

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

December 31, 2011

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

City of Phillips, WI

Report on Basic Financial Statements
With Supplemental Information

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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, 2011, 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, 2011, 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 April 10, 2012 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 management's discussion and analysis, and budgetary comparison information on pages 3 and 15 respectively, are not a required part of the basic financial statements but are 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

April 10, 2012
Park Falls, Wisconsin

**City of Phillips, Wisconsin
Management's Discussion and Analysis
For the Year Ended December 31, 2011**

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 \$2,405,574; including \$1,265,010 of property taxes, \$580,261 of general state aid, and \$471,518 of charges for services and operating grants. Total governmental funds expenditures were \$1,931,432. The City reduced the amount of prior outstanding general obligation debt by \$19,803.

Total business-type activity fund revenues were \$733,321; including \$730,556 of user fees. Total business-type activity expenditures were \$807,879. The City reduced the amount of prior outstanding business-type debt by \$164,706.

The City's financial status, as reflected in total net assets, increased by \$399,584. Net assets of governmental activities due to operations increased by \$474,142 and business-type activities (water/sewer) decreased by \$74,558.

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, 2011**

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*, *proprietary* 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 statement is on page 15 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, 2011**

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

	Fund Financial Statements			
	Government-Wide Statements	Governmental	Proprietary	Fiduciary
Scope	Entire City (except fiduciary funds).	The activities of the City that are not proprietary or fiduciary, such as general govt., 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.
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities. 	<ul style="list-style-type: none"> • Balance Sheet • Statement of revenues, expenditures and changes in fund balance. 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and change in net assets • Statement of cash flows. 	<ul style="list-style-type: none"> • Statement of fiduciary net assets
Basis of accounting and measurement focus	Accrual accounting. Economic resources focus.	Modified accrual accounting. Current financial resources focus.	Accrual accounting. Economic resources focus.	Accrual accounting. Economic resources focus.
Type of asset and liability information	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.
Type of inflow and outflow information	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, 2011**

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, 2011 compared to 2010.

	Governmental Activities		Business-Type Activities		Total Municipality		%
	2011	2010	2011	2010	2011	2010	Change 2011
Current and other assets	\$ 3,915.4	\$ 3,976.8	\$ 556.9	\$ 563.6	\$ 4,472.3	\$ 4,540.4	-1.5%
Capital assets	4,013.3	3,758.3	6,116.5	6,344.6	\$ 10,129.8	10,102.9	0.3%
Total assets	7,928.7	7,735.2	6,673.4	6,908.1	14,602.1	14,643.3	-0.3%
L-T debt outstanding	2,752.0	2,783.1	1,764.3	1,929.0	4,516.3	4,712.1	-4.2%
Other liabilities	1,999.6	2,249.1	306.5	302.0	2,306.2	2,551.1	-9.6%
Total liabilities	4,751.6	5,032.2	2,070.8	2,231.0	6,822.4	7,263.2	-6.1%
Net assets							
Invested in capital assets, net of related debt	1,346.4	1,071.6	4,352.2	4,415.5	5,698.6	5,487.2	3.9%
Restricted	548.8	416.1	236.6	236.6	785.4	652.7	20.3%
Unrestricted	1,281.9	1,215.3	13.8	25.0	1,295.7	1,240.3	4.5%
Total net assets	\$ 3,177.1	\$ 2,703.0	\$ 4,602.6	\$ 4,677.1	\$ 7,779.7	\$ 7,380.1	5.4%

Note: totals may not add due to rounding

In governmental activities, total assets increased \$193,550 including an increase in capital assets, net increase in capital assets was \$255,495. 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 poor to good condition. The City purchased a new squad and some of the street equipment has been 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, 2011**

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, 2011 compared to 2010.

	Governmental Activities		Business-Type Activities		Total Municipality	
	2011	2010	2011	2010	2011	2010
Revenues:						
Program revenues						
Charge for services	\$ 328.6	\$ 305.9	\$ 730.6	\$ 706.8	\$ 1,059.2	\$ 1,012.7
Operating grants	142.9	141.6	-	-	142.9	141.6
General revenues						
Property taxes	1,265.0	1,177.1	-	-	1,265.0	1,177.1
State & federal aid	580.3	574.5	-	-	580.3	574.5
Other	88.8	116.6	2.8	2.9	91.6	119.5
Total revenues	2,405.6	2,315.7	733.3	709.7	3,138.9	3,025.4
Expenses:						
General government	212.9	204.5	-	-	212.9	204.5
Public safety	688.8	666.0	-	-	688.8	666.0
Public works	395.4	385.3	-	-	395.4	385.3
Health/human services	16.2	22.5	-	-	16.2	22.5
Culture/recreation	401.8	424.4	-	-	401.8	424.4
Conservation/develop	34.7	33.1	-	-	34.7	33.1
Business-type activity	-	-	807.9	801.0	807.9	801.0
Debt service	142.8	181.8	-	-	142.8	181.8
Depreciation, unallocated	-	-	-	-	-	-
Other uses	38.9	33.3	-	-	38.9	33.3
Total expenses	1,931.4	1,950.9	807.9	801.0	2,739.3	2,751.9
Change in net assets						
from operations	474.1	364.9	(74.6)	(91.3)	399.6	273.5
Net special/extraordinary	-	4.5	-	-	-	4.5
Change in net assets	\$ 474.1	\$ 369.4	\$ (74.6)	\$ (91.3)	\$ 399.6	\$ 278.1

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 \$74,558, \$16,775 less than last year. The difference is attributable mainly to an increase in industrial business offset by a decrease in some commercial businesses and an increase in user fees.

**City of Phillips, Wisconsin
Management's Discussion and Analysis
For the Year Ended December 31, 2011**

- Charges for services, which are amounts paid by customers of the water/sewer utility, increased \$23,736 from \$706,820.
- The water and sewer utility acquired new fixed assets in the amount of \$46,219.

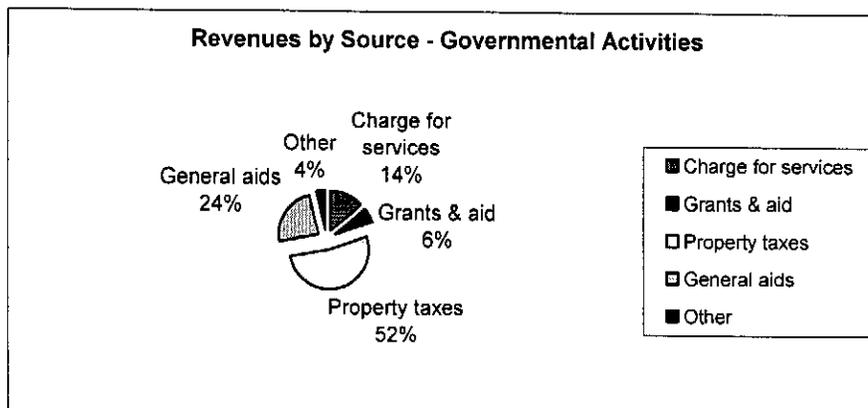
Governmental Activities

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, 2011 compared to 2010.

	Total Cost of Services		Net Cost of Services		Net Cost Percentage Change
	2011	2010	2011	2010	
General Government	\$ 212.9	\$ 204.5	\$ 212.9	\$ 195.4	8.9%
Public Safety	688.8	666.0	554.0	560.3	-1.1%
Public Works	395.4	385.3	222.1	220.8	0.6%
Health & human services	16.2	22.5	7.9	13.1	-39.9%
Culture & recreation	401.8	424.4	246.6	265.6	-7.1%
Conservation & develop	34.7	33.1	34.7	33.1	4.9%
Debt service	142.8	181.8	142.8	181.8	-21.5%
Other	38.9	33.3	38.9	33.3	
Total	\$ 1,931.4	\$ 1,950.9	\$ 1,459.9	\$ 1,503.4	-2.9%

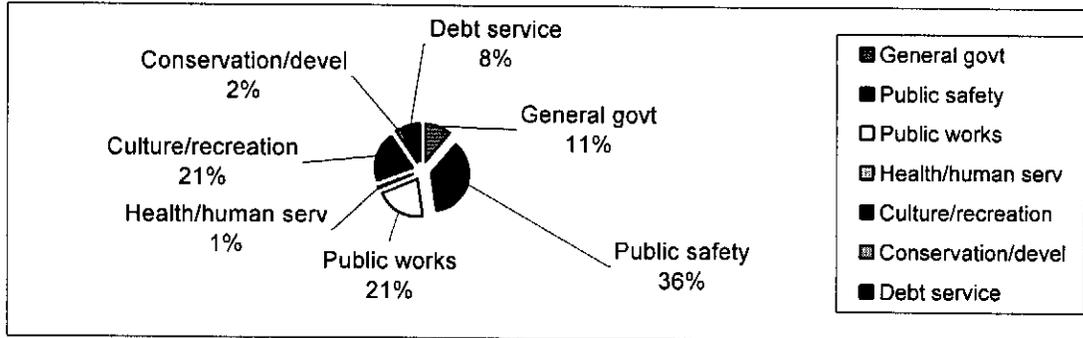
Note: totals may not add due to rounding

Revenues by Source – the chart below shows the various sources of revenue by source for the year ending December 31, 2011.



**City of Phillips, Wisconsin
Management's Discussion and Analysis
For the Year Ended December 31, 2011**

Expenditures by Function – the chart below shows the various governmental activities expenditures by function for the year ending December 31, 2011.



General Fund Budgetary Highlights

In the General Fund resources available for appropriation were \$11,106 above the final budgeted amounts. Actual expenditures in the General Fund netted \$120,797 under the final budget amount for an overall budget excess of \$131,903.

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, 2010 to December 31, 2011.

Table 1
Condensed Statement of Net Assets
(in thousands of dollars)

	Governmental Activities		Business-Type Activities		Total Municipality		% Change 2011
	2011	2010	2011	2010	2011	2010	
Current and other assets	\$ 3,915.4	\$ 3,976.8	\$ 556.9	\$ 563.6	\$ 4,472.3	\$ 4,540.4	-1.5%
Capital assets	4,013.3	3,758.3	6,116.5	6,344.6	10,129.8	10,102.9	0.3%
Total assets	7,928.7	7,735.2	6,673.4	6,908.1	14,602.1	14,643.3	-0.3%
L-T debt outstanding	2,752.0	2,783.1	1,764.3	1,929.0	4,516.3	4,712.1	-4.2%
Other liabilities	1,999.6	2,249.1	306.5	302.0	2,306.2	2,551.1	-9.6%
Total liabilities	4,751.6	5,032.2	2,070.8	2,231.0	6,822.4	7,263.2	-6.1%
Net assets							
Invested in capital assets, net of related debt	1,346.4	1,071.6	4,352.2	4,415.5	5,698.6	5,487.2	3.9%
Restricted	548.8	416.1	236.6	236.6	785.4	652.7	20.3%
Unrestricted	1,281.9	1,215.3	13.8	25.0	1,295.7	1,240.3	4.5%
Total net assets	\$ 3,177.1	\$ 2,703.0	\$ 4,602.6	\$ 4,677.1	\$ 7,779.7	\$ 7,380.1	5.4%

Note: totals may not add due to rounding

**City of Phillips, Wisconsin
Management's Discussion and Analysis
For the Year Ended December 31, 2011**

Long – Term Debt – Table 5 below show the change in long-term obligations for the total municipality from December 31, 2010 to December 31, 2011.

	Total Municipality		Total % Change
	2011	2010	2011
	General obligation debt	\$ 2,666.9	\$ 2,686.7
Other	1,849.4	2,025.4	-8.7%
Total	\$ 4,516.3	\$ 4,712.1	-4.2%

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 Department of Public Works has purchased some new equipment. However, the City still needs to update some of the other street equipment in the future.

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, 2011**

	Governmental Activities	Business-type Activities	Total
Assets			
Current assets:			
Cash and investments	\$ 773,403	91,380	\$ 864,783
Receivables	1,539,299	172,503	1,711,802
Internal receivables	72,262	-	72,262
Restricted cash	1,530,427	236,593	1,767,020
Inventories and prepaid items	-	8,063	8,063
Advance to other funds	-	48,375	48,375
Total current assets	3,915,391	556,914	4,472,305
Noncurrent assets:			
Other Noncurrent assets:			
Unamortized bond discount, net	6,551	-	6,551
Plant, property and equipment			
Land	317,065	21,490	338,555
Construction in progress	873,248	49,837	923,085
Site improvements	-	5,281,013	5,281,013
Buildings and building improvements	2,672,911	667,986	3,340,897
Furniture and equipment	2,144,042	4,164,786	6,308,828
Infrastructure- Road network	540,318	-	540,318
Less: Accumulated depreciation	(2,540,797)	(4,068,608)	(6,609,405)
Net Plant, property & equipment	4,006,787	6,116,504	10,123,291
Total noncurrent assets	4,013,338	6,116,504	10,129,842
Total assets	7,928,729	6,673,418	14,602,147
Liabilities			
Current liabilities:			
Short-term notes payable	-	-	-
Payables:			
Accounts	30,653	4,762	35,415
Accrued payroll & related items	27,121	-	27,121
Accrued interest	32,285	17,146	49,431
Internal payables	-	72,262	72,262
Deferred revenue	1,861,194	212,364	2,073,558
Current portion of long-term obligations	339,689	172,751	512,440
Advance to other funds	48,374	-	48,374
Total current liabilities	2,339,316	479,285	2,818,601
Noncurrent liabilities:			
Noncurrent portion of long-term obligations	2,412,280	1,591,558	4,003,838
Total non-current liabilities	2,412,280	1,591,558	4,003,838
Total liabilities	4,751,596	2,070,843	6,822,439
Net Assets			
Invested in capital assets, net of related debt	1,346,431	4,352,195	5,698,626
Restricted:			
TIF districts	528,640		528,640
CDBG Housing project	20,146		20,146
Water/sewer loan covenant		236,593	236,593
Unrestricted:	1,281,916	13,787	1,295,703
Total net assets	3,177,133	4,602,575	7,779,708
Total liabilities and net assets	\$ 7,928,729	\$ 6,673,418	\$ 14,602,147

See accompanying notes to basic financial statements.

**City of Phillips, Wisconsin
Statement of Activities
For the Year ended December 31, 2011**

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
Governmental activities:						
General government	212,881	-	-	(212,881)		(212,881)
Public Safety	688,755	123,831	10,933	(553,991)		(553,991)
Public Works	395,446	41,337	131,977	(222,132)		(222,132)
Health and human services	16,167	8,275	-	(7,892)		(7,892)
Culture, recreation and education	401,802	155,165	-	(246,637)		(246,637)
Conservation and development	34,715	-	-	(34,715)		(34,715)
Debt service	142,762	-	-	(142,762)		(142,762)
Other uses	38,904	-	-	(38,904)		(38,904)
Total governmental activities	1,931,432	328,608	142,910	(1,459,914)		(1,459,914)
Business-type activities:						
Water/sewer utility	807,879	730,556	-		(77,323)	(77,323)
Total Business-type activities	807,879	730,556	-		(77,323)	(77,323)
Total municipality	\$2,739,311	\$1,059,164	\$ 142,910	\$(1,459,914)	\$ (77,323)	\$(1,537,237)
General revenues:						
Property taxes:						
General purposes				805,909		805,909
Debt services				459,101		459,101
State and federal aids not restricted to specific functions:						
				580,261		580,261
Interest and investment earnings				45,590	2,765	48,355
Miscellaneous				43,195	-	43,195
Total general revenues				1,934,056	2,765	1,936,821
Change in net assets				474,142	(74,558)	399,584
Net assets - beginning of year				2,702,991	4,677,133	7,380,124
Net assets - end of year				\$ 3,177,133	\$4,602,575	\$ 7,779,708

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, 2011

	General Fund	CDBG Fund	TIF District No. 3	TIF District No. 4	Other Nonmajor Govt Funds	Total Governmental Funds
Assets						
Cash and Investments	\$ 773,403				\$ -	\$ 773,403
Receivables:						
Taxes receivable	897,136	-	-	-	-	897,136
Other receivables	-	642,163	-	-	-	642,163
Due from other funds	(77,740)		43,759	554,767	13,191	533,977
Restricted cash	-	20,145	198,170	1,309,649	2,463	1,530,427
Advance to other funds	1,087,360	-	-	-	-	1,087,360
Total Assets	<u>2,680,159</u>	<u>662,308</u>	<u>241,929</u>	<u>1,864,416</u>	<u>15,654</u>	<u>5,464,466</u>
Liabilities and Fund Balance						
Liabilities						
Accounts payable	30,653	-	-	-	-	30,653
Accrued payroll and related items	27,121	-	-	-	-	27,121
Due to other funds	457,826	-	158,281	(156,743)	2,351	461,715
Deferred revenues	765,296	642,162	43,759	396,786	13,191	1,861,194
Advance from other funds	-	-	733,766	353,451	48,517	1,135,734
Total Liabilities	<u>1,280,896</u>	<u>642,162</u>	<u>935,806</u>	<u>593,494</u>	<u>64,059</u>	<u>3,516,417</u>
Fund Balances						
Restricted:						
TIF district projects	-		(693,877)	1,270,922	(48,405)	528,640
CDBG loans	-	20,146	-	-	-	20,146
Unassigned	1,399,263	-	-	-	-	1,399,263
Total Fund Balances	<u>1,399,263</u>	<u>20,146</u>	<u>(693,877)</u>	<u>1,270,922</u>	<u>(48,405)</u>	<u>1,948,049</u>
Total Liabilities and Fund Balance	<u>\$ 2,680,159</u>	<u>\$ 662,308</u>	<u>\$ 241,929</u>	<u>\$ 1,864,416</u>	<u>\$ 15,654</u>	<u>\$ 5,464,466</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, 2011**

Total fund balance reported on government funds balance sheet	1,948,049
 Amounts reported for <i>governmental activities</i> in the statement of net assets are different because:	
Unamortized bond discount, net	6,551
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:	4,006,787
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	\$ (2,666,907)
Vested employee benefits	\$ (85,062)
Accrued interest on general obligation debt	(32,285)
	\$ (2,784,254)
Total net assets - governmental activities	3,177,133

City of Phillips, Wisconsin
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
For the Year Ended December 31, 2011

	General Fund	CDBG Fund	TIF District No. 3	TIF District No. 4	Other Nonmajor Funds	Total Governmental Funds
Revenues:						
Property tax	\$ 799,542	\$ -	\$ 39,958	\$ 406,599	\$ 12,544	\$ 1,258,643
Other tax	6,367	-	-	-	-	6,367
Intergovernmental aid	720,491	-	638	2,042	-	723,171
Licenses and permits	9,488	-	-	-	-	9,488
Fines, forfeits and penalties	15,535	-	-	-	-	15,535
Public charge for service	239,504	-	-	-	-	239,504
Intergovernmental charge for service	64,081	-	-	-	-	64,081
Miscellaneous revenues	75,240	6,869	1,305	5,331	40	88,785
Total revenues	1,930,248	6,869	41,901	413,972	12,584	2,405,574
Expenditures:						
Current:						
General government	187,937	-	-	-	-	187,937
Public Safety	605,003	-	-	-	-	605,003
Public Works	348,583	-	-	-	-	348,583
Health and human services	16,020	-	-	-	-	16,020
Culture, recreation and education	361,457	-	-	-	-	361,457
Conservation and development	5,992	18,604	7,383	150	150	32,279
Total Current	1,524,992	18,604	7,383	150	150	1,551,279
Debt Service:						
Principal	234,944	-	-	173,660	-	408,604
Interest	50,916	-	24,039	82,942	1,448	159,345
Total Debt service	285,860	-	24,039	256,602	1,448	567,949
Capital Expenditures	442,612	-	-	34,235	-	476,847
Total Expenditures	2,253,464	18,604	31,422	290,987	1,598	2,596,075
Excess of revenue over(under) expenditures	(323,216)	(11,735)	10,479	122,985	10,986	(190,501)
Other Financing Sources (Uses):						
Debt proceeds	388,801	-	-	-	-	388,801
Other uses	(27,319)	-	-	-	-	(27,319)
Total Other Sources(Uses)	361,482	-	-	-	-	361,482
Net change in fund balance	38,266	(11,735)	10,479	122,985	10,986	170,981
Fund balance, beginning of year	1,360,997	31,881	(704,356)	1,147,937	(59,391)	1,777,068
Fund balance, end of year	\$ 1,399,263	\$ 20,146	\$(693,877)	\$ 1,270,922	\$ (48,405)	\$ 1,948,049

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, 2011

Net change in fund balances - total governmental funds **\$ 170,981**

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	476,847	
Depreciation expense reported in the statement of activities	209,767	
Amount by which capital outlays are greater (less) than depreciation in the current period.		267,080

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	11,280	
Vested employee benefits earned in current year	-	
Amounts paid are greater (less) than amounts paid by		11,280

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 (498)

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:	408,604
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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:	(388,801)
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The district disposed of surplus and outdated equipment resulting in a reduction of capital assets and recapture of prior year depreciation expense reported on the statement of net assets as a net loss and has no affect on the governmental funds balance sheet.

The value of capital assets disposed of during the year was:	(120,047)	
The amount of depreciation recapture for the year was:	108,462	
The difference in the value of assets net of recaptured depreciation creates a gain (loss) of:		(11,585)

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	119,748	
The amount of interest accrued during the current period	102,667	
Interest paid is greater (less) than interest accrued by		17,081

Change in net assets - governmental activities **\$ 474,142**

City of Phillips, Wisconsin
 Combined Statement of Net Assets
 Enterprise Funds
 As of December 31, 2011

Assets	Water/ Sewer Fund	2011
Cash and Investments	91,380	91,380
Receivables:		
Customer accounts receivables	172,503	172,503
Materials & supplies inventory	8,063	8,063
Restricted cash	236,593	236,593
Advance to other funds	48,375	48,375
Plant, property & equipment(net)	6,116,504	6,116,504
Total Assets	<u>\$ 6,673,418</u>	<u>\$ 6,673,418</u>
Liabilities and net assets		
Liabilities		
Accounts payable	4,763	4,763
Accrued interest payable	17,146	17,146
Due to other funds	72,261	72,261
Deferred revenues	212,364	212,364
Long term debt	1,764,309	1,764,309
Total Liabilities	<u>2,070,843</u>	<u>2,070,843</u>
Net Assets		
Invested in capital assets net of related debt	4,352,195	4,352,195
Restricted, expendable	236,593	236,593
Unrestricted	13,787	13,787
Total net assets	<u>4,602,575</u>	<u>4,602,575</u>
Total Liabilities and Net Assets	<u>\$ 6,673,418</u>	<u>\$ 6,673,418</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, 2011

	Water/ Sewer	2011
Operating Revenues	730,556	\$730,556
Operating Expenses		
Operations and maintenance	396,118	396,118
Depreciation	274,267	274,267
Taxes	76,359	76,359
Total Operating Expenses	746,744	746,744
Operating Income (Loss)	(16,188)	(16,188)
Non Operating Revenues (Expenses)		
Interest Income	2,765	2,765
Interest Expense	(61,135)	(61,135)
Total Non Operating	(58,370)	(58,370)
Change in Net Assets	(74,558)	(74,558)
Net Assets - Beginning of Year	4,677,133	4,677,133
Net Assets - End of Year	4,602,575	4,602,575

See accompanying notes to basic financial statements.

City of Phillips, Wisconsin
 Combined Statement of Cash Flows
 Enterprise Funds
 For the Year Ended December 31, 2011

	Water/ Sewer Fund	2011
Cash Flows from Operating Activities		
Cash received from user charges	\$ 728,052	\$ 728,052
Cash payments to employees for services	(226,702)	(226,702)
Cash payments for utilities and other purchased services	(94,964)	(94,964)
Cash payments to suppliers for goods and services	(61,584)	(61,584)
Cash payments for other operating expenses	(64,284)	(64,284)
Net cash provided by operating activities	280,518	280,518
Cash Flows from Capital and Related Financing Activities		
Cash payments for acquisition of capital assets	(46,219)	(46,219)
Interest paid	(62,878)	(62,878)
Retirement of long-term debt	(164,706)	(164,706)
Net cash used by capital and related financing activities	(273,803)	(273,803)
Cash Flows from Investing Activities		
Interest on investments	2,765	2,765
Net cash provided by investing activities	2,765	2,765
Net decrease in cash and cash equivalents	9,480	9,480
Cash and cash equivalents - beginning of year	318,493	318,493
Cash and cash equivalents - end of year	\$ 327,973	\$ 327,973
Reconciliation of operating income to net cash provided by operating activities		
Operating income (loss)	(16,188)	(16,188)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation (grant amortization & other amortization)	274,267	274,267
Changes in assets and liabilities:		
Accounts receivable	15,193	15,193
Materials and supply inventory	927	927
Due from/to other funds	24,921	24,921
Deferred revenue	(17,697)	(17,697)
Accounts payable	(905)	(905)
Net cash provided by operating activities	\$ 280,518	\$ 280,518

See accompanying notes to basic financial statements.

City of Phillips, Wisconsin
Statement of Net Assets
Fiduciary Funds
December 31, 2011

	Tax Collection Agency Fund
Assets	
Taxes receivable	1,180,521
Total assets	<u>1,180,521</u>
Liabilities	
Due to other funds	
Due to other governments	1,180,521
Total liabilities	<u>\$1,180,521</u>

See accompanying notes to basic financial statements.

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City of Phillips, Wisconsin

Notes to Financial Statements
For the Year Ended December 31, 2011

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 2010 tax levy is used to finance operations of the City for the year ended December 31, 2011. 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, 2011, 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. Fund balances 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. Fund balances are reported as committed when constrained by the highest level of decision making authority (City Council). Fund balances are reported as assigned when the City Council or designated official expresses an intent for a specific use. All remaining fund balances are unassigned and available for general municipality purposes. 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

Subsequent events have been evaluated through April 10, 2012, which is the date the financial statements were available to be issued.

Note 2 – CHANGES IN ACCOUNTING PRINCIPLES

Note 2a – Changes in Accounting Principle

For the fiscal year ended December 31, 2011, the City has implemented GASB Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions*.. The adjustment to prior year ending balances is addressed in the following note.

Note 2b – Adjustment to Prior Year Ending Balances to Current Year Beginning Balances

	12/31/11	12/31/10
Reserved:		
TIF District project	0	384,190
CDBG Housing	0	31,881
Restricted:		
TIF District project	384,190	0
CDBG Housing	31,881	0
Undesignated	0	1,360,997
Unassigned	1,360,997	
Total net assets	\$1,777,068	\$1,777,068

Note 3 – **STEWARDSHIP AND COMPLIANCE**

The City did not have any violation of legal or contractual provisions for the fiscal year ended December 31, 2011.

Note 4 – **DETAILED DISCLOSURES REGARDING ASSETS AND REVENUES**

Note 4a – **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, 2011 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, 2011 as reflected in the Statement of Net Assets follows:

	Primary Government	Enterprise Funds	Total
Unrestricted:			
Cash and Cash Equivalents	\$773,248	\$105,722	\$878,970
Restricted:			
Cash and Cash Equivalents	1,530,589	222,252	1,752,841
Total Cash and Cash Equivalents	\$2,303,837	\$327,974	\$2,631,811

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 \$222,252.

Interest and dividends earned as of December 31, 2011 are as follows:

	Governmental	Business-type
	Activities	Activities
Interest earned	\$45,590	\$2,765

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 4b – Capital Assets

Capital asset balances and activity for the year ended December 31, 2011 were as follows:

	Beginning Balance	Prior year Adjustments	Increases	Decreases	Ending Balance
Governmental activities:					
Capital assets not being depreciated:					
Sites (land)	\$ 317,065	-	-	-	\$ 317,065
Construction In Progress	839,013	-	34,235	-	873,248
Total capital assets not being depreciated	1,156,078	-	34,235	-	1,190,313
Capital assets being depreciated:					
Buildings & Site Improvements	2,663,985	-	8,926	-	2,672,911
Equipment & Vehicles	1,830,403	-	433,686	(120,047)	2,144,042
Road network	540,318	-	-	-	540,318
Total capital assets being depreciated	5,034,706	-	442,612	(120,047)	5,357,271
Less accumulated depreciation for:					
Buildings & site improvements	(945,655)	-	(56,018)	-	(1,001,673)
Furniture and equipment	(1,374,517)	-	(126,733)	108,462	(1,392,788)
Road network	(119,320)	-	(27,016)	-	(146,336)
Total accumulated depreciation	(2,439,492)	-	(209,767)	108,462	(2,540,797)
Total capital assets being depreciated, net of accumulated depreciation	2,595,214	-	232,845	(11,585)	2,816,474
Governmental activities capital assets, net of accumulated depreciation					\$ 4,006,787
Depreciation expense was charged to governmental functions as follows:					
General Government			24,944		
Public Safety			83,752		
Public Works			58,143		
Health & Human Services			147		
Culture, Recreation & Education			40,345		
Conservation & Development			2,436		
Total depreciation for governmental activities			\$209,767		
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	71,327		-		71,327
Capital assets being depreciated:					
Water distribution system	3,736,014		1,927	(175)	3,737,766
Sewer collection & treatment system	6,331,727		44,292		6,376,019
Total capital assets being depreciated	10,067,741		46,219	(175)	10,113,785
Less accumulated depreciation for:					
Water distribution system	(1,261,068)		(77,297)	175	(1,338,190)
Sewer collection & treatment system	(2,533,448)		(196,970)	-	(2,730,418)
Total accumulated depreciation	(3,794,516)		(274,267)	175	(4,068,608)
Total capital assets being depreciated, net of accumulated depreciation	6,273,225		(228,048)	-	6,045,177

Business-type activities capital assets, net of accumulated depreciation

\$ 6,116,500

Depreciation expense was charged to functions as follows:

	Water	75,191
	Sewer	199,076
Total business-type activities depreciation expense		<u>\$274,267</u>

Note 5 – DETAILED DISCLOSURES REGARDING LIABILITIES AND EXPENSES

Note 5a – Short-term debt

The City had no short-term debt liability balances or activity for the year ended December 31, 2011.

Note 5b – Long-term Liabilities

Long-term liability balances and activity for the year ended December 31, 2011 were as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due within One Year</u>
Governmental Activities					
General obligation debt					
Bonds and notes payable					
Capital projects	<u>\$2,686,710</u>	<u>\$388,801</u>	<u>\$ 408,604</u>	<u>\$ 2,666,907</u>	<u>\$ 334,025</u>
Total general obligation debt	2,686,710	388,801	408,604	2,666,907	334,025
Vested Employee Benefits:					
Termination benefits	16,944	-	11,280	5,664	5,664
Pension related benefits	<u>79,398</u>	<u>-</u>	<u>-</u>	<u>79,398</u>	<u>-</u>
Total Other Liabilities	<u>96,342</u>	<u>-</u>	<u>11,280</u>	<u>85,062</u>	<u>5,664</u>
Total governmental activity long-term liabilities	<u>\$ 2,783,052</u>	<u>\$ 388,801</u>	<u>\$ 419,884</u>	<u>\$ 2,751,969</u>	<u>\$ 339,689</u>
Business-type Activities					
Bonds and notes payable	<u>\$ 1,929,015</u>	<u>-</u>	<u>164,706</u>	<u>1,764,309</u>	<u>172,751</u>
Total business-type activity long-term liabilities	<u>\$ 1,929,015</u>	<u>\$ -</u>	<u>\$ 164,706</u>	<u>\$ 1,764,309</u>	<u>\$ 172,751</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</u>	<u>Business-type</u>
	<u>Funds</u>	<u>Funds</u>
Total interest paid	\$ 119,748	\$62,879
Total interest expense	<u>102,667</u>	<u>61,135</u>
Interest paid over (under) expense	<u>\$17,081</u>	<u>\$1,744</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:

Government Activities	Issue	Interest	Date of	Balance
Notes and Bonds payable	Dates	Rates	Maturity	12/31/11
Bond payable	05/01/2006	4.0-4.4	03/01/2021	1,105,000
Note payable	01/23/2002	4.0	12/15/2012	128,725
Note payable	07/28/2006	5.67	07/28/2014	45,697
Bond payable	04/01/2010	2.0-4.4	03/01/2025	1,135,000
Note payable	7/21/2011	3.25	7/21/2016	60,000
Note payable	10/14/2011	3.25	7/22/2015	28,157
Note payable	10/31/2011	3.60	10/31/2018	164,327
Total bonds and notes				<u>\$2,666,906</u>

Business-type Activities				
Water/sewer revenue bond	07/15/98	4.4-5.1	01/15/18	485,000
Water/sewer revenue bond	06/13/01	2.78	05/01/21	1,279,309
				<u>\$1,764,309</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, 2011 is:

Equalized value certified by Wisconsin Department of Revenue for:	2011	\$92,008,600
Margin of indebtedness at 5%		4,600,430
Deduct long-term debt applicable to debt margin		<u>(2,666,906)</u>
Margin of indebtedness		<u>\$ 1,933,524</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, 2011 is as follows:

Government Activities

Year ended			
<u>31-Dec</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	334,026	100,384	434,410
2013	212,163	88,287	300,450
2014	224,323	80,579	304,902
2015	218,029	72,329	290,358
2016	222,124	64,494	286,618
2017-2021	1,066,241	196,244	1,262,485
2022-2025	390,000	35,285	425,285
Totals	<u>\$ 2,666,906</u>	<u>\$ 637,602</u>	<u>\$ 3,304,508</u>

Business-type Activities

Year ended			
<u>31-Dec</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	200,802	30,534	231,336
2017-2021	838,373	56,137	894,510
Totals	<u>\$ 1,764,309</u>	<u>\$ 276,653</u>	<u>\$ 2,040,962</u>

Note 5c – Interfund receivables/payables and operating transfers

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

	Amount
Governmental Funds:	
General fund receivable from Enterprise funds for operations	\$ 72,262
General fund payable to TIF districts for operations & tax roll	(607,827)
TIF district receivable from General Fund for tax roll/operations	607,827
Total Governmental Fund Receivable/Payable	\$72,262
Business-type Funds:	
Water/sewer fund payable to General fund for operations	(72,262)
Total Business-type Fund Receivable/Payable	\$(72,262)

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
Governmental Activities	Due (Owed)
General Fund	\$72,262
Total	\$72,262
Business-type Activities	
Water/sewer Fund	(72,262)
Total	\$(72,262)

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.

The City did not utilize any Operating Transfers in 2011.

Note 5d – 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, 2011 was \$763,682; the employer's total payroll was \$903,568. The total required contributions for the year ended December 31, 2011 was \$113,919 which consisted of \$69,625 or 9.1% of payroll from the employer and \$44,294, or 5.8% of payroll from employees. Total contributions for the years ending December 31, 2010 and 2009 were \$105,172 and \$108,232 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, 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 5e – Unfunded Pension Liability

The City's unfunded pension liability of \$79,398 on December 31, 2011 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 5d.

Note 5f – Debt Covenants

As part of the Clean Water Fund loan issued by the State of Wisconsin Environmental Improvement fund the City deposits a predetermined amount to a reserved cash account each year. The current balance in the reserve is \$222,252, which is an amount sufficient to ensure compliance with the debt covenant.

Note 5g – 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 6 – OTHER NOTE DISCLOSURES

Note 6a – Fund balances

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

CDBG Housing Rehab project	\$20,146
TIF District project costs	528,640

Note 6b – Excess of actual expenditure over budget

The following functions had an excess of actual expenditures over budget for the year ending December 31, 2011:

<u>General Fund</u>	<u>Excess Expenditure</u>
Public Safety	\$ 75,709
Conservation & development	5,342
Debt service	24

Note 6c – 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, 2011 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, 2011

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues:				
Property tax	\$ 778,778	\$ 778,778	799,542	\$ 20,764
Other tax	7,000	7,000	6,367	(633)
Intergovernmental aid	723,077	731,127	720,491	(10,636)
Licenses and permits	8,800	8,800	9,488	688
Fines, forfeits and penalties	16,600	16,600	15,535	(1,065)
Public charge for service	207,940	218,544	239,504	20,960
Intergovernmental charge for service	63,646	63,646	64,081	435
Miscellaneous revenues	78,100	82,495	75,240	(7,255)
Total revenues	<u>1,883,941</u>	<u>1,906,990</u>	<u>1,930,248</u>	<u>23,258</u>
Expenditures:				
Current:				
General government	221,216	221,825	187,937	33,888
Public Safety	515,349	529,394	605,003	(75,609)
Public Works	364,698	366,314	348,583	17,731
Health and human services	46,873	65,678	16,020	49,658
Culture, recreation and education	386,324	388,812	361,457	27,355
Conservation and development	650	650	5,992	(5,342)
Total Current	<u>1,535,110</u>	<u>1,572,673</u>	<u>1,524,992</u>	<u>47,681</u>
Debt Service:				
Principal	98,628	235,109	234,944	165
Interest	50,727	50,727	50,916	(189)
Total Debt service	<u>149,355</u>	<u>285,836</u>	<u>285,860</u>	<u>(24)</u>
Capital Expenditures	77,408	472,061	442,612	29,449
Total Expenditures	<u>1,761,873</u>	<u>2,330,570</u>	<u>2,253,464</u>	<u>77,106</u>
Excess of revenue over(under) expenditures	122,068	(423,580)	(323,216)	100,364
Other Financing Sources (Uses):				
Other sources	350	14,350		(14,350)
Debt proceeds	-	386,603	388,801	2,198
Other uses	(62,289)	(71,010)	(27,319)	43,691
Total Other Sources(Uses)	<u>(61,939)</u>	<u>329,943</u>	<u>361,482</u>	<u>31,539</u>
Net change in fund balance	60,129	(93,637)	38,266	131,903
Fund balance, beginning of year	1,360,997	1,360,997	1,360,997	-
Fund balance, end of year	<u>\$ 1,421,126</u>	<u>\$ 1,267,360</u>	<u>\$ 1,399,263</u>	<u>\$ 131,903</u>

City of Phillips, Wisconsin
Notes to Required Supplementary Information
On Budgetary Accounting and Control
Year Ending December 31, 2011

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
Combining Balance Sheet
Nonmajor Governmental Funds
As of December 31, 2011

	<u>Capital Projects</u>	
	TIF District No. 2	Total Nonmajor Govt Funds
Assets		
Due from other funds	13,191	13,191
Restricted cash	2,463	2,463
Total Assets	<u>\$ 15,654</u>	<u>\$ 15,654</u>
Liabilities and Fund Balance		
Liabilities		
Due to other funds	2,351	2,351
Deferred revenues	13,191	13,191
Advance from other funds	48,517	48,517
Total Liabilities	<u>64,059</u>	<u>64,059</u>
Fund Balances		
Restricted:		
TID #2 projects	(48,405)	(48,405)
Total Fund Balance	<u>(48,405)</u>	<u>(48,405)</u>
Total Liabilities and Fund Balance	<u>\$ 15,654</u>	<u>\$ 15,654</u>

City of Phillips, Wisconsin
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Nonmajor Governmental Funds
For the Year Ended December 31, 2011

	<u>Capital Projects</u>	
	TIF District No. 2	Total Nonmajor Govt Funds
Revenues:		
Property tax	\$ 12,544	\$ 12,544
Miscellaneous revenues	40	40
Total revenues	<u>12,584</u>	<u>12,584</u>
Expenditures:		
Current:		
Conservation and development	150	150
Total Current	<u>150</u>	<u>150</u>
Debt Service:		
Interest	1,448	1,448
Total Debt service	<u>1,448</u>	<u>1,448</u>
Total Expenditures	<u>1,598</u>	<u>1,598</u>
Excess of revenue over(under) expenditures	<u>10,986</u>	<u>10,986</u>
Net change in fund balance	10,986	10,986
Fund balance, beginning of year	(59,391)	(59,391)
Fund balance, end of year	<u>\$ (48,405)</u>	<u>\$ (48,405)</u>

City of Phillips, Wisconsin

Other Supplementary Information

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, 2011, which collectively comprise the City's basic financial statements, and have issued our report thereon dated April 10, 2012. 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 and other deficiencies that we consider to be significant deficiencies.

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 and correct 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 deficiency described in the accompanying schedule of findings and responses as 11-01 to be a material weakness.

A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses as 11-02 to be a significant deficiency.

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 April 10, 2012.

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

Eagle Audit & Accounting, LLC
Certified Public Accountants

April 10, 2012
Park Falls, Wisconsin

City of Phillips, WI
Schedule of Findings and Responses
For the Year Ended December 31, 2011

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?	X		
Noncompliance material to the financial statements		None reported	

Section 2 - Financial Statement Findings

Finding 2011-01: 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 outweighs the benefits at this time.

Finding 2011-02: 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.

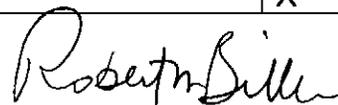
Recommendation: Management should determine if the benefits achieved by resolving this internal control deficiency warrants the additional costs that would be required to remedy the deficiency.

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

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: Robert M. Biller, CPA



Date of report

April 10, 2012

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

For the Year Ending December 31, 2011

10-1 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.

10-2 Preparation of Financial Statements – no action expected

10-3 Audit Adjustments – Management has taken the corrective action as stated in the prior year audit.

Corrective Action Plan

11-01 Lack of Segregation of Duties – no action expected

11-02 Preparation of Financial Statements – no action expected