VILLAGE OF MCFARLAND *NOTICE OF PUBLIC MEETING*

Public Utilities Committee

Tuesday, July 16, 2019 **6:00 PM** **McFarland Municipal Center**
Conference Room A

AGENDA

1. CALL TO ORDER, ROLL CALL.

2. PUBLIC APPEARANCES.

3. APPROVAL OF MINUTES.
   a. Discuss and action regarding the minutes from the regular meeting held on June 18, 2019

4. BUSINESS.
   a. Discussion and action to recommendation to the Village Board regarding the 2018 Audit and Financial Statements for McFarland Utilities.

   b. Discuss and action on creating a policy for utility customer billing disputes

   c. Presentation of the Public Works Monthly Report from the Director

5. SCHEDULE NEXT MEETING DATE.
   a. August 20, 2019

6. ADJOURNMENT.

This meeting notice constitutes an official meeting of the above referenced group and was posted in accordance with all applicable laws related to Open Meetings Law. It is possible that members of and possibly a quorum of members of other governmental bodies of the municipality may be in attendance at the above stated meeting to gather information. No action will be taken by any governmental body at the above stated meeting other than the governmental body specifically referred to above in this notice. Upon reasonable notice, efforts will be made to accommodate the needs of disabled individuals. For additional information or to request this service, contact the McFarland Municipal Center at (608) 838-3153 or cassandra.suettinger@mcfarland.wi.us.

VILLAGE OF MCFARLAND

Public Utilities Committee Minutes

Tuesday, June 18, 2019 - 6:00 PM

1. CALL TO ORDER, ROLL CALL.

The meeting was called to order by Village Trustee and Chairperson Mary Pat Lytle at 6:00 p.m.
Members present: Village Trustee Eric Kryzenske, Marc Nielsen, Randy Hansen. Chris Fredrick showed up at 6:04 p.m.

Members absent: Edward Wreh.

Staff Present: Jim Hessling (Director of Public Works/Utilities)

2. PUBLIC APPEARANCES.

None.

3. APPROVAL OF MINUTES.

Discussion and action regarding the minutes from the regular meeting held on June 18, 2019.

Motion by Mary Pat Lytle to accept the minutes as presented. Seconded by Randy Hansen. Motion passed 5-0-0.

4. BUSINESS

a. *Discuss and recommend stenciling "Drains to Lake" on storm sewer inlets.*
Hessling explained the request by Village Board Trustee Utter, his desire to have the storm catch basins labeled "Drains to Lake". All new storm water castings (approximately 12-15 years old) are stamped with the message "Drains to Lake". The Public Works Committee thought that this was a good idea but not to use Village labor to do the work. The Public Works Committee also thought that this request should go through the Public Utilities Committee because of any possible funding issues that may arise.

The Public Utilities Committee thought it would be ok if a citizen or civic group would like to adopt a storm water drain and complete the stenciling work themselves.

No further action or motion was taken on this agenda item.

b. *Discussion and action to accept the Compliance Maintenance Annual Report (CMAR) for 2018.*

Hessling presented the Compliance Maintenance Annual Report to the Committee as required by the WI DNR. The Committee accepted the report as presented with a few minor grammatical changes to be made.

Motion by Mary Pat Lytle to accept the Compliance Maintenance Annual Report for 2018 and recommend to the Village Board for acceptance. Seconded by Eric Kryzenske. Motion passed 5-0-0.

c. *Discuss creating a policy for utility customer billing disputes.*
Hessling presented to the Committee issues that have arisen due to internal utility audits. Some accounts have not been computed correctly or their billing is in error. The water utility is regulated by WI Public Service Commission. Hessling would like to have a policy, like the one used by the PSC, that addresses billing issues related to sanitary and storm water accounts so that staff have guidelines to ensure consistency. Hessling will bring back to the Committee a proposal that addresses the guidelines.

d. *Presentation by Public Works Director regarding monthly department report.*
Hessling presented a report on activities that occurred in May 2019.

5. SCHEDULE NEXT MEETING DATE.

a. Tuesday July 16, 2019

6. ADJOURNMENT.

Motion to adjourn at 6:57 p.m. was made by Chris Fredrick. Seconded by Marc Nielsen. Motion passed 5-0-0

VILLAGE BOARD SUMMARY SHEET

MEETING DATE: **Tuesday, July 16, 2019**

SECTION: **Business**

DEPARTMENT: **Public Works**

CONTACT: **Matt Schuenke, Village Administrator, Cassandra Suettinger, Village Clerk/Treasurer**

AGENDA ITEM: **Discussion and action to recommendation to the Village Board regarding the 2018 Audit and Financial Statements for McFarland Utilities.**

PREVIOUS ACTION:
None.

ISSUE SUMMARY:
Enclosed is the 2018 Audit for the McFarland Utilities. The Auditor will be present to review the performance of the water, sewer, and stormwater services from the previous year. Annually this Committee evaluates the finances to make possible recommendations on operations going forward as might be applicable.

FINANCIAL/BUDGET IMPACT:

VILLAGE PLAN REFERENCE:

ORDINANCE REFERENCE:

BOARD, COMMISSION OR COMMITTEE RECOMMENDATION:
Presented for review and recommendation to the Village Board.

ATTACHMENTS:
1. McFarland Utilities AUD 12-31-2018 - FS Final
2. McFarland, Village 2018 Communication to Management Report

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, 2018 and 2017

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, 2018 and 2017, 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, 2018 and 2017, 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, 2018 and 2017 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
June 18, 2019

MANAGEMENT’S DISCUSSION AND ANALYSIS

WATER AND SEWER UTILITY

MCFARLAND WATER AND SEWER UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2018 and 2017

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, 2018. 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 $1,872,000 from $14,958,000 in 2017 to $16,830,000 in 2018.

> The operating revenues of the Utility decreased $11,000 from $2,159,000 in 2017 to $2,148,000 in 2018.

> The operating expenses of the Utility, excluding depreciation, increased $94,800 from $1,462,100 in 2017 to $1,556,900 in 2018.

> The net operating income of the Water Utility decreased to $295,000 in 2018 from $331,700 in 2017.

> The Sewer Utility recognized an operating loss of $126,200 in 2018 compared to an operating loss $15,000 in 2017.

> 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 2018 was 2.39%, down from 3.19% in 2017.

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.

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.

UTILITY FINANCIAL ANALYSIS (cont.)

Net Position (cont.)

TABLE 1
CONDENSED STATEMENTS OF NET POSITION

	2018	2017	2016	2017-2018 Change
Current and Other Assets	$ 4,226,958	$ 5,055,689	$ 4,981,607	$ (828,731)
Capital Assets	15,640,881	13,516,723	12,567,863	2,124,158
Total Assets	19,867,839	18,572,412	17,549,470	1,295,427
Deferred outflows of resources	94,165	128,689	175,920	(34,524)
Long-Term Debt Outstanding	2,690,000	3,055,000	2,532,161	(365,000)
Other Liabilities	361,515	636,653	464,029	(275,138)
Total Liabilities	3,051,515	3,691,653	2,996,190	(640,138)
Deferred inflows of resources	80,506	51,455	65,732	29,051
Investment in Capital Assets	12,886,773	10,386,711	10,369,393	2,500,062
Restricted	443,856	371,392	336,992	72,464
Unrestricted	3,499,354	4,199,890	3,957,083	(700,536)
Total Net Position	$ 16,829,983	$ 14,957,993	$ 14,663,468	$ 1,871,990

As shown the table above, the net position of the Water and Sewer Utility improved by $1,872,000 or, 12.5%, in 2018. The growth in net position is attributable primarily to an increase in capital assets. Current and other assets decreased by $828,700, or 16.5%, mostly due to a decrease in unrestricted cash on hand in 2018. Capital assets, which increased $2,124,000, or 15.7%, now comprise 78.9% of total assets, up from 73.0% in 2017.

Restricted net position includes $397,192 for a replacement fund used for sewer lift station replacements and $46,664 for the net pension asset.

The Utility reported deferred outflows related to pension of $94,200 in 2018, a decrease of $35,000 from 2017. The Utility reported deferred inflows related to pension of $80,500 in 2018, an increase of $29,100 from 2017. See accompanying notes to the financial statements for more information on deferred outflows of resources and implementation of this standard.

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

UTILITY FINANCIAL ANALYSIS (cont.)

Revenues, Expenses, and Change in Net Position

All of the Utility's revenues and expenses are accounted for in Table 2, the 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

	2018	2017	2016	2017-2018 Change
Operating Revenues	$ 2,148,047	$ 2,159,361	$ 2,158,847	$ (11,314)
Non-Operating Revenues	105,127	9,390	4,369	95,737
Total Revenues	2,253,174	2,168,751	2,163,216	84,423
Depreciation Expense	422,026	380,559	345,682	41,467
Other Operating Expense	1,556,858	1,462,094	1,404,322	94,764
Non-Operating Expense	51,264	56,075	54,168	(4,811)
Total Expenses	2,030,148	1,898,728	1,804,172	131,420
Income Before Capital Contributions and Transfers	223,026	270,023	359,044	(46,997)
Transfers	(249,144)	(256,753)	(229,359)	7,609
Capital Contributions	1,898,108	281,255	483,386	1,616,853
Change in Net Position	1,871,990	294,525	613,071	1,577,465
Beginning Net Position	14,957,993	14,663,468	14,050,397	294,525
Net Position End of Year	$ 16,829,983	$ 14,957,993	$ 14,663,468	$ 1,871,990

Operating revenues for the Utility in 2018 decreased $11,300, or 0.5%, from $2,159,400 to $2,148,000. This is primarily attributable to a decrease in volume billed in 2018.

UTILITY FINANCIAL ANALYSIS (cont.)

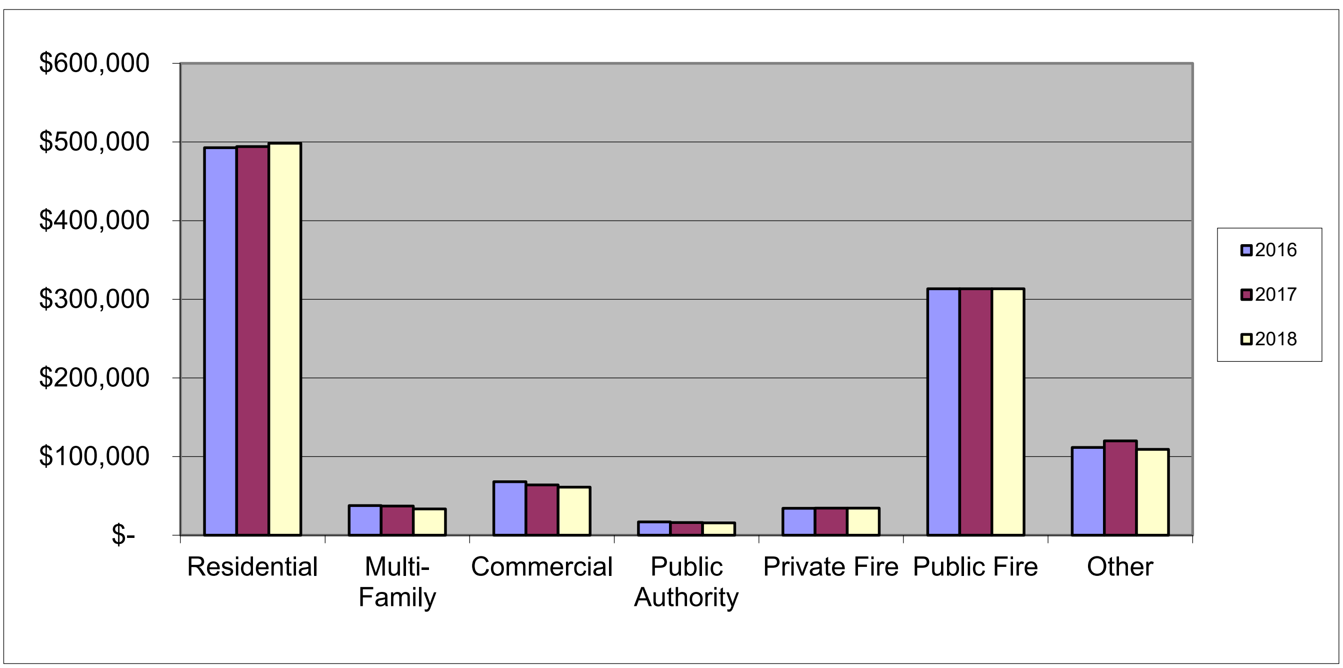
Total expenses for 2018 increased $131,400, or 6.9%, from the previous year. Depreciation increased by $41,500, while other operating expenses increased by $94,800. Water Utility operation and maintenance expenses decreased $3,900 from 2017. The Sewer Utility operation and maintenance expenses increased $98,600 primarily due to higher MMSD charges. Nonoperating revenues increase by $95,700 due to an increase in investment income. Nonoperating expenses decreased $4,800 from the previous year.

Net position was increased by $1,872,000 in 2018 due to an increase in capital contributions from developers.

Comparison of Operating Revenues

Tables 3 and 4 compare revenues received in 2018 from Water Utility and Sewer Utility operations with those revenues generated in 2017 and 2016. 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

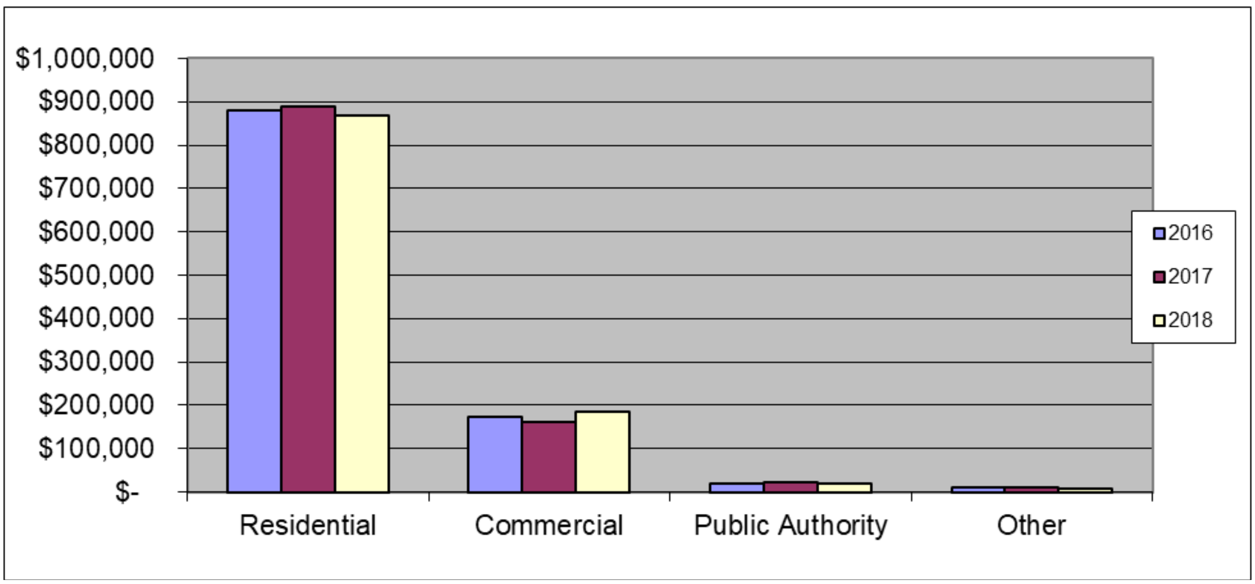


UTILITY FINANCIAL ANALYSIS (cont.)

Comparison of Operating Revenues (cont.)

Operating revenues from sales of water and other sources decreased in 2018 by $13,400, or 1.24%. Water rates were last increased on October 10, 2010 at a rate of 3%. The number of water customers increased by 3.5% in 2018 while volume sold decreased by 2.3%.

TABLE 4
COMPARISON OF SEWER OPERATING REVENUES



Sewer Utility revenues from user charges increased by $3,245, or 0.3%, in 2018. This was due to slight increases in volume and customers.

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

	2018	2017	2016	2017-2018 Change
Cash Flows From:				
Operating Activities	$ 684,124	$ 769,810	$ 773,321	$ (85,686)
Noncapital Financing Activities	(505,897)	(219,494)	(264,724)	(286,403)
Capital and Related Financing Activities	(1,117,344)	(541,589)	(1,219,024)	(575,755)
Investing Activities	105,127	9,390	4,369	95,737
Net Change in Cash and Cash Equivalents	(833,990)	18,117	(706,058)	(852,107)
Cash and Cash Equivalents - Beginning of Year	4,453,662	4,435,545	5,141,603	18,117
Cash and Cash Equivalents - End of Year	$ 3,619,672	$ 4,453,662	$ 4,435,545	$ (833,990)

Cash flows from operating activities of $684,100 decreased by $85,700, or 11.1%, from 2017. This is primarily due to an increase in expenses, partially offset by a slight increase in operating revenues. Cash used for noncapital financing activities increased by $286,000 in 2018 due to two years of PILOT payments made in the current year. Cash flows generated from capital and related financing activities increased by $575,800, or 106.3%, from 2017. The increase is due to capital contributions by developers in 2018. The overall net change in cash and cash equivalents was a decrease of $834,000 compared to an increase of $18,100 in 2017. At year-end, total cash and cash equivalents balance is $3,619,700, compared to $4,453,700 in 2017. The decrease can be attributed to a decrease in investing activities and a increase in capital additions. Of the $3,619,700 ending cash balance, $397,192 is restricted for equipment replacement and $46,664 is restricted for the net pension asset.

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

	2018	2017	2016	2017-2018 Change
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	14,372,166	12,675,674	11,890,513	1,696,492
General	426,210	295,285	256,934	130,925
Total Capital Assets	15,404,123	13,576,706	12,753,194	1,827,417
Less: Accumulated depreciation	(4,521,588)	(4,241,522)	(3,973,423)	(280,066)
Net Capital Assets	$ 10,882,535	$ 9,335,184	$ 8,779,771	$ 1,547,351

During 2018, the capital assets for water utility operations increased $1,827,400, or 13.5%. After depreciation was factored in, however, the net capital assets for the water utility were $10,882,600, increasing by $1,547,400, or 16.6%, from the previous year. This compares to an increase of 6.4% in net capital assets in 2017. The value of property held for future use remains at $224,112, reflecting the value of land to be used for a future Well #5.

UTILITY FINANCIAL ANALYSIS (cont.)

TABLE 7
CAPITAL ASSETS – SEWER UTILITY OPERATIONS

	2018	2017	2016	2017-2018 Change
Capital Assets				
Collection system	$ 5,667,086	$ 5,084,171	$ 4,554,536	$ 582,915
Collection system pumping	1,043,088	1,043,088	1,043,088	-
General	330,995	200,070	161,720	130,925
Total Capital Assets	7,041,169	6,327,329	5,759,344	713,840
Less: Accumulated depreciation	(2,282,823)	(2,145,790)	(2,030,320)	(137,033)
Net Capital Assets	$ 4,758,346	$ 4,181,539	$ 3,729,024	$ 576,807

During 2018, the capital assets for sewer utility operations increased by $713,800, or 11.3%. After depreciation was factored in, the net capital assets for the sewer utility were $4,758,300, an increase of $576,800, or 13.8%, from 2017. This compares to an increase of 12.1% in net capital assets in 2017.

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, 2018, the Water and Sewer Utility have $2,690,000 in outstanding general obligation debt. This debt was issued in 2015 and 2017 for the purpose of funding 2015, 2016, and 2017 capital improvement projects and equipment purchases. The unspent proceeds are shown in a restricted construction account on the statement of net position. Please refer to the notes to the financial statements for further detail about the debt obligations of the Water and Sewer Utility.

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.

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, 2018 and 2017

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, 2018. 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 $4,040,600 at the end of 2018, a $426,500 improvement over 2017.

> The operating revenues of the STW Utility for 2018 were $536,000, up $17,100 compared to 2017.

> The operating expenses of the STW Utility for 2018, excluding depreciation, were $274,900, a decrease of $2,300 from 2017.

> The STW Utility had $665,000 in outstanding general obligation debt at the end of 2018.

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.

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

	2018	2017	2016	2017-2018 Change
Current and Other Assets	$ 1,169,995	$ 1,122,262	$ 1,276,220	$ 47,733
Capital Assets	3,600,801	3,371,959	3,112,771	228,842
Total Assets	4,770,796	4,494,221	4,388,991	276,575
Deferred outflows of resources	38,731	45,737	65,725	(7,006)
Long-Term Debt Outstanding	665,000	815,000	978,285	(150,000)
Other Liabilities	65,341	91,512	63,682	(26,171)
Total Liabilities	730,341	906,512	1,041,967	(176,171)
Deferred inflows of resources	38,543	19,294	25,339	19,249
Investment in Capital Assets	2,911,880	2,477,472	2,270,166	434,408
Restricted	19,781	-	-	19,781
Unrestricted	1,108,982	1,136,680	1,117,244	(27,698)
Total Net Position	$ 4,040,643	$ 3,614,152	$ 3,387,410	$ 426,491

UTILITY FINANCIAL ANALYSIS (cont.)

Net Position (cont.)

As can be seen from the table above, the net position of the STW Utility improved in 2018 to $4,040,600, an increase of $426,500, or 11.8% over 2017. The improvement in net position is attributable primarily to an increase in capital assets contributed by developers. Current assets increased $4,700, or 4.2%. Capital and other noncurrent assets comprise 75.5% of total assets at this time, which increased from 75.0% in 2017.

The STW Utility reported deferred outflows related to pension of $38,800 in 2018, a decrease of $7,000 from 2017. The Utility reported deferred inflows related to pension of $38,500 in 2018, an increase of $19,200 from 2017. See accompanying notes to the financial statements for more information on deferred outflows of resources and implementation of this standard.

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.

UTILITY FINANCIAL ANALYSIS (cont.)

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

TABLE 2
CONDENSED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

	2018	2017	2016	2017-2018 Change
Operating Revenues	$ 536,023	$ 518,965	$ 504,762	$ 17,058
Non-Operating Revenues	29,902	70,007	42,853	(40,105)
Total Revenues	565,925	588,972	547,615	(23,047)
Depreciation Expense	124,064	114,753	106,122	9,311
Other Operating Expense	274,885	277,207	263,508	(2,322)
Non-Operating Expense	12,223	17,350	21,422	(5,127)
Total Expenses	411,172	409,310	391,052	1,862
Income Before Capital Contributions and Transfers	154,753	179,662	156,563	(24,909)
Transfers	-	-	-	
Capital Contributions	271,738	47,080	124,219	224,658
Change in Net Position	426,491	226,742	280,782	199,749
Beginning Net Position	3,614,152	3,387,410	3,106,628	226,742
Net Position End of Year	$ 4,040,643	$ 3,614,152	$ 3,387,410	$ 426,491

Operating revenues for the STW Utility in 2018, the tenth full year of operation, increased $17,100, or 3.3%, from 2017. The customer base increased 3.47% from the prior year. Table 3 below summarizes the operating revenues of the Storm Water Utility.

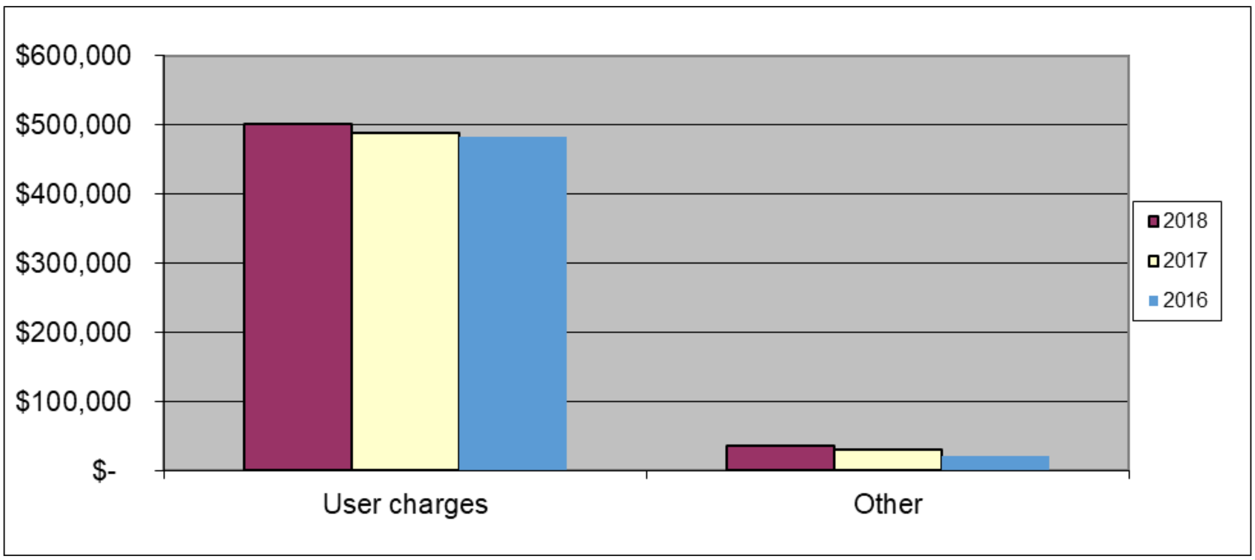
Total expenses for 2018 of $411,200 were $1,900, or 0.5%, higher than the previous year primarily due to an increase in the employee pensions and benefits expense. Depreciation expense for the year was up 8.1%.

UTILITY FINANCIAL ANALYSIS (cont.)

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

Net position was increased by $426,500 in 2018 due to an increase in operating revenues from an increase in ERU's.

TABLE 3
Comparison of Storm Water Operating Revenues



MCFARLAND STORM WATER UTILITY

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2018 and 2017

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

	2018	2017	2016	2017-2018 Change
Cash Flows From:				
Operating Activities	$ 279,974	$ 283,909	$ 261,947	$ (3,935)
Capital and Related Financing Activities	(250,685)	(248,389)	(332,161)	(2,296)
Investing Activities	25,425	4,291	2,100	21,134
Net Change in Cash and Cash Equivalents	54,714	39,811	(68,114)	14,903
Cash and Cash Equivalents - Beginning of Year	1,021,552	981,741	1,049,855	39,811
Cash and Cash Equivalents - End of Year	$ 1,076,266	$ 1,021,552	$ 981,741	$ 54,714

The STW Utility experienced a net cash flow of $280,000 from operating activities in 2018, a decrease of $3,900, or 1.4%, from 2017. Cash inflows from capital and related financing activities increased $2,300 in 2018 due to capital projects going into service. Cash and cash equivalents at year-end increased $54,700, or 5.4%, from 2018 to 2017. Of the $1,076,266 ending cash balance, $19,781 is restricted for the net pension asset.

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

	2018	2017	2016	2017-2018 Change
Capital Assets				
Land and improvements	$ 313,596	$ 223,649	$ 223,649	$ 89,947
Pipes	3,057,244	2,885,862	2,712,435	171,382
Manholes	393,231	374,231	338,085	19,000
Inlets	554,453	481,876	397,567	72,577
Basins	719,431	667,558	667,558	51,873
Miscellaneous and general	370,137	370,137	331,786	-
Total Capital Assets	5,408,092	5,003,313	4,671,080	404,779
Less: Accumulated depreciation	(1,807,291)	(1,683,227)	(1,575,581)	(124,064)
Net Capital Assets	$ 3,600,801	$ 3,320,086	$ 3,095,499	$ 280,715

During 2018, the capital assets of the STW Utility increased by $404,800, or 8.1%, from 2017. The increase came primarily from developer contributed additions. After depreciation was factored in, the net capital assets for the STW Utility were $3,600,800, an increase of $280,700, or 8.5%, from 2017.

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, 2018 the STW Utility had $665,000 in general obligation debt outstanding compared to $815,000 in 2017. 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.

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.

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, 2018 and 2017

ASSETS	2018	2017
CURRENT ASSETS		
Cash and investments	$ 2,693,526	$ 3,573,941
Customer accounts receivable	239,849	242,050
Other accounts receivable	812	19,334
Due from municipality	40,290	44,095
Materials and supplies	19,450	19,450
Prepayments	-	52
Total Current Assets	2,993,927	3,898,922
NONCURRENT ASSETS		
Restricted Assets		
Replacement account	397,192	371,392
Net pension asset	46,664	-
Other Assets		
Water tower reserve	450,954	430,329
Depreciation reserve	78,000	78,000
Preliminary survey and investigation	-	15,939
Special assessments receivable	36,109	36,109
Note receivable	-	886
Property held for future use	224,112	224,112
Capital Assets		
Plant in service		
Water	15,404,123	13,576,706
Sewer	7,041,169	6,327,329
Total Plant in Service	22,445,292	19,904,035
Accumulated depreciation		
Water	(4,521,588)	(4,241,522)
Sewer	(2,282,823)	(2,145,790)
Total Accumulated Depreciation	(6,804,411)	(6,387,312)
Total Noncurrent Assets	16,873,912	14,673,490
Total Assets	19,867,839	18,572,412
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows related to pension	94,165	128,689

LIABILITIES	2018	2017
CURRENT LIABILITIES		
Accounts payable	$ 222,691	$ 219,186
Due to municipality	-	256,753
Customer deposits	5,000	5,000
Accrued interest	4,483	14,568
Accrued vacation leave	6,877	4,970
Current portion of lease payable	4,775	4,205
Current portion of general obligation debt	400,000	365,000
Total Current Liabilities	643,826	869,682
NONCURRENT LIABILITIES		
General obligation debt	2,290,000	2,690,000
Unamortized debt premium	23,928	30,628
Lease obligation	35,405	40,179
Accrued sick leave	58,356	47,214
Net pension liability	-	13,950
Total Noncurrent Liabilities	2,407,689	2,821,971
Total Liabilities	3,051,515	3,691,653
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows related to pension	80,506	51,455
NET POSITION		
Net investment in capital assets	12,886,773	10,386,711
Restricted for:		
Equipment replacement	397,192	371,392
Net Pension Asset	46,664	-
Unrestricted	3,499,354	4,199,890
TOTAL NET POSITION	$ 16,829,983	$ 14,957,993

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, 2018 and 2017

	2018	2017
OPERATING REVENUES		
Water		
Sales of water	$ 958,323	$ 959,372
Other	107,247	119,574
Total Water	1,065,570	1,078,946
Sewer		
Treatment charges	1,074,576	1,071,331
Other	7,901	9,084
Total Sewer	1,082,477	1,080,415
Total Operating Revenues	2,148,047	2,159,361
OPERATING EXPENSES		
Water		
Operation and maintenance	485,142	489,005
Depreciation	284,993	258,279
Total Water	770,135	747,284
Sewer		
Operation and maintenance	1,071,716	973,089
Depreciation	137,033	122,280
Total Sewer	1,208,749	1,095,369
Total Operating Expenses	1,978,884	1,842,653
OPERATING INCOME (LOSS)		
Water	295,435	331,662
Sewer	(126,272)	(14,954)
Total Operating Income (Loss)	169,163	316,708
NONOPERATING REVENUES (EXPENSES)		
Investment income	105,127	9,390
Loss on sale of equipment	(299)	(652)
Interest expense	(57,665)	(49,378)
Debt issuance costs	-	(11,182)
Amortization of premium	6,700	5,137
Total Nonoperating Revenues (Expenses)	53,863	(46,685)
Income Before Contributions and Transfers	223,026	270,023
CAPITAL CONTRIBUTIONS	1,898,108	281,255
TRANSFERS - TAX EQUIVALENT	(249,144)	(256,753)
CHANGE IN NET POSITION	1,871,990	294,525
NET POSITION - Beginning of Year	14,957,993	14,663,468
NET POSITION - END OF YEAR	$ 16,829,983	$ 14,957,993

See accompanying notes to the financial statements.

MCFARLAND WATER AND SEWER UTILITY

STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from customers	$ 1,880,036	$ 1,869,612
Received from municipality for services	313,250	313,200
Paid to suppliers for goods and services	(1,404,230)	(1,289,405)
Paid to employees for operating payroll	(104,932)	(123,597)
Net Cash Flows From Operating Activities	684,124	769,810
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Paid to municipality for tax equivalent	(505,897)	(219,494)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(1,007,548)	(1,309,896)
Capital contributions received	327,158	262,734
Debt retired	(369,204)	(292,079)
Interest paid	(67,750)	(49,378)
Proceeds from debt issue	-	845,000
Debt issuance costs	-	2,030
Net Cash Flows From Capital and Related Financing Activities	(1,117,344)	(541,589)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	105,127	9,390
Net Change in Cash and Cash Equivalents	(833,990)	18,117
CASH AND CASH EQUIVALENTS - Beginning of Year	4,453,662	4,435,545
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 3,619,672	$ 4,453,662
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Lease obligation release with trade	$ -	$ 30,959
Lease obligation assumed	$ -	$ 44,384
Amortization of debt premium	$ 6,700	$ 5,137
Contributions receivable	$ -	$ 18,521
Loss on sale of asset	$ 299	$ 652
Developer financed additions to plant	$ 1,570,950	$ -

	2018	2017
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income	$ 169,163	$ 316,708
Noncash items in operating income		
Depreciation	422,026	380,559
Depreciation charged to clearing and other utilities	19,825	16,800
Changes in assets and liabilities		
Customer accounts receivable	2,201	5,839
Other accounts receivable	19,408	812
Prepayments	52	-
Accounts payable	31,634	26,257
Due to other funds	3,805	-
Accrued vacation and sick leave	1,907	7,098
Accrued sick leave	11,142	68
Pension related deferrals and liabilities	2,961	15,669
NET CASH FLOWS FROM OPERATING ACTIVITIES	$ 684,124	$ 769,810
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENTS OF NET POSITION ACCOUNTS		
Cash and investments	$ 2,693,526	$ 3,573,941
Replacement account	397,192	371,392
Water tower reserve	450,954	430,329
Depreciation reserve	78,000	78,000
CASH AND CASH EQUIVALENTS	$ 3,619,672	$ 4,453,662

See accompanying notes to the financial statements.

STORM WATER UTILITY

MCFARLAND STORM WATER UTILITY

STATEMENTS OF NET POSITION
As of December 31, 2018 and 2017

ASSETS	2018	2017
CURRENT ASSETS		
Cash and investments	$ 1,076,266	$ 1,021,552
Customer accounts receivable	73,648	73,414
Other accounts receivable	300	26,730
Due from municipality	-	566
Total Current Assets	1,150,214	1,122,262
NONCURRENT ASSETS		
Restricted Assets		
Net pension asset	19,781	-
Other Assets		
Property held for future use	-	51,873
Capital Assets		
Plant in service	5,408,092	5,003,313
Accumulated depreciation	(1,807,291)	(1,683,227)
Total Noncurrent Assets	3,620,582	3,371,959
Total Assets	4,770,796	4,494,221
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows related to pension	38,731	45,737

LIABILITIES	2018	2017
CURRENT LIABILITIES		
Accounts payable	$ 4,140	$ 7,273
Customer deposits	-	850
Accrued interest	2,116	5,717
Accrued vacation leave	3,283	3,791
Current portion of lease payable	2,388	2,102
Current portion of general obligation debt	150,000	150,000
Total Current Liabilities	161,927	169,733
NONCURRENT LIABILITIES		
General obligation debt	515,000	665,000
Unamortized debt premium	3,831	5,422
Lease obligation	17,702	20,090
Accrued sick leave	31,881	40,361
Net pension liability	-	5,906
Total Noncurrent Liabilities	568,414	736,779
Total Liabilities	730,341	906,512
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows related to pension	38,543	19,294
NET POSITION		
Net investment in capital assets	2,911,880	2,477,472
Restricted for:		
Pension	19,781	-
Unrestricted	1,108,982	1,136,680
TOTAL NET POSITION	$ 4,040,643	$ 3,614,152

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, 2018 and 2017

	2018	2017
OPERATING REVENUES		
Charges for services	$ 501,003	$ 488,357
Other	35,020	30,608
Total Operating Revenues	536,023	518,965
OPERATING EXPENSES		
Operation and maintenance	274,885	277,207
Depreciation	124,064	114,753
Total Operating Expenses	398,949	391,960
OPERATING INCOME	137,074	127,005
NONOPERATING REVENUES (EXPENSES)		
Investment income	25,425	4,291
Rental income	-	11,534
Miscellaneous revenues	4,477	6,811
Gain on sale of fixed asset	-	47,371
Interest expense	(13,814)	(19,330)
Amortization of debt premium	1,591	1,980
Total Nonoperating Revenues (Expenses)	17,679	52,657
Income Before Contributions	154,753	179,662
CAPITAL CONTRIBUTIONS	271,738	47,080
CHANGE IN NET POSITION	426,491	226,742
NET POSITION - Beginning of Year	3,614,152	3,387,410
NET POSITION - END OF YEAR	$ 4,040,643	$ 3,614,152

See accompanying notes to the financial statements.

MCFARLAND STORM WATER UTILITY

STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from customers	$ 566,412	$ 536,729
Paid to suppliers for goods and services	(181,506)	(109,614)
Paid to employees for operating payroll	(104,932)	(143,206)
Net Cash Flows From Operating Activities	279,974	283,909
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(106,424)	(315,329)
Received from the sale of capital assets	-	215,307
Capital contributions received	25,256	20,350
Debt retired	(152,102)	(148,539)
Interest paid	(17,415)	(20,178)
Net Cash Flows From Capital and Related Financing Activities	(250,685)	(248,389)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	25,425	4,291
Net Change in Cash and Cash Equivalents	54,714	39,811
CASH AND CASH EQUIVALENTS - Beginning of Year	1,021,552	981,741
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 1,076,266	$ 1,021,552
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Developer financed additions to utility plant	$ 246,482	$ -
Lease obligation release with trade	$ -	$ 15,479
Lease obligation assumed	$ -	$ 22,192
Contribution receivable	$ -	$ 26,730
Amortization of debt premium	$ 1,591	$ 1,980

	2018	2017
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income	$ 137,074	$ 127,005
Nonoperating revenue (expense)	4,477	18,345
Noncash items in operating income		
Depreciation	124,064	114,753
Changes in assets and liabilities		
Customer accounts receivable	(234)	294
Other accounts receivable	26,430	-
Due from municipality	566	-
Pension related deferrals and liabilities	568	7,809
Accounts payable	(3,133)	(3,319)
Customer deposits	(850)	(875)
Accrued vacation	(508)	1,640
Accrued sick leave	(8,480)	18,257
NET CASH FLOWS FROM OPERATING ACTIVITIES	$ 279,974	$ 283,909

See accompanying notes to the financial statements.

MCFARLAND UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2018 and 2017

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.

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.

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. Market values may have changed significantly after year end.

Receivables/Payables

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

The utilities have the right under Wisconsin statutes to place delinquent water, sewer, and storm 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.

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.

Preliminary Survey and Investigation

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

Special Assessments Receivable

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

Property Held for Future Use

This land is owned by the utility and is currently not in use. The storm water utility sold a parcel of land in 2017 that had been subdivided. This amount was moved to plant in service in 2018 to reflect the true nature of the asset.

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:

	Years
Water Plant	
Source of supply	34
Pumping	22 - 31
Water treatment	17
Transmission and distribution	18 - 77
General	4 - 17

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.)

	Years
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.

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 October 10, 2010.

Current sewer 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.

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

EFFECT OF NEW ACCOUNTING STANDARDS ON CURRENT PERIOD FINANCIAL STATEMENTS

GASB has approved GASB Statement No. 83, *Certain Asset Retirement Obligations*, Statement No. 84, *Fiduciary Activities*, Statement No. 87, *Leases*, Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, and Statement No. 90, *Majority Equity Interests - an amendment of GASB Statements No. 14 and No. 61*. When they become effective, application of these standards may restate portions of these financial statements.

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 December 31, 2018	Carrying Value as of December 31, 2017	Risks
Checking and savings	$ 2,829,724	$ 3,757,771	Custodial credit
LGIP	1,866,214	1,717,443	Credit
Totals	$ 4,695,938	$ 5,475,214	

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, 2018 and 2017.

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.

NOTE 2 - DEPOSITS AND INVESTMENTS (cont.)

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, 2018 and 2017, the fair value of the LGIP's assets were substantially equal to the utilities' share.

Custodial Credit Risk

Deposits

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

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

	2018		2017	
	Bank Balance	Carrying Value	Bank Balance	Carrying Value
McFarland State Bank	(A)	$ 2,829,724	(A)	$ 3,757,771
Totals		$ 2,829,724		$ 3,757,771

(A) - 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.

Credit Risk

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

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

Investment Policy

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

NOTE 3 - INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS

The following is a schedule of interfund balances for the years ending December 31, 2018 and 2017:

		2018		2017	
Due To	Due From	Amount	Principal Purpose	Amount	Principal Purpose
Municipality	Water and Sewer Utility	$ -	Tax equivalent	$ 256,753	Tax equivalent
Storm Water Utility	Municipality	-	Proceeds from cancelled prepaid insurance policy	566	Proceeds from cancelled prepaid insurance policy
Water and Sewer Utility	Municipality	40,290	Fire protection charge	44,095	Fire protection charge

The following is a schedule of transfer balances for the years ending December 31, 2018 and 2017:

		2018		2017	
To	From	Amount	Principal Purpose	Amount	Principal Purpose
Municipality	Water and Sewer Utility	$ 249,144	Tax equivalent	$ 256,753	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.

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.

NOTE 4 - RESTRICTED ASSETS (cont.)

Restricted Net Position

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

	2018	2017
Restricted Assets		
Replacement account	$ 397,192	$ 371,392
Net pension asset	66,445	-
Total Restricted Net Position as Calculated	$ 463,637	$ 371,392

The purpose of the restricted net position is as follows:

	2018	2017
Equipment replacement	$ 397,192	$ 371,392
Net pension asset	46,664	-
Total Restricted Net Position	$ 443,856	$ 371,392

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

	2018	2017
Restricted Assets		
Net pension asset	$ 19,781	$ -
Total Restricted Net Position as Calculated	$ 19,781	$ -

NOTE 5 - CHANGES IN CAPITAL ASSETS

Water Utility

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

A summary of changes in water capital assets for 2017 follows:

	Balance 1/1/17	Increases	Decreases	Balance 12/31/17
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	11,835,263	785,984	823	12,620,424
General	256,934	63,742	25,391	295,285
Total Capital Assets Being Depreciated	12,665,644	849,726	26,214	13,489,156
Total Capital Assets	12,753,194	849,726	26,214	13,576,706
Less: Accumulated depreciation	(3,973,423)	(294,313)	26,214	(4,241,522)
Construction in progress	41,551	-	41,551	-
Net Capital Assets	$ 8,821,322			$ 9,335,184

MCFARLAND UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2018 and 2017

NOTE 5 - CHANGES IN CAPITAL ASSETS (cont.)

Sewer Utility

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

A summary of changes in sewer capital assets for 2017 follows:

	Balance 1/1/17	Increases	Decreases	Balance 12/31/17
Capital assets, not being depreciated				
Land and land rights	$ 78,020	$ -	$ -	$ 78,020
Capital assets being depreciated				
Collecting system	4,476,516	529,635	-	5,006,151
Collecting system pumping	1,043,088	-	-	1,043,088
General	161,720	63,741	25,391	200,070
Total Capital Assets Being Depreciated	5,681,324	593,376	25,391	6,249,309
Total Capital Assets	5,759,344	593,376	25,391	6,327,329
Less: Accumulated depreciation	(2,030,320)	(140,861)	25,391	(2,145,790)
Construction in progress	17,517	-	17,517	-
Net Capital Assets	$ 3,746,541			$ 4,181,539

NOTE 5 - CHANGES IN CAPITAL ASSETS (cont.)

Storm Water Utility

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	277,767	-	-	277,767
Total Capital Assets Being Depreciated	4,843,038	404,779	-	5,247,817
Total Capital Assets	5,003,313	404,779	-	5,408,092
Less: Accumulated depreciation	(1,683,227)	(124,064)	-	(1,807,291)
Net Capital Assets	$ 3,320,086			$ 3,600,801

A summary of changes in storm water capital assets for 2017 follows:

	Balance 1/1/17	Increases	Decreases	Balance 12/31/17
Capital assets, not being depreciated				
Land and land rights	$ 160,275	$ -	$ -	$ 160,275
Capital assets being depreciated				
Storm water infrastructure	4,271,389	293,882	-	4,565,271
General	239,416	63,742	25,391	277,767
Total Capital Assets Being Depreciated	4,510,805	357,624	25,391	4,843,038
Total Capital Assets	4,671,080	357,624	25,391	5,003,313
Less: Accumulated depreciation	(1,575,581)	(133,037)	25,391	(1,683,227)
Construction in progress	17,272	-	17,272	-
Net Capital Assets	$ 3,112,771			$ 3,320,086

NOTE 6 - LEASES

In 2017, the utilities traded in the original wheel loader for a new loader under a new lease. This lease agreement also qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date.

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

	December 31	
	2018	2017
Wheel loader	$ 44,384	$ 44,384
Less: Accumulated depreciation	6,281	-
Totals	$ 38,103	$ 44,384

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

Year Ending December 31,	
2019	$ 6,372
2020	6,372
2021	30,530
Total Minimum Lease Payments	43,274
Less: Amount representing interest	3,094
Present Value of Minimum Lease Payments	$ 40,180

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

	December 31	
	2018	2017
Wheel loader	$ 22,192	$ 22,192
Less: Accumulated depreciation	2,219	-
Totals	$ 19,973	$ 22,192

NOTE 6 - LEASES (cont.)

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

Year Ending December 31,	
2019	$ 3,186
2020	3,186
2021	15,265
Total Minimum Lease Payments	21,637
Less: Amount representing interest	1,547
Present Value of Minimum Lease Payments	$ 20,090

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 12/31/18
6/23/15	2015 and 2016 improvement projects	12/1/2024	2.00%	$ 2,495,000	$ 1,915,000
7/20/17	2017 improvement projects	12/1/2025	1.20	845,000	775,000

General obligation notes debt service requirements to maturity follows:

Year Ending December 31	Principal	Interest	Total
2019	$ 400,000	$ 54,777	$ 454,777
2020	415,000	46,778	461,778
2021	420,000	38,215	458,215
2022	425,000	29,553	454,553
2023	440,000	21,110	461,110
2024 - 2025	590,000	14,910	604,910
Totals	$ 2,690,000	$ 205,343	$ 2,895,343

NOTE 7 - LONG-TERM OBLIGATIONS (cont.)

General Obligation Debt - Storm Water

The following general obligation notes have been issued:

Date	Purpose	Final Maturity	Interest Rate	Original Amount	Outstanding Amount 12/31/18
12/1/11	Various capital projects and repayment of advance	9/1/2021	2.14%	$ 875,000	$ 280,000
6/23/15	2015 and 2016 improvement projects	12/1/2024	2.00	500,000	385,000

General obligation notes debt service requirements to maturity follows:

Year Ending December 31	Principal	Interest	Total
2019	$ 150,000	$ 14,005	$ 164,005
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	70,000	1,505	71,505
Totals	$ 665,000	$ 41,028	$ 706,028

Long-Term Obligations Summary - Water and Sewer Utility

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	$ 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	30,628	-	6,700	23,928	-
Totals	$ 3,177,226	$ 94,334	$ 459,096	$ 2,812,464	$ 404,775

NOTE 7 - LONG-TERM OBLIGATIONS (cont.)

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

Long-term obligation activity for the year ended December 31, 2017 is as follows:

	1/1/17 Balance	Additions	Reductions	12/31/17 Balance	Due Within One Year
General obligation debt	$ 2,495,000	$ 845,000	$ 285,000	$ 3,055,000	$ 365,000
Accrued sick leave	40,116	12,329	5,231	47,214	-
Lease obligation	37,161	44,384	37,161	44,384	4,205
Unamortized debt premium	22,553	13,212	5,137	30,628	-
Totals	$ 2,594,830	$ 914,925	$ 332,529	$ 3,177,226	$ 369,205

Long-Term Obligations Summary - Storm Water

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

Long-term obligation activity for the year ended December 31, 2017 is as follows:

	1/1/17 Balance	Additions	Reductions	12/31/17 Balance	Due Within One Year
General obligation debt	$ 960,000	$ -	$ 145,000	$ 815,000	$ 150,000
Accrued sick leave	22,104	18,257	-	40,361	-
Lease obligation	18,285	22,192	18,285	22,192	2,102
Unamortized debt premium	7,402	-	1,980	5,422	-
Totals	$ 1,007,791	$ 40,449	$ 165,265	$ 882,975	$ 152,102

In addition to the liabilities above, information on the net pension liability (asset) is provided in Note 9.

NOTE 8 - NET POSITION

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

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

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

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

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

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

	2018	2017
Plant in service	$ 22,445,292	$ 19,904,035
Accumulated depreciation	(6,804,411)	(6,387,312)
Sub-Totals	15,640,881	13,516,723
Less: Capital related debt		
Current portion of capital related long-term debt	404,775	369,205
Long-term portion of capital related long-term debt	2,325,405	2,730,179
Unamortized debt premium	23,928	30,628
Sub-Totals	2,754,108	3,130,012
Total Net Investment in Capital Assets	$ 12,886,773	$ 10,386,711

NOTE 8 - NET POSITION (cont.)

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

	2018	2017
Plant in service	$ 5,408,092	$ 5,003,313
Accumulated depreciation	(1,807,291)	(1,683,227)
Sub-Totals	3,600,801	3,320,086
Less: Capital related debt		
Current portion of capital related long-term debt	152,388	152,102
Long-term portion of capital related long-term debt	532,702	685,090
Unamortized debt premium	3,831	5,422
Sub-Totals	688,921	842,614
Total Net Investment in Capital Assets	$ 2,911,880	$ 2,477,472

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.

NOTE 9 - EMPLOYEES RETIREMENT SYSTEM (cont.)

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.

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
2008	6.6%	0%
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

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 $26,319 and $24,430 in contributions from the utilities during the current and prior reporting periods, respectively.

Contribution rates as of December 31, 2018 and December 31, 2017 are:

	2018		2017	
	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%

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, 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's proportion of the net pension liability (asset) was based on the utilities's 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.

At December 31, 2017, the utilities reported a liability (asset) of $19,856 for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation as of December 31, 2015 rolled forward to December 31, 2016. No material changes in assumptions or benefit terms occurred between the actuarial valuation date and the measurement date. The utilities's proportion of the net pension liability (asset) was based on the utilities's share of contributions to the pension plan relative to the contributions of all participating employers. At December 31, 2016, the Village of McFarland's proportion was 0.02403967%, which was a decrease of 0.0001127% from its proportion measured as of December 31, 2015.

For the years ended December 31, 2018 and 2017, the utilities recognized pension expense of $32,499 and $47,908, respectively.

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

	Water and Sewer Utility		Storm Water Utility	
	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	17,995	-	8,324	-
Total	$ 94,165	$ 80,506	$ 38,731	$ 38,543

NOTE 9 - EMPLOYEES RETIREMENT SYSTEM (cont.)

At December 31, 2017, the utilities reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Water and Sewer Utility		Storm Water Utility	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 6,374	$ 51,455	$ 1,887	$ 19,294
Changes in assumption	17,107	-	6,414	-
Net differences between project and actual earnings on pension plan	85,682	-	29,387	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	2,369	-	776	-
Employer contributions subsequent to the measurement date	17,157	-	7,273	-
Total	$ 128,689	$ 51,455	$ 45,737	$ 19,294

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:

Year Ended December 31	Water and Sewer Utility	Storm Water Utility
2019	$ 1,076	$ 2,020
2020	(8)	(16)
2021	(3,078)	(5,775)
2022	(2,348)	(4,405)
2023	22	40
Thereafter	-	-
Total	$ (4,336)	$ (8,136)

NOTE 9 - EMPLOYEES RETIREMENT SYSTEM (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:

	2018	2017
Actuarial valuation date	December 31, 2016	December 31, 2015
Measurement date of net pension liability (asset)	December 31, 2017	December 31, 2016
Actuarial cost method	Entry Age Normal	Entry Age Normal
Asset valuation method	Fair Value	Fair Value
Long-term expected rate of return	7.2%	7.2%
Discount rate	7.2%	7.2%
Salary increases		
Inflation	3.2%	3.2%
Seniority/Merit	0.2% - 5.6%	0.2% - 5.6%
Mortality	Wisconsin 2012 Mortality Table	Wisconsin 2012 Mortality Table
Post-retirement adjustments	2.1%	2.1%

** No post-retirement adjustment is guaranteed. Actual adjustments are based on recognized investment return, actuarial experience and other factors. 2.1% is the assumed annual adjustment based on the investment return assumption and the post-retirement discount rate.*

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

NOTE 9 - EMPLOYEES RETIREMENT SYSTEM (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, 2018 are summarized in the following table:

Core Fund Asset Class	Current Asset Allocation %	Long-Term Expected Nominal Rate of Return %	Long-Term Expected Real Rate of Return %
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
Variable Fund Asset Class			
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.

NOTE 9 - EMPLOYEES RETIREMENT SYSTEM (cont.)

The target allocation and best estimates of arithmetic real rates of return for each major asset class as of December 31, 2017 are summarized in the following table:

Core Fund Asset Class	Current Asset Allocation %	Long-Term Expected Nominal Rate of Return %	Long-Term Expected Real Rate of Return %
Global Equities	50%	8.3%	5.4%
Fixed Income	24.5	4.24	1.4
Inflation Sensitive Assets	15.5	4.3	1.5
Real Estate	8	6.5	3.6
Private Equity/Debt	7	9.4	6.5
Multi-Asset	4	6.6	3.7
Total Core Fund	110	7.4	4.5
Variable Fund Asset Class			
U.S Equities	70	7.6	4.7
International Equities	30	8.5	5.6
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 7.20% was used to measure the total pension liability as of December 31, 2018 and December 31, 2017. This 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% in 2018 and 3.78% in 2017. Because of the unique structure of WRS, the 7.20% expected rate of return implies that a dividend of approximately 2.1% 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.

NOTE 9 - EMPLOYEES RETIREMENT SYSTEM (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 discount rate of 7.20 percent, 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 (6.20 percent) or 1-percentage-point higher (8.20 percent) than the current rate.

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)
Storm Water Utility's proportionate share of the net position liability (asset)	54,961	(19,781)	(79,159)

The sensitivity analysis as of December 31, 2017 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)	$ 162,164	$ 13,950	$ (103,055)
Storm Water Utility's proportionate share of the net position liability (asset)	68,743	5,906	(43,686)

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, 2018 and 2017, the utilities had commitments under a long-term contract for Juniper Ridge subdivision. The contract payments are based on the utilities' amount of usage.

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 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
Last 10 Fiscal Years*

Changes of benefit terms: There were no changes of benefit terms for any participating employer in WRS. The required supplementary information presented below represents the proportionate information for the enterprise funds included in this report.

	2015	2016	2017	2018
Village of McFarland's proportion of the net pension liability (asset)	0.024663990%	0.024152370%	0.02403967%	0.02526343%
McFarland Utilities's proportionate share of the net pension liability (asset)	$ (66,963)	$ 43,275	$ 19,856	$ (66,535)
McFarland Utilities's covered employee payroll	$ 302,389	$ 379,603	$ 388,576	$ 359,265
Plan fiduciary net position as a percentage of the total pension liability (asset)	102.74%	98.20%	99.12%	102.93%

*The amounts presented for each fiscal year were determined as of the calendar year-end that occurred within the fiscal year.

SCHEDULE OF CONTRIBUTIONS
Wisconsin Retirement System
Last 10 Fiscal Years*

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

	2015	2016	2017	2018
Contractually required contributions	$ 25,813	$ 25,646	$ 24,430	$ 26,319
Contributions in relation to the contractually required contributions	(25,813)	(25,646)	(24,430)	(26,319)
Contributions deficiency (excess)	-	-	-	-
McFarland Utilities's covered-employee payroll	379,603	388,576	359,265	392,821
Contributions as a percentage of covered-employee payroll	6.8%	6.6%	6.8%	6.7%

*The amounts presented for each fiscal year were determined as of the calendar year-end that occurred within the fiscal year.

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

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

Changes of assumption: There were no changes in the assumptions.

SUPPLEMENTAL INFORMATION

MCFARLAND WATER AND SEWER UTILITY

WATER UTILITY PLANT
As of and for the Year Ended December 31, 2018

	Balance 1/1/18	Additions	Retirements	Balance 12/31/18
SOURCE OF SUPPLY				
Land and land rights	$ 32,300	$ -	$ -	$ 32,300
Wells and springs	211,239	-	-	211,239
Total Source of Supply	243,539	-	-	243,539
PUMPING				
Structures and improvements	145,092	-	-	145,092
Electric pumping equipment	190,402	-	-	190,402
Other pumping equipment	22,216	-	-	22,216
Total Pumping	357,710	-	-	357,710
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	8,211,322	1,278,950	11,741	9,478,531
Services	1,537,921	301,327	10,049	1,829,199
Meters	707,006	29,872	2,075	734,803
Hydrants	933,070	111,395	1,187	1,043,278
Total Transmission and Distribution	12,675,674	1,721,544	25,052	14,372,166
GENERAL				
Office furniture and equipment	9,946	-	-	9,946
Transportation equipment	121,565	-	-	121,565
Tools, shop and garage equipment	48,766	-	-	48,766
Laboratory equipment	6,649	-	-	6,649
Power-operated equipment	70,910	-	-	70,910
Communication equipment	37,147	130,925	-	168,072
Miscellaneous equipment	302	-	-	302
Total General	295,285	130,925	-	426,210
TOTAL WATER UTILITY PLANT	$ 13,576,706	$ 1,852,469	$ 25,052	$ 15,404,123

MCFARLAND WATER AND SEWER UTILITY

SEWER UTILITY PLANT
As of and for the Year Ended December 31, 2018

	Balance 1/1/18	Additions	Retirements	Balance 12/31/18
COLLECTING SYSTEM				
Land and land rights	$ 78,020	$ -	$ -	$ 78,020
Service connections	664,600	-	-	664,600
Collecting mains	4,150,518	582,915	-	4,733,433
Force mains	191,033	-	-	191,033
Total Collecting System	5,084,171	582,915	-	5,667,086
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	1,043,088	-	-	1,043,088
GENERAL				
Office furniture and equipment	9,948	-	-	9,948
Transportation equipment	168,117	-	-	168,117
Communication equipment	1,075	130,925	-	132,000
Other general equipment	2,313	-	-	2,313
Other tangible property	18,617	-	-	18,617
Total General	200,070	130,925	-	330,995
TOTAL SEWER UTILITY PLANT	$ 6,327,329	$ 713,840	$ -	$ 7,041,169

MCFARLAND STORM WATER UTILITY

STORM WATER UTILITY PLANT
As of and for the Year Ended December 31, 2018

	Balance 1/1/18	Additions	Retirements	Balance 12/31/18
STORMWATER PLANT				
Land and land rights	$ 160,275	$ -	$ -	$ 160,275
Pipes	2,885,862	171,382	-	3,057,244
Manholes	374,231	19,000	-	393,231
Inlets	481,876	72,577	-	554,453
Basins	667,558	51,873	-	719,431
Land improvements	63,374	89,947	-	153,321
Miscellaneous	92,370	-	-	92,370
Total Stormwater Plant	4,725,546	404,779	-	5,130,325
GENERAL				
Transportation equipment	258,075	-	-	258,075
Power-operated equipment	18,617	-	-	18,617
Communication equipment	1,075	-	-	1,075
Total General	277,767	-	-	277,767
TOTAL STORMWATER UTILITY PLANT	$ 5,003,313	$ 404,779	$ -	$ 5,408,092

MCFARLAND WATER AND SEWER UTILITY

WATER UTILITY OPERATING REVENUES AND EXPENSES
For the Years Ended December 31, 2018 and 2017

	2018	2017
OPERATING REVENUES		
Sales of Water		
Unmetered	$ 1,964	$ 471
Metered		
Residential	498,323	494,129
Multifamily residential	33,361	37,017
Commercial	61,109	63,963
Public authorities	15,825	16,098
Total Metered Sales	608,618	611,207
Private fire protection	34,491	34,494
Public fire protection	313,250	313,200
Total Sales of Water	958,323	959,372
Other Operating Revenues		
Forfeited discounts	5,242	4,995
Other	102,005	114,579
Total Operating Revenues	1,065,570	1,078,946
OPERATING EXPENSES		
Operation and Maintenance		
Pumping		
Operation labor	33,674	30,344
Fuel or power purchased for pumping	37,973	36,195
Operation supplies	4,434	5,368
Maintenance	3,116	42
Total Pumping	79,197	71,949
Water Treatment		
Operation labor	3,382	2,578
Chemicals	11,326	10,567
Maintenance	1,546	4,031
Total Water Treatment	16,254	17,176
Transmission and Distribution		
Operation labor	37,734	30,628
Operation supplies	3,588	4,402
Maintenance		
Mains	28,816	29,414
Services	8,078	13,223
Meters	512	1,092
Hydrants	14,959	13,793
Total Transmission and Distribution	93,687	92,552
Customer Accounts		
Meter reading labor	1,087	1,211
Accounting and collecting labor	4,381	18,765
Supplies	3,227	1,713
Total Customer Accounts	8,695	21,689

MCFARLAND WATER AND SEWER UTILITY

WATER UTILITY OPERATING REVENUES AND EXPENSES (cont.)
For the Years Ended December 31, 2018 and 2017

	2018	2017
OPERATING EXPENSES (cont.)		
Operation and Maintenance (cont.)		
Administrative and General		
Salaries	$ 91,439	$ 62,569
Office supplies	5,140	4,839
Outside services employed	22,947	29,455
Property insurance	62,701	55,515
Employee pensions and benefits	28,072	51,951
Miscellaneous	48,555	56,810
Transportation	20,528	17,106
Total Administrative and General	279,382	278,245
Taxes	7,927	7,394
Total Operation and Maintenance	485,142	489,005
Depreciation	284,993	258,279
Total Operating Expenses	770,135	747,284
OPERATING INCOME	$ 295,435	$ 331,662

MCFARLAND WATER AND SEWER UTILITY

SEWER UTILITY OPERATING REVENUES AND EXPENSES
For the Years Ended December 31, 2018 and 2017

	2018	2017
OPERATING REVENUES		
Sewer Revenues		
Residential	$ 869,184	$ 887,866
Commercial	184,767	162,258
Public authorities	20,625	21,207
Total Sewer Revenues	1,074,576	1,071,331
Other Operating Revenues		
Forfeited discounts	7,901	9,084
Total Operating Revenues	1,082,477	1,080,415
OPERATING EXPENSES		
Operation and Maintenance		
Operation		
Power and fuel for pumping	8,166	7,204
Treatment charges	667,261	621,325
Other operating supplies	423	433
Transportation	13,985	16,642
Total Operation	689,835	645,604
Maintenance		
Collection system	27,122	34,399
Pumping equipment	6,800	42,770
Treatment and disposal plant equipment	1,143	-
General plant structures and equipment	41,232	1,163
Total Maintenance	76,297	78,332
Customer Accounts		
Accounting and collecting	4,274	18,608
Meter Reading	468	496
Total Customer Accounts	4,742	19,104
Administrative and General		
Salaries	93,584	51,787
Office supplies	6,440	4,741
Outside services employed	71,919	33,888
Insurance	35,978	31,613
Employees pensions and benefits	10,151	22,723
Miscellaneous	5,204	11,950
Rents	69,145	66,411
Total Administrative and General	292,421	223,113
Taxes	8,421	6,936
Total Operation and Maintenance	1,071,716	973,089
Depreciation	137,033	122,280
Total Operating Expenses	1,208,749	1,095,369
OPERATING LOSS	$ (126,272)	$ (14,954)

MCFARLAND STORM WATER UTILITY

STORM WATER OPERATING REVENUES AND EXPENSES
For the Years Ended December 31, 2018 and 2017

	2018	2017
OPERATING REVENUES		
Stormwater Revenues		
Charges for services	$ 501,003	$ 488,357
Other Operating Revenues		
Forfeited discounts	2,590	2,788
Other	32,430	27,820
Total Operating Revenues	536,023	518,965
OPERATING EXPENSES		
Operation and Maintenance		
Operations		
Operation supervision and labor	110,800	78,741
Facility equipment and rental	30,471	21,514
Operation supplies	48,776	85,077
Total Operations	190,047	185,332
Administrative and General		
Office Supplies	2,361	1,495
Outside services employed	21,637	10,642
Property insurance	21,774	19,271
Employee pensions and benefits	38,265	60,071
Miscellaneous	801	396
Total Administrative and General	84,838	91,875
Total Operation and Maintenance	274,885	277,207
Depreciation	124,064	114,753
Total Operating Expenses	398,949	391,960
OPERATING INCOME	$ 137,074	$ 127,005

MCFARLAND WATER AND SEWER UTILITY

RATE OF RETURN - REGULATORY BASIS
For the Years Ended December 31, 2018 and 2017

	Water	
	2018	2017
Utility Financed Plant in Service		
Beginning of year	$ 8,581,405	$ 7,895,413
End of year	9,256,085	8,581,405
Average	8,918,745	8,238,409
Utility Financed Accumulated Depreciation		
Beginning of year	(2,780,691)	(2,594,877)
End of year	(2,968,143)	(2,780,691)
Average	(2,874,417)	(2,687,784)
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	(136,934)	(159,756)
End of year	(114,112)	(136,934)
Average	(125,523)	(148,345)
AVERAGE NET RATE BASE	$ 5,938,255	$ 5,421,730
OPERATING INCOME - REGULATORY BASIS	$ 141,866	$ 172,855
RATE OF RETURN (PERCENT)	2.39	3.19
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.

VILLAGE OF MCFARLAND

McFarland, Wisconsin

COMMUNICATION TO THOSE CHARGED
WITH GOVERNANCE AND MANAGEMENT

As of and for the Year Ended December 31, 2018

VILLAGE OF MCFARLAND

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REQUIRED COMMUNICATION OF INTERNAL CONTROL RELATED MATTERS IDENTIFIED IN THE AUDIT TO THOSE CHARGED WITH GOVERNANCE

To the Village Board
Village of McFarland
McFarland, Wisconsin

In planning and performing our audit of the financial statements of the Village of McFarland ("village") as of and for the year ended December 31, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered its internal control over financial reporting (internal control) as a basis for designing our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of its internal control. Accordingly, we do not express an opinion on the effectiveness of its internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies in the village's internal control to be material weaknesses:

> Internal Control Environment

> Internal Control Over Financial Reporting

This communication is intended solely for the information and use of management, the village board, and others within the organization and is not intended to be, and should not be, used by anyone other than these specified parties.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
June 18, 2019

Auditing standards require that we perform procedures to obtain an understanding of your government and its internal control environment as part of the annual audit. This includes an analysis of significant transaction cycles and an analysis of the year-end financial reporting process and preparation of your financial statements.

INTERNAL CONTROL ENVIRONMENT

Controls Over Utility Billing

There should be segregation between the receipting and receivables function.

Since the controls listed above or other compensating controls are not currently in place, errors or irregularities could occur as part of the accounting processes that might not be discovered by management or the governing body. Therefore, the absence of these controls is considered to be a material weakness.

We recommend that a designated employee review the segregation of duties, risks, and these potential controls and determine whether additional controls should be implemented. This determination should take into consideration a cost / benefit analysis.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Properly designed systems of internal control provide your organization with the ability to process and record accurate monthly and year-end transactions and annual financial reports.

Our audit includes a review and evaluation of the internal controls relating to financial reporting. Common attributes of a properly designed system of internal control for financial reporting are as follows:

> There is adequate staffing to prepare financial reports throughout the year and at year-end.

> Material misstatements are identified and corrected during the normal course of duties.

> Complete and accurate financial statements, including footnotes, are prepared.

> Financial reports are independently reviewed for completeness and accuracy.

Our evaluation of the internal controls over financial reporting has identified control deficiencies that are considered material weakness surrounding the preparation of financial statements and footnotes, adjusting journal entries identified by the auditors, and an independent review of financial reports.

Management has not prepared financial statements that are in conformity with generally accepted accounting principles. In addition, material misstatements in the general ledger were identified during the financial audit.

This level of internal control over financial reporting can be a difficult task for governments that operate with only enough staff to process monthly transactions and reports, and often rely on their auditors to prepare certain year-end audit entries and financial statements.

OTHER COMMUNICATIONS TO THOSE CHARGED WITH GOVERNANCE

TWO WAY COMMUNICATION REGARDING YOUR AUDIT

As part of our audit of your financial statements, we are providing communications to you throughout the audit process. Auditing requirements provide for two way communication and are important in assisting the auditor and you with more information relevant to the audit.

As this past audit is concluded, we use what we have learned to begin the planning process for next year's audit. It is important that you understand the following points about the scope and timing of our next audit:

a. We address the significant risks of material misstatement, whether due to fraud or error, through our detailed audit procedures.

b. We will obtain an understanding of the five components of internal control sufficient to assess the risk of material misstatement of the financial statements whether due to error or fraud, and to design the nature, timing, and extent of further audit procedures. We will obtain a sufficient understanding by performing risk assessment procedures to evaluate the design of controls relevant to an audit of financial statements and to determine whether they have been implemented. We will use such knowledge to:

   > Identify types of potential misstatements.

   > Consider factors that affect the risks of material misstatement.

   > Design tests of controls, when applicable, and substantive procedures.

   We will not express an opinion on the effectiveness of internal control over financial reporting or compliance with laws, regulations, and provisions of contracts or grant programs.

c. The concept of materiality recognizes that some matters, either individually or in the aggregate, are important for fair presentation of financial statements in conformity with generally accepted accounting principles while other matters are not important. In performing the audit, we are concerned with matters that, either individually or in the aggregate, could be material to the financial statements. Our responsibility is to plan and perform the audit to obtain reasonable assurance that material misstatements, whether caused by errors or fraud, are detected.

We are very interested in your views regarding certain matters. Those matters are listed here:

a. We typically will communicate with your top level of management unless you tell us otherwise.

b. We understand that the village board has the responsibility to oversee the strategic direction of your organization, as well as the overall accountability of the entity. Management has the responsibility for achieving the objectives of the entity.

c. We need to know your views about your organization's objectives and strategies, and the related business risks that may result in material misstatements.

d. Which matters do you consider warrant particular attention during the audit, and are there any areas where you request additional procedures to be undertaken?

e. Have you had any significant communications with regulators or grantor agencies?

f. Are there other matters that you believe are relevant to the audit of the financial statements?

Also, is there anything that we need to know about the attitudes, awareness, and actions of the village concerning:

a. The village's internal control and its importance in the entity, including how those charged with governance oversee the effectiveness of internal control?

b. The detection or the possibility of fraud?

We also need to know if you have taken actions in response to developments in financial reporting, laws, accounting standards, governance practices, or other related matters, or in response to previous communications with us.

With regard to the timing of our audit, here is some general information. If necessary, we may do preliminary audit work during the months of October-December, and sometimes early January. Our final fieldwork is scheduled during the spring to best coincide with your readiness and report deadlines. After fieldwork, we wrap up our audit procedures at our office and may issue drafts of our report for your review. Final copies of our report and other communications are issued after approval by your staff. This is typically 6-12 weeks after final fieldwork, but may vary depending on a number of factors.

Keep in mind that while this communication may assist us with planning the scope and timing of the audit, it does not change the auditor's sole responsibility to determine the overall audit strategy and the audit plan, including the nature, timing, and extent of procedures necessary to obtain sufficient appropriate audit evidence.

We realize that you may have questions on what this all means, or wish to provide other feedback. We welcome the opportunity to hear from you.

COMMUNICATION OF OTHER CONTROL DEFICIENCIES, RECOMMENDATIONS AND INFORMATIONAL POINTS TO MANAGEMENT THAT ARE NOT MATERIAL WEAKNESSES OR SIGNIFICANT DEFICIENCIES

INFORMATIONAL POINTS

CYBER SECURITY MANAGEMENT

The sources of cyber threats continue to grow in number and sophistication. We have seen social engineering, including email phishing, and ransomware attacks cause disruption and monetary losses in the government landscape. Cybersecurity controls are imperative and may be of several different types:

- Preventative – activities that make attacks more difficult such as user access and password controls
- Detective – activities conducted to discover security incidents such as automated or manual reviews of firewall and server logs
- Responsive – activities performed once an incident has been identified such as a communication plan

Step one in determining which types of controls are best suited for your government is completing a data classification. This process includes identifying what types of data exist, determining data location, and measuring costs associated with the loss of data (i.e. – operational downtime, regulatory fines, or civil lawsuits). This information will help management and those charged with governance be able to evaluate the cost-benefit of control implementation. Even if your government has chosen to obtain cyber liability insurance to mitigate risk, the data classification remains an important exercise to help evaluate the policy coverage, pricing, and what, if any, exposure remains outside of your policy.

Data classification is only one piece of a sustainable cyber security management plan. We have professionals dedicated to cyber security and information technology risk to assist with your cyber security questions, assessments, and programs.

GASB UPDATES

The Government Accounting Standard Board (GASB) has been very active in recent years, issuing new standards at a fast pace. Over the next few years, your government will have many new standards to evaluate and implement. Here are the standards which may impact you in the next year:

- GASB 83 provides accounting and financial reporting for asset retirement obligations, effective for reporting periods beginning on or after June 15, 2018
- GASB 84 improves guidance regarding the identification of fiduciary activities and how they should be reported, effective for reporting periods beginning on or after December 15, 2018
- GASB 88 improves certain disclosures related to debt, including direct borrowings and placements, effective for reporting periods beginning on or after June 15, 2018
- GASB 90 clarifies accounting and financial reporting for majority equity interests, effective for reporting periods beginning on or after December 15, 2018

Other GASB pronouncements on the horizon, while the implementation dates is in the near term these are anticipated to have significant impacts on many government financial statements:

- GASB 87 improves accounting and financial reporting for leases, effective for reporting periods beginning on or after December 15, 2019
- GASB 89 provides guidance for accounting for interest cost incurred before the end of a constriction period, effective for reporting periods beginning on or after December 15, 2019

GASB UPDATES (cont.)

Looking even further ahead, the Technical Agenda, below, outlines significant areas GASB is currently working on:

- Conceptual Framework
  - Disclosure
  - Recognition
- Major Projects
  - Financial Reporting Model
  - Revenue and Expense Recognition
  - Public-Private Partnerships
- Practice Issues
  - Conduit Debt
  - Deferred Compensation Plans
  - Secured Overnight Financing Rate
  - Subscription-Based IT arrangements
  - Implementation Guidance
- Pre-Agenda Research
  - Going Concern
  - Compensated Absences
  - Prior-Period Adjustments, Accounting Changes and Error Corrections

Through our firm involvement on AICPA committees, Baker Tilly follows these developments closely so that we can help you prepare for the changes as they evolve. This participation also allows us to share with GASB the experiences and perspectives of our clients to potentially influence the direction of future projects.

Full lists of projects, as well as many resources, are available on GASB's website which is located at www.gasb.org.

RESOURCES FOR STATE AND LOCAL GOVERNMENT BOARDS

Expectations and accountability are at all-time high and the knowledge required to be an effective board member is substantial. As a benefit to our clients, we have compiled a number of resources dedicated to educating state and local government board members. Go to our Board Governance Resource Center at www.bakertilly.com/board-governance for more information.

The Resource Center includes the following:

Podcasts

1. Managing cyber threats: Developing a sustainable cybersecurity program to address your unique risks
2. Understanding utility finances
3. Benefits of a fraud risk assessment
4. Financial ratios and benchmarks
5. Fund balance and other financial policies

Resources for State and Local Government Boards (cont.)

Articles

1. Securitization of deposits and investments
2. Five easy internal controls your government should implement
3. Fund balance levels: What works for your government?
4. The importance of smart spending cuts

We encourage you to subscribe to our complimentary newsletter "Government Connection" to stay abreast of the latest issues impacting state and local governments. You can do so by clicking on the "subscribe" button and indicating "State and Local Government" as an area of interest on the subscription form. Also, if you or your board members have suggested topics to feature on our Board Governance webpage or Government Connection newsletter, we invite you to submit your ideas in person or online.

Upcoming Lease Standard

In June 2017, the Governmental Accounting Standards Board (GASB) issued new guidance to establish a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. This standard is effective for fiscal years ending on or after December 31, 2020. Statement No. 87, *Leases*, requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognize as inflows of resources or outflow of resources based on the payment provisions of the contract.

Under the new standard, a lease is defined as a contract that conveys control of the right to use another entity's nonfinancial asset (underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction. Control is defined by: 1) the right to obtain the present service capacity from the use of the underlying asset and 2) the right to determine the nature and manner of use of the underlying asset. Any contract that meets this definition should be accounted for under the lease guidance, unless specifically excluded in this statement. Leases include contracts that, although not explicitly identified as leases, meet the above definition of a lease.

There are some exemptions outlined in the standard including, intangible assets, service concession arrangements and supply contracts.

We recommend the village review this standard and start planning how this will affect your financial reporting. An inventory of all contracts that might meet the definition of a lease should be started. The contract listing should include key terms of the contracts such as:

- Description of contract
- Underlying asset
- Contract term
- Options for extensions and terminations
- Service components, if any
- Dollar amount of lease

In addition, the village should begin to establish a lease policy to address the treatment of common lease types, including a dollar threshold for each lease. We are available to discuss this further and help you develop an action plan.

WATER DEPARTMENT EARNINGS

The water utility's net operating income decreased to $295,000 in 2018 from $332,000 in 2017. Operating revenues decreased $13,000 primarily due to a decrease water tower rental revenue. In addition, there was an increase of $23,000 in operating expenses due to an increase in depreciation expense. All other operating expenses were consistent with 2017. The rate of return for 2018 was 2.39% compared to 3.19% in 2017.

SEWER DEPARTMENT EARNINGS

The sewer utility recognized an operating loss of $126,000 in 2018 compared to an operating loss of $15,000 in 2017. Sewer operating revenues increased by $2,000 due to an increase in commercial customer charges. Operating expenses increased $113,000 primarily due to an increase in treatment charges from MMSD.

STORM WATER DEPARTMENT EARNINGS

The utility recognized net operating income of $137,000 in 2018 compared to $127,000 in 2017. Operating expenses increased $7,000 primarily due to an increase in depreciation expense. All other operating expenses were consistent with 2017. Operating revenues increased $17,000 due to an approximate increase of 180 ERU's in 2018.

SEWER GALLONS TREATED COMPARED TO SOLD

During our review of sewer revenues, we noted a significant discrepancy between gallons treated by MMSD compared to gallons sold to customers. The total gallons treated by MMSD was 270,936 and the total gallons sold to customers was 172,633. We recommend the Utilities investigate the cause of the difference, as this has increased steadily year over year. We also recommend the Utilities increase rates on a yearly basis in order to account for yearly increases in charges from MMSD.

STATUS OF PRIOR YEAR POINTS

BANK ACCOUNTS NOT RECORDED ON THE BOOKS

During our testing of cash, we noted there were five bank accounts that were not recorded in the village's general ledger. The accounts are public safety related. These accounts are not material to the financial statements as a whole; however, we recommend management investigate the nature of these accounts to understand if these accounts should be recorded on the village's books. In addition, if these accounts should be on the village's books, controls should be put in place to monitor and reconcile the activity related to these cash accounts.

Status (12/31/18)

This is still applicable.

STATUS OF PRIOR YEAR POINTS

MONITORING EXPENDITURES CHARGED TO THE TIF DISTRICTS

The village has three active TIF districts. Per state statute, a project plan is adopted and approved for each district. Included within the project plan, is a detailed listing of the approved projects and the estimated expenditures. We recommend that the village review the actual costs being charged to the TIF districts and compare the costs to the approved project plan. An amendment to the project plan may be required if the costs incurred are not specifically allowed for in the project plan itself. This relates to capital expenditures, administrative costs and other costs incurred in the TIF districts. We also recommend that the village track the actual costs compared to the individual project plan line items.

Status (12/31/18)

This is still applicable.

AMBULANCE RECEIVABLES

The village provides ambulance services to its citizens and bills for those services. Prior to 2006, the village handled the billing and collections internally and many uncollectible accounts have remained in the ambulance receivable balance since that time. Many uncollectible ambulance accounts result from Medicare or Medicaid disallowances. Those disallowances should be written off on a periodic basis.

Starting in 2006, the village contracted with an ambulance billing service provider who provides the village with the uncollectible amounts so that the current billings can be adjusted accordingly.

We recommend that the village review the outstanding ambulance receivables balance and if necessary approve a resolution writing off old outstanding amounts from the ambulance receivable balance. Fortunately, the write-offs will have no effect on the general fund's fund balance as these amounts are also set-up in an allowance account. After writing off the uncollectible amounts, there will be no need for village staff to continue tracking these old outstanding balances.

Status (12/31/18)

The village should continue to evaluate outstanding balances held at the third party service providers to determine if additional write-offs should be made and whether the allowance related to ambulance receivables is appropriate.

DECENTRALIZED CASH COLLECTIONS

Many governments collect cash at numerous decentralized locations that are separate from the primary system of accounting procedures and controls. The opportunity for theft is often higher at those locations because one person is frequently involved in most, if not all, aspects of a transaction (i.e. lack of segregation of duties).

Examples in your government that fit this situation include: police department, municipal court, community development, library, outreach, fire department and public works.

Management is responsible for designing and implementing controls and procedures to detect and prevent fraud. As a result, we recommend that management review its decentralized cash collection procedures and controls on a periodic basis and make changes as necessary to strengthen the internal control environment. Reviewing the adequacy of the controls is a responsibility of the governing body.

STATUS OF PRIOR YEAR POINTS (cont.)

DECENTRALIZED CASH COLLECTIONS (cont.)

Below are example procedures and controls to help mitigate the risk of loss at decentralized cash collection points:

> Implement a centralized receipting process with adequate segregation of duties

> For cash collections, ensure pre-numbered receipts are being used and all receipts in the sequence are being reviewed by someone other than the person receipting the cash and receipts tie to deposits

> Perform surprise procedures at decentralized locations (cash counts, walkthrough of processes, etc.)

> Require regular cash deposits to minimize collection on-hand

> Limit the number of separate bank accounts

> Segregate duties as much as possible – the person receipting cash should be separate from the person preparing deposits and the person reconciling bank accounts should be separate from the cash collection activity

> Perform a month-to-month or year-to-year comparison to look for unusual changes in collections

> If collecting from a drop box site, consider sending two people to collect the funds, especially during peak times

As always, the cost of controls and staffing must be weighed against the benefits of safeguarding your assets.

Status (12/31/18)

This is still applicable.

IMPACT FEE TRACKING

State Statute 66.0617 allows impact fees to be charged for specific public facilities, including parks. The village has been charging park impact fees since 2004. According to the impact statute, impact fees must be tracked in a separate interest bearing account and spent within 10 years. In order to adequately monitor the collection and the spend down of impact fees we recommend that the village create a tracking sheet to monitor the impact fee revenue being collected along with tracking any related expenses reducing the impact fee balance. In addition, any supporting documentation used in the calculation of park impact fee billing should be maintained by the village.

Status (12/31/18)

This is still applicable. The village is in the process of updating its park impact fee.

REQUIRED COMMUNICATIONS BY THE AUDITOR TO THOSE CHARGED WITH GOVERNANCE

To the Village Board
Village of McFarland
McFarland, Wisconsin

Thank you for using Baker Tilly Virchow Krause, LLP as your auditor.

We have completed our audit of the financial statements of the Village of McFarland ("village") for the year ended December 31, 2018 and have issued our report thereon dated June 18, 2019. This letter presents communications required by our professional standards.

Our Responsibility under Auditing Standards Generally Accepted in the United States of America

The objective of a financial statement audit is the expression of an opinion on the financial statements. We conducted the audit in accordance with auditing standards generally accepted in the United States of America. These standards require that we plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements prepared by management with your oversight are free of material misstatement, whether caused by error or fraud. Our audit included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit does not relieve management or those charged with governance of their responsibilities.

As part of the audit we obtained an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing and extent of further audit procedures. The audit was not designed to provide assurance on internal control or to identify deficiencies in internal control.

Other Information in documents Containing Audited Financial Statements

Our responsibility does not extend beyond the audited financial statements identified in this report. We do not have any obligation to and have not performed any procedures to corroborate other information contained in client prepared documents, such as official statements related to debt issues.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our Communication to Those Charged with Governance and Management letter dated May 25, 2018 and our meeting with the Village Board on May 29, 2018.

Qualitative Aspects of the Entity's Significant Accounting Practices

Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the village are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the village during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

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

Management's estimate of the allowance for doubtful ambulance accounts is based on historical loss levels, and an analysis of the collectivity of individual accounts. We evaluated the key factors and assumptions used to develop the allowances in determining that they are reasonable in relation to the financial statements taken as a whole.

Management's estimate of the net pension asset and deferred outflows/inflows related to pensions which impact the reported pension expense are based on information provided by the Wisconsin Retirement System. We evaluated the key factors and assumptions used to develop the assets and deferred outflows in determining that they are reasonable in relation to the financial statements taken as a whole.

Financial Statement Disclosures

The disclosures in the notes to the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.

A summary of uncorrected financial statements related to other post-employment benefits follows this communication. Management has determined that their effects are immaterial to the financial statements taken as a whole.

Corrected and Uncorrected Misstatements (cont.)

The following is a summary material financial statement misstatement (audit adjustments):

	Amount
Record loan in the Park Fund	$ 203,445
Reallocated capital expenditures	358,000
Water, sewer, stormwater-developer contributions	1,817,432
Record additions and retirements related to a watermain improvement project	726,612

In addition, we prepared GASB No. 34 conversion entries which are summarized in the "Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position" and the "Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities" in the financial statements.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Management Representations

We have requested certain representations from management that are included in the management representation letter. This letter follows this required communication.

Independence

We are not aware of any relationships between Baker Tilly Virchow Krause, LLP and the Village of McFarland that, in our professional judgment, may reasonably be thought to bear on our independence.

Relating to our audit of the financial statements of the Village of McFarland for the year ended December 31, 2018, Baker Tilly Virchow Krause, LLP hereby confirms that we are, in our professional judgment, independent with respect to the village in accordance with the Code of Professional Conduct issued by the American Institute of Certified Public Accountants. We provided no services to the village other than audit services provided in connection with the audit of the current year's financial statements and nonaudit services which in our judgment do not impair our independence.

- Financial statement preparation
- Adjusting journal entries
- Compiled TIF financial statements
- Compiled regulatory reports
- Civic Systems software
- Continuing property records development and maintenance
- Park impact fee needs assessment

None of these nonaudit services constitute an audit under generally accepted auditing standards, including *Government Auditing Standards*.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Village of McFarland's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the supplementary information which accompanies the financial statements but is not RSI. With respect to the supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

This letter, by its nature, focuses on improvements and does not comment on the strong areas of the village's systems and procedures. The comments and suggestions in this report are not intended to reflect in any way on the integrity or ability of the personnel of the village. They are made solely in the interest of establishing sound internal control practices and improving the village's financial operations.

This information is intended solely for the use of the village board, finance committee and management and is not intended to be, and should not be, used by anyone other than these specified parties.

We will review the status of these comments during our next audit engagement. We would be pleased to discuss these comments and suggestions with you in further detail.

We would like to thank you for allowing us to work with the village. We are very interested in the long-term success of the Village of McFarland and our comments are intended to draw your attention to issues which need to be addressed for the village to meet its goals and responsibilities.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
June 18, 2019

MANAGEMENT REPRESENTATIONS

www.mcfarland.wi.us | 5915 Milwaukee St, McFarland, WI 53558 | 608.838.3153

June 18, 2019

Baker Tilly Virchow Krause, LLP
Ten Terrace Court
P.O. Box 7398
Madison, Wisconsin 53707-7398

Dear Baker Tilly Virchow Krause, LLP:

We are providing this letter in connection with your audit of the financial statements of the Village of McFarland as of December 31, 2018 and for the year then ended and for the Water, Sewer and Stormwater Utilities as of December 31, 2018 and 2017 and for the years then ended for the purpose of expressing opinions as to whether the financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the Village of McFarland and the respective changes in financial position and cash flows, where applicable, in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the fair presentation of the previously mentioned financial statements in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining internal control over financial reporting, and preventing and detecting fraud.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audit.

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter.

2. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America. We have engaged you to advise us in fulfilling that responsibility. The financial statements include all properly classified funds of the primary government required by accounting principles generally accepted in the United States of America to be included in the financial reporting entity.

3. We acknowledge our responsibility for 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.

4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.

5. Significant assumptions we used in making accounting estimates, if any, are reasonable.

6. All events subsequent to the date of the financial statements and for which accounting principles generally accepted in the United States of America require adjustment or disclosure have been adjusted or disclosed. No other events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements.

7. All material transactions have been recorded in the accounting records and are reflected in the financial statements.

8. We believe the effects of the uncorrected financial statement misstatements related to other post employment benefits (OPEB) are immaterial, both individually and in the aggregate, to the basic financial statements as a whole. The village has both an implicit rate health insurance OPEB, since they are a member of the State of WI health insurance plan, and an OPEB related to the life insurance plan administered by the State of WI. The Village chose not to record the GASB No. 75 activity related to OPEB as of 12/31/18. As a result, total liabilities and expenses are understated and total net position and the change in net position is overstated by the following amounts in the respective opinion units: Governmental activities: $603,253; Business type activities: $51,985; Water and Sewer: $36,220 and Stormwater: $15,765.In addition, you have recommended adjusting journal entries, and we are in agreement with those adjustments.

9. There are no known or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements. There are no unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with accounting principles generally accepted in the United States of America.

10. Guarantees, whether written or oral, under which the Village is contingently liable, if any, have been properly recorded or disclosed.

Information Provided

11. We have provided you with:

a. Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as financial records and related data, documentation, and other matters.

b. Additional information that you have requested from us for the purpose of the audit.

c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

d. Minutes of the meetings of Village board, finance committee and utility committee or summaries of actions of recent meetings for which minutes have not yet been prepared.

12. We have not completed an assessment of the risk that the financial statements may be materially misstated as a result of fraud.

13. We have no knowledge of any fraud or suspected fraud that affects the entity and involves:

a. Management,

b. Employees who have significant roles in internal control, or

c. Others where the fraud could have a material effect on the financial statements.

14. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, regulators, or others.

15. We have no knowledge of known instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements.

16. There are no known related parties or related party relationships and transactions of which we are aware.

Other

17. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

18. We have a process to track the status of audit findings and recommendations.

19. We have identified to you any previous financial audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.

20. The Village has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.

21. We are responsible for compliance with federal, state, and local laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits, debt contracts, and IRS arbitrage regulations; and we have identified and disclosed to you all federal, state, and local laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.

22. There are no:

a. Violations or possible violations of budget ordinances, federal, state, and local laws or regulations (including those pertaining to adopting, approving and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, or for reporting on noncompliance, except those already disclosed in the financial statement, if any.

b. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by accounting principles generally accepted in the United States of America.

c. Nonspendable, restricted, committed, or assigned fund balances that were not properly authorized and approved.

d. Rates being charged to customers other than the rates as authorized by the applicable authoritative body.

e. Violations of restrictions placed on revenues as a result of bond resolution covenants such as revenue distribution or debt service funding.

23. In regards to the nonattest services performed by you listed below, we have 1) accepted all management responsibility; 2) designated an individual with suitable skill, knowledge, or experience to oversee the services; 3) evaluated the adequacy and results of the services performed, and 4) accepted responsibility for the results of the services.

a. Financial statement preparation

b. Adjusting journal entries

c. Compiled TIF financial statements

d. Compiled regulatory reports

e. Civic Systems software

f. Continuing property records development and maintenance

g. Park impact fee needs assessment

None of these nonattest services constitute an audit under generally accepted auditing standards, including Government Auditing Standards.

24. The Village of McFarland has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.

25. The Village of McFarland has complied with all aspects of contractual agreements that would have a material effect on the financial statement in the event of noncompliance.

26. There are no component units that should be reported in the financial statements, as well as no joint ventures with an equity interest, or other joint ventures or other related organizations that should be reported in the financial statements.

27. The financial statements properly classify all funds and activities.

28. All funds that meet the quantitative criteria in GASB Statement No. 34 and No. 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.

29. Components of net position (net investment in capital assets; restricted; and unrestricted) and components of fund balance (nonspendable, restricted, committed, assigned and unassigned) are properly classified and, if applicable, approved.

30. The Village of McFarland has no derivative financial instruments such as contracts that could be assigned to someone else or net settled, interest rate swaps, collars or caps.

31. Provisions for uncollectible receivables, if any, have been properly identified and recorded.

32. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.

33. Revenues are appropriately classified in the statement of activities within program revenues and general revenues.

34. Interfund, internal, and intra entity activity and balances have been appropriately classified and reported.

35. Deposits and investments are properly classified, valued, and disclosed (including risk disclosures, collateralization agreements, valuation methods, and key inputs, as applicable).

36. Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated/amortized. Any known impairments have been recorded and disclosed.

37. Tax exempt bonds issued have retained their tax exempt status.

38. We have appropriately disclosed the Village of McFarland's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available and have determined that net position were properly recognized under the policy. We have also disclosed our policy regarding which resources (that is, restricted, committed, assigned or unassigned) are considered to be spent first for expenditures for which more than one resource classification is available.

39. We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.

40. With respect to the supplementary information, (SI):

a. We acknowledge our responsibility for presenting the SI in accordance with accounting principles generally accepted in the United States of America, and we believe the SI, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America. The methods of measurement and presentation of the SI have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.

b. If the SI is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date we issue the supplementary information and the auditor's report thereon.

41. We assume responsibility for, and agree with, the information provided by the Wisconsin Retirement System as audited by the Legislative Audit Bureau relating to the net pension asset/liability and related deferred outflows and deferred inflows and have adequately considered the reasonableness of the amounts and disclosures used in the financial statements and underlying accounting records. We also assume responsibility for the census data that has been reported to the plan.

42. We have evaluated and considered all potential tax abatements and believe all material tax abatements have been properly reported and disclosed.

43. We have chosen not to implement GASB No. 75 and have agreed to the passed adjustments as outlined above.

Sincerely,

Village of McFarland

Signed: ______________________
Matthew Schuenke, Village Administrator

Signed: ______________________
Cassandra Suettinger, Village Clerk/Treasurer

VILLAGE BOARD SUMMARY SHEET

MEETING DATE: **Tuesday, July 16, 2019**

SECTION: **Business**

DEPARTMENT: **Public Works**

CONTACT: **Jim Hessling, Public Works Director**

AGENDA ITEM: **Discuss and action on creating a policy for utility customer billing disputes**

PREVIOUS ACTION:

This item was initially introduced at the June 18, 2019 Public Utilities Committee meeting.

ISSUE SUMMARY:

The Public Works Department requested at the last utility Commission meeting that the Utility Committee look at and create a policy/mechanism for staff to refer to, in the case of a disputed charge(s) on a customer's bill. The department has recently discovered several issues in regards to various bills, including some that have been under charged for utility services.

Attached are a couple of **DRAFT** policies that pertain to both the sanitary and storm sewer utilities.

Having a policy in place will assist the department in applying consistent standards to all of our customers while at the same time providing our employees the guidance to carry out the obligations and operations of the utility. This policy should cover all three of our entities which include storm water, water and sanitary sewer.

The Public Service Commission (PSC) of Wisconsin regulates the McFarland Water Utility. We operate the utility by a set of rules called a rate file, which is governed by the PSC. These rules are explicit on how we charge for our water. Their rule is also part of the **DRAFT** and is meant to be used **ONLY** as guidance.

FINANCIAL/BUDGET IMPACT:

VILLAGE PLAN REFERENCE:

ORDINANCE REFERENCE:

BOARD, COMMISSION OR COMMITTEE RECOMMENDATION:

ATTACHMENTS:

1. Current McFarland Water Utility back billing as regulated by the WI PSC

Current McFarland Water Utility Back Billing as regulated by the WI PSC

From PSC Code 185

PSC 185.34 Adjustment of bills (ROM).

(1) STOPPED ROM. A stopped ROM is defined as one that has recorded zero consumption during the last meter reading period. The consumption that was measured by the base meter and not recorded by the remote register shall be backbilled as current consumption. The usage backbilled as current consumption shall not exceed the customer's average usage per billing period based on the latest 12-months usage. Any amount greater than this usage shall be backbilled pursuant to sub. (2).

(2) STOPPED AND UNDER-REGISTERING ROM. Unrecorded ROM consumption (base meter reading less ROM reading) resulting from sub. (1) or an under-registering ROM shall be prorated from the date of the last base meter reading. Pursuant to s. 196.635, Stats., the utility may backbill for prorated amounts associated with the last 24 months.

(3) OVER-REGISTERING ROM. A ROM over registration (OM reading less base meter reading) shall be prorated from the date of the last base meter reading. The utility shall refund prorated amounts associated with the period since the meter was installed or last tested, not to exceed the last 6 years.

History: Cr. Register, January, 1997, No. 493, eff. 2-1-97.

Proposed McFarland Sewer Utility Back Billing

7/9/19jh

Sewer usage calculations will be based on the actual water usage associated with the account in question and will be back billed no more than up to the last 24 months. This back billing includes any base charges not collected in the last 24 months.

Proposed McFarland Storm Sewer Utility Back Billing

7/9/19jh

Storm Sewer calculations or recalculations will based on the actual Residential Equivalency Units for a property in question using the most current rate(s) on file with the utility. This back billing includes any base charges not collected in the last 24 months.

Current Appeals Process for McFarland Public Utilities

From the Village of McFarland Code of Ordinances

Sec. 47-148. - Appeal procedures.

Any user, affected by any decision, action, or determination, including cease and desist orders, made by the interpreting or implementing provision of this Article may file with the Village a written request for reconsideration within ten days of the date of such decision, action, or determination, setting forth in detail the facts supporting the user's request for reconsideration. The Village upon receiving the request for reconsideration shall publish the request in the official newspaper. The Public Utilities Committee shall render a decision on the request for reconsideration of the user in writing within 15 days of receipt of request. If the ruling on the request for reconsideration made by the Public Utilities Committee is unsatisfactory, the person requesting reconsideration may, within ten days after notification of the action, file a written appeal with the Village Board.

(Code 1998, § 9-2-7(i))

VILLAGE BOARD SUMMARY SHEET

MEETING DATE: **Tuesday, July 16, 2019**

SECTION: **Business**

DEPARTMENT: **Public Works**

CONTACT:

AGENDA ITEM: **Presentation of the Public Works Monthly Report from the Director**

PREVIOUS ACTION:

ISSUE SUMMARY:

FINANCIAL/BUDGET IMPACT:

VILLAGE PLAN REFERENCE:

ORDINANCE REFERENCE:

BOARD, COMMISSION OR COMMITTEE RECOMMENDATION:

ATTACHMENTS:

1. June 2019 directors report

PUBLIC WORKS COMMITTEE
July 9, 2019

PUBLIC UTILITIES COMMITTEE
July 16, 2019

PARKS, RECREATION & NATURAL RESOURCES COMMITTEE
July 18, 2019

Public Works Directors Report for June 2019

The following is information concerning events and activities of the Public Works Department along with the Water and Sewer Utilities for the previous month. This information is provided in brief to provide an overview of the highlights.

Street Sealing and Crack Filling

Material used for the 2019 street maintenance work has been rejected. The stone used for street sealing was replaced with the correct size stone by the vendor. Work for this project will be completed in July.

Compliance Maintenance Annual Report (CMAR)

The annual Compliance Maintenance Annual Report has been filed with the WI DNR. This report informs the governing boards the status of the sanitary sewer system within the village. We are graded on maintenance and financial abilities to maintain our system. We are proud to report that we received an “A” in both categories.

Tree Planting and Trimming

Annual tree planting activities for the year have been completed. We continue to trim trees as time and conditions allow.

Water Leak

Staff replaced a leaking water valve at Sure and Johnson Streets. The valve appeared to be about 40-50 years old.

Storm sewer and water box repairs

Two crews of public works staff have been repairing various storm water inlets and water shut off valves around the village.

Meetings/Training/Seminars

PW staff participated in the annual refresher safety training
Hessling participated in the following meetings:

- APWA monthly board meeting