To the Village Board
Village of Cambridge, Illinois
Cambridge, Illinois

In planning and performing our audit of the financial statements of the Village of Cambridge as of and for the year ended April 30, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the Village of Cambridge’s 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 the Village of Cambridge’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Village of Cambridge’s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the 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. We did not identify any deficiencies in internal control that we consider to be material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

Significant Deficiency

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies to be significant deficiencies in internal control.

Inadequate Segregation of Duties

The Village of Cambridge does not have effective controls to safeguard assets, and prevent or detect misstatements on a timely basis, as a result of a lack of segregation of duties. This condition increases the possibility that errors or irregularities may occur and not be detected on a timely basis. Due to the small number of people employed in administrative functions, the Village of Cambridge may not be able to fully achieve an ideal segregation of duties. Currently, management and the Board’s close oversight and review of accounting information are the best means of preventing and detecting errors and irregularities. As part of this oversight function, known control deficiencies should be re-evaluated periodically in order to determine if the internal control system can be changed to better segregate duties. We have identified the following control deficiencies related to inadequate segregation of duties.
Preparation of the Financial Statements

The Village Board and management share the responsibility for the Village of Cambridge’s internal control system. While it is acceptable to outsource various accounting functions, the responsibility for internal control cannot be outsourced.

The Village of Cambridge engages Carpentier, Mitchell, Goddard & Company, LLC to assist in preparing its financial statements and accompanying disclosures. However, as independent auditors, Carpentier, Mitchell, Goddard & Company, LLC cannot be considered part of the Village of Cambridge’s internal control system. To establish proper internal control over the preparation of its financial statements, including disclosures, the Village of Cambridge should design and implement a comprehensive review procedure to ensure that the financial statements, including disclosures, are complete and accurate. Such review procedures should be performed by an individual possessing a thorough understanding of applicable generally accepted accounting principles and knowledge of the Village of Cambridge’s activities and operations. Currently, the Village of Cambridge’s personnel do not have sufficient financial reporting knowledge to perform a review of the Village of Cambridge’s financial statements and related disclosures to provide a high level of assurance that any potential material omissions or other errors would be identified and corrected.

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

Moline, Illinois
November 25, 2013
Future Accounting Issues

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

- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*, issued November 2010, will be effective for the Village beginning with its year ending April 30, 2014. This Statement is intended to improve financial reporting for a governmental financial reporting entity by improving guidance for including, presenting, and disclosing information about component units and equity interest transactions of a financial reporting entity. The amendments to the criteria for including component units allow users of financial statements to better assess the accountability of elected officials by ensuring that the financial reporting entity includes only organizations for which the elected officials are financially accountable or that are determined by the government to be misleading to exclude. The amendments to the criteria for blending also improve the focus of a financial reporting entity on the primary government by ensuring that the primary government includes only those component units that are so intertwined with the primary government that they are essentially the same as the primary government, and by clarifying which component units have that characteristic.

- GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, issued April 2012, will be effective for the Village beginning with its year ending April 30, 2014. This Statement clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. GASB Concepts Statement (CON) No. 4, *Elements of Financial Statements*, specifies that recognition of deferred outflows and deferred inflows should be limited to those instances specifically identified in authoritative GASB pronouncements. Consequently, guidance was needed to determine which balances being reported as assets and liabilities should actually be reported as deferred outflows of resources or deferred inflows of resources, according to the definitions in CON 4. Based on those definitions, this Statement reclassifies certain items currently being reported as assets and liabilities as deferred outflows of resources and deferred inflows of resources. In addition, the Statement recognizes certain items currently being reported as assets and liabilities as outflows of resources and inflows of resources.

- GASB Statement No. 66, *Technical Corrections-2012*, issued April 2012, will be effective for the Village beginning with its year ending April 30, 2014. This Statement enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. This Statement amends GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurances Issues*, by removing provision that limits fund-based reporting of a state or local government's risk financing activities to the general fund and the internal service fund types. As a result, governments would base their decisions about governmental fund type usage for risk financing activities on the definitions in GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement also amends GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, by modifying the specific guidance on accounting for: (a) operating lease payments that vary from a straight-line basis; (b) the difference between the initial investment (purchase price) and the principal amount of the purchased loan or group of loans; and (c) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. These changes would eliminate any uncertainty regarding the application of GASB Statement No. 13, *Accounting for Operating Leases with Scheduled Rent Increases*, and result in guidance that is consistent with the requirements in GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, respectively.
Future Accounting Issues

- GASB Statement No. 67, *Financial Reporting for Pension Plans*—an amendment of GASB Statement No. 25, will be effective for the Village beginning with its year ending April 30, 2015. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 25 and 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pensions.

- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*—an amendment of GASB Statement No. 27, will be effective for the Village beginning with its year ending April 30, 2016. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement.

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