

CITY OF MERRILL, WISCONSIN
ANNUAL FINANCIAL REPORT
DECEMBER 31, 2012

CITY OF MERRILL, WISCONSIN

December 31, 2012

Table of Contents

	<u>Page No.</u>
INDEPENDENT AUDITORS' REPORT	1 - 2
BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements	
Statement of Net Position	3
Statement of Activities	4 - 5
Fund Financial Statements	
Balance Sheet - Governmental Funds	6 - 8
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	9 - 11
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund	12
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Community Development Block Grant Fund	13
Statement of Net Position - Proprietary Funds	14
Statement of Revenues, Expenses and Changes in Fund Net Position - Proprietary Funds	15
Statement of Cash Flows - Proprietary Funds	16
Notes to Basic Financial Statements	17 - 35
SUPPLEMENTARY INFORMATION	
Combining Balance Sheet - Nonmajor Governmental Funds	36
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds	37
ADDITIONAL INDEPENDENT AUDITORS' REPORT FOR BASIC FINANCIAL STATEMENTS	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	38 - 39

CITY OF MERRILL, WISCONSIN
December 31, 2012

Table of Contents

	<u>Page No.</u>
FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE	
Report on Compliance for Each Major Federal and State Program and Report on Internal Control Over Compliance	40 - 41
Schedule of Expenditures of Federal Awards	42
Schedule of State Financial Assistance	43
Notes to Schedules of Expenditures of Federal Awards and State Financial Assistance	44
Schedule of Findings and Questioned Costs	45 - 48
Schedule of Prior Year Findings and Corrective Action Plan	49



INDEPENDENT AUDITORS' REPORT

To the City Council
City of Merrill, Wisconsin

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Merrill, Wisconsin ("the City") as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents. The prior year summarized comparative information has been derived from the City's 2011 financial statements and, in our report dated April 3, 2012, we expressed unqualified opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the 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, where applicable, cash flows thereof and the respective budgetary comparison for the general fund and the community development block grant for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note A.4.h, the City has implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, for the year ended December 31, 2012.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America required to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The financial information listed in the table of contents as supplementary information and the schedule of expenditures of federal awards and schedule of state financial assistance, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the *State Single Audit Guidelines* issued by the Wisconsin Department of Administration, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information and schedules of expenditures of federal awards and state financial assistance are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information, the schedules of expenditures of federal awards and the schedule of state financial assistance are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 18, 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* in considering the City's internal control over financial reporting and compliance.



Certified Public Accountants
Green Bay, Wisconsin
April 18, 2013

BASIC FINANCIAL STATEMENTS

CITY OF MERRILL, WISCONSIN
Statement of Net Position
December 31, 2012
(With summarized comparative information as of December 31, 2011)

	Governmental Activities	Business-type Activities	Totals	
			2012	2011
ASSETS				
Cash and investments	\$ 6,177,796	\$ 1,187,645	\$ 7,365,441	\$ 8,185,717
Receivables				
Taxes	7,576,000	-	7,576,000	7,904,181
Accounts	667,812	619,517	1,287,329	1,277,987
Special assessments	8,920	2,602	11,522	17,291
Loans	3,205,090	-	3,205,090	4,071,641
Other	-	63,654	63,654	59,924
Due from other governments	46,127	-	46,127	-
Inventories and prepaid items	139,085	32,126	171,211	167,828
Deferred charges	-	-	-	77,716
Restricted assets				
Cash and investments	-	720,135	720,135	770,807
Capital assets, nondepreciable				
Land	2,313,938	56,563	2,370,501	2,108,467
Construction in progress	106,109	17,172	123,281	436,013
Capital assets, depreciable				
Land improvements	3,274,671	-	3,274,671	3,109,405
Buildings and improvements	14,765,958	-	14,765,958	14,397,173
Machinery and equipment	6,855,840	-	6,855,840	6,421,478
Infrastructure	8,408,409	-	8,408,409	8,217,035
Utility plant in service	-	25,574,445	25,574,445	22,951,186
Less: Accumulated depreciation	(13,937,376)	(9,866,437)	(23,803,813)	(22,691,560)
Net Capital Assets	19,367,502	15,708,008	35,075,510	32,404,717
TOTAL ASSETS	39,608,379	18,407,422	58,015,801	57,482,289
LIABILITIES				
Accounts payable	610,736	139,942	750,678	589,134
Accrued and other current liabilities	167,145	15,630	182,775	184,449
Accrued interest payable	102,326	15,152	117,478	128,273
Due to other governments	6,360,778	-	6,360,778	6,412,722
Unearned revenues	7,787	-	7,787	7,912
Long-term obligations				
Due within one year	665,700	142,200	807,900	926,416
Due in more than one year	6,926,118	2,076,319	9,002,437	8,096,891
TOTAL LIABILITIES	14,840,590	2,389,243	17,229,833	16,345,797
DEFERRED INFLOWS OF RESOURCES				
Property taxes	5,208,911	-	5,208,911	5,174,716
Payment in lieu of taxes	30,176	-	30,176	30,176
TOTAL DEFERRED INFLOWS OF RESOURCES	5,239,087	-	5,239,087	5,204,892
NET POSITION				
Net investment in capital assets	15,311,518	13,671,248	28,982,766	26,965,661
Restricted for				
Debt service	6,388	68,198	74,586	209,924
Capital projects	213,777	645,061	858,838	567,901
Community development	3,572,570	-	3,572,570	4,628,623
Library endowment	539,280	-	539,280	572,136
TID project plan	264,187	-	264,187	225,810
Landfill monitoring	481,193	-	481,193	484,042
Unrestricted	(860,211)	1,633,672	773,461	2,277,503
TOTAL NET POSITION	\$ 19,528,702	\$ 16,018,179	\$ 35,546,881	\$ 35,931,600

The notes to the basic financial statements are an integral part of this statement.

CITY OF MERRILL, WISCONSIN
Statement of Activities
For the Year Ended December 31, 2012
(With summarized comparative information for the year ended December 31, 2011)

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities				
General government	\$ 1,486,904	\$ 116,069	\$ 41,400	\$ 2,296
Public safety	4,926,399	410,056	1,299,303	4,530
Public works	3,605,310	156,561	914,290	98,910
Health and human services	9,932	-	-	-
Culture and recreation	2,228,519	285,644	467,490	62,765
Conservation and development	1,607,945	15,282	-	20,000
Interest on debt	294,716	-	-	-
Total Governmental Activities	14,159,725	983,612	2,722,483	188,501
Business-type Activities				
Water utility	996,307	1,353,634	-	240,802
Sewer utility	1,560,427	1,486,666	-	-
Total Business-type Activities	2,556,734	2,840,300	-	240,802
Total	\$ 16,716,459	\$ 3,823,912	\$ 2,722,483	\$ 429,303

General revenues
Taxes
 Property taxes, levied for general purposes
 Tax increments
 Other taxes
Federal and state grants and other contributions
 not restricted to specific functions
Interest and investment earnings
Miscellaneous
Gain on sale of asset
Transfers
 Total general revenues and transfers

Change in net position

Cumulative effect of change in accounting principle

Net position - January 1

Net position - December 31

The notes to the basic financial statements are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Position			
Governmental Activities	Business-type Activities	Totals	
		2012	2011

\$ (1,327,139)	\$ -	\$ (1,327,139)	\$ (1,417,934)
(3,212,510)	-	(3,212,510)	(3,462,859)
(2,435,549)	-	(2,435,549)	1,418,550
(9,932)	-	(9,932)	(11,253)
(1,412,620)	-	(1,412,620)	(1,504,152)
(1,572,663)	-	(1,572,663)	(383,929)
(294,716)	-	(294,716)	(349,126)
<u>(10,265,129)</u>	<u>-</u>	<u>(10,265,129)</u>	<u>(5,710,703)</u>

-	598,129	598,129	478,933
-	(73,761)	(73,761)	345,644
-	<u>524,368</u>	<u>524,368</u>	<u>824,577</u>

<u>(10,265,129)</u>	<u>524,368</u>	<u>(9,740,761)</u>	<u>(4,886,126)</u>
---------------------	----------------	--------------------	--------------------

4,876,588	-	4,876,588	4,850,989
298,128	-	298,128	257,181
114,747	-	114,747	132,130

3,409,522	-	3,409,522	3,496,021
99,022	11,454	110,476	133,892
434,380	143,662	578,042	151,031
46,255	-	46,255	-
259,011	(259,011)	-	-
<u>9,537,653</u>	<u>(103,895)</u>	<u>9,433,758</u>	<u>9,021,244</u>

(727,476)	420,473	(307,003)	4,135,118
-----------	---------	-----------	-----------

(73,019)	(4,697)	(77,716)	-
----------	---------	----------	---

<u>20,329,197</u>	<u>15,602,403</u>	<u>35,931,600</u>	<u>31,796,482</u>
-------------------	-------------------	-------------------	-------------------

<u>\$ 19,528,702</u>	<u>\$ 16,018,179</u>	<u>\$ 35,546,881</u>	<u>\$ 35,931,600</u>
----------------------	----------------------	----------------------	----------------------

CITY OF MERRILL, WISCONSIN

Balance Sheet

Governmental Funds

December 31, 2012

(With summarized comparative information as of December 31, 2011)

	General	Community Development Block Grant	Debt Service	Other Governmental Funds
ASSETS				
Cash and investments	\$ 4,592,313	\$ 368,894	\$ 6,388	\$ 1,210,201
Receivables				
Taxes	6,321,529	38,744	921,619	294,108
Accounts	693,939	-	-	-
Special assessments	8,920	-	-	-
Loans	-	3,205,090	-	-
Due from other funds	858,574	-	-	-
Advance to other funds	-	-	-	393,789
Due from other governments	-	-	-	20,000
Inventories and prepaid items	139,085	-	-	-
TOTAL ASSETS	\$ 12,614,360	\$ 3,612,728	\$ 928,007	\$ 1,918,098
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 596,861	\$ 678	\$ -	\$ 13,197
Accrued and other current liabilities	166,318	736	-	91
Due to other funds	-	-	-	858,574
Due to other governments	6,360,778	-	-	-
Advance from other funds	379,490	-	-	14,299
Unearned revenues	7,787	-	-	-
Total Liabilities	7,511,234	1,414	-	886,161
Deferred Inflows of Resources				
Property taxes	3,954,440	38,744	921,619	294,108
Loans receivable	-	3,205,091	-	-
Special assessments	4,303	-	-	-
Insurance recovery	175,921	-	-	-
Payment in lieu of taxes	30,176	-	-	-
Total Deferred Inflows of Resources	4,164,840	3,243,835	921,619	294,108
Fund Balances				
Nonspendable				
Inventories and prepaid items	139,085	-	-	-
Long-term advance	-	-	-	393,789
Restricted for				
Debt service	-	-	6,388	-
Community development	-	367,479	-	-
Library endowment	-	-	-	539,280
TID project plan	-	-	-	563,195
Landfill monitoring	-	-	-	87,404
Committed for				
Nonlapsing reserves	478,132	-	-	-
Assigned for				
Capital improvements	37,856	-	-	-
Tornado recovery	175,921	-	-	-
Unassigned, reported in				
General fund	107,292	-	-	-
Capital projects funds	-	-	-	(845,839)
Total Fund Balances	938,286	367,479	6,388	737,829
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 12,614,360	\$ 3,612,728	\$ 928,007	\$ 1,918,098

(Continued)

Total Governmental Funds	
2012	2011

\$ 6,177,796	\$ 7,445,344
7,576,000	7,904,181
693,939	629,591
8,920	14,181
3,205,090	4,071,641
858,574	748,561
393,789	410,749
20,000	-
139,085	138,032

<u>\$ 19,073,193</u>	<u>\$ 21,362,280</u>
----------------------	----------------------

\$ 610,736	\$ 521,707
167,145	169,512
858,574	748,561
6,360,778	6,412,722
393,789	410,749
7,787	7,912
<u>8,398,809</u>	<u>8,271,163</u>

5,208,911	5,174,716
3,205,091	4,071,641
4,303	9,287
175,921	-
30,176	30,176
<u>8,624,402</u>	<u>9,285,820</u>

139,085	138,032
393,789	410,749
6,388	7,089
367,479	556,982
539,280	572,136
563,195	537,831
87,404	73,293
478,132	426,345
37,856	136,436
175,921	12,972
107,292	1,594,870
(845,839)	(661,438)
<u>2,049,982</u>	<u>3,805,297</u>

<u>\$ 19,073,193</u>	<u>\$ 21,362,280</u>
----------------------	----------------------

CITY OF MERRILL, WISCONSIN

Balance Sheet (Continued)

Governmental Funds

December 31, 2012

(With summarized comparative information as of December 31, 2011)

	2012	2011
<u>Reconciliation to the Statement of Net Position</u>		
Total Fund Balances as shown on previous page	\$ 2,049,982	\$ 3,805,297
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.	21,787,549	20,852,689
Other long-term assets are not available to pay current period expenditures and therefore are deferred in the funds.		
Special assessments receivable	\$ 4,303	
Loans receivable	3,205,091	
Insurance recovery	<u>175,921</u>	4,080,928
Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds.		
Bonds and notes payable	\$ (6,775,039)	
Post-employment health benefits payable	(47,161)	
Compensated absences	(769,618)	
Accrued interest on long-term obligations	<u>(102,326)</u>	<u>(8,409,717)</u>
Net Position of Governmental Activities as Reported on the Statement of Net Position (see page 3)	<u>\$ 19,528,702</u>	<u>\$ 20,329,197</u>

The notes to the basic financial statements are an integral part of this statement.

THIS PAGE LEFT BLANK INTENTIONALLY

CITY OF MERRILL, WISCONSIN
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2012
(With summarized comparative information for the year ended December 31, 2011)

	General	Community Development Block Grant	Debt Service	Other Governmental Funds
Revenues				
Taxes	\$ 4,030,787	\$ 38,744	\$ 925,482	\$ 298,128
Special assessments	122,589	-	-	-
Intergovernmental	4,840,213	-	22,150	74,118
Licenses and permits	156,742	-	-	-
Fines and forfeits	127,456	-	-	-
Public charges for services	483,643	-	-	-
Intergovernmental charges for services	1,451,205	2,075	-	-
Miscellaneous	350,774	130,774	-	87,050
Total Revenues	<u>11,563,409</u>	<u>171,593</u>	<u>947,632</u>	<u>459,296</u>
Expenditures				
Current				
General government	1,482,490	-	-	-
Public safety	4,908,227	-	-	-
Public works	2,771,819	-	-	15,445
Health and human services	127,746	-	-	-
Culture and recreation	1,924,690	-	-	5,793
Conservation and development	19,700	361,096	-	316,790
Debt service				
Principal	-	-	659,359	-
Interest and fiscal charges	-	-	336,125	-
Capital outlay	2,044,580	-	-	268,859
Total Expenditures	<u>13,279,252</u>	<u>361,096</u>	<u>995,484</u>	<u>606,887</u>
Excess of Revenues Over (Under) Expenditures	<u>(1,715,843)</u>	<u>(189,503)</u>	<u>(47,852)</u>	<u>(147,591)</u>
Other Financing Sources (Uses)				
Insurance recoveries - tornado	83,227	-	-	-
Sale of capital assets	3,236	-	-	-
Transfers in	259,011	-	47,151	-
Transfers out	-	-	-	(47,151)
Total Other Financing Sources (Uses)	<u>345,474</u>	<u>-</u>	<u>47,151</u>	<u>(47,151)</u>
Net Change in Fund Balances	<u>(1,370,369)</u>	<u>(189,503)</u>	<u>(701)</u>	<u>(194,742)</u>
Fund Balances - January 1	<u>2,308,655</u>	<u>556,982</u>	<u>7,089</u>	<u>932,571</u>
Fund Balances - December 31	<u>\$ 938,286</u>	<u>\$ 367,479</u>	<u>\$ 6,388</u>	<u>\$ 737,829</u>

(Continued)

Total Governmental Funds	
2012	2011

\$ 5,293,141	\$ 5,244,986
122,589	57,380
4,936,481	5,092,019
156,742	157,031
127,456	130,710
483,643	534,843
1,453,280	1,512,308
568,598	678,738
<u>13,141,930</u>	<u>13,408,015</u>

1,482,490	1,439,727
4,908,227	5,017,811
2,787,264	2,831,114
127,746	132,997
1,930,483	2,027,980
697,586	936,672
659,359	817,241
336,125	312,510
2,313,439	2,003,429
<u>15,242,719</u>	<u>15,519,481</u>

<u>(2,100,789)</u>	<u>(2,111,466)</u>
--------------------	--------------------

83,227	711,882
3,236	2,758
306,162	446,120
<u>(47,151)</u>	<u>(190,883)</u>

<u>345,474</u>	<u>969,877</u>
----------------	----------------

(1,755,315)	(1,141,589)
-------------	-------------

<u>3,805,297</u>	<u>4,946,886</u>
------------------	------------------

<u>\$ 2,049,982</u>	<u>\$ 3,805,297</u>
---------------------	---------------------

CITY OF MERRILL, WISCONSIN
Statement of Revenues, Expenditures and Changes in Fund Balances (Continued)
Governmental Funds
For the Year Ended December 31, 2012
(With summarized comparative information for the year ended December 31, 2011)

<u>Reconciliation to the Statement of Activities</u>	2012	2011
Net Change in Fund Balances as shown on previous page	\$ (1,755,315)	\$ (1,141,589)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Capital assets reported as capital expenditures in governmental fund statements	\$ 1,937,209	
Depreciation expense reported in the statement of activities	<u>(910,634)</u>	
Amount by which capital expenditures and donations are greater than depreciation in the current period	1,026,575	3,866,078
In governmental funds the entire proceeds, if any, from the disposal of capital assets is reported as an other financing source. In the statement of activities only the gain (or loss) on the disposal is reported.		
Net book value of assets disposed	(91,715)	(11,793)
Certain employee benefits are reported in the governmental funds when amounts are paid. The statement of activities reports the value of benefits earned during the year. This year the accrual of these benefits decreased (increased) by:		
	112,942	(95,144)
Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the statement of activities when earned.		
	(4,984)	(2,540)
Loans issued by the City as part of its revolving loan fund are recorded as expenditures and revenue when repaid in the governmental funds. On the statement of net position, loans issued are recorded as a receivable and subsequent collections reduce this receivable. Loans repaid or written off were less than loans issued in the current year by:		
	(866,549)	170,405
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 position and does not affect the statement of activities. The amount of long-term debt principal payments in the current year is:		
	659,359	817,241
Insurance recoveries reported as unavailable in the fund financial statements.		
	175,921	-
Interest payments on outstanding debt are reported in the governmental funds as expenditure when paid, in the statement of activities interest is reported as it accrues.		
	16,290	(37,362)
Bond issue costs are reported in the governmental funds as an expenditure. In the statement of activities, these costs are capitalized and amortized over the life of the bonds. The current year bond costs incurred were:		
	<u>-</u>	<u>(6,868)</u>
Change in Net Position of Governmental Activities as Reported in the Statement of Activities (see pages 4-5)	<u>\$ (727,476)</u>	<u>\$ 3,558,428</u>

The notes to the basic financial statements are an integral part of this statement.

CITY OF MERRILL, WISCONSIN
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
For the Year Ended December 31, 2012
(With summarized comparative information for the year ended December 31, 2011)

	Budgeted Amounts		Actual Amounts	Variance Final Budget - Positive (Negative)	2011 Actual Amounts
	Original	Final			
Revenues					
Taxes	\$ 4,068,075	\$ 4,007,725	\$ 4,030,787	\$ 23,062	\$ 4,025,323
Special assessments	45,000	68,807	122,589	53,782	57,380
Intergovernmental	4,786,022	4,865,627	4,840,213	(25,414)	5,038,847
Licenses and permits	145,431	157,718	156,742	(976)	157,031
Fines and forfeits	132,050	145,271	127,456	(17,815)	130,710
Public charges for services	418,221	444,781	483,643	38,862	534,843
Intergovernmental charges for services	1,481,885	1,484,395	1,451,205	(33,190)	1,509,583
Miscellaneous	68,000	296,363	350,774	54,411	222,058
Total Revenues	11,144,684	11,470,687	11,563,409	92,722	11,675,775
Expenditures					
Current					
General government	1,473,935	1,513,780	1,482,490	31,290	1,439,727
Public safety	4,816,016	4,842,875	4,908,227	(65,352)	5,017,811
Public works	2,810,264	2,828,588	2,771,819	56,769	2,819,712
Health and human services	109,253	129,057	127,746	1,311	132,997
Culture and recreation	1,851,944	1,891,412	1,924,690	(33,278)	1,988,815
Conservation and development	19,700	19,700	19,700	-	19,700
Capital outlay	1,403,333	1,997,413	2,044,580	(47,167)	1,613,996
Total Expenditures	12,484,445	13,222,825	13,279,252	(56,427)	13,032,758
Excess of Revenues Over (Under) Expenditures	(1,339,761)	(1,752,138)	(1,715,843)	36,295	(1,356,983)
Other Financing Sources (Uses)					
Long-term debt issued	1,040,660	973,000	-	(973,000)	-
Insurance recoveries - tornado	-	58,505	83,227	24,722	720,690
Sale of capital assets	-	2,745	3,236	491	2,758
Transfers in	257,000	257,000	259,011	2,011	255,237
Transfers out	-	-	-	-	(150,000)
Total Other Financing Sources (Uses)	1,297,660	1,291,250	345,474	(945,776)	828,685
Net Change in Fund Balance	(42,101)	(460,888)	(1,370,369)	(909,481)	(528,298)
Fund Balance - January 1	2,308,655	2,308,655	2,308,655	-	2,836,953
Fund Balance - December 31	\$ 2,266,554	\$ 1,847,767	\$ 938,286	\$ (909,481)	\$ 2,308,655

The notes to the basic financial statements are an integral part of this statement.

CITY OF MERRILL, WISCONSIN
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
Community Development Block Grant
For the Year Ended December 31, 2012
(With summarized comparative information for the year ended December 31, 2011)

	Budgeted Amounts		Actual Amounts	Variance Final Budget - Positive (Negative)	2011 Actual Amounts
	Original	Final			
Revenues					
Taxes	\$ 46,500	\$ 38,744	\$ 38,744	\$ -	\$ 26,816
Intergovernmental charges for services	14,166	3,250	2,075	(1,175)	2,725
Miscellaneous	133,425	129,773	130,774	1,001	327,418
Total Revenues	<u>194,091</u>	<u>171,767</u>	<u>171,593</u>	<u>(174)</u>	<u>356,959</u>
Expenditures					
Conservation and development	<u>215,666</u>	<u>368,193</u>	<u>361,096</u>	<u>7,097</u>	<u>515,549</u>
Net Change in Fund Balance	<u>(21,575)</u>	<u>(196,426)</u>	<u>(189,503)</u>	<u>6,923</u>	<u>(158,590)</u>
Fund Balance - January 1	<u>556,982</u>	<u>556,982</u>	<u>556,982</u>	<u>-</u>	<u>715,572</u>
Fund Balance - December 31	<u>\$ 535,407</u>	<u>\$ 360,556</u>	<u>\$ 367,479</u>	<u>\$ 6,923</u>	<u>\$ 556,982</u>

The notes to the basic financial statements are an integral part of this statement.

CITY OF MERRILL, WISCONSIN

Statement of Net Position

Proprietary Funds

December 31, 2012

(With summarized comparative information as of December 31, 2011)

	Enterprise Funds			
	Water Utility	Sewer Utility	Totals	
			2012	2011
ASSETS				
Cash and investments	\$ 1,187,645	\$ -	\$ 1,187,645	\$ 740,373
Receivables				
Accounts	293,944	325,573	619,517	648,396
Special assessments	732	1,870	2,602	3,110
Other	23,208	40,446	63,654	59,924
Due from other funds	166,952	-	166,952	542,612
Inventories and prepaid expenses	31,428	698	32,126	29,796
Deferred charges	-	-	-	4,697
Restricted assets				
Cash and investments	75,074	645,061	720,135	770,807
Capital assets, nondepreciable				
Land	35,320	21,243	56,563	56,563
Construction in progress	12,447	4,725	17,172	329,904
Capital assets, depreciable	13,592,952	11,981,493	25,574,445	22,951,186
Less: Accumulated depreciation	(4,424,553)	(5,441,884)	(9,866,437)	(9,241,145)
TOTAL ASSETS	10,995,149	7,579,225	18,574,374	16,896,223
LIABILITIES				
Accounts payable	99,478	40,464	139,942	67,427
Accrued and other current liabilities	7,023	8,607	15,630	14,937
Accrued interest payable	10,178	4,974	15,152	9,656
Due to other funds	-	166,952	166,952	542,612
Long-term obligations				
Due within one year	102,100	40,100	142,200	77,808
Due in more than one year	1,794,848	281,471	2,076,319	581,380
TOTAL LIABILITIES	2,013,627	542,568	2,556,195	1,293,820
NET POSITION				
Net investment in capital assets	7,395,236	6,276,012	13,671,248	13,547,370
Restricted for				
Debt service	68,198	-	68,198	-
Capital projects	-	645,061	645,061	770,736
Unrestricted	1,518,088	115,584	1,633,672	1,284,297
TOTAL NET POSITION	\$ 8,981,522	\$ 7,036,657	\$ 16,018,179	\$ 15,602,403

The notes to the basic financial statements are an integral part of this statement.

CITY OF MERRILL, WISCONSIN
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
For the Year Ended December 31, 2012
(With summarized comparative information for the year ended December 31, 2011)

	Enterprise Funds			
	Water Utility	Sewer Utility	Totals	
			2012	2011
Operating Revenues				
Charges for services	\$ 1,245,699	\$ 1,395,772	\$ 2,641,471	\$ 2,658,363
Other	107,935	90,894	198,829	222,598
Total Operating Revenues	<u>1,353,634</u>	<u>1,486,666</u>	<u>2,840,300</u>	<u>2,880,961</u>
Operating Expenses				
Operation and maintenance	663,573	1,242,341	1,905,914	1,480,273
Depreciation	321,817	310,371	632,188	560,864
Total Operating Expenses	<u>985,390</u>	<u>1,552,712</u>	<u>2,538,102</u>	<u>2,041,137</u>
Operating Income (Loss)	<u>368,244</u>	<u>(66,046)</u>	<u>302,198</u>	<u>839,824</u>
Nonoperating Revenues (Expenses)				
Interest income	6,850	4,604	11,454	7,350
Merchandising and jobbing	2,573	-	2,573	1,735
Interest expense	(10,917)	(7,715)	(18,632)	(26,918)
Miscellaneous	-	141,089	141,089	-
Total Nonoperating Revenues (Expenses)	<u>(1,494)</u>	<u>137,978</u>	<u>136,484</u>	<u>(17,833)</u>
Income Before Transfers and Contributions	366,750	71,932	438,682	821,991
Capital contributions	240,802	-	240,802	9,936
Transfers out	<u>(259,011)</u>	<u>-</u>	<u>(259,011)</u>	<u>(255,237)</u>
Change in Net Position	348,541	71,932	420,473	576,690
Cumulative effect of change in accounting principle	(2,876)	(1,821)	(4,697)	-
Net Position - January 1	<u>8,635,857</u>	<u>6,966,546</u>	<u>15,602,403</u>	<u>15,025,713</u>
Net Position - December 31	<u>\$ 8,981,522</u>	<u>\$ 7,036,657</u>	<u>\$ 16,018,179</u>	<u>\$ 15,602,403</u>

The notes to the basic financial statements are an integral part of this statement.

CITY OF MERRILL, WISCONSIN

Statement of Cash Flows

Proprietary Funds

For the Year Ended December 31, 2012

(With summarized comparative information for the year ended December 31, 2011)

	Water Utility	Sewer Utility	Totals	
			2012	2011
Cash Flows from Operating Activities				
Cash received from user charges	\$ 1,143,518	\$ 1,651,239	\$ 2,794,757	\$ 2,482,724
Cash payments to suppliers and employees	(585,885)	(1,251,177)	(1,837,062)	(1,477,083)
Public fire protection charge from City	214,862	-	214,862	193,488
Net Cash Provided by Operating Activities	772,495	400,062	1,172,557	1,199,129
Cash Flows from Noncapital Financing Activities				
Transfer - payment in lieu of taxes	(259,011)	-	(259,011)	(255,237)
Change in due from (to) other funds	375,660	(375,660)	-	-
Net Cash Provided (Used) by Noncapital Financing Activities	116,649	(375,660)	(259,011)	(255,237)
Cash Flows from Capital and Related Financing Activities				
Acquisition and construction of capital assets	(2,200,201)	(117,222)	(2,317,423)	(445,754)
Proceeds from long-term debt	1,613,829	-	1,613,829	-
Principal paid on long-term debt	(23,640)	(28,832)	(52,472)	(656,388)
Interest paid on long-term debt	(4,438)	(8,698)	(13,136)	(26,447)
Contributed capital collections	240,802	-	240,802	9,936
Net Cash Used by Capital and Related Financing Activities	(373,648)	(154,752)	(528,400)	(1,118,653)
Cash Flows from Investing Activities				
Interest and dividends on investments	6,850	4,604	11,454	7,350
Change in Cash and Cash Equivalents	522,346	(125,746)	396,600	(167,411)
Cash and Cash Equivalents - January 1	740,373	770,807	1,511,180	1,678,591
Cash and Cash Equivalents - December 31	\$ 1,262,719	\$ 645,061	\$ 1,907,780	\$ 1,511,180
Reconciliation to Statement of Net Position				
Unrestricted	\$ 1,187,645	\$ -	\$ 1,187,645	\$ 740,373
Restricted	75,074	645,061	720,135	770,807
Total	\$ 1,262,719	\$ 645,061	\$ 1,907,780	\$ 1,511,180
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:				
Operating income (loss)	\$ 368,244	\$ (66,046)	\$ 302,198	\$ 839,824
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	321,817	310,371	632,188	560,864
Depreciation charged to sewer utility	13,800	(13,800)	-	-
Miscellaneous nonoperating revenue	2,573	141,089	143,662	1,735
Changes in current assets and liabilities				
Receivables				
Accounts receivable	5,839	23,040	28,879	(209,917)
Other	(3,666)	444	(3,222)	3,433
Inventories and prepaid expenses	(2,396)	66	(2,330)	(973)
Accounts payable	66,179	6,336	72,515	12,268
Accrued liabilities	389	304	693	(834)
Compensated absences	(284)	(1,742)	(2,026)	(7,271)
Net Cash Provided by Operating Activities	\$ 772,495	\$ 400,062	\$ 1,172,557	\$ 1,199,129

The notes to the basic financial statements are an integral part of this statement.

CITY OF MERRILL, WISCONSIN
Notes to Basic Financial Statements
December 31, 2012

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the City of Merrill, Wisconsin ("the City"), have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) 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:

1. Reporting Entity

The City of Merrill, Wisconsin is a municipal corporation governed by an elected nine member council. In accordance with GAAP, the basic financial statements are required to include the City (the primary government) and any separate component units that have a significant operational or financial relationship with the City. The City has not identified any component units that are required to be included in the basic financial statements in accordance with standards established by GASB Statement Nos. 14 and 39.

2. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which are primarily supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for services.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and proprietary funds. Governmental funds include general, special revenue, debt service and capital projects funds. Proprietary funds include enterprise funds. The City has no internal service funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

GENERAL FUND

This is the City's main operating fund. It accounts for all financial resources of the general government, except those accounted for in another fund.

COMMUNITY DEVELOPMENT BLOCK GRANT FUND

To account for all transactions relating to the operation of the City's revolving loan program. Significant revenues are loan repayments.

DEBT SERVICE FUND

To account for the accumulation of resources used for the payment of general obligation bonds and notes issued by the City. Financing for the debt service fund is generally provided from general property taxes and transfers from other funds.

CITY OF MERRILL, WISCONSIN
Notes to Basic Financial Statements
December 31, 2012

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The City reports the following major enterprise funds:

WATER UTILITY

To account for the provision of water service to City residents, public authorities and business entities.

SEWER UTILITY

To account for the provision of sewage treatment service to City residents, public authorities and business entities.

3. Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Revenues susceptible to accrual include intergovernmental grants, intergovernmental charges for services, public charges for services and interest. Other revenues such as licenses and permits, other fines and forfeits and miscellaneous revenues are recognized when received in cash or when measurable and available.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's water and sewer functions and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, and fees and fines, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for services. Operating expenses for enterprise funds include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources, as they are needed.

CITY OF MERRILL, WISCONSIN
Notes to Basic Financial Statements
December 31, 2012

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Fund Balance

a. Cash and Investments

Cash and investments are combined in the financial statements. Cash deposits consist of demand and time deposits with financial institutions and are carried at cost. Investments are stated at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. For purposes of the statement of cash flows, all cash deposits and highly liquid investments (including restricted assets) with a maturity of three months or less are considered to be cash equivalents.

b. Accounts Receivable

Accounts receivable are recorded at gross amount with uncollectible amounts recognized under the direct write-off method. No allowance for uncollectible accounts has been provided since it is believed that the amount of such allowance would not be material to the basic financial statements.

c. Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" and "due to other funds" in the fund financial statements. Noncurrent portions of the interfund receivables for the governmental funds are reported as "advances to other funds" and are offset by nonspendable fund balance since they do not constitute expendable available financial resources and therefore are not available for appropriation.

The amount reported on the statement of net position for internal balances represents the residual balance outstanding between the governmental activities and business-type activities.

d. Inventories

Inventories are recorded at cost, which approximates market, using the first-in, first-out method. Inventories consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are consumed rather than when purchased.

e. Prepaid Items

Payments made to vendors that will benefit periods beyond the end of the current fiscal year are recorded as prepaid items.

Prepaid items of governmental funds in the fund financial statements are offset by nonspendable fund balance to indicate that they do not represent spendable available financial resources.

CITY OF MERRILL, WISCONSIN
Notes to Basic Financial Statements
December 31, 2012

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

f. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of \$5,000 or higher and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets of the City are depreciated using the straight-line method over the following estimated useful lives:

	Governmental Activities	Business-type Activities
	Years	
<u>Assets</u>		
Land improvements	20 - 40	-
Buildings and improvements	25 - 50	25 - 50
Machinery and equipment	3 - 20	3 - 20
Infrastructure	30 - 50	25 - 100

g. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick leave benefits in accordance with bargaining unit agreements. All vacation and sick leave is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds in the fund financial statements only if they have matured, for example, as a result of employee resignations and retirements.

h. Deferred Outflows/Inflows of Resources

The City implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Revenues, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* for the year ended December 31, 2012. In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City currently does not have any items that qualify for reporting in this category.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represent an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The City has two types of items that qualify for reporting in this category, property taxes and payment in lieu of taxes. The amounts will be recognized as an inflow of resources in the subsequent year for which they were levied. The City also has an additional type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from three sources, special assessments, loan receivables, and insurance recovery. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

CITY OF MERRILL, WISCONSIN
Notes to Basic Financial Statements
December 31, 2012

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

i. Long-term Obligations

In the government-wide financial statements, and proprietary funds in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenses.

In the fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

j. Fund Equity

GOVERNMENTAL FUND FINANCIAL STATEMENTS

Fund balance of governmental funds are reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Nonspendable fund balance - Amounts that are not in spendable form (such as inventory, prepaid items, or long-term receivables) or are legally or contractually required to remain intact.
- Restricted fund balance - Amounts that are constrained for specific purposes by external parties (such as grantor or bondholders), through constitutional provisions, or by enabling legislation.
- Committed fund balance - Amounts that are constrained for specific purposes by action of the City Council. These constraints can only be removed or changed by the City Council using the same action that was used to create them.
- Assigned fund balance - Amounts that are constrained for specific purposes by action of City management. Residual amounts in any governmental fund, other than the General Fund, are also reported as assigned.
- Unassigned fund balance - Amounts that are available for any purpose. Unassigned amounts are only reported in the General Fund.

The City has not adopted a fund balance spend-down policy regarding the order in which fund balance will be utilized. When a policy does not specify the spend-down policy GASB Statement No. 54 indicates that restricted funds would be spent first, followed by committed funds, and then assigned funds. Unassigned funds would be spent last.

CITY OF MERRILL, WISCONSIN
Notes to Basic Financial Statements
December 31, 2012

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

GOVERNMENT-WIDE AND PROPRIETARY FUND STATEMENTS

Equity is classified as net position and displayed in three components:

- Net investment in capital assets - Amount of capital assets, net of accumulated depreciation, less outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted net position - Amount of net position that is subject to restrictions that are imposed by 1) external groups, such as creditors, grantors, contributors or laws or regulations of other governments or 2) law through constitutional provisions or enabling legislation.
- Unrestricted net position - Net position that is neither classified as restricted nor as net investment in capital assets.

5. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

6. Summarized Comparative Information

The basic financial statements include certain prior-year summarized comparative information in total, but not at the level of detail for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the town's financial statements for the year ended December 31, 2011, from which the summarized information was derived.

7. Reclassifications

Certain amounts in the prior year financial statements have been reclassified to conform with the presentation in the current year financial statements with no change in previously reported net position, changes in net position, fund balance or changes in fund balance.

CITY OF MERRILL, WISCONSIN
Notes to Basic Financial Statements
December 31, 2012

NOTE B - STEWARDSHIP AND COMPLIANCE

1. Budgets and Budgetary Accounting

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

- a. During October, City management submits to the City Council a proposed operating budget for the calendar year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them. After submission to the governing body, public hearings are held to obtain taxpayer comments. Following the public hearings, the proposed budget, including authorized additions and deletions, is legally enacted by City Council action.
- b. Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the governmental funds. Budget is defined as the originally approved budget plus or minus approved amendments. Individual amendments throughout the year were not material in relation to the original budget. Budget appropriations not expended during the year are closed to fund balance unless authorized by the governing body to be forwarded into the succeeding year's budget.
- c. During the year, formal budgetary integration is employed as a management control device for the general, special revenue and debt service funds. Management control for the capital projects funds is achieved through project authorizations included in debt issue resolutions.
- d. Expenditures may not exceed appropriations at the function level for the City. Amendments to the budget during the year require initial approval by management and are subsequently authorized by the City Council.
- e. Encumbrance accounting is used by the City to record commitments related to unperformed contracts for goods or services. All outstanding encumbrances lapse at year end.

The City did not have any material violation of legal or contractual provisions for the fiscal year ended December 31, 2012.

2. Deficit Fund Equity

The following funds had deficit fund balances as of December 31, 2012:

Funds	Deficit Fund Balance
TIF No. 5	\$ 3,221
TIF No. 6	502,064
TIF No. 7	32,955
TIF No. 8	307,599

The City anticipates funding the above deficits from future revenues and tax levies of the funds.

CITY OF MERRILL, WISCONSIN
Notes to Basic Financial Statements
December 31, 2012

NOTE C - DETAILED NOTES ON ALL FUNDS

1. Cash and Investments

The City maintains various cash and investment accounts, including pooled funds that are available for use by all funds. Each fund's portion of these accounts is displayed in the financial statements as "Cash and investments."

Invested cash consists of deposits and investments that are restricted by Wisconsin Statutes to the following:

Time deposits; repurchase agreements; securities issued by federal, state and local governmental entities; statutorily authorized commercial paper and corporate securities; and the Wisconsin local government investment pool. Investments in the library foundation special revenue fund may be invested in other types of investments as authorized under Wisconsin Statute 881.01, "Uniform Prudent Investor Act".

The carrying amount of the City's cash and investments totaled \$8,085,576 December 31, 2012 as summarized below:

Petty cash and cash on hand	\$ 7,880
Deposits with financial institutions	7,904,473
Investments	173,223
	\$ 8,085,576

Reconciliation to the basic financial statements:

Government-wide Statement of Net Position	
Cash and investments	\$ 7,365,441
Restricted cash and investments	720,135
	\$ 8,085,576

Deposits and investments of the City are subject to various risks. Presented below is a discussion of the City's deposits and investments and the related risks.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The City does not have an additional custodial credit risk policy.

Deposits with financial institutions within the State of Wisconsin are insured by the Federal Deposit Insurance Corporation (FDIC) in the amount of \$250,000 for time and savings deposits and \$250,000 for interest-bearing demand deposits per official custodian per insured depository institution. Deposits with financial institutions located outside the State of Wisconsin are insured by the FDIC in the amount of \$250,000 for all time accounts, savings accounts and interest-bearing demand deposit accounts per official custodian per depository institution. Deposits with credit unions are insured by the National Credit Union Insurance Fund (NCUSIF) in the amount of \$250,000 per credit union member. In addition, the City's non-interest bearing transaction accounts are fully insured through December 31, 2012. As of January 1, 2013 the City's noninterest-bearing transaction accounts are combined with its interest-bearing demand deposits for FDIC insurance coverage. Also, the State of Wisconsin has a State Guarantee Fund which provides a maximum of \$400,000 per public depository above the amount provided by an agency of the U.S. Government. However, due to the relatively small size of the State Guarantee Fund in relation to the Fund's total coverage, total recovery of insured losses may not be available.

As of December 31, 2012, \$386,888 of the City's deposits with financial institutions were in excess of federal and state depository insurance. The City has collateralized these deposits with collateral held by a financial institution.

CITY OF MERRILL, WISCONSIN
Notes to Basic Financial Statements
December 31, 2012

NOTE C - DETAILED NOTES ON ALL FUNDS (Continued)

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Wisconsin statutes limit investments in securities to the top two ratings assigned by nationally recognized statistical rating organizations. The City does not have an additional credit risk policy.

Investment Type	Amount	Exempt From Disclosure	AA	BBB	Not Rated
Corporate Bonds	\$ 31,896	\$ -		\$ 31,896	\$ -
Mutual Funds	55,510	-	-	-	55,510
Wisconsin Local Government Investment Pool	85,817	-	-	-	85,817
Totals	\$ 173,223	\$ -	\$ -	\$ 31,896	\$ 141,327

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in the market interest rates. The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Investment Type	Amount	Remaining Maturity (in Months)			
		12 Months or Less	13 to 24 Months	25 to 60 Months	More Than 60 Months
Corporate Bonds	\$ 31,896	\$ 10,318	\$ -	\$ -	\$ 21,578
Mutual Funds	55,510	55,510	-	-	-
Wisconsin Local Government Investment Pool	85,817	85,817	-	-	-
Totals	\$ 173,223	\$ 151,645	\$ -	\$ -	\$ 21,578

Investments

The City has investments in the Wisconsin local government investment pool of \$85,817 at year-end. The Wisconsin local government investment pool (LGIP) is part of the State Investment Fund (SIF), and is managed by the State of Wisconsin Investment Board. The SIF is not registered with the Securities and Exchange Commission, but operates under the statutory authority of Wisconsin Chapter 25. The SIF reports the fair value of its underlying assets annually. Participants in the LGIP have the right to withdraw their funds in total on one day's notice. At December 31, 2012, the fair value of the City's share of the LGIP's assets was substantially equal to the carrying value.

2. Property Taxes

Property taxes consist of taxes on real estate and personal property. They are levied during December of the prior year and become an enforceable lien on property the following January 1. Property taxes are payable in various options depending on the type and amount. Personal property taxes are payable on or before January 31 in full. Real estate taxes are payable in full by January 31 or in six equal installments from January through June. Real estate taxes not paid by June 30 are purchased by the County as part of the August tax settlement. Delinquent personal property taxes remain the collection responsibility of the City.

The City bills and collects its own property taxes and also levies and collects taxes for the Merrill School District, Lincoln County, North Central Technical College and the State of Wisconsin. Collections and remittances of taxes for other entities are accounted for in the general fund.

CITY OF MERRILL, WISCONSIN
Notes to Basic Financial Statements
December 31, 2012

NOTE C - DETAILED NOTES ON ALL FUNDS (Continued)

3. Restricted Assets

Restricted assets on December 31, 2012 totaled \$720,135 and consisted of cash and investments held for the following purposes:

Funds	Amount	Purpose
Enterprise Fund - sewer utility Plant replacement fund	\$ 645,061	To be used for sewer plant replacement.
Enterprise Fund - water utility Safe drinking water fund	<u>75,074</u>	To be used for safe drinking water fund principal and interest.
Total Restricted Assets	<u>\$ 720,135</u>	

4. Capital Assets

Capital asset activity for the year ended December 31, 2012 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 2,051,904	\$ 262,034	\$ -	\$ 2,313,938
Construction in progress	106,109	-	-	106,109
Total capital assets, not being depreciated	<u>2,158,013</u>	<u>262,034</u>	<u>-</u>	<u>2,420,047</u>
Capital assets, being depreciated:				
Land improvements	3,109,405	197,149	31,883	3,274,671
Buildings and improvements	14,397,173	598,922	230,137	14,765,958
Machinery and equipment	6,421,478	687,730	253,368	6,855,840
Infrastructure	8,217,035	191,374	-	8,408,409
Subtotals	<u>32,145,091</u>	<u>1,675,175</u>	<u>515,388</u>	<u>33,304,878</u>
Less accumulated depreciation for:				
Land improvements	1,704,182	199,485	20,171	1,883,496
Buildings and improvements	7,397,213	50,996	196,239	7,251,970
Machinery and equipment	3,888,344	386,590	207,263	4,067,671
Infrastructure	460,676	273,563	-	734,239
Subtotals	<u>13,450,415</u>	<u>910,634</u>	<u>423,673</u>	<u>13,937,376</u>
Total capital assets, being depreciated, net	<u>18,694,676</u>	<u>764,541</u>	<u>91,715</u>	<u>19,367,502</u>
Governmental activities capital assets, net	<u>\$ 20,852,689</u>	<u>\$ 1,026,575</u>	<u>\$ 91,715</u>	<u>21,787,549</u>
Less related long-term debt outstanding				<u>6,476,031</u>
Net investment in capital assets				<u>\$ 15,311,518</u>

CITY OF MERRILL, WISCONSIN
Notes to Basic Financial Statements
December 31, 2012

NOTE C - DETAILED NOTES ON ALL FUNDS (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 56,563	\$ -	\$ -	\$ 56,563
Construction in progress	329,904	17,172	329,904	17,172
	<u>386,467</u>	<u>17,172</u>	<u>329,904</u>	<u>73,735</u>
Capital assets, being depreciated:				
Utility plant in service -				
Water utility	11,206,979	2,392,869	6,896	13,592,952
Sewer utility	11,744,207	237,286	-	11,981,493
Subtotals	<u>22,951,186</u>	<u>2,630,155</u>	<u>6,896</u>	<u>25,574,445</u>
Less accumulated depreciation for:				
Utility plant in service -				
Water utility	4,095,832	335,617	6,896	4,424,553
Sewer utility	5,145,313	296,571	-	5,441,884
Subtotals	<u>9,241,145</u>	<u>632,188</u>	<u>6,896</u>	<u>9,866,437</u>
Total capital assets, being depreciated, net	<u>13,710,041</u>	<u>1,997,967</u>	<u>-</u>	<u>15,708,008</u>
Business-type activities capital assets, net	<u>\$ 14,096,508</u>	<u>\$ 2,015,139</u>	<u>\$ 329,904</u>	15,781,743
Less related long-term debt outstanding				<u>2,110,495</u>
Net investment in capital assets				<u>\$ 13,671,248</u>
Depreciation expense was charged to functions of the City as follows:				
Governmental activities				
General government				\$ 62,730
Public safety				119,886
Public works				569,984
Culture and recreation				158,034
Total depreciation expense - governmental activities				<u>\$ 910,634</u>
Business-type activities				
Water utility				\$ 335,617
Sewer utility				296,571
Total depreciation expense - business-type activities				<u>\$ 632,188</u>

CITY OF MERRILL, WISCONSIN
Notes to Basic Financial Statements
December 31, 2012

NOTE C - DETAILED NOTES ON ALL FUNDS (Continued)

5. Interfund Receivable, Payables, and Transfers

Interfund receivables and payables between individual funds of the City, as reported in the fund financial statements, as of December 31, 2012 are detailed below:

	Interfund Receivables	Interfund Payables
Temporary Cash Advances to Finance Operating Cash		
Deficits of Other Funds		
General Fund	\$ 858,574	\$ -
TIF No. 5 Capital Projects Fund	-	3,221
TIF No. 6 Capital Projects Fund	-	494,799
TIF No. 7 Capital Projects Fund	-	32,955
TIF No. 7 Capital Projects Fund	-	327,599
Water Utility Enterprise Fund	166,952	-
Sewer Utility Enterprise Fund	-	166,952
Totals	<u>\$ 1,025,526</u>	<u>\$ 1,025,526</u>
Long-term Advances		
Advance for Retirement of Unfunded Pension Liability		
General Fund	\$ -	\$ 325,000
Remedial Action Special Revenue Fund	325,000	-
Advance for Financing TIF No. 3 Project Costs		
Remedial Action Special Revenue Fund	14,299	-
TIF No. 3 Capital Projects Fund	-	14,299
Advance for Airport Truck Purchase		
General Fund	-	54,490
Remedial Action Special Revenue Fund	54,490	-
Totals	<u>\$ 393,789</u>	<u>\$ 393,789</u>

The City has not established a formal repayment schedule for the advance for the airport truck purchases. Future scheduled repayments of the retirement of the unfunded pension liability and TIF No. 3 project costs are detailed below:

Year Ended December 31	Retirement of Unfunded Liability		
	Principal	Interest	Total
2013	\$ 22,900	\$ 9,750	\$ 32,650
2014	23,587	9,063	32,650
2015	24,295	8,355	32,650
2016	25,024	7,627	32,651
2017-2021	136,839	26,411	163,250
2022-2024	92,355	5,596	97,951
	<u>\$ 325,000</u>	<u>\$ 66,802</u>	<u>\$ 391,802</u>

Year Ended December 31	TIF No. 3 Project Costs		
	Principal	Interest	Total
2013	\$ 14,299	\$ 715	\$ 15,014

CITY OF MERRILL, WISCONSIN
Notes to Basic Financial Statements
December 31, 2012

NOTE C - DETAILED NOTES ON ALL FUNDS (Continued)

Interfund transfers for the year ended December 31, 2012 were as follows:

	Transfer to:		
	General	Debt Service	Total
Transfers from:			
Capital Projects Funds			
TIF No. 3	\$ -	\$ 10,195	\$ 10,195
TIF No. 4	-	29,960	29,960
TIF No. 6	-	6,996	6,996
Enterprise Funds			
Water Utility	259,011	-	259,011
Totals	<u>\$ 259,011</u>	<u>\$ 47,151</u>	<u>\$ 306,162</u>

Transfers were made for payment of the payment in lieu of taxes due to the City from the water utility and to provide financial resources for debt service payments.

The housing and business and industrial revolving loans represent various loans to City homeowners and local businesses that were originally financed from economic development grants received by the City from the Wisconsin Department of Development. The housing revolving loans will be repaid to the City when the property is no longer the loan recipient's principal place of residence while business and industrial revolving loans are being repaid to the City in installments at various rates.

Principal and interest repayments are used to finance additional development loans. In the fund statements, the City recognizes revenue in the year loan payments are received.

6. Long-term Obligations

The following is a summary of changes in long-term obligations of the City for the year ended December 31, 2012:

	Outstanding 1/1/12	Issued	Retired	Outstanding 12/31/12	Due Within One Year
Governmental activities:					
General Obligation Debt					
Bonds	\$ 5,874,425	\$ -	\$ 363,087	\$ 5,511,338	\$ 367,300
Notes	1,559,973	-	296,272	1,263,701	298,400
Total General Obligation Debt	<u>7,434,398</u>	<u>-</u>	<u>659,359</u>	<u>6,775,039</u>	<u>665,700</u>
Post-employment health benefits payable	4,108	48,957	5,903	47,162	-
Compensated absences	925,613	141,776	297,772	769,617	185,100
Governmental activities long-term obligations	<u>\$ 8,364,119</u>	<u>\$ 190,733</u>	<u>\$ 963,034</u>	<u>\$ 7,591,818</u>	<u>\$ 850,800</u>
Business-type activities:					
General Obligation Debt					
Bonds	\$ 163,000	\$ -	\$ 12,912	\$ 150,088	\$ 13,700
Notes	386,138	-	39,560	346,578	40,400
Total General Obligation Debt	<u>549,138</u>	<u>-</u>	<u>52,472</u>	<u>496,666</u>	<u>54,100</u>
Revenue bonds	-	1,613,829	-	1,613,829	66,900
Compensated absences	105,942	5,848	3,766	108,024	21,200
Post-employment health benefits payable	4,108	-	4,108	-	-
Business-type activities long-term obligations	<u>\$ 659,188</u>	<u>\$ 1,619,677</u>	<u>\$ 60,346</u>	<u>\$ 2,218,519</u>	<u>\$ 142,200</u>

Total interest paid during the year on long-term debt totaled \$352,274.

CITY OF MERRILL, WISCONSIN
Notes to Basic Financial Statements
December 31, 2012

NOTE C - DETAILED NOTES ON ALL FUNDS (Continued)

General Obligation Debt

General obligation debt currently outstanding is detailed as follows:

Bonds

\$2,885,000 issued 3/15/01; \$200,000 to \$295,000 due annually through 2020; interest 4.55% to 5.10%	\$ 2,005,000
\$680,000 issued 2/3/04; \$10,000 to \$80,000 due annually through 2020; interest 3.2% to 4.4%	565,000
\$1,600,000 issued 12/28/06; \$10,000 to \$125,000 due annually through 2026; interest 3.7% to 4.3%	1,250,000
\$885,000 issued 1/3/08; \$15,000 to \$60,000 due annually through 2027; interest 3.6% to 4.4%	840,000
\$632,275 issued 12/21/10; \$20,000 to \$43,275 due annually through 2030; interest 5.0%	612,275
\$430,150 issued 12/21/10; \$41,000 to \$52,150 due annually through 2020; interest 3.75%	389,150
Total Bonds	<u>5,661,425</u>

Notes

\$1,580,000 issued 12/30/03; \$190,000 to \$235,000 due annually through 2013; interest 3.15% to 3.70%	235,000
\$425,000 issued 1/15/04; \$19,846 to \$31,451 due annually from 2014 through 2023; interest 5.25%	252,496
\$275,000 issued 8/25/05; \$13,025 to \$22,275 due annually from 2014 through 2025; interest 5.0%	207,258
\$730,000 issued 1/5/05; \$47,292 to \$56,594 due annually through 2020; interest 2.0%	422,655
\$200,000 issued 12/28/06; \$13,000 to \$28,000 due annually through 2016; interest 5.0%	59,000
\$106,500 issued 2/10/09; \$9,485 to \$14,077 due annually through 2018; interest 4.5%	75,871
\$110,000 issued 11/10/09; \$8,713 to \$14,697 due annually through 2019; interest 4.5%	90,500
\$299,500 issued 1/8/10; \$14,000 to \$39,000 due annually through 2019; interest 4.5%	267,500
Total Notes	<u>1,610,280</u>

Total Outstanding General Obligation Debt	<u>\$ 7,271,705</u>
---	---------------------

CITY OF MERRILL, WISCONSIN
Notes to Basic Financial Statements
December 31, 2012

NOTE C - DETAILED NOTES ON ALL FUNDS (Continued)

Annual principal and interest maturities of the outstanding general obligation debt of \$7,271,705 as of December 31, 2012 are detailed below:

Year Ended December 31	Governmental Activities		Business-type Activities		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 665,700	\$ 301,100	\$ 54,000	\$ 12,700	\$ 719,700	\$ 313,800
2014	657,600	273,600	55,000	11,300	712,600	284,900
2015	647,400	245,500	56,100	10,000	703,500	255,500
2016	659,700	217,500	57,100	8,600	716,800	226,100
2017	682,300	194,000	58,200	7,200	740,500	201,200
2018-2028	2,476,900	529,100	191,200	16,100	2,668,100	545,200
2023-2027	858,100	165,000	25,066	4,300	883,166	169,300
2028-2030	127,339	12,800	-	-	127,339	12,800
	<u>\$ 6,775,039</u>	<u>\$ 1,938,600</u>	<u>\$ 496,666</u>	<u>\$ 70,200</u>	<u>\$ 7,271,705</u>	<u>\$ 2,008,800</u>

For governmental activities, the other long-term liabilities are generally funded by the general fund. The City's debt issues for 2010 qualified for the Build America Bonds rebate. The total future rebate on these debt issues is \$151,853 at December 31, 2012.

Legal Margin for New Debt

The City's legal margin for creation of additional general obligation debt on December 31, 2012 was \$12,496,653 as follows:

Equalized valuation of the City	\$ 395,239,400
Statutory limitation percentage	(x) 5%
General obligation debt limitation, per Section 67.03 of the Wisconsin Statutes	<u>19,761,970</u>
Less: Amounts available for financing general obligation debt	
Debt service fund	<u>7,265,317</u>
Net outstanding general obligation debt applicable to debt limitation	<u>(7,265,317)</u>
Legal Margin for New Debt	<u><u>\$ 12,496,653</u></u>

Revenue Bonds

Revenue bond debt service requirements are financed from operations of the water utility enterprise fund. Revenue bonds outstanding on December 31, 2012 totaled \$1,613,829 and were comprised of the following issue:

Water Utility

\$1,613,829 issued 9/26/12; \$66,917 to \$96,133 due annually through 2032;
interest 1.93%

\$ 1,613,829

CITY OF MERRILL, WISCONSIN
Notes to Basic Financial Statements
December 31, 2012

NOTE C - DETAILED NOTES ON ALL FUNDS (Continued)

Annual principal and interest maturities of the above outstanding water utility enterprise fund revenue bonds of \$1,613,829 on December 31, 2012 are shown below:

Year Ended December 31	Business-type Activities		
	Principal	Interest	Total
2013	\$ 66,900	\$ 31,600	\$ 98,500
2014	68,200	29,100	97,300
2015	69,500	27,800	97,300
2016	70,900	26,400	97,300
2017	72,200	25,100	97,300
2018-2022	382,500	103,700	486,200
2023-2027	420,800	65,100	485,900
2028-2032	462,829	22,600	485,429
	<u>\$ 1,613,829</u>	<u>\$ 331,400</u>	<u>\$ 1,945,229</u>

Utility Revenues Pledged

The City has pledged future water customer revenues, net of specified operating expenses, to repay the water system revenue bonds. Proceeds from the bonds provided financing for the construction or acquisition of capital assets used with the system. The bonds are payable through 2032. The total principal and interest remaining to be paid on the bonds is \$1,945,229. Principal and interest paid for the current year and total customer net revenues were \$0 and \$244,325, respectively.

NOTE D - OTHER INFORMATION

1. Retirement Commitments

All eligible City employees participate in the Wisconsin Retirement System (WRS), a cost-sharing, multiple-employer, defined benefit, public employee retirement system. All employees, initially employed by a participating WRS employer prior to July 1, 2011, expected to work at least 600 hours a year (440 hours for teachers and school district educational support employees) and expected to be employed for at least one year from employee's date of hire are eligible to participate in the WRS. All employees, initially employed by a participating WRS employer on or after July 1, 2011, and expected to work at least 1200 hours a year (880 hours for teachers and school district educational support employees) and expected to be employed for at least one year from employee's date of hire are eligible to participate in the WRS. Employees hired to work nine or ten months per year, (e.g. teachers contracts), but expected to return year after year are considered to have met the one-year requirement.

Prior to June 29, 2011, covered employees in the General/Teacher/Educational Support Personnel category were required by statute to contribute 6.5% of their salary (3.9% for Executives and Elected Officials, 5.8% for Protective Occupations with Social Security, and 4.8% for Protective Occupations without Social Security) to the plan. Employers could make these contributions to the plan on behalf of employees. Employers were required to contribute an actuarially determined amount necessary to fund the remaining projected cost of future benefits.

CITY OF MERRILL, WISCONSIN
Notes to Basic Financial Statements
December 31, 2012

NOTE D - OTHER INFORMATION (Continued)

Effective the first day of the first pay period on or after June 29, 2011 the employee required contribution was changed to one-half of the actuarially determined contribution rate for General category employees, including Teachers, and Executives and Elected Officials. Required contributions for protective employees are the same rate as general employees. Employers are required to contribute the remainder of the actuarially determined contribution rate. The employer may not pay the employee required contribution unless provided for by an existing collective bargaining agreement. Contribution rates are as follows:

	2012	
	<u>Employee</u>	<u>Employer</u>
General (including Teachers)	5.9%	5.9%
Executives & Elected Officials	7.05%	7.05%
Protective with Social Security	5.9%	9.0%
Protective without Social Security	5.9%	11.3%

The payroll for City employees covered by the WRS for the year ended December 31, 2012 was \$5,952,022; the employer's total payroll was \$6,043,748. The total required contribution for the year ended December 31, 2012 was \$924,645, which consisted of \$572,082 or 9.6% of covered payroll from the employer, and \$352,563 or 5.9 % of covered payroll from employees. Total contributions for the years ended December 31, 2011 and 2010 were \$907,205 and \$734,203, respectively, equal to the required contributions for each year.

Employees who retire at or after age 65 (62 for elected officials and 54 for protective occupation employees with less than 25 years of service, 53 for protective occupation employees with more than 25 years of service) are entitled to receive a retirement benefit. Employees may retire at age 55 (50 for protective occupation employees) and receive actuarially reduced benefits. The factors influencing the benefit are: (1) final average earnings, (2) years of creditable service, and (3) a formula factor. A final average earnings is the average of the employee's three highest year's earnings. Employees terminating covered employment and submitting application 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 January 1, 1990, and no longer actively employed on or after April 24, 1998, creditable service in each of five years is required for eligibility for a retirement annuity. Participants employed prior to 1990 and on or after April 24, 1998 and prior to July 1, 2011 are immediately vested. Participants who initially became WRS eligible on or after July 1, 2011 must have five years of creditable service to be vested.

The WRS also provides death and disability benefits for employees. Eligibility and the amount of all benefits are determined under Chapter 40 of Wisconsin Statutes.

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

CITY OF MERRILL, WISCONSIN
Notes to Basic Financial Statements
December 31, 2012

NOTE D - OTHER INFORMATION (Continued)

2. Tax Incremental Financing Districts

The City has established separate capital projects funds for Tax Incremental Financing Districts (TID) created by the City in accordance with Section 66.1105 of the Wisconsin Statutes. At the time the TID was created, the property tax base within the TID was "frozen" and increment taxes resulting from increases to the property tax base are used to finance TID improvements, including principal and interest on long-term debt issued by the City to finance such improvements. The Statutes allow eligible project costs to be incurred up to five years prior to the maximum termination date. The City's Districts are still eligible to incur project costs.

The City established TID No. 3 on September 13, 2005 as a mixed-use district and amended the boundaries on July 11, 2006. The TID is 212 acres and will include industrial, commercial, and residential development.

The City established TID No. 4 on September 11, 2007 as a mixed-use district. The City intends that the District will be used to assure a combination of private industrial and commercial development.

The City established TID No. 5 on September 11, 2007 as a mixed-use district. The City intends that the District will be used to assure a combination of private industrial and residential development.

The City established TID No. 6 on May 12, 2009 as a blighted area district. The City intends that the District will be used to assure a combination of private industrial, commercial, and residential development.

The City established TID No. 7 on August 11, 2009 as a blighted area district. The City intends that the District will be used to assure a combination of private industrial, commercial, and residential development.

The City established TID No. 8 on September 27, 2011 as a blighted area district. The City intends that the District will be used to assure a combination of private industrial, commercial, and residential development.

Since creation of the above Districts, the City has provided various financing sources to each TID and has also recorded eligible TID project costs in other funds of the City. The foregoing amounts are not recorded as liabilities in the TID capital project funds but can be recovered by the City from any future excess tax increment revenues.

	Total	TID No. 3	TID No. 4	TID No. 5	TID No. 6	TID No. 7	TID No. 8
Net Unreimbursed Project Costs	\$ 835,259	\$ (139,187)	\$ 55,992	\$ 3,221	\$ 574,679	\$ 32,955	\$ 307,599

The intent of the City is to recover all unreimbursed costs from future TID surplus funds, if any, prior to termination of the respective Districts. Unless terminated by the City prior thereto, each TID has a statutory termination year as follows:

	Termination Year
TID No. 3	2025
TID No. 4 and 5	2027
TID No. 6 and 7	2036
TID No. 8	2033

CITY OF MERRILL, WISCONSIN
Notes to Basic Financial Statements
December 31, 2012

NOTE D - OTHER INFORMATION (Continued)

3. 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; and natural disasters for which the government carries commercial insurance. The City completes an annual review of its insurance coverage to ensure adequate coverage.

4. Property Tax Levy Limit

Wisconsin state statutes provide for a limit on the property tax levies for all Wisconsin cities, villages, towns and counties. For the 2012 and 2013 budget years, the increase in the maximum allowable tax levy is limited to the percentage change in the City's January 1 equalized value as a result of net new construction. The actual limit for the City for the 2012 budget was .68%. The actual limit for the City for the 2013 budget was .02%. Debt service for debt authorized after July 1, 2005 is exempt from the levy limit. In addition, Wisconsin statutes allow the limit to be adjusted for the increase in debt service authorized prior to July 1, 2005 and in certain other situations.

5. Contingencies

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

6. Cumulative Effect of Change in Accounting Principle

The City has adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which requires debt issuance costs to be expensed in the period incurred, rather than recorded as assets and amortized over the life of the related debt issue. Financial statements for the year ended December 31, 2011 have not been restated. The cumulative effect of this change was to decrease the December 31, 2012 net position of the governmental activities by \$73,019 and the net position of the business-type activities and proprietary funds by \$4,697.

THIS PAGE LEFT BLANK INTENTIONALLY

SUPPLEMENTARY INFORMATION

CITY OF MERRILL, WISCONSIN

Combining Balance Sheet

Nonmajor Governmental Funds

December 31, 2012

(With summarized comparative information as of December 31, 2011)

	Special Revenue Funds			Capital Projects Funds					Total Nonmajor Governmental Funds		
	Library	Environ-mental	Remedial Action	TIF No. 3	TIF No. 4	TIF No. 5	TIF No. 6	TIF No. 7	TIF No. 8	2012	2011
ASSETS											
Cash and investments	\$ 539,280	\$ -	\$ 87,404	\$ 284,418	\$ 299,008	\$ -	\$ 91	\$ -	\$ -	\$ 1,210,201	\$ 1,246,685
Receivables											
Taxes	-	-	-	231,124	53,859	8,884	-	241	-	294,108	298,128
Accounts	-	-	-	-	-	-	-	-	-	-	62,681
Advance to other funds	-	-	393,789	-	-	-	-	-	-	393,789	410,749
Due from other governments	-	-	-	-	-	-	-	-	20,000	20,000	-
TOTAL ASSETS	\$ 539,280	\$ -	\$ 481,193	\$ 515,542	\$ 352,867	\$ 8,884	\$ 91	\$ 241	\$ 20,000	\$ 1,918,098	\$ 2,018,243
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES (DEFICITS)											
Liabilities											
Accounts payable	\$ -	\$ -	\$ -	\$ 5,932	\$ -	\$ -	\$ 7,265	\$ -	\$ -	\$ 13,197	\$ 11,040
Accrued and other current liabilities	-	-	-	-	-	-	91	-	-	91	29
Due to other funds	-	-	-	-	-	3,221	494,799	32,955	327,599	858,574	748,561
Advance from other funds	-	-	-	14,299	-	-	-	-	-	14,299	27,914
Total Liabilities	-	-	-	20,231	-	3,221	502,155	32,955	327,599	886,161	787,544
Deferred Inflows Of Resources											
Property taxes	-	-	-	231,124	53,859	8,884	-	241	-	294,108	298,128
Fund Balances (Deficits)											
Nonspendable											
Long-term advance	-	-	393,789	-	-	-	-	-	-	393,789	410,749
Restricted for											
Library endowment	539,280	-	-	-	-	-	-	-	-	539,280	572,136
TID project plan	-	-	-	264,187	299,008	-	-	-	-	563,195	537,831
Landfill monitoring	-	-	87,404	-	-	-	-	-	-	87,404	73,293
Unassigned, reported in											
Capital projects funds	-	-	-	-	-	(3,221)	(502,064)	(32,955)	(307,599)	(845,839)	(661,438)
Total Fund Balances (Deficits)	539,280	-	481,193	264,187	299,008	(3,221)	(502,064)	(32,955)	(307,599)	737,829	932,571
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES (DEFICITS)	\$ 539,280	\$ -	\$ 481,193	\$ 515,542	\$ 352,867	\$ 8,884	\$ 91	\$ 241	\$ 20,000	\$ 1,918,098	\$ 2,018,243

CITY OF MERRILL, WISCONSIN
 Combining Statement of Revenues, Expenditures and Changes in Fund Balances
 Nonmajor Governmental Funds
 For the Year Ended December 31, 2012
 (With summarized comparative information for the year ended December 31, 2011)

	Special Revenue Funds			Capital Projects Funds						Total Nonmajor Governmental Funds	
	Library	Environmental	Remedial Action	TIF No. 3	TIF No. 4	TIF No. 5	TIF No. 6	TIF No. 7	TIF No. 8	2012	2011
Revenues											
Taxes	\$ -	\$ -	\$ -	\$ 207,673	\$ 56,173	\$ 9,605	\$ 12,976	\$ 11,701	\$ -	\$ 298,128	\$ 257,181
Intergovernmental	-	38,914	-	8,808	-	12	4,722	1,662	20,000	74,118	47,602
Miscellaneous	52,869	-	12,596	-	-	-	21,585	-	-	87,050	120,414
Total Revenues	52,869	38,914	12,596	216,481	56,173	9,617	39,283	13,363	20,000	459,296	425,197
Expenditures											
Current											
Public works	-	-	15,445	-	-	-	-	-	-	15,445	11,402
Culture and recreation	5,793	-	-	-	-	-	-	-	-	5,793	39,165
Conservation and development	-	-	-	159,309	39,226	2,046	71,189	9,541	35,479	316,790	401,423
Capital outlay	79,932	38,914	-	8,600	-	-	74,603	-	66,810	268,859	389,433
Total Expenditures	85,725	38,914	15,445	167,909	39,226	2,046	145,792	9,541	102,289	606,887	841,423
Excess of Revenues Over (Under) Expenditures	(32,856)	-	(2,849)	48,572	16,947	7,571	(106,509)	3,822	(82,289)	(147,591)	(416,226)
Other Financing Uses											
Transfers out	-	-	-	(10,195)	(29,960)	-	(6,996)	-	-	(47,151)	(40,883)
Net Change in Fund Balances	(32,856)	-	(2,849)	38,377	(13,013)	7,571	(113,505)	3,822	(82,289)	(194,742)	(457,109)
Fund Balances (Deficit) - January 1	572,136	-	484,042	225,810	312,021	(10,792)	(388,559)	(36,777)	(225,310)	932,571	1,389,680
Fund Balances (Deficit) - December 31	\$ 539,280	\$ -	\$ 481,193	\$ 264,187	\$ 299,008	\$ (3,221)	\$ (502,064)	\$ (32,955)	\$ (307,599)	\$ 737,829	\$ 932,571

**ADDITIONAL INDEPENDENT AUDITORS' REPORT
FOR BASIC FINANCIAL STATEMENTS**



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

Independent Auditors' Report

To the Mayor and City Council
City of Merrill, Wisconsin

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Merrill, Wisconsin, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City of Merrill's basic financial statements, and have issued our report thereon which included an emphasis of matter paragraph as indicated on page 2 dated April 18, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Merrill, Wisconsin's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Merrill, Wisconsin's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Merrill, Wisconsin's internal control.

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 a 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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2012-01 that we consider to be a significant deficiency.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Merrill, Wisconsin'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*.

City of Merrill, Wisconsin's Response to Findings

City of Merrill, Wisconsin's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. City of Merrill, Wisconsin's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of City of Merrill, Wisconsin's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Merrill, Wisconsin's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Certified Public Accountants
Green Bay, Wisconsin
April 18, 2013

**FEDERAL AWARDS AND
STATE FINANCIAL ASSISTANCE**



REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL AND STATE PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Independent Auditors' Report

To the Mayor and City Council
City of Merrill, Wisconsin

Report on Compliance for Each Major Federal and State Program

We have audited City of Merrill, Wisconsin's compliance with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* and the *State Single Audit Guidelines* issued by the Wisconsin Department of Administration that could have a direct and material effect on each of City of Merrill, Wisconsin's major federal and state programs for the year ended December 31, 2012. City of Merrill, Wisconsin's major federal and state programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal and state programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of City of Merrill, Wisconsin's major federal and state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the *State Single Audit Guidelines* issued by the Wisconsin Department of Administration. Those standards, OMB Circular A-133 and the *State Single Audit Guidelines* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal or state program occurred. An audit includes examining, on a test basis, evidence about City of Merrill, Wisconsin's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal and state program. However, our audit does not provide a legal determination of City of Merrill, Wisconsin's compliance.

Opinion on Each Major Federal and State Program

In our opinion, City of Merrill, Wisconsin complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal and state programs for the year ended December 31, 2012.

Report on Internal Control Over Compliance

Management of City of Merrill, Wisconsin is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered City of Merrill, Wisconsin's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal or state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal and state program and to test and report on internal control over compliance in accordance with OMB Circular A-133 and the *State Single Audit Guidelines*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Merrill, Wisconsin's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal or state program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal or state program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal or state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2012-02 that we consider to be a significant deficiency.

City of Merrill, Wisconsin's response to the internal control over compliance findings identified in our audit are described in the accompanying schedule of prior year audit findings and corrective action plan. City of Merrill, Wisconsin's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the *State Single Audit Guidelines*. Accordingly, this report is not suitable for any other purpose.



Certified Public Accountants
Green Bay, Wisconsin
April 18, 2013

CITY OF MERRILL, WISCONSIN
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2012

Grantor Agency/Federal Program Title	Pass-through Agency	Federal CFDA Number	Revenues				Total Expenditures
			(Accrued) or Deferred Revenue 1/1/12	Cash Received	Accrued or (Deferred) Revenue 12/31/12	Total Revenues	
U.S. DEPARTMENT OF INTERIOR							
Dingell-Johnson Sport Fish Restoration Program	WI Department of Justice	15.605	\$ (86,734)	\$ 86,734	\$ -	\$ -	\$ -
U.S. DEPARTMENT OF JUSTICE							
Cease Grant	WI Department of Justice	16.595	-	1,500	-	1,500	1,500
Bulletproof Vest	Direct Program	16.607	-	4,530	-	4,530	4,530
Total U.S. Department of Justice			-	6,030	-	6,030	6,030
U.S. DEPARTMENT OF TRANSPORTATION							
Transit Aids Public Trans./Non-Urban State and Community Highway Safety Motorcycle Enforcement Grant Project #0952-70-10	WI Department of Transportation	20.509	-	214,400	-	214,400	214,400
Total U.S. Department of Transportation	WI Department of Transportation	20.600	-	3,111	-	3,111	3,111
			-	217,511	-	217,511	217,511
U.S. ENVIRONMENTAL PROTECTION AGENCY							
Capitalization Grants for Drinking Water State Revolving Loans	WI Department of Administration	66.468	-	1,570,627	-	1,570,627	1,570,627
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ (86,734)	\$ 1,880,902	\$ -	\$ 1,794,168	\$ 1,794,168

The notes to the schedule of expenditures of federal awards are an integral part of this schedule.

CITY OF MERRILL, WISCONSIN
 Schedule of State Financial Assistance
 For the Year Ended December 31, 2012

Grantor Agency/State Program Title	Pass-through Agency	State I.D. Number	Revenues				Total Expenditures
			(Accrued) or Deferred Revenue 1/1/12	Cash Received	Accrued or (Deferred) Revenue 12/31/12	Total Revenues	
<u>DEPARTMENT OF NATURAL RESOURCES</u>							
Boating Enforcement Aids	Direct Program	370.550	\$ -	\$ -	\$ 26,127	\$ 26,127	\$ 26,127
Urban Forestry Grant	Direct Program	370.572	-	-	2,486	2,486	2,486
Ready to Reuse RRG-009	Direct Program	N/A	(41,773)	80,687	-	38,914	38,914
Recreational Boating Facilities RBF-1340	Direct Program	370.TA1	-	-	26,127	26,127	26,127
Forest Fire Protection	Direct Program	N/A	-	898	-	898	898
Total Department of Natural Resources			(41,773)	81,585	54,740	94,552	94,552
<u>DEPARTMENT OF TRANSPORTATION</u>							
Transit Operating Aids	Direct Program	395.104	-	96,433	-	96,433	96,433
Department of Military Affairs Wisconsin Disaster Fund Grant	Direct Program	465.337	(53,385)	53,385	-	-	-
TOTAL STATE PROGRAMS			\$ (95,158)	\$ 231,403	\$ 54,740	\$ 190,985	\$ 190,985

The notes to the schedule of state financial assistance are an integral part of this schedule.

CITY OF MERRILL, WISCONSIN

Notes to the Schedule of Expenditures of Federal Awards and State Financial Assistance
For the Year Ended December 31, 2012

NOTE A - BASIS OF PRESENTATION

The accompanying Schedules of Expenditures of Federal Awards and State Financial Assistance for the City of Merrill, Wisconsin, is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations and the State Single Audit Guidelines* issued by the Wisconsin Department of Administration.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES

Revenues and expenditures in the schedule are presented in accordance with the accrual basis of accounting and are generally in agreement with revenues and expenses reported in the City's 2012 financial statements.

Major federal and state financial assistance programs are identified in the Schedule of Findings and Questioned Costs. Additional information on is presented below:

Federal Programs: City of Merrill, Wisconsin does not qualify as a low risk auditee in accordance with paragraph 530 of OMB Circular A-133. Therefore major programs represent those with combined expenditures exceeding 50% of total federal awards that also were deemed major programs based on the auditors' risk assessment.

State Programs: City of Merrill, Wisconsin, does not qualify as a low risk auditee in accordance with the *State Single Audit Guidelines*. Therefore major programs represent those with combined expenditures exceeding 50% of total state financial assistance that also were deemed major programs based on the auditor's risk assessment. In addition, certain state financial assistance programs were designated state major by the state granting agency and therefore considered state major. All other state financial assistance programs are considered non-major programs.

NOTE C - OVERSIGHT AGENCIES

The oversight agencies for the City are as follows:

- Federal - Department of Justice
- State - Department of Natural Resources

THIS PAGE LEFT BLANK INTENTIONALLY

CITY OF MERRILL, WISCONSIN
 Schedule of Findings and Questioned Costs
 For the Year Ended December 31, 2012

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unqualified
Internal control over financial reporting:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	Yes
Noncompliance material to financial statements noted?	No

Federal Awards and State Financial Assistance

Internal control over major programs:	
• Material weakness(es) identified	No
• Significant deficiency(ies) identified?	Yes
Type of auditors' report issued on compliance for major programs	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	Yes
Any audit findings disclosed that are required to be reported in accordance with the State Single Audit Guidelines	Yes
Identification of major federal and state programs:	

CFDA Number	Name of Federal Program
66.468	Capitalization Grants for Drinking Water - State Revolving Loans

State ID Number	Name of State Program
395.104	Transit Operating Aids

Audit threshold used to determine between Type A and Type B programs:	
Federal Awards	\$300,000
State Awards	\$100,000
Auditee qualified as low-risk auditee	No

CITY OF MERRILL, WISCONSIN
 Schedule of Findings and Questioned Costs (Continued)
 For the Year Ended December 31, 2012

Section II - Financial Statement Findings

Finding No.	Control Deficiencies
2012-01	<p>Preparation of Annual Financial Report</p> <p>Condition: Current City staff maintains accounting records which reflect the City's financial transactions; however, preparing the City's annual financial report, including note disclosures, involves the selection and application of specific accounting principles which would require additional experience and knowledge. The City contracts with us and our knowledge of applicable accounting principles, financial statement formats, and note disclosures to prepare the annual financial report in an efficient manner.</p> <p>Criteria: The preparation and review of the annual financial report by staff with expertise in financial reporting is an internal control intended to prevent, detect and correct a potential omission or misstatement in the financial statements or notes.</p> <p>Cause: City management has determined that the additional costs associated with training staff to become experienced in applicable accounting principles and note disclosures outweigh the derived benefits.</p> <p>Effect: Without our involvement, the City may not be able to completely prepare an annual financial report in accordance with accounting principles generally accepted in the United States of America.</p> <p>Recommendation: We recommend the City continue reviewing the annual financial report prepared by Schenck. While it may not be cost beneficial to train additional staff to completely prepare the report, a thorough review of this information by appropriate staff of the City is necessary to obtain a complete and adequate understanding of the City's annual financial report.</p>

CITY OF MERRILL, WISCONSIN
 Schedule of Findings and Questioned Costs (Continued)
 For the Year Ended December 31, 2012

Section III - Federal Award and State Financial Assistance Findings and Questioned Costs

Finding No.	Control Deficiencies
2012-02	<p>Financial Reporting for Federal and State Financial Assistance</p> <p>Federal CFDA - All State IDs - All</p> <p>Condition: OMB Circular A-133 requires the City to prepare appropriate financial statements, including the schedules of expenditures of federal awards. While the current staff of the City maintains financial records supporting amounts reported in the schedules of expenditures of federal awards, the City contracts with Schenck to compile the data from these records and prepare the single audit report for the City.</p> <p>Criteria: Having staff with expertise in federal financial reporting prepare the City's single audit report is an internal control intended to prevent, detect and correct a potential misstatement in the schedules of expenditures of federal awards or accompanying notes to the schedule.</p> <p>Cause: The additional costs associated with hiring staff sufficiently experienced to prepare the Village's single audit report, including the additional training time, outweigh the derived benefits.</p> <p>Effect: The City could receive federal or state grant awards which are not included in the accompanying Schedules of Expenditures of Federal Awards and State Financial Assistance.</p> <p>Recommendation: We recommend City personnel continue reviewing the City's single audit report prepared by Schenck. While it may not be cost beneficial to hire additional staff to prepare these items a thorough review of this information by appropriate staff of the City is necessary to ensure all federal assistance programs are properly reported in the City's single audit report.</p>

CITY OF MERRILL, WISCONSIN
 Schedule of Findings and Questioned Costs (Continued)
 For the Year Ended December 31, 2012

Section IV - Other Issues

Does the auditor's report of the notes to the financial statement include disclosure with regard to substantial doubt as to the auditee's ability to continue as a going concern?

_____ Yes X No

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 the *State Single Audit Guidelines*:

Department of Natural Resources	<u> X </u>	Yes	_____	No
Department of Transportation	<u> X </u>	Yes	_____	No
Department of Justice	<u> X </u>	Yes	_____	No
Department of Military Affairs	<u> X </u>	Yes	_____	No
Department of Administration	<u> X </u>	Yes	_____	No

Was a Management Letter or other document conveying audit comments issued as a result of this audit?

 X Yes _____ No

Name and signature of shareholder

David L. Maccoux

 David L. Maccoux,
 Shareholder

Date of report

April 18, 2013

CITY OF MERRILL, WISCONSIN
Schedule of Prior Year Audit Findings and Corrective Action Plan
For the Year Ended December 31, 2012

Prior Year Audit Findings

There were no prior year findings.

Corrective Action Plan

2012-01 Preparation of Annual Financial Report

Management Response: Management believes the cost for additional staff time and training to prepare the annual financial report outweigh the benefits to be received. Management has reviewed and approved the annual financial report prior to issuance.

2012-02 Financial Reporting for Federal and State Financial Assistance

Management Response: Management believes the cost for additional staff time and training to prepare these items outweigh the benefits to be received. Management has reviewed and approved the report prior to issuance.