

The background of the entire page is a photograph of an office interior. It shows several people sitting at a long table, their figures silhouetted against a large window that looks out onto a city skyline. The lighting is dramatic, with the office being dark and the window providing a bright, hazy view of buildings. The overall mood is professional and focused.

Reporting and insights from the 2021 audit: Village of McCook, Illinois

December 31, 2021

Executive summary

We have completed our audit of the financial statements of the Village of McCook (the Village) for the year ended December 31, 2021, and have issued our report thereon dated June 30, 2022. This letter presents communications required by our professional standards.

Your audit should provide you with confidence in your financial statements. The audit was performed based on information obtained from meetings with management, data from your systems, knowledge of your Village's operating environment and our risk assessment procedures. We strive to provide you clear, concise communication throughout the audit process and of the final results of our audit.

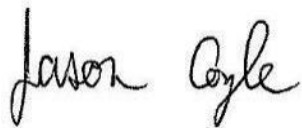
Additionally, we have included information on key risk areas the Village of McCook should be aware of in your strategic planning. We are available to discuss these risks as they relate to your organization's financial stability and future planning.

If you have questions at any point, please connect with us:

- Jason Coyle, CPA, Partner: jason.coyle@bakertilly.com or +1 (630) 645 6205
- Susannah Filipovic, CPA, Senior Manager: susannah.filipovic@bakertilly.com or +1 (630) 645 6207

Sincerely,

Baker Tilly US, LLP

A handwritten signature in black ink that reads "Jason Coyle". The signature is written in a cursive, flowing style.

Jason Coyle, CPA, Partner

Responsibilities

Our responsibilities

As your independent auditor, our responsibilities include:

- Planning and performing the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. Reasonable assurance is a high level of assurance.
- Assessing the risks of material misstatement of the financial statements, whether due to fraud or error. Included in that assessment is a consideration of the Village's internal control over financial reporting.
- Performing appropriate procedures based upon our risk assessment.
- Evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management.
- Forming and expressing an opinion based on our audit about whether the financial statements prepared by management, with the oversight of the Village Board of Trustees:
 - Are free from material misstatement
 - Present fairly, in all material respects and in accordance with accounting principles generally accepted in the United States of America
- Our audit does not relieve management or the Village Board of Trustees of their responsibilities.

We are also required to communicate significant matters related to our audit that are relevant to the responsibilities of the Village Board of Trustees, including:

- Internal control matters
- Qualitative aspects of the Village's accounting practice including policies, accounting estimates and financial statement disclosures
- Significant unusual transactions
- Significant difficulties encountered
- Disagreements with management
- Circumstances that affect the form and content of the auditors' report
- Audit consultations outside the engagement team
- Corrected and uncorrected misstatements
- Other audit findings or issues

Audit status

Significant changes to the audit plan

There were no significant changes made to either our planned audit strategy or to the significant risks and other areas of emphasis identified during the performance of our risk assessment procedures.

Audit approach and results

Planned scope and timing

Audit focus

Based on our understanding of the Village and environment in which you operate, we focused our audit on the following key areas:

- Key transaction cycles
- Areas with significant estimates

Our areas of audit focus were informed by, among other things, our assessment of materiality. Materiality in the context of our audit was determined based on specific qualitative and quantitative factors combined with our expectations about the Village's current year results.

Key areas of focus and significant findings

Significant risks of material misstatement

A significant risk is an identified and assessed risk of material misstatement that, in the auditor's professional judgment, requires special audit consideration. Within our audit, we focused on the following areas below.

Significant risk areas	Testing approach	Conclusion
Management override of controls	Incorporate unpredictability into audit procedures, emphasize professional skepticism and utilize audit team with industry expertise	Procedures identified provided sufficient evidence for our audit opinion
Improper revenue recognition due to fraud	Confirmation or validation of certain revenues supplemented with detailed predictive analytics based on non-financial data and substantive testing of related receivables	Procedures identified provided sufficient evidence for our audit opinion

Other areas of emphasis

We also focused on other areas that did not meet the definition of a significant risk, but were determined to require specific awareness and a unique audit response.

Other areas of emphasis		
Cash and investments	Revenues and receivables	General disbursements
Payroll	Pension and OPEB liabilities/assets	Long-term debt
Capital assets including infrastructure	Net position calculations	Financial reporting and required disclosures

Internal control matters

We considered the Village's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing an opinion on the financial statements. We are not expressing an opinion on the effectiveness of the Village's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified.

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 identified the following deficiency as a material weakness:

- External Financial Reporting

In theory, a properly designed system of internal control staffed with enough people with sufficient training would provide the Village with the ability to not only process and record monthly transactions, but also to prepare the annual financial statements.

The definition of a material weakness in internal control includes consideration of the year-end financial reporting process. To avoid the auditor reporting a material weakness in internal control, your system of controls would need to be able to accomplish the following:

1. Present the books and records to the auditor in such a condition that the auditor is not able to identify material journal entries as a result of audit procedures.

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

2. Be capable of preparing a complete set of year-end financial statements in such a condition that the auditor is not able to identify any material changes as a result of the audit. This includes drafting the individual fund statements, making GASB No. 34 conversion entries, drafting the government-wide statements, and preparing note disclosures.

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

This level of internal control over financial reporting can be a difficult task for governments. Most governments operate with only enough staff to process monthly transactions and reports, and often rely on auditors to prepare certain year-end audit entries and handle the year-end financial reporting. As this is the case with the Village, we are required to inform you that this is a material weakness in your internal control.

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 the Village Board of Trustees. We identified the following deficiencies as significant deficiencies:

– **Information Technology**

A sufficient internal control system should include controls over the Village's information technology. These controls should appropriately secure the Village's financial information to prevent unauthorized access or data loss. Controls over information technology should include the following:

- > Procedures should exist and be followed relating to the creation, modification, and suspension of user access rights. The Village currently does not have documentation of the procedures for adding a new user to the system, changing an existing user's system access, or removing a terminated user. An access form could help facilitate this process by documenting who is gaining access or having it taken away, who approved the access change, and who is performing the access change.
- > IT security administration monitors and logs security activity at the operating system, application and database levels. However, the security access logs, violations, and other work completed by the IT contractor are not being reviewed by Village management.
- > The MAX does not have a backup and restore policy developed which would document how system backups are being taken, backup frequency, monitoring and managing of the backups, backup tape storage, and restoration procedures. Periodic restorations should take place in case the system was to ever fail.
- > The password criteria should be in line with industry standards such as password expiration, length, characters, and history. MSI passwords need to be more complex to meet industry standards. It is recommended that the Village should see if it is possible for MSI to include other capabilities such as number of login tries until the account is locked, etc.

The absence of these controls could result in errors to financial data. The Board should be aware of this risk and review all financial information for unusual or unexpected activity.

– **Internal Controls at the McCook Athletic Center**

During the course of our audit of the McCook Athletic Center proprietary fund, it was noted that certain processes and procedures at the McCook Athletic Center did not have adequate segregation of duties. These included:

- > There currently is no review of the journal entries processed by the Administrative Assistant at the McCook Athletic Center.
- > There is also currently no review of the bank reconciliations processed by the Administrative Assistant at the McCook Athletic Center.

We recommend that someone independent of the functions at the McCook Athletic Center review and approve, documented by a signature, all journal entries and bank reconciliations processed by the Administrative Assistant. Signatures of the Administrative Assistant and the reviewer should be included on these documents.

We also noted several deficiencies with how the Village manages revenue collected at the McCook Athletic Center from local sources such as per-use facility rental and the concession stand. Included in our observations is the following:

- > Facility rental fees were not clearly displayed by the front desk and they were not displayed on the website.
- > There is no review of the reconciliation of daily deposit log to bank deposits prepared by the MAX employee.

The Village should consider implementing policies and related procedures that provide better control surrounding the collection of these revenues. This could include, but is not limited to:

- > Developing expectations of anticipated revenue and timely comparisons to collected amounts.
- > Developing procedures for collecting cash paid for rentals to ensure consistent collection and recording of rental revenue.
- > The daily deposits should be reviewed and documented with approval.

Installation of these procedures will mitigate the inherent risk these types of receipts possess and reduce the chance that Village assets are misappropriated or unaccounted at the McCook Athletic Center.

Required communications

Qualitative aspect of 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 have advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by Village are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing accounting policies was not changed during 2021. We noted no transactions entered into by the Village during the year for which accounting policies are controversial or for which there is a lack of authoritative guidance or consensus or diversity in practice.
- Accounting estimates: Accounting estimates, including fair value 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, the degree of subjectivity involved in their development and because of the possibility that future events affecting them may differ significantly from those expected. The following estimates are of most significance to the financial statements:

Estimate	Management's process to determine	Baker Tilly's conclusions regarding reasonableness
Net pension liability/asset and related deferrals	Evaluation of information provided by the Illinois Municipal Retirement Fund and other pension actuarial studies	Reasonable in relation to the financial statements as a whole
Total OPEB liability and related deferrals	Key assumptions set by management with the assistance of a third party actuary	Reasonable in relation to the financial statements as a whole
Depreciation	Evaluate estimated useful life of the asset and original acquisition value	Reasonable in relation to the financial statements as a whole

There have been no significant changes made by management to either the processes used to develop the particularly sensitive accounting estimates, or to the significant assumptions used to develop the estimates, noted above.

- Financial statement disclosures: The disclosures in the financial statements are neutral, consistent and clear.

Significant unusual transactions

There have been no significant transactions that are outside the normal course of business for the Village or that otherwise appear to be unusual due to their timing, size or nature.

Significant difficulties encountered during the audit

We encountered no significant difficulties in dealing with management and completing our audit.

Disagreements with management

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 basic financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Audit report

There have been no departures from the auditors' standard report.

Audit consultations outside the engagement team

We encountered no difficult or contentious matters for which we consulted outside of the engagement team.

Uncorrected misstatements and corrected 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. There were no misstatements identified.

Other audit findings or issues

We encountered no other audit findings or issues that require communication at this time.

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Village's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Management's consultations with other accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing or accounting matters.

Written communications between management and Baker Tilly

The Appendix includes copies of other material written communications, including a copy of the management representation letter.

Compliance with laws and regulations

We did not identify any non-compliance with laws and regulations during our audit.

Fraud

We did not identify any known or suspected fraud during our audit.

Going concern

Pursuant to professional standards, we are required to communicate to you, when applicable, certain matters relating to our evaluation of the Village's ability to continue as a going concern for a reasonable period of time but no less than 12 months from the date the financial statements are issued or available to be issued, including the effects on the financial statements and the adequacy of the related disclosures, and the effects on the auditor's report. No such matters or conditions have come to our attention during our engagement.

Independence

We are not aware of any relationships between Baker Tilly and the Village that, in our professional judgment, may reasonably be thought to bear on our independence.

Related parties

We did not have any significant findings or issues arise during the audit in connection with the Village's related parties.

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 or the modified cash basis of accounting, 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.

Nonattest services

The following nonattest services were provided by Baker Tilly:

- Financial statement preparation
- Adjusting and conversion journal entries
- Trial balance formatting from general ledger data
- Annual Financial Report preparation
- Compilation of the CYEFR
- Compilation of Illinois Department of Insurance reports
- Compilation of Treasurer's Annual Statement
- Compiled pension financial statements
- Bookkeeping assistance

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

Board of Trustees resources

Visit our resource page for regulatory updates, trending challenges and opportunities in your industry and other timely updates.

Visit the resource page at <https://www.bakertilly.com/insights/audit-committee-resource-page>.

Management representation letter



Village of McCook

5000 GLENCOE AVENUE
McCOOK, ILLINOIS 60525
Phone: (708) 447-9030
Fax: (708) 447-2584

June 30, 2022

Baker Tilly US, LLP
1301 W. 22nd Street, Suite 400
Oak Brook, Illinois 60523

Dear Baker Tilly US, LLP:

We are providing this letter in connection with your audit of the financial statements of the Village of McCook as of December 31, 2021 and for the year then ended for the purpose of expressing opinions as to whether the financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of McCook 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 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 financial statement date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements.
- 8) All material transactions have been recorded in the accounting records and are reflected in the financial statements.
- 9) All known audit and bookkeeping adjustments have been included in our financial statements, 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 Village 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.
 - 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 Village 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 Village 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) Trial balance formatting from general ledger data
 - d) Annual Financial Report preparation
 - e) Compilation of Illinois Department of Insurance reports
 - f) Compilation of Treasurer's Annual Statement
 - g) Compiled pension financial statements
 - h) Bookkeeping assistance
- None of these nonattest services constitute an audit under generally accepted auditing standards, including *Government Auditing Standards*.
- 26) The Village of McCook 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) The Village of McCook 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.
- 34) 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) The Village of McCook 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) Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated/amortized. Any known impairments have been recorded and disclosed.
- 39) Tax-exempt bonds issued have retained their tax-exempt status.
- 40) We have appropriately disclosed the Village of McCook'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.
- 41) 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.
- 42) 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.
- 43) We assume responsibility for, and agree with, the findings of specialists in evaluating the GASB 75 and 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.

- 44) We assume responsibility for, and agree with, the information provided by the IMRF as audited by Piante Moran 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.
- 45) We have evaluated and considered all potential tax abatements and believe all material tax abatements have been properly reported and disclosed.
- 46) We have reviewed our long-term debt agreements and believe that all terms related to significant events of default with finance-related consequences, termination events with finance-related consequences and subjective acceleration clauses have been properly identified and disclosed.
- 47) 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.
- 48) We acknowledge our responsibility for presenting the Consolidated Year End Financial Report (CYEFR) in accordance with the standards set forth by the Grant Accountability and Transparency Act, and we believe the CYEFR, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America. We have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the CYEFR.

Sincerely,

Village of McCook

Signed: _____

Title: Mayor

Signed: _____

Title: Deputy Clerk



Village of McCook

5000 GLENCOE AVENUE
McCOOK, ILLINOIS 60525
Phone: (708) 447-9030
Fax: (708) 447-2584

June 30, 2022

Baker Tilly US, LLP
1301 W. 22nd Street, Suite 400
Oak Brook, Illinois 60523

Dear Baker Tilly US, LLP:

We are providing this letter in connection with your audit of the financial statements of the Village of McCook Police Pension Fund and the Village of McCook Firefighter's Pension Fund (the "Funds") as of December 31, 2021 and for the year then ended for the purpose of expressing opinions as to whether the financial statements present fairly, in all material respects, the respective financial position of the plan net assets and the respective changes in financial position, 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 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 financial statement date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements.
- 8) All material transactions have been recorded in the accounting records and are reflected in the financial statements.
- 9) All known audit and bookkeeping adjustments have been included in our financial statements, and we are in agreement with those adjustments.
- 10) We are not aware of any known actual, possible, pending, or threatened litigation, claims, or assessments or unasserted claims or assessments that are required to be accrued or disclosed in the financial statements in accordance with accounting principles generally accepted in the United States of America, and we have not consulted a lawyer concerning litigation, claims, or assessments.
- 11) Guarantees, whether written or oral, under which the Village 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.
 - 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 Board of Trustees 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 Funds 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) Trial balance formatting from general ledger data

d) Compilation of Illinois Department of Insurance reports

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

- 26) The Village of McCook Police Pension Fund and the Village of McCook Firefighters' Pension Fund (the "Funds") 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) The Village of McCook Police Pension Fund and the Village of McCook Firefighters' Pension Fund (the "Funds") has 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 properly classify all funds and activities.
- 29) 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.
- 30) Components of net position (net investment in capital assets; restricted; and unrestricted) are properly classified and, if applicable, approved.
- 31) The Village of McCook Police Pension Fund and the Village of McCook Firefighters' Pension Fund (the "Funds") has no derivative financial instruments such as contracts that could be assigned to someone else or net settled, interest rate swaps, collars or caps.
- 32) Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
- 33) Deposits and investments are properly classified, valued, and disclosed (including risk disclosures, collateralization agreements, valuation methods, and key inputs, as applicable).
- 34) We have appropriately disclosed the Village of McCook's Police Pension Fund and the Village of McCook Firefighters' Pension Fund 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.

- 35) 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.
- 36) We assume responsibility for, and agree with, the findings of specialists in evaluating the Funds' 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.

Sincerely,

Village of McCook Police Pension Fund and the Village of McCook Firefighters' Pension Fund (the "Funds") -

Signed: Thomas M. Parxvi
Title: President - Police Pension

Signed: Joseph M. Myrick
Title: President - Fire Pension

Signed: Gene Botica
Title: Deputy Village Clerk

Accounting changes relevant to the Village

Future accounting standards update

GASB Statement Number	Description	Potentially Impacts you	Effective Date
87	Leases	✓	12/31/22*
91	Conduit Debt	✓	12/31/22*
92	Omnibus 2020	✓	12/31/22*
93	Replacement of Interfund Bank Offered Rates		12/31/22*
94	Public-Private and Public-Public Partnerships and Availability Payment Arrangements	✓	12/31/23
96	Subscription-Based Information Technology Arrangements	✓	12/31/23
97	Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans		12/31/22
99	Omnibus 2022	✓	12/31/23
100	Accounting Changes and Error Corrections - an amendment of GASB Statement No. 62	✓	12/31/24
101	Compensated Absences	✓	12/31/24

*The statements listed above through Statement No. 93 had their required effective dates postponed by one year with the issuance of Statement No. 95, *Postponement of Effective Dates of Certain Authoritative Guidance*, with the exception of Statement No. 87 which was postponed by one and a half years. The effective date reflected above is the required revised implementation date.

Further information on upcoming [GASB pronouncements](#).

Ready or not – the new lease standard is here!

GASB's new single model for lease accounting is effective for next year's audit (fiscal years ending June 30, 2022 and later). This standard requires governments to identify and evaluate contracts that convey control of the right to use another entity's nonfinancial asset for a period of time in an exchange or exchange-like transaction. Contracts meeting the criteria for control, term and other items within the standard will result in recognizing a right to use asset and lease liability or a receivable and deferred inflow of resources. The standard specifies that leases should be recognized and measured using the facts and circumstances that exist at the beginning of the period of implementation.

The implementation process can be broken down into a four-step methodology:



Now is the time to evaluate where your government is in this process and the timeline to complete implementation. The third step for lease evaluation, data extraction and review is typically the most time-consuming step; organizations should begin this process well before year end to ensure adequate lead time. A key decision that will need to be made is whether a lease administration software package is necessary. Depending on the volume and complexity of your lease activity, spreadsheets may not be sufficient to track and calculate all the required information.

We are available to discuss this further and help you develop an action plan. Baker Tilly also has complimentary resources available online including:

- GASB 87 lease identification questionnaire
- GASB 87 lease assistance tool
- Variety of GASB 87 podcasts and articles

Access tools and learn more about [GASB 87](#).

Preparing for the new conduit debt reporting

Conduit debt includes arrangements where there are three separate parties involved including a third party that is obligated for payment, a debt holder or lender and an issuing party which is often a government. This standard provides additional criteria for identifying and classifying conduit debt with the intent of providing consistency in how the debt is recorded and reported in governmental financial statements. The Village should identify any existing debt arrangements involving third-party obligors and evaluate how those arrangements will be reported under the new standard in order to determine the potential impact of this standard on future financial reporting.

Determining if GASB 94 applies for your organization

GASB 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements* provides guidance related to public-private and public-public partnerships (PPP) and availability payment arrangements (APA).

A PPP is an arrangement in which an entity contracts with an operator to provide public services by conveying control of the right to operate or use infrastructure or other capital asset. A common example of PPP is a service concession arrangement.

An APA is an arrangement in which an entity compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an asset.

The Village should start to identify any contracts that could meet either definition to ensure they are reviewed for applicability and accounted for correctly when the standard is effective. Initial steps include reviewing contracts that didn't meet the definition of a lease under GASB 87 and identifying any other agreements where the organization contracts with or partners with another entity to provide services.

Future accounting for subscription-based IT arrangements

Subscription-based IT arrangements include contracts that convey control of the right to use another party's IT software. It would not include any licensing arrangements that provide a perpetual license, which would still be accounted for as an intangible asset. Subscription-based IT arrangements are becoming more and more popular with IT vendors. This standard mirrors the new lease standard. The Village will be able to utilize the systems put into place to implement the lease standard to properly account for these contracts. Common examples of these contracts in the utility industry include:

- Leasing space in the cloud
- GIS systems
- SCADA systems
- Some work order or inventory systems as well as some general ledger or billing systems

The Village should work with its IT department and department managers to determine a population listing of contracts that would fall under this standard to determine the potential future impact to financial reporting.

Two-way audit communications

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.
- c. 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.
- d. 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.

Our audit will be performed in accordance with auditing standards generally accepted in the United States of America.

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 governing 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. We anticipate that the Village will receive an unmodified opinion on its financial statements.
- e. Which matters do you consider warrant particular attention during the audit, and are there any areas where you request additional procedures to be undertaken?
- f. Have you had any significant communications with regulators or grantor agencies?

- g. Are there other matters that you believe are relevant to the audit of the financial statements?

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

- a. The entity's internal control and its importance in the entity, including how the Village Board of Trustees 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 and January. Our final financial fieldwork is scheduled in March and April, and into May 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.

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.