

**CITY OF PHILLIPS, WISCONSIN**  
**INDEPENDENT AUDITOR'S REPORT**  
**WITH FINANCIAL STATEMENTS**

**December 31, 2010**

**EAGLE AUDIT & ACCOUNTING, LLC**  
**CERTIFIED PUBLIC ACCOUNTANTS**  
**PARK FALLS, WISCONSIN**

City of Phillips, WI

Report on Basic Financial Statements  
With Supplemental Information

**TABLE OF CONTENTS**

Independent Auditor's Report.....	1
Management's Discussion and Analysis.....	3 A-I
<b>Basic Financial Statements:</b>	
<b>Government-Wide Financial Statements</b>	
Statement of Net Assets .....	4
Statement of Activities.....	5
<b>Fund Financial Statements</b>	
<u>Governmental Funds</u>	
Balance Sheet.....	6
Reconciliation of the Government Funds Balance Sheet To the Statement of Net Assets .....	7
Statement of Revenues, Expenditures and Changes in Fund Balances .....	8
Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities .....	9
<u>Business-Type Funds</u>	
Combined Statement of Net Assets .....	10
Combined Statement of Revenues, Expenditures and Changes in Net Assets .....	11
Combined Statement of Cash Flows .....	12
<u>Fiduciary Funds</u>	
Statement of Net Assets .....	13
<b>Notes to the Basic Financial Statements</b> .....	14 A-M
<b>Required Supplementary Information</b>	
Statement of Revenues, Expenditures and Changes in Fund Balances	
-Budget to Actual- General Fund .....	15
-Budget to Actual- CDBG Fund.....	16
-Budget to Actual- TIF #3 Fund.....	17
-Budget to Actual- TIF #4 Fund.....	18
Notes to Required Supplementary Information.....	19
<b>Other Supplementary Information</b>	
Combining Balance Sheet – Non-major Governmental Funds.....	20
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Non-major Governmental Funds .....	21
<b>Other Reports</b>	
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters .....	22
Schedule of Findings and Responses.....	24
Status of Prior Year Audit Findings and Corrective Action Plan .....	27
Communication with Those Charged with Governance.....	28

# EAGLE AUDIT & ACCOUNTING, LLC CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITOR'S REPORT

City Council  
City of Phillips  
Phillips, Wisconsin

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Phillips, WI ("City") as of and for the year ended December 31, 2010, which collectively comprise the City's basic financial statements as listed in the accompanying table of contents. These financial statements are the responsibility of the City Council and management. Our responsibility is to express an opinion 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 of America. 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 the City Council and 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 as of December 31, 2010, 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 our report dated June 1, 2011 on our consideration of the City's 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 important for assessing the results of our audit.

The budgetary comparison information on page 15, 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying information listed in the table of contents as supplementary information is presented for purposes of additional analysis and is 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, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Eagle Audit & Accounting, LLC*

Eagle Audit & Accounting, LLC  
Certified Public Accountants

June 1, 2011  
Park Falls, Wisconsin

**City of Phillips, Wisconsin  
Management's Discussion and Analysis  
For the Year Ended December 31, 2010**

The discussion and analysis of the City's financial performance provides an overall review of financial activities for the fiscal year. The analysis focuses on municipal financial performance as a whole. Efforts have been made to provide comparison to prior year data when such data is available. It should be read in conjunction with the City's financial statements, which immediately follow this section.

**FINANCIAL HIGHLIGHTS**

Total governmental fund revenues were \$2,315,736; including \$1,177,113 of property taxes, \$574,507 of general state aid, and \$447,478 of charges for services and operating grants. Total governmental funds expenditures were \$1,957,927. The City increased the amount of prior outstanding general obligation debt by \$963,459.

Total business-type activity fund revenues were \$709,676; including \$706,820 of user fees. Total business-type activity expenditures were \$801,009. The City reduced the amount of prior outstanding business-type debt by \$156,742.

The City's financial status, as reflected in total net assets, increased by \$320,864. Net assets of governmental activities due to operations increased by \$362,355 and business-type activities (water/sewer) decreased by \$41,491.

**OVERVIEW OF FINANCIAL STATEMENTS**

The basic financial statements are comprised of 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. In addition, other information supplementary to the basic financial statements is provided.

**Government wide financial statements**

- The government-wide financial statements are the *statement of net assets* and *statement of activities*. These statements present the aggregate view of the City's finances in a manner similar to private-sector business. Both statements distinguish functions that are supported principally by property taxes and intergovernmental revenues, called *governmental activities*, from functions that are intended to recover all or significant portion of costs through user fees and charges called *business type activities*.
- The *statement of net assets* presents information on all of the City assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.
- The *statement of activities* presents information showing how the City's net assets changed during the year. This statement reports the cost of governmental functions and business-type functions and how those functions were financed for the fiscal year.
- The government-wide financial statements are shown on pages 4 to 5 of this report.

**City of Phillips, Wisconsin  
Management's Discussion and Analysis  
For the Year Ended December 31, 2010**

**Fund financial statements**

- The City also produces fund financial statements. A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities. The City, like other state and local governments, uses fund accounting to demonstrate compliance with finance related legal requirements. Fund statements generally report operations in more detail than the government-wide statements and provide information that may be useful in evaluating the City's near-term financing requirements.
- There are two fund financial statements, the balance sheet and statements of revenue, expenditures and changes in fund balance. Generally, fund statements focus on near-term inflows and outflows of spendable resources and their impact on fund balance.
- Because the focus of fund financial statements is narrower than that of the government-wide statements, it is useful to make comparison between information presented. By doing so readers may better understand the long-term implication of the government's near-term financial decisions. A reconciliation to facilitate this comparison is provided as separate statements on pages 7 and 9.
- The municipality has three kinds of funds: *governmental*, *propriety* and *fiduciary*. *Governmental funds* include the City's two permanent funds (general and special revenue) and individual capital project funds as needed. The City has one *proprietary funds*, the water and sewer utility fund. The only *fiduciary fund* for the City serves as an agency fund for tax collections for other governments.
- Financial information is presented separately on both the *balance sheet* and the *statement of revenues, expenditures and changes in fund balance* for the general fund, the CDBG fund, and TIF #3 & #4 as these are considered to be major funds. The governmental fund financial statements are on pages 6 to 9 of this report,
- The proprietary fund statements are prepared on the same basis of accounting and measurement focus as the government-wide financial statements. In addition, the City provides a *statement of cash flows* for the proprietary funds. Proprietary fund statements are located on pages 10 to 12 of this report.
- The City serves as a trustee, or *fiduciary*, for tax collections. The assets of this fund do not directly benefit nor are they under the direct control of the City. The City's responsibility is limited to ensuring the assets reported in this fund are distributed to the other governmental entities as prescribed by statute. *Fiduciary* activities are excluded from the government-wide financial statements because the City cannot use these assets to finance operations. The *Fiduciary* fund statement is presented on page 13.
- The City adopts an annual appropriated budget for its general fund and TIF #3 & #4. Budgetary comparison statements have been provided to demonstrate budget compliance. The budgetary comparison statements are on page 15-18 of this report.

**Notes to the financial statements**

The notes to the financial statements provide additional information that is essential to the full understanding of the data provided in the government-wide and fund financial statements. The notes to financial statements can be found beginning on page 14 of this report.

**City of Phillips, Wisconsin  
Management's Discussion and Analysis  
For the Year Ended December 31, 2010**

The major features of the City's financial statements, including the portion of the activities reported and the type of information contained is shown in the table below.

**Major Features of the Government-wide and Fund Financial Statements**

	<b>Fund Financial Statements</b>			
	<b>Government-Wide Statements</b>	<b>Governmental</b>	<b>Proprietary</b>	<b>Fiduciary</b>
<b>Scope</b>	Entire City (except fiduciary funds).	The activities of the City that are not proprietary or fiduciary, such as general gov't., public safety, public works, etc.	Activities the City operates similar to private business. The City's water/sewer utility are the proprietary operations.	Assets held by the City on behalf of someone else. Tax collections for other governments that are on deposit with the City are reported here.
<b>Required financial statements</b>	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities.</li> </ul>	<ul style="list-style-type: none"> <li>• Balance Sheet</li> <li>• Statement of revenues, expenditures and changes in fund balance.</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of revenues, expenses and change in net assets</li> <li>• Statement of cash flows.</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net assets</li> </ul>
<b>Basis of accounting and measurement focus</b>	Accrual accounting.  Economic resources focus.	Modified accrual accounting.  Current financial resources focus.	Accrual accounting.  Economic resources focus.	Accrual accounting.  Economic resources focus.
<b>Type of asset and liability information</b>	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter. No capital assets or long-term liabilities included.	All assets and liabilities, both financial and capital; short-term and long-term.	All assets and liabilities, both financial and capital; short-term and long-term. These funds do not currently contain any capital assets, although they can.
<b>Type of inflow and outflow information</b>	All revenues and expenses during the year, regardless of when cash is received or paid.	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability are due and payable.	All revenues and expenses during the year, regardless of when cash is received or paid.	All additions or deductions during the year, regardless of when cash is received and paid.

**City of Phillips, Wisconsin  
Management's Discussion and Analysis  
For the Year Ended December 31, 2010**

**FINANCIAL ANALYSIS**

**The Municipality as a Whole**

**Net assets.** Table 1, below, provides a summary of the City's net assets for the year ended December 31, 2010 compared to 2009.

Table 1 Condensed Statement of Net Assets (in thousands of dollars)							
	Governmental Activities		Business-Type Activities		Total Municipality		%
	2010	2009	2010	2009	2010	2009	Change 2010
Current and other assets	\$ 3,976.8	\$ 3,614.6	\$ 563.6	\$ 617.2	\$ 4,540.4	\$ 4,231.8	7.3%
Capital assets	3,758.3	3,583.6	6,344.6	6,484.2	\$ 10,102.9	10,067.8	0.3%
<b>Total assets</b>	<b>7,735.2</b>	<b>7,198.2</b>	<b>6,908.1</b>	<b>7,101.4</b>	<b>14,643.3</b>	<b>14,299.7</b>	<b>2.4%</b>
L-T debt outstanding	2,783.1	1,835.0	1,929.0	2,085.8	4,712.1	3,920.8	20.2%
Other liabilities	2,249.1	3,029.6	302.0	297.0	2,551.1	3,326.7	-23.3%
<b>Total liabilities</b>	<b>5,032.2</b>	<b>4,864.7</b>	<b>2,231.0</b>	<b>2,382.8</b>	<b>7,263.2</b>	<b>7,247.5</b>	<b>0.2%</b>
<b>Net assets</b>							
Invested in capital assets, net of related debt	1,071.6	1,860.4	4,415.5	4,398.4	5,487.2	6,258.8	-12.3%
Restricted	416.1	(659.9)	236.6	227.4	652.7	(432.5)	-250.9%
Unrestricted	1,215.3	1,133.1	25.0	92.8	1,240.3	1,225.9	1.2%
<b>Total net assets</b>	<b>\$ 2,703.0</b>	<b>\$ 2,333.6</b>	<b>\$ 4,677.1</b>	<b>\$ 4,718.6</b>	<b>\$ 7,380.1</b>	<b>\$ 7,052.2</b>	<b>4.6%</b>

**Note: totals may not add due to rounding**

In governmental activities, total assets increased \$529,888 including an increase in capital assets, net increase in capital assets was \$167,652. The calculation of net assets uses a historical cost for buildings that may not accurately reflect the true value. The City's equipment is in fair to poor condition as a result of insufficient annual operating funds appropriated for maintenance and repair. However, the City is in the process of purchasing a new squad and the street equipment is being updated. The City has also set some funds aside for the maintenance of buildings.

**City of Phillips, Wisconsin  
Management's Discussion and Analysis  
For the Year Ended December 31, 2010**

**Change in net assets** Table 2, below, provides a summary of the City's change in the components of net assets for the year ended December 31, 2010 compared to 2009.

	Governmental Activities		Business-Type Activities		Total Municipality	
	2010	2009	2010	2009	2010	2009
<b>Revenues:</b>						
<b>Program revenues</b>						
Charge for services	\$ 305.9	\$ 325.3	\$ 706.8	\$ 688.2	\$ 1,012.7	\$ 1,013.5
Operating grants	141.6	132.9	-	-	141.6	132.9
<b>General revenues</b>						
Property taxes	1,177.1	1,109.3	-	-	1,177.1	1,109.3
State & federal aid	574.5	590.5	-	-	574.5	590.5
Other	116.6	95.5	2.9	3.9	119.5	99.4
<b>Total revenues</b>	<b>2,315.7</b>	<b>2,253.4</b>	<b>709.7</b>	<b>692.0</b>	<b>3,025.4</b>	<b>2,945.5</b>
<b>Expenses:</b>						
General government	204.5	204.3	-	-	204.5	204.3
Public safety	666.0	572.0	-	-	666.0	572.0
Public works	385.3	426.3	-	-	385.3	426.3
Health/human services	22.5	15.8	-	-	22.5	15.8
Culture/recreation	424.4	376.7	-	-	424.4	376.7
Conservation/develop	33.1	27.4	-	-	33.1	27.4
Business-type activity	-	-	801.0	874.7	801.0	874.7
Debt service	181.8	137.6	-	-	181.8	137.6
Depreciation, unallocated	-	154.4	-	-	-	154.4
Other uses	33.3	19.2	-	-	33.3	19.2
<b>Total expenses</b>	<b>1,950.9</b>	<b>1,933.6</b>	<b>801.0</b>	<b>874.7</b>	<b>2,751.9</b>	<b>2,808.3</b>
<b>Change in net assets from operations</b>	<b>364.9</b>	<b>319.9</b>	<b>(91.3)</b>	<b>(182.7)</b>	<b>273.5</b>	<b>137.2</b>
Net special/extraordinary	4.5	(27.4)	49.8	-	54.4	(27.4)
<b>Change in net assets</b>	<b>\$ 369.4</b>	<b>\$ 292.5</b>	<b>\$ (41.5)</b>	<b>\$ (182.7)</b>	<b>\$ 327.9</b>	<b>\$ 109.8</b>

**Note: totals may not add due to rounding**

**Business – Type Activities**

Revenues for the City's business-type activity (water/sewer utility) were comprised of charges for services, and investment earnings.

- Water and sewer utility expenses exceeded revenues by \$91,333, \$91,357 less than last year. The difference is attributable mainly to a decrease in operations and maintenance expenses and increase in user fees.

**City of Phillips, Wisconsin  
Management's Discussion and Analysis  
For the Year Ended December 31, 2010**

- Charges for services, which are amounts paid by customers of the water/sewer utility, increased \$18,661 from \$688,159.
- The water and sewer utility acquired new fixed assets in the amount of \$130,846.

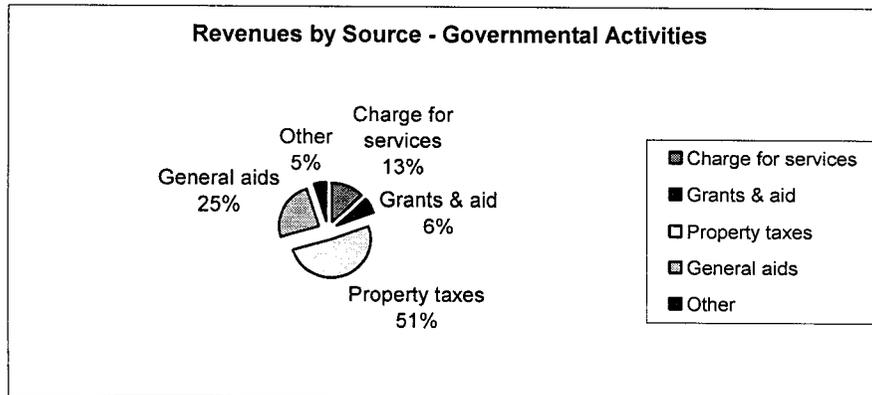
**Governmental Activities**

**Net cost of governmental activities** Table 3, below, provides a summary of the City's change in net cost of Governmental Activities for the year ended December 31, 2010 compared to 2009.

Table 3 Net Cost of Governmental Activities (in thousands of dollars)					
	Total Cost of Services		Net Cost of Services		Net Cost Percentage Change
	2010	2009	2010	2009	
General Government	\$ 204.5	\$ 204.3	\$ 195.4	\$ 204.3	-4.4%
Public Safety	666.0	572.0	560.3	480.4	16.7%
Public Works	385.3	426.3	220.8	255.0	-13.4%
Health & human services	22.5	15.8	13.1	8.3	57.9%
Culture & recreation	424.4	376.7	265.6	188.9	40.6%
Conservation & develop	33.1	27.4	33.1	27.4	20.9%
Debt service	181.8	137.6	181.8	137.6	32.2%
Other	33.3	173.6	33.3	173.6	
<b>Total</b>	<b>\$ 1,950.9</b>	<b>\$ 1,933.6</b>	<b>\$ 1,503.4</b>	<b>\$ 1,475.4</b>	<b>1.9%</b>

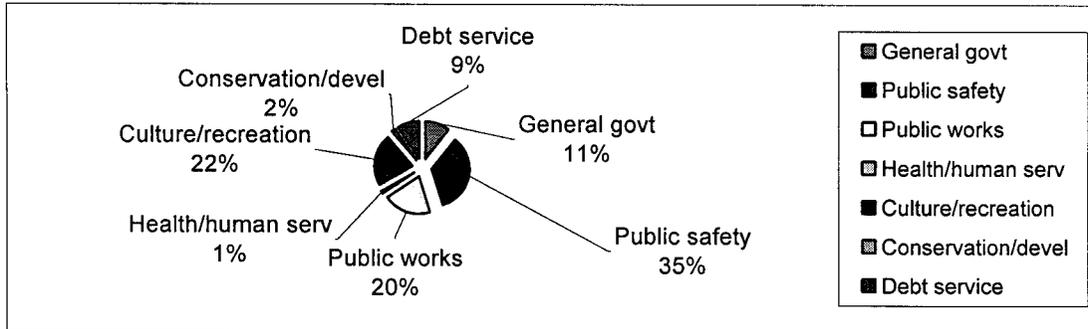
Note: totals may not add due to rounding

**Revenues by Source** – the chart below shows the various sources of revenue by source for the year ending December 31, 2010.



**City of Phillips, Wisconsin  
Management's Discussion and Analysis  
For the Year Ended December 31, 2010**

**Expenditures by Function** – the chart below shows the various governmental activities expenditures by function for the year ending December 31, 2010.



**General Fund Budgetary Highlights**

In the General Fund resources available for appropriation were \$46,974 above the final budgeted amounts. Actual expenditures in the General Fund netted \$30,650 under the final budget amount for an overall budget excess of \$77,624.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets** – Table 4 below shows the change in capital assets in the governmental activities, the business-type activities and the municipality as a whole from December 31, 2009 to December 31, 2010.

Table 4  
**Capital Assets**  
(in thousands of dollars)

	Governmental Activities		Business-Type Activities		Total Municipality		Total % Change
	2010	2009	2010	2009	2010	2009	2010
Land	\$ 317.1	\$ 302.6	\$ 21.5	\$ 21.5	\$ 338.6	\$ 324.1	4.5%
Construction in progress	839.0	\$ 590.7	49.8	-	888.9	590.7	50.5%
Site Improvements	-	-	5,281.0	5,254.7	5,281.0	5,254.7	0.5%
Buildings & improvements	2,664.0	\$ 2,614.6	666.1	666.1	3,330.0	3,280.6	1.5%
Furniture & equipment	1,830.4	1,905.8	4,120.7	4,065.9	5,951.1	5,971.7	-0.3%
Infrastructure	540.3	540.3	-	-	540.3	540.3	0.0%
Accumulated depreciation	(2,439.5)	(2,370.3)	(3,794.5)	(3,524.0)	(6,234.0)	(5,894.3)	5.8%
<b>Total</b>	<b>\$ 3,751.3</b>	<b>\$ 3,583.6</b>	<b>\$ 6,344.6</b>	<b>\$ 6,484.2</b>	<b>\$ 10,095.8</b>	<b>\$ 10,067.8</b>	<b>0.3%</b>

Note: totals may not add due to rounding

**City of Phillips, Wisconsin  
Management's Discussion and Analysis  
For the Year Ended December 31, 2010**

**Long – Term Debt** – Table 5 below show the change in long-term obligations for the total municipality from December 31, 2009 to December 31, 2010.

Table 5 Outstanding Long Term Obligations (in thousands of dollars)			
	Total Municipality		Total %
	2010	2009	Change 2010
	General obligation debt	\$ 2,686.7	\$ 1,723.3
Other	2,025.4	2,197.5	-7.8%
<b>Total</b>	<b>\$ 4,712.1</b>	<b>\$ 3,920.8</b>	<b>20.2%</b>

Note: totals may not add due to rounding

**FACTORS BEARING ON THE CITY'S FUTURE**

Currently known facts and circumstances that will impact the City's financial status in future are:

- The City has a few streets in need of reconstruction, including the water & sewer lines under those streets.
- There are some City buildings that are in need of repair or expansion. However, the City has set some funds aside for the maintenance of buildings.
- The Police Department is in the process of purchasing a new squad car.
- The Department of Public Works is in need of new equipment. However, the City is in the process of updating the street equipment.

**CONTACTING THE MUNICIPALITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers and investors & creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Barb Revak, Clerk/Treasurer, City of Phillips, 174 S. Eyder Avenue, Phillips, WI 54555.

City of Phillips, Wisconsin

Government-Wide Financial Statements

**City of Phillips, Wisconsin  
Statement of Net Assets  
As of December 31, 2010**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b>Assets</b>			
<b>Current assets:</b>			
Cash and investments	\$ 868,898	81,900	\$ 950,798
Receivables	1,528,776	189,120	1,717,896
Internal receivables	47,340	-	47,340
Restricted cash	1,520,532	236,593	1,757,125
Inventories and prepaid items	11,291	8,990	20,281
Advance to other funds	-	46,951	46,951
<b>Total current assets</b>	<b><u>3,976,837</u></b>	<b><u>563,554</u></b>	<b><u>4,540,391</u></b>
<b>Noncurrent assets:</b>			
Other Noncurrent assets:			
Unamortized bond discount, net	7,049	-	7,049
Plant, property and equipment			
Land	317,065	21,490	338,555
Construction in progress	839,013	49,837	888,850
Site improvements	-	5,281,013	5,281,013
Buildings and building improvements	2,663,985	666,059	3,330,044
Furniture and equipment	1,830,403	4,120,669	5,951,072
Infrastructure- Road network	540,318	-	540,318
Less: Accumulated depreciation	<u>(2,439,492)</u>	<u>(3,794,516)</u>	<u>(6,234,008)</u>
Net Plant, property & equipment	<u>3,751,292</u>	<u>6,344,552</u>	<u>10,095,844</u>
<b>Total noncurrent assets</b>	<b><u>3,758,341</u></b>	<b><u>6,344,552</u></b>	<b><u>10,102,893</u></b>
<b>Total assets</b>	<b><u>7,735,178</u></b>	<b><u>6,908,106</u></b>	<b><u>14,643,284</u></b>
<b>Liabilities</b>			
<b>Current liabilities:</b>			
Payables:			
Accounts	283,326	5,668	288,994
Accrued payroll & related items	26,219	-	26,219
Accrued interest	49,366	18,889	68,255
Internal payables	-	47,340	47,340
Deferred revenue	1,843,274	230,061	2,073,335
Current portion of long-term obligations	283,567	164,706	448,273
Advance to other funds	46,950	-	46,950
<b>Total current liabilities</b>	<b><u>2,532,702</u></b>	<b><u>466,664</u></b>	<b><u>2,999,366</u></b>
<b>Noncurrent liabilities:</b>			
Noncurrent portion of long-term obligations	<u>2,499,485</u>	<u>1,764,309</u>	<u>4,263,794</u>
<b>Total non-current liabilities</b>	<b><u>2,499,485</u></b>	<b><u>1,764,309</u></b>	<b><u>4,263,794</u></b>
<b>Total liabilities</b>	<b><u>5,032,187</u></b>	<b><u>2,230,973</u></b>	<b><u>7,263,160</u></b>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	1,071,631	4,415,537	5,487,168
Restricted for:			
TIF districts	384,190		384,190
Special revenue projects	31,881		31,881
Water/sewer loan covenant		236,593	236,593
Unrestricted	1,215,289	25,003	1,240,292
<b>Total net assets</b>	<b><u>2,702,991</u></b>	<b><u>4,677,133</u></b>	<b><u>7,380,124</u></b>
<b>Total liabilities and net assets</b>	<b><u>\$ 7,735,178</u></b>	<b><u>\$ 6,908,106</u></b>	<b><u>\$ 14,643,284</u></b>

See accompanying notes to basic financial statements.

**City of Phillips, Wisconsin  
Statement of Activities  
For the Year ended December 31, 2010**

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Government Activities	Business- Type Activities	Total
<b>Governmental activities:</b>						
General government	204,504		9,102	(195,402)		(195,402)
Public Safety	666,018	101,647	4,038	(560,333)		(560,333)
Public Works	385,335	36,092	128,481	(220,762)		(220,762)
Health and human services	22,467	9,335	-	(13,132)		(13,132)
Culture, recreation and education	424,376	158,783	-	(265,593)		(265,593)
Conservation and development	33,104	-	-	(33,104)		(33,104)
Debt service	181,823	-	-	(181,823)		(181,823)
Other uses	33,251			(33,251)		(33,251)
<b>Total governmental activities</b>	<b>1,950,878</b>	<b>305,857</b>	<b>141,621</b>	<b>(1,503,400)</b>		<b>(1,503,400)</b>
<b>Business-type activities:</b>						
Water/sewer utility	801,009	706,820	-		(94,189)	(94,189)
<b>Total Business-type activities</b>	<b>801,009</b>	<b>706,820</b>	<b>-</b>		<b>(94,189)</b>	<b>(94,189)</b>
<b>Total municipality</b>	<b>\$2,751,887</b>	<b>\$1,012,677</b>	<b>\$ 141,621</b>	<b>\$(1,503,400)</b>	<b>\$ (94,189)</b>	<b>\$(1,597,589)</b>
<b>General revenues:</b>						
Property taxes:						
General purposes				769,228		769,228
Debt services				407,885		407,885
State and federal aids not restricted to specific functions:				574,507		574,507
Interest and investment earnings				40,854	2,856	43,710
Miscellaneous				75,784	-	75,784
<b>Total general revenues</b>				<b>1,868,258</b>	<b>2,856</b>	<b>1,871,114</b>
<b>Extraordinary / special items:</b>						
Prior year asset adjustment				4,545		4,545
Contributions for Capital Assets					49,842	49,842
<b>Change in net assets</b>				<b>369,403</b>	<b>(41,491)</b>	<b>327,912</b>
<b>Net assets - beginning of year</b>				<b>2,333,588</b>	<b>4,718,624</b>	<b>7,052,212</b>
<b>Net assets - end of year</b>				<b>\$ 2,702,991</b>	<b>\$ 4,677,133</b>	<b>\$ 7,380,124</b>

\*This amount excludes the depreciation that is included in the direct expenses of the various activities.

See accompanying notes to basic financial statements.

City of Phillips, Wisconsin

Fund Financial Statements

City of Phillips, Wisconsin  
Balance Sheet  
Governmental Funds  
As of December 31, 2010

	General Fund	CDBG Fund	TIF District No. 3	TIF District No. 4	Other Nonmajor Govt Funds	Total Governmental Funds
<b>Assets</b>						
Cash and Investments	\$ 868,898				\$ -	\$ 868,898
Receivables:						
Taxes receivable	866,622	-	-	-	-	866,622
Other receivables	-	662,154	-	-	-	662,154
Due from other funds	57,619		39,958	564,580	12,381	674,538
Restricted cash	-	31,881	163,502	1,335,107	(9,958)	1,520,532
Advance to other funds	1,049,189	-	-	-	-	1,049,189
Prepays	11,291	-	-	-	-	11,291
<b>Total Assets</b>	<u>2,853,619</u>	<u>694,035</u>	<u>203,460</u>	<u>1,899,687</u>	<u>2,423</u>	<u>5,653,224</u>
<b>Liabilities and Fund Balance</b>						
<b>Liabilities</b>						
Accounts payable	282,897	-	-	429	-	283,326
Accrued payroll and related items	26,219				-	26,219
Due to other funds	461,487	-	158,131	5,379	2,201	627,198
Deferred revenues	722,019	662,154	39,958	406,599	12,544	1,843,274
Advance from other funds	-	-	709,727	339,343	47,069	1,096,139
<b>Total Liabilities</b>	<u>1,492,622</u>	<u>662,154</u>	<u>907,816</u>	<u>751,750</u>	<u>61,814</u>	<u>3,876,156</u>
<b>Fund Balance</b>						
Reserved:						
For TIF districts	-		(704,356)	1,147,937	(59,391)	384,190
For CDBG loans	-	31,881	-	-	-	31,881
Unreserved, undesignated	1,360,997	-	-	-	-	1,360,997
<b>Total Fund Balance</b>	<u>1,360,997</u>	<u>31,881</u>	<u>(704,356)</u>	<u>1,147,937</u>	<u>(59,391)</u>	<u>1,777,068</u>
<b>Total Liabilities and Fund Balance</b>	<u>\$ 2,853,619</u>	<u>\$ 694,035</u>	<u>\$ 203,460</u>	<u>\$ 1,899,687</u>	<u>\$ 2,423</u>	<u>\$ 5,653,224</u>

See accompanying notes to basic financial statements.

**City of Phillips, Wisconsin  
 Reconciliation of the Government Funds Balance Sheet  
 to the Statement of Net Assets  
 For the Year Ended December 31, 2010**

**Total fund balance reported on government funds balance sheet** **1,777,068**

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

Unamortized bond discount, net 7,049

Capital assets used in government activities are not financial resources and therefore are not reported as a component of fund balance. The amount of governmental capital assets, net of accumulated depreciation is: 3,751,292

Long-term liabilities, including bonds and notes payable, are not due in the current period and therefore are not reported as a component of fund balance. Long-term liabilities reported in the statement of net assets that are not reported in the governmental funds balance sheet are:

General obligation debt	\$ (2,686,710)	
Vested employee benefits	\$ (96,342)	
Accrued interest on general obligation debt	(49,366)	
		\$ (2,832,418)

**Total net assets - governmental activities** **2,702,991**

City of Phillips, Wisconsin  
Statement of Revenues, Expenditures and Changes in Fund Balance  
Governmental Funds  
For the Year Ended December 31, 2010

	General Fund	CDBG Fund	TIF District No. 3	TIF District No. 4	Other Nonmajor Funds	Total Governmental Funds
<b>Revenues:</b>						
Property tax	\$ 760,216	\$ -	\$ 36,028	\$ 360,440	\$ 11,417	\$ 1,168,101
Other tax	9,012	-	-	-	-	9,012
Intergovernmental aid	699,290	-	374	2,745	13,719	716,128
Licenses and permits	10,499	-	-	-	-	10,499
Fines, forfeits and penalties	15,111	-	-	-	-	15,111
Public charge for service	222,636	-	-	-	-	222,636
Intergovernmental charge for service	57,611	-	-	-	-	57,611
Miscellaneous revenues	86,028	24,310	1,073	5,067	160	116,638
<b>Total revenues</b>	<b>1,860,403</b>	<b>24,310</b>	<b>37,475</b>	<b>368,252</b>	<b>25,296</b>	<b>2,315,736</b>
<b>Expenditures:</b>						
<b>Current:</b>						
General government	180,297	-	-	-	-	180,297
Public Safety	620,026	-	-	-	-	620,026
Public Works	284,469	-	-	-	54,054	338,523
Health and human services	22,320	-	-	-	-	22,320
Culture, recreation and education	383,138	-	-	-	-	383,138
Conservation and development	2,776	-	6,904	-	20,988	30,668
<b>Total Current</b>	<b>1,493,026</b>	<b>-</b>	<b>6,904</b>	<b>-</b>	<b>75,042</b>	<b>1,574,972</b>
<b>Debt Service:</b>						
Principal	92,896	-	-	123,645	-	216,541
Interest	54,757	-	24,039	38,208	1,448	118,452
Other debt service	-	-	-	32,148	-	32,148
<b>Total Debt service</b>	<b>147,653</b>	<b>-</b>	<b>24,039</b>	<b>194,001</b>	<b>1,448</b>	<b>367,141</b>
Capital Expenditures	41,198	-	-	298,175	-	339,373
<b>Total Expenditures</b>	<b>1,681,877</b>	<b>-</b>	<b>30,943</b>	<b>492,176</b>	<b>76,490</b>	<b>2,281,486</b>
Excess of revenue over(under) expenditures	178,526	24,310	6,532	(123,924)	(51,194)	34,250
<b>Other Financing Sources (Uses):</b>						
Debt proceeds	-	-	-	1,180,000	-	1,180,000
Other uses	(33,251)	-	-	-	-	(33,251)
Transfer (from) to other funds	(40,211)	-	-	-	40,211	-
<b>Total Other Sources(Uses)</b>	<b>(73,462)</b>	<b>-</b>	<b>-</b>	<b>1,180,000</b>	<b>40,211</b>	<b>1,146,749</b>
Net change in fund balance	105,064	24,310	6,532	1,056,076	(10,983)	1,180,999
Fund balance, beginning of year	1,255,933	7,571	(710,888)	91,861	(48,408)	596,069
<b>Fund balance, end of year</b>	<b>\$ 1,360,997</b>	<b>\$ 31,881</b>	<b>\$(704,356)</b>	<b>\$ 1,147,937</b>	<b>\$ (59,391)</b>	<b>\$ 1,777,068</b>

See accompanying notes to basic financial statements.

**City of Phillips, Wisconsin**  
**Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balance**  
**of Governmental Funds to the Statement of Activities**  
**For the Year Ended December 31, 2010**

**Net change in fund balances - total governmental funds** **\$ 1,180,999**

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

The acquisition of capital assets are 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 expenses in the statement of activities.

Capital outlay reported in governmental fund statements	339,373	
Depreciation expense reported in the statement of activities	<u>176,266</u>	
Amount by which capital outlays are greater (less) than depreciation in the current period.		163,107

Prior year adjustments to capital assets are reported in the statement of activities but not on governmental funds. The amount of adjustments is: 4,545

Vested employee benefits are reported in the government funds when amounts are paid. The statement of activities reports the value of benefits earned during the year.

Vested employee benefits paid in current year	15,434	
Vested employee benefits earned in current year	<u>-</u>	
Amounts paid are greater (less) than amounts paid by		15,434

Bond discount reported as other debt service expense in the governmental funds but is reported as other non-current asset in the statement of net assets 7,049

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 is: 216,541

Debt incurred in governmental funds is reported as an other financing source, but is reported as an increase in outstanding long-term debt in the statement of net assets, and does not affect the statement of activities.  
The amount of debt incurred in the current year is: (1,180,000)

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

The amount of interest paid during the current period	70,211	
The amount of interest accrued during the current period	<u>108,483</u>	
Interest paid is greater (less) than interest accrued by		(38,272)

**Change in net assets - governmental activities** **\$ 369,403**

City of Phillips, Wisconsin  
 Combined Statement of Net Assets  
 Enterprise Funds  
 As of December 31, 2010

Assets	Water/ Sewer Fund	2010
Cash and Investments	81,900	81,900
Receivables:		
Customer accounts receivables	189,120	189,120
Materials & supplies inventory	8,990	8,990
Restricted cash	236,593	236,593
Advance to other funds	46,951	46,951
Plant, property & equipment(net)	<u>6,344,552</u>	<u>6,344,552</u>
Total Assets	<u>\$ 6,908,106</u>	<u>\$ 6,908,106</u>
Liabilities and net assets		
Liabilities		
Accounts payable	5,668	5,668
Accrued interest payable	18,889	18,889
Due to other funds	47,340	47,340
Deferred revenues	230,061	230,061
Long term debt	<u>1,929,015</u>	<u>1,929,015</u>
Total Liabilities	<u>2,230,973</u>	<u>2,230,973</u>
Net Assets		
Invested in capital assets net of related debt	4,415,537	4,415,537
Restricted, expendable	236,593	236,593
Unrestricted	<u>25,003</u>	<u>25,003</u>
Total net assets	<u>4,677,133</u>	<u>4,677,133</u>
Total Liabilities and Net Assets	<u>\$ 6,908,106</u>	<u>\$ 6,908,106</u>

See accompanying notes to basic financial statements.

City of Phillips, Wisconsin  
 Combined Statement of Revenues, Expenditures and Changes in Net Assets  
 Enterprise Funds  
 For the Year Ended December 31, 2010

	Water/ Sewer	2010
Operating Revenues	706,820	\$706,820
Operating Expenses		
Operations and maintenance	390,714	390,714
Depreciation	271,086	271,086
Taxes	72,370	72,370
Total Operating Expenses	734,170	734,170
Operating Income (Loss)	(27,350)	(27,350)
Non Operating Revenues (Expenses)		
Interest Income	2,856	2,856
Interest Expense	(66,839)	(66,839)
Total Non Operating	(63,983)	(63,983)
Loss Before Contributions	(91,333)	(91,333)
Contributions for Capital Assets	49,842	49,842
Change in Net Assets	(41,491)	(41,491)
Net Assets - Beginning of Year	4,718,624	4,718,624
Net Assets - End of Year	4,677,133	4,677,133

See accompanying notes to basic financial statements.

City of Phillips, Wisconsin  
 Combined Statement of Cash Flows  
 Enterprise Funds  
 For the Year Ended December 31, 2010

	Water/ Sewer Fund	2010
<b>Cash Flows from Operating Activities</b>		
Cash received from user charges	\$ 661,053	\$ 661,053
Cash payments to employees for services	(237,702)	(237,702)
Cash payments for utilities and other purchased services	(91,189)	(91,189)
Cash payments to suppliers for goods and services	(48,694)	(48,694)
Cash payments for other operating expenses	(64,939)	(64,939)
Net cash provided by operating activities	<u>218,529</u>	<u>218,529</u>
<b>Cash Flows from Capital and Related Financing Activities</b>		
Cash payments for acquisition of capital assets	(81,599)	(81,599)
Interest paid	(68,456)	(68,456)
Retirement of long-term debt	(156,742)	(156,742)
Net cash used by capital and related financing activities	<u>(306,797)</u>	<u>(306,797)</u>
<b>Cash Flows from Investing Activities</b>		
Interest on investments	2,856	2,856
Net cash provided by investing activities	<u>2,856</u>	<u>2,856</u>
Net decrease in cash and cash equivalents	(85,412)	(85,412)
Cash and cash equivalents - beginning of year	403,905	403,905
Cash and cash equivalents - end of year	<u>\$ 318,493</u>	<u>\$ 318,493</u>
<b>Reconciliation of operating income to net cash provided by operating activities</b>		
Operating income (loss)	(27,350)	(27,350)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation (grant amortization & other amortization)	271,086	271,086
Changes in assets and liabilities:		
Accounts receivable	(28,070)	(28,070)
Materials and supply inventory	(3,672)	(3,672)
Due from/to other funds	28,167	28,167
Deferred revenue	(17,697)	(17,697)
Accounts payable	(3,935)	(3,935)
Net cash provided by operating activities	<u>\$ 218,529</u>	<u>\$ 218,529</u>

See accompanying notes to basic financial statements.

City of Phillips, Wisconsin  
Statement of Net Assets  
Fiduciary Funds  
December 31, 2010

	<u>Tax Collection Agency Fund</u>
<b>Assets</b>	
Taxes receivable	<u>1,147,790</u>
<b>Total assets</b>	<u><u>1,147,790</u></u>
<b>Liabilities</b>	
Due to other funds	
Due to other governments	<u>1,147,790</u>
<b>Total liabilities</b>	<u><u>\$1,147,790</u></u>

See accompanying notes to basic financial statements.

## TABLE OF CONTENTS

### Notes to the Basic Financial Statements

Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES .....	A
Note 2 – STEWARDSHIP AND COMPLIANCE .....	F
Note 3 – DETAILED DISCLOSURES REGARDING ASSETS AND REVENUES.....	F
Note 3a – Cash and investments	
Note 3b – Capital assets	
Note 4 – DETAILED DISCLOSURES REGARDING LIABILITIES AND EXPENSES.....	H
Note 4a – Short-term debt	
Note 4b – Long-term liabilities	
Note 4c – Interfund balances and activity	
Note 4d – Contributions to pension plan	
Note 4e – Unfunded pension liability	
Note 4f – Debt covenants	
Note 4g – Risk management	
Note 5 – OTHER NOTE DISCLOSURES.....	L
Note 5a – Fund balances	
Note 5b – Excess of actual expenditure over budget	
Note 5c – Contingencies and commitments	

City of Phillips, Wisconsin

Notes to Financial Statements  
For the Year Ended December 31, 2010

Note 1 - **SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES**

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.

**A. Reporting Entity**

The City of Phillips, Wisconsin (the "City") is incorporated under the provisions of the State of Wisconsin. The City operates under a Council - Administrator form of government and provides the following services as authorized by its charter: Public safety (ambulance and fire), streets, sanitation, health and social services, culture-recreation, public improvements, planning and zoning, and general administrative services. Other services include utilities.

The reporting entity for the City is based upon criteria set forth by the Governmental Accounting Standards Board. All functions of the City for which it exercises oversight responsibility are included. The oversight responsibility includes but is not limited to, financial interdependency between the City and the governmental entity; control by the City over selection of the entity's governing authority or designation of management; the ability of the City to significantly influence operations of the entity; and whether the City is responsible for the accountability for fiscal matters. All significant activities and organizations with which the City exercises oversight responsibility have been considered for inclusion in the basic financial statements. The City has no component units and it is not included in any other governmental reporting entity.

**B. Basis of presentation**

**Government-wide financial statements**

The statement of net assets and the statement of activities present financial information about the government's governmental and business-type activities. These statements include the financial activities of the overall government in its entirety, except those that are fiduciary. These statements distinguish between the governmental and business-type activities of the government. Eliminations have been made to minimize the double counting of internal transactions. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business type activities are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the government's governmental activities. Direct expenses are those that are specifically associated with and are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

The City applies restricted resources first when an expense is incurred for a purpose for which both restricted and unrestricted net assets are available. Depreciation expense which can be specifically identified by function is included in the direct expenses of each function. Interest on general long-term debt is considered an indirect expense and is reported separately on the Statement of Activities.

### Fund financial statements

The accounts of the City are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained, consistent with legal and managerial requirements.

The fund statements provide information about the government's funds, including fiduciary funds. Separate statements for each fund category – governmental, business-type and fiduciary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds; each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as non-major funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal value. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

The government reports the following major governmental funds:

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

CDBG Fund – This fund accounts for all activity of the CDBG housing rehabilitation loan program funded by a federal grant.

TIF District #3 – This fund accounts for all activity of the tax increment financing district #3.

TIF District #4 – This fund accounts for all activity of the tax increment financing district #4.

The City operates one enterprise fund. The Water and Sewer Utility Fund accounts for the activity of the municipal water and sewer utility.

The City accounts for assets held as an agent for other governmental units in a fiduciary agency fund. This fund includes the Tax Collection agency fund.

### C. Measurement Focus and Basis of Accounting

The government-wide, business-type and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred, or economic asset used, regardless of when the related cash transaction takes place. Nonexchange transactions, in which the government 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 have been satisfied.

The governmental fund statements are reported using the current financial resources measurement 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 sixty days after the end of the fiscal year.

Expenditures are recorded 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 financing sources.

Under the terms of grant agreements, the City may fund certain programs by a combination of specific cost-reimbursement 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 cost-reimbursement grant resources to such programs, followed by general revenues.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance or the Governmental Accounting Standards Board.

### D. Assets and Liabilities

#### Cash 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, other than debt service funds, in time deposits (maturing in not more than three years) of authorized depositories, U.S. Treasury obligations, U.S. government agency issues, municipal obligations within Wisconsin, high grade commercial paper which matures in less than seven years, and the local government pooled-investment fund administered by the State of Wisconsin Investment Board.

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.

#### Property Taxes:

Real estates assessments are as of January 1, tax levies in December are applicable to the following year and the real estate taxes are due in January or February, unless an installment plan is selected. Property taxes are recognized as revenue in the period which the taxes are levied. The 2009 tax levy is used to finance operations of the City for the year ended December 31, 2010. 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.

#### Accounts Receivable

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.

#### Due to and from other funds

The amounts reported on the statement of net assets for due to and due from other funds represents amounts due between fund types (governmental activities, business type activities and fiduciary funds). Eliminations have been made for amounts due to and due from within the same fund type. See Note 4C for a detailed description of the individual fund balances as of December 31.

#### Inventories and Prepaid Supplies:

Proprietary fund type inventories are generally used for construction, operation and maintenance work, they are not for resale. They are charged to construction, operations and maintenance expense at average cost.

Governmental fund inventory items are charges to expenditure accounts when purchased. Year-end inventory was not significant.

#### Capital assets

The accounting treatment over property, plant and equipment (capital assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide of fund financial statements.

#### - Government-wide Statements

In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost or estimated historical cost if actual is unavailable, based on management estimates. Donated assets are reported at estimated fair market value at the time received.

Prior to January 1, 2004, governmental funds' infrastructure assets were not capitalized. Upon implementing GASB 34 governmental units are required to account for all infrastructure in the government-wide statements prospectively from the date of implementation. Retroactive reporting of all major general infrastructure assets is encouraged but not required. For the year ended December 31, 2010, the City has chosen not to retroactively report infrastructure acquired by its governmental fund types.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Buildings/improvements	\$1,000	Straight-line	50 years
Furniture and equipment	\$1,000	Straight-line	5-15 years
Vehicles	\$1,000	Straight-line	5-10 years
Infrastructure	\$1,000	Straight-line	25 years

The cost 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.

- Fund Financial Statements

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

Additions to and replacements of utility plant are recorded at original cost, which includes material, labor, overhead, and an allowance for the cost of funds used during construction when significant. For tax-exempt debt, the amount of interest capitalized equals the interest expense incurred during construction netted against any interest revenue from temporary investment of borrowed fund proceeds. No interest was capitalized during the current year. The cost of property replaced, retired or otherwise disposed of, is deducted from plant accounts and, generally, together with removal costs less salvage, is charged to accumulated depreciation.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results may differ from those estimates.

Equity Classifications

- Government-wide Statements

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement for those assets. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The City applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

### - Fund Statements

Governmental fund equity is classified as fund balance. The City reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that a portion of fund equity, which is available for appropriation, in future periods. Fund equity reserves have been established for debt service funds. Proprietary fund equity is classified the same as in the government-wide statements.

### Budgetary Accounting

Budgetary information is derived from the annual operating budget and is presented using the same basis of accounting for each fund as described above. The legally adopted budget and budgetary expenditure control is exercised at the function level. Reported budget amounts are as originally adopted or as amended by City Board resolution.

### Housing Rehabilitation Loans Receivable

The City has received grant funds for housing rehabilitation loan programs to various individuals. The City records a loan receivable when the loan has been made and funds have been disbursed.

As loans are repaid, revenue is recognized. When new loans are made from the repayments, expenditures are recorded. Interest received from loan repayments is recognized as revenue when received in cash. Any unspent loan repayments at year end are presented as reserved fund balance in the fund financial statements.

Loans become due upon sale of the property, it is not possible to determine the portion that may be collectable within one year.

### Subsequent Events

In 2010, the City adopted ASC Topic 855, *Subsequent Events*, which modifies the definition of subsequent events and requires disclosure of the date through which an entity has evaluated subsequent events and the basis for that date. Subsequent events have been evaluated through June 1, 2011, which is the date the financial statements were available to be issued.

### Note 2 – STEWARDSHIP AND COMPLIANCE

The City did not have any violation of legal or contractual provisions for the fiscal year ended December 31, 2010.

### Note 3 – DETAILED DISCLOSURES REGARDING ASSETS AND REVENUES

#### Note 3a – Cash and investments

##### **Custodial Credit Risk – Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of December 31, 2010 all of the City deposits were fully collateralized by the FDIC and the State Guarantee Fund.

The following schedule of cash deposits of all the City's funds (including fiduciary funds) as of December 31, 2010 as reflected in the Statement of Net Assets follows:

	Primary	Enterprise	
	Government	Funds	Total
<b>Unrestricted:</b>			
Cash and Cash Equivalents	\$868,898	\$81,900	\$950,798
<b>Restricted:</b>			
Cash and Cash Equivalents	1,520,532	236,593	1,757,125
Total Cash and Cash Equivalents	\$2,389,430	\$318,493	\$2,707,923

The Primary Government restricted cash balance is composed of the cash balances of the Special Revenue funds and Capital Projects funds. The Enterprise Fund restricted cash balance is reserved by debt covenant with the Clean Water Fund. The Water/Sewer utility is required to deposit \$35,080 per year into the reserved account until maturity of the loan in May of 2021. The current required balance is \$236,593.

Interest and dividends earned as of December 31, 2010 are as follows:

	Governmental	Business-type
	Activities	Activities
Interest earned	\$40,854	\$2,856

Deposits in banks are insured by the Federal Deposit Insurance Corporation (FDIC) in the amount of \$250,000 for demand deposits and \$250,000 for time deposits, per entity. In addition, the State of Wisconsin has a State Guarantee Fund, which provides a maximum of \$400,000 per entity above the amount provided by the FDIC. However, due to the relatively small size of the Guarantee Fund in relation to the total coverage, total recovery of losses may not be available.

Fluctuating cash flows during the year due to tax collections, receipt of state aids and/or proceeds from borrowing may result in temporary uninsured balances significantly exceeding the FDIC and State Guarantee Fund insurance.

### Note 3b – Capital Assets

Capital asset balances and activity for the year ended December 31, 2010 were as follows:

	Beginning Balance	Prior year Adjustments	Increases	Decreases	Ending Balance
<b>Governmental activities:</b>					
Capital assets not being depreciated:					
Sites (land)	\$ 302,615	14,450			\$ 317,06
Construction In Progress	590,675		248,338		839,01
Total capital assets not being depreciated	893,290	14,450	248,338	-	1,156,07
Capital assets being depreciated:					
Site Improvements	127,170	(127,170)	-	-	
Buildings & Site Improvements	2,487,391	176,594	-		2,663,98
Equipment & Vehicles	1,905,765	(151,947)	76,585	-	1,830,40
Road network	540,321	(3)	-		540,31
Total capital assets being depreciated	5,060,647	(102,526)	76,585	-	5,034,70
Less accumulated depreciation for:					

Buildings & site improvements	(904,172)	14,278	(55,761)	-	(945,655)
Furniture and equipment	(1,373,821)	92,793	(93,489)	-	(1,374,517)
Road network	(92,304)	-	(27,016)	-	(119,320)
Total accumulated depreciation	(2,370,297)	107,071	(176,266)	-	(2,439,492)
Total capital assets being depreciated, net of accumulated depreciation	2,690,350	4,545	(99,681)	-	2,595,214
Governmental activities capital assets, net of accumulated depreciation					\$ 3,751,299

Depreciation expense was charged to governmental functions as follows:

General Government	25,768
Public Safety	45,992
Public Works	60,685
Health & Human Services	147
Culture, Recreation & Education	41,238
Conservation & Development	2,436
Total depreciation for governmental activities	\$176,266

**Business-type activities:**

Capital assets not being depreciated:

Land	\$ 21,490			\$21,490
Construction in Progress	-	49,837		49,837

Total capital assets not being depreciated

21,490	49,837	-	71,327
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Capital assets being depreciated:

Water distribution system	3,673,001	63,013		3,736,014
Sewer collection & treatment system	6,313,731	17,996		6,331,727
Total capital assets being depreciated	9,986,732	81,009		10,067,741

Less accumulated depreciation for:

Water distribution system	(1,186,583)	596	(75,081)	(1,261,068)
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Sewer collection & treatment system

(2,337,443)		(196,005)	(2,533,448)
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Total accumulated depreciation

(3,524,026)	596	(271,086)	(3,794,516)
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Total capital assets being depreciated,  
net of accumulated depreciation

6,462,706	596	(190,077)	-	6,273,225
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Business-type activities capital assets, net of accumulated depreciation

\$ 6,344,559

Depreciation expense was charged to functions as follows:

Water	75,081
Sewer	196,005

Total business-type activities depreciation expense

\$271,086

**Note 4 – DETAILED DISCLOSURES REGARDING LIABILITIES AND EXPENSES**

**Note 4a – Short-term debt**

Short-term debt liability balances and activity for the year ended December 31, 2010 were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
<b>Governmental Activities:</b>				
4/2/09Baird NAN, 3.125%, maturity date 4/1/2010	\$1,110,000	\$ 0	\$1,110,000	\$ 0
Total	\$1,110,000	\$ 0	\$1,110,000	\$ 0

## Note 4b – Long-term Liabilities

Long-term liability balances and activity for the year ended December 31, 2010 were as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due within One Year</u>
<b>Governmental Activities</b>					
<b>General obligation debt</b>					
Bonds and notes payable					
Capital projects	<u>\$1,723,251</u>	<u>1,180,000</u>	<u>\$ 216,541</u>	<u>\$ 2,686,710</u>	<u>\$ 272,287</u>
Total general obligation debt	<u>1,723,251</u>	<u>1,180,000</u>	<u>216,541</u>	<u>2,686,710</u>	<u>272,287</u>
<b>Vested Employee Benefits:</b>					
Termination benefits	<u>26,935</u>		<u>9,991</u>	<u>16,944</u>	<u>11,280</u>
Pension related benefits	<u>84,841</u>		<u>5,443</u>	<u>79,398</u>	<u>-</u>
Total Other Liabilities	<u>111,776</u>		<u>15,434</u>	<u>96,342</u>	<u>11,280</u>
Total governmental activity long-term liabilities	<u>\$ 1,835,027</u>	<u>\$ 1,180,000</u>	<u>\$ 231,975</u>	<u>\$ 2,783,052</u>	<u>\$ 283,567</u>
<b>Business-type Activities</b>					
Bonds and notes payable	<u>\$ 2,085,757</u>	<u>-</u>	<u>156,742</u>	<u>1,929,015</u>	<u>164,706</u>
Total business-type activity long-term liabilities	<u>\$ 2,085,757</u>	<u>\$ -</u>	<u>\$ 156,742</u>	<u>\$ 1,929,015</u>	<u>\$ 164,706</u>

Payments on bonds and notes are made by the various funds debt service fund and the business-type funds.

Total interest paid and accrued during the year:	<u>Governmental Funds</u>	<u>Business-type Funds</u>
Total interest paid	<u>\$ 70,211</u>	<u>\$68,456</u>
Total interest expense	<u>108,483</u>	<u>66,840</u>
Interest paid over (under) expense	<u>\$(38,272)</u>	<u>\$1,616</u>

The full faith, credit, and taxing powers of the City secure all general obligation debt, including business-type activities, if any. Bonds and notes payable is comprised of the following individual issues:

<b>Government Activities</b>	<b>Issue Dates</b>	<b>Interest Rates</b>	<b>Date of Maturity</b>	<b>Balance 12/31/10</b>
Notes and Bonds payable				
Bond payable	05/01/2006	4.0-4.4	03/01/2021	1,190,000
Note payable	01/23/2002	4.0	12/15/2012	257,385
Note payable	07/28/2006	5.67	07/28/2014	59,325
Bond payable	04/01/2010	2.0-4.4	03/01/2025	1,180,000
Total bonds and notes				<u>\$2,686,710</u>
<b>Business-type Activities</b>				
Water/sewer revenue bond	07/15/98	4.4-5.1	01/15/18	540,000
Water/sewer revenue bond	06/13/01	2.78	05/01/21	1,389,015
				<u>\$1,929,015</u>

The legal debt limit and margin of indebtedness is set at 5% of equalized value by Section 67.03(1) (b), Wisconsin Statutes. The margin of indebtedness at December 31, 2010 is:

Equalized value certified by Wisconsin Department of Revenue for:	2010	\$88,826,400
Margin of indebtedness at 5%		4,441,320
Deduct long-term debt applicable to debt margin		<u>(2,686,710)</u>
Margin of indebtedness		<u>\$ 1,754,610</u>

Aggregate cash flow requirements for retirement of long-term principal and interest on notes and bonds (including State Trust Fund loans) as of December 31, 2010 is as follows:

**Government Activities**

Year ended			
31-Dec	Principal	Interest	Total
2011	272,287	119,559	391,846
2012	298,126	91,676	389,802
2013	175,217	80,625	255,842
2014	186,080	74,214	260,294
2015	170,000	67,308	237,308
2016-2020	975,000	232,953	1,207,953
2021-2025	610,000	56,888	666,888
Totals	<u>\$ 2,686,710</u>	<u>\$ 723,223</u>	<u>\$ 3,409,933</u>

**Business-type Activities**

Year ended			
31-Dec	Principal	Interest	Total
2011	164,706	62,879	227,585
2012	172,751	56,974	229,725
2013	175,881	50,860	226,741
2014	184,098	44,471	228,569
2015	192,404	37,677	230,081
2016-2020	894,915	84,669	979,584
2021	144,260	2,002	146,262
Totals	<u>\$ 1,929,015</u>	<u>\$ 339,532</u>	<u>\$ 2,268,547</u>

**Note 4c – Interfund receivables/payables and operating transfers**

The following is a schedule of interfund receivables/payables in the fund financial statements:

	Amount
<b>Governmental Funds:</b>	
General fund receivable from Enterprise funds for operations	\$ 47,340
General fund payable to TIF districts for operations & tax roll	(451,371)
TIF district receivable from General Fund for tax roll/operations	451,371
<b>Total Governmental Fund Receivable/Payable</b>	<b>\$47,340</b>
<b>Business-type Funds:</b>	
Water/sewer fund payable to General fund for operations	(47,340)
<b>Total Business-type Fund Receivable/Payable</b>	<b>\$(47,340)</b>

For the Statement of Net Assets interfund balances which are owed within the governmental activities funds or business-type activities funds are eliminated.

Balance owed between the governmental activities funds and the business-type activities funds are reported in the Statement of Net Assets and include:

	Amount
<b>Governmental Activities</b>	Due (Owed)
General Fund	\$47,340
<b>Total</b>	<b>\$47,340</b>
<b>Business-type Activities</b>	
Water/sewer Fund	(47,340)
<b>Total</b>	<b>\$(47,340)</b>

Operating transfers – transfers are used to: 1) move unrestricted revenues collected in the general fund to finance various programs accounted for in the other funds in accordance with budgetary authorizations and 2) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them.

Operating transfers between funds during 2010 were as follows:

<b>Operating Transfers Out</b>	<b>Operating Transfers In</b>
General Fund	Recycling Fund
\$40,211	(40,211)

**Note 4d – Contributions to pension plan**

All eligible employees of the City participate in the Wisconsin Retirement System ("WRS"), a cost-sharing, multiple-employer, defined benefit, public employee retirement system. All permanent employees expected to work over 600 hours a year (non-teachers) and 440 hours a year (teachers) are eligible to participate in the WRS. Covered employees in the General/Teacher/Educational Support Personnel 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 the City covered employees covered by the WRS for the year ended December 31, 2010 was \$772,452; the employer's total payroll was \$871,965. The total required contributions for the year ended December 31, 2010 was \$105,171 which consisted of \$59,314 or 7.7% of payroll from the employer and \$45,857, or 5.9% of payroll from employees. Total contributions for the years ending December 31, 2009 and 2008 were \$108,232 and \$115,472 respectively, equal to the required contributions for each year.

Employees who retire at or after 65 are entitled to receive a retirement benefit. Employees may retire at age 55 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 of earnings. Employees terminating covered employment before becoming eligible for a retirement benefit may withdraw their contributions and, by doing so, forfeit all rights to any subsequent benefit. For employees beginning participation on or after 1/1/90, and no longer actively employed on or after April 24,

contributions and, by doing so, forfeit all rights to any subsequent benefit. For employees beginning participation on or after 1/1/90, and no longer actively employed on or after April 24, 1998, creditable service in each of five years is required for eligibility for retirement benefits. 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 for and the amount of all benefits is determined under Chapter 40 of the State Statutes.

The WRS issues an annual financial report which may be obtained by writing to the Department of Employee Trust Funds, P.O. Box 7931, Madison, WI 53707-7931.

**Note 4e – Unfunded Pension Liability**

The City’s unfunded pension liability of \$79,398 on December 31, 2010 is an actuarially computed liability by the Wisconsin Retirement System (System) resulting from increases in employee pension benefits that exceeded actual prior years’ contributions by the City to the System. The liability was originally calculated by the System as of January 1, 1990. Since that time, the City has been making additional monthly payments to the System in order to amortize the liability over a 40 year period. In addition, the City is charged 7.8% interest per year on the unpaid balance. As a result, the outstanding balance of the liability may increase annually if payments made by the City to the System are less than the interest charged. The Systems 40 year amortization schedule from 1990 anticipates that the unfunded pension liability will not be reduced annually for approximately the first 20 years of the schedule. Additional information on the Wisconsin Retirement System is provided in Note 4d.

**Note 4f – Debt Covenants**

As part of the Clean Water Fund loan issued by the State of Wisconsin Environmental Improvement fund the City deposits an predetermined amount to a reserved cash account each year. The current balance in the reserve is \$236,593, which is an amount sufficient to ensure compliance with the debt covenant.

**Note 4g – 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. The City maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the City. Settled claims have not exceeded insurance coverage in any of the last three years. There were no significant reductions in coverage compared to the prior year.

**Note 5 – OTHER NOTE DISCLOSURES**

**Note 5a – Fund balances**

Portions of fund balances are reserved and are not available for current appropriation for expenditure as follows:

CDBG Housing Rehab project	\$31,881
TIF District project costs	384,190

**Note 5b – Excess of actual expenditure over budget**

The following functions had an excess of actual expenditures over budget for the year ending December 31, 2010:

<u>General Fund</u>	<u>Excess Expenditure</u>
Public Safety	\$ 46,709
Culture and recreation	6,341
Conservation & development	2,126
Debt service	16,990
Capital outlay	41,198

**Note 5c – Contingencies and commitments**

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

The City participates in a number of state and federally assisted grant programs. These programs are subject to program compliance audits by grantors or their representatives. The audits of these programs for or including the year ended December 31, 2010 have not been conducted. Accordingly, the City's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

Funding for the operating budget of the City comes from many sources, including property taxes, grants and aids from other units of government, user fees, fines and permits, and other miscellaneous revenues. The State of Wisconsin provides a variety of aid and grant programs which benefit the City. Those aid and grant programs are dependent on continued approval and funding by the Wisconsin governor and legislature, through their budget processes. The State of Wisconsin is currently experiencing budget problems, and is considering numerous alternatives including reducing aid to local governments. Any changes made by the State to funding or eligibility of local aid programs could have a significant impact on the future operating results of the City.

City of Phillips, Wisconsin

Required Supplementary Information

City of Phillips, Wisconsin  
Statement of Revenues, Expenditures and Changes in Fund Balance  
Budget and Actual  
General Fund  
For the Year Ended December 31, 2010

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
<b>Revenues:</b>				
Property tax	\$ 744,260	\$ 744,260	760,216	\$ 15,956
Other tax	10,000	10,000	9,012	(988)
Intergovernmental aid	693,924	710,771	699,290	(11,481)
Licenses and permits	8,800	8,800	10,499	1,699
Fines, forfeits and penalties	19,200	19,200	15,111	(4,089)
Public charge for service	204,727	204,727	222,636	17,909
Intergovernmental charge for service	54,671	54,671	57,611	2,940
Miscellaneous revenues	61,000	61,000	86,028	25,028
Total revenues	<u>1,796,582</u>	<u>1,813,429</u>	<u>1,860,403</u>	<u>46,974</u>
<b>Expenditures:</b>				
Current:				
General government	232,485	232,485	180,297	52,188
Public Safety	556,470	573,317	620,026	(46,709)
Public Works	351,658	351,658	284,469	67,189
Health and human services	46,519	46,519	22,320	24,199
Culture, recreation and education	376,797	376,797	383,138	(6,341)
Conservation and development	650	650	2,776	(2,126)
Total Current	<u>1,564,579</u>	<u>1,581,426</u>	<u>1,493,026</u>	<u>88,400</u>
<b>Debt Service:</b>				
Principal	130,663	130,663	92,896	37,767
Interest	-	-	54,757	(54,757)
Total Debt service	<u>130,663</u>	<u>130,663</u>	<u>147,653</u>	<u>(16,990)</u>
Capital Expenditures	-	-	41,198	(41,198)
Total Expenditures	<u>1,695,242</u>	<u>1,712,089</u>	<u>1,681,877</u>	<u>30,212</u>
Excess of revenue over(under) expenditures	101,340	101,340	178,526	77,186
<b>Other Financing Sources (Uses):</b>				
Other sources	350	350	-	(350)
Other uses	(74,250)	(74,250)	(33,251)	40,999
Transfer to other funds	-	-	(40,211)	(40,211)
Total Other Sources(Uses)	<u>(73,900)</u>	<u>(73,900)</u>	<u>(73,462)</u>	<u>438</u>
Net change in fund balance	27,440	27,440	105,064	77,624
Fund balance, beginning of year	1,255,933	1,255,933	1,255,933	-
Fund balance, end of year	<u>\$ 1,283,373</u>	<u>\$ 1,283,373</u>	<u>\$ 1,360,997</u>	<u>\$ 77,624</u>

City of Phillips, Wisconsin  
 Comparative Statement of Revenues, Expenditures and Changes in Fund Balance  
 Budget and Actual  
 Community Development Block Grant Fund  
 For the Year Ended December 31, 2010

	Original & Final Budget	2010 Actual	Variance
<b>Revenues:</b>			
Miscellaneous revenues	\$ -	\$ 24,310	24,310
Total revenues	<u>-</u>	<u>24,310</u>	<u>24,310</u>
<b>Expenditures:</b>			
Current:			
Conservation and development	1,000	-	1,000
Total Current	<u>1,000</u>	<u>-</u>	<u>1,000</u>
Total Expenditures	<u>1,000</u>	<u>-</u>	<u>1,000</u>
Excess of revenue over(under) expenditures	(1,000)	24,310	25,310
Net change in fund balance	(1,000)	24,310	25,310
Fund balance, beginning of year	7,571	7,571	15,142
Fund balance, end of year	<u>\$6,571</u>	<u>\$ 31,881</u>	<u>\$ 40,452</u>

City of Phillips, Wisconsin  
 Comparative Statement of Revenues, Expenditures and Changes in Fund Balance  
 Budget and Actual  
 TIF District No. 3 Fund  
 For the Year Ended December 31, 2010

	Original & Final Budget	2010 Actual	Variance
<b>Revenues:</b>			
Property tax	\$ 74,950	\$ 36,028	(38,922)
Other tax			
Intergovernmental aid	-	374	\$ 374
Miscellaneous revenues	-	1,073	1,073
<b>Total revenues</b>	<u>74,950</u>	<u>37,475</u>	<u>(37,475)</u>
<b>Expenditures:</b>			
<b>Current:</b>			
Public Works	35,100	-	35,100
Conservation and development	-	6,904	(6,904)
<b>Total Current</b>	<u>35,100</u>	<u>6,904</u>	<u>28,196</u>
<b>Debt Service:</b>			
Interest	-	24,039	(24,039)
<b>Total Debt service</b>	<u>-</u>	<u>24,039</u>	<u>(24,039)</u>
<b>Total Expenditures</b>	<u>35,100</u>	<u>30,943</u>	<u>4,157</u>
<b>Excess of revenue over(under) expenditures</b>	39,850	6,532	(33,318)
<b>Net change in fund balance</b>	39,850	6,532	(33,318)
Fund balance, beginning of year, restated	(710,888)	(710,888)	-
<b>Fund balance, end of year</b>	<u><u>\$ (671,038)</u></u>	<u><u>\$ (704,356)</u></u>	<u><u>\$ (33,318)</u></u>

City of Phillips, Wisconsin  
Comparative Statement of Revenues, Expenditures and Changes in Fund Balance  
Budget and Actual  
TIF District No. 4  
For the Year Ended December 31, 2010

	Original & Final Budget	2010 Actual	Variance
<b>Revenues:</b>			
Property tax	\$ 342,600	\$ 360,440	17,840
Intergovernmental aid	-	2,745	2,745
Miscellaneous revenues	-	5,067	\$ 5,067
<b>Total revenues</b>	<u>342,600</u>	<u>368,252</u>	<u>25,652</u>
<b>Expenditures:</b>			
<b>Debt Service:</b>			
Principal	164,129	123,645	40,484
Interest	-	38,208	(38,208)
Other debt service	-	32,148	(32,148)
<b>Total Debt service</b>	<u>164,129</u>	<u>194,001</u>	<u>(29,872)</u>
Capital Expenditures	-	298,175	(298,175)
<b>Total Expenditures</b>	<u>164,129</u>	<u>492,176</u>	<u>(328,047)</u>
<b>Excess of revenue over(under) expenditures</b>	<b>178,471</b>	<b>(123,924)</b>	<b>(302,395)</b>
<b>Other Financing Sources (Uses):</b>			
Debt proceeds	-	1,180,000	1,180,000
<b>Total Other Sources(Uses)</b>	<u>-</u>	<u>1,180,000</u>	<u>1,180,000</u>
<b>Net change in fund balance</b>	<b>178,471</b>	<b>1,056,076</b>	<b>877,605</b>
Fund balance, beginning of year, restated	91,861	91,861	-
<b>Fund balance, end of year</b>	<u><b>\$ 270,332</b></u>	<u><b>\$ 1,147,937</b></u>	<u><b>\$ 877,605</b></u>

City of Phillips, Wisconsin  
Notes to Required Supplementary Information  
On Budgetary Accounting and Control  
Year Ending December 31, 2010

Budgets are adopted each fiscal year for all funds legally required to be budgeted. The legally adopted budget and budgetary expenditure control is exercised at the function level for all funds. Reported budget amounts are as originally adopted or as amended by City Council resolution.

The City follows these procedures in establishing the budgetary data reflected in the financial statements.

- Based upon requests from staff, administration recommends budget proposals to the City Council.
- The City Council prepares a proposed budget including proposed expenditures and the means of financing them for the January 1 through December 31 year.
- A public notice is published containing a summary of the budget and identifying the time and place where a public hearing will be held on the proposed budget.
- Pursuant to the public budget hearing, the City Council may alter the proposed budget.
- After the City Council (following the public hearing) adopts the budget, no changes may be made in the amount of tax to be levied or in the amount of the various appropriations and the purposed of such appropriations unless authorized by a 2/3 vote of the entire Council.
- Appropriations lapse at year-end unless authorized as a carryover by the City Council. The portion of fund balance representing carryover appropriations is reported as a reserve of fund balance.

City of Phillips, Wisconsin

Other Supplementary Information

City of Phillips, Wisconsin  
Combining Balance Sheet  
Nonmajor Governmental Funds  
As of December 31, 2010

	<u>Special Revenue</u>	<u>Capital Projects</u>	
	Recycling Fund	TIF District No. 2	Total Nonmajor Govt Funds
<b>Assets</b>			
Due from other funds	(163)	12,544	12,381
Restricted cash	163	(10,121)	(9,958)
<b>Total Assets</b>	<u>\$ -</u>	<u>\$ 2,423</u>	<u>\$ 2,423</u>
<b>Liabilities and Fund Balance</b>			
<b>Liabilities</b>			
Due to other funds	-	2,201	2,201
Deferred revenues	-	12,544	12,544
Advance from other funds	-	47,069	47,069
<b>Total Liabilities</b>	<u>-</u>	<u>61,814</u>	<u>61,814</u>
<b>Fund Balance</b>			
Reserved	-	(59,391)	(59,391)
<b>Total Fund Balance</b>	<u>-</u>	<u>(59,391)</u>	<u>(59,391)</u>
<b>Total Liabilities and Fund Balance</b>	<u>\$ -</u>	<u>\$ 2,423</u>	<u>\$ 2,423</u>

City of Phillips, Wisconsin  
Combining Statement of Revenues, Expenditures and Changes in Fund Balance  
Nonmajor Governmental Funds  
For the Year Ended December 31, 2010

	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Total</u>
	<u>Recycling Fund</u>	<u>TIF District No. 2</u>	<u>Nonmajor Govt Funds</u>
Revenues:			
Property tax	\$ -	\$ 11,417	\$ 11,417
Intergovernmental aid	13,719	-	13,719
Miscellaneous revenues	124	36	160
Total revenues	<u>13,843</u>	<u>11,453</u>	<u>25,296</u>
Expenditures:			
Current:			
Public Works	54,054	-	54,054
Conservation and development	-	20,988	20,988
Total Current	<u>54,054</u>	<u>20,988</u>	<u>75,042</u>
Debt Service:			
Interest	-	1,448	1,448
Total Debt service	<u>-</u>	<u>1,448</u>	<u>1,448</u>
Total Expenditures	<u>54,054</u>	<u>22,436</u>	<u>76,490</u>
Excess of revenue over(under) expenditures	<u>(40,211)</u>	<u>(10,983)</u>	<u>(51,194)</u>
Other Financing Sources (Uses):			
Transfer (from) to other funds	40,211	-	40,211
Total Other Sources(Uses)	<u>40,211</u>	<u>-</u>	<u>40,211</u>
Net change in fund balance	-	(10,983)	(10,983)
Fund balance, beginning of year	-	(48,408)	(48,408)
Fund balance, end of year	<u>\$ -</u>	<u>\$ (59,391)</u>	<u>\$ (59,391)</u>

# EAGLE AUDIT & ACCOUNTING, LLC

CERTIFIED PUBLIC ACCOUNTANTS

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

City Council  
City of Phillips  
Phillips, Wisconsin

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Phillips, WI ("City") as of and for the year ended December 31, 2010, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 1, 2011. 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

*A deficiency in internal control* 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 *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying

schedule of findings and responses as 10-01 through 10-03 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's 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*.

We noted certain matters that we reported to management of the City in a separate letter dated June 1, 2010.

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the City Council and management and is not intended to be, and should not be, used by anyone other than these interested parties.



Eagle Audit & Accounting, LLC  
Certified Public Accountants

June 1, 2011  
Park Falls, Wisconsin

**City of Phillips, WI**  
**Schedule of Findings and Responses**  
**For the Year Ended December 31, 2010**

**Section 1 - Summary of Auditor's Results**

**Financial Statements**

	Yes	No	
Type of auditors' report issued			Unqualified
Internal control over financial reporting:			
Material weakness(es) identified?	X		
Significant deficiency(ies) identified that are not considered to be material weaknesses?		None reported	
Noncompliance material to the financial statements		None reported	

**Section 2 - Financial Statement Findings**

**Finding 2010-01: Segregation of Duties**

**Criteria:** It is the responsibility of management to establish proper internal controls over financial reporting, of which an important part is proper segregation of duties among finance personnel.

**Condition:** The size of the office staff precludes a proper segregation of functions to assure adequate internal control.

**Questioned Costs:** N/A

**Effect:** Information provided to management throughout the year may be incorrect due to errors and/or inconsistencies due to the concentration of duties and responsibilities in a single or limited number of individuals.

**Recommendation:** Although this is not unusual in entities of your size, administration and the Board should continue to be aware of this situation and to realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable for an effective system of internal control. Under these conditions, the most effective controls lie in the Board's knowledge of matters relating to the City's operations.

**View of Responsible Officials:** Management concurs with the finding and has determined that the economic cost of addressing this issue out weighs the benefits at this time.

**Finding 2010-02: Financial Statement Reporting**

**Criteria:** It is the responsibility of management to prepare a complete set of financial statements, including footnotes, in accordance with accounting principles generally accepted in the United States of America.

**Condition:** Management has not prepared a complete set of financial statements in accordance with GAAP.

**Questioned Costs:** N/A

**Effect:** This weakness could result in the possibility of undetected errors or irregularities.

**Recommendation:** Management should determine if the benefits achieved by resolving this internal control deficiency warrants the additional costs that would be required to remedy the deficiency.

**City Response:** Management concurs with the finding and has determined that the economic cost of addressing this issue outweighs the benefits at this time.

### **Finding 2010-03: Audit Adjustments**

**Criteria:** Management is responsible for analyzing all accounts and posting all yearend adjusting entries to the general ledger before transferring the trial balance to the auditors.

**Condition:** Adjustments of significant account balances and closing entries are not being prepared and entered by City finance personnel.

**Questioned Costs:** N/A

**Effect:** Information provided to management throughout the year may not be presented in accordance with generally accepted accounting principles.

**Recommendation:** Procedures for timely reconciliation, adjustment and closing should be developed and implemented by City finance staff.

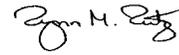
**City Response:** Management concurs with the finding and will direct implementation of policies and procedures.

### **Section 3 – Other Issues**

	Yes	No
Does the auditor's report or the notes to the financial statements include disclosure with regard to substantial doubt as to the auditee's ability to continue as a going concern?		X
Does the audit report show audit issues (i.e., material non-compliance, non-material non-compliance, questioned costs, material weakness, significant deficiency, management letter comment, excess revenue or excess reserve) related to grants/contracts with funding agencies that require audits to be in		

accordance with <i>State Single Audit Guidelines</i> :		X
Was a Management Letter or other document conveying audit comments issued as a result of this audit	X	

Name and signature of partner: Lynn M. Lutz, CPA



Date of report

June 1, 2011

City of Phillips, WI  
Status of Prior Year Audit Findings  
And Corrective Action Plan

For the Year Ending December 31, 2010

**09-1 Lack of Segregation of Duties**

Management and the Board are aware of the situation and will continue to oversee the financial matters of the City with this in mind.

**09-2 Preparation of Financial Statements** – no action expected

**09-3 Audit Adjustments** – Management has not taken the corrective action as stated in the prior year audit.

**Corrective Action Plan**

**10-01** Lack of Segregation of Duties – as above

**10-02** Preparation of Financial Statements – no action expected

**10-03** Audit Adjustments – Procedures will be established to ensure that all account balances are adjusted on a timely basis and closing entries are made by finance staff before the time of the audit.

# EAGLE AUDIT & ACCOUNTING, LLC

## CERTIFIED PUBLIC ACCOUNTANTS

To the City Council  
City of Phillips, WI

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Phillips, WI for the year ended December 31, 2010, and have issued our report thereon dated June 1, 2011. Professional standards require that we provide you with the following information related to our audit.

### Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

### Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you.

### Significant Audit Findings

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements. The City adopted ASC Topic 855, *Subsequent Events*, during the fiscal year ending 12/31/10, see Note 1 for a complete discussion. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the depreciation expense is based on straight line depreciation using standard lives per the capitalization policy for the governmental fixed assets and WI Public Service Commission rates for the Water & Sewer utilities. We evaluated the key factors and assumptions used to develop depreciation expense in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear.

### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, multiple misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

### *Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated June 1, 2011.

### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### *Other Audit Findings or Issues*

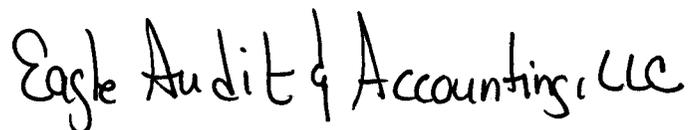
We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### Multiple Material Audit Adjustments

As mentioned in the Schedule of Findings and Responses we again this year had multiple material audit adjustments. Last year management's response and corrective action plan for the same finding was that procedures would be implemented to correct this finding. Improvement has been noted but many material adjustments were necessary again this year. We suggest that management address this continuing issue.

This information is intended solely for the use of the Phillips City Council and management of the City of Phillips, WI and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,



Eagle Audit & Accounting, LLC  
Certified Public Accountants

Park Falls, Wisconsin  
June 1, 2011