

VILLAGE OF BELLEVILLE

Belleville, Wisconsin

COMMUNICATION TO THOSE CHARGED
WITH GOVERNANCE AND MANAGEMENT

As of and for the Year Ended December 31, 2012

VILLAGE OF BELLEVILLE

TABLE OF CONTENTS

	<u>Page No.</u>
Required Communication of Internal Control Related Matters Identified in the Audit to Those Charged with Governance	1
Internal Control Over Financial Reporting	2
Internal Control Environment	2 – 3
Other Communications with Those Charged with Governance	
Two Way Communication Regarding Your Audit	4 – 5
Communication of Other Control Deficiencies, Recommendations and Informational Points to Management that are not Material Weaknesses or Significant Deficiencies	
Utility Recommendations	6 – 7
Debt Limit Recommendation	7
Departmental Controls	7 – 8
Informational Points	8 – 11
Recent Changes to the PSCW Water Chart Of Accounts	11
Required Communications by the Auditor with Those Charged with Governance	12 – 15
Management Representations	

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

To the Village Board
Village of Belleville
Belleville, Wisconsin

In planning and performing our audit of the financial statements of the Village of Belleville as of and for the year ended December 31, 2012, and for the Belleville Utilities as of December 31, 2012, and for the year then ended in accordance with auditing standards generally accepted in the United States of America, we considered its internal control over financial reporting (internal control) as a basis for designing our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of its internal control. Accordingly, we do not express an opinion on the effectiveness of its internal control.

Our consideration of the village's 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, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 consider the following deficiencies in the village's internal control to be material weaknesses:

- > Internal Control Over Financial Reporting
- > Internal Control Environment

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

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
March 13, 2013

INTERNAL CONTROL OVER FINANCIAL REPORTING

Auditing standards require that we perform procedures to obtain an understanding of your government and its internal control environment as part of the annual audit. This includes an analysis of the village's year-end financial reporting process and preparation of your financial statements. A properly designed system of internal control allows for the presentation of year-end financial data and financial statements without material errors. At this time, the village does not have internal controls in place that allow for the presentation of materially correct year-end financial statements. As a result, we consider this absence of controls to be a material weakness in internal control over the village's financial reporting.

To provide some perspective, establishment of such internal controls can be a difficult task for governments. Many governments do rely on their auditors to prepare certain year-end adjusting entries and prepare the year-end financial statements. Because the auditors are not involved with the village's day-to-day activities, it is important that management have the skills, knowledge, and experience to review the audit adjustments and financial statements prepared by the auditors to ensure completeness, accuracy, and consistency with management's knowledge of transactions impacting the village during the year.

INTERNAL CONTROL ENVIRONMENT

Auditing standards require that we perform procedures to obtain an understanding of your government and its internal control environment as part of the annual audit. This includes an analysis of significant transaction cycles. A properly designed system of internal control includes adequate staffing, policies, and procedures to properly segregate duties. This includes systems that are designed to limit the access or control of any one individual to your government's assets, and to achieve a higher likelihood that errors or irregularities in your processes would be discovered by your staff. At this time, the village does not have internal controls in place to achieve adequate segregation of duties. As a result, there is a material weakness related to the village's internal control environment.

There are also other key controls related to significant transaction cycles that are important in reducing the risk of errors or irregularities. At this time, the village does not have the following controls in place:

CONTROLS OVER ACCOUNTS PAYABLE/DISBURSEMENTS

1. Retainages and encumbrances need to be reviewed, approved, and recorded at year end.

CONTROLS OVER PAYROLL

1. There should be review and approval of changes in pay rates in the payroll system.

CONTROLS OVER PROPERTY TAXES

1. Taxes receivable and tax settlements should be reviewed and approved by someone independent of the process.
2. The bank account should be reconciled by someone independent of the tax collection process.

INTERNAL CONTROL ENVIRONMENT (cont.)

CONTROLS OVER UTILITY BILLING

1. The governing body should formally approve all write off's of accounts and adjustments to bills over an amount agreed upon by the board.
2. The process for generating utility bills and maintaining billing records is not independent of the collection function.
3. There should be a review of billing rates by someone independent of the billing function.

CONTROLS OVER FINANCIAL REPORTING

1. Account reconciliations should be prepared by someone independent of the processing of transactions in the account.
2. Adjusting journal entries should be reviewed and approved by someone independent of the transaction.

ENTITY WIDE AND INFORMATION TECHNOLOGY CONTROLS

The village has not undergone a formal risk assessment process. This type of evaluation can help to identify where the village is more susceptible to fraud, misappropriation of assets, or fraudulent financial reporting.

The general ledger software package allows equal access rights to all users. This creates opportunities for any user to create journal entries, post transactions and print checks. Ideally, the user's access should be limited to their corresponding job duties. In addition, there is no review of security logs indicating who has accessed the accounting system. This type of review should be performed to verify unauthorized users did not access the system.

The village runs back-ups of their data regularly, but stores the backup data onsite. The village should consider storing back-up data offsite.

The village does not have a formal password policy that requires users to create sophisticated passwords to prevent unauthorized users from accessing the system. We recommend the village adopt a password policy including length and character requirements. Passwords should be changed at least every 60 to 90 days, and password history and lockout requirements should also be addressed.

The village's present software system lacks certain security features that, if operated improperly, would not allow for the identification of changes made to financial data after the original entry of such data. This is a situation that exists in many database software packages, including Microsoft Office Access, which is the basis for your software. Many of the system users may not possess the technical knowledge to operate the system in a manner that would impair the system's control integrity. However, it is possible that some users may possess the knowledge to circumvent the system's controls. Therefore, it is our judgment that there is more than a remote possibility that an error could occur in amounts that are more than insignificant, and your controls would not detect them. Accordingly, we are required to communicate this fact to you.

The absence of these key controls is considered to be a material weakness.

Achieving adequate segregation of duties may not be cost beneficial to attain in all situations. However, it is very important that management and the governing body provide the appropriate level of financial oversight to the village's day-to-day activities. We recommend that the village consider the benefits of implementing additional policies and procedures to address key controls related to its significant transaction cycles, as noted above.

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 of material misstatement, whether due to fraud or error, through our detailed audit procedures.
- b. We will obtain an understanding of the five components of internal control sufficient to assess the risk of material misstatement of the financial statements whether due to error or fraud, and to design the nature, timing, and extent of further audit procedures. We will obtain a sufficient understanding by performing risk assessment procedures to evaluate the design of controls relevant to an audit of financial statements and to determine whether they have been implemented. We will use such knowledge to:
 - > Identify types of potential misstatements.
 - > Consider factors that affect the risks of material misstatement.
 - > Design tests of controls, when applicable, and substantive procedures.

We will not express an opinion on the effectiveness of internal control over financial reporting or compliance with laws, regulations, and provisions of contracts or grant programs. For audits done in accordance with *Government Auditing Standards*, our report will include a paragraph that states that the purpose of the report is solely to describe (a) the scope of testing of internal control over financial reporting and compliance and the result of that testing and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance, (b) the scope of testing internal control over compliance for major programs and major program compliance and the result of that testing and to provide an opinion on compliance but not to provide an opinion on the effectiveness of internal control over compliance and, (c) that the report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering internal control over financial reporting and compliance. The paragraph will also state that the report is not suitable for any other purpose.

- c. The concept of materiality recognizes that some matters, either individually or in the aggregate, are important for fair presentation of financial statements in conformity with generally accepted accounting principles while other matters are not important. In performing the audit, we are concerned with matters that, either individually or in the aggregate, could be material to the financial statements. Our responsibility is to plan and perform the audit to obtain reasonable assurance that material misstatements, whether caused by errors or fraud, are detected.

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

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

- a. The village's internal control and its importance in the entity, including how those charged with governance oversee the effectiveness of internal control?
- b. The detection or the possibility of fraud?

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

With regard to the timing of our audit, here is some general information. If necessary, we may do preliminary audit work during the months of October-December, and sometimes early January. Our final fieldwork is scheduled during the spring to best coincide with your readiness and report deadlines. After fieldwork, we wrap up our 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 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 on what this all means, or wish to provide other feedback. We welcome the opportunity to hear from you.

**COMMUNICATION OF OTHER CONTROL DEFICIENCIES, RECOMMENDATIONS
AND INFORMATIONAL POINTS TO MANAGEMENT THAT ARE NOT
MATERIAL WEAKNESSES OR SIGNIFICANT DEFICIENCIES**

UTILITY RECOMMENDATIONS

WATER UTILITY

Earnings

2010 operating income increased to \$41,500 from \$4,600 in the prior year. The rate of return using the PSC's calculation was 0.3% compared to 2009 at (2%). This increase is due to the rate increase approved by the PSC, which became effective September 27, 2010. The new rates are designed to earn a rate of return of 2.75%, and additional revenues of \$72,600 once the rates are effective for a full year. The rate increase was much lower than what the PSC would allow in order to keep impacts on customers as low as possible. The rates only allow for a minimal amount of cash flows each year so the utility will need to keep costs low in order to maintain the financial health of the utility.

Status (12/31/12)

Operating income in 2012 improved by \$21,800 to \$103,500 due to a slight increase in water sold. The utility should qualify for a Simplified Rate Case (SRC) that would allow for a cost of living adjustment in water rates. We recommend that an application be filed with the PSC in March or April of 2013 to help rates keep pace with inflation. The SRC process would allow for a 3% increase in water rates.

LAND HELD FOR FUTURE USE

In the past, the Water Utility purchased land for a future well or tower. The value of this land is on the water utility books as land held for future use. We understand from management this land is located by Blaser Park and the certainty of when a well or tower would be constructed here is in question. We recommend the utility determine if this land is feasible for a water well or tower and if so, how far in the future may that be. If the land is unlikely to be used for water utility purposes, the value of the land needs to be eliminated from the utility books. In that case, the Village should consider the best use for the property, internal use or external sale, and account for the land in that manner.

Status (12/31/12)

This recommendation still pertains.

SEWER UTILITY

Earnings

The utility had operating income of \$31,000 in 2010, compared to \$62,200 in 2009. The decrease in operating income is due to the depreciation on the new WWTP. The utility is required to meet debt coverage requirements for the CWF loans. When the rates were developed, there was a reliance on connection fees to cover a portion of the debt service. Since collections will be dependent on growth, which is out of your control, the village will need to continue to monitor revenues closely to ensure debt coverage is met. Debt coverage for 2010 was not met by \$117,697. The utility used surplus funds to cover the shortfalls in 2010 and 2009. The village should continue to monitor the debt service and cash flow requirements to ensure these are being met in the future, as surplus funds won't be available long term.

UTILITY RECOMMENDATIONS (cont.)

SEWER UTILITY (cont.)***Status (12/31/12)***

Debt coverage for 2012 was not met by \$107,911. The utility used surplus funds to cover the shortfall in 2012. The utility should update the cash flow forecast to determine the timing of rate increases as the surplus funds begin to deplete. The above recommendation still pertains.

DEBT LIMIT RECOMMENDATION

As of December 31, 2009, the village was at 68% of its general obligation debt limit, established by state statutes as 5% of your equalized value. However, in 2010, the village is anticipating various increases in the G.O. debt outstanding as a result of refinancing the existing bond anticipation notes and borrowing for 2010 capital projects.

Based on these additional commitments, we are estimating the village's G.O. debt outstanding to grow to approximately \$8.4 million by the end of 2010. Assuming no change in equalized value, this will put the village at about 89% of the debt limit, with less than \$1 million of G.O. debt capacity. Additionally, this estimate does not include any borrowing for TIF district No. 4 and No. 5 as outlined in the project plans for the districts.

We strongly encourage the village to evaluate the current debt position, short and long-term borrowing plans, and future capital projects. We are happy to further assist you with this process.

Status (12/31/12)

As of December 31, 2012, the village was at 79% of its debt limit. We continue to recommend the village monitor its debt capacity and future borrowing needs.

DEPARTMENTAL CONTROLS

As part of our annual audit process, we focus our efforts on the primary accounting systems, internal controls, and procedures used by the village. This is in keeping with our goal to provide an audit opinion which states that the financial statements of the village are correct in all material respects.

In some cases, the primary system of accounting procedures and controls of the village are supported by smaller systems which are decentralized, and reside within a department or location. In many cases, those systems are as simple as handling cash collections and remitting those collections to the village treasurer. In other cases, the department may send invoices or statements of amounts due, and track collections of those amounts in a standalone accounts receivable system.

Generally, the more centralized a function is, the easier it is to design and implement accounting controls that provide some level of checks and balances. That is because you are able to divide certain tasks over the people available to achieve some segregation of duties. For those tasks that are decentralized, it is usually very difficult to provide for proper segregation of duties. Therefore, with one person being involved in most or all aspects of a transaction, you lose the ability to rely on the controls to achieve the safeguarding of assets and reliability of financial records.

DEPARTMENTAL CONTROLS (cont.)

As auditors, we are required to communicate with you on a variety of topics. Since there is now more emphasis on internal controls and management's responsibilities, we believe it is appropriate to make sure that you are informed about the lack of segregation of duties that may occur at departments or locations that handle cash or do miscellaneous billing. Examples in your village that fit this situation may include the following:

- Library
- Police Department

As you might expect, similar situations are common in most governments.

As auditors, we are required to focus on the financial statements at a highly summarized level and our audit procedures support our opinion on those financial statements. Departments or locations that handle relatively smaller amounts of money are not the primary focus of our audit. Yet, because of the lack of segregation of duties, the opportunity for loss is higher there than in centralized functions that have more controls.

Because management is responsible for designing and implementing controls and procedures to detect and prevent fraud, we believe that is important for us to communicate this information to you. We have no knowledge of any fraud that has occurred or is suspected to have occurred within the departments mentioned above. However, your role as the governing body is to assess your risk areas and determine that the appropriate level of controls and procedures are in place. As always, the costs of controls and staffing must be weighed against the perceived benefits of safeguarding your assets.

INFORMATIONAL POINTS

GENERAL FUND BALANCE

Following is the general fund balance of the village for the last five years:

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
General Fund					
Nonspendable	\$ 90,567	\$ 118,047	\$ 127,392	\$ 238,096	\$ 395,040
Committed/Assigned	3,408	12,733	67,316	77,739	53,557
Unassigned	<u>490,949</u>	<u>456,974</u>	<u>340,204</u>	<u>282,234</u>	<u>100,258</u>
Totals	<u>\$ 584,924</u>	<u>\$ 587,754</u>	<u>\$ 534,912</u>	<u>\$ 598,069</u>	<u>\$ 548,855</u>

As evident in the numbers above, the general fund has experienced a significant shift in fund balance from unassigned to nonspendable in the last five years.

INFORMATIONAL POINTS (cont.)

GENERAL FUND BALANCE (cont.)

Nonspendable fund balance primarily includes funds that have been advanced (loaned) to other funds for cash flow purposes. The amount has grown considerably because of the increasing deficit of TIF District No. 3. At December 31, 2012, \$253,935 is advanced by the general fund to the TIF Districts (of which \$222,947 is TIF District No. 3). Also included in this amount is \$53,290 advanced to Storm water and \$76,456 advanced to Waste Management.

While it is intended these advances will be repaid, until they are able to be, the general fund cannot consider the funds available for use. As a result, the unassigned (available) fund balance has shrunk to \$100,258, or roughly 11% of the subsequent year's budgeted expenditures. That percentage is generally viewed as below levels recommended by financial advisors and debt rating agencies.

The village will need to closely monitor its financial results throughout 2013. The financial results of other funds are directly impacting the general fund balance, and therefore, monitoring the results of all funds is critical. Long range financial planning is also important. We are available to assist with this.

UNITED STATES AUDITING STANDARDS REVISIONS

In an effort to make US generally accepted auditing standards (GAAS) easier to read, understand, and apply, the American Institute of CPAs redrafted all of the auditing sections in the Codification of Statements on Auditing Standards. This is also known as the Clarity Project. The new standards are intended to more clearly specify the objectives of the auditor and the requirements with which the auditor must comply when conducting an audit in accordance with GAAS.

Generally speaking, the Clarity Project was not intended to change what auditors actually do. However, there were several areas that resulted in changes to audit procedures. The following outlines some of the changes / areas of emphasis affecting your audit:

- Consideration of Laws and Regulations – The clarified standards require auditors to perform procedures to identify instances of noncompliance with those laws and regulations that may have a material effect on the financial statements, including the inspection of correspondence with relevant licensing or regulatory authorities.
- Communicating Internal Control Related Matters – The clarified standards require auditors to include an explanation of the potential effects of significant deficiencies and material weaknesses identified and communicated to those charged with governance.
- Auditors' Reports – The Auditors' Report will now include the use of headings, expanded discussions of management's responsibility for the financial reporting process, and the introduction of two new terms: *emphasis-of-matter* and *other-matter* paragraphs. These changes became effective for the year ending December 31, 2012 and subsequent years.

INFORMATIONAL POINTS (cont.)

GASB STATEMENT NO. 61: THE FINANCIAL REPORTING ENTITY: OMNIBUS

The Governmental Accounting Standards Board (GASB) has issued Statement No. 61, which changed governmental financial reporting for component units. These changes will affect your financial statements for the year ending December 31, 2013, primarily the government-wide financial statements, and possibly the fund financial statements.

Statement No. 61 modifies certain requirements for inclusion of component units in the financial reporting entity. For organizations in which the primary government did not appoint a majority of the organization's board, but were required to be included as component units by meeting the fiscal dependency criterion, a financial benefit or burden relationship now would need to be present between the primary government and that organization for it to be included in the reporting entity as a component unit. Further, for organizations that do not meet the financial accountability criteria for inclusion as component units; but that, nevertheless, should be included because the primary government's management determines that it would be misleading to exclude them, this Statement clarifies the criteria to be considered in determining whether the organization is to be reported as a blended or discretely presented component unit, as discussed below.

Statement No. 61 amends the criteria for reporting component units as if they are part of the primary government (that is, blending) or separately (that is, discretely) presented. Component units should now be reported as part of the primary government (blended) if they meet any of the following circumstances:

- > The governing bodies of both entities are substantially the same and there is a financial benefit or burden relationship, or management of the primary government has operational responsibility for the component unit
- > The component unit provides services entirely, or almost entirely, to or that benefit the primary government
- > The component unit's total debt outstanding is expected to be repaid entirely, or almost entirely, with resources of the primary government

The blending provisions are also amended to clarify that funds of a blended component unit have the same financial reporting requirements as a fund of the primary government. This means that if the component unit has multiple fund types within its report, these funds should be reported within the same fund types of the primary government; except for the component unit's general fund, which should be reported as a special revenue fund. Finally, additional reporting guidance is provided for blending a component unit if the primary government is a business-type activity that uses a single column presentation for financial reporting. Component units should be consolidated into the single column presentation with condensed combining information presented in the notes to the financial statements.

This Statement also clarifies the reporting of equity interests in legally separate organizations. It requires a primary government to report its equity interest in a component unit.

We are available to discuss these changes and the impact on your financial statements.

INFORMATIONAL POINTS (cont.)

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. This standard is effective for periods beginning after December 15, 2012, 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.

RECENT CHANGES TO THE PSCW WATER CHART OF ACCOUNTS

The Public Service Commission of Wisconsin (PSCW) recently approved Docket 5-US-118, which updated the uniform system of accounts (USOA) for municipal water utilities. The changes created new revenue reporting classifications and clarified accounting for conservation programs.

NEW REVENUE REPORTING CLASSIFICATIONS

The PSCW has established two new customer classifications for reporting revenues. Along with residential, commercial, industrial, and public authority, the new categories are irrigation and multi-family residential. The irrigation classification applies only when the utility has a separate rate approved for irrigation. The village does not have this rate classification. The multi-family residential classification should include any building primarily for residential purposes where one meter is used to serve three or more residential units. While implementation of this category is allowed for the 2013 information filed in 2014, it may be delayed until 2014 and included in the annual report filed in 2015. We understand staff has identified the accounts that will need to be reclassified. We recommend the reclassification be completed no later than December 31, 2013.

REQUIRED COMMUNICATIONS BY THE AUDITOR WITH THOSE CHARGED WITH GOVERNANCE

To the Village Board
Village of Belleville
Belleville, Wisconsin

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

We have completed our audit of the financial statements of the Village of Belleville for the year ended December 31, 2012 and have issued our report thereon dated March 13, 2013. This letter presents communications required by our professional standards.

***OUR RESPONSIBILITY UNDER AUDITING STANDARDS
GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA***

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. 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 the Village Board of their responsibilities.

As part of the audit we obtained an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing and extent of further audit procedures. The audit was not designed to provide assurance on internal control or to identify deficiencies in internal control.

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 prior year Report on Internal Control, and at our meeting on March 9, 2012.

To the Village Board
Village of Belleville

QUALITATIVE ASPECTS OF THE ENTITY'S SIGNIFICANT ACCOUNTING PRACTICES

Accounting Policies

Management has the responsibility for 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 Village of Belleville are described in Note I to the financial statements. As described in Note I to the financial statements, the Village of Belleville changed accounting policies related to financial reporting by adopting Statement of Accounting Standards (GASB Statement) No. 63, *Financial Reporting of Deferred Outflows of Revenues, Deferred Inflows of Resources, and Net Position*, in 2012. We noted no transactions entered into by the Village of Belleville 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. There were no significant estimates affecting the financial statements.

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 misstatement identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.

Management has corrected all such misstatements.

The following is a summary of material financial statement misstatements (audit adjustments):

	<u>Amount</u>
Adjustments to transfers	\$ 175,804
Adjustments to taxes receivable	1,916,900
Adjustments to cash and restricted cash	238,875
Adjustments to utility debt	533,030
Adjust utility accumulated depreciation	574,928
Adjust utility plant	265,471
Adjustments to retainages payable	86,834
Adjustments to accounts receivable	406,465
Adjustments to special assessments and related revenue	196,659
Adjustments to beginning fund balance	67,970
Adjustments to record joint metering allocation	14,484

To the Village Board
Village of Belleville

CORRECTED AND UNCORRECTED MISSTATEMENTS (cont.)

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

DISAGREEMENTS WITH MANAGEMENT

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

CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS

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

MANAGEMENT REPRESENTATIONS

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

INDEPENDENCE

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

Relating to our audit of the financial statements of the Village of Belleville for the year ended December 31, 2012, Baker Tilly Virchow Krause, LLP hereby confirms that we are, in our professional judgment, independent with respect to the village of Belleville in accordance with the Code of Professional Conduct issued by the American Institute of Certified Public Accountants. We provided no services to the Village of Belleville other than the 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, including:

- > Financial statement preparation
- > Adjusting journal entries
- > Compiled regulatory reports
- > Utility rate consulting

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

To the Village Board
Village of Belleville

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 Village of Belleville'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 Village 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 Vuchow Krause, LLP

Madison, Wisconsin
March 13, 2013

MANAGEMENT REPRESENTATIONS



Village of Belleville
24 W. Main Street
P. O. Box 79

Telephone: 608-424-3341 • Fax: 608-424-3423

20 BELLEVILLE, WISCONSIN 53508

Baker Tilly Virchow Krause, LLP
Ten Terrace Court
P.O. Box 7398
Madison, WI 53707-7398

Dear Baker Tilly Virchow Krause, LLP:

We are providing this letter in connection with your audit of the financial statements of the Village of Belleville as of December 31, 2012 and for the year then ended and for the Belleville Utilities as of December 31, 2012 and 2011 and for the years 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, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village of Belleville and the respective changes in financial position and cash flows, where applicable, in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the fair presentation of the previously mentioned financial statements in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining internal control over financial reporting, and preventing and detecting fraud.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

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

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter.
2. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America. We have engaged you to advise us in fulfilling that responsibility. The financial statements include all properly classified funds of the primary government and the component unit 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 are reasonable.
6. 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

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.

7. All known audit and bookkeeping adjustments have been included in our financial statements, and we are in agreement with those adjustments.
8. There are no unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with accounting principles generally accepted in the United States of America.
9. Guarantees, whether written or oral, under which the Village is contingently liable, if any, have been properly recorded or disclosed.

Information Provided

10. 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 records, 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.
11. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
12. 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.
13. 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.
14. There are no 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.
15. There are no known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.
16. There are no known related parties or related party relationships and transactions of which we are aware.

Other

17. We have made available to you all financial records and related data.
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 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.
24. There are no:
 - a. Violations or possible violations of budget ordinances, federal, state, and local laws or regulations (including those pertaining to adopting 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.
 - 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.
25. 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
 - c. Compiled regulatory reports

None of these non attest services constitute an audit under generally accepted auditing standards, including *Government Auditing Standards*.
26. The Village of Belleville 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 Belleville has complied with all aspects of contractual agreements that would have a material effect on the financial statement in the event of noncompliance.
28. We have followed all applicable laws and regulations in adopting, approving, and amending budgets.
29. The financial statements as presented omit the equity interest in the joint venture of the fire and emergency medical association. The financial statements include its component unit. There are no other joint ventures or other related organizations that require disclosure.
30. The financial statements properly classify all funds and activities.
31. 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.

32. Components of net position (net investment in capital assets; restricted; and unrestricted) and equity amounts are properly classified and, if applicable, approved.
33. The Village of Belleville has no derivative financial instruments such as contracts that could be assigned to someone else or net settled, interest rate swaps, collars or caps.
34. Provisions for uncollectible receivables have been properly identified and recorded.
35. 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.
36. Revenues are appropriately classified in the statement of activities within program revenues and general revenues.
37. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
38. Deposits and investment securities are properly classified as to risk, and investments are properly valued.
39. Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated/amortized.
40. We have appropriately disclosed the Village of Belleville'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 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.
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, including the detailed schedule of revenues and other financing sources - budget to actual - general fund, detailed schedule of expenditures - budget to actual - general fund, combining balance sheet and statement of revenues, expenditures, and changes in fund balances - nonmajor governmental funds, and combining statement of net position - agency funds:
 - a. We acknowledge our responsibility for presenting the supplementary information, including the detailed schedule of revenues and other financing sources - budget to actual - general fund, detailed schedule of expenditures - budget to actual - general fund, combining balance sheet and statement of revenues, expenditures, and changes in fund balances - nonmajor governmental funds, and combining statement of net position - agency funds in accordance with accounting principles generally accepted in the United States of America, and we believe the supplementary information, including the detailed schedule of revenues and other financing sources - budget to actual - general fund, detailed schedule of expenditures - budget to actual - general fund, combining balance sheet and statement of revenues, expenditures, and changes in fund balances - nonmajor governmental funds, and combining statement of net position - agency funds, 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 supplementary information, including the detailed schedule of revenues and other financing sources - budget to actual - general fund, detailed schedule of expenditures - budget to actual - general fund, combining balance sheet and statement of revenues, expenditures, and changes in fund balances - nonmajor governmental funds, and combining statement of net position - agency funds 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.

Sincerely,

Village of Belleville

Signed: Raymond Ward

Signed: April Hts

Signed: _____