

**CITY OF PHILLIPS**

Phillips, Wisconsin

**Independent Auditor's Report**

**With Financial Statements**

YEAR ENDED DECEMBER 31, 2016

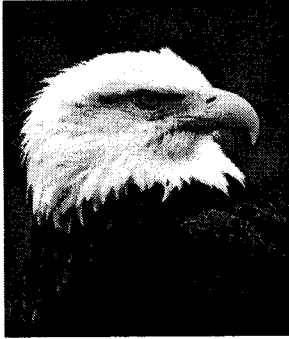
EAGLE AUDIT & ACCOUNTING, LLC  
CERTIFIED PUBLIC ACCOUNTANTS  
PARK FALLS, WISCONSIN

City of Phillips, WI

Report on Basic Financial Statements  
With Supplemental Information

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# **EAGLE AUDIT & ACCOUNTING, LLC**

## **CERTIFIED PUBLIC ACCOUNTANTS**

Members of:  
American Institute of Certified Public Accountants  
Wisconsin Institute of Certified Public Accountants  
Government Audit Quality Center

### **INDEPENDENT AUDITOR'S REPORT**

City Council  
City of Phillips  
Phillips, Wisconsin

#### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Phillips, WI ("City") as of and for the year ended December 31, 2016, 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.

#### **Auditor's 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control 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, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the budgetary comparison information and the WRS pension supplemental information on pages A-H and 15-17 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government 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 of Phillips, Wisconsin's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements.

The combining nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the 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 combining nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

#### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2017 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 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.

*Eagle Audit & Accounting, LLC*

Eagle Audit & Accounting, LLC  
Certified Public Accountants

September 26, 2017  
Park Falls, Wisconsin

**City of Phillips, Wisconsin  
Management's Discussion and Analysis  
For the Year Ended December 31, 2016**

The discussion and analysis of the City's financial performance provides an overall review of financial activities for the fiscal year. The analysis focuses on municipal financial performance as a whole. Efforts have been made to provide comparison to prior year data when such data is available. It should be read in conjunction with the City's financial statements, which immediately follow this section.

**FINANCIAL HIGHLIGHTS**

Total governmental fund revenues were \$2,484,390; including \$1,327,530 of property taxes, \$564,025 of general state aid, and \$426,185 of charges for services and operating grants. Total governmental funds expenditures were \$2,146,884. The City reduced the amount of prior outstanding general obligation debt by \$827,637.

Total business-type activity fund revenues were \$796,016; including \$795,413 of user fees. Total business-type activity expenditures were \$905,718. The City reduced the amount of prior outstanding business-type debt by \$125,802.

The City's financial status, as reflected in total net position, increased by \$227,804. Net position of governmental activities due to operations decreased by \$305,468 and business-type activities (water/sewer) increased by \$533,272.

**OVERVIEW OF FINANCIAL STATEMENTS**

The basic financial statements are comprised of 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. In addition, other information supplementary to the basic financial statements is provided.

**Government wide financial statements**

- The government-wide financial statements are the *statement of net position* and *statement of activities*. These statements present the aggregate view of the City's finances in a manner similar to private-sector business. Both statements distinguish functions that are supported principally by property taxes and intergovernmental revenues, called *governmental activities*, from functions that are intended to recover all or significant portion of costs through user fees and charges called *business type activities*.
- The *statement of net position* presents information on all of the City assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.
- The *statement of activities* presents information showing how the City's net position changed during the year. This statement reports the cost of governmental functions and business-type functions and how those functions were financed for the fiscal year.
- The government-wide financial statements are shown on pages 4 to 5 of this report.

**City of Phillips, Wisconsin  
Management's Discussion and Analysis  
For the Year Ended December 31, 2016**

**Fund financial statements**

- The City also produces fund financial statements. A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities. The City, like other state and local governments, uses fund accounting to demonstrate compliance with finance related legal requirements. Fund statements generally report operations in more detail than the government-wide statements and provide information that may be useful in evaluating the City's near-term financing requirements.
- There are two fund financial statements, the balance sheet and statements of revenue, expenditures and changes in fund balance. Generally, fund statements focus on near-term inflows and outflows of spendable resources and their impact on fund balance.
- Because the focus of fund financial statements is narrower than that of the government-wide statements, it is useful to make comparison between information presented. By doing so readers may better understand the long-term implication of the government's near-term financial decisions. A reconciliation to facilitate this comparison is provided as separate statements on pages 7 and 9.
- The municipality has three kinds of funds: *governmental*, *propriety* and *fiduciary*. *Governmental funds* include the City's two permanent funds (general and special revenue) and individual capital project funds as needed. The City has one *proprietary funds*, the water and sewer utility fund. The only *fiduciary fund* for the City serves as an agency fund for tax collections for other governments.
- Financial information is presented separately on both the *balance sheet* and the *statement of revenues, expenditures and changes in fund balance* for the general fund, the CDBG fund, and TIF #3 & #4 as these are considered to be major funds. The governmental fund financial statements are on pages 6 to 9 of this report,
- The proprietary fund statements are prepared on the same basis of accounting and measurement focus as the government-wide financial statements. In addition, the City provides a *statement of cash flows* for the proprietary funds. Proprietary fund statements are located on pages 10 to 12 of this report.
- The City serves as a trustee, or *fiduciary*, for tax collections. The assets of this fund do not directly benefit nor are they under the direct control of the City. The City's responsibility is limited to ensuring the assets reported in this fund are distributed to the other governmental entities as prescribed by statute. *Fiduciary* activities are excluded from the government-wide financial statements because the City cannot use these assets to finance operations. The *Fiduciary* fund statement is presented on page 13.
- The City adopts an annual appropriated budget for its general fund and TIF #3 & #4. Budgetary comparison statements have been provided to demonstrate budget compliance. The budgetary comparison statement is on page 15 of this report.

**Notes to the financial statements**

The notes to the financial statements provide additional information that is essential to the full understanding of the data provided in the government-wide and fund financial statements. The notes to financial statements can be found beginning on page 14 of this report.

**City of Phillips, Wisconsin  
Management's Discussion and Analysis  
For the Year Ended December 31, 2016**

The major features of the City's financial statements, including the portion of the activities reported and the type of information contained is shown in the table below.

**Major Features of the Government-wide and Fund Financial Statements**

	Fund Financial Statements			
	Government-Wide Statements	Governmental	Proprietary	Fiduciary
<b>Scope</b>	Entire City (except fiduciary funds).	The activities of the City that are not proprietary or fiduciary, such as general govt., public safety, public works, etc.	Activities the City operates similar to private business. The City's water/sewer utility are the proprietary operations.	Assets held by the City on behalf of someone else. Tax collections for other governments that are on deposit with the City are reported here.
<b>Required financial statements</b>	<ul style="list-style-type: none"> <li>• Statement of net position</li> <li>• Statement of activities.</li> </ul>	<ul style="list-style-type: none"> <li>• Balance Sheet</li> <li>• Statement of revenues, expenditures and changes in fund balance.</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of net position</li> <li>• Statement of revenues, expenses and change in net assets</li> <li>• Statement of cash flows.</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net position</li> </ul>
<b>Basis of accounting and measurement focus</b>	Accrual accounting. Economic resources focus.	Modified accrual accounting. Current financial resources focus.	Accrual accounting. Economic resources focus.	Accrual accounting. Economic resources focus.
<b>Type of asset and liability information</b>	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter. No capital assets or long-term liabilities included.	All assets and liabilities, both financial and capital; short-term and long-term.	All assets and liabilities, both financial and capital; short-term and long-term. These funds do not currently contain any capital assets, although they can.
<b>Type of inflow and outflow information</b>	All revenues and expenses during the year, regardless of when cash is received or paid.	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability are due and payable.	All revenues and expenses during the year, regardless of when cash is received or paid.	All additions or deductions during the year, regardless of when cash is received and paid.



**City of Phillips, Wisconsin  
Management's Discussion and Analysis  
For the Year Ended December 31, 2016**

**FINANCIAL ANALYSIS**

**The Municipality as a Whole**

**Net position.** Table 1, below, provides a summary of the City's net position for the year ended December 31, 2016 compared to 2015.

	Governmental Activities		Business-Type Activities		Total Municipality		%
	2016	2015	2016	2015	2016	2015	Change 2016
Current and other assets	\$ 3,727.6	\$ 5,248.4	\$ 471.8	\$ 441.7	\$ 4,199.5	\$ 5,690.1	-26.2%
Capital assets	5,819.5	5,539.3	6,119.9	5,598.2	\$ 11,939.4	11,137.5	7.2%
<b>Total assets</b>	<b>9,547.2</b>	<b>10,787.7</b>	<b>6,591.7</b>	<b>6,039.9</b>	<b>16,138.9</b>	<b>16,827.6</b>	<b>-4.1%</b>
<b>Total deferred outflows</b>	<b>\$ 389.5</b>	<b>\$ 389.5</b>	<b>\$ 48.1</b>	<b>\$ 48.1</b>	<b>\$ 437.6</b>	<b>\$ 437.6</b>	<b>0.0%</b>
L-T debt outstanding	3,209.6	4,044.8	1,250.4	1,376.2	4,460.0	5,421.0	-17.7%
Other liabilities	525.0	553.9	435.3	273.2	960.3	827.1	16.1%
<b>Total liabilities</b>	<b>3,734.6</b>	<b>4,598.7</b>	<b>1,685.7</b>	<b>1,649.4</b>	<b>5,420.3</b>	<b>6,248.1</b>	<b>-13.2%</b>
<b>Total deferred inflows</b>	<b>1,908.8</b>	<b>1,979.8</b>	<b>149.4</b>	<b>167.1</b>	<b>2,058.2</b>	<b>2,146.9</b>	<b>-4.1%</b>
Net position							
Net investment in							
capital assets	2,749.3	1,641.4	4,869.5	4,222.0	7,618.8	5,863.5	29.9%
Restricted	1,438.0	787.0	198.4	42.5	1,636.4	829.5	97.3%
Unrestricted	106.0	2,170.3	(263.2)	7.0	(157.2)	2,177.3	-107.2%
<b>Total net position</b>	<b>\$ 4,293.3</b>	<b>\$ 4,598.7</b>	<b>\$ 4,804.8</b>	<b>\$ 4,271.5</b>	<b>\$ 9,098.1</b>	<b>\$ 8,870.3</b>	<b>2.6%</b>

**Note: totals may not add due to rounding**

In governmental activities, total assets decreased \$688,705 including an increase in capital assets, net increase in capital assets was \$802,408. The calculation of net position uses a historical cost for buildings that may not accurately reflect the true value. The City's equipment is in fair condition.

**City of Phillips, Wisconsin  
Management's Discussion and Analysis  
For the Year Ended December 31, 2016**

**Change in net position** Table 2, below, provides a summary of the City's change in the components of net assets for the year ended December 31, 2016 compared to 2015.

	Governmental Activities		Business-Type Activities		Total Municipality	
	2016	2015	2016	2015	2016	2015
<b>Revenues:</b>						
Program revenues						
Charge for services	\$ 303.3	\$ 315.4	\$ 795.4	\$ 757.5	\$ 1,098.7	\$ 1,073.0
Operating grants	122.9	125.4	-	-	122.9	125.4
General revenues						-
Property taxes	1,327.5	1,262.3	-	-	1,327.5	1,262.3
State & federal aid	564.0	571.6	-	-	564.0	571.6
Other	166.7	200.0	0.6	0.2	167.3	200.2
<b>Total revenues</b>	<u>2,484.4</u>	<u>2,474.7</u>	<u>796.0</u>	<u>757.7</u>	<u>3,280.4</u>	<u>3,232.4</u>
<b>Expenses:</b>						
General government	241.9	223.4	-	-	241.9	223.4
Public safety	698.6	668.3	-	-	698.6	668.3
Public works	525.3	469.6	-	-	525.3	469.6
Health/human services	29.3	8.3	-	-	29.3	8.3
Culture/recreation	453.4	441.6	-	-	453.4	441.6
Conservation/develop	61.2	52.3	-	-	61.2	52.3
Business-type activity	-		905.7	970.1	905.7	970.1
Debt service	137.1	110.5	-	-	137.1	110.5
Depreciation, unallocated	-	-	-	-	-	-
Other uses	-	-	-	-	-	-
<b>Total expenses</b>	<u>2,146.9</u>	<u>1,974.0</u>	<u>905.7</u>	<u>970.1</u>	<u>3,052.6</u>	<u>2,944.1</u>
<b>Change in net position from operations</b>	337.5	500.6	(109.7)	(212.3)	227.8	288.3
Net special/extraordinary	(643.0)	-	643.0	-	-	-
<b>Change in net position</b>	<u>\$ (305.5)</u>	<u>\$ 500.6</u>	<u>\$ 533.3</u>	<u>\$ (212.3)</u>	<u>\$ 227.8</u>	<u>\$ 288.3</u>

**Note: totals may not add due to rounding**

**Business – Type Activities**

Revenues for the City's business-type activity (water/sewer utility) were comprised of charges for services, and investment earnings.

- Water and sewer utility expenses exceeded revenues by \$109,702, \$102,629 less than last year. The difference is attributable mainly to an increase in expense of repairing water mains and painting of the water tower in the prior year.

**City of Phillips, Wisconsin  
Management's Discussion and Analysis  
For the Year Ended December 31, 2016**

- Charges for services, which are amounts paid by customers of the water/sewer utility, increased \$37,872 from \$757,541. The difference is attributable mainly to a water rate increase.
- The water and sewer utility acquired new fixed assets in the amount of \$646,863.

**Governmental Activities**

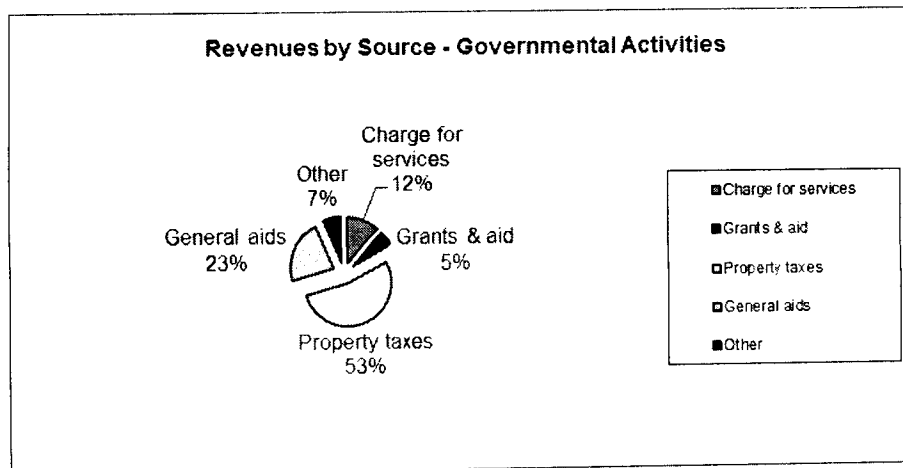
**Net cost of governmental activities** Table 3, below, provides a summary of the City's change in net cost of Governmental Activities for the year ended December 31, 2016 compared to 2015.

Table 3  
**Net Cost of Governmental Activities**  
(in thousands of dollars)

	Total Cost of Services		Net Cost of Services		Net Cost Percentage Change
	2016	2015	2016	2015	
General Government	\$ 241.9	\$ 223.4	\$ 238.1	\$ 219.4	8.5%
Public Safety	698.6	668.3	611.3	564.6	8.3%
Public Works	525.3	469.6	368.1	311.2	18.3%
Health & human services	29.3	8.3	22.3	3.8	479.3%
Culture & recreation	453.4	441.6	282.6	271.4	4.1%
Conservation & develop	61.2	52.3	61.2	52.3	17.0%
Debt service	137.1	110.5	137.1	110.5	24.1%
Other	-	-	-	-	
<b>Total</b>	<b>\$ 2,146.9</b>	<b>\$ 1,974.0</b>	<b>\$ 1,720.7</b>	<b>\$ 1,533.2</b>	<b>12.2%</b>

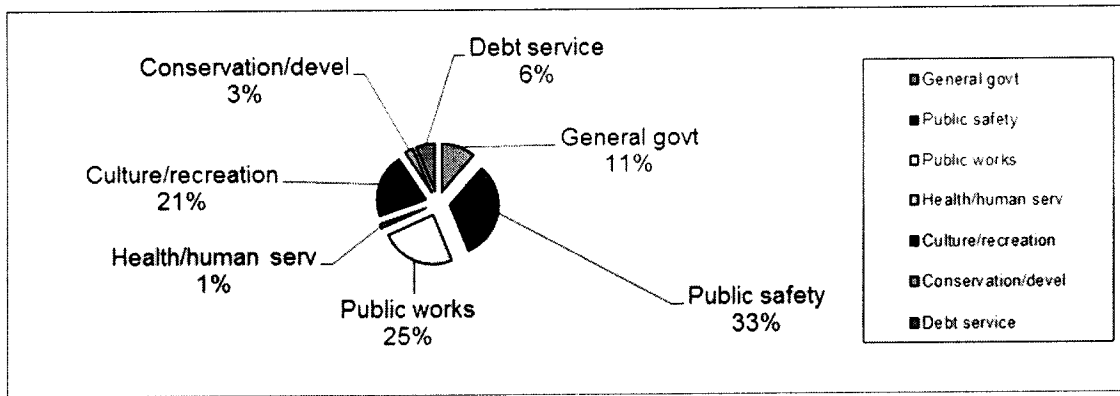
Note: totals may not add due to rounding

**Revenues by Source** – the chart below shows the various sources of revenue by source for the year ending December 31, 2016.



**City of Phillips, Wisconsin  
Management's Discussion and Analysis  
For the Year Ended December 31, 2016**

**Expenditures by Function** – the chart below shows the various governmental activities expenditures by function for the year ending December 31, 2016.



**General Fund Budgetary Highlights**

In the General Fund resources available for appropriation were \$88,854 above the final budgeted amounts. Actual expenditures in the General Fund netted \$89,677 under the final budget amount for an overall budget surplus of \$178,531.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets** – Table 4 below shows the change in capital assets in the governmental activities, the business-type activities and the municipality as a whole from December 31, 2015 to December 31, 2016.

Table 4  
**Capital Assets**  
(in thousands of dollars)

	Governmental Activities		Business-Type Activities		Total Municipality		Total % Change
	2016	2015	2016	2015	2016	2015	2016
Land	\$ 317.1	\$ 317.1	\$ 21.5	\$ 21.5	\$ 338.6	\$ 338.6	0.0%
Construction in progress	973.6	\$ 1,882.9	246.2	81.0	1,219.8	1,963.9	-37.9%
Site Improvements	-	-	5,731.6	5,392.5	5,731.6	5,392.5	6.3%
Buildings & improvements	2,981.3	\$ 2,981.3	669.8	669.8	3,651.1	3,651.1	0.0%
Furniture & equipment	2,419.9	2,379.6	4,493.2	4,491.6	6,913.0	6,871.2	0.6%
Infrastructure	2,844.4	1,414.7	-	-	2,844.4	1,414.7	101.1%
Accumulated depreciation	(3,720.7)	(3,440.9)	(5,042.3)	(5,058.2)	(8,763.1)	(8,499.1)	3.1%
<b>Total</b>	<b>\$ 5,815.5</b>	<b>\$ 5,534.8</b>	<b>\$ 6,119.9</b>	<b>\$ 5,598.2</b>	<b>\$ 11,935.4</b>	<b>\$ 11,133.0</b>	<b>7.2%</b>

Note: totals may not add due to rounding

**City of Phillips, Wisconsin  
Management's Discussion and Analysis  
For the Year Ended December 31, 2016**

**Long – Term Debt** – Table 5 below show the change in long-term obligations for the total municipality from December 31, 2015 to December 31, 2016.

Table 5 Outstanding Long Term Obligations (in thousands of dollars)			
	Total Municipality		Total %
	2016	2015	Change
General obligation debt	\$ 3,070.2	\$ 3,897.9	-21.2%
Other	1,389.8	1,523.1	-8.8%
<b>Total</b>	<b>\$ 4,460.0</b>	<b>\$ 5,421.0</b>	<b>-17.7%</b>

Note: totals may not add due to rounding

**FACTORS BEARING ON THE CITY'S FUTURE**

Currently known facts and circumstances that will impact the City's financial status in future are:

- The City will be doing a total reconstruction of Flambeau Avenue in 2017.
- There are some City buildings that are in need of repair or expansion. However, the City has set some funds aside for the maintenance of buildings.
- The Department of Public Works is in need of a new snow blower.

**CONTACTING THE MUNICIPALITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers and investors & 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 financial information, contact Barb Revak, Clerk/Treasurer, City of Phillips, 174 S. Eyder Avenue, Phillips, WI 54555.

City of Phillips, Wisconsin

Government-Wide Financial Statements

**City of Phillips, Wisconsin  
Statement of Net Position  
As of December 31, 2016**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b>Assets</b>			
<b>Current assets:</b>			
Cash	\$ 917,060	53,732	\$ 970,792
Receivables	1,325,829	211,762	1,537,591
Internal receivables	408,409	-	408,409
Restricted cash	1,076,320	198,440	1,274,760
Inventories and prepaid items	-	7,176	7,176
Advance to other funds	-	737	737
<b>Total current assets</b>	<b><u>3,727,618</u></b>	<b><u>471,847</u></b>	<b><u>4,199,465</u></b>
<b>Noncurrent assets:</b>			
Other Noncurrent assets:			
Unamortized bond discount, net	4,061	-	4,061
Plant, property and equipment			
Land	317,065	21,490	338,555
Construction in progress	973,559	246,249	1,219,808
Site improvements	-	5,731,552	5,731,552
Buildings and building improvements	2,981,327	669,786	3,651,113
Furniture and equipment	2,419,884	4,493,165	6,913,049
Infrastructure- Road network	2,844,361	-	2,844,361
Less: Accumulated depreciation	<u>(3,720,719)</u>	<u>(5,042,347)</u>	<u>(8,763,066)</u>
Net Plant, property & equipment	5,815,477	6,119,895	11,935,372
<b>Total noncurrent assets</b>	<b><u>5,819,538</u></b>	<b><u>6,119,895</u></b>	<b><u>11,939,433</u></b>
<b>Total assets</b>	<b><u>9,547,156</u></b>	<b><u>6,591,742</u></b>	<b><u>16,138,898</u></b>
<b>Deferred Outflows of Resources</b>			
WRS pension related outflows	<u>389,507</u>	<u>48,141</u>	<u>437,648</u>
<b>Liabilities</b>			
<b>Current liabilities:</b>			
Payables:			
Accounts	473,054	19,033	492,087
Accrued payroll & related items	20,978	-	20,978
Accrued interest	30,239	7,845	38,084
Internal payables	-	408,409	408,409
Current portion of long-term obligations	298,041	204,294	502,335
Advance to other funds	737	-	737
<b>Total current liabilities</b>	<b><u>823,049</u></b>	<b><u>639,581</u></b>	<b><u>1,462,630</u></b>
<b>Noncurrent liabilities:</b>			
Noncurrent portion of long-term obligations	2,911,563	1,046,098	3,957,661
<b>Total non-current liabilities</b>	<b><u>2,911,563</u></b>	<b><u>1,046,098</u></b>	<b><u>3,957,661</u></b>
<b>Total liabilities</b>	<b><u>3,734,612</u></b>	<b><u>1,685,679</u></b>	<b><u>5,420,291</u></b>
<b>Deferred Inflows of Resources</b>			
Tax levies	1,194,475		1,194,475
Amounts paid to recipients of Community Development Block Grants	507,674		507,674
PSC other deferred credits		123,879	123,879
WRS pension related inflows	206,629	25,538	232,167
<b>Total deferred inflows of resources</b>	<b><u>1,908,778</u></b>	<b><u>149,417</u></b>	<b><u>2,058,195</u></b>
<b>Net Position</b>			
Net Investment in capital assets	2,749,310	4,869,503	7,618,813
Restricted:			
TIF districts	1,358,812		1,358,812
CDBG Housing project	79,147		79,147
Water/sewer loan covenant		198,440	198,440
Unrestricted:	106,004	(263,156)	(157,152)
<b>Total net position</b>	<b><u>4,293,273</u></b>	<b><u>4,804,787</u></b>	<b><u>9,098,060</u></b>

See accompanying notes to basic financial statements.

**City of Phillips, Wisconsin  
Statement of Activities  
For the Year ended December 31, 2016**

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Government Activities	Business- Type Activities	Total
<b>Governmental activities:</b>						
General government	241,908		3,814	(238,094)		(238,094)
Public Safety	698,616	82,657	4,669	(611,290)		(611,290)
Public Works	525,308	42,806	114,423	(368,079)		(368,079)
Health and human services	29,347	7,050	-	(22,297)		(22,297)
Culture, recreation and education	453,351	170,766	-	(282,585)		(282,585)
Conservation and development	61,230	-	-	(61,230)		(61,230)
Debt service	137,124	-	-	(137,124)		(137,124)
<b>Total governmental activities</b>	<b>2,146,884</b>	<b>303,279</b>	<b>122,906</b>	<b>(1,720,699)</b>		<b>(1,720,699)</b>
<b>Business-type activities:</b>						
Water/sewer utility	905,718	795,413	-		(110,305)	(110,305)
<b>Total Business-type activities</b>	<b>905,718</b>	<b>795,413</b>	<b>-</b>		<b>(110,305)</b>	<b>(110,305)</b>
<b>Total municipality</b>	<b>\$3,052,602</b>	<b>\$1,098,692</b>	<b>\$ 122,906</b>	<b>\$(1,720,699)</b>	<b>\$ (110,305)</b>	<b>\$(1,831,004)</b>
<b>General revenues:</b>						
Property taxes:						
General purposes				875,251		875,251
Debt services				452,279		452,279
State and federal aids not restricted to specific functions:						
Interest and investment earnings				564,025	603	564,025
Miscellaneous				46,915	-	47,518
				119,735	-	119,735
<b>Total general revenues</b>				<b>2,058,205</b>	<b>603</b>	<b>2,058,808</b>
<b>Extraordinary / special items:</b>						
Prior year asset adjustment				(642,974)		(642,974)
Contributions for Capital Assets					642,974	642,974
<b>Change in net position</b>				<b>(305,468)</b>	<b>533,272</b>	<b>227,804</b>
<b>Net position - beginning of year</b>				<b>4,598,741</b>	<b>4,271,515</b>	<b>8,870,256</b>
<b>Net position - end of year</b>				<b>\$ 4,293,273</b>	<b>\$ 4,804,787</b>	<b>\$ 9,098,060</b>

\*This amount excludes the depreciation that is included in the direct expenses of the various activities.

See accompanying notes to basic financial statements.



City of Phillips, Wisconsin

Fund Financial Statements

City of Phillips, Wisconsin  
Balance Sheet  
Governmental Funds  
As of December 31, 2016

	General Fund	CDBG Fund	TIF District No. 3	TIF District No. 4	Other Nonmajor Govt Funds	Total Governmental Funds
<b>Assets</b>						
Cash	\$ 917,060				\$ -	\$ 917,060
Receivables:						
Taxes receivable	818,155	-	-	-	-	818,155
Other receivables	-	507,674	-	-	-	507,674
Due from other funds	255,756		42,004	1,127,945	-	1,425,705
Restricted cash	-	79,147	-	997,023	150	1,076,320
Advance to other funds	978,215	-	-	-	-	978,215
<b>Total Assets</b>	<u>2,969,186</u>	<u>586,821</u>	<u>42,004</u>	<u>2,124,968</u>	<u>150</u>	<u>5,723,129</u>
<b>Liabilities, Deferred Inflows and Fund Balance</b>						
<b>Liabilities</b>						
Accounts payable	31,435	-	-	37,886	-	69,321
Accrued payroll and related items	20,978	-	-	-	-	20,978
Cash overdraft	-	-	403,733	-	-	403,733
Due to other funds	440,469	-	562,964	13,863	-	1,017,296
Advance from other funds	-	-	602,406	320,789	55,757	978,952
<b>Total Liabilities</b>	<u>492,882</u>	<u>-</u>	<u>1,569,103</u>	<u>372,538</u>	<u>55,757</u>	<u>2,490,280</u>
<b>Deferred Inflows of Resources</b>						
Tax levies	758,853		42,004	393,618		1,194,475
Amounts paid to recipients of Community Development Block Grants		507,674				507,674
<b>Total Deferred Inflows of Resources</b>	<u>758,853</u>	<u>507,674</u>	<u>42,004</u>	<u>393,618</u>	<u>-</u>	<u>1,702,149</u>
<b>Fund Balances</b>						
Restricted:						
TIF district projects	-		-	1,358,812	-	1,358,812
CDBG loans		79,147	-	-	-	79,147
Unassigned	1,717,451	-	(1,569,103)	-	(55,607)	92,741
<b>Total Fund Balances</b>	<u>1,717,451</u>	<u>79,147</u>	<u>(1,569,103)</u>	<u>1,358,812</u>	<u>(55,607)</u>	<u>1,530,700</u>
<b>Total Liabilities, Deferred Inflows and Fund Balance</b>	<u>\$ 2,969,186</u>	<u>\$ 586,821</u>	<u>\$ 42,004</u>	<u>\$ 2,124,968</u>	<u>\$ 150</u>	<u>\$ 5,723,129</u>

See accompanying notes to basic financial statements.

**City of Phillips, Wisconsin  
 Reconciliation of the Government Funds Balance Sheet  
 to the Statement of Net Position  
 For the Year Ended December 31, 2016**

**Total fund balance reported on government funds balance sheet** **1,530,700**

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

Unamortized bond discount, net 4,061

Capital assets used in government activities are not financial resources and therefore are not reported as a component of fund balance. The amount of governmental capital assets, net of accumulated depreciation is: 5,815,477

Deferred outflows of resources for WRS pension are not financial resources and therefore are not reported as a component of fund balance. The amount of governmental deferred outflows is: 389,507

Long-term liabilities, including bonds and notes payable, are not due in the current period and therefore are not reported as a component of fund balance. Long-term liabilities reported in the statement of net position that are not reported in the governmental funds balance sheet are:

General obligation debt	\$ (3,070,228)	
Vested employee benefits	\$ (139,376)	
Accrued interest on general obligation debt	(30,239)	\$ (3,239,843)

Deferred inflows of resources are not in the current period and therefore are not reported as a component of fund balance. Deferred inflows of resources reported in the statement of net position that are not reported in the governmental funds balance sheet are: (206,629)

**Total net position - governmental activities** **4,293,273**

City of Phillips, Wisconsin  
Statement of Revenues, Expenditures and Changes in Fund Balance  
Governmental Funds  
For the Year Ended December 31, 2016

	General Fund	CDBG Fund	TIF District No. 3	TIF District No. 4	Other Nonmajor Funds	Total Governmental Funds
<b>Revenues:</b>						
Property tax	\$ 873,486	\$ -	\$ 37,761	\$ 414,518	\$ -	\$ 1,325,765
Other tax	1,765	-	-	-	-	1,765
Intergovernmental aid	685,048	-	718	1,165	-	686,931
Licenses and permits	13,691	-	-	-	-	13,691
Fines, forfeits and penalties	11,652	-	-	-	-	11,652
Public charge for service	225,412	-	-	-	-	225,412
Intergovernmental charge for service	52,524	-	-	-	-	52,524
Commercial	112,089	50,434	126	3,968	33	166,650
<b>Total revenues</b>	<b>1,975,667</b>	<b>50,434</b>	<b>38,605</b>	<b>419,651</b>	<b>33</b>	<b>2,484,390</b>
<b>Expenditures:</b>						
<b>Current:</b>						
General government	217,245	-	-	-	-	217,245
Public Safety	663,884	-	-	-	-	663,884
Public Works	348,872	-	-	-	-	348,872
Health and human services	29,200	-	-	-	-	29,200
Culture, recreation and education	405,798	-	-	-	-	405,798
Conservation and development	34,915	2,100	3,593	18,036	150	58,794
<b>Total Current</b>	<b>1,699,914</b>	<b>2,100</b>	<b>3,593</b>	<b>18,036</b>	<b>150</b>	<b>1,723,793</b>
<b>Debt Service:</b>						
Principal	796,136	-	-	75,000	-	871,136
Interest	31,449	-	22,665	74,991	1,448	130,553
<b>Total Debt service</b>	<b>827,585</b>	<b>-</b>	<b>22,665</b>	<b>149,991</b>	<b>1,448</b>	<b>1,001,689</b>
Capital Expenditures	53,952	-	-	1,163,283	-	1,217,235
<b>Total Expenditures</b>	<b>2,581,451</b>	<b>2,100</b>	<b>26,258</b>	<b>1,331,310</b>	<b>1,598</b>	<b>3,942,717</b>
Excess of revenue over(under) expenditures	(605,784)	48,334	12,347	(911,659)	(1,565)	(1,458,327)
<b>Other Financing Sources (Uses):</b>						
Debt proceeds	43,499	-	-	-	-	43,499
<b>Total Other Sources(Uses)</b>	<b>43,499</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>43,499</b>
<b>Net change in fund balance</b>	<b>(562,285)</b>	<b>48,334</b>	<b>12,347</b>	<b>(911,659)</b>	<b>(1,565)</b>	<b>(1,414,828)</b>
Fund balance, beginning of year	2,279,736	30,813	(1,581,450)	2,270,471	(54,042)	2,945,528
<b>Fund balance, end of year</b>	<b>\$ 1,717,451</b>	<b>\$ 79,147</b>	<b>\$ (1,569,103)</b>	<b>\$ 1,358,812</b>	<b>\$ (55,607)</b>	<b>\$ 1,530,700</b>

See accompanying notes to basic financial statements.

**City of Phillips, Wisconsin**  
**Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balance**  
**of Governmental Funds to the Statement of Activities**  
**For the Year Ended December 31, 2016**

**Net change in fund balances - total governmental funds** **\$ (1,414,828)**

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

The acquisition of capital assets are reported in the governmental funds as expenditures. However, for governmental activities those costs are shown in the statement of net position and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities.

Capital outlay reported in governmental fund statements	1,217,235	
Depreciation expense reported in the statement of activities	<u>293,534</u>	
Amount by which capital outlays are greater (less) than depreciation in the current period.		923,701

Prior year adjustments to capital assets are reported in the statement of activities but not on governmental funds. The amount of adjustments is: (642,974)

Changes in the employer unfunded liability for pension benefits is reported on the statement of activities but not on the government funds.  
The amount of change is: 7,567

Bond discount reported as other debt service expense in the governmental funds but is reported as other non-current asset in the statement of net position (498)

Repayment of principal on long-term debt is reported in the governmental funds as an expenditure, but is reported as a reduction in long-term debt in the statement of net position and does not affect the statement of activities.  
The amount of long-term debt principal payments in the current year is: 871,136

Debt incurred in governmental funds is reported as an other financing source, but is reported as an increase in outstanding long-term debt in the statement of net position, and does not affect the statement of activities.  
The amount of debt incurred in the current year is: (43,499)

The city disposed of surplus and outdated equipment resulting in a reduction of capital assets and recapture of prior year depreciation expense reported on the statement of net position as a net loss and has no affect on the governmental funds balance sheet.

The value of capital assets disposed of during the year was:	(13,686)	
The amount of depreciation recapture for the year was:	<u>13,686</u>	
The difference in the value of assets net of recaptured depreciation creates a gain (loss) of:		-

In governmental funds interest payments on outstanding debt are reported as an expenditure when paid. In the statement of activities interest is reported as incurred.

The amount of interest paid during the current period	92,382	
The amount of interest accrued during the current period	<u>98,455</u>	
Interest paid is greater (less) than interest accrued by		(6,073)

**Change in net position - governmental activities** **\$ (305,468)**

City of Phillips, Wisconsin  
 Combined Statement of Net Position  
 Enterprise Funds  
 As of December 31, 2016

	Water/ Sewer Fund	2016
<b>Assets and Deferred Outflows</b>		
<b>Assets</b>		
Cash	53,732	53,732
Receivables:		
Customer accounts receivables	211,762	211,762
Materials & supplies inventory	7,176	7,176
Restricted cash	198,440	198,440
Advance to other funds	737	737
Plant, property & equipment(net)	6,119,894	6,119,894
Total assets	\$ 6,591,741	\$ 6,591,741
<b>Deferred Inflows of Resources</b>		
WRS pension related outflows	48,141	48,141
<b>Liabilities, Deferred Inflows and Net Position</b>		
<b>Liabilities</b>		
Accounts payable	19,033	19,033
Accrued interest payable	7,845	7,845
Due to other funds	408,409	408,409
Long term debt	1,250,392	1,250,392
Total liabilities	1,685,679	1,685,679
<b>Deferred Inflows of Resources</b>		
PSC other deferred credits	123,879	123,879
WRS pension related inflows	25,538	25,538
Total deferred inflows of resources	149,417	149,417
<b>Net Position</b>		
Net investment in capital assets	4,869,502	4,869,502
Restricted, expendable	198,440	198,440
Unrestricted	(263,156)	(263,156)
Total net position	4,804,786	4,804,786

See accompanying notes to basic financial statements.

City of Phillips, Wisconsin  
 Combined Statement of Revenues, Expenditures and Changes in Net Position  
 Enterprise Funds  
 For the Year Ended December 31, 2016

	Water/ Sewer	2016
Operating Revenues	795,413	\$795,413
Operating Expenses		
Operations and maintenance	505,184	505,184
Depreciation	290,414	290,414
Taxes	74,843	74,843
Total Operating Expenses	870,441	870,441
Operating Income (Loss)	(75,028)	(75,028)
Non Operating Revenues (Expenses)		
Interest Income	603	603
Interest Expense	(35,277)	(35,277)
Total Non Operating	(34,674)	(34,674)
Loss Before Contributions	(109,702)	(109,702)
Contributions for Capital Assets	642,974	642,974
Change in Net Position	533,272	533,272
Net Position - Beginning of Year	4,271,514	4,271,514
Net Position - End of Year	4,804,786	4,804,786

See accompanying notes to basic financial statements.

City of Phillips, Wisconsin  
 Combined Statement of Cash Flows  
 Enterprise Funds  
 For the Year Ended December 31, 2016

	Water/ Sewer Fund	2016
<b>Cash Flows from Operating Activities</b>		
Cash received from user charges	746,963	\$ 746,963
Cash payments to employees for services	(270,498)	(270,498)
Cash payments for utilities and other purchased services	(124,559)	(124,559)
Cash payments to suppliers for goods and services	(36,201)	(36,201)
Cash payments for other operating expenses	(162,722)	(162,722)
Net cash provided by operating activities	152,983	152,983
<b>Cash Flows from Capital and Related Financing Activities</b>		
Proceeds from (payments to) municipality	172,148	172,148
Cash payments for acquisition of capital assets	(169,121)	(169,121)
Interest paid	(31,177)	(31,177)
Retirement of long-term debt	(125,802)	(125,802)
Net cash used by capital and related financing activities	(153,952)	(153,952)
<b>Cash Flows from Investing Activities</b>		
Interest on investments	603	603
Net cash provided by investing activities	603	603
Net increase (decrease) in cash and cash equivalents	(366)	(366)
Cash and cash equivalents - beginning of year	252,538	252,538
Cash and cash equivalents - end of year	\$ 252,172	\$ 252,172
<b>Reconciliation of operating income to net cash provided by operating activities</b>		
Operating income (loss)	(75,028)	(75,028)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation (grant amortization & other amortization)	290,414	290,414
Changes in assets and liabilities:		
Accounts receivable	(30,753)	(30,753)
Materials and supply inventory	246	246
Due from/to other funds	(22)	(22)
Deferred outflows/inflows	(17,697)	(17,697)
Accounts payable	(14,177)	(14,177)
Net cash provided by operating activities	\$ 152,983	\$ 152,983

See accompanying notes to basic financial statements.



City of Phillips, Wisconsin  
Statement of Net Position  
Fiduciary Funds  
December 31, 2016

	Tax Collection Agency Fund
Assets	
Taxes receivable	1,193,012
Total assets	<u>1,193,012</u>
Liabilities	
Due to other governments	1,193,012
Total liabilities	<u>\$1,193,012</u>

See accompanying notes to basic financial statements.

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City of Phillips, Wisconsin

Notes to Financial Statements  
For the Year Ended December 31, 2016

Note 1 - **SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES**

The financial statements of the City of Phillips, Wisconsin (the "City") have been prepared in conformity with accounting principles generally accepted in the United States 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 of Phillips, Wisconsin (the "City") is incorporated under the provisions of the State of Wisconsin. The City operates under a Council - Administrator form of government and provides the following services as authorized by its charter: Public safety (ambulance and fire), streets, sanitation, health and social services, culture-recreation, public improvements, planning and zoning, and general administrative services. Other services include utilities.

The reporting entity for the City is based upon criteria set forth by the Governmental Accounting Standards Board. All functions of the City for which it exercises oversight responsibility are included. The oversight responsibility includes but is not limited to, financial interdependency between the City and the governmental entity; control by the City over selection of the entity's governing authority or designation of management; the ability of the City to significantly influence operations of the entity; and whether the City is responsible for the accountability for fiscal matters. All significant activities and organizations with which the City exercises oversight responsibility have been considered for inclusion in the basic financial statements. The City has no component units and it is not included in any other governmental reporting entity.

**B. Basis of presentation**

**Government-wide financial statements**

The statement of net position and the statement of activities present financial information about the government's governmental and business-type activities. These statements include the financial activities of the overall government in its entirety, except those that are fiduciary. These statements distinguish between the governmental and business-type activities of the government. Eliminations have been made to minimize the double counting of internal transactions. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business type activities are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the government's governmental activities. Direct expenses are those that are specifically associated with and are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

The City applies restricted resources first when an expense is incurred for a purpose for which both restricted and unrestricted net position are available. Depreciation expense which can be specifically identified by function is included in the direct expenses of each function. Interest on general long-term debt is considered an indirect expense and is reported separately on the Statement of Activities.

### Fund financial statements

The accounts of the City are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained, consistent with legal and managerial requirements.

The fund statements provide information about the government's funds, including fiduciary funds. Separate statements for each fund category – governmental, business-type and fiduciary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds; each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as non-major funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal value. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

The government reports the following major governmental funds:

General Fund – This is the government's primary operating fund. It accounts for all financial activity that is not required to be accounted for in other fund.

CDBG Fund – This fund accounts for all activity of the CDBG housing rehabilitation loan program funded by a federal grant.

TIF District #3 – This fund accounts for all activity of the tax increment financing district #3.

TIF District #4 – This fund accounts for all activity of the tax increment financing district #4.

The City operates one enterprise fund. The Water and Sewer Utility Fund accounts for the activity of the municipal water and sewer utility.

The City accounts for assets held as an agent for other governmental units in a fiduciary agency fund. This fund includes the Tax Collection agency fund.

#### C. Measurement Focus and Basis of Accounting

The government-wide, business-type and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred, or economic asset used, regardless of when the related cash transaction takes place. Nonexchange transactions, in which the government gives or receives value without directly receiving or giving equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when they become both measurable and available (susceptible to accrual). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose the City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after the end of the fiscal year.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the City may fund certain programs by a combination of specific cost-reimbursement grants and general revenues. Therefore, when program expenses are incurred, both restricted and unrestricted net position may be available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by general revenues.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance or the Governmental Accounting Standards Board.

#### D. Assets and Liabilities

##### Cash

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from date of acquisition. Cash and investment balances for individual funds are pooled unless maintained in segregated accounts.

State statutes permit the City to invest available cash balances, other than debt service funds, in time deposits (maturing in not more than three years) of authorized depositories, U.S. Treasury obligations, U.S. government agency issues, municipal obligations within Wisconsin, high grade

commercial paper which matures in less than seven years, and the local government pooled-investment fund administered by the State of Wisconsin Investment Board.

All investments are stated at fair market value. Determination of fair value for investment in the state treasurer's investment pool is based on information provided by the State of Wisconsin Investment Board.

#### Property Taxes:

Real estates assessments are as of January 1, tax levies in December are applicable to the following year and the real estate taxes are due in January or February, unless an installment plan is selected. Property taxes are recognized as revenue in the period which the taxes are levied. The 2015 tax levy is used to finance operations of the City for the year ended December 31, 2016. All property taxes are considered due on January 1st, when an enforceable lien is assessed against the property and the taxpayer is liable for the taxes. The County assumes all responsibility for delinquent real property taxes. Property taxes which have not been recognized as revenue are recorded as deferred revenues until collected.

#### Accounts Receivable

All accounts receivable are shown 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 such allowance would not be material.

#### Due to and from other funds

The amounts reported on the statement of net position for due to and due from other funds represents amounts due between fund types (governmental activities, business type activities and fiduciary funds). Eliminations have been made for amounts due to and due from within the same fund type. See Note 4C for a detailed description of the individual fund balances as of December 31.

#### Inventories and Prepaid Supplies:

Proprietary fund type inventories are generally used for construction, operation and maintenance work, they are not for resale. They are charged to construction, operations and maintenance expense at average cost.

Governmental fund inventory items are charges to expenditure accounts when purchased. Year-end inventory was not significant.

#### Capital assets

The accounting treatment over property, plant and equipment (capital assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide of fund financial statements.

#### - Government-wide Statements

In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost or estimated historical cost if actual is unavailable, based on management estimates. Donated assets are reported at estimated fair market value at the time received.

Prior to January 1, 2004, governmental funds' infrastructure assets were not capitalized. Upon implementing GASB 34 governmental units are required to account for all infrastructure in the

government-wide statements prospectively from the date of implementation. Retroactive reporting of all major general infrastructure assets is encouraged but not required. For the year ended December 31, 2016, the City has chosen not to retroactively report infrastructure acquired by its governmental fund types.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Buildings/improvements	\$5,000	Straight-line	50 years
Furniture and equipment	\$5,000	Straight-line	5-15 years
Vehicles	\$5,000	Straight-line	5-10 years
Infrastructure	\$5,000	Straight-line	25 years

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets useful life are not capitalized.

Major outlays for capital assets and improvements are capitalized as the projects are constructed.

#### Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has one item that qualifies for reporting in this category in the government-wide statement of net position. This item is related to the City's proportionate share of the Wisconsin Retirement System pension plan and is deferred and amortized over the expected remaining service lives of the pension plan participants.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The City has four items that qualify for reporting in this category in the government-wide statement of net position. The first is property taxes, which will be recognized as an inflow of resources in the subsequent year for which it was levied. The second is related to the City's proportionate share of the Wisconsin Retirement System pension plan and is deferred and amortized over the expected remaining service lives of the pension plan participants. The third item is the amount of CDBG Housing Rehabilitation Loans outstanding, which will be recognized as the loans become due upon sale of the related property. The period in which this will occur can't be determined. The fourth item is deferred items as required by the Wisconsin Public Service Commission for the Water Utility. These items are amortized over the life of the related item in accordance with PSC regulations.

### - Fund Financial Statements

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

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

### Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results may differ from those estimates.

### Equity Classifications

#### - Government-wide Statements

Net position represents the difference between assets and liabilities. Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement for those assets. Net position is reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The City applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net positions are available.

#### - Fund Statements

Governmental fund equity is classified as fund balance. Fund balances are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Fund balances are reported as committed when constrained by the highest level of decision making authority (City Council). Fund balances are reported as assigned when the City Council or designated official expresses an intent for a specific use. All remaining fund balances are unassigned and available for general municipality purposes. Proprietary fund equity is classified the same as in the government-wide statements.

### Budgetary Accounting

Budgetary information is derived from the annual operating budget and is presented using the same basis of accounting for each fund as described above. The legally adopted budget and budgetary expenditure control is exercised at the function level. Reported budget amounts are as originally adopted or as amended by City Board resolution.



Housing Rehabilitation Loans Receivable

The City has received grant funds for housing rehabilitation loan programs to various individuals. The City records a loan receivable when the loan has been made and funds have been disbursed.

As loans are repaid, revenue is recognized. When new loans are made from the repayments, expenditures are recorded. Interest received from loan repayments is recognized as revenue when received in cash. Any unspent loan repayments at year end are presented as reserved fund balance in the fund financial statements.

Loans become due upon sale of the property, it is not possible to determine the portion that may be collectable within one year.

Subsequent Events

Subsequent events have been evaluated through September 26, 2017, which is the date the financial statements were available to be issued.

**Note 2 – STEWARDSHIP AND COMPLIANCE**

The City did not have any violation of legal or contractual provisions for the fiscal year ended December 31, 2016.

**Note 3 – DETAILED DISCLOSURES REGARDING ASSETS AND REVENUES**

**Note 3a – Cash**

**Custodial Credit Risk – Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the City’s deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of December 31, 2016 all of the City deposits were fully collateralized by the FDIC and the State Guarantee Fund.

The following schedule of cash deposits of all the City’s funds (including fiduciary funds) as of December 31, 2016 as reflected in the Statement of Net Position follows:

	Primary	Enterprise	
	Government	Funds	Total
<b>Unrestricted:</b>			
Cash and Cash Equivalents	\$917,060	\$53,732	\$970,792
<b>Restricted:</b>			
Cash and Cash Equivalents	1,076,320	198,440	1,274,760
Total Cash and Cash Equivalents	\$1,993,380	\$252,172	\$2,245,552

The Primary Government restricted cash balance is composed of the cash balances of the Special Revenue funds and Capital Projects funds. The Enterprise Fund restricted cash balance is reserved by debt covenant with the Clean Water Fund. The Water/Sewer utility is required to deposit \$35,080 per year into the reserved account until maturity of the loan in May of 2021. The current required balance is \$198,440.

Interest and dividends earned as of December 31, 2016 are as follows:

	Governmental	Business-type
	Activities	Activities
Interest earned	\$46,915	\$603

Deposits in banks are insured by the Federal Deposit Insurance Corporation (FDIC) in the amount of \$250,000 for demand deposits and \$250,000 for time deposits, per entity. In addition, the State of Wisconsin has a State Guarantee Fund, which provides a maximum of \$400,000 per entity above the amount provided by the FDIC. However, due to the relatively small size of the Guarantee Fund in relation to the total coverage, total recovery of losses may not be available.

Fluctuating cash flows during the year due to tax collections, receipt of state aids and/or proceeds from borrowing may result in temporary uninsured balances significantly exceeding the FDIC and State Guarantee Fund insurance.

The City is adequately collateralized in all of their depositories.

### Note 3b – Capital Assets

Capital asset balances and activity for the year ended December 31, 2016 were as follows:

	Beginning Balance	Prior year Adjustments	Increases	Decreases	Ending Balance
<b>Governmental activities:</b>					
Capital assets not being depreciated:					
Sites (land)	\$ 317,065	-	-	-	\$ 317,065
Construction In Progress	1,882,914	(642,974)	1,163,282	(1,429,663)	973,559
Total capital assets not being depreciated	2,199,979	(642,974)	1,163,282	(1,429,663)	1,290,624
Capital assets being depreciated:					
Buildings & Site Improvements	2,981,327	-	-	-	2,981,327
Equipment & Vehicles	2,379,618	-	53,952	(13,686)	2,419,884
Road network	1,414,698	-	1,429,663	-	2,844,361
Total capital assets being depreciated	6,639,421	-	1,483,615	(13,686)	8,245,572
Less accumulated depreciation for:					
Buildings & site improvements	(1,259,270)	-	(70,433)	-	(1,329,704)
Furniture and equipment	(1,839,763)	-	(80,883)	13,686	(1,906,961)
Road network	(341,838)	-	(142,218)	-	(484,056)
Total accumulated depreciation	(3,440,871)	-	(293,535)	13,686	(3,720,720)
Total capital assets being depreciated, net of accumulated depreciation	3,334,772	-	1,190,080	-	4,524,852
Governmental activities capital assets, net of accumulated depreciation					\$ 5,815,477
Depreciation expense was charged to governmental functions as follows:					
Public Works – Infrastructure			142,218		
General Government			24,663		
Public Safety			42,299		
Public Works			34,218		
Health & Human Services			147		
Culture, Recreation & Education			47,553		
Conservation & Development			2,436		
Total depreciation for governmental activities			\$293,535		

**Business-type activities:**

Capital assets not being depreciated:					
Land	\$21,490	-			\$21,490
Construction in Progress	81,017	-	165,232	-	246,249
Total capital assets not being depreciated	102,507		165,232		267,739
Capital assets being depreciated:					
Water distribution system	3,852,462	-	440,852	(220,808)	4,072,506
Sewer collection & treatment system	6,701,439	-	206,011	(85,451)	6,821,999
Total capital assets being depreciated	10,553,901	-	646,863	(306,259)	10,894,505
Less accumulated depreciation for:					
Water distribution system	(1,520,095)	-	(80,831)	220,808	(1,380,118)
Sewer collection & treatment system	(3,538,097)	-	(209,583)	85,451	(3,662,229)
Total accumulated depreciation	(5,058,192)	-	(291,215)	306,259	(5,042,347)
Total capital assets being depreciated, net of accumulated depreciation	5,495,709	-	355,648	-	5,852,158

Business-type activities capital assets, net of accumulated depreciation \$ 6,119,895

Depreciation expense was charged to functions as follows:

	Water	79,719
	Sewer	211,496
Total business-type activities depreciation expense		<u>\$291,215</u>

## Note 4 – DETAILED DISCLOSURES REGARDING LIABILITIES AND EXPENSES

### Note 4a – Short-term debt

The City had no short-term debt liability balances or activity for the year ended December 31, 2016.

### Note 4b – Long-term Liabilities

Long-term liability balances and activity for the year ended December 31, 2016 were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due within One Year
<b>Governmental Activities</b>					
<b>General obligation debt</b>					
Bonds and notes payable					
Capital projects	\$ 3,710,000	-	810,000	\$ 2,900,000	\$ 240,000
Other than capital projects	94,500	43,499	19,012	118,987	12,879
Capital leases	93,365	-	42,124	51,241	45,162
Total general obligation debt	3,897,865	43,499	871,136	3,070,228	298,041
Vested Employee Benefits:					
Net pension liability	97,243	-	-	97,243	-
Pension related benefits	49,700	-	7,567	42,133	-
Total Other Governmental Liabilities	146,943	-	-	139,376	-
Total governmental activity long-term liabilities	<u>\$ 4,044,808</u>	<u>43,499</u>	<u>878,703</u>	<u>\$ 3,209,604</u>	<u>\$ 298,041</u>
<b>Business-type Activities</b>					
Bonds and notes payable	1,364,176	-	125,802	1,238,374	204,294
Total business-type activities debt	<u>\$ 1,364,176</u>	<u>-</u>	<u>125,802</u>	<u>\$ 1,238,374</u>	<u>\$ 204,294</u>
Vested Employee Benefits:					
Net pension liability	12,019	-	-	12,019	-
Total Other Business-type Liabilities	12,019	-	-	12,019	-
Total business-type activity long-term liabilities	<u>\$ 1,376,195</u>	<u>-</u>	<u>125,802</u>	<u>\$ 1,250,393</u>	<u>\$ 204,294</u>

Payments on bonds and notes are made by the various funds debt service fund and the business-type funds.

Total interest paid and accrued during the year:	<b><u>Governmental</u></b>	<b><u>Business-type</u></b>
	<b><u>Funds</u></b>	<b><u>Funds</u></b>
Total interest paid	\$ 92,382	\$ 31,176
Total interest expense	<u>98,455</u>	<u>35,277</u>
Interest paid over (under) expense	<u>\$ (6,073)</u>	<u>\$ (4,101)</u>

The full faith, credit, and taxing powers of the City secure all general obligation debt, including business-type activities, if any. Bonds and notes payable is comprised of the following individual issues:

<b>Government Activities</b>	Issue	Interest	Date of	Balance
Notes and Bonds payable	Dates	Rates	Maturity	12/31/16
Bond payable	04/01/2010	2.0-4.4	03/01/2025	790,000
Note payable	10/31/2011	3.60	10/31/2018	51,241
Bond payable	12/03/2015	2.0-3.0	09/01/2021	610,000
Bond payable	12/03/2015	2.0-3.0	09/01/2023	1,500,000
Note payable	11/10/2015	3.00	11/10/2020	51,145
Note payable	03/19/2015	2.875	03/16/2019	24,343
Note payable	07/01/2016	2.98	06/30/2021	9,000
Note payable	09/09/2016	2.79	09/09/2019	<u>34,499</u>
Total bonds and notes				<u><u>\$3,070,228</u></u>
<b>Business-type Activities</b>				
Water/sewer revenue bond	06/13/2001	2.78	05/01/2021	683,374
Water/sewer revenue bond	12/03/2015	2.0-3.0	09/01/2025	<u>555,000</u>
				<u><u>\$1,238,374</u></u>

The legal debt limit and margin of indebtedness is set at 5% of equalized value by Section 67.03(1) (b), Wisconsin Statutes. The margin of indebtedness at December 31, 2016 is:

Equalized value certified by Wisconsin Department of Revenue for:	2016	\$92,170,600
Margin of indebtedness at 5%		4,608,530
Deduct long-term debt applicable to debt margin		<u>(3,070,228)</u>
Margin of indebtedness		<u><u>\$ 1,538,302</u></u>

Aggregate cash flow requirements for retirement of long-term principal and interest on notes and bonds (including State Trust Fund loans) as of December 31, 2016 is as follows:

**Government Activities**

Year ended			
31-Dec	Principal	Interest	Total
2017	298,041	85,360	383,401
2018	479,924	75,752	555,676
2019	469,838	64,096	533,934
2020	460,516	52,786	513,302
2021	461,909	39,615	501,524
2022-2025	<u>900,000</u>	<u>50,735</u>	<u>950,735</u>
Totals	<u><u>\$ 3,070,228</u></u>	<u><u>\$ 368,344</u></u>	<u><u>\$ 3,438,572</u></u>

**Business-type Activities**

Year ended			
31-Dec	Principal	Interest	Total
2017	204,294	30,476	234,770
2018	207,884	25,337	233,221
2019	191,572	19,937	211,509
2020	195,364	15,353	210,717
2021	199,260	10,027	209,287
2022-2025	240,000	14,850	254,850
Totals	<u>\$ 1,238,374</u>	<u>\$ 115,980</u>	<u>\$ 1,354,354</u>

**Note 4c – Interfund receivables/payables and operating transfers**

The following is a schedule of interfund receivables/payables in the fund financial statements:

<b>Governmental Funds:</b>	Amount
General fund receivable from Enterprise funds for operations	\$ 237,046
TIF Districts receivable from Enterprise funds	171,363
General fund receivable from TIF districts for operations	556,456
TIF district payable to General Fund for operations	(556,456)
<b>Total Governmental Fund Receivable/Payable</b>	<b>\$408,409</b>
<b>Business-type Funds:</b>	
Water/sewer fund payable to General fund for operations	(237,046)
Water/sewer fund payable to TIF Districts	(171,363)
<b>Total Business-type Fund Receivable/Payable</b>	<b>\$(408,409)</b>

For the Statement of Net Position interfund balances which are owed within the governmental activities funds or business-type activities funds are eliminated.

Balance owed between the governmental activities funds and the business-type activities funds are reported in the Statement of Net Position and include:

	Amount
<b>Governmental Activities</b>	Due (Owed)
General Fund	\$237,046
TIF Districts	171,363
<b>Total</b>	<b>\$408,409</b>
<b>Business-type Activities</b>	
Water/sewer Fund	(408,409)
<b>Total</b>	<b>\$(408,409)</b>

Operating transfers – transfers are used to: 1) move unrestricted revenues collected in the general fund to finance various programs accounted for in the other funds in accordance with budgetary authorizations and 2) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them.

The City did not utilize any Operating Transfers in 2016.

## Note 4d – Contributions to pension plan

### **Summary of Significant Accounting Policies**

**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.

### **General Information about the Pension Plan**

**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.

**Vesting.** For employees beginning participation on or after January 1, 1990, and no longer actively employed on or after April 24, 1998, creditable service in each of five years is required for eligibility for a retirement annuity. Participants employed prior to 1990 and on or after April 24, 1998, and prior to July 1, 2011, are immediately vested. Participants who initially became WRS eligible on or after July 1, 2011, must have five years of creditable service to be vested.

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

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

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

The WRS also provides death and disability benefits for employees.

**Post-Retirement Adjustments.** The Employee Trust Funds Board may periodically adjust annuity payments from the retirement system based on annual investment performance in accordance with s. 40.27, Wis. Stat. An increase (or decrease) in annuity payments may result when investment gains (losses), together with other actuarial experience factors, create a surplus

(shortfall) in the reserves, as determined by the system's consulting actuary. Annuity increases are not based on cost of living or other similar factors. For Core annuities, decreases may be applied only to previously granted increases. By law, Core annuities cannot be reduced to an amount below the original, guaranteed amount (the "floor") set at retirement. The Core and Variable annuity adjustments granted during recent years are as follows:

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

*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. Required contributions for protective employees are the same rate as general employees. Employers are required to contribute the remainder of the actuarially determined contribution rate. The employer may not pay the employee required contribution unless provided for by an existing collective bargaining agreement.

During the reporting period, the WRS recognized \$60,660.53 in contributions from the employer.

Contribution rates as of December 31, 2015 are:

Employee Category	Employee	Employer
General (including teachers)	6.8%	6.8%
Executives & Elected Officials	7.7%	7.7%
Protective with Social Security	6.8%	9.5%
Protective without Social Security	6.8%	13.1%

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

At December 31, 2016, the City of Phillips' reported a liability (asset) of \$109,261.91 for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation as of December 31, 2014 rolled forward to December 31, 2015. No material changes in assumptions or benefit terms occurred between the actuarial valuation date and the measurement date. The City of Phillips' proportion of the net pension liability (asset) was based on the City of Phillips' share of contributions to the pension plan relative to the contributions of all participating employers. At December 31, 2015, the City of Phillips' proportion was .00672389%, which was a decrease of .00018058% from its proportion measured as of December 31, 2014.

For the year ended December 31, 2016, the City of Phillips' recognized pension expense of \$130,818.53.

At December 31, 2015, the City of Phillips' 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	\$0	\$(229,939.82)
Changes in assumptions	\$76,444.39	\$0
Net differences between projected and actual earnings on pension plan investments	\$387,339.48	\$0
Changes in proportion and differences between employer contributions and proportionate share of contributions	\$0	\$(2,227.38)
Employer contributions subsequent to the measurement date	\$0	\$0
<b>Total</b>	<b>\$463,783.87</b>	<b>\$(232,167.20)</b>

\$0 reported as deferred outflows related to pension resulting from the WRS Employer's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability (asset) in the year ended December 31, 2016. 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 June 30:	Deferred Outflow of Resources	Deferred Inflows of Resources
2016	\$141,480.35	\$(56,560.64)
2017	\$141,480.35	\$(56,560.64)
2018	\$141,480.35	\$(56,560.64)
2019	\$117,499.29	\$(56,330.00)
2020	\$2,445.66	\$(7,427.64)



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

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

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

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

*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:

**Retirement Funds Asset Allocation Targets and Expected Returns  
As of December 31, 2015**

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

Variable Fund Asset Class				
US Equities	70	70	7.6	4.7
International Equities	30	30	8.5	5.6
Total Variable Fund	100%	100%	7.9%	5.0%

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

*Sensitivity of the City of Phillips' proportionate share of the net pension liability (asset) to changes in the discount rate.* The following presents the City of Phillips' proportionate share of the net pension liability (asset) calculated using the discount rate of 7.20 percent, as well as what the City of Phillips' 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:

	1% Decrease to Discount Rate (6.20%)	Current Discount Rate (7.20%)	1% Increase To Discount Rate (8.20%)
City of Phillips' proportionate share of the net pension liability (asset)	\$766,365.11	\$109,261.91	\$(403,947.41)

*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>

**Note 4e – Unfunded Pension Liability**

The City's unfunded pension liability of \$42,133 on December 31, 2016 is an actuarially computed liability by the Wisconsin Retirement System (System) resulting from increases in employee pension benefits that exceeded actual prior years' contributions by the City to the System. The liability was originally calculated by the System as of January 1, 1990. Since that time, the City has been making additional monthly payments to the System 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 System are less than the interest charged. The Systems 40 year amortization schedule from 1990 anticipates that the unfunded pension liability will not be reduced annually for approximately the first 20 years of the schedule. Additional information on the Wisconsin Retirement System is provided in Note 4d.

**Note 4f – Debt Covenants**

As part of the Clean Water Fund loan issued by the State of Wisconsin Environmental Improvement fund the City deposits a predetermined amount to a reserved cash account each year. The current balance in the reserve is \$198,440, which is an amount sufficient to ensure compliance with the debt covenant.

**Note 4g – Risk management**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. The City maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the City. Settled claims have not exceeded insurance coverage in any of the last three years. There were no significant reductions in coverage compared to the prior year.

**Note 5 – OTHER NOTE DISCLOSURES**

**Note 5a – Fund balances**

Portions of fund balances are restricted and are not available for current appropriation for expenditure as follows:

TIF District Funds	\$1,358,812
CDBG Housing Rehab project	79,147

**Note 5b – Excess of actual expenditure over budget**

The following functions had an excess of actual expenditures over budget for the year ending December 31, 2016:

<b><u>General Fund Excess Expenditure</u></b>	
General Government	\$ 18,794
Public Safety	37,675
Conservation & development	34,265

**Note 5c – Contingencies and commitments**

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

The City participates in a number of state and federally assisted grant programs. These programs are subject to program compliance audits by grantors or their representatives. The audits of these programs for or including the year ended December 31, 2016 have not been conducted. Accordingly, the City's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

Funding for the operating budget of the City comes from many sources, including property taxes, grants and aids from other units of government, user fees, fines and permits, and other miscellaneous revenues. The State of Wisconsin provides a variety of aid and grant programs which benefit the City. Those aid and grant programs are dependent on continued approval and funding by the Wisconsin governor and legislature, through their budget processes. The State of Wisconsin is currently experiencing budget problems, and is considering numerous alternatives including reducing aid to local governments. Any changes made by the State to funding or eligibility of local aid programs could have a significant impact on the future operating results of the City.

#### Note 5d – **Extraordinary Item**

The City has a prior year asset adjustment in the current year Statement of Activities that is unusual and infrequent in nature. These were capital assets in the City's TIF District Construction in Progress account at the end of the prior year, but the amount to be included in the Water & Sewer Fund was unknown at that time. When these assets were placed in service in the current year, an amount equal to \$642,974 was required to be included in the Water & Sewer Fund as capital contributions, offset by a matching amount as an extraordinary item expense in Governmental activities.

#### Note 5e – **Restated Fund Balance**

The City has restated beginning fund balances in the General Fund and the TIF District No. 3 Fund in the current year that offset each other. In the prior year, there was an inter-fund balance overstated by \$121,195 included as a receivable in the TIF District fund with an equal amount included as a payable in the General Fund.

#### Note 5f - **Change in Accounting Estimate**

In the prior year, the City reported its retirement information from the Wisconsin Employee Trust Fund using the data for the Wisconsin Retirement System for the year ending December 31, 2015. Due to the lack of timeliness of the Employee Trust Fund in releasing the information for the year ending December 31, 2016, the City has chosen to use the data for the Wisconsin Retirement System for the prior year going forward. This change is in compliance with GASB 68.

City of Phillips, Wisconsin

Required Supplementary Information

City of Phillips, Wisconsin  
Statement of Revenues, Expenditures and Changes in Fund Balance  
Budget and Actual  
General Fund  
For the Year Ended December 31, 2016

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues:				
Property tax	\$ 852,590	\$ 852,590	873,486	\$ 20,896
Other tax	9,000	9,000	1,765	(7,235)
Intergovernmental aid	683,827	712,827	685,048	(27,779)
Licenses and permits	9,500	9,500	13,691	4,191
Fines, forfeits and penalties	16,600	16,600	11,652	(4,948)
Public charge for service	233,621	233,621	225,412	(8,209)
Intergovernmental charge for service	70,452	70,452	52,524	(17,928)
Commercial	77,950	85,397	112,089	26,692
Total revenues	<u>1,953,540</u>	<u>1,989,987</u>	<u>1,975,667</u>	<u>(14,320)</u>
Expenditures:				
Current:				
General government	178,639	198,451	217,245	(18,794)
Public Safety	622,209	626,209	663,884	(37,675)
Public Works	363,235	363,235	348,872	14,363
Health and human services	67,058	67,058	29,200	37,858
Culture, recreation and education	434,132	434,132	405,798	28,334
Conservation and development	650	650	34,915	(34,265)
Total Current	<u>1,665,923</u>	<u>1,689,735</u>	<u>1,699,914</u>	<u>(10,179)</u>
Debt Service:				
Principal	166,545	886,545	796,136	90,409
Interest	34,349	49,480	31,449	18,031
Total Debt service	<u>200,894</u>	<u>936,025</u>	<u>827,585</u>	<u>108,440</u>
Capital Expenditures	17,008	45,368	53,952	(8,584)
Total Expenditures	<u>1,883,825</u>	<u>2,671,128</u>	<u>2,581,451</u>	<u>89,677</u>
Excess of revenue over(under) expenditures	69,715	(681,141)	(605,784)	75,357
Other Financing Sources (Uses):				
Debt proceeds	-	-	43,499	43,499
Other uses	(59,675)	(59,675)	0	59,675
Total Other Sources(Uses)	<u>(59,675)</u>	<u>(59,675)</u>	<u>43,499</u>	<u>103,174</u>
Net change in fund balance	10,040	(740,816)	(562,285)	178,531
Fund balance, beginning of year restated	<u>\$2,279,736</u>	<u>2,279,736</u>	<u>2,279,736</u>	<u>-</u>
Fund balance, end of year	<u>\$ 2,289,776</u>	<u>\$ 1,538,920</u>	<u>\$1,717,451</u>	<u>\$ 178,531</u>

City of Phillips, Wisconsin  
Notes to Required Supplementary Information  
On Budgetary Accounting and Control  
Year Ending December 31, 2016

Budgets are adopted each fiscal year for all funds legally required to be budgeted. The legally adopted budget and budgetary expenditure control is exercised at the function level for all funds. Reported budget amounts are as originally adopted or as amended by City Council resolution.

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

- Based upon requests from staff, administration recommends budget proposals to the City Council.
- The City Council prepares a proposed budget including proposed expenditures and the means of financing them for the January 1 through December 31 year.
- A public notice is published containing a summary of the budget and identifying the time and place where a public hearing will be held on the proposed budget.
- Pursuant to the public budget hearing, the City Council may alter the proposed budget.
- After the City Council (following the public hearing) adopts the budget, no changes may be made in the amount of tax to be levied or in the amount of the various appropriations and the purposed of such appropriations unless authorized by a 2/3 vote of the entire Council.
- Appropriations lapse at year-end unless authorized as a carryover by the City Council. The portion of fund balance representing carryover appropriations is reported as a reserve of fund balance.

CITY OF PHILLIPS  
SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION  
WISCONSIN RETIREMENT SYSTEM

SCHEDULE OF CITY OF PHILLIPS PROPORTIONATE SHARE  
OF THE NET PENSION LIABILITY (ASSET)

Wisconsin Retirement System  
Last 10 Fiscal Years\*

	2015	2016
City of Phillips proportion of the net pension liability (asset)	0.00690447%	0.00672389%
City of Phillips proportionate share of the net pension liability (asset)	\$ (122,354.76)	\$109,261.91
City of Phillips covered-employee payroll	\$ 802,414.62	\$777,835.50
Plan fiduciary net position as a percentage of the total pension liability (asset)	102.74%	98.20%

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

SCHEDULE OF CITY OF PHILLIPS CONTRIBUTIONS

Wisconsin Retirement System  
Last 10 Fiscal Years\*

	2015	2016
Contractually required contributions	\$ 62,588.34	\$60,660.53
Contributions in relation to the contractually required contributions	\$ 62,588.34	\$60,660.53
Contribution deficiency (excess)	\$ -	\$ -
City of Phillips covered-employee payroll	\$ 802,414.62	\$ 777,835.50
Contributions as a percentage of covered-employee payroll	7.80%	7.80%

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

CITY OF PHILLIPS  
Notes to Required Supplementary Information  
For the Year Ended December 31, 2016

*Changes of benefit terms.* There were no changes of benefit terms for any participating employer in WRS.

*Changes of assumptions.* There were no changes in the assumptions.



City of Phillips, Wisconsin

Other Supplementary Information

City of Phillips, Wisconsin  
Combining Balance Sheet  
Nonmajor Governmental Funds  
As of December 31, 2016

	TIF District No. 2	Total Nonmajor Govt Funds
<b>Assets</b>		
Restricted cash	150	150
Total Assets	\$ 150	\$ 150
 <b>Liabilities and Fund Balance</b>		
<b>Liabilities</b>		
Advance from other funds	55,757	55,757
Total Liabilities	55,757	55,757
 <b>Fund Balances</b>		
<b>Unassigned:</b>		
TID #2 projects	(55,607)	(55,607)
Total Fund Balance	(55,607)	(55,607)
Total Liabilities and Fund Balance	\$ 150	\$ 150

City of Phillips, Wisconsin  
Combining Statement of Revenues, Expenditures and Changes in Fund Balance  
Nonmajor Governmental Funds  
For the Year Ended December 31, 2016

	TIF District No. 2	Total Nonmajor Govt Funds
Revenues:		
Miscellaneous revenues	33	33
Total revenues	33	33
Expenditures:		
Conservation and development	150	150
Total Current	150	150
Debt Service:		
Interest	1,448	1,448
Total Debt service	1,448	1,448
Total Expenditures	1,598	1,598
Excess of revenue over(under) expenditures	(1,565)	(1,565)
Net change in fund balance	(1,565)	(1,565)
Fund balance, beginning of year	(54,042)	(54,042)
Fund balance, end of year	\$ (55,607)	\$ (55,607)

# EAGLE AUDIT & ACCOUNTING, LLC

## CERTIFIED PUBLIC ACCOUNTANTS

Members of:

American Institute of Certified Public Accountants  
Wisconsin Institute of Certified Public Accountants  
Government Audit Quality Center

### 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

#### Independent Auditor's Report

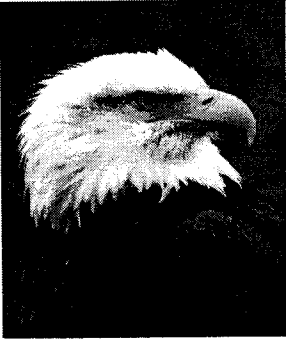
To the Common Council  
City of Phillips, Wisconsin  
Phillips, Wisconsin

We have audited 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Phillips, Wisconsin ("City") as of and for the year ended December 31, 2016 and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 26, 2017.

#### 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



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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. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as 2016-001 that we consider to be a material weakness.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City'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 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 Phillips, WI Response to Findings**

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 results 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.

*Eagle Audit & Accounting, LLC*

Eagle Audit & Accounting, LLC  
Certified Public Accountants

September 26, 2017  
Park Falls, Wisconsin

**City of Phillips, WI**  
**Schedule of Findings and Responses**  
**For the Year Ended December 31, 2016**

**Section 1 - Summary of Auditor's Results**

**Financial Statements Findings**

	Yes	No	
Type of auditors' report issued			Unqualified
Internal control over financial reporting:			
Material weakness(es) identified?	X		
Significant deficiency(ies) identified that are not considered to be material weaknesses?		X	
Noncompliance material to the financial statements		None reported	

**Section 2 - Financial Statement Findings**

**Finding 2016-001: Segregation of Duties**

**Criteria:** It is the responsibility of management to establish proper internal controls over financial reporting, of which an important part is proper segregation of duties among finance personnel.

**Condition:** The size of the office staff precludes a proper segregation of functions to assure adequate internal control.

**Context:** Information provided to management throughout the year may be incorrect due to errors and/or inconsistencies due to the concentration of duties and responsibilities in a single individual. We did not identify any errors in the course of our audit work.

**Effect:** Incorrect data may be entered into the financial system without being detected by proper system of controls.

**Cause:** The small size of the City does not allow for multiple positions within the finance department.

**Information to Provide Perspective:** The City's finance staff consists of one full time position and one assistant position.

**Recommendation:** Although this is not unusual in entities of your size, administration and the Council should continue to be aware of this situation and to realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable for an effective system of internal control. Under these conditions, the most effective controls lie in the Council's knowledge of matters relating to the City's operations.

**View of Responsible Officials:** Management concurs with the finding and has determined that the economic cost of addressing this issue outweighs the benefits at this time.

**Section 3 – Other Issues**

	Yes	No
Does the auditor’s report or the notes to the financial statements include disclosure with regard to substantial doubt as to the auditee’s ability to continue as a going concern?		X
Does the audit report show audit issues (i.e., material non-compliance, non-material non-compliance, questioned costs, material weakness, significant deficiency, management letter comment, excess revenue or excess reserve) related to grants/contracts with funding agencies that require audits to be in accordance with <i>State Single Audit Guidelines</i> :		X
Was a Management Letter or other document conveying audit comments issued as a result of this audit	X	

Name and signature of partner: Robert M. Biller, CPA

*Robert M. Biller*

Date of report

September 26, 2017

The City of Phillips contact official for finding 2016-001 is as follows:

Barb Revak  
 Clerk/Treasurer  
 715-339-3125

City of Phillips, WI  
Status of Prior Year Audit Findings  
And Corrective Action Plan

For the Year Ending December 31, 2016

**2015-001 Lack of Segregation of Duties**

Management and the Board are aware of the situation and will continue to oversee the financial matters of the City with this in mind.

**Corrective Action Plan**

**2016-001 Lack of Segregation of Duties** – as above.