

CITY OF PHILLIPS

Phillips, Wisconsin

Independent Auditor's Report

With Financial Statements

YEAR ENDED DECEMBER 31, 2018

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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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, 2018, 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, 2018, 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.

Change in Accounting Principle

As discussed in Note 4d to the financial statements, in 2018 the City adopted new accounting guidance, GASB No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. Our opinion is not modified with respect to this matter.

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 and OPEB life insurance information on pages A-I and 15-19 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.

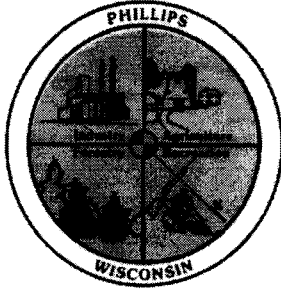
Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 26, 2019 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

April 26, 2019
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 \$2,622,337; including \$1,333,399 of property taxes, \$627,527 of general state aid, and \$472,909 of charges for services and operating grants. Total governmental funds expenditures were \$2,220,123. The City reduced the amount of prior outstanding general obligation debt by \$493,235.

Total business-type activity fund revenues were \$1,031,156; including \$1,030,274 of user fees. Total business-type activity expenditures were \$1,048,904. The City reduced the amount of prior outstanding business-type debt by \$123,243.

The City's financial status, as reflected in total net position, increased by \$384,466. Net position of governmental activities due to operations increased by \$402,214 and business-type activities (water/sewer) decreased by \$17,748.

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. 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, 2018 compared to 2017.

| <p style="text-align: center;">Table 1 Condensed Statement of Net Position (in thousands of dollars)</p> | | | | | | | |
|--|----------------------------|------------------|-----------------------------|------------------|-----------------------|-------------------|---------------|
| | Governmental Activities | | Business-Type Activities | | Total Municipality | | % Change |
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 |
| Current and other assets | \$3,235.0 | \$3,432.2 | \$672.1 | \$688.7 | \$3,907.1 | \$4,120.9 | -5.2% |
| Capital assets | 6,937.9 | 6,728.6 | 7,772.1 | 7,967.2 | \$14,710.0 | 14,695.7 | 0.1% |
| Total assets | 10,173.0 | 10,160.8 | 8,444.1 | 8,655.9 | 18,617.1 | 18,816.7 | -1.1% |
| Total deferred outflows | \$596.9 | \$487.6 | \$56.7 | \$60.3 | \$653.6 | \$547.8 | 19.3% |
| L-T debt outstanding | 2,448.7 | 2,939.3 | 3,293.2 | 3,420.2 | 5,741.8 | 6,359.5 | -9.7% |
| Other liabilities | 74.2 | 115.0 | 386.2 | 474.1 | 460.4 | 589.1 | -21.8% |
| Total liabilities | 2,522.9 | 3,054.3 | 3,679.4 | 3,894.3 | 6,202.2 | 6,948.6 | -10.7% |
| Total deferred inflows | 2,181.1 | 1,886.3 | 154.0 | 131.2 | 2,335.0 | 2,017.5 | 15.7% |
| Net position | | | | | | | |
| Net investment in | | | | | | | |
| capital assets | 4,504.7 | 3,870.8 | 4,457.4 | 4,547.0 | 8,962.1 | 8,417.8 | 6.5% |
| Restricted | 1,082.9 | 1,405.5 | 280.1 | 236.3 | 1,362.9 | 1,641.8 | -17.0% |
| Unrestricted | 478.4 | 431.5 | (69.9) | (92.6) | 408.4 | 338.9 | 20.5% |
| Total net position | \$6,066.0 | \$5,707.7 | \$4,667.5 | \$4,690.7 | \$10,733.5 | \$10,398.4 | 3.2% |
| 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 \$46,879. A total of \$4,504,695 (74%) is in net investment in fixed assets which is not spendable for continuing activities of the City.

In governmental activities, total assets increased \$12,212 including an increase in capital assets, net increase in capital assets was \$209,388. 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, 2018 compared to 2017.

| <p style="text-align: center;">Table 2 Change in Net Position (in thousands of dollars)</p> | | | | | | |
|---|---------------------|------------------|----------------------|------------------|---------------------|------------------|
| | Governmental | | Business-Type | | Total | |
| | Activities | | Activities | | Municipality | |
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Revenues: | | | | | | |
| Program revenues | | | | | | |
| Charge for services | \$320.5 | \$347.6 | \$1,030.3 | \$889.1 | \$1,350.8 | \$1,236.7 |
| Operating grants | 152.4 | 134.4 | \$- | \$1,000.0 | 152.4 | 1,134.4 |
| General revenues | | | | | | - |
| Property taxes | 1,333.4 | 1,302.3 | - | - | 1,333.4 | 1,302.3 |
| State & federal aid | 627.5 | 581.6 | - | - | 627.5 | 581.6 |
| Other | 188.5 | 135.1 | 0.9 | (67.9) | 189.4 | 67.2 |
| Total revenues | 2,622.3 | 2,501.0 | 1,031.2 | 1,821.2 | 3,653.5 | 4,322.2 |
| Expenses: | | | | | | |
| General government | 178.4 | 220.6 | - | - | 178.4 | 220.6 |
| Public safety | 649.0 | 627.6 | - | - | 649.0 | 627.6 |
| Public works | 745.2 | 692.0 | - | - | 745.2 | 692.0 |
| Health/human services | 15.6 | 15.8 | - | - | 15.6 | 15.8 |
| Culture/recreation | 466.9 | 445.4 | - | - | 466.9 | 445.4 |
| Conservation/develop | 52.3 | 73.1 | - | - | 52.3 | 73.1 |
| Business-type activity | - | - | 1,048.9 | 936.1 | 1,048.9 | 936.1 |
| Debt service | 112.7 | 125.6 | - | - | 112.7 | 125.6 |
| Depreciation, unallocated | - | 0.0 | - | - | - | 0.0 |
| Other uses | - | - | - | - | - | - |
| Total expenses | 2,220.1 | 2,200.2 | 1,048.9 | 936.1 | 3,269.0 | 3,136.3 |
| Change in net position | | | | | | |
| from operations | 402.2 | 300.8 | (17.7) | 885.1 | 384.5 | 1,185.9 |
| Net special/extraordinary | - | 1,008.2 | - | (999.2) | - | 9.0 |
| Change in net position | \$402.2 | \$1,309.0 | \$(17.7) | \$(114.1) | \$384.5 | \$1,194.9 |
| Note: totals may not add due to rounding | | | | | | |

In government activities, the City had a change in net position of \$402,214, which is an decrease from the prior year of \$906,783. The major changes were a prior period adjustment and contributions for capital assets in the previous year.

Business – Type Activities

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

- Water and sewer utility expenses exceeded revenues by \$17,748, \$902,865 less than last year. The difference is attributable mainly to grants totaling \$1,000,000 from the federal and state governments in the prior year.
- Charges for services, which are amounts paid by customers of the water/sewer utility, increased \$141,154 from \$889,120. The difference is attributable mainly to a water rate increase.
- The water and sewer utility acquired new fixed assets in the amount of \$138,755. These consisted mainly of some additional expenditures on well #7.

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, 2018 compared to 2017.

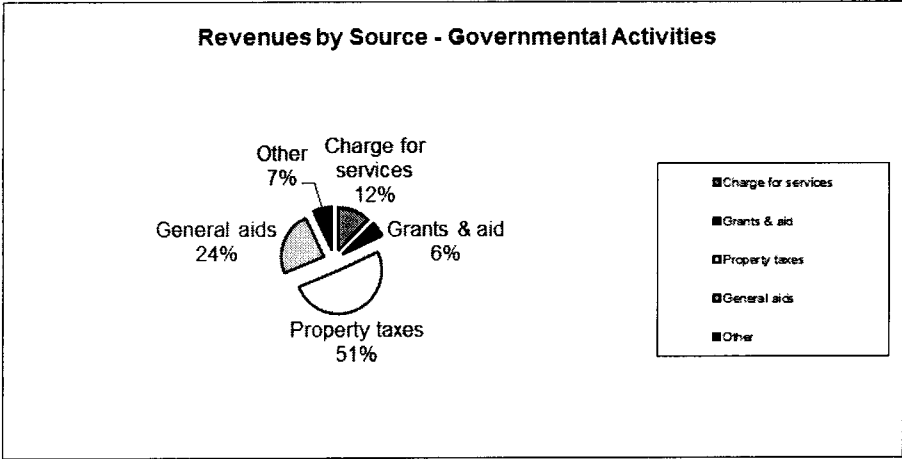
| Table 3 | | | | | |
|-------------------------------------|---------------------------|------------------|-------------------------|------------------|----------------------------------|
| Net Cost of Governmental Activities | | | | | |
| (in thousands of dollars) | | | | | |
| | Total Cost of Services | | Net Cost of Services | | Net Cost Percentage Change |
| | 2018 | 2017 | 2018 | 2017 | |
| General Government | \$178.4 | \$220.6 | \$178.4 | \$220.6 | -19.1% |
| Public Safety | 649.0 | 627.6 | 547.6 | 497.5 | 10.1% |
| Public Works | 745.2 | 692.0 | 549.5 | 515.9 | 6.5% |
| Health & human services | 15.6 | 15.8 | 8.0 | 10.4 | -23.8% |
| Culture & recreation | 466.9 | 445.4 | 298.8 | 274.9 | 8.7% |
| Conservation & develop | 52.3 | 73.1 | 52.3 | 73.1 | -28.6% |
| Debt service | 112.7 | 125.6 | 112.7 | 125.6 | -10.3% |
| Other | - | 0.0 | - | - | |
| Total | \$2,220.1 | \$2,200.2 | \$1,747.2 | \$1,718.2 | 1.7% |

Note: totals may not add due to rounding

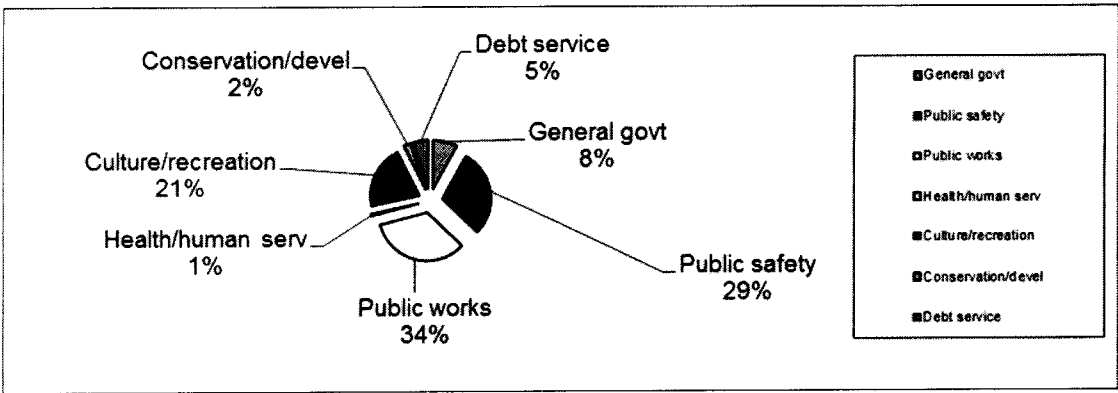
Budgetary Analysis – General Fund Only

The City made no budget amendments for the year. Expenditures were less than budget by \$95,300 overall, due to a combination of amounts but mainly due to the City budgeting for financing costs that didn't occurred. There was a surplus of revenues to budget of \$75,435, the majority of which was due to more intergovernmental aid received than was budgeted for.

Revenues by Source – the chart below shows the various sources of revenue by source for the year ending December 31, 2018.



Expenditures by Function – the chart below shows the various governmental activities expenditures by function for the year ending December 31, 2018.



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, 2017 to December 31, 2018.

| <p style="text-align: center;">Table 4 Capital Assets (in thousands of dollars)</p> | | | | | | | |
|---|----------------------------|------------------|-----------------------------|------------------|-----------------------|-------------------|----------------------|
| | Governmental Activities | | Business-Type Activities | | Total Municipality | | Total % Change |
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 |
| Land | \$317.1 | \$317.1 | \$21.5 | \$21.5 | \$338.6 | \$338.6 | 0.0% |
| Construction in progress | 13.6 | \$15.3 | - | - | 13.6 | 15.3 | -10.9% |
| Site Improvements | - | - | 7,934.0 | 7,805.6 | 7,934.0 | 7,805.6 | 1.6% |
| Buildings & improvements | 3,433.8 | \$2,981.3 | 669.8 | 669.8 | 4,103.6 | 3,651.1 | 12.4% |
| Furniture & equipment | 2,497.3 | 2,503.5 | 4,506.1 | 4,499.5 | 7,003.4 | 7,003.0 | 0.0% |
| Infrastructure | 5,024.5 | 5,024.5 | - | - | 5,024.5 | 5,024.5 | 0.0% |
| Accumulated depreciation | (4,522.2) | (4,113.1) | (5,380.8) | (5,029.2) | (9,903.0) | (9,142.3) | 8.3% |
| Total | \$6,764.1 | \$6,728.6 | \$7,750.6 | \$7,967.2 | \$14,514.6 | \$14,695.7 | -1.2% |

Note: totals may not add due to rounding

The major additions to capital assets included a street project at South Airport Road that was completed and placed in service in governmental activities, and capital expenditures to a well for business-type activities.

Long – Term Debt – Table 5 below show the change in long-term obligations for the total municipality from December 31, 2017 to December 31, 2018.

| <p style="text-align: center;">Table 5 Outstanding Long Term Obligations (in thousands of dollars)</p> | | | |
|--|-----------------------|------------------|----------------------|
| | Total Municipality | | Total % Change |
| | 2018 | 2017 | 2018 |
| General obligation debt | \$2,364.6 | \$2,857.8 | -17.3% |
| Other | 3,377.2 | 3,551.1 | -4.9% |
| Total | \$5,741.8 | \$6,408.9 | -10.4% |

Note: totals may not add due to rounding

The City incurred no 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 S. Eyder Ave. and a couple of alleys in 2019.
- 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.
- The Police Department is looking to switch to 24-hour shifts, which will require more payroll expenses.

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.

City of Phillips, Wisconsin

Government-Wide Financial Statements

**City of Phillips, Wisconsin
Statement of Net Position
As of December 31, 2018**

| | <u>Governmental Activities</u> | <u>Business-type Activities</u> | <u>Total</u> |
|---|------------------------------------|-------------------------------------|--------------------------|
| Assets | | | |
| Current assets: | | | |
| Cash | \$ 1,151,447 | 167,543 | \$ 1,318,990 |
| Receivables | 1,460,298 | 215,204 | 1,675,502 |
| Internal receivables | 305,114 | - | 305,114 |
| Restricted cash | 318,187 | 280,052 | 598,239 |
| Inventories and prepaid items | - | 9,279 | 9,279 |
| Total current assets | <u>3,235,046</u> | <u>672,078</u> | <u>3,907,124</u> |
| Noncurrent assets: | | | |
| Other Noncurrent assets: | | | |
| Net WRS Pension asset | 173,887 | 21,492 | 195,379 |
| Plant, property and equipment | | | |
| Land | 317,065 | 21,490 | 338,555 |
| Construction in progress | 13,621 | - | 13,621 |
| Site improvements | - | 7,933,965 | 7,933,965 |
| Buildings and building improvements | 3,433,805 | 669,786 | 4,103,591 |
| Furniture and equipment | 2,497,318 | 4,506,076 | 7,003,394 |
| Infrastructure- Road network | 5,024,450 | - | 5,024,450 |
| Less: Accumulated depreciation | (4,522,197) | (5,380,756) | (9,902,953) |
| Net Plant, property & equipment | 6,764,062 | 7,750,561 | 14,514,623 |
| Total noncurrent assets | <u>6,937,949</u> | <u>7,772,053</u> | <u>14,710,002</u> |
| Total assets | <u>10,172,995</u> | <u>8,444,131</u> | <u>18,617,126</u> |
| Deferred Outflows of Resources | | | |
| WRS pension and OPEB related outflows | <u>596,904</u> | <u>56,716</u> | <u>653,620</u> |
| Liabilities | | | |
| Current liabilities: | | | |
| Payables: | | | |
| Accounts | 30,057 | 35,504 | 65,561 |
| Accrued payroll & related items | 19,948 | - | 19,948 |
| Accrued interest | 24,189 | 45,591 | 69,780 |
| Internal payables | - | 305,114 | 305,114 |
| Current portion of long-term obligations | 483,957 | 241,345 | 725,302 |
| Total current liabilities | <u>558,151</u> | <u>627,554</u> | <u>1,185,705</u> |
| Noncurrent liabilities: | | | |
| Noncurrent portion of long-term obligations | 1,964,708 | 3,051,806 | 5,016,514 |
| Total non-current liabilities | <u>1,964,708</u> | <u>3,051,806</u> | <u>5,016,514</u> |
| Total liabilities | <u>2,522,859</u> | <u>3,679,360</u> | <u>6,202,219</u> |
| Deferred Inflows of Resources | | | |
| Tax levies | 1,179,432 | | 1,179,432 |
| Amounts paid to recipients of | | | |
| Community Development Block Grants | 471,855 | | 471,855 |
| PSC other deferred credits | | 88,485 | 88,485 |
| WRS pension and OPEB related inflows | 529,794 | 65,480 | 595,274 |
| Total deferred inflows of resources | <u>2,181,081</u> | <u>153,965</u> | <u>2,335,046</u> |
| Net Position | | | |
| Net Investment in capital assets | 4,504,695 | 4,457,410 | 8,962,105 |
| Restricted: | | | |
| TIF districts | 873,271 | | 873,271 |
| CDBG Housing project | 115,652 | | 115,652 |
| Splash pad project | 80,870 | | 80,870 |
| Band shell project | 13,094 | | 13,094 |
| Water/sewer loan covenant | | 280,052 | 280,052 |
| Unrestricted: | 478,377 | (69,940) | 408,437 |
| Total net position | <u>6,065,959</u> | <u>4,667,522</u> | <u>10,733,481</u> |

See accompanying notes to basic financial statements.

**City of Phillips, Wisconsin
Statement of Activities
For the Year ended December 31, 2018**

| 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 | 178,410 | | - | (178,410) | | (178,410) |
| Public Safety | 649,018 | 97,755 | 3,687 | (547,576) | | (547,576) |
| Public Works | 745,222 | 47,031 | 148,698 | (549,493) | | (549,493) |
| Health and human services | 15,581 | 7,625 | - | (7,956) | | (7,956) |
| Culture, recreation and education | 466,911 | 168,113 | - | (298,798) | | (298,798) |
| Conservation and development | 52,259 | - | - | (52,259) | | (52,259) |
| Debt service | 112,722 | - | - | (112,722) | | (112,722) |
| Total governmental activities | 2,220,123 | 320,524 | 152,385 | (1,747,214) | | (1,747,214) |
| Business-type activities: | | | | | | |
| Water/sewer utility | 1,048,904 | 1,030,274 | - | | (18,630) | (18,630) |
| Total Business-type activities | 1,048,904 | 1,030,274 | - | | (18,630) | (18,630) |
| Total municipality | \$3,269,027 | \$ 1,350,798 | \$ 152,385 | \$(1,747,214) | \$ (18,630) | \$ (1,765,844) |
| General revenues: | | | | | | |
| Property taxes: | | | | | | |
| General purposes | | | | 914,487 | | 914,487 |
| Debt services | | | | 418,912 | | 418,912 |
| State and federal aids not restricted to specific functions: | | | | 627,527 | | 627,527 |
| Interest and investment earnings | | | | 54,720 | 882 | 55,602 |
| Miscellaneous | | | | 133,782 | - | 133,782 |
| Total general revenues | | | | 2,149,428 | 882 | 2,150,310 |
| Change in net position | | | | 402,214 | (17,748) | 384,466 |
| Net position - beginning of year | | | | 5,707,738 | 4,690,706 | 10,398,444 |
| Effect of Change in Accounting Principle see Note 4d | | | | (43,993) | (5,436) | (49,429) |
| Net position - end of year | | | | \$ 6,065,959 | \$4,667,522 | \$10,733,481 |

*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, 2018

| | General Fund | CDBG Fund | TIF District No. 3 | TIF District No. 4 | Other Nonmajor Govt Funds | Total Governmental Funds |
|---|---------------------|-------------------|-----------------------|-----------------------|---------------------------------|--------------------------------|
| Assets | | | | | | |
| Cash | \$ 1,057,483 | | | | \$ 93,964 | \$ 1,151,447 |
| Receivables: | | | | | | |
| Taxes receivable | 988,443 | - | - | - | - | 988,443 |
| Other receivables | - | 471,855 | - | - | - | 471,855 |
| Due from other funds | 214,227 | | 36,893 | 1,098,118 | 986 | 1,350,224 |
| Restricted cash | - | 116,152 | (329,346) | 531,171 | 210 | 318,187 |
| Advance to other funds | 1,054,557 | - | - | - | - | 1,054,557 |
| Total Assets | 3,314,710 | 588,007 | (292,453) | 1,629,289 | 95,160 | 5,334,713 |
| Liabilities, Deferred Inflows and Fund Balance | | | | | | |
| Liabilities | | | | | | |
| Accounts payable | 28,545 | - | - | 1,512 | - | 30,057 |
| Accrued payroll and related items | 19,948 | - | - | - | - | 19,948 |
| Due to other funds | 439,336 | 500 | 563,114 | 41,860 | 300 | 1,045,110 |
| Advance from other funds | - | - | 647,049 | 348,855 | 58,653 | 1,054,557 |
| Total Liabilities | 487,829 | 500 | 1,210,163 | 392,227 | 58,953 | 2,149,672 |
| Deferred Inflows of Resources | | | | | | |
| Tax levies | 777,762 | | 36,893 | 363,791 | 986 | 1,179,432 |
| Amounts paid to recipients of Community Development Block Grants | | 471,855 | | | | 471,855 |
| Total Deferred Inflows of Resources | 777,762 | 471,855 | 36,893 | 363,791 | 986 | 1,651,287 |
| Fund Balances | | | | | | |
| Restricted: | | | | | | |
| TIF district projects | - | - | - | 873,271 | - | 873,271 |
| CDBG loans | - | 115,652 | - | - | - | 115,652 |
| Splash Pad Project | | | | | 80,870 | 80,870 |
| Band Shell Project | | | | | 13,094 | 13,094 |
| Unassigned | 2,049,119 | - | (1,539,509) | - | (58,743) | 450,867 |
| Total Fund Balances | 2,049,119 | 115,652 | (1,539,509) | 873,271 | 35,221 | 1,533,754 |
| Total Liabilities, Deferred Inflows and Fund Balance | \$ 3,314,710 | \$ 588,007 | \$ (292,453) | \$ 1,629,289 | \$ 95,160 | \$ 5,334,713 |

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, 2018**

| | |
|---|--------------------------------|
| Total fund balance reported on government funds balance sheet | 1,533,754 |
| Amounts reported for <i>governmental activities</i> in the statement of net position are different because: | |
| Net WRS Pension asset is not a financial resource and therefore is not reported as a component of fund balance. The amount of net pension asset is | 173,887 |
| 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: | 6,764,062 |
| Deferred outflows for WRS pension and OPEB are not financial resources and therefore are not reported as a component of fund balance. The amount of governmental deferred outflows is: | 596,904 |
| 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 | \$ (2,364,573) |
| Vested employee benefits | \$ (84,092) |
| Accrued interest on general obligation debt | <u>(24,189)</u> \$ (2,472,854) |
| 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: | (529,794) |
| Total net position - governmental activities | <u><u>6,065,959</u></u> |

City of Phillips, Wisconsin
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
For the Year Ended December 31, 2018

| | General Fund | CDBG Fund | TIF District No. 3 | TIF District No. 4 | Other Nonmajor Funds | Total Governmental Funds |
|--|---------------------|-------------------|-----------------------|-----------------------|----------------------------|--------------------------------|
| Revenues: | | | | | | |
| Property tax | \$ 911,724 | \$ - | \$ 40,480 | \$ 378,432 | \$ - | \$ 1,330,636 |
| Other tax | 2,763 | - | - | - | - | 2,763 |
| Intergovernmental aid | 779,912 | - | - | - | - | 779,912 |
| Licenses and permits | 9,232 | - | - | - | - | 9,232 |
| Fines, forfeits and penalties | 7,609 | - | - | - | - | 7,609 |
| Public charge for service | 235,850 | - | - | - | - | 235,850 |
| Intergovernmental charge for service | 67,833 | - | - | - | - | 67,833 |
| Commercial | 81,964 | 23,168 | 185 | 468 | 82,717 | 188,502 |
| Total revenues | 2,096,887 | 23,168 | 40,665 | 378,900 | 82,717 | 2,622,337 |
| Expenditures: | | | | | | |
| Current: | | | | | | |
| General government | 153,747 | - | - | - | - | 153,747 |
| Public Safety | 616,505 | - | - | - | - | 616,505 |
| Public Works | 434,720 | - | - | - | - | 434,720 |
| Health and human services | 15,434 | - | - | - | - | 15,434 |
| Culture, recreation and education | 425,068 | - | - | - | - | 425,068 |
| Conservation and development | 42,313 | - | 3,380 | 3,980 | 150 | 49,823 |
| Total Current | 1,687,787 | - | 3,380 | 3,980 | 150 | 1,695,297 |
| Debt Service: | | | | | | |
| Principal | 188,235 | - | - | 305,000 | - | 493,235 |
| Interest | 16,259 | - | 22,665 | 76,281 | 1,448 | 116,653 |
| Total Debt service | 204,494 | - | 22,665 | 381,281 | 1,448 | 609,888 |
| Capital Expenditures | 6,434 | - | - | 433,369 | 4,782 | 444,585 |
| Total Expenditures | 1,898,715 | - | 26,045 | 818,630 | 6,380 | 2,749,770 |
| Excess of revenue over(under) expenditures | 198,172 | 23,168 | 14,620 | (439,730) | 76,337 | (127,433) |
| Net change in fund balance | 198,172 | 23,168 | 14,620 | (439,730) | 76,337 | (127,433) |
| Fund balance, beginning of year restated | 1,850,947 | 92,484 | (1,554,129) | 1,313,001 | (41,116) | 1,661,187 |
| Fund balance, end of year | \$ 2,049,119 | \$ 115,652 | \$ (1,539,509) | \$ 873,271 | \$ 35,221 | \$ 1,533,754 |

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, 2018

Net change in fund balances - total governmental funds **\$ (127,433)**

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 | 444,585 | |
| Depreciation expense reported in the statement of activities | (409,085) | |
| Amount by which capital outlays are greater (less) than depreciation in the current period. | | 35,500 |

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 | 212,297 | |
| Vested employee benefits earned in current year | (226,649) | |
| Amounts paid are greater (less) than amounts paid by | | (14,352) |

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:

11,333

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: | | 493,235 |
|---|--|---------|

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 | 78,481 | |
| The amount of interest accrued during the current period | (74,550) | |
| Interest paid is greater (less) than interest accrued by | | 3,931 |

Change in net position - governmental activities **\$ 402,214**

City of Phillips, Wisconsin
Combined Statement of Net Position
Enterprise Funds
As of December 31, 2018

| | Water/ Sewer Fund | 2018 |
|--|-------------------------|-------------------------|
| Assets and Deferred Outflows | | |
| Assets | | |
| Cash | 167,543 | 167,543 |
| Receivables: | | |
| Customer accounts receivables | 215,204 | 215,204 |
| Materials & supplies inventory | 9,279 | 9,279 |
| Restricted cash | 280,052 | 280,052 |
| Plant, property & equipment(net) | 7,750,561 | 7,750,561 |
| Net WRS pension asset | 21,492 | 21,492 |
| Total assets | <u>\$ 8,444,131</u> | <u>\$ 8,444,131</u> |
| Deferred Inflows of Resources | | |
| OPEB Life related outflows | 1,546 | \$ 1,546 |
| WRS pension related outflows | 55,170 | 55,170 |
| Total deferred outflows of resources | <u>56,716</u> | <u>56,716</u> |
| Liabilities, Deferred Inflows and Net Position | | |
| Liabilities | | |
| Accounts payable | 35,504 | 35,504 |
| Accrued interest payable | 45,591 | 45,591 |
| Due to other funds | 305,114 | 305,114 |
| Long term debt | 3,293,151 | 3,293,151 |
| Total liabilities | <u>3,679,360</u> | <u>3,679,360</u> |
| Deferred Inflows of Resources | | |
| PSC other deferred credits | 88,485 | 88,485 |
| OPEB Life related inflows | 110 | 110 |
| WRS pension related inflows | 65,370 | 65,370 |
| Total deferred inflows of resources | <u>153,965</u> | <u>153,965</u> |
| Net Position | | |
| Net investment in capital assets | 4,457,410 | 4,457,410 |
| Restricted, expendable | 280,052 | 280,052 |
| Unrestricted | (69,940) | (69,940) |
| Total net position | <u><u>4,667,522</u></u> | <u><u>4,667,522</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, 2018

| | Water/ Sewer | 2018 |
|---|-------------------------|-------------------------|
| Operating Revenues | <u>1,030,274</u> | <u>\$1,030,274</u> |
| Operating Expenses | | |
| Operations and maintenance | 468,185 | 468,185 |
| Depreciation | 355,374 | 355,374 |
| Taxes | <u>112,089</u> | <u>112,089</u> |
| Total Operating Expenses | <u>935,648</u> | <u>935,648</u> |
| Operating Income (Loss) | 94,626 | 94,626 |
| Non Operating Revenues (Expenses) | | |
| Interest Income | 882 | 882 |
| Interest Expense | <u>(113,256)</u> | <u>(113,256)</u> |
| Total Non Operating | <u>(112,374)</u> | <u>(112,374)</u> |
| Change in Net Position | (17,748) | (17,748) |
| Net Position - Beginning of Year Restated | <u>4,685,270</u> | <u>4,685,270</u> |
| Net Position - End of Year | <u><u>4,667,522</u></u> | <u><u>4,667,522</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, 2018

| | Water/ Sewer Fund | 2018 |
|---|----------------------|-------------------|
| Cash Flows from Operating Activities | | |
| Cash received from user charges | 999,576 | \$ 999,576 |
| Cash payments to employees for services | (262,484) | (262,484) |
| Cash payments for utilities and other purchased services | (119,761) | (119,761) |
| Cash payments to suppliers for goods and services | (29,269) | (29,269) |
| Cash payments for other operating expenses | (172,179) | (172,179) |
| Net cash provided by operating activities | <u>415,883</u> | <u>415,883</u> |
| Cash Flows from Capital and Related Financing Activities | | |
| Proceeds from (payments to) municipality | (64,430) | (64,430) |
| Cash payments for acquisition of capital assets | (138,755) | (138,755) |
| Proceeds from new borrowing | 120,770 | 120,770 |
| Grants | 25,000 | 25,000 |
| Interest paid | (109,874) | (109,874) |
| Retirement of long-term debt | (249,524) | (249,524) |
| Net cash used by capital and related financing activities | <u>(416,813)</u> | <u>(416,813)</u> |
| Cash Flows from Investing Activities | | |
| Restatement of net position-opeb life | (5,436) | (5,436) |
| Interest on investments | 882 | 882 |
| Net cash provided by investing activities | <u>(4,554)</u> | <u>(4,554)</u> |
| Net increase (decrease) in cash and cash equivalents | (5,484) | (5,484) |
| Cash and cash equivalents - beginning of year | 453,079 | 453,079 |
| Cash and cash equivalents - end of year | <u>\$ 447,595</u> | <u>\$ 447,595</u> |
| Reconciliation of operating income to net cash provided by operating activities | | |
| Operating income (loss) | 94,626 | 94,626 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation (grant amortization & other amortization) | 355,374 | 355,374 |
| Changes in assets and liabilities: | | |
| Accounts receivable | (13,001) | (13,001) |
| Materials and supply inventory | (847) | (847) |
| Due from/to other funds | (30,577) | (30,577) |
| Deferred outflows/inflows | 6,571 | 6,571 |
| Accounts payable | 3,737 | 3,737 |
| Net cash provided by operating activities | <u>\$ 415,883</u> | <u>\$ 415,883</u> |

See accompanying notes to basic financial statements.

City of Phillips, Wisconsin
Statement of Net Position
Fiduciary Funds
December 31, 2018

| | Tax Collection Agency Fund |
|--------------------------|-------------------------------------|
| Assets | |
| Taxes receivable | <u>1,110,485</u> |
| Total assets | <u><u>1,110,485</u></u> |
| Liabilities | |
| Due to other governments | <u>1,110,485</u> |
| Total liabilities | <u><u>\$1,110,485</u></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, 2018

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 2017 tax levy is used to finance operations of the City for the year ended December 31, 2018. 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 3C for a detailed description of the individual fund balances as of December 31.

Inventories and Prepaid Supplies:

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

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

Capital assets

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

- Government-wide Statements

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

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

government-wide statements prospectively from the date of implementation. Retroactive reporting of all major general infrastructure assets is encouraged but not required. For the year ended December 31, 2018, 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 OPEB life insurance, and is deferred and amortized over the expected remaining service lives of the pension plan and life insurance 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 OPEB life insurance, and is deferred and amortized over the expected remaining service lives of the pension plan and life insurance 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 April 26, 2019, which is the date the financial statements were available to be issued.

Note 2 –DETAILED DISCLOSURES REGARDING ASSETS AND REVENUES

Note 2a – 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, 2018 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, 2018 as reflected in the Statement of Net Position follows:

| | Primary | Enterprise | |
|---------------------------------|-------------|------------|-------------|
| | Government | Funds | Total |
| Unrestricted: | | | |
| Cash and Cash Equivalents | \$1,151,447 | \$167,543 | \$1,318,990 |
| | | | |
| Restricted: | | | |
| Cash and Cash Equivalents | 318,187 | 280,052 | 598,239 |
| Total Cash and Cash Equivalents | \$1,469,634 | \$447,595 | \$1,917,229 |

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 \$280,052.

Interest and dividends earned as of December 31, 2018 are as follows:

| | Governmental | Business-type |
|-----------------|--------------|---------------|
| | Activities | Activities |
| Interest earned | \$54,720 | \$882 |

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 2b – Capital Assets

Capital asset balances and activity for the year ended December 31, 2018 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 | 15,295 | - | 4,782 | (6,456) | 13,621 |
| Total capital assets not being depreciated | 332,360 | - | 4,782 | (6,456) | 330,686 |
| Capital assets being depreciated: | | | | | |
| Buildings & Site Improvements | 2,993,979 | - | 439,826 | - | 3,433,805 |
| Equipment & Vehicles | 2,490,884 | - | 6,434 | - | 2,497,318 |
| Road network | 5,024,450 | - | - | - | 5,024,450 |
| Total capital assets being depreciated | 10,509,313 | - | 446,260 | - | 10,955,573 |
| Less accumulated depreciation for: | | | | | |
| Buildings & site improvements | (1,400,770) | - | (92,772) | - | (1,493,542) |
| Furniture and equipment | (1,977,064) | - | (65,091) | - | (2,042,155) |
| Road network | (735,278) | - | (251,222) | - | (986,500) |
| Total accumulated depreciation | (4,113,112) | - | (409,085) | - | (4,522,197) |
| Total capital assets being depreciated, net of accumulated depreciation | 6,396,201 | - | 37,175 | - | 6,433,376 |
| Governmental activities capital assets, net of accumulated depreciation | | | | | \$ 6,764,062 |
| Depreciation expense was charged to governmental functions as follows: | | | | | |
| Public Works – Infrastructure | | | 251,222 | | |
| General Government | | | 24,663 | | |
| Public Safety | | | 36,575 | | |
| Public Works | | | 52,199 | | |
| Health & Human Services | | | 147 | | |
| Culture, Recreation & Education | | | 41,843 | | |
| Conservation & Development | | | 2,436 | | |
| Not Charged to a Specific Function | | | - | | |
| Total depreciation for governmental activities | | | \$409,085 | | |
| Business-type activities: | | | | | |
| Capital assets not being depreciated: | | | | | |
| Land | \$21,490 | | | | \$21,490 |
| Total capital assets not being depreciated | 21,490 | - | - | - | 21,490 |
| Capital assets being depreciated: | | | | | |
| Water distribution system | 6,020,156 | - | 138,755 | (3,820) | 6,155,091 |
| Sewer collection & treatment system | 6,954,739 | - | - | - | 6,954,739 |
| Total capital assets being depreciated | 12,974,895 | - | 138,755 | (3,820) | 13,109,830 |
| Less accumulated depreciation for: | | | | | |
| Water distribution system | (1,286,204) | - | (139,807) | 3,820 | (1,422,191) |
| Sewer collection & treatment system | (3,742,998) | - | (215,567) | - | (3,958,565) |
| Total accumulated depreciation | (5,029,202) | - | (355,374) | 3,820 | (5,380,756) |
| Total capital assets being depreciated, net of accumulated depreciation | 7,945,693 | - | (216,619) | - | 7,729,074 |
| Business-type activities capital assets, net of accumulated depreciation | | | | | \$ 7,750,564 |

Depreciation expense was charged to functions as follows:

| | | |
|---|-------|------------------|
| | Water | 137,609 |
| | Sewer | 217,765 |
| Total business-type activities depreciation expense | | <u>\$355,374</u> |

Note 3 – **DETAILED DISCLOSURES REGARDING LIABILITIES AND EXPENSES**

Note 3a – **Short-term debt**

The City had no short-term debt liability balances or activity for the year ended December 31, 2018.

Note 3b – **Long-term Liabilities**

Long-term liability balances and activity for the year ended December 31, 2018 were as follows:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Amounts Due within One Year</u> |
|--|------------------------------|------------------|-------------------|---------------------------|--|
| Governmental Activities | | | | | |
| General obligation debt | | | | | |
| Bonds and notes payable | | | | | |
| Capital projects | \$ 2,681,496 | - | \$ 422,129 | \$ 2,259,367 | \$ 437,146 |
| Other than capital projects | 150,231 | - | 45,025 | 105,206 | 46,811 |
| Capital leases | 26,081 | - | 26,081 | - | - |
| Total general obligation debt | 2,857,808 | - | 493,235 | 2,364,573 | 483,957 |
| Vested Employee Benefits: | | | | | |
| Net OPEB life liability | 43,993 | 18,702 | - | 62,695 | - |
| Net pension liability | 48,745 | - | 48,745 | - | - |
| Pension related benefits | 32,730 | - | 11,333 | 21,397 | - |
| Total Other Governmental Liabilities | 125,468 | 18,702 | 60,078 | 84,092 | - |
| Total governmental activity long-term liabilities | <u>\$ 2,983,276</u> | <u>18,702</u> | <u>553,313</u> | <u>\$ 2,448,665</u> | <u>\$ 483,957</u> |
| Business-type Activities | | | | | |
| Bonds and notes payable | 3,414,157 | 120,770 | 249,524 | 3,285,403 | 241,345 |
| Total business-type activities debt | <u>\$ 3,414,157</u> | <u>120,770</u> | <u>249,524</u> | <u>\$ 3,285,403</u> | <u>\$ 241,345</u> |
| Vested Employee Benefits: | | | | | |
| Net OPEB life liability | 5,436 | 2,312 | - | 7,748 | - |
| Net pension liability | 6,025 | - | 6,025 | - | - |
| Total Other Business-type Liabilities | 11,461 | 2,312 | 6,025 | 7,748 | - |
| Total business-type activity long-term liabilities | <u>\$ 3,425,618</u> | <u>123,082</u> | <u>255,549</u> | <u>\$ 3,293,151</u> | <u>\$ 241,345</u> |

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

| | <u>Governmental Funds</u> | <u>Business-type Funds</u> |
|--|-------------------------------|--------------------------------|
| Total interest paid and accrued during the year: | | |
| Total interest paid | \$ 78,481 | \$ 115,383 |
| Total interest expense | 74,550 | 113,256 |
| Interest paid over (under) expense | <u>\$ 3,931</u> | <u>\$ 2,127</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 | 12/31/18 |
| Bond payable | 04/01/2010 | 2.0-4.4 | 03/01/2025 | 640,000 |
| Bond payable | 12/03/2015 | 2.0-3.0 | 09/01/2021 | 380,000 |
| Bond payable | 12/03/2015 | 2.0-3.0 | 09/01/2023 | 1,220,000 |
| Note payable | 11/10/2015 | 3.00 | 11/10/2020 | 27,397 |
| Note payable | 03/19/2015 | 2.875 | 03/16/2019 | 8,354 |
| Note payable | 09/09/2016 | 2.79 | 09/09/2019 | 11,817 |
| Note payable | 4/15/2017 | 3.45 | 7/15/2016 | 19,367 |
| Note payable | 6/13/2017 | 3.00 | 6/13/2022 | 57,638 |
| Total bonds and notes | | | | <u>2,364,573</u> |
| Business-type Activities | | | | |
| Water/sewer revenue bond | 06/13/2001 | 2.78 | 05/01/2021 | 421,196 |
| Water/sewer revenue bond | 12/03/2015 | 2.0-3.0 | 09/01/2025 | 405,000 |
| Water/sewer revenue bond | 6/14/2017 | 1.122 | 5/1/2037 | 837,077 |
| Water/sewer revenue bond | 6/1/2017 | 2.0-4.0 | 11/1/2032 | 1,545,000 |
| | | | | <u>3,208,273</u> |
| Bond Premium | | | | <u>77,130</u> |
| | | | | <u>3,285,403</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, 2018 is:

| | | |
|---|------|---------------------|
| Equalized value certified by Wisconsin Department of Revenue for: | 2018 | \$87,791,300 |
| Margin of indebtedness at 5% | | 4,389,565 |
| Deduct long-term debt applicable to debt margin | | <u>(2,364,573)</u> |
| Margin of indebtedness | | <u>\$ 2,024,992</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, 2018 is as follows:

Government Activities

| Year ended | | | |
|------------|------------------|----------------|------------------|
| 31-Dec | Principal | Interest | Total |
| 2019 | 483,957 | 66,360 | 550,317 |
| 2020 | 475,931 | 54,616 | 530,547 |
| 2021 | 476,918 | 40,987 | 517,905 |
| 2022 | 357,444 | 27,499 | 384,943 |
| 2023 | 357,463 | 15,373 | 372,836 |
| 2024-2026 | 212,860 | 9,691 | 222,551 |
| Totals | <u>2,364,573</u> | <u>214,526</u> | <u>2,579,099</u> |

Business-type Activities

| Year ended | | | |
|------------|------------------|----------------|------------------|
| 31-Dec | Principal | Interest | Total |
| 2019 | 241,345 | 86,539 | 327,884 |
| 2020 | 245,583 | 81,423 | 327,006 |
| 2021 | 249,931 | 75,444 | 325,375 |
| 2022 | 211,127 | 69,507 | 280,634 |
| 2023 | 221,588 | 63,793 | 285,381 |
| 2024-2028 | 990,047 | 225,797 | 1,215,844 |
| 2029-2033 | 857,385 | 68,565 | 925,950 |
| 2034-2037 | 191,267 | 4,322 | 195,589 |
| Totals | <u>3,208,273</u> | <u>675,390</u> | <u>3,883,663</u> |

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 2018 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 lease was paid in full at 12/31/18.

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 3c – 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 | \$ 133,751 |
| TIF Districts receivable from Enterprise funds | 171,363 |
| General fund receivable from TIF districts for operations | 652,887 |
| TIF district payable to General Fund for operations | (652,887) |
| Total Governmental Fund Receivable/Payable | \$305,114 |
| Business-type Funds: | |
| Water/sewer fund payable to General fund for operations | (133,751) |
| Water/sewer fund payable to TIF Districts | (171,363) |
| Total Business-type Fund Receivable/Payable | \$(305,114) |

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 | \$133,751 |
| TIF Districts | 171,363 |
| Total | \$305,114 |
| Business-type Activities | |
| Water/sewer Fund | (305,114) |
| Total | \$(305,114) |

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 2018.

Note 3d – **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.

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

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

Benefits provided. Employees who retire at or after age 65 (54 for protective occupations and 62 for elected officials and executive service retirement plan participants, if hired on or before 12/31/2016)) are entitled to a retirement benefit based on a formula factor, their average final earnings, and creditable service.

Final average earnings is the average of the participant's three highest annual earnings periods. Creditable service includes current service and prior service for which a participant received earnings and made contributions as required. Creditable service also includes creditable military service. The retirement benefit will be calculated as a money purchase benefit based on the employee's contributions plus matching employer's contributions, with interest, if that benefit is higher than the formula benefit.

Vested participants may retire at or after age 55 (50 for protective occupations) and receive reduced an actuarially reduced benefit. Participants terminating covered employment prior to

eligibility for an annuity may either receive employee required contributions plus interest as a separation benefit or leave contributions on deposit and defer application until eligible to receive a retirement benefit.

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 |
|------|----------------------|--------------------------|
| 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 |
| 2016 | 0.5 | (5.0) |
| 2017 | 2.0 | 4.0 |

Contributions. Required contributions are determined by an annual actuarial valuation in accordance with Chapter 40 of the Wisconsin Statutes. The employee required contribution is one-half of the actuarially determined contribution rate for general category employees, including teachers, and Executives and Elected Officials. Starting on January 1, 2016, the Executives and Elected Officials category was merged into the General Employee Category. Required contributions for protective employees are the same rate as general employees. Employers are required to contribute the remainder of the actuarially determined contribution rate. The employer may not pay the employee required contribution unless provided for by an existing collective bargaining agreement.

During the reporting period, the WRS recognized \$71,077 in contributions from the employer.

Contribution rates as of December 31, 2017 are:

| Employee Category | Employee | Employer |
|--|----------|----------|
| General (including teachers, executives and elected officials) | 6.8% | 6.8% |

| | | | |
|---------------------|----------------|------|-------|
| Protective Security | with Social | 6.8% | 10.6% |
| Protective Security | without Social | 6.8% | 14.9% |

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 (\$195,379) for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation as of December 31, 2016 rolled forward to December 31, 2017. 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, 2017, the City of Phillips' proportion was .00658040%, which was a decrease of .00006449% from its proportion measured as of December 31, 2016.

For the year ended December 31, 2017, the City of Phillips' recognized pension expense of \$86,028.

At December 31, 2017, 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 | \$248,235 | \$(116,116) |
| Changes in assumptions | \$38,603 | \$0 |
| Net differences between projected and actual earnings on pension plan investments | \$209,113 | \$(477,644) |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | \$5,599 | \$(520) |
| Employer contributions subsequent to the measurement date | \$138,021 | \$0 |
| Total | \$639,570 | \$(594,281) |

\$138,021 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 |
|---------------------|-------------------------------|-------------------------------|
| 2018 | \$200,004 | \$(177,587) |
| 2019 | \$177,149 | \$(177,356) |
| 2020 | \$ 64,129 | \$(129,952) |
| 2021 | \$ 59,789 | \$(109,384) |
| Thereafter | \$ 477 | \$ 0 |

Actuarial assumptions. The total pension liability in the December 31, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---|--------------------------------|
| Actuarial Valuation Date: | December 31, 2016 |
| Measurement Date of Net Pension Liability (Asset) | December 31, 2017 |
| 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, 2017 is based upon a roll-forward of the liability calculated from the December 31, 2016 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 % | Long-Term Expected Nominal Rate of Return % | Long-Term Expected Real Rate of Return % |
|-----------------------|----------------------------|---|--|
| Global Equities | 50 | 8.2 | 5.3 |
| Fixed Income | 24.5 | 4.2 | 1.4 |

| | | | |
|----------------------------|------|------|------|
| Inflation Sensitive Assets | 15.5 | 3.8 | 1.0 |
| Real Estate | 8 | 6.5 | 3.6 |
| Private Equity/Debt | 8 | 9.4 | 6.5 |
| Multi-Asset | 4 | 6.5 | 3.6 |
| Total Core Fund | 110% | 7.3% | 4.4% |
| Variable Fund Asset Class | | | |
| US Equities | 70 | 7.5 | 4.6 |
| International Equities | 30 | 7.8 | 4.9 |
| Total Variable Fund | 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 3.31%. Because of the unique structure of WRS, the 7.20% expected rate of return implies that a dividend of approximately 2.1% will always be paid. For purposes of the single discount rate, it was assumed that the dividend would always be paid. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments (including expected dividends) of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

| | 1% Decrease to Discount Rate (6.20%) | Current Discount Rate (7.20%) | 1% Increase To Discount Rate (8.20%) |
|--|--|-------------------------------------|--|
| City of Phillips' proportionate share of the net pension liability (asset) | \$505,514 | \$(195,379) | \$(728,081) |

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 3e – Unfunded Pension Liability

The City's unfunded pension liability of \$21,397 on December 31, 2018 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 3d.

Note 3f – **Other Post-Employment Benefits - Life Insurance**

Summary of Significant Accounting Policies

Other Post-Employment Benefits (OPEB). The fiduciary net position of the Local Retiree Life Insurance Fund (LRLIF) has been determined using the flow of economic resources measurement focus and the accrual basis of accounting. This includes for the purposes of measuring the net OPEB liability, deferred outflows or resources and deferred inflows of resources related to other post-employment benefits, OPEB expense, and information about the fiduciary net position of the LRLIF and additions to/deductions from LRLIF's fiduciary net position have been determined on the same basis as they are reported by LRLIF. 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 Other Post-Employment Benefits

Plan description. The LRLIF is a multiple-employer defined benefit OPEB plan. LRLIF benefits and other plan provisions are established by Chapter 40 of the Wisconsin Statutes. The Wisconsin Department of Employee Trust Funds (ETF) and the Group Insurance Board have statutory authority for program administration and oversight. The plan provides post-employment life insurance benefits for all eligible employees.

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

Benefits provided. The LRLIF plan provides fully paid up life insurance benefits for post-age 64 retired employees and pre-65 retirees who pay for their coverage.

Contributions. The Group Insurance Board approves contribution rates annually, based on recommendations from the insurance carrier. Recommended rates are based on an annual valuation, taking into consideration an estimate of the present value of future benefits and the present value of future contributions. A portion of employer contributions made during a member's working lifetime funds a post-retirement benefit.

Employers are required to pay the following contributions based on employee contributions for active members to provide them with Basic Coverage after age 65. There are no employer contributions required for pre-age 65 annuitant coverage. If a member retires prior to age 65, they

must continue paying the employee premiums until age 65 in order to be eligible for the benefit after age 65.

Contributions rates as of December 31, 2017 are:

| Coverage Type | Employer Contribution |
|------------------------------|------------------------------|
| 50% Post Retirement Coverage | 40% of employee contribution |
| 25% Post Retirement Coverage | 20% of employee contribution |

Employee contributions are based upon nine age bands through age 69 and an additional eight age bands for those age 70 and over. Participating employees must pay monthly contribution rates per \$1,000 of coverage until the age of 65 (age 70 if active). The employee contribution rates in effect for the year ended December 31, 2017 are as listed below:

Life Insurance Employee Contribution Rates
For the year ended December 31, 2017

| Attained Age | Basic |
|--------------|--------|
| Under 30 | \$0.05 |
| 30-34 | 0.06 |
| 35-39 | 0.07 |
| 40-44 | 0.08 |
| 45-49 | 0.12 |
| 50-54 | 0.22 |
| 55-59 | 0.39 |
| 60-64 | 0.49 |
| 65-69 | 0.57 |

During the reporting period, the LRLIF recognized \$444 in contributions from the employer.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB.

At December 31, 2017, the City reported a liability (asset) of \$70,443 for its proportionate share of the net OPEB liability (asset). The net OPEB liability(asset) was measured as of December 31, 2017, and the total OPEB liability used to calculate the net OPEB was determined by an actuarial valuation as of December 31, 2016 rolled forward to December 31, 2017. No material changes in assumptions or benefit terms occurred between the actuarial valuation date and the measurement date. The City's proportion of the net OPEB liability (asset) was based on the City's share of contributions to the OPEB plan relative to the contributions of all participating employers. At December 31, 2017 the City's proportion was 0.02341400% which was an increase of 0.00305500% from its proportion measured as of December 31, 2016.

For the year ended December 31, 2018 the City recognized OPEB expense of \$8,439.

At December 31, 2017 the City reported deferred outflows of resources and deferred inflows of resources related to OPEB's from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|-----------------------------------|----------------------------------|
| Differences between expected and actual experience | \$- | \$(993) |
| Net differences between projected and actual earnings on OPEB plan investments | \$811 | \$- |
| Change in assumptions | \$6,807 | \$- |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | \$6,432 | \$- |
| Employer contributions subsequent to the measurement date | \$- | \$- |
| Totals | \$14,050 | \$(993) |

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

| Year ended Dec 31 | Deferred Outflows of Resources | Deferred Inflows of Resources |
|-------------------|--------------------------------|-------------------------------|
| 2018 | \$2,230 | \$(151) |
| 2019 | 2,230 | (151) |
| 2020 | 2,230 | (151) |
| 2021 | 2,230 | (151) |
| Thereafter | 5,128 | (382) |

Actuarial assumptions. The total OPEB liability in the January 1, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

| | |
|--|--------------------------------|
| Actuarial Valuation Date | January 1, 2017 |
| Measurement Date of Net OPEB Liability (asset) | December 31, 2017 |
| Actuarial Cost Method | Entry Age Normal |
| 20 Year Tax Exempt Municipal Bond Yield | 3.44% |
| Long-Term Expected Rate of Return | 5.00% |
| Discount Rate | 3.63% |
| Salary Increases: | |
| Inflation | 3.20% |
| Seniority/Merit | 0.2% - 5.6% |
| Mortality | Wisconsin 2012 Mortality Table |

Long-term expected Return on Plan Assets. The long-term expected rate of return is determined by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation. Investments for the LRLIF are held with Securian, the insurance carrier. Interest is calculated and credited to the LRLIF based on the rate of return for a segment of the insurance carriers' general fund, specifically 10-year A-bonds (as a proxy, and not tied to any specific investments). The overall aggregate interest rate is calculated using a tiered approach based on the year the funds were originally invested and the rate of return for that year. Investment interest is credited based on the aggregate rate of return and assets are not adjusted to fair market value. Furthermore, the insurance carrier guarantees the principal amounts of the reserves, including all interest previously credited thereto.

Local OPEB Life Insurance
Asset Allocation Targets and Expected Returns
As of December 31, 2017

| Asset Class | Index | Target Allocation | Long-term Expected Geometric Real Rate of Return |
|-----------------------------------|-----------------------|-------------------|--|
| US Government Bonds | Barclay's Government | 1% | 1.13% |
| US Credit Bonds | Barclay's Credit | 65% | 2.61% |
| US Long Credit Bonds | Barclay's Long Credit | 3% | 3.08% |
| US Mortgages | Barclay's MBS | 31% | 2.19% |
| Inflation | | | 2.30% |
| Long term Expected Rate of Return | | | 5.00% |

Single Discount Rate. A single discount rate of 3.63% was used to measure the total OPEB liability. The Plan's fiduciary net position was projected to be insufficient to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the Total OPEB Liability is equal to the single equivalent rate that results in the same actuarial present value as the long-term expected rate of return applied to benefit payments, to the extent that the plan's fiduciary net position is projected to be sufficient to make projected benefit payments, and the municipal bond rate applied to benefit payment to the extent that the plan's fiduciary net position is projected to be insufficient.

Sensitivity of the City's proportionate share of the net OPEB liability (asset) to changes in the discount rate. The following presents the City's proportionate share of the net OPEB liability (asset) calculated using the discount rate of 3.63%, as well as what the City's proportionate share of the net OPEB liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (2.63%) or 1-percentage-point higher (4.63%) than the current rate:

| | 1% Decrease to Discount Rate (2.63%) | Current Discount Rate (3.63%) | 1% Increase to Discount Rate (4.63%) |
|--|--------------------------------------|-------------------------------|--------------------------------------|
| City's proportionate Share of the net OPEB liability (asset) | \$99,563 | \$99,563 | \$48,097 |

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

Payables to the OPEB plan

As of December 31, 2018 the City carried no payables to the plan.

Note 3g – 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 \$280,052 which is an amount sufficient to ensure compliance with the debt covenant.

Note 3h – **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 4 – **OTHER NOTE DISCLOSURES**

Note 4a – **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 (Fund Balances) | <u>Purpose</u> |
|---------------|---|---------------------------------------|
| TIF Districts | \$ 873,271 | Restricted for TIF district projects |
| CDBG | 115,652 | Restricted for housing rehab projects |
| Splash Pad | 80,870 | Restricted for splash pad project |
| Band Shell | 13,094 | Restricted for band shell project |

Note 4b – **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, 2018 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 4c - **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 2018 was \$3,229.76.

Note 4d – **Change in Accounting Principle**

The City implemented GASB Statement 75 Other Post Employment Benefits for the year ending December 31, 2018. This new standard changes the method of measurement and presentation of the Other Post Employment Benefits (Life) to be similar to the measurement and presentation of Pensions under GASB Statement 68. The change is preferable because of the uniformity of presentation and measurement standards to the recently changed pension standard.

The City net position as of December 31, 2017 was reduced by \$49,429. This change has no effect on the change in net position for the previously reported year. The change will only effect future years, therefore no proforma amounts for the immediately preceding year will be presented.

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, 2018

| | Budgeted Amounts | | Actual | Variance with Final Budget Favorable (Unfavorable) |
|--|---------------------|---------------------|--------------------|---|
| | Original | Final | | |
| Revenues: | | | | |
| Property tax | \$ 861,923 | \$ 861,923 | 911,724 | \$ 49,801 |
| Other tax | 9,000 | 9,000 | 2,763 | (6,237) |
| Intergovernmental aid | 732,630 | 732,630 | 779,912 | 47,282 |
| Licenses and permits | 9,500 | 9,500 | 9,232 | (268) |
| Fines, forfeits and penalties | 16,600 | 16,600 | 7,609 | (8,991) |
| Public charge for service | 239,789 | 239,789 | 235,850 | (3,939) |
| Intergovernmental charge for service | 74,060 | 74,060 | 67,833 | (6,227) |
| Commercial | 77,950 | 77,950 | 81,964 | 4,014 |
| Total revenues | <u>2,021,452</u> | <u>2,021,452</u> | <u>2,096,887</u> | <u>75,435</u> |
| Expenditures: | | | | |
| Current: | | | | |
| General government | 189,927 | 189,927 | 153,747 | 36,180 |
| Public Safety | 643,728 | 643,728 | 616,505 | 27,223 |
| Public Works | 371,611 | 371,611 | 434,720 | (63,109) |
| Health and human services | 68,248 | 68,248 | 15,434 | 52,814 |
| Culture, recreation and education | 438,161 | 438,161 | 425,068 | 13,093 |
| Conservation and development | 10,650 | 10,650 | 42,313 | (31,663) |
| Total Current | <u>1,722,325</u> | <u>1,722,325</u> | <u>1,687,787</u> | <u>34,538</u> |
| Debt Service: | | | | |
| Principal | 188,651 | 188,651 | 188,235 | 416 |
| Interest | 16,237 | 16,237 | 16,259 | (22) |
| Total Debt service | <u>204,888</u> | <u>204,888</u> | <u>204,494</u> | <u>394</u> |
| Capital Expenditures | 14,008 | 14,008 | 6,434 | 7,574 |
| Total Expenditures | <u>1,941,221</u> | <u>1,941,221</u> | <u>1,898,715</u> | <u>42,506</u> |
| Excess of revenue over(under) expenditures | 80,231 | 80,231 | 198,172 | 117,941 |
| Other Financing Sources (Uses): | | | | |
| Other uses | (52,794) | (52,794) | 0 | 52,794 |
| Total Other Sources(Uses) | <u>(52,794)</u> | <u>(52,794)</u> | <u>-</u> | <u>52,794</u> |
| Net change in fund balance | 27,437 | 27,437 | 198,172 | 170,735 |
| Fund balance, beginning of year restated | <u>\$1,850,947</u> | <u>1,850,947</u> | <u>1,850,947</u> | <u>-</u> |
| Fund balance, end of year | <u>\$ 1,878,384</u> | <u>\$ 1,878,384</u> | <u>\$2,049,119</u> | <u>\$ 170,735</u> |

City of Phillips, Wisconsin
Notes to Required Supplementary Information
On Budgetary Accounting and Control
Year Ending December 31, 2018

Note 1 – STEWARDSHIP AND ACCOUNTABILITY

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.

Note 2 - EXCESS OF ACTUAL EXPENDITURES OVER BUDGET

The City budget is adopted in accordance with state law. Budget amounts in the basic financial statements include appropriations authorized in the original budget resolution and subsequent revisions authorized by the City. Budgets are formally adopted for only the General Fund. Reported budget amounts represent the originally adopted budget as amended. Amendments to the originally adopted budget require a two-thirds vote by the City Council.

See Independent Auditor's Report

Unexpended budgeted amounts lapse at the end of the year. Spending control for the General Fund is established by the amount of expenditures budgeted for major departments within the funds, but management control is exercised at budgetary line item levels.

The City does not prepare annual operating budgets for special revenue and proprietary funds for financial reporting purposes.

For the year ended December 31, 2018, expenditures exceeded appropriations in the following categories:

| | |
|------------------------------|----------|
| Public Works | \$63,109 |
| Conservation and Development | 31,663 |
| Interest on Debt | 22 |

Other governmental funds were not budgeted in 2018.

See Independent Auditor's Report

CITY OF PHILLIPS
SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION
WISCONSIN RETIREMENT SYSTEM

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

| Wisconsin Retirement System Last 10 Fiscal Years* | 2014 | 2015 | 2016 | 2017 |
|--|-----------------|--------------|--------------|---------------|
| City of Phillips proportion of the net pension liability (asset) | 0.00690447% | 0.00672389% | 0.00664489% | 0.00658040% |
| City of Phillips proportionate share of the net pension liability (asset) | \$ (122,354.76) | \$109,261.91 | \$54,769.75 | (\$195,805) |
| City of Phillips covered-employee payroll | \$ 802,414.62 | \$777,835.50 | \$798,618.24 | \$ 873,373.00 |
| Plan fiduciary net position as a percentage of the total pension liability (asset) | 102.74% | 98.20% | 99.12% | 102.93% |

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

SCHEDULE OF CITY OF PHILLIPS CONTRIBUTIONS

| Wisconsin Retirement System Last 10 Fiscal Years* | 2014 | 2015 | 2016 | 2017 |
|---|---------------|---------------|---------------|---------------|
| Contractually required contributions | \$ 62,588.34 | \$60,660.53 | \$61,066.68 | \$ 71,077.00 |
| Contributions in relation to the contractually required contributions | \$ 62,588.34 | \$60,660.53 | \$61,066.68 | \$ 71,077.00 |
| Contribution deficiency (excess) | \$ - | \$ - | \$ - | - |
| City of Phillips covered-employee payroll | \$ 802,414.62 | \$ 777,835.50 | \$ 798,618.24 | \$ 873,373.00 |
| Contributions as a percentage of covered-employee payroll | 7.80% | 7.80% | 7.65% | 8.14% |

*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, 2018

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, WI
SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION
LOCAL RETIREE LIFE INSURANCE FUND

SCHEDULE OF CITY OF PHILLIP'S PROPORTIONATE SHARE
OF THE NET OPEB LRLIF LIABILITY (ASSET)
LOCAL RETIREE LIFE INSURANCE FUND
Last 10 Fiscal Years*

| | 2017 |
|--|-------------|
| City of Phillip's proportion of the net OPEB liability (asset) | 0.02341400% |
| City of Phillip's proportionate share of the net OPEB liability (asset) | \$70,443 |
| City of Phillip's covered-employee payroll | \$984,626 |
| Plan fiduciary net position as a percentage of the total OPEB liability (asset) | 44.81% |
| *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
LOCAL RETIREE LIFE INSURANCE FUND
Last 10 Fiscal Years*

| | 2017 |
|---|-----------|
| Contractually required contributions | \$444 |
| Contributions in relation to the contractually required contributions | \$444 |
| Contribution deficiency (excess) | \$ - |
| City of Phillip's covered-employee payroll | \$984,626 |
| Contributions as a percentage of covered-employee payroll | 7.150000% |
| *The amounts presented for each fiscal year were determined as of the calendar year-end that occurred within the fiscal year. | |
| See Independent Auditor's Report | |

CITY OF PHILLIPS, WI
Notes to Required Supplementary Information
For the Year Ended December 31, 2018

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

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, 2018

| | | Capital Projects | | |
|------------------------------------|-----------------------|--------------------|--------------------|---------------------------------|
| | TIF District No. 2 | Splash Pad Fund | Band Shell Fund | Total Nonmajor Govt Funds |
| Assets | | | | |
| Cash and Investments | \$ - | \$ 80,870 | \$ 13,094 | \$ 93,964 |
| Receivables: | | | | |
| Due from other funds | 986 | - | - | 986 |
| Restricted cash | 210 | - | - | 210 |
| Total Assets | <u>\$ 1,196</u> | <u>\$ 80,870</u> | <u>\$ 13,094</u> | <u>\$ 95,160</u> |
| Liabilities and Fund Balance | | | | |
| Liabilities | | | | |
| Due to other funds | 300 | - | - | 300 |
| Deferred revenues | 986 | - | - | 986 |
| Advance from other funds | 58,653 | - | - | 58,653 |
| Total Liabilities | <u>59,939</u> | <u>-</u> | <u>-</u> | <u>59,939</u> |
| Fund Balances | | | | |
| Unassigned: | | | | |
| TID #2 projects | (58,743) | | | (58,743) |
| Restricted: | | | | |
| Splash pad project | | 80,870 | | 80,870 |
| Band shell project | | | 13,094 | 13,094 |
| Total Fund Balance | <u>(58,743)</u> | <u>80,870</u> | <u>13,094</u> | <u>35,221</u> |
| Total Liabilities and Fund Balance | <u>\$ 1,196</u> | <u>\$ 80,870</u> | <u>\$ 13,094</u> | <u>\$ 95,160</u> |

City of Phillips, Wisconsin
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Nonmajor Governmental Funds
For the Year Ended December 31, 2018

| | | Capital Projects | | |
|---------------------------------|-----------------------|--------------------|--------------------|---------------------------------|
| | TIF District No. 2 | Splash Pad Fund | Band Shell Fund | Total Nonmajor Govt Funds |
| Revenues: | | | | |
| Commercial | 30 | 69,593 | 13,094 | 82,717 |
| Total revenues | 30 | 69,593 | 13,094 | 82,717 |
| Expenditures: | | | | |
| Current: | | | | |
| Conservation and development | 150 | - | - | 150 |
| Total Current | 150 | - | - | 150 |
| Debt Service: | | | | |
| Interest | 1,448 | - | - | 1,448 |
| Total Debt service | 1,448 | - | - | 1,448 |
| Capital Expenditures | - | 4,782 | - | 4,782 |
| Total Expenditures | 1,598 | 4,782 | - | 6,380 |
| Net change in fund balance | (1,568) | 64,811 | 13,094 | 76,337 |
| Fund balance, beginning of year | (57,175) | 16,059 | - | (41,116) |
| Fund balance, end of year | <u>\$ (58,743)</u> | <u>\$ 80,870</u> | <u>\$ 13,094</u> | <u>\$ 35,221</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**

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

Independent Auditor's Report

To the City Council
City of Phillips
Phillips, Wisconsin

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Phillips, Wisconsin ("City") as of and for the year ended December 31, 2018 and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated April 26, 2019.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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 have not been identified. However, as described in the accompanying schedule of findings and responses, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and responses as 2018-001 and 2018-003 to be material weaknesses.

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. We consider the deficiency described in the accompanying schedule of findings and responses as 2018-002 to be a significant deficiency.

Compliance and Other Matters

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

City of Phillips, WI Response to Findings

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

Purpose of this Report

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

Eagle Audit & Accounting, LLC

Eagle Audit & Accounting, LLC
Certified Public Accountants
Park Falls, Wisconsin

April 26, 2019

City of Phillips, WI
Schedule of Findings and Responses
For the Year Ended December 31, 2018

Section 1 - Summary of Auditor's Results

Financial Statements Findings

| | Yes | No | |
|---|-----|---------------|------------|
| Type of auditors' report issued | | | Unmodified |
| 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 2018-001: Segregation of Duties– Material Weakness – Repeat Finding

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 2018-002: Client Preparation of Financial Statements – Significant Deficiency

Criteria: Preparation of financial statements is a client responsibility.

Condition: The City has a single finance person that has the ability to prepare financial statements, but due to the time constraints of other duties does not have the time available.

Context: Financial statements are prepared by the independent auditor with information provided by the City.

Effect: This condition may cause an impairment of independence of the auditor and proper safeguards of client review and acceptance of the financial statements are in place.

Cause: The small size of the City does not allow for adequate time for the Clerk/Treasurer to prepare financial statements consistent with full presentation and disclosure standards.

Information to Provide Perspective: The City's finance staff consists of 1 full-time position and 1 part-time position.

Recommendation: Although this is not unusual in cities of your size, the Council should continue to be aware of this situation and to realize that the preparation of financial statements is a client responsibility. Under these conditions, the most effective controls lie in the Clerk/Treasurer and the City Council's knowledge of financial statement presentation and disclosure and review of auditor prepared financial statements.

Views 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 2018-003: Multiple Material Audit Adjustments– Material Weakness – Repeat Finding

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 some material adjusting journal entries prepared, but not entered in the current year trial balance. The Clerk/Treasurer is in her second year at the position.

Information to Provide Prospective: Fourteen entries were made with a total effect of \$411,917 to change in net position.

Recommendation: Procedures for timely reconciliation, analysis and closing entries should be implemented by City finance staff. Make sure all entries are made prior to the trial balance is given to the auditor.

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

Section 3 – Other Issues

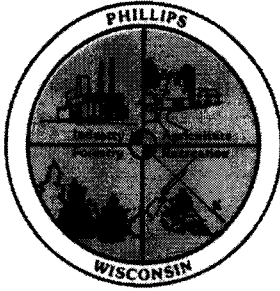
| | Yes | No |
|--|-----|----|
| Does the auditor's report or the notes to the financial statements include disclosure with regard to substantial doubt as to the auditee's ability to continue as a going concern? | | X |
| Does the audit report show audit issues (i.e., material non-compliance, non-material 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

April 26, 2019



THE CITY OF PHILLIPS

Founded in 1876

City of Phillips
Summary Schedule of Prior Year Audit Findings and Corrective Action Plan
For the Year Ending December 31, 2018

Status of Prior Year Audit Findings

2017-001 Lack of Segregation of Duties – no change expected

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

2017-002 Multiple Material Audit Adjustments – The City had some material adjusting journal entries prepared, but not entered in the current year trial balance.

Corrective Action Plan

2018-001 Lack of Segregation of Duties – ongoing finding

Mitigating Controls – Management and the Council are aware of the situation and will continue to oversee the financial matters of the City with this in mind.

2018-002 Preparation of Financial Statements

The City has assigned a staff member with the required skills, knowledge and experience to review and accept the financial statements as prepared by the auditors

2018-003 Multiple Material Audit Adjustments – Clerk/Treasurer will work to resolve this issue.

The City contact official for findings is as follows:

Shelby Prochnow
Clerk/Treasurer
(715) 339-3125