

City of Merrill, Wisconsin

ANNUAL FINANCIAL REPORT

December 31, 2017

City of Merrill, Wisconsin

DECEMBER 31, 2017

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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, 2017, 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, 2017, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund and the community development block grant fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

OTHER MATTERS

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the schedules relating to pensions on page 43 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.

REPORT ON SUMMARIZED FINANCIAL INFORMATION

We have previously audited the City's 2016 financial statements, and our report dated July 5, 2017, 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. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 3, 2018, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Certified Public Accountants

Green Bay, Wisconsin

May 3, 2018

BASIC FINANCIAL STATEMENTS

City of Merrill, Wisconsin

STATEMENT OF NET POSITION

DECEMBER 31, 2017

WITH SUMMARIZED FINANCIAL INFORMATION AS OF DECEMBER 31, 2016

	Governmental Activities	Business-type Activities	Totals	
			2017	2016
ASSETS				
Cash and investments	\$ 6,933,864	\$ 1,010,694	\$ 7,944,558	\$ 8,933,626
Receivables				
Taxes and special charges	8,281,902	-	8,281,902	7,706,540
Delinquent taxes	703	-	703	327
Accounts	626,807	729,659	1,356,466	1,495,209
Special assessments	63,845	-	63,845	44,203
Loans	3,083,535	-	3,083,535	3,152,633
Other	-	86,976	86,976	107,043
Due from other governments	-	-	-	148,008
Inventories and prepaid items	130,030	84,759	214,789	167,764
Restricted assets				
Cash and investments	-	1,131,141	1,131,141	446,933
Capital assets, nondepreciable	4,308,088	200,147	4,508,235	4,010,972
Capital assets, depreciable	33,862,263	16,776,173	50,638,436	47,095,952
Total assets	57,291,037	20,019,549	77,310,586	73,309,210
DEFERRED OUTFLOWS OF RESOURCES				
Loss on advance refunding	46,819	-	46,819	62,871
Pension related amounts	3,573,097	253,953	3,827,050	5,485,638
Total deferred outflows of resources	3,619,916	253,953	3,873,869	5,548,509
LIABILITIES				
Accounts payable	562,760	94,473	657,233	844,846
Accrued and other current liabilities	44,530	-	44,530	31,098
Due to other governments	6,075,139	-	6,075,139	5,594,734
Accrued interest payable	185,438	8,757	194,195	175,808
Special deposits	135,383	-	135,383	175,690
Unearned revenues	10,811	-	10,811	7,186
Long-term obligations				
Due within one year	1,455,189	134,113	1,589,302	1,418,812
Due in more than one year	18,663,946	1,457,468	20,121,414	15,923,525
Net pension liability	471,467	32,813	504,280	977,641
Total liabilities	27,604,663	1,727,624	29,332,287	25,149,340
DEFERRED INFLOWS OF RESOURCES				
Property taxes levied for subsequent year	6,409,747	-	6,409,747	6,330,726
Pension related amounts	1,511,176	105,174	1,616,350	2,068,709
Total deferred inflows of resources	7,920,923	105,174	8,026,097	8,399,435
NET POSITION				
Net investment in capital assets	19,304,076	15,436,302	34,740,378	35,724,504
Restricted	4,397,388	1,131,141	5,528,529	5,352,785
Unrestricted	1,683,903	1,873,261	3,557,164	4,231,655
Total net position	\$ 25,385,367	\$ 18,440,704	\$ 43,826,071	\$ 45,308,944

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, 2017
 WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2016

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
GOVERNMENTAL ACTIVITIES				
General government	\$ 3,205,118	\$ 142,146	\$ 4,100	\$ 7,467
Public safety	5,843,232	394,269	1,417,858	10,420
Public works	2,859,720	212,195	1,088,275	85,038
Health and human services	32,695	-	-	1,552
Culture and recreation	2,243,927	351,992	494,406	488,767
Conservation and development	4,052,516	88,169	99,490	1,544,376
Interest and fiscal charges	541,946	-	-	-
Total governmental activities	<u>18,779,154</u>	<u>1,188,771</u>	<u>3,104,129</u>	<u>2,137,620</u>
BUSINESS-TYPE ACTIVITIES				
Water utility	1,271,810	1,578,560	-	28,931
Sewer utility	1,385,126	1,592,284	-	7,596
Total business-type activities	<u>2,656,936</u>	<u>3,170,844</u>	<u>-</u>	<u>36,527</u>
Total	<u>\$ 21,436,090</u>	<u>\$ 4,359,615</u>	<u>\$ 3,104,129</u>	<u>\$ 2,174,147</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

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	
		2017	2016
\$ (3,051,405)	\$ -	\$ (3,051,405)	\$ (1,747,769)
(4,020,685)	-	(4,020,685)	(3,854,230)
(1,474,212)	-	(1,474,212)	(2,262,292)
(31,143)	-	(31,143)	(14,994)
(908,762)	-	(908,762)	661,163
(2,320,481)	-	(2,320,481)	(2,448,174)
(541,946)	-	(541,946)	(473,488)
<u>(12,348,634)</u>	<u>-</u>	<u>(12,348,634)</u>	<u>(10,139,784)</u>
-	335,681	335,681	509,316
-	214,754	214,754	473,729
-	550,435	550,435	983,045
<u>(12,348,634)</u>	<u>550,435</u>	<u>(11,798,199)</u>	<u>(9,156,739)</u>
5,376,386	-	5,376,386	5,344,579
860,640	-	860,640	565,023
151,044	-	151,044	156,316
3,443,297	-	3,443,297	3,442,853
101,151	6,487	107,638	82,888
365,238	11,083	376,321	577,034
363,612	(363,612)	-	-
<u>10,661,368</u>	<u>(346,042)</u>	<u>10,315,326</u>	<u>10,168,693</u>
(1,687,266)	204,393	(1,482,873)	1,011,954
<u>27,072,633</u>	<u>18,236,311</u>	<u>45,308,944</u>	<u>44,296,990</u>
<u>\$ 25,385,367</u>	<u>\$ 18,440,704</u>	<u>\$ 43,826,071</u>	<u>\$ 45,308,944</u>

City of Merrill, Wisconsin

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2017
WITH SUMMARIZED FINANCIAL INFORMATION AS OF DECEMBER 31, 2016**

	<u>General</u>	<u>Community Development Block Grant</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>
ASSETS				
Cash and investments	\$ 5,752,001	\$ 457,493	\$ 55,117	\$ 669,253
Receivables				
Taxes and special charges	6,111,111	14,683	1,401,207	754,901
Delinquent taxes	703	-	-	-
Accounts	276,853	-	-	349,954
Special assessments	63,845	-	-	-
Loans	-	3,083,535	-	-
Due from other funds	1,697,941	-	-	-
Advance to other funds	99,896	-	-	269,450
Due from other governments	-	-	-	-
Inventories and prepaid items	130,030	-	-	-
Total assets	<u>\$ 14,132,380</u>	<u>\$ 3,555,711</u>	<u>\$ 1,456,324</u>	<u>\$ 2,043,558</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 515,411	\$ 1,609	\$ -	\$ 45,740
Accrued and other current liabilities	44,530	-	-	-
Due to other funds	-	-	-	1,697,941
Advance from other funds	269,450	-	-	99,896
Due to other governments	6,075,139	-	-	-
Special deposits	135,383	-	-	-
Unearned revenues	10,811	-	-	-
Total liabilities	<u>7,050,724</u>	<u>1,609</u>	<u>-</u>	<u>1,843,577</u>
Deferred inflows of resources				
Property taxes levied for subsequent year	4,238,956	14,683	1,401,207	754,901
Grants	-	-	-	99,490
Loans receivable	-	3,083,535	-	-
Special assessments	25,105	-	-	-
Total deferred inflows of resources	<u>4,264,061</u>	<u>3,098,218</u>	<u>1,401,207</u>	<u>854,391</u>
Fund balances				
Nonspendable	130,030	-	-	-
Restricted	226,459	455,884	55,117	894,277
Committed	773,535	-	-	-
Unassigned	1,687,571	-	-	(1,548,687)
Total fund balances	<u>2,817,595</u>	<u>455,884</u>	<u>55,117</u>	<u>(654,410)</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 14,132,380</u>	<u>\$ 3,555,711</u>	<u>\$ 1,456,324</u>	<u>\$ 2,043,558</u>

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

Totals	
2017	2016
\$ 6,933,864	\$ 7,299,084
8,281,902	7,706,540
703	327
626,807	767,499
63,845	44,203
3,083,535	3,152,633
1,697,941	2,249,283
369,346	269,450
-	148,008
130,030	134,996
<u>\$ 21,187,973</u>	<u>\$ 21,772,023</u>

\$ 562,760	\$ 715,374
44,530	149,982
1,697,941	2,249,283
369,346	269,450
6,075,139	5,601,540
135,383	50,000
10,811	7,186
<u>8,895,910</u>	<u>9,042,815</u>

6,409,747	6,330,726
99,490	-
3,083,535	3,152,633
25,105	11,851
<u>9,617,877</u>	<u>9,495,210</u>

130,030	134,996
1,631,737	2,435,274
773,535	1,100,051
138,884	(436,323)
<u>2,674,186</u>	<u>3,233,998</u>

<u>\$ 21,187,973</u>	<u>\$ 21,772,023</u>
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City of Merrill, Wisconsin

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2017
WITH SUMMARIZED FINANCIAL INFORMATION AS OF DECEMBER 31, 2016**

	2017	2016
RECONCILIATION TO THE STATEMENT OF NET POSITION		
Total fund balances as shown on previous page	\$ 2,674,186	\$ 3,233,998
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.	38,170,351	34,064,222
Other long-term assets are not available to pay current period expenditures and therefore are deferred in the funds.	3,208,130	3,164,484
Some deferred outflows and inflows of resources reflect changes in long-term liabilities and are not reported in the funds.		
Loss on advance refunding	46,819	62,871
Deferred outflows related to pensions	3,573,097	5,137,031
Deferred inflows related to pensions	(1,511,176)	(1,937,580)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.		
Bonds and notes payable	(18,942,035)	(14,447,837)
Premium on debt	(337,517)	(279,308)
Compensated absences	(839,583)	(843,513)
Net pension liability	(471,467)	(915,672)
Accrued interest on long-term obligations	(185,438)	(166,063)
Net position of governmental activities as reported on the statement of net position (see page 4)	\$ 25,385,367	\$ 27,072,633

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, 2017
WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>General</u>	<u>Community Development Block Grant</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>
REVENUES				
Taxes	\$ 4,268,205	\$ 41,500	\$ 1,240,403	\$ 860,640
Special assessments	85,038	-	-	85,365
Intergovernmental	5,064,632	-	9,557	151,925
Licenses and permits	187,012	-	-	-
Fines and forfeits	125,600	-	-	-
Public charges for services	597,646	-	-	75
Intergovernmental charges for services	1,577,120	1,750	-	-
Miscellaneous	648,850	148,995	116	222,324
Total revenues	<u>12,554,103</u>	<u>192,245</u>	<u>1,250,076</u>	<u>1,320,329</u>
EXPENDITURES				
Current				
General government	1,636,148	-	-	-
Public safety	5,264,879	-	-	-
Public works	2,825,284	-	-	26,070
Health and human services	241,642	-	-	-
Culture and recreation	2,332,830	-	-	109,166
Conservation and development	19,700	135,481	-	571,123
Debt service				
Principal	-	-	2,142,557	-
Interest and fiscal charges	85,505	-	421,061	57,426
Capital outlay	3,410,611	-	-	3,700,378
Total expenditures	<u>15,816,599</u>	<u>135,481</u>	<u>2,563,618</u>	<u>4,464,163</u>
Excess of revenues over (under) expenditures	<u>(3,262,496)</u>	<u>56,764</u>	<u>(1,313,542)</u>	<u>(3,143,834)</u>
OTHER FINANCING SOURCES (USES)				
Long-term debt issued	2,200,000	-	501,875	3,934,880
Premium on debt issued	27,932	-	31,918	26,487
Principal retired	-	-	-	-
Insurance recoveries	-	-	-	-
Proceeds from sale of capital assets	16,592	-	-	-
Transfers in	363,612	-	157,593	485,000
Transfers out	(1,581)	-	-	(641,012)
Total other financing sources (uses)	<u>2,606,555</u>	<u>-</u>	<u>691,386</u>	<u>3,805,355</u>
Net change in fund balances	(655,941)	56,764	(622,156)	661,521
Fund balances - January 1	<u>3,473,536</u>	<u>399,120</u>	<u>677,273</u>	<u>(1,315,931)</u>
Fund balances - December 31	<u>\$ 2,817,595</u>	<u>\$ 455,884</u>	<u>\$ 55,117</u>	<u>\$ (654,410)</u>

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

Totals	
2017	2016
\$ 6,410,748	\$ 6,074,252
170,403	115,517
5,226,114	5,874,244
187,012	175,402
125,600	125,302
597,721	647,997
1,578,870	1,558,668
<u>1,020,285</u>	<u>2,113,342</u>
<u>15,316,753</u>	<u>16,684,724</u>
1,636,148	1,624,150
5,264,879	5,184,210
2,851,354	2,812,181
241,642	116,405
2,441,996	2,682,016
726,304	906,060
2,142,557	909,688
563,992	467,802
<u>7,110,989</u>	<u>5,726,385</u>
<u>22,979,861</u>	<u>20,428,897</u>
<u>(7,663,108)</u>	<u>(3,744,173)</u>
6,636,755	6,843,245
86,337	123,082
-	(1,200,000)
-	14,248
16,592	18,429
1,006,205	816,081
<u>(642,593)</u>	<u>(460,334)</u>
<u>7,103,296</u>	<u>6,154,751</u>
(559,812)	2,410,578
<u>3,233,998</u>	<u>823,420</u>
<u>\$ 2,674,186</u>	<u>\$ 3,233,998</u>

City of Merrill, Wisconsin

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017
WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>2017</u>	<u>2016</u>
RECONCILIATION TO THE STATEMENT OF ACTIVITIES		
Net change in fund balances as shown on previous page	\$ (559,812)	\$ 2,410,578
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	6,947,765	4,647,610
Depreciation expense reported in the statement of activities	(1,413,775)	(1,296,778)
Net book value of disposals	(1,427,861)	(38,251)
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.	43,646	(7,320)
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	(6,636,755)	(6,843,245)
Premium on debt issued	(86,337)	(123,082)
Principal repaid	2,142,557	2,109,688
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	(19,375)	(24,604)
Amortization of premiums, discounts and loss on advance refunding	12,076	5,423
Compensated absences	3,930	77,311
Net pension liability	444,205	(2,301,738)
Deferred outflows of resources related to pensions	(1,563,934)	3,693,495
Deferred inflows of resources related to pensions	426,404	(1,937,580)
Change in net position of governmental activities as reported in the statement of activities (see pages 5 - 6)	<u>\$ (1,687,266)</u>	<u>\$ 371,507</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, 2017
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2016**

	Budget		Actual	Variance Final Budget - Positive (Negative)	2016 Actual
	Original	Final			
REVENUES					
Taxes	\$ 4,266,733	\$ 4,266,733	\$ 4,268,205	\$ 1,472	\$ 4,246,995
Special assessments	30,000	30,000	85,038	55,038	101,699
Intergovernmental	5,175,896	5,175,896	5,064,632	(111,264)	5,785,429
Licenses and permits	185,521	185,521	187,012	1,491	175,402
Fines and forfeits	115,600	115,600	125,600	10,000	125,302
Public charges for services	649,251	649,251	597,646	(51,605)	647,334
Intergovernmental charges for services	1,652,822	1,652,822	1,577,120	(75,702)	1,558,018
Miscellaneous	321,850	321,850	648,850	327,000	1,931,512
Total revenues	12,397,673	12,397,673	12,554,103	156,430	14,571,691
EXPENDITURES					
Current					
General government	1,622,884	1,622,884	1,636,148	(13,264)	1,624,150
Public safety	5,215,756	5,215,756	5,264,879	(49,123)	5,184,210
Public works	3,132,463	3,132,463	2,825,284	307,179	2,795,096
Health and human services	118,035	118,035	241,642	(123,607)	116,405
Culture and recreation	2,192,619	2,192,619	2,332,830	(140,211)	2,646,638
Conservation and development	19,700	19,700	19,700	-	100,920
Debt service					
Interest and fiscal charges	-	-	85,505	(85,505)	125,915
Capital outlay	2,906,264	2,906,264	3,410,611	(504,347)	4,055,330
Total expenditures	15,207,721	15,207,721	15,816,599	(608,878)	16,648,664
Excess of revenues under expenditures	(2,810,048)	(2,810,048)	(3,262,496)	(452,448)	(2,076,973)
OTHER FINANCING SOURCES (USES)					
Long-term debt issued	78,245	78,245	2,200,000	2,121,755	3,827,257
Premium on debt issued	-	-	27,932	27,932	104,134
Proceeds from sale of capital assets	10,000	10,000	16,592	6,592	18,429
Transfers in	348,498	348,498	363,612	15,114	355,747
Transfers out	(1,580)	(1,580)	(1,581)	(1)	-
Total other financing sources (uses)	435,163	435,163	2,606,555	2,171,392	4,305,567
Net change in fund balance	(2,374,885)	(2,374,885)	(655,941)	1,718,944	2,228,594
Fund balance - January 1	3,473,536	3,473,536	3,473,536	-	1,244,942
Fund balance - December 31	\$ 1,098,651	\$ 1,098,651	\$ 2,817,595	\$ 1,718,944	\$ 3,473,536

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, 2017
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2016**

	Budget		Actual	Variance Final Budget - Positive (Negative)	2016 Actual
	Original	Final			
REVENUES					
Taxes	\$ 41,500	\$ 41,500	\$ 41,500	\$ -	\$ 40,000
Intergovernmental charges					
for services	10,864	10,864	1,750	(9,114)	650
Miscellaneous	86,850	86,850	148,995	62,145	100,296
Total revenues	139,214	139,214	192,245	53,031	140,946
EXPENDITURES					
Current					
Conservation and development	152,864	152,864	135,481	17,383	148,151
Net change in fund balance	(13,650)	(13,650)	56,764	70,414	(7,205)
Fund balance - January 1	399,120	399,120	399,120	-	406,325
Fund balance - December 31	<u>\$ 385,470</u>	<u>\$ 385,470</u>	<u>\$ 455,884</u>	<u>\$ 70,414</u>	<u>\$ 399,120</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, 2017
 WITH SUMMARIZED FINANCIAL INFORMATION AS OF DECEMBER 31, 2016**

	Water Utility	Sewer Utility	Totals	
			2017	2016
ASSETS				
Current assets				
Cash and investments	\$ 708,858	\$ 301,836	\$ 1,010,694	\$ 1,634,542
Receivables				
Customer accounts	352,350	377,309	729,659	727,710
Other	31,657	55,319	86,976	107,043
Inventories and prepaid items	78,862	5,897	84,759	32,768
Total current assets	<u>1,171,727</u>	<u>740,361</u>	<u>1,912,088</u>	<u>2,502,063</u>
Noncurrent assets				
Restricted assets				
Cash and investments	95,655	1,035,486	1,131,141	446,933
Capital assets				
Nondepreciable	115,766	84,381	200,147	151,264
Depreciable	9,241,250	7,534,923	16,776,173	16,891,438
Total capital assets	<u>9,357,016</u>	<u>7,619,304</u>	<u>16,976,320</u>	<u>17,042,702</u>
Total assets	<u>10,624,398</u>	<u>9,395,151</u>	<u>20,019,549</u>	<u>19,991,698</u>
DEFERRED OUTFLOWS OF RESOURCES				
Pension related amounts	<u>143,457</u>	<u>110,496</u>	<u>253,953</u>	<u>348,607</u>
LIABILITIES				
Current liabilities				
Accounts payable	38,768	55,705	94,473	129,472
Accrued interest	5,472	3,285	8,757	9,745
Current portion of long-term debt	106,518	27,595	134,113	141,530
Total current liabilities	<u>150,758</u>	<u>86,585</u>	<u>237,343</u>	<u>280,747</u>
Long-term obligations, less current portion				
General obligation debt	1,348,828	57,077	1,405,905	1,630,149
Compensated absences	48,199	3,364	51,563	-
Net pension liability	18,364	14,449	32,813	61,969
Total long-term liabilities	<u>1,415,391</u>	<u>74,890</u>	<u>1,490,281</u>	<u>1,692,118</u>
Total liabilities	<u>1,566,149</u>	<u>161,475</u>	<u>1,727,624</u>	<u>1,972,865</u>
DEFERRED INFLOWS OF RESOURCES				
Pension related amounts	<u>58,860</u>	<u>46,314</u>	<u>105,174</u>	<u>131,129</u>
NET POSITION				
Net investment in capital assets	7,901,670	7,534,632	15,436,302	15,371,155
Restricted	95,655	1,035,486	1,131,141	442,151
Unrestricted	<u>1,145,521</u>	<u>727,740</u>	<u>1,873,261</u>	<u>2,423,005</u>
Total net position	<u>\$ 9,142,846</u>	<u>\$ 9,297,858</u>	<u>\$ 18,440,704</u>	<u>\$ 18,236,311</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, 2017
 WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2016**

	Water Utility	Sewer Utility	Totals	
			2017	2016
OPERATING REVENUES				
Charges for services	\$ 1,442,458	\$ 1,461,055	\$ 2,903,513	\$ 2,879,951
Other	136,102	139,805	275,907	233,016
Total operating revenues	<u>1,578,560</u>	<u>1,600,860</u>	<u>3,179,420</u>	<u>3,112,967</u>
OPERATING EXPENSES				
Operation and maintenance	808,980	961,974	1,770,954	1,639,036
Depreciation	412,817	378,135	790,952	756,964
Taxes	22,027	41,859	63,886	58,607
Total operating expenses	<u>1,243,824</u>	<u>1,381,968</u>	<u>2,625,792</u>	<u>2,454,607</u>
Operating income	<u>334,736</u>	<u>218,892</u>	<u>553,628</u>	<u>658,360</u>
NONOPERATING REVENUES (EXPENSES)				
Interest income	3,027	3,460	6,487	3,116
Merchandising and jobbing	-	-	-	753
Interest and fiscal charges	(28,465)	(3,121)	(31,586)	(35,351)
Other nonoperating revenues (expenses)	2,865	84	2,949	3,548
Total nonoperating revenues (expenses)	<u>(22,573)</u>	<u>423</u>	<u>(22,150)</u>	<u>(27,934)</u>
Income before contributions and transfers	312,163	219,315	531,478	630,426
Capital contributions	28,931	7,596	36,527	365,768
Transfers out	<u>(363,612)</u>	-	<u>(363,612)</u>	<u>(355,747)</u>
Change in net position	<u>(22,518)</u>	<u>226,911</u>	<u>204,393</u>	<u>640,447</u>
Net position - January 1	<u>9,165,364</u>	<u>9,070,947</u>	<u>18,236,311</u>	<u>17,595,864</u>
Net position - December 31	<u>\$ 9,142,846</u>	<u>\$ 9,297,858</u>	<u>\$ 18,440,704</u>	<u>\$ 18,236,311</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, 2017

WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2016

	Water Utility	Sewer Utility	Totals	
			2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 1,582,157	\$ 1,618,330	\$ 3,200,487	\$ 3,009,758
Cash paid for employee wages and benefits	(258,629)	(197,464)	(456,093)	(1,638,122)
Cash paid to suppliers	(631,917)	(842,846)	(1,474,763)	116,284
Net cash provided by operating activities	<u>691,611</u>	<u>578,020</u>	<u>1,269,631</u>	<u>1,487,920</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfer in (out)	<u>(363,612)</u>	<u>-</u>	<u>(363,612)</u>	<u>(355,747)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition of capital assets	(274,486)	(417,416)	(691,902)	(1,367,675)
Salvage received on capital asset disposals	3,859	-	3,859	-
Principal paid on long-term debt	(104,483)	(27,046)	(131,529)	(188,993)
Interest paid on long-term debt	(29,158)	(3,416)	(32,574)	(36,525)
Net cash used by capital and related financing activities	<u>(404,268)</u>	<u>(447,878)</u>	<u>(852,146)</u>	<u>(1,593,193)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received	<u>3,027</u>	<u>3,460</u>	<u>6,487</u>	<u>3,116</u>
Change in cash and cash equivalents	<u>(73,242)</u>	<u>133,602</u>	<u>60,360</u>	<u>(457,904)</u>
Cash and cash equivalents - January 1	<u>877,755</u>	<u>1,203,720</u>	<u>2,081,475</u>	<u>2,539,379</u>
Cash and cash equivalents - December 31	<u>\$ 804,513</u>	<u>\$ 1,337,322</u>	<u>\$ 2,141,835</u>	<u>\$ 2,081,475</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating income	\$ 334,736	\$ 218,892	\$ 553,628	\$ 658,360
Adjustments to reconcile operating income to net cash provided by operating activities				
Depreciation	412,817	378,135	790,952	756,964
Depreciation charged to sewer utility	23,211	(23,211)	-	-
Change in liability (asset) and deferred outflows and inflows of resources				
Pension	21,420	18,123	39,543	23,612
Miscellaneous nonoperating revenue	2,865	84	2,949	4,301
Change in operating assets and liabilities				
Accounts receivables	(8,539)	6,590	(1,949)	8,870
Other receivables	9,271	10,796	20,067	(96)
Inventories and prepaid items	(46,768)	(5,223)	(51,991)	1,894
Accounts payable	(27,163)	(7,836)	(34,999)	66,579
Accrued liabilities	-	-	-	(21)
Compensated absences	(30,239)	(18,330)	(48,569)	(32,543)
Net cash provided by operating activities	<u>\$ 691,611</u>	<u>\$ 578,020</u>	<u>\$ 1,269,631</u>	<u>\$ 1,487,920</u>
Reconciliation of cash and cash equivalents to the statement of net position				
Cash and cash equivalents in current assets	\$ 708,858	\$ 301,836	\$ 1,010,694	\$ 1,634,542
Cash and cash equivalents in restricted assets	<u>95,655</u>	<u>1,035,486</u>	<u>1,131,141</u>	<u>446,933</u>
Total cash and cash equivalents	<u>\$ 804,513</u>	<u>\$ 1,337,322</u>	<u>\$ 2,141,835</u>	<u>\$ 2,081,475</u>
Noncash capital and related financing activities				
Contributed capital assets	<u>\$ 28,931</u>	<u>\$ 7,596</u>	<u>\$ 36,527</u>	<u>\$ -</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, 2017

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, 2017

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, 2017

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, North Central Technical College and the State of Wisconsin. 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, 2017

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 costs 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, 2017

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. 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.

City of Merrill, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS DECEMBER 31, 2017

- ▶ **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, 2016, from which the summarized information was derived.

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.

City of Merrill, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2017

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 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, 2017.

B. DEFICIT FUND EQUITY

The following funds had deficit fund balance as of December 31, 2017:

Funds	Deficit Fund Balance
TIF No. 4	\$ 112,812
TIF No. 6	417,887
TIF No. 7	45,237
TIF No. 8	355,407
TIF No. 9	508,599
TIF No. 10	7,535
TIF No. 11	89,154
TIF No. 12	12,056

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

City of Merrill, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS DECEMBER 31, 2017

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 2017 and 2018 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 2017 budget was 0.32 %. The actual limit for the City for the 2018 budget was 1.40 %. 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 \$9,075,699 on December 31, 2017 as summarized below:

Petty cash and cash on hand	\$ 8,228
Deposits with financial institutions	8,879,967
Investments	187,504
	<u>\$ 9,075,699</u>

Reconciliation to the basic financial statements:

Government-wide Statement of Net Position	
Cash and investments	\$ 7,944,558
Restricted cash and investments	1,131,141
	<u>\$ 9,075,699</u>

City of Merrill, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2017

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, 2017:

	Fair Value Measurements Using:		
	Level 1	Level 2	Level 3
Investments			
Corporate bonds	\$ 18,093	\$ -	\$ -

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, 2017, \$5,721,431 of the City's deposits with financial institutions were in excess of federal and state depository insurance limits. \$4,750,000 was collateralized with securities held by the pledging financial institution or its trust department or agent by 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.

City of Merrill, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS DECEMBER 31, 2017

Investment Type	Amount	Exempt from Disclosure	A		BBB		Not Rated
Corporate bonds	\$ 18,093	\$ -	\$ 10,424	\$ 7,669	\$ -		
Mutual bond funds	72,456	-	-	-	72,456		
Money market mutual funds	1,300	-	-	-	1,300		
Wisconsin local government investment pool	95,655	-	-	-	95,655		
Totals	<u>\$ 187,504</u>	<u>\$ -</u>	<u>\$ 10,424</u>	<u>\$ 7,669</u>	<u>\$ 169,411</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, 2017, 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.

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	\$ 18,093	\$ 10,424	\$ -	\$ -	\$ 7,669
Mutual bond funds	72,456	72,456	-	-	-
Money market mutual fund	1,300	1,300	-	-	-
Wisconsin local government investment pool	95,655	95,655	-	-	-
Totals	<u>\$ 187,504</u>	<u>\$ 179,835</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,669</u>

City of Merrill, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS DECEMBER 31, 2017

B. RESTRICTED ASSETS

Restricted assets on December 31, 2017 totaled \$1,131,141 and consisted of cash and investments held for the following purposes:

Funds	Amount	Purpose
Enterprise Funds		
Water Utility		
Debt retirement	\$ 95,655	To be used for retirement of revenue bonds
Sewer Utility		
Plant replacement	1,035,486	To be used for the replacement of certain assets for the sewer utility
Total	<u>\$ 1,131,141</u>	

C. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2017 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, nondepreciable:				
Land	\$ 3,236,344	\$ 1,443,927	\$ 442,183	\$ 4,238,088
Construction in progress	623,364	70,000	623,364	70,000
Total capital assets, nondepreciable	<u>3,859,708</u>	<u>1,513,927</u>	<u>1,065,547</u>	<u>4,308,088</u>
Capital assets, depreciable:				
Land improvements	7,393,308	492,434	196,035	7,689,707
Buildings and improvements	19,887,198	2,135,614	3,536,532	18,486,280
Machinery and equipment	9,442,861	1,890,848	540,091	10,793,618
Infrastructure	10,239,145	1,538,306	-	11,777,451
Subtotals	<u>46,962,512</u>	<u>6,057,202</u>	<u>4,272,658</u>	<u>48,747,056</u>
Less accumulated depreciation for:				
Land improvements	2,421,349	364,540	7,309	2,778,580
Buildings and improvements	7,796,962	376,350	2,825,185	5,348,127
Machinery and equipment	5,155,689	427,297	454,486	5,128,500
Infrastructure	1,383,998	245,588	-	1,629,586
Subtotals	<u>16,757,998</u>	<u>1,413,775</u>	<u>3,286,980</u>	<u>14,884,793</u>
Total capital assets, depreciable, net	<u>30,204,514</u>	<u>4,643,427</u>	<u>985,678</u>	<u>33,862,263</u>
Governmental activities capital assets, net	<u>\$ 34,064,222</u>	<u>\$ 6,157,354</u>	<u>\$ 2,051,225</u>	38,170,351
Less: Capital related debt				<u>18,866,275</u>
Net investment in capital assets				<u>\$ 19,304,076</u>

City of Merrill, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2017

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets, nondepreciable:				
Land	\$ 56,563	\$ -	\$ -	\$ 56,563
Construction in progress	94,701	48,883	-	143,584
Total capital assets, nondepreciable	<u>151,264</u>	<u>48,883</u>	<u>-</u>	<u>200,147</u>
Capital assets, depreciable:				
Water utility	15,145,237	275,080	72,036	15,348,281
Sewer utility	14,038,675	404,467	43,749	14,399,393
Subtotals	<u>29,183,912</u>	<u>679,547</u>	<u>115,785</u>	<u>29,747,674</u>
Less accumulated depreciation for:				
Water utility	5,739,179	439,888	72,036	6,107,031
Sewer utility	6,553,295	354,924	43,749	6,864,470
Subtotals	<u>12,292,474</u>	<u>794,812</u>	<u>115,785</u>	<u>12,971,501</u>
Total capital assets, depreciable, net	<u>16,891,438</u>	<u>(115,265)</u>	<u>-</u>	<u>16,776,173</u>
Business-type activities capital assets, net	<u>\$ 17,042,702</u>	<u>\$ (66,382)</u>	<u>\$ -</u>	<u>16,976,320</u>
Less: Capital related debt				<u>1,540,018</u>
Net investment in capital assets				<u>\$ 15,436,302</u>

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

Governmental activities	
General government	\$ 66,947
Public safety	250,177
Public works	636,058
Health and human services	6,706
Culture and recreation	453,887
Total depreciation expense - governmental activities	<u>\$ 1,413,775</u>
Business-type activities	
Water utility	\$ 412,817
Sewer utility	378,135
Salvage and other adjustments	3,860
Total depreciation expense - business-type activities	<u>\$ 794,812</u>

City of Merrill, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS DECEMBER 31, 2017

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, 2017 are detailed below:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Temporary cash advances to finance operating cash deficits		
Governmental Funds		
General	\$ 1,697,941	\$ -
TIF No. 4	-	112,812
TIF No. 6	-	417,887
TIF No. 7	-	45,237
TIF No. 8	-	355,407
TIF No. 9	-	747,032
TIF No. 10	-	7,510
TIF No. 12	-	12,056
Subtotal	<u>1,697,941</u>	<u>1,697,941</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>\$ 2,067,287</u>	<u>\$ 2,067,287</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.

Interfund transfers for the year ended December 31, 2017 were as follows:

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
General	\$ 363,612	\$ 1,581
Debt service	157,593	-
TIF No. 3	-	547,911
TIF No. 4	-	31,640
TIF No. 5	-	2,555
TIF No. 6	260,000	21,920
TIF No. 7	84,326	2,601
TIF No. 8	140,674	1,872
TIF No. 10	-	16,094
TIF No. 11	-	16,419
Water utility	-	363,612
	<u>\$ 1,006,205</u>	<u>\$ 1,006,205</u>

City of Merrill, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS DECEMBER 31, 2017

E. LONG-TERM OBLIGATIONS

The following is a summary of changes in long-term obligations of the City for the year ended December 31, 2017:

	<u>Beginning Balance</u>	<u>Issued</u>	<u>Retired</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
General obligation debt					
Bonds	\$ 11,118,240	\$ 3,210,000	\$ 1,953,818	\$ 12,374,422	\$ 960,350
Notes	2,676,352	860,000	188,739	3,347,613	262,113
Total general obligation debt	<u>13,794,592</u>	<u>4,070,000</u>	<u>2,142,557</u>	<u>15,722,035</u>	<u>1,222,463</u>
Revenue bonds	-	2,140,000	-	2,140,000	201,000
Note anticipation notes	653,245	426,755	-	1,080,000	-
Premium on bond issuance	279,308	86,337	28,128	337,517	31,726
Compensated absences	843,513	56,485	60,415	839,583	-
Governmental activities Long-term obligations	<u>\$ 15,570,658</u>	<u>\$ 6,779,577</u>	<u>\$ 2,231,100</u>	<u>\$ 20,119,135</u>	<u>\$ 1,455,189</u>
Business-type activities:					
General obligation debt					
Bonds	\$ 39,195	\$ -	\$ 9,457	\$ 29,738	\$ 9,650
Notes	180,203	-	43,709	136,494	44,592
Total general obligation debt	<u>219,398</u>	<u>-</u>	<u>53,166</u>	<u>166,232</u>	<u>54,242</u>
Revenue bonds	1,452,149	-	78,363	1,373,786	79,871
Compensated absences	100,132	-	48,569	51,563	-
Business-type activities Long-term obligations	<u>\$ 1,771,679</u>	<u>\$ -</u>	<u>\$ 180,098</u>	<u>\$ 1,591,581</u>	<u>\$ 134,113</u>

Total interest paid during the year on long-term debt totaled \$456,073.

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 12/31/17</u>
Finance street infrastructure	01/05/05	01/05/25	5.00%	\$ 275,000	\$ 151,160
Certificate of indebtedness	08/15/05	08/15/25	5.00%	200,000	166,669
SIB Loan - Wis.Dot	12/28/06	10/18/20	2.00%	730,000	166,449
Finance capital improvements	02/10/09	02/10/19	4.50%	106,500	14,077
Finance capital improvements	11/10/09	11/10/19	4.50%	110,000	28,762
Finance public works project	01/05/10	01/05/20	4.50%	299,500	77,000
2010 Build america bond	12/21/10	03/15/20	3.75%	430,150	154,150
G.O Bond series 2013A	09/04/13	11/01/33	2.25 - 4.2%	4,290,000	3,595,000
G.O Bond series 2013B	09/04/13	11/01/23	2.25 - 3%	2,765,000	1,555,000
G.O Bond series 2016B	10/10/16	12/31/26	2 - 2.5%	4,095,000	3,890,000
G.O Promissory note 2016A	10/11/16	10/01/26	0.8 - 2.2	2,020,000	2,020,000
G.O Bond series 2017C	10/26/17	10/01/37	2 - 3.375%	3,210,000	3,210,000
G.O Promissory note 2017D	10/26/17	10/01/27	1.25 - 2.15%	860,000	860,000
Total outstanding general obligation debt					<u>\$ 15,888,267</u>

City of Merrill, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS DECEMBER 31, 2017

Annual principal and interest maturities of the outstanding general obligation debt of \$15,888,267 on December 31, 2017 are detailed below:

Year Ended December 31,	Governmental Activities		Business-type Activities		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest
2018	\$ 1,222,463	\$ 433,247	\$ 54,242	\$ 4,481	\$ 1,276,705	\$ 437,728
2019	1,216,900	408,578	55,526	3,051	1,272,426	411,629
2020	1,166,669	376,329	56,464	1,629	1,223,133	377,958
2021	1,181,717	344,440	-	-	1,181,717	344,440
2022	1,204,148	315,639	-	-	1,204,148	315,639
2023-2027	5,205,138	1,143,155	-	-	5,205,138	1,143,155
2028-2032	2,800,000	555,828	-	-	2,800,000	555,828
2033-2037	1,725,000	120,828	-	-	1,725,000	120,828
	<u>\$ 15,722,035</u>	<u>\$ 3,698,044</u>	<u>\$ 166,232</u>	<u>\$ 9,161</u>	<u>\$ 15,888,267</u>	<u>\$ 3,707,205</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.

Legal Margin for New Debt

The City's legal margin for creation of additional general obligation debt on December 31, 2017 was \$4,284,660 as follows:

Equalized valuation of the City		\$402,356,200
Statutory limitation percentage		(x) 5%
General obligation debt limitation, per Section 67.03 of the Wisconsin Statutes		<u>20,117,810</u>
Total outstanding general obligation debt applicable to debt limitation	\$ 15,888,267	
Less: Amounts available for financing general obligation debt		
Debt service fund	<u>55,117</u>	
Net outstanding general obligation debt applicable to debt limitation		<u>15,833,150</u>
Legal margin for new debt		<u>\$ 4,284,660</u>

Current Refunding

During 2017, the City currently refunded a general obligation bond issue from 2017. The City issued \$875,000 of general obligation refunding bonds to call the refunded debt. This current refunding was undertaken to reduce total debt service payments over the next 10 years by \$27,699 and to obtain an economic gain (difference between the present value of the debt service payments of the refunded and refunding bonds) of \$28,093.

City of Merrill, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS DECEMBER 31, 2017

Taxable Note Anticipation Notes

Note anticipation notes outstanding on December 31, 2017 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 12/31/17</u>
Taxable note anticipation note series 2016C	10/1/17	10/1/21	3.99%	\$ 1,080,000	\$ 1,080,000

Annual principal and interest maturities of the outstanding anticipation note debt of \$1,080,000 on December 31, 2017 are detailed below:

<u>Year Ended December 31,</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ -	\$ 43,092	\$ 43,092
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>\$ 172,368</u>	<u>\$ 1,252,368</u>

Revenue Bonds

Revenue bonds outstanding on December 31, 2017 totaled \$3,513,786 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 12/31/17</u>
Tax increment revenue bond 2017A	10/10/17	10/1/26	2.92%	\$ 1,561,000	\$ 1,561,000
Tax increment revenue bond 2017B	10/10/17	10/1/28	3.06%	579,000	579,000
Safe water drinking bond	5/1/14	5/1/32	1.93%	1,678,468	1,373,786
Total Outstanding Revenue Bonds					<u>\$ 3,513,786</u>

Annual principal and interest maturities of the outstanding revenue bonds of \$3,513,786 on December 31, 2017 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>
2018	\$ 201,000	\$ 61,716	\$ 79,871	\$ 25,677	\$ 280,871	\$ 87,393
2019	205,000	57,365	81,409	24,124	286,409	81,489
2020	211,000	51,315	82,976	22,542	293,976	73,857
2021	217,000	45,086	84,573	20,929	301,573	66,015
2022	224,000	38,681	86,201	19,286	310,201	57,967
2023-2027	1,021,000	90,386	456,545	70,644	1,477,545	161,030
2028-2032	61,000	1,867	502,211	24,538	563,211	26,405
	<u>\$ 2,140,000</u>	<u>\$ 346,416</u>	<u>\$ 1,373,786</u>	<u>\$ 207,740</u>	<u>\$ 3,513,786</u>	<u>\$ 554,156</u>

City of Merrill, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2017

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 \$1,581,526. Principal and interest paid for the current year and total customer net revenues were \$105,562 and \$750,579, 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.

G. 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 State executive participants) are entitled to receive an unreduced retirement benefit. The factors influencing the benefit are 1) final average earnings, 2) years of creditable service, and 3) a formula factor.

Final average earnings is the average of the participant's three highest years' earnings. Creditable service is the creditable current and prior service expressed in years or decimal equivalents of partial years for which a participant receives earnings and makes contributions as required. The formula factor is a standard percentage based on employment category.

Employees may retire at age 55 (50 for protective occupation employees) and receive reduced benefits. Employees terminating covered employment before becoming eligible for a retirement benefit may withdraw their contributions and forfeit all rights to any subsequent benefits.

The WRS also provides death and disability benefits for employees.

City of Merrill, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2017

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:

<u>Year</u>	<u>Core Fund Adjustment</u>	<u>Variable Fund Adjustment</u>
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)

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 reporting period ending December 31, 2016, the WRS recognized \$587,229 in contributions from the City.

Contribution rates during the reporting period are:

<u>Employee Category</u>	<u>Employee</u>	<u>Employer</u>
General (including teachers)	6.6%	6.6%
Protective with Social Security	6.6%	9.4%
Protective without Social Security	6.6%	13.2%

City of Merrill, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS DECEMBER 31, 2017

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

At December 31, 2017, the City reported a liability of \$504,280 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015 rolled forward to December 31, 2016. 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 liability was based on the City's share of contributions to the pension plan relative to the contributions of all participating employers. At December 31, 2016, the City's proportion was 0.06118127%, which was an increase of 0.00101809% from its proportion measured as of December 31, 2015.

For the year ended December 31, 2017, the City recognized pension expense of \$1,294,274.

At December 31, 2017, 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	\$ 192,282	\$ 1,585,915
Net differences between projected and actual earnings on pension plan investments	2,510,145	-
Changes in assumptions	527,244	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	11,517	30,435
Employer contributions subsequent to the measurement date	585,862	-
Total	<u>\$ 3,827,050</u>	<u>\$ 1,616,350</u>

\$585,862 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
2017	\$ 665,404
2018	665,404
2019	449,943
2020	(156,530)
2021	617
Total	<u>\$ 1,624,838</u>

City of Merrill, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS DECEMBER 31, 2017

5. Actuarial Assumptions

The total pension liability in the December 31, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial valuation date:	December 31, 2015
Measurement date of net pension liability (asset):	December 31, 2016
Actuarial cost method:	Entry Age
Asset valuation method:	Fair 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 2015 using experience from 2012 - 2014. The total pension liability for December 31, 2016 is based upon a roll-forward of the liability calculated from the December 31, 2015 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>Destination Target Asset Allocation %</u>	<u>Long-term Expected Nominal Rate of Return %</u>	<u>Long-term Expected Real Rate of Return %</u>
Core Fund Asset Class				
Global Equities	50%	45%	8.3%	5.4%
Fixed Income	24.5%	37%	4.2%	1.4%
Inflation Sensitive Assets	15.5%	20%	4.3%	1.5%
Real Estate	8%	7%	6.5%	3.6%
Private Equity/Debt	8%	7%	9.4%	6.5%
Multi-asset	4%	4%	6.6%	3.7%
Total Core Fund	110%	120%	7.4%	4.5%
Variable Fund Asset Class				
U.S. Equities	70%	70%	7.6%	4.7%
International Equities	30%	30%	8.5%	5.6%
Total Variable Fund	100%	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, 2017

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 3.78%. 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:

	1% Decrease to Discount Rate (6.20%)	Current Discount Rate (7.20%)	1% Increase to Discount Rate (8.20%)
City's proportionate share of the net pension liability (asset)	\$ 6,634,123	\$ 504,280	\$ (4,215,977)

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, 2017, the City reported a payable of \$0 for the outstanding amount of contributions to the pension plan for the year ended December 31, 2017.

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, 2017, nonspendable fund balance was as follows:

General Fund	
Nonspendable	
Inventory and prepaids	<u>\$ 130,030</u>

City of Merrill, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2017

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, 2017, restricted fund balance was as follows:

General Fund		
Restricted for		
Capital projects	\$	226,459
Special Revenue Funds		
Restricted for		
Community development		455,884
Library endowment		448,217
Remedial action		409,752
Capital Projects Funds		
Restricted for		
TIF No. 3		33,228
TIF No. 5		3,080
Debt Service Fund		
Restricted for		
Debt service		55,117
Total Restricted Fund Balance	\$	<u>1,631,737</u>

Committed Fund Balance

In the fund financial statements, portions of government fund balances are committed by City Council action. At December 31, 2017, General Fund balance was committed as follows:

General Fund		
Committed for		
Nonlapsing reserves	\$	<u>773,535</u>

Restricted Net Position

In the statement of net position, portions are legally restricted for a specific purpose. At December 31, 2017, restricted net position was as follows:

Governmental activities		
Restricted for		
Revolving loans	\$	3,539,419
Remedial action		409,752
Library endowment		448,217
Total governmental activities restricted net position		<u>4,397,388</u>
Business-type activities		
Restricted for		
Water utility debt retirement		95,655
Sewer utility plant replacement		1,035,486
Total business-type activities restricted net position		<u>1,131,141</u>
Total restricted net position	\$	<u>5,528,529</u>

City of Merrill, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2017

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 and on September 22, 2015. 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.

The City established TIF No. 8 on September 27, 2011 as a blighted area district and amended the boundaries on September 24, 2013 and 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. 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 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. 12 on August 28, 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.

City of Merrill, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2017

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	\$ 2,018,547
TIF No. 4	951,812
TIF No. 5	26,250
TIF No. 6	737,414
TIF No. 7	305,237
TIF No. 8	585,407
TIF No. 9	818,599
TIF No. 10	502,535
TIF No. 11	1,239,155
TIF No. 12	12,056

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

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, 2017, the City abated property taxes totaling \$54,695 under this program, including the following tax abatement agreements that each exceeded 10% of the total amount abated:

- ▶ A property tax abatement of \$24,695 to Walgreen Co. for within Tax Incremental District No. 3.
- ▶ A property tax abatement of \$20,000 to Gateway North, LLC for within Tax Incremental District No. 3.
- ▶ A property tax abatement of \$10,000 to Pine Dells Investment LLC, for within Tax Incremental District No. 3.

City of Merrill, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2017

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

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

SCHEDULE OF CONTRIBUTIONS WISCONSIN RETIREMENT SYSTEM 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 (fiscal year)</u>	<u>Contributions as a Percentage of Covered-Employee Payroll</u>
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	585,862	585,862	-	6,746,320	8.68%

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

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

The amounts reported for each fiscal year were determined as of the calendar year-end that occurred within the prior fiscal year. 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, 2017
WITH SUMMARIZED FINANCIAL INFORMATION AS OF DECEMBER 31, 2016**

	Special Revenue					
	Library	Remedial Action	TIF No. 3	TIF No. 4	TIF No. 5	
ASSETS						
Cash and investments	\$ 448,217	\$ 141,091	\$ 65,262	\$ -	\$ 3,080	\$ -
Receivables						
Taxes and special charges	-	-	506,389	219,256	16,645	-
Accounts	-	-	-	-	-	-
Advance to other funds	-	269,450	-	-	-	-
Due from other governments	-	-	-	-	-	-
Total assets	<u>\$ 448,217</u>	<u>\$ 410,541</u>	<u>\$ 571,651</u>	<u>\$ 219,256</u>	<u>\$ 19,725</u>	<u>\$ -</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES						
Liabilities						
Accounts payable	\$ -	\$ 789	\$ 32,034	\$ -	\$ -	\$ -
Due to other funds	-	-	-	112,812	-	417,887
Advance from other funds	-	-	-	-	-	-
Special deposits	-	-	-	-	-	-
Total liabilities	<u>-</u>	<u>789</u>	<u>32,034</u>	<u>112,812</u>	<u>-</u>	<u>417,887</u>
Deferred inflows of resources						
Property taxes levied for subsequent year	-	-	506,389	219,256	16,645	-
Grants	-	-	-	-	-	-
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>506,389</u>	<u>219,256</u>	<u>16,645</u>	<u>-</u>
Fund balances						
Restricted	448,217	409,752	33,228	-	3,080	-
Unassigned	-	-	-	(112,812)	-	(417,887)
Total fund balances	<u>448,217</u>	<u>409,752</u>	<u>33,228</u>	<u>(112,812)</u>	<u>3,080</u>	<u>(417,887)</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 448,217</u>	<u>\$ 410,541</u>	<u>\$ 571,651</u>	<u>\$ 219,256</u>	<u>\$ 19,725</u>	<u>\$ -</u>

Capital Projects						Totals	
TIF No. 7	TIF No. 8	TIF No. 9	TIF No. 10	TIF No. 11	TIF No. 12	2017	2016
\$ -	\$ -	\$ -	\$ -	\$ 11,603	\$ -	\$ 669,253	\$ 668,112
-	-	-	-	12,611	-	754,901	915,335
45,238	-	304,716	-	-	-	349,954	37,796
-	-	-	-	-	-	269,450	269,450
-	-	-	-	-	-	-	38,405
<u>\$ 45,238</u>	<u>\$ -</u>	<u>\$ 304,716</u>	<u>\$ -</u>	<u>\$ 24,214</u>	<u>\$ -</u>	<u>\$ 2,043,558</u>	<u>\$ 1,929,098</u>
\$ -	\$ -	\$ 12,031	\$ 25	\$ 861	\$ -	\$ 45,740	\$ 30,411
45,237	355,407	747,032	7,510	-	12,056	1,697,941	2,249,283
-	-	-	-	99,896	-	99,896	-
-	-	-	-	-	-	-	50,000
<u>45,237</u>	<u>355,407</u>	<u>759,063</u>	<u>7,535</u>	<u>100,757</u>	<u>12,056</u>	<u>1,843,577</u>	<u>2,329,694</u>
-	-	-	-	12,611	-	754,901	915,335
45,238	-	54,252	-	-	-	99,490	-
<u>45,238</u>	<u>-</u>	<u>54,252</u>	<u>-</u>	<u>12,611</u>	<u>-</u>	<u>854,391</u>	<u>915,335</u>
-	-	-	-	-	-	894,277	930,133
<u>(45,237)</u>	<u>(355,407)</u>	<u>(508,599)</u>	<u>(7,535)</u>	<u>(89,154)</u>	<u>(12,056)</u>	<u>(1,548,687)</u>	<u>(2,246,064)</u>
<u>(45,237)</u>	<u>(355,407)</u>	<u>(508,599)</u>	<u>(7,535)</u>	<u>(89,154)</u>	<u>(12,056)</u>	<u>(654,410)</u>	<u>(1,315,931)</u>
<u>\$ 45,238</u>	<u>\$ -</u>	<u>\$ 304,716</u>	<u>\$ -</u>	<u>\$ 24,214</u>	<u>\$ -</u>	<u>\$ 2,043,558</u>	<u>\$ 1,929,098</u>

City of Merrill, Wisconsin

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017
WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2016**

	Special Revenue		TIF No. 3	TIF No. 4	TIF No. 5	TIF No. 6
	Library	Remedial Action				
REVENUES						
Taxes	\$ -	\$ -	\$ 611,562	\$ 218,752	\$ 17,301	\$ -
Special assessments	-	-	-	-	-	-
Intergovernmental	-	-	12,194	12,664	132	3,525
Public charges for services	-	-	-	-	-	-
Miscellaneous	64,007	-	-	-	-	5,000
Total revenues	64,007	-	623,756	231,416	17,433	8,525
EXPENDITURES						
Current						
Public works	-	26,070	-	-	-	-
Culture and recreation	109,166	-	-	-	-	-
Conservation and development	-	-	162,273	24,870	5,139	39,454
Debt service						
Interest and fiscal charges	-	-	-	19,000	-	-
Capital outlay	-	-	1,535,404	574,454	57	2,035
Total expenditures	109,166	26,070	1,697,677	618,324	5,196	41,489
Excess of revenues over (under) expenditures	(45,159)	(26,070)	(1,073,921)	(386,908)	12,237	(32,964)
OTHER FINANCING SOURCES (USES)						
Long-term debt issued	-	-	1,654,125	579,000	-	-
Premium on debt issued	-	-	-	-	-	-
Transfers in	-	-	-	-	-	260,000
Transfers out	-	-	(547,911)	(31,640)	(2,555)	(21,920)
Total other financing sources (uses)	-	-	1,106,214	547,360	(2,555)	238,080
Net change in fund balances	(45,159)	(26,070)	32,293	160,452	9,682	205,116
Fund balances - January 1	493,376	435,822	935	(273,264)	(6,602)	(623,003)
Fund balances - December 31	<u>\$ 448,217</u>	<u>\$ 409,752</u>	<u>\$ 33,228</u>	<u>\$ (112,812)</u>	<u>\$ 3,080</u>	<u>\$ (417,887)</u>

Capital Projects						Totals	
TIF No. 7	TIF No. 8	TIF No. 9	TIF No. 10	TIF No. 11	TIF No. 12	2017	2016
\$ 12,922	\$ -	\$ -	\$ 103	\$ -	\$ -	\$ 860,640	\$ 565,023
10,429	-	-	-	74,936	-	85,365	13,818
1,420	3,529	118,461	-	-	-	151,925	76,353
-	-	75	-	-	-	75	663
-	-	152,817	-	500	-	222,324	95,782
<u>24,771</u>	<u>3,529</u>	<u>271,353</u>	<u>103</u>	<u>75,436</u>	<u>-</u>	<u>1,320,329</u>	<u>751,639</u>
-	-	-	-	-	-	26,070	17,085
-	-	-	-	-	-	109,166	35,378
116,659	80,069	130,103	-	500	12,056	571,123	656,989
-	2,929	11,525	-	23,972	-	57,426	2,434
<u>155,790</u>	<u>-</u>	<u>538,196</u>	<u>2,501</u>	<u>891,941</u>	<u>-</u>	<u>3,700,378</u>	<u>1,671,055</u>
<u>272,449</u>	<u>82,998</u>	<u>679,824</u>	<u>2,501</u>	<u>916,413</u>	<u>12,056</u>	<u>4,464,163</u>	<u>2,382,941</u>
<u>(247,678)</u>	<u>(79,469)</u>	<u>(408,471)</u>	<u>(2,398)</u>	<u>(840,977)</u>	<u>(12,056)</u>	<u>(3,143,834)</u>	<u>(1,631,302)</u>
260,000	140,000	310,000	49,495	942,260	-	3,934,880	1,289,246
3,749	2,837	6,463	-	13,438	-	26,487	15,016
84,326	140,674	-	-	-	-	485,000	300,000
<u>(2,601)</u>	<u>(1,872)</u>	<u>-</u>	<u>(16,094)</u>	<u>(16,419)</u>	<u>-</u>	<u>(641,012)</u>	<u>(460,334)</u>
<u>345,474</u>	<u>281,639</u>	<u>316,463</u>	<u>33,401</u>	<u>939,279</u>	<u>-</u>	<u>3,805,355</u>	<u>1,143,928</u>
97,796	202,170	(92,008)	31,003	98,302	(12,056)	661,521	(487,374)
<u>(143,033)</u>	<u>(557,577)</u>	<u>(416,591)</u>	<u>(38,538)</u>	<u>(187,456)</u>	<u>-</u>	<u>(1,315,931)</u>	<u>(828,557)</u>
<u>\$ (45,237)</u>	<u>\$ (355,407)</u>	<u>\$ (508,599)</u>	<u>\$ (7,535)</u>	<u>\$ (89,154)</u>	<u>\$ (12,056)</u>	<u>\$ (654,410)</u>	<u>\$ (1,315,931)</u>

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, 2017, 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 3, 2018.

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 2017-001 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 FINDING

The City's response to the finding 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 result 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.



Certified Public Accountants

Green Bay, Wisconsin

May 3, 2018

City of Merrill, Wisconsin

SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED DECEMBER 31, 2017

SECTION I. INTERNAL CONTROL OVER FINANCIAL REPORTING

<u>FINDING NO.</u>	<u>CONTROL DEFICIENCIES</u>
2017-001	Preparation of Annual Financial Report Repeat of Finding 2016-001
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, 2017.