DUPAGE COUNTY HEALTH DEPARTMENT
A Blended Component Unit of
DuPage County, Illinois

COMMUNICATION TO THOSE CHARGED WITH GOVERNANCE
AND MANAGEMENT

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REQUIRED COMMUNICATIONS BY THE AUDITOR WITH THOSE CHARGED WITH GOVERNANCE
To the Honorable President and Members
of the Board of Health
DuPage County, Illinois

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

We have completed our audit of the financial statements of the DuPage County Health Department, Illinois (Department) for the year ended November 30, 2012 and have issued our report thereon dated May 21, 2013. 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 OMB Circular A-133**

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 Circular A-133. 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 also consider the internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the Department’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 is not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the Department’s compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement applicable to its major federal program for the purpose of expressing an opinion on the Department’s compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the Department’s compliance with those requirements.

We have issued a separate document which contains the results of our audit procedures to comply with OMB Circular A-133.
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 communication dated December 13, 2012.

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 the Department are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year ended November 30, 2012. We noted no transactions entered into by the Department 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 estimate affecting the financial statements was:

Allowances on patient accounts receivable balances are estimated based on management judgment, past reimbursement history, contracts with third party payors or rates established by government payors, as applicable.
Honorable President and Members
of the Board of Health
DuPage County, Illinois

QUALITATIVE ASPECTS OF THE ENTITY’S SIGNIFICANT ACCOUNTING PRACTICES (cont.)

Financial Statement Disclosures

The disclosures in the financial statements are neutral, consistent, and clear.

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. None of the misstatements detected as a result of audit procedures and corrected by management were material, either individually, or in the aggregate, to the financial statements taken as a whole.

A summary of uncorrected financial statement misstatements follows this required communication and is included in the management representation letter. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

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.
Honoriable President and Members
of the Board of Health
DuPage County, Illinois

INDEPENDENCE

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

Relating to our audit of the financial statements of for the year ended November 30, 2012, Baker Tilly Virchow Krause, LLP hereby confirms that we are, in our professional judgment, independent with respect to the Department in accordance with the Code of Professional Conduct issued by the American Institute of Certified Public Accountants. We provided no services to the Department other than audit services provided in connection with the audit of the current year’s financial statements and nonaudit services which in our judgment do not impair our independence.

> Financial statement preparation
> Adjusting journal entries
> Trial balance formatting from general ledger data

None of these nonaudit services 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 the Department’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

With respect to the supplementary information accompanying the financial statements, 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.

This information is intended solely for the use of the DuPage County Health 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 21, 2013
MANAGEMENT REPRESENTATIONS
May 21, 2013

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

Dear Baker Tilly Virchow Krause, LLP:

We are providing this letter in connection with your audit of the financial statements of the DuPage County Health Department as of November 30, 2012 and for the year then ended for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the DuPage County Health Department 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.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audit.

1. 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 oversight unit and all component units required by accounting principles generally accepted in the United States of America to be included in the financial reporting entity.

2. We have made available to you all –

   a. Financial records and related data and all audit or relevant monitoring reports, if any, received from funding sources.

   b. Minutes of the meetings of the DuPage County Board of Health or summaries of actions of recent meetings for which minutes have not yet been prepared.

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

4. We believe the effects of the uncorrected financial statement misstatements relating to the reversal of uncorrected misstatements reported to you in the prior year are immaterial, both individually and in the aggregate, to the basic financial statements taken as a whole. The effects of these adjustments in the current year would increase revenue and expenditures by $113,122 and $18,805, respectively, in the General Fund and Governmental Activities. In addition, you have recommended adjusting journal entries, and we are in agreement with those adjustments.
5. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.

6. We have no knowledge of any fraud or suspected fraud affecting the entity involving:
   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.

7. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, analysts, regulators, or others.

8. We have taken timely and appropriate steps to remedy fraud, illegal acts, and violations of provisions of contracts or grant agreements, or abuse that you have reported to us.

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

10. 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.

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

12. The DuPage County Health Department has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or fund equity.

13. The following, if any, have been properly recorded or disclosed in the financial statements:

   a. Related party transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.

   b. Guarantees, whether written or oral, under which the DuPage County Health Department is contingently liable.

   c. All accounting estimates that could be material to the financial statements including the key factors and significant assumptions underlying those estimates and measurements. We believe the estimates and measurements are reasonable in the circumstances, consistently applied, and adequately disclosed.
14. 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 and debt contracts; 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.

15. There are no –

   a. Violations or possible violations of budget ordinances, provisions of contracts and grant agreements, federal, state, and local laws or regulations including those pertaining to adopting and amending budgets, 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.

   b. Unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with generally accepted accounting principles.

   c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by generally accepted accounting principles.

   d. Nonspendable, restricted, committed, or assigned fund balances that were not properly authorized and approved.

   e. Rates being charged to customers other than the rates as authorized by the applicable authoritative body.

   f. Violations of restrictions placed on revenues as a result of bond resolution covenants such as revenue distribution or debt service funding.

16. The DuPage County Health Department 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.

17. The DuPage County Health Department has complied with all aspects of contractual agreements that would have a material effect on the financial statement in the event of noncompliance.

18. We have followed all applicable laws and regulations in adopting, approving, and amending budgets.

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

20. 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.
21. Components of net assets (invested in capital assets, net of related debt; restricted; and unrestricted) and equity amounts are properly classified and, if applicable, approved.

22. Provisions for uncollectible receivables have been properly identified and recorded.

23. 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.

24. Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.

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

26. Deposits and investment securities are properly classified as to risk, and investments are properly valued.

27. The DuPage County Health Department has no derivative financial instruments such as contracts that could be assigned to someone else or net settled, interest rate swaps, collars or caps.

28. Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated.

29. We have appropriately disclosed the DuPage County Health Department'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 assets are available and have determined that net assets were properly recognized under the policy. We have also disclosed our policy regarding how restricted and unrestricted fund balance is used when an expenditure is incurred for which both restricted and unrestricted fund balance is available, including the spending hierarchy for committed, assigned, and unassigned amounts.

30. 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.
31. We acknowledge our responsibility for presenting the individual fund schedules in accordance with accounting principles generally accepted in the United States of America, and we believe the individual fund schedules, 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 individual fund schedules 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.

32. In regards to the nonattest services performed by you listed below, we have 1) made all management decisions and performed all management functions; 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

33. 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 Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, including requirements relating to preparation of the schedule of expenditures of federal awards.
   
   b. We have, in accordance with OMB Circular A-133, identified in the schedule of expenditures of federal awards, expenditures made during the audit period for all awards provided by federal and state agencies in the form of grants, federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, food commodities, direct appropriations, insurance and other assistance received for the purpose of administering federal programs. We have also made records available to you relating to such financial awards received directly, as well as indirectly, as pass-through awards.
   
   c. We acknowledge our responsibility for presenting the schedule of expenditures of federal awards (SEFA) in accordance with the requirements of OMB Circular A-133 §310.b, and we believe the SEFA, including its form and content, is fairly presented in accordance with the Circular. 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.
   
   d. 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 supplementary information no later than the date we issue the supplementary information and the auditors' report thereon.
   
   e. We have identified and disclosed to you all of our government programs and related activities subject to OMB Circular A-133.
33. (cont.)

f. We are responsible for understanding and complying with, and have complied with in all material respects, 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.

g. We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance requirements applicable to 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.

h. We have made available to you all contracts and grant agreements (including amendments, if any) and any other correspondence relevant to the programs and related activities subject to the governmental audit requirement.

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

j. 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 Circular A-133 Compliance Supplement, relating to federal awards and have identified and disclosed to you all amounts questioned and any known noncompliance with the requirements of federal awards.

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

l. 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.

m. Amounts claimed or used for matching were determined in accordance with relevant guidelines in OMB Circular A-87, Cost Principles for State, Local, and Tribal Governments, and OMB's Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments.

n. We have disclosed to you our interpretation of compliance requirements that are subject to varying interpretations, if any.
33. (cont.)

o. 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.

p. 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.

q. 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.

r. 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 in internal control over compliance (including material weaknesses in internal control over compliance) have occurred subsequent to the date as of which compliance was audited.

s. 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.

t. 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.

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

v. We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by OMB Circular A-133 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.

w. We are responsible for and have accurately prepared the auditee section of the Data Collection Form as required by OMB Circular A-133.

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

We have evaluated and classified any subsequent events as recognized or unrecognized through the date of this letter. To the best of our knowledge and belief, no 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.

Sincerely,

DuPage County Health Department

Signed: [Signature]

Signed: [Signature]
REQUIRED COMMUNICATION OF INTERNAL CONTROL RELATED MATTERS IDENTIFIED IN THE AUDIT TO THOSE CHARGED WITH GOVERNANCE
To the Honorable President and Members
of the Board of Health
DuPage County, Illinois

In planning and performing our audit of the financial statements of the DuPage County Health Department, Illinois (Department) as of and for the year ended November 30, 2012, 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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of its internal control. Accordingly, we do not express an opinion on the effectiveness of its internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been 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 did not identify any deficiencies in internal control that we consider to be material weaknesses.

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

Baker Tilly Vickers Krown, LLP

Oak Brook, Illinois
May 21, 2013
OTHER COMMUNICATIONS WITH THOSE CHARGED WITH GOVERNANCE
TWO WAY COMMUNICATION REGARDING YOUR AUDIT

As part of our audit of your financial statements, we are providing communications to you throughout the audit process. Auditing requirements provide for two-way communication and are important in assisting the auditor and you with more information relevant to the audit.

As this past audit is concluded, we use what we have learned to begin the planning process for next year’s audit. It is important that you understand the following points about the scope and timing of our next audit:

a. We address the significant risks or material noncompliance, 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 noncompliance related to the federal awards whether due to error or fraud, and to design the nature, timing, and extent of further audit procedures. We will obtain a sufficient understanding by performing risk assessment procedures to evaluate the design of controls relevant to an audit of the federal and state awards and to determine whether they have been implemented. We will use such knowledge to:

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

Our audit will be performed in accordance with U.S. generally accepted auditing standards, Government Auditing Standards, and OMB Circular A-133.

We will not express an opinion on the effectiveness of internal control over financial reporting or compliance with laws, regulations, and provisions of contracts or grant programs. For audits done in accordance with OMB Circular A-133 and Government Auditing Standards, our report will contain the following restriction: “This report is intended solely for the information and use of the client’s management, others within the entity, federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.”

c. The concept of materiality recognizes that some matters, either individually or in the aggregate, are important for fair presentation of financial statements in conformity with generally accepted accounting principles while other matters are not important. In performing the audit, we are concerned with matters that, either individually or in the aggregate, could be material to the financial statements or to the entity’s federal awards. Our responsibility is to plan and perform the audit to obtain reasonable assurance that material misstatements, whether caused by errors or fraud, are detected.
TWO WAY COMMUNICATION REGARDING YOUR AUDIT (cont.)

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 Department and Health Board have the responsibility to oversee the strategic direction of your organization, as well as the overall accountability of the entity. Management has the responsibility for achieving the objectives of the entity.

c. We need to know your views about your organization’s objectives and strategies, and the related business risks that may result in material misstatements.

d. Which matters do you consider warrant particular attention during the audit, and are there any areas where you request additional procedures to be undertaken?

e. Have you had any significant communications with regulators or grantor agencies?

f. Are there other matters that you believe are relevant to the audit of the financial statements or the federal awards?

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

a. The Department’s internal control and its importance in the entity, including how those charged with governance oversee the effectiveness of internal control?

b. The detection or the possibility of fraud?

We also need to know if you have taken actions in response to developments in financial reporting, laws, accounting standards, governance practices, or other related matters, or in response to previous communications with us.

With regard to the timing of our audit, here is some general information. We will perform preliminary financial audit work during the months of October-December, and sometimes early January. Our final financial and single audit fieldwork is scheduled during the winter to best coincide with your readiness and report deadlines. After fieldwork, we wrap up our financial and single audit procedures at our office and issue drafts of our reports for your review. Final copies of our reports and other communications are issued after approval by your staff. This is typically 6-12 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 or wish to provide other feedback. We welcome the opportunity to talk with you.
COMMUNICATION OF OTHER CONTROL DEFICIENCIES, RECOMMENDATIONS AND INFORMATIONAL POINTS TO MANAGEMENT THAT ARE NOT MATERIAL WEAKNESSES OR SIGNIFICANT DEFICIENCIES
PROFESSIONAL STANDARDS UPDATE / INFORMATIONAL POINTS

GASB No. 62: CODIFICATION OF ACCOUNTING AND FINANCIAL REPORTING
GUIDANCE CONTAINED IN PRE-NOVEMBER 30, 1989 FASB AND AICPA PRONOUNCEMENTS

The Governmental Accounting Standards Board (GASB) has issued Statement No.62, which brings FASB guidance into GASB literature. This document is effective for your financial statements for the year ended November 30, 2013, and is not expected to significantly change current practice.

The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations
2. Accounting Principles Board Opinions
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure

The requirements in this Statement will improve financial reporting by contributing to the GASB’s efforts to codify all sources of generally accepted accounting principles for state and local governments to that they derive from a single source. This effort brings the authoritative accounting and financial reporting literature together in one place, with that guidance modified as necessary to appropriately recognize the governmental environment and the needs of governmental financial statement users. It will eliminate the need for financial statement preparers and auditors to determine which FASB and AICPA pronouncement provisions apply to state and local governments, thereby resulting in a more consistent application of applicable guidance in financial statements of state and local governments.

For the future, all post-1989 FASB guidance will be considered "other accounting literature", meaning that if there is no other guidance on a topic, you "may consider" post-1989 FASB guidance, including future FASBs.

GASB No. 63: FINANCIAL REPORTING OF DEFERRED OUTFLOWS OF RESOURCES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

The Governmental Accounting Standards Board (GASB) has issued Statement No. 63, which changes governmental financial reporting for certain assets and liabilities. These changes will affect your financial statements for the year ended November 30, 2013.

This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, Elements of Financial Statements, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.
The result of these changes means that your balance sheet may need to have 2 additional categories, one below assets and another below liabilities. In addition, some titles as "statement of net assets" will change to "statement of net position". There are also increased footnote disclosure requirements.

**GASB Statement No. 65: Items Previously Reported As Assets and Liabilities**

Government Accounting Standards Board (GASB) Statement No. 65 – *Items Previously Reported as Assets and Liabilities* will result in a reclassification of some financial statement line items on the Statement of Net Position and Balance Sheet of governments. The new financial statement categories of deferred outflows of resources and deferred inflows of resources will become more commonly used upon implementation of this standard. In addition to reclassifications to these new categories, the standard will also result in a change in the accounting treatment for certain items, including debt issuance costs. These changes will affect your financial statements for the year ended November 30, 2014, and was intended to complement Statement No. 63 – *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.

Some of the most significant changes of this standard that will impact many governments include:

- Debt issuance costs previously amortized will now be expensed in the period incurred
- Losses on refunding of debt will now be classified as a deferred outflow of resources, and consistent with the change noted previously, the formula for calculating the loss has been adjusted to exclude debt issuance costs (prospectively)
- Regulatory credits recorded by utilities will now be recorded either as a liability or a deferred inflow of resources, depending on how the credit will be applied in the future
- The terminology of *deferred revenue* is no longer permitted to be used. In addition, the items previously recorded as deferred revenue will need to be analyzed to determine if they now will be presented as a deferred inflow of resources or a liability
- The major fund determination formula has been updated to include the new categories

We are available to discuss these changes and the impact on your financial statements.
GASB STATEMENT NO. 68: ACCOUNTING AND FINANCIAL REPORTING FOR PENSIONS

The Governmental Accounting Standards Board (GASB) has issued Statement No. 68, which will change the accounting and financial reporting requirements for state and local governments that provide their employees with pensions. This Statement replaces the requirements of GASB Statement Nos. 27 and 50 as they relate to pensions that are provided through pension plans administered as trusts, or equivalent arrangements that meet certain criteria. These changes will affect your financial statements for the year ended November 30, 2016.

This Statement applies specifically to governments that provide their employees with pensions through pension plans in which a government’s contributions to the trust used to administer a pension plan are (1) irrevocable, (2) restricted to paying pension benefits, and (3) beyond the reach of creditors.

Government employers that provide their employees with a defined benefit pension are classified in one of the following categories for this Statement:

- Single employer – is an employer whose employees are provided with a defined benefit pension through a single employer pension plan
- Agent employer – is an employer whose employees are provided with a defined benefit pension through an agent multiple employer pension plan
- Cost-sharing employer – is an employer whose employees are provided with a defined benefit pension through a cost-sharing multiple employer pension plan

Under the new standards, in financial statements prepared using the economic resources measurement focus (accrual basis of accounting), the single or agent employer is required to recognize a liability equal to the net pension liability. The net pension liability is defined as the present value of projected benefit payments to be provided through the pension plan, to current and inactive employees, that is attributed to those employees’ past periods of service (total pension liability), less the amount of the pension plan’s net position.

The new Statement contains requirements related to the actuarial cost method and certain other assumptions used in the preparation of an actuarial valuation. The Statement also requires that an actuarial valuation of the total pension liability be performed at least every two years, with more frequent valuations encouraged. In addition, this Statement also requires disclosing certain information in the notes to the financial statements, as well as presenting certain required supplementary information (RSI) for the ten most recent fiscal years.

For government employers that provide their employees with a defined contribution pension, the new standards generally carry forward the existing financial reporting requirements.

We are available to further discuss these changes and the impact on your financial statements.
PROFESSIONAL STANDARDS UPDATE / INFORMATIONAL POINTS (cont.)

YELLOW BOOK (GOVERNMENT AUDITING STANDARDS) REVISIONS

In December 2011, the Government Accountability Office (GAO) released a revision to Generally Accepted Auditing Standards (GAGAS) which is also known as Yellow Book. This was the first revision since July 2007. The changes will become effective for your November 30, 2013 audit.

One of the most significant modifications of the new standards was the change to the conceptual framework for independence. Previously, the standards were more rules-based with identification of certain non-audit services that were either allowed or prohibited. The new framework provides a means for auditors to assess their independence based on the unique facts and circumstances of the work and the client. However, certain underlying concepts of the standards remain with the revision, including the fact that auditors cannot be part of your internal control system and cannot perform management functions.

Other changes to the revision include updates for new auditing standards, convergence with AICPA and international standards, and the retirement of the supplement containing select questions and answers on independence.

If you have any questions on how the implementation of these revisions impacted your audit, we are available to discuss those questions with you.