

**Village of Shorewood Hills
Finance Committee
Approved Meeting Minutes
Tuesday, June 12, 2018**

1. **Call to Order** – Finance Committee Chairperson Fred Wade called the meeting to order at 5:30 pm.
2. **Roll Call Committee** – Members present were Mr. Wade, Mark Lederer, Karl Wellensiek, Gard Strother and Sean Cote. Carl Gulbrandsen and David Ahmann were excused. Also in attendance were Village Administrator Karl Frantz, Administrative Services Manager/Deputy Clerk David Sykes, Village Clerk Karla Endres and Stephanie Nelson, Audit Manager at Baker Tilly.
3. **Note Compliance with open meeting laws** – Mr. Frantz confirmed the meeting had been properly posted and noticed.
4. **Review/approve February 14, 2018 minutes** – Mr. Cote clarified his statement regarding the impact of additional fees in the context of the new federal tax deduction limits. The minutes were changed to read:

Mr. Cote indicated he has changed his mind regarding adding fees in light of the tax law changes. With the \$10K limit on property tax and State income tax deductions, how much is a utility fee going to affect most residents?

Mr. Cote moved and Mr. Strother seconded a motion to approve the minutes with this change and correction of a couple of typographical mistakes.
Approved on a vote of 4-0-1 (Mr. Lederer abstaining).
5. **Consider 2017 Financial Statements** – Ms. Nelson, the Village’s lead auditor, presented the highlights of the Draft 2017 Financial Statements. Mr. Frantz had discussed the Financial Statements with Ms. Nelson prior to the meeting resulting in an adjustment to the fund balances in the draft. The Unassigned balance was reduced from \$807,853 to \$699,615 and the Nonspendable balance was increased the same amount from \$127,351 to \$235,589 reflecting money advanced to TIF 4. TIF 4 is now creating surplus increment and should be able to be able to pay back the General Fund advance over time. The adjustment to the Unassigned and Nonspendable Funds did not change overall General Fund Balance of \$1,118,567 (down from \$1,345,235 in 2016). The assigned balance of \$183,363 includes ~\$133K expected to be used to balance the 2018 budget.

Mr. Frantz reviewed the 2016 and 2017 revenues and expenses. At the end of 2016, the Nonspendable balance was \$334,615 (most of which is comprised of an advance to TIF 4). At the end of 2017, it decreased to \$235,589 and is expected to continue to go down in the future as TIF 4 pays off the advance. The Assigned balance is comprised mostly of the fund balance applied to the subsequent year’s budget. The Unassigned balance decreased as well. In 2017, the Village expected to use \$141,401 of fund balance. The Village actually used \$226,668 of fund balance or \$85,267 more than expected. Revenues were more than expected, mostly due to increased state road aid, building inspection fees,

investments, insurance dividend, recreation program participation and Village tree sales. Expenses were more than expected, as well, mostly due to retirement of the Police Chief (unanticipated payment of the Chief's health insurance premium from accrued sick leave), Interim Police Chief/hiring process and officer overtime and part-time work, new Police Chief's salary and signing bonus, the data crash and staff time to restore records, and increased costs related to building inspections, recreation programs and tree sales. 2018 expenses are on track and Mr. Frantz is working with Department Heads to keep expenses within budget. Some potential, unbudgeted revenues in 2018 include the insurance claim for the data loss, building permit fees and an increase to the annual insurance dividend.

Mr. Wellensiek asked about the status of the Madison Water claim for lost water. Mr. Frantz indicated that any money received would go to the Water Utility, not the General Fund, but he was not too optimistic about receiving compensation.

Ms. Nelson continued with the highlights of the Financial Statements. The analysis of the General Fund balance showed the Unassigned Fund balance is ~23% of 2017 expenses which is within the Village's self-imposed limit of 15-25%. The General Obligation Debt percentage continues to go down in relation to the debt limit (55% in 2016, 52% in 2017). The Village has done a good job of borrowing money when interest rates were low. The Village's debt to capital ratio is stable at ~30%. As with most municipalities, the Village's revenues come mainly from property taxes and the majority of expenses are for public safety. The Madison Fire Department fee has increased due to the new apartment buildings but should stabilize now. Some of the fee increase is offset by a fee paid by developers building in the TIF districts. With respect to the other Village Funds, the Financial Statements are a snapshot of the funds at the end of 2017. Most of the money listed in the Capital Improvement Fund has been spent on the new storage building, there is about \$100K remaining. Loans to the utilities should be paying back about \$400K over the next four years which is about one year behind the previously expected payback schedule. The water utility did not perform as expected, mainly due to the purchased water loss due to a couple of large leaks in the mains. Madison Water has finally supplied the Village with the ability to read the meters in the incoming and outgoing meter pits. Village staff records the meter readings daily and should be able to identify future leaks immediately. Mr. Frantz said he is confident the water utility will produce the expected revenue moving forward. Ms. Nelson indicated that TIF 3 and TIF 4 are producing some revenue but they have large debt payments and payments to developers. The property revaluation done in 2017 should help the TIF districts in the long run. The Sewer and Stormwater Utilities are stable.

Ms. Nelson discussed the data crash and commended the staff for the data restoration. The auditors tested numerous items and didn't find any significant issues. Staff did a great job getting everything ready for the audit in light of the data crash and Ms. Albrecht's retirement.

Mr. Lederer found some minor errors in the draft Financial Statements. He will work with Mr. Frantz to get his information to Ms. Nelson so she can finalize them in the next

7-10 days. He asked if the staff restructuring done this year will result in some of the check marks in the Governance and Management Letter being removed for the 2018 Financial Statements. Ms. Nelson said it is possible but some check marks result from having a small staff. Testing of procedures during the audit are directly related to some of the internal control deficiencies.

Mr. Lederer asked about the material misstatements section. There are some tasks that the auditors perform rather than staff, but the draft letter states that the work was done in response to misstatements by management. Could the language be changed to “Audit Adjustments” or language added to clarify that some work was done by the auditors and was not the result of misstatements by Village management. Ms. Nelson said she would check to see if the language could be changed. Mr. Wade added that some language should be added to the Governance Letter to illustrate management’s reliance on the auditors for preparation of certain entries in the Financial Statements. Mr. Lederer also asked what is the magnitude of decentralized cash collection at Pool and Police Department. The Pool is moving more towards credit card payments, so the amount of cash may not be significant but the auditors take a conservative approach to highlight the situation for consideration by management.

6. **Update on water utility water loss matters** – Discussed previously with the Financial Statements.
7. **Update on Village computer system, restoration of system, and pending claim** – Discussed previously with the Financial Statements.
8. **Review 2018 General Fund financials** – Discussed previously with the Financial Statements.
9. **Set next meeting date** – The Committee will meet in July to review the finalized 2017 Financial Statements.
10. The meeting was **adjourned** at about 7:00 pm.

Respectfully submitted,

David Sykes
Administrative Services Manager/Deputy Clerk