

CITY OF STURGEON BAY, WISCONSIN

ANNUAL FINANCIAL REPORT

DECEMBER 31, 2014

CITY OF STURGEON BAY, WISCONSIN

December 31, 2014

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INDEPENDENT AUDITORS' REPORT

To the City Council
City of Sturgeon Bay, Wisconsin

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Sturgeon Bay, Wisconsin ("the City") as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of December 31, 2014, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.



Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of funding progress and the schedule of employer contributions on pages 3 through 11 and 48 through 49 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The financial information listed in the table of contents as supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Report on Summarized Financial Information

We have previously audited the City of Sturgeon Bay's 2013 financial statements, and our report dated April 3, 2014, expressed unmodified opinions on those respective financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 27, 2015, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Certified Public Accountants
Green Bay, Wisconsin
April 27, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS



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Management's Discussion and Analysis
December 31, 2014

As management of the City of Sturgeon Bay, we offer readers of the City's basic financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2014.

Financial Highlights

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources as of December 31, 2014 by \$86,481,440 (*net position*). Of this amount, \$12,730,070 (*unrestricted net position*) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net position increased by \$2,776,409. Several factors contributed to the overall increase as follows:
 - The City's Governmental activities' total net position increased by \$799,012.
 - The City's Business-type activities' (*Solid Waste Fund*) total net position increased by \$61,040.
 - The City's total net position of Sturgeon Bay Utilities increased by \$1,916,357.
- The City's general fund increased by \$643,919 primarily due to allocation of staff time to other funds, lowering health insurance costs by switching to another provider, adjusting Department of Public Works work schedules, and conservative spending in several other expense line items.
- The assessed property tax rate, without TID, increased from \$7.06 to \$7.22 per \$1,000 of property value for the year ended December 31, 2014.
- As of December 31, 2014 the City's governmental funds reported combined ending fund balances of \$9,053,918, an increase of \$819,078 in comparison with the prior year. Approximately 31% of this total amount, \$2,783,218 is available for spending at the City's discretion (*unassigned fund balance*).
- As of December 31, 2014, unassigned fund balance for the general fund was \$3,359,442, or approximately 31% of the total general fund expenditures budgeted for 2015.
- The City's total general-obligation debt increased by \$251,638 (2%) during 2014. The key factor in this increase was due to new debt issuance for capital projects and equipment purchases and debt issuance for the October 1, 2014 TID #2 debt payments, offset by the routine retirement of debt in accordance with the debt schedules.

Overview of the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the City's assets, liabilities, and deferred outflows and inflows of resources, with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City's net position changed during the most recent year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave.)

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, public works, sanitation, health and human services, culture and recreation, conservation and development, debt service and capital outlay. The business-type activities of the City include the Solid Waste Fund and Sturgeon Bay Utility activities including water, wastewater and electric operations.

The government-wide financial statements include only the City itself (known as the *primary government*).

The government-wide financial statements can be found on pages 12 - 14 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating the City's near-term financing requirements.

It is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains eight individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund, Tax Incremental District #2 Fund, and Capital Improvements Fund each of which are considered to be major funds. Data from the other five governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City adopts an annual appropriated budget for all its governmental funds. As part of the basic governmental fund financial statements, budgetary comparison statements have been provided for the general fund and for each individual, major special revenue fund to demonstrate compliance with the budget.

The basic governmental fund financial statements can be found on pages 15 - 21 of this report.

Proprietary funds. The City maintains one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its Solid Waste Fund and Utility. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City does not use internal service funds at this time.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Utility, which is considered to be a major fund of the City, and the Solid Waste Fund which is considered to be a nonmajor fund of the City.

The basic proprietary fund financial statements can be found on pages 22 - 25 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The City does not use fiduciary funds at this time.

Notes to the basic financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 26 - 47 of this report.

Other information. The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information. Combining statements and schedules can be found on pages 50 - 57.

Government-wide Financial Analysis

Net Position. As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$86,481,440 at the close of 2014.

City of Sturgeon Bay's Net Position						
	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Current and other assets	\$ 29,395,804	\$ 29,439,408	\$ 10,548,619	\$ 10,902,973	\$ 39,944,423	\$ 40,342,381
Capital assets	51,854,251	52,452,165	43,134,315	40,603,932	94,988,566	93,056,097
Total assets	\$ 81,250,055	\$ 81,891,573	\$ 53,682,934	\$ 51,506,905	\$ 134,932,989	\$ 133,398,478
Deferred outflows of resources	\$ 397,586	\$ 453,036	\$ -	\$ -	\$ 397,586	\$ 453,036
Long-term liabilities outstanding	25,571,351	26,725,383	394,518	475,227	25,965,869	27,200,610
Other liabilities	12,593,635	13,032,062	2,494,093	2,214,752	15,087,728	15,246,814
Total liabilities	\$ 38,164,986	\$ 39,757,445	\$ 2,888,611	\$ 2,689,979	\$ 41,053,597	\$ 42,447,424
Deferred inflows of resources	\$ 7,795,538	\$ 7,699,059	\$ -	\$ -	\$ 7,795,538	\$ 7,699,059
Net position:						
Invested in capital assets, net of related debt	\$ 26,944,582	\$ 26,277,565	\$ 42,739,797	\$ 40,162,513	\$ 69,684,379	\$ 66,440,078
Restricted	3,545,636	3,364,391	521,355	521,353	4,066,991	3,885,744
Unrestricted	5,196,899	5,246,149	7,533,171	8,133,060	12,730,070	13,379,209
Total net position	\$ 35,687,117	\$ 34,888,105	\$ 50,794,323	\$ 48,816,926	\$ 86,481,440	\$ 83,705,031

By far the largest portion of the City's net position (81%) reflects its investment in capital assets (e.g. land, buildings, machinery and equipment, infrastructure, etc.) less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens. Consequently, these assets are *not* available for future spending. Although, the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position (5%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position* (\$12,730,070) may be used to meet the City's ongoing obligations to citizens and creditors.

Change in net position. Governmental activities increased the City's net position by \$799,012. Key elements of this increase are as follows:

City of Sturgeon Bay's Change in Net Position						
	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Revenues:						
Program revenues						
Charges for services	\$ 904,007	\$ 910,778	\$ 21,027,460	\$ 20,483,876	\$ 21,931,467	\$ 21,394,654
Operating grants and contributions	735,706	592,502	-	-	735,706	592,502
Capital grants and contributions	666,575	604,610	47,551	612,566	714,126	1,217,176
General revenues:						
Property taxes	7,541,804	7,565,989	-	-	7,541,804	7,565,989
Other taxes	267,033	218,402	-	-	267,033	218,402
Grants and contributions not restricted to specific programs	962,984	955,142	-	-	962,984	955,142
Other revenues	1,233,608	1,005,137	(598,219)	(472,997)	635,389	532,140
Total revenues	\$ 12,311,717	\$ 11,852,560	\$ 20,476,792	\$ 20,623,445	\$ 32,788,509	\$ 32,476,005
Expenses:						
General government	\$ 1,765,708	\$ 1,807,665	\$ -	\$ -	\$ 1,765,708	\$ 1,807,665
Public safety	4,153,021	4,362,509	-	-	4,153,021	4,362,509
Public works	3,252,326	2,933,553	-	-	3,252,326	2,933,553
Culture and recreation	1,082,909	1,146,212	-	-	1,082,909	1,146,212
Conservation and development	328,157	879,547	-	-	328,157	879,547
Interest on long-term debt	930,584	1,115,338	-	-	930,584	1,115,338
Water	-	-	1,619,146	1,664,971	1,619,146	1,664,971
Wastewater	-	-	1,511,868	1,699,567	1,511,868	1,699,567
Electric	-	-	14,939,920	14,713,836	14,939,920	14,713,836
Solid waste	-	-	428,461	441,569	428,461	441,569
Total expenses	\$ 11,512,705	\$ 12,244,824	\$ 18,499,395	\$ 18,519,943	\$ 30,012,100	\$ 30,764,767
Increase (Decrease) in net position	799,012	(392,264)	1,977,397	2,103,502	2,776,409	1,711,238
Net position - January 1	34,888,105	35,280,369	48,816,926	46,713,424	83,705,031	81,993,793
Net position - December 31	\$ 35,687,117	\$ 34,888,105	\$ 50,794,323	\$ 48,816,926	\$ 86,481,440	\$ 83,705,031

The property tax levy increased by \$76,772 (1.3%), without TID, for the 2014 collection year. This increase was directed toward the following areas:

\$ (71,468) for the General Fund Operations and Debt
 \$ 148,240 for Capital Improvements

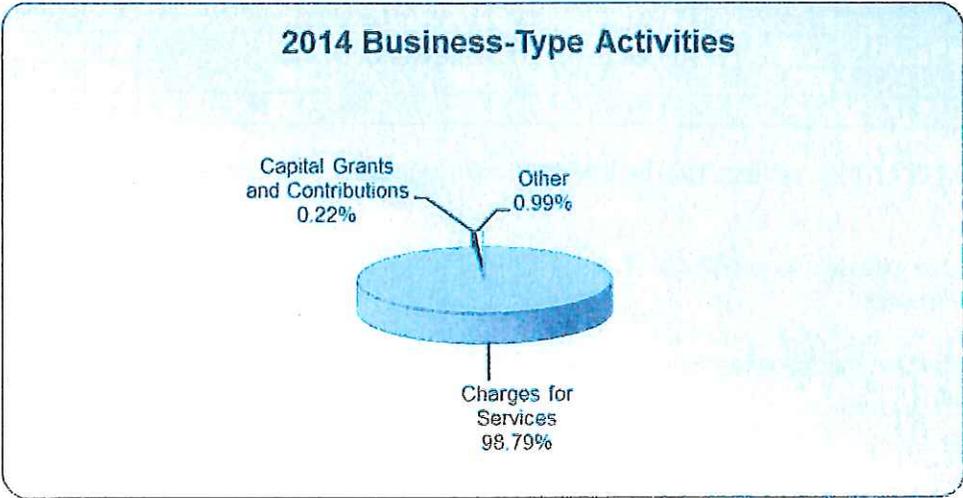
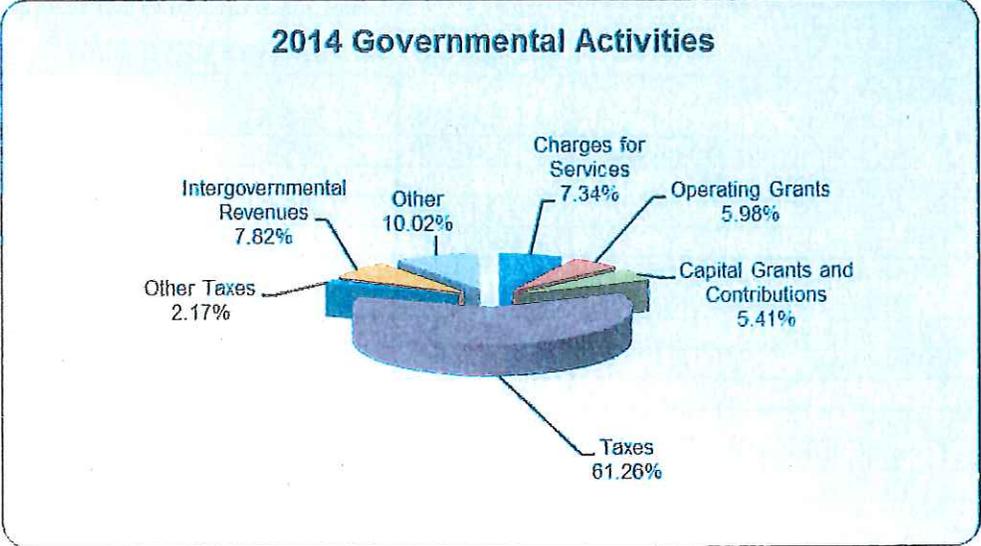
Investment earnings increased/(decreased) in the following funds primarily due to increasingly low interest rates and maintaining slightly lower fund balances:

\$ (4,704) General
 \$ (1) Capital Fund
 \$ (1,130) Tax Increment District #2
 \$ (14) Tax Increment District #1
 \$ 19 Tax Increment District #3
 \$ (167) Revolving Loan Fund

The City realized a one-time loss of \$39,368 on the sale of land and capital assets.

Funding Sources for the governmental activities and business-type activities for the City of Sturgeon Bay and Sturgeon Bay Utilities

The Chart on the right illustrates how governmental activities are funded. Property taxes and other taxes account for 63.43% of the total revenue needed to fund governmental activities. Intergovernmental revenues and grants comprise another 19.21%, while charges for services and all other sources are equal to 17.36% of revenues.



Business-Type activities depend on charges for services as their primary revenue sources, as shown on the graph to the left. Charges for services account for 98.79% of the revenues needed to support the City's business activities.

Financial Analysis of the City's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of the City's net resources available for spending at the end of the fiscal year.

As of December 31, 2014, the City's governmental funds reported combined ending fund balances of \$9,053,918, an increase of \$819,078 in comparison with the prior year. Approximately 31% of this amount (\$2,783,218) constitutes *unassigned fund balance*, which is available for spending at the City's discretion. The remainder of fund balance is *restricted or assigned* to indicate that it is not available for new spending because it has already been restricted or assigned for the following:

\$	6,116	Prepaid Items
	2,679,664	Restricted for other Governmental Funds
	3,584,920	Assigned for Governmental Funds
<u>\$</u>	<u>6,270,700</u>	Total

The general fund is the chief operating fund of the City. At the end of the current year, unassigned fund balance of the general fund was \$3,359,442. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unassigned general fund balance represents 31% of total 2015 budgeted General Fund expenditures, and the total general fund balance also represents 37% of that same amount.

The fund balance of the City's general fund increased by \$643,919 during the current year. Key factors in this increase are as follows:

- Reallocation of staff time to special funds
- Insurance and other expense savings
- Adjusting DPW work schedules

The Capital Improvements Fund has a total fund balance of \$2,374,442. The entire amount is assigned. Assigned fund balance represents 85% of total 2015 budgeted Capital Fund expenditures. The Tax Incremental District #2 Fund has a total fund balance of \$1,892,225. The TID District fund balances are restricted to carry out the project plan of the Districts.

Proprietary funds. The City's proprietary funds provide the same type of information found in the City's government-wide financial statements, but in more detail.

Unrestricted net position of the Utility fund at the end of the year amounted to \$7,539,060. The total increase in net position was \$1,916,357.

Unrestricted net position of the Solid Waste fund at the end of the year amounted to (\$5,889). The total increase in net position was \$61,040.

Other factors concerning the finances of this fund have already been addressed in the discussion of the City's business-type activities.

Budgetary Highlights

Generally, the original budget is rarely modified. In most instances, when the budget is modified, the line item adjustments are made within the department. Following is a list of budget adjustments that were made in 2014 where the adjustments were made between different departments:

- There were no budget adjustments made between departments in 2014

During the year, actual general fund revenues were more than budgeted revenues and appropriated balances by \$378,191 prior to applying budgeted appropriated balances and reserves. The 2014 budget contained \$1,782,143 in appropriated balances and reserves.

Actual expenditures were less than budgeted expenditures by \$2,048,554 in the general fund primarily due to lack of appropriations from the ERP contingency, lowering health insurance costs by switching to another provider, savings realized due to adjusting DPW work schedules, and reallocation of staff time to special funds.

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business-type activities as of December 31, 2014 amounts to \$94,988,566 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings, machinery and equipment, vehicles, public domain infrastructure (highways and bridges), and construction in progress. The total increase in the City's investment in capital assets for the current year was \$1,890,469 or roughly 2% compared to last year.

Major capital assets acquired or constructed during the year include:

- Squad Car
- Fire Department Unit #8 Chassis
- Salters
- Annual Storm Sewer Outlay.
- Annual Road Resurfacing and Repair.
- Annual Alley/Parking Lot Repair.
- Annual Slurry Seal/Crack Fill/Chip Sealing Repair
- Annual Curbing & Sidewalk Repair.
- Martin Park Restrooms
- Market Square Parking Lot
- Advanced electric & water meters across much of SBU's territory with the balance to be installed in 2015
- Digger derrick truck
- LED decorative streetlights on downtown Kentucky & Louisiana Streets
- Replaced one hundred sixty-eight utility poles
- Emergency generator at Well #3
- Mixing systems at two water towers
- Water and sewer main on North 3rd Avenue
- Rehabilitated forty-nine sewer manholes
- Phosphorus analyzer in Wastewater Treatment Plant
- By-pass structure for fine screen process at Wastewater Treatment Plant

City of Sturgeon Bay's Capital Assets (Governmental Activities are net of accumulated depreciation)						
	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Land	\$ 6,174,628	\$ 6,032,968	\$ 318,085	\$ 318,085	\$ 6,492,713	\$ 6,351,053
Land improvements	798,219	717,866	-	-	798,219	717,866
Buildings	6,311,138	6,567,818	6,207,535	6,207,535	12,518,673	12,775,353
Machinery and equipment and vehicles	1,415,322	1,649,029	18,398,276	18,277,080	19,813,598	19,926,109
Infrastructure	36,814,817	37,242,822	48,312,818	47,435,116	85,127,635	84,677,938
Less: Utility and solid waste fund depreciation	-	-	(32,844,283)	(32,015,377)	(32,844,283)	(32,015,377)
Construction in progress	340,127	241,662	2,741,884	423,493	3,082,011	665,155
Total	\$ 51,854,251	\$ 52,452,165	\$ 43,134,315	\$ 40,645,932	\$ 94,988,566	\$ 93,098,097

Long-term debt. At the end of the current fiscal year, the City had total debt outstanding of \$25,559,657 of this amount, \$15,309,657 comprises debt backed by the full faith and credit of the government and \$10,250,000 is debt which is expected to be paid by Tax Incremental Districts.

City of Sturgeon Bay's Outstanding Debt General Obligation Debt and Revenue Bonds						
	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
General obligation debt:						
Bonds	\$ 13,755,000	\$ 13,320,000	\$ -	\$ -	\$ 13,755,000	\$ 13,320,000
Notes	1,160,139	1,254,600	394,518	483,419	1,554,657	1,738,019
Total general obligation debt	\$ 14,915,139	\$ 14,574,600	\$ 394,518	\$ 483,419	\$ 15,309,657	\$ 15,058,019
Lease revenue bonds	10,250,000	11,600,000	-	-	10,250,000	11,600,000
Total	\$ 25,165,139	\$ 26,174,600	\$ 394,518	\$ 483,419	\$ 25,559,657	\$ 26,658,019

The City's total debt decreased by \$1,098,362 during the current fiscal year. The key factor in this decrease was primarily due to the retirement of TID #2 lease revenue bonds.

The Sturgeon Bay Utility has no outstanding debt as of December 31, 2014.

The City maintains an Aa3 rating from Moody's Investors Service for its general obligation debt.

State statutes limit the amount of general obligation debt the City may issue to 5% of its total equalized valuation. The current debt limitation for the City is \$39,827,655, which is significantly in excess of the City's \$15,309,657, in outstanding general obligation debt.

Economic Factors and Next Year's Budgets and Rates

- The economic condition and outlook of the City has remained fairly stable based on a relatively healthy mix of manufacturing, tourism, service industry and retail activities which support our tax base.
- Inflationary trends in our region compare favorably to national indices.
- During the current year, unassigned fund balance in the general fund increased to \$3,359,442. The City has assigned fund balance in the amount of \$643,916 for spending in the 2015 fiscal year budget.

Contacting the City's Financial Management

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Finance Director/City Treasurer, City of Sturgeon Bay, 421 Michigan St, Sturgeon Bay, WI 54235.

BASIC FINANCIAL STATEMENTS

Government-wide Financial Statements

CITY OF STURGEON BAY, WISCONSIN
Statement of Net Position
December 31, 2014
(With summarized financial information as of December 31, 2013)

	Governmental Activities	Business-type Activities	Total	
			2014	2013
ASSETS				
Cash and investments	\$ 13,093,066	\$ 6,215,681	\$ 19,308,747	\$ 17,566,530
Receivables				
Taxes	14,552,740	352	14,553,092	15,303,122
Accounts	111,103	1,783,786	1,894,889	1,861,801
Special assessments	387,470	-	387,470	726,839
Loans	605,476	-	605,476	708,266
Other	-	209,329	209,329	261,177
Internal balances	639,833	(639,833)	-	-
Due from other governments	-	-	-	1,001,100
Inventories and prepaid items	6,116	634,672	640,788	645,980
Restricted assets				
Cash and investments	-	521,355	521,355	521,353
Investment in American Transmission Company	-	1,823,277	1,823,277	1,704,213
Non-utility property	-	42,000	42,000	42,000
Capital assets, nondepreciable				
Land	6,174,628	276,085	6,450,713	6,309,053
Construction in progress	340,127	2,741,884	3,082,011	665,155
Capital assets, depreciable				
Land improvements	4,356,011	-	4,356,011	4,199,839
Buildings and improvements	9,881,982	6,207,535	16,089,517	16,026,633
Machinery and equipment	7,355,702	18,398,276	25,753,978	25,753,421
Infrastructure	55,899,849	48,312,818	104,212,667	103,008,414
Less: Accumulated depreciation	(32,154,048)	(32,844,283)	(64,998,331)	(62,906,418)
TOTAL ASSETS	81,250,055	53,682,934	134,932,989	133,398,478
DEFERRED OUTFLOWS OF RESOURCES				
Deferred charge on refunding	397,586	-	397,586	453,036
LIABILITIES				
Accounts payable	325,854	1,976,654	2,302,508	1,914,598
Other current liabilities	267,053	4,265	271,318	335,123
Accrued interest payable	216,494	2,015	218,509	207,326
Due to other governments	10,961,120	-	10,961,120	11,566,271
Deposits	-	133,704	133,704	135,088
Compensated absences	823,114	377,455	1,200,569	1,078,062
Public benefits payable	-	-	-	2,154
Long-term obligations				
Due within one year	2,380,300	88,901	2,469,201	2,459,292
Due in more than one year	23,191,051	305,617	23,496,668	24,749,510
TOTAL LIABILITIES	38,164,986	2,888,611	41,053,597	42,447,424
DEFERRED INFLOWS OF RESOURCES				
Property taxes	7,777,480	-	7,777,480	7,671,151
Grants	18,058	-	18,058	27,908
Total Deferred Inflows of Resources	7,795,538	-	7,795,538	7,699,059
NET POSITION				
Net investment in capital assets	26,944,582	42,739,797	69,684,379	66,440,078
Restricted for				
Capital improvements	2,679,664	521,355	3,201,019	3,023,797
Loan program	865,972	-	865,972	861,947
Unrestricted	5,196,899	7,533,171	12,730,070	13,379,209
TOTAL NET POSITION	\$ 35,687,117	\$ 50,794,323	\$ 86,481,440	\$ 83,705,031

The notes to the basic financial statements are an integral part of this statement.

CITY OF STURGEON BAY, WISCONSIN

Statement of Activities

For the Year Ended December 31, 2014

(With summarized financial information for the year ended December 31, 2013)

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities				
General government	\$ 1,765,708	\$ 178,189	\$ -	\$ -
Public safety	4,153,021	526,258	58,183	9,850
Public works	3,252,326	10,403	504,057	362,271
Culture and recreation	1,082,909	180,735	173,466	218,704
Development	328,157	8,422	-	75,750
Interest on debt	930,584	-	-	-
Total Governmental Activities	11,512,705	904,007	735,706	666,575
Business-type Activities				
Water utility	1,619,146	2,232,642	-	6,413
Sewer utility	1,511,868	2,045,498	-	-
Electric utility	14,939,920	16,259,819	-	41,138
Solid waste utility	428,461	489,501	-	-
Total Business-type Activities	18,499,395	21,027,460	-	47,551
Total Primary Government	\$ 30,012,100	\$ 21,931,467	\$ 735,706	\$ 714,126

General revenues

Taxes

Property taxes, levied for general purposes

Property taxes, levied for capital projects

Other taxes

Federal and state grants and other contributions not restricted to specific functions

Interest and investment earnings

Miscellaneous

Gain on sale of capital asset

Transfers

Total general revenues and transfers

Change in net position

Net position - January 1

Net position - December 31

The notes to the basic financial statements are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Position			
Primary Government			
Governmental Activities	Business-type Activities	Total	
		2014	2013

\$ (1,587,519)	\$ -	\$ (1,587,519)	\$ (1,633,057)
(3,558,730)	-	(3,558,730)	(3,463,576)
(2,375,595)	-	(2,375,595)	(2,154,146)
(510,004)	-	(510,004)	(897,397)
(243,985)	-	(243,985)	(873,420)
(930,584)	-	(930,584)	(1,115,338)
<u>(9,206,417)</u>	<u>-</u>	<u>(9,206,417)</u>	<u>(10,136,934)</u>

-	619,909	619,909	439,284
-	533,630	533,630	360,128
-	1,361,037	1,361,037	1,878,833
-	61,040	61,040	(101,746)
-	<u>2,575,616</u>	<u>2,575,616</u>	<u>2,576,499</u>
<u>(9,206,417)</u>	<u>2,575,616</u>	<u>(6,630,801)</u>	<u>(7,560,435)</u>

5,148,937	-	5,148,937	5,220,405
2,392,867	-	2,392,867	2,345,584
267,033	-	267,033	218,402
962,984	-	962,984	955,142
20,524	195,725	216,249	235,301
405,085	14,055	419,140	212,911
-	-	-	83,928
807,999	(807,999)	-	-
<u>10,005,429</u>	<u>(598,219)</u>	<u>9,407,210</u>	<u>9,271,673</u>

799,012	1,977,397	2,776,409	1,711,238
<u>34,888,105</u>	<u>48,816,926</u>	<u>83,705,031</u>	<u>81,993,793</u>
<u>\$ 35,687,117</u>	<u>\$ 50,794,323</u>	<u>\$ 86,481,440</u>	<u>\$ 83,705,031</u>

Fund Financial Statements

CITY OF STURGEON BAY, WISCONSIN

Balance Sheet

Governmental Funds

December 31, 2014

(With summarized financial information as of December 31, 2013)

	General Fund	Tax Incremental District #2	Capital Improvements
ASSETS			
Cash and investments	\$ 7,246,355	\$ 2,127,815	\$ 2,350,317
Receivables			
Taxes	12,040,046	1,131,350	826,135
Accounts	62,601	-	48,502
Special assessments	387,470	-	-
Loans	-	-	-
Due from other funds	1,456,731	-	2,670
Due from other governments	-	-	-
Inventories and prepaid items	6,116	-	-
TOTAL ASSETS	\$ 21,199,319	\$ 3,259,165	\$ 3,227,624
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 308,840	\$ -	\$ 8,989
Accrued payroll liabilities	268,253	-	-
Due to other funds	-	235,590	-
Due to other governments	10,961,120	-	-
Total Liabilities	11,538,213	235,590	8,989
Deferred Inflows of Resources			
Property taxes	5,264,786	1,131,350	826,135
Grants	-	-	18,058
Special assessments	386,846	-	-
Loans receivable	-	-	-
Total Deferred Inflows of Resources	5,651,632	1,131,350	844,193
Fund Balances			
Nonspendable			
Inventories and prepaid items	6,116	-	-
Restricted for capital improvements	-	1,892,225	-
Assigned for subsequent year expenditures	643,916	-	2,374,442
Unassigned (deficit)	3,359,442	-	-
Total Fund Balances	4,009,474	1,892,225	2,374,442
TOTAL LIABILITITES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 21,199,319	\$ 3,259,165	\$ 3,227,624

(Continued)

Other Governmental Funds	Total Governmental Funds	
	2014	2013

\$ 1,368,579 \$ 13,093,066 \$ 11,822,121

555,209 14,552,740 15,303,122

- 111,103 93,287

- 387,470 726,839

605,476 605,476 708,266

- 1,459,401 1,399,602

- - 1,100

- 6,116 1,125

\$ 2,529,264 \$ 30,215,372 \$ 30,055,462

\$ 6,825 \$ 324,654 \$ 253,746

- 268,253 250,387

583,978 819,568 616,054

- 10,961,120 11,566,271

590,803 12,373,595 12,686,458

555,209 7,777,480 7,671,151

- 18,058 27,908

- 386,846 726,839

605,475 605,475 708,266

1,160,684 8,787,859 9,134,164

- 6,116 1,125

787,439 2,679,664 2,502,444

566,562 3,584,920 3,191,161

(576,224) 2,783,218 2,540,110

777,777 9,053,918 8,234,840

\$ 2,529,264 \$ 30,215,372 \$ 30,055,462

CITY OF STURGEON BAY, WISCONSIN

Balance Sheet (Continued)

Governmental Funds

December 31, 2014

(With summarized financial information as of December 31, 2013)

	2014	2013
<u>Reconciliation to the Statement of Net Position</u>		
Total Fund Balances as shown on previous page	\$ 9,053,918	\$ 8,234,840
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.	51,854,251	52,452,165
Some special assessments and loans used in governmental financing activities are unavailable financial resources and therefore are deferred in the funds.	992,321	1,435,105
Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds.		
Bonds and notes payable	(14,915,139)	(14,574,600)
Lease revenue bonds	(10,250,000)	(11,600,000)
Deferred charge on refunding	397,586	453,036
Compensated absences	(823,114)	(764,835)
Other post-employment benefits	(264,096)	(388,846)
Bond premium	(142,116)	(161,937)
Accrued interest on long-term obligations	(216,494)	(196,823)
Net Position of Governmental Activities as Reported on the Statement of Net Position (see page 12)	<u>\$ 35,687,117</u>	<u>\$ 34,888,105</u>

The notes to the basic financial statements are an integral part of this statement.

CITY OF STURGEON BAY, WISCONSIN
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2014
(With summarized financial information for the year ended December 31, 2013)

	General Fund	Tax Incremental District #2	Capital Improvements
Revenues			
Taxes	\$ 5,415,970	\$ 1,125,719	\$ 765,135
Special assessments	-	-	333,461
Intergovernmental	1,460,063	85,527	54,261
Licenses and permits	135,913	-	-
Fines and forfeits	49,123	-	7,047
Public charges for services	202,973	-	371,268
Intergovernmental charges for services	462,588	-	-
Commercial	39,564	-	-
Miscellaneous	372,899	1,992	218,709
Total Revenues	8,139,093	1,213,238	1,749,881
Expenditures			
Current			
General government	1,487,635	-	-
Public safety	3,907,534	-	-
Public works	1,375,483	-	-
Culture and recreation	721,763	-	-
Development	304,628	40,809	-
Debt service			
Principal	445,016	1,906,077	-
Interest and fiscal charges	77,777	740,544	-
Capital outlay	-	20,041	1,948,350
Total Expenditures	8,319,836	2,707,471	1,948,350
Excess of Revenues Over (Under) Expenditures	(180,743)	(1,494,233)	(198,469)
Other Financing Sources (Uses)			
Long-term debt issued	-	1,295,000	146,632
Premium on debt issued	-	6,937	-
Payment to refunded escrow agent	-	-	-
Sale of capital assets	-	-	55,060
Transfers in	834,142	351,995	12,150
Transfers out	(9,480)	(2,670)	(10,000)
Total Other Financing Sources (Uses)	824,662	1,651,262	203,842
Net Change in Fund Balances	643,919	157,029	5,373
Fund Balances - January 1	3,365,555	1,735,196	2,369,069
Fund Balances - December 31	\$ 4,009,474	\$ 1,892,225	\$ 2,374,442

(Continued)

Other Governmental Funds	Total Governmental Funds	
	2014	2013
\$ 502,013	\$ 7,808,837	\$ 7,784,391
-	333,461	34,681
91,663	1,691,514	1,816,719
130,340	266,253	248,218
-	56,170	58,793
-	574,241	220,550
-	462,588	461,638
-	39,564	47,157
155,274	748,874	560,896
<u>879,290</u>	<u>11,981,502</u>	<u>11,233,043</u>
-	1,487,635	1,375,268
-	3,907,534	4,011,397
-	1,375,483	1,454,109
-	721,763	716,645
351,088	696,525	1,041,613
100,000	2,451,093	3,849,355
59,229	877,550	1,125,690
8,078	1,976,469	1,848,324
<u>518,395</u>	<u>13,494,052</u>	<u>15,422,401</u>
<u>360,895</u>	<u>(1,512,550)</u>	<u>(4,189,358)</u>
-	1,441,632	7,256,924
-	6,937	161,937
-	-	(5,533,036)
20,000	75,060	107,469
142,006	1,340,293	1,300,813
(510,144)	(532,294)	(531,633)
<u>(348,138)</u>	<u>2,331,628</u>	<u>2,762,474</u>
12,757	819,078	(1,426,884)
<u>765,020</u>	<u>8,234,840</u>	<u>9,661,724</u>
<u>\$ 777,777</u>	<u>\$ 9,053,918</u>	<u>\$ 8,234,840</u>

CITY OF STURGEON BAY, WISCONSIN
Statement of Revenues, Expenditures and Changes in Fund Balances (Continued)
Governmental Funds
For the Year Ended December 31, 2014
(With summarized financial information for the year ended December 31, 2013)

	2014	2013
<u>Reconciliation to the Statement of Activities</u>		
Net Change in Fund Balances as shown on previous page	\$ 819,078	\$ (1,426,884)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Capital assets reported as capital expenditures in governmental fund statements	\$ 1,336,289	
Depreciation expense reported in the statement of activities	<u>(1,820,285)</u>	
Amount by which capital outlays are greater (less) than depreciation in current period	(483,996)	(542,795)
In governmental funds the entire proceeds, if any, from the disposal of capital assets is reported as an other financing source. In the statement of activities only the gain (or loss) on the disposal is reported.		
Loss on disposition reported on the statement of activities	(113,918)	(539,636)
Certain employee benefits are reported in the governmental funds when amounts are paid. The statement of activities reports the value of benefits earned during the year. This year the accrual of these benefits decreased (increased) by:		
	66,471	(98,765)
Some capital assets acquired and debt retired during the year were financed with debt. The amount of the debt is reported in the governmental funds as a source of financing. In the statement of net position, however, debt constitutes a long-term liability. The amount of debt reported in the governmental funds statement is:		
	(1,441,632)	(7,256,924)
Repayment of principal on long-term debt is reported in the governmental funds as an expenditure, but is reported as a reduction in long-term debt in the statement of net position and does not affect the statement of activities. The amount of long-term debt principal payments in the current year is:		
	2,451,093	8,931,293
Governmental funds report the effect of premium, discounts, deferred charges on advance refundings, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		
	(35,629)	291,099
Interest payments on outstanding debt are reported in the governmental funds as an expenditure when paid, in the statement of activities interest is reported as it accrues.		
	(19,671)	85,010
Governmental funds do not record revenues that are not available to pay current obligations. In contrast, such revenues are reported in the statement of activities when earned.		
	(339,993)	(34,680)
Rehabilitation loans that are deferred in the fund statements are recognized as revenue in the statement of activities.		
	<u>(102,791)</u>	<u>200,018</u>
Change in Net Position of Governmental Activities as Reported in the Statement of Activities (see pages 13 - 14)	<u>\$ 799,012</u>	<u>\$ (392,264)</u>

The notes to the basic financial statements are an integral part of this statement.

CITY OF STURGEON BAY, WISCONSIN
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
For the Year Ended December 31, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 5,379,307	\$ 5,379,307	\$ 5,415,970	\$ 36,663
Intergovernmental	1,456,505	1,456,505	1,460,063	3,558
Licenses and permits	119,325	119,325	135,913	16,588
Fines and forfeits	60,000	60,000	49,123	(10,877)
Public charges for services	197,750	197,750	202,973	5,223
Intergovernmental charges for services	462,590	462,590	462,588	(2)
Commercial	44,255	44,255	39,564	(4,691)
Miscellaneous	41,170	41,170	372,899	331,729
Total Revenues	7,760,902	7,760,902	8,139,093	378,191
Expenditures				
Current				
General government	3,030,015	3,030,015	1,487,635	1,542,380
Public safety	4,072,660	4,072,660	3,907,534	165,126
Public works	1,494,840	1,494,840	1,375,483	119,357
Culture and recreation	820,505	820,505	721,763	98,742
Development	381,060	381,060	304,628	76,432
Debt service				
Principal	484,613	484,613	445,016	39,597
Interest and fiscal charges	84,697	84,697	77,777	6,920
Total Expenditures	10,368,390	10,368,390	8,319,836	2,048,554
Excess of Revenues Over (Under)				
Expenditures	(2,607,488)	(2,607,488)	(180,743)	2,426,745
Other Financing Sources (Uses)				
Transfers in	834,142	834,142	834,142	-
Transfers out	(9,480)	(9,480)	(9,480)	-
Total Other Financing Sources (Uses)	824,662	824,662	824,662	-
Net Change in Fund Balance	(1,782,826)	(1,782,826)	643,919	2,426,745
Fund Balance - January 1	3,365,555	3,365,555	3,365,555	-
Fund Balance - December 31	\$ 1,582,729	\$ 1,582,729	\$ 4,009,474	\$ 2,426,745

The notes to the basic financial statements are an integral part of this statement.

CITY OF STURGEON BAY, WISCONSIN

Statement of Net Position

Proprietary Funds

December 31, 2014

(With summarized financial information as of December 31, 2013)

	Enterprise Funds					
	Sturgeon Bay Utilities			Nonmajor Fund Solid Waste	Total	
	Sewer Utility	Water Utility	Electric Utility		2014	2013
ASSETS						
Cash and investments	\$ 669,852	\$ 451,296	\$ 5,094,494	\$ 39	\$ 6,215,681	\$ 5,744,409
Receivables						
Taxes	-	-	-	352	352	-
Accounts	133,730	211,884	1,438,172	-	1,783,786	1,768,514
Other	60,475	774	148,080	-	209,329	261,177
Due from other funds	978,076	566,097	-	-	1,544,173	1,457,920
Due from other governments	-	-	-	-	-	1,000,000
Inventories and prepaid expenses	8,244	90,644	535,784	-	634,672	644,855
Restricted assets						
Cash and investments	521,355	-	-	-	521,355	521,353
Investment in American Transmission Company	-	-	1,823,277	-	1,823,277	1,704,213
Non-utility property	-	42,000	-	-	42,000	42,000
Capital assets, nondepreciable						
Land	95,170	80,840	100,075	-	276,085	276,085
Construction in progress	547,167	1,060,636	1,134,081	-	2,741,884	423,493
Capital assets, depreciable						
Buildings	2,596,393	1,563,890	2,047,252	-	6,207,535	6,207,535
Machinery and equipment	6,961,744	2,741,948	8,246,040	448,544	18,398,276	18,277,080
Infrastructure	10,264,327	15,291,826	22,756,665	-	48,312,818	47,435,116
Less: Accumulated depreciation	(11,050,095)	(7,733,470)	(13,948,549)	(112,169)	(32,844,283)	(32,015,377)
TOTAL ASSETS	11,786,438	14,368,365	29,375,371	336,766	55,866,940	53,748,373
LIABILITIES						
Accounts payable	107,198	109,542	1,759,914	-	1,976,654	1,660,852
Accrued interest	-	-	-	2,015	2,015	10,503
Other current liabilities	-	-	-	4,265	4,265	84,736
Due to other funds - municipality	-	315,832	324,001	-	639,833	769,180
Due to other funds	-	-	1,544,173	-	1,544,173	1,472,288
Deposits	-	-	133,704	-	133,704	135,088
Compensated absences	49,115	50,139	278,201	-	377,455	313,227
Public benefits payable	-	-	-	-	-	2,154
Long-term obligations						
Due within one year	-	-	8,192	80,709	88,901	8,192
Due in more than one year	-	-	63,491	242,126	305,617	475,227
TOTAL LIABILITIES	156,313	475,513	4,111,676	329,115	5,072,617	4,931,447
NET POSITION						
Net investment in capital assets	9,414,706	13,047,670	20,263,881	13,540	42,739,797	40,162,513
Restricted for						
Capital projects	521,355	-	-	-	521,355	521,353
Unrestricted (deficit)	1,694,064	845,182	4,999,814	(5,889)	7,533,171	8,133,060
TOTAL NET POSITION	\$ 11,630,125	\$ 13,892,852	\$ 25,263,695	\$ 7,651	\$ 50,794,323	\$ 48,816,926

The notes to the basic financial statements are an integral part of this statement.

CITY OF STURGEON BAY, WISCONSIN
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
For the Year Ended December 31, 2014
(With summarized financial information for the year ended December 31, 2013)

	Enterprise Funds					
	Sturgeon Bay Utilities			Nonmajor Fund Solid Waste	Total	
	Sewer Utility	Water Utility	Electric Utility		2014	2013
Operating Revenues						
Charges for services						
Electric charges	\$ -	\$ -	\$ 15,880,207	\$ -	\$ 15,880,207	\$ 15,681,551
Water charges	-	2,156,850	-	-	2,156,850	1,998,729
Wastewater charges	2,026,906	-	-	-	2,026,906	2,034,150
Solid waste charges	-	-	-	440,758	440,758	298,896
Other	14,979	73,964	310,103	48,743	447,789	429,359
Total Operating Revenues	<u>2,041,885</u>	<u>2,230,814</u>	<u>16,190,310</u>	<u>489,501</u>	<u>20,952,510</u>	<u>20,442,685</u>
Operating Expenses						
Operation and maintenance	1,181,680	1,180,123	13,596,890	375,985	16,334,678	16,331,891
Depreciation	313,762	417,004	1,143,667	44,868	1,919,301	1,931,690
Taxes	16,426	22,019	199,228	-	237,673	245,642
Total Operating Expenses	<u>1,511,868</u>	<u>1,619,146</u>	<u>14,939,785</u>	<u>420,853</u>	<u>18,491,652</u>	<u>18,509,223</u>
Operating Income	<u>530,017</u>	<u>611,668</u>	<u>1,250,525</u>	<u>68,648</u>	<u>2,460,858</u>	<u>1,933,462</u>
Nonoperating Revenues (Expenses)						
Interest income	5,824	3,636	186,265	-	195,725	204,195
Merchandising and jobbing	3,613	1,828	69,509	-	74,950	41,191
Interest expense	-	-	(135)	(7,608)	(7,743)	(10,720)
Miscellaneous income	7,230	-	6,825	-	14,055	8,060
Salvage on disposal of asset	-	-	-	-	-	83,928
Total Nonoperating Revenues	<u>16,667</u>	<u>5,464</u>	<u>262,464</u>	<u>(7,608)</u>	<u>276,987</u>	<u>326,654</u>
Income Before Contributions and Transfers	<u>546,684</u>	<u>617,132</u>	<u>1,512,989</u>	<u>61,040</u>	<u>2,737,845</u>	<u>2,260,116</u>
Capital contributions	-	6,413	41,138	-	47,551	612,566
Transfers out	-	(354,053)	(453,946)	-	(807,999)	(769,180)
Change in Net Position	<u>546,684</u>	<u>269,492</u>	<u>1,100,181</u>	<u>61,040</u>	<u>1,977,397</u>	<u>2,103,502</u>
Net Position (Deficit) - January 1	<u>11,083,441</u>	<u>13,623,360</u>	<u>24,163,514</u>	<u>(53,389)</u>	<u>48,816,926</u>	<u>46,713,424</u>
Net Position - December 31	<u>\$ 11,630,125</u>	<u>\$ 13,892,852</u>	<u>\$ 25,263,695</u>	<u>\$ 7,651</u>	<u>\$ 50,794,323</u>	<u>\$ 48,816,926</u>

The notes to the basic financial statements are an integral part of this statement.

CITY OF STURGEON BAY, WISCONSIN

Statement of Cash Flows

Proprietary Funds

For the Year Ended December 31, 2014

(With summarized financial information for the year ended December 31, 2013)

	Sturgeon Bay Utilities	Nonmajor Fund Solid Waste	Total	
			2014	2013
Cash Flows from Operating Activities				
Cash received from user charges	\$ 20,097,000	\$ 489,149	\$ 20,586,149	\$ 19,608,718
Cash received from other charges	488,051	-	488,051	478,610
Cash payments to suppliers	(14,792,885)	(218,612)	(15,011,497)	(15,087,267)
Cash payments to employees for operating payroll	(1,067,908)	(159,325)	(1,227,233)	(1,175,581)
Net Cash Provided by Operating Activities	4,724,258	111,212	4,835,470	3,824,480
Cash Flows from Noncapital Financing Activities				
Paid to municipality for tax equivalent	(807,999)	-	(807,999)	(769,180)
Loan repayment from (to) local school district	1,000,000	-	1,000,000	(1,000,000)
Advance repaid to (from) other fund	-	(14,368)	(14,368)	14,368
Net Cash Provided By (Used in) Noncapital Financing Activities	192,001	(14,368)	177,633	(1,754,812)
Cash Flows from Capital and Related Financing Activities				
Acquisition of capital assets	(4,304,751)	-	(4,304,751)	(2,713,784)
Salvage value received on retired capital assets	29,302	-	29,302	-
Cost of removal paid on retired capital assets	(237,909)	-	(237,909)	-
Interest payments on long-term debt	(135)	(16,096)	(16,231)	(10,720)
Proceeds from debt issue	-	-	-	81,923
Principal payments on long-term debt	(8,192)	(80,709)	(88,901)	(2,048)
Net Cash Used in Capital and Related Financing Activities	(4,521,685)	(96,805)	(4,618,490)	(2,644,629)
Cash Flows from Investing Activities				
Increase in ATC investment	(119,064)	-	(119,064)	(109,045)
Investment income	195,725	-	195,725	204,195
Net Cash Provided by Investing Activities	76,661	-	76,661	95,150
Net Increase (Decrease) in Cash and Cash Equivalents	471,235	39	471,274	(479,811)
Cash and Cash Equivalents - January 1	6,265,762	-	6,265,762	6,745,573
Cash and Cash Equivalents - December 31	\$ 6,736,997	\$ 39	\$ 6,737,036	\$ 6,265,762
Noncash Noncapital Financing Activities:				
Developer financed additions to utility plant	\$ 47,551	\$ -	\$ 47,551	\$ 612,566

(Continued)

CITY OF STURGEON BAY, WISCONSIN

Statement of Cash Flows (Continued)

Proprietary Funds

For the Year Ended December 31, 2014

(With summarized financial information for the year ended December 31, 2013)

	Sturgeon Bay Utilities	Nonmajor Fund Solid Waste	Total	
			2014	2013
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:				
Operating income	\$ 2,392,210	\$ 68,648	\$ 2,460,858	\$ 1,933,462
Nonoperating revenue	89,005	-	89,005	49,251
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	1,874,433	44,868	1,919,301	1,931,690
Depreciation charged to other accounts	153,225	-	153,225	73,082
Changes in assets and liabilities:				
Customer accounts receivable	(15,272)	(352)	(15,624)	(219,170)
Other accounts receivable	51,848	-	51,848	(168,778)
Inventories and prepaid expenses	10,183	-	10,183	137,507
Accounts payable	319,315	(3,513)	315,802	25,927
Deposits	(1,384)	-	(1,384)	(17,254)
Accrued and other current liabilities	(129,347)	1,561	(127,786)	79,712
Public benefits payable	(2,154)	-	(2,154)	594
Compensated absences payable	(17,804)	-	(17,804)	(1,543)
Net Cash Provided by Operating Activities	<u>\$ 4,724,258</u>	<u>\$ 111,212</u>	<u>\$ 4,835,470</u>	<u>\$ 3,824,480</u>
Reconciliation of Cash and Cash Equivalents to Statement of Net Position:				
Cash and investments	\$ 6,215,642	\$ 39	\$ 6,215,681	\$ 5,744,409
Restricted cash and investments	521,355	-	521,355	521,353
Total Cash and Cash Equivalents	<u>\$ 6,736,997</u>	<u>\$ 39</u>	<u>\$ 6,737,036</u>	<u>\$ 6,265,762</u>

The notes to the basic financial statements are an integral part of this statement.

CITY OF STURGEON BAY, WISCONSIN

Notes to Basic Financial Statements

December 31, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the City of Sturgeon Bay, Wisconsin, ("the City"), have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting principles and policies utilized by the City are described below:

1. Reporting Entity

The City of Sturgeon Bay is a municipal corporation governed by an elected seven-member council. In accordance with GAAP, the basic financial statements are required to include the City (the primary government) and any separate component units that have a significant operational or financial relationship with the City. The City has not identified any component units that are required to be included in the basic financial statements in accordance with standards established by GASB Statement No. 61.

2. Jointly Governed Organizations

DOOR COUNTY LIBRARY

The City of Sturgeon Bay is a participant with Door County, Wisconsin in a joint venture to operate the Door County Library. The Door County Library is governed by a seven-member board composed of two members of the City of Sturgeon Bay Council and five members appointed by Door County. The City and County are obligated by agreement to fund one-half of the utilities, janitorial service, insurance, maintenance and repair and related supplies for grounds, building, its contents and equipment located at the library. During 2014, the City remitted an appropriation of \$75,156 to Door County for the library. The library building is owned by the City and is included in the capital assets of the governmental activities. Complete financial statements for the Door County Library can be obtained from Door County at 421 Nebraska St. Sturgeon Bay, Wisconsin 54235.

DOOR COUNTY TOURISM ZONE

The City of Sturgeon Bay is a participant with all other Door County municipalities in a joint venture to create the Door County Tourism Zone as prescribed under Wisconsin Statute 66.0615. The Tourism Zone is responsible for collecting a 5.5% room tax on the gross receipts from retail furnishing of rooms or lodgings over all of the member municipalities. The Tourism Zone pays 66% of the room tax collected to the Door County Visitor Bureau, 30% to the member municipalities and retains 4% for its operations. During 2014, the City of Sturgeon Bay received \$169,800 of room tax from the Tourism Zone. Complete financial information for the Door County Tourism Zone Commission can be obtained from its office in Sister Bay, Wisconsin. Revenue received is recorded in the general fund of the City.

CITY OF STURGEON BAY, WISCONSIN

Notes to Basic Financial Statements

December 31, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which are primarily supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for services.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and the proprietary funds. Governmental funds include general, special revenue, debt service and capital projects funds. Proprietary funds include enterprise funds. The City has no internal service funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

GENERAL FUND

This is the City's main operating fund. It accounts for all financial resources of the general government, except those accounted for in another fund.

TAX INCREMENTAL DISTRICT NO. 2, WATERFRONT DISTRICT

This fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities within the boundaries of the waterfront tax incremental district.

CAPITAL IMPROVEMENTS

This fund is used to account for financial resources to be used for the acquisition or construction of major capital improvements.

The City reports the following major proprietary fund:

STURGEON BAY UTILITIES

This fund is used to account for the operations of the City's water, electric and sewer utilities.

CITY OF STURGEON BAY, WISCONSIN
Notes to Basic Financial Statements
December 31, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4. Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Revenues susceptible to accrual include intergovernmental grants, intergovernmental charges for services, city ordinance forfeitures, public charges for services and interest. Other revenues such as licenses and permits, other fines and forfeits and miscellaneous revenues are recognized when received in cash or when measurable and available.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are certain charges between the City's water, electric, sewer and solid waste utilities and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned. Payments in lieu of taxes are reported as an interfund transfer in the year of payment as the amount is not considered reasonably equivalent in value to the services provided by the general fund.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, and fees and fines, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for services. Operating expenses for enterprise funds include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources, as they are needed.

CITY OF STURGEON BAY, WISCONSIN

Notes to Basic Financial Statements

December 31, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Fund Balance

a. Cash and Investments

Cash and investments are combined in the financial statements. Cash deposits consist of demand and time deposits with financial institutions and are carried at cost. Investments are stated at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. For purposes of the statement of cash flows, all cash deposits and highly liquid investments (including restricted assets) with a maturity of three months or less from date of acquisition are considered to be cash equivalents.

b. Accounts Receivable

Accounts receivable are recorded at gross amount with uncollectible amounts recognized under the direct write-off method. No allowance for uncollectible accounts has been provided since it is believed that the amount of such allowance would not be material to the basic financial statements.

c. Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" and "due to other funds" in the fund financial statements.

The amount reported on the statement of net position for internal balances represents the residual balance outstanding between the governmental activities and business-type activities.

d. Inventories

Inventories are recorded at cost, which approximates market, using the average cost method. Inventories consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are consumed rather than when purchased.

Inventories of governmental funds in the fund financial statements are offset by nonspendable fund balance amounts to indicate that they do not represent spendable available financial resources.

e. Prepaid Items

Payments made to vendors that will benefit periods beyond the end of the current fiscal year are recorded as prepaid items.

Prepaid items of governmental funds in the fund financial statements are offset by nonspendable fund balance amounts to indicate that they do not represent spendable available financial resources.

f. Other Assets

Investment in American Transmission Company (ATC)

The utility is a member of ATC. ATC was formed by approximately 25 utilities to plan, construct, maintain, monitor and own electric transmission facilities in Wisconsin. The utility owns less than 1/2 of 1 percent of ATC.

The investment earns dividends quarterly, 80% of which is paid in cash and 20% of which is required to be reinvested. From time to time, the utility has the option to contribute additional funds to maintain their proportionate share of ownership. The asset is valued at original cost plus additional contributions and reinvested dividends, which is \$1,823,277 at December 31, 2014.

CITY OF STURGEON BAY, WISCONSIN

Notes to Basic Financial Statements

December 31, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

g. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets for governmental activities are defined by the City as assets with an initial, individual cost of \$5,000 or higher and an estimated useful life in excess of two years. Capital assets for business-type activities are defined by Sturgeon Bay Utilities as assets with an initial, individual cost of \$1,000 or higher and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets of the City are depreciated using the straight-line method over the following estimated useful lives:

	Governmental Activities
	Years
<u>Assets</u>	
Land improvements	15
Buildings and improvements	40
Machinery and equipment	5 - 10
Infrastructure	60 - 100
	Business-type Activities
	Years
<u>Assets</u>	
Electric Plant	
Distribution	16 - 40
General	3 - 39
Water Plant	
Source of supply	22 - 56
Pumping	23 - 32
Water treatment	19 - 32
Transmission and distribution	18 - 77
General	3 - 24
Sewer Plant	
Collecting system	50 - 100
Collecting system pumping	25
Treatment and disposal	15 - 40
General	3 - 40
Solid Waste	
Machinery and equipment	5 - 10

CITY OF STURGEON BAY, WISCONSIN

Notes to Basic Financial Statements

December 31, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

h. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick leave benefits in accordance with bargaining unit agreements or employee benefit policy. Employees may accumulate sick leave up to 100 days pay. Upon retirement, police department employees may take 50 days of unused sick leave in cash or apply up to 100 days of unused sick pay towards health insurance premiums. Fire department employees are only allowed to apply up to 100 days of unused sick leave pay towards health insurance premiums. Upon retirement all other employees will be paid out for all unused sick leave days. If an employee leaves for reasons other than retirement all unused sick leave is forfeited. Sturgeon Bay Utilities' employees are allowed to accumulate earned but unused vacation and sick leave benefits in accordance with bargaining unit agreements or employee benefit policy. Employees are allowed to accumulate up to 125 days of sick leave. Upon retirement, disability or death, unused sick leave credits shall be used for the purpose of payment of health insurance premiums upon qualified retirement. Qualified retirement means the employee is entitled to retirement benefits from the Wisconsin Retirement System. The above credit would be reduced by the percentage reduction in retirement benefits if employee elects early retirement. Vacation and sick leave is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds in the fund financial statements only if they have matured, for example, as a result of employee resignations and retirements.

i. Public Benefits

The electric utility charges public benefit fees to all customers as required by the 1999 Energy Reliability Act. Revenues generated from the fees are used to fund energy conservation and low-income energy assistance ("Commitment to Community") programs. The utility is acting as an agent administering the program so receipts and disbursements associated with the program are recorded as a current liability of the statement of net position.

j. Customer Deposits

The balance represents amounts collected from customers who may be refundable based on rules filed with the Public Service Commission of Wisconsin (PSCW) or statutory requirements.

k. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City currently has one item that qualifies for reporting in this category, deferred charges on refunding.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The City has two types of items that qualify for reporting in this category, property taxes and grants. This amount will be recognized as an inflow of resources in the subsequent year for which it was levied or the related expenditure is incurred. The City also has an additional type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources, special assessments and loans receivable. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

CITY OF STURGEON BAY, WISCONSIN
Notes to Basic Financial Statements
December 31, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

i. Long-term Obligations

In the government-wide financial statements, and proprietary funds in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds. Accounting gains or losses on refundings are amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenses when incurred.

In the fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures when incurred.

m. Fund Equity

GOVERNMENTAL FUND FINANCIAL STATEMENTS

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Nonspendable fund balance - Amounts that are not in spendable form (such as inventory, prepaid items, or long-term receivables) or are legally or contractually required to remain intact.
- Restricted fund balance - Amounts that are constrained for specific purposes by external parties (such as grantor or bondholders), through constitutional provisions, or by enabling legislation.
- Committed fund balance - Amounts that are constrained for specific purposes by action of the City Council. These constraints can only be removed or changed by the City Council using the same action that was used to create them.
- Assigned fund balance - Amounts that are constrained for specific purposes by action of City management. Residual amounts in any governmental fund, other than the General Fund, are also reported as assigned.
- Unassigned fund balance - Amounts that are available for any purpose. Positive unassigned amounts are only reported in the General Fund.

The City has not adopted a fund balance spend-down policy regarding the order in which fund balance will be utilized. When a policy does not specify the spend-down policy, GASB Statement No. 54 indicates that restricted funds would be spent first, followed by committed funds, and then assigned funds. Unassigned funds would be spent last.

CITY OF STURGEON BAY, WISCONSIN

Notes to Basic Financial Statements

December 31, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

GOVERNMENT-WIDE AND PROPRIETARY FUND STATEMENTS

Equity is classified as net position and displayed in three components:

- Net investment in capital assets - Amount of capital assets, net of accumulated depreciation and capital related deferred outflows of resources less outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets and any capital related deferred inflows of resources.
- Restricted net position - Amount of net position that is subject to restrictions that are imposed by 1) external groups, such as creditors, grantors, contributors or laws or regulations of other governments or 2) law through constitutional provisions or enabling legislation.
- Unrestricted net position - Net position that is neither classified as restricted nor as net investment in capital assets.

n. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

o. Summarized Comparative Information

The basic financial statements include certain prior-year summarized comparative information in total, but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the government's financial statements for the year ended December 31, 2013, from which the summarized information was derived.

NOTE B - STEWARDSHIP AND COMPLIANCE

1. Budgets and Budgetary Accounting

The City follows these procedures in establishing the budgetary data reflected in the basic financial statements:

- a. During the year, City management submits to the City Council a proposed operating budget for the calendar year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them. After submission to the governing body, public hearings are held to obtain taxpayer comments. Following the public hearings, the proposed budget, including authorized additions and deletions, is legally enacted by City Council action.
- b. Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the governmental funds. Budget is defined as the originally approved budget plus or minus approved amendments. Individual amendments throughout the year were not material in relation to the original budget. Budget appropriations not expended during the year are closed to fund balance unless authorized by the governing body to be forwarded into the succeeding year's budget.
- c. During the year, formal budgetary integration is employed as a management control device for the governmental funds.

CITY OF STURGEON BAY, WISCONSIN
Notes to Basic Financial Statements
December 31, 2014

NOTE B - STEWARDSHIP AND COMPLIANCE (Continued)

- d. Expenditures may not exceed appropriations provided in detailed budget accounts maintained for each activity or department of the City. Amendments to the budget during the year require initial approval by management and are subsequently authorized by the City Council with a two-thirds majority vote.
- e. Encumbrance accounting is not used by the City to record commitments related to unperformed contracts for goods or services.

The City did not have any material violation of legal or contractual provisions for the fiscal year ended December 31, 2014.

2. Deficit Fund Equity

The following funds had a deficit fund equity as of December 31, 2014:

Fund	Deficit
TID No. 4	\$ 576,224

The deficit will be financed with future revenues of the fund.

NOTE C - DETAILED NOTES ON ALL FUNDS

1. Cash and Investments

The City maintains various cash and investment accounts, including pooled funds that are available for use by all funds. Each fund's portion of these accounts is displayed in the financial statements as "Cash and investments."

Invested cash consists of deposits and investments that are restricted by Wisconsin Statutes to the following:

Time deposits; repurchase agreements; securities issued by federal, state and local governmental entities; statutorily authorized commercial paper and corporate securities; and the Wisconsin local government investment pool.

The carrying amount of the City's cash and investments totaled \$21,653,379 on December 31, 2014 as summarized below:

Petty cash and cash on hand	\$ 900
Deposits with financial institutions	6,945,959
Other investments	
Wisconsin local government investment pool	9,352,937
Negotiable FDIC insured CDs	3,530,306
Investment in American Transmission Company (ATC)	1,823,277
	\$ 21,653,379

Reconciliation to the basic financial statements:

Cash and investments	\$ 19,308,747
Restricted cash and investments	521,355
Investment in American Transmission Company (ATC)	1,823,277
	\$ 21,653,379

Deposits and investments of the City are subject to various risks. Presented below is a discussion of the specific risks and the City's policy related to the risk.

CITY OF STURGEON BAY, WISCONSIN

Notes to Basic Financial Statements

December 31, 2014

NOTE C - DETAILED NOTES ON ALL FUNDS (Continued)

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Wisconsin statutes require repurchase agreements to be fully collateralized by bonds or securities issued or guaranteed by the federal government or its instrumentalities. The City does not have an additional custodial credit risk policy.

Deposits with financial institutions within the State of Wisconsin are insured by the Federal Deposit Insurance Corporation (FDIC) in the amount of \$250,000 for the combined amount of all time and savings deposits and \$250,000 for interest-bearing and noninterest-bearing demand deposits per official custodian per insured depository institution. Deposits with financial institutions located outside the State of Wisconsin are insured by the FDIC in the amount of \$250,000 for the combined amount of all deposit accounts per official custodian per depository institution. Also, the State of Wisconsin has a State Guarantee Fund which provides a maximum of \$400,000 per public depository above the amount provided by an agency of the U.S. Government. However, due to the relatively small size of the State Guarantee Fund in relation to the Fund's total coverage, total recovery of insured losses may not be available.

As of December 31, 2014, \$2,192,833 of City's deposits with financial institutions were in excess of federal and state depository insurance. The entire amount was collateralized by the pledging financial institution or trust department or agent but not in the City's name.

As of December 31, 2014, \$3,230,679 of the Utilities' deposits with financial institutions were in excess of federal and state depository insurance limits. The entire amount was collateralized by the pledging financial institution or its trust department or agent but not in the Utilities' name.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Wisconsin statutes limit investments in securities to the top two ratings assigned by nationally recognized statistical rating organizations. The City does not have an additional credit risk policy. At December 31, 2014, none of the investment types maintained by the City was rated.

Concentration of Credit Risk

The investment policy of the City provides that the City will diversify its investments by security type and institution. With the exception of U.S. Treasury securities and the authorized local government investment pool, no more than 50% of the City's total investment portfolio will be invested in a single security or with a single financial institution.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

CITY OF STURGEON BAY, WISCONSIN

Notes to Basic Financial Statements

December 31, 2014

NOTE C - DETAILED NOTES ON ALL FUNDS (Continued)

Information about the sensitivity of the fair values of the City's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the City's investments by maturity:

Investment Type	Amount	Remaining Maturity (in Months)			
		12 Months or Less	13 to 24 Months	25 to 60 Months	More Than 60 Months
Wisconsin Local Government Investment Pool	\$ 9,352,937	\$ 9,352,937	\$ -	\$ -	\$ -
Negotiable FDIC insured CDs	3,530,306	3,530,306	-	-	-
Totals	\$ 12,883,243	\$ 12,883,243	\$ -	\$ -	\$ -

Investment in Wisconsin Local Government Investment Pool

The City has investments in the Wisconsin local government investment pool of \$9,352,937 at year-end. The Wisconsin local government investment pool (LGIP) is part of the State Investment Fund (SIF), and is managed by the State of Wisconsin Investment Board. The SIF is not registered with the Securities and Exchange Commission, but operates under the statutory authority of Wisconsin Chapter 25. The SIF reports the fair value of its underlying assets annually. Participants in the LGIP have the right to withdraw their funds in total on one day's notice. At December 31, 2014, the fair value of the City's share of the LGIP's assets was substantially equal to the carrying value.

Investment in American Transmission Company (ATC)

The Utilities is a member of ATC. ATC was formed by approximately 25 utilities to plan, construct, maintain, monitor and own electric transmission facilities in Wisconsin. The Utilities own less than 1/2 of 1 percent of ATC.

The investment earns dividends quarterly, 80% of which is paid in cash and 20% of which is required to be reinvested. From time to time, the Utilities have the option to contribute additional funds to maintain their proportionate share of ownership. The asset is valued at original cost plus additional contributions and reinvested dividends, which is \$1,823,277 at December 31, 2014.

2. Restricted Assets

Restricted assets on December 31, 2014 totaled \$521,355 and consisted of cash and investments held for the following purposes:

Enterprise Fund	
Wastewater replacement account	<u>\$ 521,355</u>

The utility has established an equipment replacement account to be used for significant wastewater treatment mechanical equipment replacement as required by the Wisconsin Department of Natural Resources as a condition to receiving construction grants.

3. Property Taxes

Property taxes consist of taxes on real estate and personal property. They are levied during December of the prior year and become an enforceable lien on property the following January 1. Property taxes are payable in various options depending on the type and amount. Personal property taxes are payable on or before January 31 in full. Real estate taxes are payable in full by January 31 or in two equal installments on or before January 31 and July 31. Real estate taxes not paid by January 31 are purchased by the County as part of the February tax settlement. Delinquent personal property taxes remain the collection responsibility of the City.

The City bills and collects its own property taxes and also levies and collects taxes for the Sturgeon Bay, Southern Door and Sevastopol School Districts, Door County, Northeast Wisconsin Technical College and the State of Wisconsin.

CITY OF STURGEON BAY, WISCONSIN

Notes to Basic Financial Statements

December 31, 2014

NOTE C - DETAILED NOTES ON ALL FUNDS (Continued)

4. Capital Assets

Capital asset activity for the year ended December 31, 2014 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 6,032,968	\$ 220,600	\$ 78,940	\$ 6,174,628
Construction in progress	241,662	98,465	-	340,127
Total capital assets, not being depreciated	6,274,630	319,065	78,940	6,514,755
Capital assets, being depreciated:				
Land improvements	4,199,839	209,405	53,233	4,356,011
Buildings	9,819,098	62,884	-	9,881,982
Machinery and equipment	7,476,341	187,822	308,461	7,355,702
Infrastructure	55,573,298	557,113	230,562	55,899,849
Subtotals	77,068,576	1,017,224	592,256	77,493,544
Less accumulated depreciation for:				
Land improvements	3,481,973	129,052	53,233	3,557,792
Buildings	3,251,280	319,564	-	3,570,844
Machinery and equipment	5,827,312	386,551	273,483	5,940,380
Infrastructure	18,330,476	985,118	230,562	19,085,032
Subtotals	30,891,041	1,820,285	557,278	32,154,048
Total capital assets, being depreciated, net	46,177,535	(803,061)	34,978	45,339,496
Governmental activities capital assets, net	<u>\$ 52,452,165</u>	<u>\$ (483,996)</u>	<u>\$ 113,918</u>	51,854,251
Less related long-term debt outstanding				24,909,669
Net investment in capital assets				<u>\$ 26,944,582</u>
Business-type activities:				
Capital assets, not being depreciated:				
Non-utility land	\$ 42,000	\$ -	\$ -	\$ 42,000
Land	276,085	-	-	276,085
Construction in progress	423,493	2,318,391	-	2,741,884
Total capital assets, not being depreciated	741,578	2,318,391	-	3,059,969
Capital assets, being depreciated:				
Buildings	6,207,535	-	-	6,207,535
Machinery and equipment	18,277,080	533,085	411,889	18,398,276
Infrastructure	47,435,116	1,504,056	626,354	48,312,818
Subtotals	71,919,731	2,037,141	1,038,243	72,918,629
Less accumulated depreciation for:				
Wastewater utility	10,726,113	329,395	5,413	11,050,095
Electric distribution utility	13,760,701	443,456	171,248	14,032,909
Water utility	7,461,262	1,284,109	1,096,261	7,649,110
Solid waste	67,301	44,868	-	112,169
Subtotals	32,015,377	2,101,828	1,272,922	32,844,283
Total capital assets, being depreciated, net	39,904,354	(64,687)	(234,679)	40,074,346
Business-type activities capital assets, net	<u>\$ 40,645,932</u>	<u>\$ 2,253,704</u>	<u>\$ (234,679)</u>	43,134,315
Less related long-term debt outstanding				394,518
Net investment in capital assets				<u>\$ 42,739,797</u>

CITY OF STURGEON BAY, WISCONSIN

Notes to Basic Financial Statements

December 31, 2014

NOTE C - DETAILED NOTES ON ALL FUNDS (Continued)

Depreciation expense was charged to functions of the City as follows:

Governmental activities	
General government	\$ 282,813
Public safety	216,473
Public works	1,168,947
Culture and recreation	152,052
Total depreciation expense - governmental activities	<u>\$ 1,820,285</u>
Business-type activities	
Sewer	\$ 313,762
Water	417,004
Electric	1,143,667
Solid waste	44,868
Total depreciation expense - business-type activities	<u>1,919,301</u>
Depreciation charged to operation and maintenance	153,225
Salvage value received	29,302
	<u>\$ 2,101,828</u>

Change to accumulated depreciation includes increases (e.g. salvage value) and decreases (e.g. cost of removal) of disposed capital assets.

5. Interfund Receivable, Payables, and Transfers

Interfund receivables and payables between individual funds of the City, as reported in the fund financial statements, as of December 31, 2014 are detailed below:

	Interfund Receivables	Interfund Payables
Operating Accounts Between Funds		
General Fund	\$ 1,456,731	\$ -
Sewer Utility	978,076	-
Water Utility	566,097	315,832
Electric Utility	-	1,868,174
Capital Improvements	2,670	-
Tax Incremental District #2	-	235,590
Tax Incremental District #3	-	2,754
Tax Incremental District #4	-	569,581
Revolving Loan	-	11,643
Totals	<u>\$ 3,003,574</u>	<u>\$ 3,003,574</u>

CITY OF STURGEON BAY, WISCONSIN
Notes to Basic Financial Statements
December 31, 2014

NOTE C - DETAILED NOTES ON ALL FUNDS (Continued)

Interfund transfers for the year ended December 31, 2014 were as follows:

	Transfer from:			
	Totals	General Fund	Sturgeon Bay Utilities	Cable TV
Transfers to:				
General fund	\$ 834,142	\$ -	\$ 807,999	\$ 4,500
Capital improvements	12,150	9,480	-	-
TID No. 2	351,995	-	-	-
TID No. 3	142,006	-	-	-
Totals	<u>\$ 1,340,293</u>	<u>\$ 9,480</u>	<u>\$ 807,999</u>	<u>\$ 4,500</u>

	Transfer from:			
	Revolving Loan	Tax Incremental District #1	Tax Incremental District #2	Capital Improvements
Transfers to:				
General fund	\$ 11,643	\$ -	\$ -	\$ 10,000
Capital improvements	-	-	2,670	-
TID No. 2	-	351,995	-	-
TID No. 3	-	142,006	-	-
Totals	<u>\$ 11,643</u>	<u>\$ 494,001</u>	<u>\$ 2,670</u>	<u>\$ 10,000</u>

Transfers are used to (1) move unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, and (2) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them (3) transfer the annual tax equivalent to the municipality.

CITY OF STURGEON BAY, WISCONSIN
Notes to Basic Financial Statements
December 31, 2014

NOTE C - DETAILED NOTES ON ALL FUNDS (Continued)

6. Long-term Obligations

The following is a summary of changes in long-term obligations of the City for the year ended December 31, 2014:

	Outstanding 1/1/14	Issued	Retired	Outstanding 12/31/14	Due Within One Year
Governmental activities:					
General Obligation Debt					
Bonds	\$ 13,320,000	\$ 1,295,000	\$ 860,000	\$ 13,755,000	\$ 840,000
Notes	1,254,600	146,632	241,093	1,160,139	135,300
Total General Obligation Debt	14,574,600	1,441,632	1,101,093	14,915,139	975,300
Lease revenue bonds	11,600,000	-	1,350,000	10,250,000	1,405,000
Compensated absences	764,835	58,279	-	823,114	-
Post-employment benefits	388,846	-	124,750	264,096	-
Premium on refunded debt	161,937	-	19,821	142,116	-
Governmental activities Long-term obligations	<u>\$ 27,490,218</u>	<u>\$ 1,499,911</u>	<u>\$ 2,595,664</u>	<u>\$ 26,394,465</u>	<u>\$ 2,380,300</u>
Business-type activities:					
General Obligation Debt					
Note	\$ 483,419	\$ -	\$ 88,901	\$ 394,518	\$ 88,901
Compensated absences	313,227	64,228	-	377,455	-
Business-type activities Long-term obligations	<u>\$ 796,646</u>	<u>\$ 64,228</u>	<u>\$ 88,901</u>	<u>\$ 771,973</u>	<u>\$ 88,901</u>

Total interest paid during the year on long-term debt totaled \$893,781.

General Obligation Debt

General obligation debt outstanding is detailed as follows:

General Obligation Bonds

\$2,620,000 issued 6/1/05; \$50,000 to \$300,000 due 2009 through 2021; interest 3.5% to 4.1%	\$ 225,000
\$2,695,000 issued 6/1/05; \$100,000 to \$200,000 due annually through 2025; interest 3.25% to 4.3%	130,000
\$3,220,000 issued 6/1/06; \$175,000 to \$295,000 due annually through 2021; interest 3.25% to 4.0%	500,000
\$1,985,000 issued 9/1/11; \$980,000 and \$1,005,000 due 2021 and 2022, respectively; interest 2.35% to 2.55%	1,985,000
\$2,815,000 issued 7/5/12; \$75,000 to 1,050,000 due annually through 2023; interest .7% to 2.5%	2,660,000
\$1,755,000 issued 10/22/13; \$60,000 to \$115,000 due annually through 2033; interest 2.625% to 4.625%	1,655,000
\$1,735,000 issued 12/30/13; \$15,000 to \$190,000 due annually through 2025; interest 2.0% to 3.0%	1,705,000
\$1,620,000 issued 12/30/13; \$20,000 to \$285,000 due annually through 2021; interest 2.0% to 3.0%	1,565,000
\$585,000 issued 12/30/13; \$585,000 balloon payment due 10/1/2018; interest 2.0%	585,000
\$1,480,000 issued 12/30/13; \$20,000 to \$295,000 due annually through 2021; interest 2.0% to 3.0%	1,450,000
\$1,295,000 issued 9/9/14; \$640,000 to \$655,000 due in 2024 and 2025; interest 2.375% to 2.500%	1,295,000
Total General Obligation Bonds	<u>13,755,000</u>

(Continued)

CITY OF STURGEON BAY, WISCONSIN

Notes to Basic Financial Statements

December 31, 2014

NOTE C - DETAILED NOTES ON ALL FUNDS (Continued)

General Obligation Notes

\$417,132 issued 11/14/05; \$14,523 to \$33,401 due annually through 2025; interest 5%	291,256
\$31,563 issued 1/31/06; \$1,087 to \$2,502 due annually through 2026; interest 5%	21,818
\$158,476 issued 5/11/06; \$4,978 to \$12,024 due annually through 2026; interest 5%	111,882
\$75,383 issued 9/21/06; \$795 to \$6,078 due annually through 2026; interest 5%	56,554
\$43,978 issued 2/11/10; \$3,921 to \$5,812 due annually through 2019; interest 4.50%	26,662
\$30,000 issued 8/24/10; \$2,500 to \$3,559 due annually through 2020; interest 4.50%	15,110
\$107,842 issued 8/19/11; \$20,588 to \$22,659 due annually through 2016; interest 3.25%	44,607
\$52,000 issued 8/19/11; \$9,927 to \$10,925 due annually through 2016; interest 3.25%	21,509
\$5,970 issued 8/19/11; \$1,140 to \$1,254 due annually through 2016; interest 3.25%	2,469
\$22,197 issued 8/19/11; \$4,238 to \$4,664 due annually through 2016; interest 3.25%	9,181
\$4,450 issued 8/19/11; \$383 to \$514 due annually through 2021; interest 3.75%	3,232
\$980 issued 8/19/11; \$84 to \$113 due annually through 2021; interest 3.75%	712
\$1,541 issued 8/19/11; \$133 to \$178 due annually through 2021; interest 3.75%	1,119
\$625 issued 8/19/11; \$54 to \$72 due annually through 2021; interest 3.75%	454
\$7,395 issued 8/19/11; \$637 to \$855 due annually through 2021; interest 3.75%	5,370
\$12,898 issued 8/19/11; \$1,110 to \$1,490 due annually through 2021; interest 3.75%	9,366
\$4,495 issued 8/19/11; \$386 to \$519 due annually through 2021; interest 3.75%	3,264
\$5,970 issued 8/19/11; \$514 to \$690 due annually through 2021; interest 3.75%	4,335
\$19,000 issued 11/2/11; \$1,900 due annually through 2020; interest 3.6%	13,300
\$26,820 issued 11/2/11; \$2,682 due annually through 2020; interest 3.6%	18,774
\$164,214 issued 11/2/11; \$16,421 due annually through 2020; interest 3.6%	114,949
\$75,000 issued 11/2/11; \$7,500 due annually through 2020; interest 3.6%	52,500
\$162,000 issued 11/2/11; \$16,200 due annually through 2020; interest 3.6%	113,400
\$163,848 issued 9/30/13; \$12,288 to \$16,384 due annually through 2023; non-interest bearing	143,368
\$35,343 issued 12/11/14; \$8,244 to 9,301 due annually from 2016 through 2019; interest 3.00%	35,343
\$33,810 issued 12/11/14; \$7,886 to \$8,897 due annually from 2016 through 2019; interest 3.00%	33,810
\$77,478 issued 12/11/14; \$18,072 to \$20,390 due annually from 2016 through 2019; interest 3.00%	77,478
\$403,544 issued 1/2/14; \$80,709 due annually through 2018; interest 2.1%	322,835
	<hr/>
Total General Obligation Notes Payable	1,554,657
	<hr/>
Total General Obligation Debt	\$ 15,309,657

CITY OF STURGEON BAY, WISCONSIN

Notes to Basic Financial Statements

December 31, 2014

NOTE C - DETAILED NOTES ON ALL FUNDS (Continued)

Annual principal and interest maturities of the outstanding general obligation debt of \$15,309,657 on December 31, 2014 are detailed below:

Year Ended December 31	Governmental Activities		Business-Type Activities		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 975,300	\$ 401,000	\$ 88,901	\$ 6,400	\$ 1,064,201	\$ 407,400
2016	1,032,800	371,300	88,901	4,700	1,121,701	376,000
2017	997,700	341,800	88,901	3,000	1,086,601	344,800
2018	1,526,100	319,300	88,901	1,300	1,615,001	320,600
2019	1,008,200	286,200	8,192	-	1,016,392	286,200
2020-2024	7,603,900	901,900	30,722	-	7,634,622	901,900
2025-2029	1,341,200	200,200	-	-	1,341,200	200,200
2030-2033	429,939	50,500	-	-	429,939	50,500
	<u>\$ 14,915,139</u>	<u>\$ 2,872,200</u>	<u>\$ 394,518</u>	<u>\$ 15,400</u>	<u>\$ 15,309,657</u>	<u>\$ 2,887,600</u>

For governmental activities, the other long-term liabilities are generally funded by the general fund.

Legal Margin for New Debt

The City's legal margin for creation of additional general obligation debt on December 31, 2014 was \$24,517,998 as follows:

Equalized valuation of the City	\$ 796,553,100
Statutory limitation percentage	(x) 5%
General obligation debt limitation, per Section 67.03 of the Wisconsin Statutes	39,827,655
Total outstanding general obligation debt applicable to debt limitation	<u>(15,309,657)</u>
Legal Margin for New Debt	<u>\$ 24,517,998</u>

Lease Revenue Bonds

Annual principal and interest maturities of the outstanding lease revenue bonds of \$10,250,000 December 31, 2014 are shown below:

Due	Governmental Activities		
	Principal	Interest	Total
2014	\$ 1,405,000	\$ 443,100	\$ 1,848,100
2015	1,465,000	385,500	1,850,500
2016	1,530,000	324,700	1,854,700
2017	1,600,000	259,700	1,859,700
2018	1,665,000	190,100	1,855,100
2019-2021	2,585,000	154,350	2,739,350
	<u>\$ 10,250,000</u>	<u>\$ 1,757,450</u>	<u>\$ 12,007,450</u>

The above leases require TID No. 2, Waterfront District to make annual payments equal to the principal and interest payments on the debt incurred to finance plan projects.

CITY OF STURGEON BAY, WISCONSIN

Notes to Basic Financial Statements

December 31, 2014

NOTE C - DETAILED NOTES ON ALL FUNDS (Continued)

7. Advance Refunding

In prior years, the City advance refunded \$5,070,000 of general obligation bond issues. As a result, the refunded notes are also considered to be defeased and the liability has been removed from the financial statements.

At December 31, 2014, \$5,070,000 of outstanding general obligation bonds are considered defeased.

8. Conduit Debt Obligations

The City has issued Industrial Revenue Bonds to provide financial assistance to private-sector entities for the acquisition and construction of commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. Neither the City, the State, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying basic financial statements.

NOTE D - OTHER INFORMATION

1. Retirement Commitments

All eligible City employees participate in the Wisconsin Retirement System (WRS), a cost-sharing, multiple-employer, defined benefit, public employee retirement system. All employees initially employed by a participating WRS employer prior to July 1, 2011, expected to work at least 600 hours a year and expected to be employed for at least one year from employee's date of hire, are eligible to participate in the WRS. All employees initially employed by a participating WRS employer on or after July 1, 2011, and expected to work at least 1200 hours a year and expected to be employed for at least one year from employee's date of hire are eligible to participate in the WRS.

Effective the first day of the first pay period on or after June 29, 2011, the employee required contribution was changed to one-half of the actuarially determined contribution rate for employees in the General category, including Executives and Elected Officials. Required contributions for protective employees are the same rate as general employees. Employers are required to contribute the remainder of the actuarially determined contribution rate. The employer may not pay the employee required contribution unless provided for by an existing collective bargaining agreement.

Contribution rates for 2014 were:

	<u>Employee</u>	<u>Employer</u>
General	7.00%	7.00%
Executives & Elected Officials	7.75%	7.75%
Protective with Social Security	7.00%	10.10%
Protective without Social Security	7.00%	13.70%

The payroll for City employees covered by the WRS for the year ended December 31, 2014 was \$5,350,154; the employer's total payroll was \$5,376,577. The total required contribution for the year ended December 31, 2014 was \$864,911, which consisted of \$490,401 or 9.17% of covered payroll from the employer, and \$374,510, or 7.00% of covered payroll from employees. Total contributions for the years ended December 31, 2013 and 2012 were \$824,377 and \$742,427, respectively, equal to the required contributions for each year.

CITY OF STURGEON BAY, WISCONSIN

Notes to Basic Financial Statements

December 31, 2014

NOTE D - OTHER INFORMATION (Continued)

Employees who retire at or after age 65 (62 for elected officials and 54 for protective occupation employees with less than 25 years of service, 53 for protective occupation employees with more than 25 years of service) are entitled to receive a retirement benefit. Employees may retire at age 55 (50 for protective occupation employees) and receive actuarially reduced benefits. The factors influencing the benefit are: (1) final average earnings, (2) years of creditable service, and (3) a formula factor. A final average earnings is the average of the employee's three highest year's earnings. Employees terminating covered employment and submitting application before becoming eligible for a retirement benefit may withdraw their contributions and, by doing so, forfeit all rights to any subsequent benefit. For employees beginning participation on or after January 1, 1990, and no longer actively employed on or after April 24, 1998, creditable service in each of five years is required for eligibility for a retirement annuity. Participants employed prior to 1990 and on or after April 24, 1998 and prior to July 1, 2011 are immediately vested. Participants who initially became WRS eligible on or after July 1, 2011 must have five years of creditable service to be vested.

The WRS also provides death and disability benefits for employees. Eligibility and the amount of all benefits are determined under Chapter 40 of Wisconsin Statutes.

The WRS issues an annual financial report that may be obtained by writing to the Department of Employee Trust Funds, P.O. Box 7931, Madison, WI 53707-7931.

2. Other Post-Employment Benefits

Plan Description

The City provides health care insurance coverage for employees who retire until they reach the age of 65. The retired employee contributes 100% of the premium for family coverage or 100% of the premium for single coverage. There are 68 active and 3 retired employees in the plan.

Annual OPEB Cost and Net OPEB Obligation

The City's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC), and the amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation.

Component	Amount
Annual required contribution	\$ 8,049
Interest on net OPEB	11,665
Adjustment to annual required contribution	(133,464)
Annual OPEB cost (expense)	(113,750)
Contributions made	(11,000)
Change in net OPEB obligation	(124,750)
OPEB obligation - beginning of year	388,846
OPEB obligation - end of year	\$ 264,096

CITY OF STURGEON BAY, WISCONSIN

Notes to Basic Financial Statements

December 31, 2014

NOTE D - OTHER INFORMATION (Continued)

The annual required contribution for the current year was determined as part of the January 1, 2014 actuarial valuation using the projected unit credit method. The actuarial assumptions included (a) 3.0% discount rate.

The actuarial methods and assumptions used include techniques that are designed to reduce the effect of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with a long-term perspective of the calculations. The unfunded actuarial accrued liability is being amortized as a level dollar amount of projected payroll. The remaining amortization period at December 31, 2014 is 30 years, and the remaining amount is \$22,769. The City intends to reduce or eliminate the calculated liability through benefit modifications.

Trend Information

The City's annual OPEB cost, the percentage of the annual OPEB cost contributed to the plan, and the net OPEB obligation for 2013 and 2014 is as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/13	\$ 103,660	12.5%	\$ 388,846
12/31/14	(113,750)	-0.97%	264,096

Funded Status and Funding Progress

As of January 1, 2014, the most recent actuarial valuation date, the City's unfunded actuarial accrued liability (UAAL) was \$22,769. The annual payroll for active employees covered by the plan for the 2014 fiscal year was \$5,376,577 for a ratio of the UAAL to covered payroll of .42%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future, such as assumptions about future terminations, mortality, and healthcare cost trends. Actuarially determined amounts are subject to continual revision as actuarial results are compared with past experience and new estimates are made about the future.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effect of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2014 actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a rate of 3.0% to discount expected liabilities to the valuation date. The initial healthcare trend rate was 6.4%, reduced by decrements to a rate of 5.4% after three years. The UAAL is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at December 31, 2014 was 30 years.

CITY OF STURGEON BAY, WISCONSIN
Notes to Basic Financial Statements
December 31, 2014

NOTE D - OTHER INFORMATION (Continued)

3. The Wisconsin Public Power Incorporated System (WPPI)

The Sturgeon Bay Utilities (the "Utilities") purchases all of its electric requirements from the Wisconsin Public Power Incorporated System (WPPI). WPPI is a municipal electric company and political subdivision of the State of Wisconsin created by contract by its members on September 5, 1980 pursuant to the Municipal Electric Company Act Sec. 66.073 of the Wisconsin Statutes (the Act). WPPI's purposes include providing an adequate, economical and reliable supply of electric energy to its members.

The Utilities is a member of WPPI located throughout the States of Wisconsin, Michigan and Iowa. On December 1, 1989, each of WPPI's members, including the Utilities, commenced purchasing electric service from WPPI under a Long-term Power Supply Contract for Participating Members (the Long-term Contract) under which WPPI has agreed to sell and deliver to each member, and each member has agreed to take and pay for, the electric power and energy requirements of the members for an initial thirty-five (35) year term. In 2002, all WPPI members ratified a thirteen year extension to their contracts. The current contract expires December 31, 2037.

Under the Long-term Contract, the Utilities and the other members of WPPI are required to pay for all power and energy requirements supplied or made available by WPPI at rates sufficient to cover all of WPPI's revenue requirement which includes power supply costs, administrative expenses and debt service on outstanding bonds. WPPI's subsequent year's rates and operating budget are approved annually by its Board of Directors, which consists of representatives from each member municipality. The Utilities have agreed to charge rates to the retail ratepayers sufficient to meet its obligations to WPPI. The Long-term Contract provides that all payments to WPPI under the Contract constitute operating expenses of the Utilities payable from any operating and maintenance fund established by the Utilities for that system.

The long-term Contract may be terminated by either party upon five years prior written notice effective at the end of the initial thirty-five year term, or at any other time thereafter, provided that no WPPI bonds are outstanding at the time of the proposed termination and certain other contract provisions are met.

The electric operation purchases power through Wisconsin Public Power, Inc. System for distribution to its customers. Total purchases under this arrangement amounted to approximately \$12.34 million in 2014.

4. Risk Management

The City has purchased commercial insurance policies for various risks of loss related to torts; theft, damage or destruction of assets; errors or omissions; injuries to employees; or acts of God. Payments of premiums for these policies are recorded as expenditures or expenses in various funds of the City. There have been no settlements in excess of coverage in any of the past three years and there have been no significant reductions in coverage from the prior year.

5. Tax Incremental Districts

The City has established separate capital projects funds for four Tax Incremental Districts (TID) created by the City in accordance with Section 66.1105 of the Wisconsin Statutes. At the time the Districts were created, the property tax base within each District was "frozen" and increment taxes resulting from increases to the property tax base are used to finance District improvements, including principal and interest on long-term debt issued by the City to finance such improvements. Except for certain exceptions under Section 66.1105(6)(am)(1), the Statutes allow 15 or 22 years after its creation date for a tax incremental district to incur project costs eligible for financing from tax increments. The City's four Districts were created on January 1, 1991, January 1, 1994, January 1, 2008 and January 1, 2013, respectively.

CITY OF STURGEON BAY, WISCONSIN

Notes to Basic Financial Statements

December 31, 2014

NOTE D - OTHER INFORMATION (Continued)

Since creation of the above Districts, the City has provided various financing sources to each TID. Detail of the amounts recoverable by the City as of December 31, 2014 from future excess tax increment revenues follows:

	Total	TID No. 1	TID No. 2	TID No. 3	TID No. 4
Net (Excess) Unreimbursed Project Costs	\$ 19,958,067	\$ (172,724)	\$ 18,514,283	\$ 1,040,284	\$ 576,224

The intent of the City is to recover the above amounts from future TID surplus funds, if any, prior to termination of the respective Districts. Unless terminated by the City prior thereto, each TID has a statutory termination year as follows:

	Termination Year
TID No. 1	2028
TID No. 2	2031
TID No. 3	2034
TID No. 4	2040

6. Contingencies

- a. The City participates in a number of federal and state assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. Accordingly, the City's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the City expects such amounts, if any, to be immaterial.
- b. From time to time, the City is party to other various pending claims and legal proceedings. Although the outcome of such matters cannot be forecast with certainty, it is the opinion of management and the City Attorney that the likelihood is remote that any such claims or proceedings will have a material adverse effect on the City's financial position or results of operations.

7. Property Tax Levy Limit

Wisconsin state statutes provide for a limit on the property tax levies for all Wisconsin cities, villages, towns and counties. For the 2014 and 2015 budget years, the increase in the maximum allowable tax levy is limited to the percentage change in the City's January 1 equalized value as a result of net new construction. The actual limit for the City for the 2014 budget was .76%. The actual limit for the City for the 2015 budget was .88%. Debt service for debt authorized after July 1, 2005 is exempt from the levy limit. In addition, Wisconsin statutes allow the limit to be adjusted for the increase in debt service authorized prior to July 1, 2005 and in certain other situations.

8. Upcoming Accounting Pronouncements

In June 2012, the GASB issued GASB Statement No. 68, Accounting and Financial Reporting for Pensions. Statement No. 68 requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability and to more comprehensively and comparably measure the annual costs of pension benefits. This net pension liability that will be recorded on the government-wide and proprietary statements will be computed differently than the current unfunded actuarial accrued liability, using specific parameters set forth by the GASB. The Statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). The City is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this Statement are effective for financial statements for the year ending December 31, 2015.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF STURGEON BAY, WISCONSIN

Schedule of Funding Progress
Other Post-employment Benefit Plan
For the Year Ended December 31, 2014

Actuarial Valuation Date January 1,	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL) Unit Credit	(3) Funded Ratio (1) / (2)	(4) Unfunded Actuarial Accrued Liability (UAAL) (2) - (1)	(5) Covered Payroll	UAAL as a Percentage of Covered Payroll (4) / (5)
2009	\$ -	\$ 673,263	0.0%	\$ 673,263	N/A	N/A
2011	-	678,096	0.0%	678,096	N/A	N/A
2014	-	22,769	0.0%	22,769	N/A	N/A

The City implemented GASB Statement No. 45 for the calendar year ended January 1, 2011 with retroactive adjustment for prior years.

The 2014 actuarial study reflects changes in plan provisions which provide that future retirees will only receive benefits during the COBRA period. Accordingly, no GASB #45 liability is valued for future retirees.

CITY OF STURGEON BAY, WISCONSIN

Schedule of Employer Contributions
Other Post-employment Benefit Plan
For the Year Ended December 31, 2014

Year Ended December 31,	Employer Contributions	Annual Required Contribution (ARC)	Percentage Contributed
2012	\$ 8,000	\$ 99,554	8.0%
2013	13,000	103,660	12.5%
2014	11,000	8,049	136.7%

The District implemented GASB Statement No. 45 for the calendar year ended December 31, 2011 with retroactive adjustment for prior years.

SUPPLEMENTARY INFORMATION

CITY OF STURGEON BAY, WISCONSIN

Combining Balance Sheet
Nonmajor Governmental Funds
December 31, 2014

	Revolving Loan	Cable TV	TID No. 1	TID No. 3
ASSETS				
Cash and investments	\$ 272,138	\$ 306,066	\$ 172,724	\$ 617,651
Receivables				
Taxes	-	-	537,454	17,755
Loans	605,476	-	-	-
TOTAL ASSETS	<u>\$ 877,614</u>	<u>\$ 306,066</u>	<u>\$ 710,178</u>	<u>\$ 635,406</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ -	\$ -	\$ -	\$ 182
Due to other funds	11,643	-	-	2,754
Total Liabilities	<u>11,643</u>	<u>-</u>	<u>-</u>	<u>2,936</u>
Deferred Inflows of Resources				
Property taxes	-	-	537,454	17,755
Loans receivable	605,475	-	-	-
Total Deferred Inflows of Resources	<u>605,475</u>	<u>-</u>	<u>537,454</u>	<u>17,755</u>
Fund Balances (Deficit)				
Restricted	-	-	172,724	614,715
Assigned	260,496	306,066	-	-
Unassigned	-	-	-	-
Total Fund Balances (Deficit)	<u>260,496</u>	<u>306,066</u>	<u>172,724</u>	<u>614,715</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 877,614</u>	<u>\$ 306,066</u>	<u>\$ 710,178</u>	<u>\$ 635,406</u>

TID No. 4	Total Nonmajor Governmental Funds
-----------	---

\$ -	\$ 1,368,579
-	555,209
-	605,476
<u>\$ -</u>	<u>\$ 2,529,264</u>

\$ 6,643	\$ 6,825
569,581	583,978
<u>576,224</u>	<u>590,803</u>

-	555,209
-	605,475
-	<u>1,160,684</u>

-	787,439
-	566,562
<u>(576,224)</u>	<u>(576,224)</u>
<u>(576,224)</u>	<u>777,777</u>

<u>\$ -</u>	<u>\$ 2,529,264</u>
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CITY OF STURGEON BAY, WISCONSIN
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended December 31, 2014

	Revolving Loan	Cable TV	TID No. 1	TID No. 3
Revenues				
Taxes				
General property taxes	\$ -	\$ -	\$ 494,001	\$ 8,012
Intergovernmental	-	-	15,913	-
Licenses and permits	-	130,340	-	-
Interest	15,652	-	315	-
Miscellaneous	137,806	20	-	1,481
Total Revenues	<u>153,458</u>	<u>130,360</u>	<u>510,229</u>	<u>9,493</u>
Expenditures				
Current				
Development	35,000	68,739	-	3,157
Debt service				
Principal	-	-	-	100,000
Interest and fiscal charges	-	-	-	59,229
Capital outlay	-	2,919	-	5,150
Total Expenditures	<u>35,000</u>	<u>71,658</u>	<u>-</u>	<u>167,536</u>
Excess of Revenues Over (Under)				
Expenditures	<u>118,458</u>	<u>58,702</u>	<u>510,229</u>	<u>(158,043)</u>
Other Financing Sources (Uses)				
Sale of capital assets	-	-	-	20,000
Transfers in	-	-	-	142,006
Transfers out	(11,643)	(4,500)	(494,001)	-
Total Other Financing Sources (Uses)	<u>(11,643)</u>	<u>(4,500)</u>	<u>(494,001)</u>	<u>162,006</u>
Net Change in Fund Balances	106,815	54,202	16,228	3,963
Fund Balances (Deficit) - January 1	<u>153,681</u>	<u>251,864</u>	<u>156,496</u>	<u>610,752</u>
Fund Balances (Deficit) - December 31	<u>\$ 260,496</u>	<u>\$ 306,066</u>	<u>\$ 172,724</u>	<u>\$ 614,715</u>

TID No. 4	Total Nonmajor Governmental Funds
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\$	-	\$	502,013
	75,750		91,663
	-		130,340
	-		15,967
	-		139,307
	<u>75,750</u>		<u>879,290</u>

	244,192		351,088
	-		100,000
	-		59,229
	9		8,078
	<u>244,201</u>		<u>518,395</u>

	<u>(168,451)</u>		<u>360,895</u>
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	-		20,000
	-		142,006
	-		(510,144)
	-		<u>(348,138)</u>

	(168,451)		12,757
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	<u>(407,773)</u>		<u>765,020</u>
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\$	<u>(576,224)</u>	\$	<u>777,777</u>
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CITY OF STURGEON BAY, WISCONSIN

General Fund

Detailed Comparison of Revenues - Budget and Actual -
General Fund

For the Year Ended December 31, 2014

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Taxes				
General property	\$ 5,148,937	\$ 5,148,937	\$ 5,148,937	\$ -
Retained sales tax	120	120	124	4
Payment in lieu of taxes				
Housing authority	19,490	19,490	19,488	(2)
Mobile home	60,000	60,000	76,877	16,877
Interest on taxes	760	760	744	(16)
Room taxes	150,000	150,000	169,800	19,800
Total Taxes	5,379,307	5,379,307	5,415,970	36,663
Intergovernmental				
State				
State shared taxes	916,340	916,340	915,272	(1,068)
State highway aid	466,445	466,445	466,344	(101)
Law enforcement	13,150	13,150	12,851	(299)
Fire insurance dues	28,000	28,000	33,262	5,262
Municipal services	5,460	5,460	5,372	(88)
Computer aid	21,840	21,840	25,046	3,206
DNR - aids in lieu of taxes	1,750	1,750	1,916	166
DNR - marine patrol	3,520	3,520	-	(3,520)
Total Intergovernmental	1,456,505	1,456,505	1,460,063	3,558
Licenses and Permits				
State seal	350	350	700	350
Liquor and malt beverages	29,000	29,000	30,690	1,690
Cigarette licenses	2,200	2,200	2,250	50
Animal licenses	400	400	440	40
Operator's licenses	2,800	2,800	3,595	795
Sundry licenses and permits	1,380	1,380	2,965	1,585
Building permits	34,075	34,075	36,355	2,280
Plumbing and electrical permits and licenses	21,800	21,800	28,191	6,391
Sign permits	4,400	4,400	6,100	1,700
Miscellaneous fees and permits	22,920	22,920	24,627	1,707
Total Licenses and Permits	119,325	119,325	135,913	16,588
Fines and Forfeits				
Court fines and penalties	60,000	60,000	49,123	(10,877)

(Continued)

CITY OF STURGEON BAY, WISCONSIN

General Fund

Detailed Comparison of Revenues - Budget and Actual -
General Fund (Continued)

For the Year Ended December 31, 2014

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Public Charges for Services				
Special assessment letter fee	1,800	1,800	2,505	705
Recreation	144,350	144,350	151,368	7,018
Mooring fees	15,000	15,000	13,824	(1,176)
Sanitation services	8,400	8,400	9,026	626
Weights and measures	6,000	6,000	6,001	1
Street department	7,300	7,300	11,968	4,668
Weed control	14,900	14,900	8,281	(6,619)
Total Public Charges for Services	<u>197,750</u>	<u>197,750</u>	<u>202,973</u>	<u>5,223</u>
Intergovernmental Charges for Services				
Fire department fees	462,590	462,590	462,588	(2)
Commercial				
Rent from commercial property	44,255	44,255	39,564	(4,691)
Miscellaneous				
Interest	10,000	10,000	7,412	(2,588)
Interest on special assessments	500	500	215	(285)
Insurance dividends	-	-	35,787	35,787
Private grants	15,000	15,000	92,776	77,776
Miscellaneous	15,670	15,670	236,709	221,039
Total Miscellaneous	<u>41,170</u>	<u>41,170</u>	<u>372,899</u>	<u>331,729</u>
Total Revenues	<u>\$ 7,760,902</u>	<u>\$ 7,760,902</u>	<u>\$ 8,139,093</u>	<u>\$ 378,191</u>

CITY OF STURGEON BAY, WISCONSIN
 General Fund
 Detailed Comparison of Expenditures - Budget and Actual -
 General Fund
 For the Year Ended December 31, 2014

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
General Government				
City council	\$ 53,735	\$ 53,735	\$ 53,662	\$ 73
Board of review	1,670	1,670	538	1,132
Mayor	12,290	12,290	11,840	450
City administrator	137,262	137,262	107,911	29,351
Clerk-treasurer	339,161	339,161	306,222	32,939
Municipal services administration	197,454	197,454	174,687	22,767
Elections	20,546	20,546	18,562	1,984
Telephone	8,000	8,000	6,147	1,853
Postage	9,500	9,500	9,888	(388)
Assessment of property	94,704	94,704	89,732	4,972
Audit	17,375	17,375	16,875	500
Legal	45,000	45,000	49,542	(4,542)
Special counsel	15,000	15,000	2,182	12,818
City hall	144,023	144,023	130,083	13,940
Property and liability insurance	349,565	349,565	323,023	26,542
Unemployment compensation	7,500	7,500	1,815	5,685
Life insurance	11,000	11,000	7,230	3,770
Family assistance program	2,000	2,000	1,810	190
Publication	8,500	8,500	4,772	3,728
Computer	61,400	61,400	49,752	11,648
Contingency	1,455,960	1,455,960	750	1,455,210
Maintenance of commercial property	6,000	6,000	5,245	755
Miscellaneous consultants	7,000	7,000	7,000	-
Miscellaneous	25,370	25,370	108,367	(82,997)
Total General Government	3,030,015	3,030,015	1,487,635	1,542,380
Public Safety				
Police department	2,270,543	2,270,543	2,172,970	97,573
Police department uniform allowance	900	900	821	79
Building inspector	62,155	62,155	70,284	(8,129)
Fire department	1,610,362	1,610,362	1,538,138	72,224
Fire department uniform allowance	8,700	8,700	7,462	1,238
Hydrant rental	120,000	120,000	117,859	2,141
Total Public Safety	4,072,660	4,072,660	3,907,534	165,126

(Continued)

CITY OF STURGEON BAY, WISCONSIN
 General Fund
 Detailed Comparison of Expenditures- Budget and Actual -
 General Fund
 For the Year Ended December 31, 2014

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Public Works				
Transportation				
Public works administration	205,531	205,531	138,747	66,784
Street machinery	95,055	95,055	92,646	2,409
Garage	56,914	56,914	60,039	(3,125)
Gas and oil	88,400	88,400	74,146	14,254
Storm sewer	34,698	34,698	30,509	4,189
Curb and gutter	13,572	13,572	23,359	(9,787)
Roadway of streets	142,130	142,130	195,409	(53,279)
Street sweeping	34,399	34,399	27,840	6,559
Snow and ice removal	188,709	188,709	190,765	(2,056)
Street lighting	192,500	192,500	174,940	17,560
Street signs and markings	53,915	53,915	51,043	2,872
Highways	301,951	301,951	236,975	64,976
Sanitation				
Garbage and refuse collection	49,785	49,785	44,386	5,399
Solid waste site	30,717	30,717	29,930	787
Weed control	6,564	6,564	4,749	1,815
Total Public Works	<u>1,494,840</u>	<u>1,494,840</u>	<u>1,375,483</u>	<u>119,357</u>
Culture and Recreation				
Library	75,845	75,845	75,156	689
Celebration and entertainment	45,975	45,975	45,865	110
Recreation	101,270	101,270	103,408	(2,138)
Municipal dock	48,450	48,450	34,487	13,963
Parks and playground	405,745	405,745	364,087	41,658
Ball fields	32,970	32,970	21,644	11,326
Ice rinks	8,660	8,660	4,622	4,038
Beaches	2,595	2,595	-	2,595
Water weed cutting	98,995	98,995	72,494	26,501
Total Culture and Recreation	<u>820,505</u>	<u>820,505</u>	<u>721,763</u>	<u>98,742</u>
Development				
Community development	291,145	291,145	220,580	70,565
Waterfront parks and walkways	64,915	64,915	59,048	5,867
Development zone administration	25,000	25,000	25,000	-
Total Development	<u>381,060</u>	<u>381,060</u>	<u>304,628</u>	<u>76,432</u>
Debt Service				
Principal retirement	484,613	484,613	445,016	39,597
Interest and fiscal charges	84,697	84,697	77,777	6,920
Total Debt Service	<u>569,310</u>	<u>569,310</u>	<u>522,793</u>	<u>46,517</u>
Total Expenditures	<u>\$ 10,368,390</u>	<u>\$ 10,368,390</u>	<u>\$ 8,319,836</u>	<u>\$ 2,048,554</u>

**ADDITIONAL INDEPENDENT AUDITORS' REPORT
FOR BASIC FINANCIAL STATEMENTS**



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the City Council
City of Sturgeon Bay, Wisconsin

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Sturgeon Bay, Wisconsin, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City of Sturgeon Bay's basic financial statements, and have issued our report thereon dated April 27, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Sturgeon Bay, Wisconsin's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Sturgeon Bay, Wisconsin's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Sturgeon Bay, Wisconsin's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2014-001 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Sturgeon Bay, Wisconsin's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of Sturgeon Bay, Wisconsin's Response to Finding

The City of Sturgeon Bay, Wisconsin's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The City of Sturgeon Bay, Wisconsin's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of City of Sturgeon Bay, Wisconsin's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Sturgeon Bay, Wisconsin's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Certified Public Accountants
Green Bay, Wisconsin
April 27, 2015

CITY OF STURGEON BAY, WISCONSIN
 Schedule of Findings and Responses
 For the Year Ended December 31, 2014

Section I - Internal Control Over Financial Reporting

Finding No.	Control Deficiencies
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2014-001 Preparation of Annual Financial Report

Condition: Current City staff maintains accounting records which reflect the City's financial transactions; however, preparing the City's annual financial report, including note disclosures, involves the selection and application of specific accounting principles which would require additional experience and knowledge. The City contracts with us and our knowledge of applicable accounting principles, financial statement formats, and note disclosures to assist in the preparation of the annual financial report in an efficient manner. For the same reasons, the City contracts with us to compile the Wisconsin Municipal Financial Report Form C.

Criteria: The preparation and review of the annual financial report and municipal financial report by staff with expertise in financial reporting is an internal control intended to prevent, detect and correct a potential omission or misstatement in the financial statements or notes or other required State Financial reports.

Cause: City management has determined that the additional costs associated with training staff to become experienced in applicable accounting principles and note disclosures outweigh the derived benefits.

Effect: Without our involvement, the City may not be able to completely prepare an annual financial report in accordance with accounting principles generally accepted in the United States of America within an expected time frame.

Recommendation: We recommend the City continue reviewing the annual financial report. While it may not be cost beneficial to train additional staff to completely prepare the report, a thorough review of this information by appropriate staff of the City is necessary to obtain a complete and adequate understanding of the City's annual financial report and municipal financial report.

Management Response: Management believes the cost for additional staff time and training to prepare year end reports outweigh the benefits to be received. We will continue to review and approve the financial reports prior to issuance.

Section II - Compliance and Other Matters

There are no findings related to compliance and other matters that are required to be reported under governmental auditing standards generally accepted in the United States of America for the year ended December 31, 2014.