

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

December 31, 2012

**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, 2012, 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, 2012, 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 10, 2013 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 should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and budgetary comparison information on pages 3 and 15 respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consists of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements. The combining nonmajor funds financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor funds financial statements are fairly stated in all material respects in relation to the financial statements taken as a whole.

Eagle Audit & Accounting, LLC

Eagle Audit & Accounting, LLC
Certified Public Accountants

June 10, 2013
Park Falls, Wisconsin

**City of Phillips, Wisconsin
Management's Discussion and Analysis
For the Year Ended December 31, 2012**

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 \$2,486,897; including \$1,301,557 of property taxes, \$624,337 of general state aid, and \$428,158 of charges for services and operating grants. Total governmental funds expenditures were \$2,086,034. The City reduced the amount of prior outstanding general obligation debt by \$334,026.

Total business-type activity fund revenues were \$732,871; including \$730,107 of user fees. Total business-type activity expenditures were \$815,544. The City reduced the amount of prior outstanding business-type debt by \$172,751.

The City's financial status, as reflected in total net assets, increased by \$318,190. Net assets of governmental activities due to operations increased by \$400,863 and business-type activities (water/sewer) decreased by \$82,673.

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, 2012**

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 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, 2012**

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

	Government-Wide Statements	Fund Financial 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	<p>Accrual accounting.</p> <p>Economic resources focus.</p>	<p>Modified accrual accounting.</p> <p>Current financial resources focus.</p>	<p>Accrual accounting.</p> <p>Economic resources focus.</p>	<p>Accrual accounting.</p> <p>Economic resources focus.</p>
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, 2012**

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, 2012 compared to 2011.

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

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Municipality</u>		<u>% Change</u>
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>
Current and other assets	\$ 4,062.6	\$ 3,915.4	\$ 558.7	\$ 556.9	\$ 4,621.2	\$ 4,472.3	3.3%
Capital assets	3,891.7	4,013.3	5,868.1	6,116.5	\$ 9,759.8	10,129.8	-3.7%
Total assets	7,954.2	7,928.7	6,426.8	6,673.4	14,381.0	14,602.1	-1.5%
L-T debt outstanding	2,399.2	2,752.0	1,591.6	1,764.3	3,990.8	4,516.3	-11.6%
Other liabilities	1,977.0	1,999.6	315.3	306.5	2,292.3	2,306.2	-0.6%
Total liabilities	4,376.2	4,751.6	1,906.9	2,070.8	6,283.1	6,822.4	-7.9%
Net assets							
Invested in capital assets, net of related debt	1,558.8	1,346.4	4,276.6	4,352.2	5,835.4	5,698.6	2.4%
Restricted	616.9	548.8	173.5	236.6	790.4	785.4	0.6%
Unrestricted	1,402.3	1,281.9	69.8	13.8	1,472.1	1,295.7	13.6%
Total net assets	\$ 3,578.0	\$ 3,177.1	\$ 4,519.9	\$ 4,602.6	\$ 8,097.9	\$ 7,779.7	4.1%

Note: totals may not add due to rounding

In governmental activities, total assets increased \$25,513 including a decrease in capital assets, net decrease in capital assets was \$121,658. 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 good condition. Some of the street equipment has been updated.

**City of Phillips, Wisconsin
Management's Discussion and Analysis
For the Year Ended December 31, 2012**

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, 2012 compared to 2011.

Table 2 Change in Net Assets (in thousands of dollars)						
	Governmental Activities		Business-Type Activities		Total Municipality	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program revenues						
Charge for services	\$ 297.2	\$ 328.6	\$ 730.1	\$ 730.6	\$ 1,027.3	\$ 1,059.2
Operating grants	130.9	142.9	-	-	130.9	142.9
General revenues						-
Property taxes	1,301.6	1,265.0	-	-	1,301.6	1,265.0
State & federal aid	624.3	580.3	-	-	624.3	580.3
Other	132.8	88.8	2.8	2.8	135.6	91.6
Total revenues	<u>2,486.9</u>	<u>2,405.6</u>	<u>732.9</u>	<u>733.3</u>	<u>3,219.8</u>	<u>3,138.9</u>
Expenses:						
General government	189.6	212.9	-	-	189.6	212.9
Public safety	701.9	688.8	-	-	701.9	688.8
Public works	395.1	395.4	-	-	395.1	395.4
Health/human services	14.3	16.2	-	-	14.3	16.2
Culture/recreation	444.0	401.8	-	-	444.0	401.8
Conservation/develop	64.2	34.7	-	-	64.2	34.7
Business-type activity	-	-	815.5	807.9	815.5	807.9
Debt service	249.0	142.8	-	-	249.0	142.8
Depreciation, unallocated	-	-	-	-	-	-
Other uses	19.7	38.9	-	-	19.7	38.9
Total expenses	<u>2,077.9</u>	<u>1,931.4</u>	<u>815.5</u>	<u>807.9</u>	<u>2,893.5</u>	<u>2,739.3</u>
Change in net assets						
from operations	409.0	474.1	(82.7)	(74.6)	326.3	399.6
Net special/extraordinary	(8.1)	-	-	-	(8.1)	-
Change in net assets	<u>\$ 400.9</u>	<u>\$ 474.1</u>	<u>\$ (82.7)</u>	<u>\$ (74.6)</u>	<u>\$ 318.2</u>	<u>\$ 399.6</u>

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 \$82,673, \$8,115 more than last year. The difference is attributable mainly to an increase in utilities and health insurance expense offset by a decrease in interest expense on long-term debt.

**City of Phillips, Wisconsin
Management's Discussion and Analysis
For the Year Ended December 31, 2012**

- Charges for services, which are amounts paid by customers of the water/sewer utility, decreased \$449 from \$730,556.
- The water and sewer utility acquired new fixed assets in the amount of \$22,847.

Governmental Activities

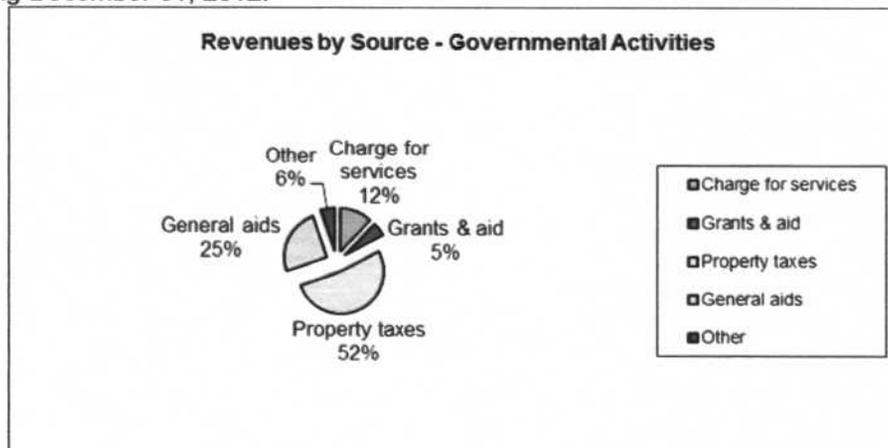
Net cost of governmental activities Table 3, below, provides a summary of the City's change in net cost of Governmental Activities for the year ended December 31, 2012 compared to 2011.

Table 3
Net Cost of Governmental Activities
(in thousands of dollars)

	Total Cost		Net Cost		Net Cost Percentage Change
	of Services		of Services		
	2012	2011	2012	2011	
General Government	\$ 189.6	\$ 212.9	\$ 181.6	\$ 212.9	-14.7%
Public Safety	701.9	688.8	590.0	554.0	6.5%
Public Works	395.1	395.4	246.1	222.1	10.8%
Health & human services	14.3	16.2	11.0	7.9	39.1%
Culture & recreation	444.0	401.8	288.2	246.6	16.8%
Conservation & develop	64.2	34.7	64.2	34.7	84.9%
Debt service	249.0	142.8	249.0	142.8	74.4%
Other	19.7	38.9	19.7	38.9	
Total	\$ 2,077.9	\$ 1,931.4	\$ 1,649.8	\$ 1,459.9	13.0%

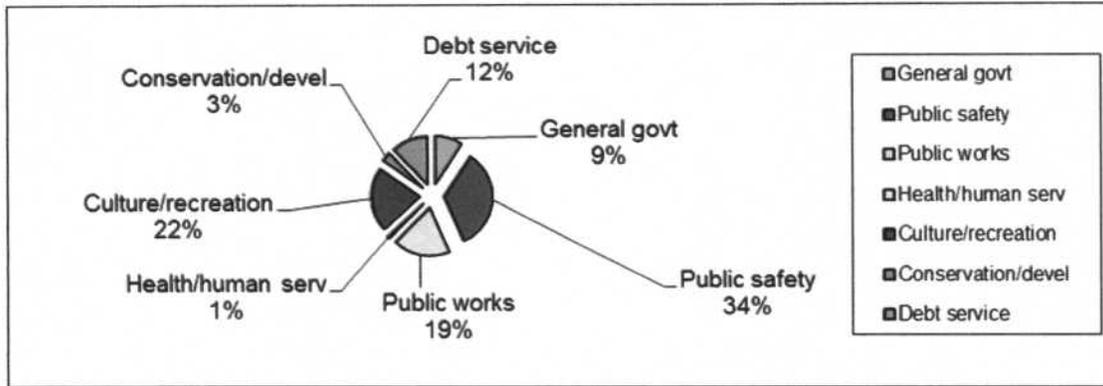
Note: totals may not add due to rounding

Revenues by Source – the chart below shows the various sources of revenue by source for the year ending December 31, 2012.



**City of Phillips, Wisconsin
Management's Discussion and Analysis
For the Year Ended December 31, 2012**

Expenditures by Function – the chart below shows the various governmental activities expenditures by function for the year ending December 31, 2012.



General Fund Budgetary Highlights

In the General Fund resources available for appropriation were \$65,786 above the final budgeted amounts. Actual expenditures in the General Fund netted \$55,499 under the final budget amount for an overall budget excess of \$121,285.

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, 2011 to December 31, 2012.

Table 4
Capital Assets
(in thousands of dollars)

	Governmental Activities		Business-Type Activities		Total Municipality		Total % Change 2012
	2012	2011	2012	2011	2012	2011	
Land	\$ 317.1	\$ 317.1	\$ 21.5	\$ 21.5	\$ 338.6	\$ 338.6	0.0%
Construction in progress	874.4	\$ 873.2	49.8	49.8	924.2	923.1	0.1%
Site Improvements	-	-	5,281.0	5,281.0	5,281.0	5,281.0	0.0%
Buildings & improvements	2,721.2	\$ 2,672.9	669.8	668.0	3,391.0	3,340.9	1.5%
Furniture & equipment	2,180.6	2,144.0	4,176.0	4,164.8	6,356.7	6,308.8	0.8%
Infrastructure	540.3	540.3	-	-	540.3	540.3	0.0%
Accumulated depreciation	(2,748.0)	(2,540.8)	(4,330.0)	(4,068.6)	(7,078.0)	(6,609.4)	7.1%
Total	\$ 3,885.6	\$ 4,006.8	\$ 5,868.1	\$ 6,116.5	\$ 9,753.8	\$ 10,123.3	-3.7%

Note: totals may not add due to rounding

**City of Phillips, Wisconsin
Management's Discussion and Analysis
For the Year Ended December 31, 2012**

Long – Term Debt – Table 5 below show the change in long-term obligations for the total municipality from December 31, 2011 to December 31, 2012.

Table 5 Outstanding Long Term Obligations (in thousands of dollars)			
	Total Municipality		Total % Change
	2012	2011	2012
	General obligation debt	\$ 2,332.9	\$ 2,666.9
Other	1,657.9	1,849.4	-10.4%
Total	\$ 3,990.8	\$ 4,516.3	-11.6%

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, 2012**

	Governmental Activities	Business-type Activities	Total
Assets			
Current assets:			
Cash and investments	\$ 493,507	157,924	\$ 651,431
Receivables	1,568,168	168,911	1,737,079
Internal receivables	96,509	-	96,509
Restricted cash	1,792,177	173,479	1,965,656
Inventories and prepaid items	112,201	8,539	120,740
Advance to other funds	-	49,799	49,799
Total current assets	4,062,562	558,652	4,621,214
Noncurrent assets:			
Other Noncurrent assets:			
Unamortized bond discount, net	6,053	-	6,053
Plant, property and equipment			
Land	317,065	21,490	338,555
Construction in progress	874,380	49,837	924,217
Site improvements	-	5,281,013	5,281,013
Buildings and building improvements	2,721,248	669,786	3,391,034
Furniture and equipment	2,180,642	4,176,014	6,356,656
Infrastructure- Road network	540,318	-	540,318
Less: Accumulated depreciation	(2,748,026)	(4,330,005)	(7,078,031)
Net Plant, property & equipment	3,885,627	5,868,135	9,753,762
Total noncurrent assets	3,891,680	5,868,135	9,759,815
Total assets	7,954,242	6,426,787	14,381,029
Liabilities			
Current liabilities:			
Payables:			
Accounts	41,676	8,874	50,550
Accrued payroll & related items	23,836	-	23,836
Accrued interest	29,829	15,277	45,106
Internal payables	-	96,509	96,509
Deferred revenue	1,831,870	194,667	2,026,537
Current portion of long-term obligations	212,163	175,881	388,044
Advance to other funds	49,798	-	49,798
Total current liabilities	2,189,172	491,208	2,680,380
Noncurrent liabilities:			
Noncurrent portion of long-term obligations	2,187,076	1,415,677	3,602,753
Total non-current liabilities	2,187,076	1,415,677	3,602,753
Total liabilities	4,376,248	1,906,885	6,283,133
Net Assets			
Invested in capital assets, net of related debt	1,558,800	4,276,577	5,835,377
Restricted:			
TIF districts	581,590		581,590
CDBG Housing project	35,303		35,303
Water/sewer loan covenant		173,479	173,479
Unrestricted:	1,402,301	69,846	1,472,147
Total net assets	3,577,994	4,519,902	8,097,896
Total liabilities and net assets	\$ 7,954,242	\$ 6,426,787	\$ 14,381,029

See accompanying notes to basic financial statements.

**City of Phillips, Wisconsin
Statement of Activities
For the Year ended December 31, 2012**

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	189,602		8,050	(181,552)		(181,552)
Public Safety	701,949	107,811	4,105	(590,033)		(590,033)
Public Works	395,096	30,251	118,779	(246,066)		(246,066)
Health and human services	14,278	3,300	-	(10,978)		(10,978)
Culture, recreation and education	444,046	155,862	-	(288,184)		(288,184)
Conservation and development	64,200	-	-	(64,200)		(64,200)
Debt service	249,017	-	-	(249,017)		(249,017)
Other uses	27,846			(27,846)		(27,846)
Total governmental activities	2,086,034	297,224	130,934	(1,657,876)		(1,657,876)
Business-type activities:						
Water/sewer utility	815,544	730,107	-		(85,437)	(85,437)
Total Business-type activities	815,544	730,107	-		(85,437)	(85,437)
Total municipality	\$2,901,578	\$1,027,331	\$ 130,934	\$(1,657,876)	\$ (85,437)	\$(1,743,313)
General revenues:						
Property taxes:						
General purposes				847,821		847,821
Debt services				453,736		453,736
State and federal aids not restricted to specific functions:						
Interest and investment earnings				624,337	2,764	624,337
Miscellaneous				44,542	-	47,306
				88,303	-	88,303
Total general revenues				2,058,739	2,764	2,061,503
Change in net assets				400,863	(82,673)	318,190
Net assets - beginning of year				3,177,133	4,602,575	7,779,708
Net assets - end of year				\$ 3,577,996	\$ 4,519,902	\$ 8,097,898

*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, 2012

	General Fund	CDBG Fund	TIF District No. 3	TIF District No. 4	Other Nonmajor Govt Funds	Total Governmental Funds
Assets						
Cash and Investments	\$ 493,507				\$ -	\$ 493,507
Receivables:						
Taxes receivable	951,763	-	-	-	-	951,763
Other receivables	-	616,405	-	-	-	616,405
Due from other funds	96,637		44,105	569,663	-	710,405
Restricted cash	-	35,303	235,703	1,519,335	1,836	1,792,177
Advance to other funds	1,125,531	-	-	-	-	1,125,531
Prepays	112,201	-	-	-	-	112,201
Total Assets	<u>2,779,639</u>	<u>651,708</u>	<u>279,808</u>	<u>2,088,998</u>	<u>1,836</u>	<u>5,801,989</u>
Liabilities and Fund Balance						
Liabilities						
Accounts payable	41,676	-	-	-	-	41,676
Accrued payroll and related items	23,836	-	-	-	-	23,836
Due to other funds	455,960	-	157,936	-	-	613,896
Deferred revenues	759,678	616,405	44,105	411,682	-	1,831,870
Advance from other funds	-	-	757,805	367,559	49,965	1,175,329
Total Liabilities	<u>1,281,150</u>	<u>616,405</u>	<u>959,846</u>	<u>779,241</u>	<u>49,965</u>	<u>3,686,607</u>
Fund Balances						
Restricted:						
TIF district projects	-		(680,038)	1,309,757	(48,129)	581,590
CDBG loans	-	35,303	-	-	-	35,303
Unassigned	1,498,489	-	-	-	-	1,498,489
Total Fund Balances	<u>1,498,489</u>	<u>35,303</u>	<u>(680,038)</u>	<u>1,309,757</u>	<u>(48,129)</u>	<u>2,115,382</u>
Total Liabilities and Fund Balance	<u>\$ 2,779,639</u>	<u>\$ 651,708</u>	<u>\$ 279,808</u>	<u>\$ 2,088,998</u>	<u>\$ 1,836</u>	<u>\$ 5,801,989</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, 2012**

Total fund balance reported on government funds balance sheet	2,115,382
 Amounts reported for <i>governmental activities</i> in the statement of net assets are different because:	
Unamortized bond discount, net	6,053
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:	3,885,627
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	\$ (2,332,880)
Vested employee benefits	\$ (66,359)
Accrued interest on general obligation debt	(29,829)
	\$ (2,429,068)
Total net assets - governmental activities	3,577,994

City of Phillips, Wisconsin
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
For the Year Ended December 31, 2012

	General Fund	CDBG Fund	TIF District No. 3	TIF District No. 4	Other Nonmajor Funds	Total Governmental Funds
Revenues:						
Property tax	\$ 842,322	\$ -	\$ 43,759	\$ 396,786	\$ 13,191	\$ 1,296,058
Other tax	5,499	-	-	-	-	5,499
Intergovernmental aid	752,055	-	495	2,721	-	755,271
Licenses and permits	10,912	-	-	-	-	10,912
Fines, forfeits and penalties	12,767	-	-	-	-	12,767
Public charge for service	200,727	-	-	-	-	200,727
Intergovernmental charge for service	72,818	-	-	-	-	72,818
Miscellaneous revenues	75,352	51,558	1,187	4,663	85	132,845
Total revenues	<u>1,972,452</u>	<u>51,558</u>	<u>45,441</u>	<u>404,170</u>	<u>13,276</u>	<u>2,486,897</u>
Expenditures:						
Current:						
General government	164,721	-	-	-	-	164,721
Public Safety	626,786	-	-	-	-	626,786
Public Works	340,268	-	-	-	-	340,268
Health and human services	14,131	-	-	-	-	14,131
Culture, recreation and education	403,082	-	-	-	-	403,082
Conservation and development	6,100	36,399	7,563	150	11,552	61,764
Total Current	<u>1,555,088</u>	<u>36,399</u>	<u>7,563</u>	<u>150</u>	<u>11,552</u>	<u>1,610,752</u>
Debt Service:						
Principal	140,301	-	-	193,726	-	334,027
Interest	55,161	-	24,039	170,327	1,448	250,975
Total Debt service	<u>195,462</u>	<u>-</u>	<u>24,039</u>	<u>364,053</u>	<u>1,448</u>	<u>585,002</u>
Capital Expenditures	102,953	-	-	1,132	-	104,085
Total Expenditures	<u>1,853,503</u>	<u>36,399</u>	<u>31,602</u>	<u>365,335</u>	<u>13,000</u>	<u>2,299,839</u>
Excess of revenue over(under) expenditures	118,949	15,159	13,839	38,835	276	187,058
Other Financing Sources (Uses):						
Other uses	(19,723)	-	-	-	-	(19,723)
Total Other Sources(Uses)	<u>(19,723)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(19,723)</u>
Net change in fund balance	99,226	15,159	13,839	38,835	276	167,335
Fund balance, beginning of year	1,399,263	20,144	(693,877)	1,270,922	(48,405)	1,948,047
Fund balance, end of year	<u>\$ 1,498,489</u>	<u>\$ 35,303</u>	<u>\$(680,038)</u>	<u>\$1,309,757</u>	<u>\$ (48,129)</u>	<u>\$ 2,115,382</u>

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, 2012

Net change in fund balances - total governmental funds **\$ 167,335**

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	104,085	
Depreciation expense reported in the statement of activities	217,122	
Amount by which capital outlays are greater (less) than depreciation in the current period.		(113,037)

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	5,664	
Vested employee benefits earned in current year	-	
Amounts paid are greater (less) than amounts paid by		5,664

Changes in the employer unfunded liability for pension benefits is reported on the statement of activities but not on the government funds.

The amount of change is: 13,039

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: 334,027

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:	(18,016)	
The amount of depreciation recapture for the year was:	9,893	
The difference in the value of assets net of recaptured depreciation creates a gain (loss) of:		(8,123)

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	211,382	
The amount of interest accrued during the current period	208,926	
Interest paid is greater (less) than interest accrued by		2,456

Change in net assets - governmental activities **\$ 400,863**

City of Phillips, Wisconsin
 Combined Statement of Net Assets
 Enterprise Funds
 As of December 31, 2012

Assets	Water/ Sewer Fund	2012
Cash and Investments	157,926	157,926
Receivables:		
Customer accounts receivables	168,911	168,911
Materials & supplies inventory	8,539	8,539
Restricted cash	173,479	173,479
Advance to other funds	49,799	49,799
Plant, property & equipment(net)	5,868,134	5,868,134
Total Assets	\$6,426,788	\$6,426,788
 Liabilities and net assets		
Liabilities		
Accounts payable	8,875	8,875
Accrued interest payable	15,277	15,277
Due to other funds	96,509	96,509
Deferred revenues	194,667	194,667
Long term debt	1,591,558	1,591,558
Total Liabilities	1,906,886	1,906,886
 Net Assets		
Invested in capital assets net of related debt	4,276,576	4,276,576
Restricted, expendable	173,479	173,479
Unrestricted	69,847	69,847
Total net assets	4,519,902	4,519,902
 Total Liabilities and Net Assets	 \$6,426,788	 \$6,426,788

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, 2012

	<u>Water/ Sewer</u>	<u>2012</u>
Operating Revenues	<u>730,107</u>	<u>\$730,107</u>
Operating Expenses		
Operations and maintenance	407,956	407,956
Depreciation	275,443	275,443
Taxes	<u>77,040</u>	<u>77,040</u>
Total Operating Expenses	<u>760,439</u>	<u>760,439</u>
Operating Income (Loss)	(30,332)	(30,332)
Non Operating Revenues (Expenses)		
Interest Income	2,764	2,764
Interest Expense	<u>(55,105)</u>	<u>(55,105)</u>
Total Non Operating	<u>(52,341)</u>	<u>(52,341)</u>
Change in Net Assets	(82,673)	(82,673)
Net Assets - Beginning of Year	<u>4,602,575</u>	<u>4,602,575</u>
Net Assets - End of Year	<u><u>4,519,902</u></u>	<u><u>4,519,902</u></u>

See accompanying notes to basic financial statements.

City of Phillips, Wisconsin
 Combined Statement of Cash Flows
 Enterprise Funds
 For the Year Ended December 31, 2012

	Water/ Sewer Fund	2012
Cash Flows from Operating Activities		
Cash received from user charges	\$ 714,575	\$ 714,575
Cash payments to employees for services	(246,366)	(246,366)
Cash payments for utilities and other purchased services	(88,718)	(88,718)
Cash payments to suppliers for goods and services	(63,569)	(63,569)
Cash payments for other operating expenses	(58,459)	(58,459)
Net cash provided by operating activities	257,463	257,463
Cash Flows from Capital and Related Financing Activities		
Cash payments for acquisition of capital assets	(27,073)	(27,073)
Interest paid	(56,970)	(56,970)
Retirement of long-term debt	(172,751)	(172,751)
Net cash used by capital and related financing activities	(256,794)	(256,794)
Cash Flows from Investing Activities		
Interest on investments	2,764	2,764
Net cash provided by investing activities	2,764	2,764
Net decrease in cash and cash equivalents	3,433	3,433
Cash and cash equivalents - beginning of year	327,972	327,972
Cash and cash equivalents - end of year	\$ 331,405	\$ 331,405
Reconciliation of operating income to net cash provided by operating activities		
Operating income (loss)	(30,332)	(30,332)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation (grant amortization & other amortization)	275,443	275,443
Changes in assets and liabilities:		
Accounts receivable	2,168	2,168
Materials and supply inventory	(476)	(476)
Due from/to other funds	24,245	24,245
Deferred revenue	(17,697)	(17,697)
Accounts payable	4,112	4,112
Net cash provided by operating activities	\$ 257,463	\$ 257,463

See accompanying notes to basic financial statements.

City of Phillips, Wisconsin
Statement of Net Assets
Fiduciary Funds
December 31, 2012

	Tax Collection Agency Fund
Assets	
Taxes receivable	<u>1,225,335</u>
Total assets	<u><u>1,225,335</u></u>
Liabilities	
Due to other funds	
Due to other governments	<u>1,225,335</u>
Total liabilities	<u><u>\$1,225,335</u></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, 2012

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 2011 tax levy is used to finance operations of the City for the year ended December 31, 2012. 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, 2012, 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 government-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 June 10, 2013, 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, 2012.

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, 2012 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, 2012 as reflected in the Statement of Net Assets follows:

	Primary	Enterprise	
	Government	Funds	Total
Unrestricted:			
Cash and Cash Equivalents	\$493,507	\$157,924	\$651,431
Restricted:			
Cash and Cash Equivalents	1,792,177	173,479	1,965,656
Total Cash and Cash Equivalents	\$2,285,684	\$331,403	\$2,617,087

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 \$173,479.

Interest and dividends earned as of December 31, 2012 are as follows:

	Governmental	Business-type
	Activities	Activities
Interest earned	\$44,542	\$2,764

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, 2012 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	873,248	-	1,132	-	874,380
Total capital assets not being depreciated	1,190,313	-	1,132	-	1,191,445
Capital assets being depreciated:					
Buildings & Site Improvements	2,672,911	-	48,337	-	2,721,248
Equipment & Vehicles	2,144,042	-	54,616	(18,016)	2,180,642
Road network	540,318	-	-	-	540,318
Total capital assets being depreciated	5,357,271	-	102,953	(18,016)	5,442,208
Less accumulated depreciation for:					
Buildings & site improvements	(1,001,673)	-	(57,635)	-	(1,059,308)
Furniture and equipment	(1,392,788)	-	(132,471)	9,893	(1,515,366)
Road network	(146,336)	-	(27,016)	-	(173,352)
Total accumulated depreciation	(2,540,797)	-	(217,122)	9,893	(2,748,026)
Total capital assets being depreciated, net of accumulated depreciation	2,816,474	-	(114,169)	(8,123)	2,694,182
Governmental activities capital assets, net of accumulated depreciation					\$ 3,885,627
Depreciation expense was charged to governmental functions as follows:					
General Government			24,881		
Public Safety			88,202		
Public Works			60,492		
Health & Human Services			147		
Culture, Recreation & Education			40,964		
Conservation & Development			2,436		
Total depreciation for governmental activities			\$217,122		
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	3,737,766		1,800	(9,819)	3,729,747
Sewer collection & treatment system	6,376,019		21,047		6,397,066
Total capital assets being depreciated	10,113,785		22,847	(9,819)	10,126,813
Less accumulated depreciation for:					
Water distribution system	(1,338,190)		(77,459)	14,045	(1,401,604)
Sewer collection & treatment system	(2,730,418)		(197,983)	-	(2,928,401)
Total accumulated depreciation	(4,068,608)		(275,442)	14,045	(4,330,005)
Total capital assets being depreciated, net of accumulated depreciation	6,045,177		(252,595)	4,226	5,796,808
Business-type activities capital assets, net of accumulated depreciation					\$ 5,868,135
Depreciation expense was charged to functions as follows:					
	Water		75,498		
	Sewer		199,945		
Total business-type activities depreciation expense			\$275,443		

Note 4 – DETAILED DISCLOSURES REGARDING LIABILITIES AND EXPENSES

Note 4a – Short-term debt

The City had no short-term debt liability balances or activity for the year ended December 31, 2012.

Note 4b – Long-term Liabilities

Long-term liability balances and activity for the year ended December 31, 2012 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	\$2,666,907	-	\$ 334,027	\$ 2,332,880	\$ 212,163
Total general obligation debt	2,666,907	-	334,027	2,332,880	212,163
Vested Employee Benefits:					
Termination benefits	5,664	-	5,664	-	-
Pension related benefits	79,398	-	13,039	66,359	-
Total Other Liabilities	85,062	-	18,703	66,359	-
Total governmental activity long-term liabilities	<u>\$ 2,751,969</u>	<u>\$ -</u>	<u>\$ 352,730</u>	<u>\$ 2,399,239</u>	<u>\$ 212,163</u>
Business-type Activities					
Bonds and notes payable	\$ 1,764,309	-	172,751	1,591,558	175,881
Total business-type activity long-term liabilities	<u>\$ 1,764,309</u>	<u>\$ -</u>	<u>\$ 172,751</u>	<u>\$ 1,591,558</u>	<u>\$ 175,881</u>

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

	<u>Governmental</u>	<u>Business-type</u>
	<u>Funds</u>	<u>Funds</u>
Total interest paid and accrued during the year:		
Total interest paid	\$ 211,382	\$56,974
Total interest expense	208,926	55,105
Interest paid over (under) expense	<u>\$2,456</u>	<u>\$1,869</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 Dates	Interest Rates	Date of Maturity	Balance 12/31/12
Notes and Bonds payable				
Bond payable	05/01/2006	4.0-4.4	03/01/2021	1,015,000
Note payable	07/28/2006	5.67	07/28/2014	31,297
Bond payable	04/01/2010	2.0-4.4	03/01/2025	1,070,000
Note payable	7/21/2011	3.25	7/21/2016	51,979
Note payable	10/14/2011	3.25	7/22/2015	21,298
Note payable	10/31/2011	3.60	10/31/2018	143,306
Total bonds and notes				<u>\$2,332,880</u>
Business-type Activities				
Water/sewer revenue bond	07/15/98	4.4-5.1	01/15/18	425,000
Water/sewer revenue bond	06/13/01	2.78	05/01/21	1,166,558
				<u>\$1,591,558</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, 2012 is:

Equalized value certified by Wisconsin Department of Revenue for:	2012	\$90,694,100
Margin of indebtedness at 5%		4,534,705
Deduct long-term debt applicable to debt margin		<u>(2,332,880)</u>
Margin of indebtedness		<u>\$ 2,201,825</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, 2012 is as follows:

Government Activities

Year ended	Principal	Interest	Total
31-Dec			
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	210,160	56,280	266,440
2018-2022	946,081	155,008	1,101,089
2023-2025	300,000	20,240	320,240
Totals	<u>\$ 2,332,880</u>	<u>\$ 537,217</u>	<u>\$ 2,870,097</u>

Business-type Activities

Year ended	Principal	Interest	Total
31-Dec			
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	204,294	23,168	227,462
2018-2021	634,079	32,969	667,048
Totals	<u>\$ 1,591,558</u>	<u>\$ 219,679</u>	<u>\$ 1,811,237</u>

Note 4c – 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	\$ 96,509
General fund payable to TIF districts for operations & tax roll	(455,832)
TIF district receivable from General Fund for tax roll/operations	455,832
Total Governmental Fund Receivable/Payable	\$96,509
Business-type Funds:	
Water/sewer fund payable to General fund for operations	(96,509)
Total Business-type Fund Receivable/Payable	\$(96,509)

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	\$96,509
Total	\$96,509
Business-type Activities	
Water/sewer Fund	(96,509)
Total	\$(96,509)

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 2012.

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, 2012 was \$767,052; the employer's total payroll was \$920,120. The total required contributions for the year ended December 31, 2012 was \$110,236 which consisted of \$64,980 or 8.5% of payroll from the employer and \$45,256, or 5.9% of payroll from employees. Total contributions for the years ending December 31, 2011 and 2010 were \$108,508 and \$105,171 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 4e – Unfunded Pension Liability

The City's unfunded pension liability of \$66,359 on December 31, 2012 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 a predetermined amount to a reserved cash account each year. The current balance in the reserve is \$173,479, 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 restricted and are not available for current appropriation for expenditure as follows:

CDBG Housing Rehab project	\$35,303
TIF District project costs	581,590

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, 2012:

<u>General Fund</u>	<u>Excess Expenditure</u>
Public Safety	\$ 68,269
Conservation & development	5,450
Debt service	1,665

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, 2012 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, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues:				
Property tax	\$ 824,833	\$ 824,833	842,322	\$ 17,489
Other tax	9,000	9,000	5,499	(3,501)
Intergovernmental aid	702,779	702,779	752,055	49,276
Licenses and permits	7,800	7,800	10,912	3,112
Fines, forfeits and penalties	16,600	16,600	12,767	(3,833)
Public charge for service	206,075	206,075	200,727	(5,348)
Intergovernmental charge for service	65,029	65,029	72,818	7,789
Miscellaneous revenues	71,200	71,200	75,352	4,152
Total revenues	<u>1,903,316</u>	<u>1,903,316</u>	<u>1,972,452</u>	<u>69,136</u>
Expenditures:				
Current:				
General government	195,818	195,818	164,721	31,097
Public Safety	551,462	558,517	626,786	(68,269)
Public Works	372,481	372,481	340,268	32,213
Health and human services	66,586	66,586	14,131	52,455
Culture, recreation and education	411,291	411,291	403,082	8,209
Conservation and development	650	650	6,100	(5,450)
Total Current	<u>1,598,288</u>	<u>1,605,343</u>	<u>1,555,088</u>	<u>50,255</u>
Debt Service:				
Principal	138,630	138,630	140,301	(1,671)
Interest	55,167	55,167	55,161	6
Total Debt service	<u>193,797</u>	<u>193,797</u>	<u>195,462</u>	<u>(1,665)</u>
Capital Expenditures	31,498	60,448	102,953	(42,505)
Total Expenditures	<u>1,823,583</u>	<u>1,859,588</u>	<u>1,853,503</u>	<u>6,085</u>
Excess of revenue over(under) expenditures	79,733	43,728	118,949	75,221
Other Financing Sources (Uses):				
Other sources	3,350	3,350		(3,350)
Other uses	(76,006)	(69,137)	(19,723)	49,414
Total Other Sources(Uses)	<u>(72,656)</u>	<u>(65,787)</u>	<u>(19,723)</u>	<u>46,064</u>
Net change in fund balance	7,077	(22,059)	99,226	121,285
Fund balance, beginning of year	1,399,263	1,399,263	1,399,263	-
Fund balance, end of year	<u>\$ 1,406,340</u>	<u>\$ 1,377,204</u>	<u>\$ 1,498,489</u>	<u>\$ 121,285</u>

City of Phillips, Wisconsin
Notes to Required Supplementary Information
On Budgetary Accounting and Control
Year Ending December 31, 2012

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 purposes 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, 2012

	Capital Projects		Total
	TIF District		Nonmajor
	No. 2		Govt Funds
Assets			
Restricted cash	1,836		1,836
Total Assets	\$ 1,836		\$ 1,836
Liabilities and Fund Balance			
Liabilities			
Advance from other funds	49,965		49,965
Total Liabilities	49,965		49,965
Fund Balances			
Restricted:			
TID #2 projects	(48,129)		(48,129)
Total Fund Balance	(48,129)		(48,129)
Total Liabilities and Fund Balance	\$ 1,836		\$ 1,836

City of Phillips, Wisconsin
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Nonmajor Governmental Funds
For the Year Ended December 31, 2012

	<u>Capital Projects</u>	
	TIF District No. 2	Total Nonmajor Govt Funds
Revenues:		
Property tax	\$ 13,191	\$ 13,191
Miscellaneous revenues	85	85
Total revenues	<u>13,276</u>	<u>13,276</u>
Expenditures:		
Current:		
Conservation and development	11,552	11,552
Total Current	<u>11,552</u>	<u>11,552</u>
Debt Service:		
Interest	1,448	1,448
Total Debt service	<u>1,448</u>	<u>1,448</u>
Total Expenditures	<u>13,000</u>	<u>13,000</u>
Excess of revenue over(under) expenditures	<u>276</u>	<u>276</u>
Net change in fund balance	276	276
Fund balance, beginning of year	(48,405)	(48,405)
Fund balance, end of year	<u>\$ (48,129)</u>	<u>\$ (48,129)</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, 2012, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 10, 2013. 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

Management of the City is responsible for establishing and maintaining effective 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 a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

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 2012-01 to be a material weakness.

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 10, 2013.

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

June 10, 2013
Park Falls, Wisconsin

City of Phillips, WI
Schedule of Findings and Responses
For the Year Ended December 31, 2012

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 2012-01: 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.

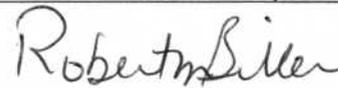
Recommendation: Although this is not unusual in entities of your size, administration and the Board should continue to be aware of this situation and to realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable for an effective system of internal 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.

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

June 10, 2013

The City of Phillips contact official for finding 2012-01 is as follows:

Barb Revak
 Clerk/Treasurer
 715-339-3125

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

For the Year Ending December 31, 2012

11-01 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.

11-02 Preparation of Financial Statements – finding resolved.

Corrective Action Plan

12-01 Lack of Segregation of Duties – as above.