

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, 2019 and 2018

MCFARLAND UTILITIES

Enterprise Funds of the Village of McFarland, Wisconsin

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INDEPENDENT AUDITORS' REPORT

To the Village Board
McFarland Utilities
McFarland, Wisconsin

We have audited the accompanying financial statements of McFarland Utilities, enterprise funds of the Village of McFarland, Wisconsin, as of and for the years ended December 31, 2019 and 2018, 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 opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

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, 2019 and 2018, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

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, 2019 and 2018 and the respective changes in financial position, or cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary 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.

Supplementary Information

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

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
May 19, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS
WATER AND SEWER UTILITY

MCFARLAND WATER AND SEWER UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2019 and 2018

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, 2019. 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 HIGHLIGHT

- > The net position of the Utility improved \$536,000 from \$16,830,000 in 2018 to \$17,366,000 in 2019.
- > The operating revenues of the Utility increased \$66,000 from \$2,148,000 in 2018 to \$2,214,000 in 2019.
- > The operating expenses of the Utility, excluding depreciation, increased \$87,000 from \$1,557,000 in 2018 to \$1,644,000 in 2019.
- > The net operating income of the Water Utility decreased to \$237,000 in 2019 from \$295,000 in 2018.
- > The Sewer Utility recognized an operating loss of \$132,700 in 2019 compared to an operating loss \$126,200 in 2018.
- > The authorized rate of return for the Public Service Commission of Wisconsin (PSCW) regulated water utility operations is 7.25%. The actual rate of return for 2019 was 1.58%, down from 2.39% in 2018.

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 statements of net position of water utility operations and sewer utility operations is combined for accounting purposes although the capital 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 (PSCW), which is advisory to the Village Board.

The Water Utility operations are subject to service rules and rates established by the 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.

MCFARLAND WATER AND SEWER UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2019 and 2018

OVERVIEW OF THE FINANCIAL STATEMENTS (cont.)

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, the report of the independent auditor, and supplemental information.

An analysis of the financial position of the Water and Sewer Utility begins with a review of the Statements of Net Position and the Statements 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 deferred outflows and liabilities and deferred inflows – is key to measuring the financial health of the Utility. Over time, increases or decreases in net position 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 nonfinancial factors, including economic conditions, customer growth, climate conditions and new regulations.

UTILITY FINANCIAL ANALYSIS

Net Position

The Statements of Net Position includes all of the assets, deferred outflows, liabilities, and deferred inflows 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 Statements of Net Position is presented below in Table 1.

MCFARLAND WATER AND SEWER UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2019 and 2018

UTILITY FINANCIAL ANALYSIS (cont.)

Net Position (cont.)

**TABLE 1
CONDENSED STATEMENTS OF NET POSITION**

| | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2018-2019 Change</u> |
|--------------------------------|----------------------|----------------------|----------------------|-----------------------------|
| Current and Other Assets | \$ 4,699,455 | \$ 4,226,958 | \$ 5,055,689 | \$ 472,497 |
| Capital Assets | <u>16,281,618</u> | <u>15,640,881</u> | <u>13,516,723</u> | <u>640,737</u> |
| Total Assets | <u>20,981,073</u> | <u>19,867,839</u> | <u>18,572,412</u> | <u>1,113,234</u> |
| | | | | |
| Deferred outflows of resources | <u>189,455</u> | <u>94,165</u> | <u>128,689</u> | <u>95,290</u> |
| | | | | |
| Long-Term Debt Outstanding | 3,010,000 | 2,690,000 | 3,055,000 | 320,000 |
| Other Liabilities | <u>701,047</u> | <u>361,515</u> | <u>636,653</u> | <u>339,532</u> |
| Total Liabilities | <u>3,711,047</u> | <u>3,051,515</u> | <u>3,691,653</u> | <u>659,532</u> |
| | | | | |
| Deferred inflows of resources | <u>93,253</u> | <u>80,506</u> | <u>51,455</u> | <u>12,747</u> |
| | | | | |
| Investment in Capital Assets | 13,175,346 | 12,886,773 | 10,386,711 | 288,573 |
| Restricted | 471,155 | 443,856 | 371,392 | 27,299 |
| Unrestricted | <u>3,719,727</u> | <u>3,499,354</u> | <u>4,199,890</u> | <u>220,373</u> |
| | | | | |
| Total Net Position | <u>\$ 17,366,228</u> | <u>\$ 16,829,983</u> | <u>\$ 14,957,993</u> | <u>\$ 536,245</u> |

As shown the table above, the net position of the Water and Sewer Utility improved by \$536,000 or, 3.19%, in 2019. Current and other assets increased by \$473,000 or 11.2%, mostly due to a increase in unrestricted cash on hand in 2019. Capital assets, which increased \$641,000, or 4.1%, now comprise 77.6% of total assets, down from 78.7% in 2018.

Restricted net position includes \$450,332 for a replacement fund used for sewer lift station replacements and \$20,823 for funds related to impact fees collected.

The Utility reported deferred outflows related to pension of \$190,000 in 2019, an increase of \$95,000 from 2018. The Utility reported deferred inflows related to pension of \$93,000 in 2019, an increase of \$13,000 from 2019. See accompanying notes to the financial statements for more information on deferred outflows and inflows of resources.

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

MCFARLAND WATER AND SEWER UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2019 and 2018

UTILITY FINANCIAL ANALYSIS (cont.)

Revenues, Expenses, and Change in Net Position

All of the Utility's revenues and expenses are accounted for in Table 2, the Statements 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 STATEMENTS OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION

| | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2018-2019</u> <u>Change</u> |
|-----------------------------|----------------------|----------------------|----------------------|-----------------------------------|
| Operating Revenues | \$ 2,214,001 | \$ 2,148,047 | \$ 2,159,361 | \$ 65,954 |
| Non-Operating Revenues | <u>81,580</u> | <u>105,127</u> | <u>9,390</u> | <u>(23,547)</u> |
| Total Revenues | <u>2,295,581</u> | <u>2,253,174</u> | <u>2,168,751</u> | <u>42,407</u> |
| Depreciation Expense | 465,984 | 422,026 | 380,559 | 43,958 |
| Other Operating Expense | 1,643,897 | 1,556,858 | 1,462,094 | 87,039 |
| Non-Operating Expense | <u>65,199</u> | <u>51,264</u> | <u>56,075</u> | <u>13,935</u> |
| Total Expenses | <u>2,175,080</u> | <u>2,030,148</u> | <u>1,898,728</u> | <u>144,932</u> |
| Income Before Capital | | | | - |
| Contributions and Transfers | 120,501 | 223,026 | 270,023 | (102,525) |
| Transfers | (262,660) | (249,144) | (256,753) | (13,516) |
| Capital Contributions | <u>678,404</u> | <u>1,898,108</u> | <u>281,255</u> | <u>(1,219,704)</u> |
| Change in Net Position | 536,245 | 1,871,990 | 294,525 | (1,335,745) |
| Beginning Net Position | <u>16,829,983</u> | <u>14,957,993</u> | <u>14,663,468</u> | <u>1,871,990</u> |
| Net Position End of Year | <u>\$ 17,366,228</u> | <u>\$ 16,829,983</u> | <u>\$ 14,957,993</u> | <u>\$ 536,245</u> |

Operating revenues for the Utility in 2019 increased \$66,000, or 3.1%, from \$2,148,000 to \$2,214,000. This is primarily attributable to an increase in volume billed in 2019, along with an increase in water rates that went into effect in November 2019.

MCFARLAND WATER AND SEWER UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2019 and 2018

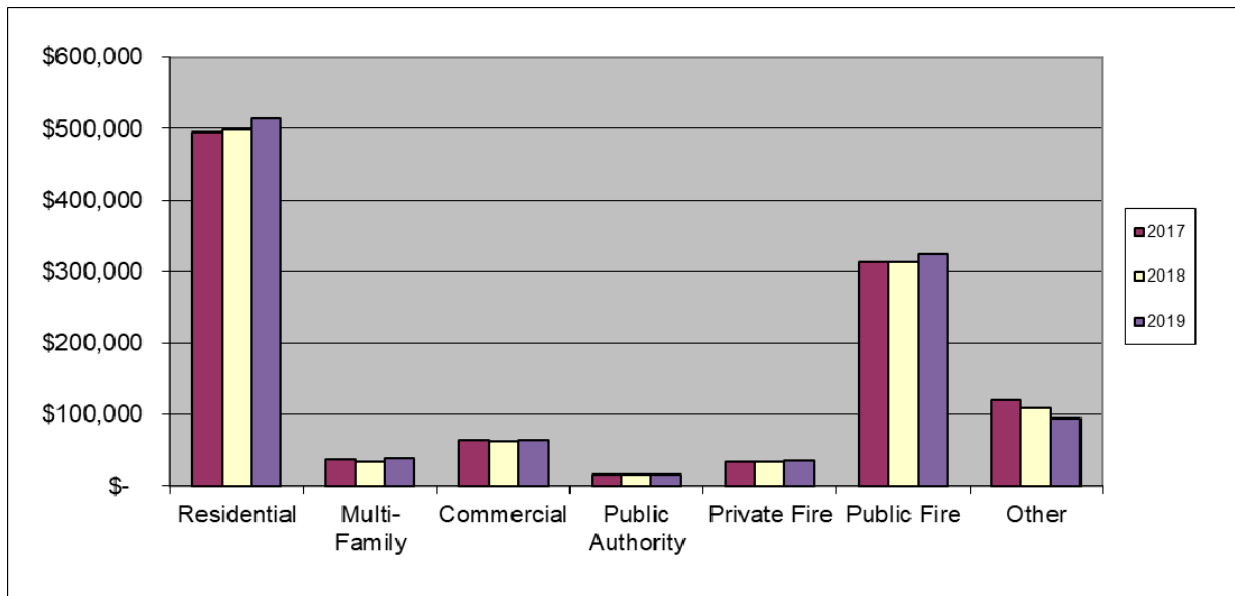
UTILITY FINANCIAL ANALYSIS (cont.)

Total expenses for 2019 increased \$145,000, or 7.1%, from the previous year. Depreciation increased by \$44,000, while other operating expenses increased by \$87,000. Water Utility operation and maintenance expenses increased \$59,000 from 2018. The Sewer Utility operation and maintenance expenses increased \$28,000 from 2018. Nonoperating revenues decreased by \$24,000 due to a decrease in investment income. Non-operating expenses increased \$14,000 from the previous year.

Comparison of Operating Revenues

Tables 3 and 4 compare revenues received in 2019 from Water Utility and Sewer Utility operations with those revenues generated in 2018 and 2017. Revenues can be affected by a variety of factors including rate increases, customer growth, climate conditions, and local economic conditions.

**TABLE 3
COMPARISON OF WATER OPERATING REVENUES**



MCFARLAND WATER AND SEWER UTILITY

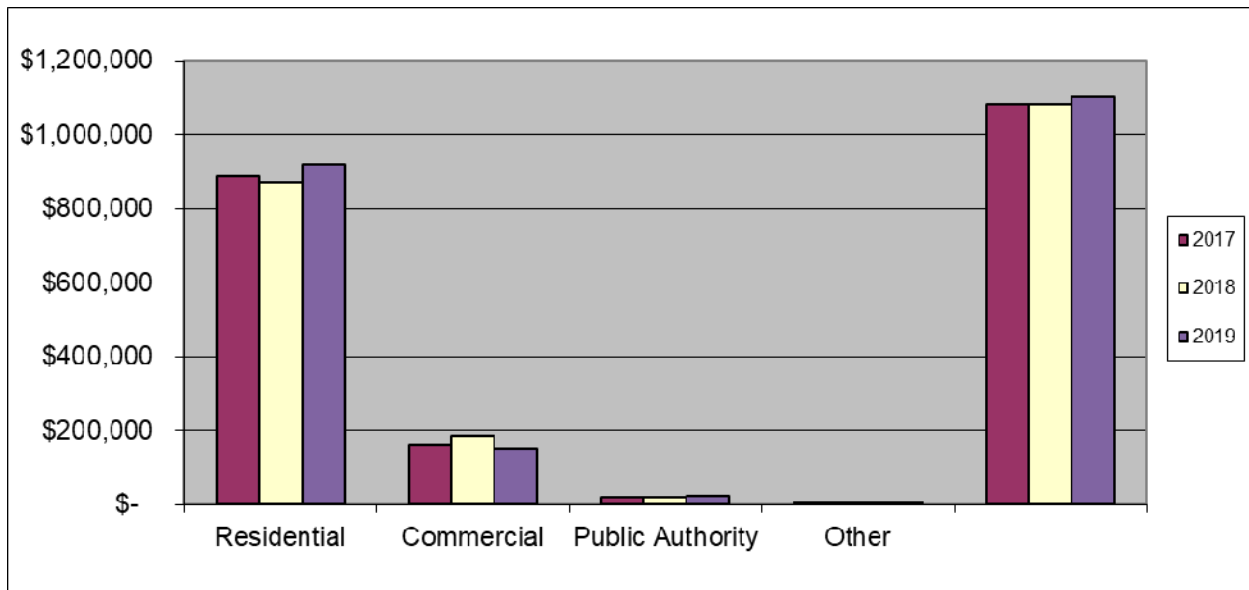
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2019 and 2018

UTILITY FINANCIAL ANALYSIS (cont.)

Comparison of Operating Revenues (cont.)

Operating revenues from sales of water and other sources increased in 2019 by \$22,000, or 2.1%. Water rates were increased effective November 13, 2019 at a rate of 3%. The number of water customers increased by 3.1% in 2019 while volume sold increased by 3.9%.

TABLE 4
COMPARISON OF SEWER OPERATING REVENUES



Sewer Utility revenues from user charges increased by \$18,000 or 1.7%, in 2019. The number of sewer customers increased by 3.0% in 2019 while volume sold increased by 3.0%.

MCFARLAND WATER AND SEWER UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2019 and 2018

UTILITY FINANCIAL ANALYSIS (cont.)

Statements of Cash Flows

The Statements 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 STATEMENTS OF CASH FLOWS**

| | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2018-2019 Change</u> |
|--|---------------------|---------------------|---------------------|-----------------------------|
| Cash Flows From: | | | | |
| Operating Activities | \$ 862,091 | \$ 684,124 | \$ 769,810 | \$ 177,967 |
| Noncapital Financing Activities | (262,660) | (505,897) | (219,494) | 243,237 |
| Capital and Related Financing Activities | (160,060) | (1,117,344) | (541,589) | 957,284 |
| Investing Activities | <u>81,580</u> | <u>105,127</u> | <u>9,390</u> | <u>(23,547)</u> |
| Net Change in Cash and Cash Equivalents | 520,951 | (833,990) | 18,117 | 1,354,941 |
| Cash and Cash Equivalents - Beginning of Year | <u>3,619,672</u> | <u>4,453,662</u> | <u>4,435,545</u> | <u>(833,990)</u> |
| Cash and Cash Equivalents - End of Year | <u>\$ 4,140,623</u> | <u>\$ 3,619,672</u> | <u>\$ 4,453,662</u> | <u>\$ 520,951</u> |

Cash flows from operating activities of \$862,000 increased by \$178,000 or 26.0%, from 2018. This is primarily due to a decrease in cash paid to suppliers, along with an increase in cash collected from customers. Cash used for noncapital financing activities decreased by \$243,000 in 2019 due to two years of PILOT payments made in 2018. Cash flows generated from capital and related financing activities decreased by \$957,000, or (85.7)%, from 2018. The decrease is due to new debt issued during 2019, along with a decrease in capital contributions and related capital additions. The overall net change in cash and cash equivalents was an increase of \$521,000 compared to a decrease of \$834,000 in 2018. At year-end, total cash and cash equivalents balance is \$4,141,000, compared to \$3,620,000 in 2018. Of the \$4,141,000 ending cash balance, \$450,000 is restricted for equipment replacement and \$21,000 is restricted for impact fees collected.

MCFARLAND WATER AND SEWER UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2019 and 2018

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>2019</u> | <u>2018</u> | <u>2017</u> | <u>2018-2019 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 | 4,498 | - |
| Transmission and distribution | 15,107,941 | 14,372,166 | 12,675,674 | 735,775 |
| General | <u>481,632</u> | <u>426,210</u> | <u>295,285</u> | <u>55,422</u> |
| Total Capital Assets | 16,195,320 | 15,404,123 | 13,576,706 | 791,197 |
| Less: Accumulated depreciation | <u>(4,812,782)</u> | <u>(4,521,588)</u> | <u>(4,241,522)</u> | <u>(291,194)</u> |
| Net Capital Assets | <u>\$ 11,382,538</u> | <u>\$ 10,882,535</u> | <u>\$ 9,335,184</u> | <u>\$ 500,003</u> |

During 2019, the capital assets for water utility operations increased \$791,000, or 5.1%. After depreciation was factored in, however, the net capital assets for the water utility were \$11,383,000, increasing by \$500,000, or 4.6%, from the previous year. This compares to an increase of 16.6% in net capital assets in 2018.

MCFARLAND WATER AND SEWER UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2019 and 2018

UTILITY FINANCIAL ANALYSIS (cont.)

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

| | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2018-2019 Change</u> |
|--------------------------------|---------------------|---------------------|---------------------|-----------------------------|
| Capital Assets | | | | |
| Collection system | \$ 5,903,550 | \$ 5,667,086 | \$ 5,084,171 | \$ 582,915 |
| Collection system pumping | 1,043,088 | 1,043,088 | 1,043,088 | - |
| General | <u>386,417</u> | <u>330,995</u> | <u>200,070</u> | <u>130,925</u> |
| Total Capital Assets | 7,333,055 | 7,041,169 | 6,327,329 | 713,840 |
| Less: Accumulated depreciation | <u>(2,433,975)</u> | <u>(2,282,823)</u> | <u>(2,145,790)</u> | <u>(137,033)</u> |
| Net Capital Assets | <u>\$ 4,899,080</u> | <u>\$ 4,758,346</u> | <u>\$ 4,181,539</u> | <u>\$ 576,807</u> |

During 2019, the capital assets for sewer utility operations increased by \$292,000, or 4.1%. After depreciation was factored in, the net capital assets for the sewer utility were \$4,900,000, an increase of \$141,000 or 3.0%, from 2018. This compares to an increase of 13.8% in net capital assets in 2018.

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, 2019, the Water and Sewer Utility have \$3,010,000 in outstanding general obligation debt. This debt was issued in 2015, 2017, and 2019 for the purpose of funding 2015, 2016, 2017, and 2019 capital improvement projects and equipment purchases. Please refer to the notes to the financial statements for further detail about the debt obligations of the Water and Sewer Utility.

MCFARLAND WATER AND SEWER UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2019 and 2018

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 strengthened significantly in 2013, and there are promising signs of increased growth in new residential construction. The Village has seen positive growth since 2013, given the performance of the market and the expansion surrounding the Madison area.

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 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.

In December 2019, a novel strain of coronavirus was reported in Wuhan, Hubei province, China. In the first several months of 2020, the virus, SARS-CoV-2, and resulting disease, COVID-19, spread to the United States, including to areas impacting the Utilities. As of the date above, the Village's evaluation of the effects of these events is ongoing; however, we anticipate this situation could impact demand for utility services, investment valuations and decreased investment income, and a decline in revenues such as penalties. The Village also anticipates financial benefit from lower fuel costs, relief funds from State and Federal programs, and low interest loans available to continue to support capital needs. Staffing remains stable and operations continue to ensure essential services continue.

The extent of the impact of COVID-19 on the Utilities' operational and financial performance will depend on future developments, including the duration and spread of the outbreak and related governmental or other regulatory actions.

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS
STORM WATER UTILITY

MCFARLAND STORM WATER UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2019 and 2018

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, 2019. 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 STW 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 net position of the STW Utility was \$4,312,000 at the end of 2019, a \$271,000 improvement over 2018.
- > The operating revenues of the STW Utility for 2019 were \$541,000, up \$5,000 compared to 2018.
- > The operating expenses of the STW Utility for 2019, excluding depreciation, were \$294,000, an increase of \$19,000 from 2018.
- > The STW Utility had \$515,000 in outstanding general obligation debt at the end of 2019.

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.

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, the report of the independent auditor, and supplemental information.

MCFARLAND STORM WATER UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2019 and 2018

OVERVIEW OF THE FINANCIAL STATEMENTS (cont.)

An analysis of the financial position of the STW Utility begins with a review of the Statements of Net Position and the Statements of Revenues, Expenses and Changes in Net Position. These two statements report the STW Utility's net position and changes therein. The net position – the difference between assets and deferred outflows and liabilities and deferred inflows – 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 nonfinancial factors, including economic conditions, customer growth, climate conditions and new regulations.

UTILITY FINANCIAL ANALYSIS

Net Position

The Statements of Net Position includes all of the assets, deferred outflows, liabilities, and deferred inflows 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 Statements of Net Position is presented below in Table 1.

TABLE 1
CONDENSED STATEMENTS OF NET POSITION

| | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2018-2019</u> <u>Change</u> |
|--------------------------------|---------------------|---------------------|---------------------|-----------------------------------|
| Current and Other Assets | \$ 1,078,310 | \$ 1,169,995 | \$ 1,122,262 | \$ (91,685) |
| Capital Assets | <u>3,778,254</u> | <u>3,600,801</u> | <u>3,371,959</u> | <u>177,453</u> |
| Total Assets | <u>4,856,564</u> | <u>4,770,796</u> | <u>4,494,221</u> | <u>85,768</u> |
| Deferred outflows of resources | <u>76,303</u> | <u>38,731</u> | <u>45,737</u> | <u>37,572</u> |
| Long-Term Debt Outstanding | 515,000 | 665,000 | 815,000 | (150,000) |
| Other Liabilities | <u>67,008</u> | <u>65,341</u> | <u>91,512</u> | <u>1,667</u> |
| Total Liabilities | <u>582,008</u> | <u>730,341</u> | <u>906,512</u> | <u>(148,333)</u> |
| Deferred inflows of resources | <u>39,045</u> | <u>38,543</u> | <u>19,294</u> | <u>502</u> |
| Investment in Capital Assets | 3,243,087 | 2,911,880 | 2,477,472 | 331,207 |
| Restricted | - | 19,781 | - | - |
| Unrestricted | <u>1,068,727</u> | <u>1,108,982</u> | <u>1,136,680</u> | <u>(40,255)</u> |
| Total Net Position | <u>\$ 4,311,814</u> | <u>\$ 4,040,643</u> | <u>\$ 3,614,152</u> | <u>\$ 271,171</u> |

See accompanying Independent Auditors' Report.

MCFARLAND STORM WATER UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2019 and 2018

UTILITY FINANCIAL ANALYSIS (cont.)

Net Position (cont.)

As can be seen from the table above, the net position of the STW Utility improved in 2019 to \$4,312,000 an increase of \$272,000, or 6.7% over 2018. The improvement in net position is attributable primarily to an increase in capital assets contributed by developers. Current assets decreased \$92,000, or (7.8)%. Capital and other noncurrent assets comprise 77.8% of total assets at this time, which increased from 75.5% in 2018.

The STW Utility reported deferred outflows related to pension of \$76,000 in 2019, an increase of \$38,000 from 2018. The Utility reported deferred inflows related to pension of \$39,000 in 2019, an increase of \$500 from 2018. See accompanying notes to the financial statements for more information on deferred outflows and inflows of resources.

The specific nature or source of these changes becomes more evident in the Statements 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 Statements 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 STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**

| | 2019 | 2018 | 2017 | 2018-2019 Change |
|-----------------------------|---------------------|---------------------|---------------------|---------------------|
| Operating Revenues | \$ 541,241 | \$ 536,023 | \$ 518,965 | \$ 5,218 |
| Non-Operating Revenues | <u>24,029</u> | <u>29,902</u> | <u>70,007</u> | <u>(5,873)</u> |
| Total Revenues | <u>563,615</u> | <u>565,925</u> | <u>588,972</u> | <u>(2,310)</u> |
| Depreciation Expense | 134,008 | 124,064 | 114,753 | 9,944 |
| Other Operating Expense | 294,045 | 274,885 | 277,207 | 19,160 |
| Non-Operating Expense | <u>12,824</u> | <u>12,223</u> | <u>17,350</u> | <u>601</u> |
| Total Expenses | <u>439,222</u> | <u>411,172</u> | <u>409,310</u> | <u>28,050</u> |
| Income Before Capital | | | | |
| Contributions and Transfers | 124,393 | 154,753 | 179,662 | (30,360) |
| Capital Contributions | <u>146,778</u> | <u>271,738</u> | <u>47,080</u> | <u>(124,960)</u> |
| Change in Net Position | 271,171 | 426,491 | 226,742 | (155,320) |
| Beginning Net Position | <u>4,040,643</u> | <u>3,614,152</u> | <u>3,387,410</u> | <u>426,491</u> |
| Net Position End of Year | <u>\$ 4,311,814</u> | <u>\$ 4,040,643</u> | <u>\$ 3,614,152</u> | <u>\$ 271,171</u> |

See accompanying Independent Auditors' Report.

MCFARLAND STORM WATER UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2019 and 2018

UTILITY FINANCIAL ANALYSIS (cont.)

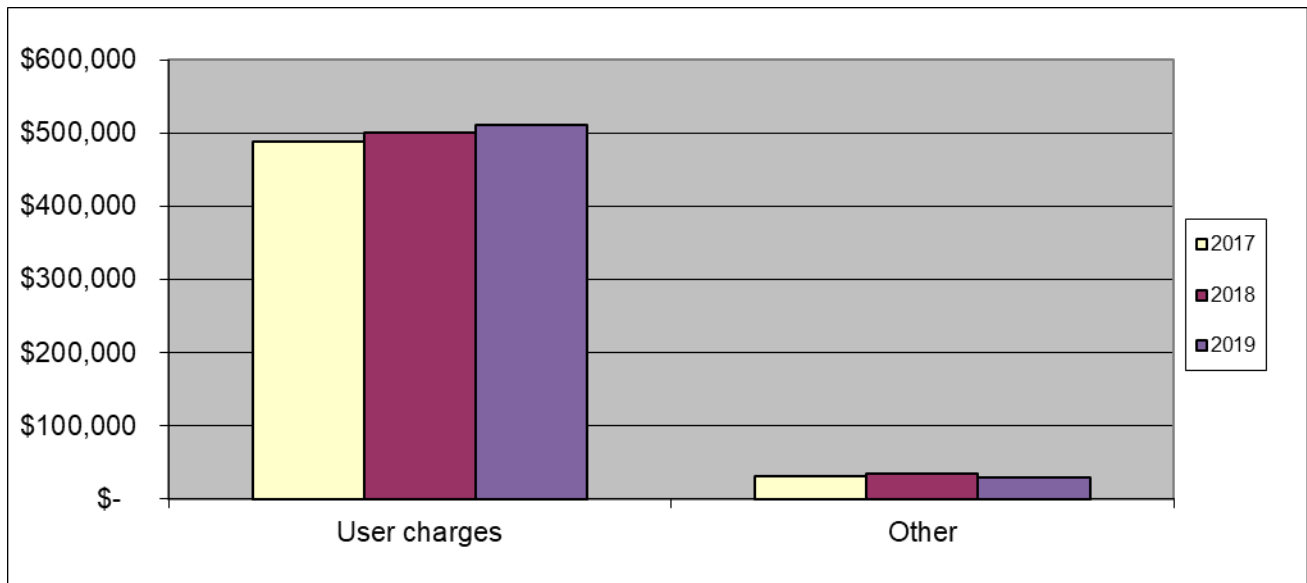
Revenues, Expenses, and Changes in Net Position (cont.)

Operating revenues for the STW Utility in 2019 increased \$5,000, or 1.0%, from 2018. The customer base increased 2.8% from the prior year. Table 3 below summarizes the operating revenues of the STW Utility.

Total expenses for 2019 of \$439,000 were \$28,000, or 7.0%, higher than the previous year primarily due to an increase in the contractual services expense. Depreciation expense for the year was up 8.0%.

Net position was increased by \$271,000 in 2019 due to an increase in operating revenues from an increase in ERU's.

TABLE 3
Comparison of Storm Water Operating Revenues



See accompanying Independent Auditors' Report.

MCFARLAND STORM WATER UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2019 and 2018

UTILITY FINANCIAL ANALYSIS (cont.)

Statements of Cash Flows

The statements of cash flows in Table 4 below reports cash receipts, cash payments, and net changes in cash resulting from operations, investment income, and financing activities such as repayment of debt and capital additions. This information provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

**TABLE 4
CONDENSED STATEMENTS OF CASH FLOWS**

| | 2019 | 2018 | 2017 | 2018-2019 Change |
|--|--------------|--------------|--------------|-----------------------------|
| Cash Flows From: | | | | |
| Operating Activities | \$ 236,949 | \$ 279,974 | \$ 283,909 | \$ (43,025) |
| Capital and Related Financing Activities | (331,261) | (250,685) | (248,389) | (80,576) |
| Investing Activities | 23,454 | 25,425 | 4,291 | (1,971) |
| Net Change in Cash and Cash Equivalents | (70,858) | 54,714 | 39,811 | (125,572) |
| Cash and Cash Equivalents - Beginning of Year | 1,076,266 | 1,021,552 | 981,741 | 54,714 |
| Cash and Cash Equivalents - End of Year | \$ 1,005,408 | \$ 1,076,266 | \$ 1,021,552 | \$ (70,858) |

The STW Utility experienced a net cash flow of \$237,000 from operating activities in 2019, a decrease of \$43,000, or (15.4)%, from 2018. Cash used in capital and related financing activities increased \$80,600 in 2019 due to capital projects going into service. Cash and cash equivalents at year-end decreased \$71,000, or (6.6)%, from 2018 to 2019. All cash is considered to be unrestricted as of 2019 year end.

MCFARLAND STORM WATER UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2019 and 2018

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>2019</u> | <u>2018</u> | <u>2017</u> | <u>2018-2019 Change</u> |
|--------------------------------|---------------------|---------------------|---------------------|-----------------------------|
| Capital Assets | | | | |
| Land and improvements | \$ 313,596 | \$ 313,596 | \$ 223,649 | \$ - |
| Pipes | 3,193,406 | 3,057,244 | 2,885,862 | 136,162 |
| Manholes | 393,231 | 393,231 | 374,231 | - |
| Inlets | 654,330 | 554,453 | 481,876 | 99,877 |
| Basins | 719,431 | 719,431 | 667,558 | - |
| Miscellaneous and general | <u>445,559</u> | <u>370,137</u> | <u>370,137</u> | <u>75,422</u> |
| Total Capital Assets | 5,719,553 | 5,408,092 | 5,003,313 | 311,461 |
| Less: Accumulated depreciation | <u>(1,941,299)</u> | <u>(1,807,291)</u> | <u>(1,683,227)</u> | <u>(134,008)</u> |
| Net Capital Assets | <u>\$ 3,778,254</u> | <u>\$ 3,600,801</u> | <u>\$ 3,320,086</u> | <u>\$ 177,453</u> |

During 2019, the capital assets of the STW Utility increased by \$312,000, or 5.8%, from 2018. The increase came primarily from developer contributed additions. After depreciation was factored in, the net capital assets for the STW Utility were \$3,778,000, an increase of \$176,000, or 4.9%, from 2018.

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, 2019 the STW Utility had \$515,000 in general obligation debt outstanding compared to \$665,000 in 2018. The STW Utility issued \$500,000 in new general obligation debt in 2015 for the purpose of funding 2015 and 2016 capital improvement projects and equipment purchases. Please refer to the notes to the financial statements for further detail about the debt obligations of the Storm Water Utility.

MCFARLAND STORM WATER UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2019 and 2018

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 strengthened significantly in 2013, and there are promising signs of increased growth in new residential construction. The Village has seen positive growth since 2013, given the performance of the market and the expansion surrounding the Madison area.

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 availability of land that exists for residential development, should yield long-term growth in the customer base and greater economies of scale in future STW Utility operations once the pace of development returns to more normal levels.

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

In December 2019, a novel strain of coronavirus was reported in Wuhan, Hubei province, China. In the first several months of 2020, the virus, SARS-CoV-2, and resulting disease, COVID-19, spread to the United States, including to areas impacting the Utility. As of the date above, the Village's evaluation of the effects of these events is ongoing; however, we anticipate this situation could impact demand for utility services, investment valuations and decreased investment income, and a decline in revenues such as penalties.

The extent of the impact of COVID-19 on the Utility's operational and financial performance will depend on future developments, including the duration and spread of the outbreak and related governmental or other regulatory actions.

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, 2019 and 2018

| ASSETS | <u>2019</u> | <u>2018</u> |
|---------------------------------------|--------------------|--------------------|
| CURRENT ASSETS | | |
| Cash and investments | \$ 3,095,892 | \$ 2,693,526 |
| Customer accounts receivable | 236,429 | 239,849 |
| Other accounts receivable | - | 812 |
| Due from municipality | 42,732 | 40,290 |
| Materials and supplies | <u>19,450</u> | <u>19,450</u> |
| Total Current Assets | <u>3,394,503</u> | <u>2,993,927</u> |
| NONCURRENT ASSETS | | |
| Restricted Assets | | |
| Replacement account | 450,332 | 397,192 |
| Impact fee account | 20,823 | - |
| Net pension asset | - | 46,664 |
| Other Assets | | |
| Water tower reserve | 494,786 | 450,954 |
| Depreciation reserve | 78,790 | 78,000 |
| Special assessments receivable | 36,109 | 36,109 |
| Property held for future use | 224,112 | 224,112 |
| Capital Assets | | |
| Plant in service | | |
| Water | 16,195,320 | 15,404,123 |
| Sewer | <u>7,333,055</u> | <u>7,041,169</u> |
| Total Plant in Service | <u>23,528,375</u> | <u>22,445,292</u> |
| Accumulated depreciation | | |
| Water | (4,812,782) | (4,521,588) |
| Sewer | <u>(2,433,975)</u> | <u>(2,282,823)</u> |
| Total Accumulated Depreciation | <u>(7,246,757)</u> | <u>(6,804,411)</u> |
| Total Noncurrent Assets | <u>17,586,570</u> | <u>16,873,912</u> |
| Total Assets | <u>20,981,073</u> | <u>19,867,839</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Deferred outflows related to pension | <u>189,455</u> | <u>94,165</u> |

| | | <u>2019</u> | <u>2018</u> |
|--|--|----------------------|----------------------|
| LIABILITIES | | | |
| CURRENT LIABILITIES | | | |
| Accounts payable | | \$ 222,007 | \$ 222,691 |
| Due to municipality | | 262,660 | - |
| Customer deposits | | 5,000 | 5,000 |
| Accrued interest | | 6,471 | 4,483 |
| Accrued vacation leave | | 7,238 | 6,877 |
| Current portion of lease payable | | 4,980 | 4,775 |
| Current portion of general obligation debt | | <u>415,000</u> | <u>400,000</u> |
| Total Current Liabilities | | <u>923,356</u> | <u>643,826</u> |
| NONCURRENT LIABILITIES | | | |
| General obligation debt | | 2,595,000 | 2,290,000 |
| Unamortized debt premium | | 60,867 | 23,928 |
| Lease obligation | | 30,425 | 35,405 |
| Accrued sick leave | | 43,462 | 58,356 |
| Net pension liability | | <u>57,937</u> | <u>-</u> |
| Total Noncurrent Liabilities | | <u>2,787,691</u> | <u>2,407,689</u> |
| Total Liabilities | | <u>3,711,047</u> | <u>3,051,515</u> |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Deferred inflows related to pension | | <u>93,253</u> | <u>80,506</u> |
| NET POSITION | | | |
| Net investment in capital assets | | 13,175,346 | 12,886,773 |
| Restricted for: | | | |
| Equipment replacement | | 450,332 | 397,192 |
| Impact fee | | 20,823 | - |
| Net pension asset | | - | 46,664 |
| Unrestricted | | <u>3,719,727</u> | <u>3,499,354</u> |
| TOTAL NET POSITION | | <u>\$ 17,366,228</u> | <u>\$ 16,829,983</u> |

See accompanying notes to the financial statements.

MCFARLAND WATER AND SEWER UTILITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION For the Years Ended December 31, 2019 and 2018

| | 2019 | 2018 |
|---|-----------------------------|-----------------------------|
| OPERATING REVENUES | | |
| Water | | |
| Sales of water | \$ 997,094 | \$ 958,323 |
| Other | <u>98,898</u> | <u>107,247</u> |
| Total Water | <u>1,095,992</u> | <u>1,065,570</u> |
| Sewer | | |
| Treatment charges | 1,110,249 | 1,074,576 |
| Other | <u>7,760</u> | <u>7,901</u> |
| Total Sewer | <u>1,118,009</u> | <u>1,082,477</u> |
| Total Operating Revenues | <u>2,214,001</u> | <u>2,148,047</u> |
| OPERATING EXPENSES | | |
| Water | | |
| Operation and maintenance | 544,329 | 485,142 |
| Depreciation | <u>314,832</u> | <u>284,993</u> |
| Total Water | <u>859,161</u> | <u>770,135</u> |
| Sewer | | |
| Operation and maintenance | 1,099,568 | 1,071,716 |
| Depreciation | <u>151,152</u> | <u>137,033</u> |
| Total Sewer | <u>1,250,720</u> | <u>1,208,749</u> |
| Total Operating Expenses | <u>2,109,881</u> | <u>1,978,884</u> |
| OPERATING INCOME (LOSS) | | |
| Water | 236,831 | 295,435 |
| Sewer | <u>(132,711)</u> | <u>(126,272)</u> |
| Total Operating Income (Loss) | <u>104,120</u> | <u>169,163</u> |
| NONOPERATING REVENUES (EXPENSES) | | |
| Investment income | 81,580 | 105,127 |
| Loss on sale of equipment | (287) | (299) |
| Interest expense | (56,766) | (57,665) |
| Debt issuance costs | (15,402) | - |
| Amortization of premium | <u>7,256</u> | <u>6,700</u> |
| Total Nonoperating Revenues (Expenses) | <u>16,381</u> | <u>53,863</u> |
| Income Before Contributions and Transfers | 120,501 | 223,026 |
| CAPITAL CONTRIBUTIONS | 678,404 | 1,898,108 |
| TRANSFERS - TAX EQUIVALENT | <u>(262,660)</u> | <u>(249,144)</u> |
| CHANGE IN NET POSITION | 536,245 | 1,871,990 |
| NET POSITION - Beginning of Year | <u>16,829,983</u> | <u>14,957,993</u> |
| NET POSITION - END OF YEAR | <u><u>\$ 17,366,228</u></u> | <u><u>\$ 16,829,983</u></u> |

See accompanying notes to the financial statements.

MCFARLAND WATER AND SEWER UTILITY

STATEMENTS OF CASH FLOWS For the Years Ended December 31, 2019 and 2018

| | 2019 | 2018 |
|---|--------------|--------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Received from customers | \$ 1,911,395 | \$ 1,880,036 |
| Received from municipality for services | 325,092 | 313,250 |
| Paid to suppliers for goods and services | (1,533,519) | (1,404,230) |
| Paid to employees for operating payroll | (103,537) | (104,932) |
| Net Cash Flows From Operating Activities | 599,431 | 684,124 |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | |
| Paid to municipality for tax equivalent | - | (505,897) |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Acquisition and construction of capital assets | (701,008) | (1,007,548) |
| Capital contributions received | 251,708 | 327,158 |
| Debt retired | (404,775) | (369,204) |
| Interest paid | (54,778) | (67,750) |
| Proceeds from debt issue | 720,000 | - |
| Premium on new debt net of issuance costs | 28,793 | - |
| Net Cash Flows From Capital and Related Financing Activities | (160,060) | (1,117,344) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Investment income | 81,580 | 105,127 |
| Net Change in Cash and Cash Equivalents | 520,951 | (833,990) |
| CASH AND CASH EQUIVALENTS - Beginning of Year | 3,619,672 | 4,453,662 |
| CASH AND CASH EQUIVALENTS - END OF YEAR | \$ 4,140,623 | \$ 3,619,672 |
| NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Amortization of debt premium | \$ 7,256 | \$ 6,700 |
| Loss on sale of asset | \$ 287 | \$ 299 |
| Developer financed additions to plant | \$ 426,696 | \$ 1,570,950 |

| | <u>2019</u> | <u>2018</u> |
|---|---------------------|---------------------|
| RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Operating income | \$ 104,120 | \$ 169,163 |
| Noncash items in operating income | | |
| Depreciation | 465,984 | 422,026 |
| Depreciation charged to clearing and other utilities | 20,696 | 19,825 |
| Changes in assets and liabilities | | |
| Customer accounts receivable | 3,420 | 2,201 |
| Other accounts receivable | 812 | 19,408 |
| Due from municipality | (2,442) | - |
| Prepayments | - | 52 |
| Accounts payable | (684) | 31,634 |
| Due to other funds | - | 3,805 |
| Accrued vacation and sick leave | (14,533) | 13,049 |
| Pension related deferrals and liabilities | <u>22,058</u> | <u>2,961</u> |
| NET CASH FLOWS FROM OPERATING ACTIVITIES | <u>\$ 599,431</u> | <u>\$ 684,124</u> |
| | | |
| RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENTS OF NET POSITION ACCOUNTS | | |
| Cash and investments | \$ 3,095,892 | \$ 2,693,526 |
| Replacement account | 450,332 | 397,192 |
| Impact fee account | 20,823 | - |
| Water tower reserve | 494,786 | 450,954 |
| Depreciation reserve | <u>78,790</u> | <u>78,000</u> |
| CASH AND CASH EQUIVALENTS | <u>\$ 4,140,623</u> | <u>\$ 3,619,672</u> |

See accompanying notes to the financial statements.

STORM WATER UTILITY

MCFARLAND STORM WATER UTILITY

STATEMENTS OF NET POSITION As of December 31, 2019 and 2018

| | <i>ASSETS</i> | <u>2019</u> | <u>2018</u> |
|---------------------------------------|----------------------|--------------------|--------------------|
| CURRENT ASSETS | | | |
| Cash and investments | | \$ 1,005,408 | \$ 1,076,266 |
| Customer accounts receivable | | 72,902 | 73,648 |
| Other accounts receivable | | <u>-</u> | <u>300</u> |
| Total Current Assets | | <u>1,078,310</u> | <u>1,150,214</u> |
| NONCURRENT ASSETS | | | |
| Restricted Assets | | | |
| Net pension asset | | - | 19,781 |
| Capital Assets | | | |
| Plant in service | | 5,719,553 | 5,408,092 |
| Accumulated depreciation | | <u>(1,941,299)</u> | <u>(1,807,291)</u> |
| Total Noncurrent Assets | | <u>3,778,254</u> | <u>3,620,582</u> |
| Total Assets | | <u>4,856,564</u> | <u>4,770,796</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Deferred outflows related to pension | | <u>76,303</u> | <u>38,731</u> |

| LIABILITIES | | <u>2019</u> | <u>2018</u> |
|--|--|----------------------------|----------------------------|
| CURRENT LIABILITIES | | | |
| Accounts payable | | \$ 6,919 | \$ 4,140 |
| Accrued interest | | 2,116 | 2,116 |
| Accrued vacation leave | | 2,695 | 3,283 |
| Current portion of lease payable | | 2,490 | 2,388 |
| Current portion of general obligation debt | | <u>155,000</u> | <u>150,000</u> |
| Total Current Liabilities | | <u>169,220</u> | <u>161,927</u> |
| NONCURRENT LIABILITIES | | | |
| General obligation debt | | 360,000 | 515,000 |
| Unamortized debt premium | | 2,465 | 3,831 |
| Lease obligation | | 15,212 | 17,702 |
| Accrued sick leave | | 8,311 | 31,881 |
| Net pension liability | | <u>26,800</u> | <u>-</u> |
| Total Noncurrent Liabilities | | <u>412,788</u> | <u>568,414</u> |
| Total Liabilities | | <u>582,008</u> | <u>730,341</u> |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Deferred inflows related to pension | | <u>39,045</u> | <u>38,543</u> |
| NET POSITION | | | |
| Net investment in capital assets | | 3,243,087 | 2,911,880 |
| Restricted for: | | | |
| Net pension asset | | - | 19,781 |
| Unrestricted | | <u>1,068,727</u> | <u>1,108,982</u> |
| TOTAL NET POSITION | | <u><u>\$ 4,311,814</u></u> | <u><u>\$ 4,040,643</u></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, 2019 and 2018

| | 2019 | 2018 |
|---|----------------------------|----------------------------|
| OPERATING REVENUES | | |
| Charges for services | \$ 510,133 | \$ 501,003 |
| Other | <u>31,108</u> | <u>35,020</u> |
| Total Operating Revenues | <u>541,241</u> | <u>536,023</u> |
| OPERATING EXPENSES | | |
| Operation and maintenance | 294,045 | 274,885 |
| Depreciation | <u>134,008</u> | <u>124,064</u> |
| Total Operating Expenses | <u>428,053</u> | <u>398,949</u> |
| OPERATING INCOME | <u>113,188</u> | <u>137,074</u> |
| NONOPERATING REVENUES (EXPENSES) | | |
| Investment income | 23,454 | 25,425 |
| Miscellaneous revenues | 575 | 4,477 |
| Interest expense | (14,190) | (13,814) |
| Amortization of debt premium | <u>1,366</u> | <u>1,591</u> |
| Total Nonoperating Revenues (Expenses) | <u>11,205</u> | <u>17,679</u> |
| Income Before Contributions | 124,393 | 154,753 |
| CAPITAL CONTRIBUTIONS | <u>146,778</u> | <u>271,738</u> |
| CHANGE IN NET POSITION | 271,171 | 426,491 |
| NET POSITION - Beginning of Year | <u>4,040,643</u> | <u>3,614,152</u> |
| NET POSITION - END OF YEAR | <u><u>\$ 4,311,814</u></u> | <u><u>\$ 4,040,643</u></u> |

See accompanying notes to the financial statements.

MCFARLAND STORM WATER UTILITY

STATEMENTS OF CASH FLOWS For the Years Ended December 31, 2019 and 2018

| | 2019 | 2018 |
|---|--------------|--------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Received from customers | \$ 542,862 | \$ 566,412 |
| Paid to suppliers for goods and services | (202,376) | (181,506) |
| Paid to employees for operating payroll | (103,537) | (104,932) |
| Net Cash Flows From Operating Activities | 236,949 | 279,974 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Acquisition and construction of capital assets | (181,791) | (106,424) |
| Capital contributions received | 17,108 | 25,256 |
| Debt retired | (152,388) | (152,102) |
| Interest paid | (14,190) | (17,415) |
| Net Cash Flows From Capital and Related Financing Activities | (331,261) | (250,685) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Investment income | 23,454 | 25,425 |
| Net Change in Cash and Cash Equivalents | (70,858) | 54,714 |
| CASH AND CASH EQUIVALENTS - Beginning of Year | 1,076,266 | 1,021,552 |
| CASH AND CASH EQUIVALENTS - END OF YEAR | \$ 1,005,408 | \$ 1,076,266 |
| NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Developer financed additions to utility plant | \$ 129,670 | \$ 246,482 |
| Amortization of debt premium | \$ 1,366 | \$ 1,591 |

| | <u>2019</u> | <u>2018</u> |
|---|-------------------|-------------------|
| RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Operating income | \$ 113,188 | \$ 137,074 |
| Nonoperating revenue (expense) | 575 | 4,477 |
| Noncash items in operating income | | |
| Depreciation | 134,008 | 124,064 |
| Changes in assets and liabilities | | |
| Customer accounts receivable | 746 | (234) |
| Other accounts receivable | 300 | 26,430 |
| Due from municipality | - | 566 |
| Pension related deferrals and liabilities | 9,511 | 568 |
| Accounts payable | 2,779 | (3,133) |
| Customer deposits | - | (850) |
| Accrued vacation | (588) | (508) |
| Accrued sick leave | (23,570) | (8,480) |
| | <u>236,949</u> | <u>279,974</u> |
| NET CASH FLOWS FROM OPERATING ACTIVITIES | \$ 236,949 | \$ 279,974 |

See accompanying notes to the financial statements.

MCFARLAND UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2019 and 2018

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 water, sewer, and storm water service to properties within the municipality.

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

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

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

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In March 2018, the GASB issued Statement No. 88 - *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. This statement defines debt for purposes of disclosure in notes to financial statements and establishes additional financial statement note disclosure requirements related to debt obligations of governments, including direct borrowings and direct placements. The utilities adopted this statement effective January 1, 2019.

Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

Deposits and Investments

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

MCFARLAND UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2019 and 2018

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

ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (cont.)

Deposits and Investments (cont.)

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

- > Time deposits in any credit union, bank, savings bank or trust company.
- > 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 have adopted an investment policy. That policy 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. 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. Fair 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.

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.

MCFARLAND UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2019 and 2018

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

ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (cont.)

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 designated account.

Depreciation Reserve

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

Special Assessments Receivable

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

Property Held for Future Use

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

Capital Assets

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

Capital assets of the utilities are recorded at cost or the estimated acquisition 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 |

MCFARLAND UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2019 and 2018

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

ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (cont.)

Capital Assets (cont.)

| | <u>Years</u> |
|----------------------------|--------------|
| Sewer Plant | |
| Collecting system | 50 - 100 |
| Collecting system pumping | 20 - 40 |
| General | 7 - 20 |
| Storm Water Plant | |
| Storm water infrastructure | 50 |
| General | 10 - 50 |

Pensions

For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pension, and pension expense, information about the fiduciary net position of the Wisconsin Retirement System (WRS) and additions to/deductions from WRS' fiduciary net position have been determined on the same basis as they are reported by WRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms, investments are reported at fair value.

Deferred Outflow of Resources

A deferred outflow of resources represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until that future time.

Accrued Vacation and Sick Leave

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

Long-Term Obligations

Long-term debt and other obligations are reported as utility liabilities. Bond premiums and discounts, are amortized over the life of the bonds using the straight-line or effective interest method. Gains or losses on prior refundings are amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter. The balance at year end for premiums and discounts is shown as an increase or decrease in the liability section of the statement of net position. The balance at year end for the loss on refunding is shown as a deferred outflow in the statement of net position.

Deferred Inflows of Resources

A deferred inflow of resources represents an acquisition of net position that applies to a future period and therefore will not be recognized as an inflow of resources (revenue) until that future time.

MCFARLAND UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2019 and 2018

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 effective November 13, 2019.

Current sewer utility rates were approved by the village board on December 28, 2015 and implemented on January 1, 2016.

Current storm water rates were approved by the village board on December 28, 2015 and implemented on January 1, 2016.

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.

Connection or Impact Fee

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

Transfers

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

Miscellaneous Operating Revenues

Miscellaneous revenues include forfeited discounts and water tower rental income for the water and sewer utilities, as well as erosion control permits, yard waste permits, and forfeited discounts for the storm water utility.

EFFECT OF NEW ACCOUNTING STANDARDS ON CURRENT PERIOD FINANCIAL STATEMENTS

GASB has approved GASB Statement No. 87, *Leases*, Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, and Statement No. 91, *Conduit Debt Obligations*. When they become effective, 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, 2019 and 2018

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

COMPARATIVE DATA

Certain amounts presented in the prior year data may have been reclassified in order to be consistent with the current year's presentation.

NOTE 2 - DEPOSITS AND INVESTMENTS

| | Carrying Value as of | | Risks |
|----------------------|----------------------|--------------|------------------|
| | December 31, | | |
| | 2019 | 2018 | |
| Checking and savings | \$ 3,082,908 | \$ 2,829,724 | Custodial credit |
| LGIP | 2,063,123 | 1,866,214 | Credit |
| Totals | \$ 5,146,031 | \$ 4,695,938 | |

Deposits in each local and area bank are insured by the FDIC in the amount of \$250,000 for time and savings accounts (including NOW accounts) and \$250,000 for demand deposit accounts (interest bearing and noninterest bearing). In addition, if deposits are held in an institution outside of the state in which the government is located, insured amounts are further limited to a total of \$250,000 for the combined amount of all deposit accounts.

Deposits in credit unions are insured by the National Credit Union Administration in the amount of \$250,000 for all share draft accounts and \$250,000 for all share certificate and regular share accounts as of December 31, 2019 and 2018.

Bank accounts and credit unions 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, 2019 and 2018, 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, 2019 and 2018

NOTE 2 - DEPOSITS AND INVESTMENTS (cont.)

Custodial Credit Risk (cont.)

Deposits (cont.)

The utilities maintain certain deposits commingled with the municipality. The following is a summary of the utilities' total deposit balances at these institutions.

| | 2019 | | 2018 | |
|----------------------|-----------------|----------------------------|-----------------|----------------------------|
| | Bank Balance | Carrying Value | Bank Balance | Carrying Value |
| McFarland State Bank | (A) | \$ <u>3,082,908</u> | (A) | \$ <u>2,829,724</u> |
| Totals | | \$ <u><u>3,082,908</u></u> | | \$ <u><u>2,829,724</u></u> |

(A) - The utilities maintain certain investments commingled with the municipality. The custodial credit risk pertaining specifically to the utilities' resources cannot be determined for those accounts. Please refer to the municipality's financial statements for information on this risk.

Credit Risk

Credit risk is the risk an issuer or other counterparty to an investment will not fulfill its obligations.

The utilities maintain certain investments commingled with the municipality. The credit risk pertaining specifically to the utilities' resources cannot be determined for those accounts. Please refer to the municipality's financial statements for information on this risk.

The utilities held investments in the Local Government Investment Pool which is an external pool that is not rated.

Investment Policy

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.

MCFARLAND UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2019 and 2018

NOTE 3 - INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS

The following is a schedule of interfund balances for the years ending December 31, 2019 and 2018:

| Due To | Due From | 2019 | | 2018 | |
|--------------------------------------|-------------------------|-----------|------------------------|-----------|------------------------|
| | | Amount | Principal Purpose | Amount | Principal Purpose |
| Water and Sewer Utility Municipality | Municipality | \$ 42,732 | Fire protection charge | \$ 40,290 | Fire protection charge |
| Municipality | Water and Sewer Utility | 262,660 | Tax equivalent | - | Tax equivalent |

The following is a schedule of transfer balances for the years ending December 31, 2019 and 2018:

| To | From | 2019 | | 2018 | |
|--------------|-------------------------|------------|-------------------|------------|-------------------|
| | | Amount | Principal Purpose | Amount | Principal Purpose |
| Municipality | Water and Sewer Utility | \$ 262,660 | Tax equivalent | \$ 249,144 | 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:

Replacement Account

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

Impact Fee Account

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

Net Pension Asset

Restricted assets have been reported in connection with the net pension asset balance since this balance must be used to fund employee benefits.

MCFARLAND UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2019 and 2018

NOTE 4 - RESTRICTED ASSETS (cont.)

Restricted Net Position

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

| | 2019 | 2018 |
|---|------------|------------|
| Restricted Assets | | |
| Replacement account | \$ 450,332 | \$ 397,192 |
| Impact fee account | 20,823 | - |
| Net pension asset | - | 46,664 |
| Total Restricted Assets | 471,155 | 443,856 |
| Total Restricted Net Position as Calculated | \$ 471,155 | \$ 443,856 |

The purpose of the restricted net position is as follows:

| | 2019 | 2018 |
|-------------------------------|------------|------------|
| Equipment replacement | \$ 450,332 | \$ 397,192 |
| Impact fee | 20,823 | - |
| Net pension asset | | 46,664 |
| Total Restricted Net Position | \$ 471,155 | \$ 443,856 |

The following calculation supports the amount of storm water utility restricted net position:

| | 2019 | 2018 |
|---|------|-----------|
| Restricted Assets | | |
| Net pension asset | \$ - | \$ 19,781 |
| Total Restricted Net Position as Calculated | \$ - | \$ 19,781 |

MCFARLAND UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2019 and 2018

NOTE 5 - CHANGES IN CAPITAL ASSETS

Water Utility

A summary of changes in water capital assets for 2019 follows:

| | Balance 1/1/19 | Increases | Decreases | Balance 12/31/19 |
|--|-------------------|-----------|-----------|---------------------|
| 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 | 14,316,916 | 780,397 | 44,622 | 15,052,691 |
| General | 426,210 | 55,422 | - | 481,632 |
| Total Capital Assets Being Depreciated | 15,316,573 | 835,819 | 44,622 | 16,107,770 |
| Total Capital Assets | 15,404,123 | 835,819 | 44,622 | 16,195,320 |
| Less: Accumulated depreciation | (4,521,588) | (335,816) | 44,622 | (4,812,782) |
| Net Capital Assets | \$ 10,882,535 | | | \$ 11,382,538 |

A summary of changes in water capital assets for 2018 follows:

| | Balance 1/1/18 | Increases | Decreases | Balance 12/31/18 |
|--|-------------------|-----------|-----------|---------------------|
| 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 | 12,620,424 | 1,721,544 | 25,052 | 14,316,916 |
| General | 295,285 | 130,925 | - | 426,210 |
| Total Capital Assets Being Depreciated | 13,489,156 | 1,852,469 | 25,052 | 15,316,573 |
| Total Capital Assets | 13,576,706 | 1,852,469 | 25,052 | 15,404,123 |
| Less: Accumulated depreciation | (4,241,522) | (305,118) | 25,052 | (4,521,588) |
| Net Capital Assets | \$ 9,335,184 | | | \$ 10,882,535 |

MCFARLAND UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2019 and 2018

NOTE 5 - CHANGES IN CAPITAL ASSETS (cont.)

Sewer Utility

A summary of changes in sewer capital assets for 2019 follows:

| | Balance 1/1/19 | Increases | Decreases | Balance 12/31/19 |
|--|-------------------|-----------|-----------|---------------------|
| Capital assets, not being depreciated | | | | |
| Land and land rights | \$ 78,020 | \$ - | \$ - | \$ 78,020 |
| Capital assets being depreciated | | | | |
| Collecting system | 5,589,066 | 236,464 | - | 5,825,530 |
| Collecting system pumping | 1,043,088 | - | - | 1,043,088 |
| General | 330,995 | 55,422 | - | 386,417 |
| Total Capital Assets Being Depreciated | 6,963,149 | 291,886 | - | 7,255,035 |
| Total Capital Assets | 7,041,169 | 291,886 | - | 7,333,055 |
| Less: Accumulated depreciation | (2,282,823) | (151,152) | - | (2,433,975) |
| Net Capital Assets | \$ 4,758,346 | | | \$ 4,899,080 |

A summary of changes in sewer capital assets for 2018 follows:

| | Balance 1/1/18 | Increases | Decreases | Balance 12/31/18 |
|--|-------------------|-----------|-----------|---------------------|
| Capital assets, not being depreciated | | | | |
| Land and land rights | \$ 78,020 | \$ - | \$ - | \$ 78,020 |
| Capital assets being depreciated | | | | |
| Collecting system | 5,006,151 | 582,915 | - | 5,589,066 |
| Collecting system pumping | 1,043,088 | - | - | 1,043,088 |
| General | 200,070 | 130,925 | - | 330,995 |
| Total Capital Assets Being Depreciated | 6,249,309 | 713,840 | - | 6,963,149 |
| Total Capital Assets | 6,327,329 | 713,840 | - | 7,041,169 |
| Less: Accumulated depreciation | (2,145,790) | (137,033) | - | (2,282,823) |
| Net Capital Assets | \$ 4,181,539 | | | \$ 4,758,346 |

MCFARLAND UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2019 and 2018

NOTE 5 - CHANGES IN CAPITAL ASSETS (cont.)

Storm Water Utility

A summary of changes in storm water capital assets for 2019 follows:

| | Balance 1/1/19 | Increases | Decreases | Balance 12/31/19 |
|---|---------------------|------------------|-----------|---------------------|
| Capital assets, not being depreciated | | | | |
| Land and land rights | \$ 160,275 | \$ - | \$ - | \$ 160,275 |
| Capital assets being depreciated | | | | |
| Storm water infrastructure | 4,970,050 | 256,039 | - | 5,226,089 |
| General | <u>277,767</u> | <u>55,422</u> | - | <u>333,189</u> |
| Total Capital Assets Being Depreciated | <u>5,247,817</u> | <u>311,461</u> | - | <u>5,559,278</u> |
| Total Capital Assets | <u>5,408,092</u> | <u>311,461</u> | - | <u>5,719,553</u> |
| Less: Accumulated depreciation | <u>(1,807,291)</u> | <u>(134,008)</u> | - | <u>(1,941,299)</u> |
| Net Capital Assets | <u>\$ 3,600,801</u> | | | <u>\$ 3,778,254</u> |

A summary of changes in storm water capital assets for 2018 follows:

| | Balance 1/1/18 | Increases | Decreases | Balance 12/31/18 |
|---|---------------------|------------------|-----------|---------------------|
| Capital assets, not being depreciated | | | | |
| Land and land rights | \$ 160,275 | \$ - | \$ - | \$ 160,275 |
| Capital assets being depreciated | | | | |
| Storm water infrastructure | 4,565,271 | 404,779 | - | 4,970,050 |
| General | <u>277,767</u> | - | - | <u>277,767</u> |
| Total Capital Assets Being Depreciated | <u>4,843,038</u> | <u>404,779</u> | - | <u>5,247,817</u> |
| Total Capital Assets | <u>5,003,313</u> | <u>404,779</u> | - | <u>5,408,092</u> |
| Less: Accumulated depreciation | <u>(1,683,227)</u> | <u>(124,064)</u> | - | <u>(1,807,291)</u> |
| Net Capital Assets | <u>\$ 3,320,086</u> | | | <u>\$ 3,600,801</u> |

MCFARLAND UTILITIES

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2019 and 2018

NOTE 6 - LEASES

The water and sewer utility assets acquired through capital leases are as follows:

| | December 31 | |
|--------------------------------|-------------|-----------|
| | 2019 | 2018 |
| Wheel loader | \$ 44,384 | \$ 44,384 |
| Less: Accumulated depreciation | 12,562 | 6,281 |
| Totals | \$ 31,822 | \$ 38,103 |

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> | | |
|---|--|-----------|
| 2020 | | \$ 6,372 |
| 2021 | | 30,530 |
| Total Minimum Lease Payments | | 36,902 |
| Less: Amount representing interest | | 1,497 |
| Present Value of Minimum Lease Payments | | \$ 35,405 |

The storm water utility assets acquired through capital leases are as follows:

| | December 31 | |
|--------------------------------|-------------|-----------|
| | 2019 | 2018 |
| Wheel loader | \$ 22,192 | \$ 22,192 |
| Less: Accumulated depreciation | 4,438 | 2,219 |
| Totals | \$ 17,754 | \$ 19,973 |

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> | | |
|---|--|-----------|
| 2020 | | \$ 3,186 |
| 2021 | | 15,265 |
| Total Minimum Lease Payments | | 18,451 |
| Less: Amount representing interest | | 749 |
| Present Value of Minimum Lease Payments | | \$ 17,702 |

MCFARLAND UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2019 and 2018

NOTE 7 - LONG-TERM OBLIGATIONS

General Obligation Debt - Water and Sewer Utility

The following general obligation notes have been issued:

| Date | Purpose | Final Maturity | Interest Rate | Original Amount | Outstanding Amount 12/31/19 |
|---------|------------------------------------|----------------|---------------|-----------------|-----------------------------|
| 6/23/15 | 2015 and 2016 improvement projects | 12/1/2024 | 2.00% | \$ 2,495,000 | \$ 1,615,000 |
| 7/20/17 | 2017 improvement projects | 12/1/2025 | 1.20 | 845,000 | 675,000 |
| 8/01/19 | 2019 improvement projects | 12/1/2028 | 2.00 - 3.00 | 720,000 | 720,000 |

General obligation notes debt service requirements to maturity follows:

| Year Ending December 31 | Principal | Interest | Total |
|-------------------------|---------------------|-------------------|---------------------|
| 2020 | \$ 415,000 | \$ 72,245 | \$ 487,245 |
| 2021 | 500,000 | 57,315 | 557,315 |
| 2022 | 510,000 | 47,053 | 557,053 |
| 2023 | 525,000 | 36,910 | 561,910 |
| 2024 | 550,000 | 26,410 | 576,410 |
| 2025-2028 | 510,000 | 31,550 | 541,550 |
| Totals | <u>\$ 3,010,000</u> | <u>\$ 271,483</u> | <u>\$ 3,281,483</u> |

General Obligation Debt - Storm Water Utility

The following general obligation notes have been issued:

| Date | Purpose | Final Maturity | Interest Rate | Original Amount | Outstanding Amount 12/31/19 |
|---------|---|----------------|---------------|-----------------|-----------------------------|
| 12/1/11 | Various capital projects and repayment of advance | 9/1/2021 | 2.14% | \$ 875,000 | \$ 190,000 |
| 6/23/15 | 2015 and 2016 improvement projects | 12/1/2024 | 2.00 | 500,000 | 325,000 |

MCFARLAND UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2019 and 2018

NOTE 7 - LONG-TERM OBLIGATIONS (cont.)

General Obligation Debt - Storm Water Utility (cont.)

General obligation notes debt service requirements to maturity follows:

| <u>Year Ending December 31</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--------------------------------|-------------------|------------------|-------------------|
| 2020 | \$ 155,000 | \$ 11,005 | \$ 166,005 |
| 2021 | 160,000 | 7,668 | 167,668 |
| 2022 | 65,000 | 4,040 | 69,040 |
| 2023 | 65,000 | 2,805 | 67,805 |
| 2024 | <u>70,000</u> | <u>1,504</u> | <u>71,504</u> |
| Totals | <u>\$ 515,000</u> | <u>\$ 27,022</u> | <u>\$ 542,022</u> |

Long-Term Obligations Summary - Water and Sewer Utility

Long-term obligation activity for the year ended December 31, 2019 is as follows:

| | <u>1/1/19 Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>12/31/19 Balance</u> | <u>Due Within One Year</u> |
|--------------------------|---------------------------|-------------------|-------------------|-----------------------------|--------------------------------|
| General obligation debt | \$ 2,690,000 | \$ 720,000 | \$ 400,000 | \$ 3,010,000 | \$ 415,000 |
| Accrued sick leave | 58,356 | 3,290 | 18,184 | 43,462 | - |
| Lease obligation | 40,180 | - | 4,775 | 35,405 | 4,980 |
| Unamortized debt premium | <u>23,928</u> | <u>44,195</u> | <u>7,256</u> | <u>60,867</u> | <u>-</u> |
| Totals | <u>\$ 2,812,464</u> | <u>\$ 767,485</u> | <u>\$ 430,215</u> | <u>\$ 3,149,734</u> | <u>\$ 419,980</u> |

Long-term obligation activity for the year ended December 31, 2018 is as follows:

| | <u>1/1/18 Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>12/31/18 Balance</u> | <u>Due Within One Year</u> |
|--------------------------|---------------------------|------------------|-------------------|-----------------------------|--------------------------------|
| General obligation debt | \$ 3,055,000 | \$ - | \$ 365,000 | \$ 2,690,000 | \$ 400,000 |
| Accrued sick leave | 47,214 | 94,334 | 83,192 | 58,356 | - |
| Lease obligation | 44,384 | - | 4,204 | 40,180 | 4,775 |
| Unamortized debt premium | <u>30,628</u> | <u>-</u> | <u>6,700</u> | <u>23,928</u> | <u>-</u> |
| Totals | <u>\$ 3,177,226</u> | <u>\$ 94,334</u> | <u>\$ 459,096</u> | <u>\$ 2,812,464</u> | <u>\$ 404,775</u> |

MCFARLAND UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2019 and 2018

NOTE 7 - LONG-TERM OBLIGATIONS (cont.)

Long-Term Obligations Summary - Storm Water Utility

Long-term obligation activity for the year ended December 31, 2019 is as follows:

| | 1/1/19 Balance | Additions | Reductions | 12/31/19 Balance | Due Within One Year |
|--------------------------|-------------------|-----------|------------|---------------------|------------------------|
| General obligation debt | \$ 665,000 | \$ - | \$ 150,000 | \$ 515,000 | \$ 155,000 |
| Accrued sick leave | 31,881 | - | 23,570 | 8,311 | - |
| Lease obligation | 20,090 | - | 2,388 | 17,702 | 2,490 |
| Unamortized debt premium | 3,831 | - | 1,366 | 2,465 | - |
| Totals | \$ 720,802 | \$ - | \$ 177,324 | \$ 543,478 | \$ 157,490 |

Long-term obligation activity for the year ended December 31, 2018 is as follows:

| | 1/1/18 Balance | Additions | Reductions | 12/31/18 Balance | Due Within One Year |
|--------------------------|-------------------|-----------|------------|---------------------|------------------------|
| General obligation debt | \$ 815,000 | \$ - | \$ 150,000 | \$ 665,000 | \$ 150,000 |
| Accrued sick leave | 40,361 | 94,334 | 102,814 | 31,881 | - |
| Lease obligation | 22,192 | - | 2,102 | 20,090 | 2,388 |
| Unamortized debt premium | 5,422 | - | 1,591 | 3,831 | - |
| Totals | \$ 882,975 | \$ 94,334 | \$ 256,507 | \$ 720,802 | \$ 152,388 |

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.

MCFARLAND UTILITIES

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2019 and 2018

NOTE 8 - NET POSITION (cont.)

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

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

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

| | 2019 | 2018 |
|---|---------------|---------------|
| Plant in service | \$ 23,528,375 | \$ 22,445,292 |
| Accumulated depreciation | (7,246,757) | (6,804,411) |
| Sub-Totals | 16,281,618 | 15,640,881 |
| Less: Capital related debt | | |
| Current portion of capital related long-term debt | 419,980 | 404,775 |
| Long-term portion of capital related long-term debt | 2,625,425 | 2,325,405 |
| Unamortized debt premium | 60,867 | 23,928 |
| Sub-Totals | 3,106,272 | 2,754,108 |
| Total Net Investment in Capital Assets | \$ 13,175,346 | \$ 12,886,773 |

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

| | 2019 | 2018 |
|---|--------------|--------------|
| Plant in service | \$ 5,719,553 | \$ 5,408,092 |
| Accumulated depreciation | (1,941,299) | (1,807,291) |
| Sub-Totals | 3,778,254 | 3,600,801 |
| Less: Capital related debt | | |
| Current portion of capital related long-term debt | 157,490 | 152,388 |
| Long-term portion of capital related long-term debt | 375,212 | 532,702 |
| Unamortized debt premium | 2,465 | 3,831 |
| Sub-Totals | 535,167 | 688,921 |
| Total Net Investment in Capital Assets | \$ 3,243,087 | \$ 2,911,880 |

MCFARLAND UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2019 and 2018

NOTE 9 - EMPLOYEES RETIREMENT SYSTEM

General Information About the Pension Plan

Plan description. The WRS is a cost-sharing multiple-employer defined benefit pension plan. WRS benefits and other plan provisions are established by Chapter 40 of the Wisconsin Statutes. Benefit terms may only be modified by the legislature. The retirement system is administered by the Wisconsin Department of Employee Trust Funds (ETF). The system provides coverage to all eligible State of Wisconsin, local government and other public employees. 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 (880 hours for teachers and school district educational support employees) and expected to be employed for at least one year from employee's date of hire are eligible to participate in the WRS.

ETF issues a standalone Comprehensive Annual Financial Report (CAFR), which can be bound at <http://etf.wi.gov/publications/cafr.htm>.

Vesting. For employees beginning participation on or after January 1, 1990, and no longer actively employed on or after April 24, 1998, creditable service in each of five years is required for eligibility for a retirement annuity. Participants employed prior to 1990 and on or after April 24, 1998, and prior to July 1, 2011, are immediately vested. Participants who initially became WRS eligible on or after July 1, 2011, must have five years of creditable service to be vested.

Benefits provided. Employees who retire at or after age 65 (54 for protective occupation employees, 62 for elected officials and State executive participants, if hired on or before 12/31/2016) are entitled to receive an unreduced retirement benefit. The factors influencing the benefit are: (1) final average earnings, (2) years of creditable service, and (3) a formula factor.

Final average earnings is the average of the participant's three highest years' earnings. Creditable service is the creditable current and prior service expressed in years or decimal equivalents of partial years for which a participant receives earnings and makes contributions as required. The formula factor is a standard percentage based on employment category.

Employees may retire at age 55 (50 for protective occupation employees) and receive reduced benefits. Employees terminating covered employment before becoming eligible for a retirement benefit may withdraw their contributions and forfeit all rights to any subsequent benefits.

The WRS also provides death and disability benefits for employees.

MCFARLAND UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2019 and 2018

NOTE 9 - EMPLOYEES RETIREMENT SYSTEM (cont.)

General Information About the Pension Plan (cont.)

Post-retirement adjustments. The Employee Trust Funds Board may periodically adjust annuity payments from the retirement system based on annual investment performance in accordance with s. 40.27, Wis. Stat. An increase (or decrease) in annuity payments may result when investment gains (losses), together with other actuarial experience factors, create a surplus (shortfall) in the reserves, as determined by the system's consulting actuary. Annuity increases are not based on cost of living or other similar factors. For Core annuities, decreases may be applied only to previously granted increases. By law, Core annuities cannot be reduced to an amount below the original, guaranteed amount (the "floor") set at retirement. The Core and Variable annuity adjustments granted during recent years are as follows:

| Year | Core Fund Adjustment | Variable Fund Adjustment |
|------|----------------------|--------------------------|
| 2009 | (2.1)% | (42)% |
| 2010 | (1.3) | 22 |
| 2011 | (1.2) | 11 |
| 2012 | (7.0) | (7) |
| 2013 | (9.6) | 9 |
| 2014 | 4.7 | 25 |
| 2015 | 2.9 | 2 |
| 2016 | 0.5 | (5) |
| 2017 | 2.0 | 4.0 |
| 2018 | 2.4 | 17.0 |

Contributions. Required contributions are determined by an annual actuarial valuation in accordance with Chapter 40 of the Wisconsin Statutes. The employee required contribution is one-half of the actuarially determined contribution rate for general category employees, including teachers, and Executives and Elected Officials. Starting January 1, 2016, the Executives and Elected Officials category merged into the General Employee category. Required contributions for protective employees are the same rate as general 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.

The WRS recognized \$24,775 and \$24,430 in contributions from the utilities during the current and prior reporting periods, respectively.

Contribution rates as of December 31, 2019 and December 31, 2018 are:

| | 2019 | | 2018 | |
|--|----------|----------|----------|----------|
| | Employee | Employer | Employee | Employer |
| General (including Executives and Elected Officials) | 6.7% | 6.7% | 6.8% | 6.8% |
| Protective with Social Security | 6.7% | 10.7% | 6.8% | 10.6% |
| Protective without Social Security | 6.7% | 14.9% | 6.8% | 14.9% |

MCFARLAND UTILITIES

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2019 and 2018

NOTE 9 - EMPLOYEES RETIREMENT SYSTEM (cont.)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2019, the utilities reported a liability (asset) of \$84,737 for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of December 31, 2018, and the total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation as of December 31, 2017 rolled forward to December 31, 2018. No material changes in assumptions or benefit terms occurred between the actuarial valuation date and the measurement date. The utilities' proportion of the net pension liability (asset) was based on the utilities' share of contributions to the pension plan relative to the contributions of all participating employers. At December 31, 2018, the Village of McFarland's proportion was 0.02660430%, which was an increase of 0.00134087% from its proportion measured as of December 31, 2017.

At December 31, 2018, the utilities reported a liability (asset) of \$(66,445) for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation as of December 31, 2016 rolled forward to December 31, 2017. No material changes in assumptions or benefit terms occurred between the actuarial valuation date and the measurement date. The utilities' proportion of the net pension liability (asset) was based on the utilities' share of contributions to the pension plan relative to the contributions of all participating employers. At December 31, 2017, the Village of McFarland's proportion was 0.02526343%, which was an increase of 0.00122376% from its proportion measured as of December 31, 2016.

For the years ended December 31, 2019 and 2018, the utilities recognized pension expense of \$41,357 and \$32,499, respectively.

At December 31, 2019, the utilities reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Water and Sewer Utility</u> | | <u>Storm Water Utility</u> | |
|---|---|--|---|--|
| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
| Differences between expected and actual experience | \$ 47,741 | \$ 92,893 | \$ 18,912 | \$ 38,889 |
| Changes in assumption | 14,132 | - | 5,179 | - |
| Net differences between project and actual earnings on pension plan | 107,917 | - | 44,525 | - |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 1,178 | 360 | 248 | 156 |
| Employer contributions subsequent to the measurement date | <u>18,487</u> | <u>-</u> | <u>7,439</u> | <u>-</u> |
| Total | <u>\$ 189,455</u> | <u>\$ 93,253</u> | <u>\$ 76,303</u> | <u>\$ 39,045</u> |

MCFARLAND UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2019 and 2018

NOTE 9 - EMPLOYEES RETIREMENT SYSTEM (cont.)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (cont.)

At December 31, 2018, the utilities reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Water and Sewer Utility</u> | | <u>Storm Water Utility</u> | |
|---|--------------------------------------|-------------------------------------|--------------------------------------|-------------------------------------|
| | Deferred Outflows of Resources | Deferred Inflows of Resources | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Differences between expected and actual experience | \$ 60,962 | \$ 40,422 | \$ 25,027 | \$ 14,617 |
| Changes in assumption | 13,439 | - | 4,859 | - |
| Net differences between project and actual earnings on pension plan | - | 39,812 | - | 23,810 |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 1,769 | 272 | 521 | 116 |
| Employer contributions subsequent to the measurement date | <u>17,995</u> | <u>-</u> | <u>8,324</u> | <u>-</u> |
| Total | <u>\$ 94,165</u> | <u>\$ 80,506</u> | <u>\$ 38,731</u> | <u>\$ 38,543</u> |

Deferred outflows related to pension resulting from the WRS Employer's contributions subsequent to the measurement date reported in the tables above will be recognized as a reduction of the net pension liability (asset) in the subsequent year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

| <u>Year Ended December 31</u> | <u>Water and Sewer Utility</u> | <u>Storm Water Utility</u> |
|-------------------------------|--|------------------------------------|
| 2020 | \$ 28,443 | \$ 10,913 |
| 2021 | 7,080 | 2,717 |
| 2022 | 12,174 | 4,671 |
| 2023 | 30,018 | 11,518 |
| 2024 | - | - |
| Thereafter | <u>-</u> | <u>-</u> |
| Total | <u>\$ 77,715</u> | <u>\$ 29,819</u> |

MCFARLAND UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2019 and 2018

NOTE 9 - EMPLOYEES RETIREMENT SYSTEM (cont.)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (cont.)

Actuarial assumptions. The total pension liability in the actuarial valuation used in the current and prior year was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | 2019 | 2018 |
|---|--------------------------------|--------------------------------|
| Actuarial valuation date | December 31, 2017 | December 31, 2016 |
| Measurement date of net pension liability (asset) | December 31, 2018 | December 31, 2017 |
| Actuarial cost method | Entry Age Normal | Entry Age Normal |
| Asset valuation method | Fair Value | Fair Value |
| Long-term expected rate of return | 7.0% | 7.2% |
| Discount rate | 7.0% | 7.2% |
| Salary increases | | |
| Inflation | 3.0% | 3.2% |
| Seniority/Merit | 0.1% - 5.6% | 0.2% - 5.6% |
| Mortality | Wisconsin 2018 Mortality Table | Wisconsin 2012 Mortality Table |
| Post-retirement adjustments * | 1.9% | 2.1% |

** No post-retirement adjustment is guaranteed. Actual adjustments are based on recognized investment return, actuarial experience and other factors. The percentages listed above are the assumed annual adjustment based on the investment return assumption and the post-retirement discount rate.*

Actuarial assumptions used in the December 31, 2017 actuarial valuation is based upon an experience study conducted in 2018 using experience from 2015 – 2017. The total pension liability for December 31, 2018 is based upon a roll-forward of the liability calculated from the December 31, 2017 actuarial valuation.

Actuarial assumptions used in the December 31, 2016 actuarial valuation is based upon an experience study conducted in 2015 using experience from 2012 – 2014. The total pension liability for December 31, 2017 is based upon a roll-forward of the liability calculated from the December 31, 2016 actuarial valuation.

MCFARLAND UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2019 and 2018

NOTE 9 - EMPLOYEES RETIREMENT SYSTEM (cont.)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (cont.)

Long-term expected return on plan assets. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of December 31, 2019 are summarized in the following table:

| <u>Core Fund Asset Class</u> | <u>Current Asset Allocation %</u> | <u>Long-Term Expected Nominal Rate of Return %</u> | <u>Long-Term Expected Real Rate of Return %</u> |
|--------------------------------------|-----------------------------------|--|---|
| Global Equities | 49% | 8.1% | 5.5% |
| Fixed Income | 24.5 | 4.0 | 1.45 |
| Inflation Sensitive Assets | 15.5 | 3.8 | 1.3 |
| Real Estate | 9 | 6.5 | 3.9 |
| Private Equity/Debt | 8 | 9.4 | 6.7 |
| Multi-Asset | 4 | 6.7 | 4.1 |
| Total Core Fund | 110 | 7.3 | 4.47 |
| <u>Variable Fund Asset Class</u> | | | |
| U.S Equities | 70 | 7.6 | 5.0 |
| International Equities | 30 | 8.5 | 5.9 |
| Total Variable Fund | 100 | 8.0 | 5.4 |

New England Pension Consultants Long-Term U.S. CPI (Inflation) Forecast: 2.5%.
Asset Allocations are managed within established ranges, target percentages may differ from actual monthly allocations.

MCFARLAND UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2019 and 2018

NOTE 9 - EMPLOYEES RETIREMENT SYSTEM (cont.)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (cont.)

The target allocation and best estimates of arithmetic real rates of return for each major asset class as of December 31, 2018 are summarized in the following table:

| <u>Core Fund Asset Class</u> | <u>Current Asset Allocation %</u> | <u>Long-Term Expected Nominal Rate of Return %</u> | <u>Long-Term Expected Real Rate of Return %</u> |
|--------------------------------------|-----------------------------------|--|---|
| Global Equities | 50% | 8.2% | 5.3% |
| Fixed Income | 24.5 | 4.2 | 1.4 |
| Inflation Sensitive Assets | 15.5 | 3.8 | 1.0 |
| Real Estate | 8 | 6.5 | 3.6 |
| Private Equity/Debt | 8 | 9.4 | 6.5 |
| Multi-Asset | 4 | 6.5 | 3.6 |
| Total Core Fund | 110 | 7.3 | 4.4 |
| <u>Variable Fund Asset Class</u> | | | |
| U.S Equities | 70 | 7.5 | 4.6 |
| International Equities | 30 | 7.8 | 4.9 |
| Total Variable Fund | 100 | 7.9 | 5.0 |

New England Pension Consultants Long-Term U.S. CPI (Inflation) Forecast: 2.75%.
Asset Allocations are managed within established ranges, target percentages may differ from actual monthly allocations.

Single discount rate. A single discount rate of 7.00% and 7.20% was used to measure the total pension liability as of December 31, 2019 and December 31, 2018, respectively. As of December 31, 2019, the single discount rate was based on the expected rate of return on pension plan investments of 7.00% and a long term bond rate of 3.71%. As of December 31, 2018, the single discount rate was based on the expected rate of return on pension plan investments of 7.20% and a long-term bond rate of 3.31%. Because of the unique structure of WRS, the 7.00% (7.20% for 2018) expected rate of return implies that a dividend of approximately 1.9% (2.1% for 2018) will always be paid. For purposes of the single discount rate, it was assumed that the dividend would always be paid. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments (including expected dividends) of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

MCFARLAND UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2019 and 2018

NOTE 9 - EMPLOYEES RETIREMENT SYSTEM (cont.)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (cont.)

Sensitivity of the utilities' proportionate share of the net pension liability (asset) to changes in the discount rate. The following presents the utilities' proportionate share of the net pension liability (asset) calculated using the current discount rate, as well as what the utilities' proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate.

The sensitivity analysis as of December 31, 2019 follows:

| | 1% Decrease to Discount Rate (6.00%) | Current Discount Rate (7.00%) | 1% Increase to Discount Rate (8.00%) |
|---|--|-------------------------------------|--|
| Water and Sewer Utility's proportionate share of the net position liability (asset) | \$ 228,945 | \$ 57,937 | \$ (69,792) |
| Stormwater Utility's proportionate share of the net position liability (asset) | 92,125 | 26,800 | (28,084) |

The sensitivity analysis as of December 31, 2018 follows:

| | 1% Decrease to Discount Rate (6.20%) | Current Discount Rate (7.20%) | 1% Increase to Discount Rate (8.20%) |
|---|--|-------------------------------------|--|
| Water and Sewer Utility's proportionate share of the net position liability (asset) | \$ 118,816 | \$ (46,664) | \$ (171,128) |
| Stormwater Utility's proportionate share of the net position liability (asset) | 54,961 | (19,781) | (79,159) |

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in separately issued financial statements available at <http://etf.wi.gov/Publications/cafr.htm>.

NOTE 10 - COMMITMENTS AND CONTINGENCIES

Long-Term Contracts - General

At December 31, 2019 and 2018, the utilities had commitments under a long-term contract for the Juniper Ridge subdivision. The utility is responsible for the cost of certain infrastructure including the oversizing of mains. The utilities received capital contributions of \$556,366 and \$305,182 in 2019 and 2018, respectively. The utility was not required to make any payments in either year.

MCFARLAND UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2019 and 2018

NOTE 10 - COMMITMENTS AND CONTINGENCIES (cont.)

Claims and Judgments

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

NOTE 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 19, 2020, the date that the financial statements were available to be issued, for events requiring recording or disclosure in the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

MCFARLAND UTILITIES

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET) - WISCONSIN RETIREMENT SYSTEM For the Year Ended December 31, 2019

The required supplementary information presented below represents the proportionate information for the enterprise funds included in this report.

| Fiscal Year Ending | Proportion of the Net Pension Liability (Asset) - City | Utilities' Proportionate Share of the Net Pension Liability (Asset) | Covered Payroll | Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll | Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (Asset) |
|-----------------------|---|---|--------------------|--|--|
| 12/31/19 | 0.02660430% | \$ 84,737 | \$ 392,821 | 21.57% | 96.45% |
| 12/31/18 | 0.02526343% | (66,445) | 359,265 | 18.49% | 102.93% |
| 12/31/17 | 0.02403967% | 19,856 | 388,576 | 5.11% | 99.12% |
| 12/31/16 | 0.02415237% | 43,275 | 379,603 | 11.40% | 98.20% |
| 12/31/15 | 0.02466399% | (66,963) | 302,389 | 22.14% | 102.74% |

SCHEDULE OF EMPLOYER CONTRIBUTIONS - WISCONSIN RETIREMENT SYSTEM For the Year Ended December 31, 2019

| Fiscal Year Ending | Contractually Required Contributions | Contributions in Relation to the Contractually Required Contributions | Contribution Deficiency (Excess) | Covered Payroll | Contributions as a Percentage of Covered Payroll |
|-----------------------|--|---|--|--------------------|---|
| 12/31/19 | \$ 25,926 | \$ 25,926 | \$ - | \$ 304,653 | 8.51% |
| 12/31/18 | 26,319 | 26,319 | - | 392,821 | 6.70% |
| 12/31/17 | 24,430 | 24,430 | - | 359,265 | 6.80% |
| 12/31/16 | 25,646 | 25,646 | - | 388,576 | 6.60% |
| 12/31/15 | 25,813 | 25,813 | - | 379,603 | 6.80% |

See independent auditors' report and accompanying notes to the required supplementary information.

MCFARLAND UTILITIES

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION For the Year Ended December 31, 2019

Changes of benefit terms. There were no changes of benefit terms for any participating employer in WRS.

Changes of assumptions.

| | 2015 - 2018 | 2019 |
|-----------------------------|--------------------------------|--------------------------------|
| Long-term expected rate of | 7.2% | 7.0% |
| Discount rate | 7.2% | 7.0% |
| Salary increases | | |
| Inflation | 3.2% | 3.0% |
| Seniority/Merit | 0.2% - 5.6% | 0.1% - 5.6% |
| Mortality | Wisconsin 2012 Mortality Table | Wisconsin 2018 Mortality Table |
| Post-retirement adjustments | 2.10% | 1.90% |

These schedules are presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend is compiled, information is presented for those years for which information is available.

SUPPLEMENTAL INFORMATION

MCFARLAND WATER AND SEWER UTILITY

WATER UTILITY PLANT
As of and for the Year Ended December 31, 2019

| | Balance 1/1/19 | Additions | Retirements | Balance 12/31/19 |
|--|-----------------------------|--------------------------|-------------------------|----------------------------|
| 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 | 4,498 | - | - | 4,498 |
| TRANSMISSION AND DISTRIBUTION | | | | |
| Land and land rights | 55,250 | - | - | 55,250 |
| Distribution reservoirs and standpipes | 1,231,105 | - | - | 1,231,105 |
| Transmission and distribution mains | 9,478,531 | 545,768 | 17,054 | 10,007,245 |
| Services | 1,829,199 | 120,295 | 12,901 | 1,936,593 |
| Meters | 734,803 | 37,087 | 1,526 | 770,364 |
| Hydrants | 1,043,278 | 77,247 | 13,141 | 1,107,384 |
| Total Transmission and Distribution | <u>14,372,166</u> | <u>780,397</u> | <u>44,622</u> | <u>15,107,941</u> |
| GENERAL | | | | |
| Office furniture and equipment | 9,946 | - | - | 9,946 |
| Transportation equipment | 121,565 | 49,973 | - | 171,538 |
| Tools, shop and garage equipment | 48,766 | - | - | 48,766 |
| Laboratory equipment | 6,649 | - | - | 6,649 |
| Power-operated equipment | 70,910 | - | - | 70,910 |
| Communication equipment | 168,072 | 5,449 | - | 173,521 |
| Miscellaneous equipment | 302 | - | - | 302 |
| Total General | <u>426,210</u> | <u>55,422</u> | <u>-</u> | <u>481,632</u> |
| TOTAL WATER UTILITY PLANT | <u><u>\$ 15,404,123</u></u> | <u><u>\$ 835,819</u></u> | <u><u>\$ 44,622</u></u> | <u><u>\$16,195,320</u></u> |

MCFARLAND WATER AND SEWER UTILITY

SEWER UTILITY PLANT
As of and for the Year Ended December 31, 2019

| | Balance 1/1/19 | Additions | Retirements | Balance 12/31/19 |
|----------------------------------|---------------------|-------------------|-------------|---------------------|
| COLLECTING SYSTEM | | | | |
| Land and land rights | \$ 78,020 | \$ - | \$ - | \$ 78,020 |
| Service connections | 664,600 | - | - | 664,600 |
| Collecting mains | 4,733,433 | 236,464 | - | 4,969,897 |
| Force mains | 191,033 | - | - | 191,033 |
| Total Collecting System | <u>5,667,086</u> | <u>236,464</u> | <u>-</u> | <u>5,903,550</u> |
| COLLECTING SYSTEM PUMPING | | | | |
| Structures and improvements | 303,762 | - | - | 303,762 |
| Receiving wells | 14,403 | - | - | 14,403 |
| Electric pumping equipment | 661,422 | - | - | 661,422 |
| Other power pumping equipment | 60,159 | - | - | 60,159 |
| Miscellaneous pumping equipment | 3,342 | - | - | 3,342 |
| Total Collecting System Pumping | <u>1,043,088</u> | <u>-</u> | <u>-</u> | <u>1,043,088</u> |
| GENERAL | | | | |
| Office furniture and equipment | 9,948 | - | - | 9,948 |
| Transportation equipment | 168,117 | 49,973 | - | 218,090 |
| Communication equipment | 132,000 | 5,449 | - | 137,449 |
| Other general equipment | 2,313 | - | - | 2,313 |
| Other tangible property | 18,617 | - | - | 18,617 |
| Total General | <u>330,995</u> | <u>55,422</u> | <u>-</u> | <u>386,417</u> |
| TOTAL SEWER UTILITY PLANT | <u>\$ 7,041,169</u> | <u>\$ 291,886</u> | <u>\$ -</u> | <u>\$ 7,333,055</u> |

MCFARLAND STORM WATER UTILITY

STORMWATER UTILITY PLANT
As of and for the Year Ended December 31, 2019

| | Balance 1/1/19 | Additions | Retirements | Balance 12/31/19 |
|------------------------------------|-------------------------|-----------------------|-----------------|-------------------------|
| STORMWATER PLANT | | | | |
| Land and land rights | \$ 160,275 | \$ - | \$ - | \$ 160,275 |
| Pipes | 3,057,244 | 136,162 | - | 3,193,406 |
| Manholes | 393,231 | - | - | 393,231 |
| Inlets | 554,453 | 99,877 | - | 654,330 |
| Basins | 719,431 | - | - | 719,431 |
| Land improvements | 153,321 | - | - | 153,321 |
| Miscellaneous | <u>92,370</u> | <u>20,000</u> | - | <u>112,370</u> |
| Total Stormwater Plant | <u>5,130,325</u> | <u>256,039</u> | - | <u>5,386,364</u> |
| GENERAL | | | | |
| Transportation equipment | 258,075 | 49,973 | - | 308,048 |
| Power-operated equipment | 18,617 | - | - | 18,617 |
| Communication equipment | <u>1,075</u> | <u>5,449</u> | - | <u>6,524</u> |
| Total General | <u>277,767</u> | <u>55,422</u> | - | <u>333,189</u> |
| TOTAL STORMWATER UTILITY PLANT | <u>\$ 5,408,092</u> | <u>\$ 311,461</u> | <u>\$ -</u> | <u>\$ 5,719,553</u> |

MCFARLAND WATER AND SEWER UTILITY

WATER UTILITY OPERATING REVENUES AND EXPENSES For the Years Ended December 31, 2019 and 2018

| | 2019 | 2018 |
|-------------------------------------|-----------|-----------|
| OPERATING REVENUES | | |
| Sales of Water | | |
| Unmetered | \$ 3,405 | \$ 1,964 |
| Metered | | |
| Residential | 514,420 | 498,323 |
| Multifamily residential | 39,175 | 33,361 |
| Commercial | 63,598 | 61,109 |
| Public authorities | 15,877 | 15,825 |
| Total Metered Sales | 633,070 | 608,618 |
| Private fire protection | 35,527 | 34,491 |
| Public fire protection | 325,092 | 313,250 |
| Total Sales of Water | 997,094 | 958,323 |
| Other Operating Revenues | | |
| Forfeited discounts | 4,143 | 5,242 |
| Miscellaneous service revenue | 231 | - |
| Other | 94,524 | 102,005 |
| Total Operating Revenues | 1,095,992 | 1,065,570 |
| OPERATING EXPENSES | | |
| Operation and Maintenance | | |
| Pumping | | |
| Operation labor | 12,749 | 33,674 |
| Fuel or power purchased for pumping | 41,464 | 37,973 |
| Operation supplies | 32,199 | 4,434 |
| Maintenance | 4,334 | 3,116 |
| Total Pumping | 90,746 | 79,197 |
| Water Treatment | | |
| Operation labor | 16,475 | 3,382 |
| Chemicals | 11,726 | 11,326 |
| Maintenance | 587 | 1,546 |
| Total Water Treatment | 28,788 | 16,254 |
| Transmission and Distribution | | |
| Operation labor | 7,509 | 37,734 |
| Operation supplies | 2,425 | 3,588 |
| Maintenance | | |
| Mains | 49,614 | 28,816 |
| Services | 8,359 | 8,078 |
| Meters | 6,356 | 512 |
| Hydrants | 7,337 | 14,959 |
| Other | 414 | - |
| Total Transmission and Distribution | 82,014 | 93,687 |
| Customer Accounts | | |
| Meter reading labor | 2,084 | 1,087 |
| Accounting and collecting labor | 8,316 | 4,381 |
| Supplies | 37 | 3,227 |
| Total Customer Accounts | 10,437 | 8,695 |

MCFARLAND WATER AND SEWER UTILITY

WATER UTILITY OPERATING REVENUES AND EXPENSES (cont.) For the Years Ended December 31, 2019 and 2018

| | <u>2019</u> | <u>2018</u> |
|-----------------------------------|-----------------------|-----------------------|
| OPERATING EXPENSES (cont.) | | |
| Operation and Maintenance (cont.) | | |
| Administrative and General | | |
| Salaries | \$ 101,891 | \$ 91,439 |
| Office supplies | 15,243 | 5,140 |
| Outside services employed | 37,788 | 22,947 |
| Property insurance | 72,648 | 62,701 |
| Employee pensions and benefits | 33,782 | 28,072 |
| Miscellaneous | 51,087 | 48,555 |
| Transportation | 13,599 | 20,528 |
| Total Administrative and General | <u>326,038</u> | <u>279,382</u> |
| Taxes | 6,306 | 7,927 |
| Total Operation and Maintenance | <u>544,329</u> | <u>485,142</u> |
| Depreciation | <u>314,832</u> | <u>284,993</u> |
| Total Operating Expenses | <u>859,161</u> | <u>770,135</u> |
| OPERATING INCOME | <u>\$ 236,831</u> | <u>\$ 295,435</u> |

MCFARLAND WATER AND SEWER UTILITY

SEWER UTILITY OPERATING REVENUES AND EXPENSES For the Years Ended December 31, 2019 and 2018

| | 2019 | 2018 |
|--|------------------|------------------|
| OPERATING REVENUES | | |
| Sewer Revenues | | |
| Residential | \$ 920,331 | \$ 869,184 |
| Multifamily residential | 17,400 | - |
| Commercial | 148,116 | 184,767 |
| Public authorities | 24,402 | 20,625 |
| Total Sewer Revenues | 1,110,249 | 1,074,576 |
| Other Operating Revenues | | |
| Forfeited discounts | 7,760 | 7,901 |
| Total Operating Revenues | 1,118,009 | 1,082,477 |
| OPERATING EXPENSES | | |
| Operation and Maintenance | | |
| Operation | | |
| Power and fuel for pumping | 8,328 | 8,166 |
| Treatment charges | 708,445 | 667,261 |
| Other operating supplies | 268 | 423 |
| Transportation | 1,314 | 13,985 |
| Total Operation | 718,355 | 689,835 |
| Maintenance | | |
| Collection system | 49,709 | 27,122 |
| Pumping equipment | 4,969 | 6,800 |
| Treatment and disposal plant equipment | 5,769 | 1,143 |
| General plant structures and equipment | 30,447 | 41,232 |
| Total Maintenance | 90,894 | 76,297 |
| Customer Accounts | | |
| Accounting and collecting | 4,303 | 4,274 |
| Meter Reading | 459 | 468 |
| Total Customer Accounts | 4,762 | 4,742 |
| Administrative and General | | |
| Salaries | 116,128 | 93,584 |
| Office supplies | 5,533 | 6,440 |
| Outside services employed | 21,763 | 71,919 |
| Insurance | 41,991 | 35,978 |
| Employees pensions and benefits | 1,778 | 10,151 |
| Miscellaneous | 5,915 | 5,204 |
| Rents | 81,707 | 69,145 |
| Total Administrative and General | 274,815 | 292,421 |
| Taxes | 10,742 | 8,421 |
| Total Operation and Maintenance | 1,099,568 | 1,071,716 |
| Depreciation | 151,152 | 137,033 |
| Total Operating Expenses | 1,250,720 | 1,208,749 |
| OPERATING LOSS | \$ (132,711) | \$ (126,272) |

MCFARLAND STORM WATER UTILITY

STORMWATER OPERATING REVENUES AND EXPENSES For the Years Ended December 31, 2019 and 2018

| | 2019 | 2018 |
|----------------------------------|----------------|----------------|
| OPERATING REVENUES | | |
| Stormwater Revenues | | |
| Charges for services | \$ 510,133 | \$ 501,003 |
| Other Operating Revenues | | |
| Forfeited discounts | 2,668 | 2,590 |
| Other | 28,440 | 32,430 |
| Total Operating Revenues | 541,241 | 536,023 |
| OPERATING EXPENSES | | |
| Operation and Maintenance | | |
| Operations | | |
| Operation supervision and labor | 85,535 | 110,800 |
| Facility equipment and rental | 39,714 | 30,471 |
| Operation supplies | 60,116 | 48,776 |
| Total Operations | 185,365 | 190,047 |
| Administrative and General | | |
| Office Supplies | 2,197 | 2,361 |
| Outside services employed | 31,288 | 21,637 |
| Property insurance | 24,071 | 21,774 |
| Employee pensions and benefits | 50,995 | 38,265 |
| Miscellaneous | 129 | 801 |
| Total Administrative and General | 108,680 | 84,838 |
| Total Operation and Maintenance | 294,045 | 274,885 |
| Depreciation | 134,008 | 124,064 |
| Total Operating Expenses | 428,053 | 398,949 |
| OPERATING INCOME | \$ 113,188 | \$ 137,074 |

MCFARLAND WATER AND SEWER UTILITY

RATE OF RETURN - REGULATORY BASIS
For the Years Ended December 31, 2019 and 2018

| | Water | |
|---|--------------|--------------|
| | 2019 | 2018 |
| Utility Financed Plant in Service | | |
| Beginning of year | \$ 9,256,085 | \$ 8,581,405 |
| End of year | 9,745,679 | 9,256,085 |
| Average | 9,500,882 | 8,918,745 |
| Utility Financed Accumulated Depreciation | | |
| Beginning of year | (2,968,143) | (2,780,691) |
| End of year | (3,154,834) | (2,968,143) |
| Average | (3,061,489) | (2,874,417) |
| Materials and Supplies | | |
| Beginning of year | 19,450 | 19,450 |
| End of year | 19,450 | 19,450 |
| Average | 19,450 | 19,450 |
| Regulatory Liability | | |
| Beginning of year | (114,112) | (136,934) |
| End of year | (91,290) | (114,112) |
| Average | (102,701) | (125,523) |
| AVERAGE NET RATE BASE | \$ 6,356,142 | \$ 5,938,255 |
| OPERATING INCOME - REGULATORY BASIS | \$ 100,732 | \$ 141,866 |
| RATE OF RETURN (PERCENT) | 1.58 | 2.39 |
| AUTHORIZED RATE OF RETURN (PERCENT) | 7.25 | 7.25 |

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.