

MCFARLAND UTILITIES

Enterprise Funds of the
Village of McFarland, Wisconsin

FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Years Ended December 31, 2011 and 2010

MCFARLAND UTILITIES

Enterprise Funds of the Village of McFarland, Wisconsin

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INDEPENDENT AUDITORS' REPORT

To the Village Board
McFarland Utilities
McFarland, Wisconsin

We have audited the accompanying statements of net assets of McFarland Utilities, enterprise funds of the Village of McFarland, Wisconsin, as of December 31, 2011 and 2010, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of utility management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the McFarland Utilities enterprise funds and do not purport to, and do not, present fairly the financial position of the Village of McFarland, Wisconsin, and the changes in its financial position and its cash flows in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the financial position of McFarland Utilities as of December 31, 2011 and 2010, and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America as they apply to enterprise funds of governmental entities.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis as listed in the table of contents be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economical, 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 financial statements, and other knowledge we obtained during our audit of the 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.

To the Village Board
McFarland Utilities

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

Baker Tully Venchurman, LLP

Madison, Wisconsin
June 13, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

MCFARLAND WATER AND SEWER UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2011 and 2010

The management of the McFarland Water and Sewer Utility (Utility) offers this narrative discussion and analysis of the financial performance of the Utility for the fiscal year ended December 31, 2011. The easy to read narrative overview information presented here should be considered in conjunction with the more detailed information available in the financial statements of the Utility. These financial statements report information about the Utility using accounting methods similar to those used by private sector companies and offer short term and long term information about Utility activities.

FINANCIAL HIGHLIGHTS

- The net assets of the Utility increased \$137,587 (1.09%) from \$12,631,170 in 2010 to \$12,768,757 in 2011. This compares to a \$147,979 (1.19%) increase in 2010.
- The operating revenues of the Utility increased \$68,436 (3.74%) from \$1,831,973 in 2010 to \$1,900,409 in 2011. This compares to a \$46,746 (2.62%) increase in 2010. The higher revenues resulted primarily from rate increases implemented during 2010 being in effect for the entire year. A sewer rate increase was implemented on August 1, 2010; a water rate increase was implemented on October 10, 2010.
- The operating expenses of the Utility, excluding depreciation, decreased \$2,544 (0.21%) from \$1,236,333 in 2010 to \$1,233,789 in 2011. This compares to a \$49,917 (4.21%) increase in 2010. Water Utility expenses including depreciation decreased \$45,254 while Sewer Utility expenses including depreciation increased \$46,127.
- The net operating income of the Water Utility increased to \$402,309 in 2011 from \$311,046 in 2010, an increase of 29.34%. Revenues increased \$46,009 (4.32%) while expenses decreased \$45,254 (5.99%) from 2010.
- The Sewer Utility recognized a net operating loss of \$46,771 in 2011 as compared to an operating loss of \$23,071 in 2010. Expenses for sewer treatment charges by MMSD and repairs to the collection system (Milwaukee Street relining project) more than offset the full year of higher revenues from the rate increase implemented in August 2010. A rate increase implemented in January 2012 is designed to eliminate the operating loss in 2012.
- The authorized rate of return for the PSCW regulated water utility operations is 7.25%. The actual rate of return for 2011 was 5.56%, up from 4.02% in 2010. The increase in rate of return is due to higher revenues generated by a rate increase implemented in late 2010 and lower expenses.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Water and Sewer Utility is a self-supporting entity and separate enterprise fund of the Village of McFarland. The Utility accounts for the cost of water utility and sewer utility operations on a continuing basis. The balance sheet of water utility operations and sewer utility operations is combined for accounting purposes although the plant assets and operating revenues/expenses are maintained separately for each type of utility.

Water and sewer service is provided to properties within the Village of McFarland and to several properties outside McFarland. The Utility is managed by the Village Board and the Public Utilities Committee which is advisory to the Village Board.

The Water Utility operations are subject to service rules and rates established by the Public Service Commission of Wisconsin (PSCW). The accounting records of the Utility are maintained in accordance with the Uniform System of Accounts prescribed by the PSCW and in accordance with the Governmental Accounting Standards Board.

In 1994 the PSCW authorized deregulation of the Sewer Utility operations. Sewer rates and rules are now determined by the Village Board, based upon the recommendations of the Public Utilities Committee. Wastewater is treated under an agreement with the Madison Metropolitan Sewerage District.

The annual report consists of Management's Discussion and Analysis, the basic financial statements, and the report of the independent auditor.

An analysis of the financial position of the Water and Sewer Utility begins with a review of the Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets. These two statements report the Utility's net assets and changes therein. The net assets – the difference between assets and liabilities – are key to measuring the financial health of the Utility. Over time, increases or decreases in the net assets value are an indicator of whether the financial position of the Utility is improving or deteriorating. It should be noted, however, that the financial position may also be affected by other non-financial factors, including economic conditions, customer growth, climate conditions and new regulations.

UTILITY FINANCIAL ANALYSIS

Net Assets

The Statement of Net Assets includes all of the assets and liabilities of the Utility and provides information about the nature and amount of investments in resources (assets) and the obligations to utility creditors (liabilities). This statement provides the basis for evaluating the capital structure and assessing the liquidity and financial flexibility of the Utility. A summary of the Statement of Net Assets is presented below in Table 1.

UTILITY FINANCIAL ANALYSIS (CONT.)

**TABLE 1
CONDENSED STATEMENT OF NET ASSETS**

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2010-2011 Change</u>
Current and Other Assets	\$2,306,673	\$2,174,853	\$2,597,320	\$131,820
Capital Assets	<u>11,699,137</u>	<u>11,966,609</u>	<u>11,597,847</u>	<u>(267,472)</u>
Total Assets	<u>14,005,810</u>	<u>14,141,462</u>	<u>14,195,167</u>	<u>(135,652)</u>
Long-term Debt Outstanding	859,573	1,121,481	1,368,390	(261,908)
Other Liabilities	<u>377,480</u>	<u>388,811</u>	<u>343,586</u>	<u>(11,331)</u>
Total Liabilities	<u>1,237,053</u>	<u>1,510,292</u>	<u>1,711,976</u>	<u>(273,239)</u>
Invested in Capital Assets, Net of Related Debt	11,096,839	11,109,526	10,500,979	(12,687)
--Restricted	459,678	517,445	478,934	57,767
--Unrestricted	<u>1,212,240</u>	<u>1,004,199</u>	<u>1,503,278</u>	<u>1,102,977</u>
Total Net Assets	<u>\$12,768,757</u>	<u>\$12,631,170</u>	<u>\$12,483,191</u>	<u>\$137,587</u>

As can be seen from the table above, the net assets of the Water and Sewer Utility increased \$137,587 in 2011 to \$12,768,757 an increase of 1.09%. The growth in net assets is attributable primarily to an increase in current assets and declining debt liability. Current assets increased by \$131,820 (6.06%) to \$2,306,673. Capital assets, which decreased \$267,472 (2.24%), now comprise 83.53% of total assets, down from 84.62% in 2010.

The restricted portion of net assets includes accounts that are limited by bond covenants. Listed below are restricted assets:

- Redemption – Used for debt service payments
- Reserve – Used for any deficiencies in the redemption account
- Depreciation – Used to restore deficiencies in the redemption and reserve Accounts, and for funding plant replacements.
- Construction – Bond issue monies used only for the restricted construction project(s).
- Replacement Fund – Used for plant replacement.

The specific nature or source of these changes becomes more evident in the Statement of Revenues, Expenses and Changes in Net Assets that follows.

UTILITY FINANCIAL ANALYSIS (CONT.)

Revenues, Expenses, and Changes in Net Assets

All of the Utility's revenues and expenses are accounted for in Table 2, the Statement of Revenues, Expenses, and Changes in Net Assets. This statement measures the success of the Utility's operations over the year and can be used to determine whether the Utility has successfully recovered all its costs through user fees and other charges, profitability, and credit worthiness.

TABLE 2
CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

	2011	2010	2009	10-11 Dollar Change	10-11 Percent Change
Operating Revenues	\$1,900,409	\$1,831,973	\$1,785,227	\$68,436	3.74%
Non-Operating Revenues	1,583	2,284	5,654	(701)	(30.69)%
Total Revenues	1,901,992	1,834,257	1,790,881	67,735	3.69%
Depreciation Expense	311,082	307,665	300,930	3,417	1.11%
Other Operating Expenses	1,233,789	1,236,333	1,186,416	(2,544)	(0.21)%
Non-Operating Expenses	53,903	65,963	73,427	(12,060)	(18.28)%
Total Expenses	1,598,774	1,609,961	1,560,773	(11,187)	(0.69)%
Income Before Capital Contributions & Transfers	303,218	224,296	230,108	78,922	35.19%
Capital Contribution	45,943	121,992	6,500	(76,049)	(62.34)%
Transfers & Tax Equivalent	(211,574)	(198,309)	(204,537)	(13,265)	(6.69)%
Changes in Net Assets	137,587	147,979	32,071	(10,392)	(7.02)%
Beginning Net Assets	12,631,170	12,483,191	12,451,120	147,979	1.19%
Total Net Assets - Ending	\$12,768,757	\$12,631,170	\$12,483,191	\$137,587	1.09%

Operating revenues for the Utility in 2011 increased \$68,436 (3.74%) from \$1,831,973 to \$1,900,409 despite largely stagnant growth in the customer base. Revenues from outside water usage were similar in 2011 to 2010. The higher operating revenues were attributable primarily to a sewer rate increase implemented August 1, 2010 and a water rate increase (the first since January 2001) implemented October 10, 2010, both of which were in effect for all of 2012.

Total expenses for 2011 of \$1,598,774 were 0.69% lower than the previous year. Depreciation expenses were 1.11% higher. Other operating expenses decreased by 0.21% in 2011. Water Utility expenses decreased \$45,254 due to lower costs for pumping, main repairs, and meter replacements. Sewer Utility expenses increased \$46,127. Sewage treatment charges billed by the Madison Metropolitan Sewerage District (MMSD), the single largest expense to the Sewer Utility, were up due to higher rates charged by MMSD, as were the cost of repairs to the sewer collection system. Non-operating expenses, comprised of interest on the outstanding debt of the Utility, declined \$12,060 (18.8%) from the previous year.

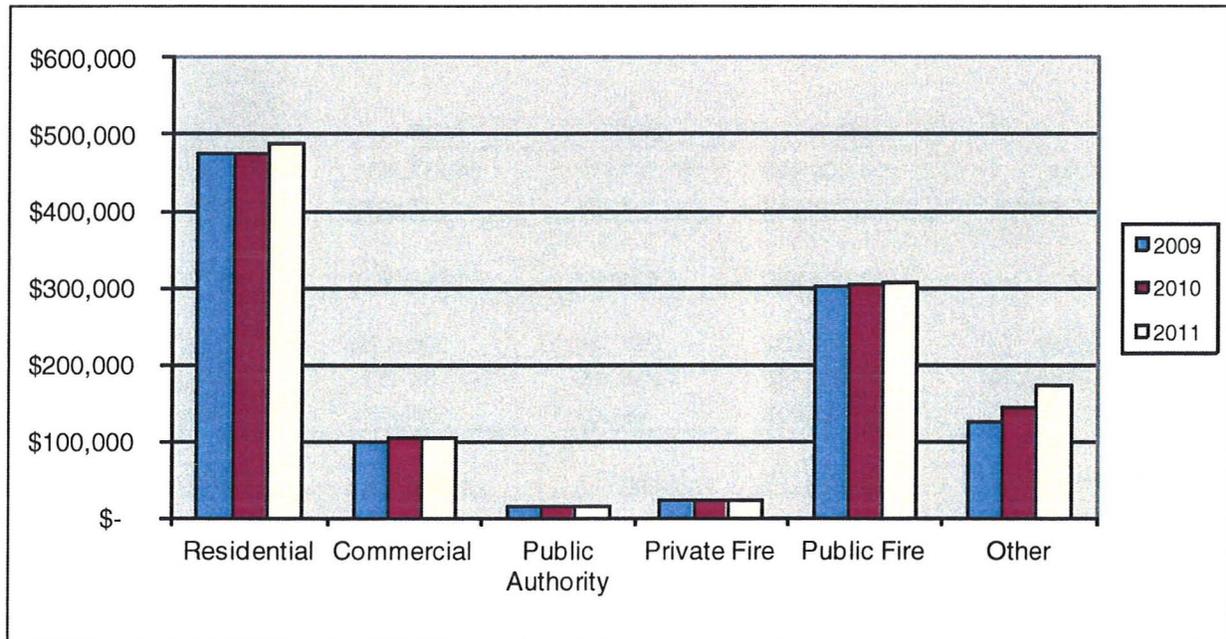
Please refer to independent auditors' report.

UTILITY FINANCIAL ANALYSIS (CONT.)

Comparison of Revenues

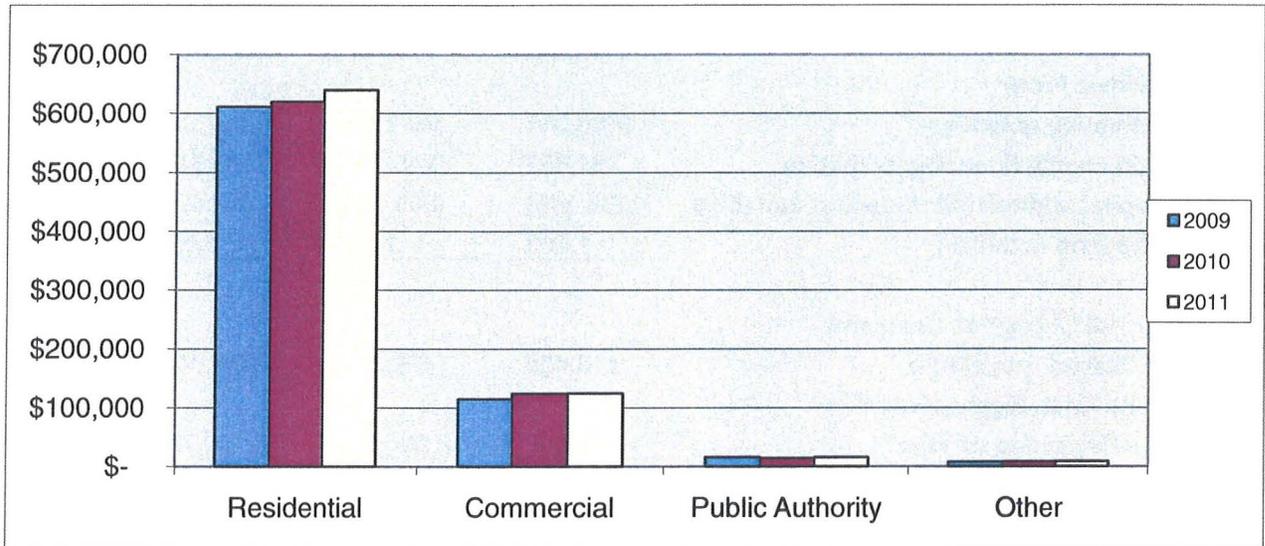
Tables 3 and 4 compare revenues received in 2011 from water utility and sewer utility operations with those revenues generated in 2010 and 2009. Revenues can be affected by a variety of factors including rate increases, customer growth, climate conditions, and local economic conditions.

**TABLE 3
COMPARISON OF WATER REVENUES**



Operating revenues from sales of water and other sources increased by \$46,009 (4.32%) in 2011. Water rates were increased 3% on October 10, 2010 and thus were in effect for the full year in 2011. The number of water customers and water usage was similar in both years so the added revenue came mostly from the higher rates. Revenues from other operating sources increased \$9,205 because of higher receipts from telecommunications leases.

TABLE 4
COMPARISON OF SEWER REVENUES



Sewer Utility revenues from user charges increased \$22,064 or 2.91% in 2011. This was due largely to a rate increase implemented August 1, 2010 and thus was in effect for the full year in 2011. The number of sewer customers and their usage was similar in both years. Sewer revenues from outdoor water usage were comparable in 2011 to 2010.

Statement of Cash Flows

The Statement of Cash Flows in Table 5 below reports cash receipts, cash payments, and net changes in cash resulting from operations, investment income, and financing activities such as repayment of debt and capital additions. This information provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

UTILITY FINANCIAL ANALYSIS (CONT.)

TABLE 5
CONDENSED STATEMENT OF CASH FLOWS

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>10-11 Change</u>
Cash Flows From:				
Operating activities	\$665,314	\$612,990	\$627,317	\$52,324
Non-capital financing activities	81,653	(245,165)	(409,600)	326,818
Capital and related financing activities	(338,145)	(869,480)	(322,420)	531,335
Investing activities	1,583	2,284	5,654	(701)
Net Change in Cash and Cash Equivalents	410,405	(499,371)	(99,049)	909,776
Cash and Cash Equivalents - Beginning of Year	<u>1,596,282</u>	<u>2,095,653</u>	<u>2,194,702</u>	<u>(499,371)</u>
Cash and Cash Equivalents - End of Year	<u>2,006,687</u>	<u>1,596,282</u>	<u>2,095,653</u>	<u>410,405</u>

The Utility experienced in 2011 a healthy increase in cash flow from operating activities. The cash flow of \$665,314 was up \$52,324 (8.54%) from 2010. Unusual activities in 2011 included higher costs for maintenance of the sewer collection system. Cash flow from non-capital financing activities improved by \$326,818. The deficit cash flow created in 2011 by capital and related financing activities was \$531,335 less than in 2010. The overall net change in cash and cash equivalents was a positive \$410,405 compared to a negative \$(499,371) in 2010 when the Utility funded water and sewer main replacements from cash reserves. At year end, total cash and cash equivalents stood at \$2,006,687 or an increase of \$410,405 (25.71%) from 2010.

Capital Assets

Tables 6 and 7 below summarize the capital assets currently held for water utility and sewer utility purposes, respectively. Please refer to the notes to the financial statements for further detail about these capital assets.

UTILITY FINANCIAL ANALYSIS (CONT.)

**TABLE 6
CAPITAL ASSETS – WATER UTILITY OPERATIONS**

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>10-11 Change</u>
Capital Assets				
Source of supply	\$243,539	\$243,539	\$243,539	\$ –
Pumping	357,710	357,710	355,021	–
Water treatment	4,498	6,061	6,061	(1,563)
Transmission and distribution	10,335,478	10,416,768	9,967,791	(81,290)
General	200,839	209,791	164,907	(8,952)
Total Capital Assets	11,142,064	11,233,869	10,737,319	(91,805)
Less: Accumulated depreciation	(2,849,250)	(2,753,220)	(2,580,583)	(96,030)
Net Capital Assets	<u>\$8,292,814</u>	<u>\$8,480,649</u>	<u>\$8,156,736</u>	<u>\$(187,835)</u>

During 2011 the capital assets for water utility operations decreased \$91,805 (0.82%) to \$11,142,064. After depreciation was factored in, the net capital assets for water utility purposes were \$8,292,814 a decrease of \$187,835 or 2.21% from 2010. This compares to an increase of 3.97% in net capital assets in 2010. The major change was an adjustment to the value of meters associated with the upgrade to a radio read metering system.

**TABLE 7
CAPITAL ASSETS – SEWER UTILITY OPERATIONS**

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>10-11 Change</u>
Capital Assets				
Collection system	\$4,250,057	\$4,244,700	\$4,117,863	\$5,357
Collection system pumping	596,075	596,075	596,075	–
General	111,130	116,102	110,213	(4,972)
Total Capital Assets	4,957,262	4,956,877	4,824,151	385
Less: Accumulated depreciation	(1,550,939)	(1,470,917)	(1,383,055)	(80,022)
Net Capital Assets	<u>\$3,406,323</u>	<u>\$3,485,960</u>	<u>\$3,441,096</u>	<u>\$(79,637)</u>

During 2011 the capital assets for sewer utility operations increased slightly by \$5,357 to \$4,250,057. After depreciation was factored in, the net capital assets for sewer utility purposes were \$3,406,323, a decrease of \$79,637 (2.28%) from 2010. This compares to an increase of 1.30% in net capital assets in 2010.

Please refer to the notes to the financial statements for further detail about the capital assets of the Water and Sewer Utility.

DEBT ADMINISTRATION

As of December 31, 2011 the Water and Sewer Utility had total mortgage revenue bond debt principal outstanding of \$840,000 payable from and secured by a pledge of income and revenue to be derived from operations of the Utility. There was no new debt administration activity in 2011, nor is any planned in the near future. The amount of outstanding debt principal was reduced by \$255,000 (23.29%) in 2011.

A repayment schedule for the Utility debt is included in the audit report.

CURRENTLY KNOWN FACTS / ECONOMIC CONDITIONS

The Village of McFarland is located adjacent to the southeast edge of the City of Madison. This proximity to a major regional commercial center which is the capital of state government and home to the flagship campus of the University of Wisconsin has produced a favorable economic climate. With the exception of the past several years of economic downturn and stagnation in housing construction, these economic drivers have resulted in steady growth in the service area of the Utility over the last two decades. The Village's 2011 population was 7,818, a small increase from 2010. Despite a significant slowdown in new development the last half of the prior decade, the Village's population nonetheless grew 21.70% from 6,416 in 2000 to 7,808 in 2010.

The customer base of the Utility consists primarily of residential and small commercial users that, for the most part, do not utilize large quantities of water. This characteristic of the customer base results in a very stable revenue base since the loss of any single user would not have a significant impact on the Utility's operating revenues. The creation of TID # 3 in 2004 and TID #4 in 2008, both of which will promote more commercial / industrial development, combined with the ready availability of land that exists for residential development, should yield long term growth in the customer base and greater economies of scale in future Utility operations once the pace of development returns to more normal levels.

The Utility has created long range project and financial plans to keep pace with projected Village growth. Rate structures are reviewed annually to maintain a strong cash flow sufficient to cover operating and debt service needs and to fund smaller capital projects.

CONTACTING UTILITY MANAGEMENT

This discussion and analysis is intended to provide information for our customers, investors, and creditors concerning the financial performance of the Water and Sewer Utility and to demonstrate the Utility's accountability for the money it receives. If you have questions about this report, or would like additional financial information, contact the Village of McFarland at PO Box 110, McFarland, WI 53558-0110 or at (608)838-3153.

General information relating to the McFarland Water and Sewer Utility can also be found at the Village website www.mcfarland.wi.us .

MCFARLAND STORM WATER UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2011 and 2010

The management of the McFarland Storm Water Utility (STW Utility) offers this narrative discussion and analysis of the financial performance of the STW Utility for the year ended December 31, 2011. The easy to read narrative overview information presented here should be considered in conjunction with the more detailed information available in the financial statements of the Utility. These financial statements report information about the STW Utility using accounting methods similar to those used by private sector companies and offer short term and long term information about STW Utility activities.

FINANCIAL HIGHLIGHTS

- The STW Utility was implemented July 1, 2008 so 2011 was only the third full year of utility operations.
- The net assets of the STW Utility were \$2,279,989 at the end of 2011, up \$138,020 (6.44%) over 2010.
- The operating revenues of the STW Utility for 2011 were \$423,660, up \$32,584 (8.33%) compared to 2010.
- The operating expenses of the STW Utility for all of 2011, excluding depreciation, were \$286,198, an increase of \$59,165 (26.06%) from 2010.
- The STW Utility issued \$875,000 in general obligation debt in late 2011, the proceeds of which were or will be used to pay back a previous advance from the Water/Sewer Utility and to fund current and future capital projects.

OVERVIEW OF THE FINANCIAL STATEMENTS

The STW Utility is a self-supporting entity and separate enterprise fund of the Village of McFarland. The STW Utility accounts for the cost of storm water management operations on a continuing basis. The STW Utility was legally established and began charging fees on July 1, 2008. Storm water management expenses and revenues have, however, been segregated into a separate fund since 2007.

Storm water management services are provided to properties within the Village of McFarland. The STW Utility is managed by the Village Board and the Public Utilities Committee, which is advisory to the Village Board, in compliance with standards established by the Federal Environmental Protection Agency and the Wisconsin Department of Natural Resources. The Village of McFarland is also a joint holder with other Madison-area communities of a Storm Water Discharge Permit issued under Chapter NR216 of the Wisconsin Administration Code.

The accounting records of the STW Utility are maintained in accordance with the requirements set forth by the Governmental Accounting Standards Board.

OVERVIEW OF THE FINANCIAL STATEMENTS (CONT.)

The STW Utility is not regulated by the Public Service Commission of Wisconsin (PSCW). Its rates, credits and rules are determined by the Village Board. The user charge structure is based on Equivalent Runoff Units (ERUs) as measured by the impervious surface area of the property, with one ERU equal to 3,456 square feet of impervious area.

The annual report consists of Management's Discussion and Analysis, the basic financial statements, and the report of the independent auditor.

An analysis of the financial position of the STW Utility begins with a review of the Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets. These two statements report the STW Utility's net assets and changes therein. The net asset – the difference between assets and liabilities – is key to measuring the financial health of the STW Utility. Over time, increases or decreases in the net assets value are an indicator of whether the financial position of the STW Utility is improving or deteriorating. It should be noted, however, that the financial position may also be affected by other non-financial factors, including economic conditions, customer growth, climate conditions and new regulations.

UTILITY FINANCIAL ANALYSIS

Net Assets

The Statement of Net Assets includes all of the assets and liabilities of the STW Utility and provides information about the nature and amount of investments in resources (assets) and the obligations to utility creditors (liabilities). This statement provides the basis for evaluating the capital structure and assessing the liquidity and financial flexibility of the STW Utility. A summary of the Statement of Net Assets is presented below in Table 1.

**TABLE 1
CONDENSED STATEMENT OF NET ASSETS**

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2010-2011 Change</u>
Current and Other Assets	\$ 768,627	\$ 296,181	\$ 141,422	\$ 472,446
Capital Assets	2,462,425	2,200,000	2,201,613	262,425
Total Assets	<u>3,231,052</u>	<u>2,496,181</u>	<u>2,343,035</u>	<u>734,871</u>
Long-term Debt Outstanding	875,000	–	–	875,000
Advance from Water & Sewer Utility	–	279,962	200,000	(279,962)
Other Liabilities	76,063	74,250	104,131	1,813
Total Liabilities	<u>951,063</u>	<u>354,212</u>	<u>304,131</u>	<u>596,851</u>
Invested in Capital Assets, Net of Related Debt	1,587,425	2,200,000	2,201,613	(612,575)
--Unrestricted (deficit)	692,564	(58,031)	(162,709)	750,595
Total Net Assets	<u>\$ 2,279,989</u>	<u>\$ 2,141,969</u>	<u>\$ 2,038,904</u>	<u>\$ 138,020</u>

Please refer to independent auditors' report.

UTILITY FINANCIAL ANALYSIS (CONT.)

Net Assets (cont.)

As can be seen from the table above, the net assets of the STW Utility increased in 2011 to \$2,279,989, an increase of \$138,020 (6.44%) over 2010. The increase in net assets is attributable primarily to a greater investment in capital assets and property continuing to be held for future stormwater management projects. Current assets increased \$472,446 (159.51%). Capital and other non-current assets comprise 76.21% of total assets at this time, down from 88.13% in 2010.

The specific nature or source of these changes becomes more evident in the Statement of Revenues, Expenses and Changes in Net Assets that follows.

Revenues, Expenses, and Changes in Net Assets

All of the STW Utility revenues and expenses are accounted for in Table 2, the Statement of Revenues, Expenses, and Changes in Net Assets. This statement measures the success of the STW Utility operations over the year and can be used to determine whether the STW Utility has successfully recovered all its costs through user fees and other charges, profitability, and credit worthiness.

TABLE 2
CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2010-2011 Dollar Change</u>
Operating Revenues	\$ 423,660	\$ 391,076	\$ 361,302	\$ 32,584
Non-Operating Revenues	18,809	4,009	-	14,800
Total Revenues	<u>442,469</u>	<u>395,085</u>	<u>361,302</u>	<u>47,384</u>
Depreciation Expense	66,737	64,987	64,118	1,750
Other Operating Expenses	286,198	227,033	336,174	59,165
Non-Operating Expenses	1,514	-	1,121	1,514
Total Expenses	<u>354,449</u>	<u>292,020</u>	<u>401,413</u>	<u>62,429</u>
Income Before Capital Contributions	88,020	103,065	(40,111)	(15,045)
Transfers	-	-	61,120	-
Capital Contributions	50,000	-	(6,339)	50,000
Changes in Net Assets	<u>138,020</u>	<u>103,065</u>	<u>14,760</u>	<u>34,955</u>
Beginning Net Assets	<u>2,141,969</u>	<u>2,038,904</u>	<u>2,024,144</u>	<u>103,065</u>
Total Net Assets - Ending	<u>\$ 2,279,989</u>	<u>\$ 2,141,969</u>	<u>\$ 2,038,904</u>	<u>\$ 138,020</u>

Please refer to independent auditors' report.

UTILITY FINANCIAL ANALYSIS (CONT.)

Revenues, Expenses, and Changes in Net Assets (cont.)

Operating revenues for the STW Utility in 2011, the third full year of operation, increased \$32,584 (8.33%) from \$391,076 to \$423,660. The customer base was essentially unchanged in 2011 due to the weak construction climate. The higher revenues resulted from the rate increase implemented on August 1, 2010 being in effect for the full year. A small amount of non operating revenue was realized from a grant and from rent on a residential property purchased by the Utility for a future capital project.

Total expenses for 2011 of \$354,449 were \$62,429 (21.38%) higher than the previous year. Significant expenditure increases occurred in the areas of personnel costs, street sweeping, and rental property expenses. Engineering costs increased due to a drainage basin study, and storm sewer maintenance costs were higher because of an extensive pipe replacement project and the installation of drain tile to correct a neighborhood drainage problem. Depreciation expenses were up 2.69%.

Statement of Cash Flows

The statement of cash flows in Table 3 below reports cash receipts, cash payments, and net changes in cash resulting from operations, investment income, and financing activities such as repayment of debt and capital additions. This information provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

**TABLE 3
CONDENSED STATEMENT OF CASH FLOWS**

	2011	2010	2009	2010-2011 Change
Cash Flows From:				
Operating activities	\$169,244	\$118,012	\$157,581	\$51,232
Non-capital financing activities	(279,962)	79,962	(34,649)	(359,924)
Capital and related financing activities	549,665	(298,171)	(22,735)	847,836
Investing activities	100	-	-	100
	<hr/>	<hr/>	<hr/>	<hr/>
Net Change in Cash and Cash Equivalents	439,047	(100,197)	100,197	539,244
Cash and Cash Equivalents – Beginning of Year	<hr/> -	<hr/> 100,197	<hr/> -	<hr/> (100,197)
Cash and Cash Equivalents – End of Year	<hr/> <u>\$439,047</u>	<hr/> <u>-</u>	<hr/> <u>\$100,197</u>	<hr/> <u>\$439,047</u>

UTILITY FINANCIAL ANALYSIS (CONT.)

The STW Utility experienced a net cash flow of \$169,244 from operating activities in 2011, up from \$118,012 (16.60%) in 2010. 2011 expenses totaled \$287,712 without depreciation, up \$60,679 (26.73%) from the prior year. Total revenues were \$442,469, up \$46,050 (11.62%) from 2010. Cash flows from capital and related financing activities increased \$847,836 in 2011 due to issuance of \$875,000 in new general obligation debt. Cash and cash equivalents at year end increased from zero in 2010 to \$439,047 in 2011 as some of the borrowing proceeds were being held for future capital projects.

Capital Assets

Table 4 below summarizes the capital assets currently held for STW Utility purposes.

TABLE 4
CAPITAL ASSETS – STORM WATER UTILITY OPERATIONS

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2010-2011 Change</u>
Capital Assets				
Land Improvements	\$223,649	\$63,374	–	\$160,275
Pipes	2,242,724	2,242,724	2,242,724	–
Manholes	249,167	249,167	249,167	–
Inlets	342,116	342,116	342,116	–
Basins	448,395	279,508	279,508	168,887
Miscellaneous	92,370	92,370	92,370	–
Total Capital Assets	3,598,421	3,269,259	3,205,885	329,162
Less: Accumulated depreciation	<u>(1,135,996)</u>	<u>(1,069,259)</u>	<u>(1,004,272)</u>	<u>(66,737)</u>
Net Capital Assets	\$2,462,425	\$2,200,000	\$2,201,613	\$262,425

During 2011 the capital assets of the STW Utility increased by \$329,162 (10.07%) to \$3,598,421. The increase was due to acquisition of land and construction of the Osborn Dr. detention basin. After depreciation was factored in, the net capital assets for STW Utility purposes were \$2,682,630, which includes \$220,205 of property held for future capital use. This is an increase of \$262,425 (10.84%) from 2010.

Please refer to the notes to the financial statements for further detail about the capital assets of the Storm Water Utility.

DEBT ADMINISTRATION

As of December 31, 2011 the STW Utility had \$875,000 in general obligation debt principal outstanding, all of which was borrowed in 2011. Part of the borrowing proceeds were used to repay a previous interest bearing advance from the Water Utility totaling \$279,962. The balance of the borrowing proceeds were or will be used to fund current or future capital projects.

Please refer to independent auditors' report.

CURRENTLY KNOWN FACTS / ECONOMIC CONDITIONS

The Village of McFarland is located adjacent to the southeast edge of the City of Madison. This proximity to a major regional commercial center which is the capital of state government and home to the flagship campus of the University of Wisconsin has produced a favorable economic climate. With the exception of the past several years of economic downturn and stagnation in housing construction, these economic drivers have resulted in steady growth in the service area of the STW Utility over the last two decades. The Village's 2011 population was 7,818, a small increase from 2010. Despite a significant slowdown in new development in the last half of the prior decade, the Village's population nonetheless grew 21.70% from 6,416 in 2000 to 7,808 in 2010.

The customer base of the STW Utility consists of all residential commercial, industrial and institutional properties in McFarland. Local streets, cemeteries, and the railroad land areas are not assessed user charges. The creation of TID # 3 in 2004 and TID #4 in 2008, both of which will promote more commercial / industrial development, combined with the ready availability of land that exists for residential development, should yield long term growth in the customer base and greater economies of scale in future STW Utility operations once the pace of development returns to more normal levels.

Although new in 2008, the STW Utility has created long range project and financial plans to keep pace with projected Village growth. Rate structures are reviewed annually to maintain a strong cash flow sufficient to cover operating and debt service needs and to fund smaller capital projects.

CONTACTING UTILITY MANAGEMENT

This discussion and analysis is intended to provide information for our customers, investors, and creditors concerning the financial performance of the STW Utility and to demonstrate the STW Utility's accountability for the money it receives. If you have questions about this report, or would like additional financial information, contact the Village of McFarland, PO Box 110, McFarland, WI 53558-0110 or at (608)838-3153.

General information relating to the McFarland STW Utility can also be found at the Village website www.mcfarland.wi.us .

WATER AND SEWER UTILITY

MCFARLAND WATER AND SEWER UTILITY

STATEMENTS OF NET ASSETS As of December 31, 2011 and 2010

ASSETS	<u>2011</u>	<u>2010</u>
CURRENT ASSETS		
Cash and investments	\$ 1,037,674	\$ 598,940
Restricted Assets		
Redemption account	25,583	25,813
Customer accounts receivable	204,066	204,756
Other accounts receivable	5,799	118
Materials and supplies	16,082	14,488
Prepayments	<u>3,573</u>	<u>1,657</u>
Total Current Assets	<u>1,292,777</u>	<u>845,772</u>
NON-CURRENT ASSETS		
Restricted Assets		
Reserve account	236,500	236,500
Depreciation account	78,000	78,000
Replacement account	171,300	136,900
Impact fee account	188,293	281,292
Other Assets		
Water tower reserve	269,337	238,837
Preliminary survey and investigation	12,545	12,545
Special assessments receivable	36,109	36,109
Unamortized debt issuance costs	20,774	27,898
Advances to other funds	-	279,962
Property held for future use	1,038	1,038
Capital Assets		
Plant in service		
Water	11,142,064	11,233,869
Sewer	<u>4,957,262</u>	<u>4,956,877</u>
Total Plant in Service	<u>16,099,326</u>	<u>16,190,746</u>
Accumulated depreciation		
Water	(2,849,250)	(2,753,220)
Sewer	<u>(1,550,939)</u>	<u>(1,470,917)</u>
Total Accumulated Depreciation	<u>(4,400,189)</u>	<u>(4,224,137)</u>
Total Non-Current Assets	<u>12,713,033</u>	<u>13,295,690</u>
Total Assets	<u>14,005,810</u>	<u>14,141,462</u>

		<u>2011</u>	<u>2010</u>
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable	\$	123,078	\$ 125,655
Due to municipality		148,160	141,636
Customer deposits		5,000	5,000
Accrued wages		4,518	10,823
Accrued vacation leave		18,391	21,336
Unearned revenues		1,110	4,000
Current Liabilities Payable from Restricted Assets			
Current portion of revenue bonds		265,000	255,000
Accrued interest		3,498	4,560
Total Current Liabilities		<u>568,755</u>	<u>568,010</u>
NON-CURRENT LIABILITIES			
Revenue bonds		575,000	840,000
Unamortized debt premium		40,012	53,732
Unamortized loss on advance refunding		(20,440)	(27,251)
Accrued sick leave		73,726	75,801
Total Non-Current Liabilities		<u>668,298</u>	<u>942,282</u>
Total Liabilities		<u>1,237,053</u>	<u>1,510,292</u>
NET ASSETS			
Net assets invested in capital assets, net of related debt		11,096,839	11,109,526
Restricted		459,678	517,445
Unrestricted		<u>1,212,240</u>	<u>1,004,199</u>
TOTAL NET ASSETS		<u>\$ 12,768,757</u>	<u>\$ 12,631,170</u>

See accompanying notes to the financial statements.

MCFARLAND WATER AND SEWER UTILITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS For the Years Ended December 31, 2011 and 2010

	2011	2010
OPERATING REVENUES		
Water		
Sales of water	\$ 943,551	\$ 926,659
Other	168,617	139,500
Total	1,112,168	1,066,159
Sewer		
Treatment charges	779,670	757,606
Other	8,571	8,208
Total	788,241	765,814
Total Operating Revenues	1,900,409	1,831,973
OPERATING EXPENSES		
Water		
Operation and maintenance	489,951	537,729
Depreciation	219,908	217,384
Total Water	709,859	755,113
Sewer		
Operation and maintenance	743,838	698,604
Depreciation	91,174	90,281
Total Sewer	835,012	788,885
Total Operating Expenses	1,544,871	1,543,998
OPERATING INCOME (LOSS)		
Water	402,309	311,046
Sewer	(46,771)	(23,071)
Total Operating Income (Loss)	355,538	287,975
NON-OPERATING REVENUES (EXPENSES)		
Investment income	1,583	2,284
Interest expense	(53,688)	(65,748)
Amortization of debt issuance costs	(7,124)	(7,124)
Amortization of loss on advance refunding	(6,811)	(6,811)
Amortization of debt premium	13,720	13,720
Total Non-Operating Revenues (Expenses)	(52,320)	(63,679)
Income Before Contributions and Transfers	303,218	224,296
CAPITAL CONTRIBUTIONS	45,943	13,050
CAPITAL CONTRIBUTIONS - MUNICIPAL	-	108,942
TRANSFERS - TAX EQUIVALENT	(211,574)	(198,309)
CHANGE IN NET ASSETS	137,587	147,979
NET ASSETS - Beginning of Year	12,631,170	12,483,191
NET ASSETS - END OF YEAR	\$ 12,768,757	\$ 12,631,170

See accompanying notes to the financial statements.

MCFARLAND WATER AND SEWER UTILITY

STATEMENTS OF CASH FLOWS For the Years Ended December 31, 2011 and 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from customers	\$ 1,601,007	\$ 1,520,622
Received from municipality for services	302,123	314,917
Paid to suppliers for goods and services	(968,340)	(945,533)
Paid to employees for operating payroll	(269,476)	(277,016)
Net Cash Flows From Operating Activities	665,314	612,990
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Paid to municipality for tax equivalent	(198,309)	(165,203)
Advance to storm water utility	-	(79,962)
Repayment of operating advance from storm water utility	279,962	-
Net Cash Flows From Noncapital Financing Activities	81,653	(245,165)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(40,745)	(570,780)
Capital contributions received	-	2,200
Impact fees received	12,350	5,850
Debt retired	(255,000)	(240,000)
Interest paid	(54,750)	(66,750)
Net Cash Flows From Capital and Related Financing Activities	(338,145)	(869,480)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	1,583	2,284
Net Change in Cash and Cash Equivalents	410,405	(499,371)
CASH AND CASH EQUIVALENTS - Beginning of Year	1,596,282	2,095,653
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 2,006,687	\$ 1,596,282
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Developer financed additions to utility plant	\$ 33,593	\$ 5,000
Contributed capital from TIF 3	\$ -	\$ 108,942

	<u>2011</u>	<u>2010</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income	\$ 355,538	\$ 287,975
Noncash items in operating income		
Depreciation	311,082	307,665
Depreciation charged to clearing and other utilities	17,343	17,791
Changes in assets and liabilities		
Customer accounts receivable	690	(10,886)
Other accounts receivable	(5,681)	5,202
Due to municipality	(6,741)	(8,541)
Materials and supplies	(1,594)	-
Prepayments	(1,916)	1,618
Accounts payable	10,808	831
Accrued wages	(6,305)	(698)
Accrued vacation and sick leave	(5,020)	12,033
Unearned revenue	<u>(2,890)</u>	<u>-</u>
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>\$ 665,314</u>	<u>\$ 612,990</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENT OF NET ASSETS ACCOUNTS		
Cash and investments	\$ 1,037,674	\$ 598,940
Redemption account	25,583	25,813
Reserve account	236,500	236,500
Depreciation account	78,000	78,000
Replacement account	171,300	136,900
Impact fee account	188,293	281,292
Water tower reserve	<u>269,337</u>	<u>238,837</u>
CASH AND CASH EQUIVALENTS	<u>\$ 2,006,687</u>	<u>\$ 1,596,282</u>

See accompanying notes to the financial statements.

STORM WATER UTILITY

MCFARLAND STORM WATER UTILITY

STATEMENTS OF NET ASSETS As of December 31, 2011 and 2010

	<i>ASSETS</i>	<u>2011</u>	<u>2010</u>
CURRENT ASSETS			
Cash and investments		\$ 439,047	\$ -
Customer accounts receivable		64,028	64,129
Other accounts receivable		4,409	2,695
Due from municipality		13,179	8,441
Prepayments		<u>1,191</u>	<u>711</u>
Total Current Assets		<u>521,854</u>	<u>75,976</u>
NON-CURRENT ASSETS			
Other Assets			
Preliminary survey and investigation		15,985	-
Unamortized debt issuance costs		10,583	-
Property held for future use		220,205	220,205
Capital Assets			
Plant in service		3,598,421	3,269,259
Accumulated depreciation		<u>(1,135,996)</u>	<u>(1,069,259)</u>
Total Non-Current Assets		<u>2,709,198</u>	<u>2,420,205</u>
Total Assets		<u>3,231,052</u>	<u>2,496,181</u>
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable		32,748	39,889
Customer deposits		1,675	1,675
Accrued wages		754	3,541
Accrued taxes		-	3,618
Accrued interest		1,514	-
Accrued vacation leave		5,063	4,538
Current portion of general obligation debt		<u>85,000</u>	<u>-</u>
Total Current Liabilities		<u>126,754</u>	<u>53,261</u>
NON-CURRENT LIABILITIES			
General obligation debt		790,000	-
Unamortized debt premium		10,583	-
Advance from water and sewer utility		-	279,962
Accrued sick leave		<u>23,726</u>	<u>20,989</u>
Total Non-Current Liabilities		<u>824,309</u>	<u>300,951</u>
Total Liabilities		<u>951,063</u>	<u>354,212</u>
NET ASSETS			
Net assets invested in capital assets, net of related debt		1,587,425	2,200,000
Unrestricted		<u>692,564</u>	<u>(58,031)</u>
TOTAL NET ASSETS		<u>\$ 2,279,989</u>	<u>\$ 2,141,969</u>

See accompanying notes to the financial statements.

MCFARLAND STORM WATER UTILITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS For the Years Ended December 31, 2011 and 2010

	2011	2010
OPERATING REVENUES		
User charges	\$ 416,924	\$ 386,350
Other	6,736	4,726
Total Operating Revenues	423,660	391,076
OPERATING EXPENSES		
Operation and maintenance	286,198	227,033
Depreciation	66,737	64,987
Total Operating Expenses	352,935	292,020
OPERATING INCOME	70,725	99,056
NON-OPERATING REVENUES (EXPENSES)		
Investment income	100	-
Rental income	15,614	2,909
Miscellaneous revenues	3,095	1,100
Interest expense	(1,514)	-
Amortization of debt issuance costs	(161)	-
Amortization of debt premium	161	-
Total Non-Operating Revenues (Expenses)	17,295	4,009
Income Before Contributions	88,020	103,065
CAPITAL CONTRIBUTIONS	50,000	-
CHANGE IN NET ASSETS	138,020	103,065
NET ASSETS - Beginning of Year	2,141,969	2,038,904
NET ASSETS - END OF YEAR	\$ 2,279,989	\$ 2,141,969

See accompanying notes to the financial statements.

MCFARLAND STORM WATER UTILITY

STATEMENTS OF CASH FLOWS For the Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from customers	\$ 432,400	\$ 366,268
Paid to suppliers for goods and services	(176,760)	(173,413)
Paid to employees for operating payroll	(86,396)	(74,843)
Net Cash Flows From Operating Activities	<u>169,244</u>	<u>118,012</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Operating advances from water and sewer utility	-	79,962
Repayment of advances to water and sewer utility	(279,962)	-
Net Cash Flows From Noncapital Financing Activities	<u>(279,962)</u>	<u>79,962</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(375,335)	(298,171)
Capital contributions received	50,000	-
Premium on debt	10,744	-
Proceeds from debt issue	875,000	-
Debt issuance costs	(10,744)	-
Net Cash Flows From Capital and Related Financing Activities	<u>549,665</u>	<u>(298,171)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	<u>100</u>	<u>-</u>
Net Change in Cash and Cash Equivalents	439,047	(100,197)
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>-</u>	<u>100,197</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 439,047</u>	<u>\$ -</u>

	<u>2011</u>	<u>2010</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income	\$ 70,725	\$ 99,056
Nonoperating revenue (expense)	15,091	9,302
Noncash items in operating income		
Depreciation	66,737	64,987
Changes in assets and liabilities		
Customer accounts receivable	101	(31,810)
Other accounts receivable	(1,714)	(2,695)
Prepayments	(480)	693
Accounts payable	23,047	(23,577)
Due from municipality	(4,738)	(939)
Accrued wages	(2,787)	1,382
Accrued vacation	525	148
Accrued sick leave	2,737	1,465
	<u>169,244</u>	<u>118,012</u>
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>\$ 169,244</u>	<u>\$ 118,012</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENT OF NET ASSETS ACCOUNTS		
Cash and investments	<u>\$ 439,047</u>	<u>\$ -</u>
CASH AND CASH EQUIVALENTS	<u>\$ 439,047</u>	<u>\$ -</u>

See accompanying notes to the financial statements.

MCFARLAND UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2011 and 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of McFarland Utilities (utilities) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to enterprise funds of governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The significant accounting principles and policies utilized by the utilities are described below.

REPORTING ENTITY

The utilities are separate enterprise funds of the Village of McFarland (municipality). The utilities are managed by the village board. The utilities provide storm water, water and sewer service to properties within the municipality.

The water utility operates under service rules and rates established by the Public Service Commission of Wisconsin (PSCW). The sewer and storm water utilities operate under the rules and rates established by the village board. Wastewater is treated under an agreement with Madison Metropolitan Sewerage District.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The utilities are presented as enterprise funds of the municipality. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business or where the governing body has decided that the determination of revenues earned, costs incurred, and net income is necessary for management accountability.

The financial statements 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.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the utilities' financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Utilities also have the option of following subsequent private-sector guidance subject to this same limitation. The utilities have elected not to follow subsequent private-sector guidance.

Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the 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 expenses during the reporting period. Actual results could differ from those estimates.

ASSETS, LIABILITIES AND NET ASSETS

Deposits and Investments

For purposes of the statement of cash flows, cash, and cash equivalents have original maturities of three months or less from the date of acquisition.

MCFARLAND UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2011 and 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

ASSETS, LIABILITIES AND NET ASSETS (cont.)

Deposits and Investments (cont.)

Investment of the utilities' funds are restricted by state statutes. Investments are limited to:

- > Time deposits in any credit union, bank, savings bank or trust company maturing in three years or less.
- > Bonds or securities of any county, city, drainage district, technical college district, village, town, or school district of the state. Also, bonds issued by a local exposition district, local professional baseball park district, local professional football stadium district, local cultural arts district the University of Wisconsin Hospitals and Clinics Authority, or the Wisconsin Aerospace Authority.
- > 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.

The utilities follow the investment policy that has been adopted by the Village of McFarland. Please refer to the financial statements of the municipality for details on this policy.

Investments are stated at fair value, which is the amount at which an investment could be exchanged in a current transaction between willing parties. Fair values are based on quoted market prices. No investments are reported at amortized cost. Adjustments necessary to record investments at fair value are recorded in the operating statement as increases or decreases in investment income. Market values may have changed significantly after year end.

Receivables/Payables

Transactions between the utilities and other funds of the municipality that are representative of lending/borrowing arrangements outstanding at year end are referred to as advances to/from other funds. All other outstanding balances between the utilities and other funds of the municipality are reported as due to/from other funds.

The utilities have the right under Wisconsin statutes to place delinquent water, sewer and storm water bills on the tax roll for collection. As such, no allowance for uncollectible customer accounts is considered necessary.

Materials and Supplies

Materials and supplies are generally used for construction, operation, and maintenance work, not for resale. They are valued at the lower of cost or market utilizing the average cost method and charged to construction or expense when used.

MCFARLAND UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2011 and 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

ASSETS, LIABILITIES AND NET ASSETS (cont.)

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.

Water Tower Reserve

Current water rates are designed to provide funds for future water tower painting. The utility transfers the budgeted amount each year from unrestricted cash to the internally restricted account.

Property Held for Future Use

This is land owned by the utility currently not in use.

Preliminary Survey and Investigation

The balance represents initial project engineering costs related to utility plant construction. The balance will be capitalized upon commencement of the project.

Special Assessments Receivable

This account represents the balances of special assessments levied against property owners for infrastructure improvements. The balances are receivable over various time periods with interest accrued annually. Some of the properties assessed are currently not developed; i.e., not attached to the water and sewer system. Payment of the assessment balance is deferred until these properties are attached to the water and sewer system.

Capital Assets

Capital assets are generally defined by the utilities as assets with an initial, individual cost of more than \$10,000 and an estimated useful life in excess of one year.

Capital assets of the utilities are recorded at cost or the fair market value at the time of contribution to the utilities. Major outlays for utility plant are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the capital assets constructed, net of interest earned on the invested proceeds over the same period. Capital assets in service are depreciated or amortized using the straight-line method over the following useful lives:

MCFARLAND UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2011 and 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

ASSETS, LIABILITIES AND NET ASSETS (cont.)

Capital Assets (cont.)

	<u>Years</u>
Water Plant	
Source of supply	34
Pumping	22 - 31
Water treatment	17
Transmission and distribution	18 - 77
General	4 - 17
Sewer Plant	
Collecting system	50 - 100
Collecting system pumping	20 - 40
General	7 - 20
Storm Water Plant	
Storm water assets	50

Accrued Vacation and Sick Leave

Under terms of employment, employees are granted sick leave and vacations in varying amounts. Only benefits considered to be vested are disclosed in these statements. Vested vacation and sick leave pay is accrued when earned in the financial statements. The liability is liquidated from general operating revenues of the utilities.

Unearned Revenue

Water and Sewer unearned revenue for 2010 represents an advance from Nextel to do landscaping in 2011. The utility recognized this revenue in 2011. The 2011 balance represents water tower lease payments for 2012.

Long-Term Obligations

Long-term debt and other obligations are reported as utility liabilities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line or effective interest method. Gains or losses on prior refundings are amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter.

REVENUES AND EXPENSES

The utilities 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 the utility's principal ongoing operations. The principal operating revenues of the utilities are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

MCFARLAND UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2011 and 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

REVENUES AND EXPENSES (cont.)

Charges for Services

Billings are rendered and recorded bi-monthly. Water and sewer are based on metered usage and storm water billings are based on Equivalent Residential Units (ERUs). The utilities do not accrue revenues beyond billing dates.

Current water rates became effective October 10, 2010. The authorized rate of return is 7.25%

Current sewer and storm water rates were approved by the village board on June 15, 2010 and implemented on August 1, 2010.

Capital Contributions

Cash and capital assets are contributed to the utilities from customers, the municipality, or external parties. The value of property contributed to the utilities are reported as revenue on the statements of revenues, expenses, and changes in net assets.

The water utility charges new customers an impact fee to connect to the system. Fees collected are recorded as capital contributions on the statements of revenues, expenses, and changes in net assets.

Transfers

Transfers include the payment in lieu of taxes to the municipality.

EFFECT OF NEW ACCOUNTING STANDARDS ON CURRENT PERIOD FINANCIAL STATEMENTS

The Governmental Accounting Standards Board (GASB) has approved GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, Statement No. 61, *The Financial Reporting Entity: Omnibus*, Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and Statement No. 64 *Derivative Instruments: Applications of Hedge Accounting Termination Provisions - an amendment of GASB Statement No. 53*. Application of these standards may restate portions of these financial statements.

MCFARLAND UTILITIES

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2011 and 2010

NOTE 2 - DEPOSITS AND INVESTMENTS

	Carrying Value as of December 31,		Risks
	2011	2010	
Checking and savings	\$ 503,723	\$ 582,392	Custodial credit
LGIP	<u>1,942,011</u>	<u>1,013,890</u>	Credit and interest rate
Totals	<u>\$ 2,445,734</u>	<u>\$ 1,596,282</u>	

Deposits in each local and area bank are insured by the FDIC in the amount of \$250,000 for time and savings accounts (including NOW accounts), \$250,000 for interest-bearing demand deposit accounts, and unlimited amounts for noninterest bearing transaction accounts as of December 31, 2011. Coverage as of December 31, 2010 included \$250,000 for interest bearing accounts and unlimited amounts for noninterest bearing accounts.

Bank accounts are also insured by the State Deposit Guarantee Fund (SDGF) in the amount of \$400,000.

The utilities may also maintain separate cash and investment accounts at the same financial institutions utilized by the municipality. Federal depository insurance and the SDGF apply to all municipal accounts, and accordingly, the amount of insured funds is not determinable for the utilities alone. Therefore, coverage for the utilities may be reduced. Investment income on commingled investments of the entire municipality is allocated based on average investment balances.

The Wisconsin Local Government Investment Pool (LGIP) is part of the State Investment Fund (SIF), and is managed by the State of Wisconsin Investment Board. The SIF is not registered with the Securities and Exchange Commission, but operates under the statutory authority of Wisconsin Chapter 25. The SIF reports the fair value of its underlying assets annually. Participants in the LGIP have the right to withdraw their funds in total on one day's notice. At December 31, 2011 and 2010, the fair value of the LGIP's assets were substantially equal to the utilities' share.

Custodial Credit Risk

Deposits

Custodial credit risk is the risk that in the event of a financial institution failure, the utilities' deposits may not be returned to the utilities.

MCFARLAND UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2011 and 2010

NOTE 2 - DEPOSITS AND INVESTMENTS (cont.)

Custodial Credit Risk (cont.)

Deposits (cont.)

The utilities maintain certain deposits commingled with the municipality. The custodial credit risk pertaining specifically to the utilities' resources at these institutions cannot be determined individually for those accounts. The following is a summary of the utilities' total deposit balances at these institutions.

	2011		2010	
	Bank Balance	Carrying Value	Bank Balance	Carrying Value
McFarland State Bank	(A)	\$ <u>503,723</u>	(A)	\$ <u>582,392</u>

(A) The utility cash and investments are commingled with the entire municipality, therefore, individual bank balances cannot be determined.

Credit Risk

Credit risk is the risk an issuer or other counterparty to an investment will not fulfill its obligations. The utilities held investments in the Local Government Investment Pool which is an external pool that is not rated.

Interest Rate Risk

Interest rate risk is the risk changes in interest rates will adversely affect the fair value of an investment.

As of December 31, 2011, the utilities' investments were as follows:

Investment Type	Fair Value	Weighted Average Maturity (Days)
Local Government Investment Pool	\$ <u>1,942,011</u>	97

As of December 31, 2010, the utilities' investments were as follows:

Investment Type	Fair Value	Weighted Average Maturity (Days)
Local Government Investment Pool	\$ <u>1,013,890</u>	73

MCFARLAND UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2011 and 2010

NOTE 2 - DEPOSITS AND INVESTMENTS (cont.)

Investment Policy

Credit and Interest Rate Risks

The Village of McFarland's investment policy addresses interest rate risk by limiting maturity of investments to less than five years. The Village of McFarland investment policy addresses credit risk by limiting investments to State Statute allowable investments and further limiting commercial paper or municipal bonds investments to have the highest or second highest rating category as assigned by Standard & Poor's, Moody's Investor Service or other similar nationally recognized rating agency.

NOTE 3 - INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS

The following is a schedule of interfund balances for the years ending December 31, 2011 and 2010:

<u>Due To</u>	<u>Due From</u>	<u>2011</u>		<u>2010</u>	
		<u>Amount</u>	<u>Principal Purpose</u>	<u>Amount</u>	<u>Principal Purpose</u>
Municipality	Water and Sewer Utility	\$ 134,813	Tax equivalent and fire protection charge	\$ 141,636	Tax equivalent and fire protection charge
Storm Water Utility	Municipality	13,179	Delinquent charges on tax roll	8,441	Delinquent charges on tax roll

The following is a schedule of transfer balances for the years ending December 31, 2011 and 2010:

<u>To</u>	<u>From</u>	<u>2011</u>		<u>2010</u>	
		<u>Amount</u>	<u>Principal Purpose</u>	<u>Amount</u>	<u>Principal Purpose</u>
Municipality	Water and Sewer Utility	\$ 211,574	Tax equivalent	\$ 198,309	Tax equivalent

MCFARLAND UTILITIES

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2011 and 2010

NOTE 4 - RESTRICTED ASSETS

Restricted Accounts

Certain proceeds of the utilities' debt, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets because their use is limited. The following accounts are reported as restricted assets:

- Redemption - Used to segregate resources accumulated for debt service payments over the next twelve months.
- Reserve - Used to report resources set aside to make up potential future deficiencies in the redemption account.
- Depreciation - Used to report resources set aside to fund plant renewals and replacement or make up potential future deficiencies in the redemption account.

Replacement Account

As a condition of receiving state and federal funds for wastewater plant construction, the utilities have established an account for replacement of certain mechanical equipment.

Impact Fee Account

The utilities have received impact fees which must be spent in accordance with local ordinances and state statutes. Those funds not spent within the ordinance guidelines and time frames must be refunded to the current property owner.

Restricted Net Assets

The following calculation supports the amount of water and sewer restricted net assets:

	2011	2010
Restricted Assets		
Redemption account	\$ 25,583	\$ 25,813
Reserve account	236,500	236,500
Depreciation account	78,000	78,000
Replacement account	171,300	136,900
Impact fee account	188,293	281,292
Total Restricted Assets	699,676	758,505
Less: Restricted Assets Not Funded by Revenues		
Reserve from borrowing	(236,500)	(236,500)
Current Liabilities Payable From Restricted Assets	(3,498)	(4,560)
Total Restricted Net Assets as Calculated	\$ 459,678	\$ 517,445

MCFARLAND UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2011 and 2010

NOTE 5 - CHANGES IN CAPITAL ASSETS

Water Utility

A summary of changes in water capital assets for 2011 follows:

	Balance 1/1/11	Increases	Decreases	Balance 12/31/11
Capital assets, not being depreciated				
Land and land rights	\$ 87,550	\$ -	\$ -	\$ 87,550
Capital assets being depreciated				
Source of supply	211,239	-	-	211,239
Pumping	357,710	-	-	357,710
Water treatment	6,061	-	1,563	4,498
Transmission and distribution	10,361,518	43,236	124,526	10,280,228
General	209,791	6,180	15,132	200,839
Total Capital Assets Being Depreciated	11,146,319	49,416	141,221	11,054,514
Total Capital Assets	11,233,869	49,416	141,221	11,142,064
Less: Accumulated depreciation	(2,753,220)	(245,855)	149,825	(2,849,250)
Net Capital Assets	\$ 8,480,649			\$ 8,292,814

A summary of changes in water capital assets for 2010 follows:

	Balance 1/1/10	Increases	Decreases	Balance 12/31/10
Capital assets, not being depreciated				
Land and land rights	\$ 87,550	\$ -	\$ -	\$ 87,550
Capital assets being depreciated				
Source of supply	211,239	-	-	211,239
Pumping	355,021	14,210	11,521	357,710
Water treatment	6,061	-	-	6,061
Transmission and distribution	9,912,541	499,979	51,002	10,361,518
General	164,907	44,884	-	209,791
Total Capital Assets Being Depreciated	10,649,769	559,073	62,523	11,146,319
Total Capital Assets	10,737,319	559,073	62,523	11,233,869
Less: Accumulated depreciation	(2,580,568)	(235,175)	62,523	(2,753,220)
Net Capital Assets	\$ 8,156,751			\$ 8,480,649

MCFARLAND UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2011 and 2010

NOTE 5 - CHANGES IN CAPITAL ASSETS (cont.)

Sewer Utility

A summary of changes in sewer capital assets for 2011 follows:

	Balance 1/1/11	Increases	Decreases	Balance 12/31/11
Capital assets, not being depreciated				
Land and land rights	\$ 78,020	\$ -	\$ -	\$ 78,020
Capital assets being depreciated				
Collecting system	4,166,680	5,357	-	4,172,037
Collecting system pumping	596,075	-	-	596,075
General	116,102	6,180	11,152	111,130
Total Capital Assets Being Depreciated	4,878,857	11,537	11,152	4,879,242
Total Capital Assets	4,956,877	11,537	11,152	4,957,262
Less: Accumulated depreciation	(1,470,917)	(91,174)	11,152	(1,550,939)
Net Capital Assets	\$ 3,485,960			\$ 3,406,323

A summary of changes in sewer capital assets for 2010 follows:

	Balance 1/1/10	Increases	Decreases	Balance 12/31/10
Capital assets, not being depreciated				
Land and land rights	\$ 78,020	-	-	\$ 78,020
Capital assets being depreciated				
Collecting system	4,039,843	129,256	2,419	4,166,680
Collecting system pumping	596,075	-	-	596,075
General	110,213	5,889	-	116,102
Total Capital Assets Being Depreciated	4,746,131	135,145	2,419	4,878,857
Total Capital Assets	4,824,151	135,145	2,419	4,956,877
Less: Accumulated depreciation	(1,383,055)	(90,281)	2,419	(1,470,917)
Net Capital Assets	\$ 3,441,096			\$ 3,485,960

MCFARLAND UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2011 and 2010

NOTE 5 - CHANGES IN CAPITAL ASSETS (cont.)

Storm Water Utility

A summary of changes in storm water capital assets for 2011 follows:

	Balance 1/1/11	Increases	Decreases	Balance 12/31/11
Capital assets, not being depreciated				
Land and land rights	\$ -	\$ 160,275	\$ -	\$ 160,275
Capital assets being depreciated				
Storm water assets	3,269,259	168,887	-	3,438,146
Total Capital Assets Being Depreciated	3,269,259	168,887	-	3,438,146
Total Capital Assets	3,269,259	329,162	-	3,598,421
Less: Accumulated depreciation	(1,069,259)	(66,737)	-	(1,135,996)
Net Capital Assets	\$ 2,200,000			\$ 2,462,425

A summary of changes in storm water capital assets for 2010 follows:

	Balance 1/1/10	Increases	Decreases	Balance 12/31/10
Capital assets being depreciated				
Storm water assets	\$ 3,205,885	\$ 63,374	\$ -	\$ 3,269,259
Total Capital Assets Being Depreciated	3,205,885	63,374	-	3,269,259
Less: Accumulated depreciation	(1,004,272)	(64,987)	-	(1,069,259)
Net Capital Assets	\$ 2,201,613			\$ 2,200,000

NOTE 6 - LONG-TERM OBLIGATIONS

Revenue Bonds - Water and Sewer Utility

The following bonds have been issued:

Date	Purpose	Final Maturity	Interest Rate	Original Amount	Outstanding Amount 12/31/11
4/01/05	Refund existing debt	12/01/14	3.00-5.00%	\$ 2,365,000	\$ 840,000

MCFARLAND UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2011 and 2010

NOTE 6 - LONG-TERM OBLIGATIONS (cont.)

Revenue Bonds - Water and Sewer Utility (cont.)

Revenue bonds debt service requirements to maturity follows:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 265,000	\$ 42,000	\$ 307,000
2013	280,000	28,750	308,750
2014	<u>295,000</u>	<u>14,750</u>	<u>309,750</u>
Totals	<u>\$ 840,000</u>	<u>\$ 85,500</u>	<u>\$ 925,500</u>

All utility revenues net of specified operating expenses are pledged as security of the above revenue bonds until the bonds are defeased. Principal and interest paid for 2011 and 2010 were \$309,750 and \$306,750, respectively. Total customer gross revenues as defined for the same periods were \$1,901,992 and \$1,834,257. Annual principal and interest payments are expected to require 16% of gross revenues on average.

General Obligation Debt - Storm Water Utility

The following general obligation notes have been issued:

<u>Date</u>	<u>Purpose</u>	<u>Final Maturity</u>	<u>Interest Rate</u>	<u>Original Amount</u>	<u>Outstanding Amount 12/31/11</u>
12/1/11	Various capital projects and repayment of advance	9/1/2021	2.14%	\$ 875,000	\$ 875,000

General obligation notes debt service requirements to maturity follows:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 85,000	\$ 13,624	\$ 98,624
2013	80,000	16,465	96,465
2014	80,000	14,865	94,865
2015	85,000	13,265	98,265
2016	85,000	11,565	96,565
2017-2021	<u>460,000</u>	<u>30,988</u>	<u>490,988</u>
Totals	<u>\$ 875,000</u>	<u>\$ 100,772</u>	<u>\$ 975,772</u>

MCFARLAND UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2011 and 2010

NOTE 6 - LONG-TERM OBLIGATIONS (cont.)

Advances from Other Funds of the Municipality - Storm Water Utility

The water and sewer utility agreed to subsidize the storm water utility operations by providing an operational advance for expenses above and beyond the revenues collected by the utility. The amount outstanding as of December 31, 2010 was \$279,962. The storm water paid back the entire advance in 2011 with the proceeds from the 2011 General Obligation debt.

Long-Term Obligations Summary - Water and Sewer Utility

Long-term obligation activity for the year ended December 31, 2011 is as follows:

	<u>1/1/11</u> Balance	<u>Additions</u>	<u>Reductions</u>	<u>12/31/11</u> Balance	<u>Due Within</u> <u>One Year</u>
Revenue bonds	\$ 1,095,000	\$ -	\$ 255,000	\$ 840,000	\$ 265,000
Accrued sick leave	75,801	11,852	13,927	73,726	-
Unamortized loss on advanced refunding	(27,251)	-	(6,811)	(20,440)	(6,811)
Unamortized debt premium	<u>53,732</u>	<u>-</u>	<u>13,720</u>	<u>40,012</u>	<u>13,720</u>
Totals	<u>\$ 1,197,282</u>	<u>\$ 11,852</u>	<u>\$ 275,836</u>	<u>\$ 933,298</u>	<u>\$ 271,909</u>

Long-term obligation activity for the year ended December 31, 2010 is as follows:

	<u>1/1/10</u> Balance	<u>Additions</u>	<u>Reductions</u>	<u>12/31/10</u> Balance	<u>Due Within</u> <u>One Year</u>
Revenue bonds	\$ 1,335,000	\$ -	\$ 240,000	\$ 1,095,000	\$ 255,000
Accrued sick leave	67,055	10,882	2,136	75,801	-
Unamortized loss on advanced refunding	(34,062)	-	(6,811)	(27,251)	(6,811)
Unamortized debt premium	<u>67,452</u>	<u>-</u>	<u>13,720</u>	<u>53,732</u>	<u>13,720</u>
Totals	<u>\$ 1,435,445</u>	<u>\$ 10,882</u>	<u>\$ 249,045</u>	<u>\$ 1,197,282</u>	<u>\$ 261,909</u>

MCFARLAND UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2011 and 2010

NOTE 6 - LONG-TERM OBLIGATIONS (cont.)

Long-Term Obligations Summary - Storm Water Utility

Long-term obligation activity for the year ended December 31, 2011 is as follows:

	<u>1/1/11 Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/11 Balance</u>	<u>Due Within One Year</u>
General obligation debt	\$ -	\$ 875,000	\$ -	\$ 875,000	\$ 85,000
Accrued sick leave	20,989	3,618	881	23,726	-
Advance from water utility	279,962	-	279,962	-	-
Unamortized debt premium	-	10,744	161	10,583	1,453
Totals	<u>\$ 300,951</u>	<u>\$ 889,362</u>	<u>\$ 281,004</u>	<u>\$ 909,309</u>	<u>\$ 86,453</u>

Long-term obligation activity for the year ended December 31, 2010 is as follows:

	<u>1/1/10 Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/10 Balance</u>	<u>Due Within One Year</u>
Accrued sick leave	\$ 19,525	\$ 3,353	\$ 1,889	\$ 20,989	\$ -
Advance from water utility	200,000	79,962	-	279,962	-
Totals	<u>\$ 219,525</u>	<u>\$ 83,315</u>	<u>\$ 1,889</u>	<u>\$ 300,951</u>	<u>\$ -</u>

Bond Covenant Disclosures

The following information is provided in compliance with the resolution creating the 2005 revenue bonds:

Insurance

The utilities are exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets, errors and omissions, workers compensation, and health care of its employees. These risks are covered through the purchase of commercial insurance, with minimal deductibles. Settled claims have not exceeded coverage in any of the last three years. There were no significant reductions in coverage compared to the prior year.

MCFARLAND UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2011 and 2010

NOTE 6 - LONG-TERM OBLIGATIONS (cont.)

Bond Covenant Disclosures (cont.)

The utilities are covered under the following insurance policies at December 31, 2011:

Type	Coverage	Expiration
General Liability	\$ 2,000,000	1/1/2012
Workers Compensation	500,000 each accident 500,000 policy limit 500,000 employee limit	1/1/2012
Employee Theft	1,000,000	1/1/2012
Auto Liability	1,000,000 each accident	1/1/2012
Public Officials	1,000,000 each loss	1/1/2012

Debt Coverage - Water and Sewer Utility

Under terms of the resolutions providing for the issue of revenue bonds, revenues less operating expenses excluding depreciation (defined net earnings) must exceed 1.20 times the highest annual debt service of the bonds. The coverage only includes revenue debt and does not include general obligation or other debt. The coverage requirement was met in 2011 and 2010 as follows:

	2011	2010
Operating revenues	\$ 1,900,409	\$ 1,831,973
Investment income	1,583	2,284
Impact fees - tower only	6,963	3,665
Less: Operation and maintenance expenses	<u>(1,233,789)</u>	<u>(1,236,333)</u>
Net Defined Earnings	<u>\$ 675,166</u>	<u>\$ 601,589</u>
Minimum Required Earnings per Resolution:		
Highest annual debt service 2005 bonds	\$ 309,750	\$ 309,750
Coverage factor	<u>1.20</u>	<u>1.20</u>
Minimum Required Earnings	<u>\$ 371,700</u>	<u>\$ 371,700</u>
Actual Debt Coverage	<u>2.18</u>	<u>1.94</u>

MCFARLAND UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2011 and 2010

NOTE 6 - LONG-TERM OBLIGATIONS (cont.)

Bond Covenant Disclosures (cont.)

Number of Customers and Billed Volumes - Water

The utility has the following number of customers and billed volumes for 2011 and 2010:

	Customers		Sales (000 gals)	
	2011	2010	2011	2010
Residential	2,643	2,611	140,455	141,699
Commercial	285	282	38,278	41,171
Public authority	21	21	4,439	5,525
Totals	2,949	2,914	183,172	188,395

Number of Customers and Billed Volumes - Sewer

The utility has the following number of customers and billed volumes for 2011 and 2010:

	Customers		Sales (000 gals)	
	2011	2010	2011	2010
Residential	2,619	2,587	139,352	140,765
Commercial	267	268	37,359	40,113
Public authority	16	16	4,428	4,543
Totals	2,902	2,871	181,139	185,421

NOTE 7 - NET ASSETS

GASB No. 34 requires the classification of net assets into three components - invested in capital assets, net of related debt, restricted, and unrestricted. These classifications are defined as follows:

Invested in capital assets, net of related debt - This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.

Restricted - This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

MCFARLAND UTILITIES

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2011 and 2010

NOTE 7 - NET ASSETS (cont.)

Unrestricted net assets - This component of net asset consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

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

The following calculation supports the water and sewer net assets invested in capital assets, net of related debt:

	2011	2010
Plant in service	\$ 16,099,326	\$ 16,190,746
Accumulated depreciation	<u>(4,400,189)</u>	<u>(4,224,137)</u>
Sub-Totals	<u>11,699,137</u>	<u>11,966,609</u>
Less: Capital related debt		
Current portion of capital related long-term debt	265,000	255,000
Long-term portion of capital related long-term debt	575,000	840,000
Unamortized debt issuance costs funded with borrowing	(20,774)	(27,898)
Unamortized debt premium	40,012	53,732
Unamortized loss on advance refunding	<u>(20,440)</u>	<u>(27,251)</u>
Sub-Totals	<u>838,798</u>	<u>1,093,583</u>
Add: Unspent debt proceeds		
Reserve from borrowing	<u>236,500</u>	<u>236,500</u>
Total Net Assets Invested in Capital Assets, Net of Related Debt	<u>\$ 11,096,839</u>	<u>\$ 11,109,526</u>

The following calculation supports the storm water net assets invested in capital assets, net of related debt:

	2011	2010
Plant in service	\$ 3,598,421	\$ 3,269,259
Accumulated depreciation	<u>(1,135,996)</u>	<u>(1,069,259)</u>
Sub-Totals	<u>2,462,425</u>	<u>2,200,000</u>
Less: Capital related debt		
Current portion of capital related long-term debt	85,000	-
Long-term portion of capital related long-term debt	790,000	-
Unamortized debt issuance costs funded with borrowing	(10,583)	-
Unamortized debt premium	<u>10,583</u>	-
Sub-Totals	<u>875,000</u>	<u>-</u>
Total Net Assets Invested in Capital Assets, Net of Related Debt	<u>\$ 1,587,425</u>	<u>\$ 2,200,000</u>

MCFARLAND UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2011 and 2010

NOTE 8 - EMPLOYEES RETIREMENT SYSTEM

All eligible employees of the utilities participate in the Wisconsin Retirement System (System), a cost-sharing multiple-employer defined benefit public employee retirement system (PERS). All permanent employees expected to work over 600 hours a year (1,200 hours for employees hired on or after July 1, 2011) are eligible to participate in the System. Covered employees in the General category were required by statute to contribute 6.2% of their salary in 2010, 6.5% of their salary through June 28, 2011 and 5.8% of their salary beginning June 29, 2011. Employers generally make these contributions to the plan on behalf of employees through June 28, 2011. Thereafter, employees are required to fund their contribution, subject to terms of employment contracts and which employee group they are a member of. Employers are required to contribute an actuarially determined amount necessary to fund the remaining projected cost of future benefits. Total village covered payroll including utility employees listed below is substantially the same as total payroll.

	Year Ended December 31		
	2011	2010	2009
Total Covered Employee Payroll	<u>\$ 2,984,055</u>	<u>\$ 2,847,079</u>	<u>\$ 2,834,399</u>
Total Required Contributions	<u>\$ 346,150</u>	<u>\$ 318,873</u>	<u>\$ 312,784</u>
Total Required Contributions	<u>11.6%</u>	<u>11.2%</u>	<u>11.0%</u>

Details of the plan are disclosed in the basic financial statements of the Village of McFarland.

NOTE 9 - COMMITMENTS AND CONTINGENCIES

Claims and Judgments

From time to time, the utilities are party to various pending claims and legal proceedings. Although the outcome of such matters cannot be forecasted with certainty, it is the opinion of management and the utilities' legal counsel that the likelihood is remote that any such claims or proceedings will have a material adverse effect on the utilities' financial position or results of operations.

NOTE 10 - SUBSEQUENT EVENTS

Rate Adjustment

New sewer rates were approved to go into effect January 2012.

SUPPLEMENTAL INFORMATION

MCFARLAND WATER AND SEWER UTILITY

WATER UTILITY PLANT
As of and for the Year Ended December 31, 2011

	Balance 1/1/11	Additions	Retirements	Adjustments	Balance 12/31/11
SOURCE OF SUPPLY					
Land and land rights	\$ 32,300	\$ -	\$ -	\$ -	\$ 32,300
Wells and springs	211,239	-	-	-	211,239
Total Source of Supply	<u>243,539</u>	-	-	-	<u>243,539</u>
PUMPING					
Structures and improvements	145,092	-	-	-	145,092
Electric pumping equipment	190,402	-	-	-	190,402
Other pumping equipment	22,216	-	-	-	22,216
Total Pumping	<u>357,710</u>	-	-	-	<u>357,710</u>
WATER TREATMENT					
Water treatment equipment	6,061	-	1,563	-	4,498
TRANSMISSION AND DISTRIBUTION					
Land and land rights	55,250	-	-	-	55,250
Distribution reservoirs and standpipes	1,231,105	-	-	-	1,231,105
Transmission and distribution mains	6,454,965	13,496	-	6,846	6,475,307
Services	1,223,912	-	-	21	1,223,933
Meters	688,761	15,000	867	(130,378)	572,516
Hydrants	762,775	14,740	-	(148)	777,367
Total Transmission and Distribution	<u>10,416,768</u>	<u>43,236</u>	<u>867</u>	<u>(123,659)</u>	<u>10,335,478</u>
GENERAL					
Office furniture and equipment	25,078	-	15,132	-	9,946
Transportation equipment	62,822	6,180	-	-	69,002
Tools, shop and garage equipment	48,766	-	-	-	48,766
Laboratory equipment	6,649	-	-	-	6,649
Power-operated equipment	30,102	-	-	-	30,102
Communication equipment	36,072	-	-	-	36,072
Miscellaneous equipment	302	-	-	-	302
Total General	<u>209,791</u>	<u>6,180</u>	<u>15,132</u>	<u>-</u>	<u>200,839</u>
TOTAL WATER UTILITY PLANT	<u>\$11,233,869</u>	<u>\$ 49,416</u>	<u>\$ 17,562</u>	<u>\$ (123,659)</u>	<u>\$11,142,064</u>

MCFARLAND WATER AND SEWER UTILITY

SEWER UTILITY PLANT
As of and for the Year Ended December 31, 2011

	Balance 1/1/11	Additions	Retirements	Balance 12/31/11
COLLECTING SYSTEM				
Land and land rights	\$ 78,020	\$ -	\$ -	\$ 78,020
Service connections	502,899	-	-	502,899
Collecting mains	3,472,748	5,357	-	3,478,105
Force mains	191,033	-	-	191,033
Total Collecting System	<u>4,244,700</u>	<u>5,357</u>	<u>-</u>	<u>4,250,057</u>
COLLECTING SYSTEM PUMPING				
Structures and improvements	15,700	-	-	15,700
Receiving wells	14,403	-	-	14,403
Electric pumping equipment	502,471	-	-	502,471
Other power pumping equipment	60,159	-	-	60,159
Miscellaneous pumping equipment	3,342	-	-	3,342
Total Collecting System Pumping	<u>596,075</u>	<u>-</u>	<u>-</u>	<u>596,075</u>
GENERAL				
Office furniture and equipment	21,100	-	11,152	9,948
Transportation equipment	92,689	6,180	-	98,869
Other general equipment	2,313	-	-	2,313
Total General	<u>116,102</u>	<u>6,180</u>	<u>11,152</u>	<u>111,130</u>
 TOTAL SEWER UTILITY PLANT	 <u>\$ 4,956,877</u>	 <u>\$ 11,537</u>	 <u>\$ 11,152</u>	 <u>\$ 4,957,262</u>

MCFARLAND STORM WATER UTILITY

STORM WATER UTILITY PLANT December 31, 2011

	Balance 1/1/11	Additions	Retirements	Balance 12/31/11
STORM WATER				
Land and land improvements	\$ 63,374	\$ 160,275	\$ -	\$ 223,649
Pipes	2,242,724	-	-	2,242,724
Manholes	249,167	-	-	249,167
Inlets	342,116	-	-	342,116
Basins	279,508	168,887	-	448,395
Miscellaneous	92,370	-	-	92,370
Total Storm water assets	<u>3,269,259</u>	<u>329,162</u>	<u>-</u>	<u>3,598,421</u>
 TOTAL STORM WATER UTILITY PLANT	 <u>\$ 3,269,259</u>	 <u>\$ 329,162</u>	 <u>\$ -</u>	 <u>\$ 3,598,421</u>

MCFARLAND WATER AND SEWER UTILITY

WATER UTILITY OPERATING REVENUES AND EXPENSES For the Years Ended December 31, 2011 and 2010

	2011	2010
OPERATING REVENUES		
Sales of Water		
Unmetered	\$ 7,041	\$ 5,030
Metered		
Residential	488,530	475,194
Commercial	103,548	103,959
Public authorities	14,025	15,567
Total Metered Sales	606,103	594,720
Private fire protection	22,569	22,062
Public fire protection	307,838	304,847
Total Sales of Water	943,551	926,659
Other Operating Revenues		
Forfeited discounts	6,733	7,272
Miscellaneous service revenue	20,454	3
Other	141,430	132,225
Total Operating Revenues	1,112,168	1,066,159
OPERATING EXPENSES		
Operation and Maintenance		
Source of Supply		
Operation labor	792	780
Operation supplies	793	586
Total Source of Supply	1,585	1,366
Pumping		
Operation labor	29,090	34,277
Fuel or power purchased for pumping	37,802	37,360
Operation supplies	3,074	8,786
Maintenance	9,039	5,971
Total Pumping	79,005	86,394
Water Treatment		
Operation labor	3,631	3,879
Chemicals	13,808	15,200
Maintenance	1,360	2,153
Total Water Treatment	18,799	21,232
Transmission and Distribution		
Operation labor	32,558	39,482
Operation supplies	2,361	3,871
Maintenance		
Distribution reservoirs and standpipes	1,000	50
Mains	12,870	27,814
Services	21,418	11,303
Meters	11,994	21,849
Hydrants	10,724	12,194
Total Transmission and Distribution	92,925	116,563
Customer Accounts		
Meter reading labor	2,747	3,392
Accounting and collecting labor	26,031	25,836
Supplies	2,799	1,649
Total Customer Accounts	31,577	30,877

MCFARLAND WATER AND SEWER UTILITY

WATER UTILITY OPERATING REVENUES AND EXPENSES (cont.) For the Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
OPERATING EXPENSES (cont.)		
Operation and Maintenance (cont.)		
Administrative and General		
Salaries	\$ 50,372	\$ 58,692
Office supplies	11,511	4,955
Outside services employed	37,383	47,525
Property insurance	36,222	37,029
Employee pensions and benefits	60,751	65,177
Miscellaneous	33,553	34,165
Transportation	<u>26,715</u>	<u>21,885</u>
Total Administrative and General	<u>256,507</u>	<u>269,428</u>
Taxes	<u>9,553</u>	<u>11,869</u>
Total Operation and Maintenance	489,951	537,729
Depreciation	<u>219,908</u>	<u>217,384</u>
Total Operating Expenses	<u>709,859</u>	<u>755,113</u>
 OPERATING INCOME	 <u>\$ 402,309</u>	 <u>\$ 311,046</u>

MCFARLAND WATER AND SEWER UTILITY

SEWER UTILITY OPERATING REVENUES AND EXPENSES For the Years Ended December 31, 2011 and 2010

	2011	2010
OPERATING REVENUES		
Sewer Revenues		
Residential	\$ 639,710	\$ 619,848
Commercial	124,258	123,631
Public authorities	<u>15,702</u>	<u>14,127</u>
Total Sewer Revenues	<u>779,670</u>	<u>757,606</u>
Other Operating Revenues		
Forfeited discounts	<u>8,571</u>	<u>8,208</u>
Total Operating Revenues	<u>788,241</u>	<u>765,814</u>
 OPERATING EXPENSES		
Operation and Maintenance		
Operation		
Power and fuel for pumping	3,842	5,113
Treatment charges	385,640	378,233
Other operating supplies	82	460
Transportation	<u>22,885</u>	<u>19,614</u>
Total Operation	<u>412,449</u>	<u>403,420</u>
Maintenance		
Collection system	74,002	33,421
Pumping equipment	27,105	23,100
General plant structures and equipment	<u>314</u>	<u>288</u>
Total Maintenance	<u>101,421</u>	<u>56,809</u>
Customer Accounts		
Accounting and collecting	27,711	27,425
Meter Reading	<u>2,102</u>	<u>2,817</u>
Total Customer Accounts	<u>29,813</u>	<u>30,242</u>
Administrative and General		
Salaries	42,636	51,190
Office supplies	11,424	4,366
Outside services employed	18,715	25,266
Insurance	21,243	22,251
Employees pensions and benefits	29,640	28,655
Miscellaneous	951	109
Rents	<u>67,985</u>	<u>68,624</u>
Total Administrative and General	<u>192,594</u>	<u>200,461</u>
Taxes	<u>7,561</u>	<u>7,672</u>
Total Operation and Maintenance	<u>743,838</u>	<u>698,604</u>
Depreciation	<u>91,174</u>	<u>90,281</u>
Total Operating Expenses	<u>835,012</u>	<u>788,885</u>
 OPERATING LOSS	 <u>\$ (46,771)</u>	 <u>\$ (23,071)</u>

MCFARLAND STORM WATER UTILITY

STORM WATER UTILITY OPERATING REVENUES AND EXPENSES For the Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
OPERATING REVENUES		
Charges for Services	\$ 416,924	\$ 386,350
Other Operating Revenues		
Forfeited discounts	3,311	2,806
Other	<u>3,425</u>	<u>1,920</u>
Total Operating Revenues	<u>423,660</u>	<u>391,076</u>
OPERATING EXPENSES		
Operation and Maintenance		
Operation supervision and labor	74,329	58,478
Facility and equipment rental	20,168	20,760
Operation supplies	<u>124,476</u>	<u>77,933</u>
Total Operation and Maintenance	<u>218,973</u>	<u>157,171</u>
Administrative and General		
Office Supplies	1,604	422
Outside services employed	15,387	26,200
Property insurance	11,155	12,161
Employee pensions and benefits	<u>39,079</u>	<u>31,079</u>
Total Administrative and General	<u>67,225</u>	<u>69,862</u>
Total Operation and Maintenance	286,198	227,033
Depreciation	<u>66,737</u>	<u>64,987</u>
Total Operating Expenses	<u>352,935</u>	<u>292,020</u>
 OPERATING INCOME	 <u>\$ 70,725</u>	 <u>\$ 99,056</u>

MCFARLAND WATER AND SEWER UTILITY

RATE OF RETURN - REGULATORY BASIS For the Years Ended December 31, 2011 and 2010

	Water	
	2011	2010
Utility Plant in Service		
Beginning of year	\$ 6,908,030	\$ 6,398,184
End of year	<u>6,779,385</u>	<u>6,908,030</u>
Average	<u>6,843,708</u>	<u>6,653,107</u>
Accumulated Depreciation		
Beginning of year	(1,830,579)	(1,707,109)
End of year	<u>(1,852,807)</u>	<u>(1,830,579)</u>
Average	<u>(1,841,693)</u>	<u>(1,768,844)</u>
Materials and Supplies		
Beginning of year	14,488	14,488
End of year	<u>16,082</u>	<u>14,488</u>
Average	<u>15,285</u>	<u>14,488</u>
Regulatory Liability		
Beginning of year	(296,688)	(319,510)
End of year	<u>(273,865)</u>	<u>(296,688)</u>
Average	<u>(285,277)</u>	<u>(308,099)</u>
AVERAGE NET RATE BASE	<u>\$ 4,732,023</u>	<u>\$ 4,590,652</u>
OPERATING INCOME - REGULATORY BASIS	<u>\$ 262,897</u>	<u>\$ 184,612</u>
RATE OF RETURN (PERCENT)	<u>5.56</u>	<u>4.02</u>
AUTHORIZED RATE OF RETURN (PERCENT)	<u>7.25</u>	<u>7.25</u>

This schedule is computed based on Public Service Commission of Wisconsin regulatory accounting which differs from accounting principles generally accepted in the United States of America due to GASB No. 34 as well as PSC order 05-US-105.