



CITY OF MERRILL
COMMITTEE OF THE WHOLE
AGENDA • TUESDAY MAY 14, 2019

Regular Meeting

City Hall Council Chambers

6:00 PM

- I. Call to Order
- II. Public Comment Period
- III. Agenda Items:
 1. Presentation and discussion of 2018 City of Merrill Annual Financial Report and Management Communications.
 2. Review/discuss 2020 budget procedures, timelines and goals.
- IV. Adjournment

City of Merrill, Wisconsin
ANNUAL FINANCIAL REPORT

December 31, 2018

City of Merrill, Wisconsin

DECEMBER 31, 2018

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Independent auditors' report

To the City Council
City of Merrill
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, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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 auditors consider 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, 2018, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General Fund and the Community Development Block Grant fund thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

CHANGE IN ACCOUNTING PRINCIPLE

As discussed in Note 3.G to the financial statements, the City adopted new accounting guidance, Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinions are not modified with respect to this matter.

OTHER MATTERS

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the schedules relating to pensions and other postemployment benefits on pages 45 through 46 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require 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 opinions on the basic financial statements are 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 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates 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 is fairly stated in all material respects in relation to the basic financial statements as a whole.

Schenck SC previously audited, in accordance with auditing standards generally accepted in the United States of America, the City of Merrill, Wisconsin's basic financial statements for the year ended December 31, 2017, which are not presented with the accompanying financial statements and expressed unmodified opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information. That audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Merrill, Wisconsin's basic financial statements as a whole. The 2017 actual amounts in the general fund budgetary comparison information and the combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare used to prepare the 2017 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of those 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 2017 actual amounts in the general fund budgetary comparison information and combining nonmajor fund financial statements are fairly stated in all material respects in relation to the basic financial statements from which they have been derived.

Prior Year Summarized Financial information

The 2017 financial statements were audited by Schenck SC, whose practice became part of CliftonLarsonAllen LLP as of January 1, 2019, and whose report dated May 3, 2018, expressed unmodified opinions on those respective financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information from which the prior year summarized financial information was derived.

OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 8, 2019, 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 solely 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 effectiveness of the City's 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.

CliftonLarsonAllen LLP

Green Bay, Wisconsin
May 8, 2019

BASIC FINANCIAL STATEMENTS

City of Merrill, Wisconsin

STATEMENT OF NET POSITION

DECEMBER 31, 2018

WITH SUMMARIZED FINANCIAL INFORMATION AS OF DECEMBER 31, 2017

	Governmental Activities	Business-type Activities	Totals	
			2018	2017
ASSETS				
Cash and investments	\$ 6,973,927	\$ 770,196	\$ 7,744,123	\$ 7,944,558
Receivables				
Taxes and special charges	9,677,113	-	9,677,113	8,281,902
Delinquent taxes	1,322	-	1,322	703
Accounts	323,925	722,460	1,046,385	1,356,466
Special assessments	36,856	-	36,856	63,845
Loans	3,017,032	-	3,017,032	3,083,535
Other	-	83,316	83,316	86,976
Inventories and prepaid items	158,781	95,217	253,998	214,789
Restricted assets				
Cash and investments	-	1,128,650	1,128,650	1,131,141
Net pension asset	1,730,063	127,317	1,857,380	-
Capital assets, nondepreciable	4,711,226	220,826	4,932,052	4,508,235
Capital assets, depreciable	35,333,325	17,260,139	52,593,464	50,638,436
Total assets	61,963,570	20,408,121	82,371,691	77,310,586
DEFERRED OUTFLOWS OF RESOURCES				
Loss on advance refunding	30,767	-	30,767	46,819
Pension related amounts	3,176,006	230,442	3,406,448	3,827,050
Other postemployment related amounts	42,549	3,131	45,680	-
Total deferred outflows of resources	3,249,322	233,573	3,482,895	3,873,869
LIABILITIES				
Accounts payable	633,686	88,686	722,372	657,233
Accrued and other current liabilities	23,821	-	23,821	44,530
Due to other governments	6,146,140	-	6,146,140	6,075,139
Accrued interest payable	186,576	7,750	194,326	194,195
Special deposits	139,603	-	139,603	135,383
Unearned revenues	4,060	-	4,060	10,811
Long-term obligations				
Due within one year	2,000,900	136,935	2,137,835	1,418,812
Due in more than one year	21,278,387	1,311,762	22,590,149	20,291,904
Net pension liability	-	-	-	504,280
Other postemployment benefits	379,348	27,917	407,265	-
Total liabilities	30,792,521	1,573,050	32,365,571	29,332,287
DEFERRED INFLOWS OF RESOURCES				
Property taxes levied for subsequent year	6,969,140	-	6,969,140	6,409,747
Pension related amounts	3,434,982	252,783	3,687,765	1,616,350
Other postemployment related amounts	5,345	393	5,738	-
Total deferred inflows of resources	10,409,467	253,176	10,662,643	8,026,097
NET POSITION				
Net investment in capital assets	18,270,308	16,075,052	34,345,360	35,724,504
Restricted	6,054,436	1,255,967	7,310,403	5,352,785
Unrestricted	(313,840)	1,484,449	1,170,609	2,748,782
Total net position	\$ 24,010,904	\$ 18,815,468	\$ 42,826,372	\$ 43,826,071

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, 2018
WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2017

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
GOVERNMENTAL ACTIVITIES				
General government	\$ 1,891,503	\$ 139,835	\$ 479	\$ 2,285
Public safety	5,763,115	407,515	1,430,743	4,084
Public works	3,712,120	232,913	1,100,947	20,546
Health and human services	24,490	-	-	3,776
Culture and recreation	3,181,959	351,652	479,856	101,284
Conservation and development	974,389	79,999	-	-
Interest and fiscal charges	572,169	-	-	-
Total governmental activities	<u>16,119,745</u>	<u>1,211,914</u>	<u>3,012,025</u>	<u>131,975</u>
BUSINESS-TYPE ACTIVITIES				
Water utility	1,256,678	1,646,511	-	-
Sewer utility	<u>1,545,777</u>	<u>1,633,615</u>	-	-
Total business-type activities	<u>2,802,455</u>	<u>3,280,126</u>	-	-
Total	<u>\$ 18,922,200</u>	<u>\$ 4,492,040</u>	<u>\$ 3,012,025</u>	<u>\$ 131,975</u>

General revenues
Taxes
Property taxes
Tax increments
Other taxes
Federal and state grants and other contributions
not restricted to specific functions
Interest and investment earnings
Miscellaneous
Transfers

Total general revenues and transfers

Change in net position

Net position - January 1, as originally reported

Cumulative effect of change in accounting principle

Net position - January 1, as restated

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	
		2018	2017
\$ (1,748,904)	\$ -	\$ (1,748,904)	\$ (3,051,405)
(3,920,773)	-	(3,920,773)	(4,020,685)
(2,357,714)	-	(2,357,714)	(1,545,886)
(20,714)	-	(20,714)	(31,143)
(2,249,167)	-	(2,249,167)	(908,762)
(894,390)	-	(894,390)	(2,248,807)
(572,169)	-	(572,169)	(541,946)
<u>(11,763,831)</u>	<u>-</u>	<u>(11,763,831)</u>	<u>(12,348,634)</u>
-	389,833	389,833	335,681
-	87,838	87,838	214,754
-	477,671	477,671	550,435
<u>(11,763,831)</u>	<u>477,671</u>	<u>(11,286,160)</u>	<u>(11,798,199)</u>
5,617,836	-	5,617,836	5,376,386
735,781	-	735,781	860,640
155,654	-	155,654	151,044
3,452,808	-	3,452,808	3,443,297
107,971	23,003	130,974	107,638
499,609	20,569	520,178	376,321
124,080	(124,080)	-	-
<u>10,693,739</u>	<u>(80,508)</u>	<u>10,613,231</u>	<u>10,315,326</u>
<u>(1,070,092)</u>	<u>397,163</u>	<u>(672,929)</u>	<u>(1,482,873)</u>
25,385,367	18,440,704	43,826,071	45,308,944
<u>(304,371)</u>	<u>(22,399)</u>	<u>(326,770)</u>	<u>-</u>
<u>25,080,996</u>	<u>18,418,305</u>	<u>43,499,301</u>	<u>45,308,944</u>
<u>\$ 24,010,904</u>	<u>\$ 18,815,468</u>	<u>\$ 42,826,372</u>	<u>\$ 43,826,071</u>

Attachment: Audit - 2018 Financial Report (4150 : Audit Presentation and Discussion)

City of Merrill, Wisconsin

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2018
WITH SUMMARIZED FINANCIAL INFORMATION AS OF DECEMBER 31, 2017**

	<u>General</u>	<u>Community Development Block Grant</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>
ASSETS				
Cash and investments	\$ 5,273,638	\$ 546,500	\$ 53,163	\$ 1,100,626
Receivables				
Taxes and special charges	6,995,882	14,993	1,600,516	1,065,722
Delinquent taxes	1,322	-	-	-
Accounts	253,119	-	-	70,806
Special assessments	36,856	-	-	-
Loans	-	3,017,032	-	-
Due from other funds	1,690,278	-	-	-
Advance to other funds	99,896	-	-	269,450
Inventories and prepaid items	158,781	-	-	-
	<u>158,781</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 14,509,772</u>	<u>\$ 3,578,525</u>	<u>\$ 1,653,679</u>	<u>\$ 2,506,604</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 575,312	\$ 29,853	\$ -	\$ 28,521
Accrued and other current liabilities	23,821	-	-	-
Due to other funds	-	-	-	1,690,278
Advance from other funds	269,450	-	-	99,896
Due to other governments	6,146,140	-	-	-
Special deposits	139,603	-	-	-
Unearned revenues	4,060	-	-	-
	<u>4,060</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>7,158,386</u>	<u>29,853</u>	<u>-</u>	<u>1,818,695</u>
Deferred inflows of resources				
Property taxes levied for subsequent year	4,287,909	14,993	1,600,516	1,065,722
Grants	-	-	-	45,238
Loans receivable	-	3,017,036	-	-
Special assessments	16,714	-	-	-
	<u>16,714</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total deferred inflows of resources	<u>4,304,623</u>	<u>3,032,029</u>	<u>1,600,516</u>	<u>1,110,960</u>
Fund balances				
Nonspendable	158,781	-	-	-
Restricted	380,014	516,643	53,163	1,346,773
Committed	808,223	-	-	-
Unassigned	1,699,745	-	-	(1,769,824)
	<u>1,699,745</u>	<u>-</u>	<u>-</u>	<u>(1,769,824)</u>
Total fund balances	<u>3,046,763</u>	<u>516,643</u>	<u>53,163</u>	<u>(423,051)</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 14,509,772</u>	<u>\$ 3,578,525</u>	<u>\$ 1,653,679</u>	<u>\$ 2,506,604</u>

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



Totals	
2018	2017
\$ 6,973,927	\$ 6,933,864
9,677,113	8,281,902
1,322	703
323,925	626,807
36,856	63,845
3,017,032	3,083,535
1,690,278	1,697,941
369,346	369,346
158,781	130,030
<u>\$ 22,248,580</u>	<u>\$ 21,187,973</u>
\$ 633,686	\$ 562,760
23,821	44,530
1,690,278	1,697,941
369,346	369,346
6,146,140	6,075,139
139,603	135,383
4,060	10,811
<u>9,006,934</u>	<u>8,895,910</u>
6,969,140	6,409,747
45,238	99,490
3,017,036	3,083,535
16,714	25,105
<u>10,048,128</u>	<u>9,617,877</u>
158,781	130,030
2,296,593	1,631,737
808,223	773,535
(70,079)	138,884
<u>3,193,518</u>	<u>2,674,186</u>
<u>\$ 22,248,580</u>	<u>\$ 21,187,973</u>

Attachment: Audit - 2018 Financial Report (4150 : Audit Presentation and Discussion)

City of Merrill, Wisconsin

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2018
WITH SUMMARIZED FINANCIAL INFORMATION AS OF DECEMBER 31, 2017**

	<u>2018</u>	<u>2017</u>
RECONCILIATION TO THE STATEMENT OF NET POSITION		
Total fund balances as shown on previous page	\$ 3,193,518	\$ 2,674,186
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.	40,044,551	38,170,351
Long-term assets are not available; therefore, are not reported in the funds:		
Loans receivable	3,017,036	3,083,535
Special assessments	16,714	25,105
Grants receivable	45,238	99,490
Net pension asset	1,730,063	-
Some deferred outflows and inflows of resources reflect changes in long-term liabilities and are not reported in the funds.		
Loss on advance refunding	30,767	46,819
Deferred outflows related to pensions	3,176,006	3,573,097
Deferred inflows related to pensions	(3,434,982)	(1,511,176)
Deferred outflows related to other postemployment benefits	42,549	-
Deferred inflows related to other postemployment benefits	(5,345)	-
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.		
Bonds and notes payable	(22,127,549)	(18,942,035)
Premium on debt	(305,830)	(337,517)
Compensated absences	(845,908)	(839,583)
Net pension liability	-	(471,467)
Other postemployment benefit	(379,348)	-
Accrued interest on long-term obligations	(186,576)	(185,438)
Net position of governmental activities as reported on the statement of net position (see page 4)	<u>\$ 24,010,904</u>	<u>\$ 25,385,367</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 BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018
WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>General</u>	<u>Community Development Block Grant</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>
REVENUES				
Taxes	\$ 4,370,439	\$ 14,683	\$ 1,401,207	\$ 735,781
Special assessments	20,810	-	-	74,252
Intergovernmental	4,993,358	-	2,658	37,936
Licenses and permits	195,985	-	-	-
Fines and forfeits	109,433	-	-	-
Public charges for services	632,480	-	-	-
Intergovernmental charges for services	1,613,501	1,625	-	-
Miscellaneous	588,006	212,540	-	74,706
Total revenues	<u>12,524,012</u>	<u>228,848</u>	<u>1,403,865</u>	<u>922,675</u>
EXPENDITURES				
Current				
General government	1,683,777	-	-	-
Public safety	5,327,331	-	-	-
Public works	2,899,667	-	-	24,856
Health and human services	151,832	-	-	-
Culture and recreation	2,500,027	-	-	97,394
Conservation and development	20,200	168,089	-	445,688
Debt service				
Principal	-	-	1,423,486	-
Interest and fiscal charges	74,905	-	495,821	42,700
Capital outlay	2,383,664	-	-	1,872,815
Total expenditures	<u>15,041,403</u>	<u>168,089</u>	<u>1,919,307</u>	<u>2,483,453</u>
Excess of revenues over (under) expenditures	<u>(2,517,391)</u>	<u>60,759</u>	<u>(515,442)</u>	<u>(1,560,778)</u>
OTHER FINANCING SOURCES (USES)				
Long-term debt issued	2,305,000	-	-	2,304,000
Premium on debt issued	-	-	-	-
Proceeds from sale of capital assets	68,742	-	-	-
Transfers in	374,442	-	513,488	73,069
Transfers out	(1,625)	-	-	(584,932)
Total other financing sources (uses)	<u>2,746,559</u>	<u>-</u>	<u>513,488</u>	<u>1,792,137</u>
Net change in fund balances	229,168	60,759	(1,954)	231,359
Fund balances - January 1	<u>2,817,595</u>	<u>455,884</u>	<u>55,117</u>	<u>(654,410)</u>
Fund balances - December 31	<u>\$ 3,046,763</u>	<u>\$ 516,643</u>	<u>\$ 53,163</u>	<u>\$ (423,051)</u>

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

Totals	
<u>2018</u>	<u>2017</u>
\$ 6,522,110	\$ 6,410,748
95,062	170,403
5,033,952	5,226,114
195,985	187,012
109,433	125,600
632,480	597,721
1,615,126	1,578,870
<u>875,252</u>	<u>1,020,285</u>
<u>15,079,400</u>	<u>15,316,753</u>
1,683,777	1,636,148
5,327,331	5,264,879
2,924,523	2,851,354
151,832	241,642
2,597,421	2,441,996
633,977	726,304
1,423,486	2,142,557
613,426	563,992
<u>4,256,479</u>	<u>7,110,989</u>
<u>19,612,252</u>	<u>22,979,861</u>
<u>(4,532,852)</u>	<u>(7,663,108)</u>
4,609,000	6,636,755
-	86,337
68,742	16,592
960,999	1,006,205
<u>(586,557)</u>	<u>(642,593)</u>
<u>5,052,184</u>	<u>7,103,296</u>
519,332	(559,812)
<u>2,674,186</u>	<u>3,233,998</u>
<u>\$ 3,193,518</u>	<u>\$ 2,674,186</u>

Attachment: Audit - 2018 Financial Report (4150 : Audit Presentation and Discussion)

City of Merrill, Wisconsin

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018
WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>2018</u>	<u>2017</u>
RECONCILIATION TO THE STATEMENT OF ACTIVITIES		
Net change in fund balances as shown on previous page	\$ 519,332	\$ (559,812)
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 outlay in governmental fund statements	3,501,517	6,947,765
Depreciation expense reported in the statement of activities	(1,498,481)	(1,413,775)
Net book value of disposals	(128,836)	(1,427,861)
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.	(129,142)	43,646
Debt issued provides current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		
Long-term debt issued	(4,609,000)	(6,636,755)
Premium on debt issued	-	(86,337)
Principal repaid	1,423,486	2,142,557
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds:		
Accrued interest on long-term debt	(1,138)	(19,375)
Amortization of premiums, discounts and loss on advance refunding	15,635	12,076
Compensated absences	(6,325)	3,930
Net pension liability	471,467	444,205
Net pension asset	1,730,063	-
Deferred outflows of resources related to pensions	(397,091)	(1,563,934)
Deferred inflows of resources related to pensions	(1,923,806)	426,404
Other postemployment benefits	(74,977)	-
Deferred outflows of resources related to other postemployment benefits	42,549	-
Deferred inflows of resources related to other postemployment benefits	(5,345)	-
Change in net position of governmental activities as reported in the statement of activities (see pages 5 - 6)	<u>\$ (1,070,092)</u>	<u>\$ (1,687,266)</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, 2018
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2017**

	Budget		Actual	Variance	2017 Actual
	Original	Final		Final Budget - Positive (Negative)	
REVENUES					
Taxes	\$ 4,392,446	\$ 4,392,446	\$ 4,370,439	\$ (22,007)	\$ 4,268,205
Special assessments	30,000	30,000	20,810	(9,190)	85,038
Intergovernmental	5,289,282	5,289,282	4,993,358	(295,924)	5,064,632
Licenses and permits	191,496	191,496	195,985	4,489	187,012
Fines and forfeits	118,600	118,600	109,433	(9,167)	125,600
Public charges for services	681,667	681,667	632,480	(49,187)	597,646
Intergovernmental charges for services	1,679,022	1,679,022	1,613,501	(65,521)	1,577,120
Miscellaneous	550,100	550,100	588,006	37,906	648,850
Total revenues	12,932,613	12,932,613	12,524,012	(408,601)	12,554,103
EXPENDITURES					
Current					
General government	1,769,366	1,769,366	1,683,777	85,589	1,636,148
Public safety	5,367,064	5,367,064	5,327,331	39,733	5,264,879
Public works	3,060,915	3,060,915	2,899,667	161,248	2,825,284
Health and human services	135,510	135,510	151,832	(16,322)	241,642
Culture and recreation	2,517,010	2,517,010	2,500,027	16,983	2,332,830
Conservation and development	20,200	20,200	20,200	-	19,700
Debt service					
Interest and fiscal charges	-	-	74,905	(74,905)	85,505
Capital outlay	2,544,675	2,544,675	2,383,664	161,011	3,410,611
Total expenditures	15,414,740	15,414,740	15,041,403	373,337	15,816,599
Excess of revenues under expenditures	(2,482,127)	(2,482,127)	(2,517,391)	(35,264)	(3,262,496)
OTHER FINANCING SOURCES (USES)					
Long-term debt issued	256,892	256,892	2,305,000	2,048,108	2,200,000
Premium on debt issued	-	-	-	-	27,932
Proceeds from sale of capital assets	-	-	68,742	68,742	16,592
Transfers in	357,500	357,500	374,442	16,942	363,612
Transfers out	(1,625)	(1,625)	(1,625)	-	(1,581)
Total other financing sources (uses)	612,767	612,767	2,746,559	2,133,792	2,606,555
Net change in fund balance	(1,869,360)	(1,869,360)	229,168	2,098,528	(655,941)
Fund balance - January 1	2,817,595	2,817,595	2,817,595	-	3,473,536
Fund balance - December 31	\$ 948,235	\$ 948,235	\$ 3,046,763	\$ 2,098,528	\$ 2,817,595

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 SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2018
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2017**

	Budget		Actual	Variance Final Budget - Positive (Negative)	2017 Actual
	Original	Final			
REVENUES					
Taxes	\$ 14,683	\$ 14,683	\$ 14,683	\$ -	\$ 41,500
Intergovernmental charges					
for services	11,000	11,000	1,625	(9,375)	1,750
Miscellaneous	86,850	86,850	212,540	125,690	148,995
Total revenues	112,533	112,533	228,848	116,315	192,245
EXPENDITURES					
Current					
Conservation and development	126,183	126,183	168,089	(41,906)	135,481
Net change in fund balance	(13,650)	(13,650)	60,759	74,409	56,764
Fund balance - January 1	455,884	455,884	455,884	-	399,120
Fund balance - December 31	<u>\$ 442,234</u>	<u>\$ 442,234</u>	<u>\$ 516,643</u>	<u>\$ 74,409</u>	<u>\$ 455,884</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, 2018
WITH SUMMARIZED FINANCIAL INFORMATION AS OF DECEMBER 31, 2017**

	Water Utility	Sewer Utility	Totals	
			2018	2017
ASSETS				
Current assets				
Cash and investments	\$ 708,174	\$ 62,022	\$ 770,196	\$ 1,010,694
Receivables				
Customer accounts	349,298	373,162	722,460	729,659
Other	32,470	50,846	83,316	86,976
Inventories and prepaid items	89,483	5,734	95,217	84,759
Total current assets	<u>1,179,425</u>	<u>491,764</u>	<u>1,671,189</u>	<u>1,912,088</u>
Noncurrent assets				
Restricted assets				
Cash and investments	96,643	1,032,007	1,128,650	1,131,141
Other assets				
Net pension asset	72,309	55,008	127,317	-
Capital assets				
Nondepreciable	73,441	147,385	220,826	200,147
Depreciable	9,333,338	7,926,801	17,260,139	16,776,173
Total capital assets	<u>9,406,779</u>	<u>8,074,186</u>	<u>17,480,965</u>	<u>16,976,320</u>
Total assets	<u>10,755,156</u>	<u>9,652,965</u>	<u>20,408,121</u>	<u>20,019,549</u>
DEFERRED OUTFLOWS OF RESOURCES				
Pension related amounts	132,525	97,917	230,442	253,953
Other postemployment related amounts	1,778	1,353	3,131	-
Total deferred outflows of resources	<u>134,303</u>	<u>99,270</u>	<u>233,573</u>	<u>253,953</u>
LIABILITIES				
Current liabilities				
Accounts payable	21,062	67,624	88,686	94,473
Accrued interest	4,767	2,983	7,750	8,757
Current portion of compensated absences	11,000	-	11,000	-
Current portion of long-term debt	108,592	28,343	136,935	134,113
Total current liabilities	<u>145,421</u>	<u>98,950</u>	<u>244,371</u>	<u>237,343</u>
Long-term obligations, less current portion				
General obligation debt	27,731	28,741	56,472	111,908
Revenue bonds	1,212,506	-	1,212,506	1,293,997
Compensated absences	31,138	646	31,784	51,563
Net pension liability	-	-	-	32,813
Other postemployment benefits	15,855	12,062	27,917	-
Total long-term liabilities	<u>1,287,230</u>	<u>41,449</u>	<u>1,328,679</u>	<u>1,490,281</u>
Total liabilities	<u>1,432,651</u>	<u>140,399</u>	<u>1,573,050</u>	<u>1,727,624</u>
DEFERRED INFLOWS OF RESOURCES				
Pension related amounts	143,567	109,216	252,783	105,174
Other postemployment related amounts	223	170	393	-
Total deferred inflows of resources	<u>143,790</u>	<u>109,386</u>	<u>253,176</u>	<u>105,174</u>
NET POSITION				
Net investment in capital assets	8,057,950	8,017,102	16,075,052	15,436,302
Restricted	168,952	1,087,015	1,255,967	1,131,141
Unrestricted	1,086,116	398,333	1,484,449	1,873,261
Total net position	<u>\$ 9,313,018</u>	<u>\$ 9,502,450</u>	<u>\$ 18,815,468</u>	<u>\$ 18,440,704</u>

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, 2018
WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2017**

	Water Utility	Sewer Utility	Totals	
			2018	2017
OPERATING REVENUES				
Charges for services	\$ 1,505,277	\$ 1,495,239	\$ 3,000,516	\$ 2,903,513
Other	141,234	138,376	279,610	275,907
Total operating revenues	1,646,511	1,633,615	3,280,126	3,179,420
OPERATING EXPENSES				
Operation and maintenance	795,510	1,100,279	1,895,789	1,770,954
Depreciation	418,284	392,036	810,320	790,952
Taxes	16,846	42,401	59,247	63,886
Total operating expenses	1,230,640	1,534,716	2,765,356	2,625,792
Operating income	415,871	98,899	514,770	553,628
NONOPERATING REVENUES (EXPENSES)				
Interest income	8,913	14,090	23,003	6,487
Interest and fiscal charges	(26,403)	(10,836)	(37,239)	(31,586)
Other nonoperating revenues (expenses)	16,265	4,444	20,709	2,949
Total nonoperating revenues (expenses)	(1,225)	7,698	6,473	(22,150)
Income before contributions and transfers	414,646	106,597	521,243	531,478
Capital contributions	142,689	107,673	250,362	36,527
Transfers out	(374,442)	-	(374,442)	(363,612)
Change in net position	182,893	214,270	397,163	204,393
Net position - January 1, as originally reported	9,142,846	9,297,858	18,440,704	18,236,311
Cumulative effect of change in accounting principle	(12,721)	(9,678)	(22,399)	-
Net position - January 1, as restated	9,130,125	9,288,180	18,418,305	18,236,311
Net position - December 31	<u>\$ 9,313,018</u>	<u>\$ 9,502,450</u>	<u>\$ 18,815,468</u>	<u>\$ 18,440,704</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, 2018 WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2017

	Water Utility	Sewer Utility	Totals	
			2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 1,665,015	\$ 1,646,679	\$ 3,311,694	\$ 3,200,487
Cash paid for employee wages and benefits	(285,480)	(174,837)	(460,317)	(456,093)
Cash paid to suppliers	(529,660)	(976,313)	(1,505,973)	(1,474,763)
Net cash provided by operating activities	<u>849,875</u>	<u>495,529</u>	<u>1,345,404</u>	<u>1,269,631</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfer out	(374,442)	-	(374,442)	(363,612)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition of capital assets	(350,417)	(854,186)	(1,204,603)	(691,902)
Salvage received on capital asset disposals	-	140,000	140,000	3,859
Principal paid on long-term debt	(106,517)	(27,588)	(134,105)	(131,529)
Interest paid on long-term debt	(27,108)	(11,138)	(38,246)	(32,574)
Net cash used by capital and related financing activities	<u>(484,042)</u>	<u>(752,912)</u>	<u>(1,236,954)</u>	<u>(852,146)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received	8,913	14,090	23,003	6,487
Change in cash and cash equivalents	304	(243,293)	(242,989)	60,360
Cash and cash equivalents - January 1	<u>804,513</u>	<u>1,337,322</u>	<u>2,141,835</u>	<u>2,081,475</u>
Cash and cash equivalents - December 31	<u>\$ 804,817</u>	<u>\$ 1,094,029</u>	<u>\$ 1,898,846</u>	<u>\$ 2,141,835</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating income	\$ 415,871	\$ 98,899	\$ 514,770	\$ 553,628
Adjustments to reconcile operating income to net cash provided by operating activities				
Depreciation	418,284	392,036	810,320	790,952
Depreciation charged to sewer utility	25,059	(25,059)	-	-
Change in liability (asset) and deferred outflows and inflows of resources				
Pension	4,966	6,024	10,990	39,543
Other postemployment benefits	1,579	1,201	2,780	-
Miscellaneous nonoperating revenue	16,265	4,444	20,709	2,949
Change in operating assets and liabilities				
Accounts receivables	3,052	4,147	7,199	(1,949)
Other receivables	(813)	4,473	3,660	20,067
Inventories and prepaid items	(10,621)	163	(10,458)	(51,991)
Accounts payable	(17,706)	11,919	(5,787)	(34,999)
Compensated absences	(6,061)	(2,718)	(8,779)	(48,569)
Net cash provided by operating activities	<u>\$ 849,875</u>	<u>\$ 495,529</u>	<u>\$ 1,345,404</u>	<u>\$ 1,269,631</u>
Reconciliation of cash and cash equivalents to the statement of net position				
Cash and cash equivalents in current assets	\$ 708,174	\$ 62,022	\$ 770,196	\$ 1,010,694
Cash and cash equivalents in restricted assets	96,643	1,032,007	1,128,650	1,131,141
Total cash and cash equivalents	<u>\$ 804,817</u>	<u>\$ 1,094,029</u>	<u>\$ 1,898,846</u>	<u>\$ 2,141,835</u>
Noncash capital and related financing activities				
Contributed capital assets	<u>\$ 142,689</u>	<u>\$ 107,673</u>	<u>\$ 250,362</u>	<u>\$ 36,527</u>

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, 2018

NOTE 1: 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:

A. REPORTING ENTITY

The City 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 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 in GASB Statement No. 61.

B. 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 primary 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

This fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of government funds.

City of Merrill, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS DECEMBER 31, 2018

The City reports the following major enterprise funds:

Water Utility Fund

This fund accounts for the operations of the City's water utility.

Sewer Utility Fund

This fund accounts for the operations of the City's sewer utility.

C. 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, 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 proprietary funds are charges to customers for services. Operating expenses for proprietary funds include the costs 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, 2018

D. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND NET POSITION OR FUND BALANCE

1. 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 price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. 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 from date of acquisition are considered to be cash equivalents.

2. Property Taxes and Special Charges Receivable

Property taxes and special charges consist of taxes on real estate and personal property and user charges assessed against City properties. 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 and special charges are payable on or before January 31 in full. Real estate taxes are payable in full by January 31 or in two equal installments on or before January 31 and July 31. Real estate taxes not paid by January 31 are purchased by the County as part of the February tax settlement. Delinquent personal property taxes remain the collection responsibility of the City. Special charges not paid by January 31 are held in trust by the County and remitted to the City, including interest, when collected by the County.

In addition to its levy, the City also levies and collects taxes for the Merrill School District, Lincoln County, and North Central Technical College. Collections and remittances of taxes for other entities are accounted for in the general fund.

3. Accounts Receivable

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

4. Loans Receivable

The City has received federal and state grant funds for economic development and housing rehabilitation loan programs and has passed the funds to various businesses and individuals in the form of loans. The City records a loan receivable and expenditure when the loan has been made and the funds disbursed. 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. In the governmental funds, the City records a deferred inflow of resources for the net amount of the receivable. As the loans are repaid, revenue is recognized. Any unspent loan proceeds are presented as restricted fund balance in the fund financial statements.

5. 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 and business-type activities.

City of Merrill, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS DECEMBER 31, 2018

6. 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.

Inventories 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.

7. Prepaid Items

Payments made to vendors that will benefit periods beyond the end of the current fiscal year are recorded as prepaid items and are accounted for on the consumption method.

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.

8. 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 a year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated acquisition 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:

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

9. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick leave benefits in accordance with employee handbook policies and/or 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.

City of Merrill, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2018

10. Deferred Outflows/Inflows of Resources

Deferred outflows of resources are a consumption of net position by the government that is applicable to a future reporting period. Deferred inflows of resources are an acquisition of net position by the government that is applicable to a future reporting period. The recognition of those outflows and inflows as expenses or expenditures and revenues are deferred until the future periods to which the outflows and inflows are applicable.

Governmental funds may report deferred inflows of resources for unavailable revenues. The City reports unavailable revenues for special assessments, grants, and loan receivables. These inflows are recognized as revenues in the government-wide financial statements.

11. 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 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 are expensed as incurred.

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.

12. Pensions

For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Wisconsin Retirement System (WRS) and additions to/deductions from WRS' fiduciary net position have been determined on the same basis as they are reported by WRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

13. Other Postemployment Benefits Other Than Pensions (OPEB)

The fiduciary net position of the Local Retiree Life Insurance Fund (LRLIF) has been determined using the flow of economic resources measurement focus and the accrual basis of accounting. This includes for purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to other postemployment benefits, OPEB expense, and information about the fiduciary net position of the LRLIF and additions to/deductions from LRLIF's fiduciary net position have been determined on the same basis as they are reported by LRLIF. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

City of Merrill, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS DECEMBER 31, 2018

14. Fund Equity

Governmental Fund Financial Statements

Fund balance of governmental funds is 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. Positive unassigned amounts are only reported in the General Fund.

The City has adopted a fund balance spend-down policy regarding the order in which fund balance will be utilized. Where applicable, the policy requires restricted funds to be spent first, followed by committed funds, and then assigned funds. Unassigned funds would be spent last.

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, and capital related deferred outflows of resources less outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets and any capital related deferred inflows of resources.
- ▶ **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.

E. 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.

F. PRIOR YEAR INFORMATION

Comparative amounts for the prior year have been presented in the basic financial statements to provide an understanding of changes in the City's financial position and operations. The comparative amounts may be summarized in total and not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the government's financial statements for the year ended December 31, 2017, from which the summarized information was derived.

City of Merrill, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS DECEMBER 31, 2018

G. 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.

NOTE 2: STEWARDSHIP AND COMPLIANCE

A. BUDGETS AND BUDGETARY ACCOUNTING

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

1. 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.
2. Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all 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.
3. During the year, formal budgetary integration is employed as a management control device for the governmental funds. Management control for the capital projects funds is also achieved through project authorizations included in debt issue resolutions.
4. Expenditures may not exceed appropriations provided in detailed budget accounts maintained for each activity or department of the City. Amendments to the budget during the year require initial approval by management and are subsequently authorized by the City Council.
5. Encumbrance accounting is not used by the City to record commitments related to unperformed contracts for goods or services.

The City did not have any material violation of legal or contractual provisions for the fiscal year ended December 31, 2018.

B. DEFICIT FUND EQUITY

The following funds had deficit fund balance as of December 31, 2018:

Funds	Deficit Fund Balance
TIF No. 6	\$ 504,491
TIF No. 7	45,237
TIF No. 8	476,247
TIF No. 9	545,093
TIF No. 10	31,387
TIF No. 11	154,338
TIF No. 12	13,031

The City anticipates future tax increments will finance the deficits of the funds.

City of Merrill, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS DECEMBER 31, 2018

C. 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 2018 and 2019 budget years, Wisconsin Statutes limit the increase in the maximum allowable tax levy to the change in the City's January 1 equalized value as a result of net new construction. The actual limit for the City for the 2018 budget was 1.40 %. The actual limit for the City for the 2019 budget was 1.50 %. 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.

NOTE 3: DETAILED NOTES ON ALL FUNDS

A. 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 on 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.

The carrying amount of the City's cash and investments totaled \$8,872,773 on December 31, 2018 as summarized below:

Petty cash and cash on hand	\$ 6,880
Deposits with financial institutions	8,683,996
Investments	181,897
	<u>\$ 8,872,773</u>

Reconciliation to the basic financial statements:

Government-wide Statement of Net Position	
Cash and investments	\$ 7,744,123
Restricted cash and investments	1,128,650
	<u>\$ 8,872,773</u>

Fair Value Measurements

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant observable inputs; Level 3 inputs are significant unobservable inputs. The City has the following fair value measurements as of December 31, 2018:

	Fair Value Measurements Using:		
	Level 1	Level 2	Level 3
Investments			
Corporate bonds	\$ -	\$ 17,269	\$ -
Mutual bond funds	67,006	-	-
Money market mutual funds	-	979	-
	<u>\$ 67,006</u>	<u>\$ 18,248</u>	<u>\$ -</u>

City of Merrill, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS DECEMBER 31, 2018

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 custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Wisconsin statutes require repurchase agreements to be fully collateralized by bonds or securities issued or guaranteed by the federal government or its instrumentalities. The City does not have an additional custodial credit 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 the combined amount of all time and savings deposits and \$250,000 for interest-bearing and noninterest-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 the combined amount of all deposit accounts per official custodian per depository institution. Deposits with credit unions are insured by the National Credit Union Share Insurance Fund (NCUSIF) in the amount of \$250,000 per credit union member. 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. This coverage has been considered in determining custodial credit risk.

As of December 31, 2018, \$2,876,043 of the City's deposits with financial institutions were in excess of federal and state depository insurance limits but was collateralized with securities held by the pledging financial institution or its trust department or agent but not in the City's name.

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 investment in securities to the top two ratings assigned by nationally recognized statistical rating organizations. Presented below is the actual rating as of the year-end for each investment type.

Investment Type	Amount	Exempt from Disclosure		Not Rated	
		A	BBB	A	BBB
Corporate bonds	\$ 17,269	\$ -	\$ 10,122	\$ 7,147	\$ -
Mutual bond funds	67,006	-	-	-	67,006
Money market mutual funds	979	-	-	-	979
Wisconsin local government investment pool	96,643	-	-	-	96,643
Totals	<u>\$ 181,897</u>	<u>\$ -</u>	<u>\$ 10,122</u>	<u>\$ 7,147</u>	<u>\$ 164,628</u>

Concentration of Credit Risk

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer.

At December 31, 2018, the City had no investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total City investments.

City of Merrill, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS DECEMBER 31, 2018

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 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.

Information about the sensitivity of the fair values of the City's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the City's investments by maturity:

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	\$ 17,269	\$ 10,122	\$ -	\$ -	\$ 7,147
Mutual bond funds	67,006	67,006	-	-	-
Money market mutual fund	979	979	-	-	-
Wisconsin local government investment pool	96,643	95,655	-	-	-
Totals	<u>\$ 181,897</u>	<u>\$ 173,762</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,147</u>

B. RESTRICTED ASSETS

Restricted assets on December 31, 2018 totaled \$1,128,650 and consisted of cash and investments held for the following purposes:

Funds	Amount	Purpose
Enterprise Funds		
Water Utility		
Debt retirement	\$ 96,643	To be used for retirement of revenue bonds
Sewer Utility		
Plant replacement	1,032,007	To be used for the replacement of certain assets for the sewer utility
Total	<u>\$ 1,128,650</u>	

City of Merrill, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS DECEMBER 31, 2018

C. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2018 was as follows:

	Balance	Increases	Decreases	Balance
Governmental activities:				
Capital assets, nondepreciable:				
Land	\$ 4,238,088	\$ 188,138	\$ -	\$ 4,426,226
Construction in progress	70,000	285,000	70,000	285,000
Total capital assets, nondepreciable	<u>4,308,088</u>	<u>473,138</u>	<u>70,000</u>	<u>4,711,226</u>
Capital assets, depreciable:				
Land improvements	7,689,707	205,814	124,756	7,770,765
Buildings and improvements	18,486,280	385,901	-	18,872,181
Machinery and equipment	10,793,618	838,768	388,123	11,244,263
Infrastructure	11,777,451	1,667,896	-	13,445,347
Subtotals	<u>48,747,056</u>	<u>3,098,379</u>	<u>512,879</u>	<u>51,332,556</u>
Less accumulated depreciation for:				
Land improvements	2,778,580	380,299	77,383	3,081,496
Buildings and improvements	5,348,127	380,736	-	5,728,863
Machinery and equipment	5,128,500	448,423	306,660	5,270,263
Infrastructure	1,629,586	289,023	-	1,918,609
Subtotals	<u>14,884,793</u>	<u>1,498,481</u>	<u>384,043</u>	<u>15,999,231</u>
Total capital assets, depreciable, net	<u>33,862,263</u>	<u>1,599,898</u>	<u>128,836</u>	<u>35,333,325</u>
Governmental activities capital assets, net	<u>\$ 38,170,351</u>	<u>\$ 2,073,036</u>	<u>\$ 198,836</u>	40,044,551
Less: Capital related debt				21,499,180
Less: Debt premium				305,830
Add: Deferred charge on refunding				<u>(30,767)</u>
Net investment in capital assets				<u>\$ 18,270,308</u>
Business-type activities:				
Capital assets, nondepreciable:				
Land	\$ 56,563	\$ 30,785	\$ -	\$ 87,348
Construction in progress	143,584	186,268	196,374	133,478
Total capital assets, nondepreciable	<u>200,147</u>	<u>217,053</u>	<u>196,374</u>	<u>220,826</u>
Capital assets, depreciable:				
Water utility	15,348,281	535,431	49,170	15,834,542
Sewer utility	14,399,393	898,855	300,217	14,998,031
Subtotals	<u>29,747,674</u>	<u>1,434,286</u>	<u>349,387</u>	<u>30,832,573</u>
Less accumulated depreciation for:				
Water utility	6,107,031	443,343	49,170	6,501,204
Sewer utility	6,864,470	366,977	160,217	7,071,230
Subtotals	<u>12,971,501</u>	<u>810,320</u>	<u>209,387</u>	<u>13,572,434</u>
Total capital assets, depreciable, net	<u>16,776,173</u>	<u>623,966</u>	<u>140,000</u>	<u>17,260,139</u>
Business-type activities capital assets, net	<u>\$ 16,976,320</u>	<u>\$ 841,019</u>	<u>\$ 336,374</u>	17,480,965
Less: Capital related debt				<u>1,405,913</u>
Net investment in capital assets				<u>\$ 16,075,052</u>

City of Merrill, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS DECEMBER 31, 2018

Depreciation expense was charged to functions of the City as follows:

Governmental activities	
General government	\$ 62,792
Public safety	264,111
Public works	669,306
Health and human services	8,816
Culture and recreation	493,456
Total depreciation expense - governmental activities	<u>\$ 1,498,481</u>
Business-type activities	
Water utility	\$ 418,284
Sewer utility	392,036
Total depreciation expense - business-type activities	<u>\$ 810,320</u>

D. 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, 2018 are detailed below:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Temporary cash advances to finance operating cash deficits		
Governmental Funds		
General	\$ 1,690,278	\$ -
TIF No. 6	-	504,273
TIF No. 7	-	45,237
TIF No. 8	-	471,247
TIF No. 9	-	570,661
TIF No. 10	-	31,387
TIF No. 11	-	54,442
TIF No. 12	-	13,031
Subtotal	<u>1,690,278</u>	<u>1,690,278</u>
Long-term advances		
General	99,896	269,450
Remedial action	269,450	-
TIF No. 11	-	99,896
Subtotal	<u>369,346</u>	<u>369,346</u>
Totals	<u>\$ 2,059,624</u>	<u>\$ 2,059,624</u>

The advance to the general fund for the retirement of the unfunded pension liability will be repaid at \$26,945 per year from 2021 through 2030. The advance does not bear interest. The advance to tax incremental district no. 11 does not have an established repayment schedule.

City of Merrill, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS DECEMBER 31, 2018

Interfund transfers for the year ended December 31, 2018 were as follows:

Fund	Transfer In	Transfer Out
General	\$ 374,442	\$ 1,625
Debt service	513,488	-
TIF No. 3	-	339,676
TIF No. 4	-	89,974
TIF No. 5	-	2,522
TIF No. 6	-	26,736
TIF No. 7	28,069	13,192
TIF No. 8	45,000	10,857
TIF No. 9	-	18,607
TIF No. 10	-	20,025
TIF No. 11	-	63,343
Water utility	-	374,442
	\$ 960,999	\$ 960,999

Interfund transfers were made for the following purposes:

Tax equivalent payment made by water utility to general fund	\$ 374,442
Tax incremental district transfers for debt retirement related to the District	511,863
Airport debt service	1,625
Tax incremental district transfers to other districts	73,069
	\$ 960,999

E. E. LONG-TERM OBLIGATIONS

The following is a summary of changes in long-term obligations of the City for the year ended December 31, 2018:

	Beginning Balance	Issued	Retired	Ending Balance	Due Within One Year
Governmental activities:					
General obligation debt					
Bonds	\$ 12,374,422	\$ 1,575,000	\$ 960,350	\$ 12,989,072	\$ 1,026,964
Notes	3,347,613	1,310,000	262,136	4,395,477	364,936
Total general obligation debt	15,722,035	2,885,000	1,222,486	17,384,549	1,391,900
Revenue bonds	2,140,000	1,724,000	201,000	3,663,000	398,000
Note anticipation notes	1,080,000	-	-	1,080,000	-
Premium on bond issuance	337,517	-	31,687	305,830	-
Compensated absences	839,583	200,994	194,669	845,908	211,000
Governmental activities					
Long-term obligations	\$ 20,119,135	\$ 4,809,994	\$ 1,649,842	\$ 23,279,287	\$ 2,000,900
Business-type activities:					
General obligation debt					
Bonds	\$ 29,738	\$ -	\$ 9,650	\$ 20,088	\$ 10,036
Notes	136,494	-	44,584	91,910	45,490
Total general obligation debt	166,232	-	54,234	111,998	55,526
Revenue bonds	1,373,786	-	79,871	1,293,915	81,409
Compensated absences	51,563	14,826	23,605	42,784	11,000
Business-type activities					
Long-term obligations	\$ 1,591,581	\$ 14,826	\$ 157,710	\$ 1,448,697	\$ 136,935

Total interest paid during the year on long-term debt totaled \$516,362.

City of Merrill, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS DECEMBER 31, 2018

General Obligation Debt

General obligation debt currently outstanding is detailed as follows:

	<u>Date of Issue</u>	<u>Final Maturity</u>	<u>Interest Rates</u>	<u>Original Indebtedness</u>	<u>Balance 12/31/18</u>
Finance street infrastructure	01/05/05	01/05/25	5.00%	\$ 275,000	\$ 135,315
Certificate of indebtedness	08/15/05	08/15/25	5.00%	200,000	142,316
SIB Loan - Wis.Dot	12/28/06	10/18/20	2.00%	730,000	112,069
Finance capital improvements	11/10/09	11/10/19	4.50%	110,000	14,697
Finance public works project	01/05/10	01/05/20	4.50%	299,500	38,000
2010 Build America bond	12/21/10	03/15/20	3.75%	430,150	104,150
G.O Bond series 2013A	09/04/13	11/01/33	2.25 - 4.2%	4,290,000	3,415,000
G.O Bond series 2013B	09/04/13	11/01/23	2.25 - 3%	2,765,000	1,180,000
G.O Bond series 2016B	10/10/16	12/31/26	2 - 2.5%	4,095,000	3,675,000
G.O Promissory note 2016A	10/11/16	10/01/26	0.8 - 2.2	2,020,000	1,945,000
G.O Bond series 2017C	10/26/17	10/01/37	2 - 3.375%	3,210,000	3,060,000
G.O Promissory note 2017D	10/26/17	10/01/27	1.25 - 2.15%	860,000	790,000
G.O Promissory note 2018A	09/27/18	04/01/28	1.9 - 2.95%	1,310,000	1,310,000
G.O Bond series 2018B	09/27/18	04/01/38	2.00 - 3.7%	1,575,000	1,575,000
Total outstanding general obligation debt					<u>\$ 17,496,547</u>

Annual principal and interest maturities of the outstanding general obligation debt of \$17,496,570 on December 31, 2018 are detailed below:

<u>Year Ended December 31,</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Totals</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2019	\$ 1,391,900	\$ 467,656	\$ 55,526	\$ 3,051	\$ 1,447,426	\$ 470,707
2020	1,346,669	432,622	56,472	1,629	1,403,141	434,251
2021	1,366,717	398,790	-	-	1,366,717	398,790
2022	1,394,124	367,694	-	-	1,394,124	367,694
2023	1,416,655	333,482	-	-	1,416,655	333,482
2024-2028	5,573,484	1,205,657	-	-	5,573,484	1,205,657
2029-2033	3,275,000	578,909	-	-	3,275,000	578,909
2034-2038	1,620,000	128,698	-	-	1,620,000	128,698
	<u>\$ 17,384,549</u>	<u>\$ 3,913,508</u>	<u>\$ 111,998</u>	<u>\$ 4,680</u>	<u>\$ 17,496,547</u>	<u>\$ 3,918,188</u>

For governmental activities, the other long-term liabilities are generally funded by the general fund.

Build America Bond

The general obligation debt issued on 12/21/2010 qualifies as Build America Bonds, as described in Section 54AA of the Internal Revenue Code. The interest on the debt is taxable as set forth in the regulations. The City is eligible to receive a 35% subsidy of the annual interest payment from the Federal government. In order to receive this subsidy it is necessary for the City to file a claim form annually.

City of Merrill, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS DECEMBER 31, 2018

Legal Margin for New Debt

The City's legal margin for creation of additional general obligation debt on December 31, 2018 was \$3,591,383 as follows:

Equalized valuation of the City		\$420,695,800
Statutory limitation percentage		<u>(x) 5%</u>
General obligation debt limitation, per Section 67.03 of the Wisconsin Statutes		21,034,790
Total outstanding general obligation debt applicable to debt limitation	\$ 17,496,547	
Less: Amounts available for financing general obligation debt		
Debt service fund	<u>53,163</u>	
Net outstanding general obligation debt applicable to debt limitation		<u>17,443,384</u>
Legal margin for new debt		<u>\$ 3,591,406</u>

Taxable Note Anticipation Notes

Note anticipation notes outstanding on December 31, 2018 was comprised of the following issue:

	<u>Date of Issue</u>	<u>Final Maturity</u>	<u>Interest Rates</u>	<u>Original Indebtedness</u>	<u>Balance 12/31/18</u>
Taxable note anticipation note series 2016C	10/01/17	10/01/21	3.99%	<u>\$ 1,080,000</u>	<u>\$ 1,080,000</u>

Annual principal and interest maturities of the outstanding anticipation note debt of \$1,080,000 on December 31, 2018 are detailed below:

<u>Year Ended December 31,</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ -	\$ 43,092	\$ 43,092
2020	-	43,092	43,092
2021	1,080,000	43,092	1,123,092
	<u>\$ 1,080,000</u>	<u>\$ 129,276</u>	<u>\$ 1,209,276</u>

Revenue Bonds

Revenue bonds outstanding on December 31, 2018 totaled \$4,956,915 and were comprised of the following issues:

	<u>Date of Issue</u>	<u>Final Maturity</u>	<u>Interest Rates</u>	<u>Original Indebtedness</u>	<u>Balance 12/31/18</u>
Tax increment revenue bond 2017A	10/10/17	10/01/26	2.92%	\$ 1,561,000	\$ 1,406,000
Tax increment revenue bond 2017B	10/10/17	10/01/28	3.06%	579,000	533,000
Safe water drinking bond	05/01/14	05/01/32	1.93%	1,678,468	1,293,915
Tax increment revenue bond 2018C	10/23/18	10/01/26	3.50%	1,724,000	<u>1,724,000</u>
Total Outstanding Revenue Bonds					<u>\$ 4,956,915</u>

City of Merrill, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS DECEMBER 31, 2018

Annual principal and interest maturities of the outstanding revenue bonds of \$4,956,915 on December 31, 2018 are detailed below:

Year Ended December 31,	Governmental Activities		Business-type Activities		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest
2019	\$ 398,000	\$ 114,018	\$ 81,409	\$ 24,124	\$ 479,409	\$ 138,142
2020	408,000	104,900	82,976	22,542	490,976	127,442
2021	420,000	91,776	84,573	20,929	504,573	112,705
2022	435,000	78,266	86,201	19,286	521,201	97,552
2023	448,000	64,269	87,861	17,610	535,861	81,879
2024-2028	1,554,000	109,884	465,333	61,771	2,019,333	171,655
2029-2032	-	-	405,562	15,800	405,562	15,800
	<u>\$ 3,663,000</u>	<u>\$ 563,113</u>	<u>\$ 1,293,915</u>	<u>\$ 182,062</u>	<u>\$ 4,956,915</u>	<u>\$ 745,175</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 systems. The bonds are payable solely from water customer net revenues and are payable through 2032. The total principal and interest remaining to be paid on the bonds is \$1,475,977. Principal and interest paid for the current year and total customer net revenues were \$105,548 and \$839,207, respectively.

Tax Incremental Revenue Pledged

The City has pledged future tax increments within TIF No. 3 and TIF no. 4 to pay for the debt service on the tax increment bonds.

F. PENSION PLAN

1. Plan Description

The WRS is a cost-sharing, multiple-employer, defined benefit pension plan. WRS benefits and other plan provisions are established by Chapter 40 of the Wisconsin Statutes. Benefit terms may only be modified by the legislature. The retirement system is administered by the Wisconsin Department of Employee Trust Funds (ETF). The system provides coverage to all eligible State of Wisconsin, local government and other public employees. 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.

ETF issues a standalone Comprehensive Annual Financial Report (CAFR), which can be found at <http://etf.wi.gov/publications/cafr.htm>.

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.

Employees who retire at or after age 65 (54 for protective occupation employees, 62 for elected officials and executive service retirement plan participants, if hired on or before December 31, 2016) are entitled to a retirement benefit based on a formula factor, their final average earnings, and creditable service.

City of Merrill, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS DECEMBER 31, 2018

Final average earnings is the average of the participant's three highest earnings periods. Creditable service includes current service and prior service for which a participant received earnings and made contributions as required. Creditable service also includes creditable military service. The retirement benefit will be calculated as a money purchase benefit based on the employee's contributions plus matching employer's contributions, with interest, if that benefit is higher than the formula benefit.

Vested participants may retire at or after age 55 (50 for protective occupations) and receive an actuarially-reduced benefit. Participants terminating covered employment prior to eligibility for an annuity may either receive employee-required contributions plus interest as a separation benefit or leave contributions on deposit and defer application until eligible to receive a retirement benefit.

The WRS also provides death and disability benefits for employees.

2. Post-Retirement Adjustments

The Employee Trust Funds Board may periodically adjust annuity payments from the retirement system based on annual investment performance in accordance with s. 40.27, Wis. Stat. An increase (or decrease) in annuity payments may result when investment gains (losses), together with other actuarial experience factors, create a surplus (shortfall) in the reserves, as determined by the system's consulting actuary. Annuity increases are not based on cost of living or other similar factors. For Core annuities, decreases may be applied only to previously granted increases. By law, Core annuities cannot be reduced to an amount below the original, guaranteed amount (the "floor") set at retirement. The Core and Variable annuity adjustments granted during recent years are as follows:

Year	Core Fund Adjustment	Variable Fund Adjustment
2007	3%	10%
2008	6.6	0
2009	(2.1)	(42)
2010	(1.3)	22
2011	(1.2)	11
2012	(7.0)	(7)
2013	(9.6)	9
2014	4.7	25
2015	2.9	2
2016	0.5	(5)
2017	2.0	4

3. Contributions

Required contributions are determined by an annual actuarial valuation in accordance with Chapter 40 of the Wisconsin Statutes. The employee required contribution is one-half of the actuarially determined contribution rate for general category employees, including teachers, and Executives and Elected Officials. Starting on January 1, 2016, the Executives and Elected Officials category was merged into the General Employee Category. 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.

During the year ended December 31, 2018, the WRS recognized \$672,929 in contributions from the City.

City of Merrill, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS DECEMBER 31, 2018

Contribution rates for the reporting period are:

Employee Category	Employee	Employer
General (including teachers, executives and elected officials)	6.8%	6.8%
Protective with Social Security	6.8%	10.6%
Protective without Social Security	6.8%	14.9%

4. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2018, the City reported an asset of \$1,857,380 for its proportionate share of the net pension asset. The net pension asset was measured as of December 31, 2017, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2016 rolled forward to December 31, 2017. No material changes in assumptions or benefit terms occurred between the actuarial valuation date and the measurement date. The City's proportion of the net pension asset was based on the City's share of contributions to the pension plan relative to the contributions of all participating employers. At December 31, 2017, the City's proportion was 0.06255663%, which was an increase of 0.00137536% from its proportion measured as of December 31, 2016.

For the year ended December 31, 2018, the City recognized pension expense of \$800,148.

At December 31, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 2,359,847	\$ 1,103,858
Net differences between projected and actual earnings on pension plan investments	-	2,552,798
Changes in assumptions	366,982	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	6,690	31,109
Employer contributions subsequent to the measurement date	672,929	-
Total	<u>\$ 3,406,448</u>	<u>\$ 3,687,765</u>

\$672,929 reported as deferred outflows related to pension resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability (asset) in the year ended December 31, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Year ended December 31,	Expenses
2019	\$ 195,428
2020	(24,810)
2021	(644,928)
2022	(484,372)
2023	4,436
Total	<u>\$ (954,246)</u>

City of Merrill, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS DECEMBER 31, 2018

5. Actuarial Assumptions

The total pension liability in the December 31, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial valuation date:	December 31, 2016
Measurement date of net pension liability (asset):	December 31, 2017
Actuarial cost method:	Entry Age
Asset valuation method:	Fair Market Value
Long-term expected rate of return:	7.2%
Discount rate:	7.2%
Salary increases:	
Inflation	3.2%
Seniority/Merit	0.2% - 5.6%
Mortality	Wisconsin 2012 Mortality Table
Post-retirement adjustments*	2.1%

* *No post-retirement adjustment is guaranteed. Actual adjustments are based on recognized investment return, actuarial experience and other factors. 2.1% is the assumed annual adjustment based on the investment return assumption and the post-retirement discount rate.*

Actuarial assumptions are based upon an experience study conducted in 2016 using experience from 2012 - 2014. The total pension liability for December 31, 2017 is based upon a roll-forward of the liability calculated from the December 31, 2016 actuarial valuation.

Long-term Expected Return on Plan Assets. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

	<u>Current Asset Allocation %</u>	<u>Long-term Expected Nominal Rate of Return %</u>	<u>Long-term Expected Real Rate of Return %</u>
<u>Core Fund Asset Class</u>			
Global Equities	50%	8.2%	5.3%
Fixed Income	24.5%	4.2%	1.4%
Inflation Sensitive Assets	15.5%	3.8%	1.0%
Real Estate	8%	6.5%	3.6%
Private Equity/Debt	8%	9.4%	6.5%
Multi-asset	4%	6.5%	3.6%
Total Core Fund	110%	7.3%	4.4%
<u>Variable Fund Asset Class</u>			
U.S. Equities	70%	7.5%	4.6%
International Equities	30%	7.8%	4.9%
Total Variable Fund	100%	7.9%	5%

New England Pension Consultants Long Term US CPI (Inflation) Forecast: 2.75%

Asset Allocations are managed within established ranges, target percentages may differ from actual monthly allocations

City of Merrill, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS DECEMBER 31, 2018

Single Discount Rate. A single discount rate of 7.20% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.20% and a long-term bond rate of 3.31%. Because of the unique structure of WRS, the 7.20% expected rate of return implies that a dividend of approximately 2.1% will always be paid. For purposes of the single discount rate, it was assumed that the dividend would always be paid. The projection of cash flows used to determine this single discount rate assumed that plan members contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments (including expected dividends) of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's proportionate share of the net pension liability (asset) to changes in the discount rate.

The following presents the City's proportionate share of the net pension liability (asset) calculated using the discount rate of 7.2 percent, as well as what the City's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.20 percent) or 1-percentage-point higher (8.20 percent) than the current rate:

	<u>1% Decrease to Discount Rate (6.20%)</u>	<u>Current Discount Rate (7.20%)</u>	<u>1% Increase to Discount Rate (8.20%)</u>
City's proportionate share of the net pension liability (asset)	\$ 4,805,677	\$ (1,857,380)	\$ (6,921,510)

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in separately issued financial statements available at <http://etf.wi.gov/publications/cafr.htm>.

6. Payables to the Pension Plan

At December 31, 2018, the City reported a payable of \$0 for the outstanding amount of contributions to the pension plan for the year ended December 31, 2018.

G. OTHER POSTEMPLOYMENT BENEFITS

The City has adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* for the year ended December 31, 2018. This statement revised and established new financial reporting requirements for governments that provide their employees with postemployment benefits. Financial statements for the year ended December 31, 2017 have not been restated.

The cumulative effect of this change was to decrease the December 31, 2017 net position by \$326,770.

Local Retiree Life Insurance Fund

Plan Description

The LRLIF is a cost sharing, multiple-employer defined benefit OPEB plan. LRLIF benefits and other plan provisions are established by Chapter 40 of the Wisconsin Statutes. The Wisconsin Department of Employee Trust Funds (ETF) and the Group Insurance Board have statutory authority for program administration and oversight. The plan provides postemployment life insurance benefits for all eligible employees.

OPEB Plan Fiduciary Net Position

ETF issues a standalone Comprehensive Annual Financial Report (CAFR), which can be found at <http://etf.wi.gov/publications/cafr.htm>.

City of Merrill, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS DECEMBER 31, 2018

Benefits Provided

The LRLIF plan provides fully paid up life insurance benefits for post-age 64 retired employees and pre-65 retirees who pay for their coverage.

Contributions

The Group Insurance Board approves contribution rates annually, based on recommendations from the insurance carrier. Recommended rates are based on an annual valuation, taking into consideration an estimate of the present value of future benefits and the present value of future contributions. A portion of employer contributions made during a member's working lifetime funds a post-retirement benefit.

Employers are required to pay the following contributions based on employee contributions for active members to provide them with Basic Coverage after age 65. There are no employer contributions required for pre-age 65 annuitant coverage. If a member retires prior to age 65, they must continue paying the employee premiums until age 65 in order to be eligible for the benefit after age 65.

Contribution rates as of December 31, 2018 are:

Coverage Type	Employer Contribution
25% Post-retirement coverage	20% of employee contribution

Employee contributions are based upon nine age bands through age 69 and an additional eight age bands for those age 70 and over. Participating employees must pay monthly contribution rates per \$1,000 of coverage until the age of 65 (age 70 if active). The employee contribution rates in effect for the year ended December 31, 2017 are listed below:

Life Insurance Employee Contribution Rates For the Year Ended December 31, 2017	
Attained Age	Basic
Under 30	\$0.05
30 - 34	0.06
35 - 39	0.07
40 - 44	0.08
45 - 49	0.12
50 - 54	0.22
55 - 59	0.39
60 - 64	0.49
65 - 69	0.57

During the year ended December 31, 2018, the LRLIF recognized \$2,571 in contributions from the employer.

OPEB Liabilities, OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At December 31, 2018, the City reported a liability of \$407,265 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of December 31, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2016 rolled forward to December 31, 2017. No material changes in assumptions or benefits terms occurred between the actuarial valuation date and the measurement date. The City's proportion of the net OPEB liability was based on the City's share of contributions to the OPEB plan relative to the contributions of all participating employers. At December 31, 2017, the City's proportion was 0.13536800%, which was an increase of 0.000777% from its proportion measured as of December 31, 2016.

City of Merrill, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS DECEMBER 31, 2018

For the year ended December 31, 2018, the City recognized OPEB expense of \$43,347.

At December 31, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 5,738
Net differences between projected and actual earnings on OPEB plan investments	4,690	-
Changes in assumptions	39,355	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,635	-
Total	<u>\$ 45,680</u>	<u>\$ 5,738</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year Ended December 31,</u>	<u>Expense</u>
2019	\$ 6,571
2020	6,571
2021	6,571
2022	6,573
2023	5,399
Thereafter	8,257

Actuarial assumptions. The total OPEB liability in the January 1, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Actuarial valuation date:	January 1, 2017
Measurement date of net OPEB liability (asset):	December 31, 2017
Actuarial cost method:	Entry age normal
20 year tax-exempt municipal bond yield:	3.44%
Long-term expected rate of return:	5.00%
Discount rate:	3.63%
Salary increases:	
Inflation	3.20%
Seniority/Merit	0.2% - 5.6%
Mortality:	Wisconsin 2012 Mortality Table

City of Merrill, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS DECEMBER 31, 2018

Long-term expected return on plan assets. The long-term expected rate of return is determined by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation. Investments for the LRLIF are held with Securian, the insurance carrier. Interest is calculated and credited to the LRLIF based on the rate of return for a segment of the insurance carriers' general fund, specifically 10-year A- Bonds (as a proxy, and not tied to any specific investments). The overall aggregate interest rate is calculated using a tiered approach based on the year the funds were originally invested and the rate of return for that year. Investment interest is credited based on the aggregate rate of return and assets are not adjusted to fair market value. Furthermore, the insurance carrier guarantees the principal amounts of the reserves, including all interest previously credited thereto.

Asset Class	Index	Target Allocation	Long-term Expected Geometric Real Rate of Return %
U.S. Government Bonds	Barclays Government	1%	1.13%
U.S. Credit Bonds	Barclays Credit	65%	2.61%
U.S. Long Credit Bonds	Barclays Long Credit	3%	3.08%
U.S. Mortgages	Barclays MBS	31%	2.19%
Inflation			2.30%
Long-term expected rate of return			5.00%

Single discount rate. A single discount rate of 3.63% was used to measure the total OPEB liability. The Plan's fiduciary net position was projected to be insufficient to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the Total OPEB Liability is equal to the single equivalent rate that results in the same actuarial present value as the long-term expected rate of return applied to benefit payments, to the extent that the plan's fiduciary net position is projected to be sufficient to make projected benefit payments, and the municipal bond rate applied to benefit payment to the extent that the plan's fiduciary net position is projected to be insufficient.

Sensitivity of the City's proportionate share of net OPEB liability (asset) to changes in the discount rate. The following presents the City's proportionate share of the net OPEB liability (asset) calculated using the discount rate of 3.63%, as well as what the City's proportionate share of the net OPEB liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (2.63%) or 1-percentage-point higher (4.63%) than the current rate:

	1% Decrease to Discount Rate (2.63%)	Current Discount Rate (3.63%)	1% Increase to Discount Rate (4.63%)
City's proportionate share of the net OPEB liability (asset)	\$ 575,621	\$ 407,265	\$ 278,070

OPEB plan fiduciary net position. Detailed information about the OPEB plan's fiduciary net position is available in separately issued financial statements available at <http://etf.wi.gov/publications/cafr.htm>.

Payable to the OPEB Plan

At December 31, 2018, the City reported a payable of \$0 for the outstanding amount of contribution to the Plan required for the year ended December 31, 2018.

City of Merrill, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS DECEMBER 31, 2018

H. FUND EQUITY

Nonspendable Fund Balance

In the fund financial statements, portions of the governmental fund balances are amounts that cannot be spent because they are either 1) not in spendable form or 2) legally or contractually required to be maintained intact. At December 31, 2018, nonspendable fund balance was as follows:

General Fund	
Nonspendable	
Inventory and prepaids	<u>\$ 158,781</u>

Restricted Fund Balance

In the fund financial statements, portions of governmental fund balances are not available for appropriation or are legally restricted for use for a specific purpose. At December 31, 2018, restricted fund balance was as follows:

General Fund	
Restricted for	
Capital projects	\$ 380,014
Special Revenue Funds	
Restricted for	
Community development	516,643
Library endowment	405,798
Remedial action	384,896
Capital Projects Funds	
Restricted for	
TIF No. 3	533,870
TIF No. 4	14,529
TIF No. 5	7,680
Debt Service Fund	
Restricted for	
Debt service	<u>53,163</u>
Total Restricted Fund Balance	<u>\$ 2,296,593</u>

Committed Fund Balance

In the fund financial statements, portions of government fund balances are committed by City Council action. At December 31, 2018, General Fund balance was committed as follows:

General Fund	
Committed for	
Nonlapsing reserves	
General government	\$ 295,115
Public safety	249,593
Public works	19,814
Culture and recreation	<u>243,701</u>
Total Committed Fund Balance	<u>\$ 808,223</u>

City of Merrill, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS DECEMBER 31, 2018

Restricted Net Position

In the statement of net position, portions are legally restricted for a specific purpose. At December 31, 2018, restricted net position was as follows:

Governmental activities	
Restricted for	
Community development	\$ 3,533,679
Remedial action	384,896
Library endowment	405,798
Net pension asset	<u>1,730,063</u>
Total governmental activities restricted net position	<u>6,054,436</u>
Business-type activities	
Restricted for	
Water utility debt retirement	96,643
Sewer utility plant replacement	1,032,007
Net pension asset	<u>127,317</u>
Total business-type activities restricted net position	<u>1,255,967</u>
Total restricted net position	<u>\$ 7,310,403</u>

NOTE 4: OTHER INFORMATION

A. TAX INCREMENTAL FINANCING DISTRICTS

The City has established separate capital projects funds for Tax Incremental Financing Districts (TIFs) which were created by the City in accordance with Section 66.1105 of the Wisconsin Statutes. At the time the TIFs were created, the property tax base within the TIFs were "frozen" and increment taxes resulting from increase in the property tax base are used to finance District 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 TIFs are still eligible to incur project costs.

The City established TIF No. 3 on September 13, 2005 as a mixed-use district and amended the boundaries on July 11, 2006, September 24, 2013, September 22, 2015 and on April 26, 2017. The City intends that the TIF will include industrial, commercial, and residential development.

The City established TIF No. 4 on September 11, 2007 as a mixed-use district and amended the boundaries on September 24, 2013. The City intends that the District will be used to assure a combination of private industrial and commercial development.

The City established TIF 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 TIF No. 6 on May 12, 2009 as a blighted area district and amended the boundaries on September 22, 2015. The City intends that the TIFs will be used to assure a combination of private industrial, commercial, and residential development.

The City established TIF No. 7 on August 11, 2009 as a blighted area district and amended the boundaries on September 22, 2015. The City intends that the TIFs will be used to assure a combination of private industrial, commercial, and residential development.

City of Merrill, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2018

The City established TIF No. 8 on September 27, 2011 as a blighted area district and amended the boundaries on September 24, 2013, September 22, 2015 and on August 23, 2017. The City intends that the TIFs will be used to assure a combination of private industrial, commercial, and residential development.

The City established TIF No. 9 on September 24, 2013 as a blighted area district. The City intends that the TIFs will be used to assure a combination of private industrial, commercial, and residential development.

The City established TIF No. 10 on September 22, 2015 as a blighted area district. The City intends that the TIFs will be used to assure a combination of private industrial, commercial, and residential development.

The City established TIF No. 11 on May 10, 2016 as a mixed use development district. The City intends that the TIFs will be used to assure a combination of private industrial, commercial, and residential development.

The City established TIF No. 12 on August 23, 2017 as a mixed-use development district. The City intends that the TIFs will be used to assure a combination of private industrial, commercial, and residential development.

Since creation of the above TIFs, the City has provided various financing sources to the TIF. The foregoing amounts are not recorded as liabilities in the TIF capital project fund but can be recovered by the City from any future excess tax increment revenues.

	Unreimbursed Costs
TIF No. 3	\$ 2,956,485
TIF No. 4	758,471
TIF No. 5	20,181
TIF No. 6	911,475
TIF No. 7	300,233
TIF No. 8	909,363
TIF No. 9	845,093
TIF No. 10	526,387
TIF No. 11	1,279,338
TIF No. 12	13,031

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

	Termination Year
TIF No. 3	2025
TIF No. 4	2027
TIF No. 5	2027
TIF No. 6	2036
TIF No. 7	2036
TIF No. 8	2038
TIF No. 9	2040
TIF No. 10	2042
TIF No. 11	2030
TIF No. 12	2038

City of Merrill, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS DECEMBER 31, 2018

B. TAX ABATEMENTS

The City has created tax incremental financing districts (the "TIFs") in accordance with Wisconsin State Statute 66.1105, *Tax Increment Law*. As part of the project plan for the TIFs, the City entered into agreements with developers for a creation of tax base within the TIFs. The agreements require the City to make annual repayments of property taxes collected within the TIFs to the developers, based upon the terms of the agreements. As tax abatements, those developer payments and the related property tax revenues are not reported as revenues or expenditures in the financial statements.

For the year ended December 31, 2018, the City abated property taxes totaling \$19,120 under this program, including the following tax abatement agreements that each exceeded 10% of the total amount abated:

- ▶ A property tax abatement of \$5,543 to Pine Dells Investment LLC, for within Tax Incremental District No. 3.
- ▶ A property tax abatement of \$13,577 to Gateway North, LLC for within Tax Incremental District No. 3.

C. 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.

D. 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.

E. UPCOMING ACCOUNTING PRONOUNCEMENTS

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. The Statement establishes criteria for identifying fiduciary activities and addresses financial reporting for these activities. This statement is effective for reporting periods beginning after June 15, 2018. The City is currently evaluating the impact this standard will have on the financial statements when adopted.

In June 2017, the GASB issued Statement No. 87, *Leases*. The Statement establishes a single model for lease accounting based on the principle that leases are financings of the right to use an underlying asset. This statement is effective for reporting periods beginning after December 15, 2019. The City is currently evaluating the impact this standard will have on the financial statements when adopted.

REQUIRED SUPPLEMENTARY INFORMATION

City of Merrill, Wisconsin

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET) WISCONSIN RETIREMENT SYSTEM LAST 10 FISCAL YEARS

Plan Year Ending	Proportion of the Net Pension Liability (Asset)	Proportionate Share of the Net Pension Liability (Asset)	Covered Payroll (plan year)	Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (Asset)
12/31/14	0.05946372%	\$ (1,460,591)	\$ 6,308,015	23.15%	102.74%
12/31/15	0.06016318%	977,641	6,640,714	14.72%	98.20%
12/31/16	0.06118127%	504,280	6,647,432	7.59%	99.12%
12/31/17	0.06255663%	(1,857,380)	6,746,319	27.53%	102.93%

SCHEDULE OF CONTRIBUTIONS WISCONSIN RETIREMENT SYSTEM LAST 10 FISCAL YEARS

Fiscal Year Ending	Contractually Required Contributions	Contributions in Relation to the Contractually Required Contributions	Contribution Deficiency (Excess)	Covered Payroll (fiscal year)	Contributions as a Percentage of Covered Payroll
12/31/15	\$ 596,197	\$ 596,197	\$ -	\$ 6,640,714	8.98%
12/31/16	587,229	587,229	-	6,647,432	8.83%
12/31/17	649,476	649,476	-	6,746,319	9.63%
12/31/18	672,919	672,919	-	6,972,424	9.65%

See notes to required supplementary information.

City of Merrill, Wisconsin

SCHEDULE OF PROPORTIONATE SHARE OF THE NET OPEB LIABILITY (ASSET) LOCAL RETIREE LIFE INSURANCE FUND LAST 10 FISCAL YEARS

<u>Plan Fiscal Year Ending</u>	<u>Proportion of the Net OPEB Liability (Asset)</u>	<u>Proportionate Share of the Net OPEB Liability (Asset)</u>	<u>Covered- Employee Payroll</u>	<u>Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of Covered- Employee Payroll</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability (Asset)</u>
12/31/17	0.13536800%	\$ 407,265	\$ 6,764,319	6.02%	44.81%

SCHEDULE OF CONTRIBUTIONS LOCAL RETIREE LIFE INSURANCE FUND LAST 10 FISCAL YEARS

<u>Fiscal Year Ending</u>	<u>Contractually Required Contributions</u>	<u>Contributions in Relation to the Contractually Required Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered- Employee Payroll</u>	<u>Contributions as a Percentage of Covered- Employee Payroll</u>
12/31/18	\$ 2,571	\$ 2,571	\$ -	\$ 6,972,424	0.04%

See notes to required supplementary information.

City of Merrill, Wisconsin

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION DECEMBER 31, 2018

A. GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENT NO. 75

The City implemented GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, for the fiscal year ended December 31, 2018. Information for prior years is not available.

B. WISCONSIN RETIREMENT SYSTEM

There were no changes of benefit terms for any participating employer in the WRS.

The City is required to present the last ten fiscal years of data; however accounting standards allow the presentation of as many years as are available until ten fiscal years are presented.

SUPPLEMENTARY INFORMATION

City of Merrill, Wisconsin

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2018
WITH SUMMARIZED FINANCIAL INFORMATION AS OF DECEMBER 31, 2017

	Special Revenue				
	Library	Remedial Action	TIF No. 3	TIF No. 4	TIF No. 5
ASSETS					
Cash and investments	\$ 405,798	\$ 118,756	\$ 553,863	\$ 14,529	\$ 7,680
Receivables					
Taxes and special charges	-	-	681,175	221,852	17,645
Accounts	-	-	-	-	-
Advance to other funds	-	269,450	-	-	-
Total assets	<u>\$ 405,798</u>	<u>\$ 388,206</u>	<u>\$ 1,235,038</u>	<u>\$ 236,381</u>	<u>\$ 25,325</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
Liabilities					
Accounts payable	\$ -	\$ 3,310	\$ 19,993	\$ -	\$ -
Due to other funds	-	-	-	-	-
Advance from other funds	-	-	-	-	-
Total liabilities	<u>-</u>	<u>3,310</u>	<u>19,993</u>	<u>-</u>	<u>-</u>
Deferred inflows of resources					
Property taxes levied for subsequent year	-	-	681,175	221,852	17,645
Grants	-	-	-	-	-
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>681,175</u>	<u>221,852</u>	<u>17,645</u>
Fund balances					
Restricted	405,798	384,896	533,870	14,529	7,680
Unassigned	-	-	-	-	-
Total fund balances	<u>405,798</u>	<u>384,896</u>	<u>533,870</u>	<u>14,529</u>	<u>7,680</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 405,798</u>	<u>\$ 388,206</u>	<u>\$ 1,235,038</u>	<u>\$ 236,381</u>	<u>\$ 25,325</u>

Capital Projects							Totals	
TIF No. 6	TIF No. 7	TIF No. 8	TIF No. 9	TIF No. 10	TIF No. 11	TIF No. 12	2018	2017
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,100,626	\$ 669,253
32,863	-	20,221	-	-	69,961	22,005	1,065,722	754,901
-	45,238	-	25,568	-	-	-	70,806	349,954
-	-	-	-	-	-	-	269,450	269,450
<u>\$ 32,863</u>	<u>\$ 45,238</u>	<u>\$ 20,221</u>	<u>\$ 25,568</u>	<u>\$ -</u>	<u>\$ 69,961</u>	<u>\$ 22,005</u>	<u>\$ 2,506,604</u>	<u>\$ 2,043,558</u>
\$ 218	\$ -	\$ 5,000	\$ -	\$ -	\$ -	\$ -	\$ 28,521	\$ 45,740
504,273	45,237	471,247	570,661	31,387	54,442	13,031	1,690,278	1,697,941
-	-	-	-	-	99,896	-	99,896	99,896
<u>504,491</u>	<u>45,237</u>	<u>476,247</u>	<u>570,661</u>	<u>31,387</u>	<u>154,338</u>	<u>13,031</u>	<u>1,818,695</u>	<u>1,843,577</u>
32,863	-	20,221	-	-	69,961	22,005	1,065,722	754,901
-	45,238	-	-	-	-	-	45,238	99,490
<u>32,863</u>	<u>45,238</u>	<u>20,221</u>	<u>-</u>	<u>-</u>	<u>69,961</u>	<u>22,005</u>	<u>1,110,960</u>	<u>854,391</u>
-	-	-	-	-	-	-	1,346,773	894,277
<u>(504,491)</u>	<u>(45,237)</u>	<u>(476,247)</u>	<u>(545,093)</u>	<u>(31,387)</u>	<u>(154,338)</u>	<u>(13,031)</u>	<u>(1,769,824)</u>	<u>(1,548,687)</u>
<u>(504,491)</u>	<u>(45,237)</u>	<u>(476,247)</u>	<u>(545,093)</u>	<u>(31,387)</u>	<u>(154,338)</u>	<u>(13,031)</u>	<u>(423,051)</u>	<u>(654,410)</u>
<u>\$ 32,863</u>	<u>\$ 45,238</u>	<u>\$ 20,221</u>	<u>\$ 25,568</u>	<u>\$ -</u>	<u>\$ 69,961</u>	<u>\$ 22,005</u>	<u>\$ 2,506,604</u>	<u>\$ 2,043,558</u>

Attachment: Audit - 2018 Financial Report (4150 : Audit Presentation and Discussion)

City of Merrill, Wisconsin

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2018
 WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2017

	Special Revenue				
	Library	Remedial Action	TIF No. 3	TIF No. 4	TIF No. 5
REVENUES					
Taxes	\$ -	\$ -	\$ 487,269	\$ 219,256	\$ 16,645
Special assessments	-	-	74,252	-	-
Intergovernmental	-	-	12,373	12,850	134
Public charges for services	-	-	-	-	-
Miscellaneous	54,975	-	5,715	-	-
Total revenues	54,975	-	579,609	232,106	16,779
EXPENDITURES					
Current					
Public works	-	24,856	-	-	-
Culture and recreation	97,394	-	-	-	-
Conservation and development	-	-	250,890	14,791	3,022
Debt service					
Interest and fiscal charges	-	-	24,102	-	-
Capital outlay	-	-	1,188,299	-	6,635
Total expenditures	97,394	24,856	1,463,291	14,791	9,657
Excess of revenues over (under) expenditures	(42,419)	(24,856)	(883,682)	217,315	7,122
OTHER FINANCING SOURCES (USES)					
Long-term debt issued	-	-	1,724,000	-	-
Premium on debt issued	-	-	-	-	-
Transfers in	-	-	-	-	-
Transfers out	-	-	(339,676)	(89,974)	(2,522)
Total other financing sources (uses)	-	-	1,384,324	(89,974)	(2,522)
Net change in fund balances	(42,419)	(24,856)	500,642	127,341	4,600
Fund balances - January 1	448,217	409,752	33,228	(112,812)	3,080
Fund balances - December 31	\$ 405,798	\$ 384,896	\$ 533,870	\$ 14,529	\$ 7,680

Capital Projects							Totals	
TIF No. 6	TIF No. 7	TIF No. 8	TIF No. 9	TIF No. 10	TIF No. 11	TIF No. 12	2018	2017
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 12,611	\$ -	\$ 735,781	\$ 860,640
-	-	-	-	-	-	-	74,252	85,365
2,777	1,441	3,581	4,780	-	-	-	37,936	151,925
-	-	-	-	-	-	-	-	75
3,138	8,013	600	1,625	-	640	-	74,706	222,324
5,915	9,454	4,181	6,405	-	13,251	-	922,675	1,320,329
-	-	-	-	-	-	-	24,856	26,070
-	-	-	-	-	-	-	97,394	109,166
66,754	4,181	85,069	19,006	-	1,000	975	445,688	571,123
3,367	-	15,231	-	-	-	-	42,700	57,426
100,662	20,150	533,864	5,286	3,827	14,092	-	1,872,815	3,700,378
170,783	24,331	634,164	24,292	3,827	15,092	975	2,483,453	4,464,163
(164,868)	(14,877)	(629,983)	(17,887)	(3,827)	(1,841)	(975)	(1,560,778)	(3,143,834)
105,000	-	475,000	-	-	-	-	2,304,000	3,934,880
-	-	-	-	-	-	-	-	26,487
-	28,069	45,000	-	-	-	-	73,069	485,000
(26,736)	(13,192)	(10,857)	(18,607)	(20,025)	(63,343)	-	(584,932)	(641,012)
78,264	14,877	509,143	(18,607)	(20,025)	(63,343)	-	1,792,137	3,805,355
(86,604)	-	(120,840)	(36,494)	(23,852)	(65,184)	(975)	231,359	661,521
(417,887)	(45,237)	(355,407)	(508,599)	(7,535)	(89,154)	(12,056)	(654,410)	(1,315,931)
<u>\$ (504,491)</u>	<u>\$ (45,237)</u>	<u>\$ (476,247)</u>	<u>\$ (545,093)</u>	<u>\$ (31,387)</u>	<u>\$ (154,338)</u>	<u>\$ (13,031)</u>	<u>\$ (423,051)</u>	<u>\$ (654,410)</u>

Attachment: Audit - 2018 Financial Report (4150 : Audit Presentation and Discussion)

ADDITIONAL INDEPENDENT AUDITORS' REPORT
FOR BASIC FINANCIAL STATEMENTS



Independent auditors' 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*

To the Mayor and City Council
City of Merrill
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 (the "City") as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated May 8, 2019.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the City'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's internal control. Accordingly, we do not express an opinion on the effectiveness of the City'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. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2018-001 that we consider to be a significant deficiency.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the City's financial statements are free from 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

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The City'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 results of that testing, and not to provide an opinion on the effectiveness of the City'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's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CliftonLarsonAllen LLP

Green Bay, Wisconsin
May 8, 2019

City of Merrill, Wisconsin

SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED DECEMBER 31, 2018

SECTION I. INTERNAL CONTROL OVER FINANCIAL REPORTING

FINDING NO.	CONTROL DEFICIENCIES
2018-001	Preparation of Annual Financial Report Repeat of Finding 2017-001
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 format, and note disclosures to assist in the preparation of the annual financial report in an efficient manner. For the same reasons, the City contracts with us to compile the Wisconsin Municipal Report Form C and the Public Service Commission Report.
Criteria:	The preparation and review of the annual financial report, Municipal Financial Report, and Public Service Commission 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 or other required State Financial reports.
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.
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.
Recommendation:	We recommend the City continue reviewing the annual financial report. 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, Municipal Financial Report and Public Service Commission Report.
Management Response:	Management believes the cost for additional staff time and training to prepare year-end closing entries and reports outweigh the benefits to be received. Management will continue to review and approve the annual financial report prior to issuance.

SECTION II. COMPLIANCE AND OTHER MATTERS

There are no findings related to compliance and other matters that are required to be reported under governmental auditing standards generally accepted in the United States of America for the year ended December 31, 2018.

City of Merrill, Wisconsin
MANAGEMENT COMMUNICATIONS

December 31, 2018

City of Merrill, Wisconsin

DECEMBER 31, 2018

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CliftonLarsonAllen LLP
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To the City Council
City of Merrill, Wisconsin

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Merrill, Wisconsin (the "City") as of and for the year ended December 31, 2018. The City's financial statements, including our report thereon dated May 8, 2019, are presented in a separate audit report document. Professional standards require that we provide you with the following information related to our audit.

OUR RESPONSIBILITIES UNDER U.S. GENERALLY ACCEPTED AUDITING STANDARDS AND GOVERNMENT AUDITING STANDARDS

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

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting.

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on compliance with those provisions is not an objective of our audit.

PLANNED SCOPE AND TIMING OF THE AUDIT

We performed the audit according to the planned scope and timing previously communicated to you in our correspondence about planning matters.

SIGNIFICANT AUDIT FINDINGS

Consideration of Internal Control

FINANCIAL STATEMENTS

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of and for the year ended December 31, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing 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's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control. Our report on internal control over financial reporting and on compliance and other matters is presented on pages 52 – 53 of the annual report.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a significant deficiency.

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. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control, that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiency in the City's internal control to be a significant deficiency:

Finding 2018-001 Preparation of Annual Financial Report

These findings are described in detail in the schedule of findings and responses on page 54 of the annual report.

The City's written response to the significant deficiency and material weakness identified in our audit has not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements. As described in Note 3.G to the financial statements, the City changed accounting policies related to postemployment benefits by adopting Statement of Governmental Accounting Standards Board (GASB) No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in 2018. Accordingly, the cumulative effect of the accounting change as of the beginning of the year is reported in the statement of activities. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. To the best of our knowledge, all significant transactions have been recognized in the financial statements in the proper period.

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

- ▶ Management's estimate of the unbilled water and sewer charges is based upon analysis of billings in the first quarter of 2019. We evaluated the key factors and assumptions and the consistency in these factors and assumptions used to develop the unbilled water and sewer charges in determining that it is reasonable in relation to the financial statements taken as a whole.
- ▶ Management's estimate of the depreciable life of the capital assets is based upon analysis of the expected useful life of the capital assets. We evaluated the key factors and assumptions and the consistency in these factors and assumptions used to develop the depreciable life in determining that it is reasonable in relation to the financial statements taken as a whole.
- ▶ Management's estimate of the net pension liability (asset) and related deferred outflows/inflows of resources is based on information received from the Wisconsin Retirement System. We evaluated the key factors and assumptions used to develop the net pension liability (asset) and related deferred outflows/inflows of resources in determining that they are reasonable in relation to the financial statements taken as a whole.

- ▶ Management’s estimate of accumulated sick leave is based upon analysis of the employees sick leave balance. We evaluated the key factors and assumptions and the consistency in these factors and assumptions used to develop the estimate in determining that it is reasonable in relation to the financial statements taken as a whole.
- ▶ Management’s estimate of the other postemployment benefits is based on an actuarial report. We evaluated the key factors and assumptions used to develop the other postemployment benefits in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. There were no particularly sensitive financial statement disclosures.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management did not identify and we did not notify them of any uncorrected financial statement misstatements.

The following material misstatements detected as a result of the audit procedures were corrected by management;

- ▶ Adjusted deferred inflows/outflows and net pension liability in the Water and Sewer Utility based on WRS provided data
- ▶ Adjusted deferred inflows/outflows and other postemployment benefits liability in the Water and Sewer Utility based on WRS provided date
- ▶ Adjusted beginning balance in TID #9
- ▶ Adjusted library accounts for annual activity
- ▶ Recorded depreciation expense in Water and Sewer Utility

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors’ report. No such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated May 8, 2019. The management representation letter follows this communication.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

In addition, during our audit, we noted certain other matters that are presented for your consideration. We will review the status of these comments during our next audit engagement. Our comments and recommendations are intended to improve the internal control or result in other operating efficiencies. We will be pleased to discuss these matters in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. Our comments are summarized in the comments and observations section of this report.

Other Matters

We applied certain limited procedures to the schedules relating to pensions and other postemployment benefits liabilities, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information, including whether the RSI has been measured and presented in accordance with prescribed guidelines, whether the methods of measurement and preparation have been changed from the prior period and the reasons for any such changes, and whether there were any significant assumptions or interpretations underlying the measurement or presentation of the RSI. We compared the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the supplementary information, which accompanies the financial statements but is not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

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

Sincerely,

CliftonLarsonAllen LLP

Green Bay, Wisconsin
May 8, 2019

Summary Financial Information

GOVERNMENTAL FUND BALANCES

Presented below is a summary of the City's governmental fund balances on December 31, 2018 and 2017. This information is provided for assessing financial results for 2018 and for indicating financial resources available at the start of the 2019 budget year.

	<u>12/31/18</u>	<u>12/31/17</u>
General Fund		
Nonspendable for		
Inventories and prepaid items	\$ 158,781	\$ 130,030
Restricted for		
Capital improvements	380,014	226,459
Committed for		
Nonlapsing reserves	808,223	773,535
Unassigned	<u>1,699,745</u>	<u>1,687,571</u>
Total General Fund Balance	<u>3,046,763</u>	<u>2,817,595</u>
Debt Service Fund		
Restricted for debt service	<u>53,163</u>	<u>55,117</u>
Special Revenue Funds		
Restricted for		
Community development	516,643	455,884
Library endowment	405,798	448,217
Remedial action	<u>384,896</u>	<u>409,752</u>
Total Special Revenue Funds	<u>1,307,337</u>	<u>1,313,853</u>
Capital Projects Funds		
Restricted for TID project plan		
TIF No. 3	533,870	33,228
TIF No. 4	14,529	-
TIF No. 5	7,680	3,080
Unassigned		
TIF No. 4	-	(112,812)
TIF No. 6	(504,491)	(417,887)
TIF No. 7	(45,237)	(45,237)
TIF No. 8	(476,247)	(355,407)
TIF No. 9	(545,093)	(508,599)
TIF No. 10	(31,387)	(7,535)
TIF No. 11	(154,338)	(89,154)
TIF No. 12	<u>(13,031)</u>	<u>(12,056)</u>
Total Capital Projects Funds	<u>(1,213,745)</u>	<u>(1,512,379)</u>
Total Governmental Fund Balances	<u>\$ 3,193,518</u>	<u>\$ 2,674,186</u>

Overall the general fund increased by \$229,168 with unassigned fund balance of \$1,699,745. The general fund, as reported, incorporates both operating and capital components, as summarized below:

	<u>12/31/18</u>	<u>12/31/17</u>
General Fund		
General operations	\$ 1,845,600	\$ 1,848,275
Nonlapsing reserve	808,223	773,535
School resource officer	372	(22,251)
Merrill festival grounds	5,274	4,025
Airport aviation fuel	7,280	(12,448)
Capital improvements	380,014	226,459
	<u>\$ 3,046,763</u>	<u>\$ 2,817,595</u>

The general fund is currently advancing funds to TID capital projects funds with deficit cash positions, providing the financing source for project plan expenditures. If these advances are not anticipated to be repaid within a year, or borrowing reimbursements made portions of general fund balance should be segregated and shown as not available for appropriation, as they are committed to covering cash deficits of these funds.

The increase in fund balance of TID No. 3 relates to borrowings received in 2018 but financing 2019 infrastructure improvements of \$530,000.

WATER UTILITY

A comparative summary of the Water Utility's change in net position for the years ended December 31, 2018 and 2017 appears below:

	<u>2018</u>	<u>2017</u>
Operating revenues		
Charges for services	\$ 1,505,277	\$ 1,442,458
Other	137,373	136,102
Total operating revenues	<u>1,642,650</u>	<u>1,578,560</u>
Operating expenses		
Operation and Maintenance	795,510	808,980
Depreciation	418,284	412,817
Taxes	16,846	22,027
Total operating expenses	<u>1,230,640</u>	<u>1,243,824</u>
Operating income	<u>412,010</u>	<u>334,736</u>
Nonoperating revenues (expenses)		
Interest income	8,913	3,027
Interest and fiscal charges	(26,403)	(28,465)
Other income	16,265	2,865
Total nonoperating revenues (expenses)	<u>(1,225)</u>	<u>(22,573)</u>
Income before contributions and transfers	410,785	312,163
Capital contributions	146,550	28,931
Transfers out - payment in lieu of taxes	<u>(374,442)</u>	<u>(363,612)</u>
Change in net position	<u>\$ 182,893</u>	<u>\$ (22,518)</u>

The City's water utility reported an operating income of \$412,010 compared to \$334,736 for the prior year. To further evaluate the operating activities, we have calculated the water utility's rate of return below.

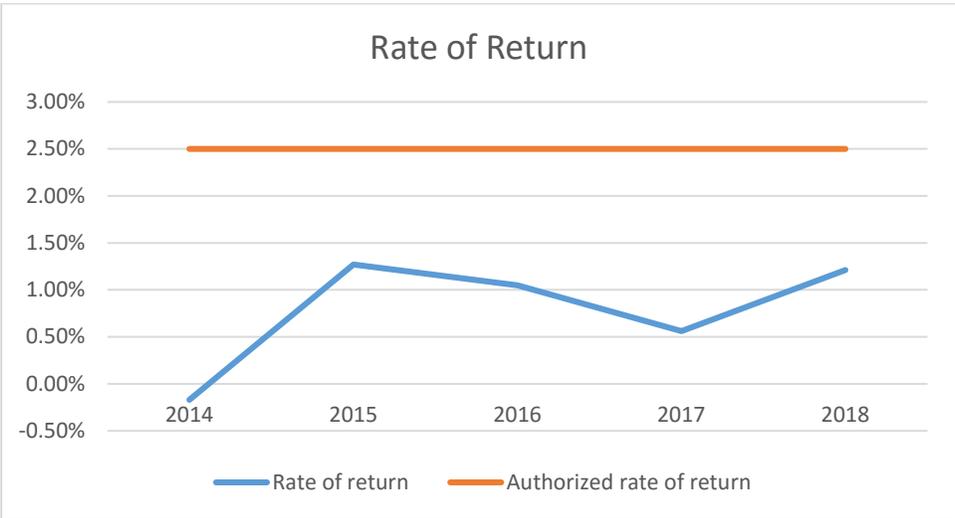
Rate of Return: The Public Service Commission of Wisconsin (PSC) determines rates charged to customers of the water utility by calculating rate of return on the water utility's average net rate base. Presented below is the calculation of the rates of return for 2018 and 2017 for the water utility based on the format used by the PSC: The PSC operating income differs from the above operating income by the following items:

- ▶ The PSC considers the property tax equivalent to be an expense in the year accrued while the property tax equivalent is considered an expense for financial reporting purposes in the year transferred to the City.
- ▶ The PSC no longer allows the water utility to recover depreciation on contributed plant from current rates; therefore, this depreciation expense is removed from PSC operating income.

	2018	2017
Rate of Return	1.21%	0.56%

Rate of Return

An analysis of rate of return for the last five years follows:



Summary Comment: The rate of return generated was lower than the authorized rate of return (2.50%). The water utility reported a cash and investment balance at December 31, 2018 of \$804, 817, compared to a balance of \$804,513 at December 31, 2017. The water utility generated cash flows from operations of \$846,014 in 2018 compared to \$691,611 in 2017 and a positive net cash inflow from all activities of \$304 in 2018 compared to a negative \$73,242 in 2017.

SEWER UTILITY

A comparative summary of the Sewer Utility's change in net position for the years ended December 31, 2018 and 2017 appears below:

	2018	2017
Operating revenues		
Charges for services	\$ 1,495,239	\$ 1,461,055
Other	142,820	139,805
Total operating revenues	<u>1,638,059</u>	<u>1,600,860</u>
Operating expenses		
Operation and maintenance	1,145,937	961,974
Depreciation	392,036	378,135
Taxes	42,401	41,859
Total operating expenses	<u>1,580,374</u>	<u>1,381,968</u>
Operating income	<u>57,685</u>	<u>218,892</u>
Nonoperating revenues (expenses)		
Interest income	14,090	3,460
Interest expense	(10,836)	(3,121)
Other income	-	84
Total nonoperating revenues (expenses)	<u>3,254</u>	<u>423</u>
Income before contributions	60,939	219,315
Capital contributions	<u>107,673</u>	<u>7,596</u>
Change in net position	<u>\$ 168,612</u>	<u>\$ 226,911</u>

Because the sewer utility is not regulated by the PSC and treatment plants are typically capital intensive with depreciation expense being a significant component of operating expenses, it is important to consider cash flows when evaluating the sewer utility operating results. For the year ended December 31, 2018, the cash generated by operating activities totaled \$495,529 compared to \$578,020 for 2017. As of December 31, 2018, the sewer utility had cash from operations of \$62,022, a decrease of \$239,814 from the prior year, and restricted cash and investment balance of \$1,032,007. As of December 31, 2018, the future debt services are as follows:

December 31	Obligation	Interest	Total
2019	\$ 28,343	\$ 2,156	\$ 30,499
2020	28,741	1,282	30,023
	<u>\$ 57,084</u>	<u>\$ 3,438</u>	<u>\$ 60,522</u>

New Accounting Standard

ACCOUNTING AND REPORTING FOR LEASES

In June 2017, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 87, *Leases* which establishes a single model for lease accounting and revises reporting requirements.

Lease accounting is required when a government contracts to use another entity's equipment, building, or other nonfinancial assets for a specific period of time. Under the new guidance, a lease asset and a lease liability are recorded in the government-wide and proprietary financial statements for this contract. The lease liability is calculated by including the following: fixed payments, variable payments, interest rate, purchase options, residual value guarantees, and termination or extension options. The lease liability is discounted and is amortized over the lease term. The lease asset is calculated by starting with the lease liability amount and adjusting for incentives and other costs and is amortized over the shorter of the lease term or the useful life of the underlying asset. The lease asset is reported in the financial statements as an intangible right to use asset, rather than a capital asset under current guidance. Footnote disclosures including lease assets by asset class and related accumulated amortization and future minimum payments among other details are required under the new Statement.

When the government is leasing one of its assets to another entity, a lease receivable and deferred inflow of resources related to the lease receivable is recorded. The lease receivable is calculated similar to the lease asset described above. The lease receivable is discounted and is amortized over the lease term. The deferred inflow of resources is calculated by starting with the lease receivable and adjusting for incentives and other payments. The deferred inflow would be recognized as an inflow of resources in a systematic and rational manner over the lease term.

Some contracts include a nonlease component such as maintenance services. The government will need to allocate the contract cost between the lease component and the nonlease component, unless it is not practicable to do so. If it is not practicable, the entire contract should be treated as a lease.

This new standard is effective for fiscal years beginning after December 15, 2019. Early adoption is encouraged by GASB. We recommend the City review the new standard, gather all lease contracts, and identify the terms and conditions of each contract, noting the lease term, all payments, and options in order to properly determine the value of each lease. The City should also review contracts that have both lease and nonlease components to determine if a price allocation is practicable.

ACCOUNTING AND REPORTING FOR FIDUCIARY ACTIVITIES

In January 2017, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities and revises reporting requirements. The standard is effective for fiscal years ending on or after December 31, 2019. In addition, the GASB expects to issue an implementation guide in 2019.

Identifying Fiduciary Activities

Activities other than pension and postemployment arrangements are considered fiduciary activities if all of the following criteria are met:

- ▶ The government controls the assets or can direct their use.
- ▶ The activity must not be solely based on the government's own-source revenue. Own-source revenue includes exchange transactions such as user charges, sales taxes and property taxes.
- ▶ The government does not have administrative involvement such as determining eligibility, monitoring compliance or approval of expenditures.
- ▶ The government does not have direct financial involvement such as matching requirements or liability for disallowed costs.

Activities meeting these criteria would be required to be reported as fiduciary funds. An exception is made for funds held in enterprise funds which are expected to be held for three months or less. These funds can continue to be reported in the enterprise fund. Activities not meeting these criteria would be reported as part of the governmental or proprietary funds.

The administrative involvement criteria is likely to have the most impact on reclassification of fiduciary activities. Policies on the expenditures of funds and approval of expenditures by an employee of the government may be considered administrative involvement and preclude the classification as a fiduciary activity.

Financial Reporting

An activity meeting the above criteria should be reported in one of the following four fiduciary funds:

- ▶ Pension and other employee benefit trust funds
- ▶ Investment trust funds
- ▶ Private-purpose trust funds
- ▶ Custodial funds

Fiduciary assets administered through a trust agreement are recorded in a pension and other employee benefit trust, investment or private-purpose trust fund. Custodial funds are used to report all other fiduciary activities not held in a trust or equivalent arrangement. Agency funds have been eliminated with GASB No. 84 and replaced with custodial funds.

Fiduciary funds will present a statement of fiduciary net position, including assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position. Liabilities to beneficiaries should be recognized when an event occurs that compels the government to disburse fiduciary resources, when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets. A statement of changes in fiduciary net position should present additions by source and deductions by type.

Implementation

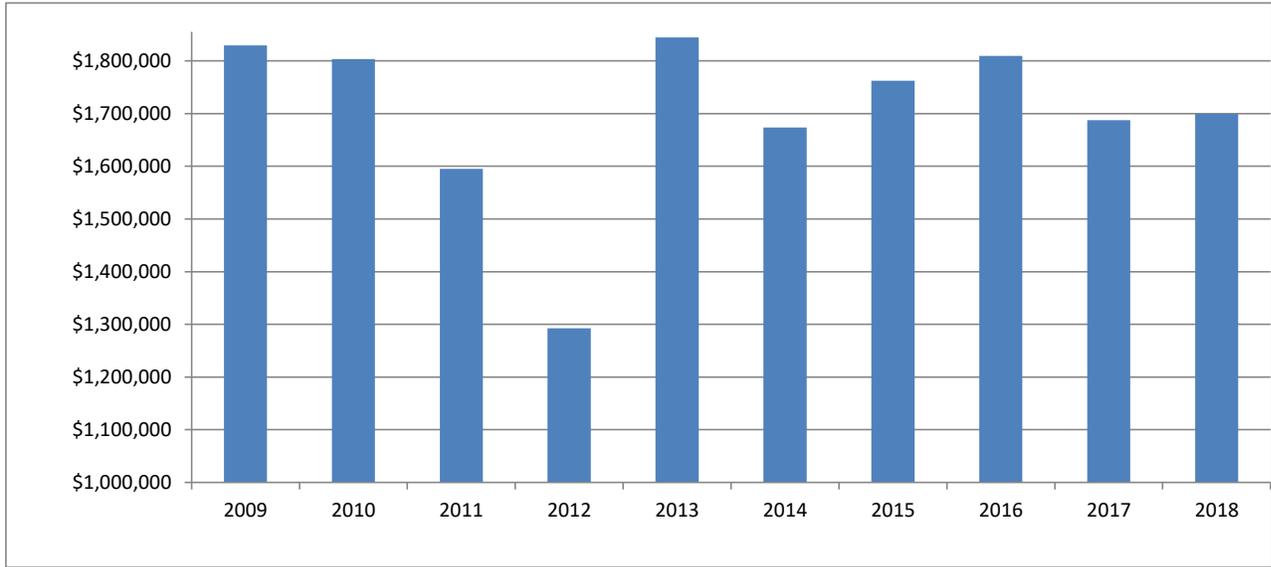
As mentioned previously, this new standard is effective for fiscal years ending on or after December 31, 2019. However, due to the potential reclassification of funds, the impact may need to be considered during budget preparation. We recommend the City begin to determine the impact of the Statement by:

1. Identifying potential fiduciary activities. Some activities to consider include:
 - a. Tax collection funds
 - b. Cemetery trust funds
2. Gathering facts regarding each activity, including the government's administrative involvement.
3. Evaluating whether each activity meets the fiduciary activity criteria and determine how it should be reported. An appendix to the Statement includes flowcharts for the evaluation process.

These changes will affect your 2019 financial statements. This comment is for informational purposes.

APPENDIX

City of Merrill - Undesignated General Fund Balance



City capital project borrowing in 2013, 2016, 2017, & 2018.

As of 12/31st	Undesignated General Fund	Undesignated Change	
2009	\$1,829,333 *	(\$26,285)	*Adjusted BAB 2010 & \$161,535 Debt Service
2010	\$1,803,202	(\$26,131)	
2011	\$1,594,870	(\$208,332)	\$150,000 to payoff GO1998 two-years early
2012	\$1,292,555 **	(\$302,315)	
2013	\$1,844,266	\$551,711	
2014	\$1,673,673	(\$170,593)	Adjusted for \$705,578 reimbursement borrowing in 2016
2015	\$1,762,535	\$88,862	Adjusted for \$1,229,727 reimbursement borrowing in 2016
2016	\$1,809,741	\$47,206	
2017	\$1,687,571	(\$122,170)	
2018	\$1,699,745	\$12,174	

Undesignated Balance is: **13.8%** of 2019 Operations Budget

*Adjusted from Schenck Management Report amount of \$1,369,558 for Build America Bonds (BAB) proceeds - \$199,500 in Jan. 2010 and \$260,275 for 2009 infrastructure received in Dec. 2010.

**Adjusted by \$1,185,263 borrowing reimbursements (Series 2013A/2013B) - from \$107,292 Schenck balance

Prepared by: Finance Director Kathy Unertl

Attachment: City Fund Balance-2018 Audit (4150 : Audit Presentation and Discussion)

City of Merrill - Tax Increment Districts (TID) Fiscal Status

TID No. 3 2018 Transfers & Future Plans

Revised by Finance Director Kathy Unertl 5/9/2019

Deficits in Tax Increment Districts (TIDs) are being funded by General Fund Advances

Tax Increment Sharing Plan authorization includes: TID No. 3 to TID No. 6, No. 7, and No. 8. Amendments are planned in 2019 to include sharing with TID No. 9.

Also planned for 2019, TID No. 4 Sharing Plan with TID No. 6, No. 7, No. 8, and No. 9.

	12/31/2015 Fiscal Status	12/31/2016* Fiscal Status	12/31/2017 Fiscal Status	12/31/2018 Fiscal Status	2018 Transfer	12/31/2018 Final Status	Tax Increment 2019	Comments
TID No. 3	\$21,280	\$935	\$33,228	\$76,939 Adjusted Capital**		\$3,870	\$681,175	Mixed Use - created 9/2005 - Additional tax increment transfers anticipated to "Blighted" Area TIDs
TID No. 4	(\$264,838)	(\$273,264)	(\$112,812)	\$14,529		\$14,529	\$221,852	Mixed Use - created 9/2007 (Future tax increment sharing)
TID No. 5	\$13,914	(\$6,602)	\$3,080	\$7,680		\$7,680	\$17,645	Mixed Use - created 9/2007 See also TID No. 11 overlay created 5/2016
TID No. 6	(\$715,831)	(\$623,003)	(\$417,887)	(\$504,491)		(\$504,491)	\$32,863	Blighted Area - created 5/2009
TID No. 7	(\$86,833)	(\$143,033)	(\$45,237)	(\$73,306)	\$28,069	(\$45,237)	\$0	Blighted Area - created 8/2009 Deferred \$45,237 DERF State of WI reimbursement in about 2020
TID No. 8	(\$620,112)	(\$557,577)	(\$355,407)	(\$521,247)	\$45,000	(\$476,247)	\$20,221	Blighted Area - created 9/2011
TID No. 9	(\$103,893)	(\$416,590)	(\$508,599)	(\$545,093)		(\$545,093)	\$0	Blighted Area - created 9/2013 Pending Idle Sites (WEDC) reimbursement M30 Need Plan Amendment to allow sharing from TID No. 3 & No. 4
TID No. 10	(\$8,491)	(\$38,538)	(\$7,535)	(\$31,387)		(\$31,387)	\$0	Blighted Area - created 9/2015 Seeking development proposals for former Fox Point site
TID No. 11	N/A	(\$187,456)	(\$89,154)	(\$154,338)		(\$154,338)	\$69,961	Mixed Use - created 5/2016 Expanded Tax increment generation for 2020 from Rock Ridge Ap
TID No. 12	N/A	N/A	(\$12,056)	(\$13,031)		(\$13,031)	\$22,005	Mixed Use - created 9/2017
Total	(\$1,764,804)	(\$2,245,129)	(\$1,512,380)	(\$1,743,746)	\$73,069	(\$1,743,746)	\$1,065,721	

* \$426,754 in NAN Series 2016C Draw No. 2 borrowing proceeds received 3/16/2017

**\$530,000 from Series 2018C

Attachment: Merrill - 2018 Year-End TIDs (4150 : Audit Presentation and Discussion)

DRAFT – FOR DISCUSSION PURPOSES ONLY

2020 TARGET BUDGET

The attached spreadsheet was prepared in response to request from Personnel & Finance Committee Chairperson Paul Russell and Mayor Derek Woellner's e-mails:

On May 6, 2019, at 3:59 PM, Russell, Paul <Paul.Russell@ci.merrill.wi.us> wrote:

Kathy,

Please draft an adjusted 5% reduction in the budget for discussion. The adjustment will be last 2 years average COLA minus the 5%.

Thanks Paul

From: Woellner, Derek
Sent: Monday, May 6, 2019 4:41 PM
To: Russell, Paul
Cc: Unertl, Kathy; Johnson, David
Subject: Re: P/F 2020 target budget

Cola was 2.8 this year and 2.0 last year, so a 2.4 average.

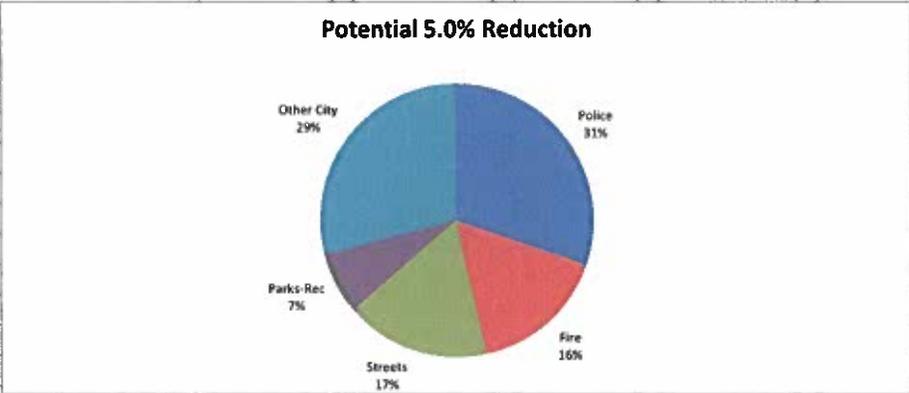
I think to correct for last year's 7.4% impact, reducing it 5% would put us in line with what I believe the council intended. And I believe a majority will be in favor of an increase equaling the cola in order to maintain our level of services.

So the cola minus 5 equals a 2.6% budget reduction if I understand correctly? If so, I'd support this. To be clear, I'd want to see the "-2.6%" appear as the percent change on the city's portion of the tax bills.

-Derek

CITY OF MERRILL - POTENTIAL 2020 CONCEPTS

Analysis uses 2019 Net Budget - With 2.6% Cost-of-Living-Adjustment (COLA) & 5.0% Reduction



Departmental Net Cost (Expenditures minus Revenues)					
Potential Reduction %	2019	COLA	-5%	2020	
	<u>Budget</u>	<u>2.6%</u>	<u>Reduction</u>	<u>Target</u>	
Common Council	50,275	51,582	2,579	49,003	
Municipal Court	89,544	N/A	N/A	89,544	Revenues in Non-Departmental
City Attorney	210,601	216,077	10,804	205,273	
Mayor	14,605	14,985	749	14,235	
City Administrator	93,932	96,374	4,819	91,556	
Personnel - HR	4,850	4,976	249	4,727	
City Clerk	87,036	89,299	4,465	84,834	
Clerk/Treasurer Staff	170,983	175,429	8,771	166,657	
Elections (Averaged)	39,775	N/A	N/A	39,775	Averaged - four (4) year cycle
Treasurer/Finance Director	110,191	113,056	5,653	107,403	
Information Technology	204,250	209,561	10,478	199,082	
Assessment of Property	28,525	N/A	N/A	28,525	Contract with Bowmar Appraisal
Independent Auditing	16,750	17,186	859	16,326	
Over-Collected Taxes	(1,150)	N/A	N/A	(1,150)	Revenue - reimbursements
Insurance/Employee	321,000	329,346	16,467	312,879	
City Sealer	4,800	N/A	N/A	4,800	Contract with State of WI
City Maintenance	221,710	227,474	11,374	216,101	
Building Inspector/Zoning	106,161	108,921	5,446	103,475	
Community Development	14,993	15,383	769	14,614	
Economic Development	20,200	20,725	1,036	19,689	
Police	2,457,038	2,520,921	128,046	2,394,875	
Police SRO (Tax Levy)	57,144	58,630	N/A	58,630	Contract with MAPS
Traffic Control	30,845	31,647	1,582	30,065	
Hydrant Rental	125,160	N/A	N/A	125,160	WI PSC Water Rate
Fire Protection	1,312,628	1,346,756	67,338	1,279,419	
Ambulance	0	0	N/A	0	Lincoln County reimbursement
Street Commissioner	3,750	3,848	192	3,655	
Public Works/City Engineer	45,337	46,516	2,326	44,190	
Storm Water Plan/Const.	6,500	6,669	333	6,336	

Attachment: Potential 2020 Concepts-2019-05-14 (4151 : Review/discuss 2020 budget procedures, timelines and goals)

CITY OF MERRILL - POTENTIAL 2020 CONCEPTS				
Analysis uses 2019 Net Budget - With 2.6% Cost-of-Living-Adjustment (COLA) & 5.0% Reduction				
Departmental Net Cost (Expenditures minus Revenues)				
Potential Reduction %	2019	2.6%	-5%	'2020
	Budget	COLA	Reduction	Target
Street Superintendent	87,100	89,365	4,468	84,896
Garage Maintenance	47,320	48,550	2,428	46,123
Operations Support (M&E)	257,550	264,246	13,212	251,034
Roads	252,377	258,939	12,947	245,992
Street Cleaning	42,122	43,217	2,161	41,056
Snow & Ice	254,408	261,023	13,051	247,971
Sealcoat				Borrowing
Storm Water Maintenance	57,033	58,516	2,926	55,590
Street Painting	40,574	41,629	2,081	39,547
Street Leave Expenses	72,506	74,391	3,720	70,672
Garbage Collection	238,808	245,017	12,251	232,766
Recycling	167,039	171,382	8,569	162,813
Weed and Nuisance Control	11,330	11,625	581	11,043
Decorations & Banners	5,575	5,720	286	5,434
				Streets Dept. = \$71,785
Street Lighting	167,500	171,855	8,593	163,262
Airport	123,000	126,198	6,310	119,888
Transit	61,773	N/A	N/A	61,773
				Local match to Federal-State Aids
Health Officer	3,760	3,858	193	3,665
Enrichment Center	126,626	129,918	6,496	123,422
Library	510,954	N/A	N/A	510,954
				Significant Lincoln County funding
Parks	299,040	306,815	15,341	291,474
River Bend Trail (Operations)	3,550	3,642	182	3,460
Athletic Park Lights	2,000	2,052	103	1,949
Ott's Field Lights	1,500	1,539	77	1,462
Recreation Programs	171,737	176,202	8,810	167,392
MARC - Smith Center	52,350	53,711	2,686	51,026
Aquatic Center	60,000	61,560	3,078	58,482
				Parks & Rec = \$30,276
Marketing - PR	21,500	22,059	1,103	20,956
Outside Agencies	46,500	47,709	2,385	45,324
CATV - Administrative %	(6,000)	N/A	N/A	(6,000)
				Revenue
Total Expenditures	9,028,984	8,386,097	(416,373)	8,823,105

Attachment: Potential 2020 Concepts-2019-05-14 (4151 : Review/discuss 2020 budget procedures, timelines and goals)

City of Merrill - Tax Levy

This is not the % shown on tax bills.

For starting point on the 2020 City of Merrill tax levy, Finance Director Kathy Unertl proposes adjustment on debt service.

**Additional \$76,050 to 2019 debt service (Fund 30) over the 3.0% tax levy target amount of \$168,803.

*Operations/Capital 2020 tax levy to be determined at future Committee of Whole/Common Council meetings.

Levy Year	Budget Year	Operations/ Capital*	Debt Service	City Tax Levy	Change in Tax Levy - \$ amounts			Change in Tax Levy - %		
					Operations/ Capital**	Debt Service	Total Levy Change	Operations/ Capital*	Debt Service	Total Levy Change
2018	2019	\$4,262,173	\$1,600,516	\$5,862,689	\$45,544	\$199,309	\$244,853 **	1.08%	14.22%	4.36% **
2019	2020	\$4,262,173	\$1,524,466	\$5,786,639	*To be determined	(\$76,050)	(\$76,050)	*To be determined	-4.99%	*To be determined

Attachment: Potential 2020 Concepts-2019-05-14 (4151 : Review/discuss 2020 budget procedures,

City of Merrill - Tax Rate

This is the % shown on tax bills.

Estimated TID Out

Estimated TID Out Assessed - following Ehlers & Associates formula - 2018:

	2018
Equalized Valuation	\$420,695,800
Equalized TID	\$34,294,400
TID Out EV	\$386,401,400

TID = Tax Increment Districts
EV = Equalized Valuation

0.968974017 Assessment Ratio - Statement of Assessment - Final Equated (Available typically about November 1st)

\$374,412,917 Estimated TID Out Assessed Value
which is TID Out EV * Assessment Ratio

Levy Year	Budget Year	City Tax Levy	Total Levy Change	Estimated Assessed TID Out	Change Est. Assessed TID Out	Levy Year	City Tax Rate	Change in Tax Rate	% Tax Rate Change	Per \$50,000 Assessment	Difference Per \$50,000
2018	2019	\$5,862,689	\$244,853	\$374,412,917	(\$10,795,354)	2018	\$15.658	\$1.074	7.37%	\$783	\$54

If Estimated Assessed TID Out stayed the same for 2020 budget and just debt service adjustment:

2019	2020	\$5,786,639	(\$76,050)	\$374,412,917	\$0	Concept	\$15.455	(\$0.203)	-1.31%	\$773	(\$10)
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Attachment: Potential 2020 Concepts-2019-05-14 (4151 : Review/discuss 2020 budget procedures,

Non-Dept Revenues

CITY OF MERRILL - POTENTIAL 2020 CONCEPTS					
Analysis uses 2019 Budget - Non-Departmental Revenues					
In addition to Net Budget (Expenses minus offsetting Revenues) for Departments, there are					
Non-Departmental Revenues.					
	2019	0.5%	1%	2%	
Non-Departmental Revenue	Budget	Addition	Addition	Addition	Comment
Potential revenue increases					
Taxes - Tax Levy	4,525,436	22,627	45,254	90,509	For illustration purposes
Operations & Capital					
Intergovernmental	4,182,184	20,911	41,822	83,644	Pending State Budget Bill?
Licenses & Permits	39,021	195	390	780	
Fines, Forfeits, & Penalties	117,500	588	1,175	2,350	Trends positive with State Debt Collection System
Public Services - Charges	7,625	38	76	153	
Miscellaneous Revenues	109,150	546	1,092	2,183	
Revenues	8,980,916	44,905	89,809	179,618	

Attachment: Potential 2020 Concepts-2019-05-14 (4151 : Review/discuss 2020 budget procedures, timelines and goals)

REQUEST TO INCLUDE ITEM ON AGENDA

Board or Committee: Personnel & Finance Committee

Date of Meeting: Tuesday, April 23rd, 2019

Request by: Kathy Unertl, Finance Director

Describe below the item(s) you wish to have put on the agenda:
(please attach any pertinent information)

Review and discussion of draft 2020 budget development process and timeframes:

Thanks for everyone's kind thoughts and best wishes during my illness.

I anticipate moving forward with the ten-year Capital Plan update as a key component of the 2020 budget process. Representatives from Ehler's & Associates will be assisting in review of debt service options.

Enclosed are draft 2020 budget development process and timeframes for your review and discussion.

Date: 4/17/2019

Draft – 2019-04-17

City of Merrill 2020 Budget Process and Timeframes

This is draft budget development process and timeframes. Input is needed from Merrill Common Council members.

Are any additional Committee of Whole meetings needed? Any budgetary concerns requiring research and fiscal analysis in advance of scheduled meetings?

<u>Timeframes:</u>	<u>Activity:</u>	<u>Action by:</u>	<u>Info to:</u>
By end of May 2019	Capital Plan & 2020 Requests	Department Heads	Finance Director
By June 1 st	Personnel-related Requests	Department Heads	City Administrator
By mid-June	WI Retirement System rates	State of Wisconsin – Employee Trust Funds	
Sometime June	Consider Capital Plan & 2020	Committee of Whole	
[Priorities are needed to determine potential borrowing/debt service tax levy impacts.]			
July 23 rd	Preliminary Budget Parameters	Personnel & Finance	City Administrator/ Finance Director
July 23 rd	Library and Ambulance/EMS (Prior to submission to Lincoln County)	Personnel & Finance	Library Director & Fire Chief
August 15 th	Equalized Valuations	Wisconsin DOR	
[Provides growth info and State Levy Limit amount]			
ASAP	Police & Fire Union Contracts	Personnel & Finance	City Administrator
[Current union employment contracts expire 12/31/2019]			
By early October	City Group Health Insurance	M-3 & Aspirus Arise	Finance Director
Mid-October	All-Day Operations Budget	Committee of Whole	Finance Director
End-October	Any follow-up budget items	Personnel & Finance	
November 1 st	Assessed Valuations (TID In)	Wisconsin DOR	Finance Director
Needed to calculate the tax rate change % (shown on property tax bills)			
November 12 th	Public Hearing - 2020 Budget & Tax Levy	Common Council	

Attachment: 2020 Budget Procedure and Timeframes (4151 : Review/discuss 2020 budget procedures, timelines and goals)