

City of Two Rivers, Wisconsin

ANNUAL FINANCIAL REPORT

December 31, 2017

City of Two Rivers, Wisconsin

DECEMBER 31, 2017

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Independent auditors' report

To the City Manager and City Council
City of Two Rivers, 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 Two Rivers, Wisconsin (the "City") as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

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

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

OPINIONS

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of December 31, 2017, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

OTHER MATTERS

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 12 and the schedules relating to pensions and other postemployment benefits on pages 62 through 64 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

REPORT ON SUMMARIZED FINANCIAL INFORMATION

We have previously audited the City's 2016 financial statements, and our report dated August 11, 2017, expressed unmodified opinions on those respective financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 28, 2018, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Certified Public Accountants

Sheboygan, Wisconsin
August 28, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Two Rivers, Wisconsin

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Two Rivers, Wisconsin, we offer readers of the City's financial statements this narrative overview and analysis of the financial statements of the City for the year ended December 31, 2017. Please read this Discussion and Analysis in conjunction with the City's financial statements following this section.

FINANCIAL HIGHLIGHTS

The City has combined Net Position of Governmental Activities and Business-type Activities that total \$48,063,650. This is an increase of \$3,887,693 compared to year-end 2016. Activities and resultant events that had major impacts on the City's 2017 financials were:

Twelve funds of the City experienced cash deficits at year-end. For these funds to remain solvent, the City has temporarily advanced cash to these funds. These funds owe the General Fund a total of \$2,876,491, primarily from advances made to these funds in prior years. By comparison, the General Fund showed inter-fund receivables at the end of prior years as follows:

- \$4,548,549 at the end of 2016
- \$3,302,532 at the end of 2015
- \$2,809,554 at the end of 2014
- \$2,827,785 at the end of 2013
- \$2,421,393 at the end of 2012
- \$2,877,221 at the end of 2011

Funds owed the General Fund by these other funds as of December 31, 2017 include:

-\$465,603 owed by four of the City's nine active Tax Incremental Districts (TIDs #4, #6, #10, #11), where monies were advanced by the General Fund in past years to finance project costs. This interfund payable increased by \$30,482, from \$435,121 at 2016 year-end.

- TID #4's cash deficit was the result of project costs with a new commercial development that is estimated will increased property values by \$2 million.
- TID # 6, the increase in cash deficit is primarily due to expenses related to the Thermo Fisher property demolition and salvage. This former industrial site has a strong potential for redevelopment.
- TID #10 was started in 2015. The project costs will be paid from tax increments that began in 2017.
- TID #11 was started in 2016. The project costs will be paid from tax increments beginning in 2018.

All City TID's are generating revenues sufficient to repay their debt obligations, including these interfund payables.

-\$1,747,787 owed by the Water Utility, due to advances for distribution system capital improvements (paid from cash, instead of borrowing) in past years, debt service on a \$4.2 million filtration plant project completed in 2003, and lower than projected revenues in recent years. This amount is down from \$1,891,762 at 2016 year-end, a decrease of \$143,975.

The City has reduced staffing at this utility in recent years, to keep operating costs in check. In April 2008, the City implemented a 24.6 percent water rate increase. Another large rate increase of 27 percent was approved by the Public Service Commission in August 2010, and took effect September 1, 2010. A Simplified Rate Case (SRC) increased rates 3.2% on August 15, 2012. Another SRC of 3% was effective November 1, 2013. Most recently, a SRC of 3% was effective January 1, 2015. Complete rate case paperwork was completed in late 2017, however we are still awaiting PSC approval and implementation of the anticipated 14% rate increase.

-\$134,722 owed by the Sewer Utility, an increase of \$105,523 is due to a short-term situation, but the deficit has decreased significantly in recent years and it is planned that this deficit will be eliminated in 2018. This deficit was more than one million dollars as of December 31, 2011. This enterprise fund has had a negative unrestricted fund balance for more than 10 years. That cash deficit has been driven by increased operating costs and by debt service payments on a \$6.2 million rehabilitation project at the treatment plant, completed in 2009.

A six percent rate increase was implemented January 1, 2011 and a ten percent increase was implemented on May 1, 2012. Three percent rate increases were implemented on January 1, 2013 and January 1, 2014. These rate increases, together with cost saving measures and having attained full funding of a required equipment replacement reserve have significantly improved the cash position of the Utility. The Unrestricted Net Position have improved from negative \$549,621 at 2011 year-end to negative \$3,805 at 2017 year-end. The Unrestricted Net Position is expected to improve again in 2018. This utility has a restricted cash balance of \$1,176,392 for plant equipment replacement, in compliance with WDNR requirements for such reserves.

-\$63,774 owed to the City by Rogers Street Fishing Village, for monies advanced by the City in 2002 for the purchase of the former Rogers Street Motel. During 2014, the City entered an agreement with Rogers Street Fishing Village to either recoup this money or create grants in exchange for some economic development investment in the property by the Fishing Village.

-\$455,585 owed by two Capital Project Funds related to our Harbor Dredging & Seawall Projects. Over the last couple years, the City has undertaken a major project to dredge our harbor and repair seawall on our riverfront. The project is being funded with some City money and significant outside grant money from a variety of governmental agencies. The work has been completed and we anticipated the grant funds would be released in 2017. Most of it was, but there are some grants that we will receive in 2018. We plan to eliminate these deficits by the close of the 2018 fiscal year.

-\$9,020 short term amounts owed by three Funds, for monies advanced by the City in 2017 for the various projects. City Staff will address these advances during 2018.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual financial report consists of four parts:

- Management's discussion and analysis
- Basic financial statements
 - Government-wide Financial Statements
 - Fund Financial Statements
 - Notes to the Financial Statements
- Required supplementary information, plus other supplementary information
- Combining statements for non-major governmental funds

The basic financial statements include two kinds of statements that present different views of the City. The first two statements are *government-wide financial statements* that provide both *long-term and short-term* information about the City's overall financial status. The remaining statements are *fund financial statements* that focus on *individual parts* of City government and report the City's operations in *more detail* than the government-wide statements. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements. In addition to these required elements, we have included a section with combining statements that provide details about our non-major governmental funds. The non-major funds are added together and presented in single columns in the basic financial statements.

Government-wide Statements

Government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all government assets, deferred outflows of resources, liabilities and deferred inflows of resources. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net position and how they have changed. Net position - the difference between the City's assets and deferred outflows of resources and liabilities and deferred inflows of resources - is one way to measure the City's financial health, or position.

- Over time, increases or decreases in the City's net position are an indicator of whether its financial health is improving or deteriorating, respectively.

- To assess the overall health of the City one needs to consider additional non-financial factors such as changes in the City's property tax base, economy and rate of growth.

The government-wide financial statements of the City are divided into two categories:

- Governmental activities - The City's basic services are included here, such as police, fire, public works, parks, community development, assessing, finance and administration. Property taxes and state aid finance most of these activities.

- Business-type activities - The City Two Rivers Utilities charge user fees to cover the costs of services they provide, which include water, sewer, solid waste, electricity, stormwater and telecommunications services.

Fund Financial Statements

The fund financial statements provide detailed information about the City's significant funds. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

The City has three kinds of funds:

- Governmental funds**- Most of the City's basic services are included in governmental funds which focus on (1) how cash, and other financial assets that can readily be converted to cash, flow in and out, and (2) the balances left at year-end that are available for spending. Consequently, governmental funds statements tell how general government services like public safety and public works were financed in the short term as well as what future spending remains. Because this information does not encompass the additional long-term focus of government-wide statements, additional information is provided at the bottom of the governmental funds statement explaining the differences between them.

- Proprietary funds**- Services for which the City charges customers a fee are reported in proprietary funds. These include all of the above-referenced utility funds. Proprietary fund statements offer short and long-term financial information about activities the City operates like a business.

- Fiduciary funds**- The City is the trustee, or fiduciary, for collection of all property taxes within the City for all taxing districts, including the Two Rivers Public School District, Manitowoc Public School District, Manitowoc County and Lakeshore Technical College. All of the City's fiduciary activities are reported in a separate statement of fiduciary net position. These activities are excluded from the City's government-wide financial statements because these assets cannot be used to finance operations.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Statement of Net Position

The City's combined Net Position total \$48,063,650. Governmental Activities account for about 53.3 percent of the Net Position, Business-Type Activities for 46.7 percent.

Table A-1			
City Two Rivers Net Position			
	Governmental Activities	Business –type Activities	Total
Current and other assets	\$24,577,964	\$2,301,394	\$26,879,358
Capital assets, less depreciation	\$33,703,785	\$30,928,731	\$64,632,516
Total Assets	\$58,281,749	\$33,230,125	\$91,511,874
Deferred outflows	\$3,684,566	\$850,333	\$4,534,899
Long-term debt outstanding	\$20,060,019	\$10,217,998	\$30,278,017
Other Liabilities	\$8,882,614	\$1,086,479	\$9,969,093
Total Liabilities	\$28,942,633	\$11,304,477	\$40,247,110
Deferred Inflows	\$7,398,608	\$337,405	\$7,736,013
Net Position			
Net Investment in Capital Assets	\$19,206,861	\$21,217,176	\$40,424,037
Restricted	\$6,758,015	\$1,613,463	\$8,371,478
Unrestricted	-\$339,802	-\$392,063	-\$731,865
Total Net Position	\$25,625,074	\$22,438,576	\$48,063,650

The net position of the City's business-type activities presents an unrestricted net position of a negative \$392,063, a change from positive \$251,926 at 2016 year-end, a negative \$201,306 at 2015 year-end, and from negative \$987,110 at 2014 year-end. This number largely reflects the current deficit situations in the water and sewer funds (which more than offset positive balances in the Electric, Solid Waste, and Telecommunications funds). In the past, the City's General Fund has contributed capital to the City's business activities. All business and government type activities are intended to be self-supporting entities. Net position of one entity are not permanently used by other entities. Contributions by the General Fund to the business type activities is intended to be repaid over time, as addressed in the "Financial Highlights" section above.

Statement of Activities

Governmental Activities

The City's 2017 General Fund revenues totaled \$9,197,913 and expenditures totaled \$9,715,802. Net transfers to/from various other funds and Sales of Capital Assets into the General Fund were \$546,150, resulting in a net General Fund budget surplus of \$28,261. Details are found in Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds and can be found on page 19 - 20 of the 2017 Financial Report. Table A-2 presents a summary of this detail.

**Table A-2
City of Two Rivers Statement of Revenues and Expenditures**

Revenues	General Government	Debt Service	Other Funds	Total All Funds
Taxes	\$2,043,160	\$2,445,283	\$1,244,389	\$5,732,832
Special Assessments	\$74,410	\$0	\$34,969	\$109,379
Intergovernmental	\$4,717,416	\$0	\$723,964	\$5,441,380
Licenses and permits	\$277,271	\$0	\$0	\$277,271
Fines, forfeitures and penalties	\$72,521	\$0	\$0	\$72,521
Public Charges for services	\$1,219,237	\$0	\$315,676	\$1,534,913
Intergovernmental charges	\$136,500	\$0	\$0	\$136,500
Interdepartmental charges	\$466,337	\$0	\$0	\$466,337
Miscellaneous	\$191,061	\$19,344	\$658,526	\$868,931
Total Revenues	\$9,197,913	\$2,464,627	\$2,977,524	\$14,640,064
Expenditures				
General Government	\$1,172,234	\$363,000	\$0	\$1,535,234
Public Safety	\$5,437,186	\$0	\$31,743	\$5,468,929
Public Works	\$1,640,285	\$0	\$259,684	\$1,899,969
Health & human services	\$358,287	\$0	\$353,790	\$712,077
Culture, recreation & education	\$1,070,680	\$0	\$967,219	\$2,037,899
Conservation & development	\$37,130	\$0	\$354,738	\$391,868
Capital outlay	\$0	\$0	\$1,677,790	\$1,677,790
Debt service	\$0	\$2,488,534	\$33,241	\$2,521,775
Total Expenditures	\$9,715,802	\$2,851,534	\$3,678,205	\$16,245,541
Sale of Capital Assets	\$3,697	\$0	\$55,327	\$59,024
Transfers In	\$880,721	\$388,125	\$385,072	\$1,653,918
Transfers Out	-\$338,268	\$0	-\$637,441	-\$975,709
Notes Issued	\$0	\$1,300,000	\$1,772,340	\$3,072,340
Payment to Current Noteholder	\$0	-\$1,300,000	\$0	-\$1,300,000
Excess of Revenues Over (under) Expenditures	\$28,261	\$1,218	\$874,617	\$904,096

Business-type Activities

Revenue for the City's business-type activities totaled \$15,446,513, with user fees accounting for 96.2% of all revenues. Business-type expenses totaled \$14,676,873. The electric utility is the largest business type fund, accounting for 60.8% of all business-type expense activity. The water and sewer utilities experienced expenditures of \$2.49 million and \$2.35 million, respectively.

Table A-3
Change in Business Type Activity Net Position

Operating Revenues	Electric Utility	Water Utility	Sewer Utility	Telecom Utility	Solid Waste	Stormwater Utility	Total Current Year
Charges for services	\$8,919,012	\$2,448,659	\$2,469,317	\$0	\$373,452	\$657,189	\$14,867,629
Other	\$72,213	\$25,295	\$28,998	\$0	\$234,966	\$0	\$361,472
Total Operating Revenues	\$8,991,225	\$2,473,954	\$2,498,315	\$0	\$608,418	\$657,189	\$15,229,101
Operating Expenses							
Operating and maintenance	\$8,100,450	\$1,677,776	\$1,339,685	\$6,421	\$584,557	\$138,682	\$11,847,571
Depreciation	\$406,615	\$477,580	\$525,774	\$27,427	\$0	\$0	\$1,437,396
Taxes	\$74,954	\$41,230	\$32,066	\$0	\$0	\$0	\$148,250
Total Operating Expenses	\$8,582,019	\$2,196,586	\$1,897,525	\$33,848	\$584,557	\$138,682	\$13,433,217
Operating Income (Loss)	\$409,206	\$277,368	\$600,790	(\$33,848)	\$23,861	\$518,507	\$1,795,884
Nonoperating Revenues (Expense)							
Grants – State of WI	\$0	\$0	\$0	\$0	\$81,391	\$0	\$81,391
Interest Expense	(\$24,620)	(\$165,409)	(\$151,144)	\$0	(\$469)	\$0	(\$341,642)
Other	(\$13,749)	\$11,576	\$8,978	\$15,885	\$0	\$0	\$22,690
Total Nonoperating Revenues (Expenses)	(\$38,369)	(\$153,833)	(\$142,166)	\$15,885	\$80,922	\$0	(\$237,561)
Net Income (Loss)	\$370,837	\$123,535	\$458,624	(\$17,963)	\$104,783	\$518,507	\$1,558,323
Customer Contributions							
Customer Contributions	\$4,522	\$48,164	\$83,335	\$0	\$ -	\$ 78,694	\$214,715
Net Transfers In (Out)	(\$285,613)	(\$129,550)	(\$307,119)	\$0	(\$1,080)	(\$250,000)	(\$973,362)
Change in Net Position	\$89,746	\$42,149	\$234,840	(\$17,963)	\$103,703	\$347,201	\$799,676
Net Position – Jan. 1	\$8,425,115	\$5,737,067	\$6,501,251	\$117,987	\$138,471	\$719,009	\$21,638,900
Net Position – Dec. 31	\$8,514,861	\$5,779,216	\$6,736,091	\$100,024	\$242,174	\$1,066,210	\$22,438,576

The most recent **Electric Utility** rate increase, averaging 2.33 percent, took effect January 1, 2015. Other recent rate increases were 1.4 percent in January 2011, 1.8 percent in September 2006 and 2 percent in January 2005.

In the **Water Utility**, a water rate adjustment averaging 27 percent took effect September 1, 2010. This followed closely on the heels of a 24.6 percent increase that took effect in April 2008. More recently the City has implemented Simplified Rate Cases of 3.2 percent effective August 15, 2012, 3.0 percent effective November 1, 2013, and 3.0 percent effective January 1, 2015. This utility has continued to work at trimming operating expenses to reduce its cash deficit, but operating expenses for items such as chemicals and electricity have continued to grow, while revenues from industrial and commercial customers have declined. The Utility continues to invest in plant efficiencies and cost savings procedures. We filed a full rate case in 2017, but we are awaiting a rate decision from Public Service Commission of Wisconsin.

Sewer Utility rates were increased 10 percent January 1, 2009, 6 percent January 1, 2010, 6 percent January 1, 2011, and a 10 percent rate increase became effective May 1, 2012. Additional 3% increases became effective January 1, 2013 and January 1, 2014. While the cash position of this utility has improved, staff continues to analyze revenues and expenses to solidify its financial position. The Sewer Utility began addressing their Unfunded Pension Liability, paying off approximately 40 percent of their portion of the debt in 2016. Another payment is planned in 2018, depending on the financial performance of the Utility.

In that last part of 2014, the City added a **Stormwater Utility**. This user fee will raise money to maintain the City's Stormwater infrastructure and to fund mandated runoff programs. The fund has performed well, creating a fund balance that will be invested in much-needed infrastructure.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As the City completed 2017, its governmental funds reported a combined fund balance of \$5,759,328. This compares with \$4,855,232 at the end of 2016, \$4,488,158 at the end of 2015, \$5,910,200 at the end of 2014, \$5,786,344 at the end of 2013, \$6,221,759 at the end of 2012, and \$7,102,083 at the end of 2011. The current year change is primarily due to receipt of Grant Funds that were expended in previous years. The General Fund balance increased by \$28,261, due to a small operating surplus.

The City is making every attempt not to draw on its fund balance, and is continuing to concentrate on rebuilding the General Fund Balance, while at the same time eliminating deficits in the Water and Sewer utility funds. This continues to be a major challenge, as General Fund revenues from both property taxes and intergovernmental sources have been frozen or reduced.

GENERAL FUND BUDGETARY HIGHLIGHTS

All budgets are adopted at the department level of expenditures. In 2017, General Fund revenues exceeded budgeted amount by \$257,888 (2.62% of budget). Total expenditures were \$229,627 over budget (2.34% of budget).

CAPITAL ASSETS AND DEBT ADMINISTRATION

Government Activities Net Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in both the governmental and business-type activities. Capital assets are defined by the City as assets with an initial, individual cost of \$5,000 or higher an estimated useful life more than one year.

Table A-4
City of Two Rivers Capital Assets
(Net of Depreciation and Related Debt)

	Governmental Activities	Business Type Activities	Total
Land	\$ 1,313,582	\$ 38,227	\$ 1,351,809
Construction in Progress	\$ -	\$ 2,540,266	\$ 2,540,266
Buildings	\$ 15,318,982	\$ 6,512,298	\$ 21,831,280
Improvements	\$ 2,800,000	\$ 30,653,900	\$ 33,453,900
Equipment	\$ 9,308,768	\$ 16,321,902	\$ 25,630,670
Infrastructure	\$ 39,865,626	\$ -	\$ 39,865,626
Total Capital Assets	\$ 68,606,958	\$ 56,066,593	\$ 124,673,551
Less: Accumulated Depreciation	\$(34,903,173)	\$(25,137,862)	\$(60,041,035)
Less: Related long-term debt outstanding	\$(14,496,924)	\$(9,711,555)	\$(24,208,479)
Total Investment in Capital Assets	\$ 19,206,861	\$ 21,217,176	\$ 40,424,037

Long-term Debt

At year-end, the City had \$18,048,289 in outstanding general obligation (G.O.) debt that is subject to statutory debt limitations. That amount of debt is equivalent to 70.6 percent of the statutory debt limit (5 percent of equalized valuation, or \$25,576,645 as of December 31, 2017). This level of G.O. debt exceeds the City's long-term policy of staying at or below 60 percent of the statutory limit; this came about as the result of issuing debt for water and sewer projects in 2011 as G.O. debt, rather than revenue debt, due to the weak financial condition of the water and sewer utilities. Also, the City had need to replace a lift span bridge which the City was able to secure a large amount of Federal and State funding; however, the City share of the project was over \$3 million. This amount is included in our G.O. debt.

Finally, during this period we have also seen significant decreases in Equalized Values, caused mostly by economic conditions in the entire nation. The City's long-term debt plans anticipate getting total G.O. debt back below 60 percent of the statutory limit, within the next five years. The City's legal margin for new G.O. debt as of December 31, 2017 is \$7,564,665.

Outstanding revenue bonds to be repaid from the Water Utility totaled \$2,563,577 at the end of 2017, associated mainly with a \$4.2 million upgrade of the water filtration plant, completed in 2005 (funded through a 20-year Safe Drinking Water Fund borrowing, at 2.365 percent).

Outstanding revenue bonds to be repaid from the Sewer Utility totaled \$4,419,612 at the end of 2017. Most of this debt is associated with a \$6.2 million upgrade of the wastewater treatment plant, completed in 2009 (funded through a 20-year Clean Water Fund borrowing, at 2.39 percent); that borrowing had at balance of \$3,672,147 at year-end. The sewer utility has \$745,465 in other outstanding revenue bonds for wastewater plant improvements and infrastructure, issued in 1995, 2002, 2014, and 2015.

Outstanding state trust fund loans to be repaid from the Electric Utility totaled \$652,000 at the end of 2017. The first \$325,000 represents the balance on a 15-year bond issue for \$805,000, issued in 2006, which was re-financed in 2017 for interest payment savings over the remaining life of the issue. Final payment will be made in 2021. The remaining \$327,000 is a new debt issue to cover the Electric Utility’s portion of the Wisconsin Retirement Unfunded Pension Liability. The Solid Waste Utility and Sewer Utility also took out small loans to eliminate their share of the Wisconsin Retirement Unfunded Pension Liability.

The above-cited utility revenue bonds do not affect the City’s borrowing capacity for general obligation debt.

ECONOMIC DEVELOPMENT & COMMUNITY NOTES

The City’s location on the shore of Lake Michigan, with well-maintained infrastructure, sound housing, and available residential development land, make it attractive for residential and small business development.

The City of Two Rivers recorded an increase in its equalized value for a second straight year. Though less than a 1% increase, this is still good news based on history of the last ten years. On average, equalized value increased three percent annually from 2005 to 2009. The recession of 2008 had an adverse impact on the local tax base, reflective of the declines experienced in other areas of the state and nation. Total Equalized Value, dating back to its high point in 2009, is as follows:

<u>Year</u>	<u>Equalized Value</u>	<u>Change %</u>
2009	\$584,076,300	-----
2010	\$556,805,900	-4.67%
2011	\$547,897,000	-1.60%
2012	\$524,968,600	-4.18%
2013	\$513,529,800	-2.18%
2014	\$510,431,200	-0.06%
2015	\$499,375,900	-2.17%
2016	\$509,197,200	+1.97%
2017	\$511,532,900	+0.45%

The City’s development efforts in recent years have addressed both new, Greenfield development, and the redevelopment of existing sites in the community. Its nine active tax incremental financing (TIF) districts are performing well, with \$29.6 million in new tax base created. Three of the TIF districts have assisted with redevelopment of formerly tax-exempt properties, which now have valuations totaling nearly \$12.6 million. Changes to Wisconsin’s TIF law have created new opportunities for existing TIF districts to spur additional development. Two Rivers has also used its \$2.5 million Economic Development Revolving Loan Fund to help finance various commercial and manufacturing projects.

As a mature community with a relatively modest tax base, the City continues to be heavily dependent on State Shared Revenue and Expenditure Restraint Programs, which account for about 40 percent of its General Fund Revenue Budget. This major revenue source has seen no growth in recent years. Aggressive cost-cutting strategies have helped hold down growth in operating budgets and the City’s tax rate; 28 full-time positions have been eliminated from a workforce of 140 over the past ten years, largely through attrition. The City’s 2017 General Fund budget is \$280,279 more than the 2000 General Fund Budget, resulting in a 2.94% increase over 17 years, or .17% annually. This reflects the aggressive cost containment that has been occurring over the last 17 years.

Use of a five-year capital improvement plan, updated annually, has allowed the City to re-invest aggressively in its infrastructure, while keeping debt levels manageable. Debt retirement schedules are aggressive, with approximately 88 percent of G.O. debt principal due in ten years or less. Re-investment in city facilities and infrastructure is viewed as essential for the long-term economic health of the City, and significant Federal and State funds (notably for street and bridge projects) have been leveraged by the City to aid such re-investment. A debt policy was adopted in 2007, which formalized the City's longstanding practice of maintaining general obligation debt levels at or below 60 percent of statutory limits.

In 2015, the City began addressing the outstanding **Wisconsin Retirement System Unfunded Pension Liability** by making a \$1.12 million payment. Additional payments were made in 2016 and 2017, totaling \$763,000. The liability stands at \$2.42 million as of 12/31/17. The City plans to eliminate the debt over the next 6 years, which will create savings in interest payments and savings in required contributions to the Wisconsin Retirement System.

Economic Development Activity in 2017

Holy Family Clinic Memorial Lakefront Clinic. In 2016, Holy Family Memorial Hospital, based in nearby Manitowoc, broke ground on a new, 15,000 square foot outpatient clinic at a redevelopment site overlooking Lake Michigan, south of downtown. This \$7 million facility opened in the Fall of 2017. City Tax Incremental District No. 10 assisted with site acquisition and construction of a new city street to serve this facility. A development agreement provides for an annual payment in lieu of taxes if the facility is determined to be tax exempt.

Kwik Trip Convenience Store. Late in 2016, Wisconsin-based Kwik Trip completed a new, 11,000 square foot convenience center, to replace an existing 2,000 square foot store. This project involved acquiring, clearing and redeveloping nearly one full city block. Total investment of approximately \$7 million.

Washington Highlands Senior Apartments. Construction of a new, 8-unit, market rate senior apartment building began in 2016, continued throughout 2017, and is to be completed in 2018. This \$1.2 million investment will add to the valuation of this financially healthy redevelopment TID, consisting of residential condos and apartments on the former Two Rivers High School site.

Redevelopment of St Peter School by Vinton Construction. Vinton, a Manitowoc, WI-based highway and utility contractor, announced plans in late 2016 to acquire and redevelop this 40,000-square foot vacant school for its corporate offices. Assisted by a new redevelopment tax incremental district—TID No. 11—this project will result in relocating 25 headquarters staff to Two Rivers and will provide space for training and special events for all of Vinton's workforce.

Sandy Bay Highlands Conservation Subdivision, Phase 2. With 16 of 21 lots in Phase 1 sold, the City budgeted in 2017 to proceed with development of Phase 2 of this residential subdivision. Planning and construction began in 2017. The project will extend street and utility infrastructure to serve another 19 single family home sites.

Investments in City Infrastructure and Quality of Life Facilities in 2017

Harbor Park. Phase 1, consisting of a rebuilt harbor seawall with docking facilities for commercial and recreational craft, a new water main beneath the harbor, and other improvements was completed in 2016. Total investment of \$3.4 million was funded with \$400,000 in local funds, approximately \$3 million in grants. Phase 2, completed in 2017, includes a picnic shelter/restroom building, park furnishings and landscaping.

Lincoln Avenue/STH 42 Reconstruction. Plans were finalized in late 2016 for this \$4 million project, involving reconstruction of one mile of state highway. This includes about \$2 million in City costs for replacing aged water and sewer infrastructure, to be funded from TID No. 7. Construction was completed in 2017.

Washington LED Street Light project. The City's Electric Utility proceeded in 2016 with a three-year program to replace its existing 1,100 street lights with energy-saving LED lights. This included re-lamping on Washington Street, Two Rivers' main downtown artery.

Wayside on Memorial Drive. In 2016, the City initiated negotiations with the WI Department of Transportation for the transfer of this approximately 5-acre facility, on Lake Michigan, to City ownership. In 2018, the "Spirit of the Rivers" sculpture, a large piece of community-funded public art, will be installed on the site. Budget for the Spirit project, funded entirely from private sources, will be \$1.6 million.

Vet's Park Fish Cleaning Station, Boat Wash, Dock Improvements, and Rain Garden. Over \$500,000 in improvements to this facility, serving area sport fishermen, were completed in 2016, with about 50 percent funded by State grants. Another grant, secured in 2016, will fund 50 percent of a parking lot resurfacing and drainage improvement project in 2017 (\$350,000 project.).

On-going review of five-year utility business plans and more frequent rate filings by the City's utilities is intended to eliminate past utility fund deficits that have been covered by loans from the General Fund. With a revenue base made up largely of residential customers, demand for utility services is growing slowly; aggressive cost containment measures along with prudent rate adjustments are necessary to put the utility funds back "in the black."

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional information, please contact:

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BASIC FINANCIAL STATEMENTS

City of Two Rivers, Wisconsin

**STATEMENT OF NET POSITION
DECEMBER 31, 2017
WITH SUMMARIZED FINANCIAL INFORMATION AS OF DECEMBER 31, 2016**

	Governmental Activities	Business-type Activities	Totals	
			2017	2016
ASSETS				
Cash and investments	\$ 8,225,332	\$ 821,834	\$ 9,047,166	\$ 7,015,297
Receivables				
Taxes	8,149,465	-	8,149,465	8,145,886
Accounts	174,072	1,558,800	1,732,872	2,404,396
Special assessments	434,959	143,649	578,608	200,134
Loans	3,797,531	-	3,797,531	3,890,846
Other	-	47,457	47,457	54,707
Internal balances	2,572,782	(2,572,782)	-	-
Due from other governments	435,351	185,033	620,384	1,197,767
Inventories and prepaid items	788,472	482,799	1,271,271	1,237,567
Restricted assets				
Cash and investments	-	1,634,604	1,634,604	1,676,832
Capital assets, nondepreciable	1,313,582	2,578,493	3,892,075	3,076,902
Capital assets, depreciable	32,390,203	28,350,238	60,740,441	58,508,881
Total assets	58,281,749	33,230,125	91,511,874	87,409,215
DEFERRED OUTFLOWS OF RESOURCES				
Pension related amounts	3,684,566	850,333	4,534,899	6,196,101
LIABILITIES				
Accounts payable	193,065	627,773	820,838	2,024,744
Accrued and other current liabilities	622,461	82,626	705,087	630,866
Due to other governments	7,640,828	-	7,640,828	6,541,592
Accrued interest payable	252,651	80,542	333,193	244,510
Special deposits	21,366	85,172	106,538	137,313
Compensated absences	-	81,168	81,168	47,252
Unearned revenues	152,243	129,198	281,441	219,564
Long-term obligations				
Due within one year	2,543,106	1,025,656	3,568,762	2,984,196
Due in more than one year	15,360,887	9,085,899	24,446,786	25,697,506
Net pension liability	448,835	106,443	555,278	1,078,063
Other postemployment benefits	1,707,191	-	1,707,191	1,664,346
Total liabilities	28,942,633	11,304,477	40,247,110	41,269,952
DEFERRED INFLOWS OF RESOURCES				
Property taxes levied for subsequent year	5,975,879	-	5,975,879	5,885,184
Pension related amounts	1,422,729	337,405	1,760,134	2,274,223
Total deferred inflows of resources	7,398,608	337,405	7,736,013	8,159,407
NET POSITION				
Net investment in capital assets	19,206,861	21,217,176	40,424,037	36,720,303
Restricted	6,758,015	1,613,463	8,371,478	7,248,812
Unrestricted	(339,802)	(392,063)	(731,865)	206,842
Total net position	\$ 25,625,074	\$ 22,438,576	\$ 48,063,650	\$ 44,175,957

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

City of Two Rivers, Wisconsin

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017
WITH SUMMARIZED FINANCIAL INFORMATION 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	\$ 2,079,125	\$ 69,975	\$ -	\$ 2,736
Public safety	5,775,249	1,002,582	101,747	7,350
Public works	323,970	349,840	675,568	765,062
Health and human services	687,574	387,154	47,112	-
Culture and recreation	2,377,641	179,861	243,830	84,809
Conservation and development	360,599	85,240	-	-
Interest and fiscal charges	580,927	-	-	-
Total governmental activities	12,185,085	2,074,652	1,068,257	859,957
BUSINESS-TYPE ACTIVITIES				
Electric utility	8,620,388	8,991,225	-	4,522
Water utility	2,361,796	2,473,954	-	48,164
Sewer utility	2,048,669	2,498,315	-	83,335
Telecommunications utility	33,848	15,885	-	-
Solid waste	585,026	608,418	81,391	-
Stormwater utility	138,682	657,189	-	78,694
Total business-type activities	13,788,409	15,244,986	81,391	214,715
Total	\$ 25,973,494	\$ 17,319,638	\$ 1,149,648	\$ 1,074,672

General revenues
 Taxes
 Property taxes
 Tax increments
 Other taxes
 Federal and state grants and other contributions
 not restricted to specific functions
 Interest and investment earnings
 Miscellaneous
 Gain on sale of asset
 Transfers

Total general revenues and transfers

Change in net position

Net position - January 1

Net position - December 31

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

**Net (Expense) Revenue
and Changes in Net Position**

Governmental Activities	Business-type Activities	Totals	
		2017	2016
\$ (2,006,414)	\$ -	\$ (2,006,414)	\$ (2,198,846)
(4,663,570)	-	(4,663,570)	(4,029,290)
1,466,500	-	1,466,500	(303,822)
(253,308)	-	(253,308)	(262,016)
(1,869,141)	-	(1,869,141)	(1,283,584)
(275,359)	-	(275,359)	(611,845)
(580,927)	-	(580,927)	(460,510)
<u>(8,182,219)</u>	<u>-</u>	<u>(8,182,219)</u>	<u>(9,149,913)</u>
-	375,359	375,359	473,859
-	160,322	160,322	561,237
-	532,981	532,981	361,699
-	(17,963)	(17,963)	(13,239)
-	104,783	104,783	4,602
-	597,201	597,201	530,070
<u>-</u>	<u>1,752,683</u>	<u>1,752,683</u>	<u>1,918,228</u>
<u>(8,182,219)</u>	<u>1,752,683</u>	<u>(6,429,536)</u>	<u>(7,231,685)</u>
5,060,891	-	5,060,891	5,060,891
543,191	-	543,191	469,329
117,912	-	117,912	117,839
3,989,549	-	3,989,549	3,976,197
170,932	-	170,932	136,131
355,375	20,355	375,730	349,588
59,024	-	59,024	24,965
973,362	(973,362)	-	-
<u>11,270,236</u>	<u>(953,007)</u>	<u>10,317,229</u>	<u>10,134,940</u>
3,088,017	799,676	3,887,693	2,903,255
<u>22,537,057</u>	<u>21,638,900</u>	<u>44,175,957</u>	<u>41,272,702</u>
<u>\$ 25,625,074</u>	<u>\$ 22,438,576</u>	<u>\$ 48,063,650</u>	<u>\$ 44,175,957</u>

City of Two Rivers, Wisconsin

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2017
WITH SUMMARIZED FINANCIAL INFORMATION AS OF DECEMBER 31, 2016**

	<u>General</u>	<u>Debt Service</u>	<u>Housing Revolving Loans</u>	<u>Other Governmental Funds</u>
ASSETS				
Cash and investments	\$ 4,437,356	\$ 36,309	\$ 204,621	\$ 3,512,032
Receivables				
Taxes	8,087,408	-	-	-
Delinquent taxes	62,057	-	-	-
Accounts	95,696	-	-	78,376
Special assessments	434,959	-	-	-
Loans	-	-	2,441,477	1,356,054
Due from other funds	3,275,519	2,445,283	-	1,895,456
Due from other governments	-	-	-	435,351
Inventories and prepaid items	788,472	-	-	-
	<u>17,181,467</u>	<u>2,481,592</u>	<u>2,646,098</u>	<u>7,277,269</u>
Total assets	<u>\$ 17,181,467</u>	<u>\$ 2,481,592</u>	<u>\$ 2,646,098</u>	<u>\$ 7,277,269</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 123,313	\$ -	\$ 36,380	\$ 31,416
Accrued and other current liabilities	594,870	-	-	27,591
Due to other funds	3,893,786	-	-	1,149,690
Due to other governments	7,640,804	-	-	24
Special deposits	16,481	-	-	4,885
Unearned revenues	64,500	-	-	87,743
	<u>12,333,754</u>	<u>-</u>	<u>36,380</u>	<u>1,301,349</u>
Total liabilities	<u>12,333,754</u>	<u>-</u>	<u>36,380</u>	<u>1,301,349</u>
Deferred inflows of resources				
Property taxes levied for subsequent year	2,114,282	2,445,283	-	1,416,314
Loans receivable	-	-	2,441,477	1,356,054
Special assessments	378,080	-	-	4,125
	<u>2,492,362</u>	<u>2,445,283</u>	<u>2,441,477</u>	<u>2,776,493</u>
Total deferred inflows of resources	<u>2,492,362</u>	<u>2,445,283</u>	<u>2,441,477</u>	<u>2,776,493</u>
Fund balances				
Nonspendable	3,215,134	-	-	-
Restricted	-	36,309	168,241	2,792,243
Committed	-	-	-	1,145,941
Unassigned	(859,783)	-	-	(738,757)
	<u>2,355,351</u>	<u>36,309</u>	<u>168,241</u>	<u>3,199,427</u>
Total fund balances	<u>2,355,351</u>	<u>36,309</u>	<u>168,241</u>	<u>3,199,427</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 17,181,467</u>	<u>\$ 2,481,592</u>	<u>\$ 2,646,098</u>	<u>\$ 7,277,269</u>

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

Totals	
2017	2016
\$ 8,190,318	\$ 6,297,112
8,087,408	8,083,762
62,057	62,124
174,072	1,819,404
434,959	200,134
3,797,531	3,890,846
7,616,258	8,917,044
435,351	-
788,472	763,337
<u>\$ 29,586,426</u>	<u>\$ 30,033,763</u>
\$ 191,109	\$ 1,313,361
622,461	551,828
5,043,476	6,714,334
7,640,828	6,541,592
21,366	49,233
152,243	90,366
<u>13,671,483</u>	<u>15,260,714</u>
5,975,879	5,885,184
3,797,531	3,890,846
382,205	141,787
<u>10,155,615</u>	<u>9,917,817</u>
3,215,134	3,173,913
2,996,793	2,856,578
1,145,941	923,268
(1,598,540)	(2,098,527)
<u>5,759,328</u>	<u>4,855,232</u>
<u>\$ 29,586,426</u>	<u>\$ 30,033,763</u>

City of Two Rivers, Wisconsin

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2017
WITH SUMMARIZED FINANCIAL INFORMATION AS OF DECEMBER 31, 2016**

	<u>2017</u>	<u>2016</u>
RECONCILIATION TO THE STATEMENT OF NET POSITION		
Total fund balances as shown on previous page	\$ 5,759,328	\$ 4,855,232
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.	33,703,785	31,654,504
Other long-term assets are not available to pay current period expenditures and therefore are deferred in the funds.	4,179,736	4,032,633
Net position of the internal service fund is reported in the statement of net position as governmental activities	33,058	24,846
Some deferred outflows and inflows of resources reflect changes in long-term liabilities and are not reported in the funds.		
Deferred outflows related to pensions	3,684,566	5,029,575
Deferred inflows related to pensions	(1,422,729)	(1,849,472)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.		
Bonds and notes payable	(14,998,642)	(15,235,887)
Capital leases	(488,143)	(478,391)
Net pension liability	(448,835)	(876,715)
Other postemployment benefit	(1,707,191)	(1,664,346)
Unfunded pension liability	(2,417,208)	(2,768,058)
Accrued interest on long-term obligations	<u>(252,651)</u>	<u>(186,864)</u>
Net position of governmental activities as reported on the statement of net position (see page 13)	<u>\$ 25,625,074</u>	<u>\$ 22,537,057</u>

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

City of Two Rivers, Wisconsin

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017
WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>General</u>	<u>Debt Service</u>	<u>Housing Revolving Loans</u>	<u>Other Governmental Funds</u>
REVENUES				
Taxes	\$ 2,043,160	\$ 2,445,283	\$ -	\$ 1,244,389
Special assessments	74,410	-	-	34,969
Intergovernmental	4,717,416	-	-	723,964
Licenses and permits	277,271	-	-	-
Fines and forfeits	72,521	-	-	-
Public charges for services	1,219,237	-	-	315,676
Intergovernmental charges for services	136,500	-	-	-
Interdepartmental charges for services	466,337	-	-	-
Miscellaneous	191,061	19,344	65,733	592,793
Total revenues	<u>9,197,913</u>	<u>2,464,627</u>	<u>65,733</u>	<u>2,911,791</u>
EXPENDITURES				
Current				
General government	1,172,234	363,000	-	-
Public safety	5,437,186	-	-	31,743
Public works	1,640,285	-	-	259,684
Health and human services	358,287	-	-	353,790
Culture and recreation	1,070,680	-	-	967,219
Conservation and development	37,130	-	66,172	288,566
Capital outlay	-	-	-	1,677,790
Debt service				
Principal	-	2,030,795	-	12,908
Interest and fiscal charges	-	457,739	-	20,333
Total expenditures	<u>9,715,802</u>	<u>2,851,534</u>	<u>66,172</u>	<u>3,612,033</u>
Excess of revenues under expenditures	<u>(517,889)</u>	<u>(386,907)</u>	<u>(439)</u>	<u>(700,242)</u>
OTHER FINANCING SOURCES (USES)				
Long-term debt issued	-	1,300,000	-	1,772,340
Payment to current noteholder	-	(1,300,000)	-	-
Proceeds from sale of capital assets	3,697	-	-	55,327
Transfers in	880,721	388,125	-	385,072
Transfers out	(338,268)	-	-	(637,441)
Total other financing sources	<u>546,150</u>	<u>388,125</u>	<u>-</u>	<u>1,575,298</u>
Net change in fund balances	28,261	1,218	(439)	875,056
Fund balances - January 1	<u>2,327,090</u>	<u>35,091</u>	<u>168,680</u>	<u>2,324,371</u>
Fund balances - December 31	<u>\$ 2,355,351</u>	<u>\$ 36,309</u>	<u>\$ 168,241</u>	<u>\$ 3,199,427</u>

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

Totals	
2017	2016
\$ 5,732,832	\$ 5,665,662
109,379	65,826
5,441,380	7,170,761
277,271	254,528
72,521	94,437
1,534,913	1,330,254
136,500	126,756
466,337	356,905
<u>868,931</u>	<u>910,004</u>
<u>14,640,064</u>	<u>15,975,133</u>
1,535,234	1,612,565
5,468,929	5,107,663
1,899,969	1,809,457
712,077	650,615
2,037,899	1,902,677
391,868	553,934
1,677,790	3,474,081
2,043,703	5,159,308
<u>478,072</u>	<u>527,847</u>
<u>16,245,541</u>	<u>20,798,147</u>
<u>(1,605,477)</u>	<u>(4,823,014)</u>
3,072,340	4,383,723
(1,300,000)	-
59,024	24,965
1,653,918	1,526,699
<u>(975,709)</u>	<u>(745,299)</u>
<u>2,509,573</u>	<u>5,190,088</u>
904,096	367,074
<u>4,855,232</u>	<u>4,488,158</u>
<u>\$ 5,759,328</u>	<u>\$ 4,855,232</u>

City of Two Rivers, Wisconsin

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017
WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>2017</u>	<u>2016</u>
RECONCILIATION TO THE STATEMENT OF ACTIVITIES		
Net change in fund balances as shown on previous page	\$ 904,096	\$ 367,074
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Capital assets reported as capital outlay in governmental fund statements	3,609,821	2,989,045
Depreciation expense reported in the statement of activities	(1,403,505)	(1,207,719)
Net book value of disposals	(157,035)	(370,580)
Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the statement of activities when earned.	147,103	(212,938)
Debt issued provides current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		
Long-term debt issued	(3,072,340)	(4,383,723)
Capital leases issued	(43,870)	-
Principal repaid	3,309,585	5,159,308
Capital leases paid	34,118	18,180
Some expenses reported 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:		
Accrued interest on long-term debt	(65,787)	68,685
Unfunded pension liability	350,850	361,461
Net pension liability	427,880	(2,205,660)
Deferred outflows of resources related to pensions	(1,345,009)	3,488,087
Deferred inflows of resources related to pensions	426,743	(1,849,472)
Other postemployment benefits	(42,845)	(125,801)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities.	<u>8,212</u>	<u>267</u>
Change in net position of governmental activities as reported in the statement of activities (see pages 14 - 15)	<u>\$ 3,088,017</u>	<u>\$ 2,096,214</u>

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

City of Two Rivers, Wisconsin

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2017
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2016**

	Budget		Actual	Variance Final Budget - Positive (Negative)	2016 Actual
	Original	Final			
REVENUES					
Taxes	\$ 2,047,322	\$ 2,047,322	\$ 2,043,160	\$ (4,162)	\$ 2,049,926
Special assessments	107,000	107,000	74,410	(32,590)	29,652
Intergovernmental	4,722,121	4,722,121	4,717,416	(4,705)	4,713,158
Licenses and permits	250,700	250,700	277,271	26,571	254,528
Fines and forfeits	82,500	82,500	72,521	(9,979)	94,437
Public charges for services	1,045,000	1,045,000	1,219,237	174,237	1,064,577
Intergovernmental charges for services	128,800	128,800	136,500	7,700	126,756
Interdepartmental charges for services	437,500	437,500	466,337	28,837	356,905
Miscellaneous	155,500	155,500	191,061	35,561	163,472
Total revenues	8,976,443	8,976,443	9,197,913	221,470	8,853,411
EXPENDITURES					
Current					
General government	1,260,485	1,260,485	1,172,234	88,251	1,212,565
Public safety	5,136,863	5,136,863	5,437,186	(300,323)	5,084,272
Public works	1,588,087	1,588,087	1,640,285	(52,198)	1,658,187
Health and human services	380,461	380,461	358,287	22,174	353,359
Culture and recreation	1,074,492	1,074,492	1,070,680	3,812	1,029,536
Conservation and development	30,815	30,815	37,130	(6,315)	62,266
Total expenditures	9,471,203	9,471,203	9,715,802	(244,599)	9,400,185
Excess of revenues under expenditures	(494,760)	(494,760)	(517,889)	(23,129)	(546,774)
OTHER FINANCING SOURCES (USES)					
Proceeds from sale of capital assets	-	-	3,697	3,697	4,108
Transfers in	848,000	848,000	880,721	32,721	863,511
Transfers out	(353,240)	(353,240)	(338,268)	14,972	(372,005)
Total other financing sources (uses)	494,760	494,760	546,150	51,390	495,614
Net change in fund balance	-	-	28,261	28,261	(51,160)
Fund balance - January 1	2,327,090	2,327,090	2,327,090	-	2,378,250
Fund balance - December 31	\$ 2,327,090	\$ 2,327,090	\$ 2,355,351	\$ 28,261	\$ 2,327,090

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

City of Two Rivers, Wisconsin

STATEMENT OF NET POSITION

PROPRIETARY FUNDS

DECEMBER 31, 2017

WITH SUMMARIZED FINANCIAL INFORMATION AS OF DECEMBER 31, 2016

	Enterprise Funds			
	Electric Utility	Water Utility	Sewer Utility	Nonmajor Funds
ASSETS				
Current assets				
Cash and investments	\$ 254,467	\$ -	\$ -	\$ 567,367
Receivables				
Customer accounts	989,346	257,794	247,809	63,851
Special assessments	-	23,299	76,252	44,098
Other	8,799	-	-	38,658
Due from other funds	-	13,675	13,096	367,418
Due from other governments	-	-	185,033	-
Inventories and prepaid items	370,803	111,996	-	-
Total current assets	<u>1,623,415</u>	<u>406,764</u>	<u>522,190</u>	<u>1,081,392</u>
Noncurrent assets				
Restricted assets				
Cash and investments	74,620	288,209	1,250,634	21,141
Capital assets				
Nondepreciable	229,279	684,310	1,420,312	244,592
Depreciable	7,830,246	11,041,532	9,402,282	76,178
Total capital assets	<u>8,059,525</u>	<u>11,725,842</u>	<u>10,822,594</u>	<u>320,770</u>
Total assets	<u>9,757,560</u>	<u>12,420,815</u>	<u>12,595,418</u>	<u>1,423,303</u>
DEFERRED OUTFLOWS OF RESOURCES				
Pension related amounts	<u>395,680</u>	<u>254,168</u>	<u>178,385</u>	<u>22,100</u>

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

Totals		Governmental Activities - Internal Service Fund Health Insurance	
2017	2016	2017	2016
\$ 821,834	\$ 693,136	\$ 35,014	\$ 25,049
1,558,800	1,575,815	-	-
143,649	-	-	-
47,457	54,708	-	-
394,189	30,983	-	-
185,033	206,943	-	-
482,799	474,230	-	-
<u>3,633,761</u>	<u>3,035,815</u>	<u>35,014</u>	<u>25,049</u>
<u>1,634,604</u>	<u>1,676,832</u>	<u>-</u>	<u>-</u>
2,578,493	1,763,320	-	-
<u>28,350,238</u>	<u>28,167,959</u>	<u>-</u>	<u>-</u>
<u>30,928,731</u>	<u>29,931,279</u>	<u>-</u>	<u>-</u>
<u>36,197,096</u>	<u>34,643,926</u>	<u>35,014</u>	<u>25,049</u>
<u>850,333</u>	<u>1,166,526</u>	<u>-</u>	<u>-</u>

City of Two Rivers, Wisconsin

**STATEMENT OF NET POSITION
 PROPRIETARY FUNDS
 DECEMBER 31, 2017
 WITH SUMMARIZED FINANCIAL INFORMATION AS OF DECEMBER 31, 2016**

	Enterprise Funds			
	Electric Utility	Water Utility	Sewer Utility	Nonmajor Funds
LIABILITIES				
Current liabilities				
Accounts payable	\$ 585,471	\$ 28,376	\$ 7,024	\$ 6,902
Accrued and other current liabilities	36,362	25,009	20,232	1,023
Due to other funds	-	2,470,249	496,722	-
Accrued interest payable	23,214	28,365	28,494	469
Special deposits	84,172	1,000	-	-
Unearned revenue	-	129,198	-	-
Current portion of long-term debt	30,004	105,315	451,842	1,424
Payable from restricted assets				
Current portion of long-term debt	74,620	288,209	74,242	-
Total current liabilities	<u>833,843</u>	<u>3,075,721</u>	<u>1,078,556</u>	<u>9,818</u>
Long-term obligations, less current portion				
General obligation debt	-	1,986,635	785,000	15,576
Revenue bonds	547,376	1,673,064	4,062,286	-
Capital lease payable	-	-	15,962	-
Compensated absences	51,735	24,911	4,522	-
Net pension liability	49,265	32,480	21,916	2,782
Total long-term liabilities	<u>648,376</u>	<u>3,717,090</u>	<u>4,889,686</u>	<u>18,358</u>
Total liabilities	<u>1,482,219</u>	<u>6,792,811</u>	<u>5,968,242</u>	<u>28,176</u>
DEFERRED INFLOWS OF RESOURCES				
Pension related amounts	<u>156,160</u>	<u>102,956</u>	<u>69,470</u>	<u>8,819</u>
NET POSITION				
Net investment in capital assets	7,734,525	7,672,619	5,489,262	320,770
Restricted	74,620	288,209	1,250,634	-
Unrestricted	705,716	(2,181,612)	(3,805)	1,087,638
Total net position	<u>\$ 8,514,861</u>	<u>\$ 5,779,216</u>	<u>\$ 6,736,091</u>	<u>\$ 1,408,408</u>

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

<u>Totals</u>		<u>Governmental Activities - Internal Service Fund Health Insurance</u>	
<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
\$ 627,773	\$ 711,180	\$ 1,956	\$ 203
82,626	136,684	-	-
2,966,971	2,233,693	-	-
80,542	-	-	-
85,172	88,080	-	-
129,198	129,198	-	-
588,585	461,193	-	-
<u>437,071</u>	<u>479,299</u>	<u>-</u>	<u>-</u>
<u>4,997,938</u>	<u>4,239,327</u>	<u>1,956</u>	<u>203</u>
2,787,211	2,324,647	-	-
6,282,726	6,855,508	-	-
15,962	78,719	-	-
81,168	47,252	-	-
<u>106,443</u>	<u>201,348</u>	<u>-</u>	<u>-</u>
<u>9,273,510</u>	<u>9,507,474</u>	<u>-</u>	<u>-</u>
<u>14,271,448</u>	<u>13,746,801</u>	<u>1,956</u>	<u>203</u>
<u>337,405</u>	<u>424,751</u>	<u>-</u>	<u>-</u>
21,217,176	19,731,913	-	-
1,613,463	1,655,691	-	-
<u>(392,063)</u>	<u>251,296</u>	<u>33,058</u>	<u>24,846</u>
<u>\$ 22,438,576</u>	<u>\$ 21,638,900</u>	<u>\$ 33,058</u>	<u>\$ 24,846</u>

City of Two Rivers, Wisconsin

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2017
 WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2016**

	Enterprise Funds			
	Electric Utility	Water Utility	Sewer Utility	Nonmajor Funds
OPERATING REVENUES				
Charges for services	\$ 8,919,012	\$ 2,448,659	\$ 2,469,317	\$ 1,030,641
Other	72,213	25,295	28,998	234,966
Total operating revenues	<u>8,991,225</u>	<u>2,473,954</u>	<u>2,498,315</u>	<u>1,265,607</u>
OPERATING EXPENSES				
Operation and maintenance	8,100,450	1,677,776	1,339,685	729,660
Depreciation	406,615	477,580	525,774	27,427
Taxes	74,954	41,230	32,066	-
Total operating expenses	<u>8,582,019</u>	<u>2,196,586</u>	<u>1,897,525</u>	<u>757,087</u>
Operating income (loss)	<u>409,206</u>	<u>277,368</u>	<u>600,790</u>	<u>508,520</u>
NONOPERATING REVENUES (EXPENSES)				
Nonoperating grants	-	-	-	81,391
Interest and fiscal charges	(24,620)	(165,409)	(151,144)	(469)
Other nonoperating revenues (expenses)	(13,749)	11,576	8,978	15,885
Total nonoperating revenues (expenses)	<u>(38,369)</u>	<u>(153,833)</u>	<u>(142,166)</u>	<u>96,807</u>
Income (loss) before contributions and transfers	370,837	123,535	458,624	605,327
Capital contributions	4,522	48,164	83,335	78,694
Transfers in	-	9,875	-	-
Transfers out	(285,613)	(139,425)	(307,119)	(251,080)
Change in net position	<u>89,746</u>	<u>42,149</u>	<u>234,840</u>	<u>432,941</u>
Net position - January 1	<u>8,425,115</u>	<u>5,737,067</u>	<u>6,501,251</u>	<u>975,467</u>
Net position - December 31	<u>\$ 8,514,861</u>	<u>\$ 5,779,216</u>	<u>\$ 6,736,091</u>	<u>\$ 1,408,408</u>

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

Totals		Governmental Activities - Internal Service Fund Health Insurance	
2017	2016	2017	2016
\$ 14,867,629	\$ 14,882,346	\$ 293,542	\$ 277,746
361,472	355,712	-	3
<u>15,229,101</u>	<u>15,238,058</u>	<u>293,542</u>	<u>277,749</u>
11,847,571	11,921,979	590,483	625,688
1,437,396	1,387,337	-	-
148,250	153,303	-	-
<u>13,433,217</u>	<u>13,462,619</u>	<u>590,483</u>	<u>625,688</u>
<u>1,795,884</u>	<u>1,775,439</u>	<u>(296,941)</u>	<u>(347,939)</u>
81,391	77,290	10,000	9,441
(341,642)	(344,281)	-	-
22,690	8,765	-	-
<u>(237,561)</u>	<u>(258,226)</u>	<u>10,000</u>	<u>9,441</u>
1,558,323	1,517,213	(286,941)	(338,498)
214,715	409,993	-	-
9,875	-	295,153	338,765
<u>(983,237)</u>	<u>(1,120,165)</u>	<u>-</u>	<u>-</u>
799,676	807,041	8,212	267
<u>21,638,900</u>	<u>20,831,859</u>	<u>24,846</u>	<u>24,579</u>
<u>\$ 22,438,576</u>	<u>\$ 21,638,900</u>	<u>\$ 33,058</u>	<u>\$ 24,846</u>

City of Two Rivers, Wisconsin

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2017

WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2016

	Enterprise Funds			
	Electric Utility	Water Utility	Sewer Utility	Nonmajor Funds
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 9,001,514	\$ 2,493,908	\$ 2,535,731	\$ 1,277,655
Cash received from other departments	-	-	-	-
Cash paid for employee wages and benefits	(703,329)	(599,828)	(405,588)	(78,934)
Cash paid to suppliers	(7,370,412)	(1,063,402)	(946,339)	(658,163)
Net cash provided (used) by operating activities	<u>927,773</u>	<u>830,678</u>	<u>1,183,804</u>	<u>540,558</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Special assessments	-	(23,299)	(76,252)	(44,098)
Nonoperating grants	-	-	-	81,391
Due to/from other funds	-	265,924	465,727	(361,579)
Transfer in (out)	(285,613)	(129,550)	(307,119)	(251,080)
Net cash provided (used) by noncapital financing activities	<u>(285,613)</u>	<u>113,075</u>	<u>82,356</u>	<u>(575,366)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition of capital assets	(714,617)	(929,695)	(670,172)	(158,495)
Cost of removal of capital assets	(46,789)	(42,771)	-	-
Capital contributions	4,522	48,164	83,335	78,694
Sale of capital assets	19,730	3,856	-	-
Long-term debt issued	652,000	392,681	56,000	17,000
Principal paid on long-term debt	(325,000)	(370,710)	(509,782)	-
Interest paid on long-term debt	(5,699)	(161,748)	(151,299)	-
Net cash used by capital and related financing activities	<u>(415,853)</u>	<u>(1,060,223)</u>	<u>(1,191,918)</u>	<u>(62,801)</u>
Change in cash and cash equivalents	226,307	(116,470)	74,242	(97,609)
Cash and cash equivalents - January 1	102,780	404,679	1,176,392	686,117
Cash and cash equivalents - December 31	<u>\$ 329,087</u>	<u>\$ 288,209</u>	<u>\$ 1,250,634</u>	<u>\$ 588,508</u>

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

Totals		Governmental Activities - Internal Service Fund Health Insurance	
2017	2016	2017	2016
\$ 15,308,808	\$ 15,281,986	\$ -	\$ -
-	-	293,542	277,749
(1,787,678)	(1,997,348)	-	-
(10,038,317)	(9,840,300)	(588,730)	(625,534)
<u>3,482,813</u>	<u>3,444,338</u>	<u>(295,188)</u>	<u>(347,785)</u>
(143,649)	-	-	-
81,391	77,290	10,000	9,441
370,072	-	-	-
(973,362)	(1,120,165)	295,153	338,765
<u>(665,548)</u>	<u>(1,042,875)</u>	<u>305,153</u>	<u>348,206</u>
(2,472,979)	(1,721,264)	-	-
(89,560)	(96,621)	-	-
214,715	409,993	-	-
23,586	47,476	-	-
1,117,681	140,000	-	-
(1,205,492)	(894,838)	-	-
(318,746)	(345,442)	-	-
<u>(2,730,795)</u>	<u>(2,460,696)</u>	<u>-</u>	<u>-</u>
86,470	(59,233)	9,965	421
<u>2,369,968</u>	<u>2,429,201</u>	<u>25,049</u>	<u>24,628</u>
<u>\$ 2,456,438</u>	<u>\$ 2,369,968</u>	<u>\$ 35,014</u>	<u>\$ 25,049</u>

City of Two Rivers, Wisconsin

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2017

WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2016

	Enterprise Funds			
	Electric Utility	Water Utility	Sewer Utility	Nonmajor Funds
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating income (loss)	\$ 409,206	\$ 277,368	\$ 600,790	\$ 508,520
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities				
Depreciation	406,615	477,580	525,774	27,427
Depreciation charged to operating accounts	78,065	26,040	-	-
Merchandising and jobbing	-	-	-	-
Other	(13,749)	11,576	8,978	15,885
Change in liability and deferred outflows and inflows of resources				
Pension	60,074	43,172	27,044	3,652
Change in operating assets and liabilities				
Accounts receivables	13,497	8,078	6,528	(3,837)
Due from other funds	-	-	-	-
Due from other governments	-	-	21,910	-
Inventories and prepaid items	(7,463)	(1,106)	-	-
Accounts payable	(34,549)	(29,262)	(8,409)	(11,187)
Accrued and other current liabilities	795	1,025	1,670	98
Due to other funds	-	-	-	-
Special deposits	(3,208)	300	-	-
Compensated absences	18,490	15,907	(481)	-
Net cash provided (used) by operating activities	<u>\$ 927,773</u>	<u>\$ 830,678</u>	<u>\$ 1,183,804</u>	<u>\$ 540,558</u>
Reconciliation of cash and cash equivalents to the statement of net position				
Cash and cash equivalents in current assets	\$ 254,467	\$ -	\$ -	\$ 567,367
Cash and cash equivalents in restricted assets	<u>74,620</u>	<u>288,209</u>	<u>1,250,634</u>	<u>21,141</u>
Total cash and cash equivalents	<u>\$ 329,087</u>	<u>\$ 288,209</u>	<u>\$ 1,250,634</u>	<u>\$ 588,508</u>
Noncash capital and related financing activities				
None				

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

<u>Totals</u>		<u>Governmental Activities - Internal Service Fund Health Insurance</u>	
<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
\$ 1,795,884	\$ 1,775,439	\$ (296,941)	\$ (347,939)
1,437,396	1,387,337	-	-
104,105	107,032	-	-
-	1,167	-	-
22,690	7,598	-	-
133,942	117,704	-	-
24,266	12,640	-	-
-	305	-	-
21,910	21,918	-	-
(8,569)	(18,872)	-	-
(83,407)	59,794	1,753	154
3,588	8,820	-	-
-	(58,074)	-	-
(2,908)	16,308	-	-
33,916	5,222	-	-
<u>\$ 3,482,813</u>	<u>\$ 3,444,338</u>	<u>\$ (295,188)</u>	<u>\$ (347,785)</u>
\$ 821,834	\$ 693,136	\$ 35,014	\$ 25,049
<u>1,634,604</u>	<u>1,676,832</u>	<u>-</u>	<u>-</u>
<u>\$ 2,456,438</u>	<u>\$ 2,369,968</u>	<u>\$ 35,014</u>	<u>\$ 25,049</u>

City of Two Rivers, Wisconsin

**STATEMENT OF NET POSITION
FIDUCIARY FUND
DECEMBER 31, 2017
WITH COMPARATIVE AMOUNTS AS OF DECEMBER 31, 2016**

	<u>Smongeski Health</u>	
	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and investments	<u>\$ 155,921</u>	<u>\$ 155,310</u>
LIABILITIES		
Accounts payable	<u>139</u>	<u>-</u>
NET POSITION		
Held in trust for other purposes	<u>\$ 155,782</u>	<u>\$ 155,310</u>

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

City of Two Rivers, Wisconsin

**STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2017
WITH COMPARATIVE AMOUNTS AS OF DECEMBER 31, 2016**

	Smongeski Health	
	<u>2017</u>	<u>2016</u>
ADDITIONS		
Interest on investments	\$ 2,005	\$ 1,962
DEDUCTIONS		
Benefits	<u>1,533</u>	<u>220</u>
Change in net position	472	1,742
Net position - January 1	<u>155,310</u>	<u>153,568</u>
Net position - December 31	<u>\$ 155,782</u>	<u>\$ 155,310</u>

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

City of Two Rivers, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS DECEMBER 31, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. REPORTING ENTITY

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

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

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

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Governmental funds include general, special revenue, debt service and capital projects funds. Proprietary funds include enterprise and internal service funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

General Fund

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

Debt Service Fund

This fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of government funds.

Housing Revolving Loans Fund

This fund accounts for loans made for housing programs. Additional loans are made as previous loans are repaid.

The City reports the following major enterprise funds:

Electric Utility Enterprise Fund

The electric utility enterprise fund accounts for the provision of electric service to City residents, businesses and public authorities.

City of Two Rivers, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS DECEMBER 31, 2017

Water Utility Enterprise Fund

The water utility enterprise fund accounts for the provision of water service to City residents, businesses and public authorities.

Sewer Utility Enterprise Fund

The sewer utility enterprise fund accounts for the provision of wastewater collection and treatment for City residents, businesses and public authorities.

Additionally, the City reports the following fund types:

- ▶ *Internal service fund* accounts for health insurance services provided to other departments of the City on a cost reimbursement basis.
- ▶ The *private-purpose trust fund* is used to account for resources legally held in trust for assisting low income individuals in paying for the cost of eyeglasses.

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

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

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

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

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's utility functions and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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

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

City of Two Rivers, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS DECEMBER 31, 2017

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.

D. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND NET POSITION OR FUND BALANCE

1. Cash and Investments

Cash and investments are combined in the financial statements. Cash deposits consist of demand and time deposits with financial institutions and are carried at cost. Investments are stated at fair value. Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. For purposes of the statement of cash flows, all cash deposits and highly liquid investments (including restricted assets) with a maturity of three months or less from date of acquisition are considered to be cash equivalents.

2. Property Taxes

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

The City bills and collects its own property taxes and also levies and collects taxes for the Two Rivers School District, Manitowoc School District, Manitowoc County, Lakeshore Technical College and the State of Wisconsin. Collections and remittances of taxes for other entities are accounted for in the general fund.

3. Accounts Receivable

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

4. Special Assessments

Assessments against property owners for public improvements are generally not subject to full settlement in the year levied. Special assessments are placed on tax rolls on an installment basis. Revenue from special assessments recorded in governmental funds is recognized as collections are made or as current installments are placed on tax rolls. (Installments placed on the 2017 tax roll are recognized as revenue in 2018).

5. Loans Receivable

The housing, business, and industrial revolving loans represent various loans to City homeowners and local businesses that were originally financed from economic development grants received by the City from the Wisconsin Department of Administration. The housing revolving loans will be repaid to the City when the property is no longer the loan recipient's principal place of residence while business and industrial revolving loans are being repaid to the City in installments at various rates.

Principal and interest repayments are used to finance additional development loans. The industrial park loans receivable represents various sales of industrial park land that are being paid to the City, including interest, on the installment basis.

City of Two Rivers, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS DECEMBER 31, 2017

6. Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" and "due to other funds" in the fund financial statements. Noncurrent portions of the interfund receivables for the governmental funds are offset by nonspendable fund balance since they do not constitute expendable available financial resources and therefore are not available for appropriation.

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

7. Inventories

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

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

8. Prepaid Items

Payments made to vendors that will benefit periods beyond the end of the current fiscal year are recorded as prepaid items and are accounted for on the consumption method.

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

9. Capital Assets

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

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

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

Assets	Governmental	Business-type
	Activities	Activities
	Years	
Buildings	7 - 75	25 - 50
Improvements other than buildings	10 - 75	25 - 100
Machinery and equipment	3 - 25	3 - 10
Infrastructure	35 - 75	-

10. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick leave benefits in accordance with employee handbook policies and bargaining unit agreements. All vacation and sick leave is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds in the fund financial statements only if they have matured, for example, as a result of employee resignations and retirements.

City of Two Rivers, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS DECEMBER 31, 2017

11. Deferred Outflows/Inflows of Resources

Deferred outflows of resources are a consumption of net position by the government that is applicable to a future reporting period. Deferred inflows of resources are an acquisition of net position by the government that is applicable to a future reporting period. The recognition of those outflows and inflows as expenses or expenditures and revenues are deferred until the future periods to which the outflows and inflows are applicable.

Governmental funds may report deferred inflows of resources for unavailable revenues. The City reports unavailable revenues for special assessments and loan receivables. These inflows are recognized as revenues in the government-wide financial statements.

12. Long-term Obligations

In the government-wide financial statements, and proprietary funds in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed as incurred.

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

13. Pensions

For purposes of measuring the net pension liability (asset), 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.

14. Fund Equity

Governmental Fund Financial Statements

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

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

City of Two Rivers, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS DECEMBER 31, 2017

- ▶ **Unassigned fund balance.** Amounts that are available for any purpose. Positive unassigned amounts are only reported in the General Fund.

The City has adopted a fund balance spend-down policy regarding the order in which fund balance will be utilized. Where applicable, the policy requires restricted funds to be spent first, followed by committed funds, and then assigned funds. Unassigned funds would be spent last.

Government-Wide and Proprietary Fund Statements

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

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

E. USE OF ESTIMATES

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

F. PRIOR YEAR INFORMATION

Comparative amounts for the prior year have been presented in the basic financial statements to provide an understanding of changes in the City's financial position and operations. The comparative amounts may be summarized in total and not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the government's financial statements for the year ended December 31, 2016, from which the summarized information was derived.

G. RECLASSIFICATIONS

Certain amounts in the prior year financial statements have been reclassified to conform with the presentation in the current year financial statements with no change in previously reported net position, changes in net position, fund balance or changes in fund balance.

NOTE 2: STEWARDSHIP AND COMPLIANCE

A. BUDGETS AND BUDGETARY ACCOUNTING

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

1. During November, City management submits to the City Council a proposed operating budget for the calendar year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them. After submission to the governing body, public hearings are held to obtain taxpayer comments. Following the public hearings, the proposed budget, including authorized additions and deletions, is legally enacted by City Council action.

City of Two Rivers, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS DECEMBER 31, 2017

2. Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the general fund, certain special revenue funds, and the debt service fund. Budget is defined as the originally approved budget plus or minus approved amendments. Individual amendments throughout the year were not material in relation to the original budget. Budget appropriations not expended during the year are closed to fund balance unless authorized by the governing body to be forwarded into the succeeding year's budget.
3. During the year, formal budgetary integration is employed as a management control device for the general fund, certain special revenue funds and the debt service fund. Management control for the capital projects funds is achieved through project authorizations included in debt issue resolutions.
4. Expenditures may not exceed appropriations provided in detailed budget accounts maintained for each activity or department of the City. Amendments to the budget during the year require initial approval by management and are subsequently authorized by the City Council.
5. Encumbrance accounting is not used by the City to record commitments related to unperformed contracts for goods or services. All outstanding encumbrances lapse at year end.

The City did not have any material violation of legal or contractual provisions for the fiscal year ended December 31, 2017.

B. EXCESS OF EXPENDITURES OVER BUDGET APPROPRIATIONS

The following expenditure accounts of the governmental funds had actual expenditures in excess of budget appropriations for the year ended December 31, 2017 as follows:

Funds	Excess Expenditures
General Fund	
General government	
Council	\$ 952
Judicial	2,151
Uncollectible taxes and refunds	4,616
Public safety	
Police and fire commission	1,181
Police department	72,366
Fire department	76,635
Ambulance	145,105
Inspection	5,036
Public works	
Public works shop	42,270
Highway administration	4,684
Storm sewers	53
Work done for others	160,433
Culture and recreation	
Parks	16,345
Special events	2,260
Conservation and development	
Economic development	10,024
Debt service fund	
General government	
Unfunded pension liability	59,886

City of Two Rivers, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS DECEMBER 31, 2017

C. DEFICIT FUND EQUITY

The following funds had deficit fund balance as of December 31, 2017:

Funds	Deficit Fund Balance
Senior Center	\$ 29,457
Rogers Street Park	63,774
Police Equipment	1,812
T IF District No. 4	138,155
T IF District No. 5	38,487
T IF District No. 6	254,403
T IF District No. 10	179,103
T IF District No. 11	9,547
City Landfill	3,786
Harbor Seawall	5,733
Harbor Master Plan	14,500

The City anticipates funding the above deficits from future revenues of the funds.

D. PROPERTY TAX LEVY LIMIT

Wisconsin state statutes provide for a limit on the property tax levies for all Wisconsin cities, villages, towns and counties. For the 2017 and 2018 budget years, Wisconsin Statutes limit the increase in the maximum allowable tax levy to the change in the City's January 1 equalized value as a result of net new construction. The actual limit for the City for the 2017 budget was 0.43%. The actual limit for the City for the 2018 budget was 0.6%. Debt service for debt authorized after July 1, 2005 is exempt from the levy limit. In addition, Wisconsin statutes allow the limit to be adjusted for the increase in debt service authorized prior to July 1, 2005 and in certain other situations.

NOTE 3: DETAILED NOTES ON ALL FUNDS

A. CASH AND INVESTMENTS

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

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

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

The carrying amount of the City's cash and investments totaled \$10,837,691 on December 31, 2017 as summarized below:

Petty cash and cash on hand	\$ 9,386
Deposits with financial institutions	3,076,975
Investments	
Repurchase agreements	3,040,552
Wisconsin local government investment pool	4,244,778
Mutual Funds	466,000
	<u>\$ 10,837,691</u>

City of Two Rivers, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS DECEMBER 31, 2017

Reconciliation to the basic financial statements:

Government-wide statement of net position	
Cash and investments	\$ 9,047,166
Restricted cash and investments	1,634,604
Fiduciary fund statement of net position	
Agency fund	155,921
	<u>\$ 10,837,691</u>

Fair Value Measurements

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 observable inputs; Level 3 inputs are significant unobservable inputs. The City has the following fair value measurements as of December 31, 2017:

	Fair Value Measurements Using:		
	Level 1	Level 2	Level 3
Mutual funds			
Stocks	\$ -	\$ 235,316	\$ -
Bonds	-	225,211	-
Money market	-	5,473	-
	<u>\$ -</u>	<u>\$ 466,000</u>	<u>\$ -</u>

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

Custodial Credit Risk

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

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

As of December 31, 2017, \$1,890,470 of the City's deposits with financial institutions were in excess of federal and state depository insurance limits. No amounts were collateralized.

On December 31, 2017, the City held repurchase agreement investments of \$3,040,552 of which the underlying securities are held by the investment's counterparty, not in the name of the City.

City of Two Rivers, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS DECEMBER 31, 2017

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Wisconsin statutes limit investment in securities to the top two ratings assigned by nationally recognized statistical rating organizations. Presented below is the actual rating as of the year-end for each investment type.

Investment Type	Amount	Exempt from Disclosure	AAA	Aa	Not Rated
Mutual Funds					
Stocks	\$ 235,316	\$ -	\$ -	\$ -	\$ 235,316
Bonds	225,211	-	-	-	225,211
Money market	5,473	-	-	-	5,473
Wisconsin Local Government Investment Pool	4,244,778	-	-	-	4,244,778
Totals	<u>\$ 4,710,778</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,710,778</u>

Concentration of Credit Risk

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer. At December 31, 2017, the City has repurchase agreements of \$3,040,552 with Bank First National. This represents an investment in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that exceed 5% of total City investments.

Interest Rate Risk

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

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

Investment Type	Amount	Remaining Maturity (in Months)			
		12 Months or Less	13 to 24 Months	25 to 60 Months	More Than 60 Months
Mutual Funds					
Stocks	\$ 235,316	\$ 235,316	\$ -	\$ -	\$ -
Bonds	225,211	225,211	-	-	-
Money market	5,473	5,473	-	-	-
Repurchase agreements	3,040,552	3,040,552	-	-	-
Wisconsin Local Government Investment Pool	4,244,778	4,244,778	-	-	-
Totals	<u>\$ 7,751,330</u>	<u>\$ 7,751,330</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Investment in Wisconsin Local Government Investment Pool

The City has investments in the Wisconsin Local Government Investment Pool (LGIP) of \$4,244,778 at year-end. The 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, 2017, the fair value of the City's share of the LGIP's assets was substantially equal to the carrying value.

City of Two Rivers, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS DECEMBER 31, 2017

B. RESTRICTED ASSETS

Restricted assets on December 31, 2017 totaled \$1,634,604 and consisted of cash and investments held for the following purposes:

Funds	Amount	Purpose
Enterprise Fund		
Water utility	\$ 288,209	Debt reserve fund
Electric utility	74,620	Debt reserve fund
Sewer utility	1,176,392	Replacement of certain equipment of the sewer utility in accordance with Wisconsin Department of Natural Resources requirements.
Sewer utility	74,242	Debt reserve fund
Stormwater utility	<u>21,141</u>	Pond maintenance
Total	<u>\$ 1,634,604</u>	

C. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2017 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, nondepreciable:				
Land	\$ 1,313,582	\$ -	\$ -	\$ 1,313,582
Capital assets, depreciable:				
Buildings	15,255,389	113,593	50,000	15,318,982
Improvements other than buildings	2,800,000	-	-	2,800,000
Machinery and equipment	8,858,237	602,948	152,417	9,308,768
Infrastructure	<u>37,540,021</u>	<u>2,893,280</u>	<u>567,675</u>	<u>39,865,626</u>
Subtotals	64,453,647	3,609,821	770,092	67,293,376
Less accumulated depreciation	<u>34,112,725</u>	<u>1,403,505</u>	<u>613,057</u>	<u>34,903,173</u>
Total capital assets, depreciable, net	<u>30,340,922</u>	<u>2,206,316</u>	<u>157,035</u>	<u>32,390,203</u>
Governmental activities capital assets, net	<u>\$ 31,654,504</u>	<u>\$ 2,206,316</u>	<u>\$ 157,035</u>	33,703,785
Less: Capital related debt				<u>14,496,924</u>
Net investment in capital assets				<u>\$ 19,206,861</u>

City of Two Rivers, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS DECEMBER 31, 2017

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets, nondepreciable:				
Land	\$ 38,227	\$ -	\$ -	\$ 38,227
Completed construction unclassified	303,041	447,403	750,444	-
Construction in progress	1,422,052	2,265,956	1,147,742	2,540,266
Total capital assets, nondepreciable	<u>1,763,320</u>	<u>2,713,359</u>	<u>1,898,186</u>	<u>2,578,493</u>
Capital assets, depreciable:				
Buildings	6,488,118	24,180	-	6,512,298
Improvements other than buildings	29,678,618	1,288,428	313,146	30,653,900
Machinery and equipment	16,088,119	345,194	111,411	16,321,902
Subtotals	<u>52,254,855</u>	<u>1,657,802</u>	<u>424,557</u>	<u>53,488,100</u>
Less accumulated depreciation:	<u>24,086,896</u>	<u>1,541,501</u>	<u>490,535</u>	<u>25,137,862</u>
Total capital assets, depreciable, net	<u>28,167,959</u>	<u>116,301</u>	<u>(65,978)</u>	<u>28,350,238</u>
Business-type activities capital assets, net	<u>\$ 29,931,279</u>	<u>\$ 2,829,660</u>	<u>\$ 1,832,208</u>	30,928,731
Less: Capital related debt				<u>9,711,555</u>
Net investment in capital assets				<u>\$ 21,217,176</u>

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

Governmental activities	
General government	\$ 87,920
Public safety	229,434
Public works	844,231
Culture and recreation	237,419
Conservation and development	4,501
Total depreciation expense - governmental activities	<u>\$ 1,403,505</u>
Business-type activities	
Electric utility	\$ 406,615
Water utility	477,580
Sewer utility	525,774
Telecommunication utility	27,427
Total depreciation expense	<u>1,437,396</u>
Depreciation charged to operating accounts	<u>104,105</u>
Total increase in accumulated depreciation - business-type activities	<u>\$ 1,541,501</u>

City of Two Rivers, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS DECEMBER 31, 2017

D. INTERFUND RECEIVABLE, PAYABLES, AND TRANSFERS

Interfund receivables and payables between individual funds of the City, as reported in the fund financial statements, as of December 31, 2017 are detailed below:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Governmental funds		
General	\$ 3,275,519	\$ 3,893,786
Debt service	2,445,283	-
Library	594,971	-
Business improvement district	37,100	-
Rogers street park	-	63,774
Police equipment	-	1,076
TIF District No. 3	13,022	-
TIF District No. 4	46,854	138,155
TIF District No. 5	81,988	44,297
TIF District No. 6	13,343	254,403
TIF District No. 7	562,230	-
TIF District No. 8	236,270	-
TIF District No. 9	237,619	-
TIF District No. 10	56,145	179,103
TIF District No. 11	15,914	9,547
City landfill	-	3,751
Harbor seawall	-	441,084
Harbor master plan	-	14,500
Proprietary funds		
Water Utility	13,675	2,470,249
Sewer Utility	13,096	496,722
Solid Waste	2,736	-
Stormwater Utility	364,682	-
Totals	<u>\$ 8,010,447</u>	<u>\$ 8,010,447</u>

The outstanding balances between funds result mainly from the time lag between the dates that (a) interfund goods and services are provided or reimbursable expenditures occur, (b) transactions are recorded in the accounting system, and (c) payments between funds are made.

City of Two Rivers, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS DECEMBER 31, 2017

Interfund transfers for the year ended December 31, 2017 were as follows:

Fund	Transfer In	Transfer Out
Governmental funds		
General	\$ 880,721	\$ 338,268
Debt service	388,125	-
Library	55,807	1,080
Library gift	-	55,807
Community tourism	24,171	56,048
Business improvement district	6,000	-
Urban forestry	19,500	-
Sandy Bay Highlands	-	27,787
Street construction	250,000	-
Park and cemetery construction	11,594	-
Management information	18,000	-
TIF District No. 3	-	22,000
TIF District No. 7	-	250,000
TIF District No. 8	-	105,490
TIF District No. 10	-	23,343
Industrial park development	-	84,292
Harbor seawall	-	11,594
Proprietary funds		
Electric Utility	-	285,613
Water Utility	9,875	139,425
Sewer Utility	-	307,119
Solid Waste	-	1,080
Stormwater Utility	-	250,000
Internal service fund - health insurance	295,153	-
	<u>\$ 1,958,946</u>	<u>\$ 1,958,946</u>

Transfers are used to: (a) move unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations; (b) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; and (c) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service funds as debt service payments become due.

City of Two Rivers, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS DECEMBER 31, 2017

E. LONG-TERM OBLIGATIONS

The following is a summary of changes in long-term obligations of the City for the year ended December 31, 2017:

	<u>Beginning Balance</u>	<u>Issued</u>	<u>Retired</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
General obligation debt					
Bonds	\$ 2,424,439	\$ -	\$ 1,464,972	\$ 959,467	\$ 67,020
Notes	<u>12,811,448</u>	<u>3,072,340</u>	<u>1,844,613</u>	<u>14,039,175</u>	<u>2,239,925</u>
Total general obligation debt	15,235,887	3,072,340	3,309,585	14,998,642	2,306,945
Capital leases	478,391	43,870	34,118	488,143	236,161
Prior service liability - WRS	<u>2,768,058</u>	<u>162,350</u>	<u>513,200</u>	<u>2,417,208</u>	<u>-</u>
Governmental activities Long-term obligations	<u>\$ 18,482,336</u>	<u>\$ 3,278,560</u>	<u>\$ 3,856,903</u>	<u>\$ 17,903,993</u>	<u>\$ 2,543,106</u>
Business-type activities:					
General obligation debt					
Bonds	\$ 2,294,440	\$ -	\$ 132,612	\$ 2,161,828	\$ 133,082
Notes	<u>181,694</u>	<u>725,000</u>	<u>18,875</u>	<u>887,819</u>	<u>129,354</u>
Total general obligation debt	2,476,134	725,000	151,487	3,049,647	262,436
Revenue bonds	7,583,466	392,681	992,958	6,983,189	700,463
Capital leases	139,766	-	61,047	78,719	62,757
Compensated absences	<u>47,252</u>	<u>33,916</u>	<u>-</u>	<u>81,168</u>	<u>-</u>
Business-type activities Long-term obligations	<u>\$ 10,246,618</u>	<u>\$ 1,151,597</u>	<u>\$ 1,205,492</u>	<u>\$ 10,192,723</u>	<u>\$ 1,025,656</u>

Total interest paid during the year on long-term debt totaled \$744,156.

General Obligation Debt

General obligation debt currently outstanding is detailed as follows:

	<u>Date of Issue</u>	<u>Final Maturity</u>	<u>Interest Rates</u>	<u>Original Indebtedness</u>	<u>Balance 12/31/17</u>
General obligation note	4/1/08	2018	4%	\$ 1,350,000	\$ 225,000
General obligation note	2/23/09	2018	3.5 - 3.625%	4,020,000	255,000
General obligation bond	4/1/10	2030	3.5 - 4.5%	2,425,000	1,910,000
General obligation note	4/1/10	2020	3.5 - 4%	530,000	180,000
General obligation note	4/11/11	2021	3.5 - 4%	2,000,000	930,000
General obligation note	4/11/12	2022	2 - 3%	1,530,000	1,110,000
General obligation note	4/11/13	2023	2.75%	1,162,358	728,634
General obligation bond	11/13/13	2029	3.15%	487,054	360,069
General obligation bond	11/13/13	2029	3.15%	824,459	599,397
WPPI energy note	2013	2023	0%	129,080	69,703
WPPI energy note	2013	2023	0%	14,076	7,507
WPPI energy note	2013	2023	0%	46,827	28,096
General obligation note	4/7/15	2030	3.75%	1,120,000	989,860
General obligation note	5/1/15	2034	3.75%	2,890,666	2,682,678
General obligation note	5/10/16	2026	3%	1,420,000	1,290,328
General obligation note	5/16/16	2019	2.50%	765,000	560,000
General obligation note	5/16/16	2025	3%	367,000	331,238
General obligation note	5/16/16	2024	3%	1,941,374	1,715,307
General obligation note	8/1/16	2026	0%	30,350	26,303
General obligation bond	12/31/16	2029	2.67%	361,269	251,829
General obligation note	3/1/17	2026	3.50%	1,772,340	1,772,340
General obligation note	3/1/17	2026	3.50%	1,300,000	1,300,000
General obligation note	3/20/17	2027	4.00%	400,000	400,000
General obligation note	3/20/17	2021	3.50%	325,000	325,000
Total outstanding general obligation debt					<u>\$ 18,048,289</u>

City of Two Rivers, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS DECEMBER 31, 2017

Annual principal and interest maturities of the outstanding general obligation debt of \$18,048,289 on December 31, 2017 are detailed below:

Year Ended December 31,	Governmental Activities		Business-type Activities		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest
2018	\$ 2,306,945	\$ 485,821	\$ 262,436	\$ 113,657	\$ 2,569,381	\$ 599,478
2019	1,925,269	413,738	266,963	105,098	2,192,232	518,836
2020	1,671,603	352,752	281,962	95,580	1,953,565	448,332
2021	1,515,556	300,065	292,260	85,177	1,807,816	385,242
2022	1,434,924	253,388	214,236	74,447	1,649,160	327,835
2023 - 2027	4,349,478	703,244	1,149,107	244,908	5,498,585	948,152
2028 - 2032	1,372,281	211,758	582,683	37,898	1,954,964	249,656
2033 - 2034	422,586	23,935	-	-	422,586	23,935
	<u>\$14,998,642</u>	<u>\$ 2,744,701</u>	<u>\$ 3,049,647</u>	<u>\$ 756,765</u>	<u>\$18,048,289</u>	<u>\$ 3,501,466</u>

For governmental activities, the other long-term liabilities are generally funded by the General Fund.

Legal Margin for New Debt

The City's legal margin for creation of additional general obligation debt on December 31, 2017 was \$7,564,665 as follows:

Equalized valuation of the City		\$ 511,532,900
Statutory limitation percentage		(x) 5%
General obligation debt limitation, per Section 67.03 of the Wisconsin Statutes		<u>25,576,645</u>
Total outstanding general obligation debt applicable to debt limitation	\$ 18,048,289	
Less: Amounts available for financing general obligation debt		
Debt service fund	<u>36,309</u>	
Net outstanding general obligation debt applicable to debt limitation		<u>18,011,980</u>
Legal margin for new debt		<u>\$ 7,564,665</u>

Current Refunding

During 2017, the City currently refunded a general obligation bond issue from 2007. The City issued \$1,300,000 of general obligation notes to call the refunded debt. This current refunding was undertaken to obtain more favorable interest rates and reduce total debt service interest payments over the next 10 years by \$54,069. The City also currently refunded a revenue bond issue from 2006. The City issued \$325,000 of general obligation notes to call the refunded debt. This current refunding was undertaken to obtain more favorable interest rates and reduce total debt service payments over the next 4 years by \$8,052.

Revenue Bonds

Revenue bonds outstanding on December 31, 2017 totaled \$6,983,189 and were comprised of the following issues:

	Date of Issue	Final Maturity	Interest Rates	Original Indebtedness	Balance 12/31/17
Sewer utility	3/21/02	2019	2.995%	\$ 396,211	\$ 52,910
Sewer utility	3/21/02	2020	2.995%	384,908	73,325
Water utility	2004	2023	2.37%	4,056,159	1,557,121
Sewer utility	2008	2027	2.39%	6,297,058	3,672,147
Water utility	6/25/14	2034	1.93%	400,432	349,655
Sewer utility	2014	2034	2.63%	698,698	621,230
Water utility	5/13/15	2034	1.93%	301,465	264,120
Water utility	6/28/17	2037	1.87%	392,681	<u>392,681</u>
Total outstanding revenue bonds					<u>\$ 6,983,189</u>

City of Two Rivers, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS DECEMBER 31, 2017

Annual principal and interest maturities of the outstanding revenue bonds of \$6,983,189 on December 31, 2017 are detailed below:

Year Ended December 31,	Business-type Activities		
	Principal	Interest	Total
2018	\$ 700,463	\$ 154,409	\$ 854,872
2019	717,297	137,147	854,444
2020	706,886	119,986	826,872
2021	697,793	103,322	801,115
2022	714,249	86,611	800,860
2023 - 2027	2,665,781	222,561	2,888,342
2028 - 2032	497,507	57,842	555,349
2033 - 2037	283,213	9,254	292,467
	<u>\$ 6,983,189</u>	<u>\$ 891,132</u>	<u>\$ 7,874,321</u>

Utility Revenues Pledged

The City has pledged future electric, water and sewer customer revenues, net of specified operating expenses, to repay the revenue bonds. Proceeds from the bonds provided financing for the construction or acquisition of capital assets used by the utilities. The bonds are payable solely from customer net revenues and are payable through 2037. The total principal and interest remaining to be paid on the bonds is \$7,874,321. Principal and interest paid for the current year and total customer net revenues were \$1,173,410 and \$2,697,333, respectively.

Capital Lease

The City is obligated under various leases accounted for as capital leases that were used to finance the acquisition of capital assets. The following is a schedule of the minimum lease payments under the lease agreements and the present values of the minimum lease payments at December 31, 2017:

Year Ending	Amount Due
2018	\$ 298,918
2019	231,171
2020	29,349
2021	17,322
2022	5,511
Subtotal	<u>582,271</u>
Less: Amount representing interest	15,409
Present value of future minimum lease payments	<u>\$ 566,862</u>

Unfunded Pension Liability

The City's unfunded pension liability of \$2,417,208 on December 31, 2017 is an actuarially computed liability by the Wisconsin Retirement System (WRS) resulting from increases in employee pension benefits that exceeded actual prior years' contributions by the City to the WRS. The liability was originally calculated by the WRS as of January 1, 1990. Since that time, the City has been making additional monthly payments to the WRS in order to amortize the liability over a 40 year period. In addition, the City is charged 7.2% interest per year on the unpaid balance. As a result, the outstanding balance of the liability may increase annually if payments made by the City to the WRS are less than the interest charged. Additional information on the WRS is provided in Note 3.F.

City of Two Rivers, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS DECEMBER 31, 2017

F. PENSION PLAN

1. 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 (880 hours for teachers and school district educational support employees) 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>.

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.

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.

2. 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:

City of Two Rivers, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS DECEMBER 31, 2017

<u>Year</u>	<u>Core Fund Adjustment</u>	<u>Variable Fund Adjustment</u>
2007	3%	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
2016	0.5	(5)

3. 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, including teachers, and Executives and Elected Officials. Starting on January 1, 2016, the Executives and Elected Officials category was merged into the General Employee Category. 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 ending December 31, 2016, the WRS recognized \$661,683 in contributions from the City.

Contribution rates for the reporting period are:

<u>Employee Category</u>	<u>Employee</u>	<u>Employer</u>
General (including teachers)	6.6%	6.6%
Protective with Social Security	6.6%	9.4%
Protective without Social Security	6.6%	13.2%

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

At December 31, 2017, the City reported a liability of \$555,278 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015 rolled forward to December 31, 2016. 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, 2016, the City's proportion was 0.06736854%, which was an increase of 0.00102541% from its proportion measured as of December 31, 2015.

For the year ended December 31, 2017, the City recognized pension expense of \$1,430,355.

City of Two Rivers, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS DECEMBER 31, 2017

At December 31, 2017, 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	\$ 211,728	\$ 1,746,300
Net differences between projected and actual earnings on pension plan investments	2,763,996	-
Changes in assumptions	580,564	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	12,559	13,834
Employer contributions subsequent to the measurement date	966,052	-
Total	<u>\$ 4,534,899</u>	<u>\$ 1,760,134</u>

\$966,052 reported as deferred outflows related to pension resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. 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,	Expense
2017	\$ 737,887
2018	737,887
2019	500,668
2020	(168,580)
2021	851
Total	<u>\$ 1,808,713</u>

5. Actuarial Assumptions

The total pension liability in the December 31, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial valuation date:	December 31, 2015
Measurement date of net pension liability:	December 31, 2016
Actuarial cost method:	Entry Age
Asset valuation method:	Fair 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 2015 using experience from 2012 - 2014. The total pension liability for December 31, 2016 is based upon a roll-forward of the liability calculated from the December 31, 2015 actuarial valuation.

City of Two Rivers, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS DECEMBER 31, 2017

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:

	<u>Current Asset Allocation %</u>	<u>Destination Target Asset Allocation %</u>	<u>Long-term Expected Nominal Rate of Return %</u>	<u>Long-term Expected Real Rate of Return %</u>
<u>Core Fund Asset Class</u>				
Global equities	50%	45%	8.3%	5.4%
Fixed income	24.5%	37%	4.2%	1.4%
Inflation sensitive assets	15.5%	20%	4.3%	1.5%
Real estate	8%	7%	6.5%	3.6%
Private equity/debt	8%	7%	9.4%	6.5%
Multi-asset	4%	4%	6.6%	3.7%
T total Core Fund	110%	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%
T total Variable Fund	100%	100%	7.9%	5%

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

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 3.78%. 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 members 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 (asset) to changes in the discount rate. The following presents the City's proportionate share of the net pension liability (asset) calculated using the discount rate of 7.2 percent, as well as what the City's proportionate share of the net pension liability (asset) 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:

	<u>1% Decrease to Discount Rate (6.20%)</u>	<u>Current Discount Rate (7.20%)</u>	<u>1% Increase to Discount Rate (8.20%)</u>
City's proportionate share of the net pension liability (asset)	\$ 7,305,033	\$ 555,278	\$ (4,642,340)

City of Two Rivers, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS DECEMBER 31, 2017

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>.

6. Payables to the Pension Plan

At December 31, 2017, the City reported a payable of \$144,557 for the outstanding amount of contributions to the pension plan for the year ended December 31, 2017.

G. OTHER POSTEMPLOYMENT BENEFITS

Plan Description. The City provides health care insurance coverage for certain employees who retire for the lesser of six years or until they reach Medicare eligibility. The City pays 85% of the premium for the lesser of six years or the retirees reach Medicare eligibility. There are 115 active and 34 retired employees in the plan.

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

Component	Amount
Annual required contribution	\$ 464,304
Interest on net OPEB	66,574
Adjustment to annual required contribution	(66,143)
Annual OPEB cost (expense)	<u>464,735</u>
Contributions made	<u>421,890</u>
Change in net OPEB obligation	42,845
OPEB obligation - beginning of year	1,664,346
OPEB obligation - end of year	<u>\$ 1,707,191</u>

The annual required contribution for the current year was determined as part of the January 1, 2015 actuarial valuation using the projected unit credit method. The actuarial assumptions include (a) 4.00% discount rate, and (b) projected salary increases as 3.00%.

The actuarial methods and assumptions used include techniques that are designed to reduce the effect of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with a long-term perspective of the calculations. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2017 is 30 years, and the remaining amount is \$6,042,283.

Trend Information. The City's annual OPEB cost, the percentage of the annual OPEB cost contributed to the plan, and the net OPEB obligation for 2017 is as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/17	\$ 464,735	90.78%	\$ 1,707,191
12/31/16	464,703	72.92%	1,664,346
12/31/15	464,712	107.15%	1,538,544

City of Two Rivers, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS DECEMBER 31, 2017

Funded Status and Funding Progress. As of the most recent actuarial valuations, conducted during 2015, the plan's unfunded actuarial accrued liability (UAAL) was \$6,042,283. The annual payroll for active employees covered by the plan for the 2015 fiscal year was \$7,887,319 for a ratio of the UAAL to covered payroll of 77%.

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

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

In the 2015 actuarial valuation, the projected unit credit method was used. The actuarial assumptions include a rate of 4.00% to discount expected liabilities to the valuation date. The initial healthcare trend rate was 7.5%, decreasing by .5% per year down to 6.5%, then by .1% per year down to 5%. The UAAL is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at December 31, 2017 was 30 years.

H. FUND EQUITY

Nonspendable Fund Balance

In the fund financial statements, portions of the governmental fund balances are amounts that cannot be spent because they are either 1) not in spendable form or 2) legally or contractually required to be maintained intact. At December 31, 2017, nonspendable fund balance was as follows:

General Fund	
Nonspendable	
Prepays and inventories	\$ 788,472
Deficit cash advances	2,426,662
Total nonspendable fund balance	<u>\$ 3,215,134</u>

City of Two Rivers, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS DECEMBER 31, 2017

Restricted Fund Balance

In the fund financial statements, portions of governmental fund balances are not available for appropriation or are legally restricted for use for a specific purpose. At December 31, 2017, restricted fund balance was as follows:

Special Revenue Funds	
Restricted for	
Housing revolving loans	\$ 168,241
Library	38
Library gift	417,781
Urban forestry	4,528
EMS Act 102 grant	10,771
Business and industrial revolving loans	1,222,375
Debt Service Fund	36,309
Capital Projects Funds	
Restricted for	
TIF District No. 3	890
TIF District No. 7	570,901
TIF District No. 8	502,266
TIF District No. 9	<u>62,693</u>
Total restricted fund balance	<u>\$ 2,996,793</u>

Committed Fund Balance

In the fund financial statements, portions of government fund balances are committed by City Council action. At December 31, 2017, governmental fund balance was committed as follows:

Special Revenue Funds	
Committed for	
Community tourism	\$ 1,122
Special events donations	13,726
Business improvement district	4,830
Docks and harbors	5,669
Tree planting	18,683
Capital Projects Funds	
Committed for	
Street construction	711,914
Bridge construction	27,303
Park and cemetery construction	71,105
Fire equipment	36,398
Public works equipment	167,814
City Hall equipment	37,336
Management information	11,762
Industrial park development	3,196
Harbor dredging	5,255
High school bike trail	<u>29,828</u>
Total committed fund balance	<u>\$ 1,145,941</u>

City of Two Rivers, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS DECEMBER 31, 2017

Net Position

The City reports restricted net position at December 31, 2017 as follows:

Governmental activities	
Restricted for	
Housing and business loans	\$ 5,188,147
Library operation and donations	417,819
Urban forestry	4,528
EMS Act 102 grant	10,771
Tax incremental districts	1,136,750
Total governmental activities restricted net position	<u>6,758,015</u>
Business-type activities	
Restricted for	
Debt service	437,071
Plant replacement	1,176,392
Total business-type activities restricted net position	<u>1,613,463</u>
Total restricted net position	<u>\$ 8,371,478</u>

NOTE 4: OTHER INFORMATION

A. WPPI ENERGY CONTRACT (WPPI)

The City of Two Rivers electric utility purchases its electric requirements from WPPI Energy (WPPI). WPPI is a municipal electric company and political subdivision of the State of Wisconsin created by contract by its members on September 5, 1980 pursuant to the Municipal Electric Company Act, Sec. 66.073 of the Wisconsin Statutes (the Act). WPPI's purposes include providing an adequate, economical and reliable supply of electric energy to its members.

The City of Two Rivers is one of 51 members of WPPI located throughout the States of Wisconsin, Michigan and Iowa. On December 31, 1989, each of WPPI's original members, including the City of Two Rivers, commenced purchasing electric service from WPPI under a Long-term Power Supply Contract for Participating Members (the Long-term Contract) under which WPPI has agreed to sell and deliver to each member, and each member has agreed to take and pay for, the electric power and energy requirements of the members for an initial thirty-five (35) year term. The contract has been amended to extend the term of the contract through 2037. A subsequent amendment has extended the contract through 2055.

Under the Long-term Contract, the City of Two Rivers and the other members of WPPI are required to pay for all power and energy requirements supplied or made available by WPPI at rates sufficient to cover all of WPPI's revenue requirement which includes power supply costs, administrative expenses and debt service on outstanding bonds. WPPI's subsequent year's rates and operating budget are approved annually by its Board of Directors, which consists of representatives from each member municipality.

The City of Two Rivers has agreed to charge rates to the retail rate payers of its electric system sufficient to meet its obligations to WPPI. The Long-term Contract provides that all payments to WPPI under the Contract constitute operating expenses of the City of Two Rivers electric system payable from any operating and maintenance fund established by the City of Two Rivers electric utility.

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

City of Two Rivers, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS DECEMBER 31, 2017

The electric operation purchases power through WPPI Energy, for distribution to its customers. Total purchases under this arrangement amounted to approximately \$6.7 million in 2017.

B. TAX INCREMENTAL FINANCING DISTRICTS

The City has established separate capital projects funds for nine Tax Incremental Financing Districts (TID) created by the City in accordance with Section 66.1105 of the Wisconsin Statutes. At the time the TID's were created, the property tax base within each TID was "frozen" and increment taxes resulting from increases to the property tax base are used to finance TID improvements, including principal and interest on long-term debt issued by the City to finance such improvements. Except for certain exceptions under Section 66.1105(6)(am)(1), the Statutes allow up to five years from the date of termination for a tax incremental district to incur project costs eligible for financing from tax increments. The City's nine TID's were created in 1992, 1994, 1999, 2000, 2001, 2002, 2003, 2014, and 2016 respectively.

Since creation of the above TID's, the City has provided various financing sources to each TID and has also recorded eligible TID project costs in other funds of the City. The foregoing amounts are not recorded as liabilities in the TID capital project funds but can be recovered by the City from any future excess tax increment revenues. Detail of the amounts recoverable by the City as of December 31, 2017 from future excess tax increment revenues follows:

	Recoverable Costs
TID No. 3	\$ 31,584
TID No. 4	138,155
TID No. 5	38,487
TID No. 6	254,403
TID No. 7	(570,901)
TID No. 8	629,639
TID No. 9	(62,693)

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

	Termination Year
TID No. 3	5/18/2019
TID No. 4	5/26/2021
TID No. 5	8/30/2022
TID No. 6	7/17/2027
TID No. 7	8/30/2028
TID No. 8	8/5/2029
TID No. 9	7/28/2026
TID No. 10	8/25/2041
TID No. 11	9/6/2043

B. TAX ABATEMENTS

The City has created Tax Increment Financing District Number 9 (the "District") in accordance with Wisconsin State Statute 66.1105, *Tax Increment Law*. As part of the project plan for the District, the City entered into an agreement with a local manufacturing company for the creation for tax base within the District. The agreement requires the City to make annual repayments of property taxes collected within the District to the company, based upon the terms of the agreements. As tax abatements, those developer payments and the related property tax revenues are not reported as revenues or expenditures in the financial statements.

For the year ended December 31, 2017, the City abated property taxes totaling \$223,132 under this program with the company.

City of Two Rivers, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2017

C. CONTINGENCIES

From time to time, the City is party to other various pending claims and legal proceedings. Although the outcome of such matters cannot be forecast with certainty, it is the opinion of management 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.

D. SUBSEQUENT EVENT

On March 20, 2018, the City issued \$2,041,500 of general obligation notes to finance 2018 capital projects and equipment purchases. Also, on April 3, 2018, the City issued \$675,000 of general obligation notes to refinance prior debts. Principal amounts of \$335,000 to \$340,000 are due annually through 2020, at an interest rate of 3.5%

E. UPCOMING ACCOUNTING PRONOUNCEMENTS

In June 2015, the GASB issued a new standard addressing accounting and financial reporting for postemployment benefits other than pensions (OPEB). GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, addresses accounting and reporting by employer governments that provide OPEB benefits to their employees. The City will, after adoption of GASB No. 75, recognize on the face of the financial statements its OPEB liability. GASB No. 75 is effective for fiscal years beginning after June 15, 2017. The City is currently evaluating the impact this standard will have on the financial statements when adopted.

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. The Statement establishes criteria for identifying fiduciary activities and addresses financial reporting for these activities. This statement is effective for reporting periods beginning after June 15, 2018. The City is currently evaluating the impact this standard will have on the financial statements when adopted.

In June 2017, the GASB issued Statement No. 87, *Leases*. The Statement establishes a single model for lease accounting based on the principle that leases are financings of the right to use an underlying asset. This statement is effective for reporting periods beginning after December 15, 2019. The City is currently evaluating the impact this standard will have on the financial statements when adopted.

REQUIRED SUPPLEMENTARY INFORMATION

City of Two Rivers, Wisconsin

**SCHEDULE OF FUNDING PROGRESS
OTHER POSTEMPLOYMENT BENEFIT PLAN
FOR THE YEAR ENDED DECEMBER 31, 2017**

Actual Valuation Date January 1	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL)	(3) Funded Ratio (1) / (2)	(4) Unfunded Actuarial Accrued Liability (UAAL) (2) - (1)	(5) Covered Payroll	UAAL as a Percentage of Covered Payroll (4) / (5)
2008	\$ -	\$ 7,843,753	0.00%	\$ 7,843,753	\$ 7,347,210	106.76%
2009	-	7,845,965	0.00%	7,845,965	7,446,345	105.37%
2012	-	8,439,706	0.00%	8,439,706	7,196,240	117.28%
2015	-	6,042,283	0.00%	6,042,283	7,887,319	76.61%

See notes to required supplementary information.

City of Two Rivers, Wisconsin

SCHEDULE OF EMPLOYER CONTRIBUTIONS OTHER POSTEMPLOYMENT BENEFIT PLAN FOR THE YEAR ENDED DECEMBER 31, 2017

<u>Year Ended December 31,</u>	<u>Employer Contributions</u>	<u>Annual Required Contribution (ARC)</u>	<u>Percentage Contributed</u>
2009	\$ 799,500	\$ 672,074	118.96%
2010	404,598	672,074	60.20%
2011	479,807	672,074	71.39%
2012	550,000	717,184	76.69%
2013	576,523	717,184	80.39%
2014	439,356	738,950	59.46%
2015	497,982	464,304	107.25%
2016	338,901	464,304	72.99%
2017	421,890	464,304	90.87%

See notes to required supplementary information.

City of Two Rivers, Wisconsin

**SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET)
WISCONSIN RETIREMENT SYSTEM
LAST 10 FISCAL YEARS**

<u>Fiscal Year Ending</u>	<u>Proportion of the Net Pension Liability (Asset)</u>	<u>Proportionate Share of the Net Pension Liability (Asset)</u>	<u>Covered-Employee Payroll (plan year)</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 (Asset)</u>
12/31/15	0.06625508%	\$ (1,627,406)	\$ 7,273,639	22.37%	102.74%
12/31/16	0.06634313%	1,078,063	7,423,143	14.52%	98.20%
12/31/17	0.06736854%	555,278	7,680,109	7.23%	99.12%

**SCHEDULE OF CONTRIBUTIONS
WISCONSIN RETIREMENT SYSTEM
LAST 10 FISCAL YEARS**

<u>Fiscal Year Ending</u>	<u>Contractually Required Contributions</u>	<u>Contributions in Relation to the Contractually Required Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered-Employee Payroll (fiscal year)</u>	<u>Contributions as a Percentage of Covered-Employee Payroll</u>
12/31/15	\$ 638,770	\$ 638,770	\$ -	\$ 7,423,143	8.61%
12/31/16	661,683	661,683	-	7,680,109	8.62%
12/31/17	966,052	966,052	-	7,920,633	12.20%

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

There were no changes of benefit terms or assumptions for any participating employer in the WRS.

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

SUPPLEMENTARY INFORMATION

City of Two Rivers, Wisconsin

**GENERAL FUND
 DETAILED COMPARISON OF BUDGETED AND ACTUAL REVENUES
 FOR THE YEAR ENDED DECEMBER 31, 2017
 WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2016**

	Budget		Actual	Variance Final Budget - Positive (Negative)	2016 Actual
	Original	Final			
Taxes					
General property	\$ 2,032,302	\$ 2,032,302	\$ 2,032,303	\$ 1	\$ 2,032,303
Payments in lieu of taxes	20	20	19	(1)	20
Interest and taxes	15,000	15,000	10,838	(4,162)	17,603
Total taxes	<u>2,047,322</u>	<u>2,047,322</u>	<u>2,043,160</u>	<u>(4,162)</u>	<u>2,049,926</u>
Special assessments					
Street paving and construction	100,000	100,000	68,899	(31,101)	22,934
Other special assessments	7,000	7,000	5,511	(1,489)	6,718
Total special assessments	<u>107,000</u>	<u>107,000</u>	<u>74,410</u>	<u>(32,590)</u>	<u>29,652</u>
Intergovernmental					
State shared taxes	3,768,662	3,768,662	3,763,989	(4,673)	3,762,696
Exempt computer aid	17,500	17,500	13,469	(4,031)	17,012
Fire insurance tax	22,000	22,000	24,319	2,319	22,674
Law enforcement training	16,000	16,000	13,382	(2,618)	18,382
Expenditure restraint	196,420	196,420	196,420	-	180,970
Other public safety	20,000	20,000	25,868	5,868	26,446
Municipal services payment	4,700	4,700	4,401	(299)	3,943
Local highway aid	587,668	587,668	586,397	(1,271)	593,032
Connecting streets	89,171	89,171	89,171	-	88,003
Total intergovernmental	<u>4,722,121</u>	<u>4,722,121</u>	<u>4,717,416</u>	<u>(4,705)</u>	<u>4,713,158</u>
Licenses and permits					
Licenses					
Liquor and malt beverage	15,000	15,000	15,464	464	14,873
Bar operators	6,000	6,000	6,028	28	6,453
Cigarette	1,000	1,000	900	(100)	900
Dog	4,000	4,000	6,544	2,544	3,786
Business and occupational	2,000	2,000	1,500	(500)	2,137
Permits					
Building	60,000	60,000	64,907	4,907	59,168
Electrical	13,000	13,000	14,370	1,370	13,475
plumbing	10,000	10,000	15,570	5,570	10,870
Sign	2,500	2,500	2,180	(320)	3,020
Conditional use	3,200	3,200	4,550	1,350	6,060
Other permits	4,000	4,000	14,207	10,207	4,307
Cable franchise fees	130,000	130,000	131,051	1,051	129,479
Total licenses and permits	<u>250,700</u>	<u>250,700</u>	<u>277,271</u>	<u>26,571</u>	<u>254,528</u>
Fines and forfeits					
Court penalties and costs	62,600	62,600	55,397	(7,203)	78,551
Animal control	500	500	-	(500)	350
Parking fines	19,400	19,400	17,124	(2,276)	15,536
Total fines and forfeits	<u>82,500</u>	<u>82,500</u>	<u>72,521</u>	<u>(9,979)</u>	<u>94,437</u>

City of Two Rivers, Wisconsin

**GENERAL FUND
 DETAILED COMPARISON OF BUDGETED AND ACTUAL REVENUES
 FOR THE YEAR ENDED DECEMBER 31, 2017
 WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2016**

	Budget		Actual	Variance Final Budget - Positive (Negative)	2016 Actual
	Original	Final			
Public charges for services					
Publication	-	-	-	-	15
Community center	32,000	32,000	28,835	(3,165)	26,563
Senior center	52,000	52,000	53,623	1,623	55,084
General government	18,000	18,000	22,415	4,415	20,321
Public works	152,000	152,000	260,270	108,270	158,318
Cemetery plots and burials	100,000	100,000	92,670	(7,330)	89,435
Law enforcement	2,500	2,500	3,191	691	3,568
Ambulance	585,000	585,000	664,058	79,058	611,583
Recreation	82,000	82,000	75,643	(6,357)	77,220
Fire department	21,500	21,500	18,532	(2,968)	22,470
Total public charges for services	<u>1,045,000</u>	<u>1,045,000</u>	<u>1,219,237</u>	<u>174,237</u>	<u>1,064,577</u>
Intergovernmental charges for services					
Police liaison	127,500	127,500	134,350	6,850	126,155
Shared fire expense	1,300	1,300	2,150	850	601
Total intergovernmental charges for services	<u>128,800</u>	<u>128,800</u>	<u>136,500</u>	<u>7,700</u>	<u>126,756</u>
Interdepartmental charges for services					
Public works	410,000	410,000	451,289	41,289	342,874
Recreation	7,500	7,500	1,710	(5,790)	1,710
Economic development	20,000	20,000	13,338	(6,662)	12,321
Total interdepartmental charges for services	<u>437,500</u>	<u>437,500</u>	<u>466,337</u>	<u>28,837</u>	<u>356,905</u>
Miscellaneous					
Interest on investments	8,000	8,000	18,206	10,206	8,283
Interest on advances	53,000	53,000	66,003	13,003	64,756
Interest on special assessments	2,000	2,000	4,391	2,391	5,580
Rental income	54,000	54,000	59,383	5,383	62,438
Donations	-	-	-	-	700
Refunds for prior years	28,500	28,500	39,311	10,811	17,860
Insurance recovery	5,000	5,000	-	(5,000)	-
Other	5,000	5,000	3,767	(1,233)	3,855
Total miscellaneous	<u>155,500</u>	<u>155,500</u>	<u>191,061</u>	<u>35,561</u>	<u>163,472</u>
Total revenues	<u>\$ 8,976,443</u>	<u>\$ 8,976,443</u>	<u>\$ 9,197,913</u>	<u>\$ 221,470</u>	<u>\$ 8,853,411</u>

City of Two Rivers, Wisconsin

**GENERAL FUND
DETAILED COMPARISON OF BUDGETED AND ACTUAL EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2017
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2016**

	Budget		Actual	Variance Final Budget - Positive (Negative)	2016 Actual
	Original	Final			
General government					
Council	\$ 15,938	\$ 15,938	\$ 16,890	\$ (952)	\$ 15,932
Judicial	53,578	53,578	55,729	(2,151)	51,071
Clerk	80,670	80,670	79,788	882	79,514
Assessor	107,989	107,989	97,914	10,075	105,549
Elections	10,700	10,700	9,301	1,399	23,658
City manager	156,006	156,006	153,557	2,449	162,871
City Hall	117,110	117,110	114,762	2,348	101,440
Information systems	93,469	93,469	91,403	2,066	118,322
Other general government	23,800	23,800	18,876	4,924	16,773
Insurance and bonds	341,000	341,000	329,123	11,877	309,734
Legal	51,708	51,708	49,513	2,195	66,414
Accounting	156,501	156,501	148,762	7,739	135,421
Uncollectible taxes and refunds	2,000	2,000	6,616	(4,616)	676
Contingency	50,016	50,016	-	50,016	25,190
Total general government	<u>1,260,485</u>	<u>1,260,485</u>	<u>1,172,234</u>	<u>88,251</u>	<u>1,212,565</u>
Public safety					
Police and fire commission	5,000	5,000	6,181	(1,181)	5,494
Police department	2,797,576	2,797,576	2,869,942	(72,366)	2,768,915
Fire department	1,805,604	1,805,604	1,882,239	(76,635)	1,754,960
Ambulance	408,004	408,004	553,109	(145,105)	437,592
Inspection	120,679	120,679	125,715	(5,036)	117,311
Total public safety	<u>5,136,863</u>	<u>5,136,863</u>	<u>5,437,186</u>	<u>(300,323)</u>	<u>5,084,272</u>
Public works					
Public works shop	549,247	549,247	591,517	(42,270)	584,510
Highway administration	177,930	177,930	182,614	(4,684)	176,872
Bridge repairs ad maintenance	30,025	30,025	28,611	1,414	24,130
Street and highway maintenance	420,205	420,205	298,686	121,519	339,707
Storm sewers	-	-	53	(53)	-
Snow and ice removal	228,510	228,510	197,694	30,816	231,860
Traffic control	54,490	54,490	52,997	1,493	67,252
Transit	99,055	99,055	99,055	-	97,687
Work done for others	28,625	28,625	189,058	(160,433)	136,169
Total public works	<u>1,588,087</u>	<u>1,588,087</u>	<u>1,640,285</u>	<u>(52,198)</u>	<u>1,658,187</u>
Health and human services					
Cemetery	176,981	176,981	172,007	4,974	170,491
Senior center	203,480	203,480	186,280	17,200	182,868
Total health and human services	<u>380,461</u>	<u>380,461</u>	<u>358,287</u>	<u>22,174</u>	<u>353,359</u>

City of Two Rivers, Wisconsin

**GENERAL FUND
 DETAILED COMPARISON OF BUDGETED AND ACTUAL EXPENDITURES
 FOR THE YEAR ENDED DECEMBER 31, 2017
 WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2016**

	Budget		Actual	Variance Final Budget - Positive (Negative)	2016 Actual
	Original	Final			
Culture and recreation					
Community center	375,662	375,662	369,377	6,285	358,654
Parks	281,168	281,168	297,513	(16,345)	277,719
Recreation	262,603	262,603	248,056	14,547	241,411
Special events	39,447	39,447	41,707	(2,260)	40,395
Recreation fields	115,612	115,612	114,027	1,585	111,357
Total culture and recreation	<u>1,074,492</u>	<u>1,074,492</u>	<u>1,070,680</u>	<u>3,812</u>	<u>1,029,536</u>
Conservation and development					
Economic development	23,075	23,075	33,099	(10,024)	54,132
Planning and zoning	<u>7,740</u>	<u>7,740</u>	<u>4,031</u>	<u>3,709</u>	<u>8,134</u>
Total conservation and development	<u>30,815</u>	<u>30,815</u>	<u>37,130</u>	<u>(6,315)</u>	<u>62,266</u>
Total expenditures	<u><u>\$ 9,471,203</u></u>	<u><u>\$ 9,471,203</u></u>	<u><u>\$ 9,715,802</u></u>	<u><u>\$ (244,599)</u></u>	<u><u>\$ 9,400,185</u></u>

City of Two Rivers, Wisconsin

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2017
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2016**

	Budget		Actual	Variance Final Budget - Positive (Negative)	2016 Actual
	Original	Final			
REVENUES					
Taxes	\$ 2,445,283	\$ 2,445,283	\$ 2,445,283	\$ -	\$ 2,456,720
Miscellaneous	3,500	3,500	19,344	15,844	3,848
Total revenues	<u>2,448,783</u>	<u>2,448,783</u>	<u>2,464,627</u>	<u>15,844</u>	<u>2,460,568</u>
EXPENDITURES					
Current					
General government					
Unfunded pension liability	303,114	303,114	363,000	(59,886)	400,000
Debt service					
Principal	2,033,643	2,033,643	2,030,795	2,848	5,146,400
Interest and fiscal charges	<u>476,808</u>	<u>476,808</u>	<u>457,739</u>	<u>19,069</u>	<u>506,622</u>
Total expenditures	<u>2,813,565</u>	<u>2,813,565</u>	<u>2,851,534</u>	<u>(37,969)</u>	<u>6,053,022</u>
Excess of revenues under expenditures	<u>(364,782)</u>	<u>(364,782)</u>	<u>(386,907)</u>	<u>(22,125)</u>	<u>(3,592,454)</u>
OTHER FINANCING SOURCES					
Long-term debt issued	250,000	250,000	1,300,000	1,050,000	3,075,974
Payment to current noteholder	-	-	(1,300,000)	(1,300,000)	-
Transfers in	<u>114,782</u>	<u>114,782</u>	<u>388,125</u>	<u>273,343</u>	<u>517,109</u>
Total other financing sources	<u>364,782</u>	<u>364,782</u>	<u>388,125</u>	<u>23,343</u>	<u>3,593,083</u>
Net change in fund balance	-	-	1,218	1,218	629
Fund balance - January 1	<u>35,091</u>	<u>35,091</u>	<u>35,091</u>	-	<u>34,462</u>
Fund balance - December 31	<u>\$ 35,091</u>	<u>\$ 35,091</u>	<u>\$ 36,309</u>	<u>\$ 1,218</u>	<u>\$ 35,091</u>

City of Two Rivers, Wisconsin

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2017**

	Library	Library Gift	Community Tourism	Special Events Donations	Business Improvement District
ASSETS					
Cash and investments	\$ 32,735	\$ 421,831	\$ 4,762	\$ 13,726	\$ -
Receivables					
Accounts	-	-	-	-	4,830
Loans	-	-	-	-	-
Due from other funds	594,971	-	-	-	37,100
Due from other governments	-	-	-	-	-
Total assets	<u>\$ 627,706</u>	<u>\$ 421,831</u>	<u>\$ 4,762</u>	<u>\$ 13,726</u>	<u>\$ 41,930</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 6,792	\$ 4,050	\$ 3,640	\$ -	\$ -
Accrued and other current liabilities	25,476	-	-	-	-
Due to other funds	-	-	-	-	-
Due to other governments	24	-	-	-	-
Special deposits	405	-	-	-	-
Unearned revenues	-	-	-	-	-
Total liabilities	<u>32,697</u>	<u>4,050</u>	<u>3,640</u>	<u>-</u>	<u>-</u>
Deferred inflows of resources					
Property taxes levied for subsequent year	594,971	-	-	-	37,100
Loans receivable	-	-	-	-	-
Special assessments	-	-	-	-	-
Total deferred inflows of resources	<u>594,971</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>37,100</u>
Fund balances					
Restricted	38	417,781	-	-	-
Committed	-	-	1,122	13,726	4,830
Unassigned	-	-	-	-	-
Total fund balances	<u>38</u>	<u>417,781</u>	<u>1,122</u>	<u>13,726</u>	<u>4,830</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 627,706</u>	<u>\$ 421,831</u>	<u>\$ 4,762</u>	<u>\$ 13,726</u>	<u>\$ 41,930</u>

Special Revenue

Docks and Harbors	Urban Forestry	Senior Center	Tree Planting	EMS Act 102 Grant	Business and Industrial Revolving Loans	Sandy Bay Highlands
\$ 5,669	\$ 6,620	\$ 2,547	\$ 18,683	\$ 10,771	\$ 1,222,375	\$ -
-	-	-	-	-	-	-
-	-	-	-	-	1,356,054	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>\$ 5,669</u>	<u>\$ 6,620</u>	<u>\$ 2,547</u>	<u>\$ 18,683</u>	<u>\$ 10,771</u>	<u>\$ 2,578,429</u>	<u>\$ -</u>
\$ -	\$ 1,800	\$ 6,212	\$ -	\$ -	\$ -	\$ -
-	292	1,823	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	23,969	-	-	-	-
-	2,092	32,004	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	1,356,054	-
-	-	-	-	-	-	-
-	-	-	-	-	1,356,054	-
-	4,528	-	-	10,771	1,222,375	-
5,669	-	-	18,683	-	-	-
-	-	(29,457)	-	-	-	-
<u>5,669</u>	<u>4,528</u>	<u>(29,457)</u>	<u>18,683</u>	<u>10,771</u>	<u>1,222,375</u>	<u>-</u>
<u>\$ 5,669</u>	<u>\$ 6,620</u>	<u>\$ 2,547</u>	<u>\$ 18,683</u>	<u>\$ 10,771</u>	<u>\$ 2,578,429</u>	<u>\$ -</u>

City of Two Rivers, Wisconsin

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2017**

	<u>Street Construction</u>	<u>Bridge Construction</u>	<u>Park and Cemetery Construction</u>	<u>Fire Equipment</u>	<u>Public Works Equipment</u>
ASSETS					
Cash and investments	\$ 718,953	\$ 27,303	\$ 71,105	\$ 37,510	\$ 167,814
Receivables					
Accounts	-	-	-	-	-
Loans	-	-	-	-	-
Due from other funds	-	-	-	-	-
Due from other governments	-	-	-	-	-
Total assets	<u><u>\$ 718,953</u></u>	<u><u>\$ 27,303</u></u>	<u><u>\$ 71,105</u></u>	<u><u>\$ 37,510</u></u>	<u><u>\$ 167,814</u></u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 7,039	\$ -	\$ -	\$ 1,112	\$ -
Accrued and other current liabilities	-	-	-	-	-
Due to other funds	-	-	-	-	-
Due to other governments	-	-	-	-	-
Special deposits	-	-	-	-	-
Unearned revenues	-	-	-	-	-
Total liabilities	<u>7,039</u>	<u>-</u>	<u>-</u>	<u>1,112</u>	<u>-</u>
Deferred inflows of resources					
Property taxes levied for subsequent year	-	-	-	-	-
Loans receivable	-	-	-	-	-
Special assessments	-	-	-	-	-
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances					
Restricted	-	-	-	-	-
Committed	711,914	27,303	71,105	36,398	167,814
Unassigned	-	-	-	-	-
Total fund balances	<u>711,914</u>	<u>27,303</u>	<u>71,105</u>	<u>36,398</u>	<u>167,814</u>
Total liabilities, deferred inflows of resources, and fund balances	<u><u>\$ 718,953</u></u>	<u><u>\$ 27,303</u></u>	<u><u>\$ 71,105</u></u>	<u><u>\$ 37,510</u></u>	<u><u>\$ 167,814</u></u>

Capital Projects

<u>Rogers Street Park</u>	<u>City Hall Equipment</u>	<u>Management Information</u>	<u>Police Equipment</u>	<u>TIF District No. 3</u>	<u>TIF District No. 4</u>	<u>TIF District No. 5</u>	<u>TIF District No. 6</u>
\$ -	\$ 37,336	\$ 11,762	\$ -	\$ 890	\$ -	\$ 5,810	\$ -
63,774	-	-	-	-	-	-	-
-	-	-	-	13,022	46,854	81,988	13,343
-	-	-	-	-	-	-	-
<u>\$ 63,774</u>	<u>\$ 37,336</u>	<u>\$ 11,762</u>	<u>\$ -</u>	<u>\$ 13,912</u>	<u>\$ 46,854</u>	<u>\$ 87,798</u>	<u>\$ 13,343</u>
\$ -	\$ -	\$ -	\$ 736	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-
63,774	-	-	1,076	-	138,155	44,297	254,403
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>63,774</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>127,548</u>	<u>-</u>	<u>-</u>	<u>1,812</u>	<u>-</u>	<u>138,155</u>	<u>44,297</u>	<u>254,403</u>
-	-	-	-	13,022	46,854	81,988	13,343
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	13,022	46,854	81,988	13,343
-	-	-	-	890	-	-	-
-	37,336	11,762	-	-	-	-	-
<u>(63,774)</u>	<u>-</u>	<u>-</u>	<u>(1,812)</u>	<u>-</u>	<u>(138,155)</u>	<u>(38,487)</u>	<u>(254,403)</u>
<u>(63,774)</u>	<u>37,336</u>	<u>11,762</u>	<u>(1,812)</u>	<u>890</u>	<u>(138,155)</u>	<u>(38,487)</u>	<u>(254,403)</u>
<u>\$ 63,774</u>	<u>\$ 37,336</u>	<u>\$ 11,762</u>	<u>\$ -</u>	<u>\$ 13,912</u>	<u>\$ 46,854</u>	<u>\$ 87,798</u>	<u>\$ 13,343</u>

City of Two Rivers, Wisconsin

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2017**

	TIF District No. 7	TIF District No. 8	TIF District No. 9	TIF District No. 10	TIF District No. 11
ASSETS					
Cash and investments	\$ 162,957	\$ 425,421	\$ 62,693	\$ -	\$ -
Receivables					
Accounts	5,647	-	-	-	-
Loans	-	-	-	-	-
Due from other funds	562,230	236,270	237,619	56,145	15,914
Due from other governments	-	-	-	-	-
Total assets	<u>\$ 730,834</u>	<u>\$ 661,691</u>	<u>\$ 300,312</u>	<u>\$ 56,145</u>	<u>\$ 15,914</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
Liabilities					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -
Accrued and other current liabilities	-	-	-	-	-
Due to other funds	-	-	-	179,103	9,547
Due to other governments	-	-	-	-	-
Special deposits	-	-	-	-	-
Unearned revenues	-	-	-	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>179,103</u>	<u>9,547</u>
Deferred inflows of resources					
Property taxes levied for subsequent year	159,933	159,425	237,619	56,145	15,914
Loans receivable	-	-	-	-	-
Special assessments	-	-	-	-	-
Total deferred inflows of resources	<u>159,933</u>	<u>159,425</u>	<u>237,619</u>	<u>56,145</u>	<u>15,914</u>
Fund balances					
Restricted	570,901	502,266	62,693	-	-
Committed	-	-	-	-	-
Unassigned	-	-	-	(179,103)	(9,547)
Total fund balances	<u>570,901</u>	<u>502,266</u>	<u>62,693</u>	<u>(179,103)</u>	<u>(9,547)</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 730,834</u>	<u>\$ 661,691</u>	<u>\$ 300,312</u>	<u>\$ 56,145</u>	<u>\$ 15,914</u>

Capital Projects							
Industrial Park Development	City Landfill	Community House Renovation	Harbor Dredging	High School Bike Trail	Harbor Seawall	Harbor Master Plan	Total
\$ 7,676	\$ -	\$ -	\$ 5,255	\$ 29,828	\$ -	\$ -	\$ 3,512,032
4,125	-	-	-	-	-	-	78,376
-	-	-	-	-	-	-	1,356,054
-	-	-	-	-	-	-	1,895,456
-	-	-	-	-	435,351	-	435,351
<u>\$ 11,801</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,255</u>	<u>\$ 29,828</u>	<u>\$ 435,351</u>	<u>\$ -</u>	<u>\$ 7,277,269</u>
\$ -	\$ 35	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 31,416
-	-	-	-	-	-	-	27,591
-	3,751	-	-	-	441,084	14,500	1,149,690
-	-	-	-	-	-	-	24
4,480	-	-	-	-	-	-	4,885
-	-	-	-	-	-	-	87,743
<u>4,480</u>	<u>3,786</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>441,084</u>	<u>14,500</u>	<u>1,301,349</u>
-	-	-	-	-	-	-	1,416,314
-	-	-	-	-	-	-	1,356,054
<u>4,125</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,125</u>
<u>4,125</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,776,493</u>
-	-	-	-	-	-	-	2,792,243
3,196	-	-	5,255	29,828	-	-	1,145,941
-	(3,786)	-	-	-	(5,733)	(14,500)	(738,757)
<u>3,196</u>	<u>(3,786)</u>	<u>-</u>	<u>5,255</u>	<u>29,828</u>	<u>(5,733)</u>	<u>(14,500)</u>	<u>3,199,427</u>
<u>\$ 11,801</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,255</u>	<u>\$ 29,828</u>	<u>\$ 435,351</u>	<u>\$ -</u>	<u>\$ 7,277,269</u>

City of Two Rivers, Wisconsin

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES NONMAJOR GOVERNMENTAL FUNDS FOR THE YEAR ENDED DECEMBER 31, 2017

	Library	Library Gift	Community Tourism	Special Events Donations	Business Improvement District
REVENUES					
Taxes	\$ 583,305	\$ -	\$ 117,893	\$ -	\$ -
Special assessments	-	-	-	-	34,969
Intergovernmental	139,119	5	-	-	-
Public charges for services	16,248	-	-	-	-
Miscellaneous	33,567	90,747	-	21,396	-
Total revenues	<u>772,239</u>	<u>90,752</u>	<u>117,893</u>	<u>21,396</u>	<u>34,969</u>
EXPENDITURES					
Current					
Public safety	-	-	-	-	-
Public works	-	-	-	-	-
Health and human services	-	-	-	-	-
Culture and recreation	815,755	42,725	-	25,617	-
Conservation and development	-	-	93,303	-	40,055
Capital outlay					
General government	-	-	-	-	-
Public safety	-	-	-	-	-
Public works	-	-	-	-	-
Culture and recreation	-	-	-	-	-
Conservation and development	-	-	-	-	-
Debt service					
Principal	12,908	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
Total expenditures	<u>828,663</u>	<u>42,725</u>	<u>93,303</u>	<u>25,617</u>	<u>40,055</u>
Excess of revenues over (under) expenditures	<u>(56,424)</u>	<u>48,027</u>	<u>24,590</u>	<u>(4,221)</u>	<u>(5,086)</u>
OTHER FINANCING SOURCES (USES)					
Long-term debt issued	-	-	-	-	-
Proceeds from sale of capital assets	1,697	-	-	-	-
Transfers in	55,807	-	24,171	-	6,000
Transfers out	(1,080)	(55,807)	(56,048)	-	-
Total other financing sources (uses)	<u>56,424</u>	<u>(55,807)</u>	<u>(31,877)</u>	<u>-</u>	<u>6,000</u>
Net change in fund balances	-	(7,780)	(7,287)	(4,221)	914
Fund balances - January 1	<u>38</u>	<u>425,561</u>	<u>8,409</u>	<u>17,947</u>	<u>3,916</u>
Fund balances - December 31	<u>\$ 38</u>	<u>\$ 417,781</u>	<u>\$ 1,122</u>	<u>\$ 13,726</u>	<u>\$ 4,830</u>

Special Revenue						
Docks and Harbors	Urban Forestry	Senior Center	Tree Planting	EMS Act 102 Grant	Business and Industrial Revolving Loans	Sandy Bay Highlands
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-
-	-	46,437	-	5,790	-	-
5,172	-	294,256	-	-	-	-
-	-	4,456	5,971	-	162,899	-
<u>5,172</u>	<u>-</u>	<u>345,149</u>	<u>5,971</u>	<u>5,790</u>	<u>162,899</u>	<u>-</u>
-	-	-	-	3,906	-	-
2,760	-	-	-	-	-	-
-	-	353,790	-	-	-	-
-	-	5,682	-	-	-	-
-	19,557	-	5,310	-	48,558	3,213
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>2,760</u>	<u>19,557</u>	<u>359,472</u>	<u>5,310</u>	<u>3,906</u>	<u>48,558</u>	<u>3,213</u>
<u>2,412</u>	<u>(19,557)</u>	<u>(14,323)</u>	<u>661</u>	<u>1,884</u>	<u>114,341</u>	<u>(3,213)</u>
-	-	-	-	-	-	-
-	-	-	-	-	-	31,000
-	19,500	-	-	-	-	-
-	-	-	-	-	-	(27,787)
-	19,500	-	-	-	-	3,213
2,412	(57)	(14,323)	661	1,884	114,341	-
<u>3,257</u>	<u>4,585</u>	<u>(15,134)</u>	<u>18,022</u>	<u>8,887</u>	<u>1,108,034</u>	<u>-</u>
<u>\$ 5,669</u>	<u>\$ 4,528</u>	<u>\$ (29,457)</u>	<u>\$ 18,683</u>	<u>\$ 10,771</u>	<u>\$ 1,222,375</u>	<u>\$ -</u>

City of Two Rivers, Wisconsin

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>Street Construction</u>	<u>Bridge Construction</u>	<u>Park and Cemetery Construction</u>	<u>Fire Equipment</u>	<u>Public Works Equipment</u>
REVENUES					
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Special assessments	-	-	-	-	-
Intergovernmental	-	-	81,256	-	-
Public charges for services	-	-	-	-	-
Miscellaneous	-	-	-	36,323	51,716
Total revenues	<u>-</u>	<u>-</u>	<u>81,256</u>	<u>36,323</u>	<u>51,716</u>
EXPENDITURES					
Current					
Public safety	-	-	-	13,423	-
Public works	1	-	-	-	-
Health and human services	-	-	-	-	-
Culture and recreation	-	-	-	-	-
Conservation and development	-	-	-	-	-
Capital outlay					
General government	-	-	-	-	-
Public safety	-	-	-	66,742	-
Public works	409,582	34,355	-	-	292,137
Culture and recreation	-	-	401,947	-	-
Conservation and development	-	-	-	-	-
Debt service					
Principal	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
Total expenditures	<u>409,583</u>	<u>34,355</u>	<u>401,947</u>	<u>80,165</u>	<u>292,137</u>
Excess of revenues over (under) expenditures	<u>(409,583)</u>	<u>(34,355)</u>	<u>(320,691)</u>	<u>(43,842)</u>	<u>(240,421)</u>
OTHER FINANCING SOURCES (USES)					
Long-term debt issued	648,000	25,000	477,000	67,340	150,000
Proceeds from sale of capital assets	-	-	-	-	-
Transfers in	250,000	-	11,594	-	-
Transfers out	-	-	-	-	-
Total other financing sources (uses)	<u>898,000</u>	<u>25,000</u>	<u>488,594</u>	<u>67,340</u>	<u>150,000</u>
Net change in fund balances	488,417	(9,355)	167,903	23,498	(90,421)
Fund balances - January 1	<u>223,497</u>	<u>36,658</u>	<u>(96,798)</u>	<u>12,900</u>	<u>258,235</u>
Fund balances - December 31	<u>\$ 711,914</u>	<u>\$ 27,303</u>	<u>\$ 71,105</u>	<u>\$ 36,398</u>	<u>\$ 167,814</u>

Capital Projects

<u>Rogers Street Park</u>	<u>City Hall Equipment</u>	<u>Management Information</u>	<u>Police Equipment</u>	<u>TIF District No. 3</u>	<u>TIF District No. 4</u>	<u>TIF District No. 5</u>	<u>TIF District No. 6</u>
\$ -	\$ -	\$ -	\$ -	\$ 17,477	\$ 48,643	\$ 77,001	\$ 13,298
-	-	-	-	-	-	-	-
-	2,736	-	2,000	5,205	769	987	5
-	-	-	-	-	-	-	-
-	-	-	10,535	-	-	-	-
-	2,736	-	12,535	22,682	49,412	77,988	13,303
-	-	-	14,414	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	150	150	17,918	1,950
-	174,857	8,782	-	-	-	-	-
-	-	-	4,715	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	14,332	37,792	-
-	-	-	-	-	-	-	-
-	-	-	-	-	5,209	2,636	7,411
-	174,857	8,782	19,129	150	19,691	58,346	9,361
-	(172,121)	(8,782)	(6,594)	22,532	29,721	19,642	3,942
-	155,000	-	-	-	-	-	-
-	-	-	960	-	-	-	-
-	-	18,000	-	-	-	-	-
-	-	-	-	(22,000)	-	-	-
-	155,000	18,000	960	(22,000)	-	-	-
-	(17,121)	9,218	(5,634)	532	29,721	19,642	3,942
(63,774)	54,457	2,544	3,822	358	(167,876)	(58,129)	(258,345)
<u>\$ (63,774)</u>	<u>\$ 37,336</u>	<u>\$ 11,762</u>	<u>\$ (1,812)</u>	<u>\$ 890</u>	<u>\$ (138,155)</u>	<u>\$ (38,487)</u>	<u>\$ (254,403)</u>

City of Two Rivers, Wisconsin

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

	TIF District No. 7	TIF District No. 8	TIF District No. 9	TIF District No. 10	TIF District No. 11
REVENUES					
Taxes	\$ 160,175	\$ 158,960	\$ 14,107	\$ 53,530	\$ -
Special assessments	-	-	-	-	-
Intergovernmental	737	-	3,543	24	-
Public charges for services	-	-	-	-	-
Miscellaneous	2,828	3,422	-	-	-
Total revenues	<u>163,740</u>	<u>162,382</u>	<u>17,650</u>	<u>53,554</u>	<u>-</u>
EXPENDITURES					
Current					
Public safety	-	-	-	-	-
Public works	-	-	-	-	-
Health and human services	-	-	-	-	-
Culture and recreation	-	-	-	-	-
Conservation and development	150	150	150	49,232	6,532
Capital outlay					
General government	-	-	-	-	-
Public safety	-	-	-	-	-
Public works	-	-	-	-	-
Culture and recreation	-	-	-	-	-
Conservation and development	2,509	-	-	-	-
Debt service					
Principal	-	-	-	-	-
Interest and fiscal charges	-	-	-	4,724	353
Total expenditures	<u>2,659</u>	<u>150</u>	<u>150</u>	<u>53,956</u>	<u>6,885</u>
Excess of revenues over (under) expenditures	<u>161,081</u>	<u>162,232</u>	<u>17,500</u>	<u>(402)</u>	<u>(6,885)</u>
OTHER FINANCING SOURCES (USES)					
Long-term debt issued	-	-	-	-	-
Proceeds from sale of capital assets	-	-	-	-	-
Transfers in	-	-	-	-	-
Transfers out	(250,000)	(105,490)	-	(23,343)	-
Total other financing sources (uses)	<u>(250,000)</u>	<u>(105,490)</u>	<u>-</u>	<u>(23,343)</u>	<u>-</u>
Net change in fund balances	<u>(88,919)</u>	<u>56,742</u>	<u>17,500</u>	<u>(23,745)</u>	<u>(6,885)</u>
Fund balances - January 1	<u>659,820</u>	<u>445,524</u>	<u>45,193</u>	<u>(155,358)</u>	<u>(2,662)</u>
Fund balances - December 31	<u>\$ 570,901</u>	<u>\$ 502,266</u>	<u>\$ 62,693</u>	<u>\$ (179,103)</u>	<u>\$ (9,547)</u>

Capital Projects

Industrial Park Development	City Landfill	Community House Renovation	Harbor Dredging	High School Bike Trail	Harbor Seawall	Harbor Master Plan	Total
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,244,389
-	-	-	-	-	-	-	34,969
-	-	-	-	-	435,351	-	723,964
-	-	-	-	-	-	-	315,676
64,480	89,570	-	-	-	-	14,883	592,793
64,480	89,570	-	-	-	435,351	14,883	2,911,791
-	-	-	-	-	-	-	31,743
-	64,090	-	-	-	29,198	163,635	259,684
-	-	-	-	-	-	-	353,790
-	-	131	-	77,309	-	-	967,219
2,188	-	-	-	-	-	-	288,566
-	-	-	-	-	-	-	183,639
-	-	-	-	-	-	-	71,457
-	169,285	-	-	-	57,412	-	962,771
-	-	-	-	-	-	-	401,947
3,343	-	-	-	-	-	-	57,976
-	-	-	-	-	-	-	12,908
-	-	-	-	-	-	-	20,333
5,531	233,375	131	-	77,309	86,610	163,635	3,612,033
58,949	(143,805)	(131)	-	(77,309)	348,741	(148,752)	(700,242)
-	25,000	-	-	-	75,000	150,000	1,772,340
21,670	-	-	-	-	-	-	55,327
-	-	-	-	-	-	-	385,072
(84,292)	-	-	-	-	(11,594)	-	(637,441)
(62,622)	25,000	-	-	-	63,406	150,000	1,575,298
(3,673)	(118,805)	(131)	-	(77,309)	412,147	1,248	875,056
6,869	115,019	131	5,255	107,137	(417,880)	(15,748)	2,324,371
<u>\$ 3,196</u>	<u>\$ (3,786)</u>	<u>\$ -</u>	<u>\$ 5,255</u>	<u>\$ 29,828</u>	<u>\$ (5,733)</u>	<u>\$ (14,500)</u>	<u>\$ 3,199,427</u>

City of Two Rivers, Wisconsin

COMBINING STATEMENT OF NET POSITION NONMAJOR ENTERPRISE FUNDS DECEMBER 31, 2017

	Telecom- munication Utility	Solid Waste	Stormwater Utility	Total
ASSETS				
Current assets				
Cash and investments	\$ 23,846	\$ 209,049	\$ 334,472	\$ 567,367
Receivables				
Customer accounts	-	-	63,851	63,851
Special assessments	-	-	44,098	44,098
Other	-	38,658	-	38,658
Due from other funds	-	2,736	364,682	367,418
Total current assets	<u>23,846</u>	<u>250,443</u>	<u>807,103</u>	<u>1,081,392</u>
Noncurrent assets				
Restricted assets				
Cash and investments	-	-	21,141	21,141
Capital assets				
Nondepreciable	-	-	244,592	244,592
Depreciable	76,178	-	-	76,178
Total capital assets	<u>76,178</u>	<u>-</u>	<u>244,592</u>	<u>320,770</u>
Total assets	<u>100,024</u>	<u>250,443</u>	<u>1,072,836</u>	<u>1,423,303</u>
DEFERRED OUTFLOWS OF RESOURCES				
Pension related amounts	-	22,100	-	22,100
LIABILITIES				
Current liabilities				
Accounts payable	-	276	6,626	6,902
Accrued and other current liabilities	-	1,023	-	1,023
Accrued interest payable	-	469	-	469
Current portion of long-term debt	-	1,424	-	1,424
Total current liabilities	<u>-</u>	<u>3,192</u>	<u>6,626</u>	<u>9,818</u>
Long-term obligations, less current portion				
General obligation debt	-	15,576	-	15,576
Net pension liability	-	2,782	-	2,782
Total long-term liabilities	<u>-</u>	<u>18,358</u>	<u>-</u>	<u>18,358</u>
Total liabilities	<u>-</u>	<u>21,550</u>	<u>6,626</u>	<u>28,176</u>
DEFERRED INFLOWS OF RESOURCES				
Pension related amounts	-	8,819	-	8,819
NET POSITION				
Net investment in capital assets	76,178	-	244,592	320,770
Unrestricted	23,846	242,174	821,618	1,087,638
Total net position	<u>\$ 100,024</u>	<u>\$ 242,174</u>	<u>\$ 1,066,210</u>	<u>\$ 1,408,408</u>

City of Two Rivers, Wisconsin

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION NONMAJOR ENTERPRISE FUNDS FOR THE YEAR ENDED DECEMBER 31, 2017

	Telecom- munication Utility	Solid Waste	Stormwater Utility	Total
OPERATING REVENUES				
Charges for services	\$ -	\$ 373,452	\$ 657,189	\$ 1,030,641
Other	-	234,966	-	234,966
Total operating revenues	-	608,418	657,189	1,265,607
OPERATING EXPENSES				
Operation and maintenance	6,421	584,557	138,682	729,660
Depreciation	27,427	-	-	27,427
Total operating expenses	33,848	584,557	138,682	757,087
Operating income (loss)	(33,848)	23,861	518,507	508,520
NONOPERATING REVENUES (EXPENSES)				
Nonoperating grants	-	81,391	-	81,391
Interest and fiscal charges	-	(469)	-	(469)
Other nonoperating revenues	15,885	-	-	15,885
Total nonoperating revenues (expenses)	15,885	80,922	-	96,807
Income (loss) before transfers and contributios	(17,963)	104,783	518,507	605,327
Capital contributions	-	-	78,694	78,694
Transfers out	-	(1,080)	(250,000)	(251,080)
Change in net position	(17,963)	103,703	347,201	432,941
Net position - January 1	117,987	138,471	719,009	975,467
Net position - December 31	<u>\$ 100,024</u>	<u>\$ 242,174</u>	<u>\$ 1,066,210</u>	<u>\$ 1,408,408</u>

City of Two Rivers, Wisconsin

COMBINING STATEMENT OF CASH FLOWS NONMAJOR ENTERPRISE FUNDS FOR THE YEAR ENDED DECEMBER 31, 2017

	Telecom- munication Utility	Solid Waste	Stormwater Utility	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 15,885	\$ 606,927	\$ 654,843	\$ 1,277,655
Cash paid for employee wages and benefits	(857)	(74,200)	(3,877)	(78,934)
Cash paid to suppliers	(5,564)	(519,839)	(132,760)	(658,163)
Net cash provided by operating activities	<u>9,464</u>	<u>12,888</u>	<u>518,206</u>	<u>540,558</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Special assessments	-	-	(44,098)	(44,098)
Nonoperating grants	-	81,391	-	81,391
Due to/from other Funds	-	121	(361,700)	(361,579)
Transfer out	-	(1,080)	(250,000)	(251,080)
Net cash provided (used) by noncapital financing activities	<u>-</u>	<u>80,432</u>	<u>(655,798)</u>	<u>(575,366)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition of capital assets	(5,343)	-	(153,152)	(158,495)
Capital contributions	-	-	78,694	78,694
Long-term debt issued	-	17,000	-	17,000
Net cash provided (used) by capital and related financing activities	<u>(5,343)</u>	<u>17,000</u>	<u>(74,458)</u>	<u>(62,801)</u>
Change in cash and cash equivalents	4,121	110,320	(212,050)	(97,609)
Cash and cash equivalents - January 1	<u>19,725</u>	<u>98,729</u>	<u>567,663</u>	<u>686,117</u>
Cash and cash equivalents - December 31	<u>\$ 23,846</u>	<u>\$ 209,049</u>	<u>\$ 355,613</u>	<u>\$ 588,508</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating income (loss)	\$ (33,848)	\$ 23,861	\$ 518,507	\$ 508,520
Adjustments to reconcile operating income (loss) to net cash provided by operating activities				
Depreciation	27,427	-	-	27,427
Other	15,885	-	-	15,885
Change in liability and deferred outflows and inflows of resources				
Pension	-	3,652	-	3,652
Change in operating assets and liabilities				
Accounts receivables	-	(1,491)	(2,346)	(3,837)
Accounts payable	-	(13,232)	2,045	(11,187)
Accrued and other current liabilities	-	98	-	98
Net cash provided by operating activities	<u>\$ 9,464</u>	<u>\$ 12,888</u>	<u>\$ 518,206</u>	<u>\$ 540,558</u>
Reconciliation of cash and cash equivalents to the statement of net position				
Cash and cash equivalents in current assets	\$ 23,846	\$ 209,049	\$ 334,472	\$ 567,367
Cash and cash equivalents in restricted assets	<u>-</u>	<u>-</u>	<u>21,141</u>	<u>21,141</u>
Total cash and cash equivalents	<u>\$ 23,846</u>	<u>\$ 209,049</u>	<u>\$ 355,613</u>	<u>\$ 588,508</u>
Noncash capital and related financing activities				
None				

ADDITIONAL INDEPENDENT AUDITORS' REPORT
FOR BASIC FINANCIAL STATEMENTS

Independent auditors' report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*

To the City Manager and City Council
City of Two Rivers, Wisconsin

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Two Rivers, Wisconsin (the "City") as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated August 28, 2018.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2017-001 that we consider to be a significant deficiency.

COMPLIANCE AND OTHER MATTERS

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

CITY OF TWO RIVERS, WISCONSIN'S RESPONSE TO FINDING

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

PURPOSE OF THIS REPORT

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



Certified Public Accountants

Sheboygan, Wisconsin
August 28, 2018

City of Two Rivers, Wisconsin

SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED DECEMBER 31, 2017

SECTION I. INTERNAL CONTROL OVER FINANCIAL REPORTING

FINDING NO.	CONTROL DEFICIENCIES
2017-001	Preparation of Annual Financial Report Repeat of Finding 2016-001
Condition:	Current City staff maintains accounting records which reflect the City's financial transactions; however, preparing the City's annual financial report, including note disclosures, involves the selection and application of specific accounting principles which would require additional experience and knowledge. The City contracts with us and our knowledge of applicable accounting principles, financial statement format, and note disclosures to assist in the preparation of the annual financial report in an efficient manner. For the same reasons, the City contracts with us to compile the Wisconsin Municipal Report Form C.
Criteria:	The preparation and review of the annual financial report and the Municipal Financial Report by staff with expertise in financial reporting is an internal control intended to prevent, detect and correct a potential omission or misstatement in the financial statements or notes or other required State Financial reports.
Cause:	City management has determined that the additional costs associated with training staff to become experienced in applicable accounting principles and note disclosures outweigh the derived benefits.
Effect:	Without our involvement, the City may not be able to completely prepare an annual financial report in accordance with accounting principles generally accepted in the United States of America.
Recommendation:	We recommend the City continue reviewing the annual financial report. While it may not be cost beneficial to train additional staff to completely prepare the report, a thorough review of this information by appropriate staff of the City is necessary to obtain a complete and adequate understanding of the City's annual financial report and the Municipal Financial Report.
Management Response:	Management believes the cost for additional staff time and training to prepare year-end closing entries and reports outweigh the benefits to be received. Management has reviewed and approved the annual financial report prior to issuance.

SECTION II. COMPLIANCE AND OTHER MATTERS

There are no findings related to compliance and other matters that are required to be reported under governmental auditing standards generally accepted in the United States of America for the year ended December 31, 2017.