

**MINUTES OF THE FINANCE COMMITTEE OF THE VILLAGE OF KENILWORTH  
HELD AT THE VILLAGE HALL, 419 RICHMOND ROAD AT 5:00 P.M. ON  
TUESDAY, OCTOBER 7, 2008**

Chairman Thomas Terrill called the meeting to order at 5:06 p.m. Attendance was as follows:

Present:	Thomas Terrill Cristy Laier Katie White	Chairman Member Member
Others Village Officials Present:	Bradly Burke Richard Cooper Jim Hughes Maryann Van Dyke	Village Manager Village Treasurer Village Trustee Finance Administrator
Others Present:	Grace Terrill Louis Karrison Anthony Cervini	122 Woodstock Avenue Sikich, LLP Sikich, LLP

Chairman Terrill opened the meeting by stating the auditors were present to answer any questions the Committee had concerning the annual financial report. Chairman Terrill then asked Louis Karrison from the auditing firm of Sikich, LLP if he would like to first provide an overview of the report.

Mr. Karrison introduced Anthony Cervini who performed the field work for the audit. Mr. Karrison stated he would review the annual financial report, and then Mr. Cervini would proceed with an explanation of the management letter.

Highlights of the Annual Financial Report Mr. Karrison pointed out were:

- Pages 1 and 2 are the only parts of the document that belong to Sikich LLP. These two pages basically indicate the financial statements are presented fairly in all material respects as to the financial position of the Village. This year's report was deemed unqualified due to the Police Pension Fund having an actuary study completed pertaining to projected pension liabilities.
- The Management Discussion and Analysis (MD & A) is a required document prepared by management to identify key items in the annual financial statements. Mr. Karrison suggested if committee members or members of the public did not read anything else in the annual financial report this section would provide a clear picture of the Village's finances.
- On page 5 the key item is the change in net assets.
- On page 8, which includes all governmental funds, the change in fund balance was a positive. For the Enterprise Fund, which is reported on page 11, there was a decrease in net assets.
- The Police Pension Trust Fund, reported on pages 13-14, also had a decrease in net assets. This decrease was due to the depreciation in the fair market value of investments.

Mr. Karrison then asked the committee if they had any questions.

Chairman Terrill pointed out on page 45 the Illinois Municipal Retirement Fund was 77.77% funded which was a 4% increase from last year. He also pointed out there is not much the Village can do about the funding level of this retirement fund. Chairman Terrill then cited page

46 which shows the Police Pension Fund was 67.17% funded. Chairman Terrill expressed his opinion it was good the Village used an actuary to provide guidance as to what contributions the Village needed to make to have the Police Pension Fund increase its percentage funded.

Member Laier asked for an explanation of page 9 "Net Change in Fund Balances – Total Governmental Funds." Mr. Karrison explained the fund statements are based on a modified accrual basis where budgeting is key. The flow of funds are what you get in and what you spend, and explained this does not account for capital assets, depreciation and long term debt. The Governmental Accounting Standards Board (GASB) changed reporting requirements to have the statements on par with other types of entities that use the full accrual basis in their financial statements. Mr. Karrison explained the items on page 9 convert the statements from a modified accrual basis to a full accrual basis of reporting.

Member Laier's next question concerned the fact the amount in the Illinois funds (IPTIP) reported on page 24 was less than last year. Manager Burke pointed out that the Water Fund has been paying back to the General Operating Fund money that is owed.

The last two questions Member Laier had were concerning the Waterworks System Fund on pages 66 – 67. She wanted to know why the water revenue was under budget and on investment income. Manager Burke explained that the water revenue was based strictly on usage. He also commented that you had to look at the weather for the summer, which is when water use normally will rise, and noted the information presented in the annual financial report would reflect the water use in the summer of 2007.

There were no further questions on the Annual Financial Report. Anthony Cervini then went on to explain the Management Letter for fiscal year 2007-2008.

Mr. Cervini explained the management letter reports on items of deficiency in internal controls. He pointed out that paragraph 3 on page 1 explained the three types of deficiencies an auditor is required to report.

Mr. Cervini explained the items of deficiencies that were reported for the current year's audit. There was considerable amount of discussion on the GASB 33 requirement of when revenue was to be recognized since certain revenue was found during the audit to be improperly recorded.

The discussion turned to the reported material weakness in debt recording. Mr. Cervini explained why that deficiency came about due to a 2007 bond expense being recorded as a cash balance. Member White requested this item be researched to make sure it was not paid during fiscal year 2006-2007. Manager Burke pointed out that this was an item that occurred during the bond refinancing in the previous fiscal year and noted it was related to the refinancing that took place in January 2006. The members of the committee were assured by Manager Burke this item would be investigated and he would report back to the Village Board.

Next Mr. Cervini explained the accounting for the Police Pension Fund investments was not done on a timely manner and statements should be recorded at least quarterly.

The final item the auditors noted was a control deficiency in the accounting system tracking the compensated absence liability. Manager Burke noted this deficiency was an error in the Village's software system which tracks compensated absences and that the error had been corrected.

Mr. Cervini pointed out that page 3 of the Management Letter listed future accounting pronouncements by the Governmental Accounting Standards Board. Mr. Karrison went over which ones he thought would affect the Village.

Mr. Karrison explained how the GASB Statements for the *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions* would need to be addressed by the Village. His suggestion was to have an actuary calculate the cost of the post-employment benefit that allows retirees to stay on our health insurance plan. After a discussion, the question came up as to whether or not the Village needs to comply with this requirement since they are a part of an insurance pool. Mr. Karrison agreed to research the question and get back to Manager Burke.

The appendix of the Management Letter addresses the status of prior year recommendations. Mr. Cervini went over these items with the committee. Manager Burke stated the employee handbook had been reviewed by legal counsel and he was hoping to bring it to the Finance Committee in December.

In regard to the prior year's recommendation of the segregation of duties, Mr. Karrison suggested, since the segregation of duties is a condition that will always be of concern in an operation of this size, that the Committee could agree to eliminate that suggestion in next year's report. The committee felt that it would be best to leave this item in the Management Letter so that future board members would be aware of the need to pay attention to segregation of duties due to the small size of Kenilworth's operations.

Chairman Terrill asked for a motion to recommend to the Village Board the acceptance of the Annual Financial Report and Management Letter. Member White made the motion and Member Laier seconded the motion. The motion was unanimously passed.

Chairman Terrill then mentioned a recent newspaper article about budget cuts "across the board" and noted the coming budget cycle would be a difficult one for the Village.

Manager Burke commented that the Revenue and Expenditure Committee had requested that he project the baseline budget out to 2015. He also mentioned that it was his intent to provide the Finance Committee a copy of the baseline budget at the November meeting. At that time the staff will be looking at whatever guidance the committee gives with regard to the fiscal year 2009-10 budget.

Member White then asked if the Finance Committee could consider holding a joint meeting with the Revenue/Expenditure Study Committee. Chairman Terrill thought that the Revenue/Expenditure Study Committee would come to them when they were ready.

Member White clarified that she did not want the joint meeting to push the Revenue/Expenditure Study Committee for a recommendation but so that they could give the Finance Committee an update as to their progress. Member White expressed her opinion it would be important to receive regular updates from the Revenue/Expenditure Study Committee on their work they are completing.

Manager Burke mentioned that the members of the Revenue/Expenditure Study Committee have been meeting regularly and in their respective task groups. Manager Burke noted that the Committee's timeline was originally to have a report for transmittal to the Village Board in December but it would more likely be January. Chairman Terrill commented that the Revenue/Expenditure Committee was still assembling information.

Manager Burke noted that the next Finance Committee meeting was scheduled for November 4, 2008 which is Election Day. The committee then discussed the possibility of meeting on November 3, 2008 at 5:00 p.m. instead of on November 4, 2008. All members agreed that the next meeting would be scheduled on November 3, 2008 due to the board room being used as a voting precinct.

Member Laier made a motion to adjourn. Member White seconded the motion which was unanimously carried, and the meeting adjourned at 6:50 p.m.

Respectfully submitted,

Brad Burke