

City of Merrill, Wisconsin  
ANNUAL FINANCIAL REPORT

December 31, 2019



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AUDIT, TAX, AND  
CONSULTING

# City of Merrill, Wisconsin

DECEMBER 31, 2019

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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, 2019, 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, 2019, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General Fund and the Community Development Block Grant fund thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**EMPHASIS OF MATTER**

As described in Note 1.B., during 2019, the City adopted new accounting guidance, Statement No. 84, *Fiduciary Activities*. As a result, the City established a custodial fund for taxes and specials charges collected for other governments. In prior years, these amounts were reported in the general fund. Our opinions are not modified with respect to this matter.

As described in Note 4.F., the City recorded a prior period adjustment of \$1,155,292 in the government-wide and governmental fund statements to report a trust that was gifted to the City in a prior year. Our opinions are not modified with respect to this matter.

**OTHER MATTERS****Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the schedules relating to pensions and other postemployment benefits on pages 49 through 50 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 for the year ended December 31, 2019 was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Merrill, Wisconsin's basic financial statements. The combining nonmajor fund financial statements for the year ended December 31, 2019 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audits of the basic financial statements for the year ended December 31, 2019, 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 combining nonmajor fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole for the year ended December 31, 2019.

**OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS**

In accordance with *Government Auditing Standards*, we have also issued our report dated September 8, 2020, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



**CliftonLarsonAllen LLP**

Green Bay, Wisconsin  
September 8, 2020

BASIC FINANCIAL STATEMENTS

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# City of Merrill, Wisconsin

## STATEMENT OF NET POSITION DECEMBER 31, 2019

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and investments	\$ 5,010,497	\$ 663,283	\$ 5,673,780
Receivables			
Taxes and special charges	4,696,736	-	4,696,736
Delinquent taxes	403	-	403
Accounts	331,110	723,461	1,054,571
Special assessments	43,924	-	43,924
Loans	2,989,545	-	2,989,545
Other	1,381,055	81,682	1,462,737
Internal balances	78,983	(78,983)	-
Inventories and prepaid items	169,094	45,107	214,201
Restricted assets			
Cash and investments	-	1,392,117	1,392,117
Capital assets, nondepreciable	4,318,470	315,526	4,633,996
Capital assets, depreciable	37,776,672	17,817,016	55,593,688
Total assets	<u>56,796,489</u>	<u>20,959,209</u>	<u>77,755,698</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Loss on advance refunding	14,715	-	14,715
Pension related amounts	5,724,084	410,536	6,134,620
Other postemployment related amounts	40,853	2,945	43,798
Total deferred outflows of resources	<u>5,779,652</u>	<u>413,481</u>	<u>6,193,133</u>
<b>LIABILITIES</b>			
Accounts payable	470,111	39,179	509,290
Accrued and other current liabilities	31,577	-	31,577
Due to other governments	819	-	819
Accrued interest payable	162,425	7,015	169,440
Special deposits	146,969	-	146,969
Unearned revenues	4,200	-	4,200
Long-term obligations			
Due within one year	3,297,709	164,451	3,462,160
Due in more than one year	21,187,259	1,753,447	22,940,706
Net pension liability	2,110,577	152,135	2,262,712
Other postemployment benefits	326,479	23,533	350,012
Total liabilities	<u>27,738,125</u>	<u>2,139,760</u>	<u>29,877,885</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Property taxes levied for subsequent year	7,198,750	-	7,198,750
Pension related amounts	2,926,601	210,955	3,137,556
Other postemployment related amounts	87,329	6,294	93,623
Total deferred inflows of resources	<u>10,212,680</u>	<u>217,249</u>	<u>10,429,929</u>
<b>NET POSITION</b>			
Net investment in capital assets	19,133,070	16,288,361	35,421,431
Restricted	5,882,732	1,388,360	7,271,092
Unrestricted	(390,466)	1,338,960	948,494
Total net position	<u>\$ 24,625,336</u>	<u>\$ 19,015,681</u>	<u>\$ 43,641,017</u>

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, 2019

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>GOVERNMENTAL ACTIVITIES</b>				
General government	\$ 2,497,657	\$ 180,786	\$ 1,505	\$ 3,139
Public safety	6,395,615	406,183	1,495,727	-
Public works	4,248,033	204,111	1,131,165	27,120
Health and human services	174,478	-	-	3,061
Culture and recreation	2,190,707	360,409	461,493	68,022
Conservation and development	506,604	3,010	25,000	-
Interest and fiscal charges	665,920	-	-	-
Total governmental activities	16,679,014	1,154,499	3,114,890	101,342
<b>BUSINESS-TYPE ACTIVITIES</b>				
Water utility	1,303,351	1,591,962	-	31,588
Sewer utility	1,446,022	1,655,162	-	-
Total business-type activities	2,749,373	3,247,124	-	31,588
<b>Total</b>	<b>\$ 19,428,387</b>	<b>\$ 4,401,623</b>	<b>\$ 3,114,890</b>	<b>\$ 132,930</b>

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

Total general revenues and transfers

**Change in net position**

**Net position - January 1, as originally reported**

**Prior period adjustment**

**Net position - January 1, as restated**

**Net position - December 31**

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

**Net (Expense) Revenue  
and Changes in Net Position**

<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
\$ (2,312,227)	\$ -	\$ (2,312,227)
(4,493,705)	-	(4,493,705)
(2,885,637)	-	(2,885,637)
(171,417)	-	(171,417)
(1,300,783)	-	(1,300,783)
(478,594)	-	(478,594)
(665,920)	-	(665,920)
<u>(12,308,283)</u>	<u>-</u>	<u>(12,308,283)</u>
-	320,199	320,199
-	209,140	209,140
-	529,339	529,339
<u>(12,308,283)</u>	<u>529,339</u>	<u>(11,778,944)</u>
5,856,189	-	5,856,189
1,065,732	-	1,065,732
163,467	-	163,467
3,542,201	-	3,542,201
429,567	35,779	465,346
339,474	5,888	345,362
370,793	(370,793)	-
<u>11,767,423</u>	<u>(329,126)</u>	<u>11,438,297</u>
<u>(540,860)</u>	<u>200,213</u>	<u>(340,647)</u>
24,010,904	18,815,468	42,826,372
1,155,292	-	1,155,292
<u>25,166,196</u>	<u>18,815,468</u>	<u>43,981,664</u>
<u>\$ 24,625,336</u>	<u>\$ 19,015,681</u>	<u>\$ 43,641,017</u>

# City of Merrill, Wisconsin

## BALANCE SHEET GOVERNMENTAL FUNDS DECEMBER 31, 2019

	<u>General</u>	<u>Community Development Block Grant</u>	<u>Debt Service</u>
<b>ASSETS</b>			
Cash and investments	\$ 2,923,254	\$ 441,949	\$ 543,521
Receivables			
Taxes and special charges	2,799,435	9,107	1,009,718
Delinquent taxes	403	-	-
Accounts	270,294	-	-
Special assessments	43,924	-	-
Loans	-	2,989,545	-
Other	-	-	-
Due from other funds	1,928,468	-	-
Advance to other funds	99,896	100,000	-
Inventories and prepaid items	169,094	-	-
	<u>8,234,768</u>	<u>3,540,601</u>	<u>1,553,239</u>
Total assets	<u>\$ 8,234,768</u>	<u>\$ 3,540,601</u>	<u>\$ 1,553,239</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>			
Liabilities			
Accounts payable	\$ 465,778	\$ 43	\$ -
Accrued and other current liabilities	31,577	-	-
Due to other funds	-	-	-
Advance from other funds	269,450	-	-
Due to other governments	819	-	-
Special deposits	146,969	-	-
Unearned revenues	4,200	-	-
	<u>918,793</u>	<u>43</u>	<u>-</u>
Total liabilities	<u>918,793</u>	<u>43</u>	<u>-</u>
Deferred inflows of resources			
Property taxes levied for subsequent year	4,282,643	14,000	1,552,201
Loans receivable	-	2,989,548	-
Special assessments	14,014	-	-
	<u>4,296,657</u>	<u>3,003,548</u>	<u>1,552,201</u>
Total deferred inflows of resources	<u>4,296,657</u>	<u>3,003,548</u>	<u>1,552,201</u>
Fund balances			
Nonspendable	169,094	-	-
Restricted	311,252	537,010	1,038
Committed	842,619	-	-
Unassigned	1,696,353	-	-
	<u>3,019,318</u>	<u>537,010</u>	<u>1,038</u>
Total fund balances	<u>3,019,318</u>	<u>537,010</u>	<u>1,038</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 8,234,768</u>	<u>\$ 3,540,601</u>	<u>\$ 1,553,239</u>

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

<b>TIF No. 3</b>	<b>Other Governmental Funds</b>	<b>Total</b>
\$ 194,111	\$ 907,662	\$ 5,010,497
578,950	299,526	4,696,736
-	-	403
-	60,816	331,110
-	-	43,924
-	-	2,989,545
-	1,381,055	1,381,055
-	-	1,928,468
-	269,450	469,346
-	-	169,094
<u>\$ 773,061</u>	<u>\$ 2,918,509</u>	<u>\$ 17,020,178</u>
\$ 3,019	\$ 1,271	\$ 470,111
-	-	31,577
-	1,849,485	1,849,485
-	199,896	469,346
-	-	819
-	-	146,969
-	-	4,200
<u>3,019</u>	<u>2,050,652</u>	<u>2,972,507</u>
889,641	460,265	7,198,750
-	-	2,989,548
-	-	14,014
<u>889,641</u>	<u>460,265</u>	<u>10,202,312</u>
-	-	169,094
-	2,471,970	3,321,270
-	-	842,619
<u>(119,599)</u>	<u>(2,064,378)</u>	<u>(487,624)</u>
<u>(119,599)</u>	<u>407,592</u>	<u>3,845,359</u>
<u>\$ 773,061</u>	<u>\$ 2,918,509</u>	<u>\$ 17,020,178</u>

# City of Merrill, Wisconsin

## BALANCE SHEET GOVERNMENTAL FUNDS DECEMBER 31, 2019

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### RECONCILIATION TO THE STATEMENT OF NET POSITION

Total fund balances as shown on previous page	\$ 3,845,359
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.	42,095,142
Long-term assets are not available; therefore, are not reported in the funds:	
Loans receivable	2,989,548
Special assessments	14,014
Some deferred outflows and inflows of resources reflect changes in long-term liabilities and are not reported in the funds.	
Loss on advance refunding	14,715
Deferred outflows related to pensions	5,724,084
Deferred inflows related to pensions	(2,926,601)
Deferred outflows related to other postemployment benefits	40,853
Deferred inflows related to other postemployment benefits	(87,329)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	
Bonds and notes payable	(23,352,163)
Premium on debt	(289,593)
Compensated absences	(843,212)
Net pension liability	(2,110,577)
Other postemployment benefit	(326,479)
Accrued interest on long-term obligations	(162,425)
Net position of governmental activities as reported on the statement of net position (see page 4)	<u>\$ 24,625,336</u>

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

# City of Merrill, Wisconsin

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS FOR THE YEAR ENDED DECEMBER 31, 2019

	General	Community Development Block Grant	Debt Service
<b>REVENUES</b>			
Taxes	\$ 4,421,210	\$ 14,993	\$ 1,600,516
Special assessments	27,120	-	-
Intergovernmental	5,080,598	-	1,596
Licenses and permits	196,606	-	-
Fines and forfeits	119,836	-	-
Public charges for services	609,429	-	-
Intergovernmental charges for services	1,661,013	1,300	-
Miscellaneous	458,019	162,387	916
Total revenues	<u>12,573,831</u>	<u>178,680</u>	<u>1,603,028</u>
<b>EXPENDITURES</b>			
Current			
General government	1,735,704	-	-
Public safety	5,628,579	-	-
Public works	2,777,251	-	-
Health and human services	157,437	-	-
Culture and recreation	2,398,666	-	-
Conservation and development	20,200	158,313	-
Debt service			
Principal	-	-	1,906,587
Interest and fiscal charges	63,602	-	607,966
Capital outlay	1,689,499	-	-
Total expenditures	<u>14,470,938</u>	<u>158,313</u>	<u>2,514,553</u>
Excess of revenues over (under) expenditures	<u>(1,897,107)</u>	<u>20,367</u>	<u>(911,525)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Long-term debt issued	1,506,200	-	-
Premium on debt issued	13,602	-	-
Proceeds from sale of capital assets	32,692	-	-
Transfers in	370,793	-	859,400
Transfers out	(53,625)	-	-
Total other financing sources (uses)	<u>1,869,662</u>	<u>-</u>	<u>859,400</u>
<b>Net change in fund balances</b>	<u>(27,445)</u>	<u>20,367</u>	<u>(52,125)</u>
<b>Fund balances - January 1, as originally reported</b>	3,046,763	516,643	53,163
<b>Prior period adjustment</b>	-	-	-
<b>Fund balances - January 1, as restated</b>	<u>3,046,763</u>	<u>516,643</u>	<u>53,163</u>
<b>Fund balances - December 31</b>	<u>\$ 3,019,318</u>	<u>\$ 537,010</u>	<u>\$ 1,038</u>

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

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<u>TIF No. 3</u>	<u>Other Governmental Funds</u>	<u>Total</u>
\$ 681,185	\$ 384,547	\$ 7,102,451
-	-	27,120
45,044	84,969	5,212,207
-	-	196,606
-	-	119,836
-	-	609,429
-	-	1,662,313
8,402	339,025	968,749
<u>734,631</u>	<u>808,541</u>	<u>15,898,711</u>
-	-	1,735,704
-	-	5,628,579
-	26,018	2,803,269
-	-	157,437
-	47,719	2,446,385
246,863	271,055	696,431
-	-	1,906,587
33,885	1,888	707,341
<u>2,094,476</u>	<u>86,629</u>	<u>3,870,604</u>
<u>2,375,224</u>	<u>433,309</u>	<u>19,952,337</u>
<u>(1,640,593)</u>	<u>375,232</u>	<u>(4,053,626)</u>
1,500,000	125,000	3,131,200
-	1,888	15,490
-	-	32,692
-	43,177	1,273,370
<u>(512,876)</u>	<u>(336,076)</u>	<u>(902,577)</u>
<u>987,124</u>	<u>(166,011)</u>	<u>3,550,175</u>
<u>(653,469)</u>	<u>209,221</u>	<u>(503,451)</u>
533,870	(956,921)	3,193,518
-	1,155,292	1,155,292
<u>533,870</u>	<u>198,371</u>	<u>4,348,810</u>
<u>\$ (119,599)</u>	<u>\$ 407,592</u>	<u>\$ 3,845,359</u>

# City of Merrill, Wisconsin

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS FOR THE YEAR ENDED DECEMBER 31, 2019

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### RECONCILIATION TO THE STATEMENT OF ACTIVITIES

Net change in fund balances as shown on previous page \$ (503,451)

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	4,101,090
Depreciation expense reported in the statement of activities	(1,665,781)
Net book value of disposals	(384,718)

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. (75,426)

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	(3,131,200)
Premium on debt issued	(15,490)
Principal repaid	1,906,587

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	24,151
Amortization of debt premium and loss on advance refunding	15,675
Compensated absences	2,696
Net pension liability	(2,110,577)
Net pension asset	(1,730,063)
Deferred outflows of resources related to pensions	2,548,078
Deferred inflows of resources related to pensions	508,381
Other postemployment benefits	52,869
Deferred outflows of resources related to other postemployment benefits	(1,696)
Deferred inflows of resources related to other postemployment benefits	(81,985)

Change in net position of governmental activities as reported in the statement of activities (see pages 5 - 6) \$ (540,860)

*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, 2019

	Budget		Actual	Variance Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ 4,532,468	\$ 4,532,468	\$ 4,421,210	\$ (111,258)
Special assessments	30,000	30,000	27,120	(2,880)
Intergovernmental	5,333,806	5,333,806	5,080,598	(253,208)
Licenses and permits	193,771	193,771	196,606	2,835
Fines and forfeits	117,500	117,500	119,836	2,336
Public charges for services	636,125	636,125	609,429	(26,696)
Intergovernmental charges for services	1,749,833	1,749,833	1,661,013	(88,820)
Miscellaneous	392,050	392,050	458,019	65,969
<b>Total revenues</b>	<b>12,985,553</b>	<b>12,985,553</b>	<b>12,573,831</b>	<b>(411,722)</b>
<b>EXPENDITURES</b>				
Current				
General government	1,741,077	1,741,077	1,735,704	5,373
Public safety	5,539,814	5,539,814	5,628,579	(88,765)
Public works	3,100,047	3,100,047	2,777,251	322,796
Health and human services	137,886	137,886	157,437	(19,551)
Culture and recreation	2,264,559	2,264,559	2,398,666	(134,107)
Conservation and development	20,200	20,200	20,200	-
Debt service				
Interest and fiscal charges	-	-	63,602	(63,602)
Capital outlay	1,862,475	1,862,475	1,689,499	172,976
<b>Total expenditures</b>	<b>14,666,058</b>	<b>14,666,058</b>	<b>14,470,938</b>	<b>195,120</b>
Excess of revenues under expenditures	(1,680,506)	(1,680,506)	(1,897,107)	(216,601)
<b>OTHER FINANCING SOURCES (USES)</b>				
Long-term debt issued	37,500	37,500	1,506,200	1,468,700
Premium on debt issued	-	-	13,602	13,602
Proceeds from sale of capital assets	-	-	32,692	32,692
Transfers in	363,612	363,612	370,793	7,181
Transfers out	(1,625)	(1,625)	(53,625)	(52,000)
<b>Total other financing sources (uses)</b>	<b>399,487</b>	<b>399,487</b>	<b>1,869,662</b>	<b>1,470,175</b>
<b>Net change in fund balance</b>	<b>(1,281,019)</b>	<b>(1,281,019)</b>	<b>(27,445)</b>	<b>1,253,574</b>
<b>Fund balance - January 1</b>	<b>3,046,763</b>	<b>3,046,763</b>	<b>3,046,763</b>	<b>-</b>
<b>Fund balance - December 31</b>	<b>\$ 1,765,744</b>	<b>\$ 1,765,744</b>	<b>\$ 3,019,318</b>	<b>\$ 1,253,574</b>

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, 2019**

	Budget		Actual	Variance Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ 14,993	\$ 14,993	\$ 14,993	\$ -
Intergovernmental charges for services	11,500	11,500	1,300	(10,200)
Miscellaneous	139,635	139,635	162,387	22,752
Total revenues	166,128	166,128	178,680	12,552
<b>EXPENDITURES</b>				
Current				
Conservation and development	126,993	126,993	158,313	(31,320)
<b>Net change in fund balance</b>	39,135	39,135	20,367	(18,768)
<b>Fund balance - January 1</b>	516,643	516,643	516,643	-
<b>Fund balance - December 31</b>	<u>\$ 555,778</u>	<u>\$ 555,778</u>	<u>\$ 537,010</u>	<u>\$ (18,768)</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, 2019

	<u>Water Utility</u>	<u>Sewer Utility</u>	<u>Total</u>
<b>ASSETS</b>			
Current assets			
Cash and investments	\$ 663,283	\$ -	\$ 663,283
Receivables			
Customer accounts	342,723	380,738	723,461
Other	29,314	52,368	81,682
Inventories and prepaid items	<u>37,339</u>	<u>7,768</u>	<u>45,107</u>
Total current assets	<u>1,072,659</u>	<u>440,874</u>	<u>1,513,533</u>
Noncurrent assets			
Restricted assets			
Cash and investments	<u>97,894</u>	<u>1,294,223</u>	<u>1,392,117</u>
Capital assets			
Nondepreciable	146,281	169,245	315,526
Depreciable	<u>9,616,112</u>	<u>8,200,904</u>	<u>17,817,016</u>
Total capital assets	<u>9,762,393</u>	<u>8,370,149</u>	<u>18,132,542</u>
Total assets	<u>10,932,946</u>	<u>10,105,246</u>	<u>21,038,192</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pension related amounts	236,653	173,883	410,536
Other postemployment related amounts	<u>1,686</u>	<u>1,259</u>	<u>2,945</u>
Total deferred outflows of resources	<u>238,339</u>	<u>175,142</u>	<u>413,481</u>
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable	25,337	13,842	39,179
Due to other funds	-	78,983	78,983
Accrued interest	5,414	1,601	7,015
Current portion of long-term debt	<u>125,707</u>	<u>38,744</u>	<u>164,451</u>
Total current liabilities	<u>156,458</u>	<u>133,170</u>	<u>289,628</u>
Long-term obligations, less current portion			
General obligation debt	326,134	224,066	550,200
Revenue bonds	1,129,530	-	1,129,530
Compensated absences	22,538	51,179	73,717
Net pension liability	87,112	65,023	152,135
Other postemployment benefits	<u>13,475</u>	<u>10,058</u>	<u>23,533</u>
Total long-term liabilities	<u>1,578,789</u>	<u>350,326</u>	<u>1,929,115</u>
Total liabilities	<u>1,735,247</u>	<u>483,496</u>	<u>2,218,743</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Pension related amounts	120,792	90,163	210,955
Other postemployment related amounts	<u>3,604</u>	<u>2,690</u>	<u>6,294</u>
Total deferred inflows of resources	<u>124,396</u>	<u>92,853</u>	<u>217,249</u>
<b>NET POSITION</b>			
Net investment in capital assets	8,181,022	8,107,339	16,288,361
Restricted	94,137	1,294,223	1,388,360
Unrestricted	<u>1,036,483</u>	<u>302,477</u>	<u>1,338,960</u>
Total net position	<u>\$ 9,311,642</u>	<u>\$ 9,704,039</u>	<u>\$ 19,015,681</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, 2019

	<b>Water Utility</b>	<b>Sewer Utility</b>	<b>Total</b>
<b>OPERATING REVENUES</b>			
Charges for services	\$ 1,466,772	\$ 1,495,758	\$ 2,962,530
Other	125,190	159,404	284,594
Total operating revenues	<u>1,591,962</u>	<u>1,655,162</u>	<u>3,247,124</u>
<b>OPERATING EXPENSES</b>			
Operation and maintenance	794,222	983,494	1,777,716
Depreciation	449,737	409,810	859,547
Taxes	17,591	45,691	63,282
Total operating expenses	<u>1,261,550</u>	<u>1,438,995</u>	<u>2,700,545</u>
Operating income	<u>330,412</u>	<u>216,167</u>	<u>546,579</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Interest income	10,908	24,871	35,779
Interest and fiscal charges	(41,801)	(7,027)	(48,828)
Other nonoperating revenues (expenses)	4,682	1,206	5,888
Total nonoperating revenues (expenses)	<u>(26,211)</u>	<u>19,050</u>	<u>(7,161)</u>
Income before contributions and transfers	304,201	235,217	539,418
Capital contributions	31,588	-	31,588
Transfers in	33,628	-	33,628
Transfers out	(370,793)	(33,628)	(404,421)
<b>Change in net position</b>	(1,376)	201,589	200,213
<b>Net position - January 1</b>	<u>9,313,018</u>	<u>9,502,450</u>	<u>18,815,468</u>
<b>Net position - December 31</b>	<u><u>\$ 9,311,642</u></u>	<u><u>\$ 9,704,039</u></u>	<u><u>\$ 19,015,681</u></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, 2019

	Water Utility	Sewer Utility	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash received from customers	\$ 1,606,375	\$ 1,647,270	\$ 3,253,645
Cash paid for employee wages and benefits	(335,373)	(160,762)	(496,135)
Cash paid to suppliers	(379,366)	(874,728)	(1,254,094)
Net cash provided by operating activities	<u>891,636</u>	<u>611,780</u>	<u>1,503,416</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Transfer out	<u>(337,165)</u>	<u>45,355</u>	<u>(291,810)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Acquisition of capital assets	(800,407)	(679,129)	(1,479,536)
Proceeds of issuance of long-term debt	341,134	234,066	575,200
Principal paid on long-term debt	(108,592)	(28,340)	(136,932)
Interest paid on long-term debt	(41,154)	(8,409)	(49,563)
Net cash used by capital and related financing activities	<u>(609,019)</u>	<u>(481,812)</u>	<u>(1,090,831)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest received	<u>10,908</u>	<u>24,871</u>	<u>35,779</u>
<b>Change in cash and cash equivalents</b>	<u>(43,640)</u>	<u>200,194</u>	<u>156,554</u>
<b>Cash and cash equivalents - January 1</b>	<u>804,817</u>	<u>1,094,029</u>	<u>1,898,846</u>
<b>Cash and cash equivalents - December 31</b>	<u>\$ 761,177</u>	<u>\$ 1,294,223</u>	<u>\$ 2,055,400</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>			
Operating income	\$ 330,412	\$ 216,167	\$ 546,579
Adjustments to reconcile operating income to net cash provided by operating activities			
Depreciation	449,737	409,810	859,547
Depreciation charged to sewer utility	26,644	(26,644)	-
Change in liability (asset) and deferred outflows and inflows of resources			
Change in WRS Asset/Liability	159,421	120,031	279,452
Change in WRS Deferred Outflow	(104,128)	(75,966)	(180,094)
Change in WRS Deferred Inflow	(22,775)	(19,053)	(41,828)
Change in OPEB Liability	(2,380)	(2,004)	(4,384)
Change in OPEB Deferred Outflow	92	94	186
Change in OPEB Deferred Inflow	3,381	2,520	5,901
Miscellaneous nonoperating revenue	4,682	1,206	5,888
Change in operating assets and liabilities			
Accounts receivables	6,575	(7,576)	(1,001)
Other receivables	3,156	(1,522)	1,634
Inventories and prepaid items	52,144	(2,034)	50,110
Accounts payable	4,275	(53,782)	(49,507)
Compensated absences	(19,600)	50,533	30,933
Net cash provided by operating activities	<u>\$ 891,636</u>	<u>\$ 611,780</u>	<u>\$ 1,503,416</u>
Reconciliation of cash and cash equivalents to the statement of net position			
Cash and cash equivalents in current assets	\$ 663,283	\$ -	\$ 663,283
Cash and cash equivalents in restricted assets	<u>97,894</u>	<u>1,294,223</u>	<u>1,392,117</u>
Total cash and cash equivalents	<u>\$ 761,177</u>	<u>\$ 1,294,223</u>	<u>\$ 2,055,400</u>
Noncash capital and related financing activities			
Contributed capital assets	<u>\$ 31,588</u>	<u>\$ -</u>	<u>\$ 31,588</u>

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

# City of Merrill, Wisconsin

## STATEMENT OF FIDUCIARY NET POSITION FIDUCIARY FUND DECEMBER 31, 2019

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	<u>Tax Collection Custodial Fund</u>
<b>ASSETS</b>	
Cash and investments	\$ 2,172,442
<b>LIABILITIES</b>	
Due to other governments	<u>2,172,442</u>
<b>FIDUCIARY NET POSITION</b>	
Restricted	<u><u>\$ -</u></u>

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

# City of Merrill, Wisconsin

## STATEMENT OF CHANGES IN FIDUCIARY NET POSITION FIDUCIARY FUND FOR THE YEAR ENDED DECEMBER 31, 2019

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	<b>Tax Collection Custodial Fund</b>
<b>ADDITIONS</b>	
Property tax collections	<u>\$ 4,308,310</u>
<b>DEDUCTIONS</b>	
Payments to taxing jurisdictions	<u>4,308,310</u>
<b>Change in net position</b>	-
<b>Fiduciary net position - January 1</b>	<u>-</u>
<b>Fiduciary net position - December 31</b>	<u><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, 2019

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### **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, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. 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.

#### **TIF No. 3**

This fund accounts for the resources accumulated for the District's project plan and the retirement of debt issued.

# City of Merrill, Wisconsin

## NOTES TO BASIC FINANCIAL STATEMENTS DECEMBER 31, 2019

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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.

The City also reports the following fiduciary fund:

### **Custodial Fund**

The custodial fund accounts for property taxes and special charges collected on behalf of other governments. These amounts were recorded in the general fund in prior years. Due to the implementation of GASB 84, *Fiduciary Activities*, they are now recorded in a custodial fund.

## **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 and fiduciary 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, 2019

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

#### **1. Cash and Investments**

Cash and investments are combined in the financial statements. Cash deposits consist of demand and time deposits with financial institutions and are carried at cost. Investments are stated at fair value. Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. For purposes of the statement of cash flows, all cash deposits and highly liquid investments (including restricted assets) with a maturity of three months or less from date of acquisition are considered to be cash equivalents.

#### **2. Property Taxes and Special Charges Receivable**

Property taxes and special charges consist of taxes on real estate and personal property and user charges assessed against City properties. They are levied during December of the prior year and become an enforceable lien on property the following January 1. Property taxes are payable in various options depending on the type and amount. Personal property taxes and special charges are payable on or before January 31 in full. Real estate taxes are payable in full by January 31 or in two equal installments on or before January 31 and July 31. Real estate taxes not paid by January 31 are purchased by the County as part of the February tax settlement. Delinquent personal property taxes remain the collection responsibility of the City. Special charges not paid by January 31 are held in trust by the County and remitted to the City, including interest, when collected by the County.

In addition to its levy, the City also levies and collects taxes for the Merrill School District, Lincoln County, and North Central Technical College.

#### **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, 2019

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### 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 classified as 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 expensed in the periods benefited.

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

### 8. Capital Assets

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

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

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

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

### 9. Compensated Absences

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

### 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.

# City of Merrill, Wisconsin

## NOTES TO BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2019

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### 11. Long-term Obligations

In the government-wide financial statements, and proprietary funds in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed as incurred.

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

### 12. Pensions

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

### 13. Other Postemployment Benefits Other Than Pensions (OPEB)

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

### 14. Fund Equity

#### ***Governmental Fund Financial Statements***

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

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

# City of Merrill, Wisconsin

## NOTES TO BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2019

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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.

## **NOTE 2: STEWARDSHIP AND COMPLIANCE**

### **A. BUDGETS AND BUDGETARY ACCOUNTING**

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

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

The City did not have any material violation of legal or contractual provisions for the fiscal year ended December 31, 2019.

# City of Merrill, Wisconsin

## NOTES TO BASIC FINANCIAL STATEMENTS DECEMBER 31, 2019

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### B. DEFICIT FUND EQUITY

The following funds had deficit fund balance as of December 31, 2019:

Funds	Deficit Fund Balance
TIF No. 3	\$ 119,599
TIF No. 6	564,263
TIF No. 7	139,629
TIF No. 8	599,123
TIF No. 9	567,672
TIF No. 10	31,517
TIF No. 11	162,174

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

### 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 2019 and 2020 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 2019 budget was 1.50%. The actual limit for the City for the 2020 budget was 1.78%. 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 \$9,238,339 on December 31, 2019 as summarized below:

Petty cash and cash on hand	\$ 6,328
Deposits with financial institutions	9,039,755
Investments	192,256
	<u>\$ 9,238,339</u>

Reconciliation to the basic financial statements:

Government-wide Statement of Net Position	
Cash and investments	\$ 5,673,780
Restricted cash and investments	1,392,117
Fiduciary Fund Statement of Net Position	
Cash and investments	2,172,442
	<u>\$ 9,238,339</u>

# City of Merrill, Wisconsin

## NOTES TO BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2019

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### 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, 2019:

	Fair Value Measurements Using:		
	Level 1	Level 2	Level 3
Investments			
Corporate bonds	\$ -	\$ 8,036	\$ -
Mutual bond funds	-	70,429	-
Money market mutual funds	15,897	-	-
	<u>\$ 15,897</u>	<u>\$ 78,465</u>	<u>\$ -</u>

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, 2019, \$1,590,137 of the City's deposits with financial institutions were in excess of federal and state depository insurance limits but was collateralized with securities held by the pledging financial institution or its trust department or agent but not in the City's name.

# City of Merrill, Wisconsin

## NOTES TO BASIC FINANCIAL STATEMENTS DECEMBER 31, 2019

### Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Wisconsin statutes limit investment in securities to the top two ratings assigned by nationally recognized statistical rating organizations. Presented below is the actual rating as of the year-end for each investment type.

Investment Type	Amount	Exempt from Disclosure			Not Rated
		A	BBB		
Corporate bonds	\$ 8,036	\$ -	\$ -	\$ 8,036	\$ -
Mutual bond funds	70,429	-	-	-	70,429
Money market mutual funds	15,897	-	-	-	15,897
Wisconsin local government investment pool	97,894	-	-	-	97,894
Totals	<u>\$ 192,256</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,036</u>	<u>\$ 184,220</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, 2019, the City had no investments in any one issuer (other than 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	\$ 8,036	\$ -	\$ -	\$ -	\$ 8,036
Mutual bond funds	70,429	-	-	70,429	-
Money market mutual fund	15,897	15,897	-	-	-
Wisconsin local government investment pool	97,894	97,894	-	-	-
Totals	<u>\$ 192,256</u>	<u>\$ 113,791</u>	<u>\$ -</u>	<u>\$ 70,429</u>	<u>\$ 8,036</u>

### Investment in Wisconsin Local Government Investment Pool

The City has investments in the Wisconsin local government investment pool of \$97,894 at year-end. The Wisconsin local government investment pool (LGIP) is part of the State Investment Fund (SIF), and is managed by the State of Wisconsin Investment Board. The SIF is not registered with the Securities and Exchange Commission, but operates under the statutory authority of Wisconsin Chapter 25. The SIF reports the fair value of its underlying assets annually. Participants in the LGIP have the right to withdraw their funds in total on one day's notice. At December 31, 2019, the fair value of the City's share of the LGIP's assets was substantially equal to the carrying value.

# City of Merrill, Wisconsin

## NOTES TO BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2019

### B. RESTRICTED ASSETS

Restricted assets on December 31, 2019 totaled \$1,392,117 and consisted of cash and investments held for the following purposes:

Funds	Amount	Purpose
Enterprise Funds		
Water Utility		
Debt retirement	\$ 97,894	To be used for retirement of revenue bonds
Sewer Utility		
Plant replacement	<u>1,294,223</u>	To be used for the replacement of certain assets for the sewer utility
Total	<u><u>\$ 1,392,117</u></u>	

### C. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2019 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental activities:</b>				
Capital assets, nondepreciable:				
Land	\$ 4,426,226	\$ 9,535	\$ 363,870	\$ 4,071,891
Construction in progress	285,000	246,579	285,000	246,579
Total capital assets, nondepreciable	<u>4,711,226</u>	<u>256,114</u>	<u>648,870</u>	<u>4,318,470</u>
Capital assets, depreciable:				
Land improvements	7,770,765	753,163	-	8,523,928
Buildings and improvements	18,872,181	728,674	12,177	19,588,678
Machinery and equipment	11,244,263	630,739	133,318	11,741,684
Infrastructure	13,445,347	2,017,400	-	15,462,747
Subtotals	<u>51,332,556</u>	<u>4,129,976</u>	<u>145,495</u>	<u>55,317,037</u>
Less accumulated depreciation for:				
Land improvements	3,081,496	406,989	-	3,488,485
Buildings and improvements	5,728,863	397,558	12,177	6,114,244
Machinery and equipment	5,270,263	494,607	112,470	5,652,400
Infrastructure	1,918,609	366,627	-	2,285,236
Subtotals	<u>15,999,231</u>	<u>1,665,781</u>	<u>124,647</u>	<u>17,540,365</u>
Total capital assets, depreciable, net	<u>35,333,325</u>	<u>2,464,195</u>	<u>20,848</u>	<u>37,776,672</u>
Governmental activities capital assets, net	<u><u>\$ 40,044,551</u></u>	<u><u>\$ 2,720,309</u></u>	<u><u>\$ 669,718</u></u>	42,095,142
Less: Capital related debt				22,687,194
Add: Deferred charge on refunding				(14,715)
Less: Debt premium				289,593
Net investment in capital assets				<u><u>\$ 19,133,070</u></u>

# City of Merrill, Wisconsin

## NOTES TO BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2019

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Business-type activities:</b>				
Capital assets, nondepreciable:				
Land	\$ 87,348	\$ -	\$ -	\$ 87,348
Construction in progress	133,478	173,464	78,764	228,178
Total capital assets, nondepreciable	<u>220,826</u>	<u>173,464</u>	<u>78,764</u>	<u>315,526</u>
Capital assets, depreciable:				
Water utility	15,834,542	759,156	78,824	16,514,874
Sewer utility	14,998,031	657,268	-	15,655,299
Subtotals	<u>30,832,573</u>	<u>1,416,424</u>	<u>78,824</u>	<u>32,170,173</u>
Less accumulated depreciation for:				
Water utility	6,501,204	476,381	78,824	6,898,761
Sewer utility	7,071,230	383,166	-	7,454,396
Subtotals	<u>13,572,434</u>	<u>859,547</u>	<u>78,824</u>	<u>14,353,157</u>
Total capital assets, depreciable, net	<u>17,260,139</u>	<u>556,877</u>	<u>-</u>	<u>17,817,016</u>
Business-type activities capital assets, net	<u>\$ 17,480,965</u>	<u>\$ 730,341</u>	<u>\$ 78,764</u>	18,132,542
Less: Capital related debt				1,833,981
Less: Debt premium				<u>10,200</u>
Net investment in capital assets				<u>\$ 16,288,361</u>

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

Governmental activities	
General government	\$ 76,973
Public safety	283,957
Public works	765,116
Health and human services	8,816
Culture and recreation	530,919
Total depreciation expense - governmental activities	<u>\$ 1,665,781</u>
Business-type activities	
Water utility	\$ 449,737
Sewer utility	409,810
Total depreciation expense - business-type activities	<u>\$ 859,547</u>

# City of Merrill, Wisconsin

## NOTES TO BASIC FINANCIAL STATEMENTS DECEMBER 31, 2019

### 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, 2019 are detailed below:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Temporary cash advances to finance operating cash deficits		
Governmental Funds		
General	\$ 1,928,468	\$ -
TIF No. 6	-	549,666
TIF No. 7	-	67,236
TIF No. 8	-	585,032
TIF No. 9	-	593,240
TIF No. 10	-	31,517
TIF No. 11	-	22,794
Proprietary Funds		
Sewer utility	-	78,983
Subtotal	<u>1,928,468</u>	<u>1,928,468</u>
Long-term advances		
General	99,896	269,450
Remedial action	269,450	-
TIF No. 11	-	99,896
Community development block grant	100,000	-
TID No. 7	-	100,000
Subtotal	<u>469,346</u>	<u>469,346</u>
Totals	<u>\$ 2,397,814</u>	<u>\$ 2,397,814</u>

The advance to the general fund for the retirement of the unfunded pension liability will be repaid at \$26,945 per year from 2021 through 2030. The advance does not bear interest. The advance to tax incremental district no. 11 does not have an established repayment schedule. The advance from CDBG to the TID No. 7 is expected to be repaid by 2023 with an interest rate at 3.00%.

# City of Merrill, Wisconsin

## NOTES TO BASIC FINANCIAL STATEMENTS DECEMBER 31, 2019

Interfund transfers for the year ended December 31, 2019 were as follows:

Fund	Transfer In	Transfer Out
General	\$ 370,793	\$ 53,625
Debt service	859,400	-
Library	43,177	-
Library trust	-	43,177
TIF No. 3	-	512,876
TIF No. 4	-	88,910
TIF No. 5	-	2,485
TIF No. 6	-	34,515
TIF No. 7	-	13,411
TIF No. 8	-	50,674
TIF No. 9	-	18,950
TIF No. 10	-	20,025
TIF No. 11	-	63,929
Water utility	33,628	370,793
Sewer utility	-	33,628
	\$ 1,306,998	\$ 1,306,998

Interfund transfers were made for the following purposes:

Tax equivalent payment made by water utility to general fund	\$ 370,793
Tax incremental district transfers for debt retirement related to the District	805,775
Library expenditures	43,177
General fund debt service	53,625
Transfer from sewer utility to water utility for sick leave payouts	33,628
	\$ 1,306,998

### E. LONG-TERM OBLIGATIONS

The following is a summary of changes in long-term obligations of the City for the year ended December 31, 2019:

	Beginning Balance	Issued	Retired	Ending Balance	Due Within One Year
<b>Governmental activities:</b>					
General obligation debt					
Bonds	\$ 11,725,000	\$ 1,380,000	\$ 595,000	\$ 12,510,000	\$ 660,000
Notes	5,225,000	-	650,000	4,575,000	660,000
Direct borrowings	434,549	251,200	263,586	422,163	69,709
Total general obligation debt	17,384,549	1,631,200	1,508,586	17,507,163	1,389,709
Tax increment revenue bonds	3,663,000	-	398,000	3,265,000	408,000
Note anticipation notes	1,080,000	1,500,000	-	2,580,000	1,500,000
Premium on bond issuance	305,830	15,490	31,727	289,593	-
Compensated absences	845,908	-	2,696	843,212	-
Governmental activities					
Long-term obligations	\$ 23,279,287	\$ 3,146,690	\$ 1,941,009	\$ 24,484,968	\$ 3,297,709

# City of Merrill, Wisconsin

## NOTES TO BASIC FINANCIAL STATEMENTS DECEMBER 31, 2019

	Beginning Balance	Issued	Retired	Ending Balance	Due Within One Year
<b>Business-type activities:</b>					
General obligation debt					
Bonds	\$ -	\$ 565,000	\$ -	\$ 565,000	\$ 25,000
Direct borrowings	111,998	-	55,523	56,475	56,475
Total general obligation debt	111,998	565,000	55,523	621,475	81,475
Revenue bonds	1,293,915	-	81,409	1,212,506	82,976
Debt premium	-	10,200	-	10,200	-
Compensated absences	42,784	30,933	-	73,717	-
Business-type activities					
Long-term obligations	<u>\$ 1,448,697</u>	<u>\$ 606,133</u>	<u>\$ 136,932</u>	<u>\$ 1,917,898</u>	<u>\$ 164,451</u>

Total interest paid during the year on long-term debt totaled \$470,708.

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

### General Obligation Debt

General obligation debt currently outstanding is detailed as follows:

	Date of Issue	Final Maturity	Interest Rates	Original Indebtedness	Balance 12/31/19
General Obligation Bonds					
Series 2013A	09/04/13	05/01/33	2.25 - 4.2%	\$ 4,290,000	\$ 3,230,000
Series 2016B	10/11/16	10/01/36	2 - 2.5%	4,095,000	3,485,000
Series 2017C	10/26/17	10/01/37	2 - 3.375%	3,210,000	2,900,000
Series 2018B	09/27/18	04/01/38	2.00 - 3.7%	1,575,000	1,515,000
Series 2019A	11/05/19	10/01/39	2.25 - 3.0%	1,945,000	1,945,000
General Obligation Notes					
Series 2013B	09/04/13	05/01/23	2.25 - 3%	2,765,000	790,000
Series 2016A	10/11/16	10/01/26	0.8 - 2.2%	2,020,000	1,870,000
Series 2017D	10/26/17	10/01/27	1.25 - 2.15%	860,000	720,000
Series 2018A	09/27/18	04/01/28	1.9 - 2.95%	1,310,000	1,195,000
Direct Borrowing					
State Infrastructure Bank (SIB)	12/28/06	10/18/20	2.00%	730,000	56,597
State Trust Fund Loan	08/16/05	03/15/25	5.00%	275,000	118,691
State Trust Fund Loan	12/21/10	03/15/20	3.75%	430,150	52,150
State Trust Fund Loan	12/17/19	03/15/29	3.25%	251,200	251,200
Total outstanding general obligation debt					<u>\$ 18,128,638</u>

The City's outstanding notes from direct borrowings related to governmental activities and business type activities of \$422,041 are subject to a statutory provision that in an event of late or non-payment, a one percent per month penalty will be charged and the payment will be collected through a reduction in payments from the State of Wisconsin. The City's outstanding notes from direct borrowings related to governmental activities and business type activities of \$56,597 contain a provision that in an event of default, outstanding amounts become immediately due if the City is unable to make payment.

# City of Merrill, Wisconsin

## NOTES TO BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2019

### 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.

Annual principal and interest maturities of the outstanding general obligation debt of \$18,128,638 on December 31, 2019 are detailed below:

Year Ended December 31,	Governmental Activities					
	Bonds and Notes		Direct Borrowings		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest
2020	\$ 1,320,000	\$ 450,960	\$ 69,709	\$ 7,661	\$ 1,389,709	\$ 458,621
2021	1,355,000	422,410	41,063	15,217	1,396,063	437,627
2022	1,380,000	392,671	44,709	11,571	1,424,709	404,242
2023	1,400,000	359,940	46,499	9,782	1,446,499	369,722
2024	1,290,000	330,096	48,342	7,939	1,338,342	338,035
2025-2029	5,160,000	1,193,161	171,841	16,012	5,331,841	1,209,173
2030-2034	3,485,000	563,438	-	-	3,485,000	563,438
2035-2039	1,695,000	116,670	-	-	1,695,000	116,670
	<u>\$ 17,085,000</u>	<u>\$ 3,829,346</u>	<u>\$ 422,163</u>	<u>\$ 68,182</u>	<u>\$ 17,507,163</u>	<u>\$ 3,897,528</u>

Year Ended December 31,	Business-type Activities					
	Bonds and Notes		Direct Borrowings		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest
2020	\$ 25,000	\$ 14,557	\$ 56,475	\$ 960	\$ 81,475	\$ 15,517
2021	25,000	14,715	-	-	25,000	14,715
2022	25,000	13,874	-	-	25,000	13,874
2023	25,000	13,033	-	-	25,000	13,033
2024	25,000	12,192	-	-	25,000	12,192
2025-2029	125,000	48,604	-	-	125,000	48,604
2030-2034	145,000	32,069	-	-	145,000	32,069
2035-2039	170,000	13,356	-	-	170,000	13,356
	<u>\$ 565,000</u>	<u>\$ 162,400</u>	<u>\$ 56,475</u>	<u>\$ 960</u>	<u>\$ 621,475</u>	<u>\$ 163,360</u>

### Legal Margin for New Debt

The City's legal margin for creation of additional general obligation debt on December 31, 2019 was \$4,166,620 as follows:

Equalized valuation of the City		\$445,884,400
Statutory limitation percentage		(x) 5%
General obligation debt limitation, per Section 67.03 of the Wisconsin Statutes		<u>22,294,220</u>
Total outstanding general obligation debt applicable to debt limitation	\$ 18,128,638	
Less: Amounts available for financing general obligation debt		
Debt service fund	<u>1,038</u>	
Net outstanding general obligation debt applicable to debt limitation		<u>18,127,600</u>
Legal margin for new debt		<u>\$ 4,166,620</u>

# City of Merrill, Wisconsin

## NOTES TO BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2019

### Note Anticipation Notes

Note anticipation notes outstanding on December 31, 2019 was comprised of the following issues:

	<u>Date of Issue</u>	<u>Final Maturity</u>	<u>Interest Rates</u>	<u>Original Indebtedness</u>	<u>Balance 12/31/19</u>
Taxable Note Anticipation Notes Series 2016C	10/11/16	10/01/21	3.99%	\$ 1,080,000	\$ 1,080,000
Taxable Note Anticipation Notes Series 2019B	10/30/19	12/01/20	1.90%	1,500,000	1,500,000
					<u>\$ 2,580,000</u>

Annual principal and interest maturities of the outstanding note anticipation note debt of \$2,580,000 on December 31, 2019 are detailed below:

<u>Year Ended</u> <u>December 31,</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 1,500,000	\$ 74,046	\$ 1,574,046
2021	1,080,000	43,092	1,123,092
	<u>\$ 2,580,000</u>	<u>\$ 117,138</u>	<u>\$ 2,697,138</u>

### Tax Increment Revenue Bonds

Tax increment revenue bonds are limited obligations of the City, payable from tax increments or other appropriated funds and shall not constitute an indebtedness of the City nor a charge against its general credit or taxing power. Tax increment revenue bonds outstanding on December 31, 2019 totaled \$3,265,000 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 12/31/19</u>
Tax Increment Revenue Bonds Series 2017A (TID No. 3)	10/10/17	10/01/26	2.92%	\$ 1,561,000	\$ 1,247,000
Series 2017B (TID No. 4)	10/10/17	10/01/28	3.06%	579,000	487,000
Series 2018C (TID No. 3)	10/23/18	10/01/26	3.50%	1,724,000	1,531,000
					<u>\$ 3,265,000</u>

Annual principal and interest maturities of the outstanding tax increment revenue bonds of \$3,265,000 on December 31, 2019 are detailed below:

<u>Year Ended</u> <u>December 31,</u>	<u>Governmental Activities</u>					
	<u>TID No. 3</u>		<u>TID No. 4</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2020	\$ 360,000	\$ 89,998	\$ 48,000	\$ 14,902	\$ 408,000	\$ 104,900
2021	371,000	78,343	49,000	13,433	420,000	91,776
2022	384,000	66,332	51,000	11,934	435,000	78,266
2023	396,000	53,896	52,000	10,373	448,000	64,269
2024	409,000	41,068	54,000	8,782	463,000	49,850
2025-2028	858,000	41,949	233,000	18,085	1,091,000	60,034
	<u>\$ 2,778,000</u>	<u>\$ 371,586</u>	<u>\$ 487,000</u>	<u>\$ 77,509</u>	<u>\$ 3,265,000</u>	<u>\$ 449,095</u>

# City of Merrill, Wisconsin

## NOTES TO BASIC FINANCIAL STATEMENTS DECEMBER 31, 2019

### 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.

### Water System Revenue Bonds

Revenue bonds outstanding on December 31, 2019 totaled \$1,212,506 and were comprised of the following issue:

	<u>Date of Issue</u>	<u>Final Maturity</u>	<u>Interest Rates</u>	<u>Original Indebtedness</u>	<u>Balance 12/31/19</u>
Direct borrowings					
Safe water drinking bond	10/10/17	10/01/26	2.92%	\$ 1,745,386	<u>\$ 1,212,506</u>

The City's outstanding bonds from direct borrowings of \$1,212,506 contain the following provisions in the event of a default: 1) Wisconsin Department of Administration can deduct amounts due from any state payments due to the City or add the amounts due as a special charge to the property taxes apportioned; 2) may appoint a receiver for the Program's benefit; 3) may declare the principal amount immediately due and payable; 4) may enforce any right or obligation under the financing agreement including the right to seek specific performance or mandamus; and 5) may increase the interest rate set forth in the financing agreement to the market interest rate.

Annual principal and interest maturities of the outstanding water system revenue bonds of \$1,212,506 on December 31, 2019 are detailed below:

<u>Year Ended</u> <u>December 31,</u>	<u>Business-type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 82,976	\$ 22,542	\$ 105,518
2021	84,573	20,929	105,502
2022	86,201	19,286	105,487
2023	87,861	17,610	105,471
2024	89,552	15,903	105,455
2025-2029	474,291	52,727	527,018
2030-2032	307,052	8,941	315,993
	<u>\$ 1,212,506</u>	<u>\$ 157,938</u>	<u>\$ 1,370,444</u>

### Utility Revenues Pledged

The City has pledged future water customer revenues, net of specified operating expenses, to repay the water system revenue bonds. Proceeds from the bonds provided financing for the construction or acquisition of capital assets used with the systems. The bonds are payable solely from water customer net revenues and are payable through 2032. The total principal and interest remaining to be paid on the bonds is \$1,370,444. Principal and interest paid for the current year and total customer net revenues were \$105,533 and \$791,057, respectively.

# City of Merrill, Wisconsin

## NOTES TO BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2019

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### F. PENSION PLAN

#### 1. Plan Description

The WRS is a cost-sharing, multiple-employer, defined benefit pension plan. WRS benefits and other plan provisions are established by Chapter 40 of the Wisconsin Statutes. Benefit terms may only be modified by the legislature. The retirement system is administered by the Wisconsin Department of Employee Trust Funds (ETF). The system provides coverage to all eligible State of Wisconsin, local government and other public employees. All employees, initially employed by a participating WRS employer on or after July 1, 2011, and expected to work at least 1200 hours a year (880 hours for teachers and school district educational support employees) and expected to be employed for at least one year from employee's date of hire are eligible to participate in the WRS.

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

For employees beginning participation on or after January 1, 1990, and no longer actively employed on or after April 24, 1998, creditable service in each of five years is required for eligibility for a retirement annuity. Participants employed prior to 1990 and on or after April 24, 1998, and prior to July 1, 2011, are immediately vested. Participants who initially became WRS eligible on or after July 1, 2011, must have five years of creditable service to be vested.

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

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

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

The WRS also provides death and disability benefits for employees.

#### 2. Post-Retirement Adjustments

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

# City of Merrill, Wisconsin

## NOTES TO BASIC FINANCIAL STATEMENTS DECEMBER 31, 2019

Year	Core Fund Adjustment	Variable Fund Adjustment
2009	(2.1)%	(42)%
2010	(1.3)	22
2011	(1.2)	11
2012	(7.0)	(7)
2013	(9.6)	9
2014	4.7	25
2015	2.9	2
2016	0.5	(5)
2017	2.0	4
2018	2.4	17

### 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, Executives and Elected Officials. Starting on January 1, 2016, the Executives and Elected Officials category was merged into the General Employee Category. Required contributions for protective employees are the same rate as general employees. Employers are required to contribute the remainder of the actuarially determined contribution rate. The employer may not pay the employee required contribution unless provided for by an existing collective bargaining agreement.

During the year ended December 31, 2019, the WRS recognized \$684,500 in contributions from the City.

Contribution rates for the reporting period are:

Employee Category	Employee	Employer
General (including teachers, executives and elected officials)	6.7%	6.7%
Protective with Social Security	6.7%	10.7%
Protective without Social Security	6.7%	14.9%

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

At December 31, 2019, the City reported a liability \$2,262,712 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2017 rolled forward to December 31, 2018. 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, 2018, the City's proportion was 0.06360067%, which was an increase of 0.00104404% from its proportion measured as of December 31, 2017.

For the year ended December 31, 2019, the City recognized pension expense of \$1,522,103.

# City of Merrill, Wisconsin

## NOTES TO BASIC FINANCIAL STATEMENTS DECEMBER 31, 2019

At December 31, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 1,762,309	\$ 3,115,130
Net differences between projected and actual earnings on pension plan investments	3,304,537	-
Changes in assumptions	381,410	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,864	22,426
Employer contributions subsequent to the measurement date	684,500	-
Total	<u>\$ 6,134,620</u>	<u>\$ 3,137,556</u>

\$684,500 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, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

<u>Year ended December 31,</u>	<u>Expenses</u>
2020	\$ 835,102
2021	204,626
2022	367,770
2023	905,066
Total	<u>\$ 2,312,564</u>

### 5. Actuarial Assumptions

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

Actuarial valuation date:	December 31, 2017
Actuarial cost method:	Entry Age
Asset valuation method:	Fair Value
Long-term expected rate of return:	7.0%
Discount rate:	7.0%
Salary increases:	
Inflation	3.0%
Seniority/Merit	0.1% - 5.6%
Mortality	Wisconsin 2018 Mortality Table
Post-retirement adjustments*	1.9%

\* No post-retirement adjustment is guaranteed. Actual adjustments are based on recognized investment return, actuarial experience and other factors. 1.9% is the assumed annual adjustment based on the investment return assumption and the post-retirement discount rate.

# City of Merrill, Wisconsin

## NOTES TO BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2019

Actuarial assumptions are based upon an experience study conducted in 2018 that covered a three-year period from January 1, 2015 to December 31, 2017. Based on this experience study, actuarial assumptions used to measure the total pension liability changed from prior year, including the discount rate, long-term expected rate of return, post-retirement adjustment, wage inflation rate, mortality and separation rates. The total pension liability for December 31, 2018 is based upon a roll-forward of the liability calculated from the December 31, 2017 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:

	<b>Current Asset Allocation %</b>	<b>Long-term Expected Nominal Rate of Return %</b>	<b>Long-term Expected Real Rate of Return %</b>
<u>Core Fund Asset Class</u>			
Global Equities	49%	8.1%	5.5%
Fixed Income	24.5%	4.0%	1.5%
Inflation Sensitive Assets	15.5%	3.8%	1.3%
Real Estate	9%	6.5%	3.9%
Private Equity/Debt	8%	9.4%	6.7%
Multi-asset	4%	6.7%	4.1%
Total Core Fund	110%	7.3%	4.7%
<u>Variable Fund Asset Class</u>			
U.S. Equities	70%	7.6%	5.0%
International Equities	30%	8.5%	5.9%
Total Variable Fund	100%	8.0%	5.4%

New England Pension Consultants Long Term US CPI (Inflation) Forecast: 2.5%

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

**Single Discount Rate.** A single discount rate of 7.00% was used to measure the total pension liability, as opposed to a discount rate of 7.20% for the prior year. This single discount rate was based on the expected rate of return on pension plan investments of 7.00% and a municipal bond rate of 3.71%. Because of the unique structure of WRS, the 7.00% expected rate of return implies that a dividend of approximately 1.9% 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 municipal bond expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

# City of Merrill, Wisconsin

## NOTES TO BASIC FINANCIAL STATEMENTS DECEMBER 31, 2019

**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 7.00 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 (6.00 percent) or 1-percentage-point higher (8.00 percent) than the current rate:

	<b>1% Decrease to Discount Rate (6.00%)</b>	<b>Current Discount Rate (7.00%)</b>	<b>1% Increase to Discount Rate (8.00%)</b>
City's proportionate share of the net pension liability (asset)	\$ 8,992,256	\$ 2,262,712	\$ (2,741,225)

**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, 2019, the City reported a payable of \$0 for the outstanding amount of contributions to the pension plan for the year ended December 31, 2019.

## G. OTHER POSTEMPLOYMENT BENEFITS

### Local Retiree Life Insurance Fund

#### *Plan Description*

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

#### *OPEB Plan Fiduciary Net Position*

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

#### *Benefits Provided*

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

#### *Contributions*

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

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

Contribution rates as of December 31, 2019 are:

<b>Coverage Type</b>	<b>Employer Contribution</b>
50% Post-retirement coverage	40% of employee contribution
25% Post-retirement coverage	20% of employee contribution

# City of Merrill, Wisconsin

## NOTES TO BASIC FINANCIAL STATEMENTS DECEMBER 31, 2019

Employee contributions are based upon nine age bands through age 69 and an additional eight age bands for those age 70 and over. Participating employees must pay monthly contribution rates per \$1,000 of coverage until the age of 65 (age 70 if active). The employee contribution rates in effect for the year ended December 31, 2018 are listed below:

Life Insurance Employee Contribution Rates* For the Year Ended December 31, 2018		
Attained Age	Basic	Supplemental
Under 30	\$0.05	\$0.05
30 - 34	0.06	0.06
35 - 39	0.07	0.07
40 - 44	0.08	0.08
45 - 49	0.12	0.12
50 - 54	0.22	0.22
55 - 59	0.39	0.39
60 - 64	0.49	0.49
65 - 69	0.57	0.57

\*Disabled members under age 70 receive a waiver-of-premium benefit.

During the year ended December 31, 2019, the LRLIF recognized \$2,037 in contributions from the employer.

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

At December 31, 2019, the City reported a liability of \$350,012 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of December 31, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2017 rolled forward to December 31, 2018. No material changes in assumptions or benefits terms occurred between the actuarial valuation date and the measurement date. The City's proportion of the net OPEB liability was based on the City's share of contributions to the OPEB plan relative to the contributions of all participating employers. At December 31, 2018, the City's proportion was 0.13564600%, which was an increase of 0.000278% from its proportion measured as of December 31, 2017.

For the year ended December 31, 2019, the City recognized OPEB expense of \$35,129.

At December 31, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ -	\$ 17,755
Net differences between projected and actual earnings on OPEB plan investments	8,364	-
Changes in assumptions	33,397	75,868
Changes in proportion and differences between employer contributions and proportionate share of contributions	2,037	-
Total	<u>\$ 43,798</u>	<u>\$ 93,623</u>

# City of Merrill, Wisconsin

## NOTES TO BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2019

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\$2,037 reported as deferred outflows related to OPEB resulting from the LRLIF employer's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended December 31, 2020. Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year Ended</u> <u>December 31,</u>	<u>Expense</u>
2020	\$ (6,531)
2021	(6,531)
2022	(6,531)
2023	(7,706)
2024	(8,916)
Thereafter	(13,610)
	<u>\$ (49,825)</u>

**Actuarial assumptions.** The total OPEB liability in the January 1, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Actuarial valuation date:	January 1, 2018
Actuarial cost method:	Entry age normal
20 year tax-exempt municipal bond yield:	4.10%
Long-term expected rate of return:	5.00%
Discount rate:	4.22%
Salary increases:	
Inflation	3.00%
Seniority/Merit	0.1% - 5.6%
Mortality:	Wisconsin 2018 Mortality Table

Actuarial assumptions are based upon an experience study conducted in 2018 that covered a three-year period from January 1, 2015 to December 31, 2017. Based on this experience, actuarial assumptions used to measure the total OPEB liability changed from prior year, including the discount rate, wage inflation rate, mortality and separation rates. The total OPEB liability for December 31, 2018 is based upon a roll-forward of the liability calculated from the December 31, 2017 actuarial valuation.

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

# City of Merrill, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2019

Asset Class	Index	Target Allocation	Long-term Expected Geometric Real Rate of Return %
U.S. Government Bonds	Barclays Government	1%	1.44%
U.S. Credit Bonds	Barclays Credit	40%	2.69%
U.S. Long Credit Bonds	Barclays Long Credit	4%	3.01%
U.S. Mortgages	Barclays MBS	54%	2.25%
U.S. Municipal Bonds	Bloomberg Barclays Muni	1%	1.68%
Inflation			2.30%
Long-term expected rate of return			5.00%

**Single discount rate.** A single discount rate of 4.22% was used to measure the total OPEB liability for the current year, as opposed to a discount rate of 3.63% for the prior year. The Plan's fiduciary net position was projected to be insufficient to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the Total OPEB Liability is equal to the single equivalent rate that results in the same actuarial present value as the long-term expected rate of return applied to benefit payments, to the extent that the plan's fiduciary net position is projected to be sufficient to make projected benefit payments, and the municipal bond rate applied to benefit payment to the extent that the plan's fiduciary net position is projected to be insufficient. The plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through December 31, 2036.

**Sensitivity of the City's proportionate share of net OPEB liability (asset) to changes in the discount rate.** The following presents the City's proportionate share of the net OPEB liability (asset) calculated using the discount rate of 4.22%, as well as what the City's proportionate share of the net OPEB liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (3.22 %) or 1-percentage-point higher (5.22%) than the current rate:

	1% Decrease to Discount Rate (3.22%)	Current Discount Rate (4.22%)	1% Increase to Discount Rate (5.22%)
City's proportionate share of the net OPEB liability (asset)	\$ 497,916	\$ 350,012	\$ 235,939

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

### **Payable to the OPEB Plan**

At December 31, 2019, the City reported a payable of \$0 for the outstanding amount of contribution to the Plan required for the year ended December 31, 2019.

## **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, 2019, nonspendable fund balance was as follows:

General Fund	
Nonspendable	
Inventory and prepaids	<u>\$ 169,094</u>

# City of Merrill, Wisconsin

## NOTES TO BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2019

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### 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, 2019, restricted fund balance was as follows:

General Fund	
Restricted for	
Capital projects	\$ 311,252
Special Revenue Funds	
Restricted for	
Community development	537,010
Library endowment	443,521
Library trust	1,381,055
Remedial action	358,878
Capital Projects Funds	
Restricted for	
TIF No. 4	150,500
TIF No. 5	22,220
TIF No. 12	115,796
Debt Service Fund	
Restricted for	
Debt service	1,038
Total Restricted Fund Balance	<u>\$ 3,321,270</u>

### Committed Fund Balance

In the fund financial statements, portions of government fund balances are committed by City Council action. At December 31, 2019, General Fund balance was committed as follows:

General Fund	
Committed for	
Nonlapsing reserves	
General government	\$ 325,456
Public safety	267,370
Public works	37,448
Culture and recreation	212,345
Total Committed Fund Balance	<u>\$ 842,619</u>

# City of Merrill, Wisconsin

## NOTES TO BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2019

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### Restricted Net Position

In the statement of net position, portions are legally restricted for a specific purpose. At December 31, 2019, restricted net position was as follows:

#### Governmental activities

##### Restricted for

Community development	\$ 3,526,558
Remedial action	358,878
Library	1,824,576
Tax incremental project plan expenditures	172,720
Total governmental activities restricted net position	<u>5,882,732</u>

#### Business-type activities

##### Restricted for

Water utility debt retirement	94,137
Sewer utility plant replacement	1,294,223
Total business-type activities restricted net position	<u>1,388,360</u>

Total restricted net position \$ 7,271,092

## NOTE 4: OTHER INFORMATION

### A. TAX INCREMENTAL FINANCING DISTRICTS

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

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

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

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

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

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

# City of Merrill, Wisconsin

## NOTES TO BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2019

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

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

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

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

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

Since creation of the above TIFs, the City has provided various financing sources to the TIF. The following 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.

	<b>Unreimbursed Costs</b>
TIF No. 3	\$ 4,776,525
TIF No. 4	556,499
TIF No. 5	4,133
TIF No. 6	948,471
TIF No. 7	389,629
TIF No. 8	1,269,122
TIF No. 9	857,673
TIF No. 10	526,517
TIF No. 11	1,262,174
TIF No. 12	9,204

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:

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

# City of Merrill, Wisconsin

## NOTES TO BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2019

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### **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, 2019, the City abated property taxes totaling \$36,618 under this program, including the following tax abatement agreements that each exceeded 10% of the total amount abated:

- ▶ A property tax abatement of \$5,882 to Pine Dells Investment LLC, for within Tax Incremental District No. 3.
- ▶ A property tax abatement of \$14,979 to Gateway North, LLC for within Tax Incremental District No. 3.
- ▶ A property tax abatement of \$15,757 to Alamsa, LLC for within Tax Incremental District No. 6.

### **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. Settled claims have not exceeded coverage in each of the last three years.

### **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 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.

### **F. PRIOR PERIOD ADJUSTMENT**

The City recorded a prior period adjustment of \$1,155,292 in the government-wide and governmental fund statements to report a trust that was gifted to the City in a prior year.

### **G. SUBSEQUENT EVENT**

Subsequent to year-end, the World Health Organization declared the spread of Coronavirus Disease (COVID-19) a worldwide pandemic. The COVID-19 pandemic is having significant effects on global markets, supply chains, businesses, and communities. Specific to the City of Merrill, COVID-19 may impact various parts of its 2020 operations and financial results including, but not limited to, costs for emergency preparedness, additional costs related to usage of personnel and other City resources, ridership revenues on bus routes, decrease in parking utility revenue, decrease in other recreation revenues, and overall delay in spring and summer operations related to the City operations. Management believes the City is taking appropriate actions to mitigate the negative impact. However, the full impact of COVID-19 is unknown and cannot be reasonably estimated as these events occurred subsequent to the year-end and are still developing.

REQUIRED SUPPLEMENTARY INFORMATION

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# City of Merrill, Wisconsin

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

<u>Plan Year Ending</u>	<u>Proportion of the Net Pension Liability (Asset)</u>	<u>Proportionate Share of the Net Pension Liability (Asset)</u>	<u>Covered 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>
12/31/14	0.05946372%	\$ (1,460,591)	\$ 6,308,015	23.15%	102.74%
12/31/15	0.06016318%	977,641	6,640,714	14.72%	98.20%
12/31/16	0.06118127%	504,280	6,647,432	7.59%	99.12%
12/31/17	0.06255663%	(1,857,380)	6,746,319	27.53%	102.93%
12/31/18	0.06360067%	2,262,712	6,972,423	32.45%	96.45%

## 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 Payroll (fiscal year)</u>	<u>Contributions as a Percentage of Covered 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	649,476	649,476	-	6,746,319	9.63%
12/31/18	672,929	672,929	-	6,972,423	9.65%
12/31/19	684,500	684,500	-	7,254,328	9.44%

See notes to required supplementary information.

# City of Merrill, Wisconsin

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

<u>Plan Fiscal Year Ending</u>	<u>Proportion of the Net OPEB Liability (Asset)</u>	<u>Proportionate Share of the Net OPEB Liability (Asset)</u>	<u>Covered-Employee Payroll</u>	<u>Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of Covered-Employee Payroll</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability (Asset)</u>
12/31/17	0.13536800%	\$ 407,265	\$ 6,746,319	6.04%	44.81%
12/31/18	0.13564600%	350,012	6,972,423	5.02%	48.69%

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

<u>Fiscal Year Ending</u>	<u>Contractually Required Contributions</u>	<u>Contributions in Relation to the Contractually Required Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered-Employee Payroll</u>	<u>Contributions as a Percentage of Covered-Employee Payroll</u>
12/31/18	\$ 2,571	\$ 2,571	\$ -	\$ 6,972,423	0.04%
12/31/19	2,662	2,662	-	7,254,328	0.04%

*See notes to required supplementary information.*

# City of Merrill, Wisconsin

## NOTES TO REQUIRED SUPPLEMENTARY INFORMATION DECEMBER 31, 2019

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### **A. WISCONSIN RETIREMENT SYSTEM**

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

*Changes of assumptions.* Actuarial assumptions are based upon an experience study conducted in 2018 that covered a three-year period from January 1, 2015 to December 31, 2017. Based on this experience study, actuarial assumptions used to measure the total pension liability changed from prior year, including the discount rate, long-term expected rate of return, post-retirement adjustment, wage inflation rate, mortality and separation rates.

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.

### **B. LRLIF OPEB**

*Changes of benefit terms.* There were no changes of benefit terms for any participating employer in LRLIF.

*Changes of assumptions.* Actuarial assumptions are based upon an experience study conducted in 2018 that covered a three-year period from January 1, 2015 to December 31, 2017. Based on this experience, actuarial assumptions used to measure the total OPEB liability changed from prior year, including the discount rate, wage inflation rate, mortality and separation rates.

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

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# City of Merrill, Wisconsin

**COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
DECEMBER 31, 2019**

	Special Revenue			TIF No. 4	TIF No. 5
	Library	Library Trust	Remedial Action		
<b>ASSETS</b>					
Cash and investments	\$ 443,521	\$ -	\$ 89,519	\$ 223,234	\$ 28,269
Receivables					
Taxes and special charges	-	-	-	135,533	11,273
Accounts	-	-	-	-	-
Other	-	1,381,055	-	-	-
Advance to other funds	-	-	269,450	-	-
Total assets	<u>\$ 443,521</u>	<u>\$ 1,381,055</u>	<u>\$ 358,969</u>	<u>\$ 358,767</u>	<u>\$ 39,542</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>					
Liabilities					
Accounts payable	\$ -	\$ -	\$ 91	\$ -	\$ -
Due to other funds	-	-	-	-	-
Advance from other funds	-	-	-	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>91</u>	<u>-</u>	<u>-</u>
Deferred inflows of resources					
Property taxes levied for subsequent year	-	-	-	208,267	17,322
Fund balances					
Restricted	443,521	1,381,055	358,878	150,500	22,220
Unassigned	-	-	-	-	-
Total fund balances	<u>443,521</u>	<u>1,381,055</u>	<u>358,878</u>	<u>150,500</u>	<u>22,220</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 443,521</u>	<u>\$ 1,381,055</u>	<u>\$ 358,969</u>	<u>\$ 358,767</u>	<u>\$ 39,542</u>

**Capital Projects**

<b>TIF No. 6</b>	<b>TIF No. 7</b>	<b>TIF No. 8</b>	<b>TIF No. 9</b>	<b>TIF No. 10</b>	<b>TIF No. 11</b>	<b>TIF No. 12</b>	<b>Total</b>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 123,119	\$ 907,662
27,200	12,040	26,257	-	-	73,576	13,647	299,526
-	35,248	-	25,568	-	-	-	60,816
-	-	-	-	-	-	-	1,381,055
-	-	-	-	-	-	-	269,450
<u>\$ 27,200</u>	<u>\$ 47,288</u>	<u>\$ 26,257</u>	<u>\$ 25,568</u>	<u>\$ -</u>	<u>\$ 73,576</u>	<u>\$ 136,766</u>	<u>\$ 2,918,509</u>
\$ -	\$ 1,180	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,271
549,666	67,236	585,032	593,240	31,517	22,794	-	1,849,485
-	100,000	-	-	-	99,896	-	199,896
<u>549,666</u>	<u>168,416</u>	<u>585,032</u>	<u>593,240</u>	<u>31,517</u>	<u>122,690</u>	<u>-</u>	<u>2,050,652</u>
<u>41,797</u>	<u>18,501</u>	<u>40,348</u>	<u>-</u>	<u>-</u>	<u>113,060</u>	<u>20,970</u>	<u>460,265</u>
-	-	-	-	-	-	115,796	2,471,970
(564,263)	(139,629)	(599,123)	(567,672)	(31,517)	(162,174)	-	(2,064,378)
<u>(564,263)</u>	<u>(139,629)</u>	<u>(599,123)</u>	<u>(567,672)</u>	<u>(31,517)</u>	<u>(162,174)</u>	<u>115,796</u>	<u>407,592</u>
<u>\$ 27,200</u>	<u>\$ 47,288</u>	<u>\$ 26,257</u>	<u>\$ 25,568</u>	<u>\$ -</u>	<u>\$ 73,576</u>	<u>\$ 136,766</u>	<u>\$ 2,918,509</u>

# City of Merrill, Wisconsin

## COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES NONMAJOR GOVERNMENTAL FUNDS FOR THE YEAR ENDED DECEMBER 31, 2019

	Special Revenue			TIF No. 4	TIF No. 5
	Library	Library Trust	Remedial Action		
<b>REVENUES</b>					
Taxes	\$ -	\$ -	\$ -	\$ 221,852	\$ 17,645
Intergovernmental	-	-	-	23,921	348
Miscellaneous	42,265	268,940	-	-	-
Total revenues	42,265	268,940	-	245,773	17,993
<b>EXPENDITURES</b>					
Current					
Public works	-	-	26,018	-	-
Culture and recreation	47,719	-	-	-	-
Conservation and development	-	-	-	18,554	968
Debt service					
Interest and fiscal charges	-	-	-	-	-
Capital outlay	-	-	-	2,338	-
Total expenditures	47,719	-	26,018	20,892	968
Excess of revenues over (under) expenditures	(5,454)	268,940	(26,018)	224,881	17,025
<b>OTHER FINANCING SOURCES (USES)</b>					
Long-term debt issued	-	-	-	-	-
Premium on debt issued	-	-	-	-	-
Transfers in	43,177	-	-	-	-
Transfers out	-	(43,177)	-	(88,910)	(2,485)
Total other financing sources (uses)	43,177	(43,177)	-	(88,910)	(2,485)
<b>Net change in fund balances</b>	37,723	225,763	(26,018)	135,971	14,540
<b>Fund balances - January 1, as originally reported</b>	405,798	-	384,896	14,529	7,680
<b>Prior period adjustment</b>	-	1,155,292	-	-	-
<b>Fund balances - January 1, as restated</b>	405,798	1,155,292	384,896	14,529	7,680
<b>Fund balances - December 31</b>	<u>\$ 443,521</u>	<u>\$ 1,381,055</u>	<u>\$ 358,878</u>	<u>\$ 150,500</u>	<u>\$ 22,220</u>

**Capital Projects**

<b>TIF No. 6</b>	<b>TIF No. 7</b>	<b>TIF No. 8</b>	<b>TIF No. 9</b>	<b>TIF No. 10</b>	<b>TIF No. 11</b>	<b>TIF No. 12</b>	<b>Total</b>
\$ 32,863	\$ -	\$ 20,221	\$ -	\$ -	\$ 69,961	\$ 22,005	\$ 384,547
2,844	36,724	3,668	4,896	-	12,568	-	84,969
-	-	-	2,820	25,000	-	-	339,025
<u>35,707</u>	<u>36,724</u>	<u>23,889</u>	<u>7,716</u>	<u>25,000</u>	<u>82,529</u>	<u>22,005</u>	<u>808,541</u>
-	-	-	-	-	-	-	26,018
-	-	-	-	-	-	-	47,719
34,188	112,749	92,333	3,834	-	1,000	7,429	271,055
-	-	-	-	-	-	1,888	1,888
<u>26,776</u>	<u>4,956</u>	<u>3,758</u>	<u>7,511</u>	<u>5,105</u>	<u>25,436</u>	<u>10,749</u>	<u>86,629</u>
<u>60,964</u>	<u>117,705</u>	<u>96,091</u>	<u>11,345</u>	<u>5,105</u>	<u>26,436</u>	<u>20,066</u>	<u>433,309</u>
<u>(25,257)</u>	<u>(80,981)</u>	<u>(72,202)</u>	<u>(3,629)</u>	<u>19,895</u>	<u>56,093</u>	<u>1,939</u>	<u>375,232</u>
-	-	-	-	-	-	125,000	125,000
-	-	-	-	-	-	1,888	1,888
-	-	-	-	-	-	-	43,177
<u>(34,515)</u>	<u>(13,411)</u>	<u>(50,674)</u>	<u>(18,950)</u>	<u>(20,025)</u>	<u>(63,929)</u>	<u>-</u>	<u>(336,076)</u>
<u>(34,515)</u>	<u>(13,411)</u>	<u>(50,674)</u>	<u>(18,950)</u>	<u>(20,025)</u>	<u>(63,929)</u>	<u>126,888</u>	<u>(166,011)</u>
<u>(59,772)</u>	<u>(94,392)</u>	<u>(122,876)</u>	<u>(22,579)</u>	<u>(130)</u>	<u>(7,836)</u>	<u>128,827</u>	<u>209,221</u>
<u>(504,491)</u>	<u>(45,237)</u>	<u>(476,247)</u>	<u>(545,093)</u>	<u>(31,387)</u>	<u>(154,338)</u>	<u>(13,031)</u>	<u>(956,921)</u>
-	-	-	-	-	-	-	1,155,292
<u>(504,491)</u>	<u>(45,237)</u>	<u>(476,247)</u>	<u>(545,093)</u>	<u>(31,387)</u>	<u>(154,338)</u>	<u>(13,031)</u>	<u>198,371</u>
<u>\$ (564,263)</u>	<u>\$ (139,629)</u>	<u>\$ (599,123)</u>	<u>\$ (567,672)</u>	<u>\$ (31,517)</u>	<u>\$ (162,174)</u>	<u>\$ 115,796</u>	<u>\$ 407,592</u>

ADDITIONAL INDEPENDENT AUDITORS' REPORT  
FOR BASIC FINANCIAL STATEMENTS

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## 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, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 8, 2020.

### **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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses we did identify certain deficiencies in internal control that we consider to be a material weakness and a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as item 2019-002 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses as item 2019-001 to be a significant deficiency.

**COMPLIANCE AND OTHER MATTERS**

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**CITY OF MERRILL, WISCONSIN'S RESPONSE TO FINDINGS**

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

**PURPOSE OF THIS REPORT**

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



**CliftonLarsonAllen LLP**

Green Bay, Wisconsin  
September 8, 2020

# City of Merrill, Wisconsin

## SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED DECEMBER 31, 2019

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### SECTION I. INTERNAL CONTROL OVER FINANCIAL REPORTING

<b>FINDING NO.</b>	<b>CONTROL DEFICIENCIES</b>
2019-001	<b>Preparation of Annual Financial Report</b> Repeat of Finding 2018-001
Type of Finding:	Significant Deficiency in Internal Control over Financial Reporting
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.

# City of Merrill, Wisconsin

## SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED DECEMBER 31, 2019

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<b>FINDING NO.</b>	<b>CONTROL DEFICIENCIES</b>
2019-002	<b>Material Adjustment to the City's Financial Records</b>
Type of Finding:	Material Weakness in Internal Control over Financial Reporting
Condition:	As part of our audit, we proposed a material adjusting journal entry to the City's financial statements related to a trust that was gifted to the City in a prior year.
Context:	While performing audit procedures, a material audit adjustment was identified.
Criteria:	Material adjusting journal entries proposed by the auditors are considered to be an internal control deficiency.
Cause:	City staff maintain financial records which accurately report revenues and expenditures throughout the year and have applied year-end procedures consistently with prior years; however, the year-end procedures did not include the recording of a trust that was gifted to the City.
Effect:	Year-end financial records prior to final preparation of the financial statements contained a material misstatement.
Recommendation:	We recommend the City during year-end closing procedures include an analysis and recording of the annual activity in the trust.
Management Response:	The City followed year-end procedures consistent with those of prior years, but was unaware that the trust was gifted to the City. The City will continue to record an adjustment for the annual activity in the trust as part of the year-end closing procedures going forward.

## 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, 2019.