

City of Phillips, Wisconsin

Financial Statements With
Independent Auditor's Report

Year Ended December 31, 2007

CITY OF PHILLIPS, WISCONSIN
Financial Statements With Supplemental Financial Information
December 31, 2007

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Engelson & Associates, Ltd.

Certified Public Accountants and Consultants

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, 2007, 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, 2007, 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 23, 2008 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 23, 2008

CITY OF PHILLIPS, WISCONSIN

Statement of Net Assets

December 31, 2007

<i>Assets</i>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Current assets:			
Cash and investments	\$ 1,230,774	\$ 370,249	\$ 1,601,023
Receivables:			
Property taxes	1,045,475	-	1,045,475
Special assessments	38,380	4,677	43,057
Trade	-	215,625	215,625
Internal balances	(50,559)	50,559	-
Inventories	-	9,116	9,116
Other current assets	<u>51,675</u>	<u>3,722</u>	<u>55,397</u>
Total current assets	<u>2,315,745</u>	<u>653,948</u>	<u>2,969,693</u>
Noncurrent assets:			
Restricted cash and investments	-	126,989	126,989
Mortgages receivable	613,570	-	613,570
Capital assets being depreciated	4,520,620	9,953,419	14,474,039
Less - Accumulated depreciation	(1,996,076)	(2,988,399)	(4,984,475)
Capital assets not being depreciated:			
Land	302,615	21,490	324,105
Construction in progress	177,748	-	177,748
Other noncurrent assets	<u>13,333</u>	<u>-</u>	<u>13,333</u>
Total noncurrent assets	<u>3,631,810</u>	<u>7,113,499</u>	<u>10,745,309</u>
TOTAL ASSETS	<u><u>\$ 5,947,555</u></u>	<u><u>\$ 7,767,447</u></u>	<u><u>\$ 13,715,002</u></u>

<i>Liabilities and Net Assets</i>	Governmental Activities	Business-Type Activities	Total
Liabilities:			
Current liabilities:			
Accounts payable	\$ 84,995	\$ 13,049	\$ 98,044
Accrued and other liabilities	91,143	58,683	149,826
Deferred revenue	1,182,861	-	1,182,861
Current portion of long-term obligations	<u>214,295</u>	<u>143,400</u>	<u>357,695</u>
Total current liabilities	<u>1,573,294</u>	<u>215,132</u>	<u>1,788,426</u>
Noncurrent liabilities:			
Notes payable	584,281	2,242,270	2,826,551
Bonds payable	1,350,000	-	1,350,000
Pension-related debt	85,134	-	85,134
Termination benefits	<u>8,113</u>	<u>-</u>	<u>8,113</u>
Total noncurrent liabilities	<u>2,027,528</u>	<u>2,242,270</u>	<u>4,269,798</u>
Total liabilities	<u>3,600,822</u>	<u>2,457,402</u>	<u>6,058,224</u>
Net Assets:			
Invested in capital assets, net of related debt	869,947	4,600,840	5,470,787
Restricted for bond and grant covenants	-	126,989	126,989
Unrestricted	<u>1,476,786</u>	<u>582,216</u>	<u>2,059,002</u>
Total Net Assets	<u>2,346,733</u>	<u>5,310,045</u>	<u>7,656,778</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 5,947,555</u>	<u>\$ 7,767,447</u>	<u>\$ 13,715,002</u>

CITY OF PHILLIPS, WISCONSIN

Statement of Activities

Year Ended December 31, 2007

Functions/Programs	Program Revenues				Net (Expense) Revenues and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities:							
General government	\$ 218,913	\$ 57,491	\$ -	\$ -	\$ (161,422)		\$ (161,422)
Public safety	645,126	27,965	43,609	-	(573,552)		(573,552)
Public works	541,871	9,754	117,461	-	(414,656)		(414,656)
Health and human services	42,230	25,607	-	-	(16,623)		(16,623)
Culture, recreation and education	351,820	189,860	8,470	2,381	(151,109)		(151,109)
Conservation and development	97,768	305,979	70,875	-	279,086		279,086
Interest and fiscal charges	139,290	-	-	-	(139,290)		(139,290)
Total governmental activities	<u>2,037,018</u>	<u>616,656</u>	<u>240,415</u>	<u>2,381</u>	<u>(1,177,566)</u>		<u>(1,177,566)</u>
Business-Type Activities							
Water and sewer utility	<u>873,133</u>	<u>706,848</u>	<u>-</u>	<u>-</u>		<u>(166,285)</u>	<u>(166,285)</u>
Totals	<u>\$ 2,910,151</u>	<u>\$ 1,323,504</u>	<u>\$ 240,415</u>	<u>\$ 2,381</u>	<u>(1,177,566)</u>	<u>(166,285)</u>	<u>(1,343,851)</u>
General revenues:							
Property taxes:							
General purposes					663,424	-	663,424
TIF District					399,329	-	399,329
Payments in lieu of taxes					62,938	-	62,938
Room tax					19,115	-	19,115
Grants and contributions not restricted to specific functions					592,043	-	592,043
Gain (loss) on sale of assets					14,650	-	14,650
Gain (loss) on investments					520	-	520
Interest and investment earnings					112,730	21,397	134,127
Miscellaneous					14,059	-	14,059
Total general revenues					<u>1,878,808</u>	<u>21,397</u>	<u>1,900,205</u>
Change in net assets					701,242	(144,888)	556,354
Net assets - Beginning of year					<u>\$ 1,645,491</u>	<u>\$ 5,454,933</u>	<u>\$ 7,100,424</u>
Net assets - End of year					<u>\$ 2,346,733</u>	<u>\$ 5,310,045</u>	<u>\$ 7,656,778</u>

CITY OF PHILLIPS, WISCONSIN

Balance Sheet

Governmental Funds

December 31, 2007

<i>Assets</i>	General Fund	CDBG	TIF District No. 3	TIF District No. 4	Argyle Street	Other Nonmajor Gov't Funds	Total Governmental Funds
Cash and investments	\$ 348,717	\$ 8,010	\$ 67,201	\$ 639,475	\$ -	\$ 167,371	\$ 1,230,774
Receivables:							
Special assessments	38,380	-	-	-	-	-	38,380
Taxes	648,535	-	72,561	313,146	-	11,233	1,045,475
Mortgages	-	613,570	-	-	-	-	613,570
Due from other funds	31,418	-	-	154,693	413	98,473	284,997
Other assets	51,451	-	-	-	-	224	51,675
Advances to other funds	988,676	-	-	-	-	-	988,676
TOTAL ASSETS	\$ 2,107,177	\$ 621,580	\$ 139,762	\$ 1,107,314	\$ 413	\$ 277,301	\$ 4,253,547
<i>Liabilities and Fund Balances</i>							
Liabilities:							
Bank Overdraft	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts payable	33,434	-	-	12,979	1,573	37,009	84,995
Due to other funds	110,235	-	-	1,373	-	181,004	292,612
Other liabilities	36,050	-	-	-	-	221	36,271
Deferred revenues:							
Property taxes	682,870	-	72,561	313,146	-	11,233	1,079,810
Mortgages	-	613,570	-	-	-	-	613,570
Other	-	-	-	-	-	103,051	103,051
Advances from other funds	-	-	637,609	351,285	-	42,724	1,031,618
Total Liabilities	<u>862,589</u>	<u>613,570</u>	<u>710,170</u>	<u>678,783</u>	<u>1,573</u>	<u>375,242</u>	<u>3,241,927</u>
Fund Balances							
Reserved	-	-	-	-	-	-	-
Unreserved, undesignated	1,244,588	8,010	(570,408)	428,531	(1,160)	(97,941)	1,011,620
Total Fund Balance	<u>1,244,588</u>	<u>8,010</u>	<u>(570,408)</u>	<u>428,531</u>	<u>(1,160)</u>	<u>(97,941)</u>	<u>1,011,620</u>
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,107,177	\$ 621,580	\$ 139,762	\$ 1,107,314	\$ 413	\$ 277,301	\$ 4,253,547

CITY OF PHILLIPS, WISCONSIN
Reconciliation of the Governmental Funds Balance
Sheet to the Statement of Net Assets
December 31, 2007

Total fund balances - Governmental funds (previous page): \$ 1,011,620

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	\$ 5,000.983	
Governmental accumulated depreciation	<u>(1,996.076)</u>	3,004,907

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.		613,570
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Other long-term assets not available to pay for current period expenditures and, therefore, are deferred in the fund statements:		13,333
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Unpaid vacation and sick pay is a liability of the governmental funds only if the employee has resigned or retired.		(32,574)
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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	(98,750)	
Termination benefits	(8,115)	
Notes payable	(709,960)	
Bonds payable	(1,425,000)	
Accrued interest on long-term debt	<u>(22,298)</u>	<u>(2,264,123)</u>

Total net assets - Governmental activities		<u>\$ 2,346,733</u>
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CITY OF PHILLIPS, WISCONSIN
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended December 31, 2007

	General Fund	CDBG	TIF District No. 3	TIF District No. 4	Argyle Street	Other Nonmajor Funds	Total Governmental Funds
Revenues							
Taxes	\$ 759,385	\$ -	\$ 75,272	\$ 322,958	\$ -	\$ 11,554	\$ 1,169,169
Special assessments	8,275	-	-	-	-	-	8,275
Intergovernmental revenues	740,610	70,875	-	-	-	11,453	822,938
Licenses and permits	9,717	-	-	-	-	-	9,717
Fines and forfeits	15,668	-	-	-	-	-	15,668
Public charges for service	215,523	-	-	-	-	23,740	239,263
Intergovernmental charges	38,714	-	-	-	-	-	38,714
Other	88,498	1,263	1,075	23,045	-	17,108	130,989
Total revenues	<u>1,876,390</u>	<u>72,138</u>	<u>76,347</u>	<u>346,003</u>	<u>-</u>	<u>63,855</u>	<u>2,434,733</u>
Expenditures:							
Current:							
General government	184,220	-	-	-	-	-	184,220
Public safety	580,749	-	-	-	-	-	580,749
Public works	412,163	-	7,733	17,226	1,573	41,072	479,767
Health and human services	25,003	-	-	-	-	17,080	42,083
Culture, recreation and education	325,574	-	-	-	-	5,886	331,460
Conservation and development	402	94,930	-	-	-	-	95,332
Capital outlay	49,642	-	-	-	-	175,610	225,252
Debt service:							
Principal retirement	228,129	-	-	109,747	-	-	337,876
Interest and fiscal charges	89,646	-	24,039	46,528	-	-	160,213
Total expenditures	<u>1,895,528</u>	<u>94,930</u>	<u>31,772</u>	<u>173,501</u>	<u>1,573</u>	<u>239,648</u>	<u>2,436,952</u>
Excess (deficiency) of revenue over (under) expenditures	(19,138)	(22,792)	44,575	172,502	(1,573)	(175,793)	(2,219)
Other financing sources (uses):							
Proceeds from long-term debt	167,199	-	-	-	-	-	167,199
Transfers in	-	-	-	-	1,789	-	1,789
Transfers out	(1,789)	-	-	-	-	-	(1,789)
Bond issue costs	-	-	-	-	-	-	-
Gain (loss) on investments	-	-	-	-	-	520	520
Other uses	(18,016)	-	-	-	-	-	(18,016)
Net other financing sources (uses)	<u>147,394</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,789</u>	<u>520</u>	<u>149,703</u>
Change in fund balances	128,256	(22,792)	44,575	172,502	216	(175,273)	147,484
Fund balances (deficit) at beginning of year	<u>\$ 1,116,332</u>	<u>\$ 30,802</u>	<u>\$ (614,983)</u>	<u>\$ 256,029</u>	<u>\$ (1,376)</u>	<u>\$ 77,332</u>	<u>\$ 864,136</u>
Fund balance at end of year	<u>\$ 1,244,588</u>	<u>\$ 8,010</u>	<u>\$ (570,408)</u>	<u>\$ 428,531</u>	<u>\$ (1,160)</u>	<u>\$ (97,941)</u>	<u>\$ 1,011,620</u>

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, 2007**

Net change in fund balances - Total governmental funds \$ 147,484

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	\$ 223,865	
Depreciation expense reported in the statement of activities	<u>(170,493)</u>	
Amount by which capital outlays are greater (less) than depreciation in the current year:		53,372

Some revenues in the governmental funds, such as payments on special assessments receivable & other receivables have already been recorded as revenues and an asset on the statement of net assets.	302,827
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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	-	
Amortization expense	<u>(1,000)</u>	(1,000)

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		(2,503)

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		337,876
The decrease in pension-related debt in the current year		5,935
The decrease in termination benefits in the current year		3,527

Loan proceeds are revenues in the governmental funds, but are reported as an increase in long-term debt in the statement of net assets and does not affect the statement of activities.	(167,199)
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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 paid is greater than interest accrued		<u>20,923</u>

Change in net assets - Governmental activities	<u>\$ 701,242</u>
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CITY OF PHILLIPS, WISCONSIN
Statement of Net Assets - Proprietary Funds
December 31, 2007

<i>Assets</i>	<u>Water and Sewer Utility</u>
Current assets:	
Cash and investments	\$ 370,249
Accounts Receivable:	
Trade	215,625
Special assessments	4,677
Due from other funds	7,614
Inventories	9,116
Advances to other funds	42,945
Other current assets	<u>3,722</u>
Total current assets	<u>653,948</u>
Restricted cash and investments	<u>126,989</u>
Capital assets being depreciated	9,953,419
Less - Accumulated depreciation	<u>(2,988,399)</u>
Net depreciable value	6,965,020
Land	21,490
Construction-in-process	<u>-</u>
Net capital assets	<u>6,986,510</u>
TOTAL ASSETS	<u>\$ 7,767,447</u>
 <i>Liabilities and Net Assets</i> 	
Current liabilities:	
Accounts payable	\$ 13,049
Accrued and other liabilities	58,683
Current portion of long-term liabilities	<u>143,400</u>
Total current liabilities	<u>215,132</u>
Long-term liabilities - Notes payable	<u>2,242,270</u>
Net Assets:	
Invested in capital assets, net of related debt	4,600,840
Restricted	126,989
Unrestricted	<u>582,216</u>
Total Net Assets	<u>5,310,045</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 7,767,447</u>

CITY OF PHILLIPS, WISCONSIN
Statement of Revenues, Expenses, and Changes in Net Assets - Proprietary Funds
Year Ended December 31, 2007

	Water and Sewer Utility
Operating revenues:	
Charges for services	\$ 702,096
Other	<u>4,752</u>
Total operating revenues	<u>706,848</u>
Operating expenses:	
Operation and maintenance	469,740
Depreciation	264,771
Taxes	<u>57,050</u>
Total operating expenses	<u>791,561</u>
Operating loss	(84,713)
Non-operating income (expense):	
Interest income	21,397
Interest expense	<u>(81,572)</u>
Total non-operating income (expense)	<u>(60,175)</u>
Change in net assets	(144,888)
Net assets at beginning	<u>5,454,933</u>
Net assets at end	<u>\$ 5,310,045</u>

CITY OF PHILLIPS, WISCONSIN
Statement of Cash Flows - Proprietary Funds
Year Ended December 31, 2007

	Water and Sewer Utility
Cash flows from operating activities:	
Cash received from customers	\$ 708,765
Cash paid to suppliers for goods and services	(349,291)
Cash paid to employees for services	<u>(196,296)</u>
Net cash provided by operating activities	<u>163,178</u>
 Cash flows from capital and related financing activities	
Principal paid on long-term debt	(96,078)
Interest paid on long-term debt	<u>(81,572)</u>
Net cash used in capital and related financing activities	<u>(177,650)</u>
 Cash flows from investing activities	
Interest received	21,397
Capital assets purchased	<u>(6,506)</u>
Net cash used in investing activities	<u>14,891</u>
 Net increase in cash and cash equivalents	419
 Cash and cash equivalents at beginning of year	<u>496,819</u>
 Cash and cash equivalents at end of year	<u><u>\$ 497,238</u></u>

CITY OF PHILLIPS, WISCONSIN
Statement of Cash Flows - Proprietary Funds
Year Ended December 31, 2007

Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	\$ (84,713)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation*	264,771
(Increase) decrease in current assets:	
Accounts receivable	1,917
Due from other funds	(4,966)
Inventories	854
Advances to other funds	(1,424)
Other current assets	3,398
Increase (decrease) in current liabilities:	
Accounts payable	(14,079)
Accrued and other liabilities	<u>(2,580)</u>
Total adjustments	<u>247,891</u>
Net cash provided by operating activities	<u>\$ 163,178</u>

* Non-cash transaction

CITY OF PHILLIPS, WISCONSIN
Statement of Assets and Liabilities - Fiduciary Funds
December 31, 2007

	<u>Tax Agency Collection Fund</u>
<i>Assets</i>	
Cash	\$ 167,402
Taxes receivable	<u>1,885,710</u>
TOTAL ASSETS	<u>\$ 2,053,112</u>
 <i>Liabilities</i>	
Due to other governments	\$ 1,006,192
Due to other funds	<u>1,046,920</u>
TOTAL LIABILITIES	<u>\$ 2,053,112</u>

CITY OF PHILLIPS, WISCONSIN

Notes to Financial Statements

December 31, 2007

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, 2007

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, 2007

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, 2007

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, 2007

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, 2007

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, 2007

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 2006 tax levy is used to finance operations of the City for the year ended December 31, 2007. All property taxes are considered due on January 1st, when an enforceable lien is assessed against the property and the taxpayer is liable for the taxes. The County assumes all responsibility for delinquent real property taxes. Property taxes which have not been recognized as revenue are recorded as deferred revenues until collected.

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.

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 has not yet adopted a policy for deposit custodial credit risk. At year-end, the carrying amount of the City's deposits was \$1,106,087 and the bank balance was \$1,201,637. Of the bank balance, \$431,797 was covered by federal depository insurance, \$400,000 was covered by the State of Wisconsin Public Deposit Guarantee fund and \$242,851 was secured by pledged securities.

CITY OF PHILLIPS, WISCONSIN

Notes to Financial Statements

December 31, 2007

NOTE 3 – CASH AND INVESTMENTS, CONTINUED

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, 2007.

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.

	<u>Fair Value</u>	<u>Remaining Maturity (in Years)</u>			
		<u>0-1</u>	<u>1-5</u>	<u>6-10</u>	<u>More Than 10</u>
U.S. Treasury and Agencies	\$ 126,989	\$ 126,989	\$ -	\$ -	\$ -
State and Municipal Bonds	10,042				10,042
Corporate Bonds	56,563	-	-	4,450	52,113
LGIP	<u>675,071</u>	<u>675,071</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 868,665</u>	<u>\$ 802,060</u>	<u>\$ -</u>	<u>\$ 4,450</u>	<u>\$ 62,155</u>

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, 2007, was as follows:

	<u>Rating</u>		
	<u>Exempt From Rating</u>	<u>BA1/BB+</u>	<u>Not Rated</u>
U.S. Treasury and Agencies	\$ 126,989	\$ -	\$ -
State and Municipal Bonds	-	-	10,042
Corporate Bonds	-	4,450	52,113
Local Government Investment Pool	<u>675,071</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 802,060</u>	<u>\$ 4,450</u>	<u>\$ 62,155</u>

Concentration of Credit Risk – The City does not currently have a policy that addresses concentration of credit risk. At December 31, 2007, 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.

CITY OF PHILLIPS, WISCONSIN

Notes to Financial Statements

December 31, 2007

NOTE 3 – CASH AND INVESTMENTS, CONTINUED

The City's cash and investment balances at December 31, 2007, were as follows:

Cash on deposit with financial institutions	\$ 1,024,736
Cash on hand	106
Money market funds	1,906
Investments:	
U.S. Treasury and Agencies	126,989
Corporate bonds	66,605
Local Government Investment Pool	675,071
Total cash and investments	1,895,414
Less - Cash and investments held in fiduciary funds	<u>167,402</u>
Total cash and investments per Statement of Net Assets	<u>\$ 1,728,012</u>

NOTE 4 – RESTRICTED ASSETS

Cash and Investments – For the year ended December 31, 2007, cash and investments in the amount of \$126,989 have been restricted for the repayment of revenue bonds.

CITY OF PHILLIPS, WISCONSIN

Notes to Financial Statements

December 31, 2007

NOTE 5 – CAPITAL ASSETS

Capital asset balances and activity for the year ended December 31, 2007, were as follows:

Governmental Activities:	Balance 1/1/2007	Additions	Deletions	Balance 12/31/2007
Capital assets not being depreciated:				
Land	\$ 305,765	\$ -	\$ 3,150	\$ 302,615
Construction in progress	<u>2,138</u>	<u>175,610</u>	<u>-</u>	<u>177,748</u>
Total capital assets not being depreciated	<u>307,903</u>	<u>175,610</u>	<u>3,150</u>	<u>480,363</u>
Capital assets being depreciated:				
Land improvements	127,170	-	-	127,170
Buildings and improvements	2,139,645	-	-	2,139,645
Machinery and equipment	1,667,729	48,255	2,500	1,713,484
Infrastructure	<u>540,321</u>	<u>-</u>	<u>-</u>	<u>540,321</u>
Total capital assets being depreciated	<u>4,474,865</u>	<u>48,255</u>	<u>2,500</u>	<u>4,520,620</u>
Less accumulated depreciation for:				
Buildings and improvements	758,287	44,928	-	803,215
Machinery and equipment	1,068,895	114,759	2,500	1,181,154
Infrastructure	<u>901</u>	<u>10,806</u>	<u>-</u>	<u>11,707</u>
Total accumulated depreciation	<u>1,828,083</u>	<u>70,493</u>	<u>2,500</u>	<u>1,996,076</u>
Total capital assets being depreciated, net of accumulated depreciation	<u>2,646,782</u>	<u>(122,238)</u>	<u>-</u>	<u>2,524,544</u>
Governmental activities capital assets - Net	<u>\$ 2,954,685</u>	<u>\$ 53,372</u>	<u>\$ 3,150</u>	<u>\$ 3,004,907</u>
Business-Type Activities:	Balance 1/1/2007	Additions	Deletions	Balance 12/31/2007
Capital assets not being depreciated:				
Land	\$ 21,490	\$ -	\$ -	\$ 21,490
Construction in progress	<u>44,235</u>	<u>4,780</u>	<u>49,015</u>	<u>-</u>
Total capital assets not being depreciated	<u>65,725</u>	<u>4,780</u>	<u>49,015</u>	<u>21,490</u>
Capital assets being depreciated:				
Water distribution system	3,646,840	1,451	50	3,648,241
Sewer collection and treatment system	<u>6,255,888</u>	<u>49,290</u>	<u>-</u>	<u>6,305,178</u>
Total capital assets being depreciated	9,902,728	50,741	50	9,953,419
Less accumulated depreciation	<u>2,723,678</u>	<u>264,771</u>	<u>50</u>	<u>2,988,399</u>
Total capital assets being depreciated, net of accumulated depreciation	<u>7,179,050</u>	<u>214,030</u>	<u>-</u>	<u>6,965,020</u>
Business-type activities capital assets - Net	<u>\$ 7,244,775</u>	<u>(209,250)</u>	<u>\$ 49,015</u>	<u>\$ 6,986,510</u>

CITY OF PHILLIPS, WISCONSIN

Notes to Financial Statements

December 31, 2007

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

Governmental activities:

General government	\$ 26,139
Public safety	60,517
Public works	61,104
Health and human services	147
Culture, recreation, and education	20,150
Conservation and development	<u>2,436</u>
Total depreciation for governmental activities	<u>\$ 170,493</u>
Business-type activities - Water and Sewer Utility	<u>\$ 264,771</u>

Construction Commitments

The City had one active construction project as of December 31, 2007.

Project	Spent-to-Date	Remaining Commitment
Elk Lake Pavilion	\$ 165,286	\$ 104,483

Contracts have also been signed for the following projects:

Downtown alleys from Cherry St. to Maple St.	\$ 46,000
Construction of grinder station	15,460
Water/sewer line installation-Hwy 13	<u>23,080</u>
Total other commitments	<u>\$ 84,540</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, 2007, total accumulated project expenditures are as follows:

TIF District No. 2	\$ 67,132
TIF District No. 3	832,536
TIF District No. 4	<u>3,329,290</u>
Total project expenditures	<u>\$ 4,228,958</u>

CITY OF PHILLIPS, WISCONSIN

Notes to Financial Statements

December 31, 2007

NOTE 7 – LONG-TERM DEBT

Long-term debt activity for the year ended December 31, 2007, is comprised of the following:

	Balance			Balance	Amounts
	<u>1/1/2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/2007</u>	<u>Due Within</u>
					<u>One Year</u>
Governmental activities:					
General obligation bonds	\$ 1,475,000	\$ -	\$ 50,000	\$ 1,425,000	\$ 75,000
General obligation notes	830,637	167,199	287,876	709,960	125,679
Termination benefits	11,640	-	3,527	8,113	-
Pension-related benefits	<u>104,685</u>	<u>-</u>	<u>5,935</u>	<u>98,750</u>	<u>13,616</u>
Total governmental activities	<u>\$ 2,421,962</u>	<u>\$ 167,199</u>	<u>\$ 347,338</u>	<u>\$ 2,241,823</u>	<u>\$ 214,295</u>
Business-type activities:					
Revenue bonds	<u>\$ 2,481,748</u>	<u>\$ 44,665</u>	<u>\$ 140,742</u>	<u>\$ 2,385,670</u>	<u>\$ 143,400</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, 2007, is comprised of the following individual issues:

	<u>Governmental Activities</u>			
	<u>Issue</u>	<u>Interest</u>	<u>Dates of</u>	<u>Balance</u>
		<u>Rates</u>		
	<u>Dates</u>	<u>%</u>	<u>Maturity</u>	<u>12/31/2007</u>
Bonds payable	5/1/2006	4.0-.4%	3/1/2021	\$ 1,425,000
Notes payable	1/23/2002	4.00%	12/15/2012	613,986
Notes payable	7/28/2006	5.67%	7/28/2014	95,975
Notes payable	2/1/2007	4.80%	8/1/2007	<u>-</u>
Total general obligation debt				<u>\$ 2,134,961</u>

CITY OF PHILLIPS, WISCONSIN

Notes to Financial Statements

December 31, 2007

Aggregate cash flow requirements for the retirement of long-term principal and interest on general obligation debt as of December 31, 2007, follows:

Governmental Activities			
Year Ended December 31,	Principal	Interest	Totals
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	233,126	51,688	284,814
2013-2017	541,297	163,342	704,639
2018-2022	<u>505,000</u>	<u>45,026</u>	<u>550,026</u>
Totals	<u>\$ 2,134,961</u>	<u>\$ 557,725</u>	<u>\$ 2,692,686</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, 2007, are calculated as follows:

Legal debt limit (5% of \$84,638,600)	\$ 4,231,930
Deduct - Long-term debt applicable to debt margin	<u>2,134,961</u>
Margin of indebtedness	<u>\$ 2,096,970</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, 2007, were as follows:

	Business-Type Activities			
	Issue Dates	Interest Rates %	Dates of Maturity	Balance 12/31/2007
Revenue bonds - Water and Sewer	7/15/1998	4.4-5.1%	1/15/2018	\$ 685,000
Revenue bonds - Water and Sewer	6/13/2001	2.78%	5/1/2021	<u>1,700,670</u>
Total revenue bonds				<u>\$ 2,385,670</u>

CITY OF PHILLIPS, WISCONSIN

Notes to Financial Statements

December 31, 2007

Aggregate cash flow requirements for the retirement of long-term principal and interest as of December 31, 2007, follows:

Business-Type Activities			
Year Ended December 31,	Principal	Interest	Totals
2008	\$ 146,054	\$ 78,755	\$ 224,809
2009	153,859	73,829	227,688
2010	156,742	68,456	225,198
2011	164,706	62,880	227,586
2012	172,751	56,974	229,725
2013-2017	957,479	186,709	1,144,188
2018-2022	<u>634,079</u>	<u>33,329</u>	<u>667,407</u>
Totals	<u>\$ 2,385,670</u>	<u>\$ 560,932</u>	<u>\$ 2,946,602</u>

NOTE 8 – DEFICIT FUND BALANCES

Generally accepted accounting principles require disclosure of individual funds that have deficit balances at year end. As of December 31, 2007, the following individual funds held a deficit balance:

Recycling Fund	\$ 27,668
Cemetery Fund	240
Argyle Street	1,160
Elk Lake Pavilion	91,787
TIF District No. 2	33,021
TIF District No. 3	570,408

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 WRS. Covered employees in the general category are required by Statute to contribute 6.0% of their salary (3.0% for executives and elected officials, 5.1% for protective occupations with social security, and 3.4% 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 WRS for the year ended December 31, 2007, was \$860,244; the employer's total payroll was \$909,756. The total required contribution for the year ended December 31, 2007, was \$111,612. Total contributions for the years ended December 31, 2006 and 2005, were \$97,460 and \$96,058, respectively, equal to the required contributions for each year.

CITY OF PHILLIPS, WISCONSIN

Notes to Financial Statements

December 31, 2007

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 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, are immediately vested.

The WRS also provides death and disability benefits for employees. Eligibility and the amount of all benefits are determined under Chapter 40 of Wisconsin Statutes. The WRS 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, 2007, was as follows:

Fund	Due From	Due To
General Fund	\$ 1,020,094	\$ 110,235
TIF District No. 3	-	637,610
TIF District No. 4	154,693	352,659
Argyle	413	-
Other Governmental Funds	98,473	223,728
Water and Sewer Utility	<u>50,559</u>	<u>-</u>
Total	<u>\$ 1,324,232</u>	<u>\$ 1,324,232</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.

Transfer Out	Transfer In		Total
	General Fund	Other Governmental Funds	
General Fund	<u>\$ -</u>	<u>\$ 1,789</u>	<u>\$ 1,789</u>

CITY OF PHILLIPS, WISCONSIN

Notes to Financial Statements

December 31, 2007

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.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF PHILLIPS, WISCONSIN
Statement of Revenues and Expenditures - Budget and Actual - General Fund
Year Ended December 31, 2007

	Budget		Actual	Variance
	Original	Final		Favorable (Unfavorable)
Revenues:				
Taxes				
Property tax	\$ 654,068	\$ 663,424	\$ 663,424	\$ -
Mobile home fees	8,000	8,000	5,888	(2,112)
Room tax	18,500	18,500	19,115	615
Taxes from municipal owned utilities	57,000	57,000	57,050	50
Interest and penalties on taxes	1,900	1,900	13,908	12,008
Total taxes	<u>739,468</u>	<u>748,824</u>	<u>759,385</u>	<u>10,561</u>
Special assessments				
Sidewalks	10,000	10,000	8,275	(1,725)
Total special assessments	<u>10,000</u>	<u>10,000</u>	<u>8,275</u>	<u>(1,725)</u>
Intergovernmental revenues				
State shared revenues	581,971	581,971	581,860	(111)
Fire dues	3,000	3,000	2,744	(256)
Exempt computer aid	11,400	11,400	9,133	(2,267)
Police training grants	1,400	1,400	1,400	-
Transportation aid	106,008	106,008	106,008	-
Other grants	7,000	7,000	39,465	32,465
Total intergovernmental revenues	<u>710,779</u>	<u>710,779</u>	<u>740,610</u>	<u>29,831</u>
Licenses and permits				
Liquor and malt beverage licenses	4,500	4,500	4,930	430
Operators licenses	1,500	1,500	1,650	150
Cigarette licenses	600	600	450	(150)
Dog and cat licenses	50	50	174	124
Other sundry licenses	100	100	120	20
Building and burning permits	1,500	1,500	2,393	893
Total licenses and permits	<u>8,250</u>	<u>8,250</u>	<u>9,717</u>	<u>1,467</u>
Fines and forfeits				
Court fees and costs	28,000	28,000	14,168	(13,832)
Parking violations	1,000	1,000	1,500	500
Total fines and forfeits	<u>29,000</u>	<u>29,000</u>	<u>15,668</u>	<u>(13,332)</u>

Revenues continued

Public charges for services				
Clerk and publication fees	\$ 1,100	\$ 1,100	\$ 1,745	\$ 645
Police department fees	4,000	\$ 4,000	3,797	(203)
Fire call fees	28,000	\$ 28,000	8,500	(19,500)
Street material sales	2,000	\$ 2,000	2,808	808
Street service sales	2,500	\$ 2,500	2,711	211
Public charges for sidewalk replacement	4,000	\$ 4,000	4,235	235
Refuse - user charges	20,000	\$ 20,000	14,832	(5,168)
Library charges	<u>181,596</u>	<u>\$ 181,596</u>	<u>176,895</u>	<u>(4,701)</u>
Total public charges for services	<u>243,196</u>	<u>243,196</u>	<u>215,523</u>	<u>(27,673)</u>
Intergovernmental charges				
Fire contract fees	<u>25,680</u>	<u>\$ 25,680</u>	<u>38,714</u>	<u>13,034</u>
Total intergovernmental charges	<u>25,680</u>	<u>25,680</u>	<u>38,714</u>	<u>13,034</u>
Miscellaneous Revenue				
Interest income	60,000	\$ 60,000	66,587	6,587
Rental income	6,400	\$ 6,400	7,315	915
Insurance recoveries	1,000	\$ 1,000	2,500	1,500
Donations	-	\$ -	1,050	1,050
Insurance dividends	-	\$ -	595	595
Forest-sale of timber	5,000	\$ 5,000	1,856	(3,144)
Sale of city property	350	\$ 350	-	(350)
Miscellaneous Revenue	<u>2,000</u>	<u>\$ 2,000</u>	<u>8,595</u>	<u>6,595</u>
Total miscellaneous revenue	<u>74,750</u>	<u>74,750</u>	<u>88,498</u>	<u>13,748</u>
Total Revenues	<u>\$ 1,841,123</u>	<u>\$ 1,850,479</u>	<u>\$ 1,876,390</u>	<u>\$ 25,911</u>

	Budget		Actual	Variance
	Original	Final		Favorable (Unfavorable)
Expenditures:				
General Government				
Council	\$ 14,763	\$ 14,763	\$ 9,020	\$ 5,743
Mayor	5,883	5,883	5,418	465
Legal	29,100	25,756	25,847	(91)
Clerk / Treasurer	72,794	72,794	74,891	(2,097)
Elections	2,000	2,000	1,364	636
Assessor	8,430	8,430	15,783	(7,353)
Independent audit	13,500	13,500	9,750	3,750
Municipal building	51,639	51,639	42,147	9,492
Total general government	<u>198,109</u>	<u>194,765</u>	<u>184,220</u>	<u>10,545</u>
Public Safety				
Police	515,599	514,899	504,127	10,772
Fire	43,983	43,983	50,985	(7,002)
Ambulance	25,637	25,637	25,637	-
Total public safety	<u>585,219</u>	<u>584,519</u>	<u>580,749</u>	<u>3,770</u>
Public Works				
Street administration	72,557	72,557	70,709	1,848
Machinery and equipment	73,962	73,462	75,322	(1,860)
Streets	151,438	150,938	155,243	(4,305)
Street lighting	22,900	22,900	21,462	1,438
Sidewalks	17,025	17,025	21,822	(4,797)
Solid waste collection and disposal	71,991	71,991	59,347	12,644
Tree management program	3,581	3,581	8,258	(4,677)
Total public works	<u>413,454</u>	<u>412,454</u>	<u>412,163</u>	<u>291</u>
Health and human services				
Snow removal	34,685	34,685	25,003	9,682
Total health and human services	<u>34,685</u>	<u>34,685</u>	<u>25,003</u>	<u>9,682</u>
Culture, recreation, and education				
Library	310,047	309,547	270,938	38,609
Contract services	-	-	5,000	(5,000)
Recreation	49,889	49,889	49,636	253
Total culture, recreation, and education	<u>359,936</u>	<u>359,436</u>	<u>325,574</u>	<u>33,862</u>

Expenses, continued

Conservation and development				
Community development	<u>\$ 650</u>	<u>\$ 650</u>	<u>\$ 402</u>	<u>\$ 248</u>
Total conservation and development	<u>650</u>	<u>650</u>	<u>402</u>	<u>248</u>
Capital outlay	<u>40,574</u>	<u>40,574</u>	<u>49,642</u>	<u>(9,068)</u>
Debt service				
Principal retirement	50,000	50,000	228,129	(178,129)
Interest and fiscal charges	<u>87,500</u>	<u>100,200</u>	<u>89,646</u>	<u>10,554</u>
Total debt service	<u>137,500</u>	<u>150,200</u>	<u>317,775</u>	<u>(167,575)</u>
Total expenditures	<u>1,770,127</u>	<u>1,777,283</u>	<u>1,895,528</u>	<u>(118,245)</u>
Excess of revenue over (under) expenditures	<u>70,996</u>	<u>73,196</u>	<u>(19,138)</u>	<u>(92,334)</u>
Other financing sources (uses)				
Proceeds from long-term debt	-	-	167,199	167,199
Transfer to other funds	(30,411)	(30,411)	(1,789)	28,622
Other uses	<u>(40,585)</u>	<u>(40,585)</u>	<u>(18,016)</u>	<u>22,569</u>
Total other financing sources (uses)	<u>(70,996)</u>	<u>(70,996)</u>	<u>147,394</u>	<u>218,390</u>
Change in fund balance	-	2,200	128,256	126,056
Fund balance at beginning	<u>1,201,507</u>	<u>1,164,261</u>	<u>1,116,332</u>	<u>(47,929)</u>
Fund balance at end	<u>\$ 1,201,507</u>	<u>\$ 1,166,461</u>	<u>\$ 1,244,588</u>	<u>\$ 78,127</u>

CITY OF PHILLIPS, WISCONSIN
Statement of Revenues and Expenditures - Budget and Actual - CDBG and TIF District No. 3 Funds
Year Ended December 31, 2007

	CDBG Fund				TIF District No. 3 Fund			
	Budget		Actual	Variance Favorable (Unfavorable)	Budget		Actual	Variance Favorable (Unfavorable)
	Original	Final			Original	Final		
Revenues:								
Taxes	\$ -	\$ -	\$ -	\$ -	\$ 73,300	\$ 73,300	\$ 75,272	\$ 1,972
Intergovernmental revenues	-	-	70,875	70,875	-	-	-	-
Public charges for services	-	-	-	-	-	-	-	-
Other	1,000	1,000	1,263	263	150	150	1,075	925
Total Revenues	<u>\$ 1,000</u>	<u>\$ 1,000</u>	<u>\$ 72,138</u>	<u>\$ 71,138</u>	<u>\$ 73,450</u>	<u>\$ 73,450</u>	<u>\$ 76,347</u>	<u>\$ 2,897</u>
Expenditures:								
Public works	\$ -	\$ -	\$ -	\$ -	\$ 8,500	\$ 8,500	\$ 7,733	\$ 767
Conservation and development	\$ 40,000	\$ 40,000	\$ 94,930	(54,930)	-	-	-	-
Debt service:								\$ -
Principal retirement	-	-	-	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-	-	24,039	(24,039)
Total Expenditures	<u>\$ 40,000</u>	<u>\$ 40,000</u>	<u>\$ 94,930</u>	<u>\$ (54,930)</u>	<u>\$ 8,500</u>	<u>\$ 8,500</u>	<u>\$ 31,772</u>	<u>\$ (23,272)</u>
Excess of revenue over (under) expenditures	<u>(39,000)</u>	<u>(39,000)</u>	<u>(22,792)</u>	<u>16,208</u>	<u>64,950</u>	<u>64,950</u>	<u>44,575</u>	<u>(20,375)</u>
Change in fund balance		(39,000)	(22,792)	16,208		64,950	44,575	(20,375)
Fund balance at beginning	<u>58,977</u>	<u>19,507</u>	<u>58,977</u>	<u>39,470</u>	<u>(645,158)</u>	<u>(664,884)</u>	<u>(645,158)</u>	<u>19,726</u>
Fund balance at end	<u>\$ 58,977</u>	<u>\$ (19,493)</u>	<u>\$ 36,185</u>	<u>\$ 55,678</u>	<u>\$ (645,158)</u>	<u>\$ (599,934)</u>	<u>\$ (600,583)</u>	<u>\$ (649)</u>

CITY OF PHILLIPS, WISCONSIN
Statement of Revenues and Expenditures - Budget and Actual - TIF District No. 4
Year Ended December 31, 2007

	TIF District No. 4 Fund			
	Budget		Actual	Variance
	Original	Final		Favorable (Unfavorable)
Revenues:				
Taxes	\$ 350.800	\$ 350.800	\$ 322.958	\$ (27,842)
Intergovernmental revenues	-	-	-	-
Public charges for services	-	-	-	-
Other	<u>10,000</u>	<u>10,000</u>	<u>23,045</u>	<u>13,045</u>
Total Revenues	<u>\$ 360.800</u>	<u>\$ 360,800</u>	<u>\$ 346,003</u>	<u>\$ (14,797)</u>
Expenditures:				
Public works	\$ -	\$ -	\$ 17,226	\$ (17,226)
Conservation and development	-	-	-	-
Debt service:				
Principal retirement	139,000	139,000	109,747	29,253
Interest and fiscal charges	<u>40,000</u>	<u>40,000</u>	<u>46,528</u>	<u>(6,528)</u>
Total Expenditures	<u>\$ 179,000</u>	<u>\$ 179,000</u>	<u>\$ 173,501</u>	<u>\$ 5,499</u>
Excess of revenue over (under) expenditures	<u>181.800</u>	<u>181,800</u>	<u>172,502</u>	<u>(9,298)</u>
Change in fund balance		181,800	172,502	(9,298)
Fund balance at beginning	-	-	-	-
Fund balance at end	<u>\$ -</u>	<u>\$ 181,800</u>	<u>\$ 172,502</u>	<u>\$ (9,298)</u>

SUPPLEMENTAL FINANCIAL INFORMATION

CITY OF PHILLIPS, WISCONSIN
Combining Balance Sheet - Nonmajor Governmental Funds
December 31, 2007

	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	\$ 410	\$ 101,870	\$ -	\$ 54,775	\$ 10,316	\$ -	\$ 167,371
Taxes Receivable	-	-	-	-	11,233	-	11,233
Due from other funds	-	1,016	-	-	-	97,457	98,473
Other current assets	224	-	-	-	-	-	224
TOTAL ASSETS	<u>\$ 634</u>	<u>\$ 102,886</u>	<u>\$ -</u>	<u>\$ 54,775</u>	<u>\$ 21,549</u>	<u>\$ 97,457</u>	<u>\$ 277,301</u>
<i>Liabilities and Fund Balances</i>							
Liabilities:							
Bank Overdraft	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts payable	2,383	75	-	-	-	34,551	37,009
Due to other funds	25,698	-	-	-	613	154,693	181,004
Other liabilities	221	-	-	-	-	-	221
Deferred revenue	-	-	-	-	-	-	-
Taxes	-	-	-	-	11,233	-	11,233
Mortgages	-	-	-	-	-	-	-
Other	-	103,051	-	-	-	-	103,051
Advance from other funds	-	-	-	-	42,724	-	42,724
Total Liabilities	<u>28,302</u>	<u>103,126</u>	<u>-</u>	<u>-</u>	<u>54,570</u>	<u>189,244</u>	<u>375,242</u>
Fund balance:							
Unreserved, undesignated	<u>(27,668)</u>	<u>(240)</u>	<u>-</u>	<u>54,775</u>	<u>(33,021)</u>	<u>(91,787)</u>	<u>(97,941)</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 634</u>	<u>\$ 102,886</u>	<u>\$ -</u>	<u>\$ 54,775</u>	<u>\$ 21,549</u>	<u>\$ 97,457</u>	<u>\$ 277,301</u>

CITY OF PHILLIPS, WISCONSIN

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

Year Ended December 31, 2007

					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	
Revenues:							
Taxes	\$ -	\$ -	\$ -	\$ -	\$ 11,554	\$ -	\$ 11,554
Intergovernmental revenues	11,453	-	-	-	-	-	11,453
Public charges for services	-	10,775	-	12,965	-	-	23,740
Other	503	5,545	-	8,470	209	2,381	17,108
Total revenues	11,956	16,320	-	21,435	11,763	2,381	63,855
Expenditures:							
Current:							
Public safety	-	-	-	-	-	-	-
Public works	39,624	-	-	-	1,448	-	41,072
Health and human services	-	17,080	-	-	-	-	17,080
Culture, recreation and education	-	-	-	5,886	-	-	5,886
Conservation and development	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	175,610	175,610
Debt Service							
Principal retirement	-	-	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-	-	-
Total Expenditures	39,624	17,080	-	5,886	1,448	175,610	239,648
Excess of revenue over (under) expenditures	(27,668)	(760)	-	15,549	10,315	(173,229)	(175,793)
Other financing sources (uses)							
Operating transfers in	-	-	-	-	-	-	-
Operating transfers out	-	-	-	-	-	-	-
Gain on Investments	-	520	-	-	-	-	520
Total financing sources (uses)	-	520	-	-	-	-	520
Net change in fund balance	(27,668)	(240)	-	15,549	10,315	(173,229)	(175,273)
Fund balance at beginning	-	-	-	39,226	(43,336)	81,442	77,332
Fund balance at end	<u>\$ (27,668)</u>	<u>\$ (240)</u>	<u>\$ -</u>	<u>\$ 54,775</u>	<u>\$ (33,021)</u>	<u>\$ (91,787)</u>	<u>\$ (97,941)</u>

OTHER REPORTS



Engelson & Associates, Ltd.

Certified Public Accountants and Consultants

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, 2007, and have issued our report thereon dated May 23, 2008. 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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 - Limited number of personnel precludes the adequate separation of duties necessary to achieve ideal internal controls. This situation is not unusual for municipalities of this size and it is not cost effective to hire additional personnel simply for internal control purposes. Continued strong control over financial activity by the Board is desirable to compensate for this weakness.

Financial Statement Preparation - The City does not have procedures in place to internally prepare accurate financial statements. The City relies on its independent auditor to prepare its financial statements and related footnotes.

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. However, we believe that none of the significant deficiencies described above is a material weakness.

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 23, 2008