

VILLAGE OF MORTON GROVE,
ILLINOIS

MANAGEMENT LETTER

FOR THE FISCAL YEAR ENDED
December 31, 2016



July 21, 2017

The Honorable Village President
Members of the Board of Trustees
Village of Morton Grove, Illinois

In planning and performing our audit of the financial statements of the Village of Morton Grove, Illinois, for the year ended December 31, 2016, 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 Finance Committee, Board of Trustees, management, and others within the Village of Morton Grove, 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

CURRENT RECOMMENDATIONS

1. GASB STATEMENT NO. 74 FINANCIAL REPORTING FOR POST-EMPLOYMENT BENEFIT PLANS OTHER THAN PENSION PLANS AND GASB STATEMENT NO. 75 ACCOUNTING AND FINANCIAL REPORTING FOR POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS

Comment

In June 2015, the Governmental Accounting Standards Board (GASB) issued Statement No. 74, *Financial Reporting for Post-Employment Benefits Plans Other Than Pension Plans*, which applies to individual postemployment benefit plans, and Statement No. 75, *Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions*, which applies to the state and local government employers that sponsor the plans. The Statements apply to the reporting of other post-employment benefits, including medical, dental, life, vision and other insurance coverages provided by the employer post-employment. The Statements establish standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures related to the other post-employment benefit plans, and specifically identify the methods and assumptions that are to be used in calculating and disclosing these OPEB accounts in the financial statements. The Statements also provide for additional note disclosures and required supplementary information and are intended to improve information provided by state and local government employers regarding financial support to their OPEB plans. GASB Statement No. 75 applies to the employer's reporting of other post-employment benefit plans and is applicable to the Village's financial statements for the year ended December 31, 2018.

Recommendation

We recommend that the Village reach out to the private pension actuary engaged to provide the OPEB actuarial calculations 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 assist in answering any questions or concerns the Village might have related to the implementation process or requirements.

Management Response

The Village will reach out to the actuary that has provided our OPEB calculations under the old standard and ensure that we are prepared for when the new standard takes effect.

CURRENT RECOMMENDATIONS – Continued

2. FUND BALANCE POLICY

Comment

During our current year-end audit procedures, we noted that the Village does not have a formal fund balance policy. A fund balance policy establishes a minimum level at which the projected end-of-year fund balance/net position should be maintained, taking into account the constraints imposed upon the resources reported by the governmental and proprietary funds. A fund balance policy assists in providing financial stability, cash flow for operations, and the assurance that the Village will be able to respond to emergencies with fiscal strength.

It is essential to maintain adequate levels of funds balance/net position to mitigate current and future risks and to ensure tax rates. Fund balance/net position levels are also crucial consideration in long-term financial planning. Credit rating agencies carefully monitor levels of fund balance/net position and unassigned fund balance in the General Fund to evaluate the Village's continued creditworthiness.

Recommendation

We recommend the Village create and adopt a fund balance policy to be in compliance with GASB Statement No. 54. The Village should address fund balance reporting categories (nonspendable, restricted, committed, assigned, and unassigned) as well as review minimum fund balance policies.

Management Response

While the Village does not have a formal fund balance policy, the Village has worked to ensure an appropriate fund balance is maintained, particularly in the General and Water funds. The Village will consider formalizing these policies.

3. FUNDS WITH DEFICIT FUND BALANCE

Comment

During our current year-end audit procedures, we noted the following funds had a deficit fund balance at December 31, 2016:

Fund	Deficit
Waukegan Road Tax Increment Financing	\$ 2,973,196
Economic Development	51,328
Dempster/Waukegan TIF	346,377

Recommendation

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

CURRENT RECOMMENDATIONS – Continued

3. FUNDS WITH DEFICIT FUND BALANCE – Continued

Management Response

Waukegan Road TIF - this is an older TIF fund that will be expiring in 2018. The Village is planning on transferring money from the Lehigh Ferris TIF to retire the liabilities of the fund.

Economic Development – this fund is used to promote development in the Village. It is funded by an allocation of home rule sales taxes. During the budget process, the Village will allocate enough to cover the planned expenditures.

Dempster/Waukegan TIF – this is a newer TIF that is just starting to generate TIF revenue. The Village will continue to monitor this fund.

4. FUNDS OVER BUDGET

Comment

During our current year-end audit procedures, we noted funds with an excess of actual expenditures over budget for the fiscal year. Funds over budget for December 31, 2016 are as follows:

<u>Fund</u>	<u>Excess</u>
Debt Service	\$ 106,188
Commuter Parking Facility	9,523
Municipal Employees' Retirement	867,028
Firefighters' Pension	11,664

Recommendation

We recommend the Village review the over budget funds to determine appropriate future budgeting and the potential need to make supplemental budget amendments for unforeseen transactions.

Management Response

Debt Service – The 2016 budget was prepared while there was a vacancy in the Finance Director position and the Village Administrator had just started. There was an error in the debt service amounts budgeted. The Village will ensure future budgets contain all debt service requirements.

Commuter Parking – Repairs to the lot cost more than anticipated. The Village will review this fund during the budget process.

Municipal Employees' Retirement – retirement funds are difficult to budget for because the number of new retirements is not always known. The MERF (Municipal Employees' Retirement Fund) is even harder because the fund offers a "lump sum" retirement payment option. It is extremely difficult for the Village to know who may choose that option.

Firefighters' Pension - retirement funds are difficult to budget for because the number of new retirements is not always known. The Village will review during the budget process.