

CITY OF CEDARBURG

Cedarburg, Wisconsin

FINANCIAL STATEMENTS

Including Independent Auditor's Report

As of and for the Year Ended December 31, 2016

CITY OF CEDARBURG

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CITY OF CEDARBURG

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INDEPENDENT AUDITORS' REPORT

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INDEPENDENT AUDITORS' REPORT

To the Common Council
City of Cedarburg
Cedarburg, 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 Cedarburg, Wisconsin, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City of Cedarburg'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 from 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 auditor considers internal control over financial reporting relevant to the City of Cedarburg'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 of Cedarburg'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.

To the Common Council
City of Cedarburg

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 of Cedarburg, Wisconsin, as of December 31, 2016 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

The financial statements of the City of Cedarburg as of December 31, 2015, prior to restatement, were audited by other auditors whose report dated May 2, 2016, expressed unmodified opinions on those statements.

As part of the audit of the December 31, 2016 financial statements, we also audited the adjustments described in Note III. J. that were applied to restate the December 31, 2015 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the December 31, 2015 financial statements of the City of Cedarburg other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the December 31, 2015 financial statements as a whole.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a 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.

To the Common Council
City of Cedarburg

Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 8, 2017 on our consideration of the City of Cedarburg'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 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 of Cedarburg's internal control over financial reporting and compliance.

Baker Tilly Virchow Krause, LLP

Milwaukee, Wisconsin
May 8, 2017

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MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Cedarburg
Ozaukee County, Wisconsin

Management's Discussion and Analysis
As of and for the Year Ended December 31, 2016
(unaudited)

As management of the City of Cedarburg, we offer readers of the City of Cedarburg's financial statements this narrative overview and analysis of the financial activities of the City of Cedarburg for the fiscal year ended December 31, 2016. We encourage the reader to consider the information presented here in conjunction with the City's financial statements, which begin on page 20 of this report.

THE FINANCIAL HIGHLIGHTS

When revenues exceed expenses, the result is an increase in net position. When expenses exceed revenues, the result is a decrease in net position. This relationship between revenues and expenses reflects the City's operating results. The City's net position as shown in the statement of net position is used to measure the City's financial health or financial position. Over time, increases or decreases in the City's net position, as measured in the statement of activities, are one indicator of whether its financial health is improving or deteriorating. However, the City's goal is to provide services that improve the quality of life for our residents, not to generate profits as companies do. For this reason, you will need to consider many other non-financial factors, such as the condition of our roads, parks, etc., in assessing the overall health of our City.

- The assets and deferred outflows of resources of the City of Cedarburg exceeded liabilities and deferred inflows of resources as of December 31, 2016, by \$111,419,447 (net position). Of this amount, \$17,282,172 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors. Total net position includes all infrastructure and other capital assets of the City as a whole. There were prior year restatements made totaling \$1,418,494 that changed beginning net position and beginning fund balance. For the purpose of comparative data, the 2015 presented data has not been adjusted for the restatements, unless otherwise noted. Please see Note III.J. for further details on the restatements.
- The City of Cedarburg's total net position increased by \$2,221,258. Of this amount, \$299,562 was from the governmental activities; the balance \$1,921,696 was from business-type activities. Sewer Utility net position decreased by \$266,559 and the Light & Water Utility net position increased by \$2,188,255.
- As of December 31, 2016, the City of Cedarburg's governmental funds reported a combined ending fund balance of \$6,458,792, a decrease of \$204,695 from the prior year. The decrease was due to the Capital Improvement projects that were funded in 2015 through debt proceeds and expended in 2016. As of December 31, 2016, the unassigned fund balance for the General Fund was \$2,065,568. There were funds budgeted as use of the fund balance for 2017 in the amount of \$155,743. The funds will be used for the purchase of tactical medical supplies, handguns and holsters for the Police Department, repair and painting of a fence at the Police Department, a pool heater and a transfer to Capital Improvements for Fire Department projects. The City policy states that unassigned General Fund Balance should be between two and three months of General Fund expenditures, or approximately \$1.5 million and \$2.2 million.
- The City borrowed \$9,705,000 in 2016 for the public works building. The City paid \$770,097 of principal on outstanding debt this year. The combined effect of those transactions increased the City's outstanding General Obligation debt to \$17,956,111.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City of Cedarburg's basic financial statements. These basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. Certain amounts presented in the prior year data may have been reclassified in order to be consistent with the current year's presentation.

City of Cedarburg
Ozaukee County, Wisconsin

Management's Discussion and Analysis
As of and for the Year Ended December 31, 2016
(unaudited)

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Government-wide financial statements

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

The *statement of net position* presents information on all of the City of Cedarburg's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference between the four 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 of Cedarburg is improving or deteriorating.

The *statement of activities* presents information showing how the City's net position changed during the most recent fiscal 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., delinquent personal property taxes and earned but unused vacation and sick leave).

Both of the government-wide financial statements distinguish functions of the City of Cedarburg 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 of Cedarburg include general government, public safety, health and human services, public works, culture, recreation and education, conservation and development, and public service. Other funds included are Capital Improvements, Debt Service, and Internal Service. Non-major governmental funds include cemetery, room tax, recreation programs, CDBG Fund, swimming pool, park impact fees, library rescue/EMS, and TIF No. 3. The business-type of activities of the City of Cedarburg include the Cedarburg Light & Water Commission, and Sewerage Commission.

The government-wide financial statements can be found on pages 20-22 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 of Cedarburg, 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 of Cedarburg can be divided into three categories: governmental funds, proprietary funds and agency fund.

Governmental funds

Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, 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.

City of Cedarburg
Ozaukee County, Wisconsin

Management's Discussion and Analysis
As of and for the Year Ended December 31, 2016
(unaudited)

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Fund financial statements (continued)

Governmental funds (continued)

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 of Cedarburg maintains twelve 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, Capital Improvements Fund and Debt Service Fund. Data from the remaining ten governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements found in the section titled Required Supplementary Information at the end of the report.

The City of Cedarburg adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget. The basic governmental fund financial statements can be found on pages 23-28 of this report.

Proprietary funds

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. 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 electric and water utilities (Light and Water Commission), the sewer utility (Sewerage Commission), and the Internal Service Fund which are considered major funds of the City of Cedarburg. The basic proprietary fund financial statements can be found on pages 29-33 of this report.

Agency funds

Agency funds are used to account for resources held for the benefit of parties outside the government. Agency funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City of Cedarburg's programs. The agency fund maintained by the City of Cedarburg is for the year-end tax collections for other taxing jurisdictions. The basic agency fund financial statement can be found on page 34.

Notes to the 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 financial statements can be found on pages 36-81 of this report.

Other information

The combining statements referred to earlier in connection with non-major governmental funds and other information related to the individual funds is presented immediately following the required supplementary information. Individual fund statements and schedules can be found on pages 85-88 of this report.

City of Cedarburg
Ozaukee County, Wisconsin

Management's Discussion and Analysis
As of and for the Year Ended December 31, 2016
(unaudited)

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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 of Cedarburg, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$112,114,959 at the end of 2016.

Infrastructure assets of the governmental activities are included within this report. The general capital assets (e.g., land, buildings, machinery, infrastructure, and equipment) of the governmental activities of the City of Cedarburg less outstanding debt equal \$45,516,180. The majority of the outstanding debt of the governmental activities funds was incurred for the construction of the Library building in 2013 and the construction of the Public Works garage in 2016.

The largest portion of the City of Cedarburg's net position (80 percent) reflects its investment in capital assets (e.g., land, buildings, building improvements, improvements other than buildings, equipment, infrastructure and construction in progress); less any related debt used to acquire those assets that are still outstanding. The City of Cedarburg uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Cedarburg'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.

	CITY OF CEDARBURG'S NET POSITION					
	Governmental		Business-type		Total	
	Activities		Activities			
	2016	2015	2016	2015	2016	2015
Assets and Deferred Outflows of Resources:						
Current and other assets	\$ 18,284,557	\$ 18,723,838	\$ 15,729,937	\$ 16,590,822	\$ 34,014,494	\$ 35,314,660
Capital assets	62,386,597	53,267,865	45,466,003	41,518,413	107,852,600	94,786,278
Deferred outflows of resources	3,153,241	996,416	1,222,989	334,757	4,376,230	1,331,173
Total assets and deferred outflows of resources	83,824,395	72,988,119	62,418,929	58,443,992	146,243,324	131,432,111
Liabilities and Deferred Inflows of Resources:						
Long-term debt outstanding	17,207,300	9,021,208	1,031,857	-	18,239,157	9,021,208
Other liabilities	3,329,149	1,276,991	2,461,134	1,721,828	5,790,283	2,998,819
Deferred inflows of resources	10,314,524	8,597,566	479,913	197,835	10,794,437	8,795,401
Total liabilities and deferred inflows of resources	30,850,973	18,895,765	3,972,904	1,919,663	34,823,877	20,815,428
Net position:						
Net investment in capital assets	45,516,180	45,243,073	44,434,146	41,853,170	89,950,326	87,096,243
Restricted	1,037,660	5,963,384	3,149,289	1,148,860	4,186,949	7,112,244
Unrestricted	6,419,582	2,885,897	10,862,590	13,522,299	17,282,172	16,408,196
Total net position	52,973,422	54,092,354	58,446,025	56,524,329	111,419,447	110,616,683
Total liabilities, deferred inflows of resources and net position	\$ 83,824,395	\$ 72,988,119	\$ 62,418,929	\$ 58,443,992	\$ 146,243,324	\$ 131,432,111

City of Cedarburg
Ozaukee County, Wisconsin

Management's Discussion and Analysis
As of and for the Year Ended December 31, 2016
(unaudited)

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

An additional portion of the City of Cedarburg's net position (3.9 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted fund balance or \$17,977,684 may be used to meet the government's ongoing obligations to citizens or creditors. Of this unrestricted amount, funds are designated for the Revolving Loan Fund, capital improvement projects, cemetery maintenance, and other special revenue fund projects.

The City's net position increased \$2,221,258 during the year. The Governmental activities' net position increased by \$299,562 while the business-type activities' net position increased by \$1,921,696.

CITY OF CEDARBURG'S CHANGES IN NET POSITION

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Revenues:						
Program Revenues:						
Charges for Services	\$ 2,104,415	\$ 1,924,013	\$ 16,375,195	\$ 16,411,797	\$ 18,479,610	\$ 18,335,810
Operating Grants & Contributions	1,014,361	1,347,161	-	-	1,014,361	1,347,161
Capital Grants & Contributions	677,081	163,490	1,055,946	238,567	1,733,027	402,057
General Revenues:						
Property Taxes	8,430,459	8,338,892	-	-	8,430,459	8,338,892
Other Taxes	88,418	82,412	-	-	88,418	82,412
Grants & Contributions Not Restricted to Specific Programs	-	389,516	-	-	-	389,516
Other	635,684	1,414,554	78,999	47,094	714,683	1,461,648
Transfers	754,150	718,732	(754,150)	(718,732)	-	-
Total Revenues	13,704,568	14,378,770	16,755,990	15,978,726	30,460,558	30,357,496
Expenses:						
General Government	1,584,876	1,341,486	-	-	1,584,876	1,341,486
Public Protection	4,782,659	4,416,153	-	-	4,782,659	4,416,153
Health & Sanitation	49,147	44,120	-	-	49,147	44,120
Engineering and Public Works	3,646,369	3,320,796	-	-	3,646,369	3,320,796
Culture, Recreation and Education	2,774,968	2,716,663	-	-	2,774,968	2,716,663
Conservation and Development	176,777	156,179	-	-	176,777	156,179
Interest and Fiscal Charges	390,210	240,659	-	-	390,210	240,659
Sewer	-	-	12,251,890	2,423,385	12,251,890	2,423,385
Light & Water	-	-	2,582,404	12,231,776	2,582,404	12,231,776
Total Expenses	13,405,006	12,236,056	14,834,294	14,655,161	28,239,300	26,891,217
Increase/(Decrease) in Net Position	299,562	2,142,714	1,921,696	1,323,565	2,221,258	3,466,279
Net Position - Beginning	54,092,354	50,275,215	56,524,329	54,562,817	110,616,683	104,838,032
Adjustment due to implementation GASB 68	-	1,674,425	-	637,947	-	2,312,372
Adjustment due to errors in reporting & accounting principle	(1,418,494)	-	-	-	(1,418,494)	-
Net position - beginning, as adjusted	52,673,860	51,949,640	56,524,329	55,200,764	109,198,189	107,150,404
Net Position - Ending	\$ 52,973,422	\$ 54,092,354	\$ 58,446,025	\$ 56,524,329	\$ 111,419,447	\$ 110,616,683

City of Cedarburg
Ozaukee County, Wisconsin

Management's Discussion and Analysis
As of and for the Year Ended December 31, 2016
(unaudited)

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

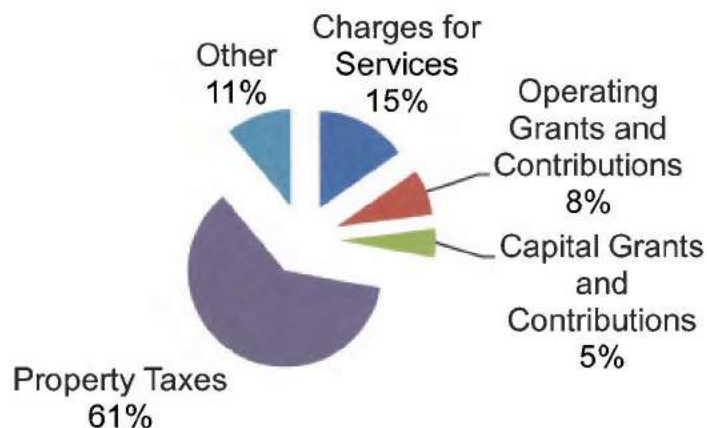
Governmental activities

Governmental activities increased the City of Cedarburg's net position by \$299,562 compared to an increase of \$2,142,714 in 2015. 2015 was the first year the Fire Department was included in the statements and the Library building project was completed. Some of the significant changes in revenues and expenditures from 2015 were as follows:

Revenues:

- ◇ Property taxes, the largest revenue source for governmental activities, increased \$91,567 or 1.1 percent. The General Fund levy increased \$176,738 and the Capital Improvement Fund levy decreased \$265,000 from 2015. Over the last few years property taxes have increased as a percentage of total revenues, reflecting the declining revenues from the State of Wisconsin.
- ◇ Operating grant revenues decreased from 2015 to 2016 by \$294,985; 21.9 percent. CDBG Loan repayments decreased \$253,329 in 2016 due to a Revolving Loan Fund loan being repaid in full in 2015. State Shared revenues decreased by \$4,946 from the previous year; 2.4 percent. Expenditure Restraint Program revenues decreased from 2015 by \$3,996 or 2.4 percent. State Transportation Aids decreased by \$34,082 or 6.3 percent.
- ◇ Capital grants and contributions increased \$513,591 (314.14 percent) as a result of a \$625,000 donated band shell.
- ◇ Charges for services increased \$180,402 or 9.38 percent. The housing market in Cedarburg picked up in 2015. All building permit fees continued to increase in 2016. Fines, forfeitures and penalties increased by \$32,062. Court penalties and costs were \$9,529 more than 2015 and parking violations decreased by \$1,285. Alarm monitoring fees were reclassified for 2016 which increased Police fine revenue by \$6,820. Library fines of \$23,643 were also reclassified to this revenue line for 2016. \$60,212 of the increase was from Recreation Programs. The swimming pool fees also increased by \$40,355. Fees and pass revenues increased from 2015.
- ◇ Other revenues decreased from 2015 by \$1,205,175; 63.8 percent. In 2015, the Fire Department was included in the statements through a transfer of \$1,337,684.

Revenues by Source - Governmental Activities



City of Cedarburg
Ozaukee County, Wisconsin

Management's Discussion and Analysis
As of and for the Year Ended December 31, 2016
(unaudited)

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

Governmental activities (Continued)

Expenditures:

- ◇ Governmental activities expenditures increased by \$1,475,300 from 2015.
- ◇ The General Government accounted for \$243,390 of the increase. A portion of that increase was due to elections - there were four elections in 2016 and only 2 in 2015. City Attorney fees increased from 2015 due to the work done on Amcast with the Community Development Authority and new development projects in the City. Expenditures also increased related to the internal service fund activities, changes in market value of investments, and changes in the Wisconsin Retirement System (WRS) employee pension plan.
- ◇ Public Safety expenditures were \$366,506 more than 2015. The Police Department participated in a State Task Force and received reimbursement for the salaries from the State. The repair and maintenance account for the Administration was over budget and prior year because of the accounting change for the alarm monitoring maintenance fees. The Patrol equipment outlay was over budget by \$11,188 of which there was grant funding to cover the overage. There were also retirements during 2016 that created the salary and benefit overages. Accrued sick leave and vacation are paid out at retirement. The WRS employee pension plan changes resulted in increased expenditures. All of these accounts attributed to the amount over the 2015 expenditures.
- ◇ Engineering and Public Works expenditures increased \$325,573 from 2015. The increase was the result of the annual increase for wages and benefits for the crew in addition to recording of the WRS net pension liability.
- ◇ Health and human services was broken out from Public Works for 2016.
- ◇ Culture, recreation and education increased \$58,305 from 2015. There was an increase in expenditures at the swimming pool of \$47,524. The increased use of the pool caused an increase in concession expenditures and operating supplies and maintenance. In 2016 a chemical controller, new flow switch and vacuum cleaner were purchased for the pool that were not budgeted but had to be replaced. There was also an unexpected repair of the body slide. An accounting change in the Recreation Programs Special Revenue Fund from 2015 increased the expenditures for the year. Library expenditures decreased from 2015 due to the final purchases for the interior of the new library building.
- ◇ Conservation and Development increased \$20,598 from 2015. In 2016 the hours for the City Planner were increased by four hours per week. There was also a hotel study completed in 2016.

City of Cedarburg
Ozaukee County, Wisconsin

Management's Discussion and Analysis
As of and for the Year Ended December 31, 2016
(unaudited)

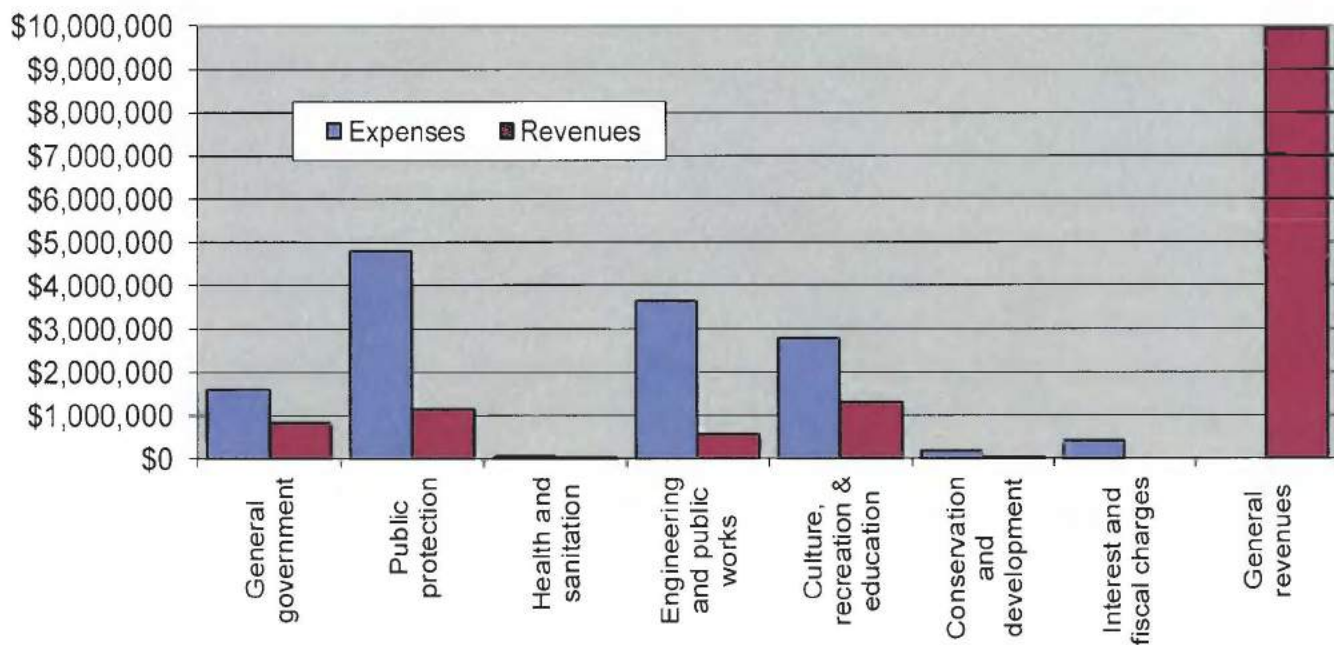
GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

Governmental activities (Continued)

Expenditures (Continued)

The following graph is based on the statement of activities found on pages 21-22, property taxes and other general revenues not restricted or applicable to specific programs provide the major revenue sources for governmental activities.

Expenses and Program Revenues - Governmental Activities



City of Cedarburg
Ozaukee County, Wisconsin

Management's Discussion and Analysis
As of and for the Year Ended December 31, 2016
(unaudited)

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

Business-type activities

Business-type activities increased the City of Cedarburg's net position by \$1,921,696. Light & Water and Sewer Utilities amounts were an increase of \$2,188,255 and a decrease of \$266,559 respectively. The Light & Water and Sewer Utilities are supported by user charges. The Sewer Utility charge is based on water usage for residential and commercial customers, and effluent volume and strength for our industrial customers. The revenues of the Light & Water and Sewer Utilities include charges for services and other revenues. Other revenues include capital contributions of \$1,055,946 to the Light & Water Utility. The charges for services accounted for 92.4 percent of total revenues for the business-type activities for 2016, compared to 98 percent in 2015 due to the increase in capital contributions for 2016.

Operating revenues for business-type activities decreased by \$54,349 from 2015. Light & Water Utility electric and water revenues increased \$6,836 and the Sewer Utility charges decreased by \$43,438.

- ◇ Sewer Utility operating revenues totaled \$2,306,290; a decrease of \$43,438 from 2015. The decrease was due to the decrease in revenues from septage haulers. 2015 hauler revenues were \$105,079 compared to \$65,437 in 2016. Sewer connection fees and reserve capacity fees decreased \$15,888 and \$8,013 respectively.
- ◇ Light and Water Utility operating revenues totaled \$14,068,905 for 2016, an increase of \$6,836 from 2015. The electric operating revenues decreased from 2015 by \$21,000 because of the decrease in sales. Water sales increased \$32,000 from 2015; most of which was from the residential users.
- ◇ Interest revenue decreased from 2015 by \$7,498.

Operating expenses for business-type activities, excluding depreciation, increased by \$65,400 from 2015. Depreciation expenses increased \$84,824 from 2015.

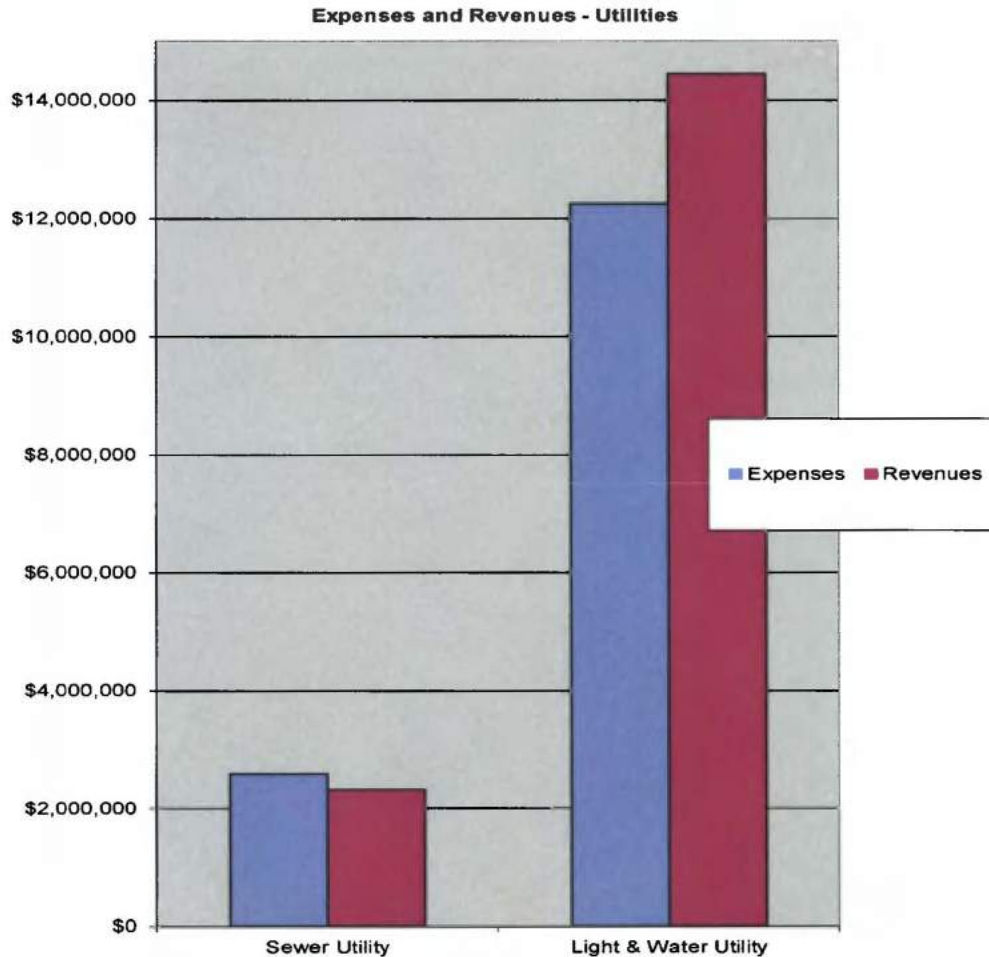
- ◇ Sewer Utility operating expenses, excluding depreciation, increased by \$110,605 from 2015. In 2016 there were added legal fees related to the plant's State license and a retirement with the payout of accrued sick leave and vacation. There were unexpected collection system repairs that were \$14,034 more than 2015. Lift Station repairs were \$8,877 more than 2015 due to Keup Road lift station telemetry repairs.
- ◇ Light & Water expenses, excluding depreciation, decreased \$45,205 from 2015. Electric operating expenses increased \$11,000 due to the cost of electricity purchased. There were increases for maintenance of underground lines, substations and street lighting compared to 2015. Water expenditures decreased from 2015 \$88,000 due to less water main and service breaks in 2016. There was added expense for maintenance of pumping equipment; \$25,000 and fuel for pumping; \$7,000 along with increased pension expense due to the GASB 68 requirement; \$38,000.

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Business-type activities (Continued)

The following chart compares the total revenues and expenses by utility for the year.



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

Governmental Funds

The focus of the City of Cedarburg's governmental funds is to provide information on the flow of resources into and out of the organization in providing services. Most of the functions of the City are financed through these funds. The reported fund balance of a governmental fund represents a measure of the available spendable resources.

As of December 31, 2016, the City of Cedarburg's governmental funds reported combined ending fund balances of \$6,458,792, a decrease of \$204,695 from 2015. The Capital Improvement Fund decreased \$647,053 from 2015. The General Fund and Debt Service Fund increased by \$197,405 and \$172,447, respectively.

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FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS (Continued)

Governmental Funds (Continued)

Approximately 28 percent of the total fund balance or \$2,009,658 constitutes unassigned fund balance, which is available for spending at the government's discretion. The remainder of the fund balance is assigned or restricted to indicate that it is not available for new spending because it has already been reserved or restricted to other items such as contracts and purchase orders of the prior year, debt service, legally restricted assets, impact fees, and non-current loans and notes receivable.

General Fund

The General Fund is the chief operating fund of the City of Cedarburg. As of December 31, 2016 the total fund balance of the General Fund was \$2,445,980 of which \$2,065,568 was unassigned. This unassigned fund balance represents approximately 23 percent of the total 2017 General Fund budgeted expenditures. Of the assigned fund balance, \$155,743 was appropriated for 2017 General Fund budgeted expenditures. Police Department tactical equipment and fence painting, Fire Department projects and a pool heater are included in this amount. City policy requires a minimum of 17 percent and a maximum of 25 percent of General Fund expenditures of the ensuing year in unassigned funds.

The General Fund fund balance increased by \$197,405 during 2016. The 2016 original adopted budget for the City of Cedarburg's General Fund identified \$26,404 of expenditures over revenues or usage of fund balance. Actual operating expenditures and other financing uses were under budget by \$63,141 after the budget amendments were made for the year. Actual operating revenues and other financing sources were over budget by \$214,568 which was due the increase in intergovernmental revenues and the building permit fees. Beginning fund balance was restated. Please see Note III.J. for further details.

General Fund operating revenues decreased by \$974,723 (11 percent) from 2015. Some of the significant changes in General Fund revenues from the prior year were as follows:

- ◇ Property tax revenues decreased by \$534,297 (8.4 percent) from prior year due to the decrease in the payment in lieu of taxes from Light & Water. With the decrease in the assessment ratio, their taxes decrease.
- ◇ Intergovernmental revenues decreased \$16,280 (1.6 percent) from prior year due in part to the \$20,958 grant from the State for the Police Department's participation in a drunk driving task force offset by a decrease in state transportation aid.
- ◇ Licenses, permits and fees increased \$4,677 (1.1 percent) from 2015. Operators' licenses increased \$3,332; 30.2 percent. Building permits increased from 2015 by \$3,073; 2.8 percent. Plumbing permits declined slightly from 2015; \$1,630.
- ◇ Fines, forfeitures and penalties increased \$8,419 (16.9 percent) from 2015. The change was due to the increase in the court penalties and costs received; an increase of \$9,529.
- ◇ Public Charges for Services increased \$32,470 (36.2 percent) over prior year. The accounting for alarm monitoring, fuel system maintenance and Senior Center tours was changed. These deposits for monitoring, maintenance and tours was moved to revenue accounts for 2016.
- ◇ Intergovernmental charges for services increased \$18,538 (9.4 percent) over 2015. The Fire Department refunded the City and Town \$20,000 from their budget due to the donation of the emergency medical dispatch software being funded by a local hospital.

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FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS (Continued)

Governmental Funds (Continued)

General Fund (Continued)

- ◇ Investment Income and Miscellaneous Revenues increased \$49,402 from 2015 due to the change in accounting of donations for the Senior Center, Senior Van and Police Department. Previously these revenues were recorded in non-major governmental funds.

General Fund expenditures increased by \$470,472 from 2015. Some of the significant changes in General Fund expenditures from the prior year were as follows:

- ◇ General Government expenditures increased \$194,363 (20.9 percent) in part due to the Elections expenditures. There was an increase in the number of elections from 2015. The attorney fees were \$50,848 more in 2016 than 2015. The fees were incurred for the preparation of a developer's agreement for the clean-up and redevelopment of the Amcast site which may in the future be reimbursed through a Tax Incremental District.
- ◇ Public Safety increased by \$197,918 from 2015 due to an increase in Police Administration repair and maintenance expenditures. An additional \$9,452 was expended to install the donated software for emergency medical dispatching. An accounting change for recording the alarm monitoring program resulted in an additional \$21,586 in expenditures. The Patrol Division expenditures increased \$153,093 from 2015 of which \$149,619 was personnel. There were two retirements which included a payout of accrued sick and vacation leave.
- ◇ Public Works expenditures increased \$78,744 (3.4 percent) from 2015. The increase in expenditures was due to salaries and benefit increases. The Machinery & Equipment/Garage Department increased \$43,940 of which \$14,098 was salaries. Operating supplies increased \$7,219 due to purchases for setting up the new garage and working with a temporary site. Equipment outlay increased \$13,570 for the purchase of a tire balancing machine for the garage. The Street Lighting expenditures decreased from 2015 by \$8,696. Storm Sewer expenditures decreased from 2015 by \$14,020 due to salaries and repair and maintenance accounts being under spent due to available man hours.
- ◇ Culture, Recreation and Education increased \$4,426 from 2015. The Senior Center expenditures increased due to a change in accounting for senior center tours, rummage sales and van transactions. All are now recorded in the General Fund rather than Trust & Agency which was a non- major fund. Celebrations expenditures decreased from 2015 by \$2,227. Salaries and benefits increased slightly; however, supplies decreased. In 2015 the bedding for the flower baskets was replaced. Parks, Recreation and Forestry repair and maintenance and contracted services declined \$5,615 and \$8,570 respectively. In 2015 there was a compressor repaired and a park light replaced. \$10,215 more was spent on Emerald Ash Borer treatment in 2015 than in 2016.
- ◇ Conservation and Development increased \$20,297 due to hours added to the planner's schedule for 2016, an increase in the rate of pay and a hotel study that was completed in 2016.

As identified earlier, actual operating revenues were over budgeted revenues by \$231,048 due to the accounting changes; elimination of donation accounts, deposit accounts and the unfunded pension liability. The final budget outcome for 2016 was an increase in fund balance of \$197,405, compared to the amended budgeted use of fund balance of \$80,304.

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FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS (Continued)

Governmental Funds (Continued)

Capital Improvements Fund

The Capital Improvement expenditures for 2016 included street and stormwater improvements, environmental remediation, equipment purchases, park improvements and construction of the new DPW building. Total expenditures were \$10,505,020 and \$3,719,671 in 2016 and 2015 respectively. Expenditures in 2016 included the construction of the new Public Works building. In 2016 there were building project expenditures of \$7,922,833 compared to \$78,749 in 2015.

At the Police Department, station improvements for 2016 included dispatch recording system and asphalt repairs in the parking lot. Officer protective equipment was a new purchase for 2016 that totaled \$45,335. There were three squads purchased in 2016 and only one in 2015.

The Fire Department retaining wall project for 2016 was not completed and moved into the 2017 budget. There were repairs to the HVAC system in 2015 and 2016; \$65,871 and \$35,000 respectively. Engineering work for the retaining wall replacement was completed in 2016 for \$2,640. There were no Fire Department vehicle or self-contained breathing apparatus replacements in 2016, but \$905,960 for replacements in 2015.

Emergency Management siren replacement continued in 2016. The 2015 replacement was \$35,110 and the 2016 replacement was only \$20,892.

In 2016, there was a street sweeper purchased for Public Works but no expenditure in 2015; an increase of \$233,604. There were two pickup truck replacements in 2016 and only one in 2015. Street improvements for 2016 were \$406,568 less than the 2015 projects. In 2015 major improvements to McKinley Boulevard and Sheboygan Road which totaled \$1.17 million were completed while in 2016, major work was done on Bridge Road for a total of \$761,047.

Sidewalk replacement expenditures were more than 2015 by \$19,552 due to the accounting change for the replacement of residents' sidewalks.

Storm Water improvements were \$76,258 more in 2016 than 2015 due to the storm sewer issues discovered in Bridge Road during the construction.

Environmental expenditures included the continuing legal and monitoring fees for Prochnow Landfill along with dam engineering costs. There was an increase of \$9,334 due to reporting and additional meetings with the DNR to try to move towards a remediation plan.

Parks, Recreation and Forestry expenditures were down \$114,455 from 2015. A bucket lift truck was purchased in 2015. Park improvements in 2015 included Prairie View playground, Zeunert Park parking lot resurfacing, bathroom partitions and an aeration system for Willowbrooke Park and equipment at Georgetown Park. The 2016 projects included the Zeunert path resurfacing, Cedar Creek Park net climber, an aerial lift truck that was not received until 2017, a mower/snow blower and a dump truck. Equipment purchases were \$108,423 in 2015 and only \$50,392 in 2016. Park Improvements were \$68,433 more in 2015 than 2016.

Debt service paying agent fee was for the 2015 borrowing for 2015 and 2016 capital projects and the 2016 fee was for the Public Works building borrowing.

There was \$140,000 transferred out of the Library reserve account to Debt Service to offset the principal and interest payments on the building debt in 2015 and \$200,000 in 2016 for the same purpose.

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GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget are from purchase orders carried over from 2015 into 2016 and any appropriations made during the year. In 2015, there were no additional appropriations made by the Common Council; however, for 2016 there were appropriations to balance the budget due to the accounting changes made for the year and the Parks, Recreation and Forestry Department overages.

As previously mentioned, the 2017 adopted budget included the use of \$155,743 of fund balance to fund the purchase of Police Department equipment, painting of the Police Department fence, a pool heater and a transfer to Capital Improvements for Fire Department projects. The net change in the fund balance for 2016 was an increase of \$197,405. Revenues for the year were over budget \$231,048 due to increases in intergovernmental revenues and building permit fees. Additionally, the City brought in approximately \$32,000 more in donations than anticipated in the budget.

Operating expenditures were \$63,141 under budget for the year. Public Works expenditures were under budget due to less available man hours for repairs and maintenance than anticipated. Capital Outlay accounts attributed to \$14,208 of the savings as actual project costs were less than budgeted across the board.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City of Cedarburg's investment in capital assets for its governmental and business-type activities as of December 31, 2016 amounts to \$107,852,600 net of accumulated depreciation. This investment in capital assets includes land, buildings and improvements, infrastructure, machinery and equipment, and construction in progress. The City of Cedarburg implemented the infrastructure component of GASB Statement No. 34 for the year ended December 31, 2003.

Major capital asset events that occurred during the year included the following:

- Paving of the parking lot at City Hall, \$54,581, roof and tower repairs on the Lincoln Building of \$14,912 and engineering services on the feasibility of building a monopole of \$43,683
- Police dispatch call recorder equipment of \$20,089, asphalt repairs of \$4,303, officer equipment of \$45,335 and vehicle replacements of \$148,417
- Emergency Management siren replacement; \$20,892
- Fire Department HVAC system replacement; \$35,000
- Public Works vehicle replacements; \$550,040, construction of DPW building; \$7,922,833
- Street improvements – Bridge Road; \$761,047
- Storm sewer projects related to street projects; \$492,850, NR216 compliance of \$20,465
- Prochnow Landfill remediation legal, testing and reporting expenditures; \$27,244
- Parks, Recreation and Forestry expenditures included equipment replacements of \$79,660, playground equipment at Cedar Creek Park of \$47,934, Zeunert Park parking lot paving of \$73,888

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CAPITAL ASSET AND DEBT ADMINISTRATION (continued)

Capital Assets (continued)

City of Cedarburg's Capital Assets

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land	\$ 8,239,524	\$ 7,945,304	\$ 2,115,434	\$ 2,110,434	\$ 10,354,958	\$ 10,055,738
Buildings and improvements	15,794,293	15,460,481	80,085,230	62,308,617	95,879,523	77,769,098
Infrastructure	45,136,103	44,208,718	-	-	45,136,103	44,208,718
Vehicles	6,699,214	6,246,139	-	-	6,699,214	6,246,139
Machinery and equipment	3,998,811	3,887,785	-	13,528,458	3,998,811	17,416,243
Construction in progress	8,228,707	234,947	1,321,310	89,106	9,550,017	324,053
Accumulated depreciation	(25,710,055)	(24,715,509)	(38,055,971)	(36,518,201)	(63,766,026)	(61,233,710)
Total Capital Assets	\$ 62,386,597	\$ 53,267,865	\$ 45,466,003	\$ 41,518,414	\$ 107,852,600	\$ 94,786,279

Long-Term Debt

At the end of the fiscal year, the City of Cedarburg had a total general obligation debt outstanding of \$17,956,111 entirely backed by the full faith, credit, and resources of the City. The 2016 borrowing funded the Public Works building. Principal payments for 2016 totaled \$770,097.

State statutes limit the amount of general obligation debt a governmental entity may issue to 5 percent of its total equalized valuation. The current debt limitation for the City of Cedarburg is \$62,723,900, which significantly exceeds the City's current outstanding general obligation debt. The City has established a policy whereby the City will not issue debt in excess of 4 percent of its total equalized valuation and the total annual debt service for general obligation debt shall not exceed 50 percent of the City's total annual general operating revenues (inclusive of all property tax levies and exclusive of revenues from proprietary entities). As of December 31, 2016 the City of Cedarburg's outstanding debt equaled 28.6 percent of the State authorized debt.

City of Cedarburg's Outstanding Debt

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
General obligation long-term bonds and notes payable	\$16,951,111	\$9,021,208	\$1,005,000	\$ -	\$17,956,111	\$9,021,208

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ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City's elected and appointed officials considered many factors when setting the fiscal year 2017 budget, the State legislative changes, general economic conditions, and public sentiments toward taxation. The City increased the assessed tax rate from \$6.97/\$1,000 in 2015 to \$7.46/\$1,000 in 2016; a 7 percent increase. \$0.48 of the increase was due to the borrowing for the Library and the Public Works buildings.

The City's total equalized value for 2016 was \$1,254,478,000, 4.2 percent more than 2015.

The Ozaukee County unemployment rate as of December 2016 was 3.0 percent down from 3.4 percent in December 2015. The State unemployment rate for December 2016 was 3.7 percent and 4.7 percent nationally. The County is doing well compared to the rest of the State and nation.

Funds were appropriated in the 2017 General Fund budget for one-time capital purchases using the fund balance. There is \$5,000 for fence repair and painting at the Police Department, a transfer to the Swimming Pool for a pool heater, and \$100,000 transfer to Capital Improvements to fund 2017 street projects for a total of \$155,743 budgeted as a use of these funds.

Sewer flow rate remained at \$5.22/1,000 gallons for 2017 but the monthly connection fee increased from \$12/month to \$14/month. Holding tank septage haulers' fees remained at the 2016 rate of \$8.70/1,000 gallons. The septage tank haulers' rate also remained at the same rate as 2016 of \$44.91/1,000 gallons.

Due to the Common Council's sentiment to keep the tax rate down, over the years the funding levels for capital items that were previously paid for by cash will have to be funded by borrowing. This practice is not one the City wants to continue, but was necessary to get through the tough economic times. As construction resumes and the City sees growth in its assessed value, the hope is to get back to the pre-funding of street and storm water capital projects.

With increasing costs, State revenue cuts, and State legislative changes it will be another difficult budget preparation year. In 2017 the City was not able to meet the expenditure restraint program requirement of less than a 1.70 percent increase in expenditures. Any and all expenditures funded by the tax levy needed to be included in the calculation. With the increase in Debt Service the City was over the limit. The new development the City is currently seeing will hopefully help fund the future expenditure increases and lost revenues. The State levy limit legislation makes it difficult to fund operations as necessary and is part of the need for the capital borrowing which was not a common practice in prior years.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the City Treasurer's Office at the City of Cedarburg, P.O. Box 49, Cedarburg, WI 53012. Other City contact information may be found on our website at www.ci.cedarburg.wi.us.

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BASIC FINANCIAL STATEMENTS

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CITY OF CEDARBURG

STATEMENT OF NET POSITION As of December 31, 2016

	Governmental Activities	Business - type Activities	Totals
ASSETS			
Cash and investments	\$ 12,570,497	\$ 10,712,063	\$ 23,282,560
Receivables:			
Taxes	3,715,704	-	3,715,704
Delinquent personal property taxes	40,215	-	40,215
Accounts	327,340	1,594,620	1,921,960
Interest	1,368	6,763	8,131
Internal balances	495,856	(495,856)	-
Materials and supplies	18,379	594,605	612,984
Prepaid items	-	4,597	4,597
Restricted Assets:			
Cash and investments	1,023,054	3,149,289	4,172,343
Loans	92,144	-	92,144
Other assets	-	163,856	163,856
Capital Assets:			
Land	8,239,524	2,115,434	10,354,958
Construction in progress	8,228,707	1,321,310	9,550,017
Other capital assets, net of depreciation	45,918,366	42,029,259	87,947,625
Total Assets	<u>80,671,154</u>	<u>61,195,940</u>	<u>141,867,094</u>
DEFERRED OUTFLOWS OF RESOURCES			
Unamortized loss on refunding	124,383	-	124,383
Deferred outflows related to pensions	3,028,858	1,222,989	4,251,847
Total Deferred Outflows of Resources	<u>3,153,241</u>	<u>1,222,989</u>	<u>4,376,230</u>
LIABILITIES			
Accounts payable and accrued liabilities	1,558,541	1,743,743	3,302,284
Deposits	107,301	55,309	162,610
Due to other governments	5,481	-	5,481
Accrued interest payable	143,422	15,362	158,784
Noncurrent Liabilities			
Compensated absences	487,369	360,663	848,032
Customer advances for construction	-	35,002	35,002
Deferred compensation	-	27,663	27,663
Pollution remediation liability	487,200	-	487,200
Net pension liability	539,835	223,392	763,227
Due within one year	1,303,551	55,000	1,358,551
Due in more than one year	15,903,749	976,857	16,880,606
Total Liabilities	<u>20,536,449</u>	<u>3,492,991</u>	<u>24,029,440</u>
DEFERRED INFLOWS OF RESOURCES			
Unearned revenue	9,171,275	6,931	9,178,206
Deferred inflows related to pensions	1,143,249	472,982	1,616,231
Total Deferred Inflows of Resources	<u>10,314,524</u>	<u>479,913</u>	<u>10,794,437</u>
NET POSITION			
Net investment in capital assets	45,516,180	44,434,146	89,950,326
Restricted	1,037,660	3,149,289	4,186,949
Unrestricted	6,419,582	10,862,590	17,282,172
TOTAL NET POSITION	<u>\$ 52,973,422</u>	<u>\$ 58,446,025</u>	<u>\$ 111,419,447</u>

See accompanying notes to the financial statements.

CITY OF CEDARBURG

STATEMENT OF ACTIVITIES For the Year Ended December 31, 2016

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities				
General government	\$ 1,584,876	\$ 625,632	\$ 188,424	\$ -
Public safety	4,782,659	932,999	110,361	52,081
Public works	3,646,369	14,481	545,901	-
Health and human services	49,147	11,940	-	-
Culture, recreation and education	2,774,968	519,045	169,675	625,000
Conservation and development	176,777	318	-	-
Interest and fiscal charges	390,210	-	-	-
Total Governmental Activities	13,405,006	2,104,415	1,014,361	677,081
Business-type Activities				
Light and Water Utility	12,251,890	14,068,905	-	1,055,946
Sewer Utility	2,582,404	2,306,290	-	-
Total Business-type Activities	14,834,294	16,375,195	-	1,055,946
Total	\$ 28,239,300	\$ 18,479,610	\$ 1,014,361	\$ 1,733,027

General revenues

Taxes

Property taxes levied for general purposes

Property taxes levied for debt service

Property taxes, levied for capital projects

Property taxes levied for library

Property taxes, levied for other purposes

Other taxes

Intergovernmental revenues not restricted to specific programs

Investment income

Miscellaneous

Total general revenues

Transfers

Change in net position

NET POSITION - Beginning of Year (as restated)

NET POSITION - END OF YEAR

Net (Expenses) Revenues and
Changes in Net Position

Governmental Activities	Business - type Activities	Totals
\$ (770,820)	\$ -	\$ (770,820)
(3,687,218)	-	(3,687,218)
(3,085,987)	-	(3,085,987)
(37,207)	-	(37,207)
(1,461,248)	-	(1,461,248)
(176,459)	-	(176,459)
(390,210)	-	(390,210)
(9,609,149)	-	(9,609,149)
-	2,872,961	2,872,961
-	(276,114)	(276,114)
-	2,596,847	2,596,847
(9,609,149)	2,596,847	(7,012,302)
5,803,256	-	5,803,256
705,776	-	705,776
1,170,000	-	1,170,000
707,306	-	707,306
44,121	-	44,121
88,418	-	88,418
440,438	-	440,438
73,769	37,026	110,795
121,477	41,973	163,450
9,154,561	78,999	9,233,560
754,150	(754,150)	-
299,562	1,921,696	2,221,258
52,673,860	56,524,329	109,198,189
\$ 52,973,422	\$ 58,446,025	\$ 111,419,447

See accompanying notes to the financial statements.

CITY OF CEDARBURG

BALANCE SHEET GOVERNMENTAL FUNDS As of December 31, 2016

	General Fund	Capital Improvements Fund
ASSETS		
Unrestricted cash and investments	\$ 6,029,921	\$ 3,356,209
Restricted cash and investments	-	-
Receivables:		
Taxes	2,389,933	486,365
Delinquent personal property taxes	40,215	-
Accounts	150,086	68,111
Interest	-	684
Loans	-	-
Due from other funds	470,314	127,684
Materials and supplies	18,379	-
Advance to other fund	23,447	-
TOTAL ASSETS	\$ 9,122,295	\$ 4,039,053
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES		
Liabilities		
Accounts payable	\$ 266,253	\$ 901,119
Accrued liabilities	287,258	-
Deposits	93,877	13,424
Due to other funds	103,574	47,997
Due to other governments	5,481	-
Advance from other fund	-	-
Total Liabilities	<u>756,443</u>	<u>962,540</u>
Deferred Inflows of Resources		
Unavailable revenues	-	-
Unearned revenues	5,919,872	1,192,000
Total Deferred Inflows of Resources	<u>5,919,872</u>	<u>1,192,000</u>
Fund Balances		
Nonspendable	82,041	-
Restricted	-	212,500
Assigned	298,371	1,672,013
Unassigned (deficit)	2,065,568	-
Total Fund Balances	<u>2,445,980</u>	<u>1,884,513</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 9,122,295	\$ 4,039,053

See accompanying notes to the financial statements.

Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
\$ 965,304	\$ 1,320,756	\$ 11,672,190
-	1,023,054	1,023,054
524,018	315,388	3,715,704
-	-	40,215
-	102,883	321,080
-	684	1,368
-	92,144	92,144
-	98,841	696,839
-	-	18,379
-	-	23,447
<u>\$ 1,489,322</u>	<u>\$ 2,953,750</u>	<u>\$ 17,604,420</u>

\$ -	\$ 36,900	\$ 1,204,272
-	24,298	311,556
-	-	107,301
-	78,581	230,152
-	-	5,481
-	23,447	23,447
-	163,226	1,882,209

-	92,144	92,144
1,284,280	775,123	9,171,275
<u>1,284,280</u>	<u>867,267</u>	<u>9,263,419</u>

-	-	82,041
205,042	976,040	1,393,582
-	1,003,127	2,973,511
-	(55,910)	2,009,658
<u>205,042</u>	<u>1,923,257</u>	<u>6,458,792</u>

<u>\$ 1,489,322</u>	<u>\$ 2,953,750</u>	<u>\$ 17,604,420</u>
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See accompanying notes to the financial statements.

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CITY OF CEDARBURG

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION As of December 31, 2016

Total Fund Balances - Governmental Funds	\$ 6,458,792
--	--------------

Amounts reported for governmental activities in the statement of net position are different because different because:

Capital assets used in governmental funds are not financial resources and therefore are not reported in the funds

Land	8,239,524
Construction in progress	8,228,707
Other capital assets, net of depreciation	45,918,366

Other long-term assets are not available to pay for current-period expenditures and therefore are unavailable in the funds

Loan receivables	92,144
------------------	--------

Internal service funds are used by the City to charge the cost of insurance to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.

	891,023
--	---------

The net pension liability does not related to current financial resources and is not reported in the governmental funds.

	(539,835)
--	-----------

Deferred outflows of resources related to pensions do not relate to current financial resources and are not reported in the governmental funds.

	3,028,858
--	-----------

Deferred inflows of resources related to pensions do not relate to current financial resources and are not reported in the governmental funds.

	(1,143,249)
--	-------------

Some liabilities, including long-term debt, are not due and payable in the current period and therefore, are not reported in the funds.

Bonds, notes payable and unamortized premium/(discount)	(17,207,300)
Compensated absences	(487,369)
Unamortized loss on refunding	124,383
Pollution remediation liability	(487,200)
Accrued interest	(143,422)

NET POSITION OF GOVERNMENTAL ACTIVITIES

	<u>\$ 52,973,422</u>
--	----------------------

CITY OF CEDARBURG

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

For the Year Ended December 31, 2016

	General Fund	Capital Improvements Fund
REVENUES		
Taxes	\$ 5,812,613	\$ 1,170,000
Intergovernmental	1,033,858	-
Licenses and permits	412,981	-
Fines, forfeitures and penalties	58,292	-
Public charges for services	122,202	25,801
Intergovernmental charges for services	215,020	-
Investment income	21,151	13,568
Miscellaneous	198,074	37,446
Total Revenues	<u>7,874,191</u>	<u>1,246,815</u>
EXPENDITURES		
Current		
General government	1,125,772	-
Public safety	3,885,255	-
Public works	2,387,735	-
Health and human services	-	-
Culture, recreation and education	871,005	-
Conservation and development	92,919	-
Capital Outlay	94,692	10,439,021
Debt Service		
Principal	-	-
Interest and fees	-	65,999
Total Expenditures	<u>8,457,378</u>	<u>10,505,020</u>
Excess (deficiency) of revenues over expenditures	<u>(583,187)</u>	<u>(9,258,205)</u>
OTHER FINANCING SOURCES (USES)		
Transfers in	791,671	47,934
Transfers out	(14,503)	(200,000)
Debt issued	-	8,700,000
Premium on debt issued	-	-
Proceeds from sale of capital assets	3,424	63,218
Total Other Financing Sources (Uses)	<u>780,592</u>	<u>8,611,152</u>
Net Change in Fund Balances	197,405	(647,053)
FUND BALANCES - Beginning of Year (as restated)	<u>2,248,575</u>	<u>2,531,566</u>
FUND BALANCES - END OF YEAR	<u>\$ 2,445,980</u>	<u>\$ 1,884,513</u>

See accompanying notes to the financial statements.

Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
\$ 705,776	\$ 830,488	\$ 8,518,877
6,064	165,874	1,205,796
-	-	412,981
-	23,643	81,935
18,126	910,355	1,076,484
-	18,922	233,942
594	11,227	46,540
-	82,930	318,450
<u>730,560</u>	<u>2,043,439</u>	<u>11,895,005</u>
-	-	1,125,772
-	337,120	4,222,375
-	-	2,387,735
-	47,076	47,076
-	1,409,082	2,280,087
-	83,858	176,777
-	22,845	10,556,558
770,097	-	770,097
219,403	-	285,402
<u>989,500</u>	<u>1,899,981</u>	<u>21,851,879</u>
<u>(258,940)</u>	<u>143,458</u>	<u>(9,956,874)</u>
200,000	23,716	1,063,321
-	(94,668)	(309,171)
-	-	8,700,000
231,387	-	231,387
-	-	66,642
<u>431,387</u>	<u>(70,952)</u>	<u>9,752,179</u>
172,447	72,506	(204,695)
<u>32,595</u>	<u>1,850,751</u>	<u>6,663,487</u>
<u>\$ 205,042</u>	<u>\$ 1,923,257</u>	<u>\$ 6,458,792</u>

See accompanying notes to the financial statements.

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CITY OF CEDARBURG

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES For the Year Ended December 31, 2016

Net change in fund balances - total governmental funds	\$ (204,695)
--	--------------

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 net position, the cost of these assets is capitalized and they are depreciated over their estimated useful lives and reported as depreciation expense. in the statement of activities

Capital outlay is reported as an expenditure in the fund financial statements, but is capitalized in the government-wide statements	10,556,558
Some items reported as outlay were not capitalized	(219,291)
Contributed capital assets	625,000
Some items reported as operating expenditures in the fund financial statements but are capitalized in the government-wide statements	116,654
Depreciation is reported in the government-wide statements	(1,750,095)
Net book value of assets retired	(210,094)

Debt issued provides current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

Debt issued	(8,700,000)
Principal repaid	770,097

Some expenses in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Compensated absences	12,456
Accrued interest on debt	(86,834)
Net pension liability	(1,370,433)
Deferred outflows of resources related to pensions	2,178,457
Deferred inflows of resources related to pensions	(1,139,848)

Governmental funds report debt premiums and discounts as other financing sources (uses) or expenditures. However, in the statement of net position, these are reported as additions or deductions from long-term debt. These are allocated over the period the debt is outstanding in the statement of activities and are reported as interest expense

Premium on new debt	(231,387)
Amortization of debt premiums	6,226
Amortization of loss on refunding	(21,632)
Amortization of debt discount	(2,568)

Receivables not currently available are reported as revenue when collected or currently available in the fund financial statements but are recognized as revenue when earned in the government-wide financial statements

(20,523)

Internal service funds are used by the City to charge the cost of insurance to individual funds. The net revenue of the internal service fund is reported in the governmental activities.

(8,486)

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES

\$ 299,562

CITY OF CEDARBURG

STATEMENT OF NET POSITION PROPRIETARY FUNDS As of December 31, 2016

	Business-type Activities - Enterprise Funds			Governmental Activities
	Light and Water Utility	Sewer Utility	Totals	Internal Service Fund - Risk Management
ASSETS				
CURRENT ASSETS				
Cash and investments	7,880,104	2,831,959	10,712,063	898,307
Receivables:				
Accounts	1,380,435	214,185	1,594,620	6,260
Interest	5,482	1,281	6,763	-
Due from other funds	61,372	227,106	288,478	29,169
Materials and supplies	594,605	-	594,605	-
Prepayments	4,597	-	4,597	-
Other Assets - Commitment to community	41,613	-	41,613	-
Total Current Assets	<u>9,968,208</u>	<u>3,274,531</u>	<u>13,242,739</u>	<u>933,736</u>
NON-CURRENT ASSETS				
Restricted Assets - cash and investments	239,983	2,909,306	3,149,289	-
Preliminary survey and investigation	60,343	-	60,343	-
Non-utility property	61,900	-	61,900	-
Capital Assets				
Land	378,837	1,736,597	2,115,434	-
Construction in progress	32,716	1,288,594	1,321,310	-
Property, plant, and equipment	49,371,221	30,714,009	80,085,230	-
Less: Accumulated depreciation	<u>(16,356,293)</u>	<u>(21,699,678)</u>	<u>(38,055,971)</u>	<u>-</u>
Total Noncurrent Assets	<u>33,788,707</u>	<u>14,948,828</u>	<u>48,737,535</u>	<u>-</u>
Total Assets	<u>43,756,915</u>	<u>18,223,359</u>	<u>61,980,274</u>	<u>933,736</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows related to pensions	<u>897,247</u>	<u>325,742</u>	<u>1,222,989</u>	<u>-</u>

See accompanying notes to the financial statements.

	Business-type Activities - Enterprise Funds			Governmental Activities
	Light and Water Utility	Sewer Utility	Totals	Internal Service Fund
LIABILITIES				
CURRENT LIABILITIES				
Accounts payable	\$ 1,193,484	\$ 405,849	\$ 1,599,333	\$ 42,713
Accrued payroll	-	23,147	23,147	-
Accrued interest payable	1,677	13,685	15,362	-
Deposits	55,309	-	55,309	-
Due to other funds	674,199	110,135	784,334	-
Current portion of general obligation debt	-	55,000	55,000	-
Other current liability	121,263	-	121,263	-
Total Current Liabilities	<u>2,045,932</u>	<u>607,816</u>	<u>2,653,748</u>	<u>42,713</u>
NONCURRENT LIABILITIES				
Compensated absences	308,163	52,500	360,663	-
Customer advances for construction	35,002	-	35,002	-
Deferred compensation	27,663	-	27,663	-
Net pension liability	163,327	60,065	223,392	-
General obligation debt	-	976,857	976,857	-
Total Noncurrent Liabilities	<u>534,155</u>	<u>1,089,422</u>	<u>1,623,577</u>	<u>-</u>
Total Liabilities	<u>2,580,087</u>	<u>1,697,238</u>	<u>4,277,325</u>	<u>42,713</u>
DEFERRED INFLOWS OF RESOURCES				
Unearned revenues	6,931	-	6,931	-
Deferred inflows related to pensions	345,652	127,330	472,982	-
Total Deferred Inflows of Resources	<u>352,583</u>	<u>127,330</u>	<u>479,913</u>	<u>-</u>
NET POSITION				
Net investment in capital assets	33,426,481	11,007,665	44,434,146	-
Restricted	239,983	2,909,306	3,149,289	-
Unrestricted	8,055,028	2,807,562	10,862,590	891,023
TOTAL NET POSITION	<u>\$ 41,721,492</u>	<u>\$ 16,724,533</u>	<u>\$ 58,446,025</u>	<u>\$ 891,023</u>

See accompanying notes to the financial statements.

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CITY OF CEDARBURG

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION PROPRIETARY FUNDS For the Year Ended December 31, 2016

	Business-type Activities - Enterprise Funds			Governmental Activities
	Light and Water Utility	Sewer Utility	Totals	Internal Service Fund - Risk Management
OPERATING REVENUES				
Charges for services	13,913,711	2,306,290	16,220,001	315,849
Other operating revenues	155,194	-	155,194	21,298
Total Operating Revenues	14,068,905	2,306,290	16,375,195	337,147
OPERATING EXPENSES				
Operation and maintenance	10,915,682	1,504,777	12,420,459	392,780
Depreciation	1,335,918	1,048,949	2,384,867	-
Total Operating Expenses	12,251,600	2,553,726	14,805,326	392,780
Operating Income (Loss)	1,817,305	(247,436)	1,569,869	(55,633)
NONOPERATING REVENUES (EXPENSES)				
Investment income	31,371	5,655	37,026	47,147
Interest expense	(290)	(28,678)	(28,968)	-
Nonoperating revenues	38,073	3,900	41,973	-
Total Nonoperating Revenues (Expense)	69,154	(19,123)	50,031	47,147
Income (Loss) Before Capital Contributions and Transfers	1,886,459	(266,559)	1,619,900	(8,486)
CAPITAL CONTRIBUTIONS AND TRANSFERS				
Capital contribution	1,055,946	-	1,055,946	-
Transfers	(754,150)	-	(754,150)	-
Total Capital Contributions and Transfers	301,796	-	301,796	-
Change in Net Position	2,188,255	(266,559)	1,921,696	(8,486)
NET POSITION - Beginning of Year	39,533,237	16,991,092	56,524,329	899,509
NET POSITION - END OF YEAR	<u>\$ 41,721,492</u>	<u>\$ 16,724,533</u>	<u>\$ 58,446,025</u>	<u>\$ 891,023</u>

CITY OF CEDARBURG
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended December 31, 2016

	<u>Business - type Activities - Enterprise Funds</u>			<u>Governmental Activities</u>
	<u>Light and Water Utility</u>	<u>Sewer Utility</u>	<u>Totals</u>	<u>Internal Service Fund - Risk Management</u>
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 13,711,532	\$ 2,169,280	\$ 15,880,812	\$ -
Paid to suppliers for goods and services	(9,587,053)	(539,684)	(10,126,737)	(419,414)
Paid to employees for services	(1,156,139)	(768,179)	(1,924,318)	-
Receipts from municipality	301,115	3,089,312	3,390,427	374,282
Net Cash Flows From Operating Activities	<u>3,269,455</u>	<u>3,950,729</u>	<u>7,220,184</u>	<u>(45,132)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of investment securities	(1,549,267)	(3,601,606)	(5,150,873)	(1,585,906)
Proceeds from sale and maturities of investment securities	1,538,129	1,819,385	3,357,514	799,063
Investment income	31,320	11,506	42,826	47,390
Net Cash Flows From Investing Activities	<u>20,182</u>	<u>(1,770,715)</u>	<u>(1,750,533)</u>	<u>(739,453)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Paid to municipality for tax equivalent	(747,000)	-	(747,000)	-
Payments received on advance to other fund	-	121,466	121,466	-
Transfers in (out)	(9,360)	-	(9,360)	-
Net Cash Flows From Noncapital Financing Activities	<u>(756,360)</u>	<u>121,466</u>	<u>(634,894)</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from debt issued	-	1,005,000	1,005,000	-
Premium from debt issued	-	26,857	26,857	-
Debt issuance costs	-	(14,993)	(14,993)	-
Acquisition and contraction of capital assets	(2,786,402)	(2,279,641)	(5,066,043)	-
Salvage on retirement of plant	86,626	-	86,626	-
Cost of removal of property retired	(102,851)	-	(102,851)	-
Impact fees received	28,671	-	28,671	-
Contributions in-aid-of construction	230,354	-	230,354	-
Net Cash Flows From Capital and Related Financing Activities	<u>(2,543,602)</u>	<u>(1,262,777)</u>	<u>(3,806,379)</u>	<u>-</u>
Net Change in Cash and Cash Equivalents	(10,325)	1,038,703	1,028,378	(784,585)
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>6,581,145</u>	<u>2,920,341</u>	<u>9,501,486</u>	<u>896,049</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 6,570,820</u>	<u>\$ 3,959,044</u>	<u>\$ 10,529,864</u>	<u>\$ 111,464</u>

See accompanying notes to the financial statements.

	Business - Type Activities - Enterprise Funds			Governmental Activities
	Light and Water Utility	Sewerage Department	Totals	Internal Service Fund - Risk Management
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES				
Operating income (loss)	\$ 1,817,305	\$ (247,436)	\$ 1,569,869	\$ (55,633)
Miscellaneous nonoperating activities	37,783	3,900	41,683	-
Adjustments to Reconcile Operating Income to Net Cash Flows From Operating Activities				
Depreciation	1,335,918	1,048,949	2,384,867	-
Depreciation charged to clearing accounts	96,646	(96,646)	-	-
Changes in assets and liabilities:				
Accounts receivable	(84,151)	(44,264)	(128,415)	2,384
Due from other funds	(977)	3,089,312	3,088,335	(29,044)
Prepayments	2,793	-	2,793	-
Materials and supplies	7,343	-	7,343	-
Accounts payable	27,910	55,517	83,427	41,625
Accrued payroll and related benefits	(25,406)	1,645	(23,761)	-
Liability for future claims	-	-	-	(4,464)
Due to other funds	(7,863)	107,190	99,327	-
Deposits	(3,442)	-	(3,442)	-
Accrued interest on deposit	146	-	146	-
Pension related deferrals	90,767	32,365	123,132	-
Other current liabilities	(25,317)	197	(25,120)	-
NET CASH FLOWS FROM OPERATING ACTIVITIES	\$ 3,269,455	\$ 3,950,729	\$ 7,220,184	\$ (45,132)
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET POSITION - PROPRIETARY FUNDS				
Current - cash and investments - unrestricted	\$ 7,880,104	\$ 2,831,959	\$ 10,712,063	\$ 898,307
Non-current - cash and investments - restricted	239,983	2,909,306	3,149,289	-
Non-cash equivalents	(1,549,267)	(1,782,221)	(3,331,488)	(786,843)
CASH AND CASH EQUIVALENTS	\$ 6,570,820	\$ 3,959,044	\$ 10,529,864	\$ 111,464
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES				
Developer financed additions to utility plant	\$ 768,935	\$ -	\$ 768,935	\$ -
Construction related accounts payable	\$ -	\$ 320,981	\$ 320,981	\$ -

See accompanying notes to the financial statements.

CITY OF CEDARBURG

STATEMENT OF ASSETS AND LIABILITIES - AGENCY FUND As of December 31, 2016

	<u>Agency Fund</u>
	<u>Tax Collection Fund</u>
ASSETS	
Cash and investments	\$ 9,482,703
Taxes receivable	<u>6,535,840</u>
Total Assets	<u>16,018,543</u>
LIABILITIES	
Due to other governments	<u>\$ 16,018,543</u>

CITY OF CEDARBURG

INDEX TO NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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CITY OF CEDARBURG

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Cedarburg, Wisconsin (the "City") conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The accepted standard-setting body for establishing governmental accounting and financial reporting principles is the Governmental Accounting Standards Board (GASB).

A. REPORTING ENTITY

This report includes all of the funds of the city. The reporting entity for the city consists of the primary government and its component units. Component units are legally separate organizations for which the primary government is financially accountable or other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the reporting entity's financial statements to be misleading. The primary government is financially accountable if (1) it appoints a voting majority of the organization's governing body and it is able to impose its will on that organization, (2) it appoints a voting majority of the organization's governing body and there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government, (3) the organization is fiscally dependent on and there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. Certain legally separate, tax exempt organizations should also be reported as a component unit if all of the following criteria are met: (1) the economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents; (2) the primary government or its component units, is entitled to, or has the ability to access, a majority of the economic resources received or held by the separate organization; and (3) the economic resources received or held by an individual organization that the primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to the primary government.

Component units are reported using one of two methods, discrete presentation or blending. Generally, component units should be discretely presented in a separate column in the financial statements. A component unit should be reported as part of the primary government using the blending method if it meets any one of the following criteria: (1) the primary government and the component unit have substantively the same governing body and a financial benefit or burden relationship exists, (2) the primary government and the component unit have substantively the same governing body and management of the primary government has operational responsibility for the component unit, (3) the component unit serves or benefits, exclusively or almost exclusively, the primary government rather than its citizens, or (4) the total debt of the component unit will be paid entirely or almost entirely from resources of the primary government.

CITY OF CEDARBURG

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

A. REPORTING ENTITY (cont.)

Discretely Presented Component Unit

Community Development Authority of the City

The Community Development Authority of the City (CDA) is a legally separate organization. The board of the CDA is appointed by the Mayor and confirmed by the Common Council. Wisconsin Statutes provide for circumstances whereby the city can impose its will on the CDA, and also create a potential financial benefit to or burden on the city. The Community Development Authority of the City is part of the reporting entity of the City of Cedarburg. However, the CDA had no financial transactions during 2016 which are material to these financial statements. Also, the CDA does not own any assets nor is it liable for any debt. Therefore, no financial statements are presented in this report. The CDA does not issue separate financial statements.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

In February 2015, the GASB issued statement No. 72 - *Fair Value Measurement and Application*. This statement addresses accounting and financial reporting issues related to fair value measurements. It defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This standard was implemented January 1, 2016.

Government-Wide Financial Statements

The statement of net position and statement of activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. The city does not allocate indirect expenses to functions in the statement of activities. 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 or segment. Taxes and other items not included among program revenues are reported as general revenues. Internally dedicated resources are reported as general revenues rather than as program revenues.

CITY OF CEDARBURG

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (cont.)

Fund Financial Statements

Financial statements of the city are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts, which constitute its assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position/fund balance, revenues, and expenditures/expenses.

Funds are organized as major funds or nonmajor funds within the governmental and proprietary statements. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the city or meets the following criteria:

- a. Total assets/deferred outflows of resources, liabilities/deferred inflows of resources, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10% of the corresponding total for all funds of that category or type, and
- b. The same element of the individual governmental or enterprise fund that met the 10% test is at least 5% of the corresponding total for all governmental and enterprise funds combined.
- c. In addition, any other governmental or enterprise fund that the city believes is particularly important to financial statement users may be reported as a major fund.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. 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 - accounts for the city's primary operating activities. It is used to account for and report all financial resources except those accounted for and reported in another fund.
- Debt service fund - used to account for and report financial resources that are restricted, committed, or assigned to expenditure for the payment of general long-term debt principal, interest, and related costs, other than TID or enterprise debt.
- Capital improvements fund - used to account for and report financial resources that are restricted, committed, or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

The city reports the following major enterprise funds:

- Light & Water Utility - accounts for operations of the electrical and water system
- Sewer Utility - accounts for operations of the sewer system

CITY OF CEDARBURG

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (cont.)

Fund Financial Statements (cont.)

The city reports the following nonmajor governmental funds:

Special Revenue Funds - used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes (other than debt service or capital projects).

Cemetery	Room Tax
Recreation Programs	Swimming Pool
Community Development Block Grant	Library
Park Impact Fee	Other
Rescue/EMS	

Capital Projects Fund - used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

Tax Incremental Finance (TIF) District No. 3

In addition, the city reports the following fund types:

Internal Service Fund - used to account for and report the financing of goods or services provided by one department or agency to other departments or agencies of the city, or to other governmental units, on a cost-reimbursement basis.

Risk Management

Agency Fund - used to account for and report assets held by the city in a trustee capacity or as an agent for individuals, private organizations, and/or other governmental units.

Tax Collection Fund

CITY OF CEDARBURG

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

Government-Wide Financial Statements

The government-wide statement of net position and statement of activities are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Property taxes are recognized as revenues in the year for which they are levied. Taxes receivable for the following year are recorded as receivables and deferred inflows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider are met. Special assessments are recorded as revenue when earned. Unbilled receivables are recorded as revenues when services are provided.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the city's light and water and sewer utilities and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to be used 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 are recorded when the related fund liability is incurred, except for unmatured interest on long-term debt, claims, judgments, compensated absences, and pension expenditures, which are recorded as a fund liability when expected to be paid with expendable available financial resources.

Property taxes are recorded in the year levied as receivables and deferred inflows. They are recognized as revenues in the succeeding year when services financed by the levy are being provided.

Intergovernmental aids and grants are recognized as revenues in the period the city is entitled the resources and the amounts are available. Amounts owed to the city which are not available are recorded as receivables and unavailable revenues. Amounts received before eligibility requirements (excluding time requirements) are met are recorded as liabilities. Amounts received in advance of meeting time requirements are recorded as deferred inflows.

Special assessments are recorded as revenues when they become measurable and available as current assets. Annual installments due in future years are reflected as receivables and unavailable revenues. At December 31, 2016, there were \$429,954 and \$195,918 of City and Sewer Utility, respectively, unrecorded anticipated future assessments which are not recorded as receivables because collection is subject to certain events occurring in the future. No formal repayment schedule has been established.

CITY OF CEDARBURG

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION (cont.)

Fund Financial Statements (cont.)

Revenues susceptible to accrual include property taxes, miscellaneous taxes, public charges for services, special assessments and interest. Other general revenues such as fines and forfeitures, inspection fees, recreation fees, and miscellaneous revenues are recognized when received in cash or when measurable and available under the criteria described above.

Proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as described previously in this note. Agency funds follow the accrual basis of accounting, and do not have a measurement focus.

The 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 Light and Water and Sewer Utilities are charges to customers for sales and services. Special assessments are recorded as receivables and contribution revenue when levied. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

All Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

D. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION OR EQUITY

1. Deposits and Investments

For purposes of the statement of cash flows, the city considers all highly liquid investments with an initial maturity of three months or less when acquired to be cash equivalents.

Investment of city funds is restricted by Wisconsin state statutes. Available investments are limited to:

- a. Time deposits in any credit union, bank, savings bank or trust company maturing in three years or less.

CITY OF CEDARBURG

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

D. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION OR EQUITY (cont.)

1. Deposits and Investments (cont.)

- b. Bonds or securities of any county, city, drainage district, technical college district, village, town, or school district of the state. Also, bonds issued by a local exposition district, a local professional baseball park district, a local professional football stadium district, a local cultural arts district, the University of Wisconsin Hospitals and Clinics Authority, or the Wisconsin Aerospace Authority.
- c. Bonds or securities issued or guaranteed by the federal government.
- d. The local government investment pool.
- e. Any security maturing in seven years or less and having the highest or second highest rating category of a nationally recognized rating agency.
- f. Securities of an open-end management investment company or investment trust, subject to various conditions and investment options.
- g. Repurchase agreements with public depositories, with certain conditions.

The city has adopted an investment policy. That policy follows the state statute for allowable investments. The Policy addresses custodial credit risk by stating that deposits shall not exceed federal and/or state insurance coverage unless (a) they are collateralized by federal government securities at a rate of 110% of the investment; b) they are collateralized by local mortgages at a rate of 135% of the investments; or c) collateralization has been waived by the Common Council.

Investments are stated at fair value, which is the amount at which an investment could be exchanged in a current transaction between willing parties. Fair values are based on methods and inputs as outlined in Note III. A. No investments are reported at amortized cost. Adjustments necessary to record investments at fair value are recorded in the operating statement as increases or decreases in investment income. Investment income on commingled investments of municipal accounting funds is allocated based on average balances. The difference between the bank statement balance and carrying value is due to outstanding checks and/or deposits in transit.

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, 2016, the fair value of the city's share of the LGIP's assets was substantially equal to the amount as reported in these statements.

See Note III. A. for further information.

CITY OF CEDARBURG

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

D. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION OR EQUITY (cont.)

2. Receivables

Property taxes are levied in December on the assessed value as of the prior January 1. In addition to property taxes for the city, taxes are collected for and remitted to the state and county governments as well as the local school districts and technical college district. Taxes for all state and local governmental units billed in the current year for the succeeding year are reflected as receivables and due to other taxing units on the accompanying statement of assets and liabilities - agency fund.

Property tax calendar - 2016 tax roll:

Lien date and levy date	December 2016
Tax bills mailed	December 2016
Payment in full, or	January 31, 2017
First installment due	January 31, 2017
Second installment due	July 31, 2017
Personal property taxes in full	January 31, 2017
Tax sale - 2016 delinquent real estate taxes	October 2019

Delinquent real estate taxes as of July 31 are paid in full by the county, which assumes the collection thereof. No provision for uncollectible accounts receivable has been made for the water and sewer utilities because they have the right by law to place substantially all delinquent bills on the tax roll, and other delinquent bills are generally not significant.

During the course of operations, transactions occur between individual funds that may result in amounts owed between funds. Short-term interfund loans are reported as "due to and from other funds." Long-term interfund loans (noncurrent portion) are reported as "advances from and to other funds." Interfund receivables and payables between funds within governmental activities are eliminated in the statement of net position. Any residual balances outstanding between the governmental activities and business-type activities are reported in the governmental-wide financial statements as internal balances.

In the governmental fund financial statements, advances to other funds are offset equally by a nonspendable fund balance account which indicates that they do not constitute expendable available financial resources and, therefore, are not available for appropriation or by a restricted fund balance account, if the funds will ultimately be restricted when the advance is repaid.

The city has received state grant funds for economic development loan programs to various businesses and individuals. The city records a loan receivable when the loan has been made and funds have been disbursed. The amount recorded as economic development loans receivable has not been reduced by an allowance for uncollectible accounts.

CITY OF CEDARBURG

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

D. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION OR EQUITY (cont.)

2. Receivables (cont.)

It is the city's policy to record unavailable revenue for the net amount of the receivable balance. As loans are repaid, revenue is recognized. When new loans are made from the repayments, expenditures are recorded. Interest received from loan repayments is recognized as revenue when received in cash. Any unspent loan repayments at year end are presented as restricted fund balance in the fund financial statements.

3. Materials and Supplies and Prepaid Items

Governmental fund materials and supplies, if material, are recorded at cost based on the FIFO method using the purchases method of accounting. Proprietary fund materials and supplies are generally used for construction and/or for operation and maintenance work. They are not for resale. They are valued at cost based on weighted average, and charged to construction and/or operation and maintenance expense when used.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. Restricted Assets

Mandatory segregations of assets are presented as restricted assets. Such segregations are required by bond agreements and other external parties. Current liabilities payable from these restricted assets are so classified. The excess of restricted assets over current liabilities payable from restricted assets will be used first for retirement of related long-term debt. The remainder, if generated from earnings, is shown as restricted net position.

5. Capital Assets

Government-Wide Statements

Capital assets, which include property, plant and equipment, are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial cost of more than \$5,000 for general and sewer capital and infrastructure assets and \$500 for Light and Water Utility capital assets, and an estimated useful life in excess of one year. All capital assets are valued at historical cost, or estimated historical cost if actual amounts are unavailable. Donated capital assets are recorded at their estimated fair value at the date of donation.

CITY OF CEDARBURG

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

D. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION OR EQUITY (cont.)

5. Capital Assets (cont.)

Government-Wide Statements (cont.)

Additions to and replacements of capital assets of business-type activities are recorded at original cost, which includes material, labor, overhead, and an allowance for the cost of funds used during construction when significant. For tax-exempt debt, the amount of interest capitalized equals the interest expense incurred during construction netted against any interest revenue from temporary investment of borrowed fund proceeds. No interest was capitalized during the current year. The cost of renewals and betterments relating to retirement units is added to plant accounts. The cost of property replaced, retired or otherwise disposed of, is deducted from plant accounts and, generally, together with removal costs less salvage, is charged to accumulated depreciation.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the statement of activities, with accumulated depreciation reflected in the statement of net position. Depreciation is provided over the assets' estimated useful lives using the straight-line method over the range of estimated useful lives by type of asset or is computed under that straight-line method using rates certified by the Public Service Commission for the Light and Water utility. The range of estimated useful lives by type of asset is as follows:

Buildings	25-99 Years
Land improvements	15 Years
Equipment	7-15 Years
Computer equipment	5-10 Years
Infrastructure - traffic signals	15 Years
Infrastructure - all other	60 Years
Vehicles	4-10 Years
Electric plant in service	5-40 Years
Water plant in service	4-77 Years
Sewer plant in service	10-80 Years

Fund Financial Statements

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for the same way as in the government-wide statements.

CITY OF CEDARBURG

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

D. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION OR EQUITY (cont.)

6. Other Assets

Designated investments - the Light and Water Commission has internally designated \$5,213,232 of cash and investments for future construction projects and monthly operating reserves.

Commitment to community - the Light and Water Utility charges fees to all customers as required by the 1999 Energy Reliability Act and 2006 Act 141. 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 net collections and expenses associated with the program are recorded as a current liability or asset on the statement of net position.

Preliminary survey and investigation - the balance represents initial project engineering costs related to utility plant construction. The balance will be capitalized upon commencement of the project.

Non-Utility property - the Light and Water Utility in 2006, 2008, and 2015 transferred infrastructure and land no longer in utility use; specifically, the SW, Layton, and Lincoln Substations land, building and equipment and land from a well on Fair Street that was abandoned long ago. These assets, excluding land, are fully depreciated at December 31, 2016. Costs to construct a fitness area and the cost of fitness equipment and flooring was recorded as nonutility property in 2011. Costs were partially offset in 2011 and will continue to be so in future years through fees collected from users of the fitness room.

7. Deferred Outflows of Resources

A deferred outflow of resources represents a consumption of net position/fund balance that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until that future time.

A deferred charge on refunding arises from the advance refunding of debt. The difference between the cost of the securities placed in trust for future payments of the refunded debt and the net carrying value of that debt is deferred and amortized as a component of interest expense over the shorter of the term of the refunding issue or the original term of the refunded debt. The unamortized amount is reported as a deferred outflow of resources in the government-wide and proprietary fund financial statements.

CITY OF CEDARBURG

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

D. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION OR EQUITY (cont.)

8. Compensated Absences

Under terms of employment, employees are granted sick leave and vacations in varying amounts. Only benefits considered to be vested are disclosed in these statements. Sick leave pay earned and not taken is cumulative. Sick leave is earned at the rate of 1.25 working days for each month of service up to a maximum of 15 days for police department employees and 12 days for all other employees per year and a total of 120 days. Upon retirement, disability, or death, the employee or their estate shall be paid, at the current wage rate, 50% of the accumulated unused sick leave pay benefits. All employees who have reached the maximum allotment of 120 sick days shall be compensated 30% of any sick days accumulated over 120. This compensation shall be paid in the first check of the following year at the previous year's rate. At December 31, 2016, 50% of the accumulated sick leave pay benefits estimated to be paid out for all employees is recorded as a liability in the government-wide financial statements.

All vested vacation and sick leave pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements, and are payable with expendable resources. Employees earn vacation in varying amounts based on length of service. Generally, City employees are not allowed to accumulate vacation pay. Light and Water Utility employees are allowed to accumulate unused vacation pay, which is recorded as an expense of the Light and Water Utility Enterprise Fund when earned.

Payments for vacation and sick leave will be made at rates in effect when the benefits are used. Accumulated vacation and sick leave liabilities at December 31, 2016, are determined on the basis of current salary rates and include salary related payments.

9. Long-Term Obligations

All long-term obligations to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term obligations consist primarily of notes and bonds payable, accrued compensated absences, net pension liability and pollution remediation liability.

Long-term obligations for governmental funds are not reported as liabilities in the fund financial statements. The face value of debts (plus any premiums) are reported as other financing sources and payments of principal and interest are reported as expenditures. The accounting in proprietary funds is the same as it is in the government-wide statements.

10. Deferred Inflows of Resources

A deferred inflow of resources represents an acquisition of net position/fund balance that applies to a future period and therefore will not be recognized as an inflow of resources (revenue) until that future time.

CITY OF CEDARBURG

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

D. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION OR EQUITY (cont.)

11. Equity Classifications

Government-Wide Statements

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

- a. Net investment in capital assets - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances (excluding unspent debt proceeds) of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net position - Consists of net position with constraints placed on their use either 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.
- c. Unrestricted net position - All other net positions that do not meet the definitions of "restricted" or "net investment in capital assets."

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.

Fund Statements

Governmental fund balances are displayed as follows:

- a. Nonspendable - Includes fund balance amounts that cannot be spent either because they are not in spendable form or because legal or contractual requirements require them to be maintained intact.
- b. Restricted - Consists of fund balances with constraints placed on their use either 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.
- c. Committed - Includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority. Fund balance amounts are committed through a formal action (resolution) of the Common Council. This formal action must occur prior to the end of the reporting period, but the amount of the commitment, which will be subject to the constraints, may be determined in the subsequent period. Any changes to the constraints imposed require the same formal action of the Common Council that originally created the commitment.

CITY OF CEDARBURG

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

D. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION OR EQUITY (cont.)

11. Equity Classifications (cont.)

Fund Statements (cont.)

- d. Assigned - Includes spendable fund balance amounts that are intended to be used for specific purposes that do not meet the criteria to be classified as restricted or committed. The Common Council has, by resolution, adopted a financial policy authorizing the Administrator/Treasurer to assign amounts for a specific purpose. Assignments may take place after the end of the reporting period.
- e. Unassigned - Includes residual positive fund balance within the general fund which has not been classified within the other above mentioned categories. Unassigned fund balance may also include negative balances for any governmental fund if expenditures exceed amounts restricted, committed, or assigned for those purposes.

Proprietary fund equity is classified the same as in the government-wide statements.

The city considers restricted amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents / contracts that prohibit doing this, such as in grant agreements requiring dollar for dollar spending. Additionally, the city would first use committed, then assigned and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

See Note III. I. for further information.

12. Pension

For purposes of measuring the net pension asset (liability), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Wisconsin Retirement System (WRS) and additions to/deductions from WRS' fiduciary net position have been determined on the same basis as they are reported by WRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

13. Basis for Existing Rates

Sewer Utility

Sewer rates are changed on January 1 of each year. The rates as of January 1, 2016 were \$5.22 per 1,000 gallons of flow with a \$12 monthly connection fee. The rates as of January 1, 2017 will remain at \$5.22 per 1,000 gallons of flow with the monthly connection fee raised to \$14 per month.

CITY OF CEDARBURG

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

D. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION OR EQUITY (cont.)

13. Basis for Existing Rates (cont.)

Electric Utility

Current electric rates were approved by the PSCW effective January 1, 2011. The rates are designed to provide a 6.00% return on rate base.

Water Utility

Current water rates were approved by the PSCW effective January 1, 2015 designed to provide a 5.5% return on rate base.

NOTE II - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. BUDGETARY INFORMATION

A budget has been adopted for the General Fund, Capital Improvement Fund, Debt Service Fund, Special Revenue Fund - Cemetery, Special Revenue Fund - Room Tax, Special Revenue Fund - Recreation Programs, Special Revenue Fund - Swimming Pool, Special Revenue Fund - Park Impact Fee and Special Revenue Fund - Library. A budget has not been formally adopted for Special Revenue Fund - Community Development Block Grant, Special Revenue Fund - Rescue/EMS, Special Revenue Fund - Other and Capital Project Fund - TIF No. 3 Fund. Wisconsin Statute 65.90 requires that an annual budget be adopted for all funds.

B. EXCESS EXPENDITURES AND OTHER FINANCING USES OVER APPROPRIATIONS

<u>Funds</u>	<u>Budgeted Expenditures</u>	<u>Actual Expenditures</u>	<u>Excess Expenditures Over Budget</u>
Debt Service Fund	\$ 926,282	\$ 996,831	\$ 70,549
Special Revenue Fund - Cemetery	45,911	50,707	4,796
Special Revenue Fund - Room Tax	62,000	79,061	17,061
Special Revenue Fund - Recreation Programs	119,706	202,791	83,085
Special Revenue Fund - Swimming Pool	330,712	344,764	14,052
Special Revenue Fund - Library	871,565	880,741	9,176

The city controls expenditures at the function level for the General Fund. For all other funds the City controls expenditures at the Fund level. Some individual fund experienced expenditures which exceeded appropriations. The detail of those items can be found in the city's year-end budget to actual report.

CITY OF CEDARBURG

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE II - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (cont.)

C. DEFICIT BALANCES

Generally accepted accounting principles require disclosure of individual funds that have deficit balances at year end.

As of December 31, 2016, the following individual funds held a deficit balance:

Fund	Amount	Reason
Special Revenue Fund - Library	\$ 32,294	Expenditures exceeded revenues
Capital Project Fund - TIF District No. 3 Fund	23,616	Expenditures exceeded revenues

TIF district deficits are anticipated to be funded with future incremental taxes levied over the life of the districts, which is 27 years for the districts created before October 1, 1995, and 23 years for districts created thereafter through September 30, 2004. Beginning October 1, 2004, the life of new districts varies by type of district (20-27 years) and may be extended in some cases. TIF District #3 fund deficits are anticipated to be funded with future contributions, tax revenues, or long-term borrowing.

Library fund deficits are anticipated to be funded with future general tax revenues.

D. LIMITATIONS ON THE DISTRICT'S TAX LEVY

Wisconsin law limits the city's future tax levies. Generally the city is limited to its prior tax levy dollar amount (excluding TIF Districts), increased by the greater of the percentage change in the city's equalized value due to new construction or zero percent. Changes in debt service from one year to the next are generally exempt from this limit with certain exceptions. The city is required to reduce its allowable levy by the estimated amount of fee revenue it collects for certain services, if those services were funded in 2013 by the property tax levy. Levies can be increased above the allowable limits if the amount is approved by referendum.

CITY OF CEDARBURG

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE III - DETAILED NOTES ON ALL FUNDS

A. DEPOSITS AND INVESTMENTS

The city maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the statement of net position and balance sheet as cash and investments.

The city's deposits and investments at year end were comprised of the following:

	Carrying Value	Statement Balances	Associated Risks
Deposits	\$ 26,015,861	\$ 26,349,182	Custodial credit risks
US treasuries	133,899	133,899	Custodial credit risk, interest rate risk and investments highly sensitive to interest rate changes
State and local bonds	269,897	269,897	Credit risk, custodial credit risk, interest rate risk and investments highly sensitive to interest rate changes
LGIP	5,838,556	5,838,556	Credit risk
US agencies	4,677,642	4,677,642	Custodial credit risk, interest rate risk and investments highly sensitive to interest rate changes
Petty cash	1,751	-	N/A
Total Deposits and Investments	<u>\$ 36,937,606</u>	<u>\$ 37,269,176</u>	

Reconciliation to financial statements

Per statement of net position

Unrestricted cash and
investments \$ 23,282,560

Restricted cash and investments 4,172,343

Per statement of assets and liabilities

- agency fund
Agency fund 9,482,703

Total Deposits and Investments \$ 36,937,606

Deposits in each local and area bank are insured by the FDIC in the amount of \$250,000 for time and savings accounts (including NOW accounts) and \$250,000 for demand deposit accounts (interest-bearing and noninterest-bearing). In addition, if deposits are held in an institution outside of the state in which the government is located, insured amounts are further limited to a total of \$250,000 for the combined amount of all deposit accounts.

CITY OF CEDARBURG

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE III - DETAILED NOTES ON ALL FUNDS (cont.)

A. DEPOSITS AND INVESTMENTS (cont.)

Bank accounts are also insured by the State Deposit Guarantee Fund in the amount of \$400,000. However, due to the nature of this fund, recovery of material principal losses may not be significant to individual municipalities. This coverage has not been considered in computing custodial credit risk.

The Securities Investor Protection Corporation (SIPC), created by the Securities Investor Protection Act of 1970, is an independent government-sponsored corporation (not an agency of the U.S. government).

SIPC membership provides account protection up to a maximum of \$500,000 per customer, of which \$100,000 may be in cash. \$500,000 of the city's investments are covered by SIPC.

The city categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The valuation methods for recurring fair value measurements are as follows:

- Market Value

Investment Type	December 31, 2016			
	Level 1	Level 2	Level 3	Total
US Agencies	\$ -	\$ 4,677,642	\$ -	\$ 4,677,642
US Treasuries	133,899	-	-	133,899
State and Local Bonds	-	269,897	-	269,897
Total	<u>\$ 133,899</u>	<u>\$ 4,947,539</u>	<u>\$ -</u>	<u>\$ 5,081,438</u>

Custodial Credit Risk

Deposits

Custodial credit risk is the risk that in the event of a financial institution failure, the city's deposits may not be returned to the city.

As of December 31, 2016, \$24,390,682 of the city's total bank balances were exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ 3,671,586
Uninsured and collateral held by the pledging financial institution's trust department or agent not in the city's name	<u>20,719,096</u>
Total	<u>\$ 24,390,682</u>

CITY OF CEDARBURG

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE III - DETAILED NOTES ON ALL FUNDS (cont.)

A. DEPOSITS AND INVESTMENTS (cont.)

Custodial Credit Risk (cont.)

Investments

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the city will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The city does not have any investments exposed to custodial credit risk.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

As of December 31, 2016, the city's investments were rated as follows:

<u>Investment Type</u>	<u>Standard & Poors</u>	<u>Moody's Investors Services</u>	<u>Not Rated</u>
State and Local Bonds	AA- through AA+	AA3 through AAA	Various

The city also held investments in the following external pool which is not rated:

LGIP

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the value of an investment.

As of December 31, 2016, the city's investments were as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity (In Years)</u>		
		<u>Less than 1</u>	<u>1-3</u>	<u>4-6</u>
US treasuries	\$ 133,899	\$ -	\$ -	\$ 133,899
US agencies	4,677,642	760,859	2,676,462	1,240,321
State and local bonds	<u>269,897</u>	<u>-</u>	<u>-</u>	<u>269,897</u>
Totals	<u>\$ 5,081,438</u>	<u>\$ 760,859</u>	<u>\$ 2,676,462</u>	<u>\$ 1,644,117</u>

CITY OF CEDARBURG

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE III - DETAILED NOTES ON ALL FUNDS (cont.)

A. DEPOSITS AND INVESTMENTS (cont.)

Investments Highly Sensitive to Interest Rate Changes

At December 31, 2016, the city held \$4,677,642, \$133,899 and \$269,897 in US agencies, US treasuries and State and local bonds respectively. With all fixed income securities, as interest rates rise, the values will fall. The longer the time to maturity, the more sensitive the value will be to a change in interest rates. The longest time to maturity on any holding is 6 years maturing May 31, 2023.

See Note I.D.1. for further information on deposit and investment policies.

B. RECEIVABLES

All of the receivables on the balance sheet are expected to be collected within one year except for a receivable of \$4,136.

Governmental funds report *unavailable or unearned revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Property taxes levied for the subsequent year are not earned and cannot be used to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *unavailable revenue* and *unearned revenue* reported in the governmental funds were as follows:

	<u>Unearned</u>	<u>Unavailable</u>
Property taxes receivable for subsequent year	\$ 9,171,275	\$ -
Loan receivables	<u>-</u>	<u>92,144</u>
Total Unearned/Unavailable Revenue for Governmental Funds	<u>\$ 9,171,275</u>	<u>\$ 92,144</u>

C. RESTRICTED ASSETS

The following represent the balances of the restricted assets:

Equipment Replacement Account

The sewer utility established an equipment replacement account to be used for significant mechanical equipment replacement as required by the Wisconsin Department of Natural Resources.

Impact Fee Account

The light and water utility and sewer utility has received impact fees which must be spent in accordance with the local ordinance and state statutes. Any unspent funds must be refunded to the current property owner.

CITY OF CEDARBURG

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE III - DETAILED NOTES ON ALL FUNDS (cont.)

C. RESTRICTED ASSETS (cont.)

Community Development Block Grant

Restricted assets have been reported in connection with monies from the Community Development Block Grant (CDBG) federal program. These monies have been used to fund local community development activities in the City providing loans to local businesses. Outstanding loans have an interest rate of 2.00% and repayment goes through February 1, 2022.

Following is a list of restricted assets at December 31, 2016:

	Restricted Assets
Equipment replacement account	\$ 2,790,983
Light and Water impact fee account	239,983
Sewer impact fee account	118,323
CDBG account	941,643
CDBG receivables	92,144
Park impact fee account	<u>81,411</u>
Total	<u>\$ 4,264,487</u>

CITY OF CEDARBURG

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE III - DETAILED NOTES ON ALL FUNDS (cont.)

D. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2016, was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental Activities				
Capital assets not being depreciated				
Land	\$ 7,945,304	\$ 294,220	\$ -	\$ 8,239,524
Construction in progress	234,947	7,993,760	-	8,228,707
Total Capital Assets Not Being Depreciated	8,180,251	8,287,980	-	16,468,231
Capital assets being depreciated				
Buildings and Improvements	15,460,481	671,147	337,335	15,794,293
Infrastructure	44,208,718	1,231,459	304,074	45,136,103
Vehicles	6,246,139	763,777	310,702	6,699,214
Machinery and Equipment	3,887,785	124,558	13,532	3,998,811
Total Capital Assets Being Depreciated	69,803,123	2,790,941	965,643	71,628,421
Total Capital Assets	77,983,374	11,078,921	965,643	88,096,652
Less: Accumulated depreciation for				
Buildings and Improvements	(3,263,611)	(355,296)	243,219	(3,375,688)
Infrastructure	(15,222,406)	(730,591)	304,074	(15,648,923)
Vehicles	(4,020,573)	(452,940)	194,724	(4,278,789)
Machinery and Equipment	(2,208,919)	(211,268)	13,532	(2,406,655)
Total Accumulated Depreciation	(24,715,509)	(1,750,095)	755,549	(25,710,055)
Net Capital Assets Being Depreciated	45,087,614	1,040,846	210,094	45,918,366
Total Governmental Activities Capital Assets, Net of Accumulated Depreciation	\$ 53,267,865	\$ 9,328,826	\$ 210,094	\$ 62,386,597

Depreciation expense was charged to functions as follows:

Governmental Activities	
General government	\$ 25,700
Public safety	253,050
Public works	1,046,577
Health and human services	2,071
Culture, recreation and education	422,697
Total Governmental Activities Depreciation Expense	\$ 1,750,095

CITY OF CEDARBURG

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE III - DETAILED NOTES ON ALL FUNDS (cont.)

D. CAPITAL ASSETS (cont.)

Business-type Activities

	Beginning Balance	Additions	Deletions	Ending Balance
<u>Sewer</u>				
Capital assets not being depreciated				
Land	\$ 1,731,597	\$ 5,000	\$ -	\$ 1,736,597
Construction in progress	-	1,288,594	-	1,288,594
Total Capital Assets Not Being Depreciated	<u>1,731,597</u>	<u>1,293,594</u>	<u>-</u>	<u>3,025,191</u>
Capital assets being depreciated				
Plant in service	<u>29,651,128</u>	<u>1,403,673</u>	<u>340,792</u>	<u>30,714,009</u>
Total Capital Assets	<u>31,382,725</u>	<u>2,697,267</u>	<u>340,792</u>	<u>33,739,200</u>
Less: Accumulated depreciation for Plant in service	<u>(20,991,521)</u>	<u>(1,048,949)</u>	<u>340,792</u>	<u>(21,699,678)</u>
Net Capital Assets Being Depreciated	<u>8,659,607</u>	<u>354,724</u>	<u>-</u>	<u>9,014,331</u>
Net Sewer Capital Assets	<u>\$ 10,391,204</u>	<u>\$ 1,648,318</u>	<u>\$ -</u>	<u>\$ 12,039,522</u>

CITY OF CEDARBURG

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE III - DETAILED NOTES ON ALL FUNDS (cont.)

D. CAPITAL ASSETS (cont.)

Business-type Activities (cont.)

	Beginning Balance	Additions	Deletions	Ending Balance
<u>Light and Water</u>				
Capital assets not being depreciated				
Land	\$ 378,837	\$ -	\$ -	\$ 378,837
Construction in progress	<u>89,106</u>	<u>882</u>	<u>57,272</u>	<u>32,716</u>
Total Capital Assets Not Being Depreciated	<u>467,943</u>	<u>882</u>	<u>57,272</u>	<u>411,553</u>
Capital assets being depreciated				
Plant in service	<u>46,185,947</u>	<u>3,812,901</u>	<u>627,627</u>	<u>49,371,221</u>
Total Capital Assets	<u>46,653,890</u>	<u>3,813,783</u>	<u>684,899</u>	<u>49,782,774</u>
Less: Accumulated depreciation for Plant in service	<u>(15,526,680)</u>	<u>(1,560,091)</u>	<u>730,478</u>	<u>(16,356,293)</u>
Net Capital Assets Being Depreciated	<u>30,659,267</u>	<u>2,252,810</u>	<u>(102,851)</u>	<u>33,014,928</u>
Net Light and Water Capital Assets	<u>\$ 31,127,210</u>	<u>\$ 2,253,692</u>	<u>\$ (45,579)</u>	<u>\$ 33,426,481</u>
Business-type Capital Assets, Net of Accumulated Depreciation	<u>\$ 41,518,414</u>	<u>\$ 3,902,010</u>	<u>\$ (45,579)</u>	<u>\$ 45,466,003</u>

Depreciation expense was charged to functions as follows:

Business-type Activities

Sewer	\$ 1,048,949
Light and Water	<u>1,335,918</u>
 Total Business-type Activities Depreciation Expense	 <u>\$ 2,384,867</u>

Depreciation expense may be different from business-type activity accumulated depreciation additions because of joint metering, salvage, cost of removal, internal allocations, or costs associated with the disposal of assets.

CITY OF CEDARBURG

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE III - DETAILED NOTES ON ALL FUNDS (cont.)

E. INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS

Interfund Receivables/Payables

The following is a schedule of interfund receivables and payables including any overdrafts on pooled cash and investment accounts:

Receivable Fund	Payable Fund	Amount
General Fund	Special Revenue Fund - Room Tax	\$ 98
General Fund	Special Revenue Fund - Library	12,662
General Fund	Special Revenue Fund - Swimming Pool	17,887
General Fund	Capital Improvement Fund	463
General Fund	Sewer Utility	191
Capital Improvement Fund	Special Revenue Fund - Park Impact Fee	47,934
Capital Improvement Fund	Sewer Utility	71,670
Special Revenue Fund - Library	General Fund	633
Special Revenue Fund - Room Tax	General Fund	1,315
Special Revenue Fund - Recreation Programs	General Fund	95,973
Special Revenue Fund - Community Development Block Grant	General Fund	920
Risk Management Fund	Capital Improvement Fund	29,169
General Fund	Light and Water Utility	439,013
Capital Improvement Fund	Light and Water Utility	8,080
Sewer Utility	Light and Water Utility	227,106
Light and Water Utility	Sewer Utility	38,274
Light and Water Utility	General Fund	4,733
Light and Water Utility	Capital Improvement Fund	18,365
Total - Fund Financial Statements		1,014,486
Less: Fund eliminations		(518,629)
Total Internal Balances - Government-Wide Statement of Net Position		<u>\$ 495,857</u>

CITY OF CEDARBURG

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE III - DETAILED NOTES ON ALL FUNDS (cont.)

E. INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS (cont.)

Interfund Receivables/Payables (cont.)

Receivable Fund	Payable Fund	Amount
Governmental Activities	Business-type Activities	\$ 518,954
Business-type Activities	Governmental Activities	<u>(23,098)</u>
Total Government-Wide Financial Statements		<u>\$ 495,856</u>

All amounts are due within one year.

The principal purpose of these interfunds is collecting items placed on tax roll. All remaining balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Advances

The general fund is advancing funds to the Capital Project Fund - TIF District No. 3. The amount advanced is determined by the deficiency of revenues over expenditures and other financing sources since the district's inception. No repayment schedule has been established.

As of December 31, 2016, the General Fund has advanced \$23,447 to the Capital Project Fund - TIF District No. 3.

CITY OF CEDARBURG

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE III - DETAILED NOTES ON ALL FUNDS (cont.)

E. INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS (cont.)

Transfers

The following is a schedule of interfund transfers:

Fund Transferred To	Fund Transferred From	Amount	Principal Purpose
General Fund	Light and Water Utility	\$ 754,150	Property tax equivalent
General Fund	Special Revenue Fund - Other	37,521	Close out fund
Debt Service Fund	Capital Improvement Fund	200,000	Debt service
Capital Improvement Fund	Park Impact Fee Fund	47,934	Fund capital purchases
Special Revenue Fund - Library Fund	Special Revenue Fund - Other	1,439	Close out fund
Special Revenue Fund - Cemetery	Special Revenue Fund - Other	9	Close out fund
Special Revenue Fund - Recreation Programs	Special Revenue Fund - Other	7,765	Close out fund
Special Revenue Fund - Swimming Pool	General Fund	13,503	To fund operations
Special Revenue Fund - Recreation Programs	General Fund	1,000	To fund operations
Total - Fund Financial Statements		1,063,321	
Less: Fund eliminations		(309,171)	
Total Transfers - Government-Wide Statement of Activities		<u>\$ 754,150</u>	
Fund Transferred To	Fund Transferred From	Amount	
Governmental Activities	Business-type Activities	\$ 754,150	
Business-type Activities	Governmental Activities	-	
Total Government-wide Financial Statements		<u>\$ 754,150</u>	

Generally, transfers are used to (1) move revenues from the fund that collects them to the fund that the budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

CITY OF CEDARBURG

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE III - DETAILED NOTES ON ALL FUNDS (cont.)

F. LONG-TERM OBLIGATIONS

Long-term obligations activity for the year ended December 31, 2016, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Governmental Activities					
Bonds and Notes Payable					
General obligation debt	\$ 9,021,208	\$ 8,700,000	\$ 770,097	\$ 16,951,111	\$ 1,303,551
(Discounts)/Premiums	28,460	231,387	3,658	256,189	-
Sub-totals	<u>9,049,668</u>	<u>8,931,387</u>	<u>773,755</u>	<u>17,207,300</u>	<u>1,303,551</u>
Other Liabilities					
Accumulated sick pay	499,825	-	12,456	487,369	-
Pollution remediation liability	487,200	-	-	487,200	-
Net pension liability (asset)	(830,598)	1,370,433	-	539,835	-
Total Other Liabilities	<u>156,427</u>	<u>1,370,433</u>	<u>12,456</u>	<u>1,514,404</u>	<u>-</u>
Total Governmental Activities Long-Term Liabilities	<u>\$ 9,206,095</u>	<u>\$ 10,301,820</u>	<u>\$ 786,211</u>	<u>\$ 18,721,704</u>	<u>\$ 1,303,551</u>
Business-type Activities					
Bonds and Notes Payable					
General obligation debt	\$ -	\$ 1,005,000	\$ -	\$ 1,005,000	\$ 55,000
(Discounts)/Premiums	-	26,857	-	26,857	-
Sub-totals	<u>-</u>	<u>1,031,857</u>	<u>-</u>	<u>1,031,857</u>	<u>55,000</u>
Other Liabilities					
Compensated absences	393,123	1,645	34,105	360,663	-
Other long-term liabilities	32,331	30,334	-	62,665	-
Net pension liability (asset)	(316,451)	539,843	-	223,392	-
Total Other Liabilities	<u>109,003</u>	<u>571,822</u>	<u>34,105</u>	<u>646,720</u>	<u>-</u>
Total Business-type Activities Long-Term Liabilities	<u>\$ 109,003</u>	<u>\$ 1,603,679</u>	<u>\$ 34,105</u>	<u>\$ 1,678,577</u>	<u>\$ 55,000</u>

In accordance with Wisconsin Statutes, total general obligation indebtedness of the city may not exceed 5% of the equalized value of taxable property within the city's jurisdiction. The debt limit as of December 31, 2016, was \$62,723,900. Total general obligation debt outstanding at year end was \$17,956,111.

CITY OF CEDARBURG

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE III - DETAILED NOTES ON ALL FUNDS (cont.)

F. LONG-TERM OBLIGATIONS (cont.)

General Obligation Debt

All general obligation notes and bonds payable are backed by the full faith and credit of the city. Notes and bonds in the governmental funds will be retired by future property tax levies or tax increments accumulated by the debt service fund. Business-type activities debt is payable by revenues from user fees of those funds or, if the revenues are not sufficient, by future tax levies.

Governmental Activities

General Obligation Debt	Date of Issue	Final Maturity	Interest Rates	Original Indebtedness	Balance December 31, 2016
GO Notes	6/3/2015	3/1/2015	2.00%	\$ 3,470,000	\$ 3,270,000
GO Notes	9/5/2012	3/1/2027	0.50 - 2.20%	5,565,000	4,625,000
Build America Bonds	6/3/2010	3/15/2020	4.25%	800,000	356,111
GO Notes	5/18/2016	3/1/2036	1.50 - 3.00%	8,700,000	<u>8,700,000</u>
Total Governmental Activities - General Obligation Debt					<u>\$ 16,951,111</u>

Business-type Activities

General Obligation Debt	Date of Issue	Final Maturity	Interest Rates	Original Indebtedness	Balance December 31, 2016
GO Notes	5/18/2016	3/1/2036	1.50 - 3.00%	\$ 1,005,000	<u>\$ 1,005,000</u>
Total Business-type Activities - General Obligation Debt					<u>\$ 1,005,000</u>

Debt service requirements to maturity are as follows:

Years	Governmental Activities General Obligation Debt		Business-type Activities General Obligation Debt	
	Principal	Interest	Principal	Interest
2017	\$ 1,303,551	\$ 385,723	\$ 55,000	\$ 27,809
2018	1,287,102	308,821	40,000	20,550
2019	1,365,804	285,919	45,000	19,813
2020	1,379,652	262,209	45,000	19,138
2021	1,390,000	236,563	45,000	18,463
2022-2026	5,225,000	847,800	230,000	79,325
2027-2031	2,495,000	478,938	255,000	55,006
2032-2036	<u>2,505,002</u>	<u>189,681</u>	<u>290,000</u>	<u>21,856</u>
Totals	<u>\$ 16,951,111</u>	<u>\$ 2,995,654</u>	<u>\$ 1,005,000</u>	<u>\$ 261,960</u>

CITY OF CEDARBURG

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE III - DETAILED NOTES ON ALL FUNDS (cont.)

F. LONG-TERM OBLIGATIONS (cont.)

Other Debt Information

Estimated payments of compensated absences, pollution remediation and net pension liability/(asset) are not included in the debt service requirement schedules. The compensated absences liability, pollution remediation liability, and net pension liability/(asset) attributable to governmental activities will be liquidated primarily by the general fund.

G. LEASE DISCLOSURES

Lessor - Operating Lease

The City of Cedarburg entered into various legal agreements to use a portion of the City's water tower to attach antennae. For the year ended December 31, 2016, the City received \$137,251. The terms of the leases are for five years, with a right to extend for four additional five-year terms. The following is a summary of projected revenues for the next five years.

<u>Years</u>	<u>Governmental Activities Principal</u>
2017	\$ 146,313
2018	153,628
2019	161,310
2020	169,375
2021	<u>177,844</u>
Totals	<u>\$ 808,470</u>

H. POLLUTION REMEDIATION OBLIGATIONS

At December 31, 2016, the city was obligated to address the future pollution cleanup activities at Prochnow Landfill, due to federal or state laws and regulations. The city's obligation is to address the pollution remediation because the pollution created an imminent endangerment to public health or welfare or the environment. Examples of expected future remediation activity costs include legal services, site investigation, and required post-remediation monitoring costs. The amount reported as a pollution remediation obligation represents the current value of the cash flows expected to be paid for these activities. Any expected recoveries would be treated separately as a receivable when such reimbursements become measurable. As of December 31, 2016, the obligation was \$487,200. The city will recognize this liability and related expenses as an operating expense in the government-wide financial statements only when such costs become measurable. Because of this, the liability is subject to change as the city becomes aware of new information which may affect its estimate. Only when actual outlays are made are they recognized in the governmental fund financial statements as expenditures. This will also reduce the amount of the liability on the government-wide financial statements. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

CITY OF CEDARBURG

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE III - DETAILED NOTES ON ALL FUNDS (cont.)

I. NET POSITION/FUND BALANCES

Net position reported on the government wide statement of net position at December 31, 2016, includes the following:

Governmental Activities

Net Investment in Capital Assets	
Land	\$ 8,239,524
Construction in progress	8,228,707
Other capital assets, net of accumulated depreciation	45,918,366
Less: Long-term debt outstanding	(16,951,111)
Plus: Unspent capital related debt proceeds	212,500
Less: Unamortized debt premium, discount and refunding loss	(131,806)
Total Net Investment in Capital Assets	<u>45,516,180</u>
Restricted	
Debt service	61,620
Community development	942,563
Park impact fees	33,477
Total Restricted	<u>1,037,660</u>
Unrestricted	<u>6,419,582</u>
Total Governmental Activities Net Position	<u>\$ 52,973,422</u>

CITY OF CEDARBURG

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE III - DETAILED NOTES ON ALL FUNDS (cont.)

I. NET POSITION/FUND BALANCES (cont.)

Governmental Funds

Governmental fund balances reported on the fund financial statements at December 31, 2016, include the following:

	General Fund	Capital Improvement Fund	Debt Service Fund	Nonmajor Funds	Totals
Fund Balances					
Nonspendable:					
Noncurrent receivables	\$ 40,215	\$ -	\$ -	\$ -	\$ 40,215
Materials and supplies	18,379	-	-	-	18,379
Advance to other fund	23,447	-	-	-	23,447
Restricted for:					
Capital improvements	-	212,500	-	-	212,500
Debt service	-	-	205,042	-	205,042
Park impact fees	-	-	-	33,477	33,477
Community development	-	-	-	942,563	942,563
Assigned to:					
Revaluations	116,949	-	-	-	116,949
Subsequent year purchases	25,679	-	-	-	25,679
Subsequent years budget	155,743	-	-	-	155,743
Cemetery	-	-	-	276,573	276,573
Room tax	-	-	-	462	462
Recreation programs	-	-	-	93,485	93,485
Recuse/EMS	-	-	-	632,607	632,607
Capital improvements	-	1,672,013	-	-	1,672,013
Unassigned (deficit):	<u>2,065,568</u>	<u>-</u>	<u>-</u>	<u>(55,910)</u>	<u>2,009,658</u>
Total Fund Balances	<u>\$ 2,445,980</u>	<u>\$ 1,884,513</u>	<u>\$ 205,042</u>	<u>\$ 1,923,257</u>	<u>\$ 6,458,792</u>

Business-type Activities

Net Investment in Capital Assets

Land	\$ 2,115,434
Construction in progress	1,321,310
Other capital assets, net of accumulated depreciation	42,029,259
Less: Long-term debt outstanding	(1,005,000)
Less: Unamortized debt premium	(26,857)
Total Net Investment in Capital Assets	<u>44,434,146</u>

CITY OF CEDARBURG

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE III - DETAILED NOTES ON ALL FUNDS (cont.)

I. NET POSITION/FUND BALANCES (cont.)

Business-type Activities (cont.)

Restricted	
Light and Water impact fees	239,983
Equipment replacement	2,790,983
Sewer impact fees	118,323
Total Restricted	<u>3,149,289</u>
Unrestricted	<u>10,862,590</u>
Total Business-type Activities Net Position	<u>\$ 58,446,025</u>

J. RESTATEMENT OF FUND BALANCES/NET POSITION

Fund balance has been restated to correct an error as described below.

General Fund balance - December 31, 2015 (as reported)	\$ 2,518,758
Add: To eliminate deposit on the balance sheet that should have been reported as revenue at point of collection	33,488
To eliminate prepaid expenditure for the City's unfunded pension liability; should have been an expenditure when paid	<u>(303,671)</u>
Fund Balance - December 31, 2015 (as restated)	<u>\$ 2,248,575</u>
Net income of the prior year would have been increased (decreased) by	<u>\$ (270,183)</u>

Nonmajor Funds

Nonmajor Fund balance - December 31, 2015 (as reported)	\$ 2,499,147
Less: To remove balance for length of service award program IRS 457 plan	<u>(648,396)</u>
Fund Balance - December 31, 2015 (as restated)	<u>\$ 1,850,751</u>
Net income of the prior year would have been increased (decreased) by	<u>\$ (648,396)</u>

CITY OF CEDARBURG

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE III - DETAILED NOTES ON ALL FUNDS (cont.)

J. RESTATEMENT OF FUND BALANCES/NET POSITION (cont.)

Net position has been restated to correct an error as described below.

Governmental Activities Net Position - December 31, 2015 (as reported)	\$ 54,092,354
Add: To eliminate deposit on the balance sheet that should have been reported as revenue at point of collection	33,488
To recognize loan receivable proceeds shown as unavailable in the fund statements	112,667
Less: To record pollution remediation liability	(487,200)
To eliminate recognized revenue for special assessments that are contingent on future events	(429,053)
To remove balance for length of service award program IRS 457 plan	<u>(648,396)</u>
Net Position - December 31, 2015 (as restated)	<u>\$ 52,673,860</u>
Net income of the prior year would have been increased (decreased) by	<u>\$ (1,418,494)</u>

NOTE IV - OTHER INFORMATION

A. EMPLOYEES' RETIREMENT SYSTEM

Plan description. The WRS is a cost-sharing multiple-employer defined benefit pension plan. WRS benefits and other plan provisions are established by Chapter 40 of the Wisconsin Statutes. Benefit terms may only be modified by the legislature. The retirement system is administered by the Wisconsin Department of Employee Trust Funds (ETF). The system provides coverage to all eligible State of Wisconsin, local government and other public employees. 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.

ETF issues a standalone Comprehensive Annual Financial Report (CAFR), which can be found at <http://etf.wi.gov/publications/cafr.htm>.

Vesting. 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.

CITY OF CEDARBURG

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE IV - OTHER INFORMATION (cont.)

A. EMPLOYEES' RETIREMENT SYSTEM (cont.)

Benefits provided. Employees who retire at or after age 65 (54 for protective occupation employees, 62 for elected officials and State executive participants) are entitled to receive an unreduced retirement benefit. The factors influencing the benefit are: (1) final average earnings, (2) years of creditable service, and (3) a formula factor.

Final average earnings is the average of the participant's three highest years' earnings. Creditable service is the creditable current and prior service expressed in years or decimal equivalents of partial years for which a participant receives earnings and makes contributions as required. The formula factor is a standard percentage based on employment category.

Employees may retire at age 55 (50 for protective occupation employees) and receive reduced benefits. Employees terminating covered employment before becoming eligible for a retirement benefit may withdraw their contributions and forfeit all rights to any subsequent benefits.

The WRS also provides death and disability benefits for employees.

Post-retirement adjustments. The Employee Trust Funds Board may periodically adjust annuity payments from the retirement system based on annual investment performance in accordance with s. 40.27, Wis. Stat. An increase (or decrease) in annuity payments may result when investment gains (losses), together with other actuarial experience factors, create a surplus (shortfall) in the reserves, as determined by the system's consulting actuary. Annuity increases are not based on cost of living or other similar factors. For Core annuities, decreases may be applied only to previously granted increases. By law, Core annuities cannot be reduced to an amount below the original, guaranteed amount (the "floor") set at retirement. The Core and Variable annuity adjustments granted during recent years are as follows:

Year	Core Fund Adjustment	Variable Fund Adjustment
2006	0.8%	3%
2007	3.0	10
2008	6.6	0
2009	(2.1)	(42)
2010	(1.3)	22
2011	(1.2)	11
2012	(7.0)	(7)
2013	(9.6)	9
2014	4.7	25
2015	2.9	2

CITY OF CEDARBURG

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE IV - OTHER INFORMATION (cont.)

A. EMPLOYEES' RETIREMENT SYSTEM (cont.)

Contributions. Required contributions are determined by an annual actuarial valuation in accordance with Chapter 40 of the Wisconsin Statutes. The employee required contribution is one-half of the actuarially determined contribution rate for General category employees and 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.

During the reporting period, the WRS recognized \$457,369 in contributions from the city.

Contribution rates as of December 31, 2016 are:

<u>Employee Category</u>	<u>Employee</u>	<u>Employer</u>
General	6.6%	6.6%
Executives & Elected Officials	6.6%	6.6%
Protective with Social Security	6.6%	9.4%
Protective without Social Security	6.6%	13.2%

Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2016, the city reported an liability of \$763,227 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014 rolled forward to December 31, 2015. No material changes in assumptions or benefit terms occurred between the actuarial valuation date and the measurement date. The city's proportion of the net pension liability was based on the city's share of contributions to the pension plan relative to the contributions of all participating employers. At December 31, 2015, the city's proportion was 0.04696839%, which was an increase of 0.00026980% from its proportion measured as of December 31, 2014.

For the year ended December 31, 2016, the city recognized pension expense of \$923,096.

CITY OF CEDARBURG

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE IV - OTHER INFORMATION (cont.)

A. EMPLOYEES' RETIREMENT SYSTEM (cont.)

At December 31, 2016, the city reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 129,117	\$ 1,606,199
Changes in assumptions	533,987	-
Net differences between projected and actual earnings on pension plan investments	3,124,872	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	10,032
Employer contributions subsequent to the measurement date	463,871	-
Totals	<u>\$ 4,251,847</u>	<u>\$ 1,616,231</u>

\$463,871 reported as deferred outflows related to pension resulting from the WRS Employer's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability (asset) in the year ended December 31, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Year Ended December 31:	Deferred Outflows of Resources	Deferred Inflows of Resources
2017	\$ 983,506	\$ 391,324
2018	983,506	391,324
2019	983,506	391,324
2020	820,375	390,666
2021	17,082	51,593

CITY OF CEDARBURG

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE IV - OTHER INFORMATION (cont.)

A. EMPLOYEES' RETIREMENT SYSTEM (cont.)

Actuarial assumptions. The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Valuation Date:	December 31, 2014
Measurement Date of Net Pension Liability (Asset)	December 31, 2015
Actuarial Cost Method:	Entry Age
Asset Valuation Method:	Fair Market Value
Long-Term Expected Rate of Return:	7.2%
Discount Rate:	7.2%
Salary Increases:	
Inflation	3.2%
Seniority/Merit	0.2% - 5.6%
Mortality:	Wisconsin 2012 Mortality Table
Post-retirement Adjustments*:	2.1%

** No post-retirement adjustment is guaranteed. Actual adjustments are based on recognized investment return, actuarial experience and other factors. 2.1% is the assumed annual adjustment based on the investment return assumption and the post-retirement discount rate.*

Actuarial assumptions are based upon an experience study conducted in 2012 using experience from 2009 – 2011. The total pension liability for December 31, 2015 is based upon a roll-forward of the liability calculated from the December 31, 2014 actuarial valuation.

CITY OF CEDARBURG

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE IV - OTHER INFORMATION (cont.)

A. EMPLOYEES' RETIREMENT SYSTEM (cont.)

Long-term expected return on plan assets. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Core Fund Asset Class	Current Asset Allocation %	Destination Target Asset Allocation %	Long-Term Expected Nominal Rate of Return %	Long-Term Expected Real Rate of Return %
U.S. Equities	27%	23%	7.6%	4.7%
International Equities	24.5	22	8.5	5.6
Fixed Income	27.5	37	4.4	1.6
Inflation Sensitive Assets	10	20	4.2	1.4
Real Estate	7	7	6.5	3.6
Private Equity/Debt	7	7	9.4	6.5
Multi-Asset	4	4	6.7	3.8
Total Core Fund	107	120	7.4	4.5
<u>Variable Fund Asset Class</u>				
U.S. Equities	70	70	7.6	4.7
International Equities	30	30	8.5	5.6
Total Variable Fund	100	100	7.9	5.0

New England Pension Consultants Long Term US CPI (Inflation) Forecast: 2.75%

Asset Allocations are managed within established ranges, target percentages may differ from actual monthly allocations

CITY OF CEDARBURG

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE IV - OTHER INFORMATION (cont.)

A. EMPLOYEES' RETIREMENT SYSTEM (cont.)

Single discount rate. A single discount rate of 7.20% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.20% and a long term bond rate of 3.56%. Because of the unique structure of WRS, the 7.20% expected rate of return implies that a dividend of approximately 2.1% will always be paid. For purposes of the single discount rate, it was assumed that the dividend would always be paid. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments (including expected dividends) of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the city's proportionate share of the net pension liability to changes in the discount rate. The following presents the city's proportionate share of the net pension liability calculated using the discount rate of 7.20 percent, as well as what the city's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.20 percent) or 1-percentage-point higher (8.20 percent) than the current rate:

	1% Decrease to Discount Rate (6.20%)	Current Discount Rate (7.20%)	1% Increase to Discount Rate (8.20%)
City's proportionate share of the net pension liability (asset)	\$5,353,290	\$763,227	\$(2,821,694)

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in separately issued financial statements available at <http://etf.wi.gov/publications/cafr.htm>.

At December 31, 2016, the city reported a payable to the pension plan which represents contractually required contributions outstanding as of the end of the year.

B. RISK MANAGEMENT

The city is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; workers compensation; and health care of its employees. The city participates in a public entity risk pool called to provide coverage for losses from torts; theft of, damage to, or destruction of assets; errors and omission; workers compensation; and health care of its employees. However, other risks, such as torts; theft of, damage to, or destruction of assets; errors and omission; workers compensation; and health care of its employees are accounted for and financed by the city in the general fund.

CITY OF CEDARBURG

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE IV - OTHER INFORMATION (cont.)

B. RISK MANAGEMENT (cont.)

Public Entity Risk Pool

Wisconsin Municipal Insurance Commission (WMIC) Cities and Villages Mutual Insurance Company (CVMIC)

The WMIC is an intergovernmental cooperation commission created by contract under Section 66.30 of the Wisconsin Statutes. It was created in August, 1987 for the purpose of facilitating the organization, establishment and capitalization of the CVMIC, and has numerous cities and villages as members.

The CVMIC is a municipal mutual insurance company established on September 14, 1987 under Section 611.23 of the Wisconsin Statutes. The CVMIC provides liability insurance coverage to the cities and villages which make up the membership of the WMIC.

The CVMIC is self-insured up to a maximum of \$2,000,000 of each insurance risk. Losses paid by CVMIC plus administrative expenses will be recovered through premiums to the participating pool of municipalities. The city's share of such losses is not material.

Management of each organization consists of a board of directors or officers comprised of representatives elected by each of three classes of participants based on population. The city does not exercise any control over the activities of the agencies beyond the election of the officers and board.

Financial statements of WMIC and CVMIC can be obtained directly from CVMIC's offices.

The city pays an annual premium to CVMIC for its auto physical damage, boiler & machinery, crime, cyber liability, employment practice liability, excess liability, general liability volunteer and workers' compensation insurance, which provides coverage up to \$5,000,000 per occurrence, less the city's retained liability. The city's retained liability is limited to \$17,500 per occurrence and an annual aggregate limit of \$70,000. An actuarially determined estimate has been recorded for this liability, as well as for claims incurred but not reported at December 31, 2016. A total liability of approximately \$42,556 at December 31, 2016, was recorded as claims payable in the insurance internal service fund. Changes in the fund's claims loss liability follow:

	Beginning Balance	Inurred Claims	Claims Paid/ Settled	Ending Balance
2015	\$ 6,206	\$ 604,707	\$ 606,449	\$ 4,464
2016	4,464	643,707	605,615	42,556

C. COMMITMENTS AND CONTINGENCIES

Claims and judgments are recorded as liabilities if all the conditions of Governmental Accounting Standards Board pronouncements are met. The liability and expenditure for claims and judgments are only reported in governmental funds if it has matured. Claims and judgments are recorded in the government-wide statements and proprietary funds as expenses when the related liabilities are incurred.

CITY OF CEDARBURG

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE IV - OTHER INFORMATION (cont.)

C. COMMITMENTS AND CONTINGENCIES (cont.)

From time to time, the city is party to various pending claims and legal proceedings. Although the outcome of such matters cannot be forecasted 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.

The city has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursements to the grantor agency for expenditures disallowed under terms of the grants. Management believes such disallowances, if any, would be immaterial.

Long-Term Contracts - WPPI Energy

The electric utility is one of 51 WPPI Energy member municipalities located throughout the State of Wisconsin. On December 1, 1989, each initial WPPI Energy member commenced purchasing electric service from WPPI Energy under a long-term Power Supply Contract for Participating Members (long-term contract). Under the long-term contract, WPPI Energy is obligated to provide and sell, and each member is obligated to take and pay for, the electric power and energy required for the operation of each member's electric utility.

The long-term contract requires all WPPI Energy members to pay for power and energy requirements supplied or made available by WPPI Energy at rates sufficient to cover WPPI Energy's revenue requirement including power supply costs, administrative expenses and debt service. WPPI Energy's subsequent year's operating budget and rates are approved annually by its Board of Directors, consisting of representatives from each member. The members have agreed to charge rates to retail customers sufficient to meet their WPPI Energy obligations. The long-term contract provides that all payments to WPPI Energy constitute operating expenses of the utility payable from any operating and maintenance fund established for that system.

In 2015, a majority of WPPI Energy members ratified an eighteen year extension to their existing contracts. All but two of the remaining members ratified the same extension in 2016. The new contract expires at midnight on December 31, 2055.

WPPI Energy's outstanding debt service obligation to be paid by its members through their wholesale power charges through the remainder of the long-term contract was \$411 million as of December 31, 2016.

CITY OF CEDARBURG

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE IV - OTHER INFORMATION (cont.)

C. COMMITMENTS AND CONTINGENCIES (cont.)

Claims and Other Legal Procedures

During 2011, the light and water utility added an aeration system at Well #4 due to contamination by vinyl chloride. Parties believed to be responsible for the contamination were notified of the problem and the utility is seeking reimbursement from the potentially responsible parties for costs associated with the aeration system at Well #4 which the utility believes were necessitated because of contamination originating at the closed landfill. This process of seeking and obtaining reimbursement is expected to take several years. During 2014, as part of a water rate application with the PSCW the costs associated with the aeration system at Well #4 were reclassified as utility financed plant and the related contribution reversed allowing these costs to be recovered from rate payers until such time as reimbursement is received from the potentially responsible parties. Although the utility has financed all costs to date of the aeration system at Well #4, cost recovery is expected from the potentially responsible parties. Additional legal and consulting fees incurred after this date may be recoverable in the future.

In another matter, although the City has not been named responsible for the environmental contamination of a Superfund site, the industrial building poses a hazard that could well be a potential liability. The site will cost several millions to clean up. The immediate concern is the deterioration of the industrial building. The collapse of the roof and contamination hazards that exist inside the building create an obligation to protect the public safety of the City's residents. An engineering assessment indicates that a progressive collapse could affect surrounding properties. The EPA is still attempting to seek cooperation from the bankrupt company. To date, neither the EPA nor the company has committed to demolish the building. It is estimated that demolishing the building will cost approximately one million dollars.

CITY OF CEDARBURG

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE IV - OTHER INFORMATION (cont.)

D. EFFECT OF NEW ACCOUNTING STANDARDS ON CURRENT-PERIOD FINANCIAL STATEMENTS

The Governmental Accounting Standards Board (GASB) has approved the following:

- Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*
- Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*
- Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*
- Statement No. 80, *Blending Requirements for Certain Component Units - an Amendment of GASB Statement No. 14*
- Statement No. 81, *Irrevocable Split-Interest Agreements*
- Statement No. 82, *Pension Issues - an Amendment of GASB Statements No. 67, No. 68, and No. 73*

When they become effective, application of these standards may restate portions of these financial statements.

CITY OF CEDARBURG

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE IV - OTHER INFORMATION (cont.)

E. MID-MORAINES MUNICIPAL COURT

During 2002, the City became a member of the Mid-Moraine Municipal Court. The Court handles collection of fines, fees and penalties and then distributes them to the originating municipality. The City's share of court expenses is determined based on the number of citations and complaints filed on behalf of the City compared to that of the other participating municipalities. This agreement will terminate on April 30, 2021.

<u>Municipality</u>	<u>% Expenses Paid</u>
City of Cedarburg	3.17 %
Village of Grafton	7.72
Village of Thiensville	2.62
City of West Bend	26.84
Village of Germantown	11.21
City of Hartford	8.23
Village of Kewaskum	2.88
Village of Slinger	6.96
Village of Jackson	4.73
City of Port Washington	6.06
Village of Saukville	5.30
Town of Hartford	0.16
City of Mequon	11.30
Town of Trenton	2.23
Village of Newburg	0.13
Village of Fredonia	<u>0.46</u>
Total	<u>100.00 %</u>

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF CEDARBURG

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET TO ACTUAL - GENERAL FUND For the Year Ended December 31, 2016

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 5,803,256	\$ 5,803,256	\$ 5,812,613	\$ 9,357
Intergovernmental	927,284	927,284	1,033,858	106,574
Licenses and permits	342,250	376,878	412,981	36,103
Fines, forfeitures and penalties	67,700	67,700	58,292	(9,408)
Public charges for services	88,545	88,545	122,202	33,657
Intergovernmental charges for services	210,992	210,992	215,020	4,028
Investment income	20,048	20,048	21,151	1,103
Miscellaneous	157,800	157,800	198,074	40,274
Total Revenues	<u>7,617,875</u>	<u>7,652,503</u>	<u>7,874,191</u>	<u>221,688</u>
EXPENDITURES				
Current				
General government	1,089,735	1,125,835	1,125,772	63
Public safety	3,852,884	3,885,284	3,885,255	29
Public works	2,470,729	2,436,479	2,387,735	48,744
Culture, recreation and education	851,666	871,091	871,005	86
Conservation and development	86,680	92,930	92,919	11
Capital Outlay	93,800	108,900	94,692	14,208
Total Expenditures	<u>8,445,494</u>	<u>8,520,519</u>	<u>8,457,378</u>	<u>63,141</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(827,619)</u>	<u>(868,016)</u>	<u>(583,187)</u>	<u>284,829</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	802,215	802,215	791,671	(10,544)
Transfers out	(1,000)	(14,503)	(14,503)	-
Proceeds from sale of capital assets	-	-	3,424	3,424
Total Other Financing Sources (Uses)	<u>801,215</u>	<u>787,712</u>	<u>780,592</u>	<u>(7,120)</u>
Net Change in Fund Balance	<u>\$ (26,404)</u>	<u>\$ (80,304)</u>	<u>197,405</u>	<u>\$ 277,709</u>
FUND BALANCE - Beginning of Year (as restated)			<u>2,248,575</u>	
FUND BALANCE - END OF YEAR			<u>\$ 2,445,980</u>	

CITY OF CEDARBURG

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY/(ASSET) - WISCONSIN RETIREMENT SYSTEM For the Year Ended December 31, 2016

<u>Fiscal Year Ending Date</u>	<u>Proportion of the Net Pension Liability/(Asset)</u>	<u>Proportionate Share of the Net Pension Liability/(Asset)</u>	<u>Covered Payroll</u>	<u>Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</u>
12/31/15	0.046698590%	\$ (1,146,730)	\$ 5,899,895	19.44%	102.74%
12/31/16	0.046968390%	\$ 763,227	\$ 6,094,159	12.52%	98.20%

CITY OF CEDARBURG

SCHEDULE OF EMPLOYER CONTRIBUTIONS - WISCONSIN RETIREMENT SYSTEM For the Year Ended December 31, 2016

<u>Fiscal Year Ending Date</u>	<u>Contractually Required Contributions</u>	<u>Contributions in Relation to the Contractually Required Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
12/31/15	\$ 463,416	\$ 463,416	\$ -	\$ 6,094,159	7.60%
12/31/16	\$ 463,871	\$ 463,871	\$ -	\$ 6,246,295	7.43%

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CITY OF CEDARBURG

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION As of and for the Year Ended December 31, 2016

BUDGETARY INFORMATION

Budgetary information is derived from the annual operating budget and is presented using generally accepted accounting principles and the modified accrual basis of accounting.

The budgeted amounts presented include any amendments made. The city may authorize transfers of budgeted amounts within functions. Transfers between functions and changes to the overall budget must be approved by a two-thirds council action.

Appropriations lapse at year end unless specifically carried over. There was \$25,679 carried over to the following year. Budgets are adopted at the function level of expenditure for the general fund and total expenditures for the all other funds.

WISCONSIN RETIREMENT SYSTEM PENSION

The amounts determined for each fiscal year were determined as of the calendar year-end that occurred within the fiscal year.

The city is required to present the last ten fiscal years of data; however accounting standards allow the presentation of as many years as are available until ten fiscal years are presented.

Changes of benefit terms. There were no changes of benefit terms for any participating employer in Wisconsin Retirement System.

Change of assumptions. There were no changes in the assumptions.

CITY OF CEDARBURG
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
As of December 31, 2016

	Special Revenue Funds			
	Cemetery Fund	Room Tax Fund	Recreation Programs Fund	Community Development Block Grant Fund
ASSETS				
Unrestricted cash and investments	\$ 277,376	\$ -	\$ 7,765	\$ -
Restricted cash and investments	-	-	-	941,643
Receivables:				
Taxes	-	-	-	-
Accounts	995	22,238	1,262	-
Interest	684	-	-	-
Loans	-	-	-	92,144
Due from other funds	-	1,315	95,973	920
Total Assets	<u>\$ 279,055</u>	<u>\$ 23,553</u>	<u>\$ 105,000</u>	<u>\$ 1,034,707</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE				
Liabilities				
Accounts payable	\$ 33	\$ 22,993	\$ 9,929	\$ -
Accrued liabilities	459	-	1,586	-
Due to other funds	-	98	-	-
Advance from other fund	-	-	-	-
Total Liabilities	<u>492</u>	<u>23,091</u>	<u>11,515</u>	<u>-</u>
Deferred Inflows of Resources				
Unavailable revenues	-	-	-	92,144
Unearned revenues	1,990	-	-	-
Total Deferred Inflows of Resources	<u>1,990</u>	<u>-</u>	<u>-</u>	<u>92,144</u>
Fund Balances (Deficit)				
Restricted	-	-	-	942,563
Assigned	276,573	462	93,485	-
Unassigned (deficit)	-	-	-	-
Total Fund Balances (Deficit)	<u>276,573</u>	<u>462</u>	<u>93,485</u>	<u>942,563</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 279,055</u>	<u>\$ 23,553</u>	<u>\$ 105,000</u>	<u>\$ 1,034,707</u>

Special Revenue Funds					Capital Project Fund	Total Nonmajor Governmental Funds
Swimming Pool Fund	Park Impact Fee Fund	Library Fund	Rescue/EMS	Other	TIF District No. 3	
\$ 38,868	\$ -	\$ 423,606	\$ 573,141	\$ -	\$ -	\$ 1,320,756
-	81,411	-	-	-	-	1,023,054
26,790	-	288,598	-	-	-	315,388
18,922	-	-	59,466	-	-	102,883
-	-	-	-	-	-	684
-	-	-	-	-	-	92,144
-	-	633	-	-	-	98,841
<u>\$ 84,580</u>	<u>\$ 81,411</u>	<u>\$ 712,837</u>	<u>\$ 632,607</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,953,750</u>
\$ 45	\$ -	\$ 3,900	\$ -	\$ -	\$ -	\$ 36,900
990	-	21,263	-	-	-	24,298
17,887	47,934	12,662	-	-	-	78,581
-	-	-	-	-	23,447	23,447
<u>18,922</u>	<u>47,934</u>	<u>37,825</u>	<u>-</u>	<u>-</u>	<u>23,447</u>	<u>163,226</u>
-	-	-	-	-	-	92,144
<u>65,658</u>	<u>-</u>	<u>707,306</u>	<u>-</u>	<u>-</u>	<u>169</u>	<u>775,123</u>
<u>65,658</u>	<u>-</u>	<u>707,306</u>	<u>-</u>	<u>-</u>	<u>169</u>	<u>867,267</u>
-	33,477	-	-	-	-	976,040
-	-	-	632,607	-	-	1,003,127
-	-	(32,294)	-	-	(23,616)	(55,910)
<u>-</u>	<u>33,477</u>	<u>(32,294)</u>	<u>632,607</u>	<u>-</u>	<u>(23,616)</u>	<u>1,923,257</u>
<u>\$ 84,580</u>	<u>\$ 81,411</u>	<u>\$ 712,837</u>	<u>\$ 632,607</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,953,750</u>

CITY OF CEDARBURG

NONMAJOR GOVERNMENTAL FUNDS COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES For the Year Ended December 31, 2016

	Special Revenue Funds			
	Cemetery Fund	Room Tax Fund	Recreation Programs Fund	Community Development Block Grant Fund
REVENUES				
Taxes	\$ -	\$ 79,061	\$ -	\$ -
Intergovernmental	-	-	-	-
Fines, forfeitures and penalties	-	-	-	-
Public charges for services	8,500	-	154,796	-
Intergovernmental charges for services	-	-	-	-
Investment income	1,261	-	-	7,111
Miscellaneous	14,595	-	54,368	-
Total revenues	24,356	79,061	209,164	7,111
EXPENDITURES				
Current				
Public safety	-	-	-	-
Health and human services	47,076	-	-	-
Culture, recreation and education	-	-	200,823	-
Conservation and development	-	79,061	-	3,692
Capital Outlay	3,631	-	1,968	-
Total expenditures	50,707	79,061	202,791	3,692
Excess (deficiency) of revenues over expenditures	(26,351)	-	6,373	3,419
OTHER FINANCING SOURCES (USES)				
Transfers in	9	-	8,765	-
Transfers out	-	-	-	-
Total Other Financing Sources (Uses)	9	-	8,765	-
Net Changes in Fund Balances	(26,342)	-	15,138	3,419
FUND BALANCES (Deficit) - Beginning of Year (as restated)	302,915	462	78,347	939,144
FUND BALANCES (Deficit) - END OF YEAR	\$ 276,573	\$ 462	\$ 93,485	\$ 942,563

Special Revenue Funds					Capital Project Fund	
Swimming Pool Fund	Park Impact Fee Fund	Library Fund	Rescue/EMS	Other	TIF District No. 3	Total Nonmajor Governmental Funds
\$ 44,121	\$ -	\$ 707,306	\$ -	\$ -	\$ -	\$ 830,488
-	-	154,639	11,235	-	-	165,874
-	-	23,643	-	-	-	23,643
263,628	18,992	2,388	462,051	-	-	910,355
18,922	-	-	-	-	-	18,922
-	297	8	2,550	-	-	11,227
4,590	-	9,377	-	-	-	82,930
331,261	19,289	897,361	475,836	-	-	2,043,439
-	-	-	337,120	-	-	337,120
-	-	-	-	-	-	47,076
327,518	-	880,741	-	-	-	1,409,082
-	-	-	-	-	1,105	83,858
17,246	-	-	-	-	-	22,845
344,764	-	880,741	337,120	-	1,105	1,899,981
(13,503)	19,289	16,620	138,716	-	(1,105)	143,458
13,503	-	1,439	-	-	-	23,716
-	(47,934)	-	-	(46,734)	-	(94,668)
13,503	(47,934)	1,439	-	(46,734)	-	(70,952)
-	(28,645)	18,059	138,716	(46,734)	(1,105)	72,506
-	62,122	(50,353)	493,891	46,734	(22,511)	1,850,751
\$ -	\$ 33,477	\$ (32,294)	\$ 632,607	\$ -	\$ (23,616)	\$ 1,923,257