

# **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, 2013 and 2012

# MCFARLAND UTILITIES

Enterprise Funds of the Village of McFarland, Wisconsin

## TABLE OF CONTENTS

As of and for the Years Ended December 31, 2013 and 2012

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Independent Auditors' Report	1 - 2
Management's Discussion and Analysis	3 - 19
Financial Statements	
<b>Water and Sewer Utility</b>	
Statements of Net Position	20 - 21
Statements of Revenues, Expenses, and Changes in Net Position	22
Statements of Cash Flows	23 - 24
<b>Storm Water Utility</b>	
Statements of Net Position	25
Statements of Revenues, Expenses, and Changes in Net Position	26
Statements of Cash Flows	27 - 28
Notes to Financial Statements	29 - 45
Supplemental Information	
Water Utility Plant	46
Wastewater Utility Plant	47
Storm Water Utility Plant	48
Water Utility Operating Revenues and Expenses	49 - 50
Wastewater Utility Operating Revenues and Expenses	51
Storm Water Utility Operating Revenues and Expenses	52
Rate of Return - Regulatory Basis	53

**INDEPENDENT AUDITORS' REPORT**

To the Village Board  
McFarland Utilities  
McFarland, Wisconsin

**Report on the Financial Statements**

We have audited the accompanying financial statements of McFarland Utilities, enterprise funds of the Village of McFarland, Wisconsin, as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

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

***Auditors' Responsibility***

Our responsibility is to express 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 from material misstatement.

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

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of McFarland Utilities as of December 31, 2013 and 2012, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

To the Village Board  
McFarland Utilities

***Emphasis of Matters***

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, as of December 31, 2013 and 2012 and the changes in its financial position and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in the Note 1, McFarland Utilities has adopted the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, effective January 1, 2013. Our opinion is not modified with respect to this matter.

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the 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, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the 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. Management's Discussion and Analysis does not include a discussion of the changes in financial position between 2011 and 2012.

*Supplementary Information*

Our audits were conducted for the purpose of forming opinions on the financial statements as a whole. The supplemental utility plant, operating revenues and expenses, and rate of return regulatory basis schedules as listed in the table of contents are 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 supplemental utility plant, operating revenues and expenses, and rate of return regulatory basis schedules are fairly stated in all material respects in relation to the financial statements as a whole.

*Baker Tilly Virchow Krause, LLP*

Madison, Wisconsin  
April 18, 2014

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**WATER AND SEWER UTILITY**

# MCFARLAND WATER AND SEWER UTILITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2013 and 2012

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, 2013. 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.

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### FINANCIAL HIGHLIGHTS

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- The net position of the Utility improved \$242,499 (1.84%) from \$13,202,545 in 2012 to \$13,445,044 in 2013.
- The operating revenues of the Utility decreased \$19,019 (0.95%) from \$1,996,824 in 2012 to \$1,977,810 in 2013. The comparatively small decrease was a good result given that revenues were unusually high in 2012 because of extremely dry weather conditions.
- The operating expenses of the Utility, excluding depreciation, increased \$59,136 (4.97%) from \$1,190,845 in 2012 to \$1,249,981 in 2013.
- The net operating income of the Water Utility decreased to \$401,383 in 2013 from \$426,919 in 2012, a decrease of 5.96%. Revenues decreased \$22,325 (1.98%) on lower water sales while expenses were virtually unchanged from 2012.
- The Sewer Utility recognized net operating income of \$8,173 in 2013 as compared to an operating gain of \$66,548 in 2012. Revenues increased only \$3,306 (0.38%) as a 5% rate increase implemented in January 2013 was largely offset by lower usage. Expenses increased \$59,274 (8.35%) due primarily to higher sewer treatment charges from MMSD.
- The authorized rate of return for the PSCW regulated water utility operations is 7.25%. The actual rate of return for 2013 was 5.44%, down from 6.01% in 2012.
- Since 2012 the Utility has had no outstanding long term debt.

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## **OVERVIEW OF THE FINANCIAL STATEMENTS**

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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 statement of net position 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 Position and the Statement of Revenues, Expenses and Changes in Net Position. These two statements report the Utility's net assets and changes therein. The net position – 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.

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## **UTILITY FINANCIAL ANALYSIS**

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### **Net Position**

The Statement of Net Position 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 Position is presented below in Table 1.

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**UTILITY FINANCIAL ANALYSIS (CONT.)**

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**Net Position (cont.)**

**TABLE 1**  
**CONDENSED STATEMENT OF NET POSITION**

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2012-2013 Change</u>
<b>Current and Other Assets</b>	\$ 2,510,102	\$ 2,035,857	\$ 2,306,672	\$ 474,245
<b>Capital Assets</b>	<u>11,423,561</u>	<u>11,620,459</u>	<u>11,699,137</u>	<u>(196,898)</u>
<b>Total Assets</b>	<u>13,933,663</u>	<u>13,656,316</u>	<u>14,005,809</u>	<u>277,347</u>
<b>Long-term Debt Outstanding</b>	37,259	43,676	859,572	(6,417)
<b>Other Liabilities</b>	<u>451,360</u>	<u>410,095</u>	<u>377,480</u>	<u>41,265</u>
<b>Total Liabilities</b>	<u>488,619</u>	<u>453,771</u>	<u>1,237,052</u>	<u>34,848</u>
<b>Net investment in Capital Assets</b>	11,386,302	11,576,783	11,096,839	(190,481)
--Restricted	265,794	228,014	459,678	37,780
--Unrestricted	<u>1,792,948</u>	<u>1,397,748</u>	<u>1,212,240</u>	<u>395,200</u>
<b>Total Net Position</b>	<u>\$ 13,445,044</u>	<u>\$ 13,202,545</u>	<u>\$ 12,768,757</u>	<u>\$ 242,499</u>

As can be seen from the table above, the net position of the Water and Sewer Utility improved by \$242,499 (1.84%) in 2013 to \$13,445,044. The growth in net position is attributable primarily to an increase in current assets and a corresponding growth in net investment in unrestricted capital assets. Current assets increased by \$474,245 (23.29%) to \$2,510,102 as cash reserves were rebuilt following the early retirement in 2012 of \$575,000 in outstanding debt. Capital assets, which decreased \$196,898 (1.69%), now comprise 81.99% of total assets, down from 85.09% in 2012.

Through 2011 the restricted portion of net position included accounts that were limited by bond covenants. Listed below are the types of restricted assets that were previously restricted. Current restricted assets include only Depreciation and Replacement funds.

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.

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 Position that follows.

## UTILITY FINANCIAL ANALYSIS (CONT.)

### Revenues, Expenses, and Change in Net Position

All of the Utility's revenues and expenses are accounted for in Table 2, the Statement of Revenues, Expenses, and Change in Net Position. 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 CHANGE IN NET POSITION**

	2013	2012	2011	2012-2013 Change
<b>Operating Revenues</b>	\$ 1,977,810	\$ 1,996,829	\$ 1,900,409	\$ (19,019)
<b>Non-Operating Revenues</b>	789	1,869	1,583	(1,080)
<b>Total Revenues</b>	1,978,599	1,998,698	1,901,992	(20,099)
<b>Depreciation Expense</b>	318,273	312,617	311,082	5,656
<b>Other Operating Expenses</b>	1,249,981	1,190,845	1,233,789	59,136
<b>Non-Operating Expenses</b>	1,305	41,622	53,903	(40,317)
<b>Total Expenses</b>	1,569,559	1,545,084	1,598,774	24,475
<b>Income Before Capital Contributions &amp; Transfers</b>	409,040	453,614	303,218	(44,574)
<b>Capital Contribution</b>	63,644	203,582	45,943	(139,938)
<b>Transfers &amp; Tax Equivalent</b>	(230,185)	(223,408)	(211,574)	(6,777)
<b>Change in Net Position</b>	242,499	433,788	137,587	(191,289)
<b>Net Position – Beginning of Year</b>	13,202,545	12,768,757	12,631,170	433,788
<b>Net Position - End of Year</b>	\$13,445,044	\$13,202,545	\$12,768,757	\$ 242,499

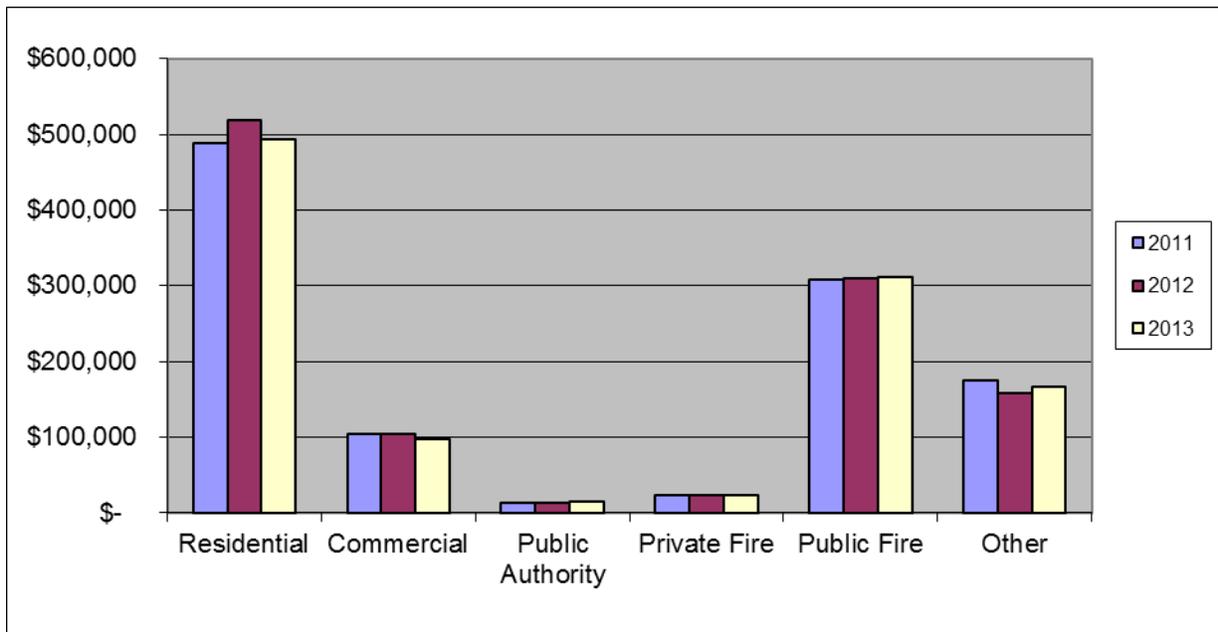
Operating revenues for the Utility in 2013 decreased \$19,019 (0.95%) from \$1,996,829 to \$1,977,810. Growth in the customer base was largely stagnant. The lower operating revenues came despite a sewer rate increase implemented January 1, 2013 and resulted primarily from a significant decrease in water sold and sewer usage billed compared to 2012 when extremely dry weather conditions caused usage to spike to an all-time high.

Total expenses for 2013 of \$1,569,559 were only 1.58% higher than the previous year. Depreciation expenses were 1.81% higher, while other operating expenses increased by 4.97%. Water Utility operating expenses remained virtually unchanged. Sewer Utility operating expenses increased \$59,274 (8.35%). Sewage treatment charges billed by the Madison Metropolitan Sewerage District (MMSD), the single largest expense to the Sewer Utility, were up significantly due to higher rates charged by MMSD and accounted for nearly all of the overall increase in operating expenses. Non-operating expenses, comprised of interest on the outstanding debt of the Utility, plunged \$40,317 (96.86%) from the previous year as all outstanding long term debt was retired in 2012.

**Comparison of Revenues**

Tables 3 and 4 compare revenues received in 2013 from Water Utility and Sewer Utility operations with those revenues generated in 2012 and 2011. Revenues can be affected by a variety of factors including rate increases, customer growth, climate conditions, and local economic conditions. The very dry weather conditions of 2012 had a pronounced positive impact on both water and sewer operating revenues and thus distort the comparison with 2013 when more normal weather conditions and usage patterns prevailed.

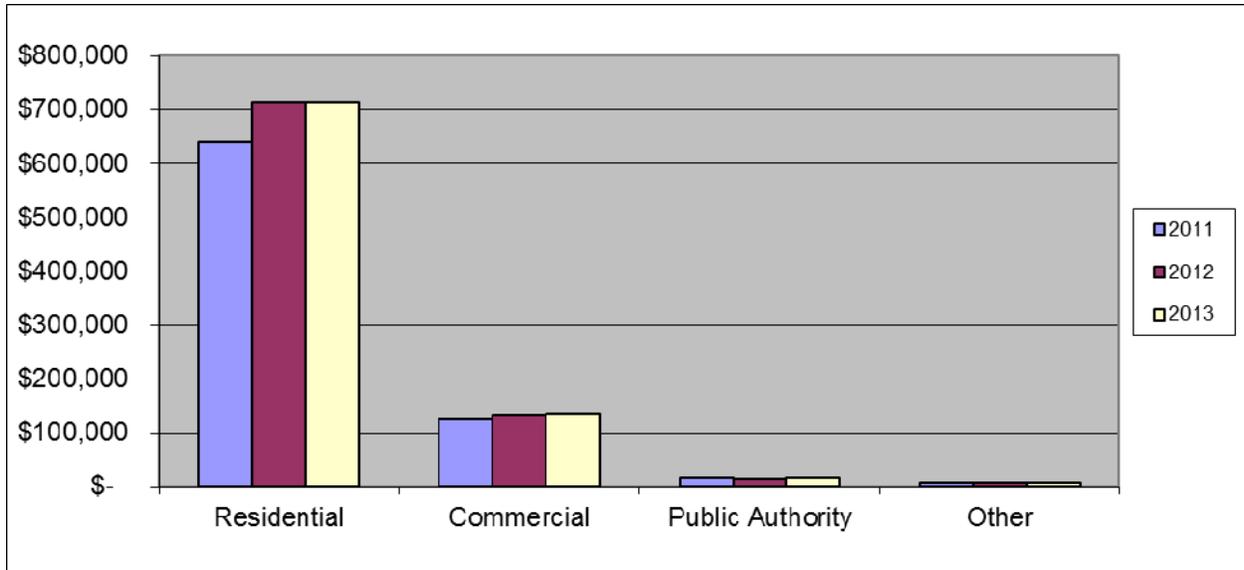
**TABLE 3  
COMPARISON OF WATER REVENUES**



Operating revenues from sales of water and other sources decreased by \$22,325 (1.98%) in 2013. Water rates were last increased by 3% on October 10, 2010. The number of water customers was similar in both years but the decreased revenue resulted from lower water usage, especially outdoor usage which was unusually high in 2012 due to the drought-like weather conditions that existed for much of the year. Revenues from other operating sources did increase \$5,463.

**Comparison of Revenues (cont.)**

**TABLE 4  
COMPARISON OF SEWER REVENUES**



Sewer Utility revenues from user charges increased only slightly by \$3,306 (0.38%) in 2013. This was due largely to a 5% rate increase implemented January, 1 2013. While the number of sewer customers was similar in both years, revenues generated from outdoor water usage declined dramatically in 2013, nearly offsetting the effect of the rate increase when compared to 2012 revenues.

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**UTILITY FINANCIAL ANALYSIS (CONT.)**

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**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.

**TABLE 5**  
**CONDENSED STATEMENT OF CASH FLOWS**

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2012-2013</u> <u>Change</u>
<b>Cash Flows From:</b>				
<b>Operating activities</b>	\$ 710,333	\$ 848,751	\$ 665,314	\$(138,418)
<b>Non-capital financing activities</b>	(223,409)	(211,573)	81,653	(11,836)
<b>Capital and related financing activities</b>	(117,335)	(1,112,869)	(338,145)	995,534
<b>Investing activities</b>	789	1,869	1,583	(1,080)
<b>Net Change in Cash and</b>				
<b>Cash Equivalents</b>	370,378	(473,822)	410,405	844,200
<b>Cash and Cash Equivalents -</b>				
<b>Beginning of Year</b>	<u>1,532,865</u>	<u>2,006,687</u>	<u>1,596,282</u>	<u>(473,822)</u>
<b>Cash and Cash Equivalents -</b>				
<b>End of Year</b>	1,903,243	1,532,865	2,006,687	370,378
<b>Long-term Investments</b>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
<b>Total Cash and Investments</b>	<u>\$1,903,243</u>	<u>\$1,532,865</u>	<u>\$2,006,687</u>	<u>\$ 370,378</u>

The Utility experienced in 2013 a substantial decline in cash flow from operating activities. The cash flow of \$710,333, while still very healthy, was down \$138,418 (16.31%) from 2012. The most noteworthy differences in 2013 compared to 2012 included a comparative drop in water operating revenues due to decreased water usage and a sizable increase in sewer treatment costs paid to MMSD. Cash flow from non-capital financing activities did increase 5.59% to \$223,409. The deficit cash flow created in 2013 was \$117,335, down substantially from \$1,112,869 in 2012 that was caused by the early payoff of long term debt. The overall net change in cash and cash equivalents was down \$370,378 compared to a negative \$473,822 in 2012. At year end, total cash and cash equivalents stood at \$1,903,243 or an increase of \$370,378 (24.16%) from 2012. The increase was attributed largely to the absence of any debt service obligations as all outstanding debt was fully retired in 2012.

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**UTILITY FINANCIAL ANALYSIS (CONT.)**

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**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.

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

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2012-2013</u> <u>Change</u>
<b>Capital Assets</b>				
<b>Source of supply</b>	\$ 243,539	\$ 243,539	\$ 243,539	\$ –
<b>Pumping</b>	357,710	357,710	357,710	–
<b>Water treatment</b>	4,498	4,498	4,498	–
<b>Transmission and distribution</b>	10,564,600	10,475,875	10,335,478	88,725
<b>General</b>	<u>225,802</u>	<u>225,802</u>	<u>200,839</u>	–
<b>Total Capital Assets</b>	11,396,149	11,307,424	11,142,064	88,725
<b>Less: Accumulated depreciation</b>	(3,321,741)	(3,083,254)	(2,849,250)	(238,487)
<b>Construction in progress</b>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
<b>Net Capital Assets</b>	<u>\$8,074,408</u>	<u>\$8,224,170</u>	<u>\$8,292,814</u>	<u>\$(149,762)</u>

During 2013 the capital assets for water utility operations increased \$88,725 (7.85%) to \$11,396,149. After depreciation was factored in, however, the net capital assets for water utility purposes were 8,074,408, down \$149,762 (1.82%) from the previous year. This compares to a decrease of 0.83% in net capital assets in 2012. The value of property held for future use remains at \$224,112, reflecting the value of land to be used for a future Well #5.

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**UTILITY FINANCIAL ANALYSIS (CONT.)**

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

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2012-2013 Change</u>
<b>Capital Assets</b>				
<b>Collection system</b>	\$4,356,873	\$4,308,331	\$4,250,057	\$ 48,542
<b>Collection system pumping</b>	596,075	596,075	596,075	–
<b>General</b>	136,093	136,093	111,130	–
<b>Total Capital Assets</b>	5,089,041	5,040,499	4,957,262	48,542
<b>Less: Accumulated depreciation</b>	(1,739,888)	(1,644,210)	(1,550,939)	(95,678)
<b>Construction in progress</b>	–	–	–	–
<b>Net Capital Assets</b>	<u>\$3,349,153</u>	<u>\$3,396,289</u>	<u>\$3,406,323</u>	<u>\$ (47,136)</u>

During 2013 the capital assets for sewer utility operations increased by \$48,542 (0.98%) to \$5,089,041. After depreciation was factored in, the net capital assets for sewer utility purposes were \$3,349,153, a decrease of \$47,136 (1.39%) from 2012. This compares to a decrease of 0.29% in net capital assets in 2012.

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

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**DEBT ADMINISTRATION**

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As of December 31, 2013 the Water and Sewer Utility had zero outstanding debt. There is no issuance of new debt planned in the near future.

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**CURRENTLY KNOWN FACTS / ECONOMIC CONDITIONS**

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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 economic downturn and stagnation in housing construction that began in 2008, these economic drivers have resulted in steady growth in the service area of the Utility over the last two decades. The market for existing homes strengthened significantly in 2013, and there are promising signs of increased growth in new residential construction. The Village's 2013 population was 7,876, a small increase from 2012. 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.

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**CURRENTLY KNOWN FACTS / ECONOMIC CONDITIONS (CONT.)**

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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. A rate increase of 5% was subsequently implemented for sewer utility users on January 1, 2014 to offset higher costs from MMSD for treatment charges.

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**CONTACTING UTILITY MANAGEMENT**

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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](http://www.mcfarland.wi.us) .

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**STORM WATER UTILITY**

# MCFARLAND STORM WATER UTILITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2013 and 2012

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, 2013. 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.

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### FINANCIAL HIGHLIGHTS

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- The STW Utility was implemented July 1, 2008 so 2013 was only the fifth full year of operations. Despite its relatively short-life and aggressive schedule of past capital projects, the Utility is in very sound financial condition with an unrestricted cash balance equal to approximately 4.5 bimonthly billing cycles.
- The net position of the STW Utility was \$2,771,236 at the end of 2013, a \$74,030 (2.74%) improvement over 2012.
- The operating revenues of the STW Utility for 2013 were \$430,944, up \$249 (0.06%) compared to 2012. There was no adjustment in rates during 2013.
- The operating expenses of the STW Utility for 2013, excluding depreciation, were \$268,079, an increase of \$43,588 (19.40%) from 2012.
- The STW Utility had \$710,000 in outstanding general obligation debt at the end of 2013, a decrease of \$80,000 (10.12%). \$125,000 of the previous borrowing proceeds are reserved for the replacement in 2014 of the street sweeper.

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### OVERVIEW OF THE FINANCIAL STATEMENTS

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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.

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**OVERVIEW OF THE FINANCIAL STATEMENTS (CONT.)**

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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 Position and the Statement of Revenues, Expenses and Changes in Net Position. These two statements report the STW Utility's net assets and changes therein. The net position – 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 position 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.

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**UTILITY FINANCIAL ANALYSIS**

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**Net Position**

The Statement of Net Position 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 Position is presented below in Table 1.

**TABLE 1  
CONDENSED STATEMENT OF NET POSITION**

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2012-2013 Change</u>
<b>Current and Other Assets</b>	\$ 729,119	\$ 677,720	\$ 768,627	\$ 51,399
<b>Capital Assets</b>	<u>2,855,223</u>	<u>2,912,404</u>	<u>2,462,425</u>	<u>(57,181)</u>
<b>Total Assets</b>	<u>3,584,342</u>	<u>3,590,124</u>	<u>3,231,052</u>	<u>(5,782)</u>
<b>Long-term Debt Outstanding</b>	710,000	790,000	875,000	(80,000)
<b>Advance from Water &amp; Sewer Utility</b>	–	–	–	–
<b>Other Liabilities</b>	<u>103,106</u>	<u>102,918</u>	<u>76,063</u>	<u>(188)</u>
<b>Total Liabilities</b>	<u>813,106</u>	<u>892,918</u>	<u>951,063</u>	<u>(79,812)</u>
<b>Net Investment in</b>				
<b>Capital Assets</b>	2,119,586	2,100,566	1,587,425	19,020
<b>--Unrestricted (deficit)</b>	<u>651,650</u>	<u>596,640</u>	<u>692,564</u>	<u>55,010</u>
<b>Total Net Position</b>	<u>\$ 2,771,236</u>	<u>\$ 2,697,206</u>	<u>\$ 2,279,989</u>	<u>\$ 74,030</u>

See accompanying Independent Auditors' Report.

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**UTILITY FINANCIAL ANALYSIS (CONT.)**

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**Net Position (cont.)**

As can be seen from the table above, the net position of the STW Utility improved in 2013 to \$2,771,236, an increase of \$74,030 (2.74%) over 2012. The improvement in net position is attributable primarily to a reduction in the amount of long term debt outstanding combined with the value of property being held for future storm water management projects. There was no significant investment in new capital assets during 2013. Current assets increased \$51,399 (7.58%). Capital and other non-current assets comprise 80% of total assets at this time, down from 81% in 2012.

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

**Revenues, Expenses, and Changes in Net Position**

All STW Utility revenues and expenses are accounted for in Table 2, the Statement of Revenues, Expenses, and Changes in Net Position. 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 POSITION**

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2012-2013 Change</u>
Operating Revenues	\$ 430,944	\$ 430,695	\$ 423,660	\$ 249
Non-Operating Revenues	2,443	14,510	18,809	(12,067)
<b>Total Revenues</b>	<u>433,387</u>	<u>445,205</u>	<u>442,469</u>	<u>(11,818)</u>
Depreciation Expense	82,350	74,812	66,737	7,538
Other Operating Expenses	268,079	224,521	286,198	43,558
Non-Operating Expenses	34,097	18,737	1,514	15,360
<b>Total Expenses</b>	<u>384,526</u>	<u>318,070</u>	<u>354,449</u>	<u>66,456</u>
Income Before Capital Contributions	48,861	127,135	88,020	(78,274)
Capital Contributions	25,169	290,082	50,000	(264,913)
Changes in Net Position	74,030	417,217	138,020	(343,187)
<b>Net Position – Beginning of Year</b>	<u>2,697,206</u>	<u>2,279,989</u>	<u>2,141,969</u>	<u>(417,217)</u>
<b>Net Position – End of Year</b>	<u>\$ 2,771,236</u>	<u>\$ 2,697,206</u>	<u>\$ 2,279,989</u>	<u>\$ 74,030</u>

See accompanying Independent Auditors' Report.

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**UTILITY FINANCIAL ANALYSIS (CONT.)**

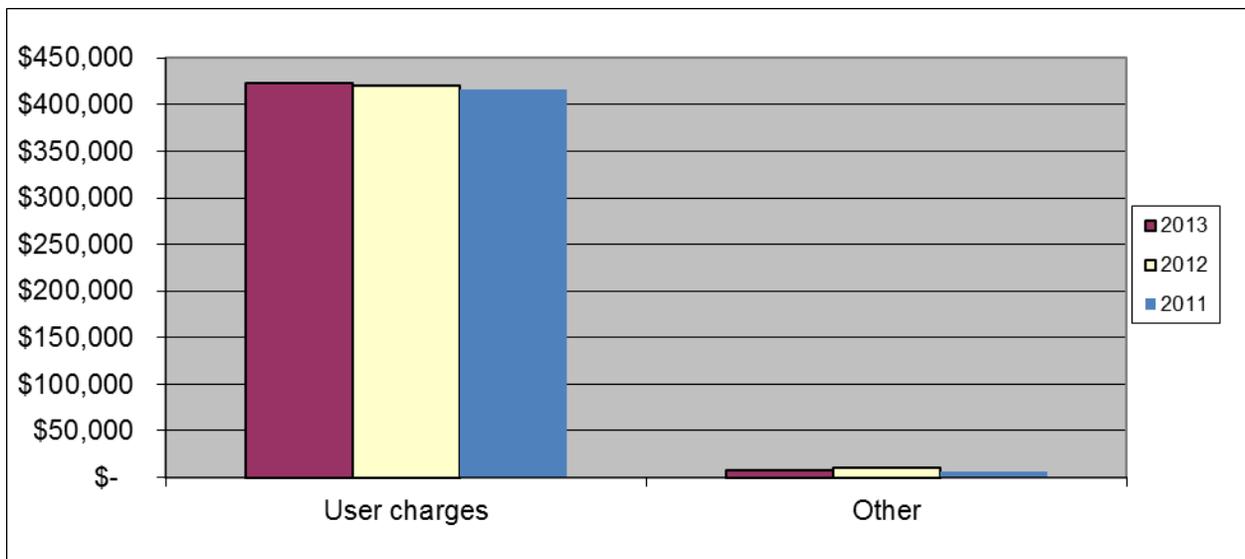
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**Revenues, Expenses, and Changes in Net Assets (cont.)**

Operating revenues for the STW Utility in 2013, the fifth full year of operation, increased \$249 (0.06%) from \$430,695 to \$430,944. The customer base remained essentially unchanged due to the weak construction climate, and there were no rate changes implemented during the year. A small amount of non-operating revenue was realized from rent on a residential property purchased by the Utility for a capital project. Table 3 below summarizes the revenues of the Storm Water Utility.

Total expenses for 2013 of \$384,526 were \$66,456 (20.89%) higher than the previous year. Significant expenditure increases occurred in the areas of maintenance of the storm water system, street sweeping, yard waste services, employee fringe benefit costs and uninsured losses. Of particular note, an intense rain storm damaged a number of storm sewers and flooded the basement of a rental duplex owned by the Utility. Although insurance covered the bulk of the repair costs to the rental property, the Utility still had to absorb a large deductible expense. Depreciation expenses for the year were up 10.08%.

**TABLE 3**  
**Comparison of Storm Water Revenues**



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**UTILITY FINANCIAL ANALYSIS (CONT.)**

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**Statement of Cash Flows**

The statement of cash flows in Table 4 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 4**  
**CONDENSED STATEMENT OF CASH FLOWS**

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2012-2013 Change</u>
<b>Cash Flows From:</b>				
<b>Operating activities</b>	\$ 176,316	\$ 227,709	\$ 169,244	\$ (51,393)
<b>Non-capital financing activities</b>	-	-	(279,962)	NC
<b>Capital and related financing activities</b>	(130,629)	(299,235)	549,665	168,606
<b>Investing activities</b>	<u>750</u>	<u>1,336</u>	<u>100</u>	<u>(586)</u>
<b>Net Change in Cash and     Cash Equivalents</b>	46,437	(70,190)	439,047	116,627
<b>Cash and Cash Equivalents – Beginning of Year</b>	<u>368,857</u>	<u>439,047</u>	<u>–</u>	<u>(70,190)</u>
<b>Cash and Cash Equivalents – End of Year</b>	<u>\$ 415,294</u>	<u>\$ 368,857</u>	<u>\$ 439,047</u>	<u>\$ 46,437</u>

The STW Utility experienced a net cash flow of \$176,316 from operating activities in 2013, down from \$227,709 (22.57%) in 2012. 2013 operating expenses totaled \$384,526 with depreciation, up \$66,456 (20.89%) from the prior year. Total revenues were \$433,387, down \$11,818 (2.65%) from 2012. Cash flows from capital and related financing activities increased \$168,606 in 2013. Cash and cash equivalents at year end increased \$46,437 (12.59%) from \$368,857 in 2012 to \$415,294 in 2013.

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**UTILITY FINANCIAL ANALYSIS (CONT.)**

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**Capital Assets**

Table 5 below summarizes the capital assets currently held for STW Utility purposes.

**TABLE 5**  
**CAPITAL ASSETS – STORM WATER UTILITY OPERATIONS**

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2012-2013 Change</u>
<b>Capital Assets</b>				
<b>Land and Improvements</b>	\$ 223,649	\$ 223,649	\$ 223,649	\$ –
<b>Pipes</b>	2,497,599	2,485,188	2,242,724	12,411
<b>Manholes</b>	267,907	261,344	249,167	6,563
<b>Inlets</b>	385,411	379,216	342,116	6,195
<b>Basins</b>	656,482	656,482	448,395	–
<b>Miscellaneous</b>	117,333	117,333	92,370	–
<b>Total Capital Assets</b>	4,148,381	4,123,212	3,598,421	25,169
<b>Less: Accumulated depreciation</b>	(1,293,158)	(1,210,808)	(1,135,996)	(82,350)
<b>Construction in progress</b>	–	–	–	–
<b>Net Capital Assets</b>	<u>\$ 2,855,223</u>	<u>\$ 2,912,404</u>	<u>\$ 2,462,425</u>	<u>\$ (57,181)</u>

During 2013 the capital assets of the STW Utility increased by \$25,169 (0.6%) to \$4,148,381. The small increase came from storm water improvements constructed on Triangle Street, a project that was contributed by TIF #3. After depreciation was factored in, the net capital assets for STW Utility purposes were \$2,855,223, a decrease of \$57,181 (2.0%) from 2012.

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

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**DEBT ADMINISTRATION**

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As of December 31, 2013 the STW Utility had \$710,000 in general obligation debt principal outstanding from a borrowing completed in 2011. \$125,000 of the borrowing proceeds is reserved for replacement of a street sweeper in 2014.

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## **CURRENTLY KNOWN FACTS / ECONOMIC CONDITIONS**

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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 economic downturn and stagnation in housing construction that began in 2008, these economic drivers have resulted in steady growth in the service area of the STW Utility over the last two decades. The market for existing homes strengthened significantly in 2013, and there are promising signs of increased growth in new residential construction. The Village's 2013 population was 7,876, a small increase from 2012. 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 just established 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. A rate increase of 5% was subsequently implemented on January 1, 2014 to offset the slow growth in users and the trend of higher operating expenses.

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## **CONTACTING UTILITY MANAGEMENT**

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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](http://www.mcfarland.wi.us) .

## **WATER AND SEWER UTILITY**

## MCFARLAND WATER AND SEWER UTILITY

### STATEMENTS OF NET POSITION As of December 31, 2013 and 2012

<b>ASSETS</b>	<u>2013</u>	<u>2012</u>
<b>CURRENT ASSETS</b>		
Cash and investments	\$ 1,235,112	\$ 930,014
Customer accounts receivable	206,330	206,669
Other accounts receivable	42,502	-
Materials and supplies	16,082	16,082
Prepayments	<u>65,583</u>	<u>3,879</u>
Total Current Assets	<u>1,565,609</u>	<u>1,156,644</u>
<b>NONCURRENT ASSETS</b>		
Restricted Assets		
Replacement account	240,100	205,700
Impact fee account	25,694	22,314
Other Assets		
Water tower reserve	324,337	296,837
Depreciation reserve	78,000	78,000
Preliminary survey and investigation	16,141	16,141
Special assessments receivable	36,109	36,109
Property held for future use	224,112	224,112
Capital Assets		
Plant in service		
Water	11,396,149	11,307,424
Sewer	<u>5,089,041</u>	<u>5,040,499</u>
Total Plant in Service	<u>16,485,190</u>	<u>16,347,923</u>
Accumulated depreciation		
Water	(3,321,741)	(3,083,254)
Sewer	<u>(1,739,888)</u>	<u>(1,644,210)</u>
Total Accumulated Depreciation	<u>(5,061,629)</u>	<u>(4,727,464)</u>
Total Noncurrent Assets	<u>12,368,054</u>	<u>12,499,672</u>
Total Assets	<u>13,933,663</u>	<u>13,656,316</u>

		<u>2013</u>	<u>2012</u>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable		\$ 152,613	\$ 134,173
Due to municipality		187,401	169,321
Customer deposits		5,000	5,000
Accrued wages		1,984	1,188
Accrued vacation leave		21,106	18,109
Other current liabilities		1,241	-
Current portion of lease		<u>37,259</u>	<u>6,417</u>
Total Current Liabilities		<u>406,604</u>	<u>334,208</u>
<b>NONCURRENT LIABILITIES</b>			
Lease obligation		-	37,259
Accrued sick leave		<u>82,015</u>	<u>82,304</u>
Total Noncurrent Liabilities		<u>82,015</u>	<u>119,563</u>
Total Liabilities		<u>488,619</u>	<u>453,771</u>
<b>NET POSITION</b>			
Net investment in capital assets		11,386,302	11,576,783
Restricted for:			
Equipment replacement		240,100	205,700
Impact fee		25,694	22,314
Unrestricted		<u>1,792,948</u>	<u>1,397,748</u>
<b>TOTAL NET POSITION</b>		<u>\$ 13,445,044</u>	<u>\$ 13,202,545</u>

See accompanying notes to the financial statements.

## MCFARLAND WATER AND SEWER UTILITY

### STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION For the Years Ended December 31, 2013 and 2012

	2013	2012
<b>OPERATING REVENUES</b>		
Water		
Sales of water	\$ 942,061	\$ 969,849
Other	<u>163,022</u>	<u>157,559</u>
Total Water	<u>1,105,083</u>	<u>1,127,408</u>
Sewer		
Charges for services	864,685	860,788
Other	<u>8,042</u>	<u>8,633</u>
Total Sewer	<u>872,727</u>	<u>869,421</u>
Total Operating Revenues	<u>1,977,810</u>	<u>1,996,829</u>
<b>OPERATING EXPENSES</b>		
Water		
Operation and maintenance	481,105	481,243
Depreciation	<u>222,595</u>	<u>219,346</u>
Total Water	<u>703,700</u>	<u>700,589</u>
Sewer		
Operation and maintenance	768,876	709,602
Depreciation	<u>95,678</u>	<u>93,271</u>
Total Sewer	<u>864,554</u>	<u>802,873</u>
Total Operating Expenses	<u>1,568,254</u>	<u>1,503,462</u>
<b>OPERATING INCOME</b>		
Water	401,383	426,819
Sewer	<u>8,173</u>	<u>66,548</u>
Total Operating Income	<u>409,556</u>	<u>493,367</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Investment income	789	1,869
Interest expense	(1,305)	(39,975)
Amortization of debt issuance costs	-	(21,219)
Amortization of loss on advance refunding	-	(20,440)
Amortization of debt premium	<u>-</u>	<u>40,012</u>
Total Nonoperating Revenues (Expenses)	<u>(516)</u>	<u>(39,753)</u>
Income Before Contributions and Transfers	409,040	453,614
<b>CAPITAL CONTRIBUTIONS</b>	63,644	203,582
<b>TRANSFERS - TAX EQUIVALENT</b>	<u>(230,185)</u>	<u>(223,408)</u>
<b>CHANGE IN NET POSITION</b>	242,499	433,788
NET POSITION - Beginning of Year	<u>13,202,545</u>	<u>12,768,757</u>
<b>NET POSITION - END OF YEAR</b>	<u>\$ 13,445,044</u>	<u>\$ 13,202,545</u>

See accompanying notes to the financial statements.

# MCFARLAND WATER AND SEWER UTILITY

## STATEMENTS OF CASH FLOWS For the Years Ended December 31, 2013 and 2012

	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Received from customers	\$ 1,690,870	\$ 1,707,821
Received from municipality for services	309,202	316,022
Paid to suppliers for goods and services	(1,031,798)	(894,041)
Paid to employees for operating payroll	(257,941)	(281,051)
Net Cash Flows From Operating Activities	710,333	848,751
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Paid to municipality for tax equivalent	(223,409)	(211,573)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition and construction of capital assets	(130,738)	(236,352)
Impact fees received	21,125	13,650
Debt retired and lease payments	(6,417)	(846,249)
Interest paid	(1,305)	(43,473)
Debt issuance costs	-	(445)
Net Cash Flows From Capital and Related Financing Activities	(117,335)	(1,112,869)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment income	789	1,869
<b>Net Change in Cash and Cash Equivalents</b>	370,378	(473,822)
CASH AND CASH EQUIVALENTS - Beginning of Year	1,532,865	2,006,687
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 1,903,243	\$ 1,532,865
<b>NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Developer financed additions to utility plant	\$ 6,237	\$ 189,932
Capital additions financed by lease	\$ -	\$ 49,925
Capital contributions receivable	\$ 36,282	\$ -

	<u>2013</u>	<u>2012</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Operating income	\$ 409,556	\$ 493,367
Noncash items in operating income		
Depreciation	318,273	312,617
Depreciation charged to clearing and other utilities	15,600	15,600
Changes in assets and liabilities		
Customer accounts receivable	339	(2,603)
Other accounts receivable	(6,221)	5,799
Due from municipality	11,303	9,328
Prepayments	(61,704)	(306)
Accounts payable	18,440	11,093
Accrued wages	796	(3,330)
Accrued vacation and sick leave	2,710	8,296
Other current liabilities	<u>1,241</u>	<u>(1,110)</u>
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<u>\$ 710,333</u>	<u>\$ 848,751</u>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENTS OF NET POSITION ACCOUNTS</b>		
Cash and investments	\$ 1,235,112	\$ 930,014
Replacement account	240,100	205,700
Impact fee account	25,694	22,314
Water tower reserve	324,337	296,837
Depreciation reserve	<u>78,000</u>	<u>78,000</u>
<b>CASH AND CASH EQUIVALENTS</b>	<u>\$ 1,903,243</u>	<u>\$ 1,532,865</u>

See accompanying notes to the financial statements.

## **STORM WATER UTILITY**

## MCFARLAND STORM WATER UTILITY

### STATEMENTS OF NET POSITION As of December 31, 2013 and 2012

<b>ASSETS</b>	<u>2013</u>	<u>2012</u>
<b>CURRENT ASSETS</b>		
Cash and investments	\$ 332,794	\$ 161,357
Customer accounts receivable	63,061	63,233
Other accounts receivable	7,884	1,394
Due from municipality	8,095	14,031
Prepayments	<u>14,580</u>	<u>1,293</u>
Total Current Assets	<u>426,414</u>	<u>241,308</u>
<b>NONCURRENT ASSETS</b>		
Other Assets		
Depreciation reserve	82,500	207,500
Unamortized debt issuance costs	-	8,707
Property held for future use	220,205	220,205
Capital Assets		
Plant in service	4,148,381	4,123,212
Accumulated depreciation	<u>(1,293,158)</u>	<u>(1,210,808)</u>
Total Noncurrent Assets	<u>3,157,928</u>	<u>3,348,816</u>
Total Assets	<u>3,584,342</u>	<u>3,590,124</u>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	37,376	33,745
Customer deposits	1,675	1,675
Accrued wages	752	465
Accrued interest	4,955	5,423
Accrued vacation leave	5,425	4,674
Current portion of lease	18,629	3,209
Current portion of general obligation debt	<u>80,000</u>	<u>80,000</u>
Total Current Liabilities	<u>148,812</u>	<u>129,191</u>
<b>NONCURRENT LIABILITIES</b>		
General obligation debt	630,000	710,000
Unamortized debt premium	7,008	8,707
Lease obligation	-	18,629
Accrued sick leave	<u>27,286</u>	<u>26,391</u>
Total Noncurrent Liabilities	<u>664,294</u>	<u>763,727</u>
Total Liabilities	<u>813,106</u>	<u>892,918</u>
<b>NET POSITION</b>		
Net investment in capital assets	2,119,586	2,100,566
Unrestricted	<u>651,650</u>	<u>596,640</u>
<b>TOTAL NET POSITION</b>	<u><u>\$ 2,771,236</u></u>	<u><u>\$ 2,697,206</u></u>

## MCFARLAND STORM WATER UTILITY

### STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION For the Years Ended December 31, 2013 and 2012

	2013	2012
<b>OPERATING REVENUES</b>		
Charges for services	\$ 423,174	\$ 420,830
Other	7,770	9,865
Total Operating Revenues	430,944	430,695
<b>OPERATING EXPENSES</b>		
Operation and maintenance	268,079	224,521
Depreciation	82,350	74,812
Total Operating Expenses	350,429	299,333
<b>OPERATING INCOME</b>	80,515	131,362
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Investment income	750	1,336
Rental income (expense)	(10,030)	11,601
Miscellaneous revenues	1,693	1,573
Interest expense	(17,059)	(18,737)
Debt issuance costs	(8,707)	(1,876)
Amortization of debt premium	1,699	1,876
Total Nonoperating Revenues (Expenses)	(31,654)	(4,227)
Income Before Contributions	48,861	127,135
<b>CAPITAL CONTRIBUTIONS</b>	-	146,552
<b>CAPITAL CONTRIBUTIONS - MUNICIPAL</b>	25,169	143,530
<b>CHANGE IN NET POSITION</b>	74,030	417,217
NET POSITION - Beginning of Year	2,697,206	2,279,989
<b>NET POSITION - END OF YEAR</b>	\$ 2,771,236	\$ 2,697,206

See accompanying notes to the financial statements.

## MCFARLAND STORM WATER UTILITY

### STATEMENTS OF CASH FLOWS For the Years Ended December 31, 2013 and 2012

	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Received from customers	\$ 422,225	\$ 446,827
Paid to suppliers for goods and services	(162,927)	(134,858)
Paid to employees for operating payroll	(82,982)	(84,260)
Net Cash Flows From Operating Activities	176,316	227,709
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition and construction of capital assets	(29,893)	(280,983)
Capital contributions received	-	84,700
Capital lease payments	(3,209)	(3,124)
Debt retired	(80,000)	(85,000)
Interest paid	(17,527)	(14,828)
Net Cash Flows From Capital and Related Financing Activities	(130,629)	(299,235)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment income	750	1,336
<b>Net Change in Cash and Cash Equivalents</b>	46,437	(70,190)
CASH AND CASH EQUIVALENTS - Beginning of Year	368,857	439,047
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 415,294	\$ 368,857
<b>NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Developer financed additions to utility plant	\$ -	\$ 61,852
Municipality financed additions to utility plant	\$ 25,169	\$ 143,530
Lease financed additions to plant	\$ -	\$ 24,962
Debt issuance costs written off	\$ 8,707	\$ 1,876

	<u>2013</u>	<u>2012</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Operating income	\$ 80,515	\$ 131,362
Nonoperating revenue (expense)	(8,337)	13,174
Noncash items in operating income		
Depreciation	82,350	74,812
Changes in assets and liabilities		
Customer accounts receivable	172	795
Other accounts receivable	(6,490)	3,015
Prepayments	(13,287)	(102)
Accounts payable	33,524	3,518
Due from municipality	5,936	(852)
Accrued wages	287	(289)
Accrued vacation	751	(389)
Accrued sick leave	895	2,665
	<u>176,316</u>	<u>227,709</u>
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<u>\$ 176,316</u>	<u>\$ 227,709</u>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENTS OF NET POSITION ACCOUNTS</b>		
Cash and investments	\$ 332,794	\$ 161,357
Depreciation reserve	<u>82,500</u>	<u>207,500</u>
<b>CASH AND CASH EQUIVALENTS</b>	<u>\$ 415,294</u>	<u>\$ 368,857</u>

See accompanying notes to the financial statements.

# MCFARLAND UTILITIES

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2013 and 2012

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## **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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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 water, sewer and storm water 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 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.

In March 2012, the GASB issued Statement No. 65 - *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The utilities implemented this standard effective January 1, 2013.

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 POSITION***

#### ***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, 2013 and 2012

---

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

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### *ASSETS, LIABILITIES AND NET POSITION* (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, 2013 and 2012

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

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### *ASSETS, LIABILITIES AND NET POSITION (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.

#### ***Depreciation Reserve***

These are funds the utility has elected to set aside for future capital purchases and projects.

#### ***Prepayments***

The balance represents insurance prepaid for 2014.

#### ***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.

#### ***Property Held for Future Use***

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

#### ***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, 2013 and 2012

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

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### *ASSETS, LIABILITIES AND NET POSITION* (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 infrastructure	50
General	10 - 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.

#### *Long-Term Obligations*

Long-term debt and other obligations are reported as utility liabilities. Bond premiums and discounts, are 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.

#### *Charges for Services*

Billings are rendered and recorded bi-monthly based on metered usage. The utilities accrue revenues from the billing dates through December 31.

# MCFARLAND UTILITIES

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2013 and 2012

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

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### **REVENUES AND EXPENSES** (cont.)

#### **Charges for Services** (cont.)

Current water rates were approved by the PSCW and became effective October 10, 2010. The authorized rate of return is 7.25%.

Current sewer rates were approved by the village board on December 10, 2012 and implemented on January 1, 2013.

Current 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 position.

#### **Impact Fee**

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 position.

#### **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. 67, *Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25*; Statement No. 68, *Accounting and Financial reporting for Pensions - an amendment of GASB Statement No. 27*; Statement No. 69, *Government Combinations and Disposals of Government Operations*; and Statement No. 70, *Accounting and Financial reporting for Nonexchange Financial Guarantees*. 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, 2013 and 2012

### NOTE 2 - DEPOSITS AND INVESTMENTS

	Carrying Value as of December 31,		Risks
	2013	2012	
Checking and savings	\$ 779,373	\$ 358,685	Custodial credit
LGIP	1,539,164	1,543,037	Credit
Totals	\$ 2,318,537	\$ 1,901,722	

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) and \$250,000 for demand deposit accounts (interest bearing and noninterest bearing).

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, 2013 and 2012, 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.

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.

	2013		2012	
	Bank Balance	Carrying Value	Bank Balance	Carrying Value
McFarland State Bank	(A)	\$ 779,373	(A)	\$ 358,685

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

## MCFARLAND UTILITIES

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2013 and 2012

### NOTE 2 - DEPOSITS AND INVESTMENTS (cont.)

#### ***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.

#### ***Investment Policy***

#### **Custodial Credit Risk**

The Village of McFarland investment policy addresses custodial credit risk by limiting all checking, savings, certificates of deposit, money markets and overnight sweeps to be covered by FDIC, State guarantee fund, other insurance agreements or are fully collateralized. See the Village of McFarland financial statements for further information.

#### **Credit Risk**

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, 2013 and 2012:

Due To	Due From	2013		2012	
		Amount	Principal Purpose	Amount	Principal Purpose
Municipality	Water and Sewer Utility	\$ 187,401	Tax equivalent and fire protection charge	\$ 169,321	Tax equivalent and fire protection charge
Storm water Utility	Municipality	8,095	Delinquent charges on tax roll	14,031	Delinquent charges on tax roll

The following is a schedule of transfer balances for the years ending December 31, 2013 and 2012:

To	From	2013		2012	
		Amount	Principal Purpose	Amount	Principal Purpose
Municipality	Water and Sewer Utility	\$ 230,185	Tax equivalent	\$ 223,408	Tax equivalent

# MCFARLAND UTILITIES

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2013 and 2012

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## NOTE 4 - RESTRICTED ASSETS

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### *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.

### *Restricted Net Position*

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

	<u>2013</u>	<u>2012</u>
Restricted Assets		
Replacement account	\$ 240,100	\$ 205,700
Impact fee account	<u>25,694</u>	<u>22,314</u>
Total Restricted Assets	<u>265,794</u>	<u>228,014</u>
 Total Restricted Net Position as Calculated	 <u>\$ 265,794</u>	 <u>\$ 228,014</u>

The purpose of the restricted net position is as follows:

	<u>2013</u>	<u>2012</u>
Equipment replacement	240,100	205,700
Impact fee	<u>25,694</u>	<u>22,314</u>
	 <u>\$ 265,794</u>	 <u>\$ 228,014</u>

## MCFARLAND UTILITIES

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2013 and 2012

### NOTE 5 - CHANGES IN CAPITAL ASSETS

#### *Water Utility*

A summary of changes in water capital assets for 2013 follows:

	Balance 1/1/13	Increases	Decreases	Balance 12/31/13
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	4,498	-	-	4,498
Transmission and distribution	10,420,625	88,433	(292)	10,509,350
General	225,802	-	-	225,802
Total Capital Assets Being Depreciated	11,219,874	88,433	(292)	11,308,599
Total Capital Assets	11,307,424	88,433	(292)	11,396,149
Less: Accumulated depreciation	(3,083,254)	(238,195)	(292)	(3,321,741)
Net Capital Assets	\$ 8,224,170			\$ 8,074,408

A summary of changes in water capital assets for 2012 follows:

	Balance 1/1/12	Increases	Decreases	Balance 12/31/12
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	4,498	-	-	4,498
Transmission and distribution	10,280,228	141,387	990	10,420,625
General	200,839	24,963	-	225,802
Total Capital Assets Being Depreciated	11,054,514	166,350	990	11,219,874
Total Capital Assets	11,142,064	166,350	990	11,307,424
Less: Accumulated depreciation	(2,849,250)	(234,994)	990	(3,083,254)
Net Capital Assets	\$ 8,292,814			\$ 8,224,170

## MCFARLAND UTILITIES

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2013 and 2012

### NOTE 5 - CHANGES IN CAPITAL ASSETS (cont.)

#### *Sewer Utility*

A summary of changes in sewer capital assets for 2013 follows:

	Balance 1/1/13	Increases	Decreases	Balance 12/31/13
Capital assets, not being depreciated				
Land and land rights	\$ 78,020	\$ -	\$ -	\$ 78,020
Capital assets being depreciated				
Collecting system	4,230,311	48,542	-	4,278,853
Collecting system pumping	596,075	-	-	596,075
General	136,093	-	-	136,093
Total Capital Assets Being Depreciated	4,962,479	48,542	-	5,011,021
Total Capital Assets	5,040,499	48,542	-	5,089,041
Less: Accumulated depreciation	(1,644,210)	(95,678)	-	(1,739,888)
Net Capital Assets	\$ 3,396,289			\$ 3,349,153

A summary of changes in sewer capital assets for 2012 follows:

	Balance 1/1/12	Increases	Decreases	Balance 12/31/12
Capital assets, not being depreciated				
Land and land rights	\$ 78,020	\$ -	\$ -	\$ 78,020
Capital assets being depreciated				
Collecting system	4,172,037	58,274	-	4,230,311
Collecting system pumping	596,075	-	-	596,075
General	111,130	24,963	-	136,093
Total Capital Assets Being Depreciated	4,879,242	83,237	-	4,962,479
Total Capital Assets	4,957,262	83,237	-	5,040,499
Less: Accumulated depreciation	(1,550,939)	(93,271)	-	(1,644,210)
Net Capital Assets	\$ 3,406,323			\$ 3,396,289

## MCFARLAND UTILITIES

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2013 and 2012

### NOTE 5 - CHANGES IN CAPITAL ASSETS (cont.)

#### *Storm Water Utility*

A summary of changes in storm water capital assets for 2013 follows:

	Balance 1/1/13	Increases	Decreases	Balance 12/31/13
Capital assets, not being depreciated				
Land and land rights	\$ 160,275	\$ -	\$ -	\$ 160,275
Capital assets being depreciated				
Storm water infrastructure	3,937,974	25,169	-	3,963,143
General	24,963	-	-	24,963
Total Capital Assets Being Depreciated	3,962,937	25,169	-	3,988,106
Total Capital Assets	4,123,212	25,169	-	4,148,381
Less: Accumulated depreciation	(1,210,808)	(82,350)	-	(1,293,158)
Net Capital Assets	\$ 2,912,404			\$ 2,855,223

A summary of changes in storm water capital assets for 2012 follows:

	Balance 1/1/12	Increases	Decreases	Balance 12/31/12
Capital assets, not being depreciated				
Land and land rights	\$ 160,275	\$ -	\$ -	\$ 160,275
Capital assets being depreciated				
Storm water infrastructure	3,438,146	499,828	-	3,937,974
General	-	24,963	-	24,963
Total Capital Assets Being Depreciated	3,438,146	524,791	-	3,962,937
Total Capital Assets	3,598,421	524,791	-	4,123,212
Less: Accumulated depreciation	(1,135,996)	(74,812)	-	(1,210,808)
Net Capital Assets	\$ 2,462,425			\$ 2,912,404

## MCFARLAND UTILITIES

### NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2013 and 2012

#### **NOTE 6 - LEASES**

The water, sewer and storm water utilities have financed the acquisition of a wheel loader by means of a lease. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date.

The water and sewer asset acquired through capital lease is as follows:

	December 31	
	2013	2012
Wheel loader	\$ 49,925	\$ 49,925
Less: Accumulated depreciation	8,424	2,808
Totals	\$ 41,501	\$ 47,117

The future minimum lease obligations and the net present value of these future minimum lease payments are as follows:

Year Ending December 31,

2014	\$ 38,355
Total Minimum Lease Payments	38,355
Less: Amount representing interest	1,096
Present Value of Minimum Lease Payments	\$ 37,259

The storm water asset acquired through capital lease is as follows:

	December 31	
	2013	2012
Wheel loader	\$ 24,693	\$ 24,963
Less: Accumulated depreciation	3,744	1,248
Totals	\$ 20,949	\$ 23,715

The future minimum lease obligations and the net present value of these future minimum lease payments are as follows:

Year Ending December 31,

2014	\$ 19,726
Total Minimum Lease Payments	19,726
Less: Amount representing interest	1,097
Present Value of Minimum Lease Payments	\$ 18,629

## MCFARLAND UTILITIES

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2013 and 2012

### NOTE 7 - LONG-TERM OBLIGATIONS

#### *General Obligation Debt Storm Water Utility*

The following general obligation notes have been issued:

Date	Purpose	Final Maturity	Interest Rate	Original Amount	Outstanding Amount 12/31/13
12/1/11	Various capital projects and repayment of advance	9/1/2021	2.14%	\$ 875,000	\$ 710,000

General obligation notes debt service requirements to maturity follows:

Year Ending December 31,	Principal	Interest	Total
2014	\$ 80,000	\$ 14,865	\$ 94,865
2015	85,000	13,265	98,265
2016	85,000	11,565	96,565
2017	90,000	9,865	99,865
2018	90,000	8,065	98,065
2019-2021	<u>280,000</u>	<u>13,058</u>	<u>293,058</u>
Totals	<u>\$ 710,000</u>	<u>\$ 70,683</u>	<u>\$ 780,683</u>

#### *Long-Term Obligations Summary - Water and Sewer Utility*

Long-term obligation activity for the year ended December 31, 2013 is as follows:

	1/1/13 Balance	Additions	Reductions	12/31/13 Balance	Due Within One Year
Lease obligation	\$ 43,676	\$ -	\$ 6,417	\$ 37,259	\$ 37,259
Accrued sick leave	<u>82,304</u>	<u>11,248</u>	<u>11,537</u>	<u>82,015</u>	<u>-</u>
Totals	<u>\$ 125,980</u>	<u>\$ 11,248</u>	<u>\$ 17,954</u>	<u>\$ 119,274</u>	<u>\$ 37,259</u>

## MCFARLAND UTILITIES

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2013 and 2012

### NOTE 7 - LONG-TERM OBLIGATIONS (cont.)

#### *Long-Term Obligations Summary - Water and Sewer Utility* (cont.)

Long-term obligation activity for the year ended December 31, 2012 is as follows:

	<u>1/1/12</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/12</u> <u>Balance</u>	<u>Due Within</u> <u>One Year</u>
Revenue bonds	\$ 840,000	\$ -	\$ 840,000	\$ -	\$ -
Lease obligation	-	49,925	6,249	43,676	6,417
Accrued sick leave	73,726	12,736	4,158	82,304	-
Unamortized debt premium	<u>40,012</u>	<u>-</u>	<u>40,012</u>	<u>-</u>	<u>-</u>
Totals	<u>\$ 953,738</u>	<u>\$ 62,661</u>	<u>\$ 890,419</u>	<u>\$ 125,980</u>	<u>\$ 6,417</u>

#### *Long-Term Obligations Summary - Storm Water Utility*

Long-term obligation activity for the year ended December 31, 2013 is as follows:

	<u>1/1/13</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/13</u> <u>Balance</u>	<u>Due Within</u> <u>One Year</u>
General obligation debt	\$ 790,000	\$ -	\$ 80,000	\$ 710,000	\$ 80,000
Lease obligation	21,838	-	3,209	18,629	18,629
Accrued sick leave	26,391	3,536	2,641	27,286	-
Unamortized debt premium	<u>8,707</u>	<u>-</u>	<u>1,699</u>	<u>7,008</u>	<u>-</u>
Totals	<u>\$ 846,936</u>	<u>\$ 3,536</u>	<u>\$ 87,549</u>	<u>\$ 762,923</u>	<u>\$ 98,629</u>

Long-term obligation activity for the year ended December 31, 2012 is as follows:

	<u>1/1/12</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/12</u> <u>Balance</u>	<u>Due Within</u> <u>One Year</u>
General obligation debt	\$ 875,000	\$ -	\$ 85,000	\$ 790,000	\$ 80,000
Lease obligation	-	24,962	3,124	21,838	3,209
Accrued sick leave	23,726	3,814	1,149	26,391	-
Unamortized debt premium	<u>10,583</u>	<u>-</u>	<u>1,876</u>	<u>8,707</u>	<u>-</u>
Totals	<u>\$ 909,309</u>	<u>\$ 28,776</u>	<u>\$ 91,149</u>	<u>\$ 846,936</u>	<u>\$ 83,209</u>

# MCFARLAND UTILITIES

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2013 and 2012

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### NOTE 8 - NET POSITION

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

Net investment in capital assets - This component of net position 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 net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

Restricted - This component of net position consists of constraints placed on net position 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.

Unrestricted net position - This component of net position consists of net positions that do not meet the definition of "restricted" or "net investment in capital assets."

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

The following calculation supports the water and sewer net investment in capital assets:

	<u>2013</u>	<u>2012</u>
Plant in service	\$ 16,485,190	\$ 16,347,923
Accumulated depreciation	<u>(5,061,629)</u>	<u>(4,727,464)</u>
Sub-Totals	<u>11,423,561</u>	<u>11,620,459</u>
Less: Capital related debt		
Current portion of capital related long-term debt	37,259	6,417
Long-term portion of capital related long-term debt	<u>-</u>	<u>37,259</u>
Sub-Totals	<u>37,259</u>	<u>43,676</u>
 Total Net Investment in Capital Assets	 <u>\$ 11,386,302</u>	 <u>\$ 11,576,783</u>

## MCFARLAND UTILITIES

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2013 and 2012

### NOTE 8 - NET POSITION (cont.)

The following calculation supports the storm water net investment in capital assets:

	2013	2012
Plant in service	\$ 4,148,381	\$ 4,123,212
Accumulated depreciation	<u>(1,293,158)</u>	<u>(1,210,808)</u>
Sub-Totals	<u>2,855,223</u>	<u>2,912,404</u>
Less: Capital related debt		
Current portion of capital related long-term debt	98,629	83,209
Long-term portion of capital related long-term debt	630,000	728,629
Unamortized debt issuance costs funded with borrowing	-	(8,707)
Unamortized debt premium	<u>7,008</u>	<u>8,707</u>
Sub-Totals	<u>735,637</u>	<u>811,838</u>
 Total Net Investment in Capital Assets	 <u>\$ 2,119,586</u>	 <u>\$ 2,100,566</u>

### NOTE 9 - EMPLOYEES RETIREMENT SYSTEM

All eligible employees participate in the Wisconsin Retirement System (WRS), a cost-sharing, multiple-employer, defined benefit, public employee retirement system. All employees, initially employed by a participating WRS employer prior to July 1, 2011, expected to work at least 600 hours a year and expected to be employed for at least one year from employee's date of hire are eligible to participate in the WRS. All employees, initially employed by a participating WRS employer on or after July 1, 2011, and expected to work at least 1,200 hours a year and expected to be employed for at least one year from employee's date of hire are eligible to participate in the WRS.

Effective the first day of the first pay period on or after June 29, 2011 the employee required contribution was changed to one-half of the actuarially determined contribution rate for General category employees. Employers are required to contribute the remainder of the actuarially determined contribution rate. The employer may not pay the employee required contribution unless provided for by an existing collective bargaining agreement. Contribution rates for 2013 and 2012 are:

	Employees	Employer
2013 General category	6.65%	6.65%
2012 General category	5.9%	5.9%

Covered payroll listed below is substantially the same as total payroll. This information is for the entire village.

## MCFARLAND UTILITIES

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2013 and 2012

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### NOTE 9 - EMPLOYEES RETIREMENT SYSTEM (cont.)

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	Year Ended December 31		
	2013	2012	2011
Total Covered Employee Payroll	<u>\$ 2,762,055</u>	<u>\$ 2,795,314</u>	<u>\$ 2,761,903</u>
Total Required Contributions	<u>\$ 431,974</u>	<u>\$ 394,820</u>	<u>\$ 383,365</u>
Total Required Contributions	<u>15.6%</u>	<u>14.1%</u>	<u>13.9%</u>

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

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### NOTE 10 - COMMITMENTS AND CONTINGENCIES

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#### *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.

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### NOTE 11 - RISK MANAGEMENT

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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 the commercial liability in any of the past three years. There were no significant reductions in coverage compared to the prior year.

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### NOTE 12 - SUBSEQUENT EVENTS

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The utilities evaluated subsequent events through, the date that the financial statements were available to be issued, for events requiring recording or disclosure in the financial statements.

#### *Rate Adjustment*

New sewer and storm water rates were approved to go into effect January 1, 2014.

**SUPPLEMENTAL INFORMATION**

## MCFARLAND WATER AND SEWER UTILITY

WATER UTILITY PLANT  
As of and for the Year Ended December 31, 2013

	Balance 1/1/13	Additions	Retirements	Balance 12/31/13
<b>SOURCE OF SUPPLY</b>				
Land and land rights	\$ 32,300	\$ -	\$ -	\$ 32,300
Wells and springs	<u>211,239</u>	-	-	<u>211,239</u>
Total Source of Supply	<u>243,539</u>	-	-	<u>243,539</u>
<b>PUMPING</b>				
Structures and improvements	145,092	-	-	145,092
Electric pumping equipment	190,402	-	-	190,402
Other pumping equipment	<u>22,216</u>	-	-	<u>22,216</u>
Total Pumping	<u>357,710</u>	-	-	<u>357,710</u>
<b>WATER TREATMENT</b>				
Water treatment equipment	<u>4,498</u>	-	-	<u>4,498</u>
<b>TRANSMISSION AND DISTRIBUTION</b>				
Land and land rights	55,250	-	-	55,250
Distribution reservoirs and standpipes	1,231,105	-	-	1,231,105
Transmission and distribution mains	6,570,882	63,976	-	6,634,858
Services	1,241,306	-	-	1,241,306
Meters	581,255	18,220	(292)	599,767
Hydrants	<u>796,077</u>	<u>6,237</u>	-	<u>802,314</u>
Total Transmission and Distribution	<u>10,475,875</u>	<u>88,433</u>	<u>(292)</u>	<u>10,564,600</u>
<b>GENERAL</b>				
Office furniture and equipment	9,946	-	-	9,946
Transportation equipment	69,002	-	-	69,002
Tools, shop and garage equipment	48,766	-	-	48,766
Laboratory equipment	6,649	-	-	6,649
Power-operated equipment	55,065	-	-	55,065
Communication equipment	36,072	-	-	36,072
Miscellaneous equipment	<u>302</u>	-	-	<u>302</u>
Total General	<u>225,802</u>	-	-	<u>225,802</u>
<b>TOTAL WATER UTILITY PLANT</b>	<u><u>\$ 11,307,424</u></u>	<u><u>\$ 88,433</u></u>	<u><u>\$ (292)</u></u>	<u><u>\$ 11,396,149</u></u>

## MCFARLAND WATER AND SEWER UTILITY

WASTEWATER UTILITY PLANT  
As of and for the Year Ended December 31, 2013

	Balance 1/1/13	Additions	Retirements	Balance 12/31/13
<b>COLLECTING SYSTEM</b>				
Land and land rights	\$ 78,020	\$ -	\$ -	\$ 78,020
Service connections	502,899	-	-	502,899
Collecting mains	3,536,379	48,542	-	3,584,921
Force mains	<u>191,033</u>	<u>-</u>	<u>-</u>	<u>191,033</u>
Total Collecting System	<u>4,308,331</u>	<u>48,542</u>	<u>-</u>	<u>4,356,873</u>
<b>COLLECTING SYSTEM PUMPING</b>				
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	<u>3,342</u>	<u>-</u>	<u>-</u>	<u>3,342</u>
Total Collecting System Pumping	<u>596,075</u>	<u>-</u>	<u>-</u>	<u>596,075</u>
<b>GENERAL</b>				
Office furniture and equipment	9,948	-	-	9,948
Transportation equipment	123,832	-	-	123,832
Other general equipment	<u>2,313</u>	<u>-</u>	<u>-</u>	<u>2,313</u>
Total General	<u>136,093</u>	<u>-</u>	<u>-</u>	<u>136,093</u>
<b>TOTAL WASTEWATER UTILITY PLANT</b>	<u>\$ 5,040,499</u>	<u>\$ 48,542</u>	<u>\$ -</u>	<u>\$ 5,089,041</u>

## MCFARLAND STORM WATER UTILITY

STORM WATER UTILITY PLANT  
As of and for the Year Ended December 31, 2013

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	Balance 1/1/13	Additions	Retirements	Balance 12/31/13
<b>STORM WATER PLANT</b>				
Land and land rights	\$ 160,275	\$ -	\$ -	\$ 160,275
Pipes	2,485,188	12,411	-	2,497,599
Manholes	261,344	6,563	-	267,907
Inlets	379,216	6,195	-	385,411
Basins	656,482	-	-	656,482
Land improvements	63,374	-	-	63,374
Miscellaneous	<u>92,370</u>	<u>-</u>	<u>-</u>	<u>92,370</u>
Total Storm Water Plant	<u>4,098,249</u>	<u>25,169</u>	<u>-</u>	<u>4,123,418</u>
Transportation equipment	<u>24,963</u>	<u>-</u>	<u>-</u>	<u>24,963</u>
TOTAL STORM WATER UTILITY PLANT	<u>\$ 4,123,212</u>	<u>\$ 25,169</u>	<u>\$ -</u>	<u>\$ 4,148,381</u>

## MCFARLAND WATER AND SEWER UTILITY

### WATER UTILITY OPERATING REVENUES AND EXPENSES For the Years Ended December 31, 2013 and 2012

	2013	2012
<b>OPERATING REVENUES</b>		
Sales of Water		
Unmetered	\$ 3,978	\$ 693
Metered		
Residential	494,012	518,955
Commercial	96,796	104,365
Public authorities	14,140	14,065
Total Metered Sales	604,948	637,385
Private fire protection	22,569	22,569
Public fire protection	310,566	309,202
Total Sales of Water	942,061	969,849
Other Operating Revenues		
Forfeited discounts	5,700	6,473
Miscellaneous service revenue	9,080	9,482
Other	148,242	141,604
Total Operating Revenues	1,105,083	1,127,408
<b>OPERATING EXPENSES</b>		
Operation and Maintenance		
Source of Supply		
Operation labor	948	783
Operation supplies	371	331
Total Source of Supply	1,319	1,114
Pumping		
Operation labor	29,563	29,860
Fuel or power purchased for pumping	33,894	40,409
Operation supplies	6,341	5,116
Maintenance	14,118	6,486
Total Pumping	83,916	81,871
Water Treatment		
Operation labor	4,160	4,465
Chemicals	10,334	16,385
Maintenance	1,585	4,100
Total Water Treatment	16,079	24,950
Transmission and Distribution		
Operation labor	21,533	24,633
Operation supplies	2,948	1,246
Maintenance		
Distribution reservoirs and standpipes	508	-
Mains	35,655	31,600
Services	17,165	18,079
Meters	11,650	9,509
Hydrants	6,222	12,108
Total Transmission and Distribution	95,681	97,175
Customer Accounts		
Meter reading labor	1,863	2,180
Accounting and collecting labor	28,042	25,832
Supplies	3,314	3,058
Total Customer Accounts	33,219	31,070

## MCFARLAND WATER AND SEWER UTILITY

WATER UTILITY OPERATING REVENUES AND EXPENSES (cont.)  
For the Years Ended December 31, 2013 and 2012

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	<u>2013</u>	<u>2012</u>
<b>OPERATING EXPENSES</b> (cont.)		
Operation and Maintenance (cont.)		
Administrative and General		
Salaries	\$ 55,393	\$ 56,519
Office supplies	7,657	9,267
Outside services employed	36,603	31,738
Property insurance	39,551	37,251
Employee pensions and benefits	47,309	46,098
Miscellaneous	37,077	33,801
Transportation	19,333	21,332
Total Administrative and General	<u>242,923</u>	<u>236,006</u>
Taxes	<u>7,968</u>	<u>9,057</u>
Total Operation and Maintenance	481,105	481,243
Depreciation	<u>222,595</u>	<u>219,346</u>
Total Operating Expenses	<u>703,700</u>	<u>700,589</u>
 OPERATING INCOME	 <u>\$ 401,383</u>	 <u>\$ 426,819</u>

## MCFARLAND WATER AND SEWER UTILITY

### WASTEWATER UTILITY OPERATING REVENUES AND EXPENSES For the Years Ended December 31, 2013 and 2012

	2013	2012
<b>OPERATING REVENUES</b>		
Wastewater Revenues		
Residential	\$ 714,415	\$ 714,324
Commercial	134,024	131,951
Public authorities	16,246	14,513
Total Wastewater Revenues	864,685	860,788
Other Operating Revenues		
Forfeited discounts	8,042	8,633
Total Operating Revenues	872,727	869,421
<b>OPERATING EXPENSES</b>		
Operation and Maintenance		
Operation		
Power and fuel for pumping	4,209	3,536
Treatment charges	457,585	404,548
Other operating supplies	335	169
Transportation	17,353	18,618
Total Operation	479,482	426,871
Maintenance		
Collection system	38,654	34,825
Pumping equipment	19,820	23,078
General plant structures and equipment	314	551
Total Maintenance	58,788	58,454
Customer Accounts		
Accounting and collecting	38,464	27,654
Meter Reading	1,010	1,815
Total Customer Accounts	39,474	29,469
Administrative and General		
Salaries	47,794	48,833
Office supplies	9,236	10,420
Outside services employed	15,637	20,229
Insurance	22,139	20,620
Employees pensions and benefits	26,072	24,468
Miscellaneous	1,050	21
Rents	62,082	62,683
Total Administrative and General	184,010	187,274
Taxes	7,122	7,534
Total Operation and Maintenance	768,876	709,602
Depreciation	95,678	93,271
Total Operating Expenses	864,554	802,873
 OPERATING INCOME	 \$ 8,173	 \$ 66,548

## MCFARLAND STORM WATER UTILITY

### STORM WATER OPERATING REVENUES AND EXPENSES For the Years Ended December 31, 2013 and 2012

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	<u>2013</u>	<u>2012</u>
<b>OPERATING REVENUES</b>		
Storm Water Revenues		
Charges for services	\$ 423,174	\$ 420,830
Other Operating Revenues		
Forfeited discounts	2,866	3,395
Other	4,904	6,470
Total Operating Revenues	<u>430,944</u>	<u>430,695</u>
<b>OPERATING EXPENSES</b>		
Operation and Maintenance		
Operations		
Operation supervision and labor	71,981	72,921
Facility equipment and rental	20,842	20,129
Operation supplies	110,945	73,968
Total Operations	<u>203,768</u>	<u>167,018</u>
Administrative and General		
Office Supplies	1,626	1,915
Outside services employed	15,374	10,719
Property insurance	13,372	12,334
Employee pensions and benefits	33,939	32,535
Total Administrative and General	<u>64,311</u>	<u>57,503</u>
Total Operation and Maintenance	268,079	224,521
Depreciation	82,350	74,812
Total Operating Expenses	<u>350,429</u>	<u>299,333</u>
 OPERATING INCOME	 <u>\$ 80,515</u>	 <u>\$ 131,362</u>

## MCFARLAND WATER AND SEWER UTILITY

RATE OF RETURN - REGULATORY BASIS  
For the Years Ended December 31, 2013 and 2012

	Water	
	2013	2012
Utility Financed Plant in Service		
Beginning of year	\$ 6,805,391	\$ 6,779,385
End of year	<u>6,875,969</u>	<u>6,805,391</u>
Average	<u>6,840,680</u>	<u>6,792,388</u>
Utility Financed Accumulated Depreciation		
Beginning of year	(2,013,147)	(1,852,807)
End of year	<u>(2,175,817)</u>	<u>(2,013,147)</u>
Average	<u>(2,094,482)</u>	<u>(1,932,977)</u>
Materials and Supplies		
Beginning of year	16,082	16,082
End of year	<u>16,082</u>	<u>16,082</u>
Average	<u>16,082</u>	<u>16,082</u>
Regulatory Liability		
Beginning of year	(251,042)	(273,865)
End of year	<u>(228,221)</u>	<u>(251,042)</u>
Average	<u>(239,632)</u>	<u>(262,454)</u>
AVERAGE NET RATE BASE	<u>\$ 4,522,648</u>	<u>\$ 4,613,039</u>
SALES OF WATER - REGULATORY BASIS	<u>\$ 246,195</u>	<u>\$ 277,074</u>
RATE OF RETURN (PERCENT)	<u>5.44</u>	<u>6.01</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.