

CITY OF PHILLIPS

Phillips, Wisconsin

Independent Auditor's Report

With Financial Statements

YEAR ENDED DECEMBER 31, 2017

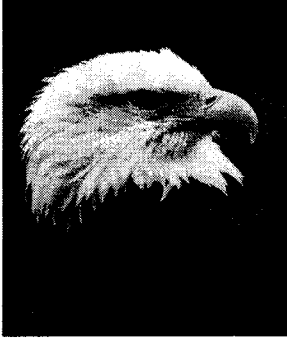
EAGLE AUDIT & ACCOUNTING, LLC
CERTIFIED PUBLIC ACCOUNTANTS
PARK FALLS, WISCONSIN

City of Phillips, WI

Report on Basic Financial Statements
With Supplemental Information

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1181 NORTH FOURTH
AVENUE
PARK FALLS,
WISCONSIN
PHONE 715-762-4909
FAX 715-762-3359
robbiller@pctcnet.net

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, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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, 2017, 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-I 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.

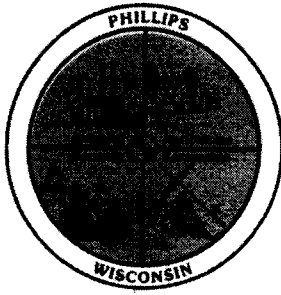
Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 1, 2018 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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

May 1, 2018
Park Falls, Wisconsin



THE CITY OF PHILLIPS

Founded in 1876

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 \$2,501,028; including \$1,302,268 of property taxes, \$581,639 of general state aid, and \$482,013 of charges for services and operating grants. Total governmental funds expenditures were \$2,200,223. The City reduced the amount of prior outstanding general obligation debt by \$203,421.

Total business-type activity fund revenues were \$1,890,203; including \$889,120 of user fees. Total business-type activity expenditures were \$1,005,086. The City increased the amount of prior outstanding business-type debt by \$2,169,789.

The City's financial status, as reflected in total net position, increased by \$1,194,922. Net position of governmental activities due to operations increased by \$1,308,997 and business-type activities (water/sewer) decreased by \$114,075.

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.

A

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*, *proprietary* 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.

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
Scope	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.
Required financial statements	<ul style="list-style-type: none"> • Statement of net position • Statement of activities. 	<ul style="list-style-type: none"> • Balance Sheet • Statement of revenues, expenditures and changes in fund balance. 	<ul style="list-style-type: none"> • Statement of net position • Statement of revenues, expenses and change in net assets • Statement of cash flows. 	<ul style="list-style-type: none"> • Statement of fiduciary net position
Basis of accounting and measurement focus	Accrual accounting. Economic resources focus.	Modified accrual accounting. Current financial resources focus.	Accrual accounting. Economic resources focus.	Accrual accounting. Economic resources focus.
Type of asset and liability information	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.
Type of inflow and outflow information	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.

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, 2017 compared to 2016.

Table 1 Condensed Statement of Net Position (in thousands of dollars)							
	Governmental Activities		Business-Type Activities		Total Municipality		%
	2017	2016	2017	2016	2017	2016	2017
Current and other assets	\$3,432.2	\$3,727.6	\$688.7	\$471.8	\$4,120.9	\$4,199.5	-1.9%
Capital assets	6,728.6	5,819.5	7,967.2	6,119.9	\$14,695.7	11,939.4	23.1%
Total assets	10,160.8	9,547.2	8,655.9	6,591.7	18,816.7	16,138.9	16.6%
Total deferred outflows	\$487.6	\$496.2	\$60.3	\$48.1	\$547.8	\$544.4	0.6%
L-T debt outstanding	2,939.3	3,209.6	3,420.2	1,250.4	6,359.5	4,460.0	42.6%
Other liabilities	115.0	525.0	474.1	435.3	589.1	960.3	-38.7%
Total liabilities	3,054.3	3,734.6	3,894.3	1,685.7	6,948.6	5,420.3	28.2%
Total deferred inflows	1,886.3	1,910.1	131.2	149.4	2,017.5	2,059.5	-2.0%
Net position							
Net investment in							
capital assets	3,870.8	2,749.3	4,547.0	4,869.5	8,417.8	7,618.8	10.5%
Restricted	1,405.5	1,438.0	236.3	198.4	1,641.8	1,636.4	0.3%
Unrestricted	431.5	211.5	(92.6)	(263.2)	338.9	(51.7)	-755.8%
Total net position	\$5,707.7	\$4,398.7	\$4,690.7	\$4,804.8	\$10,398.4	\$9,203.5	13.0%

Note: totals may not add due to rounding

Unrestricted net position, the amount available to the City to use in future periods for general purposes, increased by \$220,028. A total of \$3,870,753 (68%) is in net investment in fixed assets which is not spendable for continuing activities of the City.

In governmental activities, total assets increased \$613,627 including an increase in capital assets, net increase in capital assets was \$913,084. 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.

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, 2017 compared to 2016.

	Governmental Activities		Business-Type Activities		Total Municipality	
	2017	2016	2017	2016	2017	2016
Revenues:						
Program revenues						
Charge for services	\$347.6	\$303.3	\$889.1	\$795.4	\$1,236.7	\$1,098.7
Operating grants	134.4	122.9	\$1,000.0	-	1,134.4	122.9
General revenues						-
Property taxes	1,302.3	1,327.5	-	-	1,302.3	1,327.5
State & federal aid	581.6	564.0	-	-	581.6	564.0
Other	135.1	166.7	(67.9)	0.6	67.2	167.3
Total revenues	<u>2,501.0</u>	<u>2,484.4</u>	<u>1,821.2</u>	<u>796.0</u>	<u>4,322.2</u>	<u>3,280.4</u>
Expenses:						
General government	220.6	241.9	-	-	220.6	241.9
Public safety	627.6	698.6	-	-	627.6	698.6
Public works	692.0	525.3	-	-	692.0	525.3
Health/human services	15.8	29.3	-	-	15.8	29.3
Culture/recreation	445.4	453.4	-	-	445.4	453.4
Conservation/develop	73.1	61.2	-	-	73.1	61.2
Business-type activity	-		936.1	905.7	936.1	905.7
Debt service	125.6	137.1	-	-	125.6	137.1
Depreciation, unallocated	0.0	-	-	-	0.0	-
Other uses	-	-	-	-	-	-
Total expenses	<u>2,200.2</u>	<u>2,146.9</u>	<u>936.1</u>	<u>905.7</u>	<u>3,136.3</u>	<u>3,052.6</u>
Change in net position from operations	300.8	337.5	885.1	(109.7)	1,185.9	227.8
Net special/extraordinary	1,008.2	(643.0)	(999.2)	643.0	9.0	-
Change in net position	<u>\$1,309.0</u>	<u>\$(305.5)</u>	<u>\$(114.1)</u>	<u>\$533.3</u>	<u>\$1,194.9</u>	<u>\$227.8</u>

Note: totals may not add due to rounding

In government activities, the City had a change in net position of \$1,308,997, which is an increase from the prior year of \$1,614,465. The major changes were a prior period adjustment and contributions for capital assets.

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 revenues exceeded expenses by \$885,117, \$994,819 more than last year. The difference is attributable mainly to grants totaling \$1,000,000 from the federal and state governments.
- Charges for services, which are amounts paid by customers of the water/sewer utility, increased \$93,707 from \$795,413. The difference is attributable mainly to a water rate increase.
- The water and sewer utility acquired new fixed assets in the amount of \$2,417,272. These consisted mainly of a new well and the additions from a street project.

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, 2017 compared to 2016.

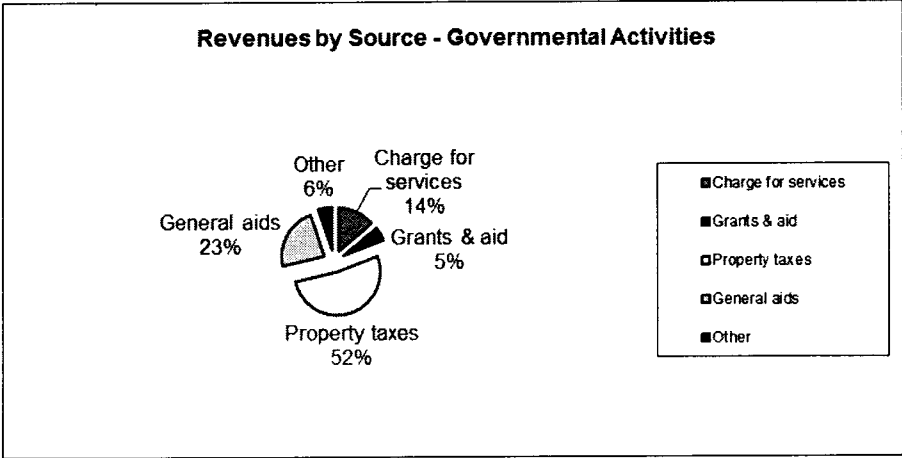
	Total Cost of Services		Net Cost of Services		Net Cost Percentage Change
	2017	2016	2017	2016	
General Government	\$220.6	\$241.9	\$220.6	\$238.1	-7.3%
Public Safety	627.6	698.6	497.5	611.3	-18.6%
Public Works	692.0	525.3	515.9	368.1	40.2%
Health & human services	15.8	29.3	10.4	22.3	-53.2%
Culture & recreation	445.4	453.4	274.9	282.6	-2.7%
Conservation & develop	73.1	61.2	73.1	61.2	19.5%
Debt service	125.6	137.1	125.6	137.1	-8.4%
Other	0.0	-	0.0	-	
Total	\$2,200.2	\$2,146.9	\$1,718.2	\$1,720.7	-0.1%

Note: totals may not add due to rounding

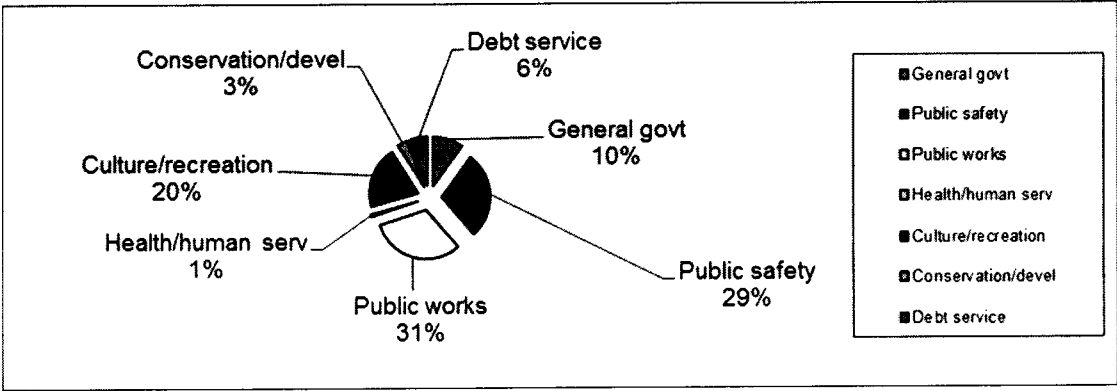
Budgetary Analysis – General Fund Only

The City made budget amendments for the year netting to a \$4,000 decrease to net change in fund balance. Expenditures were less than budget by \$34,519 overall, due to a combination of minor amounts. There was a surplus of revenues to budget of \$141,880, the majority of which was due to debt proceeds received but not budgeted for.

Revenues by Source – the chart below shows the various sources of revenue by source for the year ending December 31, 2017.



Expenditures by Function – the chart below shows the various governmental activities expenditures by function for the year ending December 31, 2017.



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, 2016 to December 31, 2017.

	Governmental		Business-Type		Total		Total
	Activities		Activities		Municipality		%
	2017	2016	2017	2016	2017	2016	Change
Land	\$317.1	\$317.1	\$21.5	\$21.5	\$338.6	\$338.6	0.0%
Construction in progress	15.3	\$973.6	-	246.2	15.3	1,219.8	-98.7%
Site Improvements	-	-	7,805.6	5,731.6	7,805.6	5,731.6	36.2%
Buildings & improvements	2,981.3	\$2,981.3	669.8	669.8	3,651.1	3,651.1	0.0%
Furniture & equipment	2,503.5	2,419.9	4,499.5	4,493.2	7,003.0	6,913.0	1.3%
Infrastructure	5,024.5	2,844.4	-	-	5,024.5	2,844.4	76.6%
Accumulated depreciation	(4,113.1)	(3,720.7)	(5,029.2)	(5,042.3)	(9,142.3)	(8,763.1)	4.3%
Total	\$6,728.6	\$5,815.5	\$7,967.2	\$6,119.9	\$14,695.7	\$11,935.4	23.1%

Note: totals may not add due to rounding

The major additions to capital assets included two major street projects at Flambeau Avenue and North Minnow Lake Road that were completed and placed in service in governmental activities, and the addition of a new well and the water and sewer assets from the Flambeau Avenue Project for business-type activities.

Long – Term Debt – Table 5 below show the change in long-term obligations for the total municipality from December 31, 2016 to December 31, 2017.

	Total		Total
	Municipality		%
	2017	2016	Change
General obligation debt	\$2,857.8	\$3,061.2	-6.6%
Other	3,501.7	1,389.8	152.0%
Total	\$6,359.5	\$4,451.0	42.9%

Note: totals may not add due to rounding

The City incurred \$95,000 in new general obligation debt this year and the only reductions were regularly scheduled payments of principal.

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 roadwork on Airport Road in 2018.
- 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 has updated some equipment. The City still needs to update some equipment in the future.

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 Shelby Prochnow, Clerk/Treasurer, City of Phillips, 174 S. Eyder Avenue, Phillips, WI 54555.

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City of Phillips, Wisconsin

Government-Wide Financial Statements

**City of Phillips, Wisconsin
Statement of Net Position
As of December 31, 2017**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Assets			
Current assets:			
Cash	\$ 1,187,657	216,805	\$ 1,404,462
Receivables	1,195,627	227,203	1,422,830
Internal receivables	400,121	-	400,121
Restricted cash	648,817	236,274	885,091
Inventories and prepaid items	-	8,432	8,432
Total current assets	<u>3,432,222</u>	<u>688,714</u>	<u>4,120,936</u>
Noncurrent assets:			
Plant, property and equipment			
Land	317,065	21,490	338,555
Construction in progress	15,295	-	15,295
Site improvements	-	7,805,631	7,805,631
Buildings and building improvements	2,981,327	669,786	3,651,113
Furniture and equipment	2,503,536	4,499,475	7,003,011
Infrastructure- Road network	5,024,450	-	5,024,450
Less: Accumulated depreciation	(4,113,112)	(5,029,202)	(9,142,314)
Net Plant, property & equipment	<u>6,728,561</u>	<u>7,967,180</u>	<u>14,695,741</u>
Total noncurrent assets	<u>6,728,561</u>	<u>7,967,180</u>	<u>14,695,741</u>
Total assets	<u>10,160,783</u>	<u>8,655,894</u>	<u>18,816,677</u>
Deferred Outflows of Resources			
WRS pension related outflows	<u>487,550</u>	<u>60,259</u>	<u>547,809</u>
Liabilities			
Current liabilities:			
Payables:			
Accounts	63,902	31,767	95,669
Accrued payroll & related items	23,003	-	23,003
Accrued interest	28,121	42,209	70,330
Internal payables	-	400,121	400,121
Current portion of long-term obligations	493,615	244,014	737,629
Total current liabilities	<u>608,641</u>	<u>718,111</u>	<u>1,326,752</u>
Noncurrent liabilities:			
Noncurrent portion of long-term obligations	2,445,668	3,176,168	5,621,836
Total non-current liabilities	<u>2,445,668</u>	<u>3,176,168</u>	<u>5,621,836</u>
Total liabilities	<u>3,054,309</u>	<u>3,894,279</u>	<u>6,948,588</u>
Deferred Inflows of Resources			
Tax levies	1,189,503		1,189,503
Amounts paid to recipients of Community Development Block Grants	494,627		494,627
PSC other deferred credits		106,182	106,182
WRS pension related inflows	202,158	24,986	227,144
Total deferred inflows of resources	<u>1,886,288</u>	<u>131,168</u>	<u>2,017,456</u>
Net Position			
Net investment in capital assets	3,870,753	4,546,998	8,417,751
Restricted:			
TIF districts	1,313,001		1,313,001
CDBG Housing project	92,484		92,484
Water/sewer loan covenant		236,274	236,274
Unrestricted:	431,498	(92,566)	338,932
Total net position	<u>5,707,736</u>	<u>4,690,706</u>	<u>10,398,442</u>

See accompanying notes to basic financial statements.

**City of Phillips, Wisconsin
Statement of Activities
For the Year ended December 31, 2017**

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Government Activities	Business- Type Activities	Total
Governmental activities:						
General government	220,600		-	(220,600)		(220,600)
Public Safety	627,572	124,947	5,104	(497,521)		(497,521)
Public Works	692,015	46,791	129,302	(515,922)		(515,922)
Health and human services	15,838	5,400	-	(10,438)		(10,438)
Culture, recreation and education	445,418	170,469	-	(274,949)		(274,949)
Conservation and development	73,148	-	-	(73,148)		(73,148)
Debt service	125,612	-	-	(125,612)		(125,612)
Depreciation - unallocated*	20	-	-	(20)		(20)
Total governmental activities	2,200,223	347,607	134,406	(1,718,210)		(1,718,210)
Business-type activities:						
Water/sewer utility	936,073	889,120	1,000,000		953,047	953,047
Total Business-type activities	936,073	889,120	1,000,000		953,047	953,047
Total municipality	\$3,136,296	\$1,236,727	\$ 1,134,406	\$(1,718,210)	\$ 953,047	\$ (765,163)
General revenues:						
Property taxes:						
General purposes				866,646		866,646
Debt services				435,622		435,622
State and federal aids not restricted to specific functions:						
				581,639		581,639
Interest and investment earnings				51,784	1,083	52,867
Miscellaneous				83,324	(69,013)	14,311
Total general revenues				2,019,015	(67,930)	1,951,085
Extraordinary / special items:						
Prior period adjustment				1,567,624	(1,558,624)	9,000
Contributions for Capital Assets				(559,432)	559,432	-
Change in net position				1,308,997	(114,075)	1,194,922
Net position - beginning of year				4,398,739	4,804,781	9,203,520
Net position - end of year				\$ 5,707,736	\$4,690,706	\$10,398,442

*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, 2017

	General Fund	CDBG Fund	TIF District No. 3	TIF District No. 4	Other Nonmajor Govt Funds	Total Governmental Funds
Assets						
Cash	\$ 1,171,497				\$ 16,160	\$ 1,187,657
Receivables:						
Taxes receivable	701,000	-	-	-	-	701,000
Other receivables	-	494,627	-	-	-	494,627
Due from other funds	236,598		40,480	1,112,759	-	1,389,837
Restricted cash	-	92,984	(366,781)	922,434	180	648,817
Advance to other funds	1,016,386	-	-	-	-	1,016,386
Total Assets	<u>3,125,481</u>	<u>587,611</u>	<u>(326,301)</u>	<u>2,035,193</u>	<u>16,340</u>	<u>5,438,324</u>
Liabilities, Deferred Inflows and Fund Balance						
Liabilities						
Accounts payable	54,939	-	-	8,963	-	63,902
Accrued payroll and related items	23,003	-	-	-	-	23,003
Due to other funds	426,001	500	562,964	-	251	989,716
Advance from other funds	-	-	624,384	334,797	57,205	1,016,386
Total Liabilities	<u>503,943</u>	<u>500</u>	<u>1,187,348</u>	<u>343,760</u>	<u>57,456</u>	<u>2,093,007</u>
Deferred Inflows of Resources						
Tax levies	770,591		40,480	378,432		1,189,503
Amounts paid to recipients of Community Development Block Grants		494,627				494,627
Total Deferred Inflows of Resources	<u>770,591</u>	<u>494,627</u>	<u>40,480</u>	<u>378,432</u>	<u>-</u>	<u>1,684,130</u>
Fund Balances						
Restricted:						
TIF district projects	-		-	1,313,001	-	1,313,001
CDBG loans	-	92,484	-	-	-	92,484
Splash Pad Project					16,059	16,059
Unassigned	1,850,947	-	(1,554,129)	-	(57,175)	239,643
Total Fund Balances	<u>1,850,947</u>	<u>92,484</u>	<u>(1,554,129)</u>	<u>1,313,001</u>	<u>(41,116)</u>	<u>1,661,187</u>
Total Liabilities, Deferred Inflows and Fund Balance	<u>\$ 3,125,481</u>	<u>\$ 587,611</u>	<u>\$ (326,301)</u>	<u>\$ 2,035,193</u>	<u>\$ 16,340</u>	<u>\$ 5,438,324</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, 2017**

Total fund balance reported on government funds balance sheet **1,661,187**

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

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: 6,728,561

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: 487,550

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	\$ (2,857,808)	
Vested employee benefits	\$ (81,475)	
Accrued interest on general obligation debt	<u>(28,121)</u>	\$ (2,967,404)

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: (202,158)

Total net position - governmental activities **5,707,736**

City of Phillips, Wisconsin
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
For the Year Ended December 31, 2017

	General Fund	CDBG Fund	TIF District No. 3	TIF District No. 4	Other Nonmajor Funds	Total Governmental Funds
Revenues:						
Property tax	\$ 861,196	\$ -	\$ 42,004	\$ 393,618	\$ -	\$ 1,296,818
Other tax	5,450	-	-	-	-	5,450
Intergovernmental aid	714,697	-	451	897	-	716,045
Licenses and permits	14,327	-	-	-	-	14,327
Fines, forfeits and penalties	10,312	-	-	-	-	10,312
Public charge for service	248,253	-	-	-	-	248,253
Intergovernmental charge for service	74,715	-	-	-	-	74,715
Commercial	96,034	13,337	112	697	24,928	135,108
Total revenues	2,024,984	13,337	42,567	395,212	24,928	2,501,028
Expenditures:						
Current:						
General government	195,937	-	-	-	-	195,937
Public Safety	644,968	-	-	-	-	644,968
Public Works	409,141	-	-	-	-	409,141
Health and human services	15,691	-	-	-	-	15,691
Culture, recreation and education	400,720	-	-	-	-	400,720
Conservation and development	45,108	-	4,928	20,526	150	70,712
Total Current	1,711,565	-	4,928	20,526	150	1,737,169
Debt Service:						
Principal	173,421	-	-	125,000	-	298,421
Interest	17,850	-	22,665	81,706	1,448	123,669
Total Debt service	191,271	-	22,665	206,706	1,448	422,090
Capital Expenditures	83,652	-	-	1,772,418	8,839	1,864,909
Total Expenditures	1,986,488	-	27,593	1,999,650	10,437	4,024,168
Excess of revenue over(under) expenditures	38,496	13,337	14,974	(1,604,438)	14,491	(1,523,140)
Other Financing Sources (Uses):						
Debt proceeds	95,000	-	-	-	-	95,000
Total Other Sources(Uses)	95,000	-	-	-	-	95,000
Net change in fund balance	133,496	13,337	14,974	(1,604,438)	14,491	(1,428,140)
Fund balance, beginning of year restated	1,717,451	79,147	(1,569,103)	2,917,439	(55,607)	3,089,327
Fund balance, end of year	\$ 1,850,947	\$ 92,484	\$ (1,554,129)	\$ 1,313,001	\$ (41,116)	\$ 1,661,187

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, 2017

Net change in fund balances - total governmental funds **\$ (1,428,140)**

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	1,864,909	
Less capital contribution to proprietary funds	(559,432)	
Depreciation expense reported in the statement of activities	<u>(392,391)</u>	
Amount by which capital outlays are greater (less) than depreciation in the current period.		913,086

Prior year adjustments to loans are reported in the statement of activities but not on governmental funds. The amount of the adjustments is: 1,567,624

Vested employee benefits are reported in the government funds when amounts are paid. The statement of activities reports the value of benefits earned during the year.

Vested employee benefits paid in current year	48,498	
Vested employee benefits earned in current year	<u>(2,952)</u>	
Amounts paid are greater (less) than amounts paid by		45,546

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: 9,403

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 (4,061)

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: 298,421

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: (95,000)

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	86,559	
The amount of interest accrued during the current period	<u>(84,441)</u>	
Interest paid is greater (less) than interest accrued by		2,118

Change in net position - governmental activities **\$ 1,308,997**

City of Phillips, Wisconsin
 Combined Statement of Net Position
 Enterprise Funds
 As of December 31, 2017

	<u>Water/ Sewer Fund</u>	<u>2017</u>
Assets and Deferred Outflows		
Assets		
Cash	216,805	216,805
Receivables:		
Customer accounts receivables	227,203	227,203
Materials & supplies inventory	8,432	8,432
Restricted cash	236,274	236,274
Plant, property & equipment(net)	7,967,180	7,967,180
Total assets	<u>\$ 8,655,894</u>	<u>\$ 8,655,894</u>
Deferred Inflows of Resources		
WRS pension related outflows	<u>60,259</u>	<u>60,259</u>
Liabilities, Deferred Inflows and Net Position		
Liabilities		
Accounts payable	31,767	31,767
Accrued interest payable	42,209	42,209
Due to other funds	400,121	400,121
Long term debt	3,420,182	3,420,182
Total liabilities	<u>3,894,279</u>	<u>3,894,279</u>
Deferred Inflows of Resources		
PSC other deferred credits	106,182	106,182
WRS pension related inflows	<u>24,986</u>	<u>24,986</u>
Total deferred inflows of resources	<u>131,168</u>	<u>131,168</u>
Net Position		
Net investment in capital assets	4,546,998	4,546,998
Unrestricted	<u>(92,566)</u>	<u>(92,566)</u>
Total net position	<u><u>4,690,706</u></u>	<u><u>4,690,706</u></u>

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, 2017

	<u>Water/ Sewer</u>	<u>2017</u>
Operating Revenues	<u>1,889,120</u>	<u>\$1,889,120</u>
Operating Expenses		
Operations and maintenance	464,692	464,692
Depreciation	323,737	323,737
Taxes	<u>81,620</u>	<u>81,620</u>
Total Operating Expenses	<u>870,049</u>	<u>870,049</u>
Operating Income (Loss)	1,019,071	1,019,071
Non Operating Revenues (Expenses)		
Other non operating revenues (expenses)	(69,013)	(69,013)
Interest Income	1,083	1,083
Interest Expense	<u>(66,024)</u>	<u>(66,024)</u>
Total Non Operating	<u>(133,954)</u>	<u>(133,954)</u>
Income (Loss) Before Contributions	885,117	885,117
Contributions for Capital Assets	<u>559,432</u>	<u>559,432</u>
Change in Net Position	1,444,549	1,444,549
Net Position - Beginning of Year Restated	<u>3,246,157</u>	<u>3,246,157</u>
Net Position - End of Year	<u><u>4,690,706</u></u>	<u><u>4,690,706</u></u>

See accompanying notes to basic financial statements.

City of Phillips, Wisconsin
 Combined Statement of Cash Flows
 Enterprise Funds
 For the Year Ended December 31, 2017

	Water/ Sewer Fund	2017
Cash Flows from Operating Activities		
Cash received from user charges	905,982	\$ 905,982
Cash payments to employees for services	(265,916)	(265,916)
Cash payments for utilities and other purchased services	(120,990)	(120,990)
Cash payments to suppliers for goods and services	(58,176)	(58,176)
Cash payments for other operating expenses	(111,158)	(111,158)
Net cash provided by operating activities	349,742	349,742
Cash Flows from Capital and Related Financing Activities		
Proceeds from (payments to) municipality	(4,809)	(4,809)
Cash payments for acquisition of capital assets	(1,553,956)	(1,553,956)
Capital paid in by (to) municipality	(1,558,624)	(1,558,624)
Proceeds from new borrowing	2,297,438	2,297,438
Grants	975,000	975,000
Interest paid	(100,673)	(100,673)
Retirement of long-term debt	(204,294)	(204,294)
Net cash used by capital and related financing activities	(149,918)	(149,918)
Cash Flows from Investing Activities		
Interest on investments	1,083	1,083
Net cash provided by investing activities	1,083	1,083
Net increase (decrease) in cash and cash equivalents	200,907	200,907
Cash and cash equivalents - beginning of year	252,172	252,172
Cash and cash equivalents - end of year	\$ 453,079	\$ 453,079
Reconciliation of operating income to net cash provided by operating activities		
Operating income (loss)	1,019,071	1,019,071
Adjustments to reconcile operating income to net cash provided by operating activities:		
Grants	(975,000)	(975,000)
Depreciation (grant amortization & other amortization)	323,737	323,737
Changes in assets and liabilities:		
Accounts receivable	9,559	9,559
Materials and supply inventory	(1,256)	(1,256)
Due from/to other funds	(2,742)	(2,742)
Deferred outflows/inflows	(36,361)	(36,361)
Accounts payable	12,734	12,734
Net cash provided by operating activities	\$ 349,742	\$ 349,742

See accompanying notes to basic financial statements.

City of Phillips, Wisconsin
Statement of Net Position
Fiduciary Funds
December 31, 2017

	Tax Collection Agency Fund
Assets	
Taxes receivable	1,163,031
Total assets	<u>1,163,031</u>
Liabilities	
Due to other governments	1,163,031
Total liabilities	<u>\$1,163,031</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, 2017

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 2016 tax levy is used to finance operations of the City for the year ended December 31, 2017. 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 or 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, 2017, 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 May 1, 2018, 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, 2017.

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, 2017 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, 2017 as reflected in the Statement of Net Position follows:

	Primary	Enterprise	
	Government	Funds	Total
Unrestricted:			
Cash and Cash Equivalents	\$1,187,657	\$216,805	\$1,404,462
Restricted:			
Cash and Cash Equivalents	648,817	236,274	885,091
Total Cash and Cash Equivalents	\$1,836,474	\$453,079	\$2,289,553

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 \$236,274.

Interest and dividends earned as of December 31, 2017 are as follows:

	Governmental	Business-type
	Activities	Activities
Interest earned	\$51,784	\$1,083

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, 2017 were as follows:

	Beginning Balance	Prior year Adjustments	Increases	Decreases	Ending Balance
Governmental activities:					
Capital assets not being depreciated:					
Sites (land)	\$ 317,065	-	-	-	\$ 317,065
Construction In Progress	973,559	-	15,295	(973,559)	15,295
Total capital assets not being depreciated	1,290,624	-	15,295	(973,559)	332,360
Capital assets being depreciated:					
Buildings & Site Improvements	2,981,327	-	-	-	2,981,327
Equipment & Vehicles	2,419,884	-	83,652	-	2,503,536
Road network	2,844,361	-	2,180,089	-	5,024,450
Total capital assets being depreciated	8,245,572	-	2,263,741	-	10,509,313
Less accumulated depreciation for:					
Buildings & site improvements	(1,329,704)	-	(71,066)	-	(1,400,770)
Furniture and equipment	(1,906,961)	-	(70,103)	-	(1,977,064)
Road network	(484,056)	-	(251,222)	-	(735,278)
Total accumulated depreciation	(3,720,721)	-	(392,391)	-	(4,113,112)
Total capital assets being depreciated, net of accumulated depreciation	4,524,851	-	1,871,350	-	6,396,201
Governmental activities capital assets, net of accumulated depreciation					\$ 6,728,561
Depreciation expense was charged to governmental functions as follows:					
Public Works – Infrastructure			251,222		
General Government			24,663		
Public Safety			37,553		
Public Works			31,652		
Health & Human Services			147		
Culture, Recreation & Education			44,698		
Conservation & Development			2,436		
Not Charged to a Specific Function			20		
Total depreciation for governmental activities			\$392,391		

Business-type activities:

Capital assets not being depreciated:

Land	\$21,490	-			\$21,490
Construction in Progress	246,249	-	-	(246,249)	-
Total capital assets not being depreciated	267,739	-	-	(246,249)	21,490

Capital assets being depreciated:

Water distribution system	4,072,506	-	2,151,792	(204,142)	6,020,156
Sewer collection & treatment system	6,821,999	-	265,480	(132,740)	6,954,739
Total capital assets being depreciated	10,894,505	-	2,417,272	(336,882)	12,974,895

Less accumulated depreciation for:

Water distribution system	(1,380,118)	-	(110,228)	204,142	(1,286,204)
Sewer collection & treatment system	(3,662,229)	-	(213,509)	132,740	(3,742,998)
Total accumulated depreciation	(5,042,347)	-	(323,737)	336,882	(5,029,202)

Total capital assets being depreciated,
net of accumulated depreciation

	5,852,158	-	2,093,535	-	7,945,693
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Business-type activities capital assets, net of accumulated depreciation

\$ 7,967,183

Depreciation expense was charged to functions as follows:

Water	108,207
Sewer	215,530
	<u>\$323,737</u>

Total business-type activities depreciation expense

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, 2017.

Note 4b – Long-term Liabilities

Long-term liability balances and activity for the year ended December 31, 2017 were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due within One Year
Governmental Activities					
General obligation debt					
Bonds and notes payable					
Capital projects	\$ 2,900,000	24,000	242,054	\$ 2,681,496	\$ 422,074
Other than capital projects	34,499	71,000	11,185	94,314	24,860
Capital leases	126,730	-	44,732	81,998	46,681
Total general obligation debt	3,061,229	95,000	298,421	2,857,808	493,615
Vested Employee Benefits:					
Net pension liability	97,243	-	48,498	48,745	-
Pension related benefits	42,133	-	9,403	32,730	-
Total Other Governmental Liabilities	139,376	-	57,901	81,475	-
Total governmental activity long-term liabilities	<u>\$ 3,200,605</u>	<u>95,000</u>	<u>356,322</u>	<u>\$ 2,939,283</u>	<u>\$ 493,615</u>
Business-type Activities					
Bonds and notes payable	1,238,374	2,380,077	204,294	3,414,157	244,014
Total business-type activities debt	<u>\$ 1,238,374</u>	<u>2,380,077</u>	<u>204,294</u>	<u>\$ 3,414,157</u>	<u>\$ 244,014</u>
Vested Employee Benefits:					
Net pension liability	12,019	-	5,994	6,025	-
Total Other Business-type Liabilities	12,019	-	5,994	6,025	-
Total business-type activity long-term liabilities	<u>\$ 1,250,393</u>	<u>2,380,077</u>	<u>210,288</u>	<u>\$ 3,420,182</u>	<u>\$ 244,014</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:	<u>Governmental</u>	<u>Business-type</u>
	<u>Funds</u>	<u>Funds</u>
Total interest paid	\$ 86,559	\$ 31,661
Total interest expense	<u>84,441</u>	<u>66,024</u>
Interest paid over (under) expense	<u>\$ 2,118</u>	<u>\$ (34,363)</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:

Government Activities	Issue	Interest	Date of	Balance
Notes and Bonds payable	Dates	Rates	Maturity	12/31/17
Bond payable	04/01/2010	2.0-4.4	03/01/2025	715,000
Capital lease	10/31/2011	3.60	10/31/2018	26,081
Bond payable	12/03/2015	2.0-3.0	09/01/2021	495,000
Bond payable	12/03/2015	2.0-3.0	09/01/2023	1,450,000
Note payable	11/10/2015	3.00	11/10/2020	39,452
Note payable	03/19/2015	2.875	03/16/2019	16,465
Note payable	09/09/2016	2.79	09/09/2019	23,314
Note payable	4/15/2017	3.45	7/15/2016	21,496
Note payable	6/13/2017	3.00	6/13/2022	<u>71,000</u>
Total bonds and notes				<u><u>\$2,857,808</u></u>
Business-type Activities				
Water/sewer revenue bond	06/13/2001	2.78	05/01/2021	554,079
Water/sewer revenue bond	12/03/2015	2.0-3.0	09/01/2025	480,000
Water/sewer revenue bond	6/14/2017	1.122	5/1/2037	752,438
Water/sewer revenue bond	6/1/2017	2.0-4.0	11/1/2032	<u>1,545,000</u>
				3,331,517
Bond Premium				<u>82,640</u>
				<u><u>\$3,414,157</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, 2017 is:

Equalized value certified by Wisconsin Department of Revenue for:	2017	\$90,070,200
Margin of indebtedness at 5%		4,503,510
Deduct long-term debt applicable to debt margin		<u>(2,857,808)</u>
Margin of indebtedness		<u><u>\$ 1,645,702</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, 2017 is as follows:

Government Activities

Year ended	<u>31-Dec</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	493,614	78,443	572,057	
2019	483,957	66,360	550,317	
2020	475,496	54,616	530,112	
2021	476,918	40,987	517,905	
2022	357,444	27,499	384,943	

2023-2026	570,379	25,064	595,443
Totals	<u>\$ 2,857,808</u>	<u>\$ 292,969</u>	<u>\$ 3,150,777</u>

Business-type Activities

Year ended			
31-Dec	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	244,014	115,383	359,397
2019	238,108	85,909	324,017
2020	242,309	80,713	323,022
2021	246,620	74,771	321,391
2022	207,779	68,872	276,651
2023-2027	1,010,350	254,044	1,264,394
2028-2032	976,558	97,498	1,074,056
2033-2036	165,779	5,930	171,710
Totals	<u>\$ 3,331,517</u>	<u>\$ 783,121</u>	<u>\$ 4,114,638</u>

Capital Lease

The City entered into a capital lease in 2011 for a fire truck at a gross amount of \$274,427. The accumulated amortization at 12/31/16 was \$274,427. Amortization expense in 2017 was 0. The lease term was for 8 years ending 10/31/2018, interest rate is 3.60%, with the legal title transferring to the city at the end of the lease term.

The gross amount of the lease, and related accumulated amortization, are included in Property, Plant and Equipment in the statement of net position. The lease obligations are included in long term obligations, with the appropriate amounts for current and noncurrent, in the statement of net position.

Note 4c – Interfund receivables/payables and operating transfers

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

Governmental Funds:	Amount
General fund receivable from Enterprise funds for operations	\$ 228,758
TIF Districts receivable from Enterprise funds	171,363
General fund receivable from TIF districts for operations	597,474
TIF district payable to General Fund for operations	(597,474)
Total Governmental Fund Receivable/Payable	\$400,121
Business-type Funds:	
Water/sewer fund payable to General fund for operations	(228,758)
Water/sewer fund payable to TIF Districts	(171,363)
Total Business-type Fund Receivable/Payable	\$(400,121)

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
Governmental Activities	Due (Owed)
General Fund	\$228,758
TIF Districts	171,363
Total	\$400,121
Business-type Activities	
Water/sewer Fund	(400,121)
Total	\$(400,121)

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 2017.

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 \$61,066.68 in contributions from the employer.

Contribution rates as of December 31, 2017 are:

Employee Category	Employee	Employer
General (including teachers)	6.6%	6.6%
Executives & Elected Officials	6.6%	6.6%
Protective with Social Security	6.6%	9.4%
Protective without Social Security	6.6%	13.2%

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

At December 31, 2017, the City of Phillips' reported a liability (asset) of \$54,769.75 for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation as of December 31, 2015 rolled forward to December 31, 2016. No material changes in assumptions or benefit terms occurred between the actuarial valuation date and the measurement date. The City 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, 2016, the City of Phillips' proportion was .00664489%, which was a decrease of .0000079% from its proportion measured as of December 31, 2015.

For the year ended December 31, 2017, the City of Phillips' recognized pension expense of \$141,113.43.

At December 31, 2016, 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	\$20,883.71	\$(172,246.15)
Changes in assumptions	\$57,263.90	\$0
Net differences between projected and actual earnings on pension plan investments	\$326,628.07	\$(54,001.57)
Changes in proportion and differences between employer contributions and proportionate share of contributions	\$1,759.20	\$(896.61)

Employer contributions subsequent to the measurement date	\$141,274.58	\$0
Total	\$547,809.46	\$(227,144.33)

\$141,274.58 reported as deferred outflows related to pension resulting from the WRS Employer's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability (asset) in the year ended December 31, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Year ended June 30:	Deferred Outflow of Resources	Deferred Inflows of Resources
2017	\$141,680.11	\$(68,868.21)
2018	\$141,680.11	\$(68,868.21)
2019	\$118,600.64	\$(68,637.57)
2020	\$4,478.36	\$(20,770.34)
2021	\$95.66	\$ 0.00

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

Actuarial Valuation Date:	December 31, 2015
Measurement Date of Net Pension Liability (Asset)	December 31, 2016
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 2015 using experience from 2012 – 2014. The total pension liability for December 31, 2016 is based upon a roll-forward of the liability calculated from the December 31, 2015 actuarial valuation.

Long-term expected Return on Plan Assets. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the

long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Core Fund Asset Class	Current Asset Allocation %	Destination Target Asset Allocation %	Long-Term Expected Nominal Rate of Return %	Long-Term Expected Real Rate of Return %
Global Equities	50	45	8.3	5.4
Fixed Income	24.5	37	4.2	1.4
Inflation Sensitive Assets	15.5	20	4.3	1.5
Real Estate	8	7	6.5	3.6
Private Equity/Debt	8	7	9.4	6.5
Multi-Asset	4	4	6.6	3.7
Total Core Fund	110%	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 3.78%. Because of the unique structure of WRS, the 7.20% expected rate of return implies that a dividend of approximately 2.1% will always be paid. For purposes of the single discount rate, it was assumed that the dividend would always be paid. The projection of cash flows used to determine this single discount rate assumed that plan 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%)
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City of Phillips' proportionate share of the net pension liability (asset)	\$720,531.29	\$54,769.75	\$(457,896.77)
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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 \$32,730 on December 31, 2017 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 \$236,274, 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 or assigned based on state requirements to track special program funding, to provide for funding on certain long-term liabilities, as required by other outside parties, or assigned by the school board or it's designated official and are not available for current appropriation or expenditure as follows:

<u>Fund</u>	Governmental Activities (<u>Fund Balances</u>)	<u>Purpose</u>
TIF Districts	\$ 1,313,001	Restricted for TIF district projects
CDBG	\$ 92,484	Restricted for housing rehab projects

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, 2017:

General Fund Excess Expenditure

General Government	\$ 1,458
Public Safety	16,107
Public Works	50,541
Conservation & development	44,458

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, 2017 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 – **Restated Fund Balance**

The City has restated beginning fund balances in the Water/Sewer Fund and the TIF District No. 4 Fund in the current year that offset each other. In the prior year, there was a loan overstated by \$1,558,624 in the Water/Sewer Fund that should have been included in TIF District No. 4.

Note 5e - **Tax Abatement**

In 1999, the City entered into an agreement, in accordance with Wisconsin Statutes, with a private company to create Tax Incremental District #3, whereby the company (property owner) would construct a new masonry office building. The City believes they will benefit from this agreement through the elimination of blight and creation of tax revenue. The property owner will benefit due to a reduction in property taxes.

The property owner agrees that in no event shall this development agreement extend beyond the real estate tax year 2020.

The reduction in property tax to the owner is the amount of tax generated on the improvements, less a 10% administrative fee to the city. The amount of taxes abated in 2017 was \$3,366.84.

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, 2017

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues:				
Property tax	\$ 847,588	\$ 847,588	861,196	\$ 13,608
Other tax	9,000	9,000	5,450	(3,550)
Intergovernmental aid	702,634	702,634	714,697	12,063
Licenses and permits	9,500	9,500	14,327	4,827
Fines, forfeits and penalties	16,600	16,600	10,312	(6,288)
Public charge for service	233,535	233,535	248,253	14,718
Intergovernmental charge for service	70,452	70,452	74,715	4,263
Commercial	88,795	88,795	96,034	7,239
Total revenues	<u>1,978,104</u>	<u>1,978,104</u>	<u>2,024,984</u>	<u>46,880</u>
Expenditures:				
Current:				
General government	194,479	194,479	195,937	(1,458)
Public Safety	627,361	628,861	644,968	(16,107)
Public Works	358,600	358,600	409,141	(50,541)
Health and human services	68,297	68,297	15,691	52,606
Culture, recreation and education	430,768	433,268	400,720	32,548
Conservation and development	650	650	45,108	(44,458)
Total Current	<u>1,680,155</u>	<u>1,684,155</u>	<u>1,711,565</u>	<u>(27,410)</u>
Debt Service:				
Principal	175,081	175,081	173,421	1,660
Interest	18,552	18,552	17,850	702
Total Debt service	<u>193,633</u>	<u>193,633</u>	<u>191,271</u>	<u>2,362</u>
Capital Expenditures	88,746	88,746	83,652	5,094
Total Expenditures	<u>1,962,534</u>	<u>1,966,534</u>	<u>1,986,488</u>	<u>(19,954)</u>
Excess of revenue over(under) expenditures	15,570	11,570	38,496	26,926
Other Financing Sources (Uses):				
Debt proceeds	-	-	95,000	95,000
Other uses	(54,473)	(54,473)	0	54,473
Total Other Sources(Uses)	<u>(54,473)</u>	<u>(54,473)</u>	<u>95,000</u>	<u>149,473</u>
Net change in fund balance	(38,903)	(42,903)	133,496	176,399
Fund balance, beginning of year restated	<u>\$1,717,451</u>	<u>1,717,451</u>	<u>1,717,451</u>	<u>-</u>
Fund balance, end of year	<u>\$ 1,678,548</u>	<u>\$ 1,674,548</u>	<u>\$1,850,947</u>	<u>\$ 176,399</u>

City of Phillips, Wisconsin
Notes to Required Supplementary Information
On Budgetary Accounting and Control
Year Ending December 31, 2017

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)

	2014	2015	2016
Wisconsin Retirement System			
Last 10 Fiscal Years*			
City of Phillips proportion of the net pension liability (asset)	0.00690447%	0.00672389%	0.00664489%
City of Phillips proportionate share of the net pension liability (asset)	\$ (122,354.76)	\$109,261.91	\$54,769.75
City of Phillips covered-employee payroll	\$ 802,414.62	\$777,835.50	\$798,618.24
Plan fiduciary net position as a percentage of the total pension liability (asset)	102.74%	98.20%	99.12%

*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

	2014	2015	2016
Wisconsin Retirement System			
Last 10 Fiscal Years*			
Contractually required contributions	\$ 62,588.34	\$60,660.53	\$61,066.68
Contributions in relation to the contractually required contributions	\$ 62,588.34	\$60,660.53	\$61,066.68
Contribution deficiency (excess)	\$ -	-	-
City of Phillips covered-employee payroll	\$ 802,414.62	\$ 777,835.50	\$ 798,618.24
Contributions as a percentage of covered-employee payroll	7.80%	7.80%	7.65%

*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, 2017

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, 2017

	TIF District No. 2	<u>Capital Projects</u> Splash Pad Fund	<u>Total Nonmajor Govt Funds</u>
Assets			
Cash and Investments	\$ -	16,160	\$ 16,160
Restricted cash	180	-	180
Total Assets	<u>\$ 180</u>	<u>\$ 16,160</u>	<u>\$ 16,340</u>
Liabilities and Fund Balance			
Liabilities			
Due to other funds	150	101	251
Advance from other funds	57,205	-	57,205
Total Liabilities	<u>57,355</u>	<u>101</u>	<u>57,456</u>
Fund Balances			
Unassigned:			
TID #2 projects	(57,175)	-	(57,175)
Assigned	-	16,059	16,059
Total Fund Balance	<u>(57,175)</u>	<u>16,059</u>	<u>(41,116)</u>
Total Liabilities and Fund Balance	<u>\$ 180</u>	<u>16,160</u>	<u>\$ 16,340</u>

City of Phillips, Wisconsin
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Nonmajor Governmental Funds
For the Year Ended December 31, 2017

	TIF District No. 2	<u>Capital Projects</u> Splash Pad Fund	Total Nonmajor Govt Funds
Revenues:			
Commercial	30	24,898	24,928
Total revenues	<u>30</u>	<u>24,898</u>	<u>24,928</u>
Expenditures:			
Current:			
Conservation and development	150	-	150
Total Current	<u>150</u>	<u>-</u>	<u>150</u>
Debt Service:			
Interest	1,448	-	1,448
Total Debt service	<u>1,448</u>	<u>-</u>	<u>1,448</u>
Capital Expenditures	-	8,839	8,839
Total Expenditures	<u>1,598</u>	<u>8,839</u>	<u>10,437</u>
Excess of revenue over(under) expenditures	<u>(1,568)</u>	<u>16,059</u>	<u>14,491</u>
Net change in fund balance	(1,568)	16,059	14,491
Fund balance, beginning of year	(55,607)	-	(55,607)
Fund balance, end of year	<u>\$ (57,175)</u>	<u>\$ 16,059</u>	<u>\$ (41,116)</u>

EAGLE AUDIT & ACCOUNTING, LLC

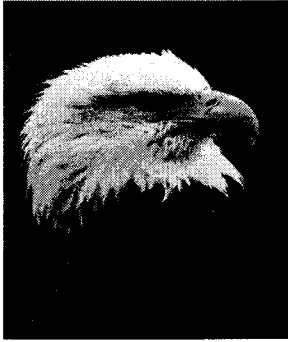
CERTIFIED PUBLIC ACCOUNTANTS

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

1181 NORTH FOURTH
AVENUE
PARK FALLS,
WISCONSIN
PHONE 715-762-4909
FAX 715-762-3359
robbiller@pctcnet.net

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, 2017 and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated May 1, 2018.

Internal Control Over Financial Reporting

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

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

weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as 2017-001 and 2017-002 that we consider to be material weaknesses.

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 findings 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

May 1, 2018
Park Falls, Wisconsin

City of Phillips, WI
Schedule of Findings and Responses
 For the Year Ended December 31, 2017

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 2017-001: 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.

Finding 2017-002: Multiple Material Audit Adjustments

Criteria: It is the responsibility of management to analyze and adjust all accounts and post all year-end entries to the general ledger before the inception of the audit.

Condition: Analysis of accounts and complete posting of year-end entries was not done before the audit and therefore necessitated multiple material audit entries.

Context: Information provided to management throughout the year may be incorrect due to the incomplete financial information.

Effect: Information provided to management throughout the year may not be presented in accordance with general accepted accounting principles and may adversely affect management decisions.

Cause: The City had major capital projects in the current year and a new clerk/treasurer.

Information to Provide Prospective: Eighteen entries were made with a total effect of \$426,529 to change in net position.

Recommendation: Procedures for timely reconciliation, analysis and closing entries should be implemented by City finance staff.

Views of Responsible Officials: Management concurs with the finding and will direct implementation of suggested procedures.

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

May 1, 2018

City of Phillips
Summary Schedule of Prior Year Audit Findings
For the Year Ending December 31, 2017

Prior Year Audit Findings

2016-001 Lack of Segregation of Duties – no change expected

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