

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, 2012 and 2011

MCFARLAND UTILITIES

Enterprise Funds of the Village of McFarland, Wisconsin

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INDEPENDENT AUDITORS' REPORT

To the Village Board
McFarland Utilities
McFarland, Wisconsin

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, 2012 and 2011, 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's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the McFarland Utilities's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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, 2012 and 2011, 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, 2012 and 2011 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. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective January 1, 2012. Our opinion is not modified with respect to this matter.

Other Matters

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis information 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.

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 schedules 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 schedules are fairly stated in all material respects in relation to the financial statements as a whole.

Baker Tully Virellan Krause, LLP

Madison, Wisconsin
May 13, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

WATER AND SEWER UTILITY

MCFARLAND WATER AND SEWER UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2012 and 2011

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, 2012. The easy to read narrative overview information presented here should be considered in conjunction with the more detailed information available in the financial statements of the Utility. These financial statements report information about the Utility using accounting methods similar to those used by private sector companies and offer short term and long term information about Utility activities.

FINANCIAL HIGHLIGHTS

- The net position of the Utility improved \$433,788 (3.40%) from \$12,768,757 in 2011 to \$13,202,545 in 2012. This compares to a \$137,587 (1.09%) improvement in 2011.
- The operating revenues of the Utility increased \$96,420 (5.07%) from \$1,900,409 in 2011 to \$1,996,829 in 2012. This compares to a \$68,436 (3.74%) increase in 2011. The higher revenues resulted primarily from a sewer rate increase implemented January 1, 2012 and an increase in water sold due largely to the very dry summer. This also resulted in an increase of sewer gallons billed.
- The operating expenses of the Utility, excluding depreciation, decreased \$42,944 (3.48%) from \$1,233,789 in 2011 to \$1,190,845 in 2012. This compares to a \$2,544 (0.21%) decrease in 2011. Water Utility expenses decreased \$8,708 (1.78%) while Sewer Utility expenses decreased \$34,236 (4.60%).
- The net operating income of the Water Utility increased to \$426,819 in 2012 from \$402,309 in 2011, an increase of 6.09%. Revenues increased \$15,240 (1.37%) without benefit of a rate increase while expenses decreased \$8,708 (1.78%) from 2011.
- The Sewer Utility recognized net operating income of \$66,548 in 2012 as compared to an operating loss of \$46,771 in 2011. Revenues increased \$81,180 (10.30%) due primarily to a rate increase implemented in January 2012. Expenses decreased \$34,236 (4.60%) as lower costs for maintenance of the collection system more than offset the increase in 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 2012 was 6.01%, up from 5.56% in 2011. The increase in rate of return is due to higher customer revenues generated by a 9% increase in water sold and slightly lower operating expenses.
- The Utility called and retired early the two years remaining on the outstanding 2005 revenue debt of \$575,000, thereby saving \$43,500 in future interest expenses. The Utility is now completely debt free yet still maintains a strong unreserved cash balance of about \$930,000.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Water and Sewer Utility is a self-supporting entity and separate enterprise fund of the Village of McFarland. The Utility accounts for the cost of water utility and sewer utility operations on a continuing basis. The 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 position 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 position value are an indicator of whether the financial position of the Utility is improving or deteriorating. It should be noted, however, that the financial position may also be affected by other non-financial factors, including economic conditions, customer growth, climate conditions and new regulations.

UTILITY FINANCIAL ANALYSIS

Net 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.

TABLE 1
CONDENSED STATEMENT OF NET POSITION

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2011-2012 Change</u>
Current and Other Assets	\$2,035,857	\$2,306,672	\$2,174,853	\$(270,815)
Capital Assets	<u>11,620,459</u>	<u>11,699,137</u>	<u>11,966,609</u>	<u>(78,678)</u>
Total Assets	<u>13,656,316</u>	<u>14,005,809</u>	<u>14,141,462</u>	<u>(349,493)</u>
Long-term Debt Outstanding	43,676	859,572	1,121,481	(815,896)
Other Liabilities	<u>410,095</u>	<u>377,480</u>	<u>388,811</u>	<u>32,615</u>
Total Liabilities	<u>453,771</u>	<u>1,237,052</u>	<u>1,510,292</u>	<u>(783,281)</u>
Net Investment in Capital Assets	11,576,783	11,096,839	11,109,526	479,944
--Restricted	228,014	459,678	517,445	(231,664)
--Unrestricted	<u>1,397,748</u>	<u>1,212,240</u>	<u>1,004,199</u>	<u>185,508</u>
Total Net Position	<u>\$13,202,545</u>	<u>\$12,768,757</u>	<u>\$12,631,170</u>	<u>\$433,788</u>

As can be seen from the table above, the net position of the Water and Sewer Utility increased \$433,788 (3.40%) in 2012 to \$13,202,545. The growth in net position is attributable primarily to a significant decrease in long term debt liability. Current assets decreased by \$270,815 (11.74%) to \$2,035,857 as cash reserves were used to retire early \$575,000 in outstanding debt. Capital assets, which decreased \$78,678 (0.67%), now comprise 85.09% of total assets, up from 83.53% in 2011.

UTILITY FINANCIAL ANALYSIS (CONT.)

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 Replacement fund.

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.

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

	2012	2011	2010	11-12 Dollar Change	11-12 Percent Change
Operating Revenues	\$1,996,829	\$1,900,409	\$1,831,973	\$96,420	5.07%
Non-Operating Revenues	1,869	1,583	2,284	286	18.07
Total Revenues	1,998,698	1,901,992	1,834,257	96,706	5.08
Depreciation Expense	312,617	311,082	307,665	1,535	0.49
Other Operating Expenses	1,190,845	1,233,789	1,236,333	(42,944)	(3.48)
Non-Operating Expenses	41,622	53,903	65,963	(12,281)	(22.78)
Total Expenses	1,545,084	1,598,774	1,609,961	(53,690)	(3.36)
Income Before Capital Contributions & Transfers	453,614	303,218	224,296	150,396	49.60
Capital Contribution	203,582	45,943	121,992	157,639	343.12
Transfers & Tax Equivalent	(223,408)	(211,574)	(198,309)	(11,834)	(5.59)
Change in Net Position	433,788	137,587	147,979	296,201	215.28
Beginning Net Position	12,768,757	12,631,170	12,483,191	137,587	1.09
Net Position End of Year	\$13,202,545	\$12,768,757	\$12,631,170	\$433,788	3.40%

See Independent Auditors' Report

UTILITY FINANCIAL ANALYSIS (CONT.)

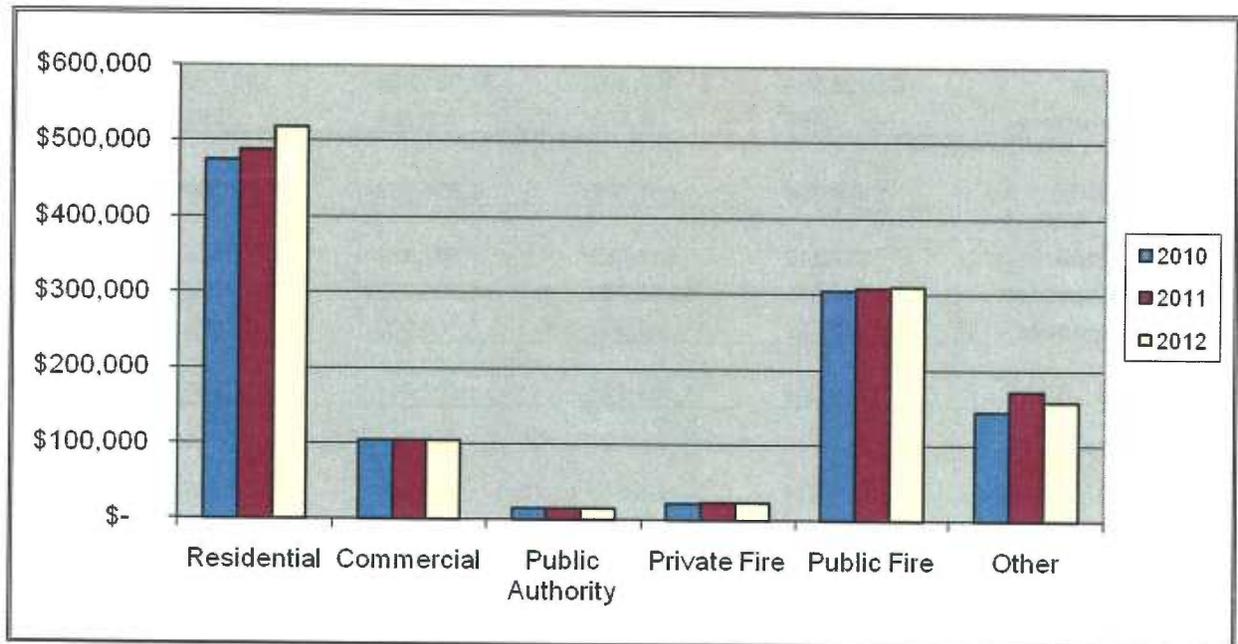
Operating revenues for the Utility in 2012 increased \$96,420 (5.07%) from \$1,900,409 to \$1,996,829 despite largely stagnant growth in the customer base. The higher operating revenues were attributable primarily to a sewer rate increase implemented January 1, 2012 and a 9% increase in water sold and sewer usage billed, much of which was due to the extremely dry weather conditions experienced in 2012 and a corresponding increase in outdoor watering.

Total expenses for 2012 of \$1,545,084 were 3.36% lower than the previous year. Depreciation expenses were 0.49% higher. Other operating expenses decreased by 3.48% in 2012. Water Utility operating expenses decreased \$8,708 (1.78%) due to lower costs for operating labor and employee fringe benefits. Sewer Utility operating expenses decreased \$34,236 (4.60%). Sewage treatment charges billed by the Madison Metropolitan Sewerage District (MMSD), the single largest expense to the Sewer Utility, were up due to higher rates charged by MMSD, but the costs of repairs to the sewer collection system and for employee fringe benefits decreased significantly. Non-operating expenses, comprised of interest on the outstanding debt of the Utility, declined \$12,281 (22.78%) from the previous year.

Comparison of Revenues

Tables 3 and 4 compare revenues received in 2012 from Water Utility and Sewer Utility operations with those revenues generated in 2011 and 2010. 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 measurable impact on both water and sewer operating revenues.

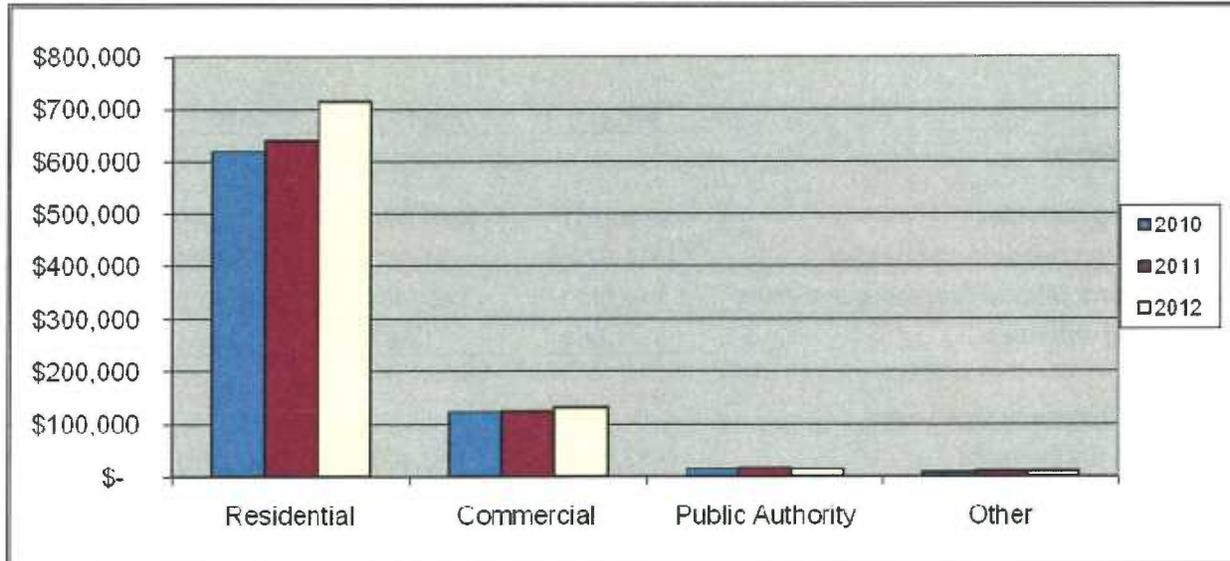
**TABLE 3
COMPARISON OF WATER REVENUES**



UTILITY FINANCIAL ANALYSIS (CONT.)

Operating revenues from sales of water and other sources increased by \$15,240 (1.37%) in 2012. Water rates were last increased by 3% on October 10, 2010. The number of water customers was similar in both years so the added revenue came mostly from higher water usage, especially outdoor usage which spiked due to drought-like weather conditions. Revenues from other operating sources decreased \$11,058.

**TABLE 4
COMPARISON OF SEWER REVENUES**



Sewer Utility revenues from user charges increased \$81,180 (10.30%) in 2012. This was due largely to a rate increase implemented January, 1 2012. The number of sewer customers was similar in both years but revenues generated from outdoor water usage did jump significantly in 2012.

UTILITY FINANCIAL ANALYSIS (CONT.)

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>2012</u>	<u>2011</u>	<u>2010</u>	<u>11-12 Change</u>
Cash Flows From:				
Operating activities	\$848,751	\$665,314	\$612,990	\$183,437
Non-capital financing activities	(211,573)	81,653	(245,165)	(293,226)
Capital and related financing activities	(1,112,869)	(338,145)	(869,480)	(774,724)
Investing activities	1,869	1,583	2,284	286
Net Change in Cash and Cash Equivalents	(473,822)	410,405	(499,371)	(884,227)
Cash and Cash Equivalents - Beginning of Year	<u>2,006,687</u>	<u>1,596,282</u>	<u>2,095,653</u>	<u>410,405</u>
Cash and Cash Equivalents - End of Year	<u>1,532,865</u>	<u>2,006,687</u>	<u>1,596,282</u>	<u>(473,822)</u>
Long-term Investments	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Cash and Investments	<u>\$1,532,865</u>	<u>\$2,006,687</u>	<u>\$1,596,282</u>	<u>\$(473,822)</u>

The Utility experienced in 2012 a healthy increase in cash flow from operating activities. The cash flow of \$848,751 was up \$183,437 (27.57%) from 2011. Significant differences in 2012 compared to 2011 included much lower costs for maintenance of the sewer collection system and lower costs for employee benefits. Cash flow from non-capital financing activities decreased by \$293,226. The deficit cash flow created in 2012 by capital and related financing activities was \$774,724 greater than in 2011. The overall net change in cash and cash equivalents was a negative \$884,227 compared to a positive \$909,775 in 2011. At year end, total cash and cash equivalents stood at \$1,532,865 or a decrease of \$473,822 (23.61%) from 2011. The decrease was attributed largely to pre-payment of long term revenue bond debt and the purchase from Utility reserves of land to be used for a future municipal well site.

UTILITY FINANCIAL ANALYSIS (CONT.)

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>2012</u>	<u>2011</u>	<u>2010</u>	<u>11-12 Change</u>
Capital Assets				
Source of supply	\$243,539	\$243,539	\$243,539	–
Pumping	357,710	357,710	357,710	–
Water treatment	4,498	4,498	6,061	–
Transmission and distribution	10,475,875	10,335,478	10,416,768	140,397
General	<u>225,802</u>	<u>200,839</u>	<u>209,791</u>	<u>24,963</u>
Total Capital Assets	11,307,424	11,142,064	11,233,869	165,360
Less: Accumulated depreciation	(3,083,254)	(2,849,250)	(2,753,220)	(234,004)
Construction in progress	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Net Capital Assets	<u>\$8,224,170</u>	<u>\$8,292,814</u>	<u>\$8,480,649</u>	<u>\$(68,644)</u>

During 2012 the capital assets for Water Utility operations increased \$165,360 (1.48%) to \$11,307,424. After depreciation was factored in, the net capital assets for water utility purposes were \$8,224,170, down \$68,644 (0.83%) from 2011. This compares to a decrease of 2.21% in net capital assets in 2011. The value of property held for future use increased from \$1,038 to \$224,112 due to the purchase of land to be used for a future Well #5.

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

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>11-12 Change</u>
Capital Assets				
Collection system	\$4,308,331	\$4,250,057	\$4,244,700	\$58,274
Collection system pumping	596,075	596,075	596,075	–
General	<u>136,093</u>	<u>111,130</u>	<u>116,102</u>	<u>24,963</u>
Total Capital Assets	\$5,040,499	\$4,957,262	4,956,877	\$83,237
Less: Accumulated depreciation	(1,644,210)	(1,550,939)	(1,470,917)	(93,271)
Construction in progress	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Net Capital Assets	<u>\$3,396,289</u>	<u>\$3,406,323</u>	<u>\$3,485,960</u>	<u>\$(10,034)</u>

UTILITY FINANCIAL ANALYSIS (CONT.)

During 2012 the capital assets for sewer utility operations increased by \$83,237 to \$5,040,499. After depreciation was factored in, the net capital assets for sewer utility purposes were \$3,396,289, a decrease of \$10,034 (0.29%) from 2011. This compares to a decrease of 2.28% in net capital assets in 2011.

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

DEBT ADMINISTRATION

As of December 31, 2012 the Water and Sewer Utility had zero outstanding debt. A total of \$840,000 in mortgage revenue bond debt principal was retired during 2012. \$265,000 of this principal was normally due, but the remaining \$575,000 scheduled for payment in 2013 and 2014 was called and retired early thereby saving \$43,500 in future interest expenses. The sources of revenue used for the loan payoff were a mix of restricted funds, including the debt reserve and redemption accounts, and unreserved cash. There is no issuance of new debt planned in the next five years.

CURRENTLY KNOWN FACTS / ECONOMIC CONDITIONS

The Village of McFarland is located adjacent to the southeast edge of the City of Madison. This proximity to a major regional commercial center which is the capital of state government and home to the flagship campus of the University of Wisconsin has produced a favorable economic climate. With the exception of the 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 rebounded strongly in 2012, and there are promising signs of increased growth in new residential construction. The Village's 2012 population was 7,839, a small increase from 2011. Despite a significant slowdown in new development the last half of the prior decade, the Village's population nonetheless grew 21.70% from 6,416 in 2000 to 7,808 in 2010.

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

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

CONTACTING UTILITY MANAGEMENT

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

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

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MANAGEMENT'S DISCUSSION AND ANALYSIS
STORM WATER UTILITY

MCFARLAND STORM WATER UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2012 and 2011

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, 2012. The easy to read narrative overview information presented here should be considered in conjunction with the more detailed information available in the financial statements of the Utility. These financial statements report information about the STW Utility using accounting methods similar to those used by private sector companies and offer short term and long term information about STW Utility activities.

FINANCIAL HIGHLIGHTS

- The STW Utility was implemented July 1, 2008 so 2012 was only the fourth full year of utility operations.
- The net position of the STW Utility was \$2,697,206 at the end of 2012, a \$417,217 (18.30%) improvement over 2011.
- The operating revenues of the STW Utility for 2012 were \$430,695, up \$7,035 (1.66%) compared to 2011.
- The operating expenses of the STW Utility for 2012, excluding depreciation, were \$224,521, an decrease of \$61,677 (21.55%) from 2011.
- The STW Utility had \$790,000 in outstanding general obligation debt at the end of 2012. \$125,000 of the previous borrowing proceeds are reserved for the replacement in 2014 of the street sweeper.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

OVERVIEW OF THE FINANCIAL STATEMENTS (CONT.)

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

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

An analysis of the financial position of the STW Utility begins with a review of the Statement of Net 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.

UTILITY FINANCIAL ANALYSIS

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>2012</u>	<u>2011</u>	<u>2010</u>	<u>2011-2012 Change</u>
Current and Other Assets	\$ 677,720	\$ 768,627	\$ 296,181	\$ (90,907)
Capital Assets	<u>2,912,404</u>	<u>2,462,425</u>	<u>2,200,000</u>	<u>449,979</u>
Total Assets	<u>3,590,124</u>	<u>3,231,052</u>	<u>2,496,181</u>	<u>359,072</u>
Long-term Debt Outstanding	790,000	875,000	–	(85,000)
Advance from Water & Sewer Utility	–	–	279,962	NC
Other Liabilities	<u>102,918</u>	<u>76,063</u>	<u>74,250</u>	<u>26,855</u>
Total Liabilities	<u>892,918</u>	<u>951,063</u>	<u>354,212</u>	<u>(58,145)</u>
Invested in Capital Assets, Net of Related Debt	2,100,566	1,587,425	2,200,000	513,141
--Unrestricted (deficit)	<u>596,640</u>	<u>692,564</u>	<u>(58,031)</u>	<u>(95,924)</u>
Total Net Assets	<u>\$ 2,697,206</u>	<u>\$ 2,279,989</u>	<u>\$ 2,141,969</u>	<u>\$ 417,217</u>

See Independent Auditors' Report

UTILITY FINANCIAL ANALYSIS (CONT.)

Net Position (cont.)

As can be seen from the table above, the net position of the STW Utility improved in 2012 to \$2,697,206, an increase of \$417,217 (18.30%) over 2011. The increase in net position is attributable primarily to a greater investment in capital assets and property continuing to be held for future stormwater management projects and to the contribution of newly constructed assets that were funded by the Village's Tax Incremental District #3. Current assets decreased \$90,907 (11.83%). Capital and other non-current assets comprise 81% of total assets at this time, up from 76% in 2011.

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>2012</u>	<u>2011</u>	<u>2010</u>	<u>2011-2012 Dollar Change</u>
Operating Revenues	\$ 430,695	\$ 423,660	\$ 391,076	\$ 7,035
Non-Operating Revenues	14,510	18,809	5,343	(4,299)
Total Revenues	<u>445,205</u>	<u>442,469</u>	<u>396,419</u>	<u>(2,736)</u>
Depreciation Expense	74,812	66,737	64,987	8,075
Other Operating Expenses	224,521	286,198	228,367	(61,677)
Non-Operating Expenses	18,737	1,514	-	17,223
Total Expenses	<u>318,070</u>	<u>354,449</u>	<u>293,354</u>	<u>(36,379)</u>
Income Before Capital Contributions	127,135	88,020	103,065	39,115
Capital Contributions	290,082	50,000	-	240,082
Changes in Net Position	<u>417,217</u>	<u>138,020</u>	<u>103,065</u>	<u>279,197</u>
Net Position – Beginning of Year	<u>2,279,989</u>	<u>2,141,969</u>	<u>2,038,904</u>	<u>138,020</u>
Net position – End of Year	<u>\$ 2,697,206</u>	<u>\$ 2,279,989</u>	<u>\$ 2,141,969</u>	<u>\$ 417,217</u>

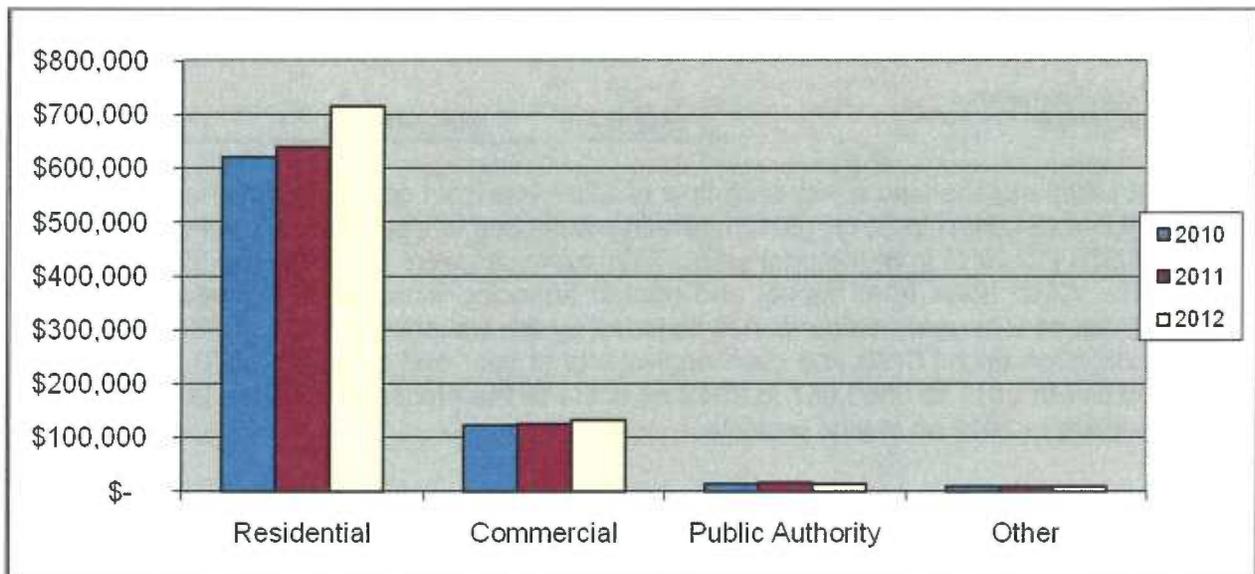
UTILITY FINANCIAL ANALYSIS (CONT.)

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

Operating revenues for the STW Utility in 2012, the fourth full year of operation, increased \$7,035 (1.66%) from \$423,660 to \$430,695. The customer base was essentially unchanged in 2012 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 2012 of \$318,070 were \$36,379 (10.26%) lower than the previous year. Significant expenditure decreases occurred in the areas of maintenance of the storm water system, engineering services, and employee fringe benefit costs. Depreciation expenses were up 12.10%.

**TABLE 3
COMPARISON OF STORM WATER REVENUES**

**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.

UTILITY FINANCIAL ANALYSIS (CONT.)

TABLE 4
CONDENSED STATEMENT OF CASH FLOWS

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2011-2012 Change</u>
Cash Flows From:				
Operating activities	\$227,709	\$169,244	\$118,012	\$58,465
Non-capital financing activities	-	(279,962)	79,962	279,962
Capital and related financing activities	(299,235)	549,665	(298,171)	(848,900)
Investing activities	<u>1,336</u>	<u>100</u>	<u>-</u>	<u>1,236</u>
Net Change in Cash and Cash Equivalents	(70,190)	439,047	(100,197)	(509,237)
Cash and Cash Equivalents – Beginning of Year	<u>439,047</u>	<u>-</u>	<u>100,197</u>	<u>439,047</u>
Cash and Cash Equivalents – End of Year	<u>\$368,857</u>	<u>\$439,047</u>	<u>-</u>	<u>\$(70,190)</u>

The STW Utility experienced a net cash flow of \$227,709 from operating activities in 2012, up from \$169,244 (34.54%) in 2011. 2012 operating expenses totaled \$318,070 with depreciation, down \$36,379 (10.26%) from the prior year. Total revenues were \$445,205, up \$2,736 (0.62%) from 2011. Cash flows from capital and related financing activities decreased \$778,900 in 2012, but that year-to-year comparison is distorted by the issuance in 2011 of \$875,000 in new general obligation debt. Cash and cash equivalents at year end decreased \$70,190 (15.99%) from \$439,047 in 2011 to \$368,857 in 2012 as some of the proceeds from the 2011 borrowing were expended in 2012 on capital projects.

UTILITY FINANCIAL ANALYSIS (CONT.)

Capital Assets

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

TABLE 5
CAPITAL ASSETS – STORM WATER UTILITY OPERATIONS

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2011-2012</u> <u>Change</u>
Capital Assets				
Land Improvements	\$223,649	\$223,649	\$63,374	\$ –
Pipes	2,485,188	2,242,724	2,242,724	242,464
Manholes	261,344	249,167	249,167	12,177
Inlets	379,216	342,116	342,116	37,100
Basins	656,482	448,395	279,508	208,087
Miscellaneous	117,333	92,370	92,370	24,963
Total Capital Assets	4,123,212	3,598,421	3,269,259	524,791
Less: Accumulated depreciation	(1,210,808)	(1,135,996)	(1,069,259)	(74,812)
Construction in progress	–	–	–	–
Net Capital Assets	\$2,912,404	\$2,462,425	\$2,200,000	\$449,979

During 2012 the capital assets of the STW Utility increased by \$524,791 (14.58%) to \$4,123,212. The increase was due to construction of the Valley Dr. detention basin and associated storm sewer improvements and to a major culvert replacement project that was contributed by TID #3. After depreciation was factored in, the net capital assets for STW Utility purposes were \$3,132,609, which includes \$220,205 of property held for future capital use. This is an increase of \$449,979 (16.77%) from 2011.

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

DEBT ADMINISTRATION

As of December 31, 2012 the STW Utility had \$790,000 in general obligation debt principal outstanding from a borrowing completed in 2011. \$125,000 of the borrowing proceeds are reserved for a future capital project.

CURRENTLY KNOWN FACTS / ECONOMIC CONDITIONS

The Village of McFarland is located adjacent to the southeast edge of the City of Madison. This proximity to a major regional commercial center which is the capital of state government and home to the flagship campus of the University of Wisconsin has produced a favorable economic climate. With the exception of the 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 rebounded strongly in 2012, and there are promising signs of increased growth in new residential construction. The Village's 2012 population was 7,839, a small increase from 2011. Despite a significant slowdown in new development in the last half of the prior decade, the Village's population nonetheless grew 21.70% from 6,416 in 2000 to 7,808 in 2010.

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

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

CONTACTING UTILITY MANAGEMENT

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

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

WATER AND SEWER UTILITY

MCFARLAND WATER AND SEWER UTILITY

STATEMENTS OF NET POSITION

As of December 31, 2012 and 2011

	<i>ASSETS</i>	2012	2011
CURRENT ASSETS			
Cash and investments		\$ 930,014	\$ 1,037,674
Restricted Assets			
Redemption account		-	25,583
Customer accounts receivable		206,669	204,066
Other accounts receivable		-	5,799
Materials and supplies		16,082	16,082
Prepayments		3,879	3,573
Total Current Assets		1,156,644	1,292,777
NONCURRENT ASSETS			
Restricted Assets			
Reserve account		-	236,500
Depreciation account		-	78,000
Replacement account		205,700	171,300
Impact fee account		22,314	188,293
Other Assets			
Water tower reserve		296,837	269,337
Depreciation reserve		78,000	-
Preliminary survey and investigation		16,141	12,545
Special assessments receivable		36,109	36,109
Unamortized debt issuance costs		-	20,774
Property held for future use		224,112	1,038
Capital Assets			
Plant in service			
Water		11,307,424	11,142,064
Sewer		5,040,499	4,957,262
Total Plant in Service		16,347,923	16,099,326
Accumulated depreciation			
Water		(3,083,254)	(2,849,250)
Sewer		(1,644,210)	(1,550,939)
Total Accumulated Depreciation		(4,727,464)	(4,400,189)
Total Noncurrent Assets		12,499,672	12,713,033
Total Assets		13,656,316	14,005,810

LIABILITIES		<u>2012</u>	<u>2011</u>
CURRENT LIABILITIES			
Accounts payable		\$ 134,173	\$ 123,078
Due to municipality		169,321	148,160
Customer deposits		5,000	5,000
Accrued wages		1,188	4,518
Accrued vacation leave		18,109	18,391
Unearned revenues		-	1,110
Current portion of lease		6,417	-
Current Liabilities Payable from Restricted Assets			
Current portion of revenue bonds		-	265,000
Accrued interest		-	3,498
Total Current Liabilities		<u>334,208</u>	<u>568,755</u>
NONCURRENT LIABILITIES			
Revenue bonds		-	575,000
Unamortized debt premium		-	40,012
Unamortized loss on advance refunding		-	(20,440)
Lease obligation		37,259	-
Accrued sick leave		82,304	73,726
Total Noncurrent Liabilities		<u>119,563</u>	<u>668,298</u>
Total Liabilities		<u>453,771</u>	<u>1,237,053</u>
NET POSITION			
Net investment in capital assets		11,576,783	11,096,839
Restricted for			
Debt Service		-	22,085
Equipment Replacement		205,700	249,300
Future well		-	168,437
Main oversizing		22,314	19,856
Unrestricted		<u>1,397,748</u>	<u>1,212,240</u>
TOTAL NET POSITION		<u>\$ 13,202,545</u>	<u>\$ 12,768,757</u>

See accompanying notes to the financial statements.

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MCFARLAND WATER AND SEWER UTILITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION For the Years Ended December 31, 2012 and 2011

	2012	2011
OPERATING REVENUES		
Water		
Sales of water	\$ 969,849	\$ 943,551
Other	157,559	168,617
Total	1,127,408	1,112,168
Sewer		
Treatment charges	860,788	779,670
Other	8,633	8,571
Total	869,421	788,241
Total Operating Revenues	1,996,829	1,900,409
OPERATING EXPENSES		
Water		
Operation and maintenance	481,243	489,951
Depreciation	219,346	219,908
Total Water	700,589	709,859
Sewer		
Operation and maintenance	709,602	743,838
Depreciation	93,271	91,174
Total Sewer	802,873	835,012
Total Operating Expenses	1,503,462	1,544,871
OPERATING INCOME (LOSS)		
Water	426,819	402,309
Sewer	66,548	(46,771)
Total Operating Income (Loss)	493,367	355,538
NONOPERATING REVENUES (EXPENSES)		
Investment income	1,869	1,583
Interest expense	(39,975)	(53,688)
Amortization of debt issuance costs	(21,219)	(7,124)
Amortization of loss on advance refunding	(20,440)	(6,811)
Amortization of debt premium	40,012	13,720
Total Nonoperating Revenues (Expenses)	(39,753)	(52,320)
Income Before Contributions and Transfers	453,614	303,218
CAPITAL CONTRIBUTIONS	203,582	45,943
TRANSFERS - TAX EQUIVALENT	(223,408)	(211,574)
CHANGE IN NET POSITION	433,788	137,587
NET POSITION - Beginning of Year	12,768,757	12,631,170
NET POSITION - END OF YEAR	\$ 13,202,545	\$ 12,768,757

See accompanying notes to the financial statements.

MCFARLAND WATER AND SEWER UTILITY

STATEMENTS OF CASH FLOWS For the Years Ended December 31, 2012 and 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from customers	\$ 1,707,821	\$ 1,601,007
Received from municipality for services	316,022	302,123
Paid to suppliers for goods and services	(894,041)	(968,340)
Paid to employees for operating payroll	(281,051)	(269,476)
Net Cash Flows From Operating Activities	848,751	665,314
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Paid to municipality for tax equivalent	(211,573)	(198,309)
Repayment of operating advances from other funds	-	279,962
Net Cash Flows From Noncapital Financing Activities	(211,573)	81,653
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(236,352)	(40,745)
Impact fees received	13,650	12,350
Debt retired	(846,249)	(255,000)
Interest paid	(43,473)	(54,750)
Debt pay off costs	(445)	-
Net Cash Flows From Capital and Related Financing Activities	(1,112,869)	(338,145)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	1,869	1,583
Net Change in Cash and Cash Equivalents	(473,822)	410,405
CASH AND CASH EQUIVALENTS - Beginning of Year	2,006,687	1,596,282
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 1,532,865	\$ 2,006,687
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Developer financed additions to utility plant	\$ 189,932	\$ 33,593
Capital additions financed by lease	\$ 49,925	\$ -

	<u>2012</u>	<u>2011</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income	\$ 493,367	\$ 355,538
Noncash items in operating income		
Depreciation	312,617	311,082
Depreciation charged to clearing and other utilities	15,600	17,343
Changes in assets and liabilities		
Customer accounts receivable	(2,603)	690
Other accounts receivable	5,799	(5,681)
Due to municipality	9,328	(6,741)
Materials and supplies	-	(1,594)
Prepayments	(306)	(1,916)
Accounts payable	11,093	10,808
Accrued wages	(3,330)	(6,305)
Accrued vacation and sick leave	8,296	(5,020)
Unearned revenue	(1,110)	(2,890)
	<u>848,751</u>	<u>665,314</u>
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>\$ 848,751</u>	<u>\$ 665,314</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENTS OF NET POSITION ACCOUNTS		
Cash and investments	\$ 930,014	\$ 1,037,674
Redemption account	-	25,583
Reserve account	-	236,500
Depreciation account	-	78,000
Replacement account	205,700	171,300
Impact fee account	22,314	188,293
Water tower reserve	296,837	269,337
Depreciation reserve	78,000	-
	<u>1,532,865</u>	<u>2,006,687</u>
CASH AND CASH EQUIVALENTS	<u>\$ 1,532,865</u>	<u>\$ 2,006,687</u>

See accompanying notes to the financial statements.

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STORM WATER UTILITY

MCFARLAND STORM WATER UTILITY

STATEMENTS OF NET POSITION As of December 31, 2012 and 2011

	ASSETS	<u>2012</u>	<u>2011</u>
CURRENT ASSETS			
Cash and investments		\$ 161,357	\$ 314,047
Customer accounts receivable		63,233	64,028
Other accounts receivable		1,394	4,409
Due from municipality		14,031	13,179
Prepayments		<u>1,293</u>	<u>1,191</u>
Total Current Assets		<u>241,308</u>	<u>396,854</u>
NONCURRENT ASSETS			
Other Assets			
Depreciation reserve		207,500	125,000
Preliminary survey and investigation		-	15,985
Unamortized debt issuance costs		8,707	10,583
Property held for future use		220,205	220,205
Capital Assets			
Plant in service		4,123,212	3,598,421
Accumulated depreciation		<u>(1,210,808)</u>	<u>(1,135,996)</u>
Total Noncurrent Assets		<u>3,348,816</u>	<u>2,834,198</u>
Total Assets		<u>3,590,124</u>	<u>3,231,052</u>
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable		33,745	32,748
Customer deposits		1,675	1,675
Accrued wages		465	754
Accrued interest		5,423	1,514
Accrued vacation leave		4,674	5,063
Current portion of lease		3,209	-
Current portion of general obligation debt		<u>80,000</u>	<u>85,000</u>
Total Current Liabilities		<u>129,191</u>	<u>126,754</u>
NONCURRENT LIABILITIES			
General obligation debt		710,000	790,000
Unamortized debt premium		8,707	10,583
Lease obligation		18,629	-
Accrued sick leave		<u>26,391</u>	<u>23,726</u>
Total Noncurrent Liabilities		<u>763,727</u>	<u>824,309</u>
Total Liabilities		<u>892,918</u>	<u>951,063</u>
NET POSITION			
Net investment in capital assets		2,100,566	1,587,425
Unrestricted		<u>596,640</u>	<u>692,564</u>
TOTAL NET POSITION		<u>\$ 2,697,206</u>	<u>\$ 2,279,989</u>

See accompanying notes to the financial statements.

MCFARLAND STORM WATER UTILITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION For the Years Ended December 31, 2012 and 2011

	2012	2011
OPERATING REVENUES		
User charges	\$ 420,830	\$ 416,924
Other	9,865	6,736
Total Operating Revenues	430,695	423,660
OPERATING EXPENSES		
Operation and maintenance	224,521	286,198
Depreciation	74,812	66,737
Total Operating Expenses	299,333	352,935
OPERATING INCOME	131,362	70,725
NONOPERATING REVENUES (EXPENSES)		
Investment income	1,336	100
Rental income	11,601	15,614
Miscellaneous revenues	1,573	3,095
Interest expense	(18,737)	(1,514)
Amortization of debt issuance costs	(1,876)	(161)
Amortization of debt premium	1,876	161
Total Nonoperating Revenues (Expenses)	(4,227)	17,295
Income Before Contributions	127,135	88,020
CAPITAL CONTRIBUTIONS	146,552	50,000
CAPITAL CONTRIBUTIONS - MUNICIPAL	143,530	-
CHANGE IN NET POSITION	417,217	138,020
NET POSITION - Beginning of Year	2,279,989	2,141,969
NET POSITION - END OF YEAR	\$ 2,697,206	\$ 2,279,989

See accompanying notes to the financial statements.

MCFARLAND STORM WATER UTILITY

STATEMENTS OF CASH FLOWS For the Years Ended December 31, 2012 and 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from customers	\$ 446,827	\$ 432,400
Paid to suppliers for goods and services	(134,858)	(176,760)
Paid to employees for operating payroll	(84,260)	(86,396)
Net Cash Flows From Operating Activities	227,709	169,244
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Repayment of advances to other funds	-	(279,962)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(280,983)	(375,335)
Capital contributions received	84,700	50,000
Capital lease payments	(3,124)	-
Premium on debt	-	10,744
Debt retired	(85,000)	-
Interest paid	(14,828)	-
Proceeds from debt issue	-	875,000
Debt issuance costs	-	(10,744)
Net Cash Flows From Capital and Related Financing Activities	(299,235)	549,665
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	1,336	100
Net Change in Cash and Cash Equivalents	(70,190)	439,047
CASH AND CASH EQUIVALENTS - Beginning of Year	439,047	-
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 368,857	\$ 439,047
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Developer financed additions to utility plant	\$ 61,852	\$ -
Municipality financed additions to utility plant	\$ 143,530	\$ -
Lease financed additions to plant	\$ 24,962	\$ -

	<u>2012</u>	<u>2011</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH		
FLOWS FROM OPERATING ACTIVITIES		
Operating income	\$ 131,362	\$ 70,725
Nonoperating revenue (expense)	13,174	15,091
Noncash items in operating income		
Depreciation	74,812	66,737
Changes in assets and liabilities		
Customer accounts receivable	795	101
Other accounts receivable	3,015	(1,714)
Prepayments	(102)	(480)
Accounts payable	3,518	23,047
Due from municipality	(852)	(4,738)
Accrued wages	(289)	(2,787)
Accrued vacation	(389)	525
Accrued sick leave	2,665	2,737
	<u>2,665</u>	<u>2,737</u>
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>\$ 227,709</u>	<u>\$ 169,244</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO		
STATEMENTS OF NET POSITION ACCOUNTS		
Cash and investments	\$ 161,357	\$ 314,047
Depreciation reserve	<u>207,500</u>	<u>125,000</u>
CASH AND CASH EQUIVALENTS	<u>\$ 368,857</u>	<u>\$ 439,047</u>

See accompanying notes to the financial statements.

MCFARLAND UTILITIES

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2012 and 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

REPORTING ENTITY

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

The water utility operates under service rules and rates established by the Public Service Commission of Wisconsin (PSCW). The sewer and storm water utilities operate under 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 June 2011, the Governmental Accounting Standards Board (GASB) issued Statement No. 63 - *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Previous financial reporting standards did not include guidance for these elements, which are distinct from assets and liabilities. The utilities made the decision to implement this standard effective January 1, 2012.

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.

MCFARLAND UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2012 and 2011

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

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.

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, 2012 and 2011

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

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.

Property Held for Future Use

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

Preliminary Survey and Investigation

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

Special Assessments Receivable

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

Capital Assets

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

MCFARLAND UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2012 and 2011

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

ASSETS, LIABILITIES AND NET POSITION (cont.)

Capital Assets (cont.)

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:

	<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.

Unearned Revenue

The 2011 balance represents water tower lease payments for 2012. This was recognized in 2012.

Long-Term Obligations

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

MCFARLAND UTILITIES

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2012 and 2011

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

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 do not accrue revenues beyond billing dates.

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 6, 2011 and implemented on January 1, 2012.

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.

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. 65, *Items Previously Reported as Assets and Liabilities*; Statement No. 66, *Technical Corrections - 2012 an amendment of GASB Statements No. 10 and No. 62*; Statement No. 67, *Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25*; and Statement No. 68, *Accounting and Financial reporting for Pensions - an amendment of GASB Statement No. 27*. 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, 2012 and 2011

NOTE 2 - DEPOSITS AND INVESTMENTS

	Carrying Value as of December 31,		Risks
	2012	2011	
Checking and savings	\$ 358,685	\$ 503,723	Custodial credit
LGIP	<u>1,543,037</u>	<u>1,942,011</u>	Credit and interest rate
Totals	<u>\$ 1,901,722</u>	<u>\$ 2,445,734</u>	

Deposits in each local and area bank are insured by the FDIC in the amount of \$250,000 for time and savings accounts (including NOW accounts), \$250,000 for interest-bearing demand deposit accounts, and unlimited amounts for noninterest bearing transaction accounts through December 31, 2012. On January 1, 2013 the temporary unlimited coverage for noninterest bearing transaction accounts expired. Therefore, demand deposit accounts (interest bearing and noninterest bearing) are insured for a total of \$250,000 beginning January 1, 2013.

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, 2012 and 2011, the fair value of the LGIP's assets were substantially equal to the utilities' share.

Custodial Credit Risk

Deposits

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

MCFARLAND UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2012 and 2011

NOTE 2 - DEPOSITS AND INVESTMENTS (cont.)

Custodial Credit Risk (cont.)

Deposits (cont.)

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

	2012		2011	
	Bank Balance	Carrying Value	Bank Balance	Carrying Value
McFarland State Bank	(A)	<u>\$ 358,685</u>	(A)	<u>\$ 503,723</u>

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

Credit Risk

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

Interest Rate Risk

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

As of December 31, 2012, the utilities' investments were as follows:

Investment Type	Fair Value	Weighted Average Maturity (Days)
Local Government Investment Pool	<u>\$ 1,543,037</u>	73

As of January 1, 2012, the utilities' investments were as follows:

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

MCFARLAND UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2012 and 2011

NOTE 2 - DEPOSITS AND INVESTMENTS (cont.)

Investment Policy

Credit and Interest Rate Risks

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

NOTE 3 - INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS

The following is a schedule of interfund balances for the years ending December 31, 2012 and 2011:

Due To	Due From	2012		2011	
		Amount	Principal Purpose	Amount	Principal Purpose
Municipality	Water and Sewer Utility	\$ 169,321	Tax equivalent and fire protection charge	\$ 148,160	Tax equivalent and fire protection charge
Storm Water Utility	Municipality	14,031	Delinquent charges on tax roll	13,179	Delinquent charges on tax roll

The following is a schedule of transfer balances for the years ending December 31, 2012 and 2011:

To	From	2012		2011	
		Amount	Principal Purpose	Amount	Principal Purpose
Municipality	Water and Sewer Utility	\$ 223,408	Tax equivalent	\$ 211,574	Tax equivalent

NOTE 4 - RESTRICTED ASSETS

Restricted Accounts

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

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

MCFARLAND UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2012 and 2011

NOTE 4 - RESTRICTED ASSETS (cont.)

Restricted Accounts (cont.)

Depreciation - Used to report resources set aside to fund plant renewals and replacement or make up potential future deficiencies in the redemption account.

Replacement Account

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

Restricted Net Position

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

	2012	2011
Restricted Assets		
Redemption account	\$ -	\$ 25,583
Reserve account	-	236,500
Depreciation account	-	78,000
Replacement account	205,700	171,300
Impact fee account	22,314	188,293
Total Restricted Assets	228,014	699,676
Less: Restricted Assets Not Funded by Revenues		
Reserve from borrowing	-	(236,500)
Current Liabilities Payable From Restricted Assets	-	(3,498)
Total Restricted Net Position as Calculated	\$ 228,014	\$ 459,678

The purpose of the restricted net position is as follows:

	2012	2011
Debt Service	\$ -	\$ 22,085
Equipment Replacement	205,700	249,300
Future well	-	168,437
Main oversizing	22,314	19,856
	\$ 228,014	\$ 459,678

MCFARLAND UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2012 and 2011

NOTE 5 - CHANGES IN CAPITAL ASSETS

Water Utility

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

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

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

MCFARLAND UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2012 and 2011

NOTE 5 - CHANGES IN CAPITAL ASSETS (cont.)

Sewer Utility

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

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

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

MCFARLAND UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2012 and 2011

NOTE 5 - CHANGES IN CAPITAL ASSETS (cont.)

Storm Water Utility

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	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

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

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

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.

MCFARLAND UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2012 and 2011

NOTE 6 - LEASES (cont.)

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

	December 31, 2012
Wheel loader	\$ 49,925
Less: Accumulated depreciation	2,808
Totals	\$ 47,117

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

<u>Year Ending December 31,</u>		
2013		\$ 7,722
2014		38,355
	Total Minimum Lease Payments	46,077
	Less: Amount representing interest	2,401
	Present Value of Minimum Lease Payments	\$ 43,676

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

	December 31, 2012
Wheel loader	\$ 24,962
Less: Accumulated depreciation	1,248
Totals	\$ 23,714

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

<u>Year Ending December 31,</u>		
2013		\$ 3,861
2014		19,726
	Total Minimum Lease Payments	23,587
	Less: Amount representing interest	1,749
	Present Value of Minimum Lease Payments	\$ 21,838

MCFARLAND UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2012 and 2011

NOTE 7 - LONG-TERM OBLIGATIONS

Revenue Bonds - Water and Sewer Utility

The following bonds have been issued:

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

In 2012, the water and sewer utility prepaid the 2005 revenue bonds outstanding of \$840,000 by using funds from the reserve account of \$236,500 and the remaining \$603,500 was paid out of operating funds. Total interest paid in 2012 was \$42,000. Total amount of principal and interest paid in 2011 was \$309,750.

General Obligation Debt - Storm Water Utility

The following general obligation notes have been issued:

Date	Purpose	Final Maturity	Interest Rate	Original Amount	Outstanding Amount 12/31/12
12/1/11	Various capital projects and repayment of advance	9/1/2021	2.14%	\$ 875,000	\$ 790,000

General obligation notes debt service requirements to maturity follows:

Year Ending December 31	Principal	Interest	Total
2013	\$ 80,000	\$ 16,465	\$ 96,465
2014	80,000	14,865	94,865
2015	85,000	13,265	98,265
2016	85,000	11,565	96,565
2017	90,000	9,865	99,865
2018-2021	370,000	21,123	391,123
Totals	<u>\$ 790,000</u>	<u>\$ 87,148</u>	<u>\$ 877,148</u>

Advances from Other Funds - Storm Water Utility

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

MCFARLAND UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2012 and 2011

NOTE 7 - LONG-TERM OBLIGATIONS (cont.)

Long-Term Obligations Summary - Water and Sewer Utility

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

	1/1/12 Balance	Additions	Reductions	12/31/12 Balance	Due Within One Year
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 loss on advanced refunding	(20,440)	-	(20,440)	-	-
Unamortized debt premium	40,012	-	40,012	-	-
Totals	\$ 933,298	\$ 62,661	\$ 869,979	\$ 125,980	\$ 6,417

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

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

Long-Term Obligations Summary - Storm Water Utility

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

	1/1/12 Balance	Additions	Reductions	12/31/12 Balance	Due Within One Year
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	10,583	-	1,876	8,707	1,876
Totals	\$ 909,309	\$ 28,776	\$ 91,149	\$ 846,936	\$ 85,085

MCFARLAND UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2012 and 2011

NOTE 7 - LONG-TERM OBLIGATIONS (cont.)

Long-Term Obligations Summary - Storm Water Utility (cont.)

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

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

NOTE 8 - NET POSITION

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.

MCFARLAND UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2012 and 2011

NOTE 8 - NET POSITION (cont.)

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

	2012	2011
Plant in service	\$ 16,347,923	\$ 16,099,326
Accumulated depreciation	<u>(4,727,464)</u>	<u>(4,400,189)</u>
Sub-Totals	<u>11,620,459</u>	<u>11,699,137</u>
Less: Capital related debt		
Current portion of capital related long-term debt	6,417	265,000
Long-term portion of capital related long-term debt	37,259	575,000
Unamortized debt issuance costs funded with borrowing	-	(20,774)
Unamortized debt premium	-	40,012
Unamortized loss on advance refunding	-	(20,440)
Sub-Totals	<u>43,676</u>	<u>838,798</u>
Add: Unspent debt proceeds		
Reserve from borrowing	-	<u>236,500</u>
Total Net Investment in Capital Assets	<u>\$ 11,576,783</u>	<u>\$ 11,096,839</u>

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

	2012	2011
Plant in service	\$ 4,123,212	\$ 3,598,421
Accumulated depreciation	<u>(1,210,808)</u>	<u>(1,135,996)</u>
Sub-Totals	<u>2,912,404</u>	<u>2,462,425</u>
Less: Capital related debt		
Current portion of capital related long-term debt	83,209	85,000
Long-term portion of capital related long-term debt	728,629	790,000
Unamortized debt issuance costs funded with borrowing	(8,707)	(10,583)
Unamortized debt discount	<u>8,707</u>	<u>10,583</u>
Sub-Totals	<u>811,838</u>	<u>875,000</u>
Total Net Investment in Capital Assets	<u>\$ 2,100,566</u>	<u>\$ 1,587,425</u>

MCFARLAND UTILITIES

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2012 and 2011

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.

Prior to June 29, 2011, covered employees in the General category were required by statute to contribute 6.5% of their salary to the plan. Employers could make these contributions to the plan on behalf of employees. Employers were required to contribute an actuarially determined amount necessary to fund the remaining projected cost of future benefits.

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 2012 and 2011 are:

	<u>Employees</u>	<u>Employer</u>
2012 General category	5.9%	5.9%
2011 General category	5.8%	5.8%

Total Village covered payroll, including the utility employees, listed below is substantially the same as total payroll.

	<u>Year Ended December 31</u>		
	<u>2012</u>	<u>2011</u>	<u>2010</u>
Total Covered Employee Payroll	<u>\$ 2,795,314</u>	<u>\$ 2,761,903</u>	<u>\$ 2,666,926</u>
Total Required Contributions	<u>\$ 394,820</u>	<u>\$ 383,365</u>	<u>\$ 352,069</u>
Total Required Contributions	<u>14.1%</u>	<u>13.9%</u>	<u>13.2%</u>

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

NOTE 10 - COMMITMENTS AND CONTINGENCIES

Claims and Judgments

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

MCFARLAND UTILITIES

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2012 and 2011

NOTE 11 - RISK MANAGEMENT

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.

NOTE 12 - SUBSEQUENT EVENTS

The utilities evaluated subsequent events through May 13, 2013, 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 rates were approved to go into effect January 1, 2013.

SUPPLEMENTAL INFORMATION

MCFARLAND WATER AND SEWER UTILITY

WATER UTILITY PLANT
As of and for the Year Ended December 31, 2012

	Balance 1/1/12	Additions	Retirements	Balance 12/31/12
SOURCE OF SUPPLY				
Land and land rights	\$ 32,300	\$ -	\$ -	\$ 32,300
Wells and springs	211,239	-	-	211,239
Total Source of Supply	<u>243,539</u>	<u>-</u>	<u>-</u>	<u>243,539</u>
PUMPING				
Structures and improvements	145,092	-	-	145,092
Electric pumping equipment	190,402	-	-	190,402
Other pumping equipment	22,216	-	-	22,216
Total Pumping	<u>357,710</u>	<u>-</u>	<u>-</u>	<u>357,710</u>
WATER TREATMENT				
Water treatment equipment	<u>4,498</u>	<u>-</u>	<u>-</u>	<u>4,498</u>
TRANSMISSION AND DISTRIBUTION				
Land and land rights	55,250	-	-	55,250
Distribution reservoirs and standpipes	1,231,105	-	-	1,231,105
Transmission and distribution mains	6,475,307	95,575	-	6,570,882
Services	1,223,933	17,373	-	1,241,306
Meters	572,516	9,729	990	581,255
Hydrants	777,367	18,710	-	796,077
Total Transmission and Distribution	<u>10,335,478</u>	<u>141,387</u>	<u>990</u>	<u>10,475,875</u>
GENERAL				
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	30,102	24,963	-	55,065
Communication equipment	36,072	-	-	36,072
Miscellaneous equipment	302	-	-	302
Total General	<u>200,839</u>	<u>24,963</u>	<u>-</u>	<u>225,802</u>
TOTAL WATER UTILITY PLANT	<u>\$ 11,142,064</u>	<u>\$ 166,350</u>	<u>\$ 990</u>	<u>\$ 11,307,424</u>

MCFARLAND WATER AND SEWER UTILITY

SEWER UTILITY PLANT

As of and for the Year Ended December 31, 2012

	Balance 1/1/12	Additions	Retirements	Balance 12/31/12
COLLECTING SYSTEM				
Land and land rights	\$ 78,020	\$ -	\$ -	\$ 78,020
Service connections	502,899	-	-	502,899
Collecting mains	3,478,105	58,274	-	3,536,379
Force mains	<u>191,033</u>	<u>-</u>	<u>-</u>	<u>191,033</u>
Total Collecting System	<u>4,250,057</u>	<u>58,274</u>	<u>-</u>	<u>4,308,331</u>
COLLECTING SYSTEM PUMPING				
Structures and improvements	15,700	-	-	15,700
Receiving wells	14,403	-	-	14,403
Electric pumping equipment	502,471	-	-	502,471
Other power pumping equipment	60,159	-	-	60,159
Miscellaneous pumping equipment	<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>
GENERAL				
Office furniture and equipment	9,948	-	-	9,948
Transportation equipment	98,869	24,963	-	123,832
Other general equipment	<u>2,313</u>	<u>-</u>	<u>-</u>	<u>2,313</u>
Total General	<u>111,130</u>	<u>24,963</u>	<u>-</u>	<u>136,093</u>
 TOTAL SEWER UTILITY PLANT	 <u>\$ 4,957,262</u>	 <u>\$ 83,237</u>	 <u>\$ -</u>	 <u>\$ 5,040,499</u>

MCFARLAND STORM WATER UTILITY

STORM WATER UTILITY PLANT
As of and for the Year Ended December 31, 2012

	Balance 1/1/12	Additions	Retirements	Balance 12/31/12
STORM WATER				
Land and land rights	\$ 223,649	\$ -	\$ -	\$ 223,649
Pipes	2,242,724	242,464	-	2,485,188
Manholes	249,167	12,177	-	261,344
Inlets	342,116	37,100	-	379,216
Basins	448,395	208,087	-	656,482
Miscellaneous	92,370	24,963	-	117,333
Total Steam Production	<u>3,598,421</u>	<u>524,791</u>	<u>-</u>	<u>4,123,212</u>
 TOTAL STORM WATER UTILITY PLANT	 <u>\$ 3,598,421</u>	 <u>\$ 524,791</u>	 <u>\$ -</u>	 <u>\$ 4,123,212</u>

MCFARLAND WATER AND SEWER UTILITY

WATER UTILITY OPERATING REVENUES AND EXPENSES For the Years Ended December 31, 2012 and 2011

	2012	2011
OPERATING REVENUES		
Sales of Water		
Unmetered	\$ 693	\$ 7,041
Metered		
Residential	518,955	488,530
Commercial	104,365	103,548
Public authorities	14,065	14,025
Total Metered Sales	637,385	606,103
Private fire protection	22,569	22,569
Public fire protection	309,202	307,838
Total Sales of Water	969,849	943,551
Other Operating Revenues		
Forfeited discounts	6,473	6,733
Miscellaneous service revenue	9,482	20,454
Other	141,604	141,430
Total Operating Revenues	1,127,408	1,112,168
OPERATING EXPENSES		
Operation and Maintenance		
Source of Supply		
Operation labor	783	792
Operation supplies	331	793
Total Source of Supply	1,114	1,585
Pumping		
Operation labor	29,860	29,090
Fuel or power purchased for pumping	40,409	37,802
Operation supplies	5,116	3,074
Maintenance	6,486	9,039
Total Pumping	81,871	79,005
Water Treatment		
Operation labor	4,465	3,631
Chemicals	16,385	13,808
Maintenance	4,100	1,360
Total Water Treatment	24,950	18,799
Transmission and Distribution		
Operation labor	24,633	32,558
Operation supplies	1,246	2,361
Maintenance		
Distribution reservoirs and standpipes	-	1,000
Mains	31,600	12,870
Services	18,079	21,418
Meters	9,509	11,994
Hydrants	12,108	10,724
Total Transmission and Distribution	97,175	92,925
Customer Accounts		
Meter reading labor	2,180	2,747
Accounting and collecting labor	25,832	26,031
Supplies	3,058	2,799
Total Customer Accounts	31,070	31,577

MCFARLAND WATER AND SEWER UTILITY

WATER UTILITY OPERATING REVENUES AND EXPENSES (cont.)
For the Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
OPERATING EXPENSES (cont.)		
Operation and Maintenance (cont.)		
Administrative and General		
Salaries	\$ 56,519	\$ 50,372
Office supplies	9,267	11,511
Outside services employed	31,738	37,383
Property insurance	37,251	36,222
Employee pensions and benefits	46,098	60,751
Miscellaneous	33,801	33,553
Transportation	21,332	26,715
Total Administrative and General	<u>236,006</u>	<u>256,507</u>
Taxes	<u>9,057</u>	<u>9,553</u>
Total Operation and Maintenance	481,243	489,951
Depreciation	<u>219,346</u>	<u>219,908</u>
Total Operating Expenses	<u>700,589</u>	<u>709,859</u>
 OPERATING INCOME	 <u>\$ 426,819</u>	 <u>\$ 402,309</u>

MCFARLAND WATER AND SEWER UTILITY

SEWER UTILITY OPERATING REVENUES AND EXPENSES For the Years Ended December 31, 2012 and 2011

	2012	2011
OPERATING REVENUES		
Sewer Revenues		
Residential	\$ 714,324	\$ 639,710
Commercial	131,951	124,258
Public authorities	14,513	15,702
Total Sewer Revenues	860,788	779,670
Other Operating Revenues		
Forfeited discounts	8,633	8,571
Total Operating Revenues	869,421	788,241
OPERATING EXPENSES		
Operation and Maintenance		
Operation		
Power and fuel for pumping	3,536	3,842
Treatment charges	404,548	385,640
Other operating supplies	169	82
Transportation	18,618	22,885
Total Operation	426,871	412,449
Maintenance		
Collection system	34,825	74,002
Pumping equipment	23,078	27,105
General plant structures and equipment	551	314
Total Maintenance	58,454	101,421
Customer Accounts		
Accounting and collecting	27,654	27,711
Meter Reading	1,815	2,102
Total Customer Accounts	29,469	29,813
Administrative and General		
Salaries	48,833	42,636
Office supplies	10,420	11,424
Outside services employed	20,229	18,715
Insurance	20,620	21,243
Employees pensions and benefits	24,468	29,640
Miscellaneous	21	951
Rents	62,683	67,985
Total Administrative and General	187,274	192,594
Taxes	7,534	7,561
Total Operation and Maintenance	709,602	743,838
Depreciation	93,271	91,174
Total Operating Expenses	802,873	835,012
 OPERATING INCOME (LOSS)	 \$ 66,548	 \$ (46,771)

MCFARLAND STORM WATER UTILITY

STORM WATER UTILITY OPERATING REVENUES AND EXPENSES For the Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
OPERATING REVENUES		
Charges for services	\$ 420,830	\$ 416,924
Other Operating Revenues		
Forfeited discounts	3,395	3,311
Other	6,470	3,425
Total Operating Revenues	<u>430,695</u>	<u>423,660</u>
OPERATING EXPENSES		
Operation and Maintenance		
Operations		
Operation supervision and labor	72,921	74,329
Facility equipment and rental	20,129	20,168
Operation supplies	73,968	124,476
Total Operations	<u>167,018</u>	<u>218,973</u>
Administrative and General		
Office Supplies	1,915	1,604
Outside services employed	10,719	15,387
Property insurance	12,334	11,155
Employee pensions and benefits	32,535	39,079
Total Administrative and General	<u>57,503</u>	<u>67,225</u>
Total Operation and Maintenance	<u>224,521</u>	<u>286,198</u>
Depreciation	74,812	66,737
Total Operating Expenses	<u>299,333</u>	<u>352,935</u>
 OPERATING INCOME	 <u>\$ 131,362</u>	 <u>\$ 70,725</u>

MCFARLAND WATER AND SEWER UTILITY

RATE OF RETURN - REGULATORY BASIS For the Years Ended December 31, 2012 and 2011

	Water	
	2012	2011
Utility Financed Plant in Service		
Beginning of year	\$ 6,779,385	\$ 6,908,030
End of year	<u>6,805,391</u>	<u>6,779,385</u>
Average	<u>6,792,388</u>	<u>6,843,708</u>
Utility Financed Accumulated Depreciation		
Beginning of year	(1,852,807)	(1,830,579)
End of year	<u>(2,013,147)</u>	<u>(1,852,807)</u>
Average	<u>(1,932,977)</u>	<u>(1,841,693)</u>
Materials and Supplies		
Beginning of year	16,082	14,488
End of year	<u>16,082</u>	<u>16,082</u>
Average	<u>16,082</u>	<u>15,285</u>
Regulatory Liability		
Beginning of year	(273,865)	(296,688)
End of year	<u>(251,042)</u>	<u>(273,865)</u>
Average	<u>(262,454)</u>	<u>(285,277)</u>
 AVERAGE NET RATE BASE	 <u>\$ 4,613,039</u>	 <u>\$ 4,732,023</u>
 OPERATING INCOME - REGULATORY BASIS	 <u>\$ 277,074</u>	 <u>\$ 262,897</u>
 RATE OF RETURN (PERCENT)	 <u>6.01</u>	 <u>5.56</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.

