

**CITY OF SOUTH MILWAUKEE**

South Milwaukee, Wisconsin

**FINANCIAL STATEMENTS**

Including Independent Auditors' Report

As of and for the Year Ended December 31, 2016

## CITY OF SOUTH MILWAUKEE

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As of and for the year ended December 31, 2016

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## **CITY OF SOUTH MILWAUKEE**

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## INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Common Council  
City of South Milwaukee  
South Milwaukee, Wisconsin

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of South Milwaukee, Wisconsin, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City of South Milwaukee's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

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

***Auditors' Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City of South Milwaukee'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 of South Milwaukee'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.

To the Honorable Mayor and Common Council  
City of South Milwaukee

***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 of South Milwaukee, Wisconsin, as of December 31, 2016 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

***Required Supplementary Information***

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

***Supplementary Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of South Milwaukee's basic financial statements. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects, in relation to the basic financial statements as a whole.

*Baker Tilly Virchawka Krause, LLP*

Milwaukee, Wisconsin  
June 28, 2017

**MANAGEMENT'S DISCUSSION  
AND ANALYSIS**

## **Management's Discussion and Analysis**

(unaudited)

As management of the City of South Milwaukee, we offer readers of the City of South Milwaukee's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2016. Comparative government-wide data from the prior year is included for a comprehensive discussion of the City of South Milwaukee's change in net position.

The City of South Milwaukee is a community of approximately 21,070 residents located in Milwaukee County, Wisconsin. The City of South Milwaukee is a community with a commitment to maintaining assets through a capital projects program.

### ***Financial Highlights***

In February 2015, the GASB issued statement No. 72 - Fair Value Measurement and Application. This statement addresses accounting and financial reporting issues related to fair value measurements. It defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This standard was implemented January 1, 2016.

The assets and deferred outflows of the City of South Milwaukee exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by approximately \$23.3 million (net position).

The government's total net position decreased in total by \$1.54 million from 2015 to 2016.

As of the close of the current fiscal year, the City of South Milwaukee's governmental funds reported combined ending fund balances of approximately \$15 million, an increase of \$2.33 million in comparison with the prior year. Of this total amount, approximately \$1.6 million is available for spending at the government's discretion (assigned and unassigned fund balance).

The total long-term obligations for the City of South Milwaukee increased by approximately \$8.8 million during the current fiscal year.

## ***Overview of the Financial Statements***

This discussion and analysis is intended to serve as an introduction to the City of South Milwaukee's basic financial statements. The City of South Milwaukee's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the City of South Milwaukee's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the City of South Milwaukee's assets, deferred outflows, liabilities, and deferred inflows of resources with the difference between assets/deferred outflows and liabilities/deferred inflows 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 of South Milwaukee is improving or deteriorating.

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods (e.g., uncollected taxes, earned but unused vacation leave, and earned but unused comp time).

Both of the government-wide financial statements distinguish functions of the City of South Milwaukee that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City of South Milwaukee include general government, protection of persons and property, public works, health and sanitation, parks and recreation, library and conservation and development. The business-type activities of the City of South Milwaukee include a Water Utility, a Sewer Utility, a Storm Water Utility, and Parkcrest Housing Authority.

The government-wide financial statements include not only the City of South Milwaukee itself (known as the *primary government*), but also a legally separate Community Development Authority for which the City of South Milwaukee is financially accountable. Financial information for this *component unit* is blended with the financial information presented for the primary government itself. The Water Utility, Storm Water Utility, and Sewer Enterprise Fund function for all practical purposes as departments of the City of South Milwaukee, and therefore have been included as an integral part of the primary government.

The government-wide financial statements can be found on pages 12 - 13 of this report.

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of South Milwaukee, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of South Milwaukee can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City of South Milwaukee maintains 22 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, the debt service fund, special revenue fund – tax incremental district funds and the capital projects-public works project fund, all of which are considered to be major funds. Data from the other 18 governmental funds are combined and titled Non-major Governmental Funds. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The basic governmental fund financial statements can be found on pages 14 - 16 of this report.

The City of South Milwaukee adopts an annual appropriated budget for the general fund and various other funds as required by state statute. A budgetary comparison statement has been provided as required supplementary information for the general fund to demonstrate compliance with the adopted budget.

**Proprietary funds.** The City of South Milwaukee maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City of South Milwaukee uses enterprise funds to account for its Water, Storm Water, and Sewer Utilities and Parkcrest Housing Authority. The City of South Milwaukee maintains an Internal Service Fund that is presented as governmental activities in the government-wide financial statements. The City of South Milwaukee uses this fund to account for its self-insurance activity.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewer Utilities, both of which are considered to be major funds of the City of South Milwaukee.

The basic proprietary fund financial statements can be found on pages 17 - 20 of this report.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the City of South Milwaukee's own programs. The only fiduciary fund maintained by the City of South Milwaukee is the Trust and Agency Fund which records the tax roll and tax collections for other taxing jurisdictions within the City of South Milwaukee. The accounting used for fiduciary funds is much like that used for governmental funds.

The basic fiduciary fund financial statements can be found on page 21 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 22 - 68 of this report.

**Supplementary information.** The combining statements referred to earlier in connection with nonmajor governmental funds is presented immediately following the required supplementary information. Combining statements and schedules can be found on pages 73 - 76 of this report.

## Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of South Milwaukee, assets and deferred outflows exceeded liabilities and deferred inflows by \$23.3 million at the close of the most recent fiscal year, as presented in the following table.

### CITY OF SOUTH MILWAUKEE NET POSITION

December 31, 2016 and 2015

(In Thousands)

	Governmental Activities		Business-type Activities		Totals	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 30,340	\$ 29,201	\$ 7,363	\$ 6,189	37,703	35,390
Capital assets, net of depreciation	18,728	18,013	37,599	37,506	56,327	55,519
<b>Total assets</b>	<b>49,068</b>	<b>47,214</b>	<b>44,962</b>	<b>43,695</b>	<b>94,030</b>	<b>90,909</b>
Deferred outflows of resources	7,390	2,140	861	233	8,251	2,373
Current and other liabilities	1,412	1,106	411	263	1,823	1,369
Noncurrent liabilities	39,885	34,642	20,242	18,830	60,127	53,472
<b>Total liabilities</b>	<b>41,297</b>	<b>35,748</b>	<b>20,653</b>	<b>19,093</b>	<b>61,950</b>	<b>54,841</b>
Deferred inflows of resources	15,871	12,758	1,113	789	16,984	13,547
<b>Net position</b>						
Net investment in capital assets	1,592	2,681	21,700	21,374	23,248	*
Restricted	3,545	6,001	1,603	1,780	5,148	7,781
Unrestricted	(5,847)	(7,836)	755	892	(5,048)	*
<b>Total net position</b>	<b>\$ (710)</b>	<b>\$ 846</b>	<b>\$ 24,058</b>	<b>\$ 24,046</b>	<b>\$ 23,348</b>	<b>\$ 24,892</b>

The City of South Milwaukee's governmental activities net position includes \$1.59 million of investment in capital assets (e.g., land, buildings, machinery, equipment, and infrastructure) less any related debt used to acquire those assets that are still outstanding as negative. City of South Milwaukee uses capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City of South Milwaukee's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The government's net position decreased (\$1,544,663) during the current fiscal year. The decrease was related to the government activities which showed a (\$1,556,414) decrease, and the business activities which showed a \$11,751 increase in net position.

\* Includes an adjustment for utility assets financed with governmental activities debt. See Note I. D. 11.

**Governmental activities.** The City's Tax Increment Districts increased in valuation and increment revenue. The Districts beginning fund balance of \$2,182,516 increased to \$2,382,732 in the Special Revenue Funds. The City's tax increment district project plans provide for the City to finance various development incentives.

The following is a more detailed review of the year's operation.

**CITY OF SOUTH MILWAUKEE'S CHANGES IN NET POSITION**  
**For the years ending December 31, 2016 and 2015**

	(In Thousands)					
	Governmental		Business-type		Totals	
	Activities	Activities	Activities	Activities	2016	2015
	2016	2015	2016	2015	2016	2015
<b>Revenues</b>						
Program revenues						
Charges for services	\$ 3,349	\$ 2,917	\$ 6,862	\$ 6,813	\$ 10,211	\$ 9,730
Operating grants and contributions	1,087	1,542	133	177	1,220	1,719
Capital grants and contributions	514	-	308	-	822	-
General revenues						
Property taxes	10,040	9,785	-	-	10,040	9,785
Other taxes	2,262	2,201	-	-	2,262	2,201
Intergovernmental revenues not restricted to specific programs	3,306	3,573	-	-	3,306	3,573
Investment income	145	79	19	5	164	84
Miscellaneous/Other	360	365	-	-	360	365
<b>Total revenues</b>	<b>21,063</b>	<b>20,462</b>	<b>7,322</b>	<b>6,995</b>	<b>28,385</b>	<b>27,457</b>
<b>Expenses</b>						
General government	3,047	3,615	-	-	3,047	3,615
Protection of persons and property	9,927	9,231	-	-	9,927	9,231
Public works	6,519	6,624	-	-	6,519	6,624
Conservation and development	475	411	-	-	475	411
Health and human services	774	720	-	-	774	720
Library	931	876	-	-	931	876
Parks and recreation	168	152	-	-	168	152
Other	456	471	-	-	456	471
Interest and fiscal charges	816	750	-	-	816	750
Water	-	-	2,796	2,489	2,796	2,489
Wastewater	-	-	2,848	2,925	2,848	2,925
Stormwater	-	-	717	907	717	907
Parkcrest	-	-	455	476	455	476
<b>Total expenses</b>	<b>23,113</b>	<b>22,850</b>	<b>6,816</b>	<b>6,797</b>	<b>29,929</b>	<b>29,647</b>
<b>Increase (decrease) in net position before transfers</b>	<b>(2,050)</b>	<b>(2,388)</b>	<b>506</b>	<b>198</b>	<b>(1,544)</b>	<b>(2,190)</b>
<b>Transfers</b>	<b>494</b>	<b>511</b>	<b>(494)</b>	<b>(511)</b>	<b>-</b>	<b>-</b>
<b>Increase (decrease) in net position</b>	<b>(1,556)</b>	<b>(1,877)</b>	<b>12</b>	<b>(313)</b>	<b>(1,544)</b>	<b>(2,190)</b>
<b>Net position - January 1, 2016</b>	<b>846</b>	<b>2,723</b>	<b>24,046</b>	<b>24,359</b>	<b>24,892</b>	<b>27,082</b>
<b>Net position - December 31, 2016</b>	<b>\$ (710)</b>	<b>\$ 846</b>	<b>\$ 24,058</b>	<b>\$ 24,046</b>	<b>\$ 23,348</b>	<b>\$ 24,892</b>

**Business-type activities.** Business-type activities increased the City of South Milwaukee's net position by \$11,751.

#### ***Financial Analysis of the Government's Funds***

As noted earlier, the City of South Milwaukee uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the City of South Milwaukee's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City of South Milwaukee's governmental funds reported combined ending fund balances of approximately \$15 million, an increase of approximately \$2.33 million in comparison with the prior year. Approximately \$1.6 million constitutes assigned fund balance, which is available for spending at the government's discretion.

The general fund is the chief operating fund of the City of South Milwaukee. At the end of the current fiscal year total fund balance amounted to \$5,616,705.

The debt service fund has a total fund balance of \$189,748 which is restricted for debt service requirements.

The special revenue fund – tax increment district funds has a total fund balance of \$2,382,732 which is restricted for tax increment district projects.

The capital project fund – public works projects has a total fund balance of \$3,865,640 which is committed for future public work projects.

**Proprietary funds.** The City of South Milwaukee's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the Water Utility at the end of the year amounted to \$316,352. The Sewer Utility had unrestricted net position of (\$434,181). The Stormwater Utility had unrestricted net position of \$486,271. The change in net position for the funds was a decrease in the Water Utility amounting to (\$91,864), a decrease in the Sewer Utility of (\$249,323) and an increase in the Stormwater Utility of \$381,814. Other factors concerning the finances of these funds have already been addressed in the discussion of the City of South Milwaukee's business-type activities.

#### ***General Fund Budgetary Highlights***

No budget amendments were adopted during 2016. The City's General Fund has \$300,135 more in revenues and other financing sources than expenditures and other uses on a budgetary basis.

### ***Capital Asset and Debt Administration***

**Net investment in capital assets.** The City of South Milwaukee's investment in capital assets for its governmental and business-type activities as of December 31, 2016 amounts to \$56 million (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings, machinery and equipment, park facilities, utility infrastructure, street infrastructure constructed during the year and library books.

Major capital asset events during the current fiscal year included the following:

#### **City of South Milwaukee Capital Assets**

As of December 31, 2016 and 2015

(In Thousands)

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Totals</u>	
	2016	2015	2016	2015	2016	2015
Land & improvements	\$ 2,957	\$ 2,957	\$ 127	\$ 127	\$ 3,084	\$ 3,084
Intangible assets	34	34	-	-	34	34
Construction in progress	31	-	58	447	89	447
Structures and improvements	2,984	3,027	6,995	6,354	9,979	9,381
Machinery & equipment	3,888	3,471	13	-	3,901	3,471
Library Books	367	371	-	-	367	371
Infrastructure	8,467	8,153	30,406	30,578	38,873	38,731
Total	<u>\$ 18,728</u>	<u>\$ 18,013</u>	<u>\$ 37,599</u>	<u>\$ 37,506</u>	<u>\$ 56,327</u>	<u>\$ 55,519</u>

Additional information on the City of South Milwaukee's capital assets can be found in Note IV.D. on pages 45-47 of this report.

**Long-term debt.** At the end of the current fiscal year, the City of South Milwaukee had total debt outstanding of \$60.1 million. Of this amount, \$28 million was for the City's General Obligation debt which included TIF #1, TIF #2 and TIF #3.

**CITY OF SOUTH MILWAUKEE LONG-TERM DEBT**

As of December 31, 2016 and 2015

(In Thousands)

	<u>Governmental</u> <u>Activities</u>		<u>Business-Type Activities</u>		<u>Totals</u>	
	2016	2015	2016	2015	2016	2015
General Obligation Debt	\$ 22,257	\$ 20,114	\$ 5,798	\$ 4,017	\$ 28,055	\$ 24,131
Premium on Debt Issued	388	256	76	-	464	256
Revenue Bonds	-	-	11,578	12,440	11,578	12,440
Net pension liability (asset)	1,315	(1,982)	153	(218)	1,468	(2,200)
Unfunded Retirement Liability	14,813	13,108	2,373	2,088	17,186	15,196
Accumulated Sick Pay	1,112	1,165	264	284	1,376	1,449
<b>Total</b>	<b>\$ 39,885</b>	<b>\$ 32,661</b>	<b>\$ 20,242</b>	<b>\$ 18,611</b>	<b>\$ 60,127</b>	<b>\$ 51,272</b>

The City of South Milwaukee maintained its bond rating by Moody's Investor Service of AA2 for its general obligation debt in 2016. This reflects the City's strong financial position and moderate debt burden.

State statutes limit the amount of general obligation debt a governmental entity may issue to 5% of its total equalized valuation. The debt limitation as of December 31, 2016 for the City of South Milwaukee is \$59.7 million which is significantly in excess of the City of South Milwaukee's outstanding general obligation debt of \$28 million.

Additional information on the City of South Milwaukee's long-term debt can be found in Note IV.F. on pages 49-53 of this report.

### ***Economic Factors and Next Year's Budgets and Rates***

The City's 2017 budget has qualified the City to receive the Expenditure Restraint Program (ERP) and the Shared Revenue payments. It is expected that the budget will continue to qualify for the ERP payment. The City's past experience demonstrates a continuing reduction in State of Wisconsin aids.

The City continues its conservative approach in retiring debt for non-TIF related capital projects and equipment in 10 years. South Milwaukee's bond rating by Moody's Investor Service is an AA2. This reflects the City's strong financial position, responsible spending and moderate debt burden.

South Milwaukee's population trend has been very stable, which has helped create a solid, mature tax base.

General Fund investment earnings for 2016 increased due to higher interest rates.

The Plan Commission continues to encourage and oversee redevelopment in the City's four Tax Increment Financing (TIF) districts, and pursue other redevelopment opportunities. Many successful projects have been completed in TIDs 1, 2, and 3, creating increased property values in these areas. A large retail project was completed in TID 2 and will generate enough increment to close it early or to allow it to serve as a donor TID. TID 4 is an industrial TID approved in 2006 to assist with the retention and expansion of Bucyrus International (now Caterpillar). The expansion is complete and the developer-financed TID will close in 2019. The Common Council recently approved a letter of intent for 1101-1115 College Avenue for a medical office development. The development will be located in TID 2 and will comprise of a chiropractic office and a dental office. This will be a million dollar plus development that will attract new clients to South Milwaukee.

South Milwaukee has continued to realize savings since switching to Cities & Villages Mutual Insurance Company (CVMIC) in 2005, and has set aside funds to cover the maximum yearly deductible. It is anticipated the City will receive a dividend in 2017.

We're also stepping up investment in our central business district, with work underway on priorities arising from our recently passed 2035 comprehensive plan update and downtown plan. This includes creation of a new downtown grant program, new streetscaping on our main street, and exploring formation of a business improvement district or related organization, as well as exploring joining the state's Main Street Program. This necessary heavy lifting will help us in attracting new businesses to South Milwaukee and help our existing ones grow, both today and for the long term. The City of South Milwaukee is offering a Downtown Revitalization Grant to the property/business owners located in the central business district. The grant is up to \$30,000 in matching funds. Three local businesses have been approved for grant funds and are currently updating their buildings to enhance the downtown and generate more economic development. The City of South Milwaukee is also working with South Shore group, Aerotropolis. The mission on Aerotropolis is to connect the local communities through airport development and in return, grow economic development in the South Shore.

We continue to look for new and creative ways in order to make the delivery of our services more efficient. Some of the changes we enacted were to introduce the use of automated garbage collection and using our neighboring resource of the City of Oak Creek to provide us with IT services. South Milwaukee will continue to look for new and creative ways to make use of our neighboring communities, other governmental agencies, and our community's resources.

### ***Requests for Information***

This financial report is designed to provide a general overview of the City of South Milwaukee's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report, or requests for additional financial information should be addressed to the City Clerk, City of South Milwaukee, 2424 15<sup>th</sup> Avenue, South Milwaukee, Wisconsin 53172.

## **BASIC FINANCIAL STATEMENTS**

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**CITY OF SOUTH MILWAUKEE**

**STATEMENT OF NET POSITION**

As of December 31, 2016

	Governmental Activities	Business-type Activities	Totals
<b>ASSETS</b>			
Cash and investments	\$ 23,189,380	\$ 1,978,074	\$ 25,167,454
Receivables			
Taxes	5,756,585	842,863	6,599,448
Accounts	962,164	1,099,503	2,061,667
Special assessments	35,188	-	35,188
Interest	6,615	-	6,615
Accrued revenue	-	493,306	493,306
Internal balances	390,059	(390,059)	-
Prepaid items and inventories	-	131,617	131,617
Other assets	-	2,751	2,751
Restricted assets			
Cash and investments	-	3,205,256	3,205,256
Capital assets			
Land	2,956,671	16,596	2,973,267
Intangible asset	33,758	110,000	143,758
Construction in progress	31,135	57,849	88,984
Other capital assets, net of depreciation	15,706,499	37,414,956	53,121,455
Total Assets	<u>49,068,054</u>	<u>44,962,712</u>	<u>94,030,766</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred charge on refunding	61,301	-	61,301
Deferred outflows related to pensions	7,329,049	860,981	8,190,030
Total Deferred Outflows of Resources	<u>7,390,350</u>	<u>860,981</u>	<u>8,251,331</u>
<b>LIABILITIES</b>			
Accounts payable and accrued expenses	1,243,537	285,370	1,528,907
Accrued interest payable	168,441	86,744	255,185
Deposits	-	17,355	17,355
Unearned revenues	-	21,603	21,603
Noncurrent liabilities			
Net pension liability	1,314,809	152,888	1,467,697
Due within one year	2,470,025	1,668,160	4,138,185
Due in more than one year	36,099,954	18,420,845	54,520,799
Total Liabilities	<u>41,296,766</u>	<u>20,652,965</u>	<u>61,949,731</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows related to pensions	2,770,554	322,112	3,092,666
Unearned Revenue	13,101,140	790,438	13,891,578
Total Deferred Inflows of Resources	<u>15,871,694</u>	<u>1,112,550</u>	<u>16,984,244</u>
<b>NET POSITION (DEFICIT)</b>			
Net investment in capital assets	1,591,921	21,699,654	23,248,154
Restricted			
Debt service	21,307	-	21,307
Library	322,908	-	322,908
Police federal asset forfeiture	60,553	-	60,553
TID purposes	2,957,528	-	2,957,528
Special assessment and interest - capital projects	183,111	-	183,111
Equipment replacement reserve	-	1,232,531	1,232,531
Debt service reserve	-	370,779	370,779
Unrestricted (deficit)	<u>(5,847,384)</u>	<u>755,214</u>	<u>(5,048,749)</u>
<b>TOTAL NET POSITION (DEFICIT)</b>	<b>\$ (710,056)</b>	<b>\$ 24,058,178</b>	<b>\$ 23,348,122</b>

See accompanying notes to financial statements.

**CITY OF SOUTH MILWAUKEE**

**STATEMENT OF ACTIVITIES**  
For the Year Ended December 31, 2016

Functions/Programs	Program Revenues				Net (Expenses) Revenues and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Totals
Governmental Activities							
General government	\$ 3,046,725	\$ 1,207,293	\$ 5,392	\$ -	\$ (1,834,040)	\$ -	\$ (1,834,040)
Public safety	9,927,108	851,617	330,798	-	(8,744,693)	-	(8,744,693)
Public works	6,518,702	1,243,235	530,541	513,907	(4,231,019)	-	(4,231,019)
Conservation and development	475,735	-	-	-	(475,735)	-	(475,735)
Health and human services	773,955	25,834	205,225	-	(542,896)	-	(542,896)
Library	930,866	21,034	15,505	-	(894,327)	-	(894,327)
Parks and recreation	167,962	-	-	-	(167,962)	-	(167,962)
Other	456,109	-	-	-	(456,109)	-	(456,109)
Interest and fiscal charges	816,502	-	-	-	(816,502)	-	(816,502)
Total Governmental Activities	<u>23,113,664</u>	<u>3,349,013</u>	<u>1,087,461</u>	<u>513,907</u>	<u>(18,163,283)</u>	<u>-</u>	<u>(18,163,283)</u>
Business-type Activities							
Water	2,795,310	3,152,918	-	-	-	357,608	357,608
Sewer	2,848,179	2,601,129	-	-	-	(247,050)	(247,050)
Stormwater	717,032	789,372	-	307,775	-	380,115	380,115
Parkcrest housing authority	455,059	318,474	132,871	-	-	(3,714)	(3,714)
Total Business-type Activities	<u>6,815,580</u>	<u>6,861,893</u>	<u>132,871</u>	<u>307,775</u>	<u>-</u>	<u>486,959</u>	<u>486,959</u>
Totals	<u>\$ 29,929,244</u>	<u>\$ 10,210,906</u>	<u>\$ 1,220,332</u>	<u>\$ 821,682</u>	<u>\$ (18,163,283)</u>	<u>486,959</u>	<u>(17,676,324)</u>
General Revenues							
Taxes							
Property taxes, levied for general purposes					8,100,439	-	8,100,439
Property taxes, levied for debt service					1,939,430	-	1,939,430
Property taxes, levied for tax increment					1,620,803	-	1,620,803
Property taxes, levied for other purposes					623,193	-	623,193
Other taxes					18,146	-	18,146
Intergovernmental revenues not restricted to specific programs					3,306,366	-	3,306,366
Investment income					144,520	19,089	163,609
Miscellaneous					359,675	-	359,675
Total General Revenues					<u>16,112,572</u>	<u>19,089</u>	<u>16,131,661</u>
Transfers					<u>494,297</u>	<u>(494,297)</u>	<u>-</u>
Change in net position					<u>(1,556,414)</u>	<u>11,751</u>	<u>(1,544,663)</u>
NET POSITION - Beginning of Year					<u>846,358</u>	<u>24,046,427</u>	<u>24,892,785</u>
NET POSITION (DEFICIT) - END OF YEAR					<u>\$ (710,056)</u>	<u>\$ 24,058,178</u>	<u>\$ 23,348,122</u>

See accompanying notes to financial statements.

**CITY OF SOUTH MILWAUKEE**

**BALANCE SHEET  
GOVERNMENTAL FUNDS**  
As of December 31, 2016

	<b>Special Revenue Funds</b>									
			Debt Service		Tax Incremental District Funds		Capital Projects Fund		Nonmajor Governmental Funds	
	General	Debt Service	General	Debt Service	General	Debt Service	General	Debt Service	General	Debt Service
<b>ASSETS</b>										
Cash and investments	\$ 10,035,723	\$ 1,913,745	\$		3,356,831	\$ 3,340,861	\$ 3,517,604	\$ 22,164,764		
Receivables										
Taxes	3,172,415	1,198,943			677,431	-	705,931	5,754,720		
Accounts	590,779	-			-	79,634	253,864	924,277		
Special assessments	-	-			-	-	35,188	35,188		
Delinquent personal property taxes	1,865	-			-	-	-	1,865		
Interest	6,615	-			-	-	-	6,615		
Due from other funds	99,978	-			-	525,760	-	-	625,738	
<b>TOTAL ASSETS</b>	<b>\$ 13,907,375</b>	<b>\$ 3,112,688</b>	<b>\$</b>		<b>4,034,262</b>	<b>\$ 3,946,255</b>	<b>\$ 4,512,587</b>	<b>\$ 29,513,167</b>		
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>										
Liabilities										
Accounts payable	\$ 532,235	\$ -	\$ -		-	\$ 80,615	\$ 250,527	\$ 863,377		
Accrued liabilities	284,772	-	-		-	-	21,263	306,035		
Due to other funds	-	-	-		-	-	235,679	235,679		
Total Liabilities	<b>817,007</b>	<b>-</b>	<b>-</b>		<b>-</b>	<b>80,615</b>	<b>507,469</b>	<b>1,405,091</b>		
Deferred Inflows of Resources										
Unearned revenue	7,473,663	2,922,940			1,651,530	-	1,053,007	13,101,140		
Unavailable revenue	-	-			-	-	34,248	34,248		
Total Deferred Inflows of Recources	<b>7,473,663</b>	<b>2,922,940</b>	<b></b>		<b>1,651,530</b>	<b>-</b>	<b>1,087,255</b>	<b>13,135,388</b>		
Fund Balances										
Nonspendable	479,299	-	-		-	-	-	479,299		
Restricted	-	189,748			2,382,732	-	1,738,888	4,311,368		
Committed	3,494,630	-	-		-	3,865,640	1,178,975	8,539,245		
Assigned	1,642,776	-	-		-	-	-	1,642,776		
Unassigned (deficit)	-	-	-		-	-	-	-		
Total Fund Balances	<b>5,616,705</b>	<b>189,748</b>	<b></b>		<b>2,382,732</b>	<b>3,865,640</b>	<b>2,917,863</b>	<b>14,972,688</b>		
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	<b>\$ 13,907,375</b>	<b>\$ 3,112,688</b>	<b>\$</b>		<b>4,034,262</b>	<b>\$ 3,946,255</b>	<b>\$ 4,512,587</b>			

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

Capital assets used in governmental funds are not financial resources and, therefore, are not reported in the funds. Note IIA.	18,728,063
Some receivables that are not currently available are reported as unearned revenue in the fund financial statements but are recognized as revenue when earned in the government-wide statements.	34,248
The net pension liability does not relate to current financial resources and is not reported in the governmental funds.	(1,314,809)
Deferred outflows of resources related to pensions do not relate to current financial resources and are not reported in the governmental funds.	7,329,049
Deferred inflows of resources related to pensions do not relate to current financial resources and are not reported in the governmental funds.	(2,770,554)
Internal service funds are reported in the statement of net position as governmental activities.	988,378
Other long-term assets are not available to pay for current period expenditures and are deferred outflows. Note IIA.	61,301
Some liabilities, including long-term debt, are not due and payable in the current period and, therefore, are not reported in the funds. Note IIA.	(23,925,560)
Net post employment benefits liability is not due and payable in the current period and, therefore, is not reported in the funds.	(14,812,860)
<b>NET POSITION OF GOVERNMENTAL ACTIVITIES</b>	<b>\$ (710,056)</b>

See accompanying notes to financial statements.

**CITY OF SOUTH MILWAUKEE**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -**  
**GOVERNMENTAL FUNDS**  
For the Year Ended December 31, 2016

	Special Revenue Funds					
			Tax Incremental District Funds		Capital Projects Fund	
	General	Debt Service			Public Works Projects	Nonmajor Governmental Funds
<b>REVENUES</b>						
Taxes	\$ 8,118,585	\$ 1,939,430	\$ 1,620,803	\$ -	\$ 623,193	\$ 12,302,011
Intergovernmental	4,387,633	-	17,787	433,183	453,341	5,291,944
Regulation and compliance	618,324	-	-	-	-	618,324
Public charges for services	763,076	-	-	-	917,254	1,680,330
Public improvement revenues	-	-	-	-	10,047	10,047
Interdepartmental revenues	765,015	-	-	-	-	765,015
Investment income (loss)	99,563	-	-	10,165	34,799	144,527
Miscellaneous	172,601	-	-	6,880	71,545	251,026
<b>Total Revenues</b>	<b>14,924,797</b>	<b>1,939,430</b>	<b>1,638,590</b>	<b>450,228</b>	<b>2,110,179</b>	<b>21,063,224</b>
<b>EXPENDITURES</b>						
Current						
General government	2,489,354	-	-	-	35,779	2,525,133
Public safety	6,557,762	-	-	-	1,334,710	7,892,472
Public works	3,688,989	-	-	-	480,606	4,169,595
Health and human services	465,631	-	-	-	277,514	743,145
Library	-	-	-	-	751,750	751,750
Parks and recreation	162,996	-	-	-	-	162,996
Conservation and development	104,531	-	289,413	-	13,754	407,698
Other	456,109	-	-	-	-	456,109
<b>Capital Outlay</b>	<b>149,075</b>	<b>-</b>	<b>-</b>	<b>2,014,280</b>	<b>1,447,356</b>	<b>3,610,711</b>
Debt Service						
Principal retirement	-	3,333,250	-	-	-	3,333,250
Interest and fiscal charges	-	741,297	-	56,403	33,125	830,825
<b>Total Expenditures</b>	<b>14,074,447</b>	<b>4,074,547</b>	<b>289,413</b>	<b>2,070,683</b>	<b>4,374,594</b>	<b>24,883,684</b>
Excess (deficiency) of revenues over expenditures	850,350	(2,135,117)	1,349,177	(1,620,455)	(2,264,415)	(3,820,460)
<b>OTHER FINANCING SOURCES (USES)</b>						
General long-term debt issued	-	934,750	-	2,849,125	1,693,125	5,477,000
Premium on debt issued	-	30,758	-	94,162	55,301	180,221
Transfers in	494,297	1,126,769	-	-	1,253,326	2,874,392
Transfers out	(1,162,554)	-	(1,148,961)	(65,600)	(2,980)	(2,380,095)
<b>Total Other Financing Sources (Uses)</b>	<b>(668,257)</b>	<b>2,092,277</b>	<b>(1,148,961)</b>	<b>2,877,687</b>	<b>2,998,772</b>	<b>6,151,518</b>
<b>Net Change in Fund Balance</b>	<b>182,093</b>	<b>(42,840)</b>	<b>200,216</b>	<b>1,257,232</b>	<b>734,357</b>	<b>2,331,058</b>
<b>FUND BALANCES - Beginning of Year</b>	<b>5,434,612</b>	<b>232,588</b>	<b>2,182,516</b>	<b>2,608,408</b>	<b>2,183,506</b>	<b>12,641,630</b>
<b>FUND BALANCES - END OF YEAR</b>	<b>\$ 5,616,705</b>	<b>\$ 189,748</b>	<b>\$ 2,382,732</b>	<b>\$ 3,865,640</b>	<b>\$ 2,917,863</b>	<b>\$ 14,972,688</b>

## CITY OF SOUTH MILWAUKEE

### RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES For the Year Ended December 31, 2016

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Net change in fund balances - total governmental funds \$ 2,331,058

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

Governmental funds report capital outlays as expenditures. However in the statement of net position, the cost of these assets is capitalized and they are depreciated over their estimated useful lives and reported as depreciation expense in the statement of activities.

Capital outlay is reported in the fund financial statements but is capitalized in the government-wide financial statements	3,610,711
Some items reported as capital outlay are not capitalized	(1,370,701)
Depreciation is reported in the government-wide statements	(1,363,372)
Net book value of assets retired	(161,363)

Debt issued provides current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

Debt issued	(5,477,000)
Premium on debt issued	(180,221)
Principal repaid	3,333,250

Receivables not currently available are reported as revenue when collected or currently available in the fund financial statements but are recognized as revenue when earned in the government-wide financial statements. (271)

Internal service funds are used by management to charge self insurance costs to individual funds. The increase in net position of the internal service fund reported with the governmental activities. 166,542

Some expenses in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Compensated absences	53,588
Amortization of loss on refunding	(8,757)
Amortization of premium	48,393
Net pension liability	(3,297,019)
Deferred outflows of resources related to pensions	5,259,448
Deferred inflows of resources related to pensions	(2,770,554)
Other postemployment benefits	(1,704,833)
Accrued interest on debt	<u>(25,313)</u>

**CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES** \$ (1,556,414)

**CITY OF SOUTH MILWAUKEE**

**STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
As of December 31, 2016**

	Business-type Activities - Enterprise Funds					Governmental Activities	
	Water Utility	Sewer Utility	Stormwater Utility	Nonmajor Fund - Parkcrest Housing Authority		Internal Service Fund	
				Totals			
<b>ASSETS</b>							
<b>CURRENT ASSETS</b>							
Cash and investments	\$ 642,310	\$ -	\$ 959,454	\$ 376,310	\$ 1,978,074	\$ 1,024,616	
Taxes receivable	268,066	250,572	324,225	-	842,863	-	
Accounts receivable	560,254	537,119	-	2,130	1,099,503	37,887	
Due from other funds	31,681	276,284	5,337	-	313,302	-	
Prepaid items and inventories	116,892	-	-	14,725	131,617	-	
Accrued revenue	493,306	-	-	-	493,306	-	
Restricted assets	-	-	-	-	-	-	
Cash and investments	88,897	331,927	-	-	420,824	-	
Total Current Assets	2,201,406	1,395,902	1,289,016	393,165	5,279,489	1,062,503	
<b>NON-CURRENT ASSETS</b>							
Restricted assets							
Cash and investments	1,551,901	1,232,531	-	-	2,784,432	-	
Capital assets							
Land	2,400	8,000	-	6,196	16,596	-	
Intangible assets	110,000	-	-	-	110,000	-	
Property and equipment	23,160,660	28,595,968	9,075,407	4,694,661	65,526,696	-	
Construction work in progress	-	57,849	-	-	57,849	-	
Less: Accumulated depreciation	(8,110,097)	(14,083,844)	(2,717,973)	(3,199,826)	(28,111,740)	-	
Other Assets	-	-	-	2,751	2,751	-	
Total Non-Current Assets	16,714,864	15,810,504	6,357,434	1,503,782	40,386,584	-	
Total Assets	18,916,270	17,206,406	7,646,450	1,896,947	45,666,073	1,062,503	
<b>DEFERRED OUTFLOWS OF RESOURCES</b>							
Deferred outflows related to pensions	386,732	361,620	-	112,629	860,981	-	
<b>LIABILITIES</b>							
Accounts payable	176,256	56,690	1,436	7,142	241,524	740	
Accrued liabilities	18,790	13,271	1,195	10,590	43,846	73,385	
Accrued interest	27,023	-	9,676	-	36,699	-	
Special deposits	-	-	-	17,355	17,355	-	
Due to other funds	276,678	400,432	-	26,251	703,361	-	
Current portion of general obligation debt	540,277	8,894	234,666	-	783,837	-	
Liabilities payable from restricted assets	-	-	-	-	-	-	
Current portion of revenue bonds	412,451	471,872	-	-	884,323	-	
Accrued interest	20,155	29,890	-	-	50,045	-	
Total Current Liabilities	1,471,630	981,049	246,973	61,338	2,760,990	74,125	
<b>NON-CURRENT LIABILITIES</b>							
Unearned revenue	21,603	-	-	-	21,603	-	
Compensated absences	155,318	109,005	-	-	264,323	-	
Net other postemployment benefit obligation	1,293,791	1,079,241	-	-	2,373,032	-	
Net pension liability	68,688	64,733	-	19,467	152,888	-	
Long-term bonds and notes payable	-	-	-	-	-	-	
General obligation debt	3,244,336	464,981	1,380,416	-	5,089,733	-	
Revenue bonds	4,700,929	5,992,828	-	-	10,693,757	-	
Total Non-Current Liabilities	9,484,665	7,710,788	1,380,416	19,467	18,595,336	-	
Total Liabilities	10,956,295	8,691,837	1,627,389	80,805	21,356,326	74,125	
<b>DEFERRED INFLOWS OF RESOURCES</b>							
Deferred inflows related to pensions	144,740	136,404	-	40,968	322,112	-	
Unearned Revenue	-	-	790,438	-	790,438	-	
Total Deferred Outflows of Resources	144,740	136,404	790,438	40,968	1,112,550	-	
<b>NET POSITION</b>							
Net investment in capital assets	7,816,873	7,639,398	4,742,352	1,501,031	21,699,654	-	
Restricted	-	-	-	-	-	-	
Equipment replacement reserve	-	1,232,531	-	-	1,232,531	-	
Debt service reserve	68,742	302,037	-	-	370,779	-	
Unrestricted (deficit)	316,352	(434,181)	486,271	386,772	755,214	988,378	
<b>TOTAL NET POSITION</b>	<b>\$ 8,201,967</b>	<b>\$ 8,739,785</b>	<b>\$ 5,228,623</b>	<b>\$ 1,887,803</b>	<b>\$ 24,058,178</b>	<b>\$ 988,378</b>	

See accompanying notes to financial statements.

**CITY OF SOUTH MILWAUKEE**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN  
NET POSITION  
PROPRIETARY FUNDS  
For the Year Ended December 31, 2016

	Business-type Activities - Enterprise Funds					Governmental Activities	
	Nonmajor Fund - Parkcrest Housing Authority				Internal Service Fund		
	Water Utility	Sewer Utility	Stormwater Utility	Totals			
<b>OPERATING REVENUES</b>							
Charges for services	\$ 3,022,836	\$ 2,559,679	\$ 789,372	\$ -	\$ 6,371,887	\$ 476,246	
Other operating revenues	130,082	41,450	-	318,474	490,006	112,846	
<b>Total Operating Revenues</b>	<b>3,152,918</b>	<b>2,601,129</b>	<b>789,372</b>	<b>318,474</b>	<b>6,861,893</b>	<b>589,092</b>	
<b>OPERATING EXPENSES</b>							
Operation and maintenance	1,770,558	1,934,980	516,198	367,987	4,589,723	429,550	
Depreciation	746,175	683,972	120,977	87,072	1,638,196	-	
Taxes	42,720	52,441	-	-	95,161	-	
<b>Total Operating Expenses</b>	<b>2,559,453</b>	<b>2,671,393</b>	<b>637,175</b>	<b>455,059</b>	<b>6,323,080</b>	<b>429,550</b>	
Operating Income (Loss)	593,465	(70,264)	152,197	(136,585)	538,813	159,542	
<b>NONOPERATING REVENUES (EXPENSES)</b>							
Gain (Loss) of disposal of capital asset	20,502	-	(23,516)	-	(3,014)	-	
Intergovernmental grants and aids	-	-	29,500	132,871	162,371	7,000	
Investment income	10,260	6,041	1,699	1,089	19,089	-	
Interest and amortization expense	(256,359)	(176,786)	(56,341)	-	(489,486)	-	
<b>Total Nonoperating Revenues (Expenses)</b>	<b>(225,597)</b>	<b>(170,745)</b>	<b>(48,658)</b>	<b>133,960</b>	<b>(311,040)</b>	<b>7,000</b>	
Income Before Transfers	367,868	(241,009)	103,539	(2,625)	227,773	166,542	
<b>CAPITAL CONTRIBUTIONS</b>							
<b>TRANSFERS OUT - TAX EQUIVALENT</b>							
	(459,732)	(8,314)	278,275	-	278,275	-	
				(26,251)	(494,297)	-	
<b>CHANGE IN NET POSITION</b>							
	(91,864)	(249,323)	381,814	(28,876)	11,751	166,542	
<b>NET POSITION - Beginning of Year</b>	<b>8,293,831</b>	<b>8,989,108</b>	<b>4,846,809</b>	<b>1,916,679</b>	<b>24,046,427</b>	<b>821,836</b>	
<b>NET POSITION - END OF YEAR</b>	<b>\$ 8,201,967</b>	<b>\$ 8,739,785</b>	<b>\$ 5,228,623</b>	<b>\$ 1,887,803</b>	<b>\$ 24,058,178</b>	<b>\$ 988,378</b>	

**CITY OF SOUTH MILWAUKEE**

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS**  
For the Year Ended December 31, 2016

	Business-type Activities - Enterprise Funds					Governmental Activities	
	Nonmajor Fund - Parkcrest				Internal Service Fund		
	Water Utility	Sewer Utility	Stormwater Utility	Housing Authority			
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>							
Received from customers	\$ 2,474,566	\$ 2,578,313	\$ 814,669	\$ 317,660	\$ 6,185,208	\$ 595,482	
Received (paid) from/(to) municipality	613,162				613,162		
Paid to vendors for goods and services	(840,932)	(1,011,039)	(448,826)	(175,150)	(2,475,947)	(428,809)	
Paid to employees for services	(616,824)	(563,729)	(90,585)	(171,178)	(1,442,316)	-	
Net Cash Flows From Operating Activities	<u>1,629,972</u>	<u>1,003,545</u>	<u>275,258</u>	<u>(28,668)</u>	<u>2,880,107</u>	<u>166,673</u>	
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>							
Intergovernmental grants and aids	-				132,871	132,871	
Received (paid) from/(to) municipality	(460,814)	(8,314)			(26,251)	(495,379)	
Net Cash Flows From Noncapital Financing Activities	<u>(460,814)</u>	<u>(8,314)</u>			<u>106,620</u>	<u>(362,508)</u>	
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>							
Debt retired	(802,920)	(575,897)	(200,000)		-	(1,578,817)	
Interest paid and fees	(253,024)	(193,606)	(55,744)		-	(502,374)	
Acquisition and construction of capital assets	(435,357)	(667,858)	(409,049)	(97,505)	(1,609,789)	-	
Contribution received for construction	-		111,952		-	111,952	
Proceeds from debt issued	1,538,000	460,000	500,000		-	2,498,000	
Premium on debt issued	50,608	15,136	16,453		-	82,197	
Net Cash Flows From Capital and Related Financing Activities	<u>97,307</u>	<u>(962,225)</u>	<u>(36,388)</u>	<u>(97,505)</u>	<u>(998,811)</u>	-	
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>							
Investment income	<u>10,260</u>	<u>6,041</u>	<u>1,699</u>	<u>1,088</u>	<u>19,088</u>	-	
<b>Net Change in Cash and Cash Equivalents</b>	<b>1,276,725</b>	<b>39,047</b>	<b>240,569</b>	<b>(18,465)</b>	<b>1,537,876</b>	<b>166,673</b>	
<b>CASH AND CASH EQUIVALENTS - Beginning of Year</b>	<b>1,006,383</b>	<b>1,525,411</b>	<b>718,885</b>	<b>394,775</b>	<b>3,645,454</b>	<b>857,943</b>	
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<b>\$ 2,283,108</b>	<b>\$ 1,564,458</b>	<b>\$ 959,454</b>	<b>\$ 376,310</b>	<b>\$ 5,183,330</b>	<b>\$ 1,024,616</b>	

	Business-type Activities - Enterprise Funds					Governmental Activities	
	Water Utility	Sewer Utility	Stormwater Utility	Nonmajor Fund - Parkcrest		Internal Service Fund	
				Housing Authority	Totals		
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FLOWS FROM OPERATING ACTIVITIES</b>							
Operating income (loss)	\$ 593,465	\$ (70,264)	\$ 152,197	\$ (136,585)	\$ 538,813	\$ 159,542	
Adjustments to reconcile operating income (loss) to net cash flows from operating activities							
Non-operating Income							
Depreciation	746,175	683,972	120,977	87,072	1,638,196		-
Depreciation charged to other utilities	4,850	(4,850)	-	-	-		-
Changes in assets and liabilities							
Miscellaneous							
Accounts receivable	(38,358)	7,249	-	(1,038)	29,500	7,000	
Due from other funds	(31,681)	210,376	68	-	(32,147)	(609)	
Inventories	83,388	-	-	64	83,452		
Prepaid items	21,312	-	-	(67)	21,245		
Accrued liabilities	12,273	(32,441)	-	-	(20,168)		
Accounts payable	176,256	26,867	(23,615)	-	179,508	740	
Due to other funds	(96,320)	(703)	(5,337)	1,629	(100,731)		
Unearned revenues	5,808	-	-	-	5,808		
Pension related deferrals and liabilities	8,387	42,935	1,066	20,310	72,698		
Net other post employment benefit obligation	144,417	140,500	-	-	284,917		
Customer deposits	-	-	-	225	225		
Other current liabilities	-	(96)	402	(278)	28		
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>\$ 1,629,972</b>	<b>\$ 1,003,545</b>	<b>\$ 275,258</b>	<b>\$ (28,668)</b>	<b>\$ 2,880,107</b>	<b>\$ 166,673</b>	
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET POSITION - PROPRIETARY FUNDS</b>							
Cash and investments - statement of net position	\$ 642,310	\$ -	\$ 959,454	\$ 376,310	\$ 1,978,074	\$ 1,024,616	
Restricted cash and investments - statement of net position	1,640,798	1,564,458	-	-	3,205,256	-	
<b>CASH AND CASH EQUIVALENTS- END OF YEAR</b>	<b>\$ 2,283,108</b>	<b>\$ 1,564,458</b>	<b>\$ 959,454</b>	<b>\$ 376,310</b>	<b>\$ 5,183,330</b>	<b>\$ 1,024,616</b>	
<b>NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES</b>							
Interest charged to construction	\$ -	\$ 14,451	\$ -	\$ -	\$ 14,451	\$ -	
Cost of utility plant additions financed by others	\$ -	\$ -	\$ 166,321	\$ -	\$ 166,321	\$ -	

**CITY OF SOUTH MILWAUKEE**

**STATEMENT OF ASSETS AND LIABILITIES**  
**AGENCY FUND**  
**As of December 31, 2016**

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	<u>Agency Fund</u>	<u>Tax</u>	<u>Collection</u>	<u>Fund</u>
<b>ASSETS</b>				
Cash and investments	\$ 12,538,433			
Taxes receivable		7,533,734		
<b>Total Assets</b>	<u>\$ 20,072,167</u>			
<b>LIABILITIES</b>				
Due to other taxing units	\$ 20,064,232			
Special deposits		7,935		
<b>Total Liabilities</b>	<u>\$ 20,072,167</u>			

## CITY OF SOUTH MILWAUKEE

### NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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## CITY OF SOUTH MILWAUKEE

### NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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#### **NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the City of South Milwaukee, Wisconsin conform to generally accepted accounting principles as applicable to governmental units. The accepted standard-setting body for establishing governmental accounting and financial reporting principles is the Governmental Accounting Standards Board (GASB).

##### ***A. REPORTING ENTITY***

This report includes all of the funds of the City of South Milwaukee. The reporting entity for the City consists of the primary government and its component units. Component units are legally separate organizations for which the primary government is financially accountable or other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the reporting entity's financial statements to be misleading. The primary government is financially accountable if (1) it appoints a voting majority of the organization's governing body and it is able to impose its will on that organization, (2) it appoints a voting majority of the organization's governing body and there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government, (3) the organization is fiscally dependent on and there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. Certain legally separate, tax exempt organizations should also be reported as a component unit if all of the following criteria are met: (1) the economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents; (2) the primary government or its component units, is entitled to, or has the ability to access, a majority of the economic resources received or held by the separate organization; and (3) the economic resources received or held by an individual organization that the primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to the primary government.

Component units are reported using one of two methods, discrete presentation or blending. Generally, component units should be discretely presented in a separate column in the financial statements. A component unit should be reported as part of the primary government using the blending method if it meets any one of the following criteria: (1) the primary government and the component unit have substantively the same governing body and a financial benefit or burden relationship exists, (2) the primary government and the component unit have substantively the same governing body and management of the primary government has operational responsibility for the component unit, (3) the component unit serves or benefits, exclusively or almost exclusively, the primary government rather than its citizens, or (4) the total debt of the component unit will be paid entirely or almost entirely from resources of the primary government.

##### ***Blended Component Unit***

The South Milwaukee Community Development Authority serves all the citizens of the government and is governed by a board appointed by the government's elected council. All bond issuance authorizations are approved by the government's council and the legal liability for the general obligation portion of the Community Development Authority's debt remains with the government. The Community Development Authority is reported as special revenue and enterprise funds of the City of South Milwaukee. The Community Development Authority does not issue separate financial statements.

## CITY OF SOUTH MILWAUKEE

### NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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#### **NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

##### ***B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS***

In February 2015, the GASB issued statement No. 72 - Fair Value Measurement and Application. This statement addresses accounting and financial reporting issues related to fair value measurements. It defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This standard was implemented January 1, 2016.

##### ***Government-Wide Financial Statements***

The statement of net position and statement of activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

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

## CITY OF SOUTH MILWAUKEE

### NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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#### **NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

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##### **B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS** (continued)

###### *Fund Financial Statements*

Financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts, which constitute its assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position/fund equity, revenues, and expenditures/expenses.

Funds are organized as major funds or nonmajor funds within the governmental and proprietary statements. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

- a. Total assets/deferred outflows of resources, liabilities/deferred inflows of resources, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10% of the corresponding total for all funds of that category or type, and
- b. The same element of the individual governmental fund or enterprise fund that met the 10% test is at least 5% of the corresponding total for all governmental and enterprise funds combined.
- c. In addition, any other governmental or enterprise fund that the City believes is particularly important to financial statement users may be reported as a major fund.

Separate financial statements are provided for governmental funds and proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

General Fund – accounts for the City's primary operating activities. It is used to account for all financial resources except those required to be accounted for and reported in another fund.

Debt Service Fund – used to account for and report financial resources that are restricted, committed, or assigned to expenditure for the payment of general long-term debt principal, interest and related costs, other than TID or enterprise debt.

Special Revenue Fund – Tax Incremental District – used to account for and report grants and local revenues legally restricted or committed to supporting expenditures for the tax incremental districts.

Capital Projects Fund – Public Works Projects – used to account for and report financial resources that are restricted, committed, or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

## CITY OF SOUTH MILWAUKEE

### NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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#### **NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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##### **B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (continued)**

###### ***Fund Financial Statements (continued)***

The City reports the following major enterprise funds:

Water Utility – accounts for operations of the water system.

Sewer Utility – accounts for operations of the sanitary sewer system.

Stormwater Utility – accounts for operations of the stormwater system.

The City reports the following nonmajor governmental and enterprise funds:

Special Revenue Funds – used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes (other than debt service or capital projects).

Library Funds	Community Development Authority Fund
Recycling Fund	Health Consortium Fund
Paramedic Fund	General Government Fund
School Liaison Police Program Fund	Police Fund
City Sealer Fund	Health Fund
Community Development Block Grant Fund	Fire Fund

Capital Projects – used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

Equipment Fund

Special Assessment and Interest Fund

Tax Incremental District Funds - #1, #2, #3 and #4

Enterprise Funds – accounts for operations of the housing authority.  
Parkcrest Housing Authority

In addition, the City reports the following fund types:

Internal service funds are used to account for and report the financing of goods and services provided by one department or agency to other departments or agencies of the City, or to other governmental units, on a cost-reimbursement basis.

Self Insurance Fund

Agency funds are used to account for assets held by the City in a trustee capacity as an agent for individuals, private organizations, and/or other governmental units.

Tax Collection Fund

## CITY OF SOUTH MILWAUKEE

### NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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#### **NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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##### **C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION**

###### ***Government-Wide Financial Statements***

The government-wide statement of net position and statement of activities are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Property taxes are recognized as revenues in the year for which they are levied. Taxes receivable for the following year are recorded as receivables and unearned revenue. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider are met. Special assessments are recorded as revenue when earned. Unbilled receivables are recorded as revenues when services are provided.

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

###### ***Fund Financial Statements***

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on long-term debt, claims, judgments, compensated absences, and pension expenditures, which are recorded as a fund liability when expected to be paid with expendable available financial resources.

Property taxes are recorded in the year levied as receivables and deferred revenues. They are recognized as revenues in the succeeding year when services financed by the levy are being provided.

Intergovernmental aids and grants are recognized as revenues in the period the City is entitled to the resources and the amounts are available. Amounts owed to the City which are not available are recorded as receivables and unavailable revenues. Amounts received before eligibility requirements (excluding time) are met are recorded as liabilities. Amounts received prior to the entitlement period are also recorded as deferred inflows.

Special assessments are recorded as revenues when they become measurable and available as current assets. Annual installments due in future years are reflected as receivables and unavailable revenues.

Revenues susceptible to accrual include property taxes, miscellaneous taxes, public charges for services, special assessments and interest. Other general revenues such as fines and forfeitures, inspection fees, recreation fees, and miscellaneous revenues are recognized when received in cash or when measurable and available under the criteria described above.

## CITY OF SOUTH MILWAUKEE

### NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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#### **NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

---

##### **C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION** (continued)

###### ***Fund Financial Statements*** (continued)

Proprietary and fiduciary fund financial statements (other than agency funds) are reported using the economic resources measurement focus and the accrual basis of accounting, as described previously in this note. Agency funds follow the accrual basis of accounting and do not have a measurement focus.

The proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water and sewer funds are charges to customers for sales and services. Special assessments are recorded as receivables and contribution revenue when levied. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

###### ***All Financial Statements***

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities and deferred inflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

## CITY OF SOUTH MILWAUKEE

### NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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#### **NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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##### **D. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION OR EQUITY**

###### **1. Deposits and Investments**

For purposes of the statement of cash flows, the City considers all highly liquid investments with an initial maturity of three months or less when acquired to be cash equivalents.

Investment of City funds is restricted by state statutes. Available investments are limited to:

- a. Time deposits in any credit union, bank, savings bank or trust company maturing in three years or less.
- b. Bonds or securities of any county, city, drainage district, technical college district, village, town, or school district of the state. Also, bonds issued by a local exposition district, a local professional baseball park district, a local professional football stadium district, a local cultural arts district, or by the University of Wisconsin Hospitals and Clinics Authority, or the Wisconsin Aerospace Authority.
- c. Bonds or securities issued or guaranteed by the federal government.
- d. The local government investment pool.
- e. Any security maturing in seven years or less and having the highest or second highest rating category of a nationally recognized rating agency.
- f. Securities of an open-end management investment company or investment trust, subject to various conditions and investment options.
- g. Repurchase agreements with public depositories, with certain conditions.

The City has adopted an investment policy. City funds may be invested in time deposits in any credit union, bank, savings bank, trust company, or savings and loan association, which is authorized to transact business in the State of Wisconsin if the time deposits mature in not more than three years. Preference may be given, within reason, to South Milwaukee area financial institutions. Subject to an exception a maximum of \$650,000, the amount of State and FDIC insurance limits, may be invested in each such institution unless collateralized or approved by the Common Council.

## CITY OF SOUTH MILWAUKEE

### NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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#### **NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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##### **D. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION OR EQUITY (continued)**

###### **1. Deposits and Investments (continued)**

City funds may be invested in United States government bonds or securities which are direct obligations of or guaranteed as to principal and interest by the federal government; and bonds, or securities which are obligations of an agency, commission, board or other instrumentality of the federal government, where principal and interest are guaranteed by the federal government. The securities must be purchased through financial institutions authorized to conduct business in the state of Wisconsin and placed in safekeeping in a segregated account in the City's name at any designated public depository or approved financial institution.

City funds may be invested in the Wisconsin Local Government Investment Pool at the discretion of the City Treasurer. Investment limitations shall not apply. City funds may also be invested in interest bearing savings, demand deposit, and Money Market accounts.

In accordance with 1987 Wisconsin Act 399, City funds may be invested in securities if the security has a rating which is the highest or second highest rating category assigned by Moody's Investors Service, Standard & Poor's Corporation or other similar nationally recognized rating agency.

Investments are stated at fair value, which is the amount at which an investment could be exchanged in a current transaction between willing parties. Fair values are based on quoted market prices. No investments are reported at amortized cost. Adjustments necessary to record investments at fair value are recorded in the operating statement as increases or decreases in investment income. Investment income on commingled investments of municipal accounting funds is allocated based on average balances. The difference between bank statement and carrying value is due to outstanding checks and/or deposits in transit.

The Wisconsin Local Government Investment Pool (LGIP) is part of the State Investment Fund (SIF), and is managed by the State of Wisconsin Investment Board. The SIF is not registered with the Securities and Exchange Commission, but operates under the statutory authority of Wisconsin Chapter 25. The SIF reports the fair value of its underlying assets annually. Participants in the LGIP have the right to withdraw their funds in total on one day's notice. At December 31, 2016, the fair value of the City's share of the LGIP's assets was substantially equal to the amount as reported in these statements.

See Note IV.A. for further information.

## CITY OF SOUTH MILWAUKEE

### NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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#### **NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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##### **D. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION OR EQUITY (continued)**

###### **2. Receivables**

Property taxes are levied in December on the assessed value as of the prior January 1. In addition to property taxes for the City, taxes are collected for and remitted to the state and county governments as well as the local and vocational school districts. Taxes for all State and local governmental units billed in the current year for the succeeding year are reflected as due to other taxing units on the accompanying statement of assets and liabilities – agency fund.

Property tax calendar – 2016 tax roll:

Lien date and levy date	December 2016
Tax bills mailed	December 2016
Payment in full, or	January 31, 2017
First installment due	January 31, 2017
Second installment due	April 30, 2017
Third installment due	July 31, 2017
Final settlement with County	August 15, 2017
Personal property taxes in full	January 31, 2017
Tax deed by County – 2016	
Delinquent real estate taxes	October 2019

Delinquent real estate taxes as of July 31 are paid in full by the county, which assumes the collection thereof. No provision for uncollectible accounts receivable has been made in the accompanying enterprise fund financial statements because the utilities have the right by law to place delinquent bills on the tax roll, and other delinquent bills are generally not significant.

During the course of operations, transactions occur between individual funds that may result in amounts owed between funds. Short-term interfund loans are reported as "due to and from other funds." Long-term interfund loans (noncurrent portion) are reported as "advances from and to other funds." Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Position. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as internal balances.

In the governmental fund financial statements, advances to other funds are offset equally by a nonspendable fund balance account which indicates that they do not constitute expendable available financial resources and, therefore, are not available for appropriation or by a restricted fund balance account, if the funds will ultimately be restricted when the advance is repaid.

## CITY OF SOUTH MILWAUKEE

### NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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#### **NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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##### **D. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION OR EQUITY (continued)**

###### **2. Receivables (continued)**

The City provides water and sewer service to customers primarily within its municipal boundaries. Metered water sales to consumers are billed on a tri-annual basis for all classes of customers at rates approved by the Public Service Commission of Wisconsin. Sewer service charges to consumers are billed on a tri-annual basis at rates established by the City's Common Council. Billings for metered water and sewer service are recorded on the first day of each month, payable in 20 days. Unbilled revenues from the last metered billings to the end of the year are estimated and recorded as accrued utility revenue. Delinquent balances at the time of the property tax lien date are placed on the customer's tax bill and collected through the normal tax collection process.

###### **3. Inventories and Prepaid Items**

Governmental fund inventory items are charged to expenditure accounts when purchased. Year-end inventory was not significant. Proprietary fund inventories are generally used for construction and/or for operation and maintenance work. They are not for resale. They are valued at cost based on weighted average, and charged to construction and/or operation and maintenance expense when used.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

###### **4. Restricted Assets**

Mandatory segregations of assets are presented as restricted assets. Such segregations are required by bond agreements and other external parties. Current liabilities payable from these restricted assets are so classified. The excess of restricted assets over current liabilities payable from restricted assets will be used first for retirement of related long-term debt. The remainder, if generated from earnings, is shown as restricted net position.

###### **5. Capital Assets**

###### **Government-Wide Statements**

Capital assets, which include property, plant and equipment, are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial cost of more than \$1,000 for general capital assets and infrastructure assets, and an estimated useful life in excess of one year. All capital assets are valued at historical cost, or estimated historical cost if actual amounts are unavailable. Donated capital assets are recorded at their estimated fair value at the date of donation.

## CITY OF SOUTH MILWAUKEE

### NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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#### **NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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##### **D. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION OR EQUITY (continued)**

###### **5. Capital Assets (continued)**

###### ***Government-Wide Statements (continued)***

Additions to and replacements of capital assets of business-type activities 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 funds. There was no interest capitalized during the current year in the water or stormwater utilities. There was \$14,451 of capitalized interest in the sewer utility. The cost of renewals and betterments relating to retirement units is added to plant accounts. 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.

Additions to and replacements of capital assets of business-type activities 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 proceeds.

Depreciation of all exhaustible capital 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 and for the water utility assets in service they are depreciated using the straight-line method at rates certified by the Public Service Commission. The range of estimated useful lives by type of asset is as follows:

Buildings	15-40 years
Land Improvements other than Buildings	15-30 years
Machinery and Equipment	2-25 years
Utility System	18-90 years
Infrastructure	15-40 years
Intangible assets - easements	Indefinite

###### ***Fund Financial Statements***

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

## CITY OF SOUTH MILWAUKEE

### NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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#### **NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

##### **D. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION OR EQUITY (continued)**

###### ***6. Deferred Outflows of Resources***

A deferred outflow of resources represents a consumption of net position/fund balance that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until that future time.

Deferred charges on refunding arise from advance refunding of debt. The difference between the cost of the securities placed in trust for future payment of refunded debt and the net carrying value of that debt is deferred and amortized as a component of interest expense over the shorter of the term of the refunding issue or the original term of the refunded debt. The unamortized amount is reported as a deferred outflow of resources in the government-wide and proprietary fund statements.

###### ***7. Compensated Absences***

Under terms of employment agreements, employees are granted sick pay benefits and vacations in varying amounts. Employee vacation allowances are not cumulative and must be used in the year after they are earned. Non-union employees receive six personal days and six sick days. These employees are paid for the unused time at year-end. Most other employees earn sick leave at the rate of one day per month, which may be accumulated. General City union employees hired before July 1, 2005 and police department employees and fire department employees hired before January 1, 1985, will receive a severance payment upon retirement or death at full pay for the first 50 days and at half pay for the remaining days. General City union employees hired after July 1, 2005 receive a severance payment upon retirement or death at full pay for 50 days. General City union employees hired after January 1, 2012 accrue  $\frac{1}{2}$  sick days per month and will receive a severance payment upon retirement or death of  $\frac{1}{2}$  of the unused sick pay not to exceed compensation of 400 hours at their current pay rate. Fire department employees hired after July 1, 2012 accrue 9 sick days per year or 18 hours per month and will receive a severance and payment upon retirement or death of  $\frac{1}{2}$  of 75 days. Estimated future payments of accumulated sick pay are included in the long-term obligations shown in the Government-Wide Statement of Net Position.

## CITY OF SOUTH MILWAUKEE

### NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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#### **NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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##### **D. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION OR EQUITY (continued)**

###### ***8. Long-Term Obligations***

All long-term obligations to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term obligations consist primarily of notes and bonds payable, and accrued compensated absences.

Long-term obligations for governmental funds are not reported as liabilities in the fund financial statements. The face value of debts is reported as other financing sources and payments of principal and interest are reported as expenditures. The accounting in proprietary funds is the same as it is in the government-wide statements.

For the government-wide statements and proprietary fund statements, bond premiums and discounts are amortized over the life of the issue using the straight-line method. The balance at year end for premiums/discounts is shown as an increase or decrease in the liability section of the statement of net position.

###### ***9. Deferred Inflows of Resources***

A deferred inflow of resources represents an acquisition of net position/fund balance that applies to a future period and therefore will not be recognized as an inflow of resources (revenue) until that future time

###### ***10. Equity Classifications***

###### ***Government-Wide Statements***

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

- a. Net investment in capital assets – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances (excluding unspent debt proceeds) of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net position – Consists of net position with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments or, 2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net position – All other net positions that do not meet the definition of “restricted” or “net investment in capital assets.”

The net position section includes an adjustment of \$43,421 for capital assets owned by the business type activities, but financed by the governmental activities. The adjustment is included as a reduction of the “net investment in capital assets”, and an increase in the “unrestricted” net position, shown only in the total column.

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

## CITY OF SOUTH MILWAUKEE

### NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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#### **NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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##### **D. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION OR EQUITY (continued)**

###### **10. Equity Classifications (continued)**

###### **Fund Statements**

Governmental fund equity is classified as fund balance and displayed as follows:

- a. Nonspendable – Includes fund balance amounts that cannot be spent either because they are not in spendable form or because legal or contractual requirements require them to be maintained intact.
- b. Restricted – Consists of fund balances with constraints placed on their use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments or 2) law through constitutional provisions or enabling legislation.
- c. Committed – Includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority. Fund balance amounts are committed through a formal action (resolution) of the City. This formal action must occur prior to the end of the reporting period, but the amount of the commitment, which will be subject to the constraints, may be determined in the subsequent period. Any changes to the constraints imposed require the same formal action of the City that originally created the commitment.
- d. Assigned – Includes spendable fund balance amounts that are intended to be used for specific purposes that are not considered restricted or committed. Fund balance may be assigned through the following; 1) The City has adopted a financial policy authorizing the City Administrator to assign amounts for a specific purpose. 2) All remaining positive spendable amounts in governmental funds, other than the general fund, that are neither restricted nor committed. Assignments may take place after the end of the reporting period.
- e. Unassigned – Includes residual positive fund balance within the general fund which has not been classified within the other above mentioned categories. Unassigned fund balance may also include negative balances for any governmental fund if expenditures exceeds amounts restricted, committed or assigned for those purposes.

The City considers restricted amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents / contracts that prohibit doing this, such as in grant agreements requiring dollar for dollar spending. Additionally, the City would first use committed, then assigned and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

Under Resolution in 2011 the Council formally established a stabilization fund beginning with the fiscal year 2011 budget. The stabilization fund contained as a committed balance within the general fund and is included in each annual budget. The balance in the account at year end was \$3,444,630.

See Note IV. G. for further information.

## CITY OF SOUTH MILWAUKEE

### NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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#### **NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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##### **D. ASSETS, DEFERRED OUTFLOWS OF RESOURCES LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION OR EQUITY (continued)**

###### **11. Basis for Existing Rates**

###### ***Water Utility***

Current water rates were approved by the PSCW effective December 31, 2013.

###### ***Sewer Utility***

Current sewer rates were approved by the City's common council on April 1, 2012.

###### **12. Pensions**

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

## CITY OF SOUTH MILWAUKEE

### NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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#### **NOTE II – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

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##### **A. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND BALANCE SHEET AND THE STATEMENT OF NET POSITION**

Capital assets used in governmental funds are not financial resources and, therefore, are not reported in the funds.

Land	\$ 2,956,671
Construction in Progress	31,135
Buildings	7,410,918
Machinery and equipment	9,881,349
Library book collection	824,815
Infrastructure	18,324,920
Intangibles	33,758
Less: Accumulated depreciation	<u>(20,735,503)</u>
Adjustment for Capital Assets	<u>\$ 18,728,063</u>

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period, and accordingly, are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities—both current and long-term—are reported in the statement of net position.

Bonds and notes payable	\$ 22,257,000
Premium on debt issued	388,267
Accumulated sick pay benefits	1,111,852
Accrued interest payable	<u>168,441</u>
Combined Adjustment for Long-Term Liabilities	<u>\$ 23,925,560</u>

## CITY OF SOUTH MILWAUKEE

### NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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#### **NOTE III – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

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##### ***A. BUDGETARY INFORMATION***

A budget has been adopted for all funds except for the following Special Revenue Funds – Tax Incremental District, Community Development Block Grant, Community Development Authority, Police Fund, and the following Capital Project Funds – TIF Increment District #1, TIF Increment District #2, TIF Increment District #3 and TIF Increment District #4. Wisconsin Statute 65.90 requires that an annual budget be adopted for all funds.

##### ***B. EXCESS OF ACTUAL EXPENDITURE OVER APPROPRIATIONS***

	Budgeted Expenditures	Total Expenditures	Excess Expenditures
Debt Service Fund	\$ 3,898,517	\$ 4,696,562	\$ (798,045)
Special Revenue Funds:			
General Government Fund	500	35,779	(35,279)
Health Consortium Fund	152,696	153,106	(410)

Budgetary control is exercised at the total fund level for all funds. Some individual departments experienced expenditures which exceeded appropriations. The detail of those items can be found in the City's year-end budget to actual report.

##### ***C. LIMITATIONS ON THE CITY'S TAX LEVY***

Wisconsin law limits the City's future tax levies. Generally the City is limited to its prior tax levy dollar amount (excluding TIF Districts), increased by the greater of the percentage change in the City's equalized value due to new construction or zero percent. Changes in debt service from one year to the next are generally exempt from this limit with certain exceptions. The City is required to reduce its allowable levy by the estimated amount of fee revenue it collects for certain services, if those services were funded in 2013 by the property tax levy. Levies can be increased above the allowable limits if the amount is approved by referendum.

## CITY OF SOUTH MILWAUKEE

### NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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#### **NOTE IV – DETAILED NOTES ON ALL FUNDS**

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##### **A. DEPOSITS AND INVESTMENTS**

The City of South Milwaukee's cash and investments at year end were comprised of the following:

	Carrying Value	Bank Balance	Associated Risk
Demand deposits	\$ 5,031,119	\$ 4,253,143	Custodial Credit Risk Credit Risk, Custodial Credit Risk, Concentration of Credit Risk, Interest Rate Risk, Investment Highly Sensitive to Interest Rate Changes
Certificates of deposit - negotiable	1,982,536	1,982,536	Credit Risk, Custodial Credit Risk, Concentration of Credit Risk, Interest Rate Risk
U.S. agencies	593,923	593,923	Risk, Interest Rate Risk
Mutual funds	90,362	90,362	Credit Risk, Interest Rate Risk
LGIP	33,186,013	33,186,013	Credit Risk
Petty cash	27,190	-	Not applicable
<b>Total Cash and Investments</b>	<b><u>\$ 40,911,143</u></b>	<b><u>\$ 40,105,977</u></b>	

Reconciliation to financial statements

Per statement of net position	
Unrestricted cash and investments	\$ 25,167,454
Restricted cash and investments	3,205,256
Per statement of assets and liabilities - Agency Fund	12,538,433
<b>Total Cash and Investments</b>	<b><u>\$ 40,911,143</u></b>

Deposits in each local and area bank are insured by the FDIC in the amount of \$250,000 for time and savings accounts (including NOW accounts) and \$250,000 for demand deposit accounts (interest-bearing and noninterest-bearing). In addition, if deposits are held in an institution outside of the state in which the government is located, insured amounts are further limited to a total of \$250,000 for the combined amount of all deposit accounts.

Bank accounts are also insured by the State Deposit Guarantee Fund in the amount of \$400,000. However, due to the nature of this fund, recovery of material principal losses may not be significant to individual municipalities. This coverage has not been considered in computing custodial credit risk.

The Securities Investor Protection Corporation (SIPC), created by the Securities Investor Protection Act of 1970, is an independent government-sponsored corporation (not an agency of the U.S. government). SIPC membership provides account protection up to a maximum of \$500,000 per customer, of which \$100,000 may be in cash. \$500,000 of the city's investments are covered by SIPC.

## CITY OF SOUTH MILWAUKEE

### NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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#### **NOTE IV – DETAILED NOTES ON ALL FUNDS (continued)**

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##### **A. DEPOSITS AND INVESTMENTS (continued)**

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The valuation methods for recurring fair value measurements are as follows:

> Market Value

Investment Type	December 31, 2016			
	Level 1	Level 2	Level 3	Total
US agencies	\$ 96,070	\$ 497,853	\$ -	\$ 593,923
Mutual funds	90,362	-	-	90,362
Certificates of deposits - negotiable	800,136	1,182,400	-	1,982,536
	<u>\$ 986,568</u>	<u>\$ 1,680,253</u>	<u>\$ -</u>	<u>\$ 2,666,821</u>

#### ***Custodial Credit Risk***

Deposits – Custodial credit risk is the risk that in the event of a financial institution failure, the City's deposits may not be returned to the City.

As of December 31, 2016, none of the City's total bank balances of \$6,235,679 was exposed to custodial credit risk.

Investments – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

As of December 31, 2016, the City's investments were exposed to custodial credit risk as follows:

<u><i>U.S. Agencies</i></u>	
Neither insured nor registered and held by counterparty	<u>\$ 593,923</u>
<u><i>Certificates of Deposit - negotiable</i></u>	
Neither insured nor registered and held by counterparty	<u>\$ 1,982,536</u>

The City has adopted an investment policy pertaining to custodial credit risk for deposits and investments. See Note I.D.1. for further information.

## CITY OF SOUTH MILWAUKEE

### NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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#### **NOTE IV – DETAILED NOTES ON ALL FUNDS (continued)**

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##### **A. DEPOSITS AND INVESTMENTS (continued)**

###### ***Credit Risk***

As of December 31, 2016, the City's investments were rated as follows:

Investment Type	Standard & Poor's	Moody's Investor Service
Certificates of Deposit - negotiable	n/a	n/a
Mutual Funds	n/a	n/a
U.S. agencies	AAA	AAA

The City also had investments in the Local Government Investment Pool which is not rated.

The City has not adopted an investment policy pertaining to credit risk.

###### ***Interest Rate Risk***

As of December 31, 2016, the City's investments were as follows:

Investment Type	Fair Value	Weighted Average Maturity (Years)
Certificates of Deposit - negotiable	\$ 800,136	1.29
Certificates of Deposit - negotiable	602,981	1.39
Certificates of Deposit - negotiable	579,419	1.50
U.S. agencies	497,853	2.99

In addition to the above, the City also has \$90,362 invested in mutual funds. As of December 31, 2016 these investments did not have maturity dates or interest rates.

The City has not adopted an investment policy pertaining to interest rate risk.

###### ***Concentration of Credit Risk***

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer.

At December 31, 2016, the investment portfolio did not have any concentrations of investments with a single issuer greater than 5%.

# CITY OF SOUTH MILWAUKEE

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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### NOTE IV – DETAILED NOTES ON ALL FUNDS (cont.)

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#### A. DEPOSITS AND INVESTMENTS (continued)

##### *Investments Highly Sensitive to Interest Rate Changes*

At December 31, 2016, the City held \$1,982,536 in certificate of deposits - negotiable. With all fixed income securities, as interest rates rise, the values will fall. The longer the time to maturity, the more sensitive the value will be to a change in interest rates. The longest time to maturity on any holding is three years maturing in 2019.

#### B. RECEIVABLES

Receivables as of year-end for the government's individual major funds, nonmajor funds and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are detailed on the governmental funds balance sheet, proprietary funds statement of net position and fiduciary funds statement of net position. All amounts are expected to be collected within one year except for \$1,865 of delinquent personal property taxes reported in the general fund, \$24,276 of water tower lease payments in the general fund, and \$34,248 of special assessments reported in the capital projects fund.

Governmental funds report unavailable or unearned revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Property taxes levied for the subsequent year are not earned and cannot be used to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of unavailable revenue and unearned revenue reported in the governmental funds were as follows:

	Unearned	Unavailable
Property taxes receivable	\$ 13,074,999	\$ -
Water tower lease receivable	24,276	-
Delinquent property taxes receivable	1,865	-
Special assessments not yet due	-	<u>34,248</u>
<b>Total Unearned/Unavailable Revenue for Governmental Funds</b>	<b>\$ 13,101,140</b>	<b>\$ 34,248</b>
<b>Unearned revenues included in deferred inflows</b>	<b><u>\$ 13,101,140</u></b>	

# CITY OF SOUTH MILWAUKEE

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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### NOTE IV – DETAILED NOTES ON ALL FUNDS (cont.)

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#### C. RESTRICTED ASSETS

The following represent the balances of the restricted assets:

##### *Debt Service*

Certain proceeds of the utility's debt, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net position because their use is limited. The following accounts are reported as restricted assets:

Redemption -	Used to segregate resources accumulated for debt service payments over the next twelve months.
Reserve -	Used to report resources set aside to make up potential future deficiencies in the redemption account.
Construction -	Used to report debt proceeds restricted for use in construction.

##### *Equipment Replacement Account*

The Sewer utility established an equipment replacement account to be used for significant mechanical equipment replacement as required by the Wisconsin Department of Natural Resources.

Following is a list of restricted assets as of December 31, 2016:

	Restricted Assets	Liabilities Payable from Restricted Assets	Restricted Net Position
Clean water fund debt service reserve	\$ 331,927	\$ 29,890	\$ 302,037
Construction account	1,551,901	-	N/A
Equipment replacement account	1,232,531	-	1,232,531
Redemption accounts	88,897	20,155	68,742
<b>Total Restricted Assets</b>	<b>\$ 3,205,256</b>	<b>\$ 50,045</b>	<b>\$ 1,603,310</b>

# CITY OF SOUTH MILWAUKEE

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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### NOTE IV – DETAILED NOTES ON ALL FUNDS (continued)

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#### D. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2016 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
<b>Governmental Activities</b>				
Capital assets not being depreciated/amortized				
Land	\$ 2,956,671	\$ -	\$ -	\$ 2,956,671
Intangible assets	33,758	-	-	33,758
Construction in progress	- 31,135	31,135	-	31,135
Total capital assets not being depreciated/amortized	2,990,429	31,135	-	3,021,564
Capital Assets Being Depreciated				
Buildings	7,347,982	104,445	41,509	7,410,918
Machinery and equipment	9,270,808	1,000,261	389,720	9,881,349
Library book collection	843,887	78,767	97,839	824,815
Roads	15,996,002	929,193	698,922	16,226,273
Bridges	229,534	-	-	229,534
Sidewalks	1,860,052	96,209	87,148	1,869,113
Total Capital Assets Being Depreciated	35,548,265	2,208,875	1,315,138	36,442,002
Total Capital Assets	38,538,694	2,240,010	1,315,138	39,463,566
Less: Accumulated Depreciation for				
Buildings	(4,321,385)	(147,479)	(41,509)	(4,427,355)
Machinery and equipment	(5,801,518)	(581,309)	(389,720)	(5,993,107)
Library book collection	(473,036)	(82,481)	(97,839)	(457,678)
Roads	(9,453,960)	(509,476)	(590,519)	(9,372,917)
Bridges	(18,903)	(4,591)	-	(23,494)
Sidewalks	(457,104)	(38,036)	(34,188)	(460,952)
Total Accumulated Depreciation	(20,525,906)	(1,363,372)	(1,153,775)	(20,735,503)
Net Capital Assets Being Depreciated	15,022,359	845,503	161,363	15,706,499
Total Governmental Activities Capital Assets, Net of Depreciation	<u>\$ 18,012,788</u>	<u>\$ 876,638</u>	<u>\$ 161,363</u>	<u>\$ 18,728,063</u>

Depreciation expense was charged to functions as follows:

<b>Governmental Activities</b>	
General government	\$ 125,399
Public safety	297,592
Public works (including infrastructure)	846,512
Health and human services	286
Library	87,871
Conservation and Development	746
Parks and recreation	<u>4,966</u>
Total Governmental Activities Depreciation Expense	<u>\$ 1,363,372</u>

# CITY OF SOUTH MILWAUKEE

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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### **NOTE IV – DETAILED NOTES ON ALL FUNDS (continued)**

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#### **D. CAPITAL ASSETS (continued)**

	Beginning Balance	Additions	Deletions	Ending Balance
<b>Business-Type Activities</b>				
Capital assets not being depreciated/amortized				
Land	\$ 16,596	\$ -	\$ -	\$ 16,596
Construction in progress	446,499	57,849	446,499	57,849
Intangible asset	<u>110,000</u>	<u>-</u>	<u>-</u>	<u>110,000</u>
Total capital assets not being depreciated/amortized	<u>573,095</u>	<u>57,849</u>	<u>446,499</u>	<u>184,445</u>
Capital assets being depreciated				
Structures and improvements	12,094,942	828,466	46,760	12,876,648
Machinery & equipment	35,255	15,000	-	50,255
Water distribution system	8,887,430	-	-	8,887,430
Sewer collection system	12,685,229	81,594	58,098	12,708,725
Sewer machinery & equipment	7,586,799	104,250	36,043	7,655,006
Water machinery & equipment	13,928,812	455,858	111,444	14,273,226
Stormwater system	78,335	-	-	78,335
Stormwater equipment	<u>8,415,953</u>	<u>658,440</u>	<u>77,322</u>	<u>8,997,071</u>
Total Capital Assets Being Depreciated	<u>63,712,755</u>	<u>2,143,608</u>	<u>329,667</u>	<u>65,526,696</u>
Total Capital Assets	<u>64,285,850</u>	<u>2,201,457</u>	<u>776,166</u>	<u>65,711,141</u>
Less: Accumulated Depreciation for				
Structures and improvements	(5,740,599)	(186,861)	(46,760)	(5,880,700)
Machinery & equipment	(34,246)	(3,224)	-	(37,470)
Water distribution system	(2,823,354)	(391,630)	-	(3,214,984)
Sewer collection system	(4,773,059)	(345,595)	(58,098)	(5,060,556)
Sewer machinery & equipment	(6,126,278)	(230,514)	(36,043)	(6,320,749)
Water machinery & equipment	(4,631,356)	(359,395)	(111,444)	(4,879,307)
Stormwater equipment	(2,642,969)	(117,060)	(53,806)	(2,706,223)
Stormwater system	(7,834)	(3,917)	-	(11,751)
Total Accumulated Depreciation	<u>(26,779,695)</u>	<u>(1,638,196)</u>	<u>(306,151)</u>	<u>(28,111,740)</u>
Net Capital Assets Being Depreciated	<u>36,933,060</u>	<u>505,412</u>	<u>23,516</u>	<u>37,414,956</u>
Total Business-Type Capital Assets, Net of Depreciation	<u>\$ 37,506,155</u>	<u>\$ 563,261</u>	<u>\$ 470,015</u>	<u>\$ 37,599,401</u>

# CITY OF SOUTH MILWAUKEE

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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### NOTE IV – DETAILED NOTES ON ALL FUNDS (continued)

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#### D. CAPITAL ASSETS (continued)

Depreciation expense was charged to functions as follows:

##### Business-Type Activities

Water	\$ 746,175
Sewer	683,972
Stormwater	120,977
Parkcrest Housing Authority	87,072
Total Business-Type Activities Depreciation Expense	<u>\$ 1,638,196</u>

#### E. INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS

##### Interfund Receivables/Payables

The following is a schedule of interfund receivables and payables including any overdrafts on pooled cash and investment accounts:

Receivable Fund	Payable Fund	Amount
General Fund	Parkcrest Housing Authority	\$ 26,251
General Fund	Special Revenue Fund - Community Development Block Grant	31,125
General Fund	Special Revenue Fund - City Sealer Fund	248
General Fund	Water Utility	394
General Fund	Sewer Utility	41,960
Sewer Utility	Water Utility	276,284
Water Utility	Sewer Utility	31,681
Stormwater Utility	Sewer Utility	5,337
Capital Projects Fund	Sewer Utility	321,454
Capital Projects Fund	Capital Project Fund - TIF District #2	204,306
Total: Fund Financial Statements		939,040
Less: Fund Eliminations		(548,981)
Total Internal Balances - Government-Wide Statement of Net Position		<u>\$ 390,059</u>

All amounts above are due within one year, except for the amounts due from the TIF funds.

The principal reason for the above interfund amounts relates to time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

For the statement of net position, interfund balances which are owed within the governmental activities or business-type activities are netted and eliminated.

# CITY OF SOUTH MILWAUKEE

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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### **NOTE IV – DETAILED NOTES ON ALL FUNDS (continued)**

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#### **E. INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS (continued)**

##### **Transfers**

The following is a schedule of interfund transfers:

Fund Transferred To	Fund Transferred From	Amount
General Fund	Enterprise Fund - Parkcrest Housing Authority	\$ 26,251
	Enterprise Fund - Water Utility	459,732
	Enterprise Fund - Sewer Utility	8,314
		<u>494,297</u>
Special Revenue		
General Government Fund	Public Works Projects	140,600
General Government Fund	Community Development Authority	1,144
Library Fund	General Fund	797,741
School Liaison Police Program Fund	General Fund	152,413
Health Fund	Police Fund	1,836
Paramedic Fund	General Fund	120,000
Health Consortium	General Fund	17,400
		<u>1,231,134</u>
Debt Service Fund	Special Revenue Fund - Tax Incremental District #1	224,600
	Special Revenue Fund - Tax Incremental District #2	319,375
	Special Revenue Fund - Tax Incremental District #3	<u>582,794</u>
		<u>1,126,769</u>
Capital Projects Fund		
Tax Incremental District #1	Special Revenue Fund - Tax Incremental District #1	12,615
Tax Incremental District #2	Special Revenue Fund - Tax Incremental District #2	4,576
Tax Incremental District #4	Special Revenue Fund - Tax Incremental District #4	5,000
		<u>22,191</u>
	Subtotal - Fund Financial Statements	2,874,391
	Less: Fund Eliminations	<u>(2,380,094)</u>
	Total Transfers - Government Wide Statement of Activities	<u>\$ 494,297</u>

Generally, transfers are used to (1) move revenues from the fund that collects them to the fund that the budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. Transfers from the Enterprise Funds to the General Fund represent payments in lieu of taxes.

For the Statement of Activities, interfund transfers within governmental activities or business-type activities are netted and eliminated.

# CITY OF SOUTH MILWAUKEE

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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### **NOTE IV – DETAILED NOTES ON ALL FUNDS (continued)**

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#### ***F. LONG-TERM OBLIGATIONS***

Long-term obligations activity for the year ended December 31, 2016 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
<b>GOVERNMENTAL ACTIVITIES</b>					
Bonds and Notes Payable					
General obligation notes	\$ 20,113,250	\$ 5,477,000	\$ 3,333,250	\$ 22,257,000	\$ 2,450,000
Premium on debt issued	256,438	180,221	48,392	388,267	20,025
Net pension liability (asset)	(1,982,210)	3,297,019	-	1,314,809	-
Accumulated sick pay benefits	1,165,441	52,149	105,738	1,111,852	-
Other postemployment benefits	13,108,027	2,160,642	455,809	14,812,860	-
Total Governmental Activities	<u>\$ 32,660,946</u>	<u>\$ 11,167,031</u>	<u>\$ 3,943,189</u>	<u>\$ 39,884,788</u>	<u>\$ 2,470,025</u>
Long-Term Liabilities					
<b>BUSINESS-TYPE ACTIVITIES</b>					
Bonds and Notes Payable					
General obligation debt	\$ 4,016,500	\$ 2,498,000	\$ 716,500	\$ 5,798,000	\$ 775,000
Revenue bonds	12,440,397	-	862,317	11,578,080	884,323
Net pension liability (asset)	(218,361)	371,249	-	152,888	-
Premium on debt issued	-	82,197	6,627	75,570	8,837
Accumulated sick pay benefits	284,491	16,816	36,984	264,323	-
Other postemployment benefits	2,088,115	346,847	61,930	2,373,032	-
Total Business-Type Activities	<u>\$ 18,611,142</u>	<u>\$ 3,315,109</u>	<u>\$ 1,684,358</u>	<u>\$ 20,241,893</u>	<u>\$ 1,668,160</u>
Long-Term Liabilities					

#### ***General Obligation Debt***

All general obligation notes and bonds payable are backed by the full faith and credit of the City. Notes and bonds in the governmental funds will be retired by the future property tax levies or tax increments accumulated by the debt service fund. Business type activities debt is payable by revenues from user fees of those funds or, if the revenues are not sufficient, by future tax levies.

In accordance with Wisconsin Statutes, total general obligation indebtedness of the City may not exceed five percent of the equalized value of taxable property within the City's jurisdiction. The debt limit as of December 31, 2016, was \$59,697,830. Total general obligation debt outstanding at year end was \$28,055,000.

# CITY OF SOUTH MILWAUKEE

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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### NOTE IV – DETAILED NOTES ON ALL FUNDS (continued)

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#### F. LONG-TERM OBLIGATIONS (continued)

##### *General Obligation Debt* (continued)

###### Governmental Activities

	Date of Issue	Final Maturity	Interest Rate	Original Indebtedness	Balance 12/31/16
GO Refunding Bond	03/01/03	12/01/17	1.20-3.70%	\$ 1,455,000	\$ 125,000
GO Refunding Bond	02/15/08	10/01/23	4.00-5.63	8,650,000	3,525,000
GO Bond	09/01/08	09/01/18	3.50-4.00	4,395,000	1,405,000
GO Bond	05/18/11	10/01/20	2.00-3.00	4,450,000	2,050,000
GO Promissory Note	05/01/12	12/01/18	1.50-2.13	1,500,000	700,000
GO Refunding Bond	05/01/12	10/01/24	3.00-3.38	1,500,000	1,500,000
GO Bond	05/05/14	12/01/23	2.00-3.00	7,150,000	6,050,000
GO Refunding Bond	08/11/15	06/01/22	2.00-3.25	1,640,000	1,425,000
GO Promissory Note	03/15/16	10/01/25	2.00-4.00	5,477,000	<u>5,477,000</u>
Total Governmental Activities - General Obligation Debt					<u>\$ 22,257,000</u>

###### Business-Type Activities

General Obligation Debt	Date of Issue	Final Maturity	Interest Rate	Original Indebtedness	Balance 12/31/16
<b>WATER UTILITY</b>					
GO Bond	05/18/11	10/01/20	2.00-3.00%	\$ 3,000,000	\$ 2,200,000
GO Promissory Note	03/15/16	10/01/25	2.00-4.00	1,538,000	<u>1,538,000</u>
Total Water Utility					<u>3,738,000</u>
<b>SEWER UTILITY</b>					
GO Promissory Note	03/15/16	10/01/25	2.00-4.00	460,000	<u>460,000</u>
<b>STORMWATER UTILITY</b>					
GO Promissory Note	07/15/09	06/01/19	2.25-4.13	1,000,000	300,000
GO Bond	05/18/11	10/01/20	2.00-3.00	1,270,000	800,000
GO Promissory Note	03/15/16	10/01/25	2.00-4.00	500,000	<u>500,000</u>
Total Stormwater Utility					<u>1,600,000</u>
Total Business-Type Activities - General Obligation Debt					<u>\$ 5,798,000</u>

# CITY OF SOUTH MILWAUKEE

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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### NOTE IV – DETAILED NOTES ON ALL FUNDS (continued)

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#### F. LONG-TERM OBLIGATIONS (continued)

##### *General Obligation Debt* (continued)

Debt service requirements to maturity are as follows:

	Governmental Type General Obligation Debt		Business-Type General Obligation Debt	
	Principal	Interest	Principal	Interest
2017	\$ 2,450,000	\$ 682,958	\$ 775,000	\$ 163,526
2018	2,580,000	606,255	750,000	143,826
2019	1,850,000	520,530	875,000	121,951
2020	1,875,000	462,793	1,525,000	94,639
2021	2,400,000	398,793	200,000	46,889
2022-2025	11,102,000	747,480	1,673,000	114,264
<b>Totals</b>	<b>\$ 22,257,000</b>	<b>\$ 3,418,809</b>	<b>\$ 5,798,000</b>	<b>\$ 685,095</b>

##### *Revenue Debt*

Business-type activities revenue bonds are payable from revenues derived from the operation of the sewer utility and water utility.

The City has pledged future revenues, net of specified operating expenses, to repay \$17.2 million in revenue bonds issued in 2001, two revenue bonds issued in 2008 and one issued in 2013. Proceeds from the bonds provided financing for the City's Water and Sewer Systems. The bonds are payable solely from revenues and are payable through 2033. Annual principal and interest payments on the bonds are expected to require 51% of net revenues. The total principal and interest remaining to be paid on the bonds is \$13,601,939. Principal and interest paid for the current year and total net customer revenues were \$1,164,051 and \$2,022,090 respectively.

# CITY OF SOUTH MILWAUKEE

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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### **NOTE IV – DETAILED NOTES ON ALL FUNDS (continued)**

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#### **F. LONG-TERM OBLIGATIONS (continued)**

##### **Revenue Debt (continued)**

Revenue debt payable at December 31, 2016 consists of the following:

	Date of Issue	Final Maturity	Interest Rate	Original Indebtedness	Balance 12/31/16
Sewer System Revenue Bonds	01/24/01	05/01/20	2.97%	\$ 3,002,550	\$ 736,684
	06/11/08	05/01/28	2.37	1,431,165	938,498
	06/26/13	05/01/33	2.63	5,412,363	4,789,516 (1)
Water System Revenue Bonds	04/23/08	05/01/27	2.37	7,743,344	5,113,381
Total Business-Type Revenue Debt					<u>\$ 11,578,079</u>

(1) During 2013 the utility was authorized to issue \$5,643,816 of sewer system Clean Water Fund loan revenue bonds. The original amount reported above has been issued as of December 31, 2016. The repayment schedule is for the amount issued.

Debt service requirements to maturity are as follows:

	Business-Type Activities	
	Revenue Debt	
	Principal	Interest
2017	\$ 884,323	\$ 279,446
2018	906,894	256,585
2019	930,045	233,135
2020	953,793	209,082
2021	780,106	187,350
2022-2026	4,196,655	636,990
2027-2031	2,247,352	203,334
2032-2033	678,912	17,937
<b>Totals</b>	<b><u>\$ 11,578,079</u></b>	<b><u>\$ 2,023,859</u></b>

# CITY OF SOUTH MILWAUKEE

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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### NOTE IV – DETAILED NOTES ON ALL FUNDS (continued)

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#### F. LONG-TERM OBLIGATIONS (continued)

##### **REVENUE BOND COMPLIANCE**

The City of South Milwaukee authorized the issuance of \$3,410,358 of Sewer System Revenue Bonds dated April 26, 1995 and amended May 22, 1997, \$3,002,550 of Sewer System Mortgage Revenue Bonds dated January 24, 2001, \$1,370,425 of Sewer System Revenue Bonds dated June 11, 2008, of \$7,740,344 of Safe Drinking Water Revenue Bonds dated March 23, 2008 and amended April 28, 2010, and \$5,643,816 of Clean Water Revenue Bonds dated June 26, 2013. In accordance with the City's resolution authorizing the issuance and sale of the Revenue Bonds, separate funds were established to account for the Sewer Enterprise Fund and Water Enterprise Fund. As of December 31, 2016 the sewer enterprise fund was not in compliance with debt coverage ratio.

#### G. NET POSITION / FUND BALANCES

Net position reported on the government wide statement of net position at December 31, 2016 includes the following:

##### **Governmental Activities**

###### Net Investment in capital assets

Land	\$ 2,956,671
Construction in Progress	31,135
Other capital assets, net of accumulated depreciation	15,740,257
Less: related long-term debt outstanding (net of unspent proceeds of debt)	(17,136,142)
<b>Total Net Investment in Capital Assets</b>	<b>1,591,921</b>

###### Restricted:

Debt service	21,307
Library	322,908
Police federal asset forfeiture	60,553
TID purposes	2,957,528
Special assessment and interest - capital projects	183,111
<b>Total Restricted</b>	<b>3,545,407</b>

Unrestricted (deficit)	(5,845,057)
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<b>Total Governmental Activities Net Position (deficit)</b>	<b>\$ (707,729)</b>
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# CITY OF SOUTH MILWAUKEE

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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### NOTE IV – DETAILED NOTES ON ALL FUNDS (continued)

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#### G. *NET POSITION / FUND BALANCES* (continued)

##### *Governmental Fund Balances*

Governmental fund balances reported on the fund financial statements at December 31, 2016 include the following:

<b>Nonspendable</b>	
<b>Major Funds</b>	
General Fund	
Noncurrent receivables	\$ 141,267
Interfund receivables - cash deficits	31,373
Insurance contingencies	304,794
Delinquent personal property taxes	1,865
Total	<u><u>\$ 479,299</u></u>
<b>Restricted</b>	
<b>Major Funds</b>	
Debt Service	\$ 189,748
Special Revenue Funds	
Tax Incremental District Funds	2,382,732
Total	<u><u>\$ 2,572,480</u></u>
Nonmajor Funds	
Special Revenue Funds	
Library	\$ 322,908
Police Fund	60,553
Capital Project Funds	
Future equipment	597,520
Special assessments and interest	183,111
Tax Increment District #3	548,835
Tax Increment District #4	25,961
Total	<u><u>\$ 1,738,888</u></u>

# CITY OF SOUTH MILWAUKEE

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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### NOTE IV – DETAILED NOTES ON ALL FUNDS (continued)

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#### G. *NET POSITION / FUND BALANCES* (continued)

##### *Governmental Fund Balances (continued)*

<b>Committed</b>	
Major Funds	
General Fund	
Stabilization Arrangement	\$ 3,494,630
Capital Projects fund	
Public works projects	\$ 3,865,640
 Nonmajor Funds	
Special Revenue Funds	
Recycling program	\$ 363,008
Paramedic program	227,024
School liaison program	35,649
Environmental health consortium	37,842
City sealer	549
General government fund	308,551
Health fund	180,981
Fire fund	25,371
Total	\$ 1,178,975
 <b>Assigned</b>	
Major Funds	
General Fund	
Equipment acquisitions	\$ 566,299
Insurance reserve	387,500
Future OPEB Expenditures	475,000
Projected retirements	213,977
Total	\$ 1,642,776

#### H. *RESERVE ACCOUNT*

The rate structure for the Sewer Utility provides revenues to be generated for equipment replacement, depreciation and a rate of return on the net investment rate base. Revenues from these sources are then transferred into the Equipment Replacement Reserve and Clean Water Fund Debt Service Reserve. The Equipment Replacement Reserve is funds from which future replacements of equipment will be paid. Revenues generated from depreciation and the rate of return are transferred into the Clean Water Fund Debt Service Reserve. These Funds will be used to provide for system expansion and replacement not provided for in the Equipment Replacement Reserve and for payment of principal and interest due on long-term debt.

## CITY OF SOUTH MILWAUKEE

### NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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#### **NOTE V – OTHER INFORMATION**

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##### **A. Employees' Retirement System**

###### ***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. 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 1,200 hours a year and expected to be employed for at least one year from employee's date of hire are eligible to participate in the WRS.

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

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

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

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

The WRS also provides death and disability benefits for employees.

## CITY OF SOUTH MILWAUKEE

### NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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#### **NOTE V – OTHER INFORMATION (cont.)**

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##### **A. Employees' Retirement System (cont.)**

**Post-retirement adjustments.** The Employee Trust Fund 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:

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

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

During the reporting period, the WRS recognized \$863,389 in contributions from the city.

## CITY OF SOUTH MILWAUKEE

### NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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#### **NOTE V – OTHER INFORMATION (cont.)**

##### **A. Employees' Retirement System (cont.)**

Contribution rates as of December 31, 2016 are:

<u>Employee Category</u>	<u>Employee</u>	<u>Employer</u>
General	6.6%	6.6%
Executives and Elected Officials	6.6%	6.6%
Protective with Social Security	6.6%	9.4%
Protective without Social Security	6.6%	13.2%

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

At December 31, 2016 the city reported a liability of \$1,467,697 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014 rolled forward to December 31, 2015. No material changes in assumptions or benefit terms occurred between the actuarial valuation date and the measurement date. The City's proportion of the net pension liability was based on the city's share of contributions to the pension plan relative to the contributions of all participating employers. At December 31, 2015, the city's proportion was .090320880%, which was a decrease of .000259250% from its' proportion measured as of December 31, 2014.

For the year ended December 31, 2016, the city recognized pension expense of \$1,769,195.

# CITY OF SOUTH MILWAUKEE

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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### NOTE V – OTHER INFORMATION (cont.)

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#### A. *Employees' Retirement System* (cont.)

At December 31, 2016, the city reported deferred outflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 248,293	\$ 3,088,744
Changes in assumptions	1,027,629	-
Net differences between projected and actual earnings on pension plan investments	6,008,866	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	46,160	3,922
Employer contributions subsequent to the measurement date	<u>859,082</u>	-
<b>Total</b>	<b><u>\$ 8,190,030</u></b>	<b><u>\$ 3,092,666</u></b>

\$859,082 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 related to pension will be recognized in pension expense as follows:

Year ended December 31:	Deferred Outflows of Resources	Deferred Inflows of Resources
2017	\$ 1,904,630	\$ 748,430
2018	1,904,630	748,430
2019	1,904,630	748,430
2020	1,584,087	748,430
2021	32,971	98,946

## CITY OF SOUTH MILWAUKEE

### NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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#### **NOTE V – OTHER INFORMATION (cont.)**

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##### **A. Employees' Retirement System (cont.)**

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

Actuarial Valuation Date	December 31, 2014
Measurement Date of Net Pension Liability (Asset)	December 31, 2015
Actuarial Cost Method:	Entry Age
Asset Valuation Method:	Fair Market Value
Long-Term Expected Rate of Return	7.2%
Discount Rate:	7.2%
Salary Increases:	
Inflation	3.2%
Seniority/Merit	0.2% -5.8%
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 ad the post-retirement discount rate.*

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

# CITY OF SOUTH MILWAUKEE

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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### NOTE V – OTHER INFORMATION (cont.)

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#### A. *Employees' Retirement System* (cont.)

**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:

Asset Class	Long-Term Real Rate of Return	Target Allocation
US Equities	5.3%	21%
International Equities	5.7	23
Fixed Income	1.7	36
Inflation Sensitive Assets	2.3	20
Real Estate	4.2	7
Private Equity/Debt	6.9	7
Multi-Asset	3.9	6
Cash	0.9	(20)

**Single discount rate.** A single discount rate of 7.20% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.20% and a long term bond rate of 3.56%. Because of the unique structure of WRS, the 7.20% expected rate of return implies that a dividend of approximately 2.1% will always be paid. For purposes of the single discount rate, it was assumed that the dividend would always be paid. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate.

Based on these assumptions the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments (including expected dividends) of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

## CITY OF SOUTH MILWAUKEE

### NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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#### **NOTE V – OTHER INFORMATION (cont.)**

##### **A. Employees' Retirement System (cont.)**

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

	Discount Rate (6.20%)	Current Discount Rate (7.20%)	Discount Rate (8.20%)
--	--------------------------	----------------------------------	--------------------------

The City's proportionate share of the  
net pension liability (asset)      \$ 10,294,453    \$ 1,467,697    \$ (5,426,158)

***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://legis.wisconsin.gov/lab/> and reference report number 15-11.

At December 31, 2016, the Department reported a payable to the pension plan of \$143,120, which represents contractually required contributions outstanding as of the end of the year.

# CITY OF SOUTH MILWAUKEE

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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### **NOTE V – OTHER INFORMATION (continued)**

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#### ***B. Risk Management***

The City is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employee health claims; and environmental damage for which the City purchases commercial insurance. There has been no reduction in insurance from coverage in prior years. Insurance settlements for claims resulting from the risks covered by commercial insurance have not exceeded the insurance coverage in any of the past three years.

#### **Public Entity Risk Pool**

##### **Wisconsin Municipal Insurance Commission (WMIC) Cities and Villages Mutual Insurance Company (CVMIC)**

The WMIC is an intergovernmental cooperation commission created by contract under Section 66.30 of the Wisconsin Statutes. It was created in August, 1987 for the purpose of facilitating the organization, establishment and capitalization of the CVMIC, and has numerous cities and villages as members.

The CVMIC is a municipal mutual insurance company established on September 14, 1987 under Section 611.23 of the Wisconsin Statutes. The CVMIC provides liability insurance coverage to the cities and villages which make up the membership of the WMIC.

The CVMIC is self-insured up to a maximum of \$2,000,000 of each insurance risk. Losses paid by CVMIC plus administrative expenses will be recovered through premiums to the participating pool of municipalities.

Management of each organization consists of a board of directors or officers comprised of representatives elected by each of three classes of participants based on population. The City does not exercise any control over the activities of the agencies beyond the election of the officers and board.

Financial statements of WMIC and CVMIC can be obtained directly from CVMIC's offices.

The City pays an annual premium to the mutual for its general liability insurance, which provides coverage up to \$5,000,000 per occurrence, less the City's retained liability. The City's retained liability is limited to \$37,500 per occurrence and an annual aggregate limit of \$150,000. An actuarially determined estimate has been recorded for this liability, as well as for claims incurred but not reported at December 31, 2016. A total liability of approximately \$73,385 at December 31, 2016 was recorded as claims payable in the internal service fund. Changes in the fund's claims loss liability follow:

	<b>Beginning Balance</b>	<b>Incurred Claims</b>	<b>Claims/ Premiums</b>	<b>Ending Balance</b>
2015	\$ 73,385	\$ 450,022	\$ 450,022	\$ 73,385
2016	73,385	437,456	437,456	73,385

## CITY OF SOUTH MILWAUKEE

### NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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#### **NOTE V – OTHER INFORMATION (continued)**

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##### **C. COMMITMENTS AND CONTINGENCIES**

Claims and judgments are recorded as liabilities if all the conditions of Governmental Accounting Standards Board pronouncements are met. The liability and expenditure for claims and judgments are only reported in governmental funds if it has matured. Claims and judgments are recorded in the government-wide statements and proprietary funds as expenses when the related liabilities are incurred.

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

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

##### **D. MUNICIPAL REVENUE OBLIGATIONS**

In 2007 the City issued a municipal revenue obligation as part of a development agreement. The amount of the obligation is \$12 million, and is payable to the developer solely from tax increments collected from a specific development in Tax Incremental District No.4.

The obligation repayment terms are as listed below. The obligation bears no interest and matures on September 1, 2018. In no case, shall the term of this obligation and the City's obligation to make payments, extend beyond the statutory expiration of Tax Incremental District No.4, nor shall the amount of principal to be paid under the obligation exceed \$12 million.

Repayment requirements to maturity are as follows:

Municipal Revenue Obligation		
	Principal	
2017	\$ 1,085,930	
2018	6,856,110	
Total	\$ 7,942,040	

The obligation does not constitute a charge upon any funds of the City. In the event that future tax increments are not sufficient to pay off the obligation, the obligation terminates with no further liability to the City. Since the amount of future payments is contingent on the collection of future tax increments, the obligation is not reported as a liability in the accompanying financial statements. The balance of the commitment outstanding at December 31, 2016 was \$7,942,040.

## CITY OF SOUTH MILWAUKEE

### NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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#### **NOTE V – OTHER INFORMATION (continued)**

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##### **E. OTHER POSTEMPLOYMENT BENEFITS**

The City administers a single-employer defined benefit healthcare plan ("the Retiree Health Plan"). The plan provides health insurance contributions for eligible retirees through the City's group health insurance plan, which covers both active and retired members. Benefit provisions are established through collective bargaining agreements and state that eligible retirees receive healthcare insurance at established contribution rates. The Retiree Health Plan does not issue a publicly available financial report.

Contribution requirements are established through collective bargaining agreements and may be amended only through negotiations between the City and the union. The City makes the same monthly health insurance contribution on behalf of the retiree as it makes on behalf of all other active employees during that year. The City contributes 75 percent of the current year premiums for a family and a single plan, respectively, for eligible retired plan members depending on union classification, age and hiring dates. Plan members receiving benefits contribute 25 percent of their premium costs for a family and a single plan up to the age of 53 for fire and police or age 55 for general and non-represented employees.

The City's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC). The City has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement No. 45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the city's annual OPEB cost for the year, the amount actually contributed to plan, and changes in the City's net OPEB obligation to the Retiree Health Plan:

Annual Required Contribution	\$ 2,806,121
Interest on net OPEB obligation	606,251
Adjustment to annual required contribution	<u>(904,883)</u>
Annual OPEB cost	2,507,489
Contribution made	<u>(517,739)</u>
Increase in net OPEB obligation	1,989,750
Net OPEB Obligation - Beginning of Year	<u>15,196,142</u>
Net OPEB Obligation - End of Year	<u>\$ 17,185,892</u>

# CITY OF SOUTH MILWAUKEE

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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### NOTE V – OTHER INFORMATION (continued)

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#### E. OTHER POSTEMPLOYMENT BENEFITS (continued)

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2016 and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Liability
12/31/2014	\$ 2,866,280	23.8%	\$ 13,191,203
12/31/2015	\$ 2,507,489	17.5%	\$ 15,196,142
12/31/2016	\$ 2,507,489	20.6%	\$ 17,185,892

The funded status of the plan as of January 1, 2015, the most recent actuarial valuation date, was as follows:

Actuarial accrued liability (AAL)	\$ 22,258,712
Actuarial value of plan assets	-
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 22,258,712</u>
Funded ratio (actuarial value of plan assets/AAL)	0 %
Covered payroll (active plan members)	\$ 9,589,057
UAAL as percentage of covered payroll	232%

The projection of future benefit payments for an ongoing plan involves estimates for the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

## CITY OF SOUTH MILWAUKEE

### NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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#### **NOTE V – OTHER INFORMATION (continued)**

##### ***E. OTHER POSTEMPLOYMENT BENEFITS (continued)***

In the January 1, 2015 actuarial valuation, the attained age actuarial cost method was used. The actuarial assumptions include a 4.5 percent investment rate of return and an annual healthcare cost trend rate of 10 percent initially, reduced by decrements to an ultimate rate of 4 percent after ten years. The actuarial value of Retiree Health Plan assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a three-year period. The plan's unfunded actuarial accrued liability is being amortized on a level dollar closed amortization method. The amortization period at December 31, 2016, was 22 years.

##### ***F. TAX INCREMENTAL FINANCING DISTRICT (TID)***

The City has four Tax Incremental Financing Districts currently active. Tax increment financing, as authorized by the Wisconsin Statutes, is a method by which the City can recover its development and public improvement costs in TID designated areas. These costs are recovered from property taxes generated on taxable value over a base valuation determined at the start of the project. The City has financed development and public improvement costs in certain designated areas through the issuance of bond anticipation notes, general obligation promissory notes and a line of credit. Project costs will be reported as Capital Projects Fund expenditures. Tax increments are reported as revenue of the Special Revenue Fund. Resources are transferred to the Debt Service Fund to the extent required for maturing debt obligations, which were incurred to provide financing for development and public improvement costs within the TID. Recovery of project costs through tax increments is limited by State law to a period of twenty-seven years.

## CITY OF SOUTH MILWAUKEE

### NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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#### **NOTE V – OTHER INFORMATION (continued)**

##### ***G. EFFECT OF NEW ACCOUNTING STANDARDS ON CURRENT-PERIOD FINANCIAL STATEMENTS***

The Governmental Accounting Standards Board (GASB) has approved the following:

- Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68
- Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans
- Statement No. 75, Accounting and Financial Report for Postemployment Benefits Other Than Pension
- Statement No. 80, Blending Requirements for Certain Component Units - an Amendment of GASB Statement No. 14
- Statement No. 81, Irrevocable Split-Interest Agreements
- Statement No. 82, Pension Issues - an Amendment of GASB Statements No. 67, No. 68, and No. 73

When they become effective, application of these standards may restate portions of these financial statements.

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**REQUIRED SUPPLEMENTARY INFORMATION**

## CITY OF SOUTH MILWAUKEE

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL (NON-GAAP)  
GENERAL FUND  
For the Year Ended December 31, 2016

	Budgeted Amounts		Variance with Final Budget
	Original and Final	Actual	
<b>REVENUES</b>			
Taxes	\$ 7,938,019	\$ 8,118,585	\$ 180,566
Intergovernmental	4,338,045	4,387,633	49,588
Licenses and permits	286,300	322,037	35,737
Fines, forfeitures and penalties	292,000	296,287	4,287
Public charges for services	746,300	763,076	16,776
Interdepartmental revenues	639,020	557,272	(81,748)
Investment income	50,000	99,563	49,563
Miscellaneous	159,667	172,601	12,934
<b>Total Revenues</b>	<b>14,449,351</b>	<b>14,717,054</b>	<b>267,703</b>
<b>EXPENDITURES</b>			
Current			
General government	2,498,413	2,433,501	64,912
Public safety	6,541,664	6,500,848	40,816
Public works	3,710,268	3,638,499	71,769
Health and sanitation	476,077	465,631	10,446
Parks and recreation	159,350	149,543	9,807
Conservation and development	111,005	104,531	6,474
Other	517,425	456,109	61,316
<b>Total Expenditures</b>	<b>14,014,202</b>	<b>13,748,662</b>	<b>265,540</b>
Excess (deficiency) of revenues over (under) expenditures	435,149	968,392	533,243
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfer in	532,405	494,297	(38,108)
Transfer out	(967,554)	(1,162,554)	(195,000)
<b>Net Change in Fund Balance</b>	<b>\$ -</b>	<b>300,135</b>	<b>\$ 300,135</b>
<b>Adjustments to Generally Accepted Accounting Principles Basis</b>			
Revenue credited to designated funds		207,743	
Expenditures credited to designated funds		(325,785)	
Net change in fund balance - generally accepted accounting principles basis		182,093	
<b>FUND BALANCES - Beginning of Year</b>		<b>5,434,612</b>	
<b>FUND BALANCES - END OF YEAR</b>		<b>\$ 5,616,705</b>	

**CITY OF SOUTH MILWAUKEE**

**SCHEDULE OF FUNDING PROGRESS**  
For the Year Ended December 31, 2016

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Projected Unit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
<b>Other Postemployment Benefits</b>						
<b><u>Governmental Activities</u></b>						
1/1/2011	\$ -	\$ 22,605,752	\$ 22,605,752	0%	\$ 8,010,378	282%
1/1/2013	\$ -	\$ 21,353,170	\$ 21,353,170	0%	\$ 8,181,315	261%
1/1/2015	\$ -	\$ 19,179,788	\$ 19,179,788	0%	\$ 8,262,656	232%
<b><u>Business-type Activities</u></b>						
1/1/2011	\$ -	\$ 2,715,906	\$ 2,715,906	0%	\$ 1,117,939	243%
1/1/2013	\$ -	\$ 3,516,688	\$ 3,516,688	0%	\$ 1,135,289	310%
1/1/2015	\$ -	\$ 3,078,924	\$ 3,078,924	0%	\$ 1,326,401	232%

The City is required to present the above information for the three most recent actuarial reports.

**CITY OF SOUTH MILWAUKEE**

**SCHEDULE OF CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET) -  
WISCONSIN RETIREMENT SYSTEM  
For the Year Ended December 31, 2016**

Fiscal Year Ending Date	Proportion of the Net Pension Liability (Asset)	Proportionate Share of the Net Pension Liability (Asset)	Covered Payroll	Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
12/31/15	0.090580130%	\$ (2,200,580)	\$ 9,655,137	22.79%	102.74%
12/31/16	0.090320880%	1,467,697	9,784,397	15.00%	98.20%

**CITY OF SOUTH MILWAUKEE**

**SCHEDULE OF EMPLOYER CONTRIBUTIONS - WISCONSIN RETIREMENT SYSTEM  
For the Year Ended December 31, 2016**

Fiscal Year Ending Date	Contractually Required Contributions	Contributions in Relation to the Contractually Required Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
12/31/15	\$ 863,388	\$ 863,388	\$ -	9,784,357	8.82%
12/31/16	859,080	859,080	-	9,714,621	8.84%

## CITY OF SOUTH MILWAUKEE

### NOTES TO REQUIRED SUPPLEMENTARY INFORMATION As of and for the Year Ended December 31, 2016

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#### ***BUDGETARY INFORMATION***

Budgetary information is derived from the annual operating budget and is presented using the same basis of accounting for each fund as described in Note I.C.

The budgeted amounts presented include any amendments made. The city may authorize transfers of budgeted amounts within departments. Transfers between departments and changes to the overall budget must be approved by a two-thirds board action.

Appropriations lapse at year end unless specifically carried over. There were no carryovers to the following year. Budgets are adopted at the function level of expenditure.

#### ***WISCONSIN RETIREMENT SYSTEM***

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

The city is required to present the last ten fiscal years of data; however accounting standards allow the presentation of as many years as are available until ten fiscal years are presented.

*Changes in benefit terms.* There were no changes of benefit terms for any participating employer in the Wisconsin Retirement System.

*Changes in Assumptions.* There were no changes in assumptions.

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## **SUPPLEMENTARY INFORMATION**

CITY OF SOUTH MILWAUKEE

COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
As of December 31, 2016

	Special Revenue Funds									
	Library Funds	Recycling Fund	Paramedic Fund	School Liaison Police Program	Community Development		Community Development Authority	Health Consortium	City Sealer	General Government Fund
					Block Grant	Community Development				
<b>ASSETS</b>										
Cash and investments	\$ 322,908	\$ 382,547	\$ 472,310	\$ 38,409	\$ 2,327	\$ -	\$ 40,867	\$ -	\$ -	\$ 325,342
Receivables										
Taxes	-	460,571	242,069	-	-	-	-	-	-	-
Accounts	-	-	119,168	-	70,749	-	742	850	-	-
Special assessments	-	-	-	-	-	-	-	-	-	-
<b>TOTAL ASSETS</b>	<b>\$ 322,908</b>	<b>\$ 843,118</b>	<b>\$ 833,547</b>	<b>\$ 38,409</b>	<b>\$ 73,076</b>	<b>\$ -</b>	<b>\$ 41,609</b>	<b>\$ 850</b>	<b>\$ -</b>	<b>\$ 325,342</b>
<b>LIABILITIES DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>										
Liabilities										
Accounts payable	-	19,155	2,226	-	41,951	-	236	-	-	16,791
Accrued payroll	-	384	14,149	2,760	-	-	3,531	53	-	-
Due to other funds	-	-	-	-	31,125	-	-	-	248	-
Total Liabilities	-	19,539	16,375	2,760	73,076	-	3,767	301	-	16,791
Deferred Inflows of Resources										
Unearned revenues	-	460,571	590,148	-	-	-	-	-	-	-
Unavailable revenues	-	-	-	-	-	-	-	-	-	-
Total Deferred inflows of Resources	-	460,571	590,148	-	-	-	-	-	-	-
Fund Balances										
Restricted	322,908	-	-	-	-	-	-	-	-	-
Committed	-	363,008	227,024	35,649	-	-	37,842	549	-	308,551
Total Fund Balances	322,908	363,008	227,024	35,649	-	-	37,842	549	-	308,551
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	<b>\$ 322,908</b>	<b>\$ 843,118</b>	<b>\$ 833,547</b>	<b>\$ 38,409</b>	<b>\$ 73,076</b>	<b>\$ -</b>	<b>\$ 41,609</b>	<b>\$ 850</b>	<b>\$ -</b>	<b>\$ 325,342</b>

Special Revenue Funds				Capital Project Funds							
Police Fund	Health Fund	Fire Fund	Equipment	Special Assessment and Interest	Tax Increment District #1	Tax Increment District #2	Tax Increment District #3	Tax Increment District #4	Total Nonmajor Funds		
\$ 52,227	\$ 182,767	\$ 25,371	\$ 678,740	\$ 181,607	\$ 152	\$ 204,306	\$ 581,763	\$ 25,961	\$ 3,517,604		
10,682	-	-	-	3,291	-	-	-	-	705,931		
			51,673	-	-	-	-	-	253,864		
			-	35,188	-	-	-	-	35,188		
<b>\$ 62,909</b>	<b>\$ 182,767</b>	<b>\$ 25,371</b>	<b>\$ 730,413</b>	<b>\$ 220,086</b>	<b>\$ 152</b>	<b>\$ 204,306</b>	<b>\$ 581,763</b>	<b>\$ 25,961</b>	<b>\$ 4,512,587</b>		
2,356	1,400	-	132,893	439	152	-	32,928	-	250,527		
-	386	-	-	-	-	-	-	-	21,263		
-	-	-	-	-	-	204,306	-	-	235,679		
<b>2,356</b>	<b>1,786</b>	<b>-</b>	<b>132,893</b>	<b>439</b>	<b>152</b>	<b>204,306</b>	<b>32,928</b>	<b>-</b>	<b>507,469</b>		
-	-	-	-	2,288	-	-	-	-	1,053,007		
-	-	-	-	34,248	-	-	-	-	34,248		
-	-	-	-	36,536	-	-	-	-	1,087,255		
60,553	-	-	597,520	183,111	-	-	548,835	25,961	1,738,888		
-	180,981	25,371	-	-	-	-	-	-	1,178,975		
<b>60,553</b>	<b>180,981</b>	<b>25,371</b>	<b>597,520</b>	<b>183,111</b>	<b>-</b>	<b>-</b>	<b>548,835</b>	<b>25,961</b>	<b>2,917,863</b>		
<b>\$ 62,909</b>	<b>\$ 182,767</b>	<b>\$ 25,371</b>	<b>\$ 730,413</b>	<b>\$ 220,086</b>	<b>\$ 152</b>	<b>\$ 204,306</b>	<b>\$ 581,763</b>	<b>\$ 25,961</b>	<b>\$ 4,512,587</b>		

**CITY OF SOUTH MILWAUKEE**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
For the Year Ended December 31, 2016**

<b>Special Revenue Funds</b>									
	Library Funds	Recycling Fund	Paramedic Fund	School Liaison Police Program	Community Development Block Grant	Community Development Authority	Health Consortium	City Sealer	General Government Fund
<b>REVENUES</b>									
Taxes	\$ -	\$ -	\$ 623,193	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	611	77,179	128,898	57,650	70,749	-	15,106	850	25,184
Public charges for services	20,163	452,482	321,848	-	-	-	117,595	5,066	-
Public improvement revenues	-	-	-	-	-	-	-	-	-
Investment income	16,147	-	-	-	-	-	-	-	-
Miscellaneous	15,765	-	-	-	-	-	-	-	-
Total Revenues	52,686	529,661	1,073,939	57,650	70,749	-	132,801	5,916	25,184
<b>EXPENDITURES</b>									
Current									
General government	-	-	-	-	-	-	-	-	35,779
Public safety	-	-	1,131,257	185,751	-	-	-	5,969	-
Public works	-	480,606	-	-	-	-	-	-	-
Health and social services	-	-	-	-	70,749	-	153,106	-	-
Library	751,750	-	-	-	-	-	-	-	-
Conservation and development	-	-	-	-	-	13,754	-	-	-
Capital outlay	78,766	-	-	-	-	-	-	-	-
Debt service	-	-	-	-	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-	-	-	-	-
Total Expenditures	830,516	480,606	1,131,257	185,751	70,749	13,754	153,106	5,969	35,779
Excess (deficiency) of revenues over expenditures	(777,830)	49,055	(57,318)	(128,101)	-	(13,754)	(20,305)	(53)	(10,595)
<b>OTHER FINANCING SOURCES (USES)</b>									
General long-term debt issued	-	-	-	-	-	-	-	-	-
Premium on Indebt issued	-	-	-	-	-	-	-	-	-
Transfer in	797,741	-	120,000	152,413	-	-	17,400	-	141,744
Transfer out	-	-	-	-	-	(1,144)	-	-	-
Total other financing sources (uses)	797,741	-	120,000	152,413	-	(1,144)	17,400	-	141,744
<b>Net change in fund balances</b>	19,911	49,055	62,682	24,312	-	(14,898)	(2,905)	(53)	131,149
<b>FUND BALANCES -</b>									
Beginning of Year	302,997	313,953	164,342	11,337	-	14,898	40,747	602	177,402
<b>FUND BALANCES -</b>									
END OF YEAR	\$ 322,908	\$ 363,008	\$ 227,024	\$ 35,649	\$ -	\$ -	\$ 37,842	\$ 549	\$ 308,551

Special Revenue Funds				Capital Project Funds					
Police Fund	Health Fund	Fire Fund	Equipment	Special Assessment and Interest	Tax Increment District #1	Tax Increment District #2	Tax Increment District #3	Tax Increment District #4	Total Nonmajor Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 623,193
12,086	63,583	1,445	-	-	-	-	-	-	453,341
-	-	-	-	-	-	-	-	-	917,254
-	-	-	-	10,047	-	-	-	-	10,047
-	-	-	1,959	632	1,873	6,949	6,860	379	34,799
4,082	25	-	51,673	-	-	-	-	-	71,545
<u>16,168</u>	<u>63,608</u>	<u>1,445</u>	<u>53,632</u>	<u>10,679</u>	<u>1,873</u>	<u>6,949</u>	<u>6,860</u>	<u>379</u>	<u>2,110,179</u>
 4,997	 -	 6,736	 -	 -	 -	 -	 -	 -	 35,779
 -	 -	 -	 -	 -	 -	 -	 -	 -	 1,334,710
 -	 53,659	 -	 -	 -	 -	 -	 -	 -	 480,606
 -	 -	 -	 -	 -	 -	 -	 -	 -	 277,514
 -	 -	 -	 -	 -	 -	 -	 -	 -	 751,750
 -	 -	 -	 -	 -	 -	 -	 -	 -	 13,754
 11,204	 -	 -	 1,318,322	 -	 14,489	 11,525	 11,525	 1,525	 1,447,356
 -	 -	 -	 33,125	 -	 -	 -	 -	 -	 33,125
 16,201	 53,659	 6,736	 1,351,447	 -	 14,489	 11,525	 11,525	 1,525	 4,374,594
 (33)	 9,949	 (5,291)	 (1,297,815)	 10,679	 (12,616)	 (4,576)	 (4,665)	 (1,146)	 (2,264,415)
 -	 -	 -	 1,693,125	 -	 -	 -	 -	 -	 1,693,125
 -	 1,836	 -	 55,301	 -	 -	 -	 -	 -	 55,301
 (1,836)	 -	 -	 -	 -	 12,616	 4,576	 -	 5,000	 1,253,326
 (1,836)	 1,836	 -	 1,748,426	 -	 12,616	 4,576	 -	 5,000	 (2,980)
 (1,869)	 11,785	 (5,291)	 450,611	 10,679	 -	 -	 (4,665)	 3,854	 734,357
 62,422	 169,196	 30,662	 146,909	 172,432	 -	 -	 553,500	 22,107	 2,183,506
 \$ 60,553	 \$ 180,981	 \$ 25,371	 \$ 597,520	 \$ 183,111	 \$ -	 \$ -	 \$ 548,835	 \$ 25,961	 \$ 2,917,863