

**VILLAGE OF MARSHALL WATER  
AND SEWER DEPARTMENT**

An Enterprise Fund of the  
Village of Marshall, Wisconsin

FINANCIAL STATEMENTS

Including Independent Auditors' Report

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

# VILLAGE OF MARSHALL WATER AND SEWER DEPARTMENT

An Enterprise Fund of the Village of Marshall, Wisconsin

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**INDEPENDENT AUDITORS' REPORT**

To the Village Board  
Village of Marshall Water and Sewer Department  
Marshall, Wisconsin

***Report on the Financial Statements***

We have audited the accompanying financial statements of Village of Marshall Water and Sewer Department, an enterprise fund of the Village of Marshall, Wisconsin, as of for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, as listed in the table of contents.

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

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

***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Village of Marshall Water and Sewer Department as of December 31, 2012 and 2011, and the changes in its financial position and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

To the Village Board  
Village of Marshall Water and Sewer Department

***Emphasis of Matters***

As discussed in Note 1, the financial statements present only the Village of Marshall Water and Sewer Department enterprise fund and do not purport to, and do not, present fairly the financial position of the Village of Marshall, Wisconsin, as of December 31, 2012 and 2011 and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 1, Village of Marshall Water and Sewer Department adopted the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective January 1, 2012. Our opinion is not modified with respect to this matter.

***Other Matters***

Village of Marshall Water and Sewer Department has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing 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 the financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by this missing information.

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

*Baker Tully Vanden Krauss, LLP*

Madison, Wisconsin  
March 22, 2013

# VILLAGE OF MARSHALL WATER AND SEWER DEPARTMENT

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

<b>ASSETS</b>	2012	2011
<b>CURRENT ASSETS</b>		
Cash and investments	\$ 695,475	\$ 374,694
Interest receivable	9,872	3,098
Restricted Assets		
Redemption account	336,508	295,872
Customer accounts receivable	109,739	130,205
Other accounts receivable	1,128	584
Due from municipality	15,646	34,720
Current portion of advance	128,411	124,750
Total Current Assets	1,296,779	963,923
<b>NON-CURRENT ASSETS</b>		
Restricted Assets		
Reserve account	166,028	166,028
Replacement account	569,285	569,285
Construction account	-	694,730
Other Assets		
Capital projects sinking fund	355,005	312,356
Preliminary survey and investigation	4,687	4,687
Unamortized debt issuance costs	21,610	25,632
Advances to other funds	612,483	740,894
Property held for future use	290,488	290,488
Capital Assets		
Plant in service		
Water	6,584,594	5,254,761
Sewer	11,061,157	11,054,211
Total Plant in Service	17,645,751	16,308,972
Accumulated depreciation		
Water	(1,274,225)	(1,140,731)
Sewer	(4,246,847)	(3,924,932)
Total Accumulated Depreciation	(5,521,072)	(5,065,663)
Construction work in progress		
Water	-	928,592
Total Construction Work in Progress	-	928,592
Total Non-Current Assets	14,144,265	14,976,001
Total Assets	15,441,044	15,939,924

<b>LIABILITIES</b>		<u>2012</u>	<u>2011</u>
<b>CURRENT LIABILITIES</b>			
Accounts payable		\$ 21,619	\$ 30,917
Accrued taxes		20,962	-
Accrued interest		6,473	7,183
Current portion of general obligation debt		60,000	60,000
Current Liabilities Payable from Restricted Assets			
Current portion of revenue bonds		546,741	528,464
Accrued interest		<u>19,514</u>	<u>22,267</u>
Total Current Liabilities		<u>675,309</u>	<u>648,831</u>
<b>NON-CURRENT LIABILITIES</b>			
General obligation debt		465,000	525,000
Revenue bonds		3,019,120	3,565,860
Accrued sick leave		<u>6,593</u>	<u>7,901</u>
Total Non-Current Liabilities		<u>3,490,713</u>	<u>4,098,761</u>
Total Liabilities		<u>4,166,022</u>	<u>4,747,592</u>
<b>NET POSITION</b>			
Net investment in capital assets		8,796,322	9,078,583
Restricted for:			
Debt Service		483,022	439,633
Equipment Replacement		569,285	569,285
Unrestricted		<u>1,426,393</u>	<u>1,104,831</u>
<b>TOTAL NET POSITION</b>		<u><u>\$ 11,275,022</u></u>	<u><u>\$ 11,192,332</u></u>

See accompanying notes to the financial statements.

# VILLAGE OF MARSHALL WATER AND SEWER DEPARTMENT

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

	2012	2011
<b>OPERATING REVENUES</b>		
Water		
Sales of water	\$ 497,728	\$ 441,919
Other	<u>20,405</u>	<u>26,178</u>
Total	<u>518,133</u>	<u>468,097</u>
Sewer		
Treatment charges	719,726	660,955
Other	<u>6,724</u>	<u>9,505</u>
Total	<u>726,450</u>	<u>670,460</u>
Total Operating Revenues	<u>1,244,583</u>	<u>1,138,557</u>
<b>OPERATING EXPENSES</b>		
Water		
Operation and maintenance	193,018	199,106
Depreciation	<u>130,590</u>	<u>109,816</u>
Total Water	<u>323,608</u>	<u>308,922</u>
Sewer		
Operation and maintenance	321,059	332,804
Depreciation	<u>330,219</u>	<u>329,707</u>
Total Sewer	<u>651,278</u>	<u>662,511</u>
Total Operating Expenses	<u>974,886</u>	<u>971,433</u>
<b>OPERATING INCOME</b>		
Water	194,525	159,175
Sewer	<u>75,172</u>	<u>7,949</u>
Total Operating Income	<u>269,697</u>	<u>167,124</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Investment income	22,400	29,904
Investment income on advance to TIF	43,282	49,342
Interest expense	(143,979)	(163,797)
Interest charged to construction	11,142	19,410
Amortization of debt issuance costs	<u>(4,022)</u>	<u>(6,226)</u>
Total Non-Operating Revenues (Expenses)	<u>(71,177)</u>	<u>(71,367)</u>
Income Before Contributions and Transfers	198,520	95,757
<b>CAPITAL CONTRIBUTIONS</b>	2,000	56,647
<b>CAPITAL CONTRIBUTIONS - MUNICIPAL</b>	-	750,000
<b>TRANSFERS - TAX EQUIVALENT</b>	<u>(117,830)</u>	<u>(95,431)</u>
<b>CHANGE IN NET POSITION</b>	82,690	806,973
NET POSITION - Beginning of Year	<u>11,192,332</u>	<u>10,385,359</u>
<b>NET POSITION - END OF YEAR</b>	<u><u>\$ 11,275,022</u></u>	<u><u>\$ 11,192,332</u></u>

See accompanying notes to the financial statements.

# VILLAGE OF MARSHALL WATER AND SEWER DEPARTMENT

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

	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Received from customers	\$ 1,283,579	\$ 1,085,618
Paid to suppliers for goods and services	(299,289)	(655,480)
Paid to employees for operating payroll	(216,070)	(196,060)
Net Cash Flows From Operating Activities	768,220	234,078
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Paid to municipality for tax equivalent	(96,868)	(185,949)
Received on long term advance to TIF	168,032	170,536
Net Cash Flows From Noncapital Financing Activities	71,164	(15,413)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition and construction of capital assets	(411,769)	(751,467)
Capital contributions received	2,000	806,647
Debt retired	(588,463)	(600,577)
Interest paid	(147,442)	(167,444)
Net Cash Flows From Capital and Related Financing Activities	(1,145,674)	(712,841)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investments purchased	(390,457)	(1,009,543)
Investments sold and matured	700,000	1,010,000
Investment income	15,626	26,807
Net Cash Flows From Investing Activities	325,169	27,264
<b>Net Change in Cash and Cash Equivalents</b>	18,879	(466,912)
CASH AND CASH EQUIVALENTS - Beginning of Year	1,403,422	1,870,334
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 1,422,301	\$ 1,403,422
<b>NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Change in market value of investments	\$ -	\$ 3,102
Interest charged to construction	\$ 11,142	\$ 19,410

	<u>2012</u>	<u>2011</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Operating income	\$ 269,697	\$ 167,124
Noncash items in operating income		
Depreciation	460,809	439,523
Changes in assets and liabilities		
Customer accounts receivable	20,466	(21,685)
Other accounts receivable	(544)	3,466
Due from other funds	19,074	(34,720)
Accounts payable	26	276
Due to other funds	-	(317,529)
Accrued sick leave	(1,308)	(2,377)
	<u>\$ 768,220</u>	<u>\$ 234,078</u>
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENT OF NET POSITION ACCOUNTS</b>		
Cash and investments	\$ 695,475	\$ 374,694
Redemption account	336,508	295,872
Reserve account	166,028	166,028
Replacement account	569,285	569,285
Construction account	-	694,730
Capital project sinking account	<u>355,005</u>	<u>312,356</u>
Total Cash and Investments	2,122,301	2,412,965
Less: Noncash equivalents	<u>(700,000)</u>	<u>(1,009,543)</u>
	<u>\$ 1,422,301</u>	<u>\$ 1,403,422</u>
<b>CASH AND CASH EQUIVALENTS</b>		

See accompanying notes to the financial statements.

# VILLAGE OF MARSHALL WATER AND SEWER DEPARTMENT

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

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

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The financial statements of Village of Marshall Water and Sewer Department (utility) 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 utility are described below.

### ***REPORTING ENTITY***

The utility is a separate enterprise fund of the Village of Marshall (municipality). The utility is managed by a village board. The utility provides water and sewer service to properties within the municipality.

The water utility operates under service rules and rates established by the Public Service Commission of Wisconsin (PSCW). The sewer utility operates under rules and rates established by the village board.

### ***MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION***

The utility is presented as an enterprise fund 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, LIABILITIES AND NET POSITION***

#### ***Deposits and Investments***

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

Investment of utility funds is restricted by state statutes. Investments are limited to:

- > Time deposits in any credit union, bank, savings bank or trust company maturing in three years or less.

# VILLAGE OF MARSHALL WATER AND SEWER DEPARTMENT

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

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

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

#### ***Deposits and Investments (cont.)***

- > 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 utility has adopted an investment policy. The policy follows the state statute for allowable investments. The policy does not specifically address the risks disclosed in GASB No. 40.

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

#### ***Receivables/Payables***

Transactions between the utility 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 utility and other funds of the municipality are reported as due to/from other funds.

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

As part of funding the Well #3 project, the utility is eligible to receive \$90,000 in grant proceeds. A receivable has not been setup as the receipt of funds is not certain.

# VILLAGE OF MARSHALL WATER AND SEWER DEPARTMENT

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

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

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

#### ***Restricted Assets***

Mandatory segregations of assets are presented as restricted assets. Such segregations are required by bond agreements and other external parties. Current liabilities payable from these restricted assets are so classified.

#### ***Capital Projects Sinking Fund***

The utility has set up a capital project sinking fund which is used to accumulate unrestricted payments received from TIF. The intent is the funds will be used for future capital projects and/or debt service.

#### ***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.

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

The water utility acquired property for future use of a water tower and the sewer utility maintains property for future use following the retirement of the old wastewater treatment plant.

#### ***Capital Assets***

Capital assets are generally defined by the utility as assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of one year.

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

	<u>Years</u>
Water Plant	
Source of supply	34
Pumping	23 - 31
Water treatment	17
Transmission and distribution	18 - 77
General	4 - 17
Sewer Plant	
Collecting system	50 - 100
Collecting system pumping	20
Treatment and disposal	15 - 40
General	7 - 20

# VILLAGE OF MARSHALL WATER AND SEWER DEPARTMENT

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

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

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

#### ***Vacation and Sick Leave***

Under terms of employment, employees are granted vacation and sick leave in varying amounts. Employees are not allowed to accumulate unused vacation pay beyond their service anniversary date, unless the employee has prior written approval by the Village Board. In order to be eligible to receive village sponsored retirement benefits an employee must be able to satisfy the rule of 76 (seventy-six) and must have a minimum of 5 (five) years of service with the village. The rule of 76 allocates 1 point for each full year of age and 1 point for each full year of service with the village. When employees satisfy the rule of 76, they are eligible to receive \$50 per each 8 hours of accrued sick leave upon retirement. No payment is made when they leave employment for other reasons or do not satisfy the rule of 76.

#### ***Long-Term Obligations***

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

### ***REVENUES AND EXPENSES***

The utility distinguishes 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 utility 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 monthly based on metered usage. The utility does not accrue revenues beyond billing dates.

Current water rates were approved by the PSCW effective April 11, 2012.

Current sewer rates were approved by the village board effective February 11, 2012.

#### ***Capital Contributions***

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

#### ***Connection Fees***

The utility has received sewer connection fees which must be used in accordance with local ordinances. The intent is the funds will be used for future expansions of the treatment plant or to pay debt service for the existing treatment plant.

# VILLAGE OF MARSHALL WATER AND SEWER DEPARTMENT

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

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

### REVENUES AND EXPENSES (cont.)

#### Taxes

Taxes included in the financial statements include PSCW remainder assessment and social security taxes. Municipal utilities are exempt from income taxes and therefore no income tax liability is recorded by the utility.

### EFFECT OF NEW ACCOUNTING STANDARDS ON CURRENT PERIOD FINANCIAL STATEMENTS

The Governmental Accounting Standards Board (GASB) has approved GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*; Statement No. 66, *Technical Corrections - 2012 an amendment of GASB Statements No. 10 and No. 62*; Statement No. 67, *Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25*; and Statement No. 68, *Accounting and Financial reporting for Pensions - an amendment of GASB Statement No. 27*. Application of these standards may restate portions of these financial statements.

### COMPARATIVE DATA

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

## NOTE 2 - DEPOSITS AND INVESTMENTS

	Carrying Value as of		Risks
	December 31,		
	2012	2011	
Checking and savings	\$ 15,905	\$ (120,338)	Custodial credit
Certificates of deposits	700,000	700,000	Custodial credit
Money market	1,820,762	1,590,815	Custodial credit
LGIP	-	66	Credit and interest rate
U.S. securities	-	312,645	Interest rate and concentration of credit
Petty cash	<u>200</u>	<u>200</u>	N/A
Totals	<u>\$ 2,536,867</u>	<u>\$ 2,483,388</u>	

The above table does not include the utilities share of the pooled cash of (\$414,566) and (\$70,422) at 2012 and 2011, respectively.

# VILLAGE OF MARSHALL WATER AND SEWER DEPARTMENT

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

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

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

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

The utility 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 utility alone. Therefore, coverage for the utility may be reduced. Investment income on commingled investments of the entire municipality is allocated based on average investment balances. Investment income on commingled investments of the entire municipality is allocated based on average investment balances.

SIPC membership provides account protection up to a maximum of \$500,000 per customer, of which \$100,000 may be in cash. Additionally, through Lloyds of London, accounts have additional securities coverage of \$99.5 million per customer, subject to a \$500 million aggregate firm limit.

In addition, the utility and other funds of the village have collateral or depository insurance agreements in the amount of \$2,284,514 and \$2,820,118 at December 31, 2012 and 2011 respectively.

#### ***Custodial Credit Risk***

#### **Deposits**

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

The utility maintains certain deposits in the same institutions as the municipality. The following is a summary of the utility's total deposit balances at these institutions.

	2012		2011	
	Bank Balance	Carrying Value	Bank Balance	Carrying Value
Farmers & Merchants State Bank				
Non-interest bearing	\$ 18,421	\$ 15,905	\$ 29,485	\$ (120,338)
Interest bearing	1,213,133	1,213,133	987,690	987,689
First Business Bank	807,629	807,629	803,125	803,125
Union Bank of Blair	500,000	500,000	500,000	500,000
Totals	\$ 2,539,183	\$ 2,536,667	\$ 2,320,300	\$ 2,170,476

**VILLAGE OF MARSHALL WATER AND SEWER DEPARTMENT**

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

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

***Custodial Credit Risk*** (cont.)

**Investments**

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the utility will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The utility maintains certain investments with the same counterparties as the municipality. The following is a summary of these investment balances disclosed by type. The utility does not have any investments exposed to custodial credit risk at December 31, 2012.

	2011	
	Bank Balance	Carrying Value
Federal Farm Credit Bank	\$ 312,645	\$ 312,645

***Credit Risk***

Credit risk is the risk an issuer or other counterparty to an investment will not fulfill its obligations. The utility did not have any balances exposed to credit risk at December 31, 2012.

As of December 31, 2011 the utility's investments were rated as follows:

Investment Type	Standard & Poors
U.S. Securities	AAA, AA+

The utility also held investments in the Local Government Investment Pool at December 31, 2011 which is an external pool that is not rated.

***Concentration of Credit Risk***

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The utility maintains certain investments commingled with the municipality. The concentration of credit risk pertaining specifically to the utility's resources cannot be determined for those accounts. Please refer to the municipality's financial statements for information on this risk.

***Interest Rate Risk***

Interest rate risk is the risk changes in interest rates will adversely affect the fair value of an investment. The utility did not have any balances exposed to interest rate risk at December 31, 2012.

**VILLAGE OF MARSHALL WATER AND SEWER DEPARTMENT**

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

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

***Interest Rate Risk*** (cont.)

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

Investment Type	Fair Value	Maturity (In Months)		
		Less than 1 year	1-5 years	Greater than 10 years
U.S. Securities	\$ 312,645	\$ -	\$ 312,645	\$ -

**NOTE 3 - INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS**

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

Due To	Due From	2012		2011	
		Amount	Principal Purpose	Amount	Principal Purpose
Utility	Municipality	\$ 15,646	Operating expenses	\$ 34,720	Operating expenses
Utility	TIF District	740,894	Sewer Debt	865,644	Sewer Debt

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

To	From	2012		2011	
		Amount	Principal Purpose	Amount	Principal Purpose
Municipality	Utility	\$ 117,830	Payment in lieu of taxes	\$ 95,431	Payment in lieu of taxes
Utility	TIF	-		750,000	Contribution for Well #3

**NOTE 4 - RESTRICTED ASSETS**

***Restricted Accounts***

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

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

**VILLAGE OF MARSHALL WATER AND SEWER DEPARTMENT**

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

**NOTE 4 - RESTRICTED ASSETS (cont.)**

***Replacement Account***

As a condition of receiving state and federal funds for wastewater plant construction, the utility has established an account for replacement of certain mechanical equipment. The utility uses the alternative method of funding, which does not require an annual deposit.

***Restricted Net Position***

The following calculation supports the amount of restricted net position:

	<u>2012</u>	<u>2011</u>
Restricted Assets		
Redemption account	\$ 336,508	\$ 295,872
Reserve account	166,028	166,028
Replacement account	569,285	569,285
Construction account	-	694,730
Total Restricted Assets	<u>1,071,821</u>	<u>1,725,915</u>
 Less: Restricted Assets Not Funded by Revenues		
Construction account	<u>-</u>	<u>(694,730)</u>
 Current Liabilities Payable From Restricted Assets	<u>(19,514)</u>	<u>(22,267)</u>
 Total Restricted Net Position as Calculated	<u>\$ 1,052,307</u>	<u>\$ 1,008,918</u>

The purpose of the restricted net position is as follows:

	<u>2012</u>	<u>2011</u>
Debt Service	\$ 483,022	\$ 439,633
Equipment Replacement	<u>569,285</u>	<u>569,285</u>
	<u>\$ 1,052,307</u>	<u>\$ 1,008,918</u>

**NOTE 5 - ADVANCES TO OTHER FUNDS**

***Advance to Tax Incremental Financing (TIF) District***

As part of the construction costs for the wastewater treatment plant and related collection system improvements, the utility borrowed funds for the TIF portion of the projects. The total amount advanced to the TIF district equaled \$2,198,081. The scheduled repayment to the utility includes a principal amount plus 5% interest. Additional principal payments are allowed and will be kept in a segregated account for future debt payments.

**VILLAGE OF MARSHALL WATER AND SEWER DEPARTMENT**

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

**NOTE 5 - ADVANCES TO OTHER FUNDS (cont.)**

<u>Date</u>	<u>Purpose</u>	<u>Final Maturity</u>	<u>Interest Rate</u>	<u>Original Amount</u>	<u>Outstanding Amount 12/31/2012</u>
5/01/1999	Tax Incremental Financing	5/01/2018	5%	\$ 2,198,081	\$ 740,894

Repayment requirements to maturity follow:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 128,411	\$ 37,045	\$ 165,456
2014	132,180	30,624	162,804
2015	136,060	24,015	160,075
2016	140,055	17,212	157,267
2017	144,168	10,209	154,377
2018	<u>60,020</u>	<u>3,001</u>	<u>63,021</u>
Totals	<u>\$ 740,894</u>	<u>\$ 122,106</u>	<u>\$ 863,000</u>

**NOTE 6 - CHANGES IN CAPITAL ASSETS**

***Water Utility***

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

	<u>Balance 1/1/12</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 12/31/12</u>
Capital assets, not being depreciated				
Land and land rights	\$ 36,137	\$ 47,500	\$ -	\$ 83,637
Capital assets being depreciated				
Source of supply	25,637	228,061	-	253,698
Pumping	132,421	793,106	-	925,527
Water treatment	3,809	-	-	3,809
Transmission and distribution	4,927,661	238,561	2,400	5,163,822
General	<u>129,096</u>	<u>26,505</u>	<u>1,500</u>	<u>154,101</u>
Total Capital Assets Being Depreciated	<u>5,218,624</u>	<u>1,286,233</u>	<u>3,900</u>	<u>6,500,957</u>
Total Capital Assets	<u>5,254,761</u>	<u>1,333,733</u>	<u>3,900</u>	<u>6,584,594</u>
Less: Accumulated depreciation	<u>(1,140,731)</u>	<u>(137,394)</u>	<u>3,900</u>	<u>(1,274,225)</u>
Construction in progress	<u>928,592</u>	<u>378,038</u>	<u>1,306,630</u>	<u>-</u>
Net Capital Assets	<u>\$ 5,042,622</u>			<u>\$ 5,310,369</u>

**VILLAGE OF MARSHALL WATER AND SEWER DEPARTMENT**

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

**NOTE 6 - CHANGES IN CAPITAL ASSETS (cont.)**

**Water Utility** (cont.)

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

	<u>Balance 1/1/11</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 12/31/11</u>
Capital assets, not being depreciated				
Land and land rights	\$ 36,137	\$ -	\$ -	\$ 36,137
Capital assets being depreciated				
Source of supply	25,637	-	-	25,637
Pumping	132,421	-	-	132,421
Water treatment	3,809	-	-	3,809
Transmission and distribution	4,818,376	133,145	23,860	4,927,661
General	<u>129,096</u>	<u>-</u>	<u>-</u>	<u>129,096</u>
Total Capital Assets Being Depreciated	<u>5,109,339</u>	<u>133,145</u>	<u>23,860</u>	<u>5,218,624</u>
Total Capital Assets	<u>5,145,476</u>	<u>133,145</u>	<u>23,860</u>	<u>5,254,761</u>
Less: Accumulated depreciation	<u>(1,048,068)</u>	<u>(116,523)</u>	<u>23,860</u>	<u>(1,140,731)</u>
Construction in progress	<u>297,633</u>	<u>685,064</u>	<u>54,105</u>	<u>928,592</u>
Net Capital Assets	<u>\$ 4,395,041</u>			<u>\$ 5,042,622</u>

**Sewer Utility**

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

	<u>Balance 1/1/12</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 12/31/12</u>
Capital assets, not being depreciated				
Land and land rights	\$ 215,728	\$ -	\$ -	\$ 215,728
Capital assets being depreciated				
Collecting system	3,941,598	-	-	3,941,598
Collecting system pumping	218,989	-	-	218,989
Treatment and disposal	6,353,902	2,064	-	6,355,966
General	<u>323,994</u>	<u>6,382</u>	<u>1,500</u>	<u>328,876</u>
Total Capital Assets Being Depreciated	<u>10,838,483</u>	<u>8,446</u>	<u>1,500</u>	<u>10,845,429</u>
Total Capital Assets	<u>11,054,211</u>	<u>8,446</u>	<u>1,500</u>	<u>11,061,157</u>
Less: Accumulated depreciation	<u>(3,924,932)</u>	<u>(323,415)</u>	<u>1,500</u>	<u>(4,246,847)</u>
Net Capital Assets	<u>\$ 7,129,279</u>			<u>\$ 6,814,310</u>

**VILLAGE OF MARSHALL WATER AND SEWER DEPARTMENT**

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

**NOTE 6 - CHANGES IN CAPITAL ASSETS (cont.)**

***Sewer Utility*** (cont.)

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

	<u>Balance 1/1/11</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 12/31/11</u>
Capital assets, not being depreciated				
Land and land rights	<u>\$ 215,728</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 215,728</u>
Capital assets being depreciated				
Collecting system	3,921,381	26,957	6,740	3,941,598
Collecting system pumping	218,989	-	-	218,989
Treatment and disposal	6,353,902	-	-	6,353,902
General	<u>323,994</u>	<u>-</u>	<u>-</u>	<u>323,994</u>
Total Capital Assets Being Depreciated	<u>10,818,266</u>	<u>26,957</u>	<u>6,740</u>	<u>10,838,483</u>
Total Capital Assets	<u>11,033,994</u>	<u>26,957</u>	<u>6,740</u>	<u>11,054,211</u>
Less: Accumulated depreciation	<u>(3,608,672)</u>	<u>(323,000)</u>	<u>6,740</u>	<u>(3,924,932)</u>
Net Capital Assets	<u>\$ 7,425,322</u>			<u>\$ 7,129,279</u>

**NOTE 7 - LONG-TERM OBLIGATIONS**

***Revenue Bonds - Sewer***

The following bonds have been issued:

<u>Date</u>	<u>Purpose</u>	<u>Final Maturity</u>	<u>Interest Rate</u>	<u>Original Amount</u>	<u>Outstanding Amount 12/31/12</u>
8/27/97	Wastewater treatment plant improvements	5/1/17	3.096%	\$ 6,351,233	\$ 2,047,496
11/24/98	Wastewater collection system improvements	5/1/18	2.640	1,155,695	428,365

**VILLAGE OF MARSHALL WATER AND SEWER DEPARTMENT**

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

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

**Revenue Bonds - Sewer (cont.)**

Revenue bonds debt service requirements to maturity follows:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 451,741	\$ 67,859	\$ 519,600
2014	465,422	53,970	519,392
2015	479,519	39,659	519,178
2016	494,044	24,913	518,957
2017	509,010	9,720	518,730
2018	<u>76,125</u>	<u>1,005</u>	<u>77,130</u>
Totals	<u>\$ 2,475,861</u>	<u>\$ 197,126</u>	<u>\$ 2,672,987</u>

All sewer utility revenues net of specified operating expenses net of specified operating expenses are pledged as security of the above revenue bonds until the bonds are defeased. Principal and interest paid for 2012 and 2011 were \$519,600 and \$519,997, respectively. Total customer net revenues as defined for the same periods were \$586,623 and \$579,791. Annual principal and interest payments are expected to require 89% of net revenues on average.

**Revenue Bonds - Water**

The following bonds have been issued:

<u>Date</u>	<u>Purpose</u>	<u>Final Maturity</u>	<u>Interest Rate</u>	<u>Original Amount</u>	<u>Outstanding Amount 12/31/12</u>
12/27/07	Water system improvements	11/1/22	3.55-4.10%	\$ 1,265,000	\$ 1,090,000

Revenue bonds debt service requirements to maturity follows:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 95,000	\$ 42,383	\$ 137,383
2014	95,000	38,915	133,915
2015	100,000	35,400	135,400
2016	105,000	31,650	136,650
2017	105,000	27,660	132,660
2018 - 2022	<u>590,000</u>	<u>72,841</u>	<u>662,841</u>
Totals	<u>\$ 1,090,000</u>	<u>\$ 248,849</u>	<u>\$ 1,338,849</u>

# VILLAGE OF MARSHALL WATER AND SEWER DEPARTMENT

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

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

### **Revenue Bonds - Water (cont.)**

All water utility revenues net of specified operating expenses are pledged as security of the above revenue bonds until the bonds are defeased. Principal and interest paid for 2012 and 2011 were \$135,623 and \$165,428, respectively. Total customer net revenues as defined for the same periods were \$336,315 and \$283,943. Annual principal and interest payments are expected to require 41% of net revenues on average.

### **General Obligation Debt**

The following general obligation bonds have been issued:

<u>Date</u>	<u>Purpose</u>	<u>Final Maturity</u>	<u>Interest Rate</u>	<u>Original Amount</u>	<u>Outstanding Amount 12/31/12</u>
12/27/07	To finance new sewer projects	3/1/17	3.40-3.75%	\$ 760,000	\$ 525,000

General obligation bonds debt service requirements to maturity follows:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 60,000	\$ 18,336	\$ 78,336
2014	65,000	16,078	81,078
2015	65,000	13,714	78,714
2016	70,000	11,233	81,233
2017	<u>265,000</u>	<u>4,969</u>	<u>269,969</u>
Totals	<u>\$ 525,000</u>	<u>\$ 64,330</u>	<u>\$ 589,330</u>

### **Long-Term Obligations Summary**

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

	<u>1/1/12 Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/12 Balance</u>	<u>Due Within One Year</u>
Revenue bonds	\$ 4,094,324	\$ -	\$ 528,463	\$ 3,565,861	\$ 546,741
General obligation debt	585,000	-	60,000	525,000	60,000
Accrued sick leave	<u>7,901</u>	<u>8,515</u>	<u>9,823</u>	<u>6,593</u>	<u>-</u>
Totals	<u>\$ 4,687,225</u>	<u>\$ 8,515</u>	<u>\$ 598,286</u>	<u>\$ 4,097,454</u>	<u>\$ 606,741</u>

**VILLAGE OF MARSHALL WATER AND SEWER DEPARTMENT**

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

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

***Long-Term Obligations Summary*** (cont.)

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

	<u>1/1/11</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/11</u> <u>Balance</u>	<u>Due Within</u> <u>One Year</u>
Revenue bonds	\$ 4,634,901	\$ -	\$ 540,577	\$ 4,094,324	\$ 528,464
General obligation debt	645,000	-	60,000	585,000	60,000
Accrued sick leave	<u>10,278</u>	<u>11,107</u>	<u>13,484</u>	<u>7,901</u>	<u>-</u>
<b>Totals</b>	<b><u>\$ 5,290,179</u></b>	<b><u>\$ 11,107</u></b>	<b><u>\$ 614,061</u></b>	<b><u>\$ 4,687,225</u></b>	<b><u>\$ 588,464</u></b>

***Bond Covenant Disclosures***

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

***Insurance***

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

The utility is covered under the following insurance policies at December 31, 2012:

<u>Type</u>	<u>Coverage</u>
<i>Community Insurance Corporation</i>	
General Liability	\$ 3,000,000
Automobile	3,000,000
Workers Compensation	100,000
<i>Fidelity &amp; Deposit Companies</i>	
Employee Theft	\$ 100,000
P.S. Bond	30,000
<i>Hartford Steam &amp; Boiler</i>	
Boiler and Machinery	\$ 50,000,000

# VILLAGE OF MARSHALL WATER AND SEWER DEPARTMENT

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

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

### ***Bond Covenant Disclosures (cont.)***

#### ***Debt Coverage - Sewer***

Under terms of the resolutions providing for the issue of revenue bonds, revenues less operating expenses excluding depreciation (defined net earnings) must exceed 1.10 times the highest annual debt service of the bonds. The coverage only includes revenue debt and does not include general obligation or other debt. The coverage requirement was met as follows:

	2012	2011
Operating revenues	\$ 726,450	\$ 670,460
Investment income	11,200	14,952
Connection fees	2,000	56,647
TIF principal and interest	168,032	170,536
Less: Operation and maintenance expenses	(321,059)	(332,804)
Net Defined Earnings	<u>\$ 586,623</u>	<u>\$ 579,791</u>
Minimum Required Earnings per Resolution:		
Highest annual debt service	\$ 519,600	\$ 519,802
Coverage factor	1.10	1.10
Minimum Required Earnings	<u>\$ 571,560</u>	<u>\$ 571,782</u>
Actual Debt Coverage	<u>1.13</u>	<u>1.12</u>

#### ***Debt Coverage - Sewer***

Under terms of the resolutions providing for the issue of revenue bonds, revenues less operating expenses excluding depreciation (defined net earnings) must exceed 1.25 times the highest annual debt service of the bonds. The coverage only includes revenue debt and does not include general obligation or other debt. The coverage requirement was met as follows:

	2012	2011
Operating revenues	\$ 518,133	\$ 468,097
Investment income	11,200	14,952
Less: Operation and maintenance expenses	(193,018)	(199,106)
Net Defined Earnings	<u>\$ 336,315</u>	<u>\$ 283,943</u>
Minimum Required Earnings per Resolution:		
Highest annual debt service	\$ 137,383	\$ 137,383
Coverage factor	1.25	1.25
Minimum Required Earnings	<u>\$ 171,729</u>	<u>\$ 171,729</u>
Actual Debt Coverage	<u>2.45</u>	<u>2.07</u>

**VILLAGE OF MARSHALL WATER AND SEWER DEPARTMENT**

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

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

***Bond Covenant Disclosures (cont.)***

***Number of Customers and Billed Volumes - Water***

The water utility has the following number of customers and billed volumes for 2012 and 2011:

	Customers		Sales (000 gals)	
	2012	2011	2012	2011
Residential	1,021	1,034	48,165	46,089
Commercial	82	85	36,788	31,558
Industrial	6	7	384	191
Public authority	15	15	2,043	1,862
Totals	<u>1,124</u>	<u>1,141</u>	<u>87,380</u>	<u>79,700</u>

***Number of Customers and Billed Volumes - Sewer***

The sewer utility has the following number of customers and billed volumes for 2012 and 2011:

	Customers		Sales (000 gals)	
	2012	2011	2012	2011
Residential	1,021	1,034	47,416	46,630
Commercial	82	85	33,929	27,422
Industrial	6	7	230	349
Public authority	15	15	1,987	1,920
Totals	<u>1,124</u>	<u>1,141</u>	<u>83,562</u>	<u>76,321</u>

**NOTE 8 - NET POSITION**

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

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

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

# VILLAGE OF MARSHALL WATER AND SEWER DEPARTMENT

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

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

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

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

The following calculation supports the net investment in capital assets:

	2012	2011
Plant in service	\$ 17,645,751	\$ 16,308,972
Accumulated depreciation	(5,521,072)	(5,065,663)
Construction work in progress	-	928,592
Sub-Totals	12,124,679	12,171,901
Less: Capital related debt		
Current portion of capital related long-term debt	606,741	588,464
Long-term portion of capital related long-term debt	3,484,120	4,090,860
Unamortized debt issuance costs funded with borrowing	(21,610)	(25,632)
Advance to TIF - non-current portion	(612,483)	(740,894)
Advance to TIF - current portion	(128,411)	(124,750)
Sub-Totals	3,328,357	3,788,048
Add: Unspent debt proceeds		
Construction funds	-	694,730
Total Net Investment in Capital Assets	\$ 8,796,322	\$ 9,078,583

### **NOTE 9 - EMPLOYEES RETIREMENT SYSTEM**

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

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

# VILLAGE OF MARSHALL WATER AND SEWER DEPARTMENT

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

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

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

	<u>Employees</u>	<u>Employer</u>
2012 General category	5.9%	5.9%
2011 General category	5.5%	5.5%

Covered payroll listed below is substantially the same as total payroll.

	<u>Year Ended December 31</u>		
	<u>2012</u>	<u>2011</u>	<u>2010</u>
Total Covered Employee Payroll	<u>\$ 201,244</u>	<u>\$ 184,776</u>	<u>\$ 196,053</u>
Total Required Contributions	<u>\$ 23,747</u>	<u>\$ 20,325</u>	<u>\$ 21,566</u>
Total Required Contributions	<u>11.8%</u>	<u>11.0%</u>	<u>11.0%</u>

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

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## NOTE 10 - COMMITMENTS AND CONTINGENCIES

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### *Claims and Judgments*

From time to time, the utility is 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 utility's legal counsel that the likelihood is remote that any such claims or proceedings will have a material adverse effect on the utility's financial position or results of operations.

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## NOTE 11 - SIGNIFICANT CUSTOMERS

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### *Water Utility*

The utility has one significant customer who was responsible for 12% and 9% of operating revenues in 2012 and 2011, respectively.

### *Sewer Utility*

The utility has one significant customer who was responsible for 22% and 21% of operating revenues in 2012 and 2011, respectively.

**SUPPLEMENTAL INFORMATION**

**VILLAGE OF MARSHALL WATER AND SEWER DEPARTMENT**

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

	Balance 1/1/12	Additions	Retirements	Balance 12/31/12
<b>SOURCE OF SUPPLY</b>				
Land and land rights	\$ 36,138	\$ 47,500	\$ -	\$ 83,638
Wells and springs	<u>25,637</u>	<u>228,061</u>	<u>-</u>	<u>253,698</u>
Total Source of Supply	<u>61,775</u>	<u>275,561</u>	<u>-</u>	<u>337,336</u>
<b>PUMPING</b>				
Structures and improvements	29,772	722,032	-	751,804
Electric pumping equipment	88,883	71,074	-	159,957
Diesel pumping equipment	<u>13,766</u>	<u>-</u>	<u>-</u>	<u>13,766</u>
Total Pumping	<u>132,421</u>	<u>793,106</u>	<u>-</u>	<u>925,527</u>
<b>WATER TREATMENT</b>				
Water treatment equipment	<u>3,809</u>	<u>-</u>	<u>-</u>	<u>3,809</u>
<b>TRANSMISSION AND DISTRIBUTION</b>				
Distribution reservoirs and standpipes	462,722	-	-	462,722
Transmission and distribution mains	2,888,333	207,049	-	3,095,382
Services	920,629	15,187	-	935,816
Meters	247,673	1,880	2,400	247,153
Hydrants	<u>408,303</u>	<u>14,445</u>	<u>-</u>	<u>422,748</u>
Total Transmission and Distribution	<u>4,927,660</u>	<u>238,561</u>	<u>2,400</u>	<u>5,163,821</u>
<b>GENERAL</b>				
Office furniture and equipment	3,053	-	-	3,053
Computer equipment	14,247	-	1,500	12,747
Transportation equipment	65,645	-	-	65,645
Communication equipment	-	26,505	-	26,505
Miscellaneous equipment	<u>46,151</u>	<u>-</u>	<u>-</u>	<u>46,151</u>
Total General	<u>129,096</u>	<u>26,505</u>	<u>1,500</u>	<u>154,101</u>
<b>TOTAL WATER UTILITY PLANT</b>	<u>\$ 5,254,761</u>	<u>\$ 1,333,733</u>	<u>\$ 3,900</u>	<u>\$ 6,584,594</u>

**VILLAGE OF MARSHALL WATER AND SEWER DEPARTMENT**

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

	Balance 1/1/12	Additions	Retirements	Balance 12/31/12
<b>COLLECTING SYSTEM</b>				
Land and land rights	\$ 3,737	\$ -	\$ -	\$ 3,737
Service connections	862,393	-	-	862,393
Collecting mains	2,836,674	-	-	2,836,674
Interceptor mains	123,575	-	-	123,575
Force mains	<u>118,956</u>	-	-	<u>118,956</u>
Total Collecting System	<u>3,945,335</u>	-	-	<u>3,945,335</u>
<b>COLLECTING SYSTEM PUMPING</b>				
Electric pumping equipment	<u>218,989</u>	-	-	<u>218,989</u>
<b>TREATMENT AND DISPOSAL</b>				
Land and land rights	211,991	-	-	211,991
Structures and improvements	973,635	-	-	973,635
Preliminary treatment equipment	702,787	2,064	-	704,851
Primary treatment equipment	4,443	-	-	4,443
Secondary treatment equipment	1,546,283	-	-	1,546,283
Chlorination equipment	180,298	-	-	180,298
Sludge treatment and disposal equipment	1,721,524	-	-	1,721,524
Plant site piping	961,187	-	-	961,187
Flow metering and monitoring equipment	5,005	-	-	5,005
Outfall sewer pipes	183,873	-	-	183,873
Other treatment and disposal equipment	<u>74,867</u>	-	-	<u>74,867</u>
Total Treatment and Disposal	<u>6,565,893</u>	<u>2,064</u>	-	<u>6,567,957</u>
<b>GENERAL</b>				
Office furniture and equipment	15,594	-	-	15,594
Computer equipment	90,407	-	1,500	88,907
Transportation equipment	117,251	-	-	117,251
Communication equipment	-	4,115	-	4,115
Other general equipment	100,742	-	-	100,742
Laboratory equipment	<u>-</u>	<u>2,267</u>	-	<u>2,267</u>
Total General	<u>323,994</u>	<u>6,382</u>	<u>1,500</u>	<u>328,876</u>
<b>TOTAL SEWER UTILITY PLANT</b>	<u>\$11,054,211</u>	<u>\$ 8,446</u>	<u>\$ 1,500</u>	<u>\$11,061,157</u>

## VILLAGE OF MARSHALL WATER AND SEWER DEPARTMENT

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

	2012	2011
<b>OPERATING REVENUES</b>		
Sales of Water		
Unmetered	\$ 731	\$ 762
Metered		
Residential	222,827	196,069
Commercial	91,580	63,888
Industrial	1,615	1,336
Public authorities	7,973	6,745
Total Metered Sales	323,995	268,038
Private fire protection	700	900
Public fire protection	172,302	172,219
Total Sales of Water	497,728	441,919
Other Operating Revenues		
Forfeited discounts	2,429	4,133
Rents from water property	14,658	14,231
Other	3,318	7,814
Total Operating Revenues	518,133	468,097
<b>OPERATING EXPENSES</b>		
Operation and Maintenance		
Source of Supply		
Operation labor	57,199	59,900
Pumping		
Fuel or power purchased for pumping	22,433	18,385
Operation supplies	221	3,498
Maintenance	95	-
Total Pumping	22,749	21,883
Water Treatment		
Chemicals	12,937	11,243
Operation supplies	2,718	-
Maintenance	65	-
Total Water Treatment	15,720	11,243
Transmission and Distribution		
Operation supplies	298	-
Maintenance		
Mains	10,223	14,850
Services	2,819	-
Meters	1,284	-
Total Transmission and Distribution	14,624	14,850
Customer Accounts		
Accounting and collecting labor	129	-
Supplies	1,815	-
Total Customer Accounts	1,944	-

**VILLAGE OF MARSHALL WATER AND SEWER DEPARTMENT**

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

	<u>2012</u>	<u>2011</u>
<b>OPERATING EXPENSES (cont.)</b>		
Operation and Maintenance (cont.)		
Administrative and General		
Salaries	\$ 22,042	\$ 15,619
Office supplies	9,412	7,776
Outside services employed	9,137	20,064
Property insurance	7,362	7,040
Injuries and damages	509	-
Employee pensions and benefits	15,994	17,180
Regulatory commission	3,268	7,066
Miscellaneous	5,780	9,526
Transportation	2,831	380
Maintenance	<u>508</u>	<u>-</u>
Total Administrative and General	<u>76,843</u>	<u>84,651</u>
Taxes	<u>3,939</u>	<u>4,471</u>
Total Operation and Maintenance	193,018	199,106
Depreciation	<u>130,590</u>	<u>109,816</u>
Total Operating Expenses	<u>323,608</u>	<u>308,922</u>
 OPERATING INCOME	 <u>\$ 194,525</u>	 <u>\$ 159,175</u>

Note in 2010 the Water utility was reclassified from a Class D utility to a Class C utility for PSCW reporting. In 2012, the utility updated its chart of accounts to reflect this change. 2011 balances have been reclassified for comparative purposes.

## VILLAGE OF MARSHALL WATER AND SEWER DEPARTMENT

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

	2012	2011
<b>OPERATING REVENUES</b>		
Sewer Revenues		
Residential	\$ 466,199	\$ 423,181
Commercial	231,100	217,617
Industrial	2,393	2,023
Public authorities	20,034	18,134
Total Sewer Revenues	719,726	660,955
Other Operating Revenues		
Forfeited discounts	3,278	5,957
Holding Tank Revenue	-	10
Miscellaneous	3,446	3,538
Total Operating Revenues	726,450	670,460
 <b>OPERATING EXPENSES</b>		
Operation and Maintenance		
Operation		
Supervision and labor	108,168	104,245
Power and fuel for pumping	51,736	59,652
Other chemicals	7,185	3,887
Other operating supplies	11,909	8,606
Joint metering costs	3,250	7,632
Transportation	2,831	2,108
Sludge hauling	9,965	9,171
Total Operation	195,044	195,301
Maintenance		
Collection system	18,368	15,060
Pumping equipment	1,050	4,448
Treatment and disposal plant equipment	2,729	10,807
General plant structures and equipment	6,909	3,596
Total Maintenance	29,056	33,911
Customer Accounts		
Accounting and collecting	11,680	11,527
Administrative and General		
Salaries	10,362	4,092
Office supplies	13,123	8,611
Outside services employed	6,446	22,527
Insurance	10,743	9,157
Employees pensions and benefits	22,367	23,652
Regulatory commission	4,283	4,329
Miscellaneous	5,485	8,273
Total Administrative and General	72,809	80,641
Taxes	12,470	11,424
Total Operation and Maintenance	321,059	332,804
Depreciation	330,219	329,707
Total Operating Expenses	651,278	662,511
 <b>OPERATING INCOME</b>	<b>\$ 75,172</b>	<b>\$ 7,949</b>

## VILLAGE OF MARSHALL WATER AND SEWER DEPARTMENT

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

	Water	
	2012	2011
Utility Financed Plant in Service		
Beginning of year	\$ 3,371,802	\$ 3,253,935
End of year	4,701,635	3,371,802
Average	4,036,719	3,312,869
Utility Financed Accumulated Depreciation		
Beginning of year	(703,065)	(635,254)
End of year	(803,190)	(703,065)
Average	(753,128)	(669,160)
Regulatory Liability		
Beginning of year	(115,439)	(125,059)
End of year	(105,819)	(115,439)
Average	(110,629)	(120,249)
AVERAGE NET RATE BASE	\$ 3,172,962	\$ 2,523,460
OPERATING INCOME - REGULATORY BASIS	\$ 110,064	\$ 97,178
RATE OF RETURN (PERCENT)	3.47	3.85
AUTHORIZED RATE OF RETURN (PERCENT)	3.25	6.50

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.