

VILLAGE OF WINNETKA, ILLINOIS

MANAGEMENT LETTER

FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2014



May 18, 2015

The Honorable Village President
Members of the Board of Trustees and Village Manager
Village of Winnetka, Illinois

In planning and performing our audit of the financial statements of the Village of Winnetka, Illinois, for the fiscal year ended December 31, 2014, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

We do not intend to imply that our audit failed to disclose commendable aspects of your system and structure. For your consideration we herein submit our comments and suggestions which are designed to assist in effecting improvements in internal controls and procedures. Those less significant matters, if any, which arose during the course of the audit, were reviewed with management as the audit field work progressed.

The accompanying comments and recommendations are intended solely for the information and use of the Board of Trustees, management, and others within the Village of Winnetka, Illinois.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various Village personnel. We would be pleased to discuss our comments and suggestions in further detail with you at your convenience, to perform any additional study of these matters, or to review the procedures necessary to bring about desirable changes.

We commend the finance department for the well prepared audit package and we appreciate the courtesy and assistance given to us by the entire Village staff.

Lauterbach + Amen LLP

LAUTERBACH & AMEN, LLP

PRIOR RECOMMENDATIONS

1. **GASB STATEMENT NO. 67 FINANCIAL REPORTING FOR PENSION PLANS AND GASB STATEMENT NO. 68 ACCOUNTING AND FINANCIAL REPORTING FOR PENSIONS**

Comment

In June 2012, the Governmental Accounting Standards Board (GASB) issued Statement No. 67, *Financial Reporting for Pension Plans*, which applies to individual pension plans issuing their own audited financial statements, and Statement No. 68, *Accounting and Financial Reporting for Pensions*, which applies to the state and local government employers that sponsor pension plans. The Statements apply to the reporting of the Illinois Municipal Retirement Fund (IMRF), Police Pension Fund and Firefighters' Pension Fund for the Village. The Statements establish standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures related to the pension plans. The Statements specifically identify the methods and assumptions that are to be used in calculating and disclosing these pension-related accounts in the financial statements and also provide for additional note disclosures and required supplementary information. The Statements are intended to improve information provided by state and local government employers regarding financial support to their pension plans, and ultimately requires that the total net pension liabilities of the pension plans be recorded on the face of the financial statements of the sponsoring government. GASB Statement No. 67 is applicable to the separately issued financial statements of the pension plan(s) for the year ended December 31, 2014. GASB Statement No. 68 is applicable to the Village's financial statements for the year ended December 31, 2015.

Recommendation

We recommended that the Village reach out to the private pension actuary engaged to provide the pension fund actuarial calculations (IMRF will automatically be providing the necessary information to all member agencies) in order to confirm the timeline for implementation and to review requested materials that will be required in order to implement the provisions and requirements of the new Statements. Lauterbach & Amen, LLP will also work directly with the Village to assist in the implementation process, including assistance in determining the implementation timeline with the Village and private actuary, providing all framework for the financial statements in order to complete the implementation, and assisting in answering any questions or concerns the Village or pension fund(s) might have related to the implementation process or requirements.

Status

This comment has not yet been implemented but will be implemented in the December 31, 2015 Comprehensive Annual Financial Report.

PRIOR RECOMMENDATIONS – Continued

2. FUNDS OVER BUDGET

Comment

Previously and during our current year-end procedures, we noted that the following funds had an excess of actual expenses over budget for the fiscal year:

<u>Fund</u>	<u>12/31/2014</u>	<u>12/31/13</u>
Foreign Fire	\$ 86,175	-
Refuse	52,186	-
Health Insurance	313,186	-
Liability Insurance	153,411	-
Fleet	46,231	81,974
Police Pension	-	82,878

Recommendation

We recommended the Village investigate the causes of the funds over budget and adopt appropriate future funding measures.

Status

This comment has not been implemented and will be repeated in the future.

Winnetka Staff Response

Prior to 2014 the Foreign Fire Fund was accounted for as part of the General Fund. The Foreign Fire Fund receives about \$75,000 annually from the 2% State Tax on property insurance policies covering property in Winnetka sold by out of State companies. The budgeted revenues and expenditures for this fund are usually the same, though in some years more or less than the amount of revenue collected is spent based on the projects approved by the Foreign Fire Insurance Board. In 2014, the Fire Department kitchen was remodeled and other purchases were made totaling \$161,175, versus a budget of \$75,000. There remains a fund balance of \$89,317 available for future purchases that may be in excess of the annual revenue collected.

The Refuse Fund was over budget because more landfill testing was done than had been anticipated. Staff will review this expense during the budget process and monitor it going forward.

The Village has several self-insurance funds. At the end of the year, staff estimates the outstanding liability for claims and adjusts the expense and reserve amounts to reflect the liability as of 12/31/2014.

The Health Insurance Fund budget overage is a result of high claim experience in 2014. Claim years 2012 and 2013 were within expectations. It is hoped that 2014 was an outlier in terms of claims expenses. Staff is looking at ways to control this expense, including offering a high deductible health care plan.

PRIOR RECOMMENDATIONS – Continued

2. **FUNDS OVER BUDGET – Continued**

Winnetka Staff Response – Continued

The Liability Insurance Fund over budget is based on staff's estimated liability of claims as of 12/31/2014, which is higher than the prior year.

The Fleet Fund expenses were higher than planned as a result of greater than expected volume and cost of maintenance and repair of department vehicles. Specifically, the vehicles in the Public Works and Refuse Departments required more repairs and maintenance than originally anticipated during the FY2014 budget process.

The Police Pension Fund is over budget primarily due to pension contribution refunds for officers that moved to another town transferring service.

3. **FUNDS WITH DEFICIT FUND BALANCE**

Comment

Previously and during our current year-end procedures, we noted the Special Service Areas Fund had deficit fund balance. See the December 31, 2014 and December 31, 2013 fund balance:

<u>Fund</u>	<u>12/31/2014</u>	<u>12/31/13</u>
Special Service Areas	\$ 126,377	171,253

Recommendation

We recommended the Village investigate the causes of the deficit and adopt appropriate future funding measures.

Status

This comment has not been implemented and will be repeated in the future.

Winnetka Staff Response

The General Fund advanced the financing of these improvements and the General Fund will be paid back over the life of these Special Service Areas, with interest. Given the small dollar amount of each Special Service Area, it was less cumbersome to finance these improvements internally. This deficit will continue until these obligations are repaid but will continue to decrease each year.

PRIOR RECOMMENDATIONS – Continued

4. FUNDS NOT IN COMPLIANCE WITH CASH RESERVE POLICY

Comment

Previously and during our current year-end audit procedures, we noted funds with fund balances that were below the minimum Board approved cash reserve policy amounts.

Calendar Year Ended 12/31/14			
	Per 2014 Budget	Cash Balance per CAFR	Amount Not In Compliance
Fleet Services Fund			
Minimum			
Operating Expenditures	\$ 899,123		
X's 4/12 per Policy	33.33%		
	299,678	63,746	235,932
Nine Months Ended 12/31/13			
	Per 2013 Budget	Cash Balance per CAFR	Amount Not In Compliance
Fleet Services Fund			
Minimum			
Operating Expenditures	\$ 849,380		
X's 4/12 per Policy	33.33%		
	283,098	77,641	205,457

Recommendation

We recommended the Village investigate the above balances and adopt future budgets to address the Refused Fund and the Fleet Fund that were below the minimum cash thresholds outlined in the Village's cash reserve policy.

Status

This comment will be repeated when there are funds below the cash reserve and fund balance/net position minimum amounts.

Winnetka Staff Response

The Village will annually evaluate during the budget process the financial position of those funds that do not meet the established minimum levels. Increasing balances in these funds may take several years to accomplish.

For calendar year 2015, there is a \$250,000 transfer from the General Fund to the Fleet Services Fund, which should bring the Fleet Services Fund into compliance with the fund balance policy.