applicable for the fiscal year ending December 31, 2016.

We will advise the Village of any progress made by GASB in developing this and other future pronouncements that may have an impact on the financial position and changes in financial position of the Village.

APPENDIX A
STATUS OF COMMENTS FROM DECEMBER 31, 2013

DEFICIENCIES

We consider the following to be deficiencies in internal control:

1. Internal Controls over Payroll

It was previously noted during the walk through of internal controls over payroll that after timesheets are entered into an excel spreadsheet and into the payroll module of MSI, they are approved by the Chief Operating Officer (COO). However, at this point payroll is not "locked" and changes may still be made prior to the processing of payroll and transfer of funds. We recommend that a review of the final payroll register be done by the COO and compared to the excel spreadsheets. It was also noted that the payroll module currently is lacking a master file change log showing all changes made to payroll information. As a result, there is no regular review of changes made in the payroll system by management. We recommend another employee review changes made to the payroll module on a regular basis.

Status - Comment implemented as of December 31, 2014.

2. Reconciliation of Receivable Subsidiary Reports

During our testing of dance program accounts receivable, we noted that the subsidiary ledger did not agree with the trial balance. We recommend that management reconcile all receivable subsidiary reports to the trial balance on a monthly basis.

Management Response

We agree with this comment and will implement it for the fiscal year ended December 31, 2014.

Status - Comment no longer applicable as of December 31, 2014.