

VILLAGE OF MERRILLAN, WISCONSIN

AUDITED FINANCIAL STATEMENTS

Including Independent Auditor's Report

As of and for the year ended December 31, 2016

Johnson Block and Company, Inc.
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VILLAGE OF MERRILLAN, WISCONSIN
DECEMBER 31, 2016
TABLE OF CONTENTS

Independent Auditor’s Report 1

Basic Financial Statements

Exhibits

A-1 Statement of Net Position 3
A-2 Statement of Activities 5
A-3 Balance Sheet – Governmental Funds 6
A-4 Reconciliation of the Governmental Funds Balance Sheet with the
Statement of Net Position 7
A-5 Statement of Revenues, Expenditures and Changes in Fund Balances –
Governmental Funds 8
A-6 Reconciliation of Statement of Revenues, Expenditures and Changes
in Fund Balance of Governmental Funds to the Statement of Activities 9
A-7 Statement of Net Position – Proprietary Funds 10
A-8 Statement of Revenues, Expenses and Changes in Fund Net Position –
Proprietary Funds 12
A-9 Statement of Cash Flows – Proprietary Funds 13
A-10 Statement of Net Position – Fiduciary Funds 15
Notes to the Basic Financial Statements 16

Required Supplementary Information:

B-1 Budgetary Comparison Schedule for the General Fund 37
Notes to the Required Supplementary Information 38

Supplemental Information:

Schedule 1 Detailed Comparison of Budgeted and Actual Revenues – Governmental Funds 39
Schedule 2 Detailed Comparison of Budgeted and Actual Expenditures – Governmental Funds 41
Schedule 3 Schedule of Operating Revenues and Expenses – Proprietary Funds 43

INDEPENDENT AUDITOR'S REPORT

To the Village Board
Village of Merrilan, Wisconsin

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 Village of Merrilan, Wisconsin ("Village"), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Village'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.

Auditor's 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. 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity'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 entity'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 Village of Merrilan, Wisconsin, as of December 31, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 37-38 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which 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 governmental 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 opinion on the basic financial statements is not affected by this missing information.


Other Information

Prior Year Summarized Comparative Information

The prior year summarized comparative information has been derived from the Village's 2015 financial statement and, in our report dated January 28, 2016, we expressed an unqualified opinion on the respective financial statements of the governmental activities, the business-type activities and the major fund.

Other Supplementary Information

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



Johnson Block & Company, Inc.
Mineral Point, Wisconsin
February 17, 2017

BASIC FINANCIAL STATEMENTS

Exhibit A-1
Village of Merrillan, Wisconsin
Statement of Net Position
December 31, 2016

(With summarized financial information as of December 31, 2015)

	Governmental Activities	Business-Type Activities	Total	
			2016	2015
ASSETS				
Current assets:				
Cash and investments	\$ 88,442	\$ 471,809	\$ 560,251	\$ 732,349
Receivables				
Taxes	28,066		28,066	27,451
Customer		58,667	58,667	55,053
Special assessments				4,500
Due from other governments	4,989		4,989	179,636
Materials and supplies		15,697	15,697	15,011
Total current assets	121,497	546,173	667,670	1,014,000
Restricted assets:				
Restricted cash and investments		217,068	217,068	113,152
Capital assets:				
Property, plant and equipment	2,028,237	7,176,377	9,204,614	9,090,575
Less: accumulated depreciation	941,738	2,525,717	3,467,455	3,276,249
Total capital assets	1,086,499	4,650,660	5,737,159	5,814,326
Other assets:				
Special assessments receivable		5,300	5,300	9,100
Total assets	\$ 1,207,996	\$ 5,419,201	\$ 6,627,197	\$ 6,950,578

Exhibit A-1 (Cont'd)
Village of Merrillan, Wisconsin
Statement of Net Position
December 31, 2016

(With summarized financial information as of December 31, 2015)

	Governmental Activities	Business-Type Activities	Total	
			2016	2015
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 6,014	\$ 29,883	\$ 35,897	\$ 221,383
Accrued and other current liabilities	1,959	2,662	4,621	4,256
Accrued interest		17,266	17,266	18,640
Customer deposits		8,598	8,598	10,601
Current portion of long-term obligations		50,159	50,159	75,249
Total current liabilities	7,973	108,568	116,541	330,129
Current liabilities payable from restricted assets:				
Current portion of mortgage revenue bonds		40,401	40,401	14,000
Accrued interest		2,404	2,404	2,009
Total current liabilities payable from restricted assets		42,805	42,805	16,009
Noncurrent liabilities:				
Notes payable	4,920	696,510	701,430	745,894
Mortgage revenue bonds		640,520	640,520	680,385
Less: current portion		(90,560)	(90,560)	(89,249)
Total noncurrent liabilities	4,920	1,246,470	1,251,390	1,337,030
Total liabilities	12,893	1,397,843	1,410,736	1,683,168
DEFERRED INFLOW OF RESOURCES				
Deferred revenues			29,604	26,504
NET POSITION				
Net investment in capital assets	1,086,499	3,313,630	4,400,129	4,388,047
Restricted	76,894	214,664	291,558	162,223
Unrestricted	2,106	493,064	495,170	690,636
Total net position	1,165,499	4,021,358	5,186,857	5,240,906
Total liabilities, deferred inflow of resources, and net position	\$ 1,207,996	\$ 5,419,201	\$ 6,627,197	\$ 6,950,578

Exhibit A-2
Village of Merrillan, Wisconsin
Statement of Activities
For the Year Ended December 31, 2016
(With summarized financial information for the year ended December 31, 2015)

Functions/Programs	Program Revenues					Net (Expenses) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business Type Activities	Total	
							2016	2015
Primary government:								
Governmental activities:								
General government	\$ 97,652	\$ 10,852	\$	\$	\$ (86,800)	\$	\$ (86,800)	\$ (91,274)
Public safety	181,092	50,595	63,312		(67,185)		(67,185)	(95,274)
Public works	170,273		28,488	45,000	(96,785)		(96,785)	264,994
Sanitation	43,241				(43,241)		(43,241)	(42,542)
Health and human services	3,317	5,132			1,815		1,815	(1,538)
Culture and recreation	16,544	2,876			(13,668)		(13,668)	(10,001)
Conservation and development	2,605				(2,605)		(2,605)	(2,123)
Total governmental activities	514,724	69,455	91,800	45,000	(308,469)		(308,469)	22,242
Business-type activities:								
Water and electric	517,411	557,255				39,844	39,844	82,036
Sewer	161,353	151,676				(9,677)	(9,677)	48,927
Total business-type activities	678,764	708,931				30,167	30,167	130,963
Total primary government	1,193,488	778,386	91,800	45,000	(308,469)	30,167	(278,302)	153,205
General Revenues and Transfers:								
Property taxes								
General purposes					26,504		26,504	29,406
Other taxes					887		887	2,373
Federal and State aid not restricted for specific purposes								
General					187,202		187,202	187,218
Interest and investment earnings					1,385	1,993	3,378	3,835
Miscellaneous					1,519		1,519	9,675
Gain on sale of capital assets					4,763		4,763	
Transfers					46,175	(46,175)		
Total general revenues and transfers					268,435	(44,182)	224,253	232,507
Changes in net position					(40,034)	(14,015)	(54,049)	385,712
Net position - beginning					1,205,533	4,035,373	5,240,906	4,855,194
Net position - ending					\$ 1,165,499	\$ 4,021,358	\$ 5,186,857	\$ 5,240,906

Exhibit A-3
Village of Merrillan, Wisconsin
Balance Sheet
Governmental Funds
December 31, 2016
(With summarized financial information as of December 31, 2015)

	General	Total	
		Governmental Funds	
		2016	2015
ASSETS			
Cash and investments	\$ 88,442	\$ 88,442	\$ 122,026
Receivables:			
Taxes	28,066	28,066	27,451
Due from other governments	4,989	4,989	144,720
Total assets	\$ 121,497	\$ 121,497	\$ 294,197
LIABILITIES			
Accounts payable	\$ 6,014	\$ 6,014	\$ 150,581
Accrued payroll liabilities	1,959	1,959	2,414
Total liabilities	7,973	7,973	152,995
DEFERRED INFLOW OF RESOURCES			
Deferred property tax revenue	29,604	29,604	26,504
FUND BALANCES			
Restricted	76,894	76,894	51,080
Assigned			8,250
Unassigned	7,026	7,026	55,368
Total fund balances	83,920	83,920	114,698
Total liabilities, deferred inflow of resources, and fund balances	\$ 121,497	\$ 121,497	\$ 294,197

Exhibit A-4
Village of Merrilan, Wisconsin
Reconciliation of the Governmental Funds Balance Sheet
with the Statement of Net Position
December 31, 2016
(With summarized financial information as of December 31, 2015)

	2016	2015
Total fund balances-governmental funds	\$ 83,920	\$ 114,698
 Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental funds are not financial resources and therefore are not reported in the fund statements. Amounts reported for governmental activities in the statement of net position		
Governmental capital asset	2,028,237	
Governmental accumulated depreciation	(941,738)	1,090,835
 Long-term liabilities, including notes payable, are not due and payable in the current period and therefore are not reported in the fund statements. Long-term liabilities reported in the statement of net position that are not reported in the fund balance sheet are		
Notes payable	(4,920)	
Total net position of governmental activities:	\$ 1,165,499	\$ 1,205,533

Exhibit A-5
Village of Merrillan, Wisconsin
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2016
(With summarized financial information for the year ended December 31, 2015)

	General	Total	
		Governmental Funds	
		2016	2015
REVENUES			
Taxes	\$ 27,391	\$ 27,391	\$ 31,779
Intergovernmental	261,478	261,478	586,767
Licenses and permits	11,580	11,580	9,618
Public charges for services	29,295	29,295	18,449
Intergovernmental charges for services	28,579	28,579	27,827
Interest and investment earnings	1,385	1,385	1,593
Miscellaneous	64,044	64,044	48,774
Total revenues	423,752	423,752	724,807
EXPENDITURES			
Current:			
General government	105,793	105,793	96,580
Public safety	163,578	163,578	156,910
Public works	138,691	138,691	103,753
Sanitation	43,241	43,241	42,542
Health and human services	3,317	3,317	4,201
Culture and recreation	34,880	34,880	13,554
Conservation and development	2,605	2,605	1,282
Debt service:			
Principal retirement	22,600	22,600	
Capital outlay:			
Public safety	27,520	27,520	20,035
Public works	1,500	1,500	379,530
Total expenditures	543,725	543,725	818,387
Excess of revenues over (under) expenditures	(119,973)	(119,973)	(93,580)
OTHER FINANCING SOURCES (USES)			
Sale of fixed assets	15,500	15,500	
Transfer from utility - tax equivalent	46,175	46,175	46,369
Loan proceeds	27,520	27,520	
Total other financing sources (uses)	89,195	89,195	46,369
Net change in fund balances	(30,778)	(30,778)	(47,211)
Fund balance - beginning	114,698	114,698	161,909
Fund balance - ending	\$ 83,920	\$ 83,920	\$ 114,698

Exhibit A-6
Village of Merrilan, Wisconsin
Reconciliation of Statement of Revenues, Expenditures and Changes
in Fund Balance of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2016
(With summarized financial information for the year ended December 31, 2015)

	2016	2015
Net change in fund balances-total governmental funds	\$ (30,778)	\$ (47,211)
Amounts reported for governmental activities in the statement of activities are different because:		
The acquisition of capital assets are reported in the governmental funds as expenditures. However, for governmental activities those costs are shown in the statement of net position and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities.		
Capital outlay reported in governmental fund statements	29,020	399,565
Capital asset additions not included in capital outlay	47,619	4,687
Depreciation expenses reported in the statement of activities	(70,238)	(58,165)
Amount by which capital outlays are greater (less) than depreciation in the current period.	6,401	346,087
The net effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins, donations, and disposals).	(10,737)	
The issuance of long-term debt (e.g. bonds, notes) provides current financial resources to governmental funds but does not affect the statement of activities.	(27,520)	
Repayment of principal on long-term debt is reported in the governmental funds as an expenditure, but is reported as a reduction in long-term debt in the statement of net position and does not affect the statement of activities.		
The amount of long-term debt principal payments in the current year is:	22,600	
Change in net position-governmental activities	\$ (40,034)	\$ 298,876

Exhibit A-7
Village of Merrillan, Wisconsin
Statement of Net Position
Proprietary Funds
December 31, 2016

(With summarized financial information as of December 31, 2015)

	Electric & Water Utility	Sewer Utility	Total	
			2016	2015
ASSETS				
Current assets:				
Cash and investments	\$ 471,809	\$	\$ 471,809	\$ 610,323
Receivables:				
Customer	44,701	13,966	58,667	55,053
Special assessments				4,500
Due from other governments				34,916
Due from other funds	19,108		19,108	37,839
Materials and supplies	15,697		15,697	15,011
Total current assets	551,315	13,966	565,281	757,642
Restricted assets:				
Debt service fund	102,241	59,992	162,233	61,853
Bond depreciation fund		54,835	54,835	51,299
Total restricted assets	102,241	114,827	217,068	113,152
Fixed assets:				
Water and electric	3,887,039		3,887,039	3,827,191
Sewerage plant		3,289,338	3,289,338	3,280,244
Less: accumulated depreciation	(1,568,586)	(957,131)	(2,525,717)	(2,383,944)
Net property and plant	2,318,453	2,332,207	4,650,660	4,723,491
Other assets:				
Special assessments	3,050	2,250	5,300	9,100
Total other assets	3,050	2,250	5,300	9,100
Total assets	\$ 2,975,059	\$ 2,463,250	\$ 5,438,309	\$ 5,603,385

Exhibit A-7 (Cont'd)
Village of Merrilan, Wisconsin
Statement of Net Position
Proprietary Funds
December 31, 2016

(With summarized financial information as of December 31, 2015)

	Electric & Water Utility	Sewer Utility	Total	
			2016	2015
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 28,822	\$ 1,061	\$ 29,883	\$ 70,802
Due to other funds		19,108	19,108	37,839
Accrued and other current liabilities	2,365	297	2,662	1,842
Accrued interest	17,266		17,266	18,640
Customer deposits	8,598		8,598	10,601
Current portion of long-term obligations	50,159		50,159	75,249
Total current liabilities	107,210	20,466	127,676	214,973
Current liabilities payable from restricted assets:				
Current portion of long-term obligations	13,466	26,935	40,401	14,000
Accrued interest	516	1,888	2,404	2,009
Total current liabilities payable from restricted assets	13,982	28,823	42,805	16,009
Long-term liabilities:				
Notes payable	696,510		696,510	745,894
Mortgage revenue bonds	240,747	399,773	640,520	680,385
Less: current portion	(63,625)	(26,935)	(90,560)	(89,249)
Total long-term liabilities	873,632	372,838	1,246,470	1,337,030
Total liabilities	994,824	422,127	1,416,951	1,568,012
NET POSITION				
Net investment in capital assets	1,381,196	1,932,434	3,313,630	3,297,212
Restricted	101,725	112,939	214,664	111,143
Unrestricted	497,314	(4,250)	493,064	627,018
Total net position	1,980,235	2,041,123	4,021,358	4,035,373
Total liabilities and net position	\$ 2,975,059	\$ 2,463,250	\$ 5,438,309	\$ 5,603,385

Exhibit A-8
Village of Merrillan, Wisconsin
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
For the Year Ended December 31, 2016
(With summarized financial information for the year ended December 31, 2015)

	Water & Electric Utility	Sewer Utility	Total	
			2016	2015
OPERATING REVENUES				
Water & electric	\$ 553,419	\$	\$ 553,419	\$ 566,398
Sewer service		151,676	151,676	155,358
Other	3,836		3,836	14,048
Total operating revenues	557,255	151,676	708,931	735,804
OPERATING EXPENSES				
Operation and maintenance	400,849	80,383	481,232	507,262
Depreciation expense	76,921	65,181	142,102	138,502
Taxes	5,382		5,382	5,540
Total operating expenses	483,152	145,564	628,716	651,304
Total operating income	74,103	6,112	80,215	84,500
NONOPERATING REVENUES (EXPENSES)				
Interest expense	(34,259)	(15,789)	(50,048)	(51,903)
Interest income	1,467	526	1,993	2,242
Total net nonoperating revenues (expenses)	(32,792)	(15,263)	(48,055)	(49,661)
Income (loss) before contributions and transfers	41,311	(9,151)	32,160	34,839
Capital contributions				98,366
Transfer of tax equivalent	(46,175)		(46,175)	(46,369)
Changes in net position	(4,864)	(9,151)	(14,015)	86,836
Net position - beginning	1,985,099	2,050,274	4,035,373	3,948,537
Net position - ending	\$ 1,980,235	\$ 2,041,123	\$ 4,021,358	\$ 4,035,373

Exhibit A-9
Village of Merrillan, Wisconsin
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2016
(With summarized financial information for the year ended December 31, 2015)

	Business Type Activities- Enterprise Funds		Totals	
	Electric & Water Utility	Sewer Utility	2016	2015
CASH FLOWS FROM (USED BY) OPERATING ACTIVITIES				
Received from customers	\$ 553,907	\$ 151,410	\$ 705,317	\$ 745,013
Payments to employees	(56,801)	(26,373)	(83,174)	(85,069)
Payments for employee benefits	(45,710)	(11,455)	(57,165)	(57,763)
Payments to suppliers	(280,902)	(62,209)	(343,111)	(327,157)
Net cash flows from operating activities	170,494	51,373	221,867	275,024
CASH FLOWS (USED BY) NONCAPITAL FINANCING ACTIVITIES				
Paid to municipality for tax equivalent	(46,175)		(46,175)	(46,369)
Net cash flows (used by) noncapital financing activities	(46,175)		(46,175)	(46,369)
CASH FLOWS FROM (USED BY) CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition and construction of capital assets	(71,215)	(9,094)	(80,309)	(165,578)
Grant proceeds				98,366
Receipt of special assessments	6,950	1,350	8,300	10,200
Proceeds from long-term debt				19,759
Debt retired	(62,678)	(26,570)	(89,248)	(87,093)
Interest paid	(35,116)	(15,910)	(51,026)	(52,642)
Net cash flows (used by) capital and related financing activities	(162,059)	(50,224)	(212,283)	(176,988)
CASH FLOWS FROM (USED BY) INVESTING ACTIVITIES				
Interest income	1,467	526	1,993	2,242
Purchase of investments	(49,681)	(54,835)	(104,516)	(120,579)
Proceeds of investments maturing	69,280	51,299	120,579	116,619
Net cash flows from (used by) investing activities	21,066	(3,010)	18,056	(1,718)
Net change in cash and cash equivalents	(16,674)	(1,861)	(18,535)	49,949
Cash and cash equivalents - beginning of the year	541,043	61,853	602,896	552,947
Cash and cash equivalents - end of the year	\$ 524,369	\$ 59,992	\$ 584,361	\$ 602,896
Reconciliation of cash and cash equivalents to statement of net position accounts				
Cash and investments	\$ 471,809		\$ 471,809	\$ 610,323
Restricted cash and investments	102,241	114,827	217,068	113,152
Cash and cash equivalents	574,050	114,827	688,877	723,475
Less: non-cash equivalents	(49,681)	(54,835)	(104,516)	(120,579)
Cash and cash equivalents	\$ 524,369	\$ 59,992	\$ 584,361	\$ 602,896

Exhibit A-9 (Cont'd)
Village of Merrillan, Wisconsin
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2016
(With summarized financial information for the year ended December 31, 2015)

	Business Type Activities- Enterprise Funds		Totals	
	Electric & Water Utility	Sewer Utility	2016	2015
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ 74,103	\$ 6,112	\$ 80,215	\$ 84,500
Noncash items in operating income:				
Depreciation expense	87,959	65,181	153,140	139,478
Changes in assets and liabilities:				
Customer accounts receivable	(3,348)	(266)	(3,614)	9,209
Material and supplies	(686)		(686)	18
Due from other governments	12,393	22,523	34,916	380,972
Due from other funds	18,731		18,731	7,133
Accounts payable	(17,432)	(23,489)	(40,921)	29,191
Due to other governments				(368,731)
Due to other funds		(18,731)	(18,731)	(7,133)
Accrued and other current liabilities	777	43	820	58
Customer deposits	(2,003)		(2,003)	329
			<u>221,867</u>	<u>275,024</u>
Net cash provided by operating activities	<u>\$ 170,494</u>	<u>\$ 51,373</u>	<u>\$ 221,867</u>	<u>\$ 275,024</u>

Exhibit A-10
Village of Merrilan, Wisconsin
Statement of Net Position
Fiduciary Funds
December 31, 2016

(With summarized financial information as of December 31, 2015)

	Tax Collection Fund	Totals	
		2016	2015
ASSETS			
Cash and investments	\$ 78,734	\$ 78,734	\$ 96,362
Taxes receivable	278,294	278,294	258,628
Total assets	\$ 357,028	\$ 357,028	\$ 354,990
LIABILITIES			
Due to other taxing units	357,028	\$ 357,028	\$ 354,990
Total liabilities	\$ 357,028	\$ 357,028	\$ 354,990

NOTES TO THE BASIC FINANCIAL STATEMENTS

Village of Merrillan, Wisconsin
December 31, 2016
Index to Notes to the Financial Statements

	<u>Page</u>
Note 1. <u>Summary of Significant Accounting Policies</u>	
A. Reporting Entity	16
B. Government-Wide and Fund Financial Statements	16 – 17
C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation	17 – 19
D. Deposits and Investments	19
E. Receivables	19 – 20
F. Inventories	20
G. Restricted Assets	20
H. Capital Assets	21
I. Compensated Absences	21
J. Claims and Judgments	22
K. Long-Term Obligations	22
L. Equity Classifications	22 – 23
M. Transfers	24
N. Income Tax	24
O. Risk Management	24
P. Encumbrances	24
Q. Allowance for Uncollectible Accounts	24
R. Estimates	24
S. Summarized Comparative Information	24
Note 2. <u>Explanation of Certain Differences Between Governmental Fund Statements and Government-Wide Statements</u>	 25
Note 3. <u>Cash and Investments</u>	25 – 28
Note 4. <u>Restricted Assets</u>	29
Note 5. <u>Deferred Inflow of Resources</u>	29
Note 6. <u>Capital Assets</u>	29 – 31
Note 7. <u>Long-Term Obligations</u>	31 – 34
Note 8. <u>Interfund Receivables/Payables and Transfers</u>	34
Note 9. <u>Governmental Fund Balances</u>	35
Note 10. <u>Governmental Activities Net Position</u>	35
Note 11. <u>Net Position Reservation – Proprietary Funds</u>	35
Note 12. <u>Tax Levy Limit</u>	36

Village of Merrillan, Wisconsin
Notes to the Basic Financial Statements
December 31, 2016

NOTE 1

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Village of Merrillan is located in Jackson County, Wisconsin. The accounting policies of the Village of Merrillan conform to accounting principles generally accepted in the United States of America as applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body establishing governmental accounting and financial reporting principles. Significant accounting policies and principles of the Village of Merrillan are summarized below:

A. Reporting Entity

This report includes all of the funds of the Village of Merrillan, Wisconsin. The reporting entity for the Village consists of (a) the primary government, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The primary government is financially accountable if it appoints a voting majority of the organization's governing body and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to or burdens on the primary government. The primary government may be financially accountable if an organization is fiscally dependent on the primary government.

B. Government-Wide and Fund Financial Statements

The statement of net position and statement of activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. Likewise, the primary government is reported separately from a legally separate component unit for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. The Village does not allocate indirect expenses to functions in the statement of activities. 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 or segment. Taxes and other items not included among program revenues are reported as general revenues. Internally dedicated resources are reported as general revenues rather than as program revenues.

Fund Financial Statements

Financial statements of the reporting entity are organized into funds each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts, which constitute its assets, liabilities, net position/fund equity, revenues, and expenditure/expenses.

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. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Village of Merrillan, Wisconsin
Notes to the Basic Financial Statements
December 31, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Government-Wide and Fund Financial Statements (Cont.)

Funds are organized in major funds or non-major funds within the governmental and proprietary statements. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the Village or meets the following criteria:

- a. Total assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
- b. The same element of the individual governmental fund or enterprise fund that met the 10 percent test is at least 5 percent of the corresponding total for all governmental and enterprise funds combined.
- c. In addition, any other governmental or proprietary fund that the Village believes is particularly important to financial statement users may be reported as a major fund.

The Village reports the following major governmental funds.

Major Governmental Funds:

General Fund – Accounts for the Village’s primary operating activities. It is used to account for all financial resources except those required to be accounted for in another fund.

The Village reports the following major enterprise funds:

Major Enterprise Funds:

- Water and Electric Utility – Accounts for operations of the electric and water system.
- Sewer Utility – Accounts for the operations of the sewer utility.

The Village does not have any non-major governmental fund:

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-Wide Financial Statements

The government-wide statement of net position and statement of activities are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Property taxes are recognized as revenues in the year for which they are levied. Taxes receivable for the following year are recorded as receivables and deferred inflow of resources. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider are met. Special assessments are recorded as revenue when earned. Unbilled receivables are recorded as revenues when services are provided.

Village of Merrillan, Wisconsin
Notes to the Basic Financial Statements
December 31, 2016

NOTE 1

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Cont.)

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Village's water and sewer utility and various other functions of the government. 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, 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.

Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the Village considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on long-term debt, claims, judgments, compensated absences, and pension expenditures, which are recorded as a fund liability when expected to be paid with expendable available financial resources.

Property taxes are recorded in the year levied as receivables and deferred inflows of resources. They are recognized as revenues in the succeeding year when services financed by the levy are being provided.

Intergovernmental aids and grants are recognized as revenues in the period the Village is entitled the resources and the amounts are available. Amounts owed to the Village which are not available are recorded as receivables and deferred inflows of resources. Amounts received prior to the entitlement period are also recorded as deferred inflows of resources.

Special assessments are recorded as revenues when they become measurable and available as current assets. Annual installments due in future years are reflected as receivables and deferred inflows of resources.

Revenues susceptible to accrual include property taxes, miscellaneous taxes, public charges for services, special assessments and interest. Other general revenues such as fines and forfeitures, inspection fees, recreation fees and miscellaneous revenues are recognized when received in cash or when measurable and available under the criteria described above.

The Village reports deferred inflows of resources on its governmental funds balance sheet. For governmental fund financial statements, deferred inflows or resources arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred inflows of resources also arise when resources are received before the Village has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the Village has a legal claim to the resources, the liability for deferred inflow of resources is removed from the balance sheet and revenue is recognized.

Proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as described previously in this note.

Village of Merrillan, Wisconsin
Notes to the Basic Financial Statements
December 31, 2016

NOTE 1

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Cont.)

The 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 electric and water utility and sewer utility are charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administration expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Revenues and expenditures arising from non-exchange transactions, such as property and sales taxes, fines, and grants are recorded according to the standards in Governmental Accounting Standards.

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

D. Deposits and Investments

All deposits of the Village are made in board designated official depositories and are secured as required by State Statute. The Village may designate, as an official depository, any bank or savings association. Also, the Village may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts, and certificates of deposit.

For purposes of the statement of cash flows, all cash deposits and highly liquid investments with an original maturity of three months or less (including restricted assets) are considered to be cash equivalents.

Investments with remaining maturities at the time of purchase of one year or less are stated at amortized cost, which approximates fair value. Investments with a maturity of more than one year at acquisition and nonmoney market investments are carried at fair value as determined by quoted market prices.

E. Receivables

Property taxes are levied in December on the assessed value as of the prior January 1. In addition to property taxes for the Village, taxes are collected for and remitted to the state and county governments as well as the local school district and technical college district. Taxes for all state and local governmental units billed in the current year for the succeeding year are reflected as receivables and due to other taxing units in the accompanying agency fund balance sheet.

Village of Merrillan, Wisconsin
Notes to the Basic Financial Statements
December 31, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Receivables (Cont.)

Property tax calendar – 2016 tax roll:

Lien date and levy date	December 2016
Tax bills mailed	December 2016
Payment in full, or	January 31, 2017
First installment due	January 31, 2017
Second installment due	July 31, 2017
Personal property taxes in full	January 31, 2017
Tax sale- 2016 delinquent real estate taxes	October 2019

Delinquent real estate taxes as of July 31 are paid in full by the county, which assumes the collection thereof. No provision for uncollectible accounts receivable has been made for the Village and the utilities because they have the right by law to place delinquent bills on the tax roll.

During the course of operations, transactions occur between individual funds that may result in amounts owed between funds. Short-term interfund loans are reported as “due to and from other funds,” Long-term interfund loans (noncurrent portion) are reported as “advances from and to other funds,” Interfund receivables and payables between funds within governmental activities are eliminated in the statement of net position, Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances”.

In the governmental fund financial statements, advances to other funds are offset equally by a fund balance reserve account which indicates that they do not constitute expendable available financial resources and, therefore, are not available for appropriation.

F. Inventories

Inventories of governmental fund types consist of expendable supplies held for consumption. Such amounts, which are not material, are considered expenditures when purchased and, accordingly, are not reflected on the Combined Balance Sheet – All Fund Types and Account Group.

Inventories of proprietary fund types are valued at the lower-of-cost or market using the first-in, first-out method and are charged as expenses or are capitalized when used.

G. Restricted Assets

Mandatory segregations of assets are presented as restricted assets. Such segregations are required by bond agreements and other external parties. Current liabilities payable from these restricted assets are so classified. The excess of restricted assets over current liabilities payable from restricted assets will be used first for retirement of related long-term debt. The remainder, if generated from earnings, is shown as restricted net position.

Village of Merrilan, Wisconsin
Notes to the Basic Financial Statements
December 31, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Capital Assets

Government-Wide Statements

In the government-wide financial statements, fixed assets are accounted for as capital assets. Capital assets are defined by the government as assets with an initial cost of more than \$5,000 and an estimated useful life in excess of one year. All capital assets are valued at historical cost, or estimated historical cost if actual amounts are unavailable. Donated fixed assets are recorded at their estimated fair value at the date of donation.

Additions to and replacements of capital assets of business-type activities are recorded at original cost, which includes material, labor, overhead, and an allowance for the cost of funds used during construction when significant. For tax-exempt debt, the amount of interest capitalized equals the interest expense incurred during construction netted against any interest revenue from temporary investment of borrowed fund proceeds. No net interest was capitalized during the current year. The cost of renewals and betterments relating to retirement units is added to plant accounts. The cost of property replaced, retired or otherwise disposed of, is deducted from plant accounts and, generally, together with removal costs less salvage, is charged to accumulated depreciation.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the statement of activities, with accumulated depreciation reflected in the statement of net position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

	<u>Years</u>
Buildings	50
Machinery and Equipment	5
Infrastructure	25
Vehicles	10-20

Fund Financial Statements

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same way as in the government-wide statements.

I. Compensated Absences

Employees are granted vacation in varying amounts based on length of service. Vacation pay at year-end is not material to these financial statements. Sick leave hours are accumulated by employees for subsequent use. Employees earn ten days of sick leave per year of service with accumulation of up to 60 days. Sick leave does not vest to employees. Actual expenditures are recorded at the time the benefits are used by the employee, and will be paid at the rate of pay then in effect.

Village of Merrillan, Wisconsin
Notes to the Basic Financial Statements
December 31, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Claims and Judgments

Claims and judgments are recorded as liabilities if all the conditions of Governmental Accounting Standards Board pronouncements are met. Claims and judgments that would normally be liquidated with expendable available financial resources are recorded during the year as expenditures in the governmental funds. If they are not to be liquidated with expendable available financial resources, no liability is recognized in the governmental fund statements. The related expenditure is recognized when the liability is liquidated. Claims and judgments are recorded in the government-wide statements and proprietary funds as expenses when the related liabilities are incurred. There were no significant claims or judgments at year-end.

K. Long-Term Obligations

All long-term obligations to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term obligations consist primarily of notes and bonds payable, and accrued compensated absences.

Long-term obligations for governmental funds are not reported as liabilities in the fund financial statements. The face value of debts (plus any premiums) are reported as other financing sources and payments of principal and interest are reported as expenditures. The accounting in proprietary funds is the same as it is in the government-wide statements.

L. Equity Classifications

Government-Wide Statements

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

- a. Net investment in capital assets – Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets.
- b. Restricted net position – Consists of net position with constraints placed on their use either 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.
- c. Unrestricted net position – All other net position that does not meet the definition of “restricted” or “net investment in capital assets.”

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

Village of Merrilan, Wisconsin
Notes to the Basic Financial Statements
December 31, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Equity Classifications (Cont.)

Fund Statements

The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Non-Spendable – includes amounts that are not in a spendable form (such as inventory) or are required to be maintained intact.
- Restricted – includes amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government) through constitutional provisions, or by enabling legislation.
- Committed – includes amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint.
- Assigned – includes amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority. All remaining positive spendable amounts in governmental funds, other than the general fund, that are neither restricted nor committed may be assigned. Assignments may take place after the end of the reporting period.
- Unassigned – includes residual positive fund balance within the general fund which has not been classified within the other above mentioned categories. Unassigned fund balance may also include negative balances for any governmental fund if expenditures exceed amounts restricted, committed, or assigned for those purposes.

The Board may, from time to time, commit additional amounts of fund balance to a specific purpose. Such action shall be taken in open meeting and require the approval of a majority of the Board. Commitments of fund balance, once made, can be modified only by majority vote of the Board.

The Board has adopted a financial standard to maintain a general fund balance equal to 45% of annual general fund expenditures. In the event that the balance drops below the established minimum level, the Village Board will develop a plan to replenish the fund balance to the established level in two years. As of December 31, 2016 the general fund balance was 15% of the 2016 general fund expenditures.

When an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available, it shall be the policy of the Village to consider restricted amounts to have been reduced first. When an expenditure is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, it shall be the policy of the Village that committed amounts would be reduced first, followed by assigned amounts and then unassigned amounts.

Village of Merrillan, Wisconsin
Notes to the Basic Financial Statements
December 31, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Transfers

Transfers include the payment in lieu of taxes from the water and sewer utility to the general fund.

N. Income Tax

Municipal utilities are exempt from income taxes and therefore no income tax liability is recorded by the Merrillan Utilities.

O. Risk Management

The Village is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omission; injuries to employees; and natural disasters. The Village maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Village. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

P. Encumbrances

Encumbrances outstanding represent the estimated amount of expenditures ultimately to result if unperformed contracts and open purchase orders at year-end are fulfilled. Encumbrances outstanding at year-end are reported as reservations of fund balance and do not represent liabilities or expenditures. Encumbrances accounting applies only to governmental fund types. The Village does not use encumbrance accounting.

Q. Allowance for Uncollectible Accounts

No allowance for uncollectible accounts has been reflected in the government financial statements. Delinquent real estate taxes of the Village are paid in full by the County, which assumes the responsibility for collection. In addition, delinquent user charges are placed on the tax roll if not collected.

R. Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

S. Summarized Comparative Information

The basic financial statements include certain prior-year summarized comparative information in total, but not at the level of detail for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the government's financial statements for the year ended December 31, 2015, from which the summarized information was derived.

Village of Merrillan, Wisconsin
Notes to the Basic Financial Statements
December 31, 2016

NOTE 2 EXPLANATION OF CERTAIN DIFFERENCES BETWEEN GOVERNMENTAL FUND STATEMENTS
AND GOVERNMENT-WIDE STATEMENTS

Explanation of Differences between Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances and the Statement of Activities

Differences between the governmental funds statement of revenues, expenditures and changes in fund balance and the statement of activities fall into one of three broad categories.

- a. Long-term revenue differences arise because governmental funds report revenues only when they are considered "available", whereas the statement of activities reports revenues when earned. Differences in long-term expenses arise because governmental funds report on a modified accrual basis whereas the accrual basis of accounting is used on the statement of activities.
- b. Capital related differences include (1) the difference between proceeds for the sale of capital assets reported on governmental fund statements and the gain or loss on the sale of assets as reported on the statement of activities, and (2) the difference between recording an expenditure for the purchase of capital items in the governmental fund statements, and capitalization and recording depreciation expense on those items as recorded in the statement of activities.
- c. Long-term debt transaction differences occur because long-term debt proceeds are recorded as revenue and both interest and principal payments are recorded as expenditures in the governmental fund statements. In the statement of activities, long-term debt proceeds are recorded as a liability, interest expense is recorded as incurred, and principal payments are recorded as a reduction of liabilities.

NOTE 3 CASH AND INVESTMENTS

At December 31, 2016, cash and investments included the following:

Petty Cash	\$ 250
Deposits with financial institutions	855,803
Total cash and investments	<u>\$ 856,053</u>

Cash and investments as of December 31, 2016, are classified in the accompanying financial statements as follows:

Exhibit A-1:	
Cash and investments	\$ 560,251
Cash and investments - restricted	217,068
Exhibit A-10:	
Cash and investments	78,734
Total cash and investments	<u>\$ 856,053</u>

Village of Merrillan, Wisconsin
Notes to the Basic Financial Statements
December 31, 2016

NOTE 3

CASH AND INVESTMENTS (CONTINUED)

Investments Authorized by Wisconsin State Statutes

Investment of Village funds is restricted by state statutes. Available investments are limited to:

- Time deposits in any credit union, bank, savings bank, trust company or savings and loan association maturing in three years or less.
- Bonds or securities of any county, city, drainage district, technical college district, village, town, or school district of the state.
- Bonds or securities issued or guaranteed by the federal government.
- The local government investment pool.
- Any security maturing in seven years or less and having the highest or second highest rating category of a nationally recognized rating agency.
- Securities of an open-end management investment company or investment trust, subject to various conditions and investment options.
- Repurchase agreements with public depositories, with certain conditions.
- Bonds issued by a local exposition district.
- Bonds issued by a local professional baseball park district.
- Bonds issued by the University of Wisconsin Hospital and Clinics Authority.
- Bonds issued by a local football stadium district.
- Bonds issued by a local arts district.
- Bonds issued by the Wisconsin Aerospace Authority.

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 Village's policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Village of Merrillan, Wisconsin
Notes to the Basic Financial Statements
December 31, 2016

NOTE 3

CASH AND INVESTMENTS (CONTINUED)

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. State law limits investments in commercial paper, corporate bonds and mutual bond funds to the top two ratings issued by nationally recognized statistical rating organizations. The Village has chosen to limit its allowable investments to these instruments:

1. Certificates of Deposit – Village funds may be invested in certificates of deposit maturing within one (1) year or less from the date of investment issued by any banks, savings and loan associations or credit unions which are authorized to transact business in the State of Wisconsin. The financial institutions must have been designated as a public depository of the Village by resolution or ordinance of the Village Board.
2. Government Bonds and Securities – Village funds may be invested in United States government bonds or securities which are direct obligations of or guaranteed as to principal and interest by the federal government; and, bonds or securities which are obligations of any agency, commission, board or other instrumentality of the federal government, where principal and interest are guaranteed by the federal government. The securities must be purchased through financial institutions authorized to conduct business in the State of Wisconsin and placed in safekeeping in a segregated account in the Village's name at any designated public depository or approved financial institution.
3. Government Investment Pool – Village funds may be invested in the Wisconsin Local Government Pool Investment Fund without restriction as to the amount of deposit or collateralization.
4. Repurchase Agreements – Village funds may be invested in repurchase agreements, in financial institutions authorized to conduct business in the State of Wisconsin. Repurchase agreements can only be made in securities which are direct obligations of or guaranteed as to principal and interest by the federal government; and, securities which are obligations of an agency, commission, board or other instrumentality of the federal government, where principal and interest are guaranteed by the federal government. Securities purchased by a repurchase agreement must be placed in safekeeping in a segregated account in the Village's name at any designated public depository or approved financial institution.
5. Savings Deposit – Village funds may be temporarily invested in savings deposits.
6. Securities – The Village Clerk-Treasurer may invest in private securities which are senior to, or on a parity with, a security of the same issuer which is rated highest or second highest by Moody's Investors Service, Standard & Poor's Corporation or other similar nationally recognized rating agency.

Village of Merrillan, Wisconsin
Notes to the Basic Financial Statements
December 31, 2016

NOTE 3

CASH AND INVESTMENTS (CONTINUED)

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Village would 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 risk for investments is the risk that, in the event of failure of the counterparty (e.g. broker-dealer) to a transaction, the Village would not be able to recover the value of its investment of collateral securities that are in possession of another party. The Village's policy for custodial credit risk is as follows:

1. Depositories – The Village Board shall, by ordinance or resolution, designate one (1) or more public depositories, organized and doing business under the laws of this state or federal law, and located in Wisconsin, in which the Village Clerk-Treasurer shall deposit all public monies received by her/him.
2. Limitations – The resolution or ordinance designating one (1) or more public depositories shall specify whether the monies shall be maintained in time deposits subject to limitations of Sec. 66.04(2), Wis. Stats., demand deposits or savings deposits, and whether the surety bond or other security shall be required to be furnished under Sec. 34.07, Wis. Stats., by the public depository to secure the repayment of such deposits. Not more than Five Hundred Thousand Dollars (\$500,000) shall be deposited in any one (1) public depository, unless specifically authorized by the Village Board.

Deposits in each local and area bank are insured by the FDIC. Time and savings deposits are insured up to \$250,000. Separately, demand deposits are insured up to \$250,000. Bank accounts and the local government investment pool are also insured by the State Deposit Guarantee Fund in the amount of \$400,000. However, due to the relatively small size of the Guarantee Fund in relationship to the total deposits covered and other legal implications, recovery of material principal losses may be significant to individual organizations.

As of December 31, 2016, \$529,117 of Village deposits were insured by FDIC and \$333,456 of the Village's deposits with financial institutions in excess of federal depository insurance limits were exposed to custodial risk as follows:

<u>Uninsured and Uncollateralized</u>	
Time and Savings Deposits	<u>\$ 333,456</u>

\$400,000 of this amount would be insured by the State of Wisconsin Guarantee Fund providing funds are available at the time of any potential loss.

Fluctuating cash flows during the year due to tax collections, receipt of state aids and proceeds from borrowing may have resulted in temporary balances during the year significantly exceeding uninsured amounts at the balance sheet date.

Concentration of Credit Risk

The Village places no limit on the amount the Village may invest in any one issuer.

Village of Merrillan, Wisconsin
Notes to the Basic Financial Statements
December 31, 2016

NOTE 4

RESTRICTED ASSETS

Bond Reserve and Depreciation Accounts: Represent cash and investments restricted in accordance with the revenue bond ordinance.

NOTE 5

DEFERRED INFLOW OF RESOURCES

Governmental funds report deferred inflow of resources in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Property taxes receivable for the subsequent year are not earned and cannot be used to liquidate liabilities of the current period. Governmental funds also defer inflow recognition in connection with resources that have been received, but not yet earned. At December 31, 2016 the various components of deferred inflow of resources reported in the governmental funds was as follows:

Property Tax Levy	<u>\$ 29,604</u>
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NOTE 6

CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2016, was as follows:

	Beginning Balance	Additions	Deductions	Ending Balance
<u>Governmental Activities:</u>				
Capital assets not being depreciated:				
Land	\$ 20,653	\$ _____	\$ _____	\$ 20,653
	<u>20,653</u>	<u>_____</u>	<u>_____</u>	<u>20,653</u>
Other capital assets:				
Buildings and improvements	431,282			431,282
Infrastructure	936,995	20,517		957,512
Machinery and equipment	88,830	28,602		117,432
Vehicles	505,380	27,520	(31,542)	501,358
Total other capital assets at historical costs	<u>1,962,487</u>	<u>76,639</u>	<u>(31,542)</u>	<u>2,007,584</u>
Less accumulated depreciation:				
Buildings and improvements	352,813	3,291		356,104
Infrastructure	53,723	37,480		91,203
Machinery and equipment	82,826	1,627		84,453
Vehicles	402,943	27,840	(20,805)	409,978
Total accumulated depreciation	<u>892,305</u>	<u>70,238</u>	<u>(20,805)</u>	<u>941,738</u>
Net other capital assets	<u>1,070,182</u>	<u>6,401</u>	<u>(10,737)</u>	<u>1,065,846</u>
Total net capital assets	<u>\$ 1,090,835</u>	<u>\$ 6,401</u>	<u>\$ (10,737)</u>	<u>\$ 1,086,499</u>

Village of Merrillan, Wisconsin
Notes to the Basic Financial Statements
December 31, 2016

NOTE 6

CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to functions as follows:

Governmental Activities:	
General government	\$ 953
Public safety	17,514
Public works	50,599
Culture and recreation	<u>1,172</u>
Total depreciation for governmental activities	<u>\$ 70,238</u>

Capital asset activity for the year ended December 31, 2016, was as follows:

	Beginning Balance	Additions	Removals	Ending Balance
<u>Business-Type Activities:</u>				
Capital assets not being depreciated:				
Intangible plant				
Land and land rights	\$ 33,975	\$	\$	\$ 33,975
Construction in progress	<u>10,187</u>	<u></u>	<u>(10,187)</u>	<u></u>
Total capital assets not being depreciated	<u>44,162</u>	<u></u>	<u>(10,187)</u>	<u>33,975</u>
Capital assets being depreciated:				
Water:				
Structures and improvements	106,171			106,171
Pumping equipment	58,848			58,848
Water treatment	5,187	4,062		9,249
Transmission and distribution	2,665,145	6,487	(1,180)	2,670,452
General plant	54,053	9,094		63,147
Sewer:				
Structures and improvements	789,153			789,153
Transmission and distribution	2,304,799			2,304,799
Pumping equipment	91,356			91,356
Miscellaneous equipment	69,188	9,094		78,282
Electric:				
Structures and improvements	138,115	40,754		178,869
Transmission and distribution	683,043	1,724		684,767
General plant	<u>98,215</u>	<u>9,094</u>		<u>107,309</u>
Total capital assets being depreciated	<u>7,063,273</u>	<u>80,309</u>	<u>(1,180)</u>	<u>7,142,402</u>
Total accumulated depreciation	<u>2,383,944</u>	<u>142,953</u>	<u>(1,180)</u>	<u>2,525,717</u>
Net capital assets being depreciated	<u>4,679,329</u>	<u>(62,644)</u>		<u>4,616,685</u>
Total net capital assets	<u>\$ 4,723,491</u>	<u>\$ (62,644)</u>	<u>\$ (10,187)</u>	<u>\$ 4,650,660</u>

Village of Merrillan, Wisconsin
Notes to the Basic Financial Statements
December 31, 2016

NOTE 6

CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to functions as follows:

Business-Type Activities:	
Electric and Water	\$ 77,772
Sewer	<u>65,181</u>
Total depreciation expense	142,953
Less: Electric and Water depreciation expense	
allocated to sewer	<u>(851)</u>
Total depreciation expense per Exhibit A-8	<u><u>\$ 142,102</u></u>

NOTE 7

LONG-TERM OBLIGATIONS

Long-term obligations activity for the year ended December 31, 2016, was as follows:

	Beginn g			Ending	Amounts
	<u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u>	<u>Due Within</u>
					<u>One Year</u>
<u>Governmental Activities</u>					
Notes Payable	\$ _____	\$ 27,520	\$ (22,600)	\$ 4,920	\$ _____
Total Governmental Activities					
Long-Term Liabilities	<u>\$ _____</u>	<u>\$ 27,520</u>	<u>\$ (22,600)</u>	<u>\$ 4,920</u>	<u>\$ _____</u>
	Beginning	Increases	Decreases	Ending	Amounts
	<u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u>	<u>Due Within</u>
					<u>One Year</u>
<u>Business –Type Activities</u>					
Notes Payable	\$ 745,894	\$ _____	\$ (49,384)	\$ 696,510	\$ 50,158
Mortgage Revenue Bonds	<u>680,385</u>	<u>_____</u>	<u>(39,865)</u>	<u>640,520</u>	<u>40,402</u>
Total Business-Type Activities					
Long-Term Liabilities	<u>\$ 1,426,279</u>	<u>_____</u>	<u>\$ (89,249)</u>	<u>\$ 1,337,030</u>	<u>\$ 90,560</u>

All general obligation notes and bonds payable are backed by the full faith and credit of the Village. Notes and bonds in the governmental funds will be retired by future property tax levies or tax increments. Business-type activities debt is payable by revenues from user fees of those funds or, if the revenues are not sufficient, by future tax levies.

In accordance with Wisconsin Statutes, total general obligation indebtedness of the Village may not exceed five percent of the equalized value of taxable property within the Village's jurisdiction. The debt limit as of December 31, 2016 was \$965,235. There was \$701,430 of general obligation debt outstanding at year-end as follows:

Village of Merrilan, Wisconsin
Notes to the Basic Financial Statements
December 31, 2016

NOTE 7

LONG-TERM OBLIGATIONS (CONTINUED)

	Date of Issue	Final Maturity	Interest Rates	Original Amount	Balance 12/31/2016
Note Payable	5/20/2013	3/15/2033	5.00%	\$ 436,500	4,920
Total Governmental General Obligation Debt					<u>\$ 4,920</u>

	Date of Issue	Final Maturity	Interest Rates	Original Amount	Balance 12/31/2016
G.O. Refunding Bonds	7/6/2011	3/1/2024	2.4-4.0%	\$ 465,000	\$ 305,000
State Trust Fund	5/20/2013	3/15/2033	5.00%	436,500	391,510
Total Business-Type General Obligation Debt					<u>\$ 696,510</u>

Debt service requirements to maturity are as follows:

<u>Governmental Activities</u>			
<u>General Obligation Debt</u>			
Years	Principal	Interest	Total
2017	\$	\$ 486	\$ 486
2018	4,920	179	5,099
Totals	<u>\$ 4,920</u>	<u>\$ 665</u>	<u>\$ 5,585</u>

<u>Business-Type Activities</u>			
<u>General Obligation Debt</u>			
Years	Principal	Interest	Total
2017	\$ 50,158	\$ 29,355	\$ 79,513
2018	50,916	27,758	78,674
2019	51,712	25,982	77,694
2020	52,501	24,073	76,574
2021	58,423	21,951	80,374
2022-2026	231,846	74,523	306,369
2026-2030	136,378	37,291	173,669
2031-2033	64,576	4,892	69,468
Totals	<u>\$ 696,510</u>	<u>\$ 245,825</u>	<u>\$ 942,335</u>

Revenue Bonds

Revenue bonds are payable only from revenues derived from the operation of the utility.

Village of Merrilan, Wisconsin
Notes to the Basic Financial Statements
December 31, 2016

NOTE 7

LONG-TERM OBLIGATIONS (CONTINUED)

Revenue debt payable at December 31, 2016 consists of the following:

	Date of Issue	Final Maturity	Interest Rates	Original Amount	Balance 12/31/2016
Revenue Bonds	12/1/2004	12/1/2024	5.15-5.85%	\$ 217,000	\$ 136,000
Revenue Bonds	5/23/2012	5/1/2032	3.00%	230,435	194,647
Revenue Bonds	5/23/2012	5/1/2032	1.32%	232,797	191,510
Revenue Bonds	6/12/2013	5/1/2033	2.625%	74,395	69,126
Revenue Bonds	6/12/2013	5/1/2033	1.155%	40,386	49,237
Total Business-Type Activities Revenue Debt					<u>\$ 640,520</u>

Debt service requirements to maturity are as follows:

Year	Business-Type Activities		
	Revenue Debt		
	Principal	Interest	Total
2017	\$ 40,402	\$ 17,835	\$ 58,237
2018	41,950	16,558	58,508
2019	43,513	15,209	58,722
2020	45,089	13,794	58,883
2021	45,679	12,305	57,984
2022-2026	209,752	38,012	247,764
2027-2031	169,806	14,121	183,927
2032-2033	44,329	644	44,973
Totals	<u>\$ 640,520</u>	<u>\$ 128,478</u>	<u>\$ 768,998</u>

The 2004 bond resolutions require for the further protection of bond holders a statutory mortgage lien, created by Section 66.066 of the Wisconsin Statutes, upon the system which is recognized as valid and binding upon the Village.

The sewerage, electric, and water system revenue bonds require that the following:

Debt Service Fund Requirement: The Bond covenants require the utility to establish and maintain a Debt Service Fund Account, deposits to be made monthly equal to one-sixth (1/6) of the next installment of interest coming due on the Prior Bonds, the Bonds and any Parity Bonds then outstanding and an amount equal to one-twelfth (1/12) of the installment of principal of the Prior Bonds, the Bonds and any Parity Bonds coming due during such Bond Year (after giving effect to available amounts in said Fund from accrued interest, any premium or any other source). This requirement was met for the sewer utility and the electric & water utility for the year ended December 31, 2016. The debt service fund requirement for the sewer utility is \$4,715 and the Debt Service Fund Account had a balance of \$59,992 at December 31, 2016. The debt service fund requirement for the electric & water utility is \$1,624 and the Debt Service Fund Account had a balance of \$102,241 at December 31, 2016.

Village of Merrillan, Wisconsin
Notes to the Basic Financial Statements
December 31, 2016

NOTE 7

LONG-TERM OBLIGATIONS (CONTINUED)

Annual Debt Service Requirement: The Village covenants to establish, charge and collect such lawfully established rates and charges for the services provided by the Sewerage and Water System so that net revenues (i.e. gross revenues less all costs of operation and maintenance, exclusive of debt service, depreciation, or local tax equivalents) will be at least 1.10 times the amount of principal and interest coming due on all outstanding bonds payable from the income and revenues of the Sewerage and Water System each year. This requirement was met for the year ended December 31, 2016. The net earnings for the sewer utility were \$71,818 or 1.72 times the annual principal and interest amount of \$41,760. The net earnings for the electric & water utility were \$152,491 or 9.26 times the annual principal and interest amount of \$16,476.

In addition, the bond resolutions require segregation of the proceeds of the mortgage revenue bonds and the creation and continual funding of several accounts from operating revenues as described below:

Depreciation Accounts

The bond resolutions require that sufficient income and revenues shall be set-aside in depreciation accounts to be used to restore any deficiencies in the special redemption and reserve accounts. When sufficient for this purpose, money may then be used for additions to and betterments of the system.

The balance in this account at December 31, 2016 was as follows:

Sewer Utility	Depreciation
	\$ 54,835

NOTE 8

INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS

The following is a schedule of interfund receivables and payables, including any overdrafts on pooled cash and investment accounts:

Receivable Fund	Payable Fund	Amount
Electric & Water Utility	Sewer Utility	\$ 19,108

For the statement of net position, interfund balances which are owed within the governmental activities or business-type activities are netted and eliminated

The following is a schedule of interfund transfers:

Fund Transfer To	Fund Transferred From	Amount
Government Funds:		
General	Water utility-tax equivalent	\$ 46,175
Proprietary Funds:		
General	Water utility-tax equivalent	\$ 46,175

Generally, transfers are used to (1) move revenues from the fund that collects them to the fund that the budget requires to expend them, (2) used unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations and (3) move fund balances whose designated purpose has been removed.

Village of Merrillan, Wisconsin
Notes to the Basic Financial Statements
December 31, 2016

NOTE 9 GOVERNMENTAL FUND BALANCES

Fund balance as of December 31, 2016 includes the following items:

Major Funds:	
General Fund:	
Restricted	
EMS activities	37,325
Fire department	858
Cemetery	<u>38,711</u>
Total	<u>\$ 76,894</u>

NOTE 10 GOVERNMENTAL ACTIVITIES NET POSITION

Governmental activities net position reported on the government wide statement of net position at December 31, 2016 includes the following:

Net investment in capital assets:	
Land	\$ 20,653
Other capital assets, net of accumulated depreciation	<u>1,065,846</u>
Total net investment in capital assets	<u>1,086,499</u>
Restricted for:	
EMS activities	37,325
Fire department	858
Cemetery	<u>38,711</u>
Total restricted	<u>76,894</u>
Unrestricted	2,106
Total governmental activities net position	<u>\$ 1,165,499</u>

NOTE 11 NET POSITION – PROPRIETARY FUNDS

The following calculation supports the utility net position net investment in capital assets:

Plant in service	\$ 7,176,377
Accumulated depreciation	<u>(2,525,717)</u>
Sub-total	4,650,660
Less: capital related debt	<u>(1,337,030)</u>
Total net investment in capital assets	<u>\$ 3,313,630</u>

Portions of net position are reserved and are not available for current expenses as follows:

Enterprise Funds:	
Sewer Utility	
Reserved for Mortgage Revenue Bonds	\$ 112,939
Electric & Water Utility	
Reserved for Mortgage Revenue Bonds	<u>101,725</u>
Total	<u>\$ 214,664</u>

Village of Merrilan, Wisconsin
Notes to the Basic Financial Statements
December 31, 2016

NOTE 12

TAX LEVY LIMIT

Wisconsin Act 32 imposes a limit on the property tax levies for all Wisconsin cities, villages, towns and counties. Under 2011 Wisconsin Act 32, in 2011 and all future years, a municipality is allowed to increase its levy over the amount it levied in the prior year by the percentage increase in equalized value from net new construction or zero percent. All of the exceptions and modifications to levy limits that existed under previous law continue to apply.

In addition, as part of Wisconsin's Act 20 (2013), legislation was passed that further limits future tax levies. If the Village adopts a new fee or a fee increase for covered services (which were partly or wholly funded by property tax levy), the Village must reduce its levy limit in the current year by the amount of the new fee or fee increase, less any previous reductions.

Required Supplementary Information

Exhibit B-1
Required Supplementary Information
Budgetary Comparison Schedule for the General Fund
For the Year Ended December 31, 2016

	Budgeted Amounts		Actual	Variances- Positive (Negative)	
	Original	Final		Original to Actual	Final to Actual
REVENUES					
Taxes	\$ 32,187	\$ 32,187	\$ 27,391	\$ (4,796)	\$ (4,796)
Intergovernmental	231,827	231,827	261,478	29,651	29,651
Licenses and permits	10,695	10,695	11,580	885	885
Public charges for services	9,950	9,950	29,295	19,345	19,345
Intergovernmental charges for services	30,835	30,835	28,579	(2,256)	(2,256)
Interest and investment earnings	1,200	1,200	1,385	185	185
Miscellaneous	4,200	4,200	64,044	59,844	59,844
Total revenues	320,894	320,894	423,752	102,858	102,858
EXPENDITURES					
Current:					
General government	98,580	98,580	105,793	(7,213)	(7,213)
Public safety	110,364	110,364	163,578	(53,214)	(53,214)
Public works	146,715	146,715	181,932	(35,217)	(35,217)
Health and human services			3,317	(3,317)	(3,317)
Leisure activities	11,700	11,700	34,880	(23,180)	(23,180)
Conservation and development	9,250	9,250	2,605	6,645	6,645
Debt service:			22,600	(22,600)	(22,600)
Capital outlay:	18,389	18,389	29,020	(10,631)	(10,631)
Total expenditures	394,998	394,998	543,725	(148,727)	(148,727)
Excess (deficiency) of revenue: over expenditures	(74,104)	(74,104)	(119,973)	(45,869)	(45,869)
OTHER FINANCING SOURCES					
Sale of fixed assets	8,500	8,500	15,500	7,000	7,000
Transfer from utility - tax equivalent	47,950	47,950	46,175	(1,775)	(1,775)
Loan proceeds			27,520	27,520	27,520
Total other financing sources	56,450	56,450	89,195	32,745	32,745
Net change in fund balance	(17,654)	(17,654)	(30,778)	(13,124)	(13,124)
Fund balance - beginning	114,698	114,698	114,698		
Fund balance - ending	\$ 97,044	\$ 97,044	\$ 83,920	\$ (13,124)	\$ (13,124)

Village of Merrillan, Wisconsin
Notes to Required Supplementary Information
December 31, 2016

NOTE 1

BUDGET SCHEDULE

Budgetary information is derived from the annual operating budget and is presented using the same basis of accounting for each fund as described in Note 1.C to the financial statements.

The Village budget is adopted in accordance with state law. Budget amounts in the financial statements include appropriations authorized in the original budget resolution and subsequent revisions authorized by the Village board. Such revisions are required by a statutory provision which states that no expenditure can be made from an expired appropriation. The statutes also require publication of these budget revisions. Revisions require a two-thirds vote of the Village Board. Appropriations for the general fund lapse at year end unless specifically carried forward by Board action. Carryovers are shown in Note 9 of the financial statements. Budget comparisons are not required for proprietary funds.

The Village does not utilize encumbrances in its budget process but does take into consideration certain appropriations, which do not lapse on an annual basis.

NOTE 2

EXCESS EXPENDITURES OVER APPROPRIATIONS

The following expenditures exceeded budget appropriations in the general fund for the year ended December 31, 2016:

<u>Expenditure</u>	<u>Excess Expenditures</u>
General government	\$ 7,213
Public safety	53,214
Public works	35,217
Health and human services	3,317
Leisure	23,180
Debt service	22,600
Capital outlay	10,631

Schedules

Schedule 1
Village of Merrilan, Wisconsin
General Fund
Detailed Comparison of Budgeted and Actual Revenues
Year Ended December 31, 2016

	Budgeted Amounts		Actual	Variances- Positive (Negative)	
	Original	Final		Original to Actual	Final to Actual
TAXES					
General property	\$ 29,487	\$ 29,487	\$ 26,504	\$ (2,983)	\$ (2,983)
Payment in lieu of taxes	1,600	1,600		(1,600)	(1,600)
Mobile home taxes	1,100	1,100	887	(213)	(213)
Total taxes	<u>32,187</u>	<u>32,187</u>	<u>27,391</u>	<u>(4,796)</u>	<u>(4,796)</u>
INTERGOVERNMENTAL					
State shared taxes	187,177	187,177	187,177		
Federal grant	15,389	15,389	45,000	29,611	29,611
State aid - fire insurance dues	714	714	789	75	75
State aid - exempt computer aid	50	50	25	(25)	(25)
State aid - highways	19,389	19,389	19,379	(10)	(10)
State aid - LRIP	9,108	9,108	9,108		
Total intergovernmental	<u>231,827</u>	<u>231,827</u>	<u>261,478</u>	<u>29,651</u>	<u>29,651</u>
LICENSES, PERMITS AND FINES					
Cigarette licenses	175	175	140	(35)	(35)
Liquor licenses	1,770	1,770	1,770		
Beer garden permit	50	50	50		
Operator licenses	800	800	600	(200)	(200)
Mobile home park licenses	200	200	100	(100)	(100)
Dog and cat licenses	1,600	1,600	1,474	(126)	(126)
Building permits	2,200	2,200	2,123	(77)	(77)
Zoning permits	900	900	128	(772)	(772)
Ordinance violations	3,000	3,000	4,537	1,537	1,537
Payments for damage			658	658	658
Total licenses, permits and fines	<u>10,695</u>	<u>10,695</u>	<u>11,580</u>	<u>885</u>	<u>885</u>
PUBLIC CHARGES FOR SERVICES					
Sale of copies	100	100	55	(45)	(45)
Police department	300	300	8,222	7,922	7,922
Public charges	100	100	4,533	4,433	4,433
Cemetery			5,132	5,132	5,132
License publication fees	50	50	43	(7)	(7)
Parks	5,000	5,000	2,876	(2,124)	(2,124)
Fire department public charges	3,000	3,000	7,134	4,134	4,134
Hall rent	1,400	1,400	1,300	(100)	(100)
Total public charges for services	<u>9,950</u>	<u>9,950</u>	<u>29,295</u>	<u>19,345</u>	<u>19,345</u>
INTERGOVERNMENTAL CHARGES FOR SERVICES					
Police service contracts - Alma, Mentor	11,539	11,539	10,199	(1,340)	(1,340)
Fire protection - Dewhurts, Alma	17,096	17,096	17,096		
State charge fire	1,000	1,000		(1,000)	(1,000)
Intergovernmental charge for fire contracts	1,200	1,200	1,284	84	84
Total intergovernmental charges for services	<u>\$ 30,835</u>	<u>\$ 30,835</u>	<u>\$ 28,579</u>	<u>\$ (2,256)</u>	<u>\$ (2,256)</u>

Schedule 1 (Continued)
Village of Merrillan, Wisconsin
General Fund
Detailed Comparison of Budgeted and Actual Revenues
Year Ended December 31, 2016

	Budgeted Amounts		Actual	Variances- Positive (Negative)	
	Original	Final		Original to Actual	Final to Actual
INVESTMENT INCOME					
Interest	\$ 1,200	\$ 1,200	\$ 1,385	\$ 185	\$ 185
Total investment income	<u>1,200</u>	<u>1,200</u>	<u>1,385</u>	<u>185</u>	<u>185</u>
MISCELLANEOUS					
Donations	100	100	62,524	62,424	62,424
Insurance refunds	3,500	3,500	1,520	(1,980)	(1,980)
Other income	600	600		(600)	(600)
Total miscellaneous	<u>4,200</u>	<u>4,200</u>	<u>64,044</u>	<u>59,844</u>	<u>59,844</u>
OTHER FINANCING SOURCES					
Loan proceeds			27,520	27,520	27,520
Sale of fixed assets	8,500	8,500	15,500	7,000	7,000
Transfer from Utility - Tax Equivalent	47,950	47,950	46,175		
Total other financing sources	<u>56,450</u>	<u>56,450</u>	<u>89,195</u>	<u>34,520</u>	<u>34,520</u>
Total revenues and other financing sources	<u>\$ 377,344</u>	<u>\$ 377,344</u>	<u>\$ 512,947</u>	<u>\$ 137,378</u>	<u>\$ 137,378</u>

Schedule 2
Village of Merrilan, Wisconsin
General Fund
Detailed Comparison of Budgeted and Actual Expenditures
Year Ended December 31, 2016

	Budgeted Amounts		Actual	Variances- Positive (Negative)	
	Original	Final		Original	Final
	to Actual	to Actual			
GENERAL GOVERNMENT					
Village board	\$ 1,800	\$ 1,800	\$ 1,850	\$ (50)	\$ (50)
Board of review	175	175	100	75	75
Board committees	1,008	1,008	984	24	24
Clerk/treasurer	10,500	10,500	12,249	(1,749)	(1,749)
Elections	3,000	3,000	4,966	(1,966)	(1,966)
Office expense	8,000	8,000	5,313	2,687	2,687
President expense	50	50		50	50
President salary	2,040	2,040	1,680	360	360
Auditing	6,500	6,500	6,321	179	179
Legal fees	1,800	1,800	1,800		
Attorney	50	50	154	(104)	(104)
Assessment of property	3,700	3,700	3,700		
Hall	8,800	8,800	10,728	(1,928)	(1,928)
Social security taxes	7,000	7,000	8,126	(1,126)	(1,126)
Liability and property insurance	10,600	10,600	12,590	(1,990)	(1,990)
Employee bonds	132	132		132	132
Health insurance and retirement	26,600	26,600	21,561	5,039	5,039
Miscellaneous expense	3,825	3,825	13,671	(9,846)	(9,846)
Contingency	3,000	3,000		3,000	3,000
Total general government	98,580	98,580	105,793	(10,213)	(10,213)
PUBLIC SAFETY					
Police department	38,910	38,910	46,950	(8,040)	(8,040)
Fire department	22,170	22,170	66,750	(44,580)	(44,580)
Hydrant rental	47,284	47,284	47,284		
Building inspection	2,000	2,000	2,594	(594)	(594)
Total public safety	110,364	110,364	163,578	(53,214)	(53,214)
PUBLIC WORKS AND SANITATION					
Garage	8,500	8,500	7,747	753	753
Streets	34,090	34,090	65,221	(31,131)	(31,131)
Sick leave	6,000	6,000	5,604	396	396
Vacation and holiday pay	8,200	8,200	9,153	(953)	(953)
Sidewalks	1,500	1,500	1,264	236	236
Snow removal	7,600	7,600	2,114	5,486	5,486
Street lighting/signals	27,500	27,500	29,941	(2,441)	(2,441)
Tree labor	1,000	1,000	3,246	(2,246)	(2,246)
Machinery & equipment	10,000	10,000	14,401	(4,401)	(4,401)
Refuse collection	35,250	35,250	35,379	(129)	(129)
Recycling	7,075	7,075	7,862	(787)	(787)
Total public works and sanitation	\$ 146,715	\$ 146,715	\$ 181,932	\$ (35,217)	\$ (35,217)

Schedule 2 (Continued)
Village of Merrilan, Wisconsin
General Fund
Detailed Comparison of Budgeted and Actual Expenditures
Year Ended December 31, 2016

	Budgeted Amounts		Actual	Variances- Positive (Negative)	
	Original	Final		Original to Actual	Final to Actual
HEALTH AND HUMAN SERVICES					
Cemetery			3,317	(3,317)	(3,317)
CULTURE AND RECREATION					
Parks	10,000	10,000	32,472	(22,472)	(22,472)
Celebration	1,700	1,700	2,408	(708)	(708)
Total culture and recreation	11,700	11,700	34,880	(23,180)	(23,180)
CONSERVATION AND DEVELOPMENT					
Dam expense	2,000	2,000	2,255	(255)	(255)
Planning and zoning	250	250	350	(100)	(100)
Engineering	7,000	7,000		7,000	7,000
Total conservation and development	9,250	9,250	2,605	6,645	6,645
DEBT SERVICE					
			22,600	(22,600)	(22,600)
CAPITAL OUTLAY					
	18,389	18,389	29,020	(10,631)	(10,631)
Total expenditures	\$ 394,998	\$ 394,998	\$ 543,725	\$ (129,127)	\$ (129,127)

Schedule 3
Village of Merrillan, Wisconsin
Schedule of Operating Revenues and Expenses
Proprietary Funds
Year Ended December 31, 2016

	Water Utility	Electric Utility	Subtotal	Sewer Utility	Total
OPERATING REVENUES					
Metered sales to general customers	\$ 147,526	\$ 299,036	\$ 446,562	\$ 150,278	\$ 596,840
Sewer revenue flat rate				1,005	1,005
Public fire protection service	47,284		47,284		47,284
Other sales public authority	5,744	20,962	26,706		26,706
Street lights		27,387	27,387		27,387
Interdepartmental		4,305	4,305		4,305
Forfeited discounts	378	797	1,175	393	1,568
Other	1,538	2,298	3,836		3,836
Total operating revenues	<u>202,470</u>	<u>354,785</u>	<u>557,255</u>	<u>151,676</u>	<u>708,931</u>
OPERATING EXPENSES					
Plant operation	41,057		41,057	48,034	89,091
Plant maintenance				11,743	11,743
Power production		252,072	252,072		252,072
Transmission and distribution		9,033	9,033		9,033
Administrative and general	49,815	48,872	98,687	20,606	119,293
Total operating expenses	<u>90,872</u>	<u>309,977</u>	<u>400,849</u>	<u>80,383</u>	<u>481,232</u>
Depreciation	59,780	17,141	76,921	65,181	142,102
Taxes	2,816	2,566	5,382		5,382
Operating income	<u>\$ 49,002</u>	<u>\$ 25,101</u>	<u>\$ 74,103</u>	<u>\$ 6,112</u>	<u>\$ 80,215</u>



Certified Public Accountants

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COMMUNICATION OF SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES

To the Village Board
Village of Merrilan
Merrilan, Wisconsin

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Merrilan, Wisconsin (“Village”) as of and for the year ended December 31, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered the Village’s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Village’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 discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the following deficiencies in the Village’s internal control to be material weaknesses:

Segregation of Duties

The size of the office staff precludes a proper segregation of functions to assure adequate internal control. This is not unusual in organizations of your size, but management should continue to be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from a control point of view. Under these conditions, the most effective controls lie in management’s knowledge and monitoring of matters relating to the Village’s operations.

Check Signing

Currently, the Village President signs approximately 30-40 blank checks, which are then kept in the Village safe until they are used.

We recommend that no blank check stock is signed by the President. Checks should only be signed once appropriate documentation is obtained, and the check has been made out to a vendor with an amount already on the check. Signed checks should be mailed immediately upon being signed. A signature stamp or a check signing machine could be used if it is hard to obtain the proper signatures timely. However, there would need to be internal controls implemented if they were used and management should always review disbursements, for proper documentation and review cancelled checks as needed.

Disbursement Approval

It was noted that the board reviews a disbursement listing for approval at each board meeting but does not review actual invoices. An important internal control for management is to review backup documentation/invoices to verify expenditures. The Village Board should review expenditure invoices for proper documentation and especially review credit card disbursements.

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

Preparation of Financial Statements

Village staff does not prepare the financial statements and accompanying notes. The Village has designated an individual responsible for reviewing and accepting the financial statements and related notes.

This communication is intended solely for the information and use of management, the Village Board, and others within the administration, and is not intended to be, and should not be, used by anyone other than these specified parties.

Johnson Block & Company, Inc.

Johnson Block and Company, Inc.
Mineral Point, Wisconsin
February 17, 2017



Certified Public Accountants

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The Village Board
Village of Merrillan
Merrillan, Wisconsin

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Merrillan, Wisconsin (“Village”) for the year ended December 31, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information to you in our engagement letter. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Village are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2016. We noted no transactions entered into by the Village during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

The following misstatements detected as a result of audit procedures were corrected by management:

- To reclassify principal payments.
- Record 2016 hydrant rent and tax equivalent.
- Reverse prior year accounts payable.
- Record 2016 depreciation expense.
- Reverse prior year accounts receivable.
- Record 2016 tax roll.
- Reclassify grant transactions.
- Reflect fixed asset additions and deletions.
- Correct beginning balances.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated February 17, 2017.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Matters

We applied certain limited procedures to the Budgetary Comparison Schedules, which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

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

Attached are recommendations and informational points to management that are not material weaknesses or significant deficiencies.

Restriction on Use

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

Johnson Block & Company, Inc.

Johnson Block and Company, Inc.
Mineral Point, Wisconsin
February 17, 2017

Village of Merrilan, Wisconsin
December 31, 2016

Account	Description	Debit	Credit
Proposed JE # 6001			
Record unbilled revenue.			
600-10142-000	A/R ELECT/SALES TAX	10,821.00	
600-10143-000	A/R WATER	3,618.00	
610-00142-000	ACCTS RECEIVABLE - SEWER	4,559.00	
600-10216-000	RETAINED EARNINGS -		3,449.00
600-10216-000	RETAINED EARNINGS -		9,037.00
600-20461-000	RESIDENTIAL METERED/WATER		169.00
600-30440-000	RESIDENTIAL SALES - ELECTRIC		1,784.00
610-00216-000	RETAINED EARNINGS		4,485.00
610-00622-000	SEWER METERED		74.00
Total		<u>18,998.00</u>	<u>18,998.00</u>
Proposed JE # 6002			
Record difference in subsidiary ledger and general ledger for customer deposits.			
600-10235-000	CUSTOMER DEPOSITS	1,207.83	
600-30440-000	RESIDENTIAL SALES - ELECTRIC		1,207.83
Total		<u>1,207.83</u>	<u>1,207.83</u>

RECOMMENDATIONS AND INFORMATIONAL POINTS TO MANAGEMENT
THAT ARE NOT MATERIAL WEAKNESSES OR SIGNIFICANT DEFICIENCIES

Investment Policy

Per investment policy, the Village is not to deposit more than \$500,000 with any one financial institution. Deposits with one bank totaled \$583,000 at year end, due to December property tax collections. The Village may want to update the investment policy. We are able to provide a sample policy.

Credit Card Disbursements

During our review of three of the Village's credit card statements, the following items were noted:

- A tax exempt certificate can be provided to vendors prior to charges so sales tax doesn't get charged on Village purchases.
- Multiple transactions were not accompanied by an invoice. Management should also review charges and documentation closely to ensure that the charge is a valid expense. We noted approximately \$2,500 of charges that did not have supporting documentation. The Village should always receive supporting documentation for purchases made with credit cards.

Budget Appropriations

We noted the Village was over budget in several expenditure functions. We recommend the Village approve budget amendments throughout the year to prevent expenditures from exceeding budget appropriations. This will provide a useful management tool to utilize throughout the year.

Municipal Levy Limit – Debt Payments

During our audit, we noted that the Village has not levied for debt payments as allowed by the Wisconsin Department of Revenue for debt incurred after July 1, 2005. The Village could borrow for fixed asset purchases and then levy for the debt payment in subsequent years. This would help eliminate a reduction in fund balance for new equipment purchases. We recommend that the Village review whether or not they want to increase the tax levy each year by the amount of annual debt payments.

2016 Statement of Taxes Error

During 2016, the Clerk/Treasurer inadvertently under-reported and under-levied the local portion of the 2016 statement of taxes by \$3,000 due to a clerical error. We recommend that the Village compare the total levy listed on the statement of taxes to the municipal levy limit worksheet to verify the amount levied is within the allowable limit to prevent this from happening in the future.

Net Operating Loss

The Water and Electric Utility experienced a net loss of (\$4,864) and the Sewer Utility experienced a net loss of (\$9,151) for 2016. We recommend that the Utilities review their user fees and consider raising the rates to generate an adequate cash reserve for operating activities and future plant replacement or major repairs. The Water and Electric Utility last had a rate increase in 2012, and the Sewer Utility last had a rate increase in 2013. We are able to assist with any rate increase analysis and application to the Wisconsin Public Service Commission.