

AUDITED FINANCIAL STATEMENTS
VILLAGE OF MERRILLAN, WISCONSIN
December 31, 2012

VILLAGE OF MERRILLAN, WISCONSIN
DECEMBER 31, 2012

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INDEPENDENT AUDITOR'S REPORT

To the Village Board
Village of Merrilan, Wisconsin

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Merrilan, Wisconsin ("Village"), as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Village's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and the aggregate remaining fund information of the Village of Merrillan, Wisconsin, as of December 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the Village of Merrillan, Wisconsin adopted the provisions of GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position and GASB Statement No. 65, Items Previously Reported as Assets and Liabilities, for the year ended December 31, 2012. Our opinions are not modified with respect to this matter.

Other-Matters

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on page 37 presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Other Information

The prior year summarized comparative information has been derived from the Village's 2011 financial statement and, in our report dated February 27, 2012, we expressed an unqualified opinion on the respective financial statements of the governmental activities, the business-type activities and the major fund.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village's financial statements as a whole. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such 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.

Other Reporting Required by Government Auditing Standards

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

Johnson Block & Company, Inc.

Johnson Block and Company, Inc.

January 25, 2013
Mineral Point, Wisconsin

BASIC FINANCIAL STATEMENTS

Exhibit A-1
Village of Merrillan, Wisconsin
Statement of Net Position
December 31, 2012
(With summarized financial information as of December 31, 2011)

	Governmental Activities	Business-Type Activities	Total	
			2012	2011
<u>Assets</u>				
Current Assets:				
Cash and investments	\$ 171,491	\$ 523,920	\$ 695,411	\$ 567,035
Receivables				
Taxes	27,204		27,204	26,434
Customer		55,646	55,646	54,191
Special assessments		1,600	1,600	1,900
Due from other governments	5,488	500	5,988	41,736
Materials and supplies		13,981	13,981	14,293
Total current assets	204,183	595,647	799,830	705,589
Restricted Assets:				
Restricted cash and investments		61,670	61,670	45,630
Capital Assets:				
Property, plant and equipment	1,052,112	6,367,425	7,419,537	6,447,373
Less: accumulated depreciation	719,973	2,085,114	2,805,087	2,658,599
Total capital assets	332,139	4,282,311	4,614,450	3,788,774
Other Assets:				
Special assessments receivable		16,100	16,100	21,000
Debt issuance Costs				28,029
Total other assets		16,100	16,100	49,029
Total Assets	\$ 536,322	\$ 4,955,728	\$ 5,492,050	\$ 4,589,022

Exhibit A-1 (Cont'd)
Village of Merrillan, Wisconsin
Statement of Net Position
December 31, 2012
(With summarized financial information as of December 31, 2011)

	Governmental Activities	Business-Type Activities	Total	
			2012	2011
<u>Liabilities</u>				
Current liabilities:				
Accounts payable	\$ 1,168	\$ 23,026	\$ 24,194	\$ 138,514
Accrued and other current liabilities	427	833	1,260	7,674
Accrued interest		10,767	10,767	7,952
Due to other governments	864		864	317
Customer deposits		10,906	10,906	9,106
Current portion of long-term obligations		478,115	478,115	387,396
Total current liabilities	2,459	523,647	526,106	550,959
Current Liabilities Payable from Restricted Assets:				
Current portion of mortgage revenue bonds		12,000	12,000	11,000
Accrued interest		1,464	1,464	858
Total Liabilities Payable from Restricted Assets		13,464	13,464	11,858
Noncurrent liabilities:				
Long-term note		865,000	865,000	822,396
Mortgage revenue bonds		633,717	633,717	198,000
Less: Current Portion		(490,115)	(490,115)	(398,396)
Total noncurrent liabilities		1,008,602	1,008,602	622,000
Total Liabilities	2,459	1,545,713	1,548,172	1,184,817
<u>Deferred inflow of resources:</u>				
Deferred revenues	29,153		29,153	29,153
<u>Net Position</u>				
Net investment in capital assets	332,139	3,002,621	3,334,760	2,768,378
Restricted	10,760	60,206	70,966	56,312
Unrestricted	161,811	347,188	508,999	550,362
Total Net Position	504,710	3,410,015	3,914,725	3,375,052
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$ 536,322	\$ 4,955,728	\$ 5,492,050	\$ 4,589,022

Exhibit A-2
Village of Merrilan, Wisconsin
Statement of Activities
For the Year Ended December 31, 2012
(With summarized financial information as of December 31, 2011)

	Program Revenues				Net (Expenses) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Government Activities	Business Type Activities	Total
							2012 2011
Primary Government:							
<u>Governmental activities:</u>							
General government	\$ 101,288	\$ 4,873	\$	\$	\$ (96,415)	\$	\$ (96,415) \$ (97,531)
Public safety	131,635	23,407	681		(107,547)		(107,547) (106,590)
Public works	87,913		19,916		(67,997)		(67,997) (45,416)
Sanitation	37,056				(37,056)		(37,056) (42,058)
Health and human services	6,191				(6,191)		(6,191) (6,294)
Culture and recreation	12,309	7,383			(4,926)		(4,926) (1,669)
Conservation and development	2,511				(2,511)		(2,511) (440)
Total Expenses	378,903	35,663	20,597		(322,643)		(322,643) (299,998)
<u>Business-type activities:</u>							
Water and electric	500,086	530,013	243,363			273,290	273,290 48,568
Sewer	169,024	110,155	415,535			356,666	356,666 350,464
Total business-type activities	669,110	640,168	658,898			629,956	629,956 399,032
Total primary government	1,048,013	675,831	679,495		(322,643)	629,956	307,313 99,034
General Revenues and Transfers:							
Property Taxes							
General purposes					29,153		29,153 28,888
Other taxes					2,561		2,561 4,807
Federal and State aid not restricted for specific purposes							
General					188,149		188,149 188,597
Interest and investment earnings					3,255	3,018	6,273 7,202
Miscellaneous					6,224		6,224 1,756
Transfers					36,061	(36,061)	
Total general revenues and transfers					265,403	(33,043)	232,360 231,250
Changes in net position					(57,240)	596,913	539,673 330,284
Net position-beginning of year					561,950	2,813,102	3,375,052 3,044,768
Net position-end of year					\$ 504,710	\$ 3,410,015	\$ 3,914,725 \$ 3,375,052

Exhibit A-3
Village of Merrilan, Wisconsin
Balance Sheet
Governmental Funds
December 31, 2012
(With summarized financial information as of December 31, 2011)

		Total	
		Governmental Funds	
	General	2012	2011
<u>Assets</u>			
Cash and Investments	\$ 171,491	\$ 171,491	\$ 185,544
Receivables:			
Taxes	27,204	27,204	26,434
Due from other governments	5,488	5,488	2,603
Total Assets	\$ 204,183	\$ 204,183	\$ 214,581
<u>Liabilities:</u>			
Accounts payable	\$ 1,168	\$ 1,168	\$ 3,265
Accrued payroll liabilities	427	427	2,675
Due to other governments	864	864	317
Total Liabilities	2,459	2,459	6,257
<u>Deferred Inflow of Resources:</u>			
Deferred property tax revenue	29,153	29,153	29,153
<u>Fund Equity:</u>			
Fund Balance:			
Restricted	49,763	49,763	51,753
Assigned for future tax levy			38,478
Unassigned	122,808	122,808	88,940
Total Fund Equity	172,571	172,571	179,171
Total Liabilities, Deferred Inflow of Resources, and Fund Equity	\$ 204,183	\$ 204,183	\$ 214,581

Exhibit A-4
Village of Merrilan, Wisconsin
Reconciliation of the Governmental Funds Balance Sheet
with the Statement of Net Position
December 31, 2012
(With summarized financial information as of December 31, 2011)

	<u>2012</u>	<u>2011</u>
Amounts reported for governmental activities in the statement of net position are different because:		
Total Fund balances-governmental funds:	\$ 172,571	\$ 179,171
Capital assets used in governmental funds are not financial resources and therefore are not reported in the fund statements. Amounts reported for governmental activities in the statement of net position:		
Governmental capital asset	1,052,112	
Governmental accumulated depreciation	<u>(719,973)</u>	<u>332,139</u>
		382,779
Net Position of Governmental Funds	<u>\$ 504,710</u>	<u>\$ 561,950</u>

Exhibit A-5
Village of Merrillan, Wisconsin
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2012
(With summarized financial information for the year ended December 31, 2011)

		Total	
		Governmental Funds	
	General	2012	2011
<u>Revenues:</u>			
Taxes	\$ 32,680	\$ 32,680	\$ 33,695
Intergovernmental	207,781	207,781	211,387
Licenses and permits	7,728	7,728	6,783
Public charges for services	11,627	11,627	11,113
Intergovernmental charges for services	18,437	18,437	20,113
Interest and investment earnings	3,255	3,255	2,931
Miscellaneous	4,094	4,094	1,045
Total Revenues	285,602	285,602	287,067
<u>Expenditures:</u>			
Current:			
General government	95,892	95,892	95,273
Public safety	105,246	105,246	98,419
Public works	62,894	62,894	50,420
Sanitation	37,056	37,056	42,058
Health and human services	6,191	6,191	6,294
Culture and recreation	10,579	10,579	13,632
Conservation and development	2,511	2,511	440
Capital Outlay:			
Public works	7,894	7,894	6,457
Total Expenditures	328,263	328,263	312,993
Excess of Revenues Over (Under) Expenditures	(42,661)	(42,661)	(25,926)
<u>Other Financing Sources (Uses):</u>			
Transfer from utility - tax equivalent	36,061	36,061	35,097
Total Other Financing Sources (Uses):	36,061	36,061	35,097
Net Change in Fund Balances	(6,600)	(6,600)	9,171
Fund Balance January 1	179,171	179,171	170,000
Fund Balance December 31	\$ 172,571	\$ 172,571	\$ 179,171

Exhibit A-6
Village of Merrillan, 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, 2012
(With summarized financial information for the year ended December 31, 2011)

	<u>2012</u>	<u>2011</u>
Net change in fund balances-total governmental funds	\$ (6,600)	\$ 9,171
Amounts reported for governmental activities in the statement of activities are different because:		
The acquisition of capital assets are reported in the governmental funds as expenditures. However, for governmental activities those costs are shown in the statement of net position and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities.		
Capital outlay reported in governmental fund statements	1,189	6,457
Depreciation expenses reported in the statement of activities	<u>(51,829)</u>	<u>(53,865)</u>
Amount by which capital outlays are greater (less) than depreciation in the current period.	<u>(50,640)</u>	<u>(47,408)</u>
Change in net position-governmental activities	<u>\$ (57,240)</u>	<u>\$ (38,237)</u>

Exhibit A-7
Village of Merrilan, Wisconsin
Statement of Net Position
Proprietary Funds
December 31, 2012

(With summarized financial information as of December 31, 2011)

Assets	Electric & Water Utility	Sewer Utility	Total	
			2012	2011
<u>Current Assets:</u>				
Cash and investments	\$ 574,614	\$ (50,694)	\$ 523,920	\$ 381,491
Receivables:				
Customer	43,945	11,701	55,646	54,191
Special assessments-current	850	750	1,600	1,900
Due from other governments		500	500	39,133
Materials and supplies	13,981		13,981	14,293
Total Current Assets	633,390	(37,743)	595,647	491,008
<u>Restricted Assets:</u>				
Special redemption fund		20,841	20,841	8,360
Bond depreciation fund		40,829	40,829	37,270
Total Restricted Assets		61,670	61,670	45,630
<u>Fixed Assets:</u>				
Water and electric	3,319,113		3,319,113	2,836,741
Sewerage plant		3,048,312	3,048,312	2,559,709
Less: accumulated depreciation:	(1,317,534)	(767,580)	(2,085,114)	(1,990,455)
Net Property and Plant	2,001,579	2,280,732	4,282,311	3,405,995
<u>Other Assets:</u>				
Special assessments	8,600	7,500	16,100	21,000
Debt issuance Costs				28,029
Total Other Assets	8,600	7,500	16,100	49,029
Total Assets	\$ 2,643,569	\$ 2,312,159	\$ 4,955,728	\$ 3,991,662

Exhibit A-7 (Cont'd)
Village of Merrillan, Wisconsin
Statement of Net Position
Proprietary Funds
December 31, 2012

(With summarized financial information as of December 31, 2011)

	Electric & Water Utility	Sewer Utility	Total	
			2012	2011
Liabilities and Equity				
<u>Current Liabilities:</u>				
Accounts payable	\$ 22,369	\$ 657	\$ 23,026	\$ 135,249
Accrued and other current liabilities	730	103	833	4,999
Accrued interest	9,948	819	10,767	7,952
Customer deposits	10,906		10,906	9,106
Current portion of long-term debt	469,641	8,474	478,115	387,396
Total Current Liabilities	513,594	10,053	523,647	544,702
<u>Current Liabilities</u>				
(Payable from Restricted Assets):				
Current portion of long-term obligations		12,000	12,000	11,000
Accrued interest		1,464	1,464	858
Total Liabilities Payable from Restricted Assets		13,464	13,464	11,858
<u>Long-term Debt:</u>				
Long-term note	865,000		865,000	822,396
Mortgage revenue bonds	219,027	414,690	633,717	198,000
Less: current portion	(469,641)	(20,474)	(490,115)	(398,396)
Total Long-Term Debt	614,386	394,216	1,008,602	622,000
Total Liabilities	1,127,980	417,733	1,545,713	1,178,560
<u>Net Position:</u>				
Net investment in capital assets	1,136,579	1,866,042	3,002,621	2,385,599
Restricted		60,206	60,206	44,772
Unrestricted	379,010	(31,822)	347,188	382,731
Total Net Position	1,515,589	1,894,426	3,410,015	2,813,102
Total Equity	1,515,589	1,894,426	3,410,015	2,813,102
Total Liabilities and Equity	\$ 2,643,569	\$ 2,312,159	\$ 4,955,728	\$ 3,991,662

Exhibit A-8
Village of Merrilan, Wisconsin
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
For the Year Ended December 31, 2012
(With summarized financial information for the year ended December 31, 2011)

	Water & Electric Utility	Sewer Utility	Total	
			2012	2011
<u>Operating Revenues:</u>				
Water & Electric	\$ 523,592	\$	\$ 523,592	\$ 505,980
Sewer Service		110,155	110,155	103,138
Other	6,421		6,421	5,755
Total Operating Revenues	530,013	110,155	640,168	614,873
<u>Operating Expenses:</u>				
Operation and Maintenance	405,362	88,558	493,920	465,391
Depreciation Expense	45,962	48,951	94,913	78,198
Taxes	5,644		5,644	5,580
Total Operating Expenses	456,968	137,509	594,477	549,169
Total Operating Income	73,045	(27,354)	45,691	65,704
<u>Nonoperating Revenues (Expenses):</u>				
Interest Expense	(20,931)	(15,673)	(36,604)	(30,896)
Amortization Expense	(22,187)	(15,842)	(38,029)	(5,843)
Miscellaneous Income				315
Interest Income	2,006	1,012	3,018	4,271
Total Net Nonoperating Revenues (Expenses)	(41,112)	(30,503)	(71,615)	(32,153)
Income before contributions and transfers	31,933	(57,857)	(25,924)	33,551
Capital Contributions	243,363	415,535	658,898	370,067
Transfer of Tax Equivalent	(36,061)		(36,061)	(35,097)
Changes in Net Position	239,235	357,678	596,913	368,521
Net Position - January 1	1,276,354	1,536,748	2,813,102	2,444,581
Net Position - December 31	\$ 1,515,589	\$ 1,894,426	\$ 3,410,015	\$ 2,813,102

Exhibit A-9
Village of Merrilan, Wisconsin
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2012
(With summarized financial information for the year ended December 31, 2011)

	Business Type Activities- Enterprise Funds		Totals	
	Electric & Water Utility	Sewer Utility	2012	2011
<u>Cash Flows From (Used by) Operating Activities:</u>				
Received from customers	\$ 528,126	\$ 149,220	\$ 677,346	\$ 574,850
Payments to employees	(58,572)	(23,034)	(81,606)	(72,596)
Payments for employee benefits	(43,160)	(9,824)	(52,984)	(56,850)
Payments to suppliers	(351,829)	(126,656)	(478,485)	(340,144)
Net Cash Flows From (Used by) Operating Activities	74,565	(10,294)	64,271	105,260
<u>Cash Flows (Used by) Noncapital Financing Activities:</u>				
Paid to municipality for tax equivalent	(36,061)		(36,061)	(35,097)
Net Cash Flows (Used by) Noncapital Financing Activities	(36,061)		(36,061)	(35,097)
<u>Cash Flows From (Used by) Capital and Related Financing Activities:</u>				
Acquisition and construction of capital assets	(483,392)	(488,603)	(971,995)	(727,753)
Contributed capital				539
Grant proceeds	243,363	415,535	658,898	369,528
Receipt of special assessments	2,650	2,550	5,200	1,900
Proceeds from long-term debt	655,449	227,690	883,139	822,396
Debt issue costs paid	(5,000)	(5,000)	(10,000)	(24,484)
Debt retired	(204,180)	(200,638)	(404,818)	(476,762)
Interest paid	(18,318)	(14,865)	(33,183)	(41,417)
Net Cash Flows From (Used by) Capital and Related Financing Activities	190,572	(63,331)	127,241	(76,053)
<u>Cash Flows From (Used by) Investing Activities:</u>				
Interest income	2,006	1,012	3,018	4,586
Purchase of investments	(97,901)	(40,829)	(138,730)	(131,262)
Proceeds of investments maturing	93,992	37,270	131,262	123,128
Net Cash Flows (Used by) Investing Activities	(1,903)	(2,547)	(4,450)	(3,548)
Net change in Cash and Cash Equivalents	227,173	(76,172)	151,001	(9,438)
Cash and Cash Equivalents - Beginning of Year	249,540	46,319	295,859	305,297
Cash and Cash Equivalents - End of Year	\$ 476,713	\$ (29,853)	\$ 446,860	\$ 295,859

Exhibit A-9 (Cont'd)
Village of Merrillan, Wisconsin
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2012
(With summarized financial information for the year ended December 31, 2011)

	Business Type Activities- Enterprise Funds		Totals	
	Electric & Water Utility	Sewer Utility	2012	2011
<u>Reconciliation of operating income to net cash provided</u>				
<u>by operating activities:</u>				
Operating Income (Loss)	\$ 73,045	\$ (27,354)	\$ 45,691	\$ 65,704
Noncash items in operating income:				
Depreciation Expense	46,728	48,951	95,679	78,956
Amortization of major repair				
Changes in assets and liabilities:				
Customer accounts receivable	(1,887)	432	(1,455)	(890)
Other accounts receivable		38,633	38,633	(39,133)
Material and supplies	312		312	(3,583)
Accounts payable	(41,877)	(70,346)	(112,223)	3,011
Accrued and other current liabilities	(3,556)	(610)	(4,166)	(151)
Customer deposits	1,800		1,800	1,346
Net Cash Provided by Operating Activities	\$ 74,565	\$ (10,294)	\$ 64,271	\$ 105,260
 <u>Reconciliation of Cash and Cash Equivalents to</u>				
<u>Statement of Net Position Accounts</u>				
Cash and investments	\$ 574,614	\$ (50,694)	\$ 523,920	\$ 381,491
Restricted cash and investments		61,670	61,670	45,630
Cash and Cash Equivalents	574,614	10,976	585,590	427,121
Less: Non-cash Equivalents	(97,901)	(40,829)	(138,730)	(131,262)
Cash and Cash Equivalents	\$ 476,713	\$ (29,853)	\$ 446,860	\$ 295,859

Exhibit A-10
Village of Merrilan, Wisconsin
Statement of Net Position
Fiduciary Funds
December 31, 2012
(With summarized financial information as of December 31, 2011)

	Tax Collection Fund	Totals	
		2012	2011
Assets			
Cash and investments	\$ 101,199	\$ 101,199	\$ 83,864
Taxes receivable	235,450	235,450	258,981
Total Assets	\$ 336,649	\$ 336,649	\$ 342,845
Liabilities			
Due to other taxing units	\$ 336,649	\$ 336,649	\$ 342,845
Total Liabilities	\$ 336,649	\$ 336,649	\$ 342,845

Village of Merrillan, Wisconsin
Notes to the Basic Financial Statements
December 31, 2012

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 Merrilan, Wisconsin
Notes to the Basic Financial Statements
December 31, 2012

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 inflow of resources. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider are met. Special assessments are recorded as revenue when earned. Unbilled receivables are recorded as revenues when services are provided.

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 Merrilan, Wisconsin
Notes to the Basic Financial Statements
December 31, 2012

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 inflows of resources. They are recognized as revenues in the succeeding year when services financed by the levy are being provided.

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

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

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

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

Village of Merrillan, Wisconsin
Notes to the Basic Financial Statements
December 31, 2012

NOTE 1

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the electric and water utility and sewer utility are charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administration expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Revenues and expenditures arising from non-exchange transactions, such as property and sales taxes, fines, and grants are recorded according to the standards in Governmental Accounting Standards 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 Merrilan, Wisconsin
Notes to the Basic Financial Statements
December 31, 2012

NOTE 1

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property tax calendar - 2012 tax roll:

Lien date and levy date	December 2012
Tax bills mailed	December 2012
Payment in full, or	January 31, 2012
First installment due	January 31, 2012
Second installment due	July 31, 2012
Personal property taxes in full	January 31, 2012
Tax sale- 2012 delinquent real estate taxes	October 2014

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 Merrilan, Wisconsin
Notes to the Basic Financial Statements
December 31, 2012

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. 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, 2012

NOTE 1

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Claims and Judgments

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

K. Long-Term Obligations

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

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

L. Equity Classifications

Government-Wide Statements

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

- a. Net investment in capital assets - Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt.
- b. Restricted net position - 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 position - All other net assets that do not meet the definition of "restricted" or "net investment in capital assets."

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

Village of Merrillan, Wisconsin
Notes to the Basic Financial Statements
December 31, 2012

NOTE 1

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Statements

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

- Non-Spendable – includes amounts that are not in a spendable form (such as inventory) or are required to be maintained intact.
- Restricted – includes amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government) through constitutional provisions, or by enabling legislation.
- Committed – includes amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint.
- Assigned – includes amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority.
- 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.

M. 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, 2012

NOTE 1

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Transfers

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

O. Income Tax

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

P. 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.

Q. 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.

R. 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.

S. 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.

T. 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, 2011, from which the summarized information was derived.

U. Accounting Change

Beginning with the year ending December 31, 2012, the Village implemented GASB Statement No. 63 "Financial Reporting of Deferred Outflows or Resources, Deferred Inflows of Resources, and Net Position" and GASB Statement No. 65 "Items Previously Reports as Assets and Liabilities." The Village has deferred inflow of resources which represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. Prior year summarized comparative information does not reflect these changes.

Village of Merrillan, Wisconsin
Notes to the Basic Financial Statements
December 31, 2012

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, 2012, cash and investments included the following:

Petty Cash	\$ 250
Deposits with financial institutions	858,030
Total cash and investments	<u>\$ 858,280</u>

Cash and investments as of December 31, 2012 are classified in the accompanying financial statements as follows:

Exhibit A-1:	
Cash and investments	\$ 695,411
Cash and investments-restricted	61,670
Exhibit A-10:	
Cash and investments	101,199
Total cash and investments	<u>\$ 858,280</u>

Village of Merrilan, Wisconsin
Notes to the Basic Financial Statements
December 31, 2012

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, 2012

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 Merrilan, Wisconsin
Notes to the Basic Financial Statements
December 31, 2012

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 Village participate in the Dodd-Frank Act. Under this program, the FDIC provides unlimited protection to all noninterest-bearing accounts through December 31, 2012. Beginning January 1, 2013, noninterest-bearing transaction accounts will no longer be insured separately from depositors' other accounts at the same financial institution. Instead, noninterest-bearing transaction accounts will be added to any of the depositor's other accounts in the applicable ownership category, and the aggregate balance insured up to at least the Standard Maximum Deposit Insurance Amount (SMDIA) of \$250,000, per depositor, at each separately chartered financial institution. 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, 2012, \$364,021 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>\$ 364,021</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.

Village of Merrilan, Wisconsin
Notes to the Basic Financial Statements
December 31, 2012

NOTE 3

CASH AND INVESTMENTS (CONTINUED)

Concentration of Credit Risk

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

NOTE 4

RESTRICTED ASSETS

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

NOTE 5

DEFERRED INFLOW OF RESOURCES

Governmental funds report deferred inflow of resources in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Property taxes receivable for the subsequent year are not earned and cannot be used to liquidate liabilities of the current period. Governmental funds also defer inflow of resource recognition in connection with resources that have been received, but not yet earned. At December 31, 2012 the various components of deferred inflow of resources reported in the governmental funds was as follows:

Tax roll	<u>\$ 29,153</u>
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Village of Merrilan, Wisconsin
Notes to the Basic Financial Statements
December 31, 2012

NOTE 6

CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2012 was as follows:

	Balance 12/31/11	Additions	Deductions	Balance 12/31/12
<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	30,879			30,879
Machinery and equipment	80,699			80,699
Vehicles	485,345	1,189		486,534
Total other capital assets at historical costs	<u>1,028,205</u>	<u>1,189</u>		<u>1,029,394</u>
Less accumulated depreciation:				
Buildings and improvements	326,319	8,625		334,944
Infrastructure	5,089	977		6,066
Machinery and equipment	54,470	10,404		64,874
Vehicles	282,266	31,823		314,089
Total accumulated depreciation	<u>668,144</u>	<u>51,829</u>		<u>719,973</u>
Net other capital assets	<u>360,061</u>	<u>(50,640)</u>		<u>309,421</u>
Total net capital assets	<u>\$ 382,779</u>	<u>\$ (50,640)</u>	<u>\$</u>	<u>\$ 332,139</u>

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	\$ 6,585
Public safety	26,389
Public works	17,125
Culture and recreation	1,730
Total depreciation for governmental activities	<u>\$ 51,829</u>

Village of Merrillan, Wisconsin
Notes to the Basic Financial Statements
December 31, 2012

NOTE 6

CAPITAL ASSETS (CONTINUED)

	Balance 12/31/11	Additions	Deductions	Balance 12/31/12
<u>Business-Type Activities:</u>				
Capital assets not being depreciated:				
Intangible plant				
Land and land rights	\$ 33,975	\$	\$	\$ 33,975
Construction work in progress	925,705	929,271	(1,846,248)	8,728
Total capital assets not being depreciated	959,680	929,271	(1,846,248)	42,703
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	719,905	(1,020)	2,409,370
General plant	23,714	17,878		41,592
Sewer:				
Structures and improvements	810,150			810,150
Transmission and distribution	934,373	1,126,971		2,061,344
Pumping equipment	74,227	5,151		79,378
Miscellaneous equipment	49,896	17,878		67,774
Electric:				
Structures and improvements	133,778			133,778
Transmission and distribution	497,535			497,535
General plant	59,563	1,189		60,752
Total capital assets being depreciated	4,436,770	1,888,972	(1,020)	6,324,722
Total accumulated depreciation	1,990,455	95,679	(1,020)	2,085,114
Net capital assets being depreciated	2,446,315	1,793,293		4,239,608
Total net capital assets	\$ 3,405,995	\$ 2,722,564	\$ (1,846,248)	\$ 4,282,311

Depreciation expense was charged to functions as follows:

<u>Business-Type Activities:</u>	
Electric and Water	\$ 46,728
Sewer	48,951
Total depreciation expense	95,679
Less: Electric and Water depreciation expense allocated to sewer	(766)
Total depreciation expense per Exhibit A-8	\$ 94,913

Village of Merrilan, Wisconsin
Notes to the Basic Financial Statements
December 31, 2012

NOTE 7

LONG-TERM OBLIGATIONS

Long-term obligations activity for the year ended December 31, 2012 was as follows:

	Beginning 12/31/11	Increases	Decreases	Balance 12/31/12	Amounts Due Within One Year
<u>Business –Type Activities</u>					
Notes Payable	\$ 822,396	\$ 436,422	\$ (393,818)	\$ 865,000	\$ 460,000
Mortgage Revenue Bonds	198,000	446,717	(11,000)	633,717	30,115
 Total Business-Type Activities					
Long-Term Liabilities	\$ <u>1,020,396</u>	\$ <u>883,139</u>	\$ <u>(404,818)</u>	\$ <u>1,498,717</u>	\$ <u>490,115</u>

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, 2012 was \$920,715. There was \$865,000 of general obligation debt outstanding at year-end as follows:

	Date of Issue	Final Maturity	Interest Rates	Original Amount	Balance 12/31/2012
G.O. Refunding Bonds	7/6/2011	3/1/2024	1.7-4.0%	\$ 465,000	\$ 435,000
Anticipation Notes	6/13/2012	6/1/2013	2.25%	\$ 430,000	430,000
Total Business-Type General Obligation Debt					<u>\$ 865,000</u>

Debt service requirements to maturity are as follows:

Years	Governmental Activities		
	Principal	Interest	Total
2013	\$ 460,000	\$ 21,753	\$ 481,753
2014	30,000	11,890	41,890
2015	35,000	11,337	46,337
2016	35,000	10,620	45,620
2017	35,000	9,780	44,780
2018-2022	185,000	33,580	218,580
2023-2024	85,000	3,500	88,500
Totals	\$ <u>865,000</u>	\$ <u>102,460</u>	\$ <u>967,460</u>

Village of Merrillan, Wisconsin
Notes to the Basic Financial Statements
December 31, 2012

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, 2012 consists of the following:

	Date of Issue	Final Maturity	Interest Rates	Original Amount	Balance 12/31/2012
Revenue Bonds	12/1/2004	12/1/2024	4.5-5.85%	\$ 217,000	\$ 187,000
Revenue Bonds	5/23/2012	5/1/2032	3.00%	\$ 227,690	227,690
Revenue Bonds	5/23/2012	5/1/2032	1.32%	\$ 219,027	219,027
Total Business-Type Activities Revenue Debt					<u>\$ 633,717</u>

Debt service requirements to maturity are as follows:

Year	Principal	Interest	Total
2013	\$ 30,115	\$ 19,364	\$ 49,479
2014	30,496	18,438	48,934
2015	31,869	17,472	49,341
2016	33,287	16,417	49,704
2017	33,697	15,288	48,985
2018-2022	188,002	57,929	245,931
2023-2027	155,890	24,418	180,308
2028-2032	130,343	7,390	137,733
Totals	<u>\$ 633,699</u>	<u>\$ 176,716</u>	<u>\$ 810,415</u>

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

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 \$20,841.

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, 2012

NOTE 7

LONG-TERM OBLIGATIONS (CONTINUED)

The balance in this account at December 31, 2012 was as follows:

	<u>Depreciation</u>
Sewer Utility	<u>\$ 40,829</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 2012.

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	\$ 36,061
	Total	<u>\$ 36,061</u>
Proprietary Funds:		
General	Water utility-tax equivalent	\$ 36,061
	Total	<u>\$ 36,061</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, 2012 includes the following items:

Major Funds:	
General Fund:	
Restricted	
EMS activities	\$ 3,743
Fire department	7,017
Cemetery	39,003
Total	<u>\$ 49,763</u>

Village of Merrillan, Wisconsin
Notes to the Basic Financial Statements
December 31, 2012

NOTE 10

GOVERNMENTAL ACTIVITIES NET POSITION

Governmental activities net assets reported on the government wide statement of net assets at December 31, 2012 includes the following:

Net investment in capital assets:	
Land	\$ 18,483
Other capital assets, net of accumulated depreciation	313,656
Total Invested Capital Assets	<u>332,139</u>
Restricted for:	
EMS activities	3,743
Fire department	7,017
Cemetery	39,003
Total Restricted	<u>49,763</u>
Unrestricted	122,808
Total Governmental Activities Net Position	<u>\$ 504,710</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>\$ 60,206</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

COMMITMENTS

At December 31, 2012, the Village's construction commitment related to an uncompleted utility project was approximately \$840,000.

Required Supplementary Information

Exhibit B-1
Required Supplementary Information
Village of Merrilan, Wisconsin
Budgetary Comparison Schedule for the General Fund
For the Year Ended December 31, 2012

	Budgeted Amounts		Actual	Variances- Positive (Negative)	
	Original	Final		Original to Actual	Final to Actual
<u>Revenues:</u>					
Taxes	\$ 32,953	\$ 32,953	\$ 32,680	\$ (273)	\$ (273)
Intergovernmental	207,753	207,753	207,781	28	28
Licenses and permits	9,615	9,615	7,728	(1,887)	(1,887)
Intergovernmental charges for services	14,649	14,649	18,437	3,788	3,788
Public charges for services	5,070	5,070	11,627	6,557	6,557
Interest and investment earnings	2,000	2,000	3,255	1,255	1,255
Miscellaneous	3,250	4,150	4,094	844	(56)
Total Revenues	275,290	276,190	285,602	10,312	9,412
<u>Expenditures:</u>					
Current:					
General government	102,140	102,140	95,892	6,248	6,248
Public safety	104,856	105,756	105,246	(390)	510
Public works	73,832	73,832	62,894	10,938	10,938
Sanitation	42,640	42,640	37,056	5,584	5,584
Health and human services			6,191	(6,191)	(6,191)
Leisure activities	10,500	10,500	10,579	(79)	(79)
Conservation and development	4,800	4,800	2,511	2,289	2,289
Capital outlay:	10,000	10,000	7,894	2,106	2,106
Total Expenditures	348,768	349,668	328,263	20,505	21,405
Excess Revenues Over Expenditures	(73,478)	(73,478)	(42,661)	30,817	30,817
<u>Other Financing Sources:</u>					
Transfer from utility - tax equivalent	35,000	35,000	36,061	1,061	1,061
Net Change in Fund Balance	(38,478)	(38,478)	(6,600)	31,878	31,878
Fund Balance - Beginning of year	179,171	179,171	179,171		
Fund Balance - End of year	\$ 140,693	\$ 140,693	\$ 172,571	\$ 31,878	\$ 31,878

Village of Merrilan, Wisconsin
Notes to Required Supplementary Information
December 31, 2012

NOTE 1

BUDGET SCHEDULE

The Village budget is adopted in accordance with state law. Budget amounts in the financial statements include appropriations authorized in the original budget resolution and subsequent revisions authorized by the Village board. Such revisions are required by a statutory provision which states that no expenditure can be made from an expired appropriation. The statutes also require publication of these budget revisions. Revisions require a two-thirds vote of the Village Board. Appropriations for the general fund lapse at year end unless specifically carried forward by Board action.

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

NOTE 2

EXCESS EXPENDITURES OVER APPROPRIATIONS

The following expenditures exceeded budget appropriations in the general fund for the year ended December 31, 2012:

<u>Expenditure</u>	<u>Excess Expenditures</u>
Health and human services	\$ 6,191
Leisure activities	79

Schedules

Schedule 1
Village of Merrilan, Wisconsin
General Fund
Detailed Comparison of Budgeted and Actual Revenues
Year Ended December 31, 2012

	Budgeted Amounts		Actual	Variances- Positive (Negative)	
	Original	Final		Original to Actual	Final to Actual
Taxes					
General property	\$ 29,153	\$ 29,153	\$ 29,153	\$	\$
Mobile home taxes	3,800	3,800	3,527	(273)	(273)
Total Taxes	32,953	32,953	32,680	(273)	(273)
Intergovernmental					
State shared taxes	187,177	187,177	187,177		
State aid - fire insurance dues	660	660	682	22	22
State aid - exempt computer aid			6	6	6
State aid - highways	19,916	19,916	19,916		
Total Intergovernmental	207,753	207,753	207,781	28	28
Licenses, Permits and Fines					
Cigarette licenses	210	210	245	35	35
Liquor licenses	1,880	1,880	2,246	366	366
Beer garden permit	75	75	100	25	25
Operator licenses	600	600	770	170	170
Mobile home park licenses	200	200	200		
Dog and cat licenses	750	750	801	51	51
Building permits	1,500	1,500	1,840	340	340
Zoning permits	400	400	250	(150)	(150)
Ordinance violations	4,000	4,000	1,276	(2,724)	(2,724)
Total Licenses, Permits and Fines	9,615	9,615	7,728	(1,887)	(1,887)
Intergovernmental Charges for Services					
Fire protection - Dewhursts, Alma	13,454	13,454	13,454		
State charge fire	600	600	2,227	1,627	1,627
Intergovernmental charge for fire contracts	595	595	2,756	2,161	2,161
Total Intergovernmental Charges for Services	14,649	14,649	18,437	3,788	3,788
Public Charges for Services					
Sale of copies	200	200	103	(97)	(97)
Police department	360	360	40	(320)	(320)
Public charges	100	100	157	57	57
Cemetery			4,503	4,503	4,503
License publication fees	50	50	15	(35)	(35)
Parks	2,760	2,760	2,880	120	120
Fire department public charges	400	400	2,579	2,179	2,179
Hall rent	1,200	1,200	1,350	150	150
Total Public Charges for Services	\$ 5,070	\$ 5,070	\$ 11,627	\$ 6,557	\$ 6,557

Schedule 1 (Continued)
Village of Merrilan, Wisconsin
General Fund
Detailed Comparison of Budgeted and Actual Revenues
Year Ended December 31, 2012

	Budgeted Amounts		Actual	Variances- Positive (Negative)	
	Original	Final		Original to Actual	Final to Actual
Investment Income					
Interest	\$ 2,000	\$ 2,000	\$ 3,255	\$ 1,255	\$ 1,255
Total	2,000	2,000	3,255	1,255	1,255
Miscellaneous					
Donations	250	250	72	(178)	(178)
EMS donations			(582)	(582)	(582)
Fire department donations			(198)	(198)	(198)
Insurance refunds	3,000	3,000	3,052	52	52
Other income		900	1,750	1,750	850
Total Miscellaneous	3,250	4,150	4,094	844	(56)
Total Revenues	\$ 275,290	\$ 276,190	\$ 285,602	\$ 10,312	\$ 9,412

Schedule 2
Village of Merrilan, Wisconsin
General Fund
Detailed Comparison of Budgeted and Actual Expenditures
Year Ended December 31, 2012

	Budgeted Amounts		Actual	Variances- Positive (Negative)	
	Original	Final		Original to Actual	Final to Actual
General Government					
Village board	\$ 3,600	\$ 3,600	\$ 3,100	\$ 500	\$ 500
Board of review	200	200	292	(92)	(92)
Board committees	1,800	1,800	1,873	(73)	(73)
Clerk/treasurer	17,300	17,300	13,883	3,417	3,417
Elections	3,000	3,000	6,188	(3,188)	(3,188)
Office expense	7,000	7,000	4,711	2,289	2,289
President expense	200	200		200	200
President salary	2,640	2,640	2,680	(40)	(40)
Auditing	6,400	6,400	5,445	955	955
Legal fees	1,800	1,800	1,650	150	150
Attorney			716	(716)	(716)
Assessment of property	5,000	5,000	5,000		
Hall	10,300	10,300	8,072	2,228	2,228
Social security taxes	6,900	6,900	6,712	188	188
Liability and property insurance	10,500	10,500	9,086	1,414	1,414
Employee bonds	200	200	128	72	72
Health insurance and retirement	20,200	20,200	26,356	(6,156)	(6,156)
Misc Expense	100	100		100	100
Contingency	5,000	5,000		5,000	5,000
Total General Government	102,140	102,140	95,892	6,248	6,248
Public Safety					
Police department	36,494	36,494	30,197	6,297	6,297
Fire department	18,578	19,478	26,049	(7,471)	(6,571)
Hydrant rental	48,784	48,784	47,284	1,500	1,500
Building inspection	1,000	1,000	1,716	(716)	(716)
Total Public Safety	104,856	105,756	105,246	(390)	510
Public Works					
Garage	6,200	6,200	7,616	(1,416)	(1,416)
Streets	24,932	24,932	14,770	10,162	10,162
Sick leave	2,000	2,000	4,017	(2,017)	(2,017)
Vacation and holiday pay	7,200	7,200	7,664	(464)	(464)
Sidewalks	2,000	2,000	862	1,138	1,138
Snow removal	6,500	6,500	3,215	3,285	3,285
Street lighting/signals	17,000	17,000	13,900	3,100	3,100
Tree labor	1,500	1,500	747	753	753
Machinery & equipment	6,500	6,500	10,103	(3,603)	(3,603)
Total Public Works	73,832	73,832	62,894	10,938	10,938
Sanitation					
Refuse collection	34,540	34,540	31,127	3,413	3,413
Recycling	8,100	8,100	5,929	2,171	2,171
Total Sanitation	\$ 42,640	\$ 42,640	\$ 37,056	\$ 5,584	\$ 5,584

Schedule 2 (Continued)
Village of Merrilan, Wisconsin
General Fund
Detailed Comparison of Budgeted and Actual Expenditures
Year Ended December 31, 2012

	Budgeted Amounts		Actual	Variances- Positive (Negative)	
	Original	Final		Original to Actual	Final to Actual
Culture and Recreation					
Celebration	\$ 9,000	\$ 9,000	\$ 9,267	\$ (267)	\$ (267)
Parks	1,500	1,500	1,312	188	188
Total Culture and Recreation	10,500	10,500	10,579	(79)	(79)
Health and Human Services					
Cemetery			6,191	(6,191)	(6,191)
Conservation and Development					
Engineering	1,000	1,000		1,000	1,000
Dam expense	3,300	3,300	2,250	1,050	1,050
Planning and zoning	500	500	261	239	239
Total Conservation and Development	4,800	4,800	2,511	2,289	2,289
Capital Outlay	10,000	10,000	7,894	2,106	2,106
Total Expenditures	\$ 348,768	\$ 349,668	\$ 328,263	\$ 20,505	\$ 21,405

Schedule 3
Village of Merrillan, Wisconsin
Schedule of Operating Revenues and Expenses
Proprietary Funds
Year Ended December 31, 2012

	Water Utility	Electric Utility	Subtotal	Sewer Utility	Total
Operating revenues					
Metered sales to general customers	\$ 134,939	\$ 300,212	\$ 435,151	\$ 109,129	\$ 544,280
Sewer revenue flat rate				534	534
Public fire protection service	47,284		47,284		47,284
Other sales public authority	5,222	17,125	22,347		22,347
Street lights		13,392	13,392		13,392
Interdepartmental		3,801	3,801		3,801
Forfeited discounts	519	1,098	1,617	492	2,109
PB collections					
Other	4,551	1,870	6,421		6,421
Total Operating Revenues	192,515	337,498	530,013	110,155	640,168
Operating Expenses					
Plant operation	40,698		40,698	44,771	85,469
Plant maintenance				19,090	19,090
Power production		242,971	242,971		242,971
Transmission and distribution		20,924	20,924		20,924
Administrative and general	50,107	50,662	100,769	24,697	125,466
Total Operating Expenses	90,805	314,557	405,362	88,558	493,920
Depreciation	44,256	1,706	45,962	48,951	94,913
Taxes	3,076	2,568	5,644		5,644
Operating Income	\$ 57,454	\$ 21,235	\$ 73,045	\$ (27,354)	\$ 45,691



Certified Public Accountants

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COMMUNICATION OF SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES

To the Village Board
Village of Merrillan
Merrillan, 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 Merrillan ("Village") as of and for the year ended December 31, 2012, 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 Merrillan'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 Merrillan'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.

January 25, 2013

Assigning Fund Balance

The Village Board can assign portions of the general fund balance for various future projects/functions. As such, this amount does not have to be the "unspent" proceeds from a current line item of the budget. The Board can choose a dollar amount they believe is suitable. In deciding to assign fund balance, the Board should take into consideration the general fund balance going into the following year, whether there will be an overall increase or decrease in the general fund balance, and whether the new fund balance level is sufficient to meet cash flow needs and to provide some cushion for possible cuts in revenue areas or unforeseen increases in expenditures.

Currently, the Village does have a general fund balance policy that addresses what level it should be maintained at. If the Board decides to assign general fund balance, it would pass a resolution to assign fund balance for the particular line item in the budget.



Certified Public Accountants

2500 Business Park Road ▲ Mineral Point, Wisconsin 53565 ▲ TEL 608-987-2206 ▲ FAX 608-987-3391

January 25, 2013

The Village Board
Village of Merrilan
Merrilan, 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 Merrilan ("Village") for the year ended December 31, 2012. 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. 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. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, and GASB Statement No. 65, Items Previously Reported as Assets and Liabilities for the year ended December 31, 2012. We noted no transactions entered into by the Village during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

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 January 25, 2013.

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
Adjusting Journal Entries**

Reference	Type	Date Account Number	Description	Debit	Credit
PJE01	Potential	12/31/12			
		610-00142-000	ACCTS RECEIVABLE - SEWER	299.00	
		610-00622-000	SEWER METERED		299.00
		To record additional receivable for sewer utility per utility billing software.			
PJE02	Potential	12/31/12			
		600-10142-000	A/R ELECT/SALES TAX COLLE	10,108.00	
		600-10216-000	RETAINED EARNINGS - SURPL		10,708.00
		600-30440-000	RESIDENTIAL SALES - ELECTF	600.00	
		610-00142-000	ACCTS RECEIVABLE - SEWER	3,352.00	
		610-00216-000	RETAINED EARNINGS		3,097.00
		610-00622-000	SEWER METERED		255.00
		600-10143-000	A/R WATER	3,525.00	
		600-10216-000	RETAINED EARNINGS - SURPL		3,312.00
		600-20461-000	RESIDENTIAL METERED/WAT		213.00
		To record unbilled revenue.			
PJE03	Potential	12/31/12			
		600-10235-000	CUSTOMER DEPOSITS	1,006.00	
		600-30440-000	RESIDENTIAL SALES - ELECTF		1,006.00
		Record difference in subsidiary ledger and general ledger for customer deposits.			
		TOTAL		<u>18,890.00</u>	<u>18,890.00</u>