

VILLAGE OF SISTER BAY, WISCONSIN
ANNUAL FINANCIAL REPORT
DECEMBER 31, 2004

VILLAGE OF SISTER BAY, WISCONSIN

December 31, 2004

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INDEPENDENT AUDITORS' REPORT ON BASIC FINANCIAL STATEMENTS

To the Village Board
Village of Sister Bay, Wisconsin

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 Village of Sister Bay, Wisconsin ("the Village") as of and for the year ended December 31, 2004, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Sister Bay's management. Our responsibility is to express opinions on these basic 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our 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 Village as of December 31, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note A to the basic financial statements, the Village has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures* as of January 1, 2004.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 4, 2005, on our consideration of the Village's internal control over financial reporting and 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* and should be considered in assessing the results of our audit.

The Village has not presented the management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village's basic financial statements. The financial information listed in the table of contents as supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Scherck SC

Certified Public Accountants
Green Bay, Wisconsin
March 4, 2005

BASIC FINANCIAL STATEMENTS

VILLAGE OF SISTER BAY, WISCONSIN

Statement of Net Assets

December 31, 2004

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and investments	\$ 2,106,898	\$ 600,037	\$ 2,706,935
Receivables			
Taxes	2,898,868	-	2,898,868
Accounts	-	123,881	123,881
Special assessments	2,239	510,105	512,344
Internal balances	(197,725)	197,725	-
Due from other governments	127,800	367,377	495,177
Inventories and prepaid items	-	11,489	11,489
Unamortized debt discount	-	106,142	106,142
Restricted cash and investments	584,574	950,897	1,535,471
Capital assets			
Land	1,956,768	167,765	2,124,533
Land Improvements	2,553,131	-	2,553,131
Construction in progress	242,052	15,777	257,829
Buildings and improvements	3,315,873	3,396,350	6,712,223
Machinery and equipment	134,112	10,659,199	10,793,311
Less: Accumulated depreciation	(1,048,755)	(4,870,449)	(5,919,204)
TOTAL ASSETS	12,675,835	12,236,295	24,912,130
LIABILITIES			
Accounts payable	61,508	88,593	150,101
Accrued payroll liabilities	21,429	-	21,429
Accrued interest payable	123,442	16,604	140,046
Due to other governments	2,724,719	33,086	2,757,805
Unearned revenues	1,301,268	-	1,301,268
Long-term obligations			
Due within one year	1,499,250	1,656,453	3,155,703
Due in more than one year	3,640,786	1,144,000	4,784,786
TOTAL LIABILITIES	9,372,402	2,938,736	12,311,138
NET ASSETS			
Invested in capital assets, net of related debt	2,597,719	6,568,189	9,165,908
Unrestricted	705,714	2,729,370	3,435,084
TOTAL NET ASSETS	\$ 3,303,433	\$ 9,297,559	\$ 12,600,992

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

VILLAGE OF SISTER BAY, WISCONSIN

Statement of Activities

Year Ended December 31, 2004

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities				
General government	\$ 321,572	\$ 19,679	\$ -	\$ -
Public safety	146,102	32,980	10,890	-
Public works	402,872	-	44,222	-
Health and human services	2,063	-	-	-
Culture and recreation	274,549	269,685	-	474,615
Development	30,090	-	-	-
Interest on debt	166,910	-	-	-
Total Governmental Activities	1,344,158	322,344	55,112	474,615
Business-type Activities				
Water	249,248	226,663	-	212,796
Wastewater	665,664	301,924	-	842,676
Total Business-type Activities	914,912	528,587	-	1,055,472
Total	\$ 2,259,070	\$ 850,931	\$ 55,112	\$ 1,530,087

General revenues

- Property taxes, levied for general purposes
- State and federal aids not restricted to specific functions
- Interest and investment earnings
- Rental income
- Miscellaneous

Transfers

Total general revenues and transfers

Change in net assets

Net assets - January 1

Net assets - December 31

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

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-type Activities	Total
\$ (301,893)	\$ -	\$ (301,893)
(102,232)	-	(102,232)
(358,650)	-	(358,650)
(2,063)	-	(2,063)
469,751	-	469,751
(30,090)	-	(30,090)
(166,910)	-	(166,910)
<u>(492,087)</u>	<u>-</u>	<u>(492,087)</u>
-	190,211	190,211
-	478,936	478,936
<u>-</u>	<u>669,147</u>	<u>669,147</u>
<u>(492,087)</u>	<u>669,147</u>	<u>177,060</u>
1,252,904	-	1,252,904
15,630		15,630
19,427	21,952	41,379
16,154		16,154
767	18,996	19,763
(145,000)	145,000	-
<u>1,159,882</u>	<u>185,948</u>	<u>1,345,830</u>
667,795	855,095	1,522,890
<u>2,635,638</u>	<u>8,442,464</u>	<u>11,078,102</u>
<u>\$ 3,303,433</u>	<u>\$ 9,297,559</u>	<u>\$ 12,600,992</u>

VILLAGE OF SISTER BAY, WISCONSIN

Balance Sheet

Governmental Funds

December 31, 2004

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and investments	\$ 1,546,547	\$ 862,188	\$ 282,737	\$ 2,691,472
Receivables				
Taxes	2,898,868	-	-	2,898,868
Delinquent	2,239	-	-	2,239
Due from other funds	109,082	-	-	109,082
Due from other governments	-	127,800	-	127,800
TOTAL ASSETS	\$ 4,556,736	\$ 989,988	\$ 282,737	\$ 5,829,461
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 53,829	\$ -	\$ 7,679	\$ 61,508
Accrued wages payable	1,577	-	-	1,577
Deposits payable	18	-	19,834	19,852
Due to other funds	232,289	-	74,517	306,806
Deferred revenue	1,301,019	-	249	1,301,268
Due to other taxing units	2,724,719	-	-	2,724,719
Total Liabilities	4,313,451	-	102,279	4,415,730
Fund Balances - Unreserved				
Designated for subsequent year's expenditures	-	989,988	180,458	1,170,446
Undesignated	243,285	-	-	243,285
Total Fund Balances	243,285	989,988	180,458	1,413,731
TOTAL LIABILITIES AND FUND BALANCES	\$ 4,556,736	\$ 989,988	\$ 282,737	\$ 5,829,461

Reconciliation to the Statement of Net Assets

Total Fund Balances as shown above	\$ 1,413,731
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	7,153,180
Some liabilities, including bonds and notes payable, are not due and payable in the current period and therefore are not reported in the funds.	
Bonds and notes payable	(5,140,036)
Accrued interest payable	(123,442)
Net Assets of Governmental Activities as Reported on the Statement of Net Assets (see page 3)	<u>\$ 3,303,433</u>

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

VILLAGE OF SISTER BAY, WISCONSIN
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended December 31, 2004

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
Revenues				
Taxes	\$ 1,252,904	\$ -	\$ -	\$ 1,252,904
Intergovernmental	70,742	474,615	-	545,357
Licenses and permits	52,219	-	-	52,219
Public charges for services	440	-	269,685	270,125
Donations	600	-	168	768
Miscellaneous	32,219	-	3,362	35,581
Total Revenues	1,409,124	474,615	273,215	2,156,954
Expenditures				
Current				
General government	306,760	-	-	306,760
Public safety	146,102	-	-	146,102
Public works	330,374	-	-	330,374
Health and human services	2,063	-	-	2,063
Culture and recreation	47,185	-	146,809	193,994
Conservation and development	24,507	-	-	24,507
Debt service				
Principal	112,900	50,000	79,500	242,400
Interest and fiscal charges	45,687	-	20,405	66,092
Capital outlay	16,999	2,497,665	60,659	2,575,323
Total Expenditures	1,032,577	2,547,665	307,373	3,887,615
Excess of Revenues Over (Under)				
Expenditures	376,547	(2,073,050)	(34,158)	(1,730,661)
Other Financing Sources (Uses)				
Wastewater subsidy	(145,000)	-	-	(145,000)
Proceeds from bank construction loans	-	100,000	-	100,000
Proceeds from state trust fund loan	-	1,249,979	-	1,249,979
Proceeds from bank loan	-	475,000	-	475,000
Operating transfer in	-	532,976	-	532,976
Operating transfer out	(532,976)	-	-	(532,976)
Total Other Financing Sources (Uses)	(677,976)	2,357,955	-	1,679,979
Net Change in Fund Balances	(301,429)	284,905	(34,158)	(50,682)
Fund Balances - January 1	544,714	705,083	214,616	1,464,413
Fund Balances - December 31	\$ 243,285	\$ 989,988	\$ 180,458	\$ 1,413,731

(Continued)

VILLAGE OF SISTER BAY, WISCONSIN
Statement of Revenues, Expenditures and Changes in Fund Balances (Continued)
Governmental Funds
Year Ended December 31, 2004

Reconciliation to the Statement of Activities

Net Change in Fund Balances from previous page \$ (50,682)

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	\$ 2,575,323	
Depreciation expense reported in the statement of activities	<u>(156,450)</u>	
Amount by which capital outlays are greater than depreciation in current period		2,418,873

Some capital assets acquired during the year were financed with debt. The amount of the debt is reported in the governmental funds as a source of financing. In the statement of net assets, however, debt constitutes a long-term liability. The amount of debt reported in the governmental funds statement is:

(1,824,979)

Repayment of principal on long-term debt is reported in the governmental funds as an expenditure, but is reported as a reduction in long-term debt in the statement of net assets and does not affect the statement of activities. The amount of long-term debt principal payments in the current year is:

242,400

Interest payments on outstanding debt are reported in the governmental funds as an expenditure when paid; in the statement of activities interest is reported as it accrues.

(117,809)

Change in Net Assets of Governmental Activities as Reported in the Statement of Activities (see pages 4 and 5)

\$ 667,803

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

VILLAGE OF SISTER BAY, WISCONSIN
Statement of Revenues, Expenditures and Changes in Fund Balances -
General Fund - Budget to Actual
Year Ended December 31, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Favorable (Unfavorable)
	Original	Final		
Revenues				
Taxes	\$ 1,253,737	\$ 1,253,737	\$ 1,252,904	\$ (833)
Intergovernmental	70,180	70,180	70,742	562
Licenses and permits	9,740	9,740	52,219	42,479
Public charges for services	620	620	440	(180)
Donations	-	-	600	600
Miscellaneous	20,000	20,000	32,219	12,219
Total Revenues	1,354,277	1,354,277	1,409,124	54,847
Expenditures				
Current				
General government	294,227	294,227	306,760	(12,533)
Public safety	129,401	129,401	146,102	(16,701)
Public works	307,262	305,362	330,374	(25,012)
Health and human services	4,000	4,000	2,063	1,937
Culture and recreation	27,730	34,730	47,185	(12,455)
Conservation and development	18,844	18,844	24,507	(5,663)
Debt service				
Principal	240,000	240,000	112,900	127,100
Interest and fiscal charges	17,208	17,208	45,687	(28,479)
Capital outlay	12,750	12,750	16,999	(4,249)
Total Expenditures	1,051,422	1,056,522	1,032,577	23,945
Excess of Revenues Over (Under) Expenditures	302,855	297,755	376,547	78,792
Other Financing Sources (Uses)				
Wastewater subsidy	(145,000)	(145,000)	(145,000)	-
Operating transfer out	(532,976)	(532,976)	(532,976)	-
Total Other Financing Sources (Uses)	(677,976)	(677,976)	(677,976)	-
Net Change in Fund Balances	(375,121)	(380,221)	(301,429)	78,792
Fund Balances - January 1	544,714	544,714	544,714	78,792
Fund Balances - December 31	\$ 169,593	\$ 164,493	\$ 243,285	\$ 78,792

VILLAGE OF SISTER BAY, WISCONSIN
Statement of Net Assets
Proprietary Fund Type - Enterprise Funds
December 31, 2004

	Utility Fund
ASSETS	
Cash and investments	\$ 600,037
Receivables	
Accounts	123,881
Special assessments	510,105
Restricted cash and investments	950,897
Due from other funds	232,289
Due from other governments	367,377
Inventory	11,489
Capital assets	
Land	167,765
Buildings	3,396,350
Equipment and improvements other than buildings	10,659,199
Less accumulated depreciation	<u>(4,870,449)</u>
Net capital assets	9,352,865
Construction work in progress	15,777
Unamortized debt discount	<u>106,142</u>
TOTAL ASSETS	<u><u>12,270,859</u></u>
LIABILITIES	
Accounts payable	88,592
Interest accrued	16,604
Due to other funds	34,565
Deferred credits	33,086
Long-term obligations	
General obligation debt payable	1,755,453
Mortgage revenue bonds payable	<u>1,045,000</u>
TOTAL LIABILITIES	<u><u>2,973,300</u></u>
NET ASSETS	
Invested in capital assets, net of related debt	6,568,189
Unreserved	<u>2,729,370</u>
TOTAL NET ASSETS	<u><u>\$ 9,297,559</u></u>

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

VILLAGE OF SISTER BAY, WISCONSIN
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Fund Type - Enterprise Funds
Year Ended December 31, 2004

	Utility Fund
Operating Revenues	
Metered or measured sales	
Residential sales	\$ 209,636
Commercial sales	158,873
Public authorities	15,294
Public fire protection	51,930
Private fire protection	2,597
Services to other systems	35,807
Other sewage service	41,937
Forfeited discounts	884
Other revenues	11,629
Total Operating Revenues	528,587
Operating Expenses	
Plant operation and maintenance	302,564
Administrative and general	101,869
Outside services employed	10,282
Depreciation	372,594
Taxes	10,748
Total Operating Expenses	798,057
Operating Income (Loss)	(269,470)
Nonoperating Revenues (Expenses)	
Interest income	21,952
Contributions and subsidies for interest charges	61,155
Amortization of debt issuance expense	(26,535)
Interest on long-term debt	(90,320)
Miscellaneous nonoperating income	18,996
Total Nonoperating Revenues (Expenses)	(14,752)
Net Loss before Transfers and Contributions	(284,222)
Transfer from general fund	145,000
Customer contributions	996,321
Change in Net Assets	857,099
Net Assets - January 1	8,442,464
Net Assets - December 31	\$ 9,299,563

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

VILLAGE OF SISTER BAY, WISCONSIN
Statement of Cash Flows
Proprietary Fund Type - Enterprise Funds
Year Ended December 31, 2004

	Utility Fund
Cash Flows from Operating Activities	
Cash received from user charges	\$ 510,441
Cash received from other governments	15,700
Cash payments to suppliers	(343,481)
Cash payments to employees	(123,860)
Net Cash Provided by Operating Activities	58,800
Cash Flows from Capital and Related Financing Activities	
Acquisition of capital assets	(1,402,847)
Contributions from property owners	232,603
Contributions from other municipalities for debt service	91,643
Proceeds from issuance of long-term debt	1,406,453
Principal payments on long-term debt	(245,000)
Interest payments on long-term debt	(85,511)
Interest earned on contributions and subsidies	4,391
Sale of capital asset	2,668
Net Cash Provided by Capital and Related Financing Activities	4,400
Cash Flows from Investing Activities	
Interest income	21,799
Net Increase in Cash and Cash Equivalents	84,999
Cash and Cash Equivalents - January 1	1,465,935
Cash and Cash Equivalents - December 31	\$ 1,550,934
Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets	
Cash and investments	\$ 600,037
Restricted cash and investments	950,897
Total Cash and Cash Equivalents	\$ 1,550,934
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:	
Operating income (loss)	\$ (269,470)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation	372,594
Grant for construction project	15,700
Changes in assets and liabilities	
Accounts receivable	(18,146)
Due from other funds	(52,413)
Inventory	1,091
Accounts payable	9,444
Net Cash Provided by Operating Activities	\$ 58,800
Noncash Investing, Capital and Financing Activities	
Fixed asset additions contributed by customers	\$ 544,180
Fixed asset additions contributed by developers	359,471
	\$ 903,651

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

VILLAGE OF SISTER BAY, WISCONSIN

Notes to Basic Financial Statements

December 31, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Village of Sister Bay, Wisconsin ("the Village"), 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 Village are described below:

1. Reporting Entity

The Village of Sister Bay is a municipal corporation governed by an elected seven member board. In accordance with GAAP, the basic financial statements are required to include the Village (the primary government) and any separate component units that have a significant operational or financial relationship with the Village. The Village has not identified any component units that are required to be included in the basic financial statements in accordance with standards established by GASB Statement Nos. 14 and 39.

2. Joint Ventures

Sister Bay/Liberty Grove Joint Fire Department

The Village of Sister Bay and the Town of Liberty Grove formed a joint fire department in the 1930's to provide for services to its citizens. The cost of these services are shared by the Village and Town on a basis of 1/3 of the cost being paid by the Village and 2/3 of the cost being paid by the Town. These percentages are based on the approximate percentage of the assessed property value of the Village and the Town to the total assessed property of each entity combined. During 2004, the Village remitted \$71,836 to the joint fire department. Complete financial information for Sister Bay/Liberty Grove Fire Department can be obtained from the department office in Sister Bay.

Municipal Taxpayer Commission

The Village of Sister Bay is a participant with the Village of Ephriam, and the Towns of Gibraltar, Liberty Grove, Baileys Harbor, Washington, and Sevastopol, in a joint venture to fund activities to modify, reduce, or eliminate taxes imposed for the support of the technical college system. The Municipal Taxpayer Commission was formed for that purpose and is governed by members appointed by each participating municipality. During 2004, the Town remitted an operating appropriation of \$5,000 to the Commission. Complete financial information for the Municipal Taxpayer Commission can be obtained from the Village of Ephriam Administrator.

Joint Public Library Facility

The Village of Sister Bay and the Town of Liberty Grove entered into an agreement on June 12, 2001 for the purpose of constructing and maintaining a building to be used as a joint public library facility. The construction costs and annual building operation and maintenance costs are to be financed 1/2 by the Village and 1/2 by the Town.

The operation of the library is part of the Door County Consolidated Library System in accordance with an agreement with Door County.

3. Government-Wide and Fund Financial Statements

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

VILLAGE OF SISTER BAY, WISCONSIN
Notes to Basic Financial Statements
December 31, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

The Village reports the following major governmental funds:

GENERAL FUND

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

CAPITAL PROJECTS FUND

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

The Village reports the following major enterprise funds:

WATER UTILITY FUND

This fund is used to account for the operations of the Village's water utility.

WASTEWATER UTILITY FUND

This fund is used to account for the operations of the Village's wastewater utility.

4. Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund 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 Village 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.

VILLAGE OF SISTER BAY, WISCONSIN
Notes to Basic Financial Statements
December 31, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Certain private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following certain subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Village has elected not to follow subsequent private-sector guidance.

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 Village's water and wastewater functions and various other functions of the Village. 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 Village's enterprise funds are charges to customers for services. Operating expenses for enterprise funds include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

5. Assets, Liabilities and Net Assets or Equity

a. Cash and Investments

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

b. Accounts Receivable

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

c. Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" and "due to other funds" on the balance sheet. Noncurrent portions of the interfund receivables for the governmental funds are offset by a reservation of 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 assets for internal balances represents the residual balance outstanding between the governmental and business type activities.

VILLAGE OF SISTER BAY, WISCONSIN
Notes to Basic Financial Statements
December 31, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

d. 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.

e. 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 Village as assets with an initial, individual cost of \$1,000 or higher and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

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

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

Assets	Governmental	Business-Type
	Activities	Activities
	Years	
Land improvements	20 - 50	-
Buildings	25 - 40	25 - 50
Improvements other than buildings	25 - 100	25 - 100
Machinery and equipment	3 - 10	3 - 10
Infrastructure	15 - 40	-

f. Compensated Absences

The Village has not recorded liabilities for accrued employee vacations, sick leave and compensatory time. The actual expenditure will be recorded at the time the benefits are used by the employee, and will be paid at the rate of pay then in effect. Under terms of employment, employees are granted vacations and sick leave in varying amounts. Employees are not allowed to accumulate unused vacation pay. Accrued sick leave is paid to employees with 20 years or more of service at 50% of their current pay rate when they leave employment.

g. Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period or for resources that have been received, but not yet recognizable.

h. 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 assets. Bond premiums and discounts, as well as issuance costs, 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 reported as deferred charges and amortized over the term of the related debt.

VILLAGE OF SISTER BAY, WISCONSIN

Notes to Basic Financial Statements

December 31, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

i. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

6. 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.

7. Change in Accounting Principles

The Village adopted GASB Statements No. 34, 37 and 38 effective January 1, 2004. These Statements require the Village to include government-wide financial statements using the economic resources measurement focus. With this measurement focus, all assets and liabilities (including general capital assets, infrastructure and related debt) are included on the statement of net assets. Previously, the current financial resources measurement focus was used whereby only current assets and current liabilities were included on the financial statements.

The previous requirement for fund financial statements is further modified to present information for individual major funds rather than by fund type. Nonmajor funds are presented as a total in a single column.

Due to the significance of the above changes and changes to fund structure, it was not practical to present comparative data for the 2003 fiscal year in the basic financial statements.

NOTE B - STEWARDSHIP AND COMPLIANCE

Budgets and Budgetary Accounting

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

- a. During November, Village management submits to the Village Board 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 Village Board action.
- b. Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the governmental funds. Budget is defined as the originally approved budget plus or minus approved amendments. Individual amendments throughout the year were not material in relation to the original budget. Budget appropriations not expended during the year are closed to fund balance unless authorized by the governing body to be forwarded into the succeeding year's budget.

VILLAGE OF SISTER BAY, WISCONSIN
Notes to Basic Financial Statements
December 31, 2004

NOTE B - STEWARDSHIP AND COMPLIANCE (Continued)

- c. During the year, formal budgetary integration is employed as a management control device for the governmental funds.
- d. Expenditures may not exceed appropriations provided in detailed budget accounts maintained for each activity or department of the Village. Amendments to the budget during the year require initial approval by management and are subsequently authorized by the Village Board.
- e. Encumbrance accounting is not used by the Village to record commitments related to unperformed contracts for goods or services.

The Village did not have any material violation of legal or contractual provisions for the fiscal year ended December 31, 2004.

NOTE C - DETAILED NOTES ON ALL FUNDS

1. Cash and Investments

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

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

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

The carrying amount of the Village's cash and investments totaled \$4,242,406 on December 31, 2004 as summarized below:

Deposits with financial institutions	\$3,901,184
Investments	
Wisconsin local government investment pool	341,222
	\$4,242,406

Reconciliation to the basic financial statements:

Basic financial statements	
Cash and investments	\$2,706,935
Restricted cash and investments	1,535,471
	\$4,242,406

Additional information on the above deposits and investments follows:

VILLAGE OF SISTER BAY, WISCONSIN

Notes to Basic Financial Statements

December 31, 2004

NOTE C - DETAILED NOTES ON ALL FUNDS (Continued)

Deposits - Deposits with financial institutions are insured by the Federal Deposit Insurance Corporation (FDIC) in the amount of \$100,000 for interest bearing accounts and \$100,000 for non-interest bearing accounts. In addition, 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. At year end, the bank balance of the Village's deposits totaled \$3,867,370. Of this amount, \$200,000 was insured by FDIC insurance and \$400,000 was insured by the State Guarantee Fund, leaving a balance of \$3,267,370 uninsured. No amounts have been collateralized.

The Village has investments of \$341,222 in the Wisconsin local government investment pool at year-end. The Wisconsin local government investment pool (LGIP) is part of the State Investment Fund (SIF), and is managed by the State of Wisconsin Investment Board. The SIF is not registered with the Securities and Exchange Commission, but operates under the statutory authority of Wisconsin Chapter 25. The SIF reports the fair value of its underlying assets annually. Participants in the LGIP have the right to withdraw their funds in total on one day's notice. At December 31, 2004, the fair value of the Village's share of the LGIP's assets was substantially equal to the carrying value.

Investments in the Wisconsin Local Government Investment Pool are covered under a surety bond issued by Financial Security Assurance, Inc. The bond insures against losses arising from principal defaults on substantially all types of securities acquired by the pool. The bond provides unlimited coverage on principal losses, reduced by any FDIC, State of Wisconsin Guarantee Fund insurance, and income on the investment during the calendar quarter a loss occurs.

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 two equal installments on or before January 31 and July 31. Real estate taxes not paid by January 31 are purchased by the County as part of the February tax settlement. Delinquent personal property taxes remain the collection responsibility of the Village.

The Village bills and collects its own property taxes and also levies and collects taxes for the Gibraltar School District, Door County, Northeast Wisconsin Technical College, and the State of Wisconsin.

3. Restricted Assets

Restricted assets on December 31, 2004 totaled \$1,535,471 and consisted of cash and investments held for the following purposes:

Enterprise Fund

Water Department	
Plant replacement	\$ 162,113
Wastewater Department	
Revenue bond reserve	267,310
Plant replacement	444,314
Special redemption fund	77,160
Total Enterprise Fund Restricted Cash and Investments	<u>950,897</u>

Capital Projects

Debt proceeds being held for projects	<u>584,574</u>
	<u>\$1,535,471</u>

VILLAGE OF SISTER BAY, WISCONSIN
Notes to Basic Financial Statements
December 31, 2004

NOTE C - DETAILED NOTES ON ALL FUNDS (Continued)

4. Capital Assets

Capital asset activity for the year ended December 31, 2004 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$1,956,768	\$ -	\$ -	\$1,956,768
Construction in progress	1,182,787	1,788,581	(2,729,316)	242,052
Total capital assets, not being depreciated	<u>3,139,555</u>	<u>1,788,581</u>	<u>(2,729,316)</u>	<u>2,198,820</u>
Capital assets, being depreciated:				
Land improvements	1,840,553	712,578	-	2,553,131
Buildings	533,718	2,782,155	-	3,315,873
Machinery and equipment	129,785	4,327	-	134,112
Subtotals	<u>2,504,056</u>	<u>3,499,060</u>	<u>-</u>	<u>6,003,116</u>
Less accumulated depreciation for:				
Land improvements	493,950	72,484	-	566,434
Buildings	349,721	74,839	-	424,560
Machinery and equipment	48,634	9,127	-	57,761
Subtotals	<u>892,305</u>	<u>156,450</u>	<u>-</u>	<u>1,048,755</u>
Total capital assets, being depreciated, net	<u>1,611,751</u>	<u>3,342,610</u>	<u>-</u>	<u>4,954,361</u>
Governmental activities capital assets, net	<u>\$4,751,306</u>	<u>\$5,131,191</u>	<u>\$(2,729,316)</u>	7,153,181
Less related long-term debt outstanding				<u>(4,555,462)</u>
Investment in capital assets, net of related debt				<u>\$ 2,597,719</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 167,765	\$ -	\$ -	\$ 167,765
Construction in progress	67,191	-	51,414	15,777
Total capital assets, not being depreciated	<u>234,956</u>	<u>-</u>	<u>51,414</u>	<u>183,542</u>
Capital assets, being depreciated:				
Buildings	3,259,982	136,368	-	3,396,350
Machinery and equipment	9,314,012	1,365,574	20,387	10,659,199
Subtotals	<u>12,573,994</u>	<u>1,501,942</u>	<u>20,387</u>	<u>14,055,549</u>
Less accumulated depreciation for:				
Buildings	-	81,139	-	81,139
Machinery and equipment	-	291,455	17,996	273,459
Unallocated depreciation	4,515,851	-	-	4,515,851
Subtotals	<u>4,515,851</u>	<u>372,594</u>	<u>17,996</u>	<u>4,870,449</u>
Total capital assets, being depreciated, net	<u>8,058,143</u>	<u>1,129,348</u>	<u>2,391</u>	<u>9,185,100</u>
Business-type activities capital assets, net	<u>\$8,293,099</u>	<u>\$1,129,348</u>	<u>\$ 53,805</u>	9,368,642
Less related long-term debt outstanding				<u>(2,800,453)</u>
Investment in capital assets, net of related debt				<u>\$ 6,568,189</u>

VILLAGE OF SISTER BAY, WISCONSIN
Notes to Basic Financial Statements
December 31, 2004

NOTE C - DETAILED NOTES ON ALL FUNDS (Continued)

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

Governmental Activities	
General government	\$ 6,279
Public works	72,498
Culture and recreation	77,673
Total Depreciation Expense - Governmental Activities	<u>\$156,450</u>
Business-type Activities	
Water utility	\$ 78,843
Wastewater utility	293,751
Total Depreciation Expense - Business Type Activities	<u>\$372,594</u>

5. Interfund Receivable, Payables, and Transfers

Interfund receivables and payables between individual funds of the Village, as reported in the fund financial statements, as of December 31, 2004 are detailed below:

	Interfund Receivables	Interfund Payables
Operating Accounts Between Funds		
General Fund	\$109,082	\$232,289
Special Revenue Funds		
Marina	-	74,517
Enterprise Fund	232,289	34,565
Totals	<u>\$341,371</u>	<u>\$341,371</u>

Interfund transfers for the year ended December 31, 2004 were as follows:

	Transfer to:	
	Capital Projects	Wastewater Utility
Transfers from:		
General fund	<u>\$532,976</u>	<u>\$145,000</u>

The transfer of \$532,976 to the capital projects fund was completed to move general fund budgeted funds to finance ongoing capital projects. The transfer of \$145,000 to the wastewater utility was a budgeted transfer to finance debt requirements.

6. Deferred Revenues

Governmental funds report deferred revenue in connection with receivables for resources that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet recognizable. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	Unearned
General Fund	
Subsequent year tax levy receivable	\$1,301,019
Marina Fund	
Slip rental income received in advance	249
	<u>\$1,301,268</u>

VILLAGE OF SISTER BAY, WISCONSIN
Notes to Basic Financial Statements
December 31, 2004

NOTE C - DETAILED NOTES ON ALL FUNDS (Continued)

7. Long-term Obligations

The following is a summary of changes in long-term obligations of the Village for the year ended December 31, 2004:

	Outstanding 1/1/04	Issued	Retired	Outstanding 12/31/04	Due Within One Year
Governmental activities:					
General Obligation Debt					
Notes	\$1,330,550	\$ 475,000	\$192,400	\$1,613,150	\$ 600,650
Construction loan	650,000	100,000	-	750,000	750,000
State trust fund loan	826,907	1,249,979	-	2,076,886	48,600
Promissory note	750,000	-	50,000	700,000	100,000
Governmental activities Long-term obligations	<u>\$3,557,457</u>	<u>\$1,824,979</u>	<u>\$242,400</u>	<u>\$5,140,036</u>	<u>\$1,499,250</u>
Business-type activities:					
General Obligation Debt					
Notes	\$ 409,000	\$1,406,453	\$ 60,000	\$1,755,453	\$1,466,453
Revenue bonds	1,230,000	-	185,000	1,045,000	190,000
Business-type activities Long-term obligations	<u>\$1,639,000</u>	<u>\$1,406,453</u>	<u>\$245,000</u>	<u>\$2,800,453</u>	<u>\$1,656,453</u>

Total interest paid during the year on long-term debt totaled \$156,412.

General Obligation Debt

General obligation debt currently outstanding is detailed as follows:

Notes

\$145,450 issued 7/01/95 for purchase of land; due in 2005; interest at 5.42%	\$ 5,150
\$583,000 issued 9/1/03 for marina; principal due at varying amounts through 2008; interest at 3.5%	503,500
\$385,000 issued 9/17/01 for library construction; \$38,500 due in 2005, lump sum of \$192,500 due in 2006; interest at 4.26%	269,500
\$360,000 issued 2/11/03 for purchase of land; \$360,000 due in 2006; interest at 3.15%	360,000
\$475,000 issued 12/15/04 for storm sewer and water projects; due in 2005; expected to be refinanced long-term; interest at 2.84%	475,000

Notes Payable - Water and Wastewater Utility

\$300,000 issued 10/27/97 for construction of water tower; \$30,000 of principal due through 2007; interest at 3.85%	90,000
\$289,000 issued 12/15/03 for construction of well; \$30,000 of principal due through 2008; \$169,000 due in 2008; interest at 5.42%	259,000
\$766,182 issued 5/1/04 for wastewater treatment plant expansion; due 4/15/05; interest at 2.84%	766,182
\$640,270 issued 5/1/04 for water and sewer extensions; due 5/1/05; interest at 2.84%	640,270

(Continued)

VILLAGE OF SISTER BAY, WISCONSIN
Notes to Basic Financial Statements
December 31, 2004

NOTE C - DETAILED NOTES ON ALL FUNDS (Continued)

Construction Loan		
\$750,000 note for fire station and sports complex issued 9/15/03; due in 2005; interest at 2.5%		750,000
State Trust Fund Loan		
\$2,076,886 received of \$3,200,000 approved on 12/19/03 for fire station and sports complex; various amounts due annually through 2024; interest at 4.75%		2,076,887
Promissory Note		
\$750,000 issued 12/30/03 for purpose of waterfront property; \$100,000 due annually through 2011; interest at 5.0%		700,000
Total Outstanding General Obligation Debt		\$6,895,489

Annual principal and interest maturities of the outstanding general obligation debt of \$6,895,489 on December 31, 2004 are detailed below:

Year Ended December 31	Governmental Activities		Business-type Activities		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$1,499,250	\$ 207,377	\$1,466,453	\$13,307	\$2,965,703	\$ 220,684
2006	644,912	227,761	60,000	11,012	704,912	238,773
2007	454,572	204,276	60,000	8,717	514,572	212,993
2008	268,344	196,196	169,000	6,422	437,344	202,618
2009	338,764	182,498	-	-	338,764	182,498
2010-2014	667,796	852,490	-	-	667,796	852,490
2015-2019	590,015	837,490	-	-	590,015	837,490
2020-2024	676,383	769,714	-	-	676,383	769,714
	\$5,140,036	\$3,477,802	\$1,755,453	\$39,458	\$6,895,489	\$3,517,260

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

Legal Margin for New Debt

The Village's legal margin for creation of additional general obligation debt on December 31, 2004 was \$10,614,681 as follows:

Equalized valuation of the Village		\$350,203,400
Statutory limitation percentage		(x) 5%
General obligation debt limitation, per Section 67.03 of the Wisconsin Statutes		17,510,170
Outstanding general obligation debt applicable to debt limitation		6,895,489
Legal Margin for New Debt		\$ 10,614,681

Revenue Bonds

Revenue bond debt service requirements are financed from operations of the enterprise fund. Revenue bonds outstanding on December 31, 2004, totaled \$1,045,000 and were comprised of the following issue:

Water and Wastewater Utility		
\$2,035,000 refunding bonds issued 2/1/94; \$190,000 to \$230,000 due annually through 2009; interest 4.4% to 5.2%		\$1,045,000

VILLAGE OF SISTER BAY, WISCONSIN
Notes to Basic Financial Statements
December 31, 2004

NOTE C - DETAILED NOTES ON ALL FUNDS (Continued)

Annual principal and interest maturities of the above outstanding enterprise fund revenue bonds of \$1,045,000 on December 31, 2004, are shown below:

Due	Business-type Activities		
	Principal	Interest	Total
2005	\$ 190,000	\$ 52,460	\$ 242,460
2006	200,000	43,340	243,340
2007	205,000	33,540	238,540
2008	220,000	23,290	243,290
2009	230,000	11,960	241,960
	<u>\$1,045,000</u>	<u>\$164,590</u>	<u>\$1,209,590</u>

The revenue bonds are being repaid through a tax levy subsidy by the Village of Sister Bay and from contributions from the Town of Liberty Grove and the Liberty Grove Sanitary District.

8. Fund Equity

In the fund financial statements, portions of governmental fund balances have been designated to represent tentative management plans that are subject to change. At December 31, 2004, fund balance was designated as follows:

Special Revenue Funds	
Designated for subsequent years' expenditures	<u>\$180,458</u>
Capital Projects Fund	
Designated for subsequent years' expenditures	<u>\$989,988</u>

NOTE D - OTHER INFORMATION

1. Retirement Commitments

All eligible Village employees participate in the Wisconsin Retirement System (System), a cost-sharing multiple-employer public employee retirement system. All permanent employees expected to work over 600 hours a year (440 hours for teachers) are eligible to participate in the System. Covered employees in the General category are required by statute to contribute 5.6% of their salary (2.6% for Executives and Elected Officials, 4.5% for Protective Occupations with Social Security, and 3.2% for Protective Occupations without Social Security) to the plan. Employers may make these contributions to the plan on behalf of employees. Employers are required to contribute an actuarially determined amount necessary to fund the remaining projected cost of future benefits.

The payroll for Village employees covered by the System for the year ended December 31, 2004 was \$333,480; the employer's total payroll was \$396,431. The total required contribution for the year ended December 31, 2004 was \$32,681, which consisted of \$14,006, or 4.2% of covered payroll from the employer and \$18,675, or 5.6% of covered payroll from employees. The required contribution for employees for the year ended December 31, 2004 was financed by the Village. Total contributions for the years ending December 31, 2003 and 2002 were \$29,959 and \$29,778 respectively, equal to the required contributions for each year.

VILLAGE OF SISTER BAY, WISCONSIN
Notes to Basic Financial Statements
December 31, 2004

NOTE D - OTHER INFORMATION (Continued)

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

The System also provides death and disability benefits for employees. Eligibility and the amount of all benefits is determined under Chapter 40 of Wisconsin Statutes. The System issues an annual financial report which may be obtained by writing to the Department of Employee Trust Funds, P.O. Box 7931, Madison, WI 53707-7931.

2. Oversight Liability - Site Cleanup

The Wisconsin Department of Agriculture, Trade and Consumer Protection (DATCP) has notified the Village that they are considered the responsible party for site cleanup on the former orchard property owned by the Village. The property is located outside the Village limits north of Sister Bay near Highway 42. Testing on the site has indicated that pesticides were previously used on the site that have contaminated the soil and pose a risk for ground water contamination.

DATCP is requiring the Village to hire an environmental consultant to complete a ground water investigation to determine if the site has caused ground water contamination. The costs of the investigation, along with any future cleanup costs, if any, are not known at this time. As a result, this liability is not recorded on the Village financial statements.

3. Risk Management

The Village is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the government carries commercial insurance. The Village completes an annual review of its insurance coverage to ensure adequate coverage.

4. Contingencies

From time to time, the Village is party to other various pending claims and legal proceedings. Although the outcome of such matters cannot be forecast with certainty, it is the opinion of management and legal counsel that the likelihood is remote that any such claims or proceedings will have a material adverse effect on the Village's financial position or results of operations.

SUPPLEMENTAL INFORMATION

VILLAGE OF SISTER BAY, WISCONSIN

Combining Balance Sheet
 Nonmajor Governmental Funds
 December 31, 2004

	Marina	Ice Rink	Total Nonmajor Governmental Funds
ASSETS			
Cash and investments	\$ 273,436	\$ 9,301	\$ 282,737
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 7,679	\$ -	\$ 7,679
Deposits payable	19,834	-	19,834
Due to other funds	74,517	-	74,517
Deferred revenues	249	-	249
Total Liabilities	102,279	-	102,279
Fund Balances - Unreserved			
Designated for ice rink	-	9,301	9,301
Designated for marina	171,157	-	171,157
Total Fund Balances	171,157	9,301	180,458
TOTAL LIABILITIES AND FUND BALANCES	\$ 273,436	\$ 9,301	\$ 282,737

VILLAGE OF SISTER BAY, WISCONSIN
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended December 31, 2004

	Marina	Ice Rink	Total Nonmajor Governmental Funds
Revenues			
Public Charges for Services			
Docking fees	\$ 110,554	\$ -	\$ 110,554
Launch fees	9,172	-	9,172
Seasonal fees	132,262	-	132,262
Ice sales	1,654	-	1,654
Other sales	6,431	9,612	16,043
Total Public Charges for Services	<u>260,073</u>	<u>9,612</u>	<u>269,685</u>
Other			
Donations and fund raising income	40	128	168
Interest income	3,362	-	3,362
Total Other	<u>3,402</u>	<u>128</u>	<u>3,530</u>
Total Revenues	<u>263,475</u>	<u>9,740</u>	<u>273,215</u>
Expenditures			
Operation and Maintenance			
Wages and fringe benefits	67,213	6,903	74,116
Maintenance and supplies	25,627	5,095	30,722
Utilities	16,968	-	16,968
Professional services	318	-	318
Contracted services	5,968	-	5,968
Credit card fees	4,380	-	4,380
Marinafest	10,641	-	10,641
Insurance	3,696	-	3,696
Capital Outlay			
Dock resurfacing	42,239	-	42,239
Marina building addition	4,695	-	4,695
Lighting for new rink	-	13,725	13,725
Debt Service			
Principal on note	79,500	-	79,500
Interest on note	20,405	-	20,405
Total Expenditures	<u>281,650</u>	<u>25,723</u>	<u>307,373</u>
Excess of Revenues Over (Under) Expenditures	(18,175)	(15,983)	(34,158)
Fund Balances - January 1	189,332	25,284	214,616
Fund Balances - December 31	<u>\$ 171,157</u>	<u>\$ 9,301</u>	<u>\$ 180,458</u>

VILLAGE OF SISTER BAY, WISCONSIN
General Fund
Detailed Comparison of Budgeted and Actual Revenues
Year Ended December 31, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Taxes				
General property	\$ 1,253,727	\$ 1,253,727	\$ 1,252,877	\$ (850)
Forest lands	10	10	27	17
Total Taxes	1,253,737	1,253,737	1,252,904	(833)
Intergovernmental				
Shared taxes	14,180	14,180	14,175	(5)
State aid - municipal services	-	-	175	175
Fire insurance dues	10,000	10,000	10,890	890
Exempt computer aid	1,800	1,800	1,280	(520)
Highway aids	44,200	44,200	44,222	22
Total Intergovernmental	70,180	70,180	70,742	562
Licenses and Permits				
Liquor license	7,500	7,500	18,440	10,940
Operator's license	200	200	205	5
Soda license	150	150	165	15
Cigarette license	40	40	45	5
Dog licenses	100	100	14	(86)
Parking fines	50	50	65	15
Zoning fees	200	200	305	105
Building permits	1,500	1,500	32,980	31,480
Total Licenses and Permits	9,740	9,740	52,219	42,479
Public Charges for Services				
Publication fee	420	420	440	20
Tennis courts	200	200	-	(200)
Total Public Charges for Services	620	620	440	(180)
Miscellaneous				
Rental revenue	13,500	13,500	16,154	2,654
Interest	6,000	6,000	16,065	10,065
Miscellaneous	500	500	-	(500)
Donations and contributions	-	-	600	600
Total Miscellaneous	20,000	20,000	32,819	12,819
Total Revenues	\$ 1,354,277	\$ 1,354,277	\$ 1,409,124	\$ 54,847

VILLAGE OF SISTER BAY, WISCONSIN
 General Fund
 Detailed Comparison of Budgeted and Actual Expenditures
 Year Ended December 31, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
General Government				
Village board	\$ 30,500	\$ 30,500	\$ 28,789	\$ 1,711
Village president	5,040	5,040	5,040	-
Administrator	79,710	79,710	75,455	4,255
Village clerk/treasurer	40,300	40,300	43,286	(2,986)
Publishing	1,500	1,500	2,073	(573)
Elections	3,900	3,900	3,975	(75)
General administration	5,000	5,000	9,381	(4,381)
Assessment of taxes	31,824	31,824	31,824	-
Board of appeals	500	500	2,846	(2,346)
Public relations	2,600	2,600	3,964	(1,364)
Village employees cell phones	1,500	1,500	1,347	153
Accounting and software services	4,500	4,500	15,093	(10,593)
Data processing	1,000	1,000	3,609	(2,609)
League of municipalities dues	1,253	1,253	1,253	-
Legal	25,000	25,000	17,382	7,618
Administration building	5,500	5,500	8,844	(3,344)
Village hall	10,000	10,000	7,799	2,201
Other buildings	2,000	2,000	2,953	(953)
Supplies	2,000	2,000	(294)	2,294
Property and liability insurance	17,000	17,000	15,103	1,897
Life insurance	3,000	3,000	392	2,608
Unemployment compensation	500	500	2,266	(1,766)
Contingency fund	20,000	20,000	24,374	(4,374)
Illegal taxes	100	100	6	94
Total General Government	294,227	294,227	306,760	(12,533)
Public Safety				
Fire department	80,401	80,401	71,836	8,565
Hydrant rental	37,000	37,000	42,203	(5,203)
Inspections	12,000	12,000	32,063	(20,063)
Total Public Safety	129,401	129,401	146,102	(16,701)

(Continued)

VILLAGE OF SISTER BAY, WISCONSIN
 General Fund
 Detailed Comparison of Budgeted and Actual Expenditures (Continued)
 Year Ended December 31, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Public Works				
Public works personnel	133,362	133,362	136,895	(3,533)
Machinery and equipment	9,500	9,500	11,258	(1,758)
Garage	13,500	13,500	17,228	(3,728)
Storage building	1,000	1,000	124	876
Street maintenance	10,000	10,000	7,818	2,182
Sidewalks	2,000	2,000	-	2,000
Snow removal	15,000	15,000	11,984	3,016
Street lighting	12,000	12,000	17,529	(5,529)
Engineering	2,000	2,000	10,935	(8,935)
Garbage and refuse	85,000	85,000	89,259	(4,259)
Recycling	15,000	15,000	14,931	69
Weed control and tree removal	7,900	6,000	2,625	3,375
Drainage	1,000	1,000	7,576	(6,576)
Utilities	-	-	2,212	(2,212)
Total Public Works	307,262	305,362	330,374	(25,012)
Health and Human Services				
Cemetery	4,000	4,000	2,063	1,937
Culture and Recreation				
Parks	6,500	13,500	22,135	(8,635)
Ice rink	-	-	1,309	(1,309)
Library	21,230	21,230	21,230	-
Sports complex	-	-	2,511	(2,511)
Total Culture and Recreation	27,730	34,730	47,185	(12,455)
Conservation and Development				
Promotion	5,000	5,000	5,000	-
Baylake planning	1,844	1,844	3,252	(1,408)
Zoning	1,000	1,000	2,566	(1,566)
Celebrations and entertainment	5,000	5,000	6,622	(1,622)
Information booth	1,000	1,000	2,067	(1,067)
Municipal tax commission	5,000	5,000	5,000	-
Total Conservation and Development	18,844	18,844	24,507	(5,663)

(Continued)

VILLAGE OF SISTER BAY, WISCONSIN
 General Fund
 Detailed Comparison of Budgeted and Actual Expenditures (Continued)
 Year Ended December 31, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Debt Service				
Principal on notes	240,000	240,000	112,900	127,100
Interest on notes	17,208	17,208	45,687	(28,479)
Total Debt Service	<u>257,208</u>	<u>257,208</u>	<u>158,587</u>	<u>98,621</u>
Capital Outlay				
First responder	1,000	1,000	-	1,000
Village signs	-	-	410	(410)
Humane society	750	750	750	-
Sister Bay Historical Society	5,000	5,000	5,000	-
Ice rink	5,000	5,000	-	5,000
Airport	500	500	-	500
School building	-	-	1,860	(1,860)
Parks	-	-	2,882	(2,882)
Economic development	-	-	5,583	(5,583)
Other Village outlays	500	500	514	(14)
Total Capital Outlay	<u>12,750</u>	<u>12,750</u>	<u>16,999</u>	<u>(4,249)</u>
Total Expenditures	<u>\$ 1,051,422</u>	<u>\$ 1,056,522</u>	<u>\$ 1,032,577</u>	<u>\$ 23,945</u>

VILLAGE OF SISTER BAY, WISCONSIN
Schedule of Water Department Operating Revenues and Expenses
Year Ended December 31, 2004
With Comparative Amounts for the Year Ended December 31, 2003

	2004	2003
Operating Revenues		
Sales of Water		
Residential sales	\$ 90,578	\$ 88,636
Commercial sales	61,508	59,985
Public fire protection	51,930	40,944
Private fire protection	2,597	2,444
Other sales to public authorities	10,205	9,309
Total Sales of Water	<u>216,818</u>	<u>201,318</u>
Other Operating Revenues		
Forfeited discounts	377	364
Other water revenues	9,468	9,594
Total Other Operating Revenues	<u>9,845</u>	<u>9,958</u>
Total Operating Revenues	<u>226,663</u>	<u>211,276</u>
Operating Expenses		
Operation and maintenance		
Supervision and labor	44,668	46,060
Power purchased for pumping	16,498	15,446
Chemicals	214	-
Operating supplies and expenses	11,755	14,289
Repairs of water plant	18,538	3,068
Transportation expense	2,430	2,588
Administrative and general salaries	6,709	5,880
Office supplies and expenses	7,318	6,817
Outside services employed	5,872	4,232
Insurance expense	7,125	5,499
Employee pensions and benefits	23,217	24,808
Miscellaneous general expenses	3,489	3,646
Total Operation and Maintenance Expenses	<u>147,833</u>	<u>132,333</u>
Depreciation	76,416	74,027
Taxes	4,021	27,260
Total Operating Expenses	<u>228,270</u>	<u>233,620</u>
Operating Income (Loss)	<u>\$ (1,607)</u>	<u>\$ (22,344)</u>

VILLAGE OF SISTER BAY, WISCONSIN
Schedule of Wastewater Department Operating Revenues and Expenses
Year Ended December 31, 2004
With Comparative Amounts for the Year Ended December 31, 2003

	Wastewater Treatment Plant	Collection System	Totals	
			2004	2003
Operating Revenues				
Sewage Service				
Residential sales			\$ 119,058	\$ 103,990
Commercial sales			97,365	84,846
Other sales to public authorities			5,089	4,041
Total Sewage Service			<u>221,512</u>	<u>192,877</u>
Other Operating Revenues				
Forfeited discounts			507	464
Services to other systems			35,807	29,762
Other sewage service			41,937	40,314
Miscellaneous			2,161	2,135
Total Other Operating Revenues			<u>80,412</u>	<u>72,675</u>
Total Operating Revenues			<u>301,924</u>	<u>265,552</u>
Operating Expenses				
Operation and maintenance				
Supervision and labor	\$ 61,540	\$ 17,652	79,192	72,044
Power purchased for pumping	42,598	4,385	46,983	43,881
Chemicals	13,485	804	14,289	8,014
Other operating supplies	22,311	3,191	25,502	31,545
Maintenance of collection system	-	289	289	538
Maintenance of treatment and disposal equipment	11,874	-	11,874	68,868
Maintenance of general plant structures and equipment	7,046	-	7,046	777
Transportation expense	1,779	445	2,224	1,865
Administrative and general salaries	5,367	1,342	6,709	5,880
Office supplies and expenses	3,116	2,651	5,767	5,068
Outside services employed	3,633	777	4,410	4,233
Insurance expense	5,246	5,246	10,492	7,546
Employee pensions and benefits	18,573	4,643	23,216	24,808
Sludge expense	25,716	-	25,716	22,849
Miscellaneous general expenses	2,938	235	3,173	3,978
Total Operation and Maintenance Expenses	<u>225,222</u>	<u>41,660</u>	<u>266,882</u>	<u>301,894</u>
Depreciation	241,659	54,519	296,178	274,771
Taxes - FICA	5,219	1,508	6,727	6,044
Total Operating Expenses	<u>472,100</u>	<u>97,687</u>	<u>569,787</u>	<u>582,709</u>
Operating Income (Loss)			<u>\$ (267,863)</u>	<u>\$ (317,157)</u>

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



**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 Village Board
Village of Sister Bay, Wisconsin

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Sister Bay, Wisconsin, as of and for the year ended December 31, 2004, which collectively comprise the Village of Sister Bay's basic financial statements and have issued our report thereon dated March 4, 2005. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village of Sister Bay, Wisconsin's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village of Sister Bay, Wisconsin's financial statements are free of 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 basic 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*.

This report is intended solely for the information and use of the Village Board, and is not intended to be and should not be used by anyone other than these specified parties.

Schenck & Co.

Certified Public Accountants
Green Bay, Wisconsin
March 4, 2005