

CITY OF FORT ATKINSON

Fort Atkinson, Wisconsin

FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Year Ended December 31, 2016

CITY OF FORT ATKINSON

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INDEPENDENT AUDITORS' REPORT

To the City Council
City of Fort Atkinson
Fort Atkinson, 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 Fort Atkinson, Wisconsin ("city"), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the basic financial statements of the city's primary government 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's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the city's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

To the City Council
City of Fort Atkinson

Basis for Adverse Opinion on the Discretely Presented Component Unit

The financial statements do not include financial data for the city's legally separate component unit, the Fort Atkinson Historical Society. Accounting principles generally accepted in the United States of America require the financial data for this component unit to be reported with the financial data of the city's primary government unless the city also issues financial statements for the financial reporting entity that include the financial data for its component unit. The city has not issued such reporting entity financial statements. Because of this departure from accounting principles generally accepted in the United States of America, the assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues, and expenses of the discretely presented component unit have not been determined.

Adverse Opinion

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on the Discretely Presented Component Unit" paragraph, the financial statements referred to above do not present fairly the financial position of the discretely presented component unit of the City of Fort Atkinson, Wisconsin, as of December 31, 2016, or the 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.

Unmodified 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 Fort Atkinson, 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, economical, 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.

To the City Council
City of Fort Atkinson

Other Matters (cont.)

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the city's primary government. The supplementary information as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Because of the significance of the matter described above, it is inappropriate to and we do not express an opinion on the supplementary information referred to above.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
May 11, 2017

CITY OF FORT ATKINSON

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED As of and for the Year Ended December 31, 2016

The management of the City of Fort Atkinson (the "City") offers all persons interested in the financial position of the City, this narrative overview and analysis of the City's financial performance during the fiscal year ending December 31, 2016. You are invited to read this narrative in conjunction with the City's financial statements.

FINANCIAL HIGHLIGHTS

The City's total net position totaled over \$54.2 million. \$23.0 million were related to governmental activities and \$31.2 million to business-type activities. Events that had major impacts on the City's 2016 financials were:

- > City-wide computer upgrades – \$24,563.
- > City-wide G.I.S. program – \$24,818.
- > Police squad car – \$23,970.
- > Emergency dispatch & phone systems – \$138,714.
- > Police body cameras – \$13,237.
- > Building Inspection truck – \$24,994.
- > Street repaving & sealcoating – \$934,934.
- > New street improvements – \$372,991.
- > Madison Avenue street lights – \$42,509.
- > Museum HVAC – \$8,750.
- > Senior Center audio/video system – \$20,198.
- > Aquatic Center slide recoating – \$32,500.
- > Tennis courts resurfacing – \$19,038.
- > Haumerson Pond warming house – \$158,296.
- > War Dog memorial – \$14,475.
- > Development assistance – \$97,500.
- > Water Utility main, hydrant and service replacement – \$263,963.
- > Water Utility meter replacement – \$71,067.
- > Water Utility service truck – \$30,110.
- > Water Utility Jones reservoir repair – \$25,330.
- > Wastewater Utility centrifuge equipment – \$394,639.
- > Wastewater Utility aeration blower upgrade – \$93,519.
- > Wastewater Utility truck mounted spreader – \$53,283.
- > Wastewater Utility liquid bio solids mixers – \$38,120.
- > Wastewater Utility building repairs – \$18,377.

CITY OF FORT ATKINSON

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED As of and for the Year Ended December 31, 2016

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. These financial statements consist of two parts: Management's Discussion and Analysis (this section) and the basic financial statements. The basic financial statements include two kinds of statements that present different views of the City:

- > The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's financial status.
- > The remaining statements are fund financial statements that focus on individual parts of City government, reporting the City's operations in more detail than the government-wide statements.

These financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of the required supplementary information that further explains and supports the information in the financial statements. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

GOVERNMENT-WIDE STATEMENTS

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government's assets, deferred outflows of resources, liabilities, and deferred inflows of resources. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net position and how they have changed. Net Position – the difference between the City's assets, deferred outflows of resources, liabilities, and deferred inflows of resources – is one way to measure the City's financial health, or position. Over time, increases or decreases in the City's net position are an indicator of whether its financial health is improving or deteriorating. To assess the overall health of the City you need to consider additional non-financial factors such as changes in the City's property tax base and the condition of the City's roads.

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 the cash flows. Thus, revenue and expenses reported in this statement for some items will only result in cash flows in future fiscal periods.

The government-wide financial statements of the City are divided into three categories:

- > Governmental activities – Most of the City's basic services are included here, such as police, fire, public works, park and recreation, library, and general administration. Property taxes and state aid finance most of these activities.
- > Business-type activities – The City charges fees to customers to help it cover the costs of certain services it provides. The City's water, sewer, and stormwater system are included here.
- > Fiduciary activities – Included in these activities are collections of all property taxes in the City for all taxing jurisdictions.

CITY OF FORT ATKINSON

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED As of and for the Year Ended December 31, 2016

OVERVIEW OF THE FINANCIAL STATEMENTS (cont.)

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, 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 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 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 on 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.

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, general debt service fund, and Tax Incremental District (TID) No. 6, which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Proprietary Funds – The City maintains three different types of proprietary funds (water, sewer, and stormwater utilities), all of which are enterprise funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Proprietary fund financial statements present the same type of information as the government-wide financial statements, only in more detail.

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's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The City is the trustee, or fiduciary, for collection of all property taxes within the City for all taxing districts including the Fort Atkinson School District, Madison Area Technical College and Jefferson County. We exclude these activities from the City's government-wide financial statements because the City cannot use these assets to finance its operation.

CITY OF FORT ATKINSON

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED As of and for the Year Ended December 31, 2016

OVERVIEW OF FINANCIAL STATEMENTS (cont.)

FUND FINANCIAL STATEMENTS (cont.)

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.

Other Information – In addition to the basic financial statements and accompanying notes, required supplementary information presents a detailed budgetary comparison schedule for the general fund to demonstrate compliance with the budget. The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the required supplementary information.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

An analysis of the City's financial position begins with a review of the Statement of Net Position and the Statement of Activities. These two statements report the City's net position and changes therein. It should be noted that the financial position can also be affected by non-financial factors, including economic conditions, population growth and new regulations.

A summary of the City's Statement of Net Position is presented below in Table 1.

**Table 1
Condensed Statements of Net Position**

	Governmental Activities		Business-Type Activities		Totals	
	2016	2015	2016	2015	2016 *	2015 *
Current and other assets	\$ 14,141,364	\$ 13,420,087	\$ 4,476,568	\$ 4,219,286	\$ 18,617,932	\$ 17,639,373
Capital assets	27,947,613	28,492,611	30,544,220	30,718,575	58,491,833	59,211,186
Total Assets	<u>42,088,977</u>	<u>41,912,698</u>	<u>35,020,788</u>	<u>34,937,861</u>	<u>77,109,765</u>	<u>76,850,559</u>
Total deferred outflows of resources	<u>2,905,997</u>	<u>825,863</u>	<u>626,704</u>	<u>297,003</u>	<u>3,532,701</u>	<u>1,122,866</u>
Long-term liabilities	11,494,459	11,906,787	3,820,871	4,066,871	15,315,330	15,973,658
Other liabilities	1,482,275	899,650	453,342	327,768	1,935,617	1,227,418
Total Liabilities	<u>12,976,734</u>	<u>12,806,437</u>	<u>4,274,213</u>	<u>4,394,639</u>	<u>17,250,947</u>	<u>17,201,076</u>
Total deferred inflows of resources	<u>8,992,849</u>	<u>7,497,232</u>	<u>187,413</u>	<u>-</u>	<u>9,180,262</u>	<u>7,497,232</u>
Invested in capital assets, net of related debt	19,476,470	19,600,346	27,304,472	26,974,017	46,236,892	45,852,158
Restricted	2,790,492	3,609,799	912,279	1,072,107	3,702,771	4,681,906
Unrestricted (deficit)	<u>758,429</u>	<u>(775,253)</u>	<u>2,969,115</u>	<u>2,794,101</u>	<u>4,271,594</u>	<u>2,741,053</u>
Total Net Position	<u>\$ 23,025,391</u>	<u>\$ 22,434,892</u>	<u>\$ 31,185,866</u>	<u>\$ 30,840,225</u>	<u>\$ 54,211,257</u>	<u>\$ 53,275,117</u>

* The total column reflects a capital debt adjustment. See Note I.D.10. for further information.

CITY OF FORT ATKINSON

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED As of and for the Year Ended December 31, 2016

FINANCE ANALYSIS OF THE CITY AS A WHOLE (cont.)

The largest portion of the City's total net position (85%) reflects its investment in capital assets (e.g., land, buildings and improvements, machinery and equipment, and infrastructure), less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City'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.

An additional portion of the City's net position (7%) represents resources that are subject to external restrictions on how they may be used. The remaining portion of the City's net position represents resources that are unrestricted on how they may be used.

**Table 2
Condensed Statement of Activities**

	Governmental Activities		Business-Type Activities		Totals	
	2016	2015	2016	2015	2016	2015
Revenues:						
Program Revenues						
Charges for services	\$ 935,610	\$ 909,384	\$ 4,992,123	\$ 4,882,801	\$ 5,927,733	\$ 5,792,185
Operating grants and contributions	1,168,082	1,073,206	-	-	1,168,082	1,073,206
Capital grants and contributions	-	108,000	22,185	205,588	22,185	313,588
General Revenues						
Property taxes	7,498,828	7,108,101	-	-	7,498,828	7,108,101
Other taxes	236,200	34,976	-	-	236,200	34,976
Intergovernmental	1,226,560	1,250,326	-	-	1,226,560	1,250,326
Public gifts and grants	365,913	307,159	-	-	365,913	307,159
Other	296,274	175,359	10,063	7,990	306,337	183,349
Total Revenues	11,727,467	10,966,511	5,024,371	5,096,379	16,751,838	16,062,890
Expenses:						
General government	902,350	862,080	-	-	902,350	862,080
Public safety	3,767,083	3,624,601	-	-	3,767,083	3,624,601
Public works	3,271,092	3,123,997	-	-	3,271,092	3,123,997
Health and human services	183,474	150,912	-	-	183,474	150,912
Culture, education and recreation	2,622,936	2,457,121	-	-	2,622,936	2,457,121
Conservation and development	619,386	502,605	-	-	619,386	502,605
Water	-	-	1,270,727	1,325,298	1,270,727	1,325,298
Sewer	-	-	2,476,023	2,468,580	2,476,023	2,468,580
Stormwater	-	-	416,020	423,249	416,020	423,249
Interest and fiscal charges	286,607	354,078	-	-	286,607	354,078
Total Expenses	11,652,928	11,075,394	4,162,770	4,217,127	15,815,698	15,292,521
Income (Loss) Before Transfers	74,539	(108,883)	861,601	879,252	936,140	770,369
Transfers	515,960	286,138	(515,960)	(286,138)	-	-
Changes in Net Position	590,499	177,255	345,641	593,114	936,140	770,369
Beginning Net Position	22,434,892	22,257,637	30,840,225	30,247,111	53,275,117	52,504,748
Net Position	\$ 23,025,391	\$ 22,434,892	\$ 31,185,866	\$ 30,840,225	\$ 54,211,257	\$ 53,275,117

CITY OF FORT ATKINSON

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED As of and for the Year Ended December 31, 2016

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (cont.)

As previously noted, the Statement of Net Position shows the change in financial position of net position. The specific nature or source of these changes then becomes more evident in the Statement of Activities as shown above in Table 2.

GOVERNMENTAL ACTIVITIES

Governmental activities increased the City's net position by approximately \$590,000 compared to an increase of \$177,000 in 2015. This increase is primarily due to moving a portion of the pension prior service liability from governmental activities to enterprise funds, as well as receiving a property tax payment from the water utility.

BUSINESS-TYPE ACTIVITIES

Business-type activities increased the City's net position by approximately \$346,000 compared to an increase of \$593,000 in 2015. This increase is a result of excellent industrial sales and a reduction in operational expenditures.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

GOVERNMENTAL FUNDS

The focus of the City of Fort Atkinson'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 the government's net resources available for spending at the end of the fiscal year.

At December 31, 2016, the City's governmental funds reported combined fund balances of \$4,874,667. Of this amount, \$2,773,546 constitutes the deficit unassigned fund balance. The negative fund balance reflects the deficit in TID No. 6. As TID No. 6 repays the advances from the general fund, the unassigned fund balance in the general fund will increase. An additional \$2,922,416 is non-spendable funds made up primarily of prepaids and TID advances. Restricted funds amount to \$2,794,649 for debt service, trust accounts and Wisconsin Development fund. The remaining \$991,652 is assigned to deposits, non-lapsing funds, utility taxes and previous industrial land sales.

GENERAL FUND

The unassigned fund balance is approximately \$940,000. This amount does not include \$145,600 of fund balance for prepaids and delinquent personal property taxes shown as non-spendable because they are assets on the balance sheet that are not in spendable form.

The City evaluates general fund balance by measuring the unassigned general fund balance as a percentage of the subsequent year's general fund budget. For 2016, unassigned fund balance is \$940,000, and the general fund expenditure budget for 2017 is \$9,000,104, resulting in an unassigned fund balance of 10%. The City's goal is to maintain an 8%-20% general fund balance to subsequent year's budget. Due to advances from the general fund, the percent is at the low end of the City's goal. The unassigned general fund balance will increase as the general fund is repaid its advances to TID No. 6.

CITY OF FORT ATKINSON

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED As of and for the Year Ended December 31, 2016

FINANCIAL ANALYSIS OF THE CITY'S FUNDS (cont.)

GENERAL DEBT SERVICE FUND

In September of 2016, the City refunded a bank loan from 2011 for fire equipment. All scheduled payments were paid timely.

TID No. 6

TID No. 6 was created for the express purpose of a new business park. TID No. 6 had a negative change in fund balance for 2016 of approximately \$225,000 and a year-end fund balance deficit of \$2,773,546. The increase in the fund deficit was a direct result of the increment shortfall. The deficit resulted primarily from land acquisition costs over and above the tax increment. It was anticipated in the project plan that the initial land contract payments would be funded through the general fund until the tax increment was sufficient to cover land acquisition and infrastructure costs. In 2011, the City approved a Project Plan Amendment for TID No.6, placing a distressed TID designation on the District. The designation of TID No. 6 as distressed will allow the extension of the TID's maximum life by ten years beyond its original termination date of January 18, 2023. In addition, TIDs No.7 and No. 8 were amended to become "donor" TIDs to TID No.6 so that allocations can be made from TID No.7 and No.8 to support TID No.6. The projections are for a positive cash flow for TID No.6 in 2024 with the help of the donor TIDs. At the end of 2010, the infrastructure in Phase 1 was 99% complete and five new businesses have located in the park. No new business has been added to the tax roll since 2010.

PROPRIETARY FUNDS

The water utility rates are governed by the Public Service Commission of Wisconsin (PSCW). The maximum authorized rate of net operating income as a percentage of average rate base is 5.5%. For 2016, the water utility result of operation was 6.36%.

The sewer utility rates are governed by the Fort Atkinson City Council. Rates are reviewed annually and adjusted January 1 of each year. Rates for 2016 plant operations were unchanged from 2015.

The stormwater rates are governed by the Fort Atkinson City Council. The fixed rate increased to \$34.92 per year in 2016.

The City of Fort Atkinson's proprietary fund financial statements provide the same type of information found in the government-wide financial statements, but in more detail. Factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

CITY OF FORT ATKINSON

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED As of and for the Year Ended December 31, 2016

GENERAL FUND BUDGETARY HIGHLIGHTS

2016 revenues were over the amended budget by \$103,788. Revenues came in mostly as expected. Building permit revenues and motor vehicle taxes were over projections.

Total expenditures were under the amended budget by \$912,333 of which \$633,555 was carried forward to 2017 to complete various projects not completed in 2016.

Adjustments to the adopted budgeted revenues totaled \$1,267,724. This included County library aid, mass transportation funding and miscellaneous donations.

Adjustments to adopted budget expenditure appropriations totaled \$3,096,590. This included additional capital outlay and carried forward funds from 2015 (10%), County library (8%), mass transit expense (9%), room tax funded beautification expenditures (3%), funding retirees prior service cost (36%), and adjusting line item budgets to actual for the year (34%).

CAPITAL ASSETS

At the end of 2016, the City has invested a total of \$58,491,833 in capital assets. This investment in capital assets includes land, land improvements, buildings, machinery and equipment and infrastructure.

**Table 3
Capital Assets**

	Governmental Activities		Business-Type Activities		Totals	
	2016	2015	2016	2015	2016	2015
Land and other assets not being depreciated	\$ 5,035,171	\$ 4,854,224	\$ 426,540	\$ -	\$ 5,461,711	\$ 4,854,224
Land improvements	2,842,814	2,852,164	-	-	2,842,814	2,852,164
Buildings	15,138,973	15,138,973	-	-	15,138,973	15,138,973
Machinery and equipment	8,738,540	8,848,451	-	-	8,738,540	8,848,451
Infrastructure	19,743,710	19,652,543	-	-	19,743,710	19,652,543
Utility plant	-	-	56,799,676	56,349,079	56,799,676	56,349,079
Total Capital Assets	51,499,208	51,346,355	57,226,216	56,349,079	108,725,424	107,695,434
Less: Accumulated Depreciation	(23,551,595)	(22,853,744)	(26,681,996)	(25,630,504)	(50,233,591)	(48,484,248)
Net Capital Assets	\$ 27,947,613	\$ 28,492,611	\$ 30,544,220	\$ 30,718,575	\$ 58,491,833	\$ 59,211,186

CITY OF FORT ATKINSON

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED As of and for the Year Ended December 31, 2016

CAPITAL ASSETS (cont.)

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

GOVERNMENTAL ACTIVITIES

- > Road improvements.
- > Squad car.
- > Dispatch and phone systems.
- > Computer upgrades.
- > Police body cameras.
- > G.I.S. program.
- > Pickup truck.
- > Street lights.
- > Audio/video equipment.
- > Haumerson Pond warming house.

BUSINESS-TYPE ACTIVITIES

- > Water Utility main, service, hydrant and meter replacement.
- > Water Utility service truck.
- > Water Utility Jones reservoir repair.
- > Wastewater Utility centrifuge equipment.
- > Wastewater Utility aeration blower.
- > Wastewater Utility truck mounted spreader.

Additional information on the City's capital assets can be found in Note III.D. of this report.

LONG-TERM OBLIGATIONS

At December 31, 2016, the City had \$13,561,251 of long-term bonds and notes outstanding.

Total long-term bonds and notes outstanding at December 31, 2016 increased by \$191,781 from the previous year.

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 \$43,532,700. Total general obligation debt outstanding at year-end was \$13,561,251. Therefore, the City was at 31 percent of the legal debt limit.

CITY OF FORT ATKINSON

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED As of and for the Year Ended December 31, 2016

LONG-TERM OBLIGATIONS (cont.)

The entire debt for the City, including water, sewer, tax increment financing and general fund debt has been by general obligation debt. The City's general obligation debt is \$13,561,251 or 31% of its limit. General obligation has been used because the City had the capacity and to save net interest expense. 37% of the total general obligation indebtedness is scheduled to be retired within the next three years. As a percentage of total expenditures, the City's goal is to maintain 10% or less of debt service expense in each budget year, for 2016 it was 14%. This percentage includes a current refunding of \$593,870 related to fire equipment.

Additional information on the City's long-term obligations can be found in Note III.F. of this report.

CURRENTLY KNOWN FACTS/ECONOMIC CONDITIONS

All currently known facts and economic conditions were considered in preparing the 2017 City budget. None of these conditions are anticipated to change the overall financial position of the City.

REQUESTS FOR INFORMATION

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the City's finances. If you have questions about this report or need any additional information, contact Matt Trebatoski, City Manager.

CITY OF FORT ATKINSON

STATEMENT OF NET POSITION As of December 31, 2016

	Governmental Activities	Business-type Activities	Totals
ASSETS			
Cash and investments	\$ 3,506,828	\$ 3,260,665	\$ 6,767,493
Receivables (net)			
Taxes	7,915,257	-	7,915,257
Delinquent personal property taxes	190	-	190
Accounts	673,369	891,429	1,564,798
Loans	1,263,047	-	1,263,047
Internal balances	637,247	(637,247)	-
Inventories	-	29,646	29,646
Prepaid items	145,426	19,796	165,222
Restricted assets			
Cash and investments	-	912,279	912,279
Capital Assets			
Land	4,653,716	-	4,653,716
Construction in progress	381,455	426,540	807,995
Other capital assets, net of depreciation	<u>22,912,442</u>	<u>30,117,680</u>	<u>53,030,122</u>
Total Assets	<u>42,088,977</u>	<u>35,020,788</u>	<u>77,109,765</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on refunding	-	128,959	128,959
Pension related amounts	<u>2,905,997</u>	<u>497,745</u>	<u>3,403,742</u>
Total Deferred Outflows of Resources	<u>2,905,997</u>	<u>626,704</u>	<u>3,532,701</u>
LIABILITIES			
Accounts payable	1,350,708	108,969	1,459,677
Accrued liabilities	122,772	344,373	467,145
Deposits	8,795	-	8,795
Noncurrent Liabilities			
Due within one year	1,420,682	578,057	1,998,739
Due in more than one year	<u>10,073,777</u>	<u>3,242,814</u>	<u>13,316,591</u>
Total Liabilities	<u>12,976,734</u>	<u>4,274,213</u>	<u>17,250,947</u>
DEFERRED INFLOWS OF RESOURCES			
Unearned revenues	7,905,159	-	7,905,159
Pension related amounts	<u>1,087,690</u>	<u>187,413</u>	<u>1,275,103</u>
Total Deferred Inflows of Resources	<u>8,992,849</u>	<u>187,413</u>	<u>9,180,262</u>
NET POSITION			
Net investment in capital assets	19,476,470	27,304,472	46,236,892
Restricted for			
Library trust	566,235	-	566,235
Museum trust	774,676	-	774,676
Revolving loan	1,436,243	-	1,436,243
TIF purposes	13,338	-	13,338
Equipment Replacement	-	912,279	912,279
Unrestricted (deficit)	<u>758,429</u>	<u>2,969,115</u>	<u>4,271,594</u>
TOTAL NET POSITION	<u>\$ 23,025,391</u>	<u>\$ 31,185,866</u>	<u>\$ 54,211,257</u>

See accompanying notes to financial statements.

CITY OF FORT ATKINSON

STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2016

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities				
General government	\$ 902,350	\$ 160,968	\$ 15,500	\$ -
Public safety	3,767,083	355,514	46,457	-
Public works	3,271,092	81,755	865,783	-
Health and human services	183,474	-	-	-
Culture, education and recreation	2,622,936	300,592	240,342	-
Conservation and development	619,386	36,781	-	-
Interest and fiscal charges	<u>286,607</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Governmental Activities	<u>11,652,928</u>	<u>935,610</u>	<u>1,168,082</u>	<u>-</u>
Business-type Activities				
Water Utility	1,270,727	1,922,830	-	7,236
Sewer Utility	2,476,023	2,707,715	-	10,934
Stormwater Utility	<u>416,020</u>	<u>361,578</u>	<u>-</u>	<u>4,015</u>
Total Business-type Activities	<u>4,162,770</u>	<u>4,992,123</u>	<u>-</u>	<u>22,185</u>
Totals	<u>\$ 15,815,698</u>	<u>\$ 5,927,733</u>	<u>\$ 1,168,082</u>	<u>\$ 22,185</u>

General Revenues

Taxes

 Property taxes, levied for general purposes

 Property taxes, levied for debt service

 Property taxes, levied for TIF districts

 Other taxes

Intergovernmental revenues not restricted to specific programs

Public gifts and grants

Investment income

Miscellaneous

 Total General Revenues

Transfers

Change in net position

NET POSITION - Beginning of Year

NET POSITION - END OF YEAR

Net (Expenses) Revenues and Changes in Net Position

<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Totals</u>
\$ (725,882)	\$ -	\$ (725,882)
(3,365,112)	-	(3,365,112)
(2,323,554)	-	(2,323,554)
(183,474)	-	(183,474)
(2,082,002)	-	(2,082,002)
(582,605)	-	(582,605)
<u>(286,607)</u>	<u>-</u>	<u>(286,607)</u>
<u>(9,549,236)</u>	<u>-</u>	<u>(9,549,236)</u>
-	659,339	659,339
-	242,626	242,626
-	<u>(50,427)</u>	<u>(50,427)</u>
-	<u>851,538</u>	<u>851,538</u>
<u>(9,549,236)</u>	<u>851,538</u>	<u>(8,697,698)</u>
6,240,467	-	6,240,467
735,501	-	735,501
522,860	-	522,860
236,200	-	236,200
1,226,560	-	1,226,560
365,913	-	365,913
111,769	10,063	121,832
<u>184,505</u>	<u>-</u>	<u>184,505</u>
<u>9,623,775</u>	<u>10,063</u>	<u>9,633,838</u>
<u>515,960</u>	<u>(515,960)</u>	<u>-</u>
590,499	345,641	936,140
<u>22,434,892</u>	<u>30,840,225</u>	<u>53,275,117</u>
<u>\$ 23,025,391</u>	<u>\$ 31,185,866</u>	<u>\$ 54,211,257</u>

See accompanying notes to financial statements.

CITY OF FORT ATKINSON

BALANCE SHEET
GOVERNMENTAL FUNDS
As of December 31, 2016

	<u>General</u>	<u>General Debt Service</u>	<u>TIF District No. 6</u>
ASSETS			
Cash and investments	\$ 1,922,593	\$ 4,157	\$ 49,301
Receivables			
Taxes	6,325,348	848,340	159,539
Delinquent personal property taxes	190	-	-
Accounts	673,369	-	-
Loans	-	-	-
Due from other funds	696,724	-	-
Prepaid items	145,426	-	-
Advances to other funds	<u>2,776,800</u>	<u>-</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 12,540,450</u>	<u>\$ 852,497</u>	<u>\$ 208,840</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 1,350,708	\$ -	\$ -
Accrued liabilities	2,035	-	-
Due to other funds	10,098	-	46,047
Deposits	8,795	-	-
Advances from other funds	<u>-</u>	<u>-</u>	<u>2,776,800</u>
Total Liabilities	<u>1,371,636</u>	<u>-</u>	<u>2,822,847</u>
Deferred Inflows of Resources			
Unearned revenues	<u>6,315,250</u>	<u>848,340</u>	<u>159,539</u>
Total Deferred Inflows of Resources	<u>6,315,250</u>	<u>848,340</u>	<u>159,539</u>
Fund Balances (Deficit)			
Nonspendable	2,922,416	-	-
Restricted	-	4,157	-
Assigned	991,652	-	-
Unassigned (deficit)	<u>939,496</u>	<u>-</u>	<u>(2,773,546)</u>
Total Fund Balances (Deficit)	<u>4,853,564</u>	<u>4,157</u>	<u>(2,773,546)</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 12,540,450</u>	<u>\$ 852,497</u>	<u>\$ 208,840</u>

See accompanying notes to financial statements.

Nonmajor Governmental Funds	Totals
\$ 1,530,777	\$ 3,506,828
582,030	7,915,257
-	190
-	673,369
1,263,047	1,263,047
-	696,724
-	145,426
-	2,776,800
<u>\$ 3,375,854</u>	<u>\$ 16,977,641</u>

\$ -	\$ 1,350,708
-	2,035
3,332	59,477
-	8,795
-	2,776,800
<u>3,332</u>	<u>4,197,815</u>

<u>582,030</u>	<u>7,905,159</u>
<u>582,030</u>	<u>7,905,159</u>

-	2,922,416
2,790,492	2,794,649
-	991,652
-	(1,834,050)
<u>2,790,492</u>	<u>4,874,667</u>

<u>\$ 3,375,854</u>	<u>\$ 16,977,641</u>
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See accompanying notes to financial statements.

CITY OF FORT ATKINSON

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION As of December 31, 2016

Total Fund Balances - Governmental Funds	\$ 4,874,667
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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.

Land	4,653,716
Construction in progress	381,455
Other capital assets	46,464,037
Less: Accumulated depreciation	(23,551,595)

Deferred outflows of resources related to pensions do not relate to current financial resources and are not reported in the governmental funds.	2,905,997
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Deferred inflows of resources related to pensions do not relate to current financial resources and are not reported in the governmental funds.	(1,087,690)
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Some liabilities, including long-term debt, are not due and payable in the current period and, therefore, are not reported in the funds.	
Bonds and notes payable	(10,094,161)
Compensated absences	(883,454)
Accrued interest	(120,737)
Net pension liability	<u>(516,844)</u>

NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 23,025,391</u>
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CITY OF FORT ATKINSON

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS

For the Year Ended December 31, 2016

	<u>General</u>	<u>General Debt Service</u>	<u>TIF District No. 6</u>
REVENUES			
Taxes	\$ 6,476,667	\$ 735,501	\$ 155,289
Intergovernmental	2,337,585	39,593	1,325
Licenses and permits	310,923	-	-
Fines, forfeitures and penalties	122,578	-	-
Public charges for services	470,919	-	-
Intergovernmental charges for services	187,606	-	-
Special assessments	4,006	-	-
Investment income	23,255	-	279
Miscellaneous	371,479	-	7,768
Total Revenues	<u>10,305,018</u>	<u>775,094</u>	<u>164,661</u>
EXPENDITURES			
Current			
General government	1,896,781	-	-
Public safety	3,354,808	-	-
Public works	2,162,297	-	-
Health and human services	30,517	-	-
Culture, recreation and education	2,014,105	-	-
Conservation and development	472,625	-	-
Capital Outlay	1,469,630	-	70,536
Debt Service			
Principal	-	1,118,270	314,000
Interest and fiscal charges	-	181,113	74,642
Total Expenditures	<u>11,400,763</u>	<u>1,299,383</u>	<u>459,178</u>
 Excess (deficiency) of revenues over expenditures	 <u>(1,095,745)</u>	 <u>(524,289)</u>	 <u>(294,517)</u>
OTHER FINANCING SOURCES (USES)			
Debt issued	1,216,668	-	-
Refunding debt issued	-	512,293	-
Transfers in	298,870	-	69,190
Transfers out	-	-	-
Total Other Financing Sources (Uses)	<u>1,515,538</u>	<u>512,293</u>	<u>69,190</u>
 Net Change in Fund Balances	 419,793	 (11,996)	 (225,327)
 FUND BALANCES (DEFICIT) - Beginning of Year	 <u>4,433,771</u>	 <u>16,153</u>	 <u>(2,548,219)</u>
 FUND BALANCES (DEFICIT) - END OF YEAR	 <u>\$ 4,853,564</u>	 <u>\$ 4,157</u>	 <u>\$ (2,773,546)</u>

See accompanying notes to financial statements.

Nonmajor Governmental Funds	Totals
\$ 367,571	\$ 7,735,028
4,777	2,383,280
-	310,923
-	122,578
-	470,919
-	187,606
-	4,006
88,235	111,769
<u>22,111</u>	<u>401,358</u>
<u>482,694</u>	<u>11,727,467</u>
-	1,896,781
-	3,354,808
-	2,162,297
-	30,517
49,719	2,063,824
85,571	558,196
85,959	1,626,125
190,000	1,622,270
<u>45,350</u>	<u>301,105</u>
<u>456,599</u>	<u>13,615,923</u>
<u>26,095</u>	<u>(1,888,456)</u>
373,000	1,589,668
-	512,293
-	368,060
<u>(69,190)</u>	<u>(69,190)</u>
<u>303,810</u>	<u>2,400,831</u>
329,905	512,375
<u>2,460,587</u>	<u>4,362,292</u>
<u>\$ 2,790,492</u>	<u>\$ 4,874,667</u>

See accompanying notes to financial statements.

CITY OF FORT ATKINSON

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

Net change in fund balances - total governmental funds	\$	512,375
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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 as an expenditure in the fund financial statements but is capitalized in the government-wide financial statements		1,626,125
Less: Some items reported as capital outlay were not capitalized		(821,650)
Depreciation is reported in the government-wide financial statements		(1,324,660)
Net book value of assets retired		(24,813)

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		(2,101,961)
Principal repaid		1,622,270

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		112,805
Unfunded prior service cost		1,296,058
Accrued interest on debt		14,498
Net pension asset/liability		(1,312,992)
Deferred outflows of resources related to pensions		2,080,134
Deferred inflows of resources related to pensions		<u>(1,087,690)</u>

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	\$	<u>590,499</u>
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CITY OF FORT ATKINSON

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

	Business-type Activities - Enterprise Funds			
	Water Utility	Sewer Utility	Stormwater Utility	Totals
ASSETS				
Current Assets				
Cash and investments	\$ 972,588	\$ 1,896,979	\$ 391,098	\$ 3,260,665
Receivables				
Accounts	242,627	132,618	39,999	415,244
Other	1,686	474,499	-	476,185
Due from other funds	-	24,344	825	25,169
Prepaid items	9,993	9,803	-	19,796
Inventories	29,646	-	-	29,646
Total Current Assets	<u>1,256,540</u>	<u>2,538,243</u>	<u>431,922</u>	<u>4,226,705</u>
Noncurrent Assets				
Restricted Assets				
Replacement account	-	912,279	-	912,279
Capital Assets				
Utility Plant	16,159,498	33,229,587	7,410,591	56,799,676
Less: Accumulated depreciation	(4,895,862)	(18,244,951)	(3,541,183)	(26,681,996)
Other Assets				
Construction work in progress	-	412,601	13,939	426,540
Total Noncurrent Assets	<u>11,263,636</u>	<u>16,309,516</u>	<u>3,883,347</u>	<u>31,456,499</u>
Total Assets	<u>12,520,176</u>	<u>18,847,759</u>	<u>4,315,269</u>	<u>35,683,204</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred charge on refunding	81,435	47,524	-	128,959
Pension related amounts	182,456	231,332	83,957	497,745
Total Deferred Outflows of Resources	<u>263,891</u>	<u>278,856</u>	<u>83,957</u>	<u>626,704</u>

See accompanying notes to financial statements.

	Business-type Activities - Enterprise Funds			
	Water Utility	Sewer Utility	Stormwater Utility	Totals
LIABILITIES				
Current Liabilities				
Accounts payable	\$ 91,007	\$ 17,962	\$ -	\$ 108,969
Accrued interest	25,094	17,364	1,101	43,559
Accrued taxes	298,870	-	-	298,870
Current portion of general obligation debt	297,543	238,495	990	537,028
Due to other funds	262,413	349,679	50,324	662,416
Compensated absences	26,458	14,571	-	41,029
Accrued liabilities	1,194	750	-	1,944
Total Current Liabilities	<u>1,002,579</u>	<u>638,821</u>	<u>52,415</u>	<u>1,693,815</u>
Noncurrent Liabilities				
Long-Term Debt				
General obligation bonds payable	1,775,998	1,124,467	29,597	2,930,062
Compensated absences	65,455	39,536	-	104,991
Unamortized premium on bonds	71,601	47,106	-	118,707
Net pension liability	33,398	40,715	14,941	89,054
Total Noncurrent Liabilities	<u>1,946,452</u>	<u>1,251,824</u>	<u>44,538</u>	<u>3,242,814</u>
Total Liabilities	<u>2,949,031</u>	<u>1,890,645</u>	<u>96,953</u>	<u>4,936,629</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows related to pension	<u>70,285</u>	<u>85,685</u>	<u>31,443</u>	<u>187,413</u>
Total Deferred Inflows of Resources	<u>70,285</u>	<u>85,685</u>	<u>31,443</u>	<u>187,413</u>
NET POSITION				
Net investment in capital assets	9,278,470	14,142,655	3,883,347	27,304,472
Restricted for				
Equipment replacement	-	912,279	-	912,279
Unrestricted	<u>486,281</u>	<u>2,095,351</u>	<u>387,483</u>	<u>2,969,115</u>
TOTAL NET POSITION	<u>\$ 9,764,751</u>	<u>\$ 17,150,285</u>	<u>\$ 4,270,830</u>	<u>\$ 31,185,866</u>

See accompanying notes to financial statements.

CITY OF FORT ATKINSON

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
 PROPRIETARY FUNDS

For the Year Ended December 31, 2016

	Business-type Activities - Enterprise Funds			Totals
	Water Utility	Sewer Utility	Stormwater Utility	
OPERATING REVENUES				
Charges for services	\$ 1,922,830	\$ 2,707,715	\$ 361,578	\$ 4,992,123
Total Operating Revenues	<u>1,922,830</u>	<u>2,707,715</u>	<u>361,578</u>	<u>4,992,123</u>
OPERATING EXPENSES				
Operation and maintenance	873,820	1,586,977	251,413	2,712,210
Depreciation	309,114	817,033	163,506	1,289,653
Taxes	18,730	37,100	-	55,830
Total Operating Expenses	<u>1,201,664</u>	<u>2,441,110</u>	<u>414,919</u>	<u>4,057,693</u>
Operating Income (Loss)	<u>721,166</u>	<u>266,605</u>	<u>(53,341)</u>	<u>934,430</u>
NONOPERATING REVENUES (EXPENSES)				
Investment income	1,288	8,446	329	10,063
Interest expense	(68,082)	(35,704)	(1,101)	(104,887)
Amortization of premium and deferred charge on refunding	(981)	791	-	(190)
Total Nonoperating Revenues (Expenses)	<u>(67,775)</u>	<u>(26,467)</u>	<u>(772)</u>	<u>(95,014)</u>
Income (Loss) Before Contributions and Transfers	<u>653,391</u>	<u>240,138</u>	<u>(54,113)</u>	<u>839,416</u>
CONTRIBUTIONS AND TRANSFERS				
Capital contributions	7,236	10,934	4,015	22,185
Transfers out	(377,411)	(107,962)	(30,587)	(515,960)
Total Contributions and Transfers	<u>(370,175)</u>	<u>(97,028)</u>	<u>(26,572)</u>	<u>(493,775)</u>
Change in Net Position	283,216	143,110	(80,685)	345,641
NET POSITION - Beginning of Year	<u>9,481,535</u>	<u>17,007,175</u>	<u>4,351,515</u>	<u>30,840,225</u>
NET POSITION - END OF YEAR	<u>\$ 9,764,751</u>	<u>\$ 17,150,285</u>	<u>\$ 4,270,830</u>	<u>\$ 31,185,866</u>

See accompanying notes to financial statements.

CITY OF FORT ATKINSON

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

	Business-type Activities - Enterprise Funds			
	Water Utility	Sewer Utility	Stormwater Utility	Totals
CASH FLOWS FROM OPERATING ACTIVITIES				
Received from customers	\$ 1,915,978	\$ 2,627,457	\$ 359,268	\$ 4,902,703
Paid to suppliers for goods and services	(337,100)	(973,379)	(31,897)	(1,342,376)
Paid to employees for services	(260,962)	(374,823)	(185,341)	(821,126)
Net Cash Flows From Operating Activities	<u>1,317,916</u>	<u>1,279,255</u>	<u>142,030</u>	<u>2,739,201</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment income	<u>1,288</u>	<u>8,446</u>	<u>329</u>	<u>10,063</u>
Net Cash Flows From Investing Activities	<u>1,288</u>	<u>8,446</u>	<u>329</u>	<u>10,063</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Paid to municipality for tax equivalent	<u>(286,138)</u>	<u>-</u>	<u>-</u>	<u>(286,138)</u>
Net Cash Flows From Noncapital Financing Activities	<u>(286,138)</u>	<u>-</u>	<u>-</u>	<u>(286,138)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Debt retired	(280,000)	(225,000)	-	(505,000)
Interest paid	(68,116)	(34,842)	-	(102,958)
Acquisition and construction of capital assets	(485,424)	(646,464)	(7,079)	(1,138,967)
Capital contributions received	<u>1,763</u>	<u>5,854</u>	<u>-</u>	<u>7,617</u>
Net Cash Flows From Capital and Related Financing Activities	<u>(831,777)</u>	<u>(900,452)</u>	<u>(7,079)</u>	<u>(1,739,308)</u>
Net Change in Cash and Cash Equivalents	201,289	387,249	135,280	723,818
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>771,299</u>	<u>2,422,009</u>	<u>255,818</u>	<u>3,449,126</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 972,588</u>	<u>\$ 2,809,258</u>	<u>\$ 391,098</u>	<u>\$ 4,172,944</u>

See accompanying notes to financial statements.

	Business-type Activities - Enterprise Funds			
	Water Utility	Sewer Utility	Stormwater Utility	Totals
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FLOWS FROM OPERATING ACTIVITIES				
Operating income (loss)	\$ 721,166	\$ 266,605	\$ (53,341)	\$ 934,430
Adjustments to Reconcile Operating Income (Loss) to Net Cash Flows From Operating Activities				
Depreciation	309,114	817,033	163,506	1,289,653
Depreciation charged to other accounts	38,237	-	-	38,237
Changes in assets and liabilities				
Accounts receivable	(38,014)	(6,089)	(1,764)	(45,867)
Other accounts receivable	1,913	(51,537)	-	(49,624)
Due from other funds	3,759	(22,632)	(546)	(19,419)
Inventories	(4,651)	-	-	(4,651)
Prepayments	(9,993)	(9,793)	-	(19,786)
Due to other funds	203,187	240,674	-	443,861
Accrued compensation	(18,487)	(2,936)	-	(21,423)
Due to other funds	-	-	24,589	24,589
Other current liabilities	177	1,436	-	1,613
Accounts payable	91,007	17,962	-	108,969
Pension related deferrals and assets/liabilities	20,501	28,532	9,586	58,619
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>\$ 1,317,916</u>	<u>\$ 1,279,255</u>	<u>\$ 142,030</u>	<u>\$ 2,739,201</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET POSITION - PROPRIETARY FUNDS				
Cash and investments	\$ 972,588	\$ 1,896,979	\$ 391,098	\$ 3,260,665
Restricted cash and investments	-	912,279	-	912,279
CASH AND CASH EQUIVALENTS	<u>\$ 972,588</u>	<u>\$ 2,809,258</u>	<u>\$ 391,098</u>	<u>\$ 4,172,944</u>
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES				
Assumed liability for prior service costs	\$ 78,541	\$ 107,962	\$ 30,587	
Capital assets contributed by developers	\$ 5,473	\$ 5,080	\$ 4,015	

See accompanying notes to financial statements.

CITY OF FORT ATKINSON

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

	<u>Agency Fund</u> <u>Tax Collection</u> <u>Fund</u>
ASSETS	
Cash and investments	\$ 8,203,391
Tax roll receivable	<u>5,805,719</u>
TOTAL ASSETS	<u>\$ 14,009,110</u>
LIABILITIES	
Due to other taxing units	<u>\$ 14,009,110</u>
TOTAL LIABILITIES	<u>\$ 14,009,110</u>

See accompanying notes to financial statements.

CITY OF FORT ATKINSON

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CITY OF FORT ATKINSON

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

NOTE I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Fort Atkinson, Wisconsin conform to accounting principles generally accepted in the United States of America 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. The reporting entity for the city consists of the primary government and its component unit. 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.

Component Unit Not Presented

Fort Atkinson Historical Society

The Fort Atkinson Historical Society (Historical Society) is a legally separate organization that qualifies as a component unit of the city. Audited financial statements of the Historical Society are not available for the year ended December 31, 2016.

CITY OF FORT ATKINSON

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

NOTE I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

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 nonexchange 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.

Fund Financial Statements

Financial statements of the city 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 balance, revenues, and expenditures/expenses.

CITY OF FORT ATKINSON

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

NOTE I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (cont.)

Fund Financial Statements (cont.)

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 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, 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 and report all financial resources except those accounted for and reported in another fund.
- General 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.
- Tax Incremental District (TID) No. 6 Capital Projects Fund - used to account for and report financial resources that are restricted, committed, or assigned to expenditures outlined in the TID project plan.

The city reports the following major enterprise funds:

- Water Utility - accounts for operations of the water system
- Sewer Utility - accounts for operations of the sewer system
- Stormwater Utility - accounts for operations of the stormwater system

CITY OF FORT ATKINSON

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

NOTE I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (cont.)

Fund Financial Statements (cont.)

The city reports the following nonmajor governmental 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).

Wisconsin Development Fund
Library Trust
Museum Trust

Capital Projects Funds - 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.

TIF District No. 7
TIF District No. 8

In addition, the city reports the following fund type:

Agency Fund - used to account for and report assets held by the city in a trustee capacity or as an agent for individuals, private organizations, and/or other governmental units.

Tax Collection

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 deferred inflows. 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.

CITY OF FORT ATKINSON

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

NOTE I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION (cont.)

Government-Wide Financial Statements (cont.)

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 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 inflows. 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 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 requirements) are met are recorded as liabilities. Amounts received in advance of meeting time requirements are 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. At December 31, 2016, there were \$698,574 of unrecorded anticipated future assessments which are not recorded as receivables because collection is subject to certain events occurring in the future. No formal repayment schedules have been established.

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.

Proprietary fund financial statements 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.

CITY OF FORT ATKINSON

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

NOTE I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION (cont.)

Fund Financial Statements (cont.)

The proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water, sewer, and stormwater utilities 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 nonoperating 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.

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 Wisconsin 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, 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.

CITY OF FORT ATKINSON

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

NOTE I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

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

1. Deposits and Investments (cont.)

Investment of most trust funds, is regulated by Chapter 881 of the Wisconsin Statutes. Investment of library trust funds is regulated by Chapter 112. Those sections give broad authority to use such funds to acquire various kinds of investments including stocks, bonds and debentures.

The city has adopted an investment policy. That policy contains the following guidelines related to custodial credit risk: all deposits of city funds in interest bearing time instruments shall be secured by pledged collateral in an amount equal to at least 100% of the total investment less the amount insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation. At December 31, 2016, the city has deposits which do not meet the previous criteria and are uninsured and uncollateralized. See Note III. A.

No policy exists for the following risks:

Credit risk
Interest rate risk

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 methods and inputs as outlined in Note III. A. 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 the bank statement balance 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 III. A. for further information.

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 school district and technical college district. Taxes for all state and local governmental units billed in the current year for the succeeding year are reflected as receivables and due to other taxing units on the accompanying statement of assets and liabilities - agency fund.

CITY OF FORT ATKINSON

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

NOTE I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

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

2. Receivables (cont.)

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	July 31, 2017
Personal property taxes in full	January 31, 2017
Tax sale - 2016 delinquent real estate taxes	October 2019

Accounts receivable have been shown net of an allowance for uncollectible accounts. 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 for the water and sewer utilities because they have the right by law to place substantially all 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 governmental-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.

The city has received federal and state grant funds for economic development loan programs to various businesses and individuals. The city records a loan receivable when the loan has been made and funds have been disbursed. The amount recorded as economic development loans receivable has not been reduced by an allowance for uncollectible accounts.

It is the city's policy to record revenue when the initial loan is made from the federal grant funds. The net amount of the loan receivable balance is included in restricted fund balance. Interest received from loan repayments is recognized as revenue when received in cash. Any unspent loan repayments at year end are presented as restricted fund balance in the fund financial statements.

CITY OF FORT ATKINSON

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

NOTE I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

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

3. Inventories and Prepaid Items

Governmental fund inventories, if material, are recorded at cost based on the FIFO method using the purchases method of accounting. 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 FIFO, 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 \$10,000 for general capital assets and \$25,000 for 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.

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 fund proceeds. No interest was capitalized during the current year. 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.

CITY OF FORT ATKINSON

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

NOTE I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

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

5. Capital Assets (cont.)

Government-Wide Statements (cont.)

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. The range of estimated useful lives by type of asset is as follows:

Buildings	10-40 Years
Land Improvements	10-20 Years
Machinery and Equipment	4-25 Years
Utility Systems	15-85 Years
Infrastructure	50-75 Years

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 the same way as in the government-wide statements.

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.

A deferred charge on refunding arises from the advance refunding of debt. The difference between the cost of the securities placed in trust for future payments of the 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 financial statements.

7. Compensated Absences

Under terms of employment, employees are granted sick leave and vacations in varying amounts. Only benefits considered to be vested are disclosed in these statements.

All vested vacation and sick leave pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements, and are payable with expendable resources.

CITY OF FORT ATKINSON

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

NOTE I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

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

7. Compensated Absences (cont.)

The city provides postemployment health insurance benefits for all eligible employees. Eligibility is based on various criteria. The benefits are based on contractual agreements with employee groups, local ordinances, or employee benefit policies. Employees may convert a portion of accumulated sick leave to pay for health care premiums. The cost of those premiums is recognized as an expenditure as the premiums are paid. The entire cost is paid by the city. Funding for those costs is provided out of the current operating budget of the city. The contributions are financed on a pay as you go basis. Total expenditures for such premiums during the year were \$60,905. The number of participants currently eligible to receive benefits is nine. The total amount outstanding at year end to be paid in the future is \$87,623 and is included in the government-wide statement of net position.

Payments for vacation and sick leave will be made at rates in effect when the benefits are used. Accumulated vacation and sick leave liabilities at December 31, 2016, are determined on the basis of current salary rates and include salary related payments.

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 (plus any premiums) are 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 effective interest method. The balance at year end 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.

CITY OF FORT ATKINSON

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

NOTE I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

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

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 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. Unrestricted net position - All other net positions that do not meet the definitions of "restricted" or "net investment in capital assets."

The net position section includes an adjustment for capital assets owned by the business-type activities column, but financed by the debt of the governmental activities column. The amount is a reduction of "net investment in capital assets", and an increase in "unrestricted" net position, shown only in the total column. A reconciliation of this adjustment is as follows:

	Governmental Activities	Business-type Activities	Adjustment	Total
Net investment in capital assets	\$ 19,476,470	\$ 27,304,472	\$ (544,050)	\$ 46,236,892
Unrestricted	758,429	2,969,115	544,050	4,271,594

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.

Fund Statements

Governmental fund balances are 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.

CITY OF FORT ATKINSON

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

NOTE I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

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

10. Equity Classifications (cont.)

Fund Statements (cont.)

- 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 Council. 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 Council that originally created the commitment.
- d. Assigned - Includes spendable fund balance amounts that are intended to be used for specific purposes that do not meet the criteria to be classified as restricted or committed. The City Council has, by resolution, adopted a financial policy authorizing the Council to assign amounts for a specific purpose. 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 exceed amounts restricted, committed, or assigned for those purposes.

Proprietary fund equity is classified the same as in the government-wide statements.

The city has a formal minimum fund balance policy. That policy is to maintain unassigned general fund balance at a minimum of 8% of budgeted general fund expenditures. The unassigned general fund balance at year end was \$939,496, or 8.2% of general fund expenditures.

See Note III. G. for further information.

11. Pension

For purposes of measuring the net pension 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 FORT ATKINSON

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

NOTE I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

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

12. Basis for Existing Rates

Water Utility

Current water rates were approved by the Public Service Commission of Wisconsin and placed into effect by the utility on September 1, 2013. The rates are designed to provide a 5.50% return on rate base.

Sewer Utility

Current sewer rates were approved by the city council to be effective as of January 1, 2015.

Stormwater Utility

Current stormwater rates were approved by the city council to be effective as of January 1, 2016.

NOTE II - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. BUDGETARY INFORMATION

A budget has been adopted for the general fund, debt service fund, TIF District No. 6 fund, TIF District No. 7 fund, and TIF District No. 8 fund. Budgets have also been adopted for the water, sewer, and stormwater enterprise funds. A budget has not been formally adopted for other funds. Wisconsin Statute 65.90 requires that an annual budget be adopted for all funds.

B. EXCESS EXPENDITURES AND OTHER FINANCING USES OVER APPROPRIATIONS

<u>Funds</u>	<u>Budgeted Expenditures and Other Financing Uses</u>	<u>Actual Expenditures and Other Financing Uses</u>	<u>Excess Expenditures and Other Financing Uses Over Budget</u>
Debt service	\$ 787,092	\$ 1,299,383	\$ 512,291
TIF District No. 6	388,794	459,178	70,384
TIF District No. 7	298,150	384,690	86,540
TIF District No. 8	66,015	85,809	19,794

The city controls expenditures at the department level. 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.

CITY OF FORT ATKINSON

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

NOTE II - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (cont.)

C. DEFICIT BALANCES

Generally accepted accounting principles require disclosure of individual funds that have deficit balances at year end.

As of December 31, 2016, the following individual funds held a deficit balance:

<u>Fund</u>	<u>Amount</u>	<u>Reason</u>
TIF District No. 6	\$ 2,773,546	Timing difference in funding source

TIF district deficits are anticipated to be funded with future incremental taxes levied over the life of the districts, which is 27 years for the districts created before October 1, 1995, and 23 years for districts created thereafter through September 30, 2004. Beginning October 1, 2004, the life of new districts varies by type of district (20-27 years) and may be extended in some cases. TIF District No. 6 has been designated as distressed and can collect increment for an additional 10 years past the original life.

D. 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 FORT ATKINSON

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

NOTE III - DETAILED NOTES ON ALL FUNDS

A. DEPOSITS AND INVESTMENTS

The city's deposits and investments at year end were comprised of the following:

	Carrying Value	Bank and Investment Balances	Associated Risks
Deposits	\$ 13,962,576	\$ 14,638,483	Custodial credit
Mutual funds - bonds	118,127	118,127	Credit, interest rate
Mutual funds - other	620,134	620,134	N/A
LGIP	607,940	907,940	Credit
Stocks	573,741	573,741	Custodial credit
Petty cash	645	-	N/A
 Total Deposits and Investments	 \$ 15,883,163	 \$ 16,858,425	
 Reconciliation to financial statements			
Per statement of net position			
Unrestricted cash and investments	\$ 6,767,493		
Restricted cash and investments	912,279		
Per statement of assets and liabilities - agency fund			
Agency Fund	8,203,391		
 Total Deposits and Investments	 \$ 15,883,163		

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 been considered in computing custodial credit risk.

The city maintains collateral agreements with its banks. At December 31, 2016, the banks had pledged various government securities in the amount of \$3,762,372 to secure the city's deposits.

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.

CITY OF FORT ATKINSON

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

NOTE III - DETAILED NOTES ON ALL FUNDS (cont.)

A. DEPOSITS AND INVESTMENTS (cont.)

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

- > Market approach - prices or other information from market transactions involving identical assets

Investment Type	December 31, 2016			
	Level 1	Level 2	Level 3	Total
Mutual funds - bonds	\$ 118,127	\$ -	\$ -	\$ 118,127
Mutual funds - other	620,134	-	-	620,134
Stocks	573,741	-	-	573,741
Total	<u>\$ 1,312,002</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,312,002</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, \$9,899,852 of the city's total bank balances were exposed to custodial credit risk as follows:

Uninsured and uncollateralized	<u>\$ 9,899,852</u>
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Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

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

Investment Type	Composite Ratings
Mutual funds - bonds	A, BB

The city also held investments in the following external pool which is not rated:

Local Government Investment Pool (LGIP)

CITY OF FORT ATKINSON

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

NOTE III - DETAILED NOTES ON ALL FUNDS (cont.)

A. DEPOSITS AND INVESTMENTS (cont.)

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the value of an investment.

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

Investment Type	Fair Value	Maturity (In Years)		
		Less than 1	1-3	Greater than 3
Mutual funds - bonds	\$ 118,127	\$ -	\$ 118,127	\$ -

See Note I.D.1. for further information on deposit and investment policies.

B. RECEIVABLES

Receivables as of year end for the government's individual major funds and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Nonmajor Funds	Totals
Amounts not expected to be collected within one year	\$ 190	\$ 1,143,863	\$ 1,144,053

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
Property taxes receivable for subsequent year	\$ 7,905,159
Total Unearned/Unavailable Revenue for Governmental Funds	\$ 7,905,159

For economic development loans, the city is limited by the Wisconsin Department of Administration to the amount of program income from economic development loans that it may retain to be loaned to other businesses and/or the amount of time for which funds may be held without use. Program income includes the principal and interest received from economic development loans repayments.

CITY OF FORT ATKINSON

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

NOTE III - DETAILED NOTES ON ALL FUNDS (cont.)

B. RECEIVABLES (cont.)

At December 31, 2016, the city has not exceeded the maximum amount of program income that it may retain or the amount of time for which funds may be held without use. When it does, a liability to the state will be recorded.

C. RESTRICTED ASSETS

The following represent the balances of the restricted assets:

Replacement Account

The sewer utility has established a replacement account as a condition of receiving a loan from the State of Wisconsin Clean Water Fund program.

Restricted assets at December 31, 2016 were \$912,279 for equipment replacement in the sewer utility.

D. CAPITAL ASSETS

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

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental Activities				
Capital assets not being depreciated				
Land	\$ 4,662,645	\$ -	\$ 8,929	\$ 4,653,716
Construction in progress	191,579	189,876	-	381,455
Total Capital Assets Not Being Depreciated	4,854,224	189,876	8,929	5,035,171
Capital assets being depreciated				
Land improvements	2,852,164	-	9,350	2,842,814
Buildings	15,138,973	-	-	15,138,973
Machinery and equipment	8,848,451	215,737	325,648	8,738,540
Infrastructure	19,652,543	398,862	307,695	19,743,710
Total Capital Assets Being Depreciated	46,492,131	614,599	642,693	46,464,037
Total Capital Assets	51,346,355	804,475	651,622	51,499,208

CITY OF FORT ATKINSON

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

NOTE III - DETAILED NOTES ON ALL FUNDS (cont.)

D. CAPITAL ASSETS (cont.)

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental Activities (cont.)				
Less: Accumulated depreciation for				
Land improvements	\$ (895,751)	\$ (76,393)	\$ 9,350	\$ (962,794)
Buildings	(6,647,305)	(526,352)	-	(7,173,657)
Machinery and equipment	(6,569,203)	(390,424)	290,764	(6,668,863)
Infrastructure	(8,741,485)	(331,491)	326,695	(8,746,281)
Total Accumulated Depreciation	(22,853,744)	(1,324,660)	626,809	(23,551,595)
Net Capital Assets Being Depreciated	23,638,387	(710,061)	15,884	22,912,442
Total Governmental Activities Capital Assets, Net of Accumulated Depreciation	\$ 28,492,611	\$ (520,185)	\$ 24,813	\$ 27,947,613

Depreciation expense was charged to functions as follows:

Governmental Activities

General government	\$ 64,011
Public safety	287,897
Public works, which includes the depreciation of infrastructure	428,502
Culture, recreation and education	505,154
Conservation and development	39,096
Total Governmental Activities Depreciation Expense	\$ 1,324,660

CITY OF FORT ATKINSON

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

NOTE III - DETAILED NOTES ON ALL FUNDS (cont.)

D. CAPITAL ASSETS (cont.)

Business-type Activities

	Beginning Balance	Additions	Deletions	Ending Balance
<u>Water</u>				
Capital assets not being depreciated				
Land and land rights	\$ 69,046	\$ -	\$ -	\$ 69,046
Completed construction not classified	90,829	5,473	96,302	-
Total Capital Assets Not Being Depreciated	159,875	5,473	96,302	69,046
Capital assets being depreciated				
Source of supply	159,505	-	-	159,505
Pumping	1,183,784	-	-	1,183,784
Treatment	75,288	-	-	75,288
Transmission and distribution	12,853,243	533,546	86,995	13,299,794
Administrative and general assets	1,357,690	38,056	23,665	1,372,081
Total Capital Assets Being Depreciated	15,629,510	571,602	110,660	16,090,452
Total Capital Assets	15,789,385	577,075	206,962	16,159,498
Less: Accumulated depreciation for				
Source of supply	(129,570)	(4,626)	-	(134,196)
Pumping	(600,115)	(27,275)	-	(627,390)
Treatment	(73,892)	(1,396)	-	(75,288)
Transmission and distribution	(2,999,494)	(254,859)	100,120	(3,154,233)
Administrative and general assets	(866,224)	(59,196)	20,665	(904,755)
Total Accumulated Depreciation	(4,669,295)	(347,352)	120,785	(4,895,862)
Net Capital Assets Being Depreciated	10,960,215	224,250	(10,125)	11,194,590
Net Water Capital Assets	\$ 11,120,090	\$ 229,723	\$ 86,177	\$ 11,263,636

CITY OF FORT ATKINSON

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

NOTE III - DETAILED NOTES ON ALL FUNDS (cont.)

D. CAPITAL ASSETS (cont.)

Business-type Activities (cont.)

	Beginning Balance	Additions	Deletions	Ending Balance
<u>Sewer</u>				
Capital assets not being depreciated				
Land and land rights	\$ 14,700	\$ -	\$ -	\$ 14,700
Construction in progress	-	412,601	-	412,601
Completed construction not classified	<u>72,789</u>	<u>5,080</u>	<u>77,869</u>	<u>-</u>
Total Capital Assets Not Being Depreciated	<u>87,489</u>	<u>417,681</u>	<u>77,869</u>	<u>427,301</u>
Capital assets being depreciated				
Collection system	11,954,562	88,661	-	12,043,223
Collection system pumping	555,723	-	-	555,723
Treatment and disposal	19,158,670	156,112	152,618	19,162,164
Administrative and general assets	<u>1,389,814</u>	<u>67,668</u>	<u>3,705</u>	<u>1,453,777</u>
Total Capital Assets Being Depreciated	<u>33,058,769</u>	<u>312,441</u>	<u>156,323</u>	<u>33,214,887</u>
Total Capital Assets	<u>33,146,258</u>	<u>730,122</u>	<u>234,192</u>	<u>33,642,188</u>
Less: Accumulated depreciation for				
Sewer plant	<u>(17,583,532)</u>	<u>(817,033)</u>	<u>155,614</u>	<u>(18,244,951)</u>
Total Accumulated Depreciation	<u>(17,583,532)</u>	<u>(817,033)</u>	<u>155,614</u>	<u>(18,244,951)</u>
Net Capital Assets Being Depreciated	<u>15,475,237</u>	<u>(504,592)</u>	<u>709</u>	<u>14,969,936</u>
Net Sewer Capital Assets	<u>\$ 15,562,726</u>	<u>\$ (86,911)</u>	<u>\$ 78,578</u>	<u>\$ 15,397,237</u>

CITY OF FORT ATKINSON

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

NOTE III - DETAILED NOTES ON ALL FUNDS (cont.)

D. CAPITAL ASSETS (cont.)

Business-type Activities (cont.)

	Beginning Balance	Additions	Deletions	Ending Balance
<u>Stormwater</u>				
Capital assets not being depreciated				
Construction in progress	\$ 15,083	\$ -	\$ 1,144	\$ 13,939
Capital assets being depreciated				
Stormwater assets	7,398,353	12,238	-	7,410,591
Total Capital Assets	7,413,436	12,238	1,144	7,424,530
Less: Accumulated depreciation for Stormwater assets	(3,377,677)	(163,506)	-	(3,541,183)
Net Capital Assets Being Depreciated	4,020,676	(151,268)	-	3,869,408
Net Stormwater Capital Assets	\$ 4,035,759	\$ (151,268)	\$ 1,144	\$ 3,883,347
Business-type Capital Assets, Net of Accumulated Depreciation	\$ 30,718,575	\$ (8,456)	\$ 165,899	\$ 30,544,220

Depreciation expense was charged to functions as follows:

Business-type Activities

Water	\$ 309,114
Sewer	817,033
Storm	163,506
Total Business-type Activities Depreciation Expense	\$ 1,289,653

Depreciation expense may be different from business-type activity accumulated depreciation additions because of joint metering, salvage, cost of removal, internal allocations, or costs associated with the disposal of assets.

CITY OF FORT ATKINSON

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

NOTE III - DETAILED NOTES ON ALL FUNDS (cont.)

E. INTERFUND RECEIVABLES/PAYABLES, ADVANCES AND TRANSFERS

Interfund Receivables/Payables

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

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General fund	TIF District No. 6	\$ 46,047
General fund	Water utility	247,342
General fund	Sewer utility	349,679
General fund	Stormwater utility	50,324
General fund	TIF District No. 8	3,332
Sewer utility	Water utility	15,071
Sewer utility	General fund	9,273
Stormwater utility	General fund	<u>825</u>
Total - Fund Financial Statements		721,893
Less: Fund eliminations		(64,450)
Less: Government-wide eliminations		<u>(20,196)</u>
Total Internal Balances - Government-Wide Statement of Net Position		<u>\$ 637,247</u>
<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Governmental Activities	Business-type Activities	\$ 647,345
Business-type Activities	Governmental Activities	<u>(10,098)</u>
Total Government-Wide Financial Statements		<u>\$ 637,247</u>

All amounts are due within one year.

All interfund balances resulted from the 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.

Advances

The general fund is advancing funds to TIF District No. 6. The amount advanced is determined by the deficiency of revenues over expenditures and other financing sources since the district's inception. No repayment schedule has been established.

CITY OF FORT ATKINSON

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

NOTE III - DETAILED NOTES ON ALL FUNDS (cont.)

E. INTERFUND RECEIVABLES/PAYABLES, ADVANCES AND TRANSFERS (cont.)

Advances (cont.)

The following is a schedule of interfund advances:

Receivable Fund	Payable Fund	Amount	Amount Not Due Within One Year
General fund	TIF District No. 6	\$ 2,776,800	\$ 2,776,800
Total - Fund Financial Statements		2,776,800	
Less: Fund eliminations		<u>(2,776,800)</u>	
Total - Interfund Advances		<u><u>\$ -</u></u>	

Transfers

The following is a schedule of interfund transfers:

Fund Transferred To	Fund Transferred From	Amount	Principal Purpose
General fund	Water utility	\$ 298,870	Tax equivalent
TIF District No. 6	TIF District No. 7	<u>69,190</u>	TIF increment sharing
Total - Fund Financial Statements		368,060	
Governmental activities	Water utility	78,541	Assumption of prior service costs liability
Governmental activities	Sewer utility	107,962	Assumption of prior service costs liability
Governmental activities	Stormwater utility	<u>30,587</u>	Assumption of prior service costs liability
Subtotal - Government-wide Financial Statements		585,150	
Less: Fund eliminations		<u>(69,190)</u>	
Total Transfers - Government-Wide Statement of Activities		<u><u>\$ 515,960</u></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.

CITY OF FORT ATKINSON

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

NOTE III - DETAILED NOTES ON ALL FUNDS (cont.)

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
Governmental Activities					
Bonds and Notes Payable					
General obligation debt	\$ 9,614,470	\$ 2,101,961	\$ 1,622,270	\$ 10,094,161	\$ 1,255,628
Sub-totals	<u>9,614,470</u>	<u>2,101,961</u>	<u>1,622,270</u>	<u>10,094,161</u>	<u>1,255,628</u>
Other Liabilities					
Vested compensated absences	996,259	119,308	232,113	883,454	165,054
Net pension liability	-	516,844	-	516,844	-
Unfunded prior service cost	1,296,058	-	1,296,058	-	-
Total Other Liabilities	<u>2,292,317</u>	<u>636,152</u>	<u>1,528,171</u>	<u>1,400,298</u>	<u>165,054</u>
Total Governmental Activities Long-Term Liabilities	<u>\$ 11,906,787</u>	<u>\$ 2,738,113</u>	<u>\$ 3,150,441</u>	<u>\$ 11,494,459</u>	<u>\$ 1,420,682</u>
Business-type Activities					
Bonds and Notes Payable					
General obligation debt	\$ 3,755,000	\$ 217,090	\$ 505,000	\$ 3,467,090	\$ 537,028
(Discounts)/Premiums	144,097	-	25,390	118,707	-
Sub-totals	<u>3,899,097</u>	<u>217,090</u>	<u>530,390</u>	<u>3,585,797</u>	<u>537,028</u>
Other Liabilities					
Vested compensated absences	167,774	19,606	41,360	146,020	41,029
Net pension liability	-	89,054	-	89,054	-
Total Other Liabilities	<u>167,774</u>	<u>108,660</u>	<u>41,360</u>	<u>235,074</u>	<u>41,029</u>
Total Business-type Activities Long-Term Liabilities	<u>\$ 4,066,871</u>	<u>\$ 325,750</u>	<u>\$ 571,750</u>	<u>\$ 3,820,871</u>	<u>\$ 578,057</u>

In accordance with Wisconsin Statutes, total general obligation indebtedness of the city may not exceed 5% of the equalized value of taxable property within the city's jurisdiction. The debt limit as of December 31, 2016, was \$43,532,700. Total general obligation debt outstanding at year end was \$13,561,251.

CITY OF FORT ATKINSON

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

NOTE III - DETAILED NOTES ON ALL FUNDS (cont.)

F. LONG-TERM OBLIGATIONS (cont.)

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 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.

Governmental Activities

<u>General Obligation Debt</u>	<u>Date of Issue</u>	<u>Final Maturity</u>	<u>Interest Rates</u>	<u>Original Indebtedness</u>	<u>Balance December 31, 2016</u>
Promissory note	04/01/99	04/01/22	2.75%	\$ 1,590,000	\$ 534,000
G.O. corporate purpose bonds	04/23/07	02/01/27	4.125 - 4.15	600,000	30,000
G.O. library bonds	03/23/10	02/01/30	2.50 - 6.00	2,525,000	2,205,000
G.O. refunding bonds	05/22/12	02/01/23	2.00 - 3.00	5,750,000	4,375,000
Promissory note	12/29/14	03/01/19	1.375	272,000	163,200
G.O. refunding bonds	05/26/15	02/01/27	1.50 - 3.00	990,000	685,000
State trust fund loan	01/26/16	03/15/35	3.75	1,078,968	1,078,968
Promissory note	09/06/16	03/01/22	1.10	512,293	512,293
Promissory note	09/06/16	03/01/21	1.10	137,700	137,700
Promissory note	11/15/16	03/01/23	1.25	373,000	<u>373,000</u>
Total Governmental Activities - General Obligation Debt					<u>\$ 10,094,161</u>

Business-type Activities

<u>General Obligation Debt</u>	<u>Date of Issue</u>	<u>Final Maturity</u>	<u>Interest Rates</u>	<u>Original Indebtedness</u>	<u>Balance December 31, 2016</u>
G.O. bonds	04/23/07	08/01/27	4.13 - 4.15%	\$ 2,655,000	\$ 130,000
G.O. refunding bonds	05/22/12	02/01/23	2.00 - 3.00	1,875,000	1,265,000
G.O. refunding bonds	05/26/15	02/01/27	1.50 - 3.00	2,055,000	1,855,000
State trust fund loan	01/26/16	03/15/35	3.75	217,090	<u>217,090</u>
Total Business-type Activities - General Obligation Debt					<u>\$ 3,467,090</u>

CITY OF FORT ATKINSON

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

NOTE III - DETAILED NOTES ON ALL FUNDS (cont.)

F. LONG-TERM OBLIGATIONS (cont.)

General Obligation Debt (cont.)

Debt service requirements to maturity are as follows:

Years	Governmental Activities General Obligation Debt		Business-type Activities General Obligation Debt	
	Principal	Interest	Principal	Interest
2017	\$ 1,255,628	\$ 324,162	\$ 537,028	\$ 88,899
2018	1,267,370	290,044	353,383	76,688
2019	1,288,932	254,801	363,699	67,348
2020	1,011,055	222,195	324,005	58,361
2021	1,045,532	191,426	339,362	49,362
2022-2026	2,757,887	567,198	1,242,332	125,512
2027-2031	1,172,680	191,810	247,910	21,168
2032-2035	295,077	28,205	59,371	5,677
Totals	<u>\$ 10,094,161</u>	<u>\$ 2,069,841</u>	<u>\$ 3,467,090</u>	<u>\$ 493,015</u>

Other Debt Information

Estimated payments of compensated absences are not included in the debt service requirement schedules. The compensated absences liability attributable to governmental activities will be liquidated primarily by the general fund.

Current Refunding

On September 6, 2016, the city issued \$512,293 in promissory notes with an average coupon rate of 1.10% to refund \$593,870 of outstanding notes with an average coupon rate of 2.45%. The net proceeds along with existing funds of the city were used to prepay the outstanding debt.

The cash flow requirements on the refunded debt prior to the current refunding was \$553,854 from 2017 through 2022. The cash flow requirements on the refunding notes are \$529,190 from 2017 through 2022. The current refunding resulted in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$24,487.

Prior-Year Defeasance of Debt

In prior years, the city defeased certain general obligation and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the city's financial statements. At December 31, 2016, \$1,990,000 of bonds outstanding are considered defeased. The bonds are callable on February 1, 2017.

CITY OF FORT ATKINSON

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

NOTE III - DETAILED NOTES ON ALL FUNDS (cont.)

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	\$ 4,653,716
Construction in progress	381,455
Other capital assets, net of accumulated depreciation	22,912,442
Less: Long-term debt outstanding	(10,094,161)
Plus: Noncapital debt proceeds	<u>1,623,018</u>
 Total Net Investment in Capital Assets	 <u><u>\$ 19,476,470</u></u>

Governmental Funds

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

	<u>General Fund</u>	<u>General Debt Service</u>	<u>TIF District No. 6</u>	<u>Nonmajor Funds</u>	<u>Totals</u>
Fund Balances					
Nonspendable:					
Prepaid items	\$ 145,426	\$ -	\$ -	\$ -	\$ 145,426
Advance to TIF districts	2,776,800	-	-	-	2,776,800
Delinquent personal property taxes	190	-	-	-	190
Restricted for:					
Loans	-	-	-	1,436,243	1,436,243
Library purposes	-	-	-	566,235	566,235
Museum purposes	-	-	-	774,676	774,676
General debt service	-	4,157	-	-	4,157
TIF purposes	-	-	-	13,338	13,338
Assigned to:					
Deposits	30,520	-	-	-	30,520
Land purchases	28,707	-	-	-	28,707
Non-lapsing accounts	633,555	-	-	-	633,555
PILOT from utility	298,870	-	-	-	298,870
Unassigned (deficit):	<u>939,496</u>	<u>-</u>	<u>(2,773,546)</u>	<u>-</u>	<u>(1,834,050)</u>
 Total Fund Balances (Deficit)	 <u><u>\$ 4,853,564</u></u>	 <u><u>\$ 4,157</u></u>	 <u><u>\$ (2,773,546)</u></u>	 <u><u>\$ 2,790,492</u></u>	 <u><u>\$ 4,874,667</u></u>

CITY OF FORT ATKINSON

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

NOTE III - DETAILED NOTES ON ALL FUNDS (cont.)

G. NET POSITION/FUND BALANCES (cont.)

Business-type Activities

Net Investment in Capital Assets	
Land	\$ 83,746
Construction in progress	426,540
Other capital assets, net of accumulated depreciation	30,033,934
Less: Long-term debt outstanding (excluding unspent capital related debt proceeds)	(3,250,000)
Less: Unamortized debt premium	(118,707)
Add: Deferred charge on refunding	<u>128,959</u>
Total Net Investment in Capital Assets	<u>\$ 27,304,472</u>

NOTE IV - OTHER INFORMATION

A. EMPLOYEES' RETIREMENT SYSTEM

Plan description. The WRS is a cost-sharing multiple-employer defined benefit pension plan. WRS benefits and other plan provisions are established by Chapter 40 of the Wisconsin Statutes. Benefit terms may only be modified by the legislature. The retirement system is administered by the Wisconsin Department of Employee Trust Funds (ETF). The system provides coverage to all eligible State of Wisconsin, local government and other public employees. All employees, initially employed by a participating WRS employer on or after July 1, 2011, and expected to work at least 1200 hours a year and expected to be employed for at least one year from employee's date of hire are eligible to participate in the WRS.

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

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

Benefits provided. Employees who retire at or after age 65 (54 for protective 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.

CITY OF FORT ATKINSON

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

NOTE IV - OTHER INFORMATION (cont.)

A. EMPLOYEES' RETIREMENT SYSTEM (cont.)

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

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

The WRS also provides death and disability benefits for employees.

Post-retirement adjustments. The Employee Trust Funds Board may periodically adjust annuity payments from the retirement system based on annual investment performance in accordance with s. 40.27, Wis. Stat. An increase (or decrease) in annuity payments may result when investment gains (losses), together with other actuarial experience factors, create a surplus (shortfall) in the reserves, as determined by the system's consulting actuary. Annuity increases are not based on cost of living or other similar factors. For Core annuities, decreases may be applied only to previously granted increases. By law, Core annuities cannot be reduced to an amount below the original, guaranteed amount (the "floor") set at retirement. The Core and Variable annuity adjustments granted during recent years are as follows:

<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

CITY OF FORT ATKINSON

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

NOTE IV - OTHER INFORMATION (cont.)

A. EMPLOYEES' RETIREMENT SYSTEM (cont.)

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 \$359,786 in contributions from the city.

Contribution rates as of December 31, 2016 are:

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

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

At December 31, 2016, the city reported a liability of \$605,898 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 0.03728650%, which was a decrease of 0.00072152% from its proportion measured as of December 31, 2014.

For the year ended December 31, 2016, the city recognized pension expense of \$725,021.

CITY OF FORT ATKINSON

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

NOTE IV - OTHER INFORMATION (cont.)

A. EMPLOYEES' RETIREMENT SYSTEM (cont.)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 102,501	\$ 1,275,103
Changes in assumptions	423,913	-
Net differences between projected and actual earnings on pension plan investments	2,480,721	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	34,988	-
Employer contributions subsequent to the measurement date	361,619	-
Totals	\$ 3,403,742	\$ 1,275,103

\$361,619 reported as deferred outflows related to pension resulting from the WRS Employer's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability (asset) in the year ended December 31, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Year Ended December 31:	Deferred Outflows of Resources	Deferred Inflows of Resources
2017	\$ 789,908	\$ 308,577
2018	789,908	308,577
2019	789,908	308,577
2020	658,123	308,577
2021	14,276	40,795

CITY OF FORT ATKINSON

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

NOTE IV - OTHER INFORMATION (cont.)

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% - 5.6%
Mortality:	Wisconsin 2012 Mortality Table
Post-retirement Adjustments*:	2.1%

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

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

CITY OF FORT ATKINSON

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

NOTE IV - OTHER INFORMATION (cont.)

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:

<u>Core Fund Asset Class</u>	<u>Current Asset Allocation %</u>	<u>Destination Target Asset Allocation %</u>	<u>Long-Term Expected Nominal Rate of Return %</u>	<u>Long-Term Expected Real Rate of Return %</u>
U.S. Equities	27%	23%	7.6%	4.7%
International Equities	24.5	22	8.5	5.6
Fixed Income	27.5	37	4.4	1.6
Inflation Sensitive Assets	10	20	4.2	1.4
Real Estate	7	7	6.5	3.6
Private Equity/Debt	7	7	9.4	6.5
Multi-Asset	4	4	6.7	3.8
Total Core Fund	107	120	7.4	4.5
 <u>Variable Fund Asset Class</u>				
U.S Equities	70	70	7.6	4.7
International Equities	30	30	8.5	5.6
Total Variable Fund	100	100	7.9	5.0

New England Pension Consultants Long Term US CPI (Inflation) Forecast: 2.75%
Asset Allocations are managed within established ranges, target percentages may differ from actual monthly allocations

CITY OF FORT ATKINSON

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

NOTE IV - OTHER INFORMATION (cont.)

A. EMPLOYEES' RETIREMENT SYSTEM (cont.)

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

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

	1% Decrease to Discount Rate (6.20%)	Current Discount Rate (7.20%)	1% Increase to Discount Rate (8.20%)
City's proportionate share of the net pension liability (asset)	\$4,249,783	\$605,898	\$(2,240,040)

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

At December 31, 2016, the city reported a payable to the pension plan which represents contractually required contributions outstanding as of the end of the year.

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; workers compensation; and health care of its employees. All of these risks are covered through the purchase of commercial insurance, with minimal deductibles. Settled claims have not exceeded the commercial coverage in any of the past three years. There were no significant reductions in coverage compared to the prior year.

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.

CITY OF FORT ATKINSON

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

NOTE IV - OTHER INFORMATION (cont.)

C. COMMITMENTS AND CONTINGENCIES (cont.)

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 has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursements to the grantor agency for expenditures disallowed under terms of the grants. Management believes such disallowances, if any, would be immaterial.

D. ECONOMIC DEPENDENCY

Sewer Utility

The Sewer Utility has two significant customers who were responsible for 34% of operating revenues in 2016.

E. 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 Reporting for Postemployment Benefits Other Than Pensions*
- > 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.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF FORT ATKINSON

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND For the Year Ended December 31, 2016

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
TAXES				
General property taxes	\$ 5,943,842	\$ 6,238,872	\$ 6,240,467	\$ 1,595
Public accommodation (room) taxes	-	37,724	37,724	-
Interest and penalties on taxes	500	500	79	(421)
Motor vehicle taxes	150,000	150,000	192,890	42,890
Payments in lieu of taxes	4,950	4,950	5,507	557
Total Taxes	6,099,292	6,432,046	6,476,667	44,621
INTERGOVERNMENTAL REVENUES				
Federal aid - law enforcement	-	2,214	2,214	-
State shared revenues	958,230	958,230	956,800	(1,430)
State expenditure restraint	169,430	169,430	169,433	3
Fire insurance tax (2% fire dues)	34,500	34,500	37,382	2,882
State aid - exempt computers	52,360	52,360	52,360	-
State aid - law enforcement improvement	-	6,861	6,861	-
State aid - emergency government	-	4,138	4,138	-
State aid - road allotment	425,390	425,390	425,183	(207)
State aid - local road improvement program	-	59,233	59,233	-
State aid - connecting streets	99,685	99,685	98,681	(1,004)
State and federal aid - transit	-	234,943	234,943	-
State aid - recycling	28,135	28,135	33,279	5,144
State aid - libraries	-	7,119	7,119	-
State aid - municipal services	2,285	2,285	2,272	(13)
County aid - libraries	-	233,223	233,223	-
Township aid - compost site	14,464	14,464	14,464	-
Total Intergovernmental Revenues	1,784,479	2,332,210	2,337,585	5,375
LICENSES AND PERMITS				
Liquor and malt beverage licenses	21,000	21,000	21,600	600
Operators' license	8,000	8,000	8,000	-
Cigarette licenses	1,500	1,500	1,400	(100)
Other business and occupational licenses	700	700	1,517	817
Cable television franchise fees	155,000	155,000	160,422	5,422
Bicycle licenses	500	500	375	(125)
Dog and cat licenses	23,500	23,500	24,441	941
Building permits	35,000	35,000	51,853	16,853
Electrical permits	11,000	11,000	17,601	6,601
Plumbing permits	12,000	12,000	18,734	6,734
Miscellaneous permits	600	600	3,975	3,375
Zoning permits and fees	-	-	1,005	1,005
Total Licenses and Permits	268,800	268,800	310,923	42,123

See independent auditors' report and accompanying notes to required supplementary information.

CITY OF FORT ATKINSON

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND For the Year Ended December 31, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
FINES AND FORFEITURES				
Court penalties and costs	\$ 115,000	\$ 115,000	\$ 95,760	\$ (19,240)
Parking violations	<u>30,000</u>	<u>30,000</u>	<u>26,818</u>	<u>(3,182)</u>
Total Fines and Forfeitures	<u>145,000</u>	<u>145,000</u>	<u>122,578</u>	<u>(22,422)</u>
PUBLIC CHARGES FOR SERVICES				
General government	2,200	2,200	2,895	695
Law enforcement fees	10,500	10,500	12,436	1,936
Fire protection fees	-	-	3,710	3,710
Ambulance fees	36,935	36,935	36,756	(179)
Street related facilities	44,000	44,000	58,750	14,750
Parking lots	110	110	110	-
Airport	16,500	16,500	17,964	1,464
Weed and nuisance control	400	400	925	525
Library	28,180	28,180	26,349	(1,831)
Recreation programs	78,000	78,000	79,986	1,986
Museum	-	25,156	25,156	-
Aquatic center	156,000	156,000	166,101	10,101
Youth center	3,000	3,000	3,000	-
PILOT agreement	30,250	30,250	31,781	1,531
Economic development	<u>5,000</u>	<u>5,000</u>	<u>5,000</u>	<u>-</u>
Total Public Charges for Services	<u>411,075</u>	<u>436,231</u>	<u>470,919</u>	<u>34,688</u>
INTERGOVERNMENTAL CHARGES FOR SERVICES				
Local - fire services	<u>187,000</u>	<u>187,000</u>	<u>187,606</u>	<u>606</u>
SPECIAL ASSESSMENTS				
Sidewalk	<u>-</u>	<u>-</u>	<u>4,006</u>	<u>4,006</u>
INVESTMENT INCOME				
Investment income	10,800	10,800	11,695	895
Interest on city equity	<u>11,560</u>	<u>11,560</u>	<u>11,560</u>	<u>-</u>
Total Investment Income	<u>22,360</u>	<u>22,360</u>	<u>23,255</u>	<u>895</u>

See independent auditors' report and accompanying notes to required supplementary information.

CITY OF FORT ATKINSON

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND For the Year Ended December 31, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
MISCELLANEOUS				
Rental of city property	\$ 7,500	\$ 7,500	\$ 6,394	\$ (1,106)
Sale of city property	8,000	8,000	2,934	(5,066)
Donations	-	344,583	344,583	-
Refund of prior year expenditures	-	-	9,170	9,170
Subdividers' deposits	-	17,500	-	(17,500)
Miscellaneous	-	-	8,398	8,398
Total Miscellaneous	<u>15,500</u>	<u>377,583</u>	<u>371,479</u>	<u>(6,104)</u>
Total Revenues	<u>8,933,506</u>	<u>10,201,230</u>	<u>10,305,018</u>	<u>103,788</u>
EXPENDITURES				
GENERAL GOVERNMENT				
Council	29,775	31,051	31,000	51
Municipal court	79,495	80,234	79,273	961
City attorney	84,270	84,270	83,725	545
City manager	122,985	122,985	121,189	1,796
Clerk/treasurer	129,395	135,460	131,658	3,802
Labor relations	-	3,000	2,130	870
Elections	11,810	12,059	10,712	1,347
Assessor/board of review	44,080	44,080	43,715	365
Independent auditing	32,000	32,000	29,932	2,068
Municipal building	72,062	72,062	67,791	4,271
Tax refunds	1,000	1,000	175	825
Property and liability insurance	42,500	44,603	44,603	-
Workmen's compensation insurance	92,000	96,005	96,005	-
Fire insurance	15,500	15,500	14,820	680
Retirees health insurance	65,000	1,192,203	1,132,190	60,013
Manufacturing property assessment fees	3,500	3,637	3,636	1
Unemployment compensation costs	7,500	7,500	2,157	5,343
Other general government	2,500	2,500	2,070	430
Total General Government	<u>835,372</u>	<u>1,980,149</u>	<u>1,896,781</u>	<u>83,368</u>
PUBLIC SAFETY				
Police	2,416,725	2,502,014	2,468,423	33,591
Water patrol	12,840	12,840	9,718	3,122
School patrol	25,000	25,130	25,130	-
Fire protection	632,210	601,673	574,659	27,014
Ambulance	94,715	98,853	98,473	380
Hydrant rental	-	40,500	31,458	9,042
Building inspection	103,195	104,010	102,090	1,920
Electrical inspection	42,525	43,067	39,186	3,881
Sealer of weights and measures	4,800	4,800	4,800	-
Civil defense	850	871	871	-
Total Public Safety	<u>3,332,860</u>	<u>3,433,758</u>	<u>3,354,808</u>	<u>78,950</u>

See independent auditors' report and accompanying notes to required supplementary information.

CITY OF FORT ATKINSON

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended December 31, 2016

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
PUBLIC WORKS				
Supervision	\$ 5,060	\$ 5,060	\$ 3,386	\$ 1,674
Street superintendent	56,585	56,585	56,401	184
Engineering	149,330	149,922	147,424	2,498
Machinery operation and maintenance	281,765	307,937	280,857	27,080
Garages	136,760	138,579	116,532	22,047
Highway and street maintenance	165,715	202,673	202,673	-
Curb and gutter	17,250	17,250	14,037	3,213
Tree and brush removal	-	14,350	6,573	7,777
Street signs	4,660	5,521	4,561	960
Traffic control	107,745	129,910	96,093	33,817
Snow and ice control	225,165	235,237	221,525	13,712
Street lighting	37,085	295,030	265,847	29,183
Sidewalks	-	44,240	42,391	1,849
Parking facilities	4,045	4,045	2,508	1,537
Airport	12,755	15,015	12,856	2,159
Refuse and garbage collection	683,815	506,500	504,802	1,698
Composting facility	-	34,589	34,589	-
Sanitary landfill	-	149,500	149,242	258
Total Public Works	<u>1,887,735</u>	<u>2,311,943</u>	<u>2,162,297</u>	<u>149,646</u>
HEALTH AND HUMAN SERVICES				
Animal control	<u>30,500</u>	<u>30,517</u>	<u>30,517</u>	<u>-</u>
CULTURE, RECREATION AND EDUCATION				
Library	511,622	513,411	505,793	7,618
County library	-	247,261	238,626	8,635
Museum	156,465	176,230	174,227	2,003
Youth center	72,790	72,790	70,587	2,203
Senior citizens' center	95,062	95,912	91,097	4,815
Recreation department	296,703	296,983	294,011	2,972
Aquatic center	238,417	244,392	226,621	17,771
Celebration and entertainment	31,900	31,900	27,208	4,692
Parks	<u>388,545</u>	<u>394,880</u>	<u>385,935</u>	<u>8,945</u>
Total Culture, Recreation and Education	<u>1,791,504</u>	<u>2,073,759</u>	<u>2,014,105</u>	<u>59,654</u>

See independent auditors' report and accompanying notes to required supplementary information.

CITY OF FORT ATKINSON

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND For the Year Ended December 31, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
CONSERVATION AND DEVELOPMENT				
Forestry	\$ 162,965	\$ 185,816	\$ 182,926	\$ 2,890
Municipal promotion and goodwill	11,500	11,500	11,500	-
Cityscape	-	88,277	51,155	37,122
Industrial development	13,355	13,355	12,961	394
Subsidized taxi service	-	<u>265,185</u>	<u>214,083</u>	<u>51,102</u>
Total Conservation and Development	<u>187,820</u>	<u>564,133</u>	<u>472,625</u>	<u>91,508</u>
CAPITAL OUTLAY				
Police department	33,000	198,433	187,413	11,020
Fire department	14,200	14,200	14,065	135
Electrical inspection	25,000	25,000	24,994	6
Street machinery	165,000	170,000	-	170,000
Highway and street construction	858,015	1,069,528	895,419	174,109
Senior citizen center	2,000	62,398	61,860	538
Library	-	15,301	9,543	5,758
Youth center	-	8,798	3,270	5,528
Aquatic center	30,000	30,000	30,000	-
Parks	17,000	304,897	231,408	73,489
Recreation	<u>6,500</u>	<u>20,282</u>	<u>11,658</u>	<u>8,624</u>
Total Capital Outlay	<u>1,150,715</u>	<u>1,918,837</u>	<u>1,469,630</u>	<u>449,207</u>
Total Expenditures	<u>9,216,506</u>	<u>12,313,096</u>	<u>11,400,763</u>	<u>912,333</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(283,000)</u>	<u>(2,111,866)</u>	<u>(1,095,745)</u>	<u>1,016,121</u>
OTHER FINANCING SOURCES				
Debt issued	-	1,216,668	1,216,668	-
Transfers in	<u>283,000</u>	<u>283,000</u>	<u>298,870</u>	<u>15,870</u>
Total Other Financing Sources	<u>283,000</u>	<u>1,499,668</u>	<u>1,515,538</u>	<u>15,870</u>
Net Change in Fund Balance	-	(612,198)	419,793	1,031,991
FUND BALANCE - Beginning of Year	<u>4,433,771</u>	<u>4,433,771</u>	<u>4,433,771</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 4,433,771</u>	<u>\$ 3,821,573</u>	<u>\$ 4,853,564</u>	<u>\$ 1,031,991</u>

See independent auditors' report and accompanying notes to required supplementary information.

CITY OF FORT ATKINSON

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

<u>Fiscal Year Ending</u>	<u>Proportion of the Net Pension Liability (Asset)</u>	<u>Proportionate Share of the Net Pension Liability (Asset)</u>	<u>Covered Payroll</u>	<u>Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</u>
12/31/16	0.03728650%	\$ 605,898	\$ 4,538,005	13.35%	98.20%
12/31/15	0.03800802%	(933,581)	4,396,943	21.23%	102.74%

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

<u>Fiscal Year Ending</u>	<u>Contractually Required Contributions</u>	<u>Contributions in Relation to the Contractually Required Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
12/31/16	\$ 361,620	\$ 361,620	\$ -	\$ 4,580,496	7.89%
12/31/15	359,786	359,786	-	4,538,005	7.93%

See independent auditors' report and accompanying notes to the required supplementary information.

CITY OF FORT ATKINSON

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION For the Year Ended December 31, 2016

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 action.

Appropriations lapse at year end unless specifically carried over. Carryovers to the following year were \$633,555. Budgets are adopted at the department level of expenditure.

WISCONSIN RETIREMENT SYSTEM

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

The city is required to present the last ten 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.

SUPPLEMENTARY INFORMATION

CITY OF FORT ATKINSON

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

	Special Revenue Funds		
	Wisconsin Development Fund	Library Trust	Museum Trust
ASSETS			
Cash and investments	\$ 173,196	\$ 566,235	\$ 774,676
Receivables			
Taxes	-	-	-
Loans	<u>1,263,047</u>	<u>-</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 1,436,243</u>	<u>\$ 566,235</u>	<u>\$ 774,676</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
Liabilities			
Due to other funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Deferred Inflows of Resources			
Unearned revenues	<u>-</u>	<u>-</u>	<u>-</u>
Total Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances			
Restricted	<u>1,436,243</u>	<u>566,235</u>	<u>774,676</u>
Total Fund Balances	<u>1,436,243</u>	<u>566,235</u>	<u>774,676</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 1,436,243</u>	<u>\$ 566,235</u>	<u>\$ 774,676</u>

<u>Capital Projects Funds</u>		
<u>TIF District No. 7</u>	<u>TIF District No. 8</u>	<u>Total Nonmajor Governmental Funds</u>
\$ 10,966	\$ 5,704	\$ 1,530,777
308,429	273,601	582,030
<u>-</u>	<u>-</u>	<u>1,263,047</u>
<u>\$ 319,395</u>	<u>\$ 279,305</u>	<u>\$ 3,375,854</u>
<u>\$ -</u>	<u>\$ 3,332</u>	<u>\$ 3,332</u>
<u>-</u>	<u>3,332</u>	<u>3,332</u>
<u>308,429</u>	<u>273,601</u>	<u>582,030</u>
<u>308,429</u>	<u>273,601</u>	<u>582,030</u>
<u>10,966</u>	<u>2,372</u>	<u>2,790,492</u>
<u>10,966</u>	<u>2,372</u>	<u>2,790,492</u>
<u>\$ 319,395</u>	<u>\$ 279,305</u>	<u>\$ 3,375,854</u>

CITY OF FORT ATKINSON

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

	Special Revenue Funds		
	Wisconsin Development Fund	Library Trust	Museum Trust
REVENUES			
Taxes	\$ -	\$ -	\$ -
Intergovernmental	-	-	-
Investment income	21,339	12,699	53,732
Miscellaneous	781	21,330	-
Total Revenues	22,120	34,029	53,732
EXPENDITURES			
Current			
Culture, recreation and education	-	20,339	29,380
Conservation and development	5,571	-	-
Capital Outlay	-	-	-
Debt Service			
Principal	-	-	-
Interest and fiscal charges	-	-	-
Total Expenditures	5,571	20,339	29,380
Excess (deficiency) of revenues over expenditures	16,549	13,690	24,352
OTHER FINANCING SOURCES (USES)			
Debt issued	-	-	-
Transfers out	-	-	-
Total Other Financing Sources (Uses)	-	-	-
Net Change in Fund Balances	16,549	13,690	24,352
FUND BALANCES (DEFICIT) - Beginning of Year	1,419,694	552,545	750,324
FUND BALANCES - END OF YEAR	\$ 1,436,243	\$ 566,235	\$ 774,676

<u>Capital Projects Funds</u>		
<u>TIF District No. 7</u>	<u>TIF District No. 8</u>	<u>Total Nonmajor Governmental Funds</u>
\$ 300,645	\$ 66,926	\$ 367,571
3,631	1,146	4,777
292	173	88,235
-	-	22,111
<u>304,568</u>	<u>68,245</u>	<u>482,694</u>
-	-	49,719
80,000	-	85,571
150	85,809	85,959
190,000	-	190,000
45,350	-	45,350
<u>315,500</u>	<u>85,809</u>	<u>456,599</u>
<u>(10,932)</u>	<u>(17,564)</u>	<u>26,095</u>
-	373,000	373,000
<u>(69,190)</u>	<u>-</u>	<u>(69,190)</u>
<u>(69,190)</u>	<u>373,000</u>	<u>303,810</u>
(80,122)	355,436	329,905
<u>91,088</u>	<u>(353,064)</u>	<u>2,460,587</u>
<u>\$ 10,966</u>	<u>\$ 2,372</u>	<u>\$ 2,790,492</u>