

TOWN OF WASHINGTON
Notes to Basic Financial Statements
December 31, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of the Town of Washington (Town) is presented to assist in understanding the Town's financial statements. The financial statements and notes are representations of the Town's management who is responsible for the integrity and objectivity of the financial statements. These accounting policies conform to generally accepted accounting principles (GAAP) and have been consistently applied in the preparation of the financial statements.

REPORTING ENTITY

The Town of Washington is incorporated, and is governed by an elected five member board. In accordance with GAAP, the basic financial statements are required to include the Town (the primary government) and any separate component units that have a significant operational or financial relationship with the Town. The Town has identified the Washington Island Foundation as a blended entity component unit and the Fire Department and Rescue Squad as discretely presented component units.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the Town. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues included 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment, 2) operating grants and contributions, and 3) capital grants and contributions. Taxes and other items not properly included as program revenues are reported instead as general revenues.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Elimination of charges that would distort the direct costs and program revenues reported for the various functions concerned are not eliminated.

FUND FINANCIAL STATEMENTS

Fund financial statements of the reporting entity are organized into individual funds each of which are considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts which constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major proprietary funds are reported as separate columns in the fund financial statements.

Proprietary funds 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 a proprietary fund's principal ongoing operations. The principal operating revenues of the utility district fund is charges to customers for services. Operating expenses for the fund includes the cost of administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

FUND FINANCIAL STATEMENTS (Continued)

Funds are organized as major funds or non-major funds within the governmental and proprietary statements. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the Town or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or proprietary funds are at least 10 percent of the corresponding total for all funds of that category or type and
- b. The same element that met the 10 percent criterion in (a) is at least 5 percent of the corresponding element total for all governmental and proprietary funds combined.
- c. In addition, any other governmental fund that the Town believes is particularly important to financial statement users may be reported as a major fund.

Governmental Funds

Governmental funds are identified as either general or debt service based upon the following guidelines.

General Fund

The general fund is the primary operating fund of the Town and is always classified as a major fund. It is used to account for all financial resources except those required to be accounted for in another fund.

Debt Service Funds

Debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term principal, interest, and related costs.

Business-Type Activities

Enterprise Funds

Enterprise funds may be used to account for activities where a fee is charged to external users for goods and services. Enterprise activities must include operations (a) that are financed with debt that is secured solely by the pledge of the net revenues of the fund, (b) where laws or regulations require that the costs of the activity be recovered with fees and charges, or (c) where the fees and charges are priced in a way designed to recover the costs of the activity.

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

FUND FINANCIAL STATEMENTS (Continued)

Fiduciary Funds (Not included in government-wide statements)

Agency Funds

Agency funds are used to account for assets held by the Town as an agent for individuals, private organizations, and/or other governmental units.

Major Funds

The Town reports the following major governmental funds:

General Fund - Accounts for the Town's primary operating activities.

Debt Service Fund - Accounts for the principal and interest payments on debt.

The Town reports the following major proprietary fund:

Utility District Fund - Accounts for the Town's utility operating activities.

Fiduciary Funds

The Town reports the following agency fund:

Tax Collection - Accounts for the assets held for other taxing entities

Component Units

The Town reports the following component units:

Blended Component Unit:

Washington Island Foundation - Accounts for the operating activities of the Washington Island Foundation.

Discretely Projected Component Units:

Fire Department - Accounts for the operating activities of the fire department.

Rescue Squad - Accounts for the operating activities of the ambulance service.

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus refers to what is being measured, basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net assets and the operating statement present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash transaction takes place. Nonexchange transactions, in which the Town gives or receives value without directly, receiving or giving equal value in exchange, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The Town considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the Town may fund certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Therefore, when program expenses are incurred, both restricted and unrestricted net assets may be available to finance the program. It is the Town's policy to first apply cost-reimbursement grant resources to such programs, followed by general revenues.

ASSETS, LIABILITIES AND NET ASSETS OR EQUITY

Cash

For the purposes of the statement of cash flows, cash deposits with a maturity of three months or less from the date of purchase are considered to be cash equivalents.

Accounts Receivable

Accounts receivable are recorded at gross amounts with uncollectible amounts recognized under the direct write-off method. No allowance for uncollectible accounts has been provided since it is believed that the amount of such allowance would not be material to the basic financial statements.

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Notes to Basic Financial Statements
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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ASSETS, LIABILITIES AND NET ASSETS OR EQUITY (Continued)

Inventory

Inventory is recorded at cost, which approximates market, using the first-in, first-out method. Inventory consists of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are consumed rather than when purchased.

Inventory of governmental fund types in the fund financial statements are offset by nonspendable fund balance reserve accounts to indicate that they do not represent spendable available financial resources.

Capital Assets

Capital assets, which include land, buildings and improvements, machinery and equipment and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Town as assets with an initial, individual cost of \$1,000 or higher and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets of the Town are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Governmental Activities Years</u>	<u>Business-Type Activities Years</u>
Buildings and Improvements	20 - 50	-
Machinery and Equipment	5 - 20	5 - 20
Infrastructure	7 - 20	-

Compensated Absences

It is the Town's policy to permit employees to accumulate earned but unused vacation and sick leave benefits. All vacation is accrued when incurred in the government-wide statements. A liability for this amount is reported in the governmental funds in the fund financial statements only if they have matured. There is no accrual for sick leave because this amount is not paid out at termination and the liability is uncertain.

Unearned/Deferred Revenues

Governmental activities in the government-wide statement of activities report unearned revenue and therefore defer revenue recognition in connection with resources that have been received, but not yet earned. Governmental funds also report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. The combination of these are reported as deferred revenue in the balance sheet. When revenue recognition criteria are met, unearned or deferred revenue are reduced, as applicable, and income is recognized.

TOWN OF WASHINGTON
Notes to Basic Financial Statements
December 31, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ASSETS, LIABILITIES AND NET ASSETS OR EQUITY (Continued)

Long-Term Obligations

The accounting treatment of long-term debt depends on whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term debt consists primarily of notes payable, state trust fund loans, and closure and post-closure costs.

Long-term debt for governmental funds is not reported as a liability in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. In governmental funds, debt issuance costs are reported as expenditures. The accounting in proprietary funds is the same in the fund statements as it is in the government-wide statements.

Interfund Activity

Fund Financial Statements

Interfund activity, if any, within and among the governmental categories is reported as follows in the fund financial statements:

- Interfund transfers – Flow of assets from one fund to another where repayment is not expected are reported as transfers in and out.

In the process of aggregating the financial information for the government-wide statement of net assets and statement of activities, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified.

Equity Classifications

Government-Wide Statements

Equity is classified as net assets and displayed in three components.

- Invested in capital assets, net of related debt – 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.
- Restricted net assets – Consists of net assets with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments or, 2) law through constitutional provisions or enabling legislation. The Town currently has no restricted net assets.
- Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

TOWN OF WASHINGTON
Notes to Basic Financial Statements
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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ASSETS, LIABILITIES AND NET ASSETS OR EQUITY (Continued)

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

Fund Financial Statements

In fiscal 2011, the Town implemented Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions (GASB 54)*. GASB 54 changed the terminology and classification of fund balance to reflect spending constraints on resources, rather than availability for appropriation. This approach is intended to provide users more consistent and understandable information about a fund's net resources.

Under GASB 54, fund balance is classified as either 1) nonspendable, 2) restricted, 3) committed, 4) assigned, or 5) unassigned.

Nonspendable fund balance represents amounts that cannot be spent due to form (such as inventories and prepaid amounts), or amounts that must be maintained intact legally or contractually (such as the principal of a permanent fund).

Restricted fund balance represents amounts constrained for a specific purpose by external parties, constitutional provision or enabling legislation.

Committed fund balance represents amounts constrained for a specific purpose by a government using its highest level of decision-making authority. It would require action by the same group to remove or change the constraints placed on the resources. The action to constrain resources must occur prior to year-end; however, the amount can be determined in the subsequent period. The Town Board is the decision-making authority that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance.

Assigned fund balance, in the general fund, represents amounts constrained by the Town Board for a specific intended purpose. The Town has not delegated that authority to others. Assigned fund balance in all other governmental funds represents any positive remaining amount after classifying nonspendable, restricted or committed fund balance.

Unassigned fund balance, in the general fund, represents amounts not classified as nonspendable, restricted, committed or assigned. The general fund is the only fund that would report a positive amount in the unassigned fund balance.

The Town, unless otherwise required by law or agreements, spends funds in the following order: restricted first, then committed, then assigned, and lastly unassigned.

The Town has not adopted a minimum fund balance policy.

In addition, GASB 54 modified the definition of a special revenue fund. Under the new definition, the Washington Island Foundation, Jackson Harbor Dock, Community Center, Archives Committee, Red Barn Committee and Community Health Program are no longer considered special revenue funds and they are now reported as part of the general fund.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles 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 expenditures/expenses during the reporting period. Actual results may differ from these estimates.

TOWN OF WASHINGTON
Notes to Basic Financial Statements
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NOTE 2 - CASH AND INVESTMENTS

The Town maintains funds available for use by the governmental and business-type funds. These accounts are displayed on the statement of net assets and balance sheet as "Cash." In addition, the Agency Fund uses a separate and distinct account.

The Town is authorized to invest its funds in accordance with Wisconsin Statutes. Allowable investments are as follows:

- Time deposits in any credit union, bank, savings bank or trust company maturity in three years or less.
- Bonds or securities of any county, city, drainage district, technical college district, village, town, or school district of the state. Also, bonds issued by a local exposition district, local professional baseball park district, local professional football stadium district, local cultural arts district or by the University of Wisconsin Hospitals and Clinics.
- Bonds or securities guaranteed by the federal government.
- The Local Government Pooled Investment Fund and the Wisconsin Investment Trust.
- 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.

Additional restrictions could arise from local charters, ordinances, resolutions and grant regulations of the Town.

At December 31, 2011, the bank balance of cash was \$1,764,848. The Town maintains its cash accounts at two financial institutions. Custodial credit risk for deposits is the risk that in the event of a bank failure, the Town's deposits may not be returned. The Town does not have a deposit policy for custodial credit risk.

Deposits in each bank are insured by the FDIC up to \$250,000 for the combined amounts of all time and savings accounts (including NOW accounts); up to \$250,000 for the combined amount of all interest bearing demand deposit accounts, and unlimited coverage for noninterest-bearing demand deposit accounts.

Bank accounts are also insured by the State Deposit Guarantee Fund in the amount of \$400,000. However, due to the relatively small size of the Guarantee Fund in relationship to the total deposits covered and other legal implications, recovery of material principal losses may not be significant to individual municipalities. This coverage has not been considered in comparing the amount of uninsured deposits below.

As of December 31, 2011, the Town had the following:

Fully Insured Deposits	\$	596,035
Collateralized		1,139,548
Uncollateralized		<u>29,265</u>
Total	\$	<u><u>1,764,848</u></u>

TOWN OF WASHINGTON
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December 31, 2011

NOTE 4 - PROPERTY TAXES

Property taxes consist of taxes on real estate and personal property. They are levied during December and become an enforceable lien on property the following January 1. Property taxes are payable in various options depending on the type and amount. Personal property taxes are payable in full on or before January 31. Real estate taxes are payable in full by January 31, or in two equal installments on or before January 31 and July 31. Real estate taxes not paid by January 31 are assumed by the County as part of the February tax settlement. Delinquent personal property taxes remain the collection responsibility of the Town.

The County bills and collects on behalf of the Town, its property taxes and deposits those monies in accounts held by the Town. Also, the County levies taxes for the School District of Washington Island, Northeast Wisconsin Technical College and the State of Wisconsin and collects them on behalf of the Town.

Under 2011 Wisconsin Act 32, in 2011 and all future years, a municipality is allowed to increase its levy over the amount it levied in the prior year by the percentage increase in equalized value from net new construction or zero percent. Changes in debt service from one year to the next are generally exempt from this limit.

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2011 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital Assets not being depreciated:				
Land and Improvements	\$ 873,033	\$ -	\$ -	\$ 873,033
Other Capital Assets:				
Buildings and Improvements	3,010,859	28,115	-	3,038,974
Machinery and Equipment	1,679,011	106,635	58,117	1,727,529
Infrastructure	1,492,537	-	-	1,492,537
Total Capital Assets being depreciated	<u>6,182,407</u>	<u>134,750</u>	<u>58,117</u>	<u>6,259,040</u>
Less Accumulated Depreciation for:				
Building and Improvements	(1,302,999)	(58,906)	-	(1,361,905)
Machinery and Equipment	(1,249,907)	(79,431)	(55,788)	(1,273,550)
Infrastructure	(196,206)	(92,855)	-	(289,061)
Total Accumulated Depreciation	<u>(2,749,112)</u>	<u>(231,192)</u>	<u>(55,788)</u>	<u>(2,924,516)</u>
Total Capital Assets Being Depreciated, Net of Depreciation	<u>3,433,295</u>	<u>(96,442)</u>	<u>2,329</u>	<u>3,334,524</u>
Governmental Activities Capital Assets, Net of Accumulated Depreciation	<u>\$ 4,306,328</u>	<u>\$ (96,442)</u>	<u>\$ 2,329</u>	<u>\$ 4,207,557</u>

TOWN OF WASHINGTON
Notes to Basic Financial Statements
December 31, 2011

NOTE 5 - CAPITAL ASSETS (Continued)

Capital asset activity for the year ended December 31, 2011 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
Capital Assets being				
Depreciated:				
Property and Equipment	\$ 2,760	\$ -	\$ -	\$ 2,760
Less Accumulated				
Depreciation	(92)	(276)	-	(368)
Business-Type Activities				
Capital Assets, Net of				
Accumulated Depreciation	\$ 2,668	\$ (276)	\$ -	\$ 2,392

Depreciation expense was charged to functions of the Town as follows:

Governmental	
General Government	\$ 10,834
Public Safety	44,792
Public Works	129,628
Culture, Recreation and Education	45,938
Total Depreciation Expense for Government Activities	231,192
Business-Type	276
Total Depreciation	\$ 231,468

NOTE 6 - UNEARNED/DEFERRED REVENUES

The property taxes levied to finance the 2012 budget represent the Towns allocation of the 2011 real estate and personal property taxes.

TOWN OF WASHINGTON
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December 31, 2011

NOTE 7 - LONG-TERM DEBT

The following is a summary of changes in long-term obligations of the Town for the year ended December 31, 2011:

	Outstanding 1/1/11	Issued	Retired	Outstanding 12/31/11	Due Within One Year
Governmental Activities:					
General Obligation Debt:					
Notes	\$ 17,630	\$ -	\$ 17,630	\$ -	\$ -
Commissioners of Public Lands	39,200	-	39,200	-	-
Total General Obligation Debt	56,830	-	56,830	-	-
Capital Lease	-	14,349	2,787	11,562	3,490
Closure and Post-Closure Costs	130,824	-	-	130,824	-
Governmental Activity Long-Term Liabilities	<u>\$ 187,654</u>	<u>\$ 14,349</u>	<u>\$ 59,617</u>	<u>\$ 142,386</u>	<u>\$ 3,490</u>

Interest during the year on long-term debt totaled \$2,170.

Legal Margin for Debt

The Town's legal margin for creation of additional general obligation debt on December 31, 2011 was \$16,190,240.

NOTE 8 - ENVIRONMENTAL MATTERS

The Town was contacted by the DNR concerning its closed non-combustible landfill site that was used by the Town where underground water contamination was detected. In 1996, as part of an Administrative Order issued by the Wisconsin Department of Natural Resources, the Town has installed and is currently monitoring two groundwater wells in the area. The Town continues the implementation of a long-term groundwater monitoring plan.

The estimated annual monitoring cost for natural attenuation is \$3,000. The present value of total operation and maintenance costs for the next forty years has been estimated at \$130,824. This estimate is subject to changes from deflation, inflation, technology, or changes in laws and regulations.

NOTE 9 - CAPITAL LEASE

The Town is obligated under a capital lease. The capital lease was used to finance the acquisition of fitness equipment. Presented below is a schedule of future minimum lease payments as of December 31, 2011:

Year Ending	Amount
2012	\$ 3,900
2013	3,900
2014	3,900
2015	650
Less: Amount Representing Interest	788
	<u>\$ 11,562</u>

TOWN OF WASHINGTON
Notes to Basic Financial Statements
December 31, 2011

NOTE 10 - OPERATING LEASES

The Town is the lessee of a copier and land under operating leases. Presented below is a schedule of future minimum lease payments at December 31, 2011:

Year Ending	Amount
2012	\$ 19,849
2013	16,817
2014	12,591
2015	12,910
2016	11,295
Thereafter	46,538
	\$ 120,000

Rent expense for the operating leases for the year ended December 31, 2011 was \$20,057.

The Town is the lessor of land and a portion of its building under an operating lease. Presented below is a schedule of future minimum lease revenues at December 31, 2011:

Year Ending	Amount
2012	\$ 37,528
2013	34,792
2014	34,840
2015	34,888
2016	34,937
Thereafter	35,077
	\$ 212,062

NOTE 11 - FUND EQUITY

Government-wide Statements

Net assets reported on the government-wide statement of net assets at December 31, 2011 includes the following:

Invested in Capital Assets, Net of Related Debt:	
Net Capital Assets	\$ 4,209,949
Less: Total Long-Term Debt Outstanding	(142,386)
Add: Debt Unrelated to Capital Assets	130,824
Total Invested in Capital Assets, Net of Related Debt	4,198,387
Unrestricted	1,812,664
Total Net Assets	\$ 6,011,051

NOTE 12 - BENEFIT PENSION PLAN

All eligible Town of Washington employees participate in the Wisconsin Retirement System (WRS), a cost-sharing multiple-employer defined benefit public employee retirement system (PERS). In 2011, several changes were initiated as a result of Wisconsin Act 10 and Act 32 (Acts). The Acts modified the allocation of contributions to the System, mandated employee contributions, and changed eligibility and vesting requirements. All permanent employees expected to work over 1,200 hours (600 hours prior to Act 32) a year are eligible to participate in the System. Post Act 10, covered employees in the General category are required by statute to contribute 5.8% of their salary to the plan. This contribution percentage is subject to annual adjustments. Employers are required to contribute an actuarially determined amount necessary to fund the remaining projected costs of future benefits.

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NOTE 12 - BENEFIT PENSION PLAN (Continued)

The payroll for the Town of Washington employees covered by the System for the year ended December 31, 2011, was \$419,980; the employer's total payroll was \$541,590. The Town employees contributed 3% from January through July 2011, and the employer contributed 3.5%. The total required contribution for the year ended December 31, 2011, was \$52,678. For general employees, this amount consisted of \$16,553 or 8.6% of payroll from the employer, and \$5,481, or 3% from the employee and for the protective employee was \$5,976, or 13.6% of payroll from the employer, and \$1,318, or 3% from the employee. For the general employees, after mandatory contributions were in effect, this amount consisted of \$8,748 or 5.8% of payroll from employer, and \$8,748, or 5.8% from the employee and the protective employee was \$3,858, or 10.8% from the employer and \$1,996, or 5.8% from the employee. Total contributions for the years ended December 31, 2010 and 2009 were \$53,498 and \$45,845, respectively.

Employees who retire at or after 65 (62 for elected officials and 54 for protective occupation employees), are entitled to receive a retirement benefit. Employees may retire at age 55 (50 for protective occupation employees), and receive actuarially reduced benefits. The factors influencing the benefit are: (1) final average earnings, (2) years of creditable service and (3) a formula factor. Final average earnings are the average of the employee's three highest year's earnings. Employees terminating covered employment before becoming eligible for a retirement benefit may withdraw their contributions and, by doing so, forfeit all rights to any subsequent benefit. 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 are immediately vested.

The WRS also provides death and disability benefits for employees. Eligibility and the amount of all benefits are determined under Chapter 40 of Wisconsin Statutes. The WRS issues an annual financial report that may be obtained by writing to the Department of Employee Trust Funds, P.O. Box 7931, Madison, WI 53707-7931.

NOTE 13 - FIRE DEPARTMENT RETIREMENT

The Washington Island Fire Department has enrolled in a length of service award program, a program developed by the State of Wisconsin. This is a defined contribution plan.

Upon completion of 10 years of service, participants will be 50 percent vested. An additional 5 percent vesting will be accumulated for each subsequent year of service. Upon completion of 20 years of service, participants will be fully vested.

The contribution for 2011 was \$12,761.

NOTE 14 - RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employee health claims; unemployment compensation claims; and environmental damage for which the Town purchases commercial insurance. There has been no reduction in insurance coverage from the prior year. Insurance settlements for claims resulting from the risks covered by commercial insurance have not exceeded the insurance coverage in any of the past three years.

NOTE 15 - COMMITMENTS AND CONTINGENCIES

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

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Notes to Basic Financial Statements
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NOTE 15 - COMMITMENTS AND CONTINGENCES (Continued)

The Town has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursements to the grantor agency for expenditures disallowed under terms of the grants. Management believes such disallowances, if any, would be immaterial.

Funding for the operating budget of the Town comes from many sources, including property taxes, grants and aids from other units of government, user fees, fines and permits, and other miscellaneous revenues. The State of Wisconsin provides a variety of aid and grant programs which benefit the Town. Those aid and grant programs are dependent on continued approval and funding by the Wisconsin governor and legislature, through their budget processes. The State of Wisconsin is currently experiencing budget problems, and is considering numerous alternatives including reducing the aid to local governments. Any changes made by the State to funding or eligibility of local aid programs could have a significant impact on the future operating results of the Town.

The Town has one open contract as of December 31, 2011. It is in the amount of \$540,000 to help subsidize the wages of the doctor at the medical clinic through 2015.

NOTE 16 - COMPONENT UNITS

The Fire Department and Rescue Squad (Organizations) are included as component units in discrete columns on the statement of net assets and the statement of activities. The Organizations provide services to the Town of Washington. The following additional disclosures are considered necessary for a fair presentation.

Measurement Focus and Basis of Accounting

The Organizations prepare their financial statements in accordance with accounting principles generally accepted in the United States of America.

At December 31, 2011, the bank balance of cash was \$16,481. The Organizations' maintain their cash accounts at one financial institution. Custodial credit risk for deposits is the risk that in the event of a bank failure, the Organizations' deposits may not be returned. The Organizations do not have a deposit policy for custodial credit risk.

Deposits in each bank are insured by the FDIC up to \$250,000 for the combined amounts of all time and savings accounts (including NOW accounts); up to \$250,000 for the combined amount of all interest bearing demand deposit accounts, and unlimited coverage for noninterest-bearing demand deposit accounts.

As of December 31, 2011 the Organizations had the following deposits:

Fully Insured Deposits	\$ <u>16,481</u>
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NOTE 17 - UPCOMING ACCOUNTING PRONOUNCEMENTS

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, was issued by the GASB in June 2011 and will be effective for the Town's December 31, 2013 fiscal year. The statement incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measure of net position, formerly net assets. This statement also provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Once implemented, this statement will impact the format and reporting of the statement of net assets at the government-wide fund level.