

AUDITED FINANCIAL STATEMENTS  
VILLAGE OF MERRILLAN, WISCONSIN

December 31, 2011

VILLAGE OF MERRILLAN, WISCONSIN  
DECEMBER 31, 2011

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Certified Public Accountants

*Quality service through our commitment to clients and staff*

Millard W. Johnson ▲ James L. Block ▲ Alan L. Brey ▲ Joseph G. Mohlmann ▲ Kevin P. Krynski ▲ Janice L. Froelich ▲ Jay H. Bennett

## INDEPENDENT AUDITOR'S REPORT

The Village Board  
Village of Merrillan  
Merrillan, 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 Merrillan, Wisconsin as of and for the year ended December 31, 2011, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Village's 2010 financial statements and, in our report dated February 8, 2011, we expressed an unqualified opinion on the respective financial statements of the governmental activities, the business-type activities and the major fund.

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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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 Merrillan, Wisconsin, as of December 31, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the financial statements, the Village adopted the provisions of GASB Statement No. 54, Fund Balance Reporting and Government Fund Type Definitions, for the year ending December 31, 2011.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on page 35 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 Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Merrillan's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. The supplementary information listed in the table of contents is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

Mineral Point, Wisconsin  
February 27, 2012

JOHNSON BLOCK AND COMPANY, INC.

*Johnson Block and Company, Inc.*

## BASIC FINANCIAL STATEMENTS

Exhibit A-1  
Village of Merrillan, Wisconsin  
Statement of Net Assets  
December 31, 2011  
(With summarized financial information as of December 31, 2010)

	Governmental Activities	Business-Type Activities	Total	
			2011	2010
<u>Assets</u>				
Current Assets:				
Cash and investments	\$ 185,544	\$ 381,491	\$ 567,035	\$ 554,937
Receivables				
Taxes	26,434		26,434	29,212
Customer		54,191	54,191	53,301
Special assessments		1,900	1,900	1,900
Due from other governments	2,603	39,133	41,736	
Materials and supplies		14,293	14,293	10,710
Total current assets	214,581	491,008	705,589	650,060
Restricted Assets:				
Restricted cash and investments		45,630	45,630	51,456
Other Assets:				
Special assessments receivable		21,000	21,000	22,900
Deferred charges		28,029	28,029	9,388
Total other assets		49,029	49,029	32,288
Capital Assets:				
Property, plant and equipment	1,050,923	5,396,450	6,447,373	5,582,108
Less: accumulated depreciation	668,144	1,990,455	2,658,599	2,525,777
Total capital assets	382,779	3,405,995	3,788,774	3,056,331
Total Assets	\$ 597,360	\$ 3,991,662	\$ 4,589,022	\$ 3,790,135

Exhibit A-1 (Cont'd)  
Village of Merrillan, Wisconsin  
Statement of Net Assets  
December 31, 2011  
(With summarized financial information as of December 31, 2010)

	Governmental Activities	Business-Type Activities	Total	
			2011	2010
<u>Liabilities</u>				
Current liabilities:				
Accounts payable	\$ 3,265	\$ 135,249	\$ 138,514	\$ 5,054
Accrued and other current liabilities	2,675	4,999	7,674	9,269
Accrued interest		7,952	7,952	18,436
Due to other governments	317		317	303
Customer deposits		9,106	9,106	7,760
Deferred revenue	29,153		29,153	28,888
Current portion of long-term obligations		387,396	387,396	23,765
Total current liabilities	35,410	544,702	580,112	93,475
Current Liabilities Payable from Restricted Assets:				
Current portion of mortgage revenue bonds		11,000	11,000	11,000
Accrued interest		858	858	895
Total Liabilities Payable from Restricted Assets		11,858	11,858	11,895
Noncurrent liabilities:				
Long-term note		822,396	822,396	465,762
Mortgage revenue bonds		198,000	198,000	209,000
Less: Current Portion		(398,396)	(398,396)	(34,765)
Total noncurrent liabilities		622,000	622,000	639,997
Total Liabilities	35,410	1,178,560	1,213,970	745,367
<u>Net Assets</u>				
Investment in capital assets, net of related debt	382,779	2,385,599	2,768,378	2,381,569
Restricted	11,540	44,772	56,312	65,666
Unrestricted	167,631	382,731	550,362	597,533
Total Net Assets	561,950	2,813,102	3,375,052	3,044,768
Total Liabilities and Net Assets	\$ 597,360	\$ 3,991,662	\$ 4,589,022	\$ 3,790,135

Exhibit A-2  
Village of Merrillan, Wisconsin  
Statement of Activities  
For the Year Ended December 31, 2011  
(With summarized financial information as of December 31, 2010)

	Program Revenues				Net (Expenses) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Government Activities	Business Type Activities	Total
						2011	2010
Primary Government:							
Governmental activities:							
General government	\$ 101,739	\$ 4,208	\$	\$	\$ (97,531)	\$ (97,531)	\$ (95,487)
Public safety	126,963	19,712	661		(106,590)	(106,590)	(97,349)
Public works	67,545		22,129		(45,416)	(45,416)	(20,163)
Sanitation	42,058				(42,058)	(42,058)	(39,823)
Health and human services	6,294				(6,294)	(6,294)	(7,676)
Culture and recreation	15,362	13,693			(1,669)	(1,669)	(3,328)
Conservation and development	440				(440)	(440)	(1,859)
Total Expenses	360,401	37,613	22,790		(299,998)	(299,998)	(265,685)
Business-type activities:							
Water and electric	463,168	511,197	539			48,568	48,568
Sewer	122,740	103,676	369,528			350,464	350,464
Total business-type activities	585,908	614,873	370,067			399,032	399,032
Total primary government	946,309	652,486	392,857		(299,998)	399,032	99,034
							(236,298)
General Revenues and Transfers:							
Property Taxes							
General purposes					28,888	28,888	28,047
Other taxes					4,807	4,807	3,704
Federal and State aid not restricted for specific purposes							
General					188,597	188,597	188,601
Interest and investment earnings					2,931	4,271	7,202
Gain (loss) on sale of fixed assets							8,239
Miscellaneous					1,441	315	1,551
Transfers					35,097	(35,097)	5,469
Total general revenues and transfers					261,761	(30,511)	231,250
Changes in net assets					(38,237)	368,521	330,284
Net assets-beginning of year					600,187	2,444,581	3,044,768
Net assets-end of year					\$ 561,950	\$ 2,813,102	\$ 3,375,052
							\$ 3,044,768



Exhibit A-3  
Village of Merrilan, Wisconsin  
Balance Sheet  
Governmental Funds  
December 31, 2011

(With summarized financial information as of December 31, 2010)

	General	Total	
		Governmental Funds	
		2011	2010
<u>Assets</u>			
Cash and Investments	\$ 185,544	\$ 185,544	\$ 177,968
Receivables:			
Taxes	26,434	26,434	29,212
Due from other governments	2,603	2,603	
Total Assets	<u>\$ 214,581</u>	<u>\$ 214,581</u>	<u>\$ 207,180</u>
<u>Liabilities:</u>			
Accounts payable	\$ 3,265	\$ 3,265	\$ 3,870
Accrued payroll liabilities	2,675	2,675	4,119
Due to other governments	317	317	303
Deferred revenues	29,153	29,153	28,888
Total Liabilities	<u>35,410</u>	<u>35,410</u>	<u>37,180</u>
<u>Fund Equity:</u>			
Fund Balance:			
Assigned for future tax levy	38,478	38,478	48,286
Unassigned	140,693	140,693	121,714
Total Fund Equity	<u>179,171</u>	<u>179,171</u>	<u>170,000</u>
Total Liabilities and Fund Equity	<u>\$ 214,581</u>	<u>\$ 214,581</u>	<u>\$ 207,180</u>

Exhibit A-4  
Village of Merrilan, Wisconsin  
Reconciliation of the Governmental Funds Balance Sheet  
with the Statement of Net Assets  
December 31, 2011  
(With summarized financial information as of December 31, 2010)

	2011	2010
Amounts reported for governmental activities in the statement of net assets are different because:		
Total Fund balances-governmental funds:	\$ 179,171	\$ 170,000
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 assets:		
Governmental capital asset	1,050,923	
Governmental accumulated depreciation	(668,144)	382,779
	<u>382,779</u>	<u>430,187</u>
Net Assets of Governmental Funds	<u>\$ 561,950</u>	<u>\$ 600,187</u>

Exhibit A-5  
Village of Merrilan, Wisconsin  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Year Ended December 31, 2011  
(With summarized financial information for the year ended December 31, 2010)

		Total	
	General	Governmental Funds	
		2011	2010
<u>Revenues:</u>			
Taxes	\$ 33,695	\$ 33,695	\$ 31,751
Intergovernmental	211,387	211,387	238,986
Licenses and permits	6,783	6,783	8,766
Public charges for services	11,113	11,113	11,129
Intergovernmental charges for services	20,113	20,113	21,037
Interest and investment earnings	2,931	2,931	2,682
Miscellaneous	1,045	1,045	19,234
Total Revenues	287,067	287,067	333,585
<u>Expenditures:</u>			
Current:			
General government	95,273	95,273	93,496
Public safety	98,419	98,419	111,607
Public works	50,420	50,420	52,794
Sanitation	42,058	42,058	39,823
Health and human services	6,294	6,294	7,706
Culture and recreation	13,632	13,632	15,251
Conservation and development	440	440	1,859
Capital Outlay:			
Public safety			42,725
Public works	6,457	6,457	
Total Expenditures	312,993	312,993	365,261
Excess of Revenues Over (Under) Expenditures	(25,926)	(25,926)	(31,676)
<u>Other Financing Sources (Uses):</u>			
Transfer from utility - tax equivalent	35,097	35,097	34,653
Total Other Financing Sources (Uses):	35,097	35,097	34,653
Net Change in Fund Balances	9,171	9,171	2,977
Fund Balance January 1	170,000	170,000	167,023
Fund Balance December 31	\$ 179,171	\$ 179,171	\$ 170,000

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, 2011  
(With summarized financial information for the year ended December 31, 2010)

	<u>2011</u>	<u>2010</u>
Net change in fund balances-total governmental funds	\$ 9,171	\$ 2,977
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 assets and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities.		
Capital outlay reported in governmental fund statements	6,457	52,655
Depreciation expenses reported in the statement of activities	<u>(53,865)</u>	<u>(51,280)</u>
Amount by which capital outlays are greater (less) than depreciation in the current period.	(47,408)	1,375
The net effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins, donations and disposals) is to decrease net assets:		<u>(5,400)</u>
Change in net assets-governmental activities	<u>\$ (38,237)</u>	<u>\$ (1,048)</u>

Exhibit A-7  
Village of Merrillan, Wisconsin  
Statement of Net Assets  
Proprietary Funds  
December 31, 2011

(With summarized financial information as of December 31, 2010)

Assets	Electric & Water Utility	Sewer Utility	Total 2011	2010
<u>Current Assets:</u>				
Cash and investments	\$ 343,532	\$ 37,959	\$ 381,491	\$ 376,969
Receivables:				
Customer	42,058	12,133	54,191	53,301
Special assessments-current	1,000	900	1,900	1,900
Due from other governments		39,133	39,133	
Materials and supplies	14,293		14,293	10,710
Total Current Assets	400,883	90,125	491,008	442,880
<u>Restricted Assets:</u>				
Special redemption fund		8,360	8,360	17,916
Bond depreciation fund		37,270	37,270	33,540
Total Restricted Assets		45,630	45,630	51,456
<u>Fixed Assets:</u>				
Water and electric	2,836,741		2,836,741	2,607,488
Sewerage plant		2,559,709	2,559,709	1,930,154
Less: accumulated depreciation:	(1,271,826)	(718,629)	(1,990,455)	(1,911,498)
Net Property and Plant	1,564,915	1,841,080	3,405,995	2,626,144
<u>Other Assets:</u>				
Special assessments	11,100	9,900	21,000	22,900
Deferred charges	17,187	10,842	28,029	9,388
Total Other Assets	28,287	20,742	49,029	32,288
Total Assets	\$ 1,994,085	\$ 1,997,577	\$ 3,991,662	\$ 3,152,768

Exhibit A-7 (Cont'd)  
Village of Merrillan, Wisconsin  
Statement of Net Assets  
Proprietary Funds  
December 31, 2011

(With summarized financial information as of December 31, 2010)

Liabilities and Equity	Electric & Water Utility	Sewer Utility	Total	
			2011	2010
<u>Current Liabilities:</u>				
Accounts payable	\$ 64,246	\$ 71,003	\$ 135,249	\$ 1,184
Accrued and other current liabilities	4,286	713	4,999	5,150
Accrued interest	7,335	617	7,952	18,436
Customer deposits	9,106		9,106	7,760
Current portion of long-term debt	197,758	189,638	387,396	23,765
Total Current Liabilities	282,731	261,971	544,702	56,295
<u>Current Liabilities</u> (Payable from Restricted Assets):				
Current portion of long-term obligations		11,000	11,000	11,000
Accrued interest		858	858	895
Total Liabilities Payable from Restricted Assets		11,858	11,858	11,895
<u>Long-term Debt:</u>				
Long-term note	632,758	189,638	822,396	465,762
Mortgage revenue bonds		198,000	198,000	209,000
Less: current portion	(197,758)	(200,638)	(398,396)	(34,765)
Total Long-Term Debt	435,000	187,000	622,000	639,997
Total Liabilities	717,731	460,829	1,178,560	708,187
<u>Net Assets:</u>				
Investment in capital assets, net of related debt	932,157	1,453,442	2,385,599	1,951,382
Reserved		44,772	44,772	50,561
Unreserved	344,197	38,534	382,731	442,638
Total Net Assets	1,276,354	1,536,748	2,813,102	2,444,581
Total Equity	1,276,354	1,536,748	2,813,102	2,444,581
Total Liabilities and Equity	\$1,994,085	\$1,997,577	\$3,991,662	\$3,152,768

Exhibit A-8  
Village of Merrillan, Wisconsin  
Statement of Revenues, Expenses and Changes in Net Assets  
Proprietary Funds  
For the Year Ended December 31, 2011  
(With summarized financial information for the year ended December 31, 2010)

	Water & Electric Utility	Sewer Utility	Total	
			2011	2010
<u>Operating Revenues:</u>				
Water & Electric	\$ 505,980	\$	\$ 505,980	\$ 486,841
Sewer Service		103,138	103,138	104,513
Other	5,217	538	5,755	11,095
Total Operating Revenues	511,197	103,676	614,873	602,449
<u>Operating Expenses:</u>				
Operation and Maintenance	394,152	71,239	465,391	454,012
Depreciation Expense	40,814	37,384	78,198	76,856
Taxes	5,580		5,580	5,391
Total Operating Expenses	440,546	108,623	549,169	536,259
Total Operating Income	70,651	(4,947)	65,704	66,190
<u>Nonoperating Revenues (Expenses):</u>				
Interest Expense	(19,575)	(11,321)	(30,896)	(35,286)
Amortization Expense	(3,047)	(2,796)	(5,843)	(1,517)
Miscellaneous Income	315		315	70
Interest Income	2,870	1,401	4,271	5,557
Total Net Nonoperating Revenues (Expenses)	(19,437)	(12,716)	(32,153)	(31,176)
Income before contributions and transfers	51,214	(17,663)	33,551	35,014
Capital Contributions	539	369,528	370,067	
Transfer of Tax Equivalent	(35,097)		(35,097)	(34,653)
Changes in Net Assets	16,656	351,865	368,521	361
Net Assets - January 1	1,259,698	1,184,883	2,444,581	2,444,220
Net Assets - December 31	\$ 1,276,354	\$ 1,536,748	\$ 2,813,102	\$ 2,444,581

Exhibit A-9  
Village of Merrilan, Wisconsin  
Statement of Cash Flows  
Proprietary Funds  
For the Year Ended December 31, 2011  
(With summarized financial information for the year ended December 31, 2010)

	Business Type Activities- Enterprise Funds		Totals	
	Electric & Water Utility	Sewer Utility	2011	2010
<u>Cash Flows From (Used by) Operating Activities:</u>				
Received from customers	\$ 510,455	\$ 64,395	\$ 574,850	\$ 597,087
Payments to employees	(49,911)	(22,685)	(72,596)	(82,070)
Payments for employee benefits	(47,226)	(9,624)	(56,850)	(40,438)
Payments to suppliers	(301,135)	(39,009)	(340,144)	(330,760)
Net Cash Flows From Operating Activities	112,183	(6,923)	105,260	143,819
<u>Cash Flows (Used by) Noncapital Financing Activities:</u>				
Paid to municipality for tax equivalent	(35,097)		(35,097)	(34,653)
Net Cash Flows (Used by) Noncapital Financing Activities	(35,097)		(35,097)	(34,653)
<u>Cash Flows From (Used by) Capital and Related Financing Activities:</u>				
Acquisition and construction of capital assets	(169,202)	(558,551)	(727,753)	(84,174)
Contributed capital	539		539	
Grant proceeds		369,528	369,528	
Salvage proceeds				19,637
Receipt of special assessments	1,000	900	1,900	14,600
Proceeds from long-term debt	632,758	189,638	822,396	
Debt issue costs paid	(20,234)	(4,250)	(24,484)	
Debt retired	(465,762)	(11,000)	(476,762)	(48,633)
Interest paid	(30,676)	(10,741)	(41,417)	(36,261)
Net Cash Flows (Used by) Capital and Related Financing Activities	(51,577)	(24,476)	(76,053)	(134,831)
<u>Cash Flows From (Used by) Investing Activities:</u>				
Interest income	3,185	1,401	4,586	5,627
Purchase of investments	(93,992)	(37,270)	(131,262)	(123,128)
Proceeds of investments maturing	89,588	33,540	123,128	30,583
Net Cash Flows (Used by) Investing Activities	(1,219)	(2,329)	(3,548)	(86,918)
Net change in Cash and Cash Equivalents	24,290	(33,728)	(9,438)	(112,583)
Cash and Cash Equivalents - Beginning of Year	225,250	80,047	305,297	417,880
Cash and Cash Equivalents - End of Year	\$ 249,540	\$ 46,319	\$ 295,859	\$ 305,297



Exhibit A-9 (Cont'd)  
Village of Merrilan, Wisconsin  
Statement of Cash Flows  
Proprietary Funds  
For the Year Ended December 31, 2011  
(With summarized financial information for the year ended December 31, 2010)

	Business Type Activities- Enterprise Funds		Totals	
	Electric & Water Utility	Sewer Utility	2011	2010
<u>Reconciliation of operating income to net cash provided</u>				
<u>by operating activities:</u>				
Operating Income	\$ 70,651	\$ (4,947)	\$ 65,704	\$ 66,190
Noncash items in operating income:				
Depreciation Expense	41,572	37,384	78,956	77,616
Amortization of major repair				
Changes in assets and liabilities:				
Customer accounts receivable	(742)	(148)	(890)	(5,362)
Other accounts receivable		(39,133)	(39,133)	
Material and supplies	(3,583)		(3,583)	1,184
Accounts payable	3,011		3,011	
Accrued and other current liabilities	(72)	(79)	(151)	2,328
Customer deposits	1,346		1,346	679
Net Cash Provided by Operating Activities	\$ 112,183	\$ (6,923)	\$ 105,260	\$ 142,635
<u>Reconciliation of Cash and Cash Equivalents to</u>				
<u>Statement of Net Asset Accounts</u>				
Cash and investments	\$ 343,532	\$ 37,959	\$ 381,491	\$ 376,969
Restricted cash and investments		45,630	45,630	51,456
Cash and Cash Equivalents	343,532	83,589	427,121	428,425
Less: Non-cash Equivalents	(93,992)	(37,270)	(131,262)	(123,128)
Cash and Cash Equivalents	\$ 249,540	\$ 46,319	\$ 295,859	\$ 305,297

Exhibit A-10  
Village of Merrillan, Wisconsin  
Statement of Net Assets  
Fiduciary Funds  
December 31, 2011  
(With summarized financial information as of December 31, 2010)

	Tax Collection Fund	Totals	
		2011	2010
<hr/>			
Assets			
Cash and investments	\$ 83,864	\$ 83,864	\$ 67,595
Taxes receivable	258,981	258,981	302,554
<hr/>			
Total Assets	\$ 342,845	\$ 342,845	\$ 370,149
<hr/>			
Liabilities			
Due to other taxing units	\$ 342,845	\$ 342,845	\$ 370,149
<hr/>			
Total Liabilities	\$ 342,845	\$ 342,845	\$ 370,149
<hr/>			

Village of Merrillan, Wisconsin  
Notes to the Basic Financial Statements  
December 31, 2011

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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 assets 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 assets/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, 2011

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NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, liabilities, 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 funds:

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

**Government-Wide Financial Statements**

The government-wide statement of net assets 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 revenue. 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.

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.

Village of Merrillan, Wisconsin  
Notes to the Basic Financial Statements  
December 31, 2011

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NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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 revenues. 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 revenues. Amounts received prior to the entitlement period are also recorded as deferred revenues.

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 revenues.

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 revenues on its governmental funds balance sheet. Deferred revenues arise from taxes levied in the current year, which are for subsequent year's operations. For governmental fund financial statements, deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues 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 revenue 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, 2011

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NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The proprietary funds follow all pronouncements of the Governmental Accounting Standards Board, and have elected to follow only the Financial Accounting Standards Board pronouncements issued before November 30, 1989. 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 Board Statement 33 (GASB-33).

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, 2011

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NOTE 1                      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property tax calendar - 2011 tax roll:

Lien date and levy date	December 2011
Tax bills mailed	December 2011
Payment in full, or	January 31, 2011
First installment due	January 31, 2011
Second installment due	July 31, 2011
Personal property taxes in full	January 31, 2011
Tax sale- 2011 delinquent real estate taxes	October 2013

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 assets. 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 assets.

Village of Merrillan, Wisconsin  
Notes to the Basic Financial Statements  
December 31, 2011

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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 assets. 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. Other Assets**

In governmental funds, debt issuance costs are recognized as expenditures in the current period. For the government-wide and the proprietary fund type financial statements, debt issuance costs are deferred and amortized over the term of the debt issue.

**J. 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, 2011

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NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**K. 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.

**L. 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.

**M. Equity Classifications**

**Government-Wide Statements**

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

- a. Invested in capital assets, net of related debt - Consists of capital assets including restricted 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 invested in capital assets, net of related debt.
- b. Restricted net assets - Consists of net assets 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 assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

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 Merrillan, Wisconsin  
Notes to the Basic Financial Statements  
December 31, 2011

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NOTE 1

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Fund Statements**

Beginning with the year ending December 31, 2011, the Village implemented GASB Statement 54 "Fund Balance Reporting and Government Fund Type Definitions". 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.
- Unassigned – includes amounts that are available for any purpose; positive amounts are reported only in the general fund.

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.

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.

**N. Budgets**

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.

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 designated carryovers from prior years. 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. Changes to the overall budget must be approved by a two-thirds board action. Budgetary comparisons are not required for proprietary funds.

Appropriations for the general fund lapse at year-end unless specifically carried forward by Board action. Carryovers are shown in Note 9.

Village of Merrilan, Wisconsin  
Notes to the Basic Financial Statements  
December 31, 2011

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NOTE 1                      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Transfers

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

P. Income Tax

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

Q. 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.

R. 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.

S. 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.

T. 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.

U. 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, 2010, from which the summarized information was derived.

Village of Merrillan, Wisconsin  
Notes to the Basic Financial Statements  
December 31, 2011

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

Due to the differences in the measurement focus and basis of accounting used on the government fund statements and district-wide statements certain financial transactions are treated differently. The basic financial statements contain a full reconciliation of these items.

**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, 2011, cash and investments included the following:

Petty Cash	\$ 250
Deposits with financial institutions	696,279
Total cash and investments	<u>\$ 696,529</u>

Cash and investments as of December 31, 2011 are classified in the accompanying financial statements as follows:

Exhibit A-1:	
Cash and investments	\$ 567,035
Cash and investments-restricted	45,630
Exhibit A-10:	
Cash and investments	83,864
Total cash and investments	<u>\$ 696,529</u>

Village of Merrilan, Wisconsin  
Notes to the Basic Financial Statements  
December 31, 2011

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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, district, 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, 2011

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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, 2011

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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 in the amount of \$250,000 for interest bearing accounts and \$250,000 for non interest bearing accounts. In addition, the banks used by the District participate in the Dodd-Frank Act. Under this program, the FDIC provides unlimited protection to all noninterest-bearing accounts through December 31, 2012. 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, 2011, \$163,488 of the Village's deposits with financial institutions in excess of federal depository insurance limits were exposed to custodial risk as follows:

Uninsured and Uncollateralized	<u>\$ 163,488</u>
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This amount would be insured by the State of Wisconsin Guaranty 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, 2011

NOTE 4

RESTRICTED ASSETS

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

NOTE 5

DEFERRED REVENUE

Governmental funds report deferred revenue 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 revenue recognition in connection with resources that have been received, but not yet earned. At December 31, 2011 the various components of deferred revenue reported in the governmental funds was as follows:

	Unavailable
Tax roll	\$ 29,153

NOTE 6

CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2011 was as follows:

	Balance 12/31/10	Additions	Deductions	Balance 12/31/11
<u>Governmental Activities:</u>				
Capital assets not being depreciated:				
Land	\$ 18,483	\$	\$	\$ 18,483
Construction work in progress	4,235			4,235
	<u>22,718</u>			<u>22,718</u>
Other capital assets:				
Buildings and improvements	431,282			431,282
Infrastructure	24,422	6,457		30,879
Machinery and equipment	80,699			80,699
Vehicles	485,345			485,345
Total other capital assets at historical costs	<u>1,021,748</u>	<u>6,457</u>		<u>1,028,205</u>
Less accumulated depreciation:				
Buildings and improvements	317,694	8,625		326,319
Infrastructure	4,112	977		5,089
Machinery and equipment	42,030	12,440		54,470
Vehicles	250,443	31,823		282,266
Total accumulated depreciation	<u>614,279</u>	<u>53,865</u>		<u>668,144</u>
Net other capital assets	<u>407,469</u>	<u>(47,408)</u>		<u>360,061</u>
Total net capital assets	<u>\$ 430,187</u>	<u>\$ (47,408)</u>	<u>\$</u>	<u>\$ 382,779</u>



Village of Merrilan, Wisconsin  
Notes to the Basic Financial Statements  
December 31, 2011

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NOTE 6

CAPITAL ASSETS (CONTINUED)

Infrastructure assets include roads, bridges, underground pipe (other than related to utilities), traffic signals, etc. These infrastructure assets are likely to be the largest asset class of the Village. The Village elected to not include the cost of infrastructure acquired before January 1, 2004.

Depreciation expense was charged to functions as follows:

Governmental Activities:

General government	\$ 6,466
Public safety	17,125
Public works	28,544
Culture and recreation	<u>1,730</u>
Total depreciation for governmental activities	<u>\$ 53,865</u>

Village of Merrillan, Wisconsin  
Notes to the Basic Financial Statements  
December 31, 2011

NOTE 6

CAPITAL ASSETS (CONTINUED)

	Balance 12/31/10	Additions	Deductions	Balance 12/31/11
<u>Business-Type Activities:</u>				
Capital assets not being depreciated:				
Intangible plant				
Land and land rights	\$ 31,325	\$ 2,650	\$	\$ 33,975
Construction work in progress	69,884	855,821		925,705
Total capital assets not being depreciated	<u>101,209</u>	<u>858,471</u>		<u>959,680</u>
Capital assets being depreciated:				
Water:				
Structures and improvements	106,171			106,171
Pumping equipment	51,691			51,691
Water treatment	5,187			5,187
Transmission and distribution	1,690,485			1,690,485
General plant	23,714			23,714
Sewer:				
Structures and improvements	810,150			810,150
Transmission and distribution	934,373			934,373
Pumping equipment	67,553	6,674		74,227
Miscellaneous equipment	49,896			49,896
Electric:				
Structures and improvements	133,778			133,778
Transmission and distribution	495,382	2,153		497,535
General plant	59,563			59,563
Total capital assets being depreciated	<u>4,427,943</u>	<u>8,827</u>		<u>4,436,770</u>
Total accumulated depreciation	<u>1,911,499</u>	<u>78,956</u>		<u>1,990,455</u>
Net capital assets being depreciated	<u>2,516,444</u>	<u>(70,129)</u>		<u>2,446,315</u>
Total net capital assets	<u>\$ 2,617,653</u>	<u>\$ 788,342</u>	<u>\$</u>	<u>\$ 3,405,995</u>

Depreciation expense was charged to functions as follows:

<u>Business-Type Activities:</u>	
Electric and Water	\$ 41,572
Sewer	37,384
Total depreciation expense	78,956
Less: Electric and Water depreciation expense allocated to sewer	(758)
Total depreciation expense per Exhibit A-8	<u>\$ 78,198</u>

Village of Merrillan, Wisconsin  
Notes to the Basic Financial Statements  
December 31, 2011

NOTE 7

LONG-TERM OBLIGATIONS

Long-term obligations activity for the year ended December 31, 2011 was as follows:

	Beginning 12/31/10	Increases	Decreases	Balance 12/31/11	Amounts Due Within One Year
<u>Business-Type Activities</u>					
Notes Payable	\$ 465,762	\$ 822,396	\$ (465,762)	\$ 822,396	\$ 387,396
Mortgage Revenue Bonds	209,000		(11,000)	198,000	11,000
<u>Total Business-Type Activities</u>					
Long-Term Liabilities	\$ 674,762	\$ 822,396	\$ (476,762)	\$ 1,020,396	\$ 398,396

All general obligation notes and bonds payable are backed by the full faith and credit of the City. 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, 2011 was \$898,060. There was \$822,396 of general obligation debt outstanding at year-end as follows:

	Date of Issue	Final Maturity	Interest Rates	Original Amount	Balance 12/31/2011
G.O. Refunding Bonds	7/6/2011	3/1/2024	1.7-4.0%	\$ 465,000	\$ 465,000
Anticipation Notes	5/10/2011	6/1/2012	2.25%	357,396	357,396
Total Business-Type General Obligation Debt					<u>\$ 822,396</u>

Debt service requirements to maturity are as follows:

Years	Governmental Activities			Business-Type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2012	\$ 197,758	\$ 19,228	\$ 216,986	\$ 189,638	\$ 4,868	\$ 194,506
2013	30,000	12,400	42,400			
2014	30,000	11,890	41,890			
2015	35,000	11,337	46,337			
2016	35,000	10,620	45,620			
2017-2021	180,000	39,160	219,160			
2022-2024	125,000	7,700	132,700			
Totals	<u>\$ 632,758</u>	<u>\$ 112,335</u>	<u>\$ 745,093</u>	<u>\$ 189,638</u>	<u>\$ 4,868</u>	<u>\$ 194,506</u>

The anticipation notes were authorized up to \$400,000, of which \$357,396 had been drawn at December 31, 2011.

Village of Merrillan, Wisconsin  
Notes to the Basic Financial Statements  
December 31, 2011

NOTE 7

LONG-TERM OBLIGATIONS (CONTINUED)

Revenue Bonds

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

Revenue debt payable at December 31, 2011 consists of the following:

	Date of Issue	Final Maturity	Interest Rates	Original Amount	Balance 12/31/2011
Revenue Bonds	12/1/2004	12/1/2024	4.25-5.85%	\$ 217,000	\$ 198,000
Total Business-Type Activities Revenue Debt					<u>\$ 198,000</u>

Debt service requirements to maturity are as follows:

Year	Principal	Interest	Total
2012	\$ 11,000	\$ 10,301	\$ 21,301
2013	12,000	9,833	21,833
2014	12,000	9,293	21,293
2015	13,000	8,723	21,723
2016	14,000	8,073	22,073
2017-2021	79,000	29,014	108,014
2022-2024	57,000	6,628	63,628
Totals	<u>\$ 198,000</u>	<u>\$ 81,865</u>	<u>\$ 279,865</u>

The 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.

Under the provisions of the resolutions, a portion of operating revenues must be set-aside to the Special Redemption Fund. An amount equal to one-sixth (1/6) of the next installment of interest coming due on the bonds, and an amount equal to one-twelfth (1/12) of the next installment of principal of the bonds. The balance for the sewer account is \$8,360.

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.

Village of Merrilan, Wisconsin  
Notes to the Basic Financial Statements  
December 31, 2011

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NOTE 7

LONG-TERM OBLIGATIONS (CONTINUED)

The balance in this account at December 31, 2011 was as follows:

	<u>Depreciation</u>
Sewer Utility	<u>\$ 37,270</u>
<u>Surplus Fund</u>	

Deposit to the Surplus Fund, any remaining funds after the monthly transfers required for the Debt Service and Depreciation funds have been completed.

The resolutions require that rates and charges for services rendered by the system be such that annual "net earnings" be not less than 110% of the annual debt service on the bonds so that the amount set aside in the bond and interest special redemption fund will be adequate for payment of the bonds and interest thereon as they become payable. This requirement was met for 2011.

NOTE 8

INTERFUND RECEIVABLES AND PAYABLES

The following is a schedule of interfund transfers:

<u>Fund Transfer To</u>	<u>Fund Transferred From</u>	<u>Amount</u>
Government Funds:		
General	Water utility-tax equivalent	\$ 35,097
	Total	<u>\$ 35,097</u>
Proprietary Funds:		
General	Water utility-tax equivalent	\$ 35,097
	Total	<u>\$ 35,097</u>

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.

NOTE 9

GOVERNMENTAL FUND BALANCES

Fund balance as of December 31, 2011 includes the following items:

Major Funds:	
General Fund:	
Assigned for future tax levy	\$ 38,478
Unassigned	140,693
Total	<u>\$ 179,171</u>

Village of Merrilan, Wisconsin  
Notes to the Basic Financial Statements  
December 31, 2011

NOTE 10 GOVERNMENTAL ACTIVITIES NET ASSETS/FUND BALANCES

Governmental activities net assets reported on the government wide statement of net assets at December 31, 2011 includes the following:

Invested in capital assets, net of related debt	
Land	\$ 18,483
Other capital assets, net of accumulated depreciation	364,296
Total Invested Capital Assets	<u>382,779</u>
Restricted for:	
EMS activities	4,325
Fire department	7,215
Total Restricted	<u>11,540</u>
Unrestricted	167,631
Total Governmental Activities Net Assets	<u>\$ 561,950</u>

NOTE 11 NET ASSET RESERVATION – PROPRIETARY FUNDS

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

Enterprise Funds:	
Sewer Utility	
Reserved for Mortgage Revenue Bonds	<u>\$ 44,772</u>

NOTE 12 TAXY LEVY LIMIT

Wisconsin Act 25, effective July 27, 2005, imposes a limit on the property tax levies for all Wisconsin cities, villages, towns and counties for a two-year period. The Act limits the increase in the tax levy to the greater of the percentage change in the Village's January 1 equalized value as a result of net new construction or two percent. The levy limit is applied to both operations and debt service. However, the Act allows the limit to be increased for debt service in certain situations.

NOTE 13 EXCESS OF ACTUAL EXPENDITURES OVER BUDGET

The following expenditures exceeded budget appropriations in the general fund:

Expenditure	Excess Expenditures
Sanitation	\$ 1,885
Health and human services	6,294

NOTE 14 COMMITMENTS

At December 31, 2011, the Village had construction commitments related to utility projects of approximately \$840,000.

### Required Supplementary Information

Exhibit B-1  
Required Supplementary Information  
Village of Merrillan, Wisconsin  
Budgetary Comparison Schedule for the General Fund  
For the Year Ended December 31, 2011

	Budgeted Amounts			Variances- Positive (Negative)	
	Original	Final	Actual	Original to Actual	Final to Actual
<u>Revenues:</u>					
Taxes	\$ 32,688	\$ 32,688	\$ 33,695	\$ 1,007	\$ 1,007
Intergovernmental	211,348	211,348	211,387	39	39
Licenses and permits	11,315	11,315	6,783	(4,532)	(4,532)
Intergovernmental charges for services	18,872	18,872	20,113	1,241	1,241
Public charges for services	5,305	5,305	11,113	5,808	5,808
Interest and investment earnings	3,000	3,000	2,931	(69)	(69)
Miscellaneous	6,300	6,300	1,045	(5,255)	(5,255)
Total Revenues	288,828	288,828	287,067	(1,761)	(1,761)
<u>Expenditures:</u>					
Current:					
General government	103,577	103,577	95,273	8,304	8,304
Public safety	116,917	116,917	98,419	18,498	18,498
Public works	79,647	79,647	50,420	29,227	29,227
Sanitation	40,173	40,173	42,058	(1,885)	(1,885)
Health and human services			6,294	(6,294)	(6,294)
Leisure activities	14,500	14,500	13,632	868	868
Conservation and development	7,300	7,300	440	6,860	6,860
Capital outlay:	10,000	10,000	6,457	3,543	3,543
Total Expenditures	372,114	372,114	312,993	59,121	59,121
Excess Revenues Over Expenditures	(83,286)	(83,286)	(25,926)	57,360	57,360
<u>Other Financing Sources:</u>					
Transfer from utility - tax equivalent	35,000	35,000	35,097	97	97
Net Change in Fund Balance	(48,286)	(48,286)	9,171	57,457	57,457
Fund Balance - Beginning of year	170,000	170,000	170,000		
Fund Balance - End of year	\$ 121,714	\$ 121,714	\$ 179,171	\$ 57,457	\$ 57,457



## Schedules

Schedule 1  
Village of Merrillan, Wisconsin  
General Fund  
Detailed Comparison of Budgeted and Actual Revenues  
Year Ended December 31, 2011

	Budgeted Amounts		Actual	Variances- Positive (Negative)	
	Original	Final		Original to Actual	Final to Actual
<b>Taxes</b>					
General property	\$ 28,888	\$ 28,888	\$ 28,888	\$	\$
Mobile home taxes	3,800	3,800	4,807	1,007	1,007
Total Taxes	32,688	32,688	33,695	1,007	1,007
<b>Intergovernmental</b>					
State shared taxes	188,587	188,587	188,588	1	1
State aid - fire insurance dues	630	630	661	31	31
State aid - exempt computer aid			9	9	9
State aid - highways	22,131	22,131	22,129	(2)	(2)
Total Intergovernmental	211,348	211,348	211,387	39	39
<b>Licenses, Permits and Fines</b>					
Cigarette licenses	210	210	245	35	35
Liquor licenses	1,880	1,880	2,172	292	292
Beer garden permit	75	75	100	25	25
Operator licenses	800	800	520	(280)	(280)
Mobile home park licenses	200	200	100	(100)	(100)
Dog and cat licenses	850	850	702	(148)	(148)
Building permits	2,000	2,000	509	(1,491)	(1,491)
Zoning permits	300	300	150	(150)	(150)
Ordinance violations	5,000	5,000	2,285	(2,715)	(2,715)
Total Licenses, Permits and Fines	11,315	11,315	6,783	(4,532)	(4,532)
<b>Intergovernmental Charges for Services</b>					
Fire protection - Dewhursts, Alma	15,703	15,703	17,486	1,783	1,783
State charge fire	600	600		(600)	(600)
Intergovernmental charge for fire contracts	2,569	2,569	2,627	58	58
Total Intergovernmental Charges for Services	18,872	18,872	20,113	1,241	1,241
<b>Public Charges for Services</b>					
Sale of copies	200	200	139	(61)	(61)
Police department	360	360	370	10	10
Public charges	100	100	80	(20)	(20)
Cemetery			6,409	6,409	6,409
License publication fees	45	45		(45)	(45)
Parks	3,000	3,000	2,815	(185)	(185)
Fire department public charges	400	400		(400)	(400)
Hall rent	1,200	1,200	1,300	100	100
Total Public Charges for Services	\$ 5,305	\$ 5,305	\$ 11,113	\$ 5,808	\$ 5,808

Schedule 1 (Continued)  
Village of Merrillan, Wisconsin  
General Fund  
Detailed Comparison of Budgeted and Actual Revenues  
Year Ended December 31, 2011

	Budgeted Amounts		Actual	Variances- Positive (Negative)	
	Original	Final		Original to Actual	Final to Actual
Investment Income					
Interest	\$ 3,000	\$ 3,000	\$ 2,931	\$ (69)	\$ (69)
Total	<u>3,000</u>	<u>3,000</u>	<u>2,931</u>	<u>(69)</u>	<u>(69)</u>
Miscellaneous					
Donations	300	300	383	83	83
EMS donations			(397)	(397)	(397)
Fire department donations			(3,168)	(3,168)	(3,168)
Insurance refunds	6,000	6,000	4,227	(1,773)	(1,773)
Total Miscellaneous	<u>6,300</u>	<u>6,300</u>	<u>1,045</u>	<u>(5,255)</u>	<u>(5,255)</u>
Total Revenues	<u>\$ 288,828</u>	<u>\$ 288,828</u>	<u>\$ 287,067</u>	<u>\$ (1,761)</u>	<u>\$ (1,761)</u>

Schedule 2  
Village of Merrillan, Wisconsin  
General Fund  
Detailed Comparison of Budgeted and Actual Expenditures  
Year Ended December 31, 2011

	Budgeted Amounts		Actual	Variances- Positive (Negative)	
	Original	Final		Original to Actual	Final to Actual
<b>General Government</b>					
Village board	\$ 1,800	\$ 1,800	\$ 3,200	\$ (1,400)	\$ (1,400)
Board of review	200	200	185	15	15
Board committees	1,800	1,800	1,600	200	200
Clerk/treasurer	17,300	17,300	16,505	795	795
Elections	3,000	3,000	1,914	1,086	1,086
Office expense	8,834	8,834	5,966	2,868	2,868
President expense	300	300	424	(124)	(124)
President salary	2,640	2,640	1,760	880	880
Auditing	6,325	6,325	7,870	(1,545)	(1,545)
Legal fees	1,800	1,800	2,126	(326)	(326)
Assessment of property	5,000	5,000	5,000		
Hall	13,100	13,100	8,701	4,399	4,399
Social security taxes	6,500	6,500	6,180	320	320
Liability and property insurance	9,472	9,472	7,666	1,806	1,806
Employee bonds	256	256	100	156	156
Health insurance and retirement	20,200	20,200	25,885	(5,685)	(5,685)
Misc Expense	50	50	191	(141)	(141)
Contingency	5,000	5,000		5,000	5,000
Total General Government	103,577	103,577	95,273	8,304	8,304
<b>Public Safety</b>					
Police department	36,494	36,494	27,186	9,308	9,308
Fire department	29,639	29,639	23,624	6,015	6,015
Hydrant rental	48,784	48,784	47,284	1,500	1,500
Building inspection	2,000	2,000	325	1,675	1,675
Total Public Safety	116,917	116,917	98,419	18,498	18,498
<b>Public Works</b>					
Garage	6,500	6,500	7,068	(568)	(568)
Streets	21,331	21,331	5,517	15,814	15,814
Sick leave	2,500	2,500	1,016	1,484	1,484
Vacation and holiday pay	10,716	10,716	6,377	4,339	4,339
Sidewalks	4,000	4,000	1,185	2,815	2,815
Snow removal	5,300	5,300	6,275	(975)	(975)
Street lighting/signals	19,300	19,300	16,053	3,247	3,247
Tree labor	1,500	1,500	895	605	605
Machinery & equipment	8,500	8,500	6,034	2,466	2,466
Total Public Works	79,647	79,647	50,420	29,227	29,227
<b>Sanitation</b>					
Refuse collection	33,573	33,573	33,280	293	293
Recycling	6,600	6,600	8,778	(2,178)	(2,178)
Total Sanitation	\$ 40,173	\$ 40,173	\$ 42,058	\$ (1,885)	\$ (1,885)

Schedule 2 (Continued)  
Village of Merrillan, Wisconsin  
General Fund  
Detailed Comparison of Budgeted and Actual Expenditures  
Year Ended December 31, 2011

	Budgeted Amounts		Actual	Variances- Positive (Negative)	
	Original	Final		Original to Actual	Final to Actual
Culture and Recreation					
Celebration	\$ 13,000	\$ 13,000	\$ 10,642	\$ 2,358	\$ 2,358
Parks	1,500	1,500	2,990	(1,490)	(1,490)
Total Culture and Recreation	14,500	14,500	13,632	868	868
Health and Human Services					
Cemetery			6,294	(6,294)	(6,294)
Conservation and Development					
Engineering	5,000	5,000		5,000	5,000
Dam expense	800	800	240	560	560
Planning and zoning	1,500	1,500	200	1,300	1,300
Total Conservation and Development	7,300	7,300	440	6,860	6,860
Capital Outlay	10,000	10,000	6,457	3,543	3,543
Total Expenditures	\$ 372,114	\$ 372,114	\$ 312,993	\$ 59,121	\$ 59,121

Schedule 3  
Village of Merrillan, Wisconsin  
Schedule of Operating Revenues and Expenses  
Proprietary Funds  
Year Ended December 31, 2011

	Water Utility	Electric Utility	Subtotal	Sewer Utility	Total
Operating revenues					
Metered sales to general customers	\$ 83,156	\$ 329,111	\$ 412,267	\$ 102,145	\$ 514,412
Sewer revenue flat rate				544	544
Public fire protection service	50,667		50,667		50,667
Other sales public authority	3,968	18,327	22,295		22,295
Street lights		15,659	15,659		15,659
Interdepartmental		4,427	4,427		4,427
Forfeited discounts	316	349	665	449	1,114
PB collections					
Other	1,897	3,320	5,217	538	5,755
Total Operating Revenues	140,004	371,193	511,197	103,676	614,873
Operating Expenses					
Plant operation	29,501		29,501	44,316	73,817
Plant maintenance				9,350	9,350
Power production		256,909	256,909		256,909
Transmission and distribution		7,724	7,724		7,724
Administrative and general	52,152	47,866	100,018	17,573	117,591
Total Operating Expenses	81,653	312,499	394,152	71,239	465,391
Depreciation	36,121	4,693	40,814	37,384	78,198
Taxes	2,889	2,691	5,580		5,580
Operating Income	\$ 22,230	\$ 54,001	\$ 70,651	\$ (4,947)	\$ 65,704



Certified Public Accountants

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Millard W. Johnson ▲ James L. Block ▲ Alan L. Brey ▲ Joseph G. Mohlmann ▲ Kevin P. Krynski ▲ Janice L. Froelich ▲ Jay H. Bennett

#### 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 ("Village") as of and for the year ended December 31, 2011, 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 our auditing procedures 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 significant deficiencies or material weaknesses and therefore there can be no assurance that all such deficiencies have been 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 deficiency in the Village of Merrilan's internal control to be a material weakness:

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.

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 of Merrilan'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.

Other observations are noted on the attached pages.

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 AND COMPANY, INC.*

*Johnson Block and Company, Inc.*

February 27, 2012





Certified Public Accountants

*Quality service through our commitment to clients and staff*

Millard W. Johnson ▲ James L. Block ▲ Alan L. Brey ▲ Joseph G. Mohlmann ▲ Kevin P. Krynski ▲ Janice L. Froelich ▲ Jay H. Bennett

February 27, 2012

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 ("Village") for the year ended December 31, 2011. 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 require that we provide you with the following information related to the audit.

#### Significant Audit Findings

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriations of accounting policies and their application. The significant accounting policies used by the Village are described in Note 1 to the financial statements. As described in Note 1 to the financial statements, the Village adopted Governmental Accounting Standards Board Statement No. 54, Fund Balance reporting and Government Fund Type Definitions for the year ended December 31, 2011. We noted no transactions entered into by the Village during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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.

#### 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. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

### Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, 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 27, 2012.

### 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.

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

Very truly yours,

JOHNSON BLOCK AND COMPANY, INC.

*Johnson Block and Company, Inc.*

# Village of Merrillan, Wisconsin

Reference	Type	Date Account Number	Description	Debit	Credit	Workpaper	Misstatement
PJE01	Potential	12/31/11					
		600-10143-000	A/R WATER	3,312.06			
		600-10216-000	RETAINED EARNINGS - SURPI		2,105.12		
		600-20461-000	RESIDENTIAL METERED/WAT		1,206.94		
		600-10142-000	A/R ELECT/SALES TAX COLLE	10,708.46			
		600-10216-000	RETAINED EARNINGS - SURPI		11,683.03		
		600-30440-000	RESIDENTIAL SALES - ELECTF	974.57			
		Entry to record unbilled revenue.				D-01	
PJE02	Potential	12/31/11					
		610-00232-000	Vouchers Payable		500.00		
		610-00395-000	Construction Work in Progress-Se	500.00			
		To record payable for retainage				AA-2	
		TOTAL		<u>15,495.09</u>	<u>15,495.09</u>		