

Village of Shorewood Hills Budget and Financial Policies

Adopted by Village Board

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Village of Shorewood Hills

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Village of Shorewood Hills

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A.
Village of Shorewood Hills
Annual Budget Process and Procedures

I. Summary:

The Village of Shorewood Hills Board of Trustees relies heavily on the Finance Committee to develop the annual Village budgets. These budgets include the General, Sewer, Water, Stormwater, Swimming Pool, Marina, Capital and Debt Service funds. Residents, Trustees and the general public are encouraged to attend meetings of the Finance Committee if they want to provide input into the development of the annual budgets. Generally, at least seven public meetings are held to work on the budgets two of these meetings specifically solicit public input.

II. July/August:

Department heads receive requests for budget proposals from the Village Clerk and Village Administrator during the July/August time period. The department heads should prepare a forecast of the anticipated revenues and expenses for the current year. In addition, a proposed budget for the following year should be provided. The completion deadline for these documents to be returned to the Village Clerk and Village Administrator is the end of the first week in September.

III. First and second week of September:

The Village Administrator reviews the year end forecast and next year's budget meets with department heads and revises these documents as necessary. These budgets are then combined into one overall proposed budget and provided to the Finance Committee for review.

IV. Third week of September through October:

The Finance Committee meets as necessary to review budget documents. These meetings are open to all interested parties. Normally four to five meetings are held during this period to develop the budget for the Village. Normally at a Finance Committee meeting held during the last week of October, the Finance Committee provides a proposed budget to the Board for evaluation and approval.

V. First or second week of November:

A public budget information session is held early in November to explain the proposed budget and address any questions and concerns of any interested party. This meeting is noticed as a Board meeting, and the Board can make changes to the proposed budget at this time, if it so chooses.

VI. Third week or fourth week of November:

The statutorily required public hearing on the general, sewer and water budgets is held at the regularly scheduled board meeting in November, typically the third Monday of the month. After the public hearing, the Board considers all of the budgets and may make modifications. Budget approvals take place at that meeting and the tax levy is set.

VII. The Working Budget:

Budgets are approved by the departmental level. In considering departmental budgets, the Finance Committee and the Board evaluate a schedule of line-items for each department, which constitute estimates of proposed expenditures. After the budget has been adopted by

the Board, transfers may be made from one line-item to another within a department, provided that: (1) department heads secure the written approval of the Village Administrator for each transfer greater than \$500.00; and (2) the transfers are reported to the Finance Committee and the Board as soon as practicable after the close of each quarter of the fiscal year provided that substantial variations shall be authorized by the Board.

Expenditures in excess of \$500.00 require a purchase order and the approval of the Village Administrator. Expenditures of less than \$500.00 may be approved by department heads.

B. Fund Balance Policy

I. Objective:

A formal policy governing the purpose of an unassigned general fund balance is an effective financial management tool. A formally adopted policy helps eliminate ambiguity regarding the proper amount to maintain in the unassigned fund balance.

II. Definition:

The General Fund is the general operating fund of the Village. It is used to account for all financial resources except those accounted for in another fund. The unassigned fund balance is the portion of the General Fund not assigned to a defined purpose.

III. Policy:

To preserve working capital and to adequately prepare for unforeseen events which require ready access to funds, it is the policy of the Village to maintain as the unassigned fund balance a sum equal to 15% to 25% of the General Fund annual budget.

Any appropriation from the unassigned fund balance requires a two-thirds affirmative vote of the Board.

IV. Procedure:

The Village Administrator and the Finance Committee shall annually review the levels of the unassigned fund balance to ensure that appropriate levels are maintained.

V. Formula:

The formula for computing the unassigned fund balance percentage is as follows:

$$\frac{\text{Current Year Unassigned Fund Balance}}{\text{Current Year General Fund Budget}} = \% \text{ of Fund Balance}$$

C. Special Revenue Funds

I. Swimming Pool Fund The Village Board established the special revenue swimming pool fund in compliance with GASB 54. Also refer to Section G on page 16, “Compliance with GASB 54, Commitment Resolution R-19-2010.”

a. Pool Rent Policy

The Village of Shorewood Hills pool facility was originally built in 1971 entirely at the expense of Village taxpayers. The Village has made a substantial investment in both the land and facilities devoted to the pool operations. The pool facility occupies valuable real estate (land and improvements) which, if on the tax roll, would generate substantial property tax revenue for the Village. The pool is now a Village enterprise fund, supported by user fees, and operated in significant part for the enjoyment of those residents and non-residents who choose to be pool members. While pool users now pay, through membership fees, for pool-related debt service and operational obligations, Village taxpayers ultimately bear the financial risk and responsibility associated with the ownership and operation of the pool facility. The Village and its taxpayers are entitled to a reasonable rate of return, fairly denominated rent, on the pool investment, as a component of the user fees paid by those who benefit most directly. Consistent with these considerations, the concerned parties have agreed that an annual rent payment from the pool to the Village general fund, in the amount of 6.5% of pool gross revenues from the prior year, is appropriate.

II. Waterfront Fund

The Village Board established the special revenue waterfront fund in compliance with GASB 54. Also refer to Section G on page 16, “Compliance with GASB 54, Commitment Resolution R-19-2010.”

D. Debt Policy

I. Objectives:

The Village shall strive to maintain a balanced financing of its capital improvements through utilization of current revenues and issuance of long term debt. The Village recognizes that access to capital markets over the long term is dependent upon the Village's commitment to full and timely repayment of debt.

II. Policy:

The Village may issue bonds and notes for purposes of financing its capital improvements or to refund existing debt. Capital improvements include projects to acquire, plan, design, construct, improve and equip all or any part of its facilities or systems, promote economic development or to secure quality of life improvements.

III. General Guidelines:

- a. The Village shall assess the fiscal impact of the debt prior to issuance.
- b. General obligation debt shall not exceed Wisconsin State statute limitations of 5 percent of equalized valuation.
- c. Total annual debt service payments on tax-supported debt, excluding tax increment finance debt, of the Village will normally not exceed 25 percent (25%) of total general government operating revenue.
- d. The Village shall not enter into any contracts creating significant unfunded liabilities.
- e. The Village shall not incur debt obligations which have variable interest rates, negative amortization or other risky attributes, including but not limited to auction-rate bond issues, or loans with unusual deferred principal payment.

IV. Maximum Maturity:

All tax supported debt obligations shall have a maximum maturity of the earlier of: (i) the estimated useful life of the capital improvements being financed; (ii) twenty years; or (iii) in the event they are being issued to refinance outstanding debt obligation, the final maturity of the debt obligations being refinanced unless a longer term is recommended by the Finance Committee.

V. Refunding:

Periodic reviews of outstanding debt by Village staff shall be undertaken to determine refunding opportunities. Refunding may be considered by the Finance Committee if it appears there may be a net economic benefit of the refunding.

In general, refunding for economic savings may be undertaken when the present value of future annual debt service savings net of issuance cost amount to at least two percent (2%) of the refunded debt.

VI. Needs Assessment and Fund Alternatives:

a. Identifying Useful Life of Project.

Capital projects and equipment financed through the issuance of debt shall be financed for a period not to exceed their expected useful lives. Utilization of debt for capital expenditures shall normally be limited to the purchase of equipment or real property that has a useful life of two or more years and a cost of \$10,000 or more, with the exception of equipment such as furnaces, fixtures or equipment that lose identity when installed on real property.

b. Review of Financing Alternatives.

- i. The Village may consider using non-general obligation debt to finance activities that are funded from sources other than general property taxes.
- ii. The Village may implement impact fees, and negotiate developer contributions and seek grants to finance capital improvements whenever possible to ensure that new development pays its fair share of the increased costs created by the new development.
- iii. As the budget is prepared, the Village may determine, based upon the financial interests of the Village, the appropriate mix of tax levy paid projects to financed projects.
- iv. Under no circumstances shall the Village install public improvements for private development without fully securing the financial interests of The Village.

VII. Issuance of Obligations:

Legal and Regulatory Requirements.

It is the policy of the Village that the Village Administrator, Village Clerk, the Village Attorney; Village Financial Advisor and Village Bond Counsel coordinate their activities to ensure that all securities and other debt obligations are in compliance with all applicable legal requirements and that the securities and other debt obligations are issued in the most cost-effective manner.

VIII. Disclosure:

The Village is committed to transparent financial disclosure, and to cooperating fully with rating agencies, institutional investors, other units of government, and the general public, in order to share clear, comprehensible, and accurate financial information.

The Village Administrator or designee shall provide continuing disclosure in compliance with any continuing disclosure certifications that may be made at the time of each debt issuance.

IX. Post-Issuance Compliance Policy for Tax Exempt Obligations

This policy is intended to provide reasonable assurance that the Village of Shorewood Hills will maintain compliance with applicable provisions of the Internal Revenue Code, and with any applicable disclosure requirements prescribed by SEC Rule 15c2-12, following the issuance of tax exempt obligations.

The Village Administrator with assistance from the Village Clerk shall be responsible for assuring that the Village maintains post-issuance compliance with applicable provisions of the Internal Revenue Code, and SEC Rule 15c2-12, for each separate issue of tax exempt obligations that the Village may issue.

In order to assure that the Village maintains such post-issuance compliance, the Village Administrator or the Village Clerk as directed by the Village Administrator shall consult at least annually with Village bond counsel, and at least annually with Village auditors, to review and update any guidance they have provided with respect to post-issuance compliance, for each separate issue of tax exempt obligations that the Village may issue, including but not limited to guidance concerning:

1. documents and records that must be maintained;
2. compliance procedures or systems that may be necessary or appropriate;
3. applicable rules and regulations with respect to arbitrage or other matters;
4. any actions that must be taken, together with any applicable deadlines, in order to maintain compliance; and
5. any actions that must be avoided in order to maintain compliance.

It is the policy of the Village that the Village auditors and bond counsel shall each document their initial guidance, and any new guidance or change in guidance, in the form a letter to the Village Administrator. It is also the policy of the Village that, upon receipt of such a letter, the Village Administrator and/or Clerk shall take any actions that may be necessary or appropriate, and document the fact that those actions have been taken.

E.

Investment Policy

I. Objective:

To establish a uniform policy governing the investment of operating funds of the Village of Shorewood Hills.

II. Policy:

As a matter of policy, the Village does not invest in stocks, corporate bonds, futures, or derivatives, and has limited deposits and investments of Village funds to those that are specified as “authorized and suitable” in Part VI of these financial policies. The limitation of deposits and investments to those that are “authorized and suitable” is designed to assure the safety of principal and to minimize both credit risks and interest rate risks.

Investment Objective:

With respect to deposits and investments of Village funds that are specified as “authorized and suitable” in Part VI, the primary objectives, in order of importance, shall be:

Safety. Deposits and investments and shall be undertaken in a manner that seeks to ensure the preservation of principal, and to minimize credit risk and interest rate risk.

Liquidity. Deposits and investments shall be sufficiently liquid to enable the Village to meet all reasonably anticipated operating requirements.

Return on Funds. Deposits and investments shall seek a high rate of return commensurate with the objectives of safety and liquidity.

III. Delegation of Authority:

Management responsibility for the investment of funds is hereby delegated to the Village Administrator and Village Clerk with oversight by the Finance Committee

IV. Ethics and Conflicts of Interest:

Officers, elected and appointed officials and employees involved in the investment of funds shall abide by the Village Ethics Code. Employees and investment officials shall disclose to the Village Administrator any material financial interest in financial institutions that conduct business within the Village, and they shall further disclose any large personal financial investment positions that could be related to the performance of their duties for the Village of Shorewood Hills, particularly with regard to the time of purchases and sales.

V. Authorized and Suitable Investments:

The investment of Village funds shall be in accordance with Wisconsin statutes. Village policy when practicable is to maintain checking account balances under \$100,000 with excess amounts transferred to the Local Government Investment Pool. As practicable, investment amounts are limited to the maximum of state and FDIC insurance limits for each institution unless collateralized.

Certificates of Deposit. Village funds may be invested in time deposits in any credit union, bank, savings bank, trust company, or savings and loan association, which is authorized to transact business in the state of Wisconsin if the time deposits mature in less than three (3) years. Preference may be given, within reason, to area financial institutions.

Government Bonds and Securities. Village funds may be invested in United States government bonds or securities which are direct obligations of, or guaranteed as to principal and interest by, the federal government; and bonds, or securities which are obligations of an agency, commission, board or other instrumentality of the federal government, where principal and interest are guaranteed by the federal government. The securities must be purchased through finance institutions authorized to conduct business in the state of Wisconsin and placed in safekeeping in a segregated account in the Village's name as any designated public depository or approved financial institution.

Local Government Investment Pool (LGIP). Village funds may be invested in the Wisconsin Local Government Investment Pool.

Savings Deposit. Village funds may be invested in interest bearing savings, demand deposits, and money market accounts.

VI. Internal Control:

The Village Administrator shall maintain an annual process of independent review by an external auditor and maintain a system of internal controls.

F.

Capitalization Policy

Governmental Accounting Standards Board (GASB) Statement 34 requires the Village to record and depreciate capital assets as appropriate. Capital assets include land and land improvements, buildings and building improvements, machinery and equipment, construction work in progress, infrastructure, and all other tangible or intangible assets that are used in operations that have initial useful life of at least one year. Infrastructure assets are generally long-lived capital assets that are stationary in nature.

I. General Guidance

Capitalization Criteria

GASB No. 34 requires the following treatment of various cost categories for users of the depreciation method.

<u>Issue</u>	<u>Treatment</u>
Maintenance Costs *	Expense
Preservation Costs **	Capitalize
Additions	Capitalize
Improvements	Capitalize
Ancillary Costs (freight, etc.)	Capitalize
Interest cost during construction	Expense

* These costs **do not** increase the useful lives of the assets.
** These costs **do** extend the lives of the assets.

Capitalization Thresholds

Capital assets will be reported at historical cost. The cost of a capital asset includes the acquisition price plus the expenditures necessary to place the asset in its intended location and condition for use. Donated or contributed assets are recorded at fair market value as of the date the asset is acquired.

GENERAL CAPITAL ASSETS

<u>Class of Asset</u>	<u>Examples of Costs to be Capitalized</u>	<u>Threshold</u>
Machinery and equipment	Purchase price, freight charges, assembly, installation	\$5,000
Land & land improvements	Purchase price or market value, closing costs, cost of preparing the land for use,	Capitalize all land *, capitalize improvements-

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	demolition of existing building and improvements	greater than \$5,000
Buildings and building improvements	Materials, labor permits, design costs, site excavation, purchase price	\$5,000

Construction work in Progress **

* Land – The Village capitalizes all land acquisitions, regardless of cost. This results in a complete inventory of land owned by the Village and reduces the possibility of confusion about whether additional parcels should have been included in the capital asset records.

** Construction work in progress is reported for assets that will ultimately be capitalized based on the capitalization policy for the particular asset.

INFRASTRUCTURE CAPITAL ASSETS

<u>Class of Asset</u>	<u>Threshold</u>
All infrastructure networks	\$25,000

See Attachment A for specific guidance on the treatment of infrastructure costs to be capitalized.

II. Useful Lives

Consider the following when determining the useful life of an asset:

- The length of time these assets have historically lasted
- Anticipated changes in technology
- Specific asset use
- Maintenance practices – among Village departments, similar assets may be assigned different useful lives, depending on asset use and maintenance

GENERAL CAPITAL ASSETS – GENERAL GUIDANCE:

- Buildings and building improvements – 10 to 40 years
- Equipment – 5 to 25 years
- Vehicles – 4 to 20 years
- Land Improvements (depreciable) – 10 to 20 years

GENERAL CAPITAL ASSETS – SPECIFIC GUIDANCE:

See Attachment B for a list of specific asset types and suggested useful lives.

INFRASTRUCTURE CAPITAL ASSETS – SPECIFIC GUIDANCE:

• Asphalt Roads	50 years
• Storm Sewer	50 years
• Water infrastructure.....	40-100 years
• Sanitary Sewer infrastructure.....	40-100 years
• Retaining Walls	75 years
• Trails.....	15 years
• Bike Paths.....	15 years

The useful lives of the general capital assets and infrastructure capital needs will be reviewed periodically and adjustments will be made to the capital asset records as necessary.

III. Salvage Value

The salvage value of general capital assets is deemed to be immaterial to the financial statements. Therefore, generally the Village will not record salvage value on general capital assets.

IV. Disposition of Assets

Fixed assets may be disposed of due to sale, obsolescence, loss, destruction, or replacement. Upon disposal of an asset, the capital asset records will be relieved of the cost and related depreciation.

V. Depreciation Method

The straight-line depreciation method will be used for all general capital assets. The capital asset software program used by the Village allows for depreciation to be calculated on an individual asset basis. In addition, depreciation will be calculated in the year of addition based on the date the asset was put into use (i.e. only a portion of depreciation will be recorded in the year of addition).

Infrastructure capital assets will be depreciated on the straight-line method on an annual basis. Assets will be depreciated on an individual segment basis, when possible, or a composite method when determined to be more reasonable.

VI. Collections

The general Village policy is that assets will be reported individually in the capital asset system. However, collections of assets (and all additions to the collection) will be capitalized together if the collection meets all of the following conditions:

- a. The collection is held for public exhibit, education, or research in furtherance of public service, rather than financial gain.
- b. The collection is protected, kept unencumbered, cared for, and preserved.

- c. The collection is subject to a Village policy that requires the sale of the collection items to be used to acquire other items for the collection.

Capitalized collections should be depreciated over their estimated useful lives, unless the collection is inexhaustible.

Capitalization Policy
Attachment A – Specific Infrastructure Capitalization Guidance

<u>Network</u>	<u>Examples of Costs to be Capitalized</u>	<u>Examples of Costs to be Expensed</u>
Roads	New construction, partial reconstruction, full reconstruction	Crack filling, sweeping, patching, sealcoating, pavement rehabilitation, pavement recycling, overlay
Water	Mains, valves, pumps meters, new construction	Water repairs
Sanitary Sewer	Mains, jetter, new construction lift station	Sewer repairs
Storm Sewers	New storm sewers, replacement of storm sewers	Storm sewer repairs
Bridge	New construction, partial reconstruction, full reconstruction	Crack filling, patching
Retaining Walls	New construction, partial reconstruction, full Reconstruction	Crack filling, patching
Bike Paths	New construction, partial Reconstruction, full Reconstruction	Crack filling, patching, overlay

G.
Compliance with GASB 54

I. GASB 54 Assignment Resolution

Resolution R- 20 -2010

Approve Assignment of Fund Balances

WHEREAS, the Governmental Accounting Standards Board (GASB) has issued Statement No. 54 – *Fund Balance Reporting and Governmental Fund Type Definitions*, which changes the terminology used for fund balance reporting on balance sheets of Governmental Funds, AND;

WHEREAS, the Village of Shorewood Hills Finance Committee has reviewed the new terminology, AND;

WHEREAS, the Village Finance Committee recommends the Village Board periodically assign resources to specific projects / purposes within the General Fund.

NOW, THEREFORE, BE IT RESOLVED that the Village Board of the Village of Shorewood Hills accepts the aforementioned recommendation;

Passed by the Village Board of the Village of Shorewood Hills this 22nd day of November, 2010.

II. GASB 54 Commitment Resolution

Resolution R -19 -2010

Approve Commitment of Fund Balances

WHEREAS, the Governmental Accounting Standards Board (GASB) has issued Statement No. 54 – *Fund Balance Reporting and Governmental Fund Type Definitions*, which changes the terminology used for fund balance reporting on balance sheets of Governmental Funds, AND;

WHEREAS, the Village of Shorewood Hills Finance Committee has reviewed the new terminology, AND;

WHEREAS, the Village Finance Committee recommends that the Swimming pool revenues and other resources of the Shorewood Hills Pool Special Revenue Fund be committed for the operation, maintenance and capital improvements of the pool AND;

WHEREAS, the Village Finance Committee recommends that the Waterfront fund revenues and other resources of the Waterfront fund be committed for the operation, maintenance and capital improvements for the marina, moorings and boathouse;

NOW, THEREFORE, BE IT RESOLVED that the Village Board of the Village of Shorewood Hills accepts the aforementioned recommendation;

Passed by the Village Board of the Village of Shorewood Hills this 22nd day of November, 2010.