

DRAFT, FOR DISCUSSION PURPOSES ONLY

Questions listed below are those formulated by the Village Board and contained in the Request for Proposal for this engagement, and are in the same sequence. Our answers, based on extensive review of documents and interviews with various Village management, staff, elected officials, and others with knowledge of the building construction project and our analysis of our findings follow each question.

1. Should a separate fund or account have been created for the expenditures associated with private pledges? If so, why wasn't that done?

Answer: Historically, the village would use only one fund to account for a project which had multiple funding sources. This practice is in accordance with generally accepted accounting principles. The reason given for creating only one fund for this project was that expenditures could not effectively be identified and segregated as to which source was financing the expenditure.

2. Is it an acceptable accounting practice to make an Advance from the General Fund to cover a deficit in private pledges without Village Board authorization? If so, what documentation or record would an auditor expect to see to support such an Advance?

Answer: Generally accepted accounting principles do not require village board authorization for advances; however, controls placed on management by governing bodies vary from community to community relative to advances. Many communities allow management to make advances without formal authorization from their governing body. Other communities require all advances or advances exceeding a certain dollar amount to be presented to the governing body for approval. The Shorewood Village Board has no formal policy regarding advances. Past practice by the Village has not required any advances to be presented for approval.

3. Are expenses understated by staff report?
 - A. Why are debt expenses excluded? (see Tab 21, E108-70-700-5010.) Given the wording of the referendum, is it an acceptable accounting practice to exclude the debt origination and interest expenses? [Note also, February 2002 Library & Village Center Campaign literature lists the village commitment as \$5,000,000 for construction and fees.] What documentation would an auditor expect to see relating to this decision?

Answer: Management indicated that including interest costs as part of the cost of the project was never considered. However, debt expenses as shown in Tab 21 of the Manager's January 5, 2004 Report to the Village Board totaled \$310,715 and are reported on the Summary of Revenue and Expenditures in Tab 2. This amount represents the interest paid on the initial bond anticipation note (BAN)

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borrowing until it was refinanced in March 2002. This amount is properly included in the summary as it was intended that the interest would be financed by investment earnings of the borrowing. Interest payments made after the refinancing were not included because it was not anticipated that they would be paid from investment earnings, the borrowing or pledges. The wording of the referendum is silent as to how interest costs should be reported. Industry practice is to exclude interest costs. The reason being that interest from a borrowing is considered a financing decision and not a direct cost of a project. Also, if you include interest in the cost of the project, the question becomes how much interest? Would you include all interest to be paid on the borrowing or just a portion? It would be unreasonable to include all interest to be paid, therefore industry practice to exclude all interest unless a portion is planned to be financed by the revenue sources related to the project. Documentation that an auditor would expect to see relating to how interest would be reported would be found in the approved project budgets.

- B. Are there accounting standards for classifying expenses as "Unanticipated expenses?" If so, were those standards met in this case? Many expense items in this category appear to be suitable for inclusion in one or more accounts within Fund 103. Indeed, 103 and 108 include accounts for electrical, HVAC and telecom.

Answer: There are no accounting standards that directly or indirectly address the classification of "unanticipated expenses". The majority of unanticipated expenses in Tab 3 were charged to the contingency account. Few if any governments account for these types of expenses separately from other project costs. It was noted that when these expenses were identified, there was no discussion by management or the board as to the financing of these costs. It was assumed that they would be charged to the project.

- C. Even if the expenditures were legitimately unanticipated, the report states that they are "not part of the construction project" (p. 4). Is this a reasonable determination from an accounting perspective? Shouldn't these items have been categorized as Fund 103 type expenses and included in the budget? Please explain.

Answer: Discussions with management indicate that the meaning of the statement was that these costs were not considered in the original project plan budget. Since these costs were directly attributable to the project, from an accounting perspective, they were properly included in the total cost of the project as reported by staff.

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4. Pledges:

A. What is delinquent (in dollars)?

Answer: As of May 13, 2004, \$14,716.54 from 15 donors is in arrears -- \$3,916.67 payable in 2002 (4 pledges) and \$10,799.87 payable in 2003 (11 pledges). The \$5,000 deemed uncollectible is excluded from these numbers. In addition, there are 12 donors with \$4,967.25 due not later than December 31, 2004 -- that is not in arrears. In total, pledges from 27 of 522 donors in the amount of \$19,683.79 are still outstanding.

B. Using a generally accepted fundraising/accounting standard, what is uncollectible (in dollars)?

Answer: No "generally accepted fundraising/accounting standard." exists. Each fundraising campaign uses a different discount factor in projecting likely actual cash contributions compared to total pledges, using actual historical experience as a guide. In the case of the Shorewood Library/Center, the Village had no previous experience to use. However, the Library Board estimated that 2% of pledges (\$1 million x 2% = \$20,000) might possibly become uncollectible. To date, \$5,000 of the \$1,049,388 pledged has been deemed uncollectible, or .5%.

C. What was the permitted window of time for contributing money to this campaign? 2002? 03, 04, 05, 06?

Answer: At the time of the pledge campaign in 2001 to raise private contributions to the Village Library/Center, fundraisers and the Library Board planned that contributions would be paid in 2001, 2002, and 2003. As it turned out, 16 donors who made pledges indicated that they would make payments in 2004 as well, one in December 2004. No pledge payments were intended to be made after 2004.

D. Pledges were maintained and tracked by library staff (p. 3). What training was staff given to perform this additional work? Was staff given sufficient training and resources to perform this additional work?

Answer: Three Library employees handled the tracking and follow-up duties: the Library Director, the technology librarian, and the confidential secretary. The technology librarian was experienced in working with Access databases, the software program used to track the pledges and cash payments of 552 donors. Her experience enabled her to be efficient and on-time with carrying out such tracking and reporting duties, according to the Library Director. No additional, specific

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training was provided to the three library employees. The staff carried out these additional duties along with their other regular job duties and responsibilities. No additional budget resources were obtained to do the tracking and follow-up work.

None of the three individuals had prior experience or training specifically related to fund raising and the required record keeping for such an activity, including collection of pledges in arrears.

E. When pledges became delinquent, how were they handled? At what point were pledges deemed uncollectible?

Answer: When payments were in arrears (not paid by the date specified by the donor), the Library Director and technology librarian identified the individuals by name on a periodic basis. The fundraising consultant advised them on wording, tone, and style of reminder letters to those who did not pay by the date planned/indicated. The secretary typed the letters and mailed them. No pledges were deemed uncollectible until the Library staff received final confirmation that the donors were unable to fulfill their pledges (e.g. due to job loss). To date, one person who pledged recently told the Village that he/she would not be making a planned donation of \$5,000 (payable in 2002).

Regarding the \$14,716.54 of pledges in arrears as of May 13, 2004, we understand that efforts are being planned by the fund raising consultant and fund raising committee leaders to arrange for personal follow up contacts with the 15 donors with pledges outstanding to obtain payment on their pledges.

F. Did the fundraising consultant advise the village to discount total pledge amount by any percentage/factor?

Answer: No. However, the Library Board of Trustees, for cash planning purposes and making decisions about the total funds available for project expenditures, projected on April 11, 2002 that 2% of \$1 million in pledges or \$20,000 would not be paid. While the Library's Board's action was contained in the minutes of its meeting, this assumption of possible non-collection of pledges was not contained in any cash flow analyses provided to the Village Board.

G. How and when did the village budget for uncollectible pledges? Also, on page 2 of Ms. Carey's report, there is a reference to a 20% contingency for unpaid

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pledges of \$20,000. Does this refer to 20% of 1 million dollars (\$200,000) or 2% of 1 million dollars (\$20,000)? Who selected this number and how was it decided upon?

Answer: The 20% figure in that report contained a typographical error; it should have read 2%. Two percent of \$1 million equals \$20,000. The Library Board of Trustees made the 2% estimate on April 11, 2002 ("as a contingency for fund-raising and collections"). The trustees made the estimate based on their collective experience with other campaigns and their discussion. The \$20,000 contingency estimate did not go to the Village Board for action/approval.

H. Was there any discussion by the Board, or between one or more members of the Board and staff, of the possibility of covering uncollected pledges with village public funds?

Answer: None that we were able to learn about. All interviewed said that there were no such discussions. The former Village President indicated that there were informal discussions with staff about the alternative that any uncollectible pledge payments could be made up by further fundraising of private contributions, if necessary.

I. When were the Library Board pledge of \$100,000 and Foundation Pledge of \$75,000 (see pages 2 & 3, Carey report dated 2/29/04) made?

Answer: The \$100,000 pledge from the Library Board was made on October 3, 2001. This amount consists of \$98,488 which was received by the village on December 26, 2003 and \$1,512 transferred from the Library operating budget at the end of 2003. The \$75,000 pledge from the Shorewood Foundation was made on September 10, 2001 and was received by the village in March 2004 as part of the \$200,000 payment received at that time.

J. Identify the monthly pledge totals from the beginning of the campaign to the present.

Answer: See chart on page 11.

K. For each year pledges were due, what was the total amount due, collected and outstanding?

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Answer: The database used to track the pledge activity did not retain the due dates of the pledge payments once they were received. The database replaced the due date with the actual date of receipt. Therefore, an analysis of when pledges were due compared to when collected cannot be prepared. See chart on page 11.

- L. Was there interest made on pledges received by the Foundation? If so, who received credit for this interest?

Answer: Interest was received by the Shorewood Foundation on cash payments made pursuant to pledges. Such contributions were commingled in the Foundation's general unrestricted accounts; records were not kept of interest on the Library project funds received and held by the Foundation until paid to the Village. The amount paid to the Village for the Library/Center project was for the amount paid by contributors, without interest.

No discussions took place between the Village and the Foundation about the Foundation paying interest on funds between the date of receipt and date of payment to the Village. The campaign was conducted by an ad hoc group of Village residents, with the payments made to the Foundation (sent to the Village for Library staff to account for payments and forwarded them to the Foundation) with the intent of helping to pay for the capital project.

5. Mr. Madere's report states that the Village Board (VB) "approved all payments related to the building project" (p. 7). Incremental payments were approved periodically, but at no time since April 2003 did the Village Board receive reports that the project was over budget, or that private pledges would need to be "covered" by an advance from the General Fund. Were members of the Village Board made aware that the project was over budget or that private pledges would need to be "covered" by an advance from the General Fund? Was Village Board approval received to cover over budget costs or to cover private pledges? How was the Library Board made aware of cost overages or pledge deficiencies, and how was the Village Board made aware of cost overages or pledge deficiencies? Are there established standards by which one can measure the reporting to the Village Board? If so, how did the reporting on this project measure up to those standards?

Answer: The first reporting that the project was over budget and that an advance was needed to cover private pledges was during the 2004 budget meetings. Specific approvals to cover over-budget costs or to cover private pledges were not requested. The only approvals obtained were for the issuance of the debt, awarding of contracts and individual payments included with routine village disbursements. There was no reporting of the project status compared to budget to the Library Board. There are no established standards for the reporting of projects and their status that can be used to measure this project against.

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6. Budget Estimates v. Actual: Is the project over, under or on budget? Are there any contracts still open/unpaid? Address this concern: If the village was authorized to spend \$5 million in tax dollars and the village received \$725,000 in pledges, and if total expenditures were \$6,198,000, then the village has overspent by \$473,000. Even if additional pledges come in, the village still has overspent by approximately \$150,000.

Explanation:

- (a) p. 8 states that "\$269,131 in donations will not be collected until 2004"; this leaves \$203,869 as overspent.
- (b) p. 4 gives pledge total as \$1,049,388.09 plus \$5 million = \$6,049,388 (assumes all pledges will be received – Tab 2).
- (c) p. 4 gives expenditure total for LBP as \$6,198,413 minus \$6,049,388 = \$149,025 as overspent.

Answer: Total estimated actual revenues for the project are \$6,425,080 compared to the original budgeted revenues of \$6,121,451. Total estimated actual expenditures for the project are \$6,492,395 compared to the original budgeted expenditures of \$6,121,451. Revenues are estimated to exceed budget by \$303,629 and Expenditures are estimated to exceed budget by \$370,944. The project is estimated to have a deficit balance of \$67,315 when all costs have been incurred and all anticipated revenues are received. See page 12 for more details.

7. Are there other accounts within Funds 108 and 103, or any other accounts, that were used in connection with the expansion of the Library, construction of the Village Center, Relocation, police storage, demolition, etc.?

Answer: We noted no other accounts within Fund 103 that were used in connection with the expansion of the library other than those previously reported to the board. All accounts within Fund 108 were reported as part of the project.

8. What is the contingent fund account (#108-10-131-5761) (Tab 7, 8)?

Answer: The contingent fund account represent that portion of the project for which specific costs were not identified, but were provided for in the funding of the total project. Total project costs charged to this account amounted to \$642,610. Costs charged to this account are principally made up of the costs associated with hiring the construction manager and the unanticipated expenses previously identified.

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9. Mr. Madere's report (p.4) states that "To date the village has received \$725,000 from the Shorewood Foundation. It is anticipated that the balance will be received in 2004". Does this mean the balance from the amount in the account paid to date (\$861,955.41), or does it mean the balance from the total pledge (\$1,049,388)? Does this mean the balance of total pledges minus any "contingency"? Mr. Madere's report indicated that after the transfer of \$725,000 from the Foundation, \$136,966 was left remaining in the Building account. Ms. Carey's report indicated that after the transfer of \$725,000 from the Foundation, \$114,633 was left remaining. What is the accurate balance in the Foundation account? What is the method/plan of payment from the Foundation to the village? (Building was completed 12/02, first payment village received from Foundation was 10/03) Why did the Foundation hold donations until 10/21/03? How often did the Foundation provide a report to the Library Board or Village Board regarding pledges received?

Answer: Mr. Madere indicated that the meaning of his statement was that the balance to be received in 2004 is \$324,388 (\$1,049,388 - \$725,000). The amount was not adjusted for any contingency amount. See page 11 for a current summary of pledges outstanding. The fund raising group is following up on all outstanding pledges with the intent of collecting and remitting them to the village in 2004. The Foundation held the donations until October 2003 because no one requested it to forward the funds to the village.

10. Was library staff time spent on the fundraising campaign tracked or recorded? If so, how much time was spent, and were taxpayer dollars reimbursed by the private pledges? Provide documentation of Village Board approval for spending public monies to pay staff to provide private fundraising and pledge collection services.

Answer: No, such library staff time was not tracked or recorded. Taxpayer dollars spent for library staff time was not reimbursed by the private contributions. The Village Board did not explicitly approve spending public monies to pay staff to provide private fundraising and pledge collection services for the Library/Center project, although it approved the Library's operating budget property tax levy. The Library Board was aware of the staff's role in tracking and reporting on the receipt of payments to the Foundation for the project.

11. Mr. Madere's report (p. 3) discussed the Wisconsin Investment Trust fund which began with a \$50,000 gift to the Library and grew to \$190,000 through gifts, "accumulated fund balance" and interest. Explain "accumulated fund balance" and whether this includes public dollars.

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Answer: Mr. Madere indicated that his use of the term "accumulated fund balance" was erroneous. What he meant to convey was that the fund grew from gifts and interest earnings. Records indicate that \$77,671 of funds were transferred from the 1997 and 1998 library operating budgets to the Wisconsin Investment Trust.

12. What are the current tax impact estimates for the building project? Compare the earlier estimated tax impact for building and operating costs provided to residents prior to the referendum with the current estimated tax impact.

Answer: The current tax impact, based on available documentation, is:

	<u>2000 Estimate</u> (for 2004)	<u>2004 Budget</u>
Debt Service (principal and interest) paid from property tax	\$518,600	\$285,001 *
Property tax levy for Library operations	<u>\$679,276**</u>	<u>\$688,372</u>
TOTAL	\$1,197,876	\$973,373

* \$5 million Library bond repayment is structured to average \$511,103 over 15 years, with a high payment of \$636,180 in 2011, a low payment of \$277,590 in 2008, and the \$285,001 payment in 2004 as show above. The variable Library debt repayment schedule was included in a March 1, 2002 combined, overall restructured debt refinancing to level out payment amounts for all Village borrowings during the 2002 – 2018 time period .

** 2000 operating levy of \$514,000, + 3% annual cost increases for 2001-2004, + \$100,000 estimated increased costs associated with new Library

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Village Library/Center Building Project Audit**

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If one assumes that the 2004 budget figure for repayment of debt service is the average annual payment over the 15 year repayment schedule, the 2000 estimate for 2004 and the "actual" is virtually identical (a difference of \$1,599, or .12%)

	<u>2000 Estimate</u> <i>(for 2004)</i>	<u>2004 Budget</u>
<i>Debt Service (principal and interest) paid from property tax</i>	\$518,600	\$511,103
<i>Property tax levy for Library operations</i>	<u>\$679,276</u>	<u>\$688,372</u>
TOTAL	\$1,197,876	\$1,199,475

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Comparison of Budget to Estimated Actual
Through April 10, 2004

	<u>Budget</u>	<u>Actual through 12/31/03</u>	<u>Estimated 2004 activity</u>	<u>Total estimated actual</u>	<u>Variance to budget Positive (Negative)</u>
Revenues					
Proceeds from long-term debt	\$ 5,000,000	5,000,000	-	5,000,000	-
Donations					
Pledges	700,000	1,025,000	19,388	1,044,388	344,388
Fundraising	95,000	95,400	-	95,400	400
Benjamin Trust		38,353	-	38,353	38,353
Interest	<u>326,451</u>	<u>246,939</u>	<u>-</u>	<u>246,939</u>	<u>(79,512)</u>
Total revenues	<u>6,121,451</u>	<u>6,405,692</u>	<u>19,388</u>	<u>6,425,080</u>	<u>303,629</u>
Expenditures					
Project costs					
Financed by debt, pledges and fundraising	5,795,000	6,133,327	10,000	6,143,327	(348,327)
Benjamin Trust	-	38,353	-	38,353	(38,353)
Interest	<u>326,451</u>	<u>310,715</u>	<u>-</u>	<u>310,715</u>	<u>15,736</u>
Total expenditures	<u>6,121,451</u>	<u>6,482,395</u>	<u>10,000</u>	<u>6,492,395</u>	<u>(370,944)</u>
Excess (deficiency)	<u>\$ -</u>	<u>(76,703)</u>	<u>9,388</u>	<u>(67,315)</u>	<u>(67,315)</u>

Total pledges	\$ 1,049,388
Less amount considered uncollectible	<u>(5,000)</u>
Estimated total pledges to be collected	1,044,388
Less amounts received	<u>(1,025,000)</u>
Estimated pledges to be received in 2004	<u>\$ 19,388</u>

Estimated cost of signage in 2004 \$ 10,000