

**City of Phillips, Wisconsin**

Financial Statements With  
Independent Auditor's Report

Year Ended December 31, 2008

**CITY OF PHILLIPS, WISCONSIN**  
**Financial Statements With Supplemental Financial Information**  
December 31, 2008

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## INDEPENDENT AUDITOR'S REPORT

To the City Council  
City of Phillips  
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, 2008, 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, 2008, 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 June 12, 2009 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 30 through 35 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  
June 12, 2009

# CITY OF PHILLIPS, WISCONSIN

## Statement of Net Assets

December 31, 2008

<i>Assets</i>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Current assets:			
Cash and investments	\$ 1,187,257	\$ 287,888	\$ 1,475,145
Receivables:			
Property taxes	1,019,127	-	1,019,127
Special assessments	23,367	3,118	26,485
Trade	-	222,185	222,185
Internal balances	(104,449)	104,449	-
Inventories	-	7,320	7,320
Other current assets	110,528	5,023	115,551
Total current assets	<u>2,235,830</u>	<u>629,983</u>	<u>2,865,813</u>
Noncurrent assets:			
Restricted cash and investments	-	128,762	128,762
Mortgages receivable	709,779	-	709,779
Capital assets being depreciated	4,980,387	9,953,989	14,934,376
Less - Accumulated depreciation	(2,149,316)	(3,254,210)	(5,403,526)
Capital assets not being depreciated:			
Land	302,615	21,490	324,105
Other noncurrent assets	12,333	-	12,333
Total noncurrent assets	<u>3,855,798</u>	<u>6,850,031</u>	<u>10,705,829</u>
<b>TOTAL ASSETS</b>	<u>\$ 6,091,628</u>	<u>\$ 7,480,014</u>	<u>\$ 13,571,642</u>

The accompanying notes are an integral part of these financial statements.

<i>Liabilities and Net Assets</i>	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>Liabilities:</b>			
<b>Current liabilities:</b>			
Accounts payable	\$ 44,148	\$ 14,765	\$ 58,913
Accrued and other liabilities	100,067	59,155	159,222
Deferred revenue	1,139,256	-	1,139,256
Current portion of long-term obligations	<u>238,820</u>	<u>153,859</u>	<u>392,679</u>
Total current liabilities	<u>1,522,291</u>	<u>227,779</u>	<u>1,750,070</u>
<b>Noncurrent liabilities:</b>			
Notes payable	453,251	2,085,757	2,539,008
Bonds payable	1,270,000	-	1,270,000
Pension-related debt	70,960	-	70,960
Termination benefits	<u>4,993</u>	<u>-</u>	<u>4,993</u>
Total noncurrent liabilities	<u>1,799,204</u>	<u>2,085,757</u>	<u>3,884,961</u>
Total liabilities	<u>3,321,495</u>	<u>2,313,536</u>	<u>5,635,031</u>
<b>Net Assets:</b>			
Invested in capital assets, net of related debt	1,199,405	4,481,653	5,681,058
Restricted for bond and grant covenants	-	128,762	128,762
Unrestricted	<u>1,570,728</u>	<u>556,063</u>	<u>2,126,791</u>
Total Net Assets	<u>2,770,133</u>	<u>5,166,478</u>	<u>7,936,611</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><b>\$ 6,091,628</b></u>	<u><b>\$ 7,480,014</b></u>	<u><b>\$ 13,571,642</b></u>

The accompanying notes are an integral part of these financial statements.

**CITY OF PHILLIPS, WISCONSIN**

**Statement of Activities**

Year Ended December 31, 2008

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
<b>Governmental activities:</b>							
General government	\$ 307,756	\$ 54,657	\$ -	\$ -	\$ (253,099)		\$ (253,099)
Public safety	651,204	41,923	79,829	-	(529,452)		(529,452)
Public works	560,637	9,677	130,861	-	(420,099)		(420,099)
Health and human services	46,394	20,389	-	-	(26,005)		(26,005)
Culture, recreation and education	410,687	185,178	2,266	64,158	(159,085)		(159,085)
Conservation and development	415,925	96,209	416,467	-	96,751		96,751
Interest and fiscal charges	125,752	-	-	-	(125,752)		(125,752)
<b>Total governmental activities</b>	<b>2,518,355</b>	<b>408,033</b>	<b>629,423</b>	<b>64,158</b>	<b>(1,416,741)</b>		<b>(1,416,741)</b>
<b>Business-Type Activities</b>							
Water and sewer utility	857,115	703,486	-	-		(153,629)	(153,629)
<b>Totals</b>	<b>\$ 3,375,470</b>	<b>\$ 1,111,519</b>	<b>\$ 629,423</b>	<b>\$ 64,158</b>	<b>(1,416,741)</b>	<b>(153,629)</b>	<b>(1,570,370)</b>
<b>General revenues:</b>							
<b>Taxes:</b>							
General purposes					634,151	-	634,151
TIF District					398,749	-	398,749
Payments in lieu of taxes					63,509	-	63,509
Room tax					21,761	-	21,761
Grants and contributions not restricted to specific functions					599,870	-	599,870
Gain (loss) on sale of assets					25,243	-	25,243
Gain (loss) on investments					(741)	-	(741)
Interest and investment earnings					89,686	10,062	99,748
Miscellaneous					7,913	-	7,913
<b>Total general revenues</b>					<b>1,840,141</b>	<b>10,062</b>	<b>1,850,203</b>
Change in net assets					423,400	(143,567)	279,833
Net assets - Beginning of year					2,346,733	5,310,045	7,656,778
Net assets - End of year					<b>\$ 2,770,133</b>	<b>\$ 5,166,478</b>	<b>\$ 7,936,611</b>

The accompanying notes are an integral part of these financial statements.

**CITY OF PHILLIPS, WISCONSIN**

**Balance Sheet**

**Governmental Funds**

December 31, 2008

	General Fund	CDBG	TIF District No. 3	TIF District No. 4	Other Nonmajor Gov't Funds	Total Governmental Funds
<i>Assets</i>						
Cash and investments	\$ 302,013	\$ 12,787	\$ 66,933	\$ 676,718	\$ 128,805	\$ 1,187,256
Receivables:						
Special assessments	23,367	-	-	-	-	23,367
Taxes	656,757	-	70,843	288,229	3,298	1,019,127
Mortgages	-	709,779	-	-	-	709,779
Due from other funds	28,775	-	-	235,445	63,615	327,835
Other assets	110,196	-	-	-	332	110,528
Advances to other funds	972,581	-	-	-	-	972,581
<b>TOTAL ASSETS</b>	<b>\$ 2,093,689</b>	<b>\$ 722,566</b>	<b>\$ 137,776</b>	<b>\$ 1,200,392</b>	<b>\$ 196,050</b>	<b>\$ 4,350,473</b>
<i>Liabilities and Fund Balances</i>						
Liabilities:						
Bank overdraft	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts payable	35,481	-	-	-	8,667	44,148
Due to other funds	123,697	-	-	821	263,399	387,917
Other liabilities	44,116	-	-	-	228	44,344
Deferred revenues:						
Property taxes	673,083	-	70,844	288,229	3,298	1,035,454
Mortgages	-	709,779	-	-	-	709,779
Other	-	-	-	-	103,802	103,802
Advances from other funds	-	-	661,649	311,129	44,172	1,016,950
Total Liabilities	876,377	709,779	732,493	600,179	423,566	3,342,394
Fund Balances						
Reserved	-	-	-	-	-	-
Unreserved, undesignated	1,217,312	12,787	(594,717)	600,213	(227,516)	1,008,079
Total Fund Balance	1,217,312	12,787	(594,717)	600,213	(227,516)	1,008,079
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 2,093,689</b>	<b>\$ 722,566</b>	<b>\$ 137,776</b>	<b>\$ 1,200,392</b>	<b>\$ 196,050</b>	<b>\$ 4,350,473</b>

The accompanying notes are an integral part of these financial statements.

**CITY OF PHILLIPS, WISCONSIN**  
**Reconciliation of the Governmental Funds Balance**  
**Sheet to the Statement of Net Assets**  
December 31, 2008

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Total fund balances - Governmental funds (previous page): \$ 1,008,079

**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. 3,133,686

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. 709,779

Other long-term assets not available to pay for current period expenditures and, therefore, are deferred in the fund statements: 12,333

Unpaid vacation and sick pay is a liability of the governmental funds only if the employee has resigned or retired. (34,727)

Long-term liabilities, including bonds and notes payable, are not due and payable in the current year and therefore are not reported in the fund statements.

Pension-related debt	(98,750)
Termination benefits	(4,990)
Notes payable	(584,281)
Bonds payable	(1,350,000)
Accrued interest on long-term debt	<u>(20,996)</u>

**Total net assets - Governmental activities** **\$ 2,770,133**

The accompanying notes are an integral part of these financial statements.

**CITY OF PHILLIPS, WISCONSIN**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
Year Ended December 31, 2008

	General Fund	CDBG	TIF District No. 3	TIF District No. 4	Other Nonmajor Funds	Total Governmental Funds
<b>Revenues</b>						
Taxes	\$ 732,528	\$ -	\$ 72,974	\$ 314,542	\$ 11,233	\$ 1,131,277
Special assessments	12,346	-	-	-	-	12,346
Intergovernmental revenues	792,723	416,467	-	-	78,643	1,287,833
Licenses and permits	9,379	-	-	-	-	9,379
Fines and forfeits	20,524	-	-	-	-	20,524
Public charges for service	211,247	-	-	-	26,393	237,640
Intergovernmental charges	49,119	-	-	-	-	49,119
Other	77,565	794	544	12,256	8,988	100,147
<b>Total revenues</b>	<u>1,905,431</u>	<u>417,261</u>	<u>73,518</u>	<u>326,798</u>	<u>125,257</u>	<u>2,848,265</u>
<b>Expenditures:</b>						
<b>Current:</b>						
General government	260,844	-	-	-	-	260,844
Public safety	594,997	-	-	-	-	594,997
Public works	389,646	-	73,788	376	65,569	529,379
Health and human services	28,669	-	-	-	17,578	46,247
Culture, recreation and education	342,220	-	-	-	47,022	389,242
Conservation and development	1,005	412,484	-	-	-	413,489
Capital outlay	117,294	-	-	-	151,614	268,908
<b>Debt service:</b>						
Principal retirement	86,550	-	-	114,129	-	200,679
Interest and fiscal charges	62,404	-	24,039	40,611	-	127,054
<b>Total expenditures</b>	<u>1,883,629</u>	<u>412,484</u>	<u>97,827</u>	<u>155,116</u>	<u>281,783</u>	<u>2,830,839</u>
<b>Excess (deficiency) of revenue over (under) expenditures</b>	21,802	4,777	(24,309)	171,682	(156,526)	17,426
<b>Other financing sources (uses):</b>						
Transfers in	-	-	-	-	28,852	28,852
Transfers out	(28,852)	-	-	-	-	(28,852)
Gain (loss) on investments	-	-	-	-	(741)	(741)
Other uses	(20,226)	-	-	-	-	(20,226)
<b>Net other financing sources (uses)</b>	<u>(49,078)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>28,111</u>	<u>(20,967)</u>
<b>Change in fund balances</b>	(27,276)	4,777	(24,309)	171,682	(128,415)	(3,541)
<b>Fund balances (deficit) at beginning of year</b>	<u>1,244,588</u>	<u>8,010</u>	<u>(570,408)</u>	<u>428,531</u>	<u>(99,101)</u>	<u>1,011,620</u>
<b>Fund balance at end of year</b>	<u>\$ 1,217,312</u>	<u>\$ 12,787</u>	<u>\$ (594,717)</u>	<u>\$ 600,213</u>	<u>\$ (227,516)</u>	<u>\$ 1,008,079</u>

The accompanying notes are an integral part of these financial statements.

**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, 2008

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Net change in fund balances - Total governmental funds \$ (3,541)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives.

Capital outlay	284,258
Depreciation expense	(153,495)
Gain on disposal of assets	25,243

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.

68,987

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	(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	(2,153)
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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	200,679
The decrease in pension-related debt in the current year	-
The decrease in termination benefits in the current year	3,120

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	1,302
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**Change in net assets - Governmental activities \$ 423,400**

The accompanying notes are an integral part of these financial statements.

**CITY OF PHILLIPS, WISCONSIN**  
**Statement of Net Assets - Proprietary Funds**  
**December 31, 2008**

<i>Assets</i>	<u>Water and Sewer Utility</u>
Current assets:	
Cash and investments	\$ 287,888
Accounts Receivable:	
Trade	222,185
Special assessments	3,118
Due from other funds	60,081
Inventories	7,320
Advances to other funds	44,368
Other current assets	5,023
Total current assets	<u>629,983</u>
Restricted cash and investments	<u>128,762</u>
Capital assets being depreciated	9,953,989
Less - Accumulated depreciation	<u>(3,254,210)</u>
Net depreciable value	6,699,779
Land	<u>21,490</u>
Net capital assets	<u>6,721,269</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 7,480,014</u></b>
 <i>Liabilities and Net Assets</i> 	
Current liabilities:	
Accounts payable	\$ 14,765
Accrued and other liabilities	59,155
Current portion of long-term liabilities	<u>153,859</u>
Total current liabilities	<u>227,779</u>
Long-term liabilities - Notes payable	<u>2,085,757</u>
Net Assets:	
Invested in capital assets, net of related debt	4,481,653
Restricted	128,762
Unrestricted	<u>556,063</u>
Total Net Assets	<u>5,166,478</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 7,480,014</u></b>

The accompanying notes are an integral part of these financial statements.

**CITY OF PHILLIPS, WISCONSIN**  
**Statement of Revenues, Expenses, and Changes in Net Assets - Proprietary Funds**  
Year Ended December 31, 2008

	Water and Sewer Utility
Operating revenues:	
Charges for services	\$ 694,519
Other	<u>8,967</u>
Total operating revenues	<u>703,486</u>
Operating expenses:	
Operation and maintenance	457,090
Depreciation	265,811
Taxes	<u>57,050</u>
Total operating expenses	<u>779,951</u>
Operating loss	<u>(76,465)</u>
Non-operating income (expense):	
Interest income	10,062
Interest expense	<u>(77,164)</u>
Total non-operating income (expense)	<u>(67,102)</u>
Change in net assets	(143,567)
Net assets at beginning	<u>5,310,045</u>
Net assets at end	<u>\$ 5,166,478</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF PHILLIPS, WISCONSIN**  
**Statement of Cash Flows - Proprietary Funds**  
Year Ended December 31, 2008

	Water and Sewer Utility
<b>Cash flows from operating activities:</b>	
Cash received from customers	\$ 698,485
Cash paid to suppliers for goods and services	(376,253)
Cash paid to employees for services	<u>(189,094)</u>
Net cash provided by operating activities	<u>133,138</u>
 <b>Cash flows from capital and related financing activities</b>	
Principal paid on long-term debt	(146,054)
Interest paid on long-term debt	<u>(77,163)</u>
Net cash used in capital and related financing activities	<u>(223,217)</u>
 <b>Cash flows from investing activities</b>	
Interest received	10,062
Capital assets purchased	<u>(571)</u>
Net cash used in investing activities	<u>9,491</u>
 <b>Net increase in cash and cash equivalents</b>	 (80,588)
 Cash and cash equivalents at beginning of year	 <u>497,238</u>
 Cash and cash equivalents at end of year	 <u>\$ 416,650</u>

The accompanying notes are an integral part of these financial statements.

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

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Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	\$ (76,465)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation*	265,811
(Increase) decrease in current assets:	
Accounts receivable	(5,001)
Due from other funds	(52,467)
Inventories	1,796
Advances to other funds	(1,423)
Other current assets	(1,301)
Increase (decrease) in current liabilities:	
Accounts payable	1,716
Accrued and other liabilities	<u>472</u>
Total adjustments	<u>209,603</u>
Net cash provided by operating activities	<u>\$ 133,138</u>

\* Non-cash transaction

The accompanying notes are an integral part of these financial statements.

**CITY OF PHILLIPS, WISCONSIN**  
**Statement of Assets and Liabilities - Fiduciary Funds**  
December 31, 2008

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	<u>Tax Agency Collection Fund</u>
<i>Assets</i>	
Cash	\$ 256,975
Taxes receivable	<u>1,832,368</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 2,089,343</u></b>
 <i>Liabilities</i>	
Due to other governments	\$ 1,066,146
Due to other funds	<u>1,023,197</u>
<b>TOTAL LIABILITIES</b>	<b><u>\$ 2,089,343</u></b>

The accompanying notes are an integral part of these financial statements.

# CITY OF PHILLIPS, WISCONSIN

## Notes to Financial Statements

December 31, 2008

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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, 2008

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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.

# CITY OF PHILLIPS, WISCONSIN

## Notes to Financial Statements

December 31, 2008

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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.

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

*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, 2008

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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, 2008

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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, 2008

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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, 2008

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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 2007 tax levy is used to finance operations of the City for the year ended December 31, 2008. 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 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 \$1,860,883 and the bank balance was \$1,997,967. Of the bank balance, \$792,125 was covered by federal depository insurance, \$400,000 was covered by the State of Wisconsin Public Deposit Guarantee fund and \$55,516 was secured by pledged securities.

**CITY OF PHILLIPS, WISCONSIN**

**Notes to Financial Statements**

December 31, 2008

**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, 2008.

**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	\$ 128,762	\$ 128,762	\$ -	\$ -	\$ -
State and Municipal Bonds	9,918				9,918
Corporate Bonds	51,409	-	4,962	7,798	38,649
LGIP	<u>590,300</u>	<u>590,300</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total</b>	<b><u>\$ 780,389</u></b>	<b><u>\$ 719,062</u></b>	<b><u>\$ 4,962</u></b>	<b><u>\$ 7,798</u></b>	<b><u>\$ 48,567</u></b>

**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, 2008, was as follows:

	Rating		
	Exempt From Rating	BA I/BB+	Not Rated
U.S. Treasury and Agencies	\$ 128,762	\$ -	\$ -
State and Municipal Bonds	-	-	9,918
Corporate Bonds	-	2,975	48,434
Local Government Investment Pool	<u>590,300</u>	<u>-</u>	<u>-</u>
<b>Total</b>	<b><u>\$ 719,062</u></b>	<b><u>\$ 2,975</u></b>	<b><u>\$ 58,352</u></b>

**Concentration of Credit Risk** – The City does not currently have a policy that addresses concentration of credit risk. At December 31, 2008, 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, 2008

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**NOTE 3 – CASH AND INVESTMENTS, CONTINUED**

The City's cash and investment balances at December 31, 2008, were as follows:

Cash on deposit with financial institutions	\$ 1,074,261
Cash on hand	106
Money market funds	6,126
Investments:	
U.S. Treasury and Agencies	128,762
Corporate bonds	61,327
Local Government Investment Pool	<u>590,300</u>
Total cash and investments	1,860,882
Less - Cash and investments held in fiduciary funds	<u>256,975</u>
Total cash and investments per Statement of Net Assets	<u>\$ 1,603,907</u>

**NOTE 4 – RESTRICTED ASSETS**

Cash and Investments – For the year ended December 31, 2008, cash and investments in the amount of \$128,762 have been restricted for the repayment of revenue bonds.

# CITY OF PHILLIPS, WISCONSIN

## Notes to Financial Statements

December 31, 2008

### NOTE 5 – CAPITAL ASSETS

Capital asset balances and activity for the year ended December 31, 2008, were as follows:

Governmental Activities:	Balance 1/1/2008	Additions	Deletions	Balance 12/31/2008
<b>Capital assets not being depreciated:</b>				
Land	\$ 302,615	\$ -	\$ -	\$ 302,615
Construction in progress	<u>177,748</u>	<u>-</u>	<u>177,748</u>	<u>-</u>
Total capital assets not being depreciated	<u>480,363</u>	<u>-</u>	<u>177,748</u>	<u>302,615</u>
<b>Capital assets being depreciated:</b>				
Land improvements	127,170	-	-	127,170
Buildings and improvements	2,139,645	329,361	-	2,469,006
Machinery and equipment	1,713,484	132,645	2,239	1,843,890
Infrastructure	<u>540,321</u>	<u>-</u>	<u>-</u>	<u>540,321</u>
Total capital assets being depreciated	<u>4,520,620</u>	<u>462,006</u>	<u>2,239</u>	<u>4,980,387</u>
<b>Less accumulated depreciation for:</b>				
Buildings and improvements	803,215	44,929	-	848,144
Machinery and equipment	1,181,154	97,760	255	1,278,659
Infrastructure	<u>11,707</u>	<u>10,806</u>	<u>-</u>	<u>22,513</u>
Total accumulated depreciation	<u>1,996,076</u>	<u>153,495</u>	<u>255</u>	<u>2,149,316</u>
Total capital assets being depreciated, net of accumulated depreciation	<u>2,524,544</u>	<u>308,511</u>	<u>1,984</u>	<u>2,831,071</u>
<b>Governmental activities capital assets - Net</b>	<u>\$ 3,004,907</u>	<u>\$ 308,511</u>	<u>\$ 179,732</u>	<u>\$ 3,133,686</u>
<b>Business-Type Activities:</b>				
	Balance 1/1/2008	Additions	Deletions	Balance 12/31/2008
<b>Capital assets not being depreciated:</b>				
Land	<u>\$ 21,490</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 21,490</u>
<b>Capital assets being depreciated:</b>				
Water distribution system	3,648,241	285	-	3,648,526
Sewer collection and treatment system	<u>6,305,178</u>	<u>285</u>	<u>-</u>	<u>6,305,463</u>
Total capital assets being depreciated	9,953,419	570	-	9,953,989
Less accumulated depreciation	<u>2,988,399</u>	<u>265,811</u>	<u>-</u>	<u>3,254,210</u>
Total capital assets being depreciated, net of accumulated depreciation	<u>6,965,020</u>	<u>(265,241)</u>	<u>-</u>	<u>6,699,779</u>
<b>Business-type activities capital assets - Net</b>	<u>\$ 6,986,510</u>	<u>\$ (265,241)</u>	<u>\$ -</u>	<u>\$ 6,721,269</u>

**CITY OF PHILLIPS, WISCONSIN**

**Notes to Financial Statements**

December 31, 2008

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

Governmental activities:	
General government	\$ 26,158
Public safety	48,883
Public works	54,971
Health and human services	147
Culture, recreation, and education	20,900
Conservation and development	<u>2,436</u>
Total depreciation for governmental activities	<u>\$ 153,495</u>
Business-type activities - Water and Sewer Utility	<u>\$ 265,811</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, 2008, total accumulated project expenditures are as follows:

TIF District No. 2	\$ 88,517
TIF District No. 3	840,269
TIF District No. 4	<u>3,330,277</u>
Total project expenditures	<u>\$ 4,259,063</u>

**NOTE 7 – LONG-TERM DEBT**

Long-term debt activity for the year ended December 31, 2008, is comprised of the following:

	Balance			Balance	Amounts
	1/1/2008	Additions	Reductions	12/31/2008	Due Within
					One Year
Governmental activities:					
General obligation bonds	\$ 1,425,000	\$ -	\$ 75,000	\$ 1,350,000	\$ 80,000
General obligation notes	709,960	-	125,679	584,281	131,030
Termination benefits	8,113	-	3,120	4,993	-
Pension-related benefits	<u>98,750</u>	-	-	<u>98,750</u>	<u>27,790</u>
Total governmental activities	<u>\$ 2,241,823</u>	<u>\$ -</u>	<u>\$ 203,799</u>	<u>\$ 2,038,024</u>	<u>\$ 238,820</u>
Business-type activities:					
Revenue bonds	<u>\$ 2,385,670</u>	<u>\$ -</u>	<u>\$ 146,054</u>	<u>\$ 2,239,616</u>	<u>\$ 153,859</u>

**CITY OF PHILLIPS, WISCONSIN**

**Notes to Financial Statements**

December 31, 2008

**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, 2008, is comprised of the following individual issues:

	<b>Governmental Activities</b>			Balance 12/31/2008
	<b>Issue Dates</b>	<b>Interest Rates %</b>	<b>Dates of Maturity</b>	
Bonds payable	5/1/2006	4.0-4.4%	3/1/2021	\$ 1,350,000
Notes payable	1/23/2002	4.00%	12/15/2012	499,856
Notes payable	7/28/2006	5.67%	7/28/2014	<u>84,426</u>
Total general obligation debt				<u>\$ 1,934,282</u>

Aggregate cash flow requirements for the retirement of long-term principal and interest on general obligation debt as of December 31, 2008, follows:

<b>Governmental Activities</b>			
<b>Year Ended December 31, 2008</b>	<b>Principal</b>	<b>Interest</b>	<b>Totals</b>
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	110,217	42,848	153,065
2014-2018	546,080	142,346	688,426
2019-2023	<u>390,000</u>	<u>25,860</u>	<u>415,860</u>
Totals	<u>\$ 1,934,282</u>	<u>\$ 473,038</u>	<u>\$ 2,407,320</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, 2008, are calculated as follows:

Legal debt limit (5% of \$87,876,500)	\$ 4,393,825
Deduct - Long-term debt applicable to debt margin	<u>1,934,281</u>
Margin of indebtedness	<u>\$ 2,459,544</u>

**CITY OF PHILLIPS, WISCONSIN**

**Notes to Financial Statements**

December 31, 2008

**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, 2008, were as follows:

	<b>Business-Type Activities</b>			
	<b>Issue Dates</b>	<b>Interest Rates %</b>	<b>Dates of Maturity</b>	<b>Balance 12/31/2008</b>
Revenue bonds - Water and Sewer	7/15/1998	4.4-5.1%	1/15/2018	\$ 640,000
Revenue bonds - Water and Sewer	6/13/2001	2.78%	5/1/2021	<u>1,599,616</u>
Total revenue bonds				<u>\$ 2,239,616</u>

Aggregate cash flow requirements for the retirement of long-term principal and interest as of December 31, 2008, follows:

<b>Business-Type Activities</b>			
<b>Year Ended December 31,2008</b>	<b>Principal</b>	<b>Interest</b>	<b>Totals</b>
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	175,881	50,860	226,741
2014-2018	994,481	151,426	1,145,907
2019-2023	<u>421,195</u>	<u>87,752</u>	<u>508,947</u>
Totals	<u>\$ 2,239,615</u>	<u>\$ 552,177</u>	<u>\$ 2,791,792</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, 2008, the following individual funds held a deficit balance:

Recycling Fund	\$ 28,141
Argyle Street	1,160
Elk Lake Pavilion	179,243
TIF District No. 2	45,803
TIF District No. 3	594,717

# CITY OF PHILLIPS, WISCONSIN

## Notes to Financial Statements

December 31, 2008

### 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 5.0% 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, 2008 was \$888,202; the employer's total payroll was \$942,516. The total required contribution for the year ended December 31, 2008, was \$115,472. Total contributions for the years ended December 31, 2007 and 2006 were \$111,612 and \$97,460, respectively, equal to the required contributions for each year.

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, 2008, was as follows:

<u>Fund</u>	<u>Due From</u>	<u>Due To</u>
General Fund	\$ 1,001,356	\$ 123,697
TIF District No. 3	-	661,649
TIF District No. 4	235,445	311,948
Argyle	413	-
Elk Lake	60,837	235,445
Other Governmental Funds	2,366	72,127
Water and Sewer Utility	<u>104,449</u>	<u>-</u>
Total	<u>\$ 1,404,866</u>	<u>\$ 1,404,866</u>

**CITY OF PHILLIPS, WISCONSIN**

**Notes to Financial Statements**

December 31, 2008

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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>\$ 28,852</u>	<u>\$ 28,852</u>

**NOTE 11 – COMMITMENTS**

In November 2008, the City made an agreement with the Northwest Regional Planning Commission to contribute \$400,000 and land valued at \$50,000 toward the construction of a Business Enterprise Center. As of December 31, 2008 the City had not yet made any contribution.

In 2008, the City also committed up to \$650,000 for two construction projects on Highway 13, as required by the Wisconsin Department of Transportation.

**NOTE 12 – 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, 2008**

	Budget		Actual	Variance
	Original	Final		Favorable (Unfavorable)
<b>Revenues:</b>				
<b>Taxes</b>				
Property tax	\$ 634,151	\$ 634,151	\$ 634,151	\$ -
Mobile home fees	8,000	8,000	6,459	(1,541)
Room tax	18,500	18,500	21,761	3,261
Taxes from municipal owned utilities	57,000	57,000	57,050	50
Interest and penalties on taxes	1,900	1,900	13,107	11,207
<b>Total taxes</b>	<u>719,551</u>	<u>719,551</u>	<u>732,528</u>	<u>12,977</u>
<b>Special assessments</b>				
Sidewalks	10,000	10,000	12,346	2,346
<b>Total special assessments</b>	<u>10,000</u>	<u>10,000</u>	<u>12,346</u>	<u>2,346</u>
<b>Intergovernmental revenues</b>				
State shared revenues	578,163	578,163	585,245	7,082
Fire dues	3,000	3,000	2,622	(378)
Exempt computer aid	11,400	11,400	11,273	(127)
Police training grants	1,400	8,192	1,200	(6,992)
Transportation aid	116,400	116,400	116,376	(24)
Other grants	7,000	24,935	76,007	51,072
<b>Total intergovernmental revenues</b>	<u>717,363</u>	<u>742,090</u>	<u>792,723</u>	<u>50,633</u>
<b>Licenses and permits</b>				
Liquor and malt beverage licenses	4,500	4,500	4,370	(130)
Operators licenses	1,500	1,500	1,580	80
Cigarette licenses	600	600	400	(200)
Dog and cat licenses	50	50	213	163
Other sundry licenses	100	100	350	250
Building and burning permits	1,500	1,500	2,466	966
<b>Total licenses and permits</b>	<u>8,250</u>	<u>8,250</u>	<u>9,379</u>	<u>1,129</u>
<b>Fines and forfeits</b>				
Court fees and costs	15,000	15,000	19,159	4,159
Parking violations	1,000	1,000	1,365	365
<b>Total fines and forfeits</b>	<u>16,000</u>	<u>16,000</u>	<u>20,524</u>	<u>4,524</u>

The accompanying notes are an integral part of these financial statements.

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*Revenues continued*

Public charges for services				
Clerk and publication fees	\$ 1,100	\$ 1,100	\$ 997	\$ (103)
Police department fees	4,000	10,829	6,895	(3,934)
Fire call fees	10,000	10,000	14,504	4,504
Street material sales	2,000	2,000	3,896	1,896
Street service sales	2,500	2,500	4,699	2,199
Public charges for sidewalk replacement	4,000	4,000	1,082	(2,918)
Refuse - user charges	20,000	20,000	10,741	(9,259)
Library charges	<u>174,841</u>	<u>169,725</u>	<u>168,433</u>	<u>(1,292)</u>
Total public charges for services	<u>218,441</u>	<u>220,154</u>	<u>211,247</u>	<u>(8,907)</u>
Intergovernmental charges				
Fire contract fees	<u>46,000</u>	<u>46,000</u>	<u>49,119</u>	<u>3,119</u>
Total intergovernmental charges	<u>46,000</u>	<u>46,000</u>	<u>49,119</u>	<u>3,119</u>
Miscellaneous Revenue				
Interest income	60,000	60,000	54,918	(5,082)
Rental income	6,400	6,400	10,175	3,775
Insurance recoveries	1,000	1,000	-	(1,000)
Donations	-	-	3,352	3,352
Insurance dividends	-	-	1,345	1,345
Sale of city property	350	350	-	(350)
Miscellaneous Revenue	<u>2,000</u>	<u>2,000</u>	<u>7,775</u>	<u>5,775</u>
Total miscellaneous revenue	<u>69,750</u>	<u>69,750</u>	<u>77,565</u>	<u>7,815</u>
Total Revenues	<u>\$ 1,805,355</u>	<u>\$ 1,831,795</u>	<u>\$ 1,905,431</u>	<u>\$ 73,636</u>

The accompanying notes are an integral part of these financial statements.

	Budget		Actual	Variance
	Original	Final		Favorable (Unfavorable)
<b>Expenditures:</b>				
<b>General Government</b>				
Council	\$ 14,763	\$ 14,763	\$ 9,052	\$ 5,711
Mayor	5,883	5,883	5,390	493
Legal	29,100	29,100	38,773	(9,673)
Clerk / Treasurer	68,956	75,508	76,552	(1,044)
Elections	6,500	6,500	4,405	2,095
Assessor	9,330	65,130	67,361	(2,231)
Independent audit	13,500	13,500	9,250	4,250
Municipal building	51,935	51,990	50,061	1,929
Total general government	<u>199,967</u>	<u>262,374</u>	<u>260,844</u>	<u>1,530</u>
<b>Public Safety</b>				
Police	496,867	519,983	525,960	(5,977)
Fire	54,360	54,360	48,742	5,618
Ambulance	20,652	20,652	20,295	357
Total public safety	<u>571,879</u>	<u>594,995</u>	<u>594,997</u>	<u>(2)</u>
<b>Public Works</b>				
Street administration	69,123	69,348	69,319	29
Machinery and equipment	73,165	73,310	72,167	1,143
Streets	152,248	152,537	166,454	(13,917)
Street lighting	22,900	22,900	24,501	(1,601)
Sidewalks	17,313	17,361	5,653	11,708
Solid waste collection and disposal	66,781	43,208	44,385	(1,177)
Tree management program	3,652	3,664	7,167	(3,503)
Total public works	<u>405,182</u>	<u>382,328</u>	<u>389,646</u>	<u>(7,318)</u>
<b>Health and human services</b>				
Snow removal	35,377	35,492	28,669	6,823
Total health and human services	<u>35,377</u>	<u>35,492</u>	<u>28,669</u>	<u>6,823</u>
<b>Culture, recreation, and education</b>				
Library	286,261	286,916	285,254	1,662
Contract services	-	5,000	5,000	-
Recreation	46,718	46,813	51,966	(5,153)
Total culture, recreation, and education	<u>332,979</u>	<u>338,729</u>	<u>342,220</u>	<u>(3,491)</u>

The accompanying notes are an integral part of these financial statements.

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*Expenses, continued*

Conservation and development				
Community development	\$ 650	\$ 650	\$ 1,005	\$ (355)
Total conservation and development	<u>650</u>	<u>650</u>	<u>1,005</u>	<u>(355)</u>
Capital outlay	<u>52,405</u>	<u>84,649</u>	<u>117,294</u>	<u>(32,645)</u>
Debt service				
Principal retirement	75,000	75,000	86,550	(11,550)
Interest and fiscal charges	<u>56,963</u>	<u>-</u>	<u>62,404</u>	<u>(62,404)</u>
Total debt service	<u>131,963</u>	<u>75,000</u>	<u>148,954</u>	<u>(73,954)</u>
Total expenditures	<u>1,730,402</u>	<u>1,774,217</u>	<u>1,883,629</u>	<u>(109,412)</u>
Excess of revenue over (under) expenditures	<u>74,953</u>	<u>57,578</u>	<u>21,802</u>	<u>(35,776)</u>
Other financing sources (uses)				
Transfer to other funds	(28,771)	(28,852)	(28,852)	-
Other uses	<u>(46,001)</u>	<u>(31,866)</u>	<u>(20,226)</u>	<u>11,640</u>
Total other financing sources (uses)	<u>(74,772)</u>	<u>(60,718)</u>	<u>(49,078)</u>	<u>11,640</u>
Change in fund balance	181	(3,140)	(27,276)	(24,136)
Fund balance at beginning of year	<u>1,201,507</u>	<u>1,166,461</u>	<u>1,244,588</u>	<u>78,127</u>
Fund balance at end of year	<u>\$ 1,201,688</u>	<u>\$ 1,163,321</u>	<u>\$ 1,217,312</u>	<u>\$ 53,991</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF PHILLIPS, WISCONSIN**  
**Statement of Revenues and Expenditures - Budget and Actual - CDBG and TIF District No. 3 Funds**  
Year Ended December 31, 2008

	CDBG Fund				TIF District No. 3 Fund			
	Budget		Actual	Variance Favorable (Unfavorable)	Budget		Actual	Variance Favorable (Unfavorable)
	Original	Final			Original	Final		
Revenues:								
Taxes	\$ -	\$ -	\$ -	\$ -	\$ 73,600	\$ 73,600	\$ 72,974	\$ (626)
Intergovernmental revenues	400,000	400,000	416,467	16,467	-	-	-	-
Other	-	-	794	794	800	800	544	(256)
Total Revenues	<u>\$ 400,000</u>	<u>\$ 400,000</u>	<u>\$ 417,261</u>	<u>\$ 17,261</u>	<u>\$ 74,400</u>	<u>\$ 74,400</u>	<u>\$ 73,518</u>	<u>\$ (882)</u>
Expenditures:								
Public works	\$ -	\$ -	\$ -	\$ -	\$ 47,500	\$ 47,500	\$ 73,788	\$ (26,288)
Conservation and development	400,000	400,000	412,484	(12,484)	-	-	-	-
Debt service:								
Principal retirement	-	-	-	-	9,600	9,600	-	9,600
Interest and fiscal charges	-	-	-	-	25,000	25,000	24,039	961
Total Expenditures	<u>\$ 400,000</u>	<u>\$ 400,000</u>	<u>\$ 412,484</u>	<u>\$ (12,484)</u>	<u>\$ 82,100</u>	<u>\$ 82,100</u>	<u>\$ 97,827</u>	<u>\$ (15,727)</u>
Excess of revenue over (under) expenditures	-	-	4,777	4,777	(7,700)	(7,700)	(24,309)	(16,609)
Change in fund balance	-	-	4,777	4,777	(7,700)	(7,700)	(24,309)	(16,609)
Fund balance at beginning	8,010	8,010	8,010	-	(570,408)	(570,408)	(570,408)	-
Fund balance at end	<u>\$ 8,010</u>	<u>\$ 8,010</u>	<u>\$ 12,787</u>	<u>\$ 4,777</u>	<u>\$ (578,108)</u>	<u>\$ (578,108)</u>	<u>\$ (594,717)</u>	<u>\$ (16,609)</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF PHILLIPS, WISCONSIN**  
**Statement of Revenues and Expenditures - Budget and Actual - TIF District No. 4**  
Year Ended December 31, 2008

	TIF District No. 4 Fund			
	Budget		Actual	Variance
	Original	Final		Favorable (Unfavorable)
Revenues:				
Taxes	\$ 350.800	\$ 350.800	\$ 314.542	\$ (36.258)
Other	<u>10.000</u>	<u>10.000</u>	<u>12.256</u>	<u>2,256</u>
Total Revenues	<u>\$ 360.800</u>	<u>\$ 360.800</u>	<u>\$ 326,798</u>	<u>\$ (34,002)</u>
Expenditures:				
Public works	\$ 12,000	\$ 12,000	\$ 376	\$ 11,624
Debt service:				
Principal retirement	139,000	139,000	114,129	24,871
Interest and fiscal charges	<u>50,000</u>	<u>50,000</u>	<u>40,611</u>	<u>9,389</u>
Total Expenditures	<u>\$ 201,000</u>	<u>\$ 201,000</u>	<u>\$ 155,116</u>	<u>\$ 45.884</u>
Excess of revenue over (under) expenditures	<u>159.800</u>	<u>159.800</u>	<u>171,682</u>	<u>11.882</u>
Change in fund balance	159.800	159.800	171.682	11.882
Fund balance at beginning	<u>428,531</u>	<u>428,531</u>	<u>428,531</u>	<u>(9,298)</u>
Fund balance at end	<u>\$ 588,331</u>	<u>\$ 588,331</u>	<u>\$ 600,213</u>	<u>\$ 2,584</u>

The accompanying notes are an integral part of these financial statements.

**SUPPLEMENTAL FINANCIAL INFORMATION**

**CITY OF PHILLIPS, WISCONSIN**  
**Combining Balance Sheet - Nonmajor Governmental Funds**  
December 31, 2008

	Special Revenue Funds				Capital Project Funds			Total
	Recycling Fund	Cemetery Fund	EDP Revolving Loan Fund	Library Board Fund	TIF District No. 2	Argyle Street	Elk Lake Pavilion	
<i>Assets</i>								
Cash and investments	\$ 117	\$ 101,504	\$ -	\$ 26,764	\$ 420	\$ -	\$ -	\$ 128,805
Taxes Receivable	-	-	-	-	3,298	-	-	3,298
Due from other funds	-	2,365	-	-	-	413	60,837	63,615
Other current assets	332	-	-	-	-	-	-	332
<b>TOTAL ASSETS</b>	<b>\$ 449</b>	<b>\$ 103,869</b>	<b>\$ -</b>	<b>\$ 26,764</b>	<b>\$ 3,718</b>	<b>\$ 413</b>	<b>\$ 60,837</b>	<b>\$ 196,050</b>
<i>Liabilities and Fund Balances</i>								
Liabilities:								
Accounts payable	\$ 2,430	\$ -	\$ -	\$ -	\$ 29	\$ 1,573	\$ 4,635	\$ 8,667
Due to other funds	25,932	-	-	-	2,022	-	235,445	263,399
Other liabilities	228	-	-	-	-	-	-	228
Deferred revenue								
Taxes	-	-	-	-	3,298	-	-	3,298
Other	-	103,802	-	-	-	-	-	103,802
Advance from other funds	-	-	-	-	44,172	-	-	44,172
Total Liabilities	<u>28,590</u>	<u>103,802</u>	<u>-</u>	<u>-</u>	<u>49,521</u>	<u>1,573</u>	<u>240,080</u>	<u>423,566</u>
Fund balance:								
Unreserved, undesignated	<u>(28,141)</u>	<u>67</u>	<u>-</u>	<u>26,764</u>	<u>(45,803)</u>	<u>(1,160)</u>	<u>(179,243)</u>	<u>(227,516)</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 449</b>	<b>\$ 103,869</b>	<b>\$ -</b>	<b>\$ 26,764</b>	<b>\$ 3,718</b>	<b>\$ 413</b>	<b>\$ 60,837</b>	<b>\$ 196,050</b>

The accompanying notes are an integral part of these financial statements.

**CITY OF PHILLIPS, WISCONSIN**

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

Year Ended December 31, 2008

	Special Revenue Funds				Capital Project Funds			Total Nonmajor Govt Funds
	Recycling Fund	Cemetery Fund	EDP Revolving Loan Fund	Library Board Fund	TIF District No. 2	Argyle Street	Elk Lake Pavilion	
<b>Revenues:</b>								
Taxes	\$ -	\$ -	\$ -	\$ -	\$ 11,233	\$ -	\$ -	\$ 11,233
Intergovernmental revenues	14,485	-	-	-	-	-	64,158	78,643
Public charges for services	-	9,648	-	16,745	-	-	-	26,393
Other	472	5,994	-	2,266	256	-	-	8,988
<b>Total revenues</b>	<b>14,957</b>	<b>15,642</b>	<b>-</b>	<b>19,011</b>	<b>11,489</b>	<b>-</b>	<b>64,158</b>	<b>125,257</b>
<b>Expenditures:</b>								
<b>Current:</b>								
Public works	41,298	-	-	-	24,271	-	-	65,569
Health and human services	-	17,578	-	-	-	-	-	17,578
Culture, recreation and education	-	-	-	47,022	-	-	-	47,022
Capital outlay	-	-	-	-	-	-	151,614	151,614
<b>Total Expenditures</b>	<b>41,298</b>	<b>17,578</b>	<b>-</b>	<b>47,022</b>	<b>24,271</b>	<b>-</b>	<b>151,614</b>	<b>281,783</b>
Excess of revenue over (under) expenditures	(26,341)	(1,936)	-	(28,011)	(12,782)	-	(87,456)	(156,526)
<b>Other financing sources (uses)</b>								
Operating transfers in	25,868	2,984	-	-	-	-	-	28,852
Gain (loss) on investments	-	(741)	-	-	-	-	-	(741)
<b>Total financing sources (uses)</b>	<b>25,868</b>	<b>2,243</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>28,111</b>
Net change in fund balance	(473)	307	-	(28,011)	(12,782)	-	(87,456)	(128,415)
Fund balance at beginning	(27,668)	(240)	-	54,775	(33,021)	(1,160)	(91,787)	(99,101)
Fund balance at end	\$ (28,141)	\$ 67	\$ -	\$ 26,764	\$ (45,803)	\$ (1,160)	\$ (179,243)	\$ (227,516)

The accompanying notes are an integral part of these 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, 2008, and have issued our report thereon dated June 12, 2009. 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. We consider the deficiencies described as items 2008-1 through 2008-2 in the accompanying schedule of findings and responses to be significant deficiencies in internal control.

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.

*Engelhorn and Associates, Ltd*

La Crosse, Wisconsin  
June 12, 2009

**CITY OF PHILLIPS, WISCONSIN  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR YEAR ENDED DECEMBER 31, 2008**

**1. Summary of Auditors' Results**

**Financial Statements**

- Type of auditor's report issued? *Unqualified.*

**Internal Control Over Financial Reporting**

- Material weaknesses identified? *No*
- Significant deficiencies identified that are not considered to be material weaknesses?  
*Yes – 2008-1 to 2008-3*
- Noncompliance material to financial statements noted? *No*

**2. Financial Statements Audit**

**2008-1 Segregation of Duties**

*Condition:* Office staff has overlapping accounting duties.

*Criteria:* Appropriate segregation of duties consistent with control objectives.

*Context:* The office staff has been performing multiple accounting duties for many years.

*Effect:* Misappropriation of assets could occur.

*Cause:* Organization too small to be practicable.

*Recommendation:* Steps should be taken to separate incompatible duties insofar as possible. No one employee should have access to both physical assets and the related accounting records, nor should one person have access to all phases of a transaction.

*Views of responsible officials and planned corrective actions:* The Board will monitor monthly financial results and obtain explanations of variances from budget and prior year results.

**2008-2 - Financial Statement Preparation**

*Condition:* Management has not identified risks to the preparation of reliable financial statements and as a result has failed to design effective controls over the preparation of the financial statements to prevent or detect material misstatements, including footnote disclosures.

*Criteria:* The COSO framework for effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement to the entity's audited financial statements and then should determine how those identified risks should be managed.

*Context:* The audit firm has been preparing the financial statements and related footnote disclosures for several years. Each year the auditee reviews and approves a draft of the financial statements prior to issuance.

*Effect:* The auditee relies on the auditor firm to properly prepare the financial statements and related footnote disclosures. If the audit firm did not properly prepare the financial statements and related footnote disclosures the auditee may not identify the error in advance of issuance.

*Cause:* Due to the limited number of personnel and their financial reporting expertise, management has elected to rely on the audit firm to prepare its financial statements and related footnote disclosures.

*Recommendation:* When this condition exists, the Board's close supervision and review of accounting information and regular discussions with its assurance service providers concerning new accounting principles is the best means of preventing and detecting potential material omissions or other errors.

*Views of responsible officials and planned corrective actions:* The Board acknowledges that they are not experts in financial reporting and cannot afford to hire additional personnel for this purpose. However, they will continue to be alert to changes in financial reporting requirements to insure that they are implemented by their auditor on a timely basis.

### **2008-3 - Audit Adjustments**

*Condition:* During the course of our audit, we made a significant number of adjustments that in aggregate had a material effect on the organization's financial statements. A significant portion of the adjustments relate to converting the cash basis records to an accrual basis.

*Criteria:* Timely recording of financial transactions.

*Effect:* As a result of this condition, there is a higher risk that receivables, liabilities, revenues, and expenses are not being recorded in the proper period.

*Cause:* The organization relies on its auditors to propose year-end accrual adjustments.

*Recommendation:* We recommend that the Board consider establishing procedures to ensure that all significant account balances are adjusted on a timely basis to allow adequate reporting

*Views of responsible officials and planned corrective actions:* The Board is aware of this condition, and will implement procedures to incorporate the above recommendations.