

VILLAGE OF LOMBARD
REQUEST FOR BOARD OF TRUSTEES ACTION
For Inclusion on Board Agenda

070105

	Resolution or Ordinance (Blue)
X	Recommendations of Boards, Commissions & Committees (Green)
	Other Business (Pink)

TO: PRESIDENT AND BOARD OF TRUSTEES

FROM: William T. Lichter, Village Manager

DATE: February 21, 2007 (COW)(B of T) Date March 1, 2007

TITLE: A Motion to Accept and File with the Village Clerk the 2006 Comprehensive Annual Financial Report, Management Letter and Recommendations regarding the Management Letter Comments.

SUBMITTED BY: Timothy Sexton, Assistant Director of Finance

BACKGROUND/POLICY IMPLICATIONS:

The Finance Committee at their February 20, 2007 meeting unanimously voted to recommend that the Village Board accept and place on file with the Village Clerk the 2006 Comprehensive Annual Financial Report and Management Letter. In addition, the Finance Committee has unanimously concurred with staff recommendations prepared in response to the Management Letter comments. Village Board approval of these recommendations is requested. The Management Letter and the staff responses are attached. The 2006 Comprehensive Annual Financial Report has previously been distributed to the Village Board.

Fiscal Impact/Funding Source: N/A

Review (as necessary):

Village Attorney	X	_____	Date	_____
Finance Director	X	<i>Donald J. Flood</i>	Date	02/21/07
Village Manager	X	<i>David A. Hulseberg</i>	Date	02/21/07

NOTE: All materials must be submitted to and approved by the Village Manager's Office by 12:00 noon, Wednesday, prior to the Agenda Distribution.

VILLAGE OF LOMBARD, ILLINOIS

MANAGEMENT LETTER

**FOR THE YEAR ENDED
MAY 31, 2006**

November 1, 2006

The Honorable Village President
Members of the Board of Trustees
Village of Lombard, Illinois

In planning and performing our audit of the financial statements of the Village of Lombard, Illinois, for the year ended May 31, 2006, 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 Lombard, 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. 43 / 45- FINANCIAL REPORTING FOR POSTEMPLOYMENT BENEFITS OTHER THAN PENSION PLANS

Comment

In addition to pensions, many state and local governmental employers provide other postemployment benefits (OPEB) as part of the total compensation offered to attract and retain the services of qualified employees. Other postemployment benefits include postemployment healthcare, as well as other forms of postemployment benefits (for example, life insurance) when provided separately from a pension plan. GASB Statement No. 43 / 45 requires that employers accrue the cost of other postemployment benefits as those benefits are earned by employees systematically over the employees' years of service. The liability for these benefits is reported in the government-wide financial statements. The provisions of this Statement are effective for the Village's fiscal year ending May 31, 2009.

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Recommendation

For financial reporting purposes, an actuarial valuation is required at least biennially for other postemployment benefit plans with a total membership (including employees in active service, terminated employees who have accumulated benefits but are not yet receiving them, and retired employees and beneficiaries currently receiving benefits) of 200 or more, and at least triennially for plans with a total membership of fewer than 200. Other postemployment benefit plans with a total membership of fewer than one hundred have the option to apply a simplified alternative measurement method instead of obtaining actuarial valuations. This alternative method includes the same broad measurement steps as an actuarial valuation (projecting future cash outlays for benefits, discounting projected benefits to present value, and allocating the present value of projected benefits to periods using an actuarial cost method). However, it permits simplification of certain assumptions to make the method potentially usable by nonspecialists.

CURRENT RECOMMENDATIONS (Continued)

2. GASB STATEMENT NO. 44: ECONOMIC CONDITION REPORTING: THE STATISTICAL SECTION

Comment

The objective of GASB Statement No. 44: Economic Condition Reporting - The Statistical Section is to improve the understandability and usefulness of the information presented as supplementary information in the statistical section. A lack of specificity in prior standards has led to many problematic divergences of practice among governments. Furthermore, prior standards related to the statistical section did not require that governments report information on the government-wide, accrual based information established by GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. The new statistical section is to be presented in five categories – financial trends information, revenue capacity information, debt capacity information, demographic and economic information, and operating information:

- 1) Financial trend information – Intended to assist users in understanding and assessing how a government’s financial position has changed over time.
- 2) Revenue Capacity Information – Intended to assist users in understanding and assessing the factors affecting a government’s ability to generate its own-source revenues.
- 3) Debt Capacity Information – Intended to assist users in understanding and assessing a government’s debt burden and its ability to issue additional debt.
- 4) Demographic and Economic Information – Intended (1) to assist users in understanding the socioeconomic environment within which a government operates and (2) to provide information that facilitates comparisons of financial statements over time and among governments.
- 5) Operating Information – Intended to provide contextual information about a government’s operations and resources to assist readers in using financial statement information to understand and assess a governments’ economic condition.

Recommendation

The provisions of this Statement are effective for the Village’s statistical section prepared at May 31, 2007. We recommend that the Village review the current information disclosed in the statistical section and review the new requirements under GASB Statement No. 44 to determine the information that needs to be gathered to meet the necessary disclosures. Lauterbach & Amen, LLP, if requested, will provide a template with assistance in preparation to meet the requirements of Statement No. 44.

PRIOR RECOMMENDATIONS

1. GASB STATEMENT NO. 40 – DEPOSIT AND INVESTMENT AND INVESTMENT RISK DISCLOSURES

Comment

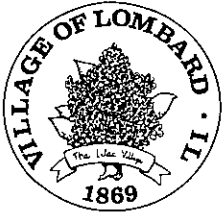
GASB Statement No. 40 addresses common deposit and investment risks. These risks include interest rate risk, credit risk, concentration of credit risk, and foreign currency risk. Under the new Statement, the Village, as a general rule, is required to disclose investments by investment type (i.e. U.S. Treasury Securities, U.S. Agency Securities, certificates of deposit, etc.). Also required is the disclosure of the Village's deposit and investment policies related to various risks, and if no deposit and investment policy has been adopted by the Village, then that information must also be disclosed.

Recommendation

In order to disclose the provisions of GASB Statement No. 40, the Village needs to provide the fair value, interest rate, and maturity date for each investment held at year-end. The disclosure for the Statement will outline the four types of risk associated with deposits and investments (i.e. interest rate risk, credit risk, concentration of credit risk, and foreign currency risk), any legal requirements related to the four types of risk, and any risk requirements stated in the Village's deposit and investment policy.

Status

The provisions of this Statement were implemented for the Village's fiscal year ending May 31, 2006.



TO: Finance Committee Members
William T. Lichter, Village Manager
Leonard J. Flood, Director of Finance

FROM: Tim Sexton, Assistant Director of Finance
Anne M. Fairbairn, Accounting Manager

DATE: January 10, 2007

SUBJECT: Responses to the FYE 2006 Management Letter

The FYE 2006 Management Letter comments from the Village auditors Lauterbach & Amen are enclosed for your review. The staff response to the Management Letter comments is as follows:

**1. GASB STATEMENT NO. 43/45 - FINANCIAL REPORTING FOR
POSTEMPLOYMENT BENEFITS OTHER THAN PENSION PLANS**

Management Letter Recommendation: An actuarial valuation will be required at least biennially for other post employment benefit (healthcare and life insurance) plans because our total membership is 200 or more employees in active service, terminated employees who have accumulated benefits but are not yet receiving them and retired employees and beneficiaries currently receiving benefits. This statement affects the Village's fiscal year ending May 31, 2009 audit.

Staff Response: The Finance department continues to work with the auditors on the requirements for GASB 43/45. Additionally, the Village will be budgeting for the actuarial valuation for the information needed to fulfill the requirements in FY2010.

**2. GASB STATEMENT NO. 44: ECONOMIC CONDITION REPORTING: THE
STATISTICAL SECTION**

Management Letter Recommendation: The Village needs to review the requirements of the statement, and the information disclosed in the current statistical section to determine the information needed to be gathered. The requirements of the statement will need to be implemented for the fiscal year ending May 31, 2007.

Staff Response: This will be another significant change in what's being presented in the current CAFR, and the transition to display the new requirements will be an objective for the Accounting staff during FY07. Steps taken so far include: a) staff has already been to training seminars through IGFOA on the requirements of GASB 44; b) Finance department has already met with

Lauterbach & Amen LLP to have them assist in ensuring the most complete information be provided to meet the provisions of the statement.

PRIOR RECOMMENDATIONS

1. GASB STATEMENT 40 – DEPOSIT AND INVESTMENT AND INVESTMENT RISK DISCLOSURES

Management Letter Recommendation: The Village needs to provide the fair value, interest rate and maturity date for each investment held at year-end. The disclosure for the Statement will outline the four types of risk (i.e. interest rate risk, credit risk, concentration of credit risk and foreign currency risk), any legal requirements related to the four types of risk and any risk requirements stated in the Village's deposit and investment policy.

Status: The Village implemented during the Fiscal Year 2006 audit.

The auditors will be in attendance at the January 16th meeting to answer any questions regarding these issues.

cc: Village President & Board of Trustees
All Department Heads