

**City of Phillips, Wisconsin**

Financial Statements With  
Independent Auditor's Report

Year Ended December 31, 2006

**CITY OF PHILLIPS, WISCONSIN**  
**Financial Statements With Supplemental Financial Information**  
December 31, 2006

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## INDEPENDENT AUDITOR'S REPORT

City Council  
City of Phillips, Wisconsin  
Phillips, Wisconsin

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 Phillips, Wisconsin (the "City"), as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Phillips, Wisconsin as of December 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 11, 2007 on our consideration of the City of Phillips' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The budgetary comparison information on pages 31 through 36 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The City of Phillips has not presented the management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Phillips' basic financial statements. The additional information listed in the table of contents as supplemental financial information are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Engelson and Associates, Ltd*

La Crosse, Wisconsin  
May 11, 2007

**CITY OF PHILLIPS, WISCONSIN**

**Statement of Net Assets**

December 31, 2006

<i>Assets</i>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Current assets:			
Cash and investments	\$ 1,140,678	\$ 375,147	\$ 1,515,825
Receivables:			
Property taxes	1,083,462	-	1,083,462
Special assessments	36,114	6,236	42,350
Trade	-	215,983	215,983
Internal balances	(44,169)	44,169	-
Inventories	-	9,970	9,970
Other current assets	-	7,120	7,120
Total current assets	<u>2,216,085</u>	<u>658,625</u>	<u>2,874,710</u>
Noncurrent assets:			
Restricted cash and investments	-	121,672	121,672
Mortgages receivable	307,591	-	307,591
Capital assets being depreciated	4,474,865	9,902,728	14,377,593
Less - Accumulated depreciation	(1,828,083)	(2,723,678)	(4,551,761)
Capital assets not being depreciated:			
Land	305,765	21,490	327,255
Construction in progress	2,138	44,235	46,373
Other noncurrent assets	14,333	-	14,333
Total noncurrent assets	<u>3,276,609</u>	<u>7,366,447</u>	<u>10,643,056</u>
<b>TOTAL ASSETS</b>	<u>\$ 5,492,694</u>	<u>\$ 8,025,072</u>	<u>\$ 13,517,766</u>

<i>Liabilities and Net Assets</i>	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
Liabilities:			
Current liabilities:			
Accounts payables	\$ 92,169	\$ 27,128	\$ 119,297
Accrued and other liabilities	114,341	61,263	175,604
Deferred revenue	1,218,731	-	1,218,731
Current portion of long-term obligations	<u>182,885</u>	<u>140,742</u>	<u>323,627</u>
Total current liabilities	<u>1,608,126</u>	<u>229,133</u>	<u>1,837,259</u>
Noncurrent liabilities:			
Notes payable	709,960	2,341,006	3,050,966
Bonds payable	1,425,000	-	1,425,000
Pension-related debt	92,477	-	92,477
Termination benefit:	<u>11,640</u>	<u>-</u>	<u>11,640</u>
Total noncurrent liabilities	<u>2,239,077</u>	<u>2,341,006</u>	<u>4,580,083</u>
Total liabilities	<u>3,847,203</u>	<u>2,570,139</u>	<u>6,417,342</u>
Net Assets:			
Invested in capital assets, net of related debt	649,048	4,763,027	5,412,075
Restricted for bond and grant covenants	-	121,672	121,672
Unrestricted	<u>996,443</u>	<u>570,234</u>	<u>1,566,677</u>
Total Net Assets	<u>1,645,491</u>	<u>5,454,933</u>	<u>7,100,424</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><b>\$ 5,492,694</b></u>	<u><b>\$ 8,025,072</b></u>	<u><b>\$ 13,517,766</b></u>

**CITY OF PHILLIPS, WISCONSIN**

**Statement of Activities**

Year Ended December 31, 2006

Functions/Programs	Program Revenues				Net (Expense) Revenues and Changes in Net Assets		
	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total		
Governmental activities:							
General government	\$ 234,991	\$ -	\$ (178,567)	\$ -	\$ (178,567)		
Public safety	608,899	32,270	(550,773)	-	(550,773)		
Public works	517,656	8,044	(386,563)	-	(386,563)		
Health and human services:	27,219	-	2,065	-	2,065		
Culture, recreation and education	384,774	178,513	(205,436)	-	(205,436)		
Conservation and development	225,132	1,776	(223,356)	-	(223,356)		
Interest and fiscal charges	138,561	-	(138,561)	-	(138,561)		
Total governmental activities	2,137,232	304,311	(1,681,191)	-	(1,681,191)		
Business-Type Activities:							
Water and sewer utility	894,396	777,431	-	-	(116,965)		
Totals	\$ 3,031,628	\$ 1,081,742	\$ (1,681,191)	\$ 41	\$ (1,798,156)		
General revenues:							
Property taxes:							
General purposes	474,044	474,044	-	-	474,044		
TIF District	407,693	407,693	-	-	407,693		
Payments in lieu of taxes:	62,922	62,922	-	-	62,922		
Room tax	21,338	21,338	-	-	21,338		
Grants and contributions not restricted to specific function	545,950	545,950	-	-	545,950		
Gain (loss) on sale of assets	(11,300)	(11,300)	-	-	(11,300)		
Gain (loss) on investment	(1,551)	(1,551)	-	-	(1,551)		
Interest and investment earnings	108,138	108,138	46,024	46,024	154,162		
Miscellaneous	29,085	29,085	-	-	29,085		
Total general revenues	1,636,319	1,636,319	46,024	46,024	1,682,343		
Change in net assets	(44,872)	(44,872)	(70,941)	(70,941)	(115,813)		
Net assets - Beginning of year	1,690,363	1,690,363	5,525,874	5,525,874	7,216,237		
Net assets - End of year	\$ 1,645,491	\$ 1,645,491	\$ 5,454,933	\$ 5,454,933	\$ 7,100,424		

See Accompanying Notes to the Financial Statements

**CITY OF PHILLIPS, WISCONSIN**

**Balance Sheet  
Governmental Funds  
December 31, 2006**

	General Fund	CDBG	TIF District No. 3	TIF District No. 4	Argyle Street	Other Nonmajor Gov't Funds	Total Governmental Funds
<i>Assets</i>							
Cash and investments	\$ 275,224	\$ 63,224	\$ 73,217	\$ 590,139	\$ -	\$ 140,320	\$ 1,142,124
Receivables:							
Special assessments	36,114	-	-	-	-	-	36,114
Taxes	675,207	-	74,629	322,072	-	11,554	1,083,462
Mortgages	-	307,591	-	-	-	-	307,591
Due from other funds	613	-	-	-	413	85,131	86,157
Other assets	3,592	-	-	-	-	-	3,592
Advances to other funds	1,022,066	-	-	-	-	-	1,022,066
<b>TOTAL ASSETS</b>	<b>\$ 2,012,816</b>	<b>\$ 370,815</b>	<b>\$ 147,846</b>	<b>\$ 912,211</b>	<b>\$ 413</b>	<b>\$ 237,005</b>	<b>\$ 3,681,106</b>
<i>Liabilities and Fund Balances</i>							
Liabilities:							
Bank Overdraft	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,446	\$ 1,446
Accounts payable	58,368	32,422	-	-	1,789	3,182	95,761
Due to other funds	88,192	-	-	-	-	613	88,805
Other liabilities	40,699	-	-	-	-	350	41,049
Deferred revenues:							
Property taxes	709,225	-	74,629	322,072	-	11,554	1,117,480
Mortgages	-	307,591	-	-	-	-	307,591
Other	-	-	-	-	-	101,251	101,251
Advances from other funds	-	-	688,200	334,110	-	41,277	1,063,587
Total Liabilities	896,484	340,013	762,829	656,182	1,789	159,673	2,816,970
Fund Balances							
Reserved	-	-	-	-	-	-	-
Unreserved, undesignated	1,116,332	30,802	(614,983)	256,029	(1,376)	77,332	864,136
Total Fund Balance	1,116,332	30,802	(614,983)	256,029	(1,376)	77,332	864,136
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 2,012,816</b>	<b>\$ 370,815</b>	<b>\$ 147,846</b>	<b>\$ 912,211</b>	<b>\$ 413</b>	<b>\$ 237,005</b>	<b>\$ 3,681,106</b>

See Accompanying Notes to the Financial Statements

**CITY OF PHILLIPS, WISCONSIN**  
**Reconciliation of the Governmental Funds Balance**  
**Sheet to the Statement of Net Assets**  
December 31, 2006

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Total fund balances - Governmental funds (previous page): \$ 864,136

**Amounts reported for governmental activities in the statement of net assets are different from the amount reported as total governmental fund balances because**

Capital assets used in government activities are not financial resources and therefore are not reported in the fund statements. The amounts reported for governmental activities in the statement of net assets is:

Governmental capital assets	\$ 4,782,768	
Governmental accumulated depreciation	<u>(1,828,083)</u>	2,954,685

Receivables not currently available are reported as deferred revenues in the fund financial statements but are recognized as revenues when earned in the government-wide financial statements.	307,591
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Other long-term assets not available to pay for current period expenditures and, therefore, are deferred in the fund statements:	14,333
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Unpaid vacation and sick pay is a liability of the governmental funds only if the employee has resigned or retired.	(30,071)
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Long-term liabilities, including bonds and notes payable, are not due in the current year and therefore are not reported in the fund statements. Long-term liabilities reported in the statement of net assets that are not reported in the governmental funds balance sheet are:

Pension-related debt	(104,685)	
Termination benefits	(11,640)	
Notes payable	(830,637)	
Bonds payable	(1,475,000)	
Accrued interest on long-term debt	<u>(43,221)</u>	<u>(2,465,183)</u>

**Total net assets - Governmental activities \$ 1,645,491**

**CITY OF PHILLIPS, WISCONSIN**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Governmental Funds**  
Year Ended December 31, 2006

	General Fund	CDBG	TIF District No. 3	TIF District No. 4	Argyle Street	Other Nonmajor Funds	Total Governmental Funds
<b>Revenues</b>							
Taxes	\$ 560,222	\$ -	\$ 72,199	\$ 322,258	\$ -	\$ 13,236	\$ 967,915
Special assessments	7,867	-	-	-	-	-	7,867
Intergovernmental revenues	683,674	-	-	749	-	11,462	695,885
Licenses and permits	10,510	-	-	-	-	-	10,510
Fines and forfeits	12,536	-	-	-	-	-	12,536
Public charges for service	208,341	22,760	-	-	-	28,149	259,250
Intergovernmental charges	35,944	-	-	-	-	-	35,944
Other	120,419	2,563	269	14,597	-	6,307	144,155
<b>Total revenues</b>	<b>1,639,513</b>	<b>25,323</b>	<b>72,468</b>	<b>337,604</b>	<b>-</b>	<b>59,154</b>	<b>2,134,062</b>
<b>Expenditures:</b>							
<b>Current:</b>							
General government	180,292	-	-	-	-	-	180,292
Public safety	542,646	-	-	-	-	-	542,646
Public works	405,011	-	8,078	1,386	7,438	54,056	475,969
Health and human services	14,843	-	-	-	-	12,229	27,072
Culture, recreation and education	343,610	-	-	-	-	22,380	365,990
Conservation and development	139	53,498	-	-	-	169,059	222,696
Capital outlay	72,249	-	-	-	510,474	-	582,723
<b>Debt service:</b>							
Principal retirement	970,000	-	9,600	105,469	-	-	1,085,069
Interest and fiscal charges	32,517	-	24,615	53,555	-	1,448	112,135
<b>Total expenditures</b>	<b>2,561,307</b>	<b>53,498</b>	<b>42,293</b>	<b>160,410</b>	<b>517,912</b>	<b>259,172</b>	<b>3,594,592</b>
Excess (deficiency) of revenue over (under) expenditures	(921,794)	(28,175)	30,175	177,194	(517,912)	(200,018)	(1,460,530)
<b>Other financing sources (uses):</b>							
Proceeds from long-term debt	1,475,000	-	-	-	-	-	1,475,000
Transfers in	-	-	-	-	546,383	33,202	579,585
Transfers out	(579,585)	-	-	-	-	-	(579,585)
Bond issue costs	(15,000)	-	-	-	-	-	(15,000)
Loss on investments	-	-	-	-	-	(1,551)	(1,551)
Other uses	(43,796)	-	-	-	-	-	(43,796)
<b>Net other financing sources (uses)</b>	<b>836,619</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>546,383</b>	<b>31,651</b>	<b>1,414,653</b>
Change in fund balances	(85,175)	(28,175)	30,175	177,194	28,471	(168,367)	(45,877)
Fund balances (deficit) at beginning of year	1,201,507	58,977	(645,158)	78,835	(29,847)	245,699	910,013
<b>Fund balance at end of year</b>	<b>\$ 1,116,332</b>	<b>\$ 30,802</b>	<b>\$ (614,983)</b>	<b>\$ 256,029</b>	<b>\$ (1,376)</b>	<b>\$ 77,332</b>	<b>\$ 864,136</b>

**CITY OF PHILLIPS, WISCONSIN**  
**Reconciliation of the Statement of Revenues, Expenditures and Changes**  
**in Fund Balances of Governmental Funds to the Statement of Activities**  
December 31, 2006

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Net change in fund balances - Total governmental funds \$ (45,877)

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

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

Capital outlays reported in governmental fund statements	\$ 574,302	
Depreciation expense reported in the statement of activities	<u>(151,301)</u>	
Amount by which capital outlays are greater (less) than depreciation in the current year:		423,001

The net effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins, and donations) is to decrease net assets. (11,300)

Bond issue costs are recorded in the governmental funds as an expense, but are an amortized asset on the statement of net assets.

Bond issue costs	15,000	
Amortization expense	<u>(667)</u>	14,333

Receivables not currently available are reported as deferred revenues in the fund financial statements but are recognized as revenues when earned in the government-wide financial statements. (28,852)

Unpaid sick pay is a liability of the governmental funds only if the employee has resigned or retired.

Amount by which the liability for vacation and sick pay changed in the current year	5,044
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Repayment of principal on long-term debt is reported in the governmental funds as an expenditure, but is reported as a reduction in long-term debt in the statement of net assets and does not affect the statement of activities.

The amount of long-term debt principal payments in the current year	1,085,069	
The decrease in pension-related debt in the current year	4,152	
The decrease in termination benefits in the current year	10,984	

Loan proceeds are revenues in the governmental funds, but is reported as an increase in long-term debt in the statement of net assets and does not affect the statement of activities. (1,475,000)

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

Amount by which interest accrued is greater than interest paid	<u>(26,426)</u>
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**Change in net assets - Governmental activities \$ (44,872)**

**CITY OF PHILLIPS, WISCONSIN**  
**Statement of Net Assets - Proprietary Funds**  
**December 31, 2006**

<i>Assets</i>	<u>Water and Sewer Utility</u>
Current assets:	
Cash and investments	\$ 375,147
Accounts Receivable:	
Trade	215,983
Special assessments	6,236
Due from other funds	2,648
Inventories	9,970
Advances to other funds	41,521
Other current assets	7,120
Total current assets	<u>658,625</u>
Restricted cash and investments	<u>121,672</u>
Capital assets being depreciated	9,902,728
Less - Accumulated depreciation	<u>(2,723,678)</u>
Net depreciable value	7,179,050
Land	21,490
Construction-in-process	<u>44,235</u>
Net capital assets	<u>7,244,775</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 8,025,072</u></b>
<i>Liabilities and Net Assets</i>	
Current liabilities:	
Accounts payable	\$ 27,128
Accrued and other liabilities	61,263
Current portion of long-term liabilities	<u>140,742</u>
Total current liabilities	<u>229,133</u>
Long-term liabilities - Notes payable	<u>2,341,006</u>
Net Assets:	
Invested in capital assets, net of related debt	4,763,027
Restricted	121,672
Unrestricted	<u>570,234</u>
Total Net Assets	<u>5,454,933</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 8,025,072</u></b>

**CITY OF PHILLIPS, WISCONSIN**  
**Statement of Revenues, Expenses, and Changes in Net Assets - Proprietary Funds**  
Year Ended December 31, 2006

	Water and Sewer Utility
Operating revenues:	
Charges for services	\$ 772,157
Other	5,274
Total operating revenues	777,431
Operating expenses:	
Operation and maintenance	493,428
Depreciation	257,343
Taxes	57,000
Total operating expenses	807,771
Operating loss	(30,340)
Non-operating income (expense):	
Interest income	46,024
Interest expense	(86,625)
Total non-operating income (expense)	(40,601)
Change in net assets	(70,941)
Net assets at beginning	5,525,874
Net assets at end	\$ 5,454,933

**CITY OF PHILLIPS, WISCONSIN**  
**Statement of Cash Flows - Proprietary Funds**  
Year Ended December 31, 2006

	Water and Sewer Utility
<b>Cash flows from operating activities:</b>	
Cash received from customers	\$ 780,415
Cash paid to suppliers for goods and services	(351,387)
Cash paid to employees for services	<u>(177,096)</u>
Net cash provided by operating activities	<u>251,932</u>
<b>Cash flows from capital and related financing activities:</b>	
Principal paid on long-term debt	(138,156)
Interest paid on long-term debt	<u>(86,624)</u>
Net cash used in capital and related financing activities	<u>(224,780)</u>
<b>Cash flows from investing activities:</b>	
Interest received	46,024
Capital assets purchased	<u>(753,232)</u>
Net cash used in investing activities	<u>(707,208)</u>
<b>Net decrease in cash and cash equivalents</b>	(680,056)
Cash and cash equivalents at beginning of year	<u>1,176,875</u>
<b>Cash and cash equivalents at end of year</b>	<u>\$ 496,819</u>

**CITY OF PHILLIPS, WISCONSIN**  
**Statement of Cash Flows - Proprietary Funds**  
Year Ended December 31, 2006

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Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	\$ (30,340)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation*	257,343
(Increase) decrease in current assets:	
Accounts receivable	2,984
Due from other funds	21,949
Inventories	1,002
Advances to other funds	(1,424)
Other current assets	(7,120)
Increase (decrease) in current liabilities:	
Accounts payable	7,450
Accrued and other liabilities	88
Total adjustments	<u>282,272</u>
Net cash provided by operating activities	<u>\$ 251,932</u>

\* Non-cash transaction

**CITY OF PHILLIPS, WISCONSIN**  
**Statement of Assets and Liabilities - Fiduciary Funds**  
December 31, 2006

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	<u>Tax Agency Collection Fund</u>
<i>Assets</i>	
Cash	\$ 316,376
Taxes receivable	<u>1,767,043</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 2,083,419</u></b>
<i>Liabilities</i>	
Due to other governments	\$ 997,861
Due to other funds	<u>1,085,558</u>
<b>TOTAL LIABILITIES</b>	<b><u>\$ 2,083,419</u></b>

# CITY OF PHILLIPS, WISCONSIN

## Notes to Financial Statements

December 31, 2006

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### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Introduction

The financial statements of the City of Phillips, Wisconsin (the “City”), have been prepared in conformity with accounting principles generally accepted in the United States as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting principles and policies utilized by the City are described below.

#### Reporting Entity

The City of Phillips, Wisconsin is incorporated and operates under the provisions of the Wisconsin State Statutes.

The accompanying financial statements present the activities of the City of Phillips, Wisconsin. Accounting principles generally accepted in the United States require that these financial statements include the primary government and its component units. Component units are separate organizations that are included in the City’s reporting entity because of the significance of their operational or financial relationships with the City. All significant activities and organizations with which the City exercises oversight responsibility have been considered for inclusion in the financial statements. The City has no component units and it is not included in any other governmental reporting entity.

#### Basis of Presentation

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

The government-wide financial statements (i.e., the statement of net assets and statement of activities), present financial information about the City’s nonfiduciary activities as a whole. The statements distinguish between those activities that are governmental in nature, normally supported by taxes and intergovernmental revenues, and those activities that are business-type in nature, significantly supported by fees and charges for services. Interfund and internal service fund activities are generally eliminated to avoid the “doubling-up” effect on revenues and expenses.

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). However, internal eliminations do not include utility services provided to City departments. Reimbursements are reported as reductions to expenses. Proprietary and fiduciary fund statements also use the same focus and basis of accounting although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property tax revenues are recognized for the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

The government-wide statement of activities present a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City’s governmental activities. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meet the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues. The comparison of expenses with program revenues identifies the extent to which each governmental function or business-type segment is self-financing or relies upon general revenues of the City.

# CITY OF PHILLIPS, WISCONSIN

## Notes to Financial Statements

December 31, 2006

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### *Fund Financial Statements*

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. The focus of fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. All other funds are aggregated and reported as non-major governmental or non-major proprietary funds.

The City uses funds to report its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

Governmental funds are those through which most governmental functions typically are financed. The acquisition, use, and balances of the City's expendable financial resources and the related current liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

- Total assets, liabilities, revenue or expenditures/expenses of the individual governmental or enterprise fund are at least 10% of the corresponding total for all funds of that category or type, and
- 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.
- 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.

The City reports the following major governmental funds:

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

*Community Development Block Grant Fund* – Used to account for services provided by community development block grant for residential purposes.

*TIF District No. 3* – This fund is used to account for the activity associated with the Tax Incremental District No. 3 created under the provisions of Wisconsin Statute Section 66.46. This allows municipalities to recover development and improvement costs in a designated area from the property taxes generated on the increased value of the property after the creation date of the District.

*TIF District No. 4* – This fund is used to account for the activity associated with the Tax Incremental District No. 4 created under the provisions of Wisconsin Statute Section 66.46. This allows municipalities to recover development and improvement costs in a designated area from the property taxes generated on the increased value of the property after the creation date of the District.

*Argyle Street Fund* – Capital projects fund used to accumulate the financial activity of the Argyle Street construction project.

# CITY OF PHILLIPS, WISCONSIN

## Notes to Financial Statements

December 31, 2006

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The City reports the following non-major governmental funds:

*Recycling Fund* – Used to account for the recycling activities of the City.

*Cemetery Fund* – Used to account for the activity associated with the construction, maintenance, and operation of the Lakeside Cemetery Association.

*Library Board Fund* – Used to account for services provided by the public library.

*Debt Service Fund* – This fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental activities.

*TIF District No. 2* – This fund is used to account for the activity associated with the Tax Incremental District No. 2 created under the provisions of Wisconsin Statute Section 66.46. This allows municipalities to recover development and improvement costs in a designated area from the property taxes generated on the increased value of the property after the creation date of the District.

*Elk Lake Pavilion Fund* – Capital projects fund used to accumulate the financial activity of the Elk Lake Pavilion.

Proprietary funds are used to account for the City's ongoing activities that are similar to those founding the private sector where the intent of the governing body is that the cost of providing goods and services to the general public be financed or recovered primarily through user charges.

The City reports the following major proprietary funds:

*Water and Sewer Utility* – This utility was established to account for the construction, operation and maintenance of the City-owned water and sewer facilities.

In addition, the City reports the following fiduciary fund type:

*Agency Funds* – The Agency Fund accounts for assets held as an agent for tax collections.

### **Measurement Focus and Basis of Accounting**

#### *Government-Wide Financial Statements*

The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, assets, and liabilities resulting from exchange and exchange-type transactions are recognized when the exchange takes place. Nonexchange transactions, in which the City gives or receives value without directly receiving or giving equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements imposed by the provider have been satisfied.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

# CITY OF PHILLIPS, WISCONSIN

## Notes to Financial Statements

December 31, 2006

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### *Fund Financial Statements*

The governmental fund statements are reported using the current financial resources measurements focus and the modified accrual basis of accounting. Under this method, revenues are recognized when they become both measurable and available (susceptible to accrual). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers all revenues reported in the governmental funds to be available if the revenues are collected within 60 days after the end of the current fiscal year.

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

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

All proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. Their revenues are recognized when they are earned and their expenses are recognized when a liability is incurred regardless of the timing of related cash flows.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private sector guidance.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for services. Operating expenses for enterprise funds include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

### **Deposits and Investments**

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

State Statutes permit the City to invest available cash balances in time deposits of authorized depositories, U.S. Treasury obligations, U.S. government agency issues, municipal obligations of Wisconsin municipal entities, high-grade commercial paper which matures in less than seven years, and the local government pooled investment fund administered by the state investment board.

# CITY OF PHILLIPS, WISCONSIN

## Notes to Financial Statements

December 31, 2006

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

### Receivables and Payables

All accounts receivable are shown at gross amounts with uncollectible amounts recognized under the direct write-off method. No allowance for uncollectible accounts has been provided since it is believed that such allowance would not be material.

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

### Inventories and Prepaid Items

Inventories are valued at cost using the first in/first out (FIFO) method. The costs are recorded as expenditures when consumed rather than when purchased. Prepaid items represent payments made to vendors for which benefits extend beyond the current fiscal year.

Inventories of the Water and Sewer Enterprise Funds are generally used for construction, operation, or maintenance work, not for resale. They are valued at the lower of cost or market utilizing the average cost method and charged to construction and expensed when used.

### Capital Assets

Capital assets, which include land, site improvements, buildings, and equipment, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are capitalized at historical cost or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The City maintains a threshold level of a unit cost of \$1,000 or more for capitalizing capital assets. Donated capital assets are recorded at estimated fair market value at the time of donation.

Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed by the City, no salvage value is taken into consideration for depreciation purposes. Useful lives vary from 50 years for site improvements and buildings, 5 to 15 years for furniture and equipment, and 5 to 10 years for vehicles.

Depreciation for the Water and Sewer Utilities is recorded at cost or the fair market value at the time of contribution to the utility. Major outlays for the utility plant are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the utility plant constructed, net of interest earned on the invested proceeds over the same period. No interest was capitalized during the current year. The utility plant in service is depreciated using the straight-line method. Useful lives vary from 5 to 50 years for the Water and Sewer Utility.

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

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

# CITY OF PHILLIPS, WISCONSIN

## Notes to Financial Statements

December 31, 2006

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### **Long-Term Obligations**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognized bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

### **Accumulated Unpaid Vacation, Sick Pay, and Other Employee Benefit Amounts**

Employees of the City are entitled to paid vacation depending on length of service. Sick leave is earned at a rate of 12 or 12.75 days per year, depending on whether the employee is a member of the unions. Up to 861 hours of sick leave may be accumulated. Benefits are paid at retirement based on the rates stipulated in various union contracts and are paid until the accrued benefit amount is exhausted. All vacation and sick leave is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds in the fund financial statements only if they have matured, for example, as a result of employee resignations and retirements.

Retirement Plans – City employees participate in the Wisconsin Retirement System. All contributions made by the City on behalf of its employees are reported as expenditures when paid.

### **Restricted Assets**

Restricted assets are cash and cash equivalents whose use is limited by legal requirements such as a bond indenture. Restricted assets are reported only in the government-wide financial statements and proprietary fund statements.

### **Fund Balances**

In the fund financial statements, governmental funds report reservations of fund balances for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balances represent tentative management plans that are subject to change.

### **Net Assets**

Net assets represent the difference between assets and liabilities in the government-wide financial statements. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net assets are reported as restricted in the government-wide financial statements when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

# CITY OF PHILLIPS, WISCONSIN

## Notes to Financial Statements

December 31, 2006

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### Property Tax and Taxes Receivable

Real estate assessments are as of January 1, tax levies in December applicable to the following year and the real estate taxes are due in January unless an installment plan is selected. Property taxes are recognized as revenue in the period in which the taxes are levied. The 2005 tax levy is used to finance operations of the City for the year ended December 31, 2006. All property taxes are considered due on January 1<sup>st</sup>, when an enforceable lien is assessed against the property and the taxpayer is liable for the taxes. The County assumed all responsibility for delinquent real property taxes. Property taxes which have not been recognized as revenue are recorded as deferred revenues until collected.

For revenue recognitions purposes, taxes levied during the current year are not due and available until the ensuing year. Since the gross tax levy is measurable at year-end, funds using the modified accrual basis of accounting recognize the levy as deferred revenue.

### State and Federal Aids

State general and categorical aids are recognized as revenue in the entitlement year. Federal and state aids for reimbursable programs are recognized as revenue in the year related program expenditures are incurred. Aids received prior to meeting revenue recognition criteria are recorded as deferred revenues.

### Use of Estimates

The preparation of the accompanying financial statements in conformity with generally accepted accounting principles requires management to make certain estimates and assumptions that directly affect the results of reported assets, liabilities, revenues, and expenses. Actual results may differ from these estimates.

## NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

### Budgetary Accounting

The City's budget is adopted in accordance with state law. The annual budget is adopted on a basis consistent with accounting principles generally accepted in the United States. Budget amounts in the basic financial statements include appropriations authorized in the original budget resolution and subsequent revisions authorized by the Common Council. All appropriations lapse at year-end.

### Expenditures Over Budget

The following individual funds incurred expenditures in excess of appropriations:

	Budget	Actual	Actual Over Budget
General Fund:			
General Government	\$ 177,794	\$ 180,292	\$ 2,498
Culture and recreation	340,827	371,660	30,833

**CITY OF PHILLIPS, WISCONSIN**

**Notes to Financial Statements**

December 31, 2006

**NOTE 3 – CASH AND INVESTMENTS**

**Deposits**

Custodial Credit Risk – Custodial credit risk for deposits is the risk that in the event of a bank failure, the City’s deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year-end, the carrying amount of the City’s deposits was \$1,371,533 and the bank balance was \$1,247,014. Of the bank balance, \$457,500 was covered by federal depository insurance. \$400,000 was covered by the State of Wisconsin Public Deposit Guarantee fund and \$323,435 was secured by pledged securities. Amounts not covered by insurance or guaranteed were \$66,079.

**Investments**

Custodial Credit Risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to the transaction, the City will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The City has not yet adopted an investment policy that addresses custodial credit risk. Of the City’s investments, none were exposed to custodial credit risk at December 31, 2006.

Interest Rate Risk – Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. The City has not yet adopted an investment policy that addresses interest rate risk. State Statutes limit the maturity of commercial paper and corporate bonds to not more than seven years.

	Fair Value	Remaining Maturity (in Years)			
		0-1	1-5	6-10	More Than 10
U.S. Treasury and Agencies	\$ 121,672	\$ 121,672	\$ -	\$ -	\$ -
State and Municipal Bonds	10,066				10,066
Corporate Bonds	53,052	-	-	14,509	38,543
LGIP	516,118	516,118	-	-	-
<b>Total</b>	<b><u>\$ 700,908</u></b>	<b><u>\$ 637,790</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 14,509</u></b>	<b><u>\$ 48,609</u></b>

## CITY OF PHILLIPS, WISCONSIN

### Notes to Financial Statements

December 31, 2006

Credit Risk – State Statute limits investments in commercial paper and corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations. Ratings are not required, or available, for the Wisconsin Local Government Investment Pool (LGIP). The City has no investment policy that would further limit its investment choices. The actual ratings, as rated by Standard and Poor’s and Moody’s Investors Service, for each investment type at December 31, 2006, was as follows:

	Rating		
	Exempt From Rating	BA I/BB+	Not Rated
U.S. Treasury and Agencies	\$ 121,672	\$ -	\$ -
State and Municipal Bonds	-	-	10,066
Corporate Bonds	-	4,775	48,277
Local Government Investment Pool	516,118	-	-
<b>Total</b>	<b>\$ 637,790</b>	<b>\$ 4,775</b>	<b>\$ 58,343</b>

Concentration of Credit Risk – The City does not currently have a policy that addresses concentration of credit risk. At December 31, 2006, the City had no investments in any one issuer (excluding U.S. Treasury securities, those insured by the U.S. government, and mutual funds) that represented 5% or more of the total of the City’s investments.

The City’s cash and investment balances at December 31, 2006, were as follows:

Cash on deposit with financial institutions	\$ 1,249,861
Cash on hand	106
Money market funds	2,998
Investments:	
U.S. Treasury and Agencies	121,672
Corporate bonds	63,118
Local Government Investment Pool	516,118
Total cash and investments	1,953,873
Less - Cash and investments held in fiduciary funds	316,376
Total cash and investments per Statement of Net Assets	<b>\$ 1,637,497</b>

#### NOTE 4 – RESTRICTED ASSETS

Cash and Investments – For the year ended December 31, 2006, cash and investments in the amount of \$121,672 have been restricted for the repayment of revenue bonds.

**CITY OF PHILLIPS, WISCONSIN**

**Notes to Financial Statements**

December 31, 2006

**NOTE 5 – CAPITAL ASSETS**

Capital asset balances and activity for the year ended December 31, 2006, were as follows:

<b>Governmental Activities:</b>	Balance 1/1/2006	Additions	Deletions	Balance 12/31/2006
Capital assets not being depreciated:				
Land	\$ 317,065	\$ -	\$ 11,300	\$ 305,765
Construction in progress	<u>31,985</u>	<u>-</u>	<u>29,847</u>	<u>2,138</u>
Total capital assets not being depreciated	<u>349,050</u>	<u>-</u>	<u>41,147</u>	<u>307,903</u>
Capital assets being depreciated:				
Land improvements	127,170	-	-	127,170
Buildings and improvements	2,139,645	-	-	2,139,645
Machinery and equipment	1,496,998	170,731	-	1,667,729
Infrastructure	<u>-</u>	<u>540,321</u>	<u>-</u>	<u>540,321</u>
Total capital assets being depreciated	<u>3,763,813</u>	<u>711,052</u>	<u>-</u>	<u>4,474,865</u>
Less accumulated depreciation for:				
Buildings and improvements	713,359	44,928	-	758,287
Machinery and equipment	963,423	105,472	-	1,068,895
Infrastructure	<u>-</u>	<u>901</u>	<u>-</u>	<u>901</u>
Total accumulated depreciation	<u>1,676,782</u>	<u>151,301</u>	<u>-</u>	<u>1,828,083</u>
Total capital assets being depreciated, net of accumulated depreciation	<u>2,087,031</u>	<u>559,751</u>	<u>-</u>	<u>2,646,782</u>
Governmental activities capital assets - Net	<u>\$ 2,436,081</u>	<u>\$ 559,751</u>	<u>\$ 41,147</u>	<u>\$ 2,954,685</u>
<b>Business-Type Activities:</b>	Balance 1/1/2006	Additions	Deletions	Balance 12/31/2006
Capital assets not being depreciated:				
Land	\$ 21,490	\$ -	\$ -	\$ 21,490
Construction in progress	<u>-</u>	<u>44,235</u>	<u>-</u>	<u>44,235</u>
Total capital assets not being depreciated	<u>21,490</u>	<u>44,235</u>	<u>-</u>	<u>65,725</u>
Capital assets being depreciated:				
Water distribution system	3,372,321	334,808	60,289	3,646,840
Sewer collection and treatment system	<u>5,947,379</u>	<u>374,189</u>	<u>65,680</u>	<u>6,255,888</u>
Total capital assets being depreciated	9,319,700	708,997	125,969	9,902,728
Less accumulated depreciation	<u>2,592,304</u>	<u>257,343</u>	<u>125,969</u>	<u>2,723,678</u>
Total capital assets being depreciated, net of accumulated depreciation	<u>6,727,396</u>	<u>451,654</u>	<u>-</u>	<u>7,179,050</u>
Business-type activities capital assets - Net	<u>\$ 6,748,886</u>	<u>\$ 495,889</u>	<u>\$ -</u>	<u>\$ 7,244,775</u>

**CITY OF PHILLIPS, WISCONSIN**

**Notes to Financial Statements**

December 31, 2006

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Depreciation expense was charged to function/programs of the City as follows:

Governmental activities:		
General government	\$	26,039
Public safety		61,837
Public works		42,058
Health and human services		147
Culture, recreation, and education		18,784
Conservation and development		<u>2,436</u>
Total depreciation for governmental activities	\$	<u>151,301</u>

**Construction Commitments**

The City had active construction projects as of December 31, 2006. The projects include construction of a pavilion and installation of a UV disinfection system.

<u>Project</u>	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
Elk Lake Pavilion	\$ 2,138	\$ 254,493
Water UV Sanitation System	<u>44,235</u>	<u>4,780</u>
Total	<u>\$ 46,373</u>	<u>\$ 259,273</u>

**NOTE 6 – TAX INCREMENTAL FINANCE DISTRICT**

In accordance with Wisconsin Statute 66.46, the City created tax incremental finance districts, all of which will allow the City to recover developmental costs from the increase in property tax revenue that results from the increased valuation in the designated area. As of December 31, 2006, total accumulated project expenditures are as follows:

TIF District No. 2	\$ 67,132
TIF District No. 3	824,803
TIF District No. 4	<u>3,327,856</u>
Total project expenditures	<u>\$ 4,219,791</u>

**CITY OF PHILLIPS, WISCONSIN**

**Notes to Financial Statements**

December 31, 2006

**NOTE 7 – LONG-TERM DEBT**

Long-term debt activity for the year ended December 31, 2006, is comprised of the following:

	Balance 1/1/2005	Additions	Reductions	Balance 12/31/2006	Amounts Due Within One Year
Governmental activities:					
General obligation bonds	\$ 970,000	\$ 1,475,000	\$ 970,000	\$ 1,475,000	\$ 50,000
General obligation notes	838,801	106,905	115,069	830,637	120,677
Termination benefits	22,624	-	10,984	11,640	-
Pension-related benefits	108,837	-	4,152	104,685	12,208
Total governmental activities	<u>\$ 1,940,262</u>	<u>\$ 1,581,905</u>	<u>\$ 1,100,205</u>	<u>\$ 2,421,962</u>	<u>\$ 182,885</u>
Business-type activities:					
Revenue bonds	<u>\$ 2,619,904</u>	<u>\$ -</u>	<u>\$ 138,156</u>	<u>\$ 2,481,748</u>	<u>\$ 140,742</u>

**General Obligation Debt**

All general obligation debt is secured by the full faith and credit and unlimited taxing powers of the City. General obligation debt at December 31, 2006, is comprised of the following individual issues:

	<u>Governmental Activities</u>			
	<u>Issue Dates</u>	<u>Interest Rates %</u>	<u>Dates of Maturity</u>	<u>Balance 12/31/2006</u>
Bonds payable	5/1/2006	4.0-4.4%	3/1/2021	\$ 1,475,000
Notes payable	1/23/2002	4.00%	12/15/2012	723,732
Notes payable	7/28/2006	5.67%	7/28/2014	106,905
Total general obligation debt				<u>\$ 2,305,637</u>

**CITY OF PHILLIPS, WISCONSIN**

**Notes to Financial Statements**

December 31, 2006

Aggregate cash flow requirements for the retirement of long-term principal and interest on general obligation debt as of December 31, 2006, follows:

<b>Governmental Activities</b>			
<b>Year Ended December 31,</b>	<b>Principal</b>	<b>Interest</b>	<b>Totals</b>
2007	\$ 170,677	\$ 115,029	\$ 285,706
2008	200,679	87,373	288,052
2009	211,030	78,921	289,951
2010	216,541	70,210	286,751
2011	227,288	61,165	288,453
2012-2016	664,422	191,224	855,646
2017-2021	<u>615,000</u>	<u>68,816</u>	<u>683,816</u>
Totals	<u>\$ 2,305,637</u>	<u>\$ 672,738</u>	<u>\$ 2,978,375</u>

**Legal Debt Limit**

The City has the power to incur indebtedness for certain purposes specified by Section 67.031(1)(b), Wisconsin Statutes in an aggregate amount, not exceeding 5% of the equalized value of the taxable property within the City, as last determined by the Wisconsin Department of Revenue. The legal debt limit and the margin of indebtedness as of December 31, 2006, are calculated as follows:

Legal debt limit (5% of \$84,397,200)	\$ 4,219,860
Deduct - Long-term debt applicable to debt margin	<u>2,305,637</u>
Margin of indebtedness	<u>\$ 1,914,223</u>

**Revenue Bonds**

The City also issues bonds and pledged the water and sewer fund income to pay the debt service. Revenue bonds outstanding at December 31, 2006, were as follows:

	<b>Business-Type Activities</b>			
	<b>Issue</b>	<b>Interest</b>	<b>Dates of</b>	<b>Balance</b>
	<b>Dates</b>	<b>Rates %</b>	<b>Maturity</b>	<b>12/31/2006</b>
Revenue bonds - Water and Sewer	7/15/1998	4.4-5.1%	1/15/2018	\$ 730,000
Revenue bonds - Water and Sewer	6/13/2001	2.78%	5/1/2021	<u>1,751,748</u>
Total revenue bonds				<u>\$ 2,481,748</u>

# CITY OF PHILLIPS, WISCONSIN

## Notes to Financial Statements

December 31, 2006

Aggregate cash flow requirements for the retirement of long-term principal and interest as of December 31, 2006, follows:

<b>Business-Type Activities</b>			
<b>Year Ended December 31,</b>	<b>Principal</b>	<b>Interest</b>	<b>Totals</b>
2007	\$ 140,742	\$ 82,529	\$ 223,271
2008	143,400	77,741	221,141
2009	151,132	72,701	223,833
2010	153,939	67,404	221,343
2011	161,824	61,906	223,730
2012-2016	910,285	216,914	1,127,199
2017-2021	<u>820,426</u>	<u>55,227</u>	<u>875,653</u>
Totals	<u>\$ 2,481,748</u>	<u>\$ 634,422</u>	<u>\$ 3,116,170</u>

The City issued \$1,475,000 of general obligation bonds during the year, of which \$870,000 was used to retire debt from the 1998 \$1,545,000 issue.

### NOTE 8 – DEFICIT FUND BALANCES

The following individual funds had deficit fund balances at year-end:

#### Capital Project Funds:

TIF District No. 2	\$ 43,336
TIF District No. 3	614,983
Argyle Street	1,376

### NOTE 9 – EMPLOYEE RETIREMENT PLANS

All eligible City of Phillips, Wisconsin employees participate in the Wisconsin Retirement System (the "System"), a cost-sharing, multiple-employer, defined benefit, public employee retirement system (PERS). All permanent employees expected to work at least 600 hours a year are eligible to participate in the System. Covered employees in the general category are required by Statute to contribute 5.6% of their salary (2.8% for executives and elected officials, 4.9% for protective occupations with social security, and 3.3% for protective occupations without social security) to the plan. Employers may make these contributions to the plan on behalf of employees. Employers are required to contribute an actuarially determined amount necessary to fund the remaining projected cost of future benefits.

The payroll for City of Phillips, Wisconsin employees covered by the System for the year ended December 31, 2006, was \$764,011; the employer's total payroll was \$840,500. The total required contribution for the year ended December 31, 2006, was \$97,460. Total contributions for the years ended December 31, 2005 and 2004, were \$96,058 and \$84,659, respectively, equal to the required contributions for each year.

**CITY OF PHILLIPS, WISCONSIN**

**Notes to Financial Statements**

December 31, 2006

Employees who retire at or after age 65 (62 for elected officials and 54 for protective occupation employees with less than 25 years of service. 53 for protective occupation employees with more than 25 years of service) are entitled to receive a retirement benefit. Employees may retire at age 55 (50 for protective occupation employees) and receive actuarially reduced benefits. The factors influencing the benefit are: (1) final average earnings, (2) years of creditable service, and (3) a formula factor. Final average earnings is the average of the employee's three highest years' earnings. Employees terminating covered employment before becoming eligible for retirement benefits may withdraw their contributions and, by doing so, forfeit all rights to any subsequent benefit. For employees beginning participation 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, are immediately vested.

The System also provides death and disability benefits for employees. Eligibility and the amount of all benefits are determined under Chapter 40 of Wisconsin Statutes. The System issues an annual financial report that may be obtained in writing to the Department of Employee Trust Funds, P.O. Box 7931, Madison, WI 53707-7931.

**NOTE 10 – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**

The composition of interfund balances as of December 31, 2006, was as follows:

<u>Fund</u>	<u>Due From</u>	<u>Due To</u>
General Fund	\$ 1,022,679	\$ 88,192
TIF District No. 3	-	688,200
TIF District No. 4	-	334,110
Argyle Capital Project Fund	413	-
Other Governmental Funds	85,131	41,890
Water and Sewer Utility	<u>44,169</u>	<u>-</u>
Total	<u>\$ 1,152,392</u>	<u>\$ 1,152,392</u>

Interfund balances include advances to/from other funds that related to debt for multiple funds for which one fund is paying for the related debt.

<u>Transfer Out</u>	<u>Transfer In</u>		<u>Total</u>
	<u>General Fund</u>	<u>Other Governmental Funds</u>	
General Fund	<u>\$ -</u>	<u>\$ 579,585</u>	<u>\$ 579,585</u>

## **CITY OF PHILLIPS, WISCONSIN**

### **Notes to Financial Statements**

December 31, 2006

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#### **NOTE 11 – RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. For all risks of loss other than for employee health and worker's compensation, the City's policy is to purchase commercial insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

#### **NOTE 12 – SUBSEQUENT EVENTS**

The City will receive a Community Development Block Grant in the amount of \$500,000. The contract was signed on December 13, 2006.

**REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF PHILLIPS, WISCONSIN**  
**Statement of Revenues and Expenditures - Budget and Actual - General Fund**  
Year Ended December 31, 2006

	Budget		Actual	Variance
	Original	Final		Favorable (Unfavorable)
<b>Revenues:</b>				
<b>Taxes</b>				
Property tax	\$ 641,243	\$ 641,243	\$ 474,044	\$ (167,199)
Mobile home fees	9,000	9,000	5,922	(3,078)
Room tax	18,500	18,500	21,338	2,838
Taxes from municipal owned utilities	57,000	57,000	57,000	-
Interest and penalties on taxes	1,500	1,500	1,918	418
Total taxes	<u>727,243</u>	<u>727,243</u>	<u>560,222</u>	<u>(167,021)</u>
<b>Special assessments</b>				
Sidewalks	12,400	12,400	7,867	(4,533)
Total special assessments	<u>12,400</u>	<u>12,400</u>	<u>7,867</u>	<u>(4,533)</u>
<b>Intergovernmental revenues</b>				
State shared revenues	533,801	533,801	533,816	15
Fire dues	3,000	3,000	3,109	109
Exempt computer aid	11,400	11,400	10,415	(985)
Police training grants	1,400	1,400	1,000	(400)
Transportation aid	111,587	111,587	111,587	-
Other grants	3,050	14,550	23,747	9,197
Total intergovernmental revenues	<u>664,238</u>	<u>675,738</u>	<u>683,674</u>	<u>7,936</u>
<b>Licenses and permits</b>				
Liquor and malt beverage licenses	4,025	4,025	4,930	905
Operators licenses	1,500	1,500	1,760	260
Cigarette licenses	600	600	600	-
Dog and cat licenses	50	50	236	186
Other sundry licenses	50	50	240	190
Building and burning permits	1,200	1,200	2,744	1,544
Total licenses and permits	<u>7,425</u>	<u>7,425</u>	<u>10,510</u>	<u>3,085</u>
<b>Fines and forfeits</b>				
Court fees and costs	14,000	14,000	11,776	(2,224)
Parking violations	1,000	1,000	760	(240)
Total fines and forfeits	<u>15,000</u>	<u>15,000</u>	<u>12,536</u>	<u>(2,464)</u>

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*Revenues continued*

Public charges for services				
Clerk and publication fees	\$ 1,300	\$ 1,300	\$ 915	\$ (385)
Police department fees	3,500	3,500	5,909	2,409
Fire call fees	38,000	38,000	13,825	(24,175)
Street material sales	2,000	2,000	1,040	(960)
Street service sales	2,500	2,500	1,416	(1,084)
Public charges for sidewalk replacement	5,000	5,000	5,588	588
Refuse - user charges	18,000	18,000	21,109	3,109
Library charges	<u>168,407</u>	<u>168,107</u>	<u>158,539</u>	<u>(9,568)</u>
Total public charges for services	<u>238,707</u>	<u>238,407</u>	<u>208,341</u>	<u>(30,066)</u>
Intergovernmental charges				
Fire contract fees	<u>25,680</u>	<u>25,680</u>	<u>35,944</u>	<u>10,264</u>
Total intergovernmental charges	<u>25,680</u>	<u>25,680</u>	<u>35,944</u>	<u>10,264</u>
Miscellaneous Revenue				
Interest income	74,000	74,000	73,892	(108)
Rental income	5,600	5,600	7,055	1,455
Insurance recoveries	1,000	1,000	19,581	18,581
Donations	-	-	970	970
Insurance dividends	-	-	9,619	9,619
Miscellaneous Revenue	<u>2,350</u>	<u>2,350</u>	<u>9,302</u>	<u>6,952</u>
Total miscellaneous revenue	<u>82,950</u>	<u>82,950</u>	<u>120,419</u>	<u>37,469</u>
Total Revenues	<u>\$ 1,773,643</u>	<u>\$ 1,784,843</u>	<u>\$ 1,639,513</u>	<u>\$ (145,330)</u>

	Budget		Actual	Variance
	Original	Final		Favorable (Unfavorable)
<b>Expenditures:</b>				
<b>General Government</b>				
Council	\$ 9,989	\$ 9,989	\$ 10,120	\$ (131)
Mayor	4,406	4,406	4,478	(72)
Legal	19,700	19,700	27,839	(8,139)
Clerk / Treasurer	70,147	70,147	74,666	(4,519)
Elections	2,000	2,000	2,489	(489)
Assessor	8,380	8,380	9,986	(1,606)
Independent audit	13,500	13,500	6,657	6,843
Municipal building	49,672	49,672	44,057	5,615
Total general government	<u>177,794</u>	<u>177,794</u>	<u>180,292</u>	<u>(2,498)</u>
<b>Public Safety</b>				
Police	500,263	523,063	471,850	51,213
Fire	40,945	53,057	65,327	(12,270)
Ambulance	12,052	12,052	-	12,052
Cert program	5,000	5,000	5,469	(469)
Total public safety	<u>558,260</u>	<u>593,172</u>	<u>542,646</u>	<u>50,526</u>
<b>Public Works</b>				
Street administration	69,583	69,583	70,541	(958)
Machinery and equipment	72,482	72,482	74,444	(1,962)
Streets	148,247	148,247	153,483	(5,236)
Street lighting	22,900	22,900	21,731	1,169
Sidewalks	16,458	16,458	15,805	653
Solid waste collection and disposal	71,160	71,160	61,528	9,632
Tree management program	5,445	7,479	7,479	-
Total public works	<u>406,275</u>	<u>408,309</u>	<u>405,011</u>	<u>3,298</u>
<b>Health and human services</b>				
Snow removal	33,323	33,323	14,843	18,480
Total health and human services	<u>33,323</u>	<u>33,323</u>	<u>14,843</u>	<u>18,480</u>
<b>Culture, recreation, and education</b>				
Library	291,829	291,829	268,899	22,930
Recreation	48,998	48,998	74,711	(25,713)
Total culture, recreation, and education	<u>340,827</u>	<u>340,827</u>	<u>343,610</u>	<u>(2,783)</u>

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*Expenses, continued*

Conservation and development				
Community development	\$ 650	\$ 650	\$ 139	\$ 511
Total conservation and development	<u>650</u>	<u>650</u>	<u>139</u>	<u>511</u>
Capital outlay	<u>45,169</u>	<u>56,669</u>	<u>72,249</u>	<u>(15,580)</u>
Debt service				
Principal retirement	100,000	100,000	970,000	(870,000)
Interest and fiscal charges	<u>42,217</u>	<u>42,217</u>	<u>32,517</u>	<u>9,700</u>
Total debt service	<u>142,217</u>	<u>142,217</u>	<u>1,002,517</u>	<u>(860,300)</u>
Total expenditures	<u>1,704,515</u>	<u>1,752,961</u>	<u>2,561,307</u>	<u>(808,346)</u>
Excess of revenue over (under) expenditures	<u>69,128</u>	<u>31,882</u>	<u>(921,794)</u>	<u>(953,676)</u>
Other financing sources (uses)				
Proceeds from long-term debt	-	-	1,475,000	1,475,000
Transfer to other funds	(29,543)	(29,543)	(579,585)	(550,042)
Other uses	<u>(39,585)</u>	<u>(39,585)</u>	<u>(58,796)</u>	<u>(19,211)</u>
Total other financing sources (uses)	<u>(69,128)</u>	<u>(69,128)</u>	<u>836,619</u>	<u>905,747</u>
Change in fund balance		(37,246)	(85,175)	(47,929)
Fund balance at beginning	<u>1,201,507</u>	<u>1,201,507</u>	<u>1,201,507</u>	<u>-</u>
Fund balance at end	<u>\$ 1,201,507</u>	<u>\$ 1,164,261</u>	<u>\$ 1,116,332</u>	<u>\$ (47,929)</u>

**CITY OF PHILLIPS, WISCONSIN**  
**Statement of Revenues and Expenditures - Budget and Actual - CDBG and TIF District No. 3 Funds**  
Year Ended December 31, 2006

	CDBG Fund				TIF District No. 3 Fund			
	Budget		Actual	Variance Favorable (Unfavorable)	Budget		Actual	Variance Favorable (Unfavorable)
	Original	Final			Original	Final		
Revenues:								
Taxes	\$ -	\$ -	\$ -	\$ -	\$ 19,600	\$ 19,600	\$ 72,199	\$ 52,599
Intergovernmental revenues	-	-	-	-	300	300	-	(300)
Public charges for services	-	-	22,760	22,760	-	-	-	-
Other	530	530	2,563	2,033	50	50	269	219
Total Revenues	<u>\$ 530</u>	<u>\$ 530</u>	<u>\$ 25,323</u>	<u>\$ 24,793</u>	<u>\$ 19,950</u>	<u>\$ 19,950</u>	<u>\$ 72,468</u>	<u>\$ 52,518</u>
Expenditures:								
Public works	\$ -	\$ -	\$ -	\$ -	\$ 21,500	\$ 21,500	\$ 8,078	\$ 13,422
Conservation and development	40,000	40,000	53,498	(13,498)	-	-	-	-
Debt service:								
Principal retirement	-	-	-	-	17,600	17,600	9,600	8,000
Interest and fiscal charges	-	-	-	-	576	576	24,615	(24,039)
Total Expenditures	<u>\$ 40,000</u>	<u>\$ 40,000</u>	<u>\$ 53,498</u>	<u>\$ (13,498)</u>	<u>\$ 39,676</u>	<u>\$ 39,676</u>	<u>\$ 42,293</u>	<u>\$ (2,617)</u>
Excess of revenue over (under) expenditures	<u>(39,470)</u>	<u>(39,470)</u>	<u>(28,175)</u>	<u>11,295</u>	<u>(19,726)</u>	<u>(19,726)</u>	<u>30,175</u>	<u>49,901</u>
Change in fund balance		(39,470)	(28,175)	11,295		(19,726)	30,175	49,901
Fund balance at beginning	58,977	58,977	58,977	-	(645,158)	(645,158)	(645,158)	-
Fund balance at end	<u>\$ 58,977</u>	<u>\$ 19,507</u>	<u>\$ 30,802</u>	<u>\$ 11,295</u>	<u>\$ (645,158)</u>	<u>\$ (664,884)</u>	<u>\$ (614,983)</u>	<u>\$ 49,901</u>

**CITY OF PHILLIPS, WISCONSIN**  
**Statement of Revenues and Expenditures - Budget and Actual - TIF District No. 4**  
Year Ended December 31, 2006

	<b>TIF District No. 4 Fund</b>			
	Budget		Actual	Variance
	Original	Final		Favorable (Unfavorable)
Revenues:				
Taxes	\$ 370,000	\$ 370,000	\$ 322,258	\$ (47,742)
Intergovernmental revenues	1,400	1,400	749	(651)
Public charges for services	-	-	-	-
Other	3,500	3,500	14,597	11,097
Total Revenues	<u>\$ 374,900</u>	<u>\$ 374,900</u>	<u>\$ 337,604</u>	<u>\$ (37,296)</u>
Expenditures:				
Public works	\$ 500	\$ 500	\$ 1,386	\$ (886)
Conservation and development	-	-	-	-
Debt service:				
Principal retirement	139,000	139,000	105,469	33,531
Interest and fiscal charges	10,000	10,000	53,555	(43,555)
Total Expenditures	<u>\$ 149,500</u>	<u>\$ 149,500</u>	<u>\$ 160,410</u>	<u>\$ (10,910)</u>
Excess of revenue over (under) expenditures	<u>225,400</u>	<u>225,400</u>	<u>177,194</u>	<u>(48,206)</u>
Change in fund balance		225,400	177,194	(48,206)
Fund balance at beginning	<u>78,835</u>	<u>78,835</u>	<u>78,835</u>	<u>-</u>
Fund balance at end	<u>\$ 78,835</u>	<u>\$ 304,235</u>	<u>\$ 256,029</u>	<u>\$ (48,206)</u>

**SUPPLEMENTAL FINANCIAL INFORMATION**

**CITY OF PHILLIPS, WISCONSIN**  
**Combining Balance Sheet - Nonmajor Governmental Funds**  
December 31, 2006

	Special Revenue Funds				Capital Proj. Fund		Total
	Recycling Fund	Cemetery Fund	EDP Revolving Loan Fund	Library Board Fund	TIF District No. 2	Elk Lake Pavilion	
<i>Assets</i>							
Cash and investments	\$ 1,619	\$ 99,475	\$ -	\$ 39,226	\$ -	\$ -	\$ 140,320
Taxes Receivable	-	-	-	-	11,554	-	11,554
Due from other funds	1,067	2,622	-	-	-	81,442	85,131
<b>TOTAL ASSETS</b>	<b><u>\$ 2,686</u></b>	<b><u>\$ 102,097</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 39,226</u></b>	<b><u>\$ 11,554</u></b>	<b><u>\$ 81,442</u></b>	<b><u>\$ 237,005</u></b>
<i>Liabilities and Fund Balances</i>							
Liabilities:							
Bank Overdraft	\$ -	\$ -	\$ -	\$ -	\$ 1,446	\$ -	\$ 1,446
Accounts payable	2,336	846	-	-	-	-	3,182
Due to other funds	-	-	-	-	613	-	613
Other liabilities	350	-	-	-	-	-	350
Deferred revenue							-
Taxes	-	-	-	-	11,554	-	11,554
Mortgages	-	-	-	-	-	-	-
Other	-	101,251	-	-	-	-	101,251
Advance from other funds	-	-	-	-	41,277	-	41,277
Total Liabilities	<u>2,686</u>	<u>102,097</u>	<u>-</u>	<u>-</u>	<u>54,890</u>	<u>-</u>	<u>159,673</u>
Fund balance:							
Unreserved, undesignated	-	-	-	39,226	(43,336)	81,442	77,332
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b><u>\$ 2,686</u></b>	<b><u>\$ 102,097</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 39,226</u></b>	<b><u>\$ 11,554</u></b>	<b><u>\$ 81,442</u></b>	<b><u>\$ 237,005</u></b>

**CITY OF PHILLIPS, WISCONSIN**

**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds**

Year Ended December 31, 2006

	Capital Project Funds						Total Nonmajor Govt Funds
	Recycling Fund	Cemetery Fund	EDP Revolving Loan Fund	Library Board Fund	TIF District No. 2	Elk Lake Pavilion	
<b>Revenues:</b>							
Taxes	\$ -	\$ -	\$ -	\$ -	\$ 13,236	\$ -	\$ 13,236
Intergovernmental revenues	11,462	-	-	-	-	-	11,462
Public charges for services	-	8,175	-	19,974	-	-	28,149
Other	292	5,168	-	784	22	41	6,307
<b>Total revenues</b>	<b>11,754</b>	<b>13,343</b>	<b>-</b>	<b>20,758</b>	<b>13,258</b>	<b>41</b>	<b>59,154</b>
<b>Expenditures:</b>							
<b>Current:</b>							
Public safety	-	-	-	-	-	-	-
Public works	44,519	-	-	-	9,537	-	54,056
Health and human services	-	12,229	-	-	-	-	12,229
Culture, recreation and education	-	-	-	22,380	-	-	22,380
Conservation and development	-	-	169,059	-	-	-	169,059
Capital outlay	-	-	-	-	-	-	-
<b>Debt Service</b>							
Principal retirement	-	-	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	1,448	-	1,448
<b>Total Expenditures</b>	<b>44,519</b>	<b>12,229</b>	<b>169,059</b>	<b>22,380</b>	<b>10,985</b>	<b>-</b>	<b>259,172</b>
Excess of revenue over (under) expenditures	(32,765)	1,114	(169,059)	(1,622)	2,273	41	(200,018)
<b>Other financing sources (uses)</b>							
Operating transfers in	32,765	437	-	-	-	-	33,202
Operating transfers out	-	-	-	-	-	-	-
Loss on Investments	-	(1,551)	-	-	-	-	(1,551)
<b>Total financing sources (uses)</b>	<b>32,765</b>	<b>(1,114)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>31,651</b>
Net change in fund balance	-	-	(169,059)	(1,622)	2,273	41	(168,367)
Fund balance at beginning	-	-	169,059	40,848	(45,609)	81,401	245,699
Fund balance at end	\$ -	\$ -	\$ -	\$ 39,226	\$ (43,336)	\$ 81,442	\$ 77,332

See Accompanying Notes to the Financial Statements

## **OTHER REPORTS**

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

City Council  
City of Phillips, Wisconsin

We have audited the financial statements of the City of Phillips, Wisconsin as of and for the year ended December 31, 2006, and have issued our report thereon dated May 11, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. The deficiencies are as follows:

*Segregation of Duties* - Our review of internal control disclosed a significant deficiency in that segregation of duties is not feasible due to the limited number of staff at the City. For example, the same person prepares checks for payment, records cash disbursements and reconciles the cash accounts. We noted that the City has established several procedures which are designed to improve controls, including the supervisors signing all claim forms and that three signatures are required on checks.

*Financial Statement Preparation* - The City relies on its independent auditor to prepare its financial statements and related footnotes. Recent revisions to professional standards have identified this situation as an internal control deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of internal control was for the limited purpose described in the second paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, we noted other matters involving internal control and its operation that we have reported to the management of the City of Phillips in a separate letter dated May 11, 2007.

### Compliance and Other Matters

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

This report is intended for the information and use of the City Council, management, others within the City, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Engelson and Associates, Ltd*

La Crosse, Wisconsin  
May 11, 2007